Investing in Unit Trust Funds, & Cytonn Weekly #20/2019

Private Equity

Mauritius based Bank One, in which Kenyan banking group I&M Holdings has a 50.0% stake, is set to receive a USD 37.5 mn (Kshs 3.8 bn) loan from the International Finance Corporation (IFC), with an undisclosed tenor. The loan will be classified as senior debt, therefore ranking higher than other Bank One's obligations. The bank intends to use this loan to strengthen its long-term funding position and to expand its lending operations to SMEs in Mauritius that fit their lending criteria; that is, SMEs with 10 to 300 employees and annual sales of Kshs 10.0 mn to Kshs 1.5 bn. Financial inclusion is one of IFC's priorities and it has continued to support financial institutions and financial services providers across Sub-Saharan Africa to advance financial inclusion and increase access to finance for underserved markets as access to finance remains a major constraint for many SMEs, with many banks opting to lend to well-established firms presumed to be less risky and thus curtailing the growth of SMEs, with a report done by IFC indicating that over 200 million SMEs in Africa lack access to credit necessary to grow and prosper. In Kenya IFC has issued loans to several banks including;

i. A Kshs 15.5 bn loan issued in February 2018 to Co-operative Bank with a tenor of 7-years, and
ii. A Kshs 1.0 bn loan issued to I&M Holdings in January 2018, with an undisclosed tenor.

For banks, access to loans from international institutions has been instrumental to their survival as it has helped them bridge the asset-liability mismatch by tenor due to the relatively long-term nature of loans and short-term nature of deposits.

In fundraising, Leapfrog Investments, an emerging markets-focused private equity firm, has announced the close of its third Impact Fund (Fund III) at USD 700.0 mn (Kshs 70.0 bn), surpassing its USD 600.0 mn (Kshs 60.0 bn) target by 16.7%, with the funds being used to invest in healthcare and financial services companies in Asia and Africa. This close brings the total capital raised by the investment firm so far to USD 1.6 bn (Kshs 160.0 bn), with its first fund having closed at USD 135 mn (Kshs 13.5 bn) in 2010 and the second fund closing at USD 400 mn (Kshs 40.0 bn) in 2014; the firm also manages USD 350 mn (Kshs 35.0 bn) for Prudential Financial Incorporation, targeting investments in life insurance companies in Ghana, Kenya and Nigeria. Fund III was led by US-based Prudential Financial and other institutional investors in participation including, pensions and asset managers, development financiers, foundations and family offices. Leapfrog invests in healthcare and financial services companies in Asia and Africa that target emerging consumers defined as low income, by World Bank standards, with less than USD 10 (Kshs 1,000) per day in the household, with its priority countries being Kenya, Nigeria, Ghana, South Africa, India, Indonesia, Philippines and Sri Lanka. In Kenya, Leapfrog has invested in several businesses in the private sector including;

i. Kshs 2.2 bn injection into Kenya's Goodlife Pharmacy in 2016, acquiring a majority stake in the pharmacy, and,
ii. Kshs 1.6 bn injection in Resolution Insurance in 2014, followed by an additional Kshs 1.1 bn investment in 2016 into the same company, making Leapfrog the majority shareholder.

The continued investment into the private sector by international organizations and this has enhanced regional integration by enabling companies expand across borders.

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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