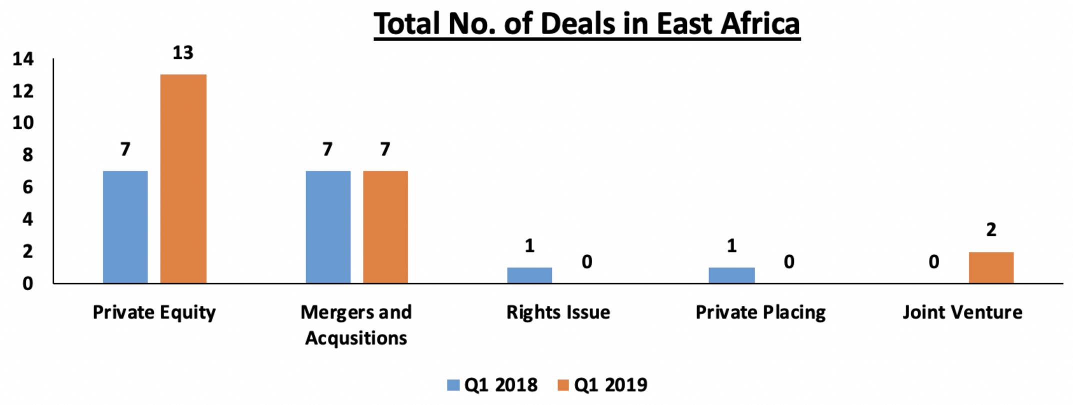
Understanding Retirement Benefits Schemes in Kenya & Cytonn Weekly #19/2019

Private Equity

During the week, International Finance Corporation (IFC) announced plans to invest USD 50.0 mn (Kshs 5.1 bn) in private equity firm, Helios Investment Partners, with the funds to be directed towards Helios investments across Africa. Each transaction is estimated to have a ticket size ranging between USD 30.0 mn (Kshs 3.0 bn) and USD 200.0 mn (Kshs 20.2 bn). This investment by IFC forms part of the USD 1.25 bn (Kshs 126.3 bn) that Helios is looking to raise in its fourth fund, Helios Investors IV L.P., which is set to close in September 2019, and is an extension of IFC's continued partnership with Helios, with IFC having participated in various investments by Helios, with the previous being a Kshs 4.0 bn investment in a Kshs 7.4 bn deal by Helios and Acorn Group to build student housing in Nairobi. IFC had also invested USD 25.0 mn (Kshs 2.6 bn) in Helios Investors III L.P., USD 60.0 mn (Kshs 6.1 bn) in Helios Investors II L.P and USD 20.0 mn (Kshs 2.0 bn) in Helios Investors L.P.

Helios has made a number of transactions in Sub Saharan Africa, with their major focus being on acquiring and scaling businesses in key economic sectors in the countries where these businesses operate. One of the most notable investments from their previous USD 1.1 bn (Kshs 111.2 bn) fund, Helios Investors III L.P., was an undisclosed stake in ARM Pensions, a Nigerian fund manager with over USD 2.2 bn (Kshs 222.4 bn) in assets under management. We continue to see increased fundraising activity in Sub-Saharan Africa in the private equity sector, owing to the increasing investor interest which has in turn increased deal flow, with private equity firms looking to tap into opportunities in the region. We expect this trend to continue in 2019, given the drivers supporting private equity investments, such as (i) economic growth, with Sub-Saharan economic growth expected to come in at 3.4% in 2019, higher than 2.7% in 2018 according to World Bank, (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.

I&M Burbidge, the Corporate finance advisory of I&M Bank Limited, in their recently released report, East Africa Financial Review, highlighted the deal activity in the East African region, for Q1 2019. According to the report, there were a total of 22 deals in this period, with 10 of these being private equity investments, 3 private equity exits, 2 joint ventures and 7 mergers and acquisitions. This was an improvement from a similar period in 2018, where there were only 16 deals reported. The major increase came on the private equity side, where there was a total of 13 reported deals in Q1 2019, compared to the 7 witnessed in Q1 2018, as shown in the chart below.



Source: I&M Burbidge East Africa Financial Review

Of the reported private equity deals in Q1 2019, ICT led in terms of sector, with 4 deals in total, followed by financial services sector with 3 reported deals. The energy and retail sectors trailed, with 2 and 1 deals, respectively. In terms of deal value of PE investments, financial services was the leading sector, boasting 60% of the total USD 110.9 mn (Kshs 11.2 bn) witnessed within the quarter, translating to an estimated USD 66.5mn (Kshs 67.2 bn). There was an increase in total deal value by more than 809.0%, from the USD 12.2 mn (Kshs 1.2 bn) witnessed in Q1 2018. This huge leap can mainly be attributed to the big ticket investments, such as the USD 50.0 mn (Kshs 5.1 bn) acquisition of Prime Bank by AfricInvest in January 2019.

In terms of fundraising, there were 4 reported deals by firms with an East African investment mandate. The total amount raised was USD 1.2 bn (Kshs 118.5 bn), which was raised mainly from European development banks such as KfW, FMO, BIO as well as European insurers and pension funds.

In summary, the report highlights recovery on the private equity sector in East Africa, and the larger Sub-Saharan Africa region, which had slowed down in 2018. It also highlights the growing investor interest in financial services and ICT sectors, with these sectors having an increase to 3 and 4 deals in Q1 2019 from 1 and 2 deals, in Q1 2018, respectively. Growth in the financial services sector has been supported by (i) the increasing demand for credit, (ii) the growing financial services inclusion in the region through alternative banking channels, (iii) increased innovation and new product development within the financial services sector, and, (iv) need for consolidation in the sector, which has already picked up pace.

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.