Kenya Listed Banks FY'2018 Report & Cytonn Weekly #16/2019

Private Equity

AVCA released their Country Snapshot for Kenya, which highlights the various developments in the private equity sector in Kenya between 2013 and 2018. According to AVCA, there were 110 reported deals during this period, translating to 57.8% of the total 190 deals reported in the 7 Eastern African countries. This was way ahead of Uganda, which was the country with the second largest share of PE deals by volume, at 18.9%, and the third, Tanzania, at 8.9% of total deals. In terms of value, Kenya ranked first, with a total deal value of USD 1.3 bn (Kshs 131.7 bn), followed by Ethiopia and Uganda, which both had an estimated share of 11% of total deals by value, translating to roughly USD 242.3 mn (Kshs 24.5 bn) of value of PE deals within the 6-year period.

According to the report, some of the factors driving this dominance by Kenya in the private equity space include:

i. Economic Growth – Kenya is among the fastest growing economies in the East African region, having grown by an average of 5.6% in the last 5-years to 2017, only behind Tanzania and Rwanda with 5-year average economic growth rates of 6.9% and 6.6%, respectively, according to the International Monetary Fund (IMF),
ii. Business Confidence - According to World Bank's Doing Business 2019 Report, Kenya's ranking improved by 19 positions to #61 from #80 in the 2018 Report. In Africa, Kenya maintained its 4th position from the 2018 report after Mauritius, Rwanda and Morocco. The score improved by 5.1 points to 70.3 from 65.2 in the 2018 Report. Over the last 5-years, Kenya has improved by a total of 15.3 points and 75 positions. The key drivers for the improvement are easing the process of registering a business, easier access to electricity, access to credit, protecting of minority shareholders and enforcement of contracts among others, and,
iii. Calmer Political Climate – the period after the 2012 elections was characterized by a peaceful political climate, a stark contrast to what had happened in the previous elections. This reinforced investor confidence in the country, as well as making it easier for businesses in the country to operate. Even with the slowdown in 2017 due to the general elections, the country still witnessed substantial PE activity.

In terms of exits, 45% of the PE exits recorded in Kenya between 2013 and 2018 were exits to trade buyers, followed by exits to PE and other financial buyers, which stood at 30%. However, PE exits in Kenya, and in the East African region in its entirety, remain constrained by the complexities involved in exit by IPO, something that is clearly indicated by the IPO drought at the Kenyan bourse. There remains a huge gap in the exits, particularly via IPO, that can be improved by putting in place measures that: (i) make the process of companies going public by IPO easier, (ii) encourage disclosures for non-listed companies in order to improve transparency and accessibility of information, boosting investor confidence and making it easier for firms to raise capital during IPOs, and (iii) encourage foreign participation through improved regulation, good economic fundamentals and empowering private initiatives.

The median size for the PE deals witnessed over the period was USD 6.0 mn (Kshs 608.3 mn), with 89% of the total PE deal volume being below USD 50.0 mn (Kshs 5.1 bn). Compared to the rest of Africa, which had a median size of between USD 6.0 mn (Kshs 607.8 mn) and USD 8.0 mn (Kshs 810.5 mn), it shows similarity in the size of deals in Kenya and the rest of the continent, highlighting investor confidence in the Kenyan PE space, with investors willing to take just as much ticket size in deals within the country as they do in larger markets such as South Africa and Nigeria.

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, and stable macro-economic and political environment will continue to boost deal flow into African markets.

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