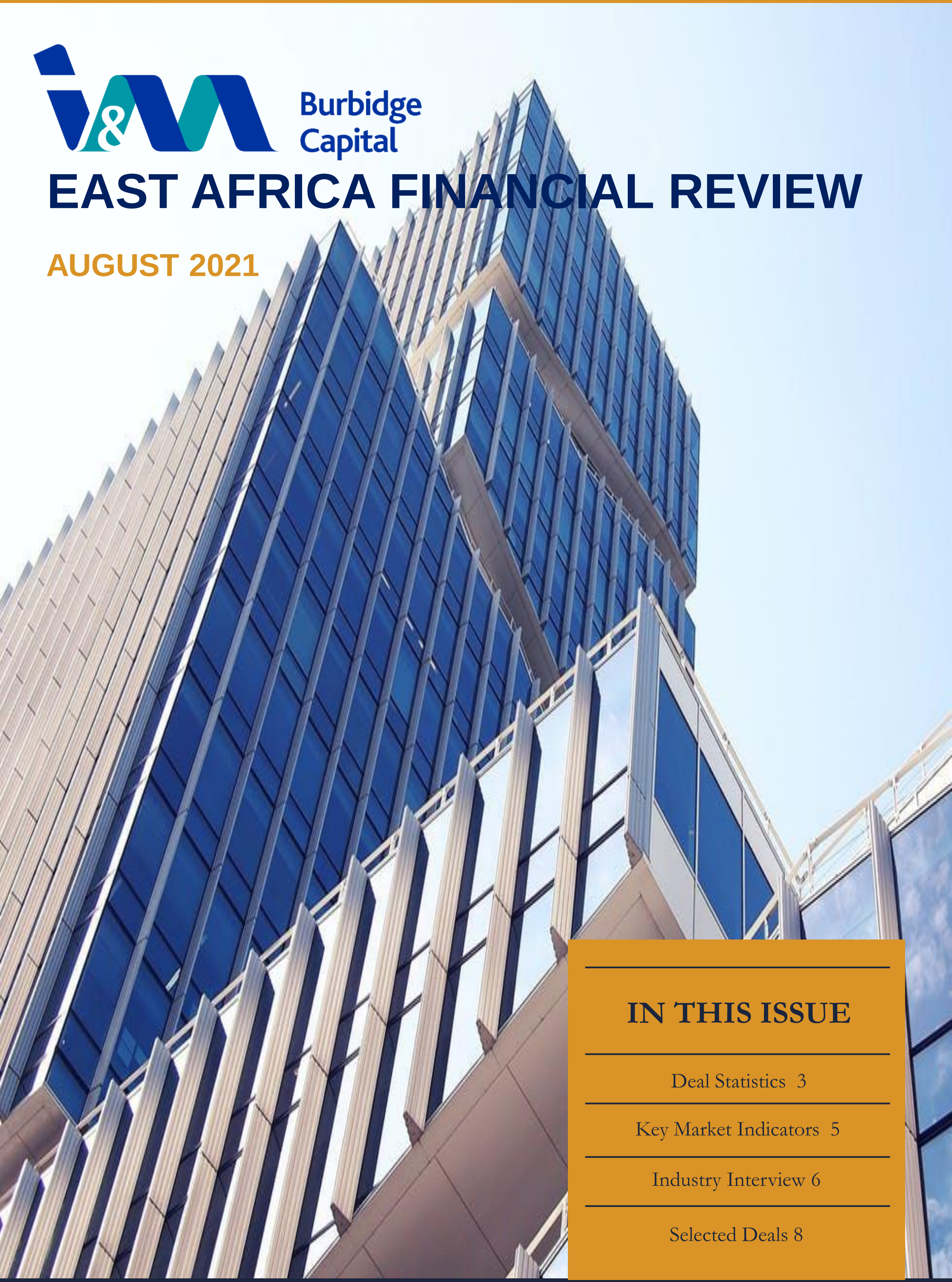
Burbidge Capital

EAST AFRICA FINANCIAL REVIEW

AUGUST 2021



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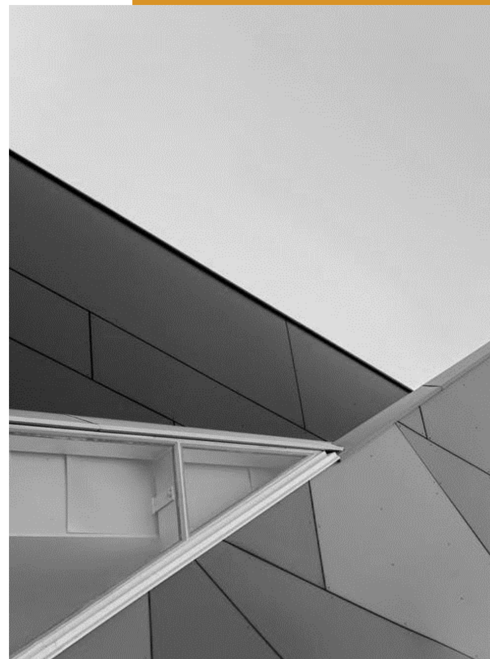
August in Numbers:

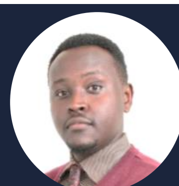


6 The number of disclosed deals in EA

16.7 Disclosed deal value in USD million

IMBC Deal of the Month:

Finnfund's USD 12 million debt investment into Bandwidth and Cloud Services.

The Editorial Team

EDWARD BURBIDGE | KEVIN KURIA

The corporate deals market in East Africa marginally slowed down in August recording 6 transactions, down from the 7 deals announced in July, with total disclosed transaction value of c. USD 17 million (from 3 transactions that had disclosed deal values). This brought the total deal count for the year to 65 (73, as at August 2020) and the total disclosed deal value to c. USD 433 million (c. USD 869 million, as at August 2020). Venture capitalists recorded the most activity with 2 deals whilst M&A, PE and DFI investors all recorded one deal. Notably, a fourth entry into the list of PE exits was recorded in August, further setting the scene for what may be a bumper year for exit activity having already outpaced 2020 and all three years preceding 2019. This exit also doubled as an M&A transaction. The ICT and telecommunications sector took pole position by deal count with 2 transactions whilst the financial services, and agribusiness sectors registered a single deal each. Kenya and Rwanda both recorded two transactions whilst Uganda registered one.

Whilst geographical interest has largely been concentrated on Kenya and Uganda, we have noted renewed interest and enthusiasm for deals in Tanzania whilst interest in Ethiopia has reduced in some areas as a result the uncertainty in the political stability of the country. Elsewhere, principals are in a race against time to close transactions in Kenya, where elections are looming and have traditionally dampened investment activity. We expect that the next three quarters will be a telling period for the market.

IMBC's deal of the month is the USD 12 million debt investment by Finnfund into Bandwidth and Cloud Services Limited (BCS), the telecom infrastructure provider with operations across the region. BCS is expanding its operations in East, Central and Southern Africa. The project increases reliability, accessibility and affordability of internet access. The transaction falls in the background of increased investments in data infrastructure in Sub-Saharan Africa as investors position themselves to capitalize on an expected boom in data and data services in the region.

