

EAST AFRICA FINANCIAL REVIEW

AUGUST 2020



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August in Numbers:

4

The number of disclosed deals in EA

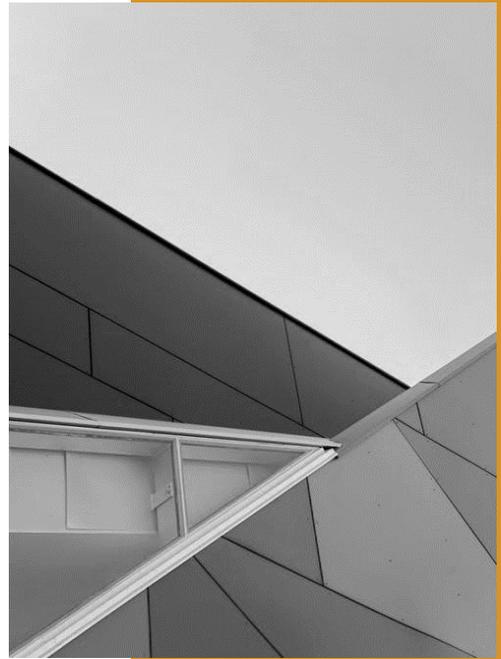
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Disclosed deal value in USD million



IMBC Deal of the Month:

Proparco's debt investment in Kenya Nut Company.



The Editorial Team

EDWARD BURBIDGE | KEVIN KURIA

Corporate deal making in East Africa slowed down in August in what could be the heralding of a period of muted activity as the effects of the coronavirus pandemic on private capital markets become more apparent. The month recorded 4 corporate transaction announcements, the lowest YTD, with a total disclosed deal value of c. USD 20.9 million derived from 2 of the 4 transactions. Private equity investments comprised most of the activity - at 3 of the 4 transactions - whilst one local M&A transaction was disclosed in the financial services sector. The transactions were spread across 3 sectors with the agriculture sector seeing the most action with two transactions. As noted in our previous editions, we expect that the effects of the pandemic, particularly on private capital movements, will become more apparent as we head toward the end of the year, mainly as a result of the increased transaction timelines in the region now typically in the range of 6 to 15 months. Whilst performance in August may be indicative of these effects, it is important to note that deal making in the region slows down around August and September, as most of Europe, where a large portion of financing is sourced, goes on Summer holidays.

IMBC's deal of the month is Proparco's multi-million dollar loan to Kenya Nut Company popular for its various brands; Out of Africa, Nutfields, Morendat, and Leleshwa. Kenya Nut Company is a diversified family run business that has been in operation for more 40 years. The long-term financing from PROPARGO will mainly finance the company's 2019-2021 development plan. I&M Burbidge Capital advised Kenya Nut in the transaction.

In this edition, we also present the highlights from our 3rd Annual Capital Raising Seminar which was held as a webinar in mid-August.

In the Listed Equities Market, August ended on a slightly more positive note compared to the previous month with the NASI and NSE 25 recording gains of 4.8% and 5.4% respectively compared to losses of 3.2% and 4.9% in July, respectively. The NSE 25 index closed the month at 3223.79 points up from 3059.56. However, the NSE 20 recorded a further loss of 0.5%, closing the month at 1794.85 points. The Market also witnessed a decrease in average daily turnover to USD 4.60 million in August, from USD 5.68 million in July.

Top gainers during the month of August included Nation Media Group which was up by 27.0% and Sasini which increased by 17.0%. Scangroup and E.A Cables witnessed the highest declines at 45.7% and 24.2% respectively.

