Newsletter

Horizon Africa Capital

Quarter 1 | 2016

In This Issue

Economic Roundup:

SUB-SAHARAN AFRICA

Economic activity in sub-Saharan Africa slowed to 3.4% in 2015 from 4.6% in the prior year (2014). External factors responsible for the slowdown included lower commodity prices, a slowdown in the economies of major trading partners as well as tightening borrowing conditions. On the domestic front, electricity shortages, political instability and conflict were attributed as contributing factors for the decelerated economic growth.

In 2016, GDP growth in sub-Saharan Africa is projected to rise to 4.2% as commodity prices stabilize and supply constraints ease. There are, however, downside risks associated with this growth such as the possibility for further declines in commodity prices, a faster than expected slowdown in China, declining capital flows as the Fed normalizes its monetary policy as well as political uncertainty associated with upcoming elections in countries within the region.

(continued)

Economic Roundup: (continued)

Kenya

Kenya's GDP expected to grow at 5.7% in 2016

KENYA

Economic Update

According to World Bank's recent report on the Global Economic Prospects for 2016 (released on December 31st 2015), Kenya is set to grow at a rate of 5.7% this year. This is well above sub-Saharan Africa's average growth rate of 4.2%, albeit below its East African neighbours Tanzania and Ethiopia which are projected to grow at 7.2% and 10.2% respectively. Of note though, is that Kenya is poised to be amongst the top dozen countries in the continent in terms of growth rates. Kenya's growth in 2016 will be sustained by a loose fiscal policy, infrastructure projects and robust private consumption. Nevertheless, a large fiscal deficit coupled with rising public debt, a weak shilling along with a tight monetary policy represent some of the possible challenges for the economy.

Exchange Rates

The foreign exchange market has remained stable around KES 102 since November 2015 despite fears that the rise in the Fed rate, China's economy slowdown, and volatility in other global financial markets would weaken the Shilling. Stability in the foreign exchange market continues to be supported by a narrowing current account deficit largely due to a lower import bill for petroleum products, recovery in tourism, tea and horticulture exports, and diaspora remittances. The CBK's foreign exchange reserves which currently stand at USD 7.02 billion (equivalent to 4.5 months of import cover), together with the Precautionary Arrangements with the International Monetary Fund (IMF), continue to provide an adequate buffer against short-term shocks.

Inflation and Interest Rates

Month-on-month overall inflation rose to 8.0% in December 2015 from 7.3% in November; this is above the 7.5% upper bound of the Government's target range. The increase was driven largely by food prices, and the main items were Irish potatoes, tomatoes, kales ("*sukuma wiki*"), carrots, cabbages, onions, beef with bones, and avocados. These items contributed 2.3% to overall inflation and 6.3% to food inflation in December 2015. However, many of these items are seasonal and fast-growing, and their impact on inflation is expected to dissipate by April 2016. As a result, in their meeting on January 20th 2016, the Monetary Policy Committee (MPC) concluded that the current inflation pressures are temporary, and that the monetary policy measures currently in place are containing any demand pressures in the economy. The MPC therefore decided to retain the CBR at 11.50% in order to continue to anchor inflation expectations. Additionally, in order to ensure market stability, the CBK reviewed the Kenya Banks' Reference Rate (KBRR) and decided to retain it at its current level of 9.87%.

Economic Roundup: (continued)

Uganda

Ugandan Central Bank maintains benchmark lending rate at 17%

UGANDA

Economic Update

According to the latest monetary policy statement issued in December 2015, Uganda's economy is projected to expand by 5% in the 2015/16 (July-June) fiscal year. However, there are downside risks to the projected growth, including those emanating from the external economic environment, which remains challenging for the economy and could deteriorate further over the next 12 months.

The major risk factors may include: slower growth in major emerging market economies; further decline in global commodity prices; as well as reduced access to external financing for developing countries due to heightened perceptions of risk, and possible monetary policy tightening in the US. Consequently, Uganda's balance of payments in the short to medium term will remain vulnerable to external shocks.

Inflation & Interest rates

Annual inflation continued to rise, with headline inflation increasing to 9.3% in December from 9.1% and 8.8% in November and October 2015 respectively. Core inflation increased to 7.4% in December from 6.7% in the prior month. The increase in inflation is attributable to higher food crop prices, the increase in electricity tariffs, and the effects of exchange rate depreciation. Nonetheless, monthly core inflation has stabilised in the last three months, after accelerating earlier in the year. The upward impact of the exchange rate depreciation on monthly core inflation has been partly offset by much lower services inflation. This indicates that the tightening of monetary policy since April 2015 has begun to curb inflationary pressures.