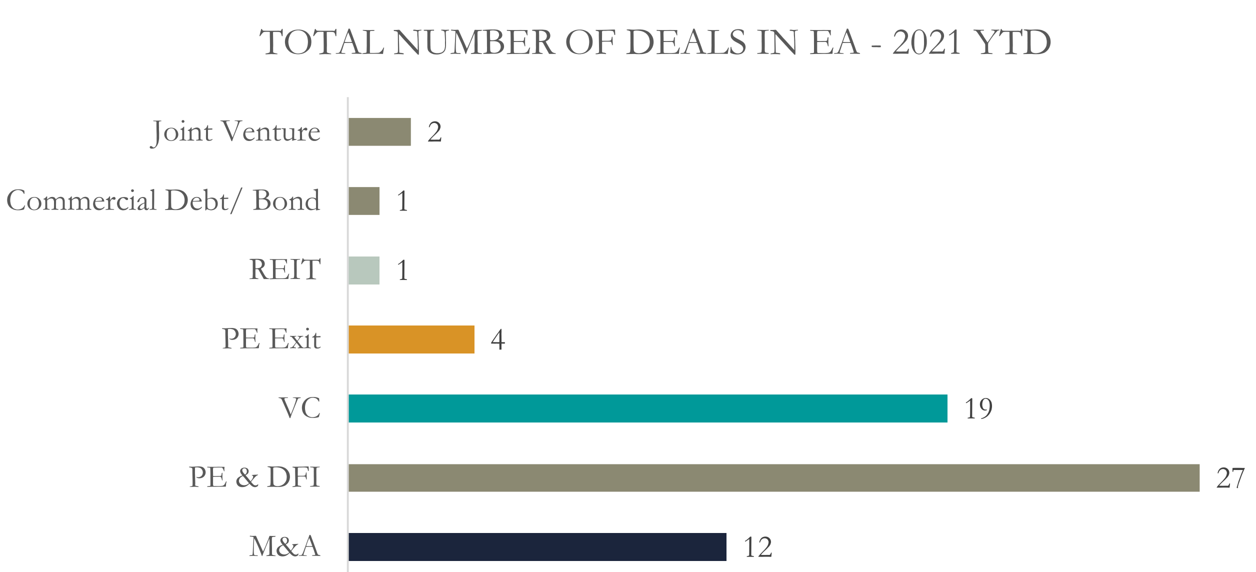
In the Listed Equities Market, August maintained the up-swing witnessed in recent months with the NSE 20, NSE 25 and NSE All Share Index all recording growth of 2.4%, 3.3% and 2.7%, respectively. The Market witnessed an increase in average daily turnover to USD 4.90 million in August, from USD 4.07 million in July. Top gainers during the month included BK Group which was up by 37.9% and Eaagads which increased by 21.7%. Nairobi Business Ventures and Scangroup Ltd witnessed the largest declines in the month with a fall in their share price by 35.5% and 20.4% respectively.

PART I : DEAL STATISTICS

Analysis by Sector

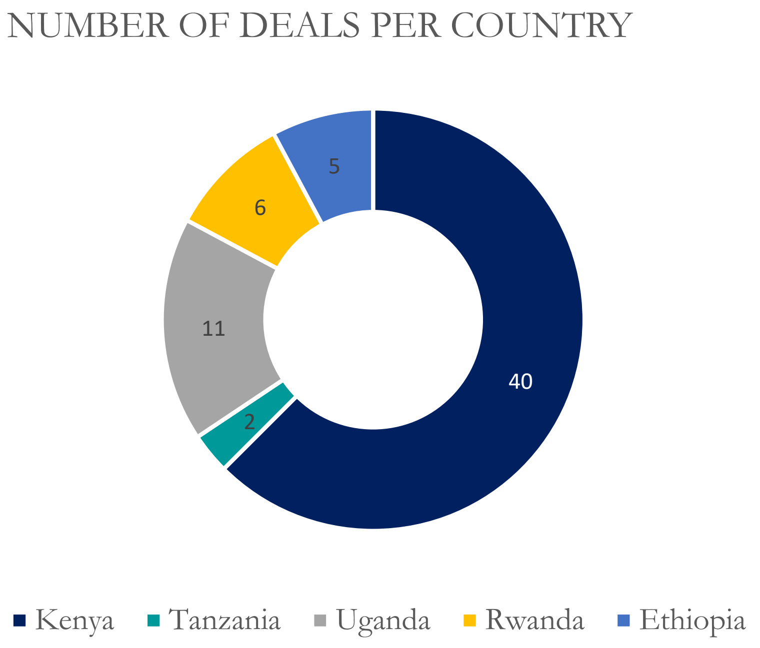
Sector	No. of Deals YTD	Disclosed Deal Value YTD (USD million)
Financial Services	17	65.2
ICT and Telecom	13	163.6
Agribusiness	8	11.9
Energy	7	144.5
Healthcare	6	6.0
Logistics	4	3.5
Manufacturing	3	Undisclosed
Real Estate	2	28.5
Water, Sanitation and Hygiene	2	Undisclosed
Education	1	Undisclosed
Hospitality	1	10.0

