# EAST AFRICA FINANCIAL REVIEW

## MAY 2020

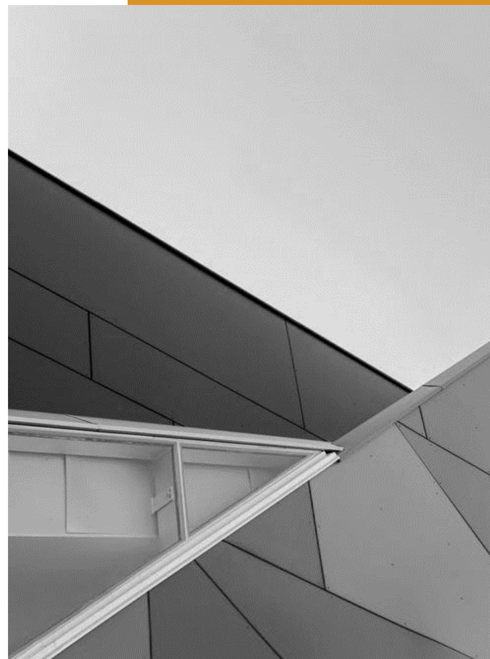
I&M Burbidge Capital

## IN THIS ISSUE

## May in Numbers:

**12** The number of disclosed deals in EA

**33.55** Disclosed deal value in USD million



## IMBC Deal of the Month:

Fanisi Capital's acquisition of a minority stake in St Bakhita Schools.

*The Editorial Team*

EDWARD BURBIDGE | KEVIN KURIA

The East African corporate transactions market maintained its resilience in May with 12 transactions having been recorded during the month with a total disclosed deal value of c. USD 33.55 million (from 7 transactions), surpassing April's performance to post the highest number of deals disclosed within a month since the start of the year and the coronavirus pandemic. This brought the total number of deals for the year, thus far, to 43 with a total disclosed deal value of c. USD 393 million. The transactions were spread out across seven sectors with the agribusiness sector recording four transactions to clinch the pole position. In keeping with the trend that begun last year and carried on into 2020, 11 of the transactions were private equity investments and one was an M&A transaction. We believe this is indicative of the liquidity challenges that were prevalent throughout a significant portion of 2019 and this year, though recent government efforts have had some effect in remedying the situation. We expect that, as a result, in the medium term, trade buyer led deals will be skewed in favour of cross border transactions and possibly debt financed transactions riding on the wave of lower global interest rates.

In this edition, we feature an insightful interview with Manuel Moses, the IFC Country Manager for East Africa. We discuss the IFC's efforts to aid businesses during this challenging period and the implications of the pandemic to the investment process.

IMBC's deal of the month is Fanisi Capital's acquisition of a minority stake in St Bakhita Schools. It becomes the third investment that Fanisi is making in the education sector after Hillcrest International Schools and Kitengela International Schools with the latter having been announced only late last year. Fanisi also recently announced a co-investment platform with Ascent Capital for its second fund.

In the public markets, in May, the major indices shed a small amount of ground with the NSE 20, NASI and NSE 25 declining by 0.5%, 1.8% and 2.7% respectively. The average daily turnover during the month was c. USD 7.17 Million compared to c. USD 5.88 Million in April. The market recorded net investor outflows of c. USD 41.69 Million. Top gainers during the month included Kenya Airways which increased by 148.3% (YTD 7.8%) and Home Afrika which increased by 31.6% (YTD -16.7%). BK Group experienced the highest monthly decline of 18.2% (YTD -35.7%).