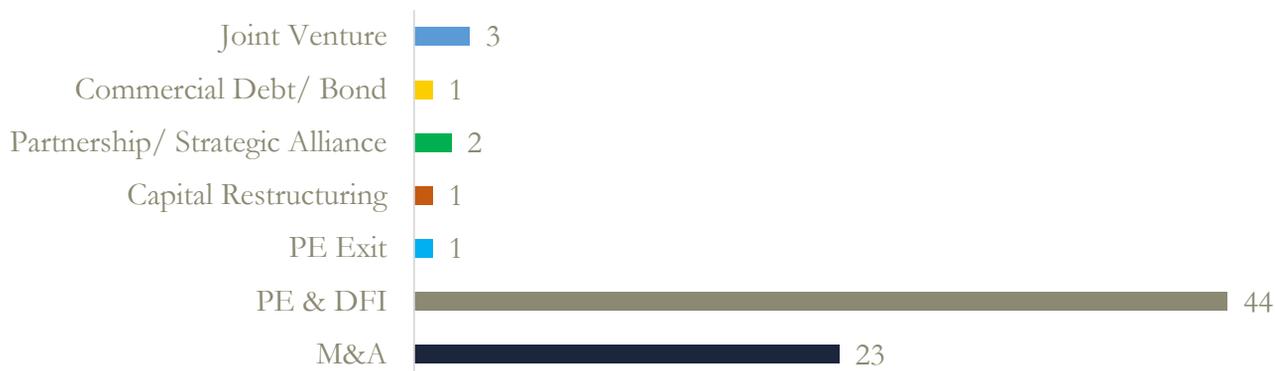
PART I : DEAL STATISTICS

Analysis by Sector

Sector	No. of Deals YTD	Disclosed Deal Value YTD (USD million)
 Financial Services	18	296.74
 FMCG	5	39.50
 Agribusiness	9	20.26
 Food & Beverage	3	84.00
 Healthcare	4	21.00
 ICT and Telecom	13	95.90
 Logistics	4	Undisclosed
 Mining	1	14.70
 Real Estate	2	100
 Energy Oil and Gas	7	250.60
 Manufacturing	3	27.20
 Automotive	1	Undisclosed
 Education	3	2.50

