EAST AFRICA FINANCIAL REVIEW

JUNE 2020

I&M Burbidge Capital

IN THIS ISSUE

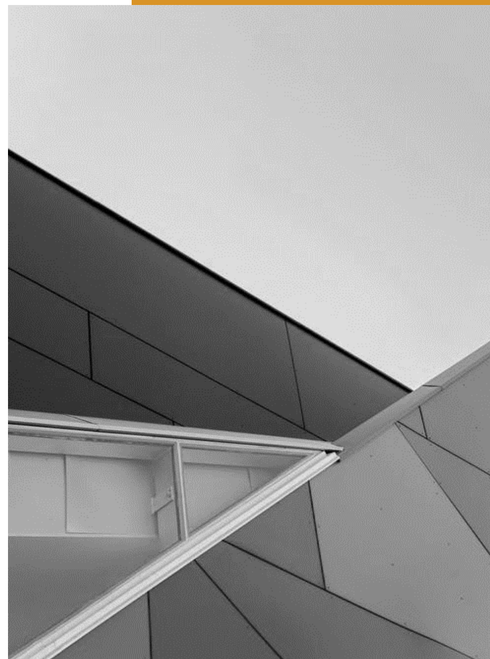
June in Numbers:

14 The number of disclosed deals in EA

223 Disclosed deal value in USD million

IMBC Deal of the Month:

Ethos Mezzanine Partners and Proparco's investment into Turaco, an investment holding company in Ethiopia.



The Editorial Team

EDWARD BURBIDGE | KEVIN KURIA

June capped the first half of the year on a high note, outperforming the preceding months of 2020. 14 transactions were recorded during the month with a total disclosed deal value of c. USD 223 million (from 8 transactions that had disclosed deal values). This performance being recorded c. 3 months since the first cases of coronavirus were discovered in the region and with the pandemic having marked economic effects. The private capital markets continue to underpin the positive long term growth prospects of the East African region and the potential yet to be exploited, with private equity transactions yet again taking the lion's share of transactions(9); and filling in a financing gap in the market. Whilst trade buyer activity (14 transactions YTD) has largely kept up with the same period last year (15 transactions), the disclosed deal values have continued their year on year decline. This is mainly attributed to the economic challenges, particularly liquidity, experienced in the last three years and the trend is expected to continue particularly for local player led transactions on account of the coronavirus pandemic. The deals announced in June brought the year to date total to 56 transactions (52, H1 2019) with a total disclosed deal value of c. USD 716 million (c. USD 1.1 billion, H1 2019). The financial services and ICT sectors recorded the most activity with 3 transactions each whilst the healthcare sector had two transactions.

IMBC's deal of the month is the USD 22 million investment by Proparco and Ethos Mezzanine Partners into Turaco, an Ethiopian FMCG investment holding company operated by private equity firm – 54 Capital. The mix of a traditionally equity investor and a mezzanine investor bodes well for the increasing sophistication of the East African private capital market, which is fertile ground for innovative finance.

In the Listed Equities market, Q2 2020 ended on a positive note compared to the first quarter with the NASI and NSE 25 index gaining 4.4% and 3.5% respectively. However, the NSE 20 index recorded a 1.2% decline to close at 1942.12 points. The market recorded net investor outflows of c. USD 95.62 Million. The average daily turnover was c. USD 6.16 million compared to c. USD 6.61 million in Q1 2020.

Top gainers during the month of June included Kenya Airways which was up by 48.4% (YTD 60.0%) and Flame Tree Group which increased by 34.2% (YTD -36.4%). Bamburi Cement experienced the highest monthly decline of 36.4% (YTD -65.0%).