# PART I : DEAL STATISTICS

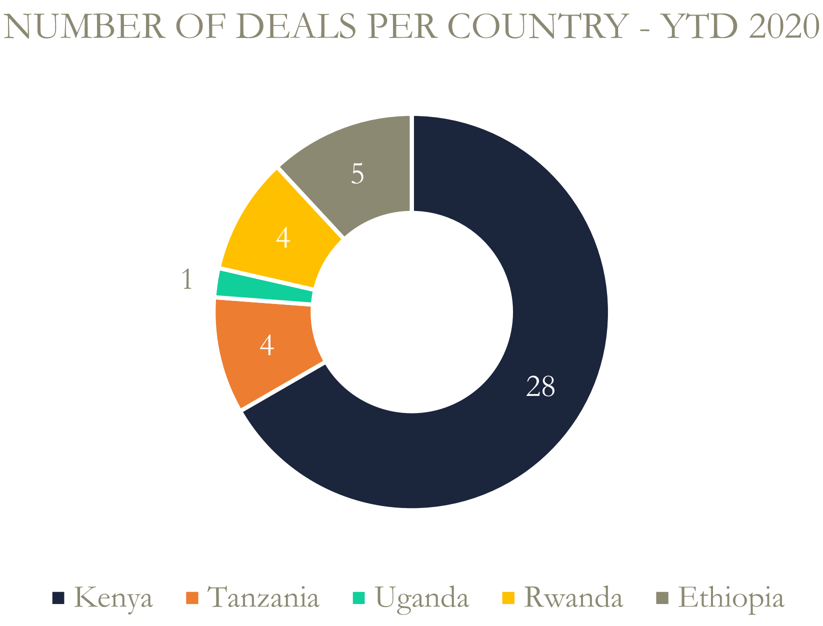
## Analysis by Sector

| Sector | No. of Deals YTD | Disclosed Deal Value YTD (USD million) |
|---|---|---|
| Financial Services | 8 | 71.50 |
| FMCG | 3 | Undisclosed |
| Agribusiness | 6 | 19.26 |
| Food & Beverage | 2 | 56.00 |
| Healthcare | 2 | 15.00 |
| ICT and Telecom | 7 | 38.30 |
| Logistics | 3 | Undisclosed |
| Mining | 1 | 14.7 |
| Real Estate | 1 | 100 |
| Energy Oil and Gas | 3 | 62.00 |
| Manufacturing | 2 | 18.70 |
| Automotive | 1 | Undisclosed |
| Education | 3 | 2.50 |

## Analysis by Type of Transaction

# PART I : DEAL STATISTICS

## Analysis by Country




*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


[1] Using available data from disclosed deal values

# PART II : KEY MARKET INDICATORS
**(As at 5th May 2020)**

## Yields on Government Securities

| Years | 91-day | 2 year | 5 year | 10 year |
|---|---|---|---|---|
| Kenya | 7.33% | 10.33% | 11.55% | 12.51% |
| Tanzania | 2.99% | 7.82% | 9.18% | 11.44% |
| Uganda | 8.89% | 14.26% | 16.32% | 16.32% |

*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 | 5.50% | 3.30% | 3.20% | 8.00% |

*Source: Statista*

## Central Bank Rates

| Country/Region | Previous rate | Rate as at 4th June 2020 |
|---|---|---|
| Central Bank of Kenya | 7.00% | 7.00% |
| Bank of Uganda | 8.00% | 8.00% |
| Bank of Tanzania | 7.00% | 7.00% |
| National Bank of Rwanda | 4.25% | 3.75% |
| South African Reserve Bank | 13.50% | 12.50% |
| Central Bank of Nigeria | 9.25% | 9.25% |
| Central Bank of Egypt | 0.10% | 0.10% |
| Bank of England | 0.25% | 0.25% |
| Federal Reserve Bank (USA)* | -0.50% | -0.50% |
| European Central Bank | 0.00% | 0.00% |

*Source: CB Rates*

# PART III : INDUSTRY INTERVIEW

## Manuel Moses, IFC Country Manager for East Africa

Manuel is responsible for IFC's activities in the East Africa sub-region while managing a large multidisciplinary office.

He has over 20 years banking experience in covering East and Southern Africa. Prior to joining IFC in 2005, has held senior positions at, Zimbabwe Development Bank, ABSA, CBZ and PTA Bank.

Manuel is an enrolled Associate Member of the Chartered Institute of Management Accountants (ACMA) of the United Kingdom and holds a Masters in Business Administration from the University of Leicester UK and a Bachelor of Honours in Civil Engineering from the University of Zimbabwe.