Analysis by Type of Transaction

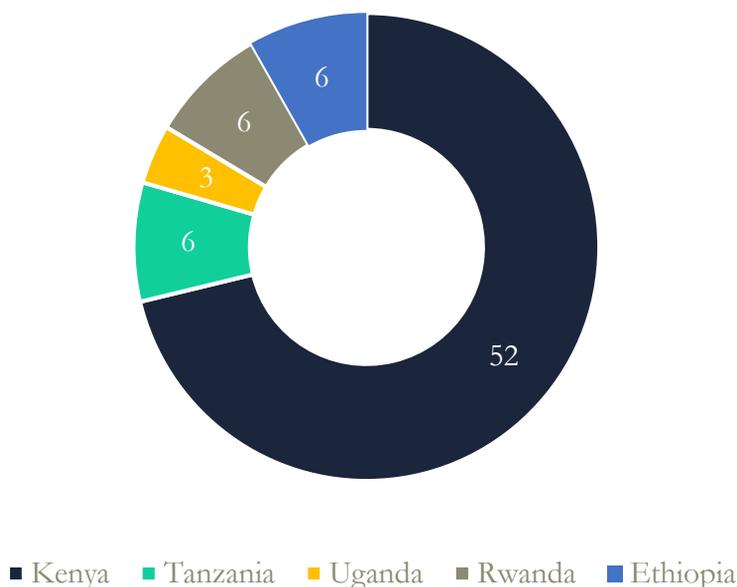
TOTAL NUMBER OF DEALS IN EA - YTD 2020



PART I : DEAL STATISTICS

Analysis by Country

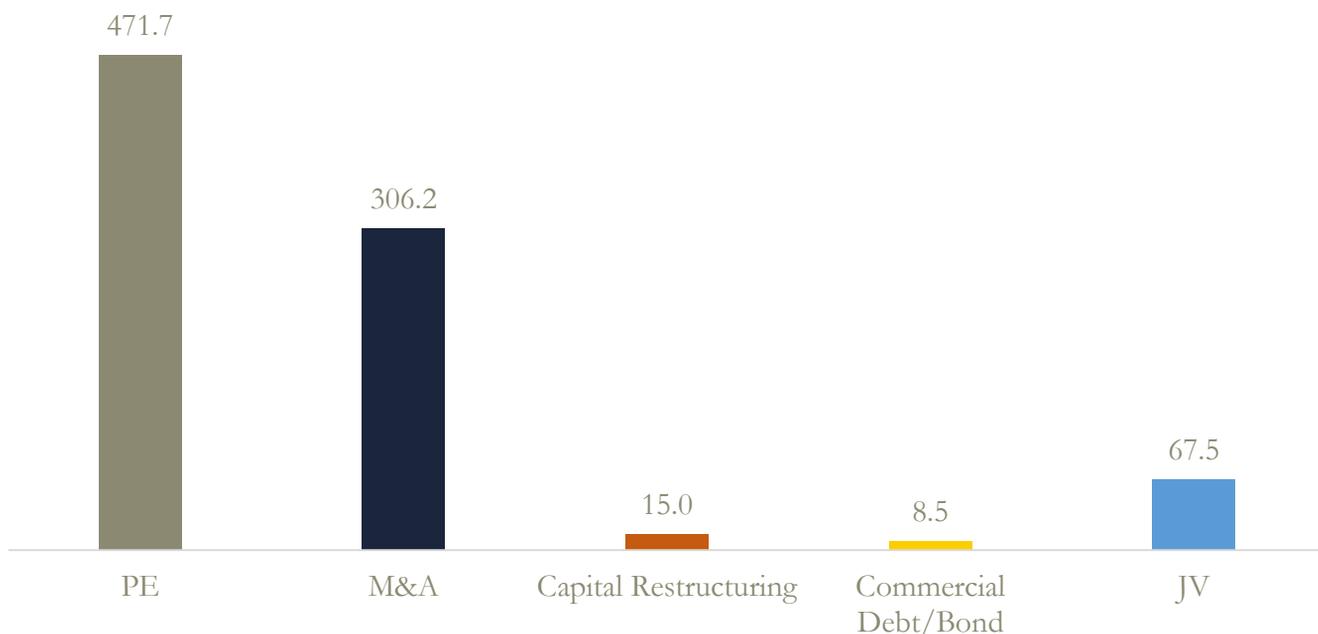
NUMBER OF DEALS PER COUNTRY- YTD 2020



*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 1st September 2020)

Coupon Rate on Government Securities

Years	91-day	2 year	5 year	10 year
Kenya	6.27%	10.70%	11.67%	12.50%
Tanzania	2.42%	7.82%	9.18%	11.44%
Uganda	8.48%	13.80%	15.35%	14.75%

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	4.36%	3.30%	4.10%	9.20%

Source: World Bank

Central Bank Rates

Country/Region	Rate as at August 2020	Previous Rate
Central Bank of Kenya (Kenya)	7.00%	7.25%
Bank of Uganda (Uganda)	7.00%	8.00%
Bank of Tanzania (Tanzania)	7.00%	7.00%
National Bank of Rwanda (Rwanda)	4.50%	5.00%
South African Reserve Bank (RSA)	3.50%	3.75%
Central Bank of Nigeria (Nigeria)	12.50%	13.50%
Central Bank of Egypt (Egypt)	9.25%	12.25%
Bank of England (UK)	0.10%	0.25%
Federal Reserve Bank (USA)*	0.00%	0.25%
European Central Bank (EU)	0.00%	0.05%

Source: CB Rates

PART III : HIGHLIGHTS FROM THE CAPITAL RAISING SEMINAR

Building on the success and impact of the two previous seminars, we put together the third edition of the Capital Raising Seminar in conjunction with the ISBI Institute @ Strathmore University Business School. In keeping with the times, the seminar was held as a webinar this year, spread over 9 sessions and two weeks. The Seminar was carefully curated to enlighten entrepreneurs & promoters on alternative sources of funding as well as matters critical to raising finance, with key insights on navigating capital markets during black swan periods such as these. The seminar presented key insights into the capital raising process from leading industry and academic experts to a class of family business owners and executives, with participation this year being drawn from across the East African region and further afield in Southern Africa.