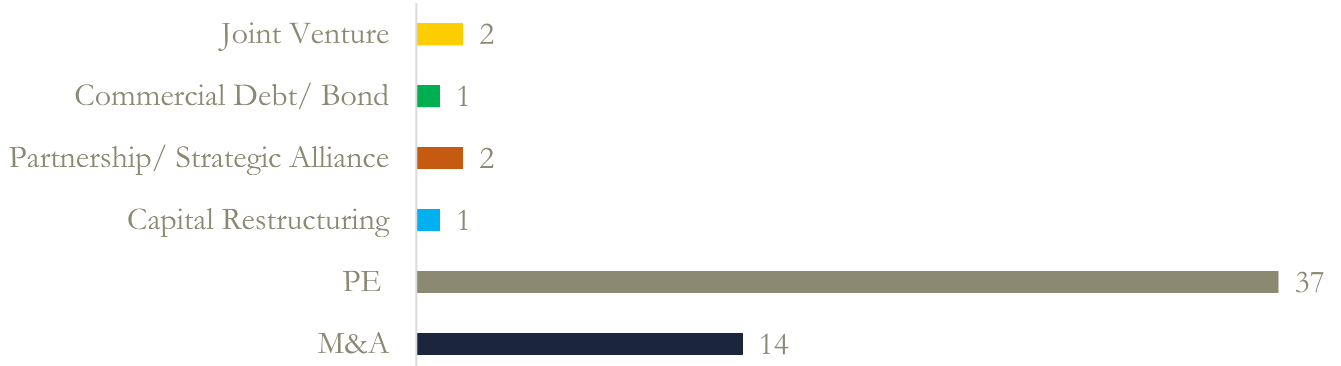
PART I : DEAL STATISTICS

Analysis by Sector

Sector	No. of Deals YTD	Disclosed Deal Value YTD (USD million)
Financial Services	11	250.50
FMCG	4	37.00
Agribusiness	7	20.26
Food & Beverage	3	84.00
Healthcare	4	21.00
ICT and Telecom	10	40.80
Logistics	4	Undisclosed
Mining	1	14.7
Real Estate	1	100
Energy Oil and Gas	4	202.00
Manufacturing	3	27.20
Automotive	1	Undisclosed
Education	3	2.50

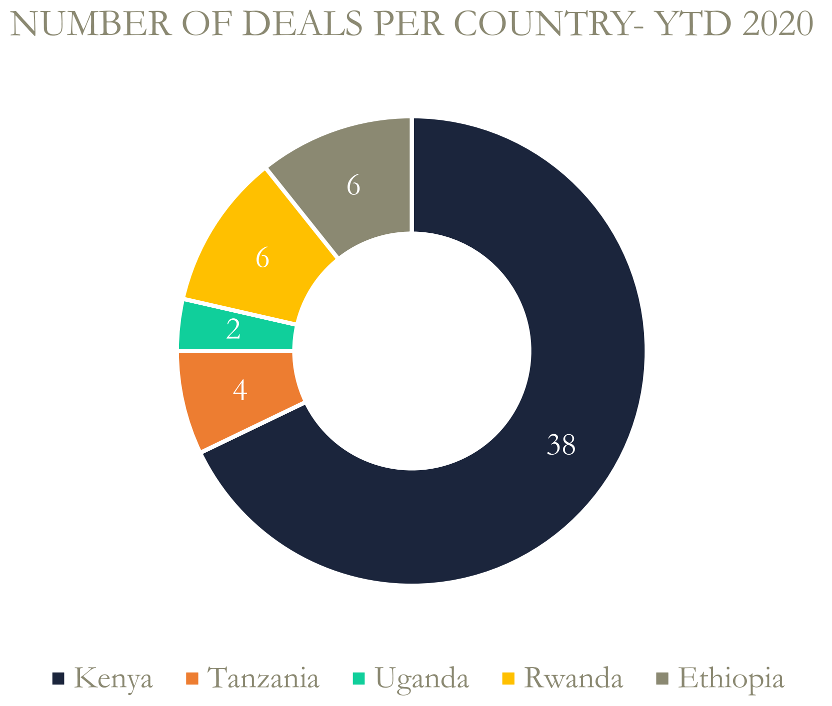
Analysis by Type of Transaction

TOTAL NUMBER OF DEALS IN EA - YTD 2020



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 3rd July 2020)

Yields on Government Securities

Years	91-day	2 year	5 year	10 year
Kenya	6.70%	9.91%	11.34%	12.40%
Tanzania	2.69%	7.82%	9.18%	11.44%
Uganda	8.80%	13.60%	15.83%	14.59%

