Kenya Retail Real Estate Sector Report 2019 & Cytonn Weekly #41/2019

Private Equity

During the week, there was private equity activity in the real estate sector with Emerging Africa Infrastructure Fund (EAIF), an infrastructure fund managed by Investec Asset Management, investing Kshs 1.3 bn (USD 12.7 mn) in the green bond issued by Nairobi-based property developer Acorn Holdings. The total funds raised via the green bond amounted to Kshs 4.3 bn, with the funds being raised mainly from pension funds, development finance institutions, and commercial banks. These funds are meant for the construction of affordable student housing projects, where Acorn is set to begin construction of around six green-certified student properties in Nairobi. These properties are expected to create accommodation for about 5,000 students in Kasarani, Karen, Nairobi West and Ngara.

This transaction marked the EAIF’s first ever transaction denominated in local currency, showing a rise in appetite for supporting projects in local currency. This is expected to open up the issuance of securities to global investors looking to invest in local currency, as it shows the confidence in the stability of the Kenyan Shilling by international investors, who usually tend to invest in stable currencies. The properties will be developed by Acorn Holdings Ltd, a joint venture between Acorn Group Ltd, a property developer operating in East Africa, and Accord Holdco, a Helios Investment Partners subsidiary based in London. This deal represents a first of many bonds with “green certification”, a trend that we expect to pick up pace, especially with the proposed tax exemption for similar instruments, following changes in the Finance Bill 2019, which is at the Presidential assent stage. The issuance and subsequent success of the bond is expected to benefit both investors and the stakeholders in the long-run considering its focus on environmental issues and a more sustainable economy, a trend that has been picking up pace in other markets.

In the financial services sector, International Financial Corporation (IFC), a member of World Bank Group headquartered in Washington, invested USD 10.0 mn (Kshs 1.0 bn) in CardinalStone Capital Advisers Growth Fund for a 10% equity stake in the fund. The fund aims to make financing accessible to high growth, underserved SMEs in Nigeria and Ghana. This fund is the first to be managed by CardinalStone Capital Advisers, though the firm has had experience investing capital in at least 5 investment projects across various sectors. The objective for this fund is to facilitate job creation and create a sufficient local private equity and mezzanine financing. In their target of raising USD 100.0 mn, they are USD 50.0 mn short having secured the rest from CDC Group, Kuramo, FMO and NSIA. With SMEs accounting for 85% of private sector in Ghana and 96% of businesses in Nigeria, there has been limited availability of long-term capital, thus creating an opportunity for the fund to grant SMEs access to financing.

We can expect to see an increase in such growth funds and further participation of firms such as IFC in the private equity sector in Africa, given the growth of SMEs in the region, which creates a need for long term financing giving funds such as CardinalStone Capital Advisers Growth Fund opportunities to provide long-term capital. Programs such as IFC SME ventures pave way for more investors to enter the private equity market in Africa. This will build a more sustainable environment for SMEs and the working population in Africa.

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-Saharan Africa compared to global markets. We remain bullish on private equity 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.