**How is IFC supporting businesses during these challenging times? What measures are your portfolio companies taking to emerge from the medical and economic crises in a stronger and more competitive position?**

IFC announced an USD 8 billion global fast-track financing package in March to help companies affected by the pandemic. The USD 8 billion in financing, part of a broader USD 14 billion World Bank Group package, will help support private companies affected by the pandemic and preserve jobs. Right now, we are working to support a pipeline of 300 companies globally, representing a total pipeline potential of USD 5.4 billion, across more than 70 countries; including extending trade finance and working capital lines to partner financial institutions, as well as supporting existing clients in the infrastructure, manufacturing, agriculture and services industries vulnerable to the pandemic. Through the USD 8 billion global fast-track financing we will support existing clients. IFC will lend directly to companies affected by the pandemic and provide liquidity to financial institutions so they can continue lending to businesses. This will help companies continue to operate, and workers continue to receive paychecks, during this uniquely challenging time for economies around the world.

IFC's private equity funds strategy in Africa aims to mobilize capital to address the region's long-term challenges, including through interventions that provide infrastructure and improve service delivery; increase access to finance, especially for entrepreneurs; and improve the investment climate to foster greater investments in high value-add sectors.

**IFC is one of the largest investors into SSA and particularly East Africa focused private equity funds. How has the pandemic affected the fundraising environment?**

Private equity firms in Africa have struggled to raise capital in recent years, with fundraising conditions expected to remain challenging in the near to medium term. COVID-19 has slowed PE investment in emerging markets. Expectations are that coronavirus will cause Sub-Saharan Africa's first recession in 25 years, with growth potentially falling as low as -5.1% in 2020, according to the World Bank's 2020 Africa's Pulse report. The economic downturn will further suppress investor interest on the continent and impact fundraising. Several institutional investors are sitting out this investment cycle, and even established managers with demonstrable track records have struggled to raise capital. In addition, in the shadow of coronavirus, there is likely to be a dampened investor interest on the continent, fewer face-to-face meetings, and expectation of reduced capital allocation from investors in the face of global economic uncertainty.

Despite these challenges, investment opportunities are still present in the region, and the available market is sizeable.

**The coronavirus pandemic may impact how private equity investors assess investment opportunities. What business factors do you see becoming more relevant in addition to, or even in place of, the traditional fundamentals?**

A likely outcome will be enhanced due diligence where limited partners and general partners will construct models that factor in disruptive events.

# PART III : INDUSTRY INTERVIEW

## Manuel Moses, IFC Country Manager for East Africa

For example, some fund managers may hold discussions with investee companies on potential impacts that may arise from constrained global supply chains, changing commodity prices and FX rates, lower volumes, and the effects of business disruption to budgets. Such analyses can be expected to be more widespread in the future.

There has been debate around the PE model in place in SSA and its suitability for this market. Given the pandemic's likely significant impact to PE portfolios, do you foresee any structural changes to the private equity model in the post-covid-19 era?

It must be remembered that African PE is primarily growth capital with value creation, relying mostly on earnings growth and sustainable expansion. Potential pockets of opportunity do exist, particularly for fund managers who have recently raised funds of sufficient size and possess dry powder. Fund managers with available capital may benefit from depressed equity values stemming from market volatility and uncertainty, which would result in lower entry multiples. Additionally, PE funds with uncalled capital and good networks will be able to identify attractive opportunities as valuations retreat due to COVID-19. Likewise, general partners who demonstrate sector expertise, value creation, and effective portfolio operations – and have dry powder – may buy any asset that comes up for sale. Such investments may have superior returns down the road.

No significant structural changes are anticipated. There will, however, be a greater focus on due diligence that focuses on whether/how investee companies are resilient to shock events such as weakening of supply-chains, changes in consumer demand, and analyzing liquidity scenarios, and an increasing focus on fund managers with domain and sector expertise.

What sectors do you believe will be primed to attract significant private investment post-covid-19 and why?

The focus will be on businesses that demonstrate a combination of agility and resilience, operate across regions, and are market-leading in critical sectors of the economy. Going forward, there will be a renewed focus on investing in good businesses that are cash-generative, have resilient supply chains, and are led by competent management teams. This is what will define successful investments during and post-crisis.