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	4.59%	3.20%	4.10%	9.20%

Source: Statista

Central Bank Rates

Country/Region	Previous rate	Rate as at July 2020
Central Bank of Kenya (Kenya)	7.00%	7.00%
Bank of Uganda (Uganda)	8.00%	7.00%
Bank of Tanzania (Tanzania)	7.00%	7.00%
South African Reserve Bank (RSA)	3.75%	3.75%
Central Bank of Nigeria (Nigeria)	12.50%	12.50%
Central Bank of Egypt (Egypt)	9.25%	9.25%
Bank of England (UK)	0.10%	0.10%
Federal Reserve Bank (USA)*	0.25%	0.25%
European Central Bank (EU)	-0.50%	-0.50%

Source: CB Rates

PART III : INDUSTRY INTERVIEW

William Nyaoke, Regional Director, East Africa - Norfund

William Nyaoke is Regional Director, East Africa at Norfund since September 2019. He is responsible for maintaining and building Norfund's portfolio in East Africa, focusing on generating deal flow and closing investments across all Norfund's priority sectors.

William has over 14 years' experience working in development finance at IFC and venture capital firm KawiSafi Ventures, deploying both equity and debt in various sectors in emerging markets, primarily in Sub-Sahara Africa.

He is an alumnus of Strathmore Business School.

How has Norfund adjusted to these challenging times? What measures are Norfund and its respective portfolio companies taking to emerge in a stronger position from this unprecedented crisis?

Norfund's investment strategy and focus remains the same during these challenging times. We believe that the macroeconomic effects of the pandemic are temporary and that the strong underlying fundamentals in East Africa will remain largely intact. As a result, we continue to assess new investment opportunities. In any case, we have strengthened our team with new members during this period to position us to accelerate our investment activities in the region.

However, as a result of the Covid-19 disruption, we have had to adjust our internal processes to become more flexible and more responsive to the effects of the pandemic. For instance, given the fact that we cannot conduct onsite due diligence in target companies, we have piloted virtual due diligence in less complex investment opportunities. In addition, we reviewed our investment decision processes so that we can respond faster to requests especially from our existing portfolio companies.

At the initial phase of the pandemic, we worked closely with the management teams in our portfolio companies to map the potential effects of the pandemic and to stress test the cash flows so that the companies are better prepared for all possible outcomes. Through that exercise, we identified the investees that required additional capital to weather the crisis, and over the last three months, we have approved and disbursed funding to support those companies. Some of the funding is meant to rehabilitate assets during the slump so that these companies are better positioned to serve their customers when the situation improves. The new capital has also helped our companies to retain essential human resources, which is one of their most valuable assets.

We have also increased the number of board meetings, albeit virtually to interact more with the management teams on the ground to better understand their situations and guide them accordingly. Our teams have been actively involved in providing guidance at the board level on cash management, cost optimization measures and exploring different fundraising options available to them during this period.

How do you believe East African economies have coped with the pandemic and what additional measures to those proposed do you think are necessary? How can the financial services sector be more effective in aiding efforts to limit the economic impact of the pandemic and particularly, what should we expect to see from DFIs?

We have witnessed varied responses to the pandemic across East African countries. The jury is still out on which measures will prove to be most effective. However, I believe that the lockdowns and the cessations of movement have had severe impact on the economy, especially in the informal sectors which majorly constitute the most vulnerable segment of the population. I have seen very minimal interventions targeted towards informal sectors. Going forward, I believe the focus should be on progressive reopening of the economies so that people can resume work in their respective sectors while being encouraged to observe the necessary safety measures.

Financial institutions have responded quite positively to support their customers through this period by rescheduling loan repayments and extending moratoriums on existing facilities. However, I believe they can do more by providing new credit facilities to their existing customers who are experiencing challenges as a result of Covid-19. Lenders do need their customers to stay in business through the crisis in order to service their existing loans when the situation improves.

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If businesses are not supported with new loans and left to collapse due to lack of liquidity, the measures already taken by financial institutions shall be in vain.

That said, demand for financial services is largely driven by the macroeconomic outlook and economic activity. When the outlook is negative or uncertain, companies tend to be hesitant to take on finance for expansion initiatives. I believe that the financial sector players do catalyse growth, but the outlook must be positive for the investments (both equity and debt) to be feasible. Otherwise risk-reward balance will not be achieved.

