

EAST AFRICA FINANCIAL REVIEW

MARCH 2020



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March in Numbers:

7

The number of disclosed deals in EA



IMBC Deal of the Month:

AfricInvest’s Financial Inclusion Vehicle (FIVE) Fund’s acquisition of a minority stake in I&M Bank Rwanda.



The Editorial Team
EDWARD BURBIDGE | KEVIN KURIA

Q1 2020 came to a close with 7 transactions having been disclosed in March, all of which had undisclosed deal values. This is similar to the numbers recorded in January and February, despite the confirmation of coronavirus cases in the region. Whilst the expectation would have been a slow down in deal making activity, the performance is likely attributable to the fact that these deals were largely substantially complete by the time the crisis fully erupted. Nonetheless, anecdotal evidence derived from our active participation in the market reveals that a majority of financial investors maintain their appetite for investment in the region, due to their long term view and investment mandate, though understandable delays in closing transactions are expected. It is no surprise then that a majority of transactions were private equity investments (5). The financial services sector attracted the most activity with 3 transactions.

IMBC’s deal of the month is the acquisition of a minority stake in I&M Bank Rwanda by it’s Financial Inclusion Vehicle (FIVE) Fund. I&M Rwanda is the oldest bank in Rwanda and the second largest by total assets. The Bank has been listed on the Rwanda Stock Exchange since 2017 and is part of the I&M Group, a leading financial services group. I&M Rwanda operates via three segments, namely the Corporate and Institutional segment, the Business banking segment and the Retail banking segment..

The NSE 20 index hit a 17 – year low in March as equity markets globally continued to see investor flight to safer assets. This as the coronavirus pandemic spread to other countries and initial cases were recorded in East Africa. Overall, the listed equities market was on a downward trend, with NASI, NSE 20 and NSE 25 declining by 11.2%, 15.9% and 15.1% respectively.

Top gainers during the month included Eaagads which increased by 10% (YTD +8.9%) and Limuru Tea which increased by 5.6% (YTD – +8.0%). Kenya Airways experienced the highest monthly decline of 36.5% (YTD – decline of 32.2%).