In December 2015, the Bank of Uganda (BoU) held the Central Bank Rate (CBR) at 17% with the belief that, given the macroeconomic forecasts discussed above, such a move will be consistent in stabilising core inflation and returning it to the target of 5% over the medium term. Prior to this, the BoU had raised the CBR five times in 2015, with the last rate hike being in October 2015 from 16% to 17%.

The AfDB forecasts Tanzania's economy to grow by 7% over the medium term

Economic Roundup: (continued)

Tanzania

TANZANIA

Economic Update

The long-standing ruling party, *Chama Cha Mapinduzi* (CCM), secured re-election in October 2015, with its new leader, John Magufuli, elected as the state president with 58.4% of the votes cast. Constitutional uncertainty is set to remain a recurrent source of political volatility. The incoming government has outlined ambitious plans to improve living standards. However, fiscal limitations will persist. Medium-term economic prospects remain strong, with brisk growth driven by a growing services industry and high private investment. According to the African Development Bank (AfDB), growth is projected to remain above 7% in the medium term, supported by public investments in infrastructure, particularly in the transport and energy sectors. The World Bank also recently projected that Tanzania's economy will grow by 7.2% in 2016.

Despite Tanzania's impressive macroeconomic achievements, growth is not sufficiently broad based, and poverty levels remain high.

Inflation and Interest Rates

According to the most recent monthly report issued by the Central Bank of Tanzania, headline inflation rose to 10.9% in the year ending November 2015 from 8.7% in October 2015, mostly driven by food prices. Food inflation increased to 15.8% in the year ending November 2015 from 11.7% in the year ending October 2015. This increase was to a large extent accounted for by prices of rice, fish, sugar, banana and wheat flour.

The Tanzania Central Bank currently doesn't set interest rates regularly and uses a range of instruments like foreign exchange interventions, rather than interest rates, to implement its monetary policy. However, this methodology is set to change within the next three years to that of interest rates. The benchmark interest rate for the Tanzanian Treasury bill was last recorded at 12% as of July 2015.

Newsletter feature...

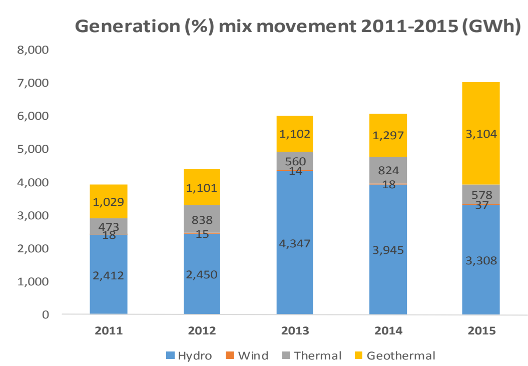
Insight into Kenya's Power sector

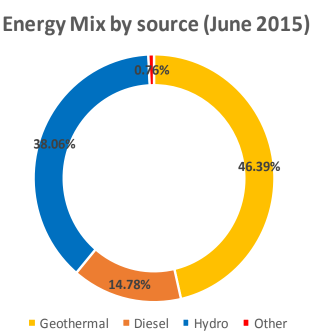
Kenya's development blue print, Vision 2030, highlights energy as one of the key pillars in the realization of the country's economic transformation. Our feature segment for this newsletter will provide an overview of the power sector and key developments that have been implemented over the course of 2015.

Overview of Kenya's power sector

Sub- Saharan Africa (SSA) is in a midst of a power crisis, which is largely due to: insufficient generating capacity; unreliable supplies; and high prices of power. The deficiencies of the region's power sector are a serious drag on long-term growth and competitiveness of the economy.

In Kenya, the government has implemented a plan to increase its generation capacity by 5,000 MW by 2017. For the year ending June 2015 c. 400 MW of new capacity was added to the grid. This raised the total installed capacity to 2,299 MW. The additional energy capacity comprises 225MW of geothermal, 20MW of wind and 157MW of thermal power. The increased contribution from geothermal has significantly changed the energy mix by displacing expensive thermal energy thus relieving pressure on hydropower to become the leading source of energy.





