Cytonn Monthly - January 2019

Private Equity

During the month of January, there was private equity activity in the financial services, education, hospitality and fundraising sectors.

Financial Services Sector:

1. Britam Asset Managers bought a 40.0% stake worth Kshs 1.4 bn in a local electricity producer, Gulf Energy, through a New York-based energy investment vehicle Everstrong Capital as the company seeks to diversify its investments beyond traditional investments. According to the Chief Executive Officer, Kenneth Kaniu, the investment will help achieve diversification of returns across asset classes, as well as currency, hence mitigating exchange rate risks. This is because returns from the power plant will be in the form of hard foreign currency, and Kenya's cost of power is priced in US Dollars, due to the existence of the foreign exchange levy in electricity bills sent to homes and businesses. For more information, see our Cytonn Weekly #04/2019.

Education:

1. Dubai based GEMS Education, an international education company owned by a consortium of institutional investors, including Varkey Group and American private equity firm Blackstone Group, plans to put up five middle-range schools in Nairobi at a cost of USD 20.0 mn (Kshs 2.0 bn). The investment will continue the Dubai based company's initiative to expand in the Kenyan market. For more information, see our Cytonn Weekly #03/2019,
2. GEMS Education is also set to acquire 100% stake of Hillcrest International Schools from its current owners, Fanisi Capital and businessman Anthony Wahome, for Kshs 2.6 bn. The transaction details are as below;
   i. Fanisi owns 55.0% stake in the school, while Mr. Wahome owns 45.0%,
   ii. The amounts paid in consideration for the combined stake is Kshs 2.6 bn, and,
   iii. Fanisi Capital and Mr. Wahome acquired 100% of Hillcrest from Barclays Bank of Kenya, the family of Kenneth Matiba and other creditors in 2011, for a total of Kshs 1.8 bn. The exiting parties stand to realize a profit of Kshs 0.8 bn on the seven-year investment at an IRR of 5.4%, excluding profits or losses for the period of investment.

The increased investments in the education sector is an indication of investor's interest in the education sector in Sub-Saharan Africa, which is motivated by; (i) increasing demand for quality and affordable education, according to The Business of Education in Africa report by Caerus Capital, the Gross Enrolment Ratio (GER) has doubled over the last ten years, from 4.5% in 2006 to 8.5% in 2016, and (ii) support such as ease of approvals, offered to investors in the education sector by governments looking to meet Sustainable Development Goals (SDGs) targets of universal access to education. For more information, see our Cytonn 2019 Markets Outlook,

3. The Ministry of Education has announced plans to give loans at subsidized interest rates and other innovative funding initiatives, including the introduction of education bonds to entrepreneurs to build schools and plug the capacity shortfalls coming from reduced State funding. The Ministry is also proposing to float sovereign bonds to support the funding of the

education sector. These are some of the proposals that were tabled in the National Assembly in December 2018 on Reforming Education and Training for Sustainable Development by the Ministry of Education. The proposal tabled in the National Assembly will enhance access to quality education and provide investment opportunities to investors through the access of loans at a subsidized rate. We are of the view that the government should encourage Public-Private Partnerships (PPP) to help reduce levels of government financing and enable the government to obtain greater value for their investments in the education sector. For more information, see our Cytonn Weekly #03/2019.

Fundraising:

1. Andela, a Silicon Valley corporation launched in 2014 to identify and train software developers in Africa, has concluded a USD 100.0 mn (Kshs 10.3 bn) Series D funding, raising the firm's venture funding to USD 180.0 mn (Kshs 18.1 bn). Generation Investment Management led the round, with input from existing funders including the Chan Zuckerberg Initiative, GV, Spark Capital, and CRE Venture Capital. Andela, which identifies and moulds engineering expertise, has since hired 1,100 developers worldwide and integrated them into key companies such as Safaricom. The funds will be used to expand Andela's performance by accelerating the growth of its trade in technology through talent development. For more information, see our Cytonn Weekly #04/2019,
2. Branch International, a mobile-based microfinance institution headquartered in California with operations in Kenya, Tanzania and Nigeria, raised a further Kshs 500.0 mn (USD 4.9 mn) in capital investment based on its third issued commercial paper in the Kenyan market. The Silicon Valley start-up, founded in 2015, processes loans ranging from Kshs 250 to Kshs 70,000 daily and applies machine learning to create an algorithmic approach to determine credit worthiness via customers' smartphones. The commercial paper was arranged by Barium Capital, a capital–raising advisory firm owned by Centum Investments. The investment is expected to expand Branch's business in Kenya. For more information, see our Cytonn Weekly #03/2019,
3. Dutch impact investor Goodwell Investments has made a USD 2.0 mn (Kshs 203.0 mn) investment in Nairobi-based consumer goods catalogue and delivery service Copia for an undisclosed stake. Copia, a Silicon Valley start-up launched in Kenya in 2013, uses technology and a network of more than 3,000 local agents to deliver goods and services to about 40,000 "underserved consumers" in rural Kenya. Copia enables households to access goods that would otherwise be difficult to obtain without travelling to a major city. Pre-paid orders made through the firm take on average two to three days to be delivered. Copia has grown tremendously since 2013, with 3,000 agents and executing 80,000 orders a month. It serves 40,000 customers, translating to a 28.0% market share in Kenya. For more information, see our Cytonn Weekly #04/2019.

Hospitality:

1. US private equity fund Emerging Capital Partners (ECP) has acquired a majority stake in Nairobi-based hospitality chain ArtCaffé Group. The transaction, whose value is undisclosed, but is estimated at Kshs 3.5 bn, will see Washington-based Emerging Capital Partners (ECP) acquire 100.0% stake in the business after the Competition Authority of Kenya (CAK) authorized the proposed acquisition. ArtCaffé started in 2008 and currently operates 20 full-service bakeries, coffee shops, and bar and casual dining restaurant outlets around Nairobi. ECP, started in 2000, is a Pan-African focused private equity firm that has raised over USD 2.0 bn invested in consumer goods, financial services, telecommunications, and infrastructure sectors. It has previously invested in rubber and sugar companies, restaurant chains, power and water utilities, banks, telecoms towers and PayTV and has made over 60 investments covering more than 40 African countries. In 2017, ECP sold its 90.0% stake in another Kenyan coffee chain, Java House to Dubai-based private equity firm Abraaj Group as highlighted in Cytonn Weekly #27/2017. In March 2018, South-African based private equity fund Uqalo invested Kshs 404.0 mn (USD 4.0 mn) to acquire an undisclosed stake in Kenyan fast food chain Big Square. For more information, see

our Cytonn Weekly #10/2018

There is a great opportunity in Eastern Africa for casual dining concepts especially in Kenya, which has led to increased expansion of coffee shops to tap the country's emerging coffee drinking culture and demand for snacks and meals. The investments are an indication of investors' interest in the casual dining concept in Kenya, which is motivated by:

i. Demand for international cuisine which has seen increase in global brands in the country such as Yum Brands Inc's KFC and Pizza Hut, and,
ii. Population growth - Nairobi is one of the fastest growing cities in Africa at a rate of 4.0% annually, primarily due to high birth rates and immigrants that come to Nairobi searching for employment opportunities and is a home to a growing middle class and large expatriate population.

Despite the recent slowdown in growth, we maintain a "Positive" outlook on private equity investments in Africa, as evidenced by the increasing investor interest, which is attributed to; (i) economic growth, which is projected to improve in Africa's most developed PE markets, (ii) attractive valuations in Sub-Saharan Africa's private markets compared to its public markets, and (iii) attractive valuations in Sub-Saharan Africa's markets compared to global markets. Going forward, the increasing investor interest, stable macro-economic and political environment will continue to boost deal flow into African markets.