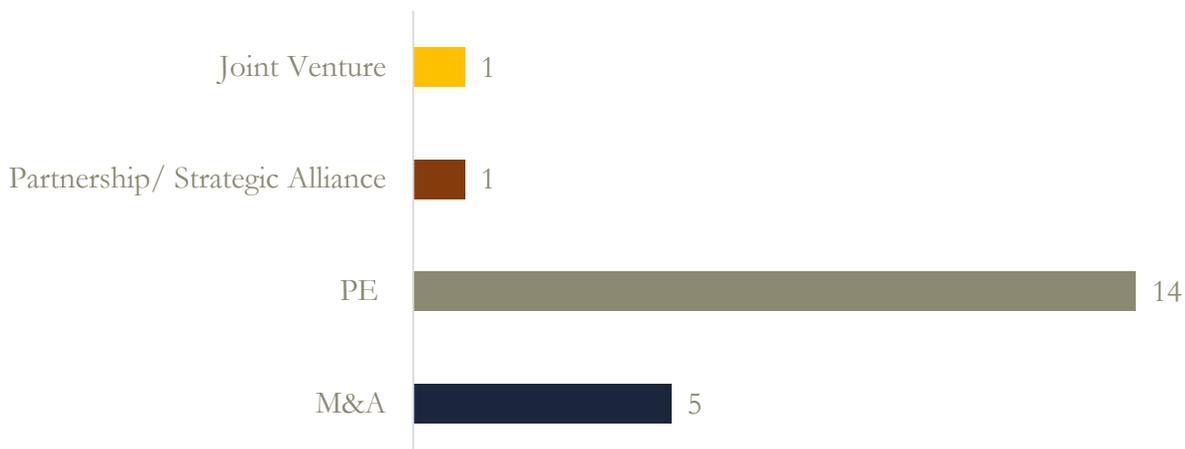
PART I : DEAL STATISTICS

Analysis by Sector

| Sector | No. of Deals YTD | Disclosed Deal Value YTD (USD million) |
|--|------------------|--|
|  Financial Services | 4 | Undisclosed |
|  FMCG | 2 | Undisclosed |
|  Agribusiness | 1 | 10.01 |
|  Food & Beverage | 2 | 56.00 |
|  Healthcare | 1 | 15.00 |
|  ICT and Telecom | 5 | 36.00 |
|  Logistics | 2 | Undisclosed |
|  Mining | 1 | 14.7 |
|  Real Estate | 1 | 100 |
|  Energy Oil and Gas | 1 | Undisclosed |
|  Manufacturing | 1 | Undisclosed |
|  Automotive | 1 | Undisclosed |