The seminar kicked off with a session by IMBC's CEO – Edward Burbidge on when, how and why to raise capital. He noted that entrepreneurs need to have insight and understanding of their business' cash flow requirements in the short to medium term as it is detrimental to use short-term funding for long-term projects. The next session, also presented by Edward, delved into the types of financing available on the market – debt, mezzanine and equity capital. The session also included a topical discussion on capital raising for technology and technology enabled businesses presented by Kevin Kuria, a Senior Associate at I&M Burbidge Capital.

This was followed by a session on valuation presented by Jharna Kamdar, VP at IMBC, where attendees were exhorted to always develop an understanding of the worth of their business, especially before going to market. Whilst Valuation is an art, the audience was introduced to the standard valuation methodologies. Jharna noted that businesses with good corporate governance, strong company growth and steady financial performance will usually attract a higher valuation. This was further explored in a dedicated session on governance and professionalisation presented by Gauri Gupta, Director at IMBC and General Manager - Corporate Advisory at I&M Bank. In a complementary session, Paul Ouma of the Family Business Institute delved into the key considerations in succession planning.

Key to the capital raising process are legal and tax considerations. Sessions on these two key topics were presented by leading experts from Walker Kontos and PKF Eastern Africa. The session on legal considerations provided key insights into the nuances in legal due diligence and transaction documentation. Deepen Shah and Diana Situma, Partners at Walker Kontos emphasized the importance of efficient structuring and governance. The tax session led by PKF partners Michael Mburugu and Darshan Shah explored the fiscal aspects of structuring a deal including discussions on emerging trends in taxation. It was emphasized that it is key to obtain excellent advice on tax and legal matters as they form the pillars that hold transactions and future relationships together.

Participants also engaged in a spirited and practical negotiation scenario that enabled them to apply the concepts imparted during the dedicated session on Negotiation conducted by Prof. Robert Mudida, the Associate Professor of Political Economy at Strathmore University Business School. Other sessions during the seminar included Arun Mathur's, Director at IMBC, and former CEO of I&M Bank, presentation on bank financing and enlightened participants on how to create a long term beneficial relationship with their bankers.

The seminar concluded with a capital raising in practice panel discussion with investors. The common theme in the discussion was that like any other relationship, the investor – investee relationship is dependent on integrity and open communication.

We look forward to the next edition of the Capital Raising Seminar, hopefully next time in person and with a much improved socio-economic environment.

PART IV : SELECTED DEALS

Date	Buyer	Seller	Deal size (M USD)	Sector	Type	Country	Synopsis
7-Aug-20	Proparco	Kenya Nut Company	Undisclosed	Agriculture	PE (DFI) - Debt	Kenya	Proparco announced it is supporting Kenya Nut Company with a multimillion dollar loan. The family-run business has diversified its activity and has been operating in the nut sector (macadamia and cashew nuts) in Kenya for over 40 years. The long-term financing from PROPARCO will mainly finance the company's 2019-2021 development plan.
7-Aug-20	Co-operative Bank	Jamii Bora Bank	Undisclosed	Financial Services	M&A	Kenya	Co-operative Bank of Kenya announced it will buy 90% of micro lender Jamii Bora Bank and the deal will complete this month, marking further consolidation in the East African nation's banking industry. Co-op Bank, owned by Kenya's co-operative movement, is the country's third-biggest bank by market share with nearly 10% of the domestic market.
17-Aug-20	Kepple Africa Ventures, Y Combinator, Soma Capital, Musha Ventures.	WorkPay	2.1	ICT	PE	Kenya	WorkPay, a company that builds HR and Payroll solutions for Africa, announced that it has raised USD 2.1 million led by Kepple Africa Ventures along with other investors.
25-Aug-20	DOB Equity	Tanga Fresh	Undisclosed	Agriculture	PE	Tanzania	DOB Equity, a Dutch family-backed impact investor in East Africa, made a further investment in Tanga Fresh, a dairy processor in Tanzania. This additional investment from DOB will help Tanga Fresh expand its production in the long-life milk market. Tanga Fresh's partnership with DOB Equity began in 2007.

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