NMA Mixed Use Developments Report 2019 & Cytonn Weekly#45/2019

Private Equity

During the week, ICEA Lion Asset Management, a Kenya based fund manager, signed an agreement to acquire Stanlib Kenya, another Kenya based fund manager, for an estimated Kshs 1.5 bn for a 100% stake. ICEA Lion is acquiring Stanlib Kenya from South Africa based Liberty Holdings Ltd, who in their FY'2018 Annual Report announced they would be selling majority stakes in their asset-management operations in East and West Africa, and Liberty Health and Liberty Africa's Insurance short-term insurance businesses in Malawi and Namibia; as the company pushes ahead with plans to improve profitability and win back market share by focusing on the South African market.

Stanlib Kenya had earnings of Kshs 65.8 mn for the H1'2019 period, which implies that if the transaction is carried at the estimated value of Kshs 1.5 bn, the transaction will be carried out at a P/E ratio of 11.4x. The P/E ratio is 53.8% lower than the average P/E multiple of other similar transactions in Kenya. Other similar transactions carried out in the past include the acquisition of a 100% stake in ApexAfrica Capital by Axis, a Mauritian private equity fund in 2015 for Kshs 470.0 mn, translating to a P/E multiple of 40.2x, and the 90.9% acquisition of GenAfrica Asset Managers Ltd by Kuramo Capital, a New York based investment management firm focused on alternative investments in frontier and emerging markets, in two different transactions in 2018, for Kshs 2.9 bn, translating to a P/E multiple of 23.6x. The table below summarizes the details of the transactions:

Summary of Transactions

Asset Manager Acquired	**Seller**	**Acquirer**	**Earnings at Acquisition (Kshs mn)**	**Acquisition Stake**	**Transaction Value (Kshs mn)**	**P/E Multiple**	**Date**	**AUM (Kshs bn) *****	**Price to AUM %**
Apex Africa	Founding Shareholders	Axis (Mauritius)	11.7	100.0%	470	40.2x	Aug 2015	N/A	N/A
GenAfrica	Centum Investments	Kuramo Capital	134.2	73.4%	2,324.20	23.6x	Aug 2018	153.1	2.1%
GenAfrica	Management and Staff	Kuramo Capital	134.2	17.5%	554.2	23.6x	Sep 2018	153.1	2.1%
Stanlib Kenya	Liberty Holdings Ltd	ICEA Lion	131.7*	100.0%	1,500.0**	11.4x	Nov 2019	106.0	1.4%
Average				**72.7%**		**24.7x**			**1.9x**

Annualized H1'2019 Pretax Earnings
*****Estimated transaction value***
****** Estimated total AUM at transaction date***

The acquisition by ICEA Lion is strategic, given;

i. It will cement ICEA Lion's position as the second-largest Unit Trust Fund Manager with combined assets under management of Kshs 9.6 bn as at H1'2019, coming only second to CIC Asset Managers, and increase their retirement benefits assets under management by approximately Kshs 104.0 bn,

ii. The transaction will see ICEA Lion diversify to the listed property market with the assets being acquired by ICEA Lion including the investment management mandates and all rights, obligations, and benefits in connection with, Stanlib's role as Promoter and REIT Manager in relation to the Fahari I-REIT,
iii. The expected growth of the equities market in Kenya and Sub-Saharan Africa, driven by product diversification, new listings, and continued investor interest fuelled by existing low valuations in sections in the market such as the financial services, and,
iv. The increasing number of institutional and retail investors in Kenya and Sub-Saharan Africa and the assets under their management. In Kenya, the retirement benefits assets under management grew by 8.0% to Kshs 1,166.6 bn in 2018 from Kshs 1,080.1 bn in 2017, an indicator of the growing opportunity for asset managers in Kenya.

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.

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