Analysis by Type of Transaction

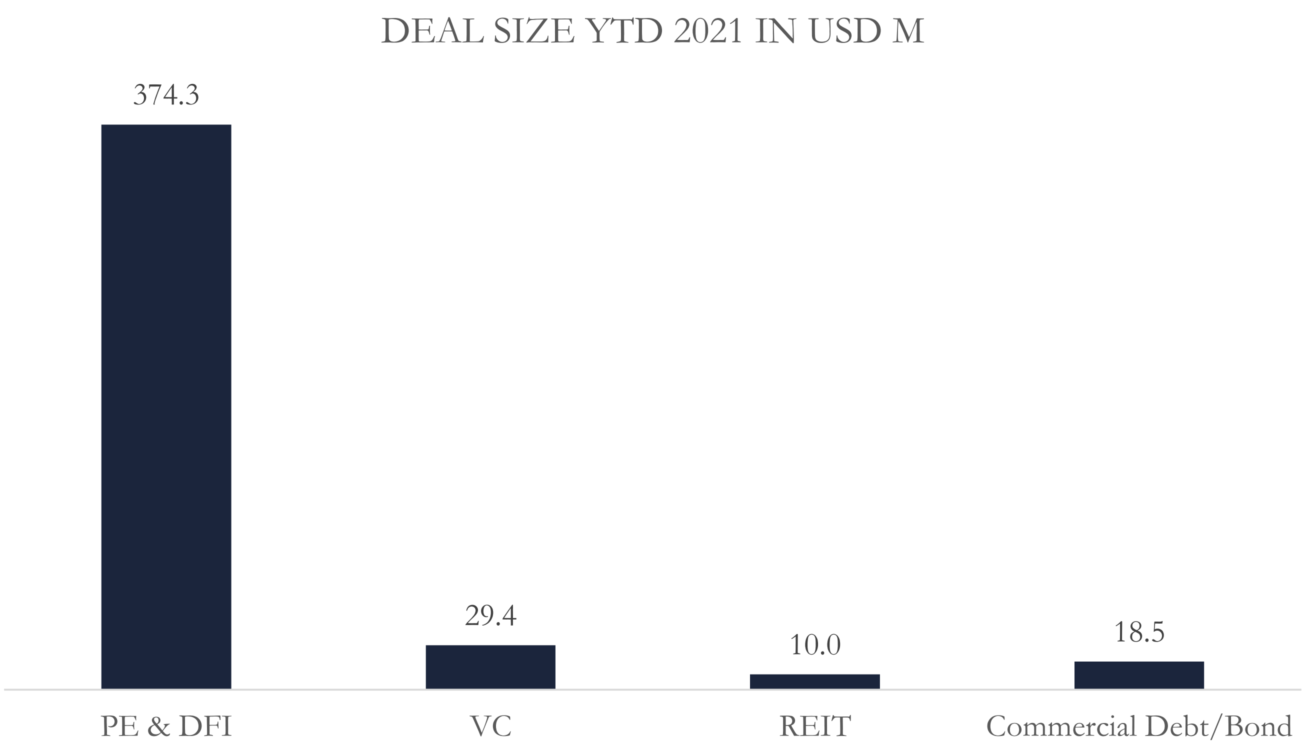


PART I : DEAL STATISTICS

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.



*Whilst there has been a number of M&A deals announced in the year to date, none of these have had disclosed deal values.

PART II : KEY MARKET INDICATORS
(As at 1st September 2021)

Yield Rate on Government Securities

Years	91-day	2 year	5 year	10 year
Kenya	6.77%	9.47%	11.85%	12.74%
Tanzania	3.00%	7.82%	9.18%	11.44%
Uganda	8.09%	11.53%	13.47%	14.81%

Source: Respective Central Bank

Inflation Rates

Years	Kenya	Tanzania	Uganda	Rwanda
2020 Actual Inflation	5.62%	3.56%	4.18%	3.70%
2021 Projected Inflation	5.69%	3.66%	4.77%	1.65%