Analysis by Type of Transaction

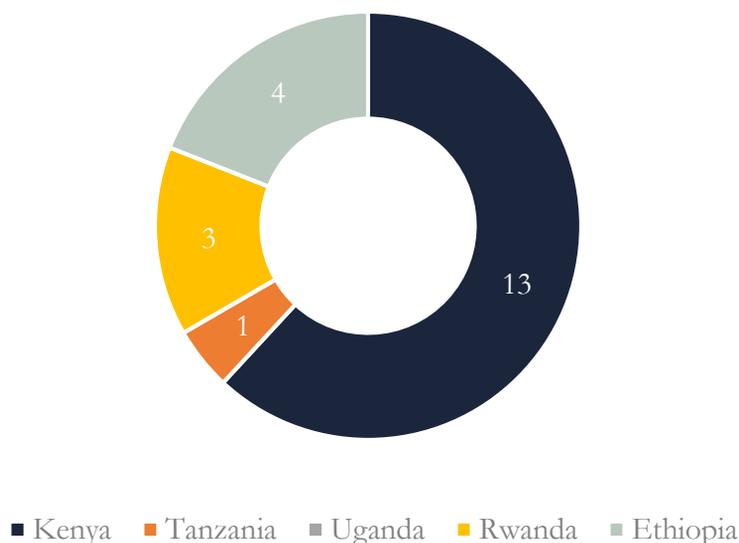
TOTAL NUMBER OF DEALS IN EA - YTD 2020



PART I : DEAL STATISTICS

Analysis by Country

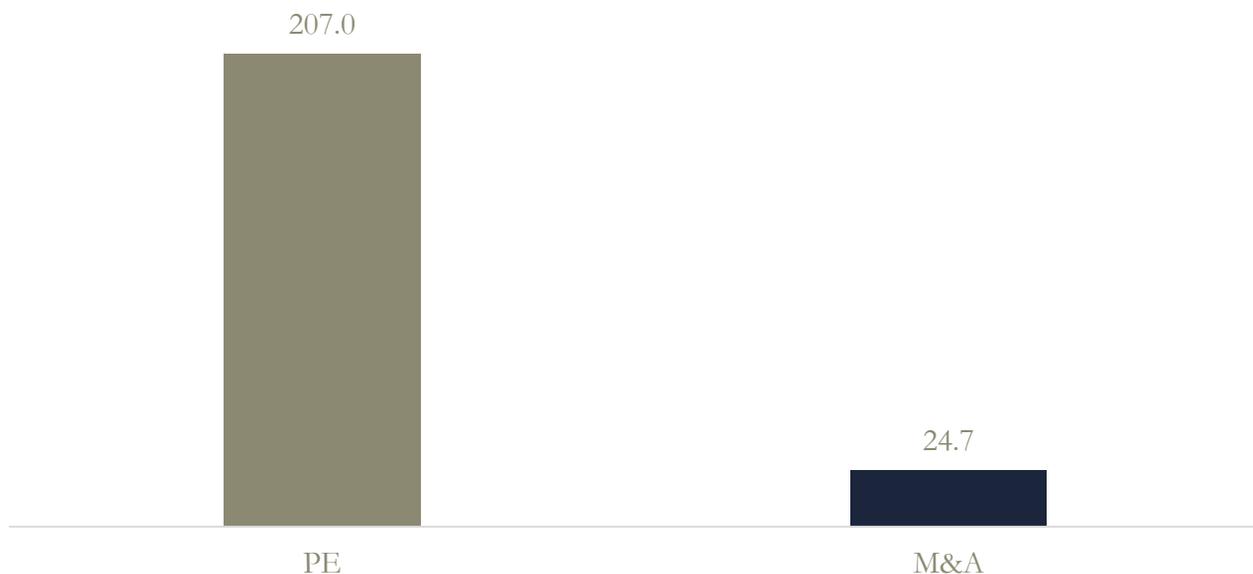
NUMBER OF DEALS PER COUNTRY - YTD 2020



*Deals in the “Sector Analysis” table that have an impact on a company’s operations in more than one country have been treated as a single deal. In the “Analysis by Country” chart above, each country operation has been considered as a separate deal. There is therefore a mismatch between the “Sector Analysis” and “Analysis by Country” deal numbers.

Analysis by Deal Value

DEAL SIZE YTD 2020 IN USDM¹



¹ Using available data from disclosed deal values

PART II : KEY MARKET INDICATORS

(As at 7th April 2020)

Yields on Government Securities

| Years | 91-day | 2 year | 5 year | 10 year |
|----------|--------|--------|--------|---------|
| Kenya | 7.22% | 10.64% | 11.55% | 12.61% |
| Tanzania | 4.05% | 7.82% | 9.18% | 11.44% |
| Uganda | 10.70% | 14.48% | 17.18% | 16.75% |

Source: Respective Central Bank

Inflation Rates

| Years | Kenya | Tanzania | Uganda | Rwanda |
|--------------------------|-------|----------|--------|--------|
| 2019 actual Inflation | 5.82% | 3.80% | 3.60% | 3.19% |
| 2020 Projected Inflation | 6.06% | 3.70% | 3.00% | 8.70% |

Source: Statista

Central Bank Rates

| Country/Region | Previous rate | Rate as at February 2020 |
|-----------------------------------|---------------|--------------------------|
| Central Bank of Kenya (Kenya) | 8.25% | 7.25% |
| Bank of Uganda (Uganda) | 9.00% | 8.00% |
| Bank of Tanzania (Tanzania) | 7.00% | 7.00% |
| South African Reserve Bank (RSA) | 6.25% | 5.25% |
| Central Bank of Nigeria (Nigeria) | 13.50% | 13.50% |
| Central Bank of Egypt (Egypt) | 13.25% | 9.25% |
| Bank of England (UK) | 0.75% | 0.10% |
| Federal Reserve Bank (USA)* | 1.75% | 0.25% |
| European Central Bank (EU) | 0.00% | -0.50% |

Source: CB Rates

PART III : INDUSTRY INTERVIEW

Marieke Geurts, Investment Director - Ascent Capital



Marieke is the investment director at Ascent Capital, based in Nairobi. She has 8 years of experience investing in and advising companies, mostly in emerging and frontier markets across Eastern Africa and South(-east) Asia. At Ascent, she is responsible for sourcing, analysing, and executing transactions as well as providing post-investment support to the Fund's portfolio companies. She is also leading the ESG and impact work for Ascent and she is a non-executive director at Auto Springs. Prior to Ascent, Marieke was a consultant at McKinsey & Company and part of the start-up team at Rocket Internet in The Philippines. She holds a Masters in International Management (MiM) degree from CEMS, a MSc from Rotterdam School of Management, and a Bsc in Business Studies from Tilburg University.

Ascent advises Ascent Capital Africa Ltd, the manager of Ascent Rift Valley Fund (the "Fund"), a Mauritius based USD 80 million growth equity fund. Through its associated advisory firms Ascent Capital is represented in Ethiopia, Uganda and Kenya.