DFIs are typically countercyclical and tend to have a higher risk appetite than commercial banks. As such, DFIs have an increasingly important role to play at a time like this. They will continue to invest actively in response to the crisis in order to maintain confidence in the economies and markets. I expect the DFIs to be more flexible in terms of investment structures, including shorter tenures on loans, tailored repayment schedules and innovative risk-sharing instruments. DFIs are already making available short-term liquidity facilities to financial institutions to on-lend to specific sectors of the economy. In addition, DFIs are receptive to sharing portfolio risks with banks to encourage lending to the real economy to catalyse growth.

What sectors do you believe will be of greatest interest to Norfund or likely to be where Norfund shall invest significantly for the remainder of the year?

As a long-term investor, our strategy remains the same. We believe that financial institutions have an important role to play as the main channel to deploy capital into SMEs. We will continue to explore opportunities to partner with banks to intermediate our capital.

In addition, we are very keen to invest in the agribusiness and food processing space which is the largest employer and contributor to GDP in the region. We do believe that food security is a prerequisite for any meaningful sustainable development in the region. In line with our mandate, we are also actively considering several opportunities in the manufacturing sector in the region. We are particularly interested in growing companies that add value to locally available raw materials, in companies that substitute imports, in export-oriented companies and in those companies that target local markets with high quality products.

Finally, we expect to make some investments in clean energy, especially in the distributed solutions segment, where working capital needs may be exacerbated by the covid-19 disruption.

The Coronavirus pandemic may impact how private equity investors assess investment opportunities globally. What is the likely impact on:

Valuations for equity transactions

Valuations will depend on the severity of the impact caused by Covid-19 disruption on the operations of a target. I expect to see flight to safety, i.e. more private equity transactions and decent valuations in defensive sectors that are less affected by the pandemic like communication, FMCG and food processing. Sectors that can quickly rebound post Covid-19 like education, floriculture, healthcare, horticulture, and logistics, are also likely to command decent valuations.

On the other hand, worst hit sectors like airlines and hospitality are likely to have a high number of turnaround assets which will naturally attract depressed valuations in the short to medium term. However, depending on the strategic value of the asset, we might see some hospitality assets attracting decent valuations.

That said, countries whose economies are more inward focused and less connected to global supply chains and those which implemented less severe lockdowns in response to the crisis might experience stronger economic performance in 2020. Companies operating in such markets are likely to emerge from the crisis in better shape. I expect PE valuations in such markets to remain stable.

Overall, more companies are likely to raise equity from existing shareholders to strengthen their balance sheets following the negative impact of covid-19 on cash flows and ability to service debt. Raising capital from existing shareholders will minimize dilution at times when valuations are depressed.

Terms for debt transactions.

I believe debt transactions are likely to be fewer as a result of Covid-19 impact. Most debt provided by financial institutions is for expansion initiatives. With the disruption in business, fewer companies will be seeking debt for expansion.

PART III : INDUSTRY INTERVIEW

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I would expect banks to have more liquidity than usual as a result of reduced appetite for debt for expansion. As such, the few debt transactions in the market are likely to be competitively priced.

Given the pandemic's significant negative impact to several economies across East Africa, how do you see the exit environment in 2021?

It is difficult to sell companies coming out of a pandemic with so much uncertainty. Therefore, I expect the exit environment to be subdued in 2021. Overall, financial performance has taken a hit even for the supposedly resilient sectors. I do expect a gradual recovery after easing of the restrictions. This implies that companies are expected to perform below budget in 2020 and might take longer than 2021 to regain the lost ground. Few investors will be willing to exit under these circumstances unless in fire-sale situations.