Source: World Bank

Central Bank Rates

Country/Region	Rate as at August 2021	Rate as at July 2021
Central Bank of Kenya (Kenya)	7.00%	7.00%
Bank of Uganda (Uganda)	7.00%	7.00%
Bank of Tanzania (Tanzania)	5.00%	5.00%
National Bank of Rwanda (Rwanda)	4.50%	4.50%
South African Reserve Bank (RSA)	3.50%	3.50%
Central Bank of Nigeria (Nigeria)	11.50%	11.50%
Central Bank of Egypt (Egypt)	8.25%	8.25%
Bank of England (UK)	0.10%	0.10%
Federal Reserve Bank (USA)	0.25%	0.25%
European Central Bank (EU)	0.00%	0.00%

Source: CB Rates

PART III : INDUSTRY INTERVIEW

Victor Wambua, Senior Investment Manager - DEG

Victor Wambua is a Senior Investment Manager with DEG- Deutsche Investitions und Endwicklungsgesselschaft, the German developmental financial institution and a member of the KFW Group focused on providing financing and advice to the private sector in emerging markets. Victor is part of the equity and mezzanine department within DEG covering investments in both private equity funds and direct investments. He has worked in the private equity industry in the region for close to 10 years and holds a CPA as well as a bachelors in Actuarial science.

DEG has a significant presence in East Africa with both direct and indirect investments through funds. In which countries and which sectors is DEG most bullish in the region at present?

DEG has had a good experience in different sectors in the region. What we find most attractive about the East African region is the strength and diversity of the economy and how de-linked they are from commodity prices. On specific East African countries, I'd say we look at each market differently and are attracted to each market for different reasons including diversification, always aiming to create local jobs following the Sustainable Development Goals (SDGs). That said we also have specific requirements on the ticket size and environmental & social aspects and plan to diversify our portfolio across all the markets in East Africa.

Direct investments by development finance institutions have been on the rise in the East African region and generally in SSA. This is in contrast to prior times when DFIs focused primarily on fund of fund investments. Has DEG also taken on this approach and what do you see as the key driver for this change?

Growth in direct investment-sector is in our 50-year-experience a result of their higher and more sustainable impact, but also their quite attractive return. The gross IRR of African top quartile funds is almost equal to the average IRR in developed markets. However, there is almost a 10% gap in Net IRR between the same funds in more developed markets. The reasons for this would include: use of leverage in developed markets vs expensive leverage in African markets, slower deployment creating a fee drag, and delayed exits. Given most co-investments are devoid of management fees, the performance is closer to the Gross IRR, making them increasingly attractive to LPs in order to increase the average IRR.

The need for co-investment is also driven by the current fundraise environment, which in Africa is quite long and dependent on DFIs, as the commercial investors for now focus on higher growth markets. To avoid taking a longer period raising a bigger fund, most Fund Managers are creating smaller funds and still target the same opportunities using co-investments. This leads to a faster fundraise, deployment and overall shorter lifecycle of a fund while allowing the fund to execute the intended strategy.

Currently, there is a significant amount of dry powder, with fund managers looking at investments in the region, with DFIs in particular having had increased capital commitments from their governments in recent years. Given the negative impact of Covid-19 on businesses in the region, it is expected that the number of high quality assets available for investment in the region has shrunk. These two situations put together suggest that there is a significant amount of capital chasing fewer quality assets. Is there a risk that this would present fundamental valuation pressures and add some froth to the market?

We have seen such trends in parts of the region following a fund oversupply and of course for our investments, a substantiated valuation is key. Having said this, and contrary to that, COVID has also created some opportunities in the market. With reduced participation by the traditional players i.e. banks, due to increased provisions, and public markets due to valuation issues, we are seeing increased interest from a wider array of clients and for the first time you're seeing increased co-operation between DFIs and the so called blue chip players in the market.

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With regards to attractive companies, what we have seen is that companies with strong fundamentals have survived including those with sub optimal balance sheet structures which have received financing. Altogether we think the impact of COVID in Africa has normalised the valuation multiples expectations and accelerated tech enabled businesses, which is evidenced by the increased funding going to Venture Capital.