# PART IV : SELECTED DEALS

| Date | Buyer | Seller | Deal size (M USD) | **Sector** | Type | Country | Synopsis |
|---|---|---|---|---|---|---|---|
| 5-May-20 | Fanisi Capital | St Bakhita Schools | 2.50 | Education | PE | Kenya | East Africa-focused private equity firm Fanisi Capital acquired a minority stake in St Bakhita Schools valued KES 265 Million (USD 2.5 million). It becomes the third investment that Fanisi is making in the education sector after Hillcrest International Schools and Kitengela International Schools. |
| 5-May-20 | DOB Equity | Moringa School | Undisclosed | Education | PE - VC | Kenya | DOB Equity, a Dutch family-backed impact investor in East Africa, made a further investment in Moringa School, the technology learning institute based in Kenya. The investment is to help Moringa accelerate the company's transition to providing remote on-line learning. |
| 5-May-20 | Goodwell | East Africa Fruits | 2.05 | Agriculture | PE - VC | Tanzania | East Africa Fruits Co., a Tanzanian company addressing food distribution challenges to improve efficiencies in the farm-to-market sector, closed series A equity funding totaling USD 2.05 million. The fundraising round was led by Goodwell Investments with participation from FINCA Ventures and Elea. This investor capital accelerates East Africa Fruits' ability to build essential supply chain infrastructure. |
| 14-May-20 | FMO | I&M Rwanda | 15.00 | Financial Services | PE - Debt (DFI) | Rwanda | Dutch development financier FMO proposed a USD 15 Million investment in I&M Bank Rwanda. I&M Rwanda is part of the I&M Group, a financial services provider in East-Africa and long-standing partner of FMO. |
| 16-May-20 | Sunfunder | Several | Undisclosed | Energy | PE - Debt | Kenya | SunFunder, a provider of debt financing to solar enterprises, reported closing four new loans at the end of Q1 2020, which took it over $100 million invested in distributed solar in Africa and other emerging regions. The new loans were with two existing solar home system borrowers – M-KOPA in Kenya and PEG Africa in Ghana – as well as long-term financing for the solarisation of Orange's telecom towers in the Central African Republic by energy solutions provider CREI. |
| 17-May-20 | Godrej Consumer Products | Canon Chemicals | Undisclosed | FMCG | M&A | Kenya | Godrej Consumer Products was reported to have acquired the remaining 25% in Canon Chemicals, the makers of Valon petroleum jelly, through the wholly-owned Kenyan subsidiary for an undisclosed sum. In February 2016, Godrej purchased a 75% in the manufacturer through Kenyan subsidiary Godrej East Africa Holdings Ltd |
| 17-May-20 | Goodwell | Inclusivity Solutions | 1.30 | ICT | PE - VC | Kenya | Inclusivity Solutions, the company that designs, builds, operates and innovates digital insurance solutions, secured an additional USD 1.3 Million in a second tranche of its series A round, bringing the total series A round to USD 2.6 Million. Following on from its first tranche investment, the uMunthu fund, managed by Goodwell Investments, led the round with follow-on investment from UW Ventures (in partnership with Allan Gray). |

# PART IV : SELECTED DEALS

| Date | Buyer | Seller | Deal size (M USD) | **Sector** | Type | Country | Synopsis |
|---|---|---|---|---|---|---|---|
| 19-May-20 | Anthemis Ventures | Apollo Agriculture | 6.00 | Agriculture | PE - VC | Kenya | Apollo Agriculture, the financing and products platform empowering small-scale farmers to maximise their profits, raised USD 6 Million in Series A financing. The round was led by Anthemis Exponential Ventures, with participation from Leaps by Bayer, Flourish Ventures (a venture of The Omidyar Group), Sage Hill Capital, to Ventures Food, Breyer Labs, and existing investors Accion Venture Lab and Newid Capital, among others. |
| 22-May-20 | Pearl Capital Partners | NASECO | 1.20 | Agriculture | PE | Uganda | Pearl Capital Partners, which manages the Yield Uganda Investment Fund, made a seventh investment of UGX 4.6bn (ca. USD 1.2m) in Naseco (1996) Limited (NASECO). NASECO, which has had operations for over 20 years, produces, processes and distributes certified seeds in Uganda and is growing exports across the regional East African community. Its products benefit thousands of smallholder farmers across Uganda and the region, with better crop yields and enhanced incomes, linking farmers to markets and helping to strengthen food security. |
| 26-May-20 | Swedfund | Platcorp | 5.50 | Financial Services | PE - Debt (DFI) | Kenya | Sweden's development finance institution Swedfund announced that it will lend EUR 5 Million to Platcorp, a financial institution providing credit to private individuals and small and medium-sized companies, in Kenya, Uganda and Tanzania. |
| 27-May-20 | AgDevCo | Pee Pee Tanzania | Undisclosed | Agriculture | PE - Debt | Tanzania | AgDevCo announced a long-term debt investment into Pee Pee Tanzania Limited (PPTL), a regional leader in the production of grain storage bags. The company distributes its products to farmers across Eastern and Southern Africa, helping reduce post-harvest losses and improve food security. |
| 28-May-20 | Zoscales Partners | Pioneer Diagnostics Center | Undisclosed | Healthcare | PE | Ethiopia | Zoscales Partners made an investment into Pioneer Diagnostics Center (PDC), a diagnostic imaging service provider in Ethiopia. |

