Review of the Interest Rate Cap, & Cytonn Weekly #25/2019

Private Equity

Earlier in the week, Amethis announced the close of its second Pan-African fund, which raised EUR 375.0 mn (Kshs 43.4 bn), which was 25.0% higher than their initial target of EUR 300.0 mn (Kshs 34.7 bn). The fund will invest in deals with an estimated ticket size of between EUR 10.0 mn (Kshs 1.2 bn) to EUR 30.0 mn (Kshs 3.5 bn) or more through co-investment. Among the more than 70 investors in the fund is; European Investment Bank who invested EUR 25.0 mn (Kshs 2.9 bn), International Finance Corporation (IFC), the French Public Investment Bank and Bpifrance.

Through its previous funds, Amethis has made a number of previous investments in the continent with its major focus on geographic and sector diversification. Below are the previous funds by the company;

Funds in Africa by Amethis

Fund	Focus	Amount
Amethis Fund I	Pan – African	EUR 250.0 mn
Amethis Fund II	Pan – African	EUR 375.0 mn
Amethis Maghreb Fund I	North African	EUR 75.0 mn
Amethis West Africa	West African	EUR 45.0 mn

Amethis Fund II targets sectors that deliver goods and services to the middle class of African consumers; industry, distribution, consumer goods, financial services, telecommunications, health, and education. In the country, Amethis has invested in Kenafric Industries and Ramco group. We continue to see increased fundraising activity in the Pan-African region in private equity, owing to investor interest and the available opportunities for PE firms in the region. Some of the drivers supporting PE investment include; (i) economic growth, with the projected growth rate for Sub-Saharan Africa at 3.4% in 2019, higher than 2.7% in 2018 according to the World Bank, and (ii) attractive valuations in the private markets in the region compared to public markets.

East Africa Private Equity & Venture Capital Association and KPMG released a report on Private Equity in East Africa during the fifth annual PE conference held in Addis Ababa, Ethiopia on 13th June 2019. According to the report, PE deals increased by 15.5% to 97 in 2018 from 84 recorded the previous year, with an estimated value of USD 1.4 bn (Kshs 140.0 bn). The report attributed the increase to growth in both PE deals and value to the investment in private equity by pension funds. There was a 12.0% increase in the funds sourced from the domestic market, and this was driven mainly by the participation of pension funds in private equity investments. Despite this growth, the allocation to private equity by pension funds could be increased. As highlighted in our report, Retirement Benefits Schemes in Kenya, despite the regulation allowing for a 10% allocation to private equity in Kenya, as at June 2018, the total Retirement Benefits Assets allocated to private equity stood at 0.04% of managed assets.

Kenya leads by a number of deals and volumes where between 2017 and 2018, it recorded 61 deals as per the below graph, accounting for 72.6% of all deals recorded in the 5 countries:

From the above graph, Kenya has the highest allocation of deals. This can be attributed to the conducive environment for doing business and the skilled workforce available.

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.