Unit Trust Funds Performance in First Half 2019, & Cytonn Weekly #38/2019

Private Equity

During the week, there was private equity activity in the education sector, with the Danish SDG (Sustainable Development Goals) Investment Fund investing Danish Krone (DKK) 45.0 mn (Kshs 692.5 mn) in Africa Education Holding, which offers affordable high-quality programmes in labour market relevant studies of medicine, business, IT, law and social sciences, for an undisclosed stake. This was done in collaboration with Proparco, the French development agency, who invested USD 7.0 mn (Kshs 726.9 mn) as well as Finnfund, the Finnish development agency which invested an undisclosed amount.

The Danish SDG Investment Fund, a DKK 4.1 bn (Kshs 63.1 bn) fund, was launched in June 2018 by the Danish government in collaboration with six top pension funds from Denmark, with the aim of promoting the United Nation's 17 global goals, which includes inclusive and equitable quality education. The fund is managed by the IFU, which also manages the Danish Climate Investment Fund and the Danish Agribusiness Fund. This will be the first investment by the fund in Africa, and its second overall, with its previous investment being DKK 37.0 mn (Kshs 569.4 mn) in an Ukranian solar power plant in January 2019.

Africa Education Holding owns and operates two universities: Cavendish University Uganda and Cavendish University Zambia. The company intends to use part of the capital raised to increase its portfolio of universities in East and West Africa, improve the quality of education, and increase university intake, thereby complementing public universities that can only admit around one third of all applicants. The investment will also enable Africa Education Holding to train nearly 43,000 students over the next five-years and to support more than 2,000 direct and indirect jobs.

In the FinTech sector, FairMoney, a Paris-based FinTech startup focused on Nigeria, closed a Series A round of investment, raising USD 10.0 mn (Kshs 1.0 bn), led by Flourish, a venture of The Omidyar Group, a family-founded impact investment firm with operations in Asia, North America and Africa. The funding round was also boosted by existing seed investors; DST Global, a Hong Kong-based investment company that funds late-stage ventures in the global internet industry, Newfund, and Le Studio VC, French venture capital firms, and Speedinvest, an Austrian venture capital firm.

Launched in 2017, FairMoney started as a mobile app that uses alternative smartphone data to underwrite micro-credit in Nigeria. It has grown to its current portfolio of over 200,000 customers, mostly SMEs who are looking to expand their businesses. Its value proposition is the underwriting process that enables the loans to be disbursed in five minutes, thus improving access to capital for the unbanked population in Nigeria. The funds raised from this round of financing are expected to be channelled to scale the company's engineering team in order to develop a fully-fledged mobile banking offering in Nigeria and beyond, being part of its larger vision of building a holistic financial platform for underserved customers in emerging markets.

The continued increase in investments and funding of mobile lending apps is an indicator of the positive investor sentiment in the FinTech sector. One of the biggest drivers in this sector is the provision of access to credit, which we expect to grow, fuelled by the expected increase in demand for mobile loans.

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.