PART IV : SELECTED DEALS

Date	Buyer	Seller	Deal size (M USD)	**Sector**	Type	Country	Synopsis
3-Jun-20	Chandaria Capital, CRE Venture Capital included Perivoli Innovations, Lateral Capital, Transsion's Future Hub and Kam Kronenberg II	Carry1st	2.5	IT	PE - VC	Kenya	Kenya's Chandaria Capital joined equity investors in raising KES 250 million that will enable game developer Carry1st to launch commercial operations in Kenya and across Africa. Without revealing the amount raised by the Kenyan firm, it said the fundraising round led by CRE Venture Capital included Perivoli Innovations, Lateral Capital, Transsion's Future Hub and Kam Kronenberg III, among others, now brings the total seed capital raised to KES 400 Million
3-Jun-20	Access Bank	Access Bank Rwanda	Undisclosed	Financial Services	M&A	Rwanda	Nigeria's largest retail bank, Access Bank Plc, more than doubled its investment in its Rwandan subsidiary after acquiring Kenya's Transnational Bank four months ago. Access Bank, with more than 36 million customers across the continent, is boosting the performance of its East African subsidiaries.
4-Jun-20	Platform Capital	Lipa Later	Undisclosed	IT	PE - VC	Kenya	Nigeria-based Platform Capital, a growth markets investor, announced its investment in Lipa Later, a technology-driven, consumer credit platform in East Africa. Lipa Later is unlocking untapped retail potential through financial inclusion, by leveraging data analytics to provide African consumers with access to convenient and affordable credit.
5-Jun-20	Solve Innovation Future	Access Afya	Undisclosed	Healthcare	PE - VC	Kenya	MIT Solve, through its venture vehicle Solve Innovation Future, announced an investment in Access Afya. Access Afya is a Kenyan-based company which maintains a chain of clinics, pharmacies and mobile health facilities. Launched in 2019, Solve Innovation Future uses debt, equity and alternative structures to invest in entrepreneurs driving social and environmental impact. Investment amounts range from USD 75,000 to USD 250,000.
5-Jun-20	Chaudhary Group	Kingdom Holding	28	Hospitality	M&A	Kenya	Saudi billionaire Prince Al-Waleed bin Talal sold his stake in the troubled Fairmont The Norfolk and Fairmont Mara Safari Club to a Nepalese tycoon for KES 2.8 Billion. The mega deal was closed ahead of the global spread of Covid-19. Prince Al-Waleed, through his investment vehicle, Kingdom Holding, sold his stake to the Chaudhary Group (CG).
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.

PART IV : SELECTED DEALS

Date	Buyer	Seller	Deal size (M USD)	**Sector**	Type	Country	Synopsis
8-Jun-20	DFC	One Acre Fund	7	Agriculture	PE - Debt (DFI)	Kenya	An up to USD 7 Million guaranty to One Acre Fund will support the procurement and provision of agricultural inputs on credit to smallholder farmers across Kenya.
10-Jun-20	Ethos and Proparco	Turaco	22	FMCG	PE (DFI)	Ethiopia	Ethos Mezzanine Partners and the French development finance institution, Proparco, have announced a USD 22 million investment into Turaco, a holding company managed by 54 Capital PE Advisors, which holds a portfolio of FMCG assets in Ethiopia. The business manufactures and sells edible sunflower and soya oil under the brand name Tena, as well as soaps and detergents and personal care products, including laundry soaps and perfumed toilet soaps, under the brand names 555 and Aura.
11-Jun-20	Solar Frontier Capital and d.Light	Brighter Life Kenya	65	Financial Services	JV	Kenya	Solar Frontier Capital (SFC), a wholly-owned subsidiary of African Frontier Capital (AFC), and d.light, a global innovator of solar energy products, have jointly announced the establishment of a USD 65 Million financing vehicle, Brighter Life Kenya 1 Limited (BLK1).
17-Jun-20	Saisan Company	PayGo Energy	Undisclosed	IT	PE - VC	Kenya	PayGo Energy, a venture-backed company founded in Kenya, has received investment from Saisan Company Ltd (Saisan) to launch PayGo's Cylinder Smart Meter across Saisan's Gas One retail network. PayGo's patented Cylinder Smart Meter is an IoT device that accurately measures the flow of gas from an LPG cylinder in the customer's home, enabling households to pay for gas in small amounts using mobile money.
17-Jun-20	Vested World	GET IT	Undisclosed	Logistics	PE - VC	Rwanda	Chicago-based impact investor VestedWorld has invested in Rwanda-based food distribution company GET IT, according to a report by ImpactAlpha. VestedWorld is an early-stage investment fund manager that invests in emerging market companies that have the potential to generate competitive financial returns while contributing towards the growth and development.
19-Jun-20	Sanofi	MamaPrime	Undisclosed	Healthcare	PE - VC	Kenya	Health fintech company MamaPrime could clinch a commercial partnership with global drugs manufacturer Sanofi to help scale up its activities beyond Kenya. Without disclosing amount of seed capital to be injected into the Nairobi startup, Sanofi said MamaPrime's team will also get business mentorship training at no cost.