DEG not only deploys both equity and debt investments in East Africa but also mezzanine capital. Mezzanine financing provides more flexibility in funding and repayment structures and can be a useful funding instrument to drive rapid growth. Which types of businesses does DEG consider ideal for such funding structures? We see also that convertible debt structures are on the rise in the region. Is this also the case in your transaction pipeline?

DEG has participated in Mezzanine markets for the last 10 years when it was not well understood in the market and was seen as expensive debt. However, with the emergence of fast growing and asset light companies we are seeing increased demand for Mezzanine instruments due to the following: (i) difficulty in collateralization and normal debt structuring of service, asset light and tech based companies, (ii) fast growing businesses which need all this short term cash reserves to fund growth, (iii) aversion to dilution by business owners especially if the companies are fast growing and (iv) increased collaboration with Banks to shore up the equity ratios.

We are seeing increased pipeline especially on Mezzanine and Sub Debt funds, which was driven by the market evolution and also accelerated by impact of COVID as more companies needed a more flexible debt instruments.

In developed markets, borrowing rates are generally at historical lows, making it cheap to access credit, and responses from governments to the Covid 19 pandemic have further increased the stock of money in circulation. For business that can access hard currency financing, this is filtering into developing markets also. Do you envisage more leveraged transactions in the medium term in East Africa?

The key drivers of the interest rates in Africa are the political and macro-economic factors which are mostly driven by government i.e. political risk and inflation. Therefore, interest rates will most likely track these factors. Leveraged can be useful in large transactions with strong cash generation. However, the currency risk is quite high and the local currency interest rates are in their high teens which makes leveraged transactions quite difficult to execute.

However we have seen situations where leverage is important (and we treat it on a case by case basis) and these are: High cash velocity businesses such as banks/ financial institutions, capex or equipment generating high asset turnover ratios and in infrastructure deals, which have long term and USD linked revenues as well as a sustainable and positive impact in our region. This will remain the main uses of debt financing, while other deals will mostly be financed by equity, with debt applied at company level to lower the risk from currency and high interest rates.

How has the switch to working from home impacted your investment management and deal sourcing strategies?

DEG, like most organisations, switched to home office after the first case of COVID was reported in March 2020. However, the infrastructure to work remotely was already in place as we have 21 offices globally with staff who work closely with colleagues in Cologne.

The deal execution was affected and we had to take a hybrid approach where we carry out due diligence virtually using video calls, data rooms and where possible, having the staff in the regional offices carry out the in-person meetings.

PART IV : SELECTED DEALS

Date	Buyer	Seller	Deal size (M USD)	**Sector**	Type	Country	Synopsis
9-Aug-21	Pearl Capital Partners	Pura Organic Agro Tech Ltd	2.5	Agribusiness	PE	Uganda	The Yield Uganda Investment Fund, which is managed by Pearl Capital Partners, announced an investment of USD 2.5 million in Pura Organic Agro Tech Ltd structured in both straight equity and patient debt investment. This marks the fund's eighth investment into the Ugandan agriculture sector but more uniquely, the first substantial value addition investment into the cassava value chain.Pura, which was incorporated in 2011, is located in Nakasongola District, Central Uganda.
10-Aug-21	EchoVC, China-based global fund MSA Capital and Kepple Africa Ventures	Wapi Pay	2.2	IT	PE - VC	Kenya	Wapi Pay, a fintech company based in in Kenya, raised USD 2.2 million in pre-seed funding to scale up global payments and remittances between Africa and Asia. The investors included EchoVC, China-based global fund MSA Capital and Kepple Africa Ventures. Existing investors are Future Hub, Gobi Ventures and Transsion Holding.
13-Aug-21	KCB Group	Arise B.V	Undisclosed	Financial Services	PE - Exit/M &A	Rwanda	African investment company Arise sold its shareholding in Banque Populaire du Rwanda Plc (BPR) to KCB Group in Kenya. This development came on the back of securing all the regulatory approvals in Kenya and Rwanda, and resulted in KCB becoming the majority shareholder in BPR, Rwanda's second largest bank. According to Deepak Malik, Arise chief executive officer, since inception Arise was fortunate to be able to contribute to the growth trajectory of BPR
19-Aug-21	Finnfund	Bandwidth and Cloud Services Group (BCS)	12	IT	PE (DFI) - Debt	Kenya	Finnfund provided a USD 12 million senior loan to Bandwidth and Cloud Services Group (BCS), a telecom infrastructure provider operating in several African countries. With Finnfund's help as a key project investor, BCS is expanding its operations in East, Central and Southern Africa.
27-Aug-21	Beyond Capital Ventures	Viebeg Technologies	Undisclosed	IT	PE - VC	Rwanda	Newly launched impact venture capital firm Beyond Capital Ventures announced its first investment: Viebeg Technologies. Based in Rwanda, Viebeg is a healthtech company that provides medical supplies and equipment throughout Central and East Africa through an innovative data-driven procurement platform. Beyond Capital Ventures joined its co-investment partners Beyond Capital Fund and Eckenstein Geigy Stiftung in Viebeg's pre-seed funding round.

