Cytonn H1’2019 Markets Review

Private Equity

Financial Services Sector:

Some of the notable deals in the Financial Services sector in H1’2019 include;

1. Private Equity firms AfricInvest, based in Tunisia, and Catalyst Principal Partners, based in Kenya, acquired a minority stake in Prime Bank Kenya. The stake acquired was 24.2% of Prime Bank Kenya, through a capital injection of Kshs 5.1 bn, with the capital targeted to carry out strategic plans including expanding locally and into the region. As at Prime Bank’s last reporting in Q3’2018, the bank had a book value of Kshs 21.2 bn, and as such, the transaction was carried out at a price-to-book value (P/Bv) of 1.0x, which is a 33.3% discount to the market’s current trading valuation of 1.5x P/Bv for listed Kenyan banks. This was the first bank acquisition in 2019, and in line with our expectation of consolidation in the Kenya banking sector following the enactment of the Banking (Amendment) Act, 2015 and the fact that Kenya is overbanked, as highlighted in our Q3’2018 Banking Sector Report. For more information, see our Prime Bank Kenya Acquisition Note,
2. AfricInvest, an investment and financial services firm based in Tunisia, announced a further investment of Kshs 273.0 mn in insurance group Britam, acquiring an extra Kshs 32.5 mn shares at Kshs 8.4 per share, a stake of 3.3%. For more information, see our Cytonn Weekly #23/2019,
3. Sanlam Group, a South African financial services firm, 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 730.0 mn) to an undisclosed party. 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 2018, ranking it as the 5th largest asset manager in Kenya in terms of assets under management for Money Market Funds. For more information, see our Cytonn Weekly #15/2019, and
4. 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. For more information, see our Cytonn Weekly #20/2019.

We expect that investors will continue to show interest in the financial services sector, motivated by attractive valuations especially in the banking sub-sector, growth of financial inclusion and regulation that requires institutions to increase their capital requirements across the sector consequently providing an opportunity for mergers and acquisitions.

FinTech Sector:

Some of the notable deals in the FinTech sector in H1’2019 are;

1. Kenya’s second and third largest telecommunication companies, Airtel and Telkom, announced the signing of a binding agreement that will see the shareholders of the two companies merge their respective mobile, enterprise, and carrier services businesses in Kenya to operate under a joint venture company. We expect this merger to have the following effects on the Kenyan

telecommunication space: (i) Subscriptions / Voice Market Share is expected to be split between two major players with the merged entity set to increase its share, (ii) The combined entity will command a market share of 29.6%, (iii) Airtel will make an entry into the fixed data services market, and (iv) Mobile Money is least likely to be affected given that neither of the two merging entities have a significant share in the market. The overall effect to the market is that we will now have a company that has scale to provide a credible market alternative to the currently dominant Safaricom. For more information, see our Cytonn Weekly #06/2019,

2. Branch International, a San Francisco-based mobile lender, with operations in Nigeria, Kenya, and Tanzania, 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. For more information, see our Cytonn Weekly #15/2019, and
3. Kudi, a Nigeria based Financial Technology (FinTech) company focused on digital payments and collections raised USD 5.0 mn (Kshs 503.6 mn) in Series A funding. The funding will be used to add to the Kudi team, grow its network of agents across Nigeria, and launch other financial services offerings in partnership with banks and other FinTech companies. Kudi has raised a total of USD 6.7 mn, having raised USD 1.7 mn in seed capital. For more information, see our Cytonn Weekly #14/2019.

The growing interest in FinTech sector is driven by Africa's low penetration rates for traditional banking services at 25% according to the Global Findex database and high mobile penetration at 44% according to the Global System for Mobile Communications (GSMA) 2017 Report. We expect that investors will continue to show interest in the FinTech sector in Sub-Saharan Africa as more businesses seek to enhance efficiency and reduce costs by incorporating technology in their operations. Furthermore, the significant difference in credit extension activity in Africa compared to other regions gives FinTech lending firms a perfect opportunity to provide credit via convenient and already established channels.