PART IV : SELECTED DEALS

Date	Buyer	Seller	Deal size (M USD)	**Sector**	Type	Country	Synopsis
23-Jun-20	SBM	Flame Tree Group	8.5	Manufacturing	Debt	Kenya	Flame Tree Group (FTG) has secured KES 905 Million (USD 8.5 Million) credit line from SBM bank to improve working capital and fund growth even as the firm froze repayment of maturing loans in the wake of coronavirus. Chief executive Heril Bangera says in the latest annual report that the firm had to make critical decisions in a relatively short time due to Covid-19 to secure the viability of the 14 companies operating under FTG.
29-Jun-20	World Bank	Equity Group	50	Financial Services	PE - Debt	Kenya	The Kenyan banking subsidiary of Equity Group is set to receive a USD 50 Million (KES 5.3 Billion) loan from the private sector arm of the World Bank for onward lending to small businesses hurt by the global Covid-19 pandemic. The International Finance Corporation (IFC) made the disclosure of the multi- billion shilling support to Equity Bank, which has taken a cash preservation strategy, including recalling KES 9 Billion in dividends and dropping the purchase of four banks outside Kenya.
30-Jun-20	Jubilee Holdings	Bujagali Energy Limited	40	Energy	M&A	Uganda	Jubilee Holding has bought an additional 9.44 percent stake in Uganda's Bujagali Energy Limited (BEL) for Sh4.2 billion ($40 million), doubling its ownership in the hydroelectric power plant. The firm announced it bought more shares from its technical partners, SN Power, in the 250-megawatt Bujagali dam on the River Nile. The latest acquisition now takes Jubilee's ownership in the plant from 8.8 percent to 18.24 percent that is estimated to be worth Sh6.3 billion.

PART V : H1 2020 PRIVATE EQUITY ACTIVITY IN REVIEW

Investments

Private Equity investment activity was robust in the first half of the year, despite the coronavirus pandemic, and outpaced investment activity in the same period in both 2019 and 2018. This, we believe, is reflective of the positive long term growth prospects of the East African market and the fact that a number of managers recently achieved financial close for both maiden and follow on funds and are thus on investment mode. DFIs have also announced significant capital commitments for the SSA region in recent times.

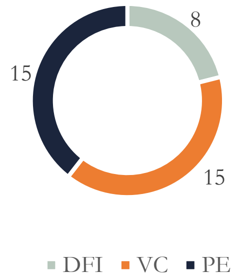
The exit market remains subdued with no exit having been recorded thus far in 2020; indicative of the impact of challenging economic conditions over the last three years on performance and thus valuations. Going forward, although exit activity may be a little muted, we do expect some pick up, and we have visibility on this from our pipeline where we are advising on a number of exit transactions.

38 Q1 Q2
14 + 24

Median Value – USD 7.0 Million
Total Value – c. USD 423 Million

Sector	Number	Deal size (M USD)
Agriculture	6	10.25
Education	2	2.50
Energy	2	100.00
Finserv	4	70.50
FMCG	4	22.00
F&B	2	56.00
Healthcare	4	21.00
ICT	10	40.80
Logistics	2	Undisclosed
Manufacturing	1	Undisclosed
Real Estate	1	100.00

Type of PE Investment



Q2 2020 Fund Raising

AfricInvest Fund IV

AfricInvest Fund IV inched closer to its USD 202 million first close having secured investment from Proparco (USD 30 million), CDC (USD 50 million), DFC (30 million), and Finnfund (USD 20 million). Fund IV will invest in mid-cap and growth-oriented companies in sectors including financial services, agribusiness, logistics, manufacturing, healthcare, and education.