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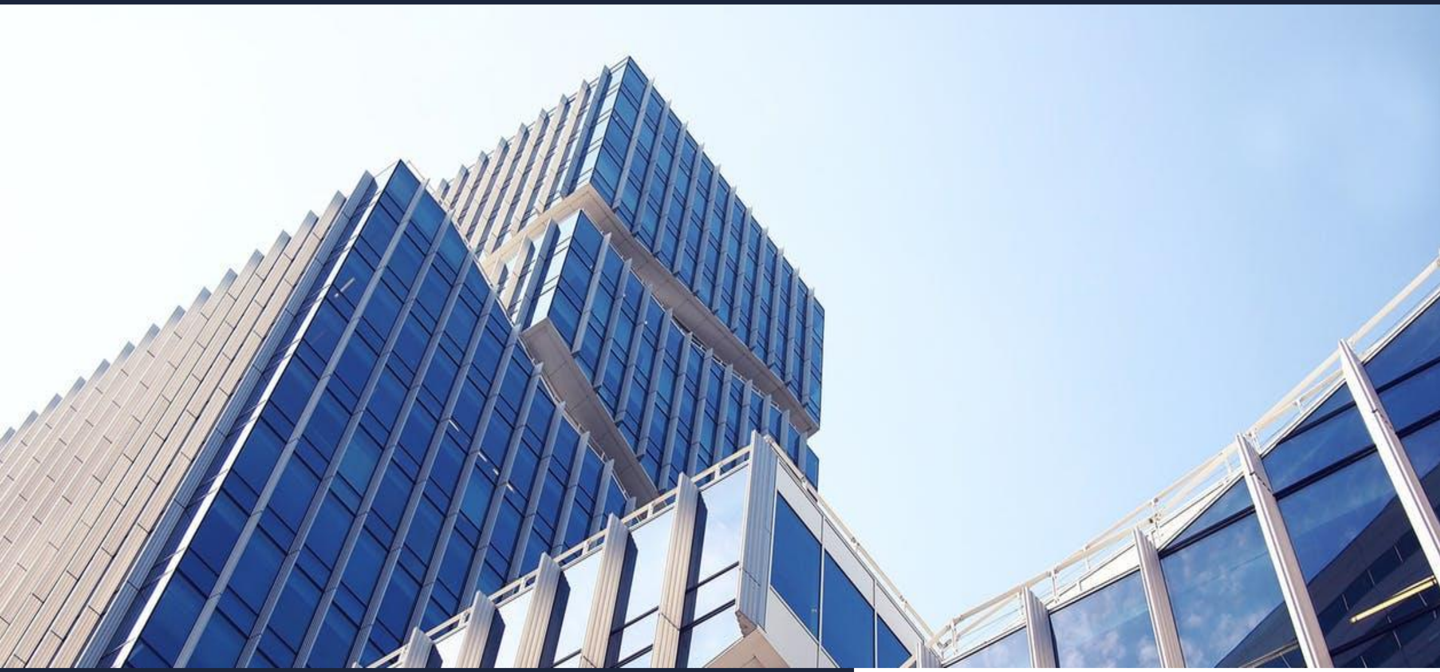

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