

Kenya Listed Banks H1'2019 Report, & Cytonn Weekly #39/2019

Private Equity

During the week, Emerging Markets Private Equity Association (EMPEA), a global industry association for private capital in emerging markets, released their **Mid-Year 2019 Statistics Report**, which gives a snapshot of the global private equity space, particularly on the fundraising space, highlighting a significant drop in funds raised towards private equity, to USD 165.0 bn (Kshs 17.1 tn) in H1'2019, less than 33.0% of the USD 505.6 bn (Kshs 52.4 tn) raised in FY'2018. This slowdown in funds channelled towards private equity can be attributed to the general uncertainty in the global market, driven by factors such as the trade wars between the US and China, Brexit, and a slowdown in the economies of European Union countries.

From a geographical aspect, the US saw the largest level of capital raised, at USD 94.8 bn (Kshs 9.8 tn), compared to Western Europe and all other developed markets collectively, which raised USD 35.8 bn (Kshs 3.7 tn) and USD 2.5 bn (Kshs 259.5 bn), respectively. Emerging markets raised USD 33.1 bn (Kshs 3.3 tn), of which USD 1.6 bn (Kshs 166.1 bn) was raised by African PE funds. This was an improvement compared to H1'2018, where African PE funds raised USD 990.5 mn (Kshs 102.8 bn). However, there was a spike in H2'2018 where USD 2.1 bn (Kshs 217.9 bn) was raised.

Of the funds raised by African PE firms, buyout and growth continues to be the most favoured strategy by investors, raking in USD 783.0 mn (Kshs 81.3 bn), followed by infrastructure and real assets, at USD 567.0 mn (Kshs 58.8 bn).

Top 5 Funds Closed by Value in Africa (H1'2019)

Fund Manager(s)	Fund Name	Fund Type	Capital Raised (USD mn)
Meridiam	Meridiam Infrastructure Africa Fund	Infrastructure	613
Amethis	Amethis Fund II	Growth	425
Partech Partners	Partech Africa Fund	Venture Capital	148
EXEO Capital	Agri-Vie Fund II	Growth	146
Ethos	Ethos Mezzanine Partners Fund III	Mezzanine	120
Total			1,452

Source: EMPEA

Venture capital still continues to struggle with growth, with only 2 out of the top 10 funds closed in Africa focused on venture capital, i.e. Partech Africa Fund and KawiSafi Ventures. It remains to be seen whether a similar spike will be witnessed in H2'2019, albeit this will be unlikely, given that

there has so far not been increased fundraising activity in Q3'2019.

Development Partners International, a London-based Africa-focused private equity firm, in collaboration with Convergence Partners, a South-African impact investment company, have announced an investment of USD 54.0 mn (Kshs 5.6 bn) in Channel VAS, a FinTech company with operations in Africa, Asia and the Middle East that advances micro-credit to individuals through mobile money transfer, for an undisclosed stake. Channel VAS has grown from its inception in 2012 to its current scale of 30 countries, serving over 650 mn individuals in these jurisdictions, and advancing over USD 5.0 mn (Kshs 518.7 mn) daily. Apart from cash, the company also advances loans in form of airtime, data and mobile handsets. The funds raised are expected to be utilised in Channel VAS' target of providing over USD 1.5 bn (Kshs 155.6 bn) of credit to hundreds of millions of people globally through its partnerships with mobile network operators and financial institutions.

This investment came less than ten months since South African private equity firm, Ethos, announced a USD 49.0 mn (Kshs 5.0 bn) investment into Channel VAS for an undisclosed stake, with the funds intended to be advanced towards expansion of Channel VAS' footprint globally.

FinTech lending and microfinance institutions in general have been a major attraction for investors in Kenya and Sub-Saharan Africa. Lack of access to finance is a major issue for entrepreneurs and Micro, Small and Medium Enterprises (MSMEs) across Africa. According to the IMF, there are 44.2 mn MSMEs in Sub-Saharan Africa with a potential demand for USD 404.0 bn in financing. The current volume of financing in Sub-Saharan Africa is estimated at USD 70.0 bn signifying a huge financing gap of USD 334.0 bn. Microfinance institutions aim to bridge this gap by offering convenient access to credit.

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.

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