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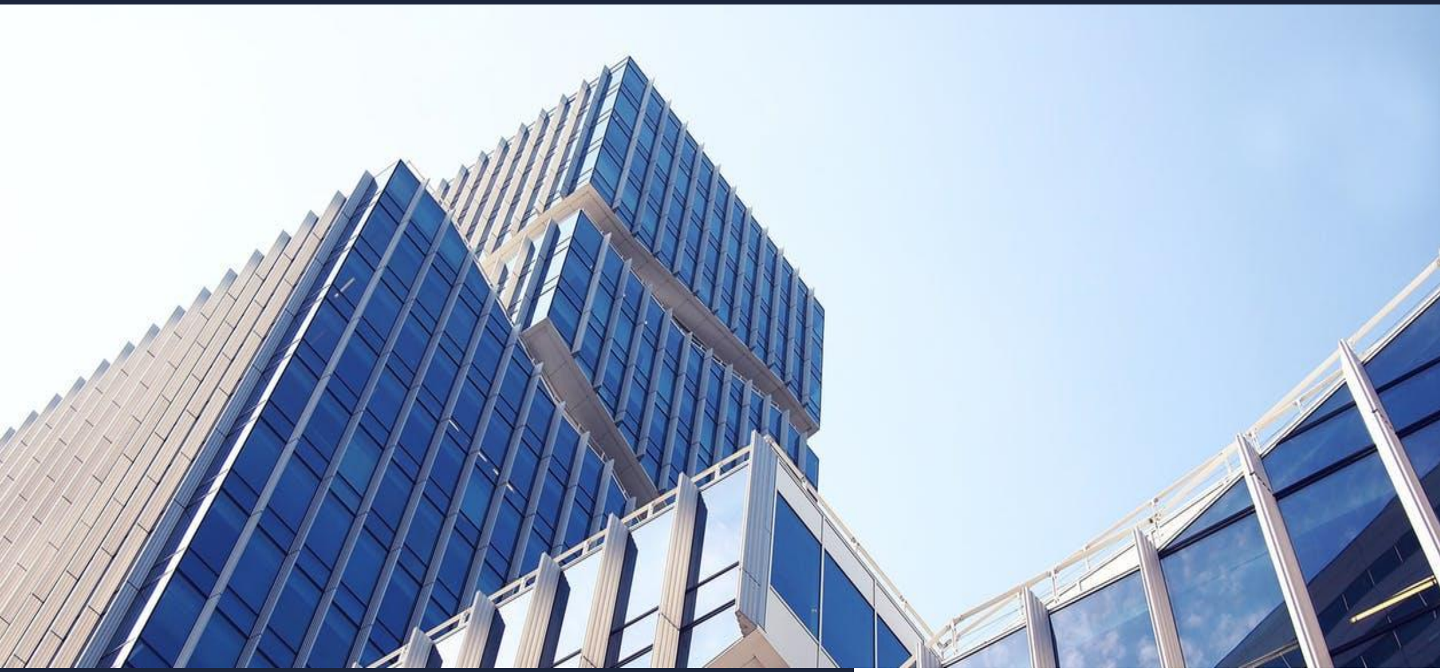

## About I&M Burbidge Capital

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