OP Finnfund Global Impact Fund I reaches financial close

Finnfund-backed impact fund OP Finnfund Global Impact Fund I reached first close at EUR 76 million with investors that mainly include Finnish institutions and Finnfund. The fund targets significant sustainability impacts in addition to profits and will be targeting themes that include positive impacts on climate change, food security, gender equality, and availability of financing. The fund will focus on 3 sectors - renewable energy, financial services and sustainable agriculture.

Cepheus Capital nears final close

Cepheus Capital Growth Partners revealed it was finalizing the fundraising for its first USD 100 million fund. The fund invests in Ethiopia's most promising businesses and entrepreneurs and focuses on the manufacturing, agro-processing and services sectors.

Novastar Ventures Africa Fund II reaches final close

Novstar Ventures announced the final close of its Novastar Ventures Africa Fund II at USD 108 million, a 35% uplift from its maiden fund. The fund received backing from several European DFIs including CDC Group, EIB, FMO and the Dutch Good Growth Fund, as well as asset managers such as AXA Impact Fund.

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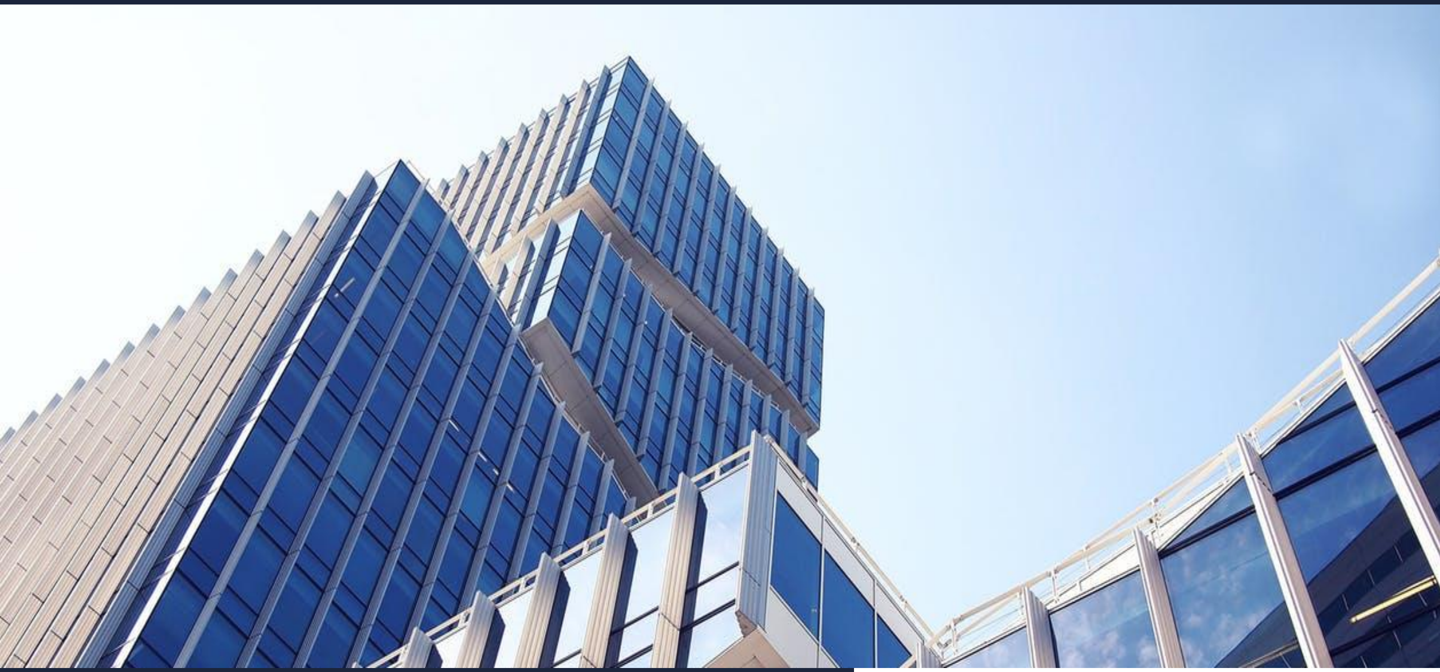

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