Nairobi Metropolitan Area Commercial Office Report 2019 & Cytonn Weekly #14/2019

Private Equity

Britam Holdings Limited, a diversified financial services group with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Malawi and Mozambique announced its intention to acquire an undisclosed stake in Tiserin Capital, following approval from its board of directors. Nairobi-based Tiserin Capital, is a private equity firm that manages the Tiserin Capital Fund, which invests in companies with enterprise values of less than Kshs 5.1 bn (USD 50.0 mn) in East Africa, Ethiopia, Mozambique and South Africa taking up a controlling stake or a strong minority position. Tiserin Capital seeks to partner with Asian and Latin American companies to enhance the operating capabilities of its portfolio companies by transferring industrial and managerial know-how. The Fund focuses on Agribusiness, Fast Moving Consumer Goods, Food Retail, Healthcare, and the Technology sector. With the move, Britam seeks to diversify its investments beyond traditional investments as the acquisition will offer Britam indirect ownership in the private firms that Tiserin Capital will invest in. Britam Asset Managers, a subsidiary of Britam Holdings Limited in January of this year, bought a 40.0% stake worth Kshs 1.4 bn in a local electricity producer, Gulf Energy, through a New York-based energy investment vehicle Everstrong Capital. We are of the view that the acquisition is driven by private equity investments in Africa remaining robust and the need for investment managers to diversify their investments and grow their return as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, (ii) a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iv) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (v) better economic projections in Sub Saharan Africa compared to global markets.

Kudi, a Nigeria based Financial Technology (FinTech) company focused on digital payments and collections, raised USD 5.0 mn (Kshs 503.6 mn) in Series A funding. The funding round was led by San Francisco based Partech Ventures, an investment firm that finances and supports technology and digital companies. The funding round was also joined by Michael Seibel, the CEO and a partner at Y Combinator, an American based seed accelerator. Existing investors Khosla Ventures and Y Combinator also participated in the funding round. Kudi has raised a total of USD 6.7 mn, having raised USD 1.7 mn in seed capital. Kudi seeks to make financial services accessible and affordable for all Africans, and they achieve this by enabling the underbanked and unbanked Africans access to basic financial services like money transfers, bill payments and cash withdrawals through an agent network and through mobile phones. Since its launch in January 2017, Kudi has grown its agent network to over 4,500 merchants and is adding new agents every day. The company makes it easy for agents to sign-up and have more visibility into the company's day-to-day operations. They process over USD 30.0 mn (Kshs 3.0 bn) in payments each month. Kudi will use the funding to grow its team, grow its agent network, develop and launch new financial services products such as savings, loans and insurance and build partnerships with banks and other FinTech companies.

FinTech remains the most attractive sector and was the highest funded sector for investors in 2018 with 4 of the 10 largest deals made in 2018 being from this sector. The growth in the funding of FinTech companies is expected to improve due to;

- High Returns - According to data collected by Crunchbase, since 2007, Fintech start-ups have raised an average of USD 41.0 mn in Venture Capital and exited for an average value of USD 242.9 mn. This gives investors a better opportunity to invest in a sector that attracts a growing pool of new investors and in the end exit at a high price,
- Attractive Realization Periods - Private equity firms typically focus on investing for a short lead-time, often between three to five years. Many Fintech companies start showing profits by year three hence giving a chance for investors to realize their gains in time, and,
- Cheaper Running Costs - They are cheaper to run since a FinTech company is not weighed down by the same burden of costly regulation that governs traditional businesses. This makes PE firms to manage their FinTech portfolio with easy flexibility.

FinTech lending and microfinance institutions in general have been a major attraction for investors in Kenya and Sub-Saharan Africa. Lack of access to finance is a major issue for entrepreneurs and Micro, Small and Medium Enterprises (MSMEs) across Africa. According to the IMF, there are 44.2 mn MSMEs in Sub-Saharan Africa with a potential demand for USD 404.0 bn in financing. The current volume of financing in Sub-Saharan Africa is estimated at USD 70.0 bn signifying a huge financing gap of USD 331.0 bn. Microfinance institutions aim to bridge this gap by offering convenient access to credit.

The European Investment Bank announced a EUR 25.0 mn investment in the Amethis Fund II, the second pan-African investment vehicle of the Amethis, an investment fund manager dedicated to long-term responsible investments in Africa. Amethis Fund II follows the same investment strategy as Amethis Fund I by providing growth capital to African mid-cap champions, through investments with an average ticket size of EUR 10.0 mn-EUR 30.0 mn or more through co-investment. Other investors in the fund include the International Finance Corporation (IFC) and Proparco, and Bpifrance, the French public investment bank. In February 2019, Amethis announced an intermediary closing of its Fund II at EUR 305.0 mn. The additional funding brings the total raised amount to EUR 330.0 mn. Amethis, manages two other funds, Amethis Fund I (PanAfrican focus, EUR 250.0 mn), part of which is invested in Kenya’s Kenfric, a fast moving consumer goods (FMCG) manufacturer and distributor with a strong focus on confectionary ,and Amethis Maghreb Fund I (North African focus, EUR 75.0 mn) and advises Amethis West Africa (West African focus, EUR 45.0 mn). Amethis Fund II aims for geographic and sector diversification, targeting sectors delivering goods and services to the middle class of African consumers: industry, distribution, consumer goods, financial services, telecommunications, health and education. Amethis Fund II focuses on countries that have an economic growth driven by their strong domestic demand and that are resistant to global headwinds. The continued capital-raising initiatives signify the increasing investor interest in the region, with investors looking to tap into the opportunities in the fast-growing private equity industry.

We maintain a positive outlook on private equity investments in Africa as evidenced by the increasing investor interest, which is attributed to; (i) economic growth, which is projected to improve in Africa’s most developed PE markets, (ii) attractive valuations in Sub Saharan Africa’s private markets compared to its public markets, and (iii) attractive valuations in Sub Saharan Africa’s markets compared to global markets. Going forward, the increasing investor interest, stable macro-economic and political environment will continue to boost deal flow into African markets.

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