End of Interest Rate Caps?, & Cytonn Weekly #42/2019

Private Equity

During the week, the UK Government, through its Department for International Development, which is responsible for administering overseas aid, announced GBP 10.0 mn (Kshs 1.3 bn) of funding to Catalyst Fund, a fund managed by US-based consulting firm, Bankable Frontier Associates (BFA). This investment is aimed at boosting the FinTech sector in the East Africa region, particularly Kenya, by providing access to growth capital.

Catalyst Fund specializes in early-stage venture building targeting low-income customers in emerging markets, with an aim of spurring innovation that is targeted at financial inclusion for the unbanked population in emerging markets. Since its launch in 2016, Catalyst Fund has deployed USD 2.0 mn (Kshs 207.6 mn) in grant capital and USD 1.0 mn (Kshs 103.8 mn) in bespoke advisory services to over 20 global startup enterprises, of which 60% are located in Africa. Its most recent investment was in June 2019, where they announced that they had on-boarded four finance startups into its incubator program, with three having an Africa focus, these being (i) Chipper Cash, a mobile money transfer platform with operations in Kenya, Ghana and Nigeria, (ii) Salutat, a Singapore-based startup that helps financial institutions to reach out to more underserved entrepreneurs, especially women, by offering lower-interest loans and financial literacy training, with operations in Thailand, Myanmar, Kenya, and Zimbabwe, and (iii) Turaco, a Kenyan low-cost insurance provider targeting low-income customers. The fund has garnered the support of firms such as the Bill & Melinda Gates Foundation and JPMorgan Chase & Co.

This investment is an indicator of the positive outlook for the FinTech sector. We expect the FinTech sector to continue to witness more investments, given the untapped potential in credit and credit-related industries in Africa, highlighted by the significant difference in credit extension activity in Africa compared to other world regions, which results in slow growth of enterprises, especially MSMEs, both through a lack of access to growth capital as well as lack of access to consumption capital, thus limiting the spending power of consumers to the populations served by these enterprises. FinTech lending addresses this by providing access to credit via convenient and already established channels.

Verod Capital Management Limited, a Nigeria-based investment management firm, through its private equity subsidiary, Verod Capital Partners, announced its exit from UTL Trust Management, a Nigerian firm that offers trustee, fund management, estate administration and portfolio management services to corporate and individual clients. The terms of the exit were not disclosed.

Verod Capital Partners has historically invested in SME companies in West Africa including Nigeria, Ghana, Liberia, Sierra Leone and Gambia. The firm invested in Union Trustees Limited in 2015, where it acquired 100% stake in Union Trustees Limited, from Union Bank of Nigeria, for an undisclosed amount, as part of the USD 115.0 mn (Kshs 11.9 bn) Verod Fund II, which closed in 2015, supported by global and local institutional investors. The investment was aimed at allowing for services to be delivered through the development of highly skilled personnel and application of world-class technology. The funding and support provided by Verod Capital assisted in expanding Union Trustees Limited and according to Verod Capital, has generated acceptable private equity return.

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 a stable macro-economic environment will continue to boost deal flow into African markets.