Education Sector:

Deals in the Education sector in H1'2019 include;

1. GEMS Education announced its plan to acquire 100.0% stake of Hillcrest International Schools from its current owners, Fanisi Capital and businessman Anthony Wahome, for Kshs 2.6 bn. Currently, Fanisi owns a 55.0% stake in the school, while Mr. Wahome owns 45.0% following an acquisition from Barclays Bank of Kenya, the family of Kenneth Matiba and other creditors in 2011, for a total of Kshs 1.8 bn. For more information, see our Cytonn Monthly – January 2019, and
2. The Competition Authority of Kenya (CAK) approved the proposed acquisition of a 22.3% stake in Kenya based Riara Group of Schools by Actus Education Holdings AB, a private school chain based in Sweden, for an undisclosed amount. For more information, see our Cytonn Monthly April 2019.

We expect that investors will continue to show interest in the Education sector in Sub-Saharan Africa mainly as a result of the (i) increasing demand for quality and affordable education, and (ii) Government support, such as ease of approvals, offered to investors in the education sector as governments look to achieve Sustainable Development Goals (SDGs) targets of universal access to tertiary education.

Hospitality Sector:

1. Inside Capital Partners, a Mauritian independent private equity manager announced a commitment to invest USD 7.5 mn (Kshs 756.1 mn) in Latitude Hotels Group, an African lifestyle

hospitality Group based in Zambia, for an undisclosed stake. Latitude Group currently runs 3 hotels in Zambia, Malawi and Uganda. The hospitality group will use the funds to develop three additional hotels in Kenya, Ethiopia and Mauritius by 2021. The fund manager, who is currently proceeding with a second round of fundraising targeted to raise USD 60.0 mn (Kshs 6.0 bn), is expected to make further investments in the hospitality sector targeting entities with an underlying strong net asset value, above market occupancy levels and a strong development pipeline. For more information, see our Cytonn Weekly #08/2019.

We expect that investors will continue to show interest in the Hospitality sector in Sub-Saharan Africa mainly as a result of (i) high 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.

Fundraising

1. The European Investment Bank announced a EUR 25.0 mn investment in the Amethis Fund II, the second pan-African investment vehicle of Amethis, an investment fund manager dedicated to long-term responsible investments in Africa. Amethis Fund II follows the same investment strategy as Amethis Fund I by providing growth capital to African mid-cap champions, through investments with an average ticket size of EUR 10.0 mn-EUR 30.0 mn or more through co-investment. Other investors in the fund include the International Finance Corporation (IFC) and Proparco, and Bpifrance, the French public investment bank. For more information, see our Cytonn Weekly #14/2019,
2. Leapfrog Investments, an emerging markets-focused private equity firm, 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. 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. For more information, see our Cytonn Weekly #20/2019,
3. International Finance Corporation (IFC) announced plans to invest USD 50.0 mn (Kshs 5.1 bn) in private equity firm, Helios Investment Partners, through Helios's fourth fund, Helios Investors IV L.P., which is set to close in September 2019. The funds are to be directed towards Helios's 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. For more information, see our Cytonn Weekly #19/2019,
4. Nimai Capital, a Dubai-based financial institution that supports financial inclusion in South Asia and Africa, announced the launch of a USD 150.0 mn (Kshs 15.2 bn) Nimai Emerging Financial Services Fund (NESF) in partnership with Victoria Commercial Bank (VCB), a mid-sized Kenyan financial institution that serves premier corporate clientele. The fund aims to invest in financial services in African and South Asian countries such as Ghana, Tanzania, Kenya, Bangladesh, Sri Lanka, Nepal and India, and will be regulated by the Cayman Islands Monetary Authority. For more information, see our Cytonn Weekly #17/2019,
5. Partech Ventures, a global investment platform for tech and digital firms released a report on capital raising activity for African Tech Start-ups in 2018. According to the report, funding raised by a total of 146 African tech-startups grew by 108.0% to USD 1.2 bn in 2018 from USD 560.0 mn in 2017 driven by an increased number of series A & B startups attracting funding and increased appetite of global private equity investors to invest in African tech start-ups. For more information, see our Cytonn Weekly #17/2019, and

6. Kasada Capital Management, a Sub-Saharan hospitality investment platform, reached a close on its first fund, Kasada Hospitality Fund LP, having secured equity commitments of over USD 500.0 mn (Kshs 50.6 bn), with the commitments being raised from Katara Hospitality, a hotel developer based in Qatar, and Accor Group, a French-based hospitality operator, who invested USD 350.0 mn (Kshs 35.4 bn) and USD 150.0 mn (Kshs 15.2 bn), respectively. For more information, see our Cytonn Weekly #21/2019.

Reports:

1. African Private Equity and Venture Capital Association (AVCA) released five reports in H1’2019. The reports are;
   ?. The *2018 Annual African Private Equity (PE) Data Tracker*, which indicated that the total value of African PE fundraising increased by 12.5% to USD 2.7 bn (Kshs 272.2 bn) in 2018 from USD 2.4 bn (Kshs 241.9 bn) in 2017. This was an indication of a positive shift in investors’ confidence in Africa’s PE industry following declines in 2016 and 2017, after a peak in 2015, which saw a handful of large funds achieving final closes during the year. For more information, see our Cytonn Weekly #11/2019,
   i. The *2018 Annual Limited Partner (LP) Survey*, which was a study that analyses the plans, views, preferences, expectations and evolving attitudes of 60 Limited Partners (LPs) from Africa, Asia, Europe and North America regarding Private Equity (PE) in Africa. According to the report, LPs’ appetite for African PE has remained steady, with 53.0% of LPs planning to increase their PE allocation on the continent over the next three-years and Nigeria being viewed by majority of LPs as the most attractive country for PE investment in Africa over the next three-years with a popularity index ranking of 58.0%, followed by Kenya (40.0%) and Egypt (31.0%). For more information, see our Cytonn Weekly #06/2019,
   ii. The *2019 Profile of Africa’s Institutional Investors,* which mapped the different pools of capital for African private equity and provided an overview of the demographics of institutional investors with allocations to Africa. According to the report, majority of the institutions are European based with 36.0% having their head offices in Europe while North American based institutions came second at 32.0% of the total. For more information, see our Cytonn Weekly #06/2019,
   iii. *The Private Credit Strategies in Africa Report* that provided an overview of some of the key opportunities and challenges facing the private credit industry in Africa. According to the report, a major driver of the increasing interest in private credit in Africa relates to the difficulties that small and medium-sized enterprises (SMEs) in Africa often face in accessing financing through traditional avenues, such as banks. For more information, see our Cytonn Monthly – February 2019, and
   iv. *Country Snapshot – Kenya,* which highlighted 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. For more information, see our Cytonn Weekly #16/2019.
2. The Competition Authority of Kenya (CAK) released their 2018 Annual Report, which highlighted the number of mergers that the Authority handled. The Authority handled 150 merger notifications in 2018, a 15.4% increase from 130 merger notifications handled in 2017. The merger notifications were mainly from the following sectors; manufacturing, real estate, distribution, investment, services, advertising and agriculture. For more information, see our Cytonn Weekly #07/2019.

3. I&M Burbidge, the Corporate finance advisory of I&M Bank Limited, in their 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. For more information, see our Cytonn Weekly #19/2019.

Private equity investments in Africa remain robust as evidenced by the increasing investor interest, which is attributed to; (i) rapid urbanization, a resilient and adapting middle class and increased consumerism, (ii) the attractive valuations in Sub Saharan Africa's private markets compared to its public markets, (iii) the attractive valuations in Sub Saharan Africa's markets compared to global markets, and (iv) better economic projections in Sub Sahara Africa compared to global markets. We remain bullish on PE as an asset class in Sub-Sahara Africa. Going forward, the increasing investor interest and stable macro-economic environment will continue to boost deal flow into African markets.
