Cytonn Weekly #15/2019

Private Equity

Sanlam Group, a South African financial services firm, has sold an undisclosed amount of its stake in Sanlam Investments East Africa (SIEA), an asset management firm based in Kenya, for ZAR 101.0 mn (Kshs 730 mn) to an undisclosed party. This move comes less than two-years after Sanlam bought a 75% stake in the former PineBridge Investments East Africa for an undisclosed amount, after which it rebranded to Sanlam Investments East Africa. Sanlam Investments East Africa currently manages an asset portfolio of over Kshs 200.0 bn, with a Money Market Fund size of Kshs 1.7 bn as at 31st December 2019, ranking it as the 5th largest asset manager in Kenya in terms of assets under management for Money Market Funds. Other similar transactions in the past include the sale of 90.9% stake in GenAfrica Asset Managers by the staff of GenAfrica Asset Managers, who held 17.5% stake, and Centum Investments, who held 73.4% stake, to Kuramo Capital in March 2018 and the acquisition of 100.0% stake of ApexAfrica Capital by Axis a Mauritian private equity fund in 2015 for Kshs 470.0 mn.

This announcement came just as the Liberty Group, a South African insurance firm, put on sale its Kenyan investment advisory business, Stanlib, a move informed by Liberty's plan to exit its asset management operations in Kenya and Botswana, citing low historical returns, competition and political risks in their respective markets. In spite of this, there has been positive traction in the financial services sector in Kenya, this being the second time we have had an acquisition in the financial services sector in Kenya this year, with AfricInvest and Catalyst Principal Partners acquiring a minority stake in Prime Bank Kenya, in addition to the 10 acquisitions in 2018. For more information, see our Prime Bank Kenya Acquisition Note. We expect to see more activity in the financial services sector this year, given the growth of financial inclusion and regulation that require institutions to increase their capital requirements across the sector consequently providing an opportunity for mergers and acquisitions.

Branch International, a San Francisco-based mobile lender, with operations in Nigeria, Kenya and Tanzania, has raised USD 170.0 mn (Kshs 17.2 bn) in a 3rd round fundraising deal, led by Foundation Capital and Visa. The capital comprises USD 100.0 mn (Kshs 10.1 bn) debt financing and USD 70.0 mn (Kshs 7.1 bn) in equity for an undisclosed stake. The funds raised will be used for international expansion to South America and Asia. The partnership with Visa will allow borrowers to obtain virtual Visa accounts with which they will create accounts on Branch's mobile app. This will allow access of financial services in countries such as Nigeria, where cards have factored more significantly than mobile money, given that there has not been as wide coverage by mobile money in the rest of Africa as compared to Kenya. This comes barely less than a year since Branch raised Kshs 350.0 mn (USD 3.5 mn) in capital investment based on its second issued commercial paper in the Kenyan market. For more information, see our Cytonn Weekly #27/2018. The lender has issued at least 13 mn digital loans and disbursed Kshs 35.3 bn (USD 350.0 mn) since its inception in 2015.

The funding round emerges as the highest capital raise in the FinTech sector since January 2018 by Africa-focused FinTech startups, with the 2nd being Jumo, who raised a total of USD 64.5 mn (Kshs 6.6 bn) in equity investments from various investors, including Odey Asset Management, Goldman Sachs, Proparco , Finnfund, Vostok Emerging Finance, Gemcorp Capital and LeapFrog Investments. For more information, see our Cytonn Weekly #49/2018. The transaction further cements the position and reputation of FinTech companies as the most investor-attractive sector in Africa, as the space has been taking the lion's share of investments, with a reported fundraising value of over Kshs 27.0 bn over the year 2018. The growing investor interest in FinTech is driven by;

i. Africa's low penetration rates for traditional banking services at 25 % according to the Global Findex database,
ii. Higher mobile penetration at 44% according to the GSMA 2017 Report, and,
iii. Untapped potential in credit related industries in Africa, highlighted by the significant difference in credit extension activity in Africa compared to other world regions.

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.
