Nairobi Metropolitan Area (NMA) Residential Report 2018/2019, & Cytonn Weekly #28/2019

Private Equity

During the week, Sterling Capital, a Kenyan-based investment bank acquired a 20.0% stake in Afvest, a Nairobi-based emerging markets private equity firm, for an undisclosed value. Afvest focuses on early-stage businesses in the financial services, energy, agri-processing and technology sectors. This acquisition is in line with the two firms' strategy of investing in early-stage businesses and entrepreneurs with the potential to generate high returns. In 2018, Afvest launched a Kshs 250.0 mn fund for long-term investment in early-stage businesses with the potential to generate at least 25.0% annual return on investment. In March 2019, Sterling Capital announced that they would launch a Kshs 2.0 bn hedge fund, with backing from Kuramo Capital, a New York-based private equity firm, which holds a minority equity stake in the firm since August 2018. Sterling Capital would operate the hedge fund by raising money from institutions and high net-worth individuals. The hedge fund is expected to focus on a wide range of assets and strategies, including derivatives that have recently been launched at the NSE, and on investments in the small and medium-sized enterprises (SME) sector or business with capital requirements of less than Kshs 50.0 mn. For Sterling Capital, this acquisition will diversify its investment portfolio which mainly consists of equities and bonds into the small and medium-sized enterprises (SMEs) segment.

In fundraising, OPay, a Nigerian based mobile payment platform, has raised USD 50.0 mn (Kshs 5.1 bn) in its first round of funding. The startup, founded by Norwegian browser company Opera in 2018, aims to use the capital for expansion to other African Markets including Tanzania, Ghana and South Africa where Opera reaches 120 mn customers across the region and to support Opera's commercial network in Nigeria which includes ORide, a motorcycle ride-hailing app and OFood, a food delivery service application. This round of funding was led by the following Chinese firms; IDG Capital, a venture capital firm, Sequoia China, a technology investment firm; Source Code Capital, an emerging markets venture capital firm, Meituan-Dianping, a retail company; GSR Ventures, a early-stage technology venture capital firm; and, the founding company, Opera Limited. OPay has built a leading mobile payments platform in Nigeria with more than 40,000 active agents with daily transaction volumes in excess of USD 5.0 mn (Kshs 514.8 mn).

Rent-to-Own (RTO), a Zambia based asset-financing company, secured a EUR 1.0 mn (Kshs 116.0 mn) investment from the seed capital and business development facility of the Dutch Good Growth Fund (DGGF), managed by Triple Jump B.V, a Netherlands-based impact investment manager. Rent-to-Own provides high-impact assets to small scale entrepreneurs and smallholder farmers in rural Zambia. This follows last year's seed round funding of USD 1.1 mn (Kshs 113.2 mn), which was led by AAHL Venture Partners, an African impact investing venture capital firm, with participation from Small Foundation and Jordan Engineering, through its investment arm, Serenity Investments.

In our view, the continued investment in (i) FinTech by international firms point to the growing need for financial services among the unbanked in Sub-Saharan Africa, and (ii) early-stage businesses and entrepreneurs points to the growing need of capital and technical support within this segment and private equity firms looking to increase revenue by focusing on this segment of clients. We expect:

i. Investments in the FinTech sector to continue as technology companies offer better cost efficiency and the customer experience in providing financial services; and
ii. Investments in early-stage businesses and entrepreneurs to continue owing to the continued need for capital and potential for the segment to generate high returns on investment.

Private equity investments in Africa remains 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 a stable macroeconomic environment will continue to boost deal flow into African markets.