How does the Covid-19 pandemic affect your evaluation of transactions in terms of process and appetite?

Our job is to do good investments and we will continue doing that. In other words, our appetite for transactions has not been affected. It is more difficult to evaluate certain companies which are hit hard by the crisis or which are doing extraordinarily well, but we are aiming to evaluate companies on their ability to do well for the next 5-10 years, not just the current months.

Has the pandemic had an effect on the transactions you were already evaluating and what has been the reaction from counterparties in both investment and exit transactions?

We are still moving forward with the transactions we were working on and are seeing a number of new interesting opportunities coming our way as well. We do request and see other investors requesting additional information regarding the impact of the COVID-19 pandemic on the companies, and we have a closer look at short-term cash flow projections than we normally would, but no renegotiation or cancellation discussions have taken place from ourselves or our counterparties.

Whilst a lot of sectors have been negatively impacted by this crisis, there are some that have seen a significant rise in demand and an increase in innovation. Which sectors are you closely following as having potential to make good investments at this time?

There are some sectors which have been hit exceptionally hard by the crisis and others which are doing extraordinarily well. We are aiming to evaluate companies on their ability to do well for the next 5-10 years, not just the current months. Companies which are leading in their industry are better able to survive and thrive versus others, so those are the companies we focus on.

We are definitely still interested in investing in industries which are hit hard due to these extraordinary circumstances, but for whom the long-term outlook remains positive, such as retail, education, and manufacturing sectors.

Ascent is currently fundraising for its second fund. Has the pandemic had an impact on this effort and the general private equity fundraising environment?

Apart from the logistical challenges of doing due diligence from a distance (we are planning our first site visit via video conference!) and some additional questions, we have seen few challenges on this front. The type of LPs we work with take a long-term view.

PART III : INDUSTRY INTERVIEW

Marieke Geurts, Investment Director - Ascent Capital

How are you preparing the fund's portfolio companies to weather the storm and what should companies focus on now to ensure they come out at the other end of this pandemic with a viable business?

This is where we spend a lot of our time at the moment. First and foremost, we supported companies with the implementation of recommended health & safety precautions to prevent the spread of the COVID-19 virus, for example by sharing best practices across industries. From a commercial and financial perspective, we started by understanding what the effect of the crisis is on the sales expectations: are there likely changes in demand and/or the company's ability to meet that demand – supply chain, operations, sales channels, and if these can be optimized in the current situation. Then, what is the effect on the cash flows of the business and what are the changes we can make to the current cost and financing structure to ensure we have cash to keep the business afloat now and –very importantly- in the future. You don't want to be in a situation where you are unable to scale back up because of working capital challenges. Last but not least, if you have strong equity financiers or a strong balance sheet, this might be the best time to improve your market position, whether organically or inorganically.

PART IV : SELECTED DEALS

| Date | Buyer | Seller | Deal size (M USD) | Sector | Type | Country | Synopsis |
|-----------|--------------------------|--------------------|-------------------|--------------------|-----------------------|----------|--|
| 1-Mar-20 | Amethis Capital | Naivas Group | Undisclosed | FMCG | PE | Kenya | PE firm Amethis - alongside its partners DEG, MCB Equity Fund and IFC - acquired a minority stake in Naivas Group. Naivas is a leading retailer in Kenya with 60 stores throughout the Country. This investment, the fourth of Amethis Fund II, will support the strategy implemented by the Company and management towards the emergence of a national leader in the retail sector. |
| 6-Mar-20 | Alexander Forbes | Octagon Africa | Undisclosed | Financial Services | Strategic Partnership | Kenya | Johannesburg-based Alexander Forbes business realignment handed Kenya's Octagon Africa its multinational company (MNCs) pension accounts, raising the local firm's assets under management to KES 130 billion. |
| 8-Mar-20 | Ascent Rift Valley Fund | Metro Plastics | Undisclosed | Manufacturing | PE | Kenya | The Ascent Rift Valley Fund, an East African focused private equity fund, has acquired the plastics manufacturing business of Kenya's Metro Plastics. Metro Plastics is involved in the manufacture of plastic pipes and fittings. |
| 13-Mar-20 | Bolloré Transport | CLS Logistics | Undisclosed | Logistics | JV | Ethiopia | Bolloré Transport signed a Memorandum of Understanding to create a joint-venture with CLS Logistics, its partner for over 11 years. |
| 17-Mar-20 | AfricInvest | I&M Rwanda | Undisclosed | Financial Services | PE | Rwanda | AfricInvest, a leading Pan-African private equity platform, announced that its AfricInvest Financial Inclusion Vehicle (FIVE) acquired a minority shareholding in I&M Bank (Rwanda) Plc (the Bank) through AfricInvest Evergreen Investments, a special purpose vehicle formed by AfricInvest. |
| 18-Mar-20 | Metier | Tembo Power | Undisclosed | Energy | PE | Kenya | Tembo Power signed a Joint Development Agreement with Metier, an independently owned private equity fund manager, for its Kaptis project, a 14.7 MW run of river hydropower project in Kenya, together with its partner WK Construction, a leading contractor in the field of hydropower in sub-Saharan Africa. |
| 26-Mar-20 | Zebu Investment Partners | Royal Oven Limited | Undisclosed | Food and Beverages | PE | Tanzania | The sophomore fund of Zebu Investment Partners, the Africa Food Security Fund, closed its investment in Royal Oven Limited, Tanzania. Royal Oven is a quick-service restaurant (QSR) retail bakery chain, offering a diverse range of products which combine traditional Tanzanian food with international bakery trends. Royal Oven opened its first retail bakery in 2008 in Dar es Salaam and has since grown to 19 stores across Tanzania. |

PART V : Q1 PRIVATE EQUITY ACTIVITY IN REVIEW

Investments

14

Median Value – USD 17.5 Million

Total Value – USD 107 Million

Type of PE Investment



| Sector | Number | Deal size (M USD) |
|---------------|--------|-------------------|
| Energy | 1 | Undisclosed |
| Finserv | 1 | Undisclosed |
| FMCG | 2 | Undisclosed |
| F&B | 1 | 56 |
| Healthcare | 1 | 15 |
| ICT | 5 | 36 |
| Manufacturing | 1 | Undisclosed |
| Real Estate | 1 | Undisclosed |

Fund Raising

AfDB Approves investment in the Razorite Healthcare Fund 1

The AfDB approved a USD 10 million equity investment in the Razorite Healthcare Africa Fund 1 (RAHF1) to help improve healthcare infrastructure delivery across the continent. RAHF1, to be registered in Mauritius with a 10-year term, aims to address the growing demand for affordable and quality healthcare services in several countries in sub-Saharan Africa.

Engineers without Borders Canada (EWB Canada) launches Hummingbird Impact

EWB Canada recently launched Hummingbird Impact, a USD 20 million Africa-focused blended-finance impact fund to invest in scalable, tech-enabled social ventures at the pre-seed, seed and series A stages. It will be complimented by a USD 4 million technical assistance facility to accelerate the growth and impact performance of its portfolio.

Quona Capital Announces Final Close

Quona Capital, a venture firm focused on financial inclusion in emerging markets revealed the final close of the Accion Quona Inclusion Fund. The fund closed with USD 203 million in commitments from an array of investors including global asset managers and insurance companies, investment and commercial banks, as well as university endowments, foundations, family offices, and development finance institutions significantly exceeding its USD 150 million target.

International Finance Corporation (IFC) mulling investment in AfricInvest Fund IV

The IFC disclosed it is considering a USD 30 million equity investment in the AfricInvest IV fund. The fund is a generalist, closed-end private equity fund domiciled in Mauritius with a target size of USD 500 million that will invest in mid-market growth capital transactions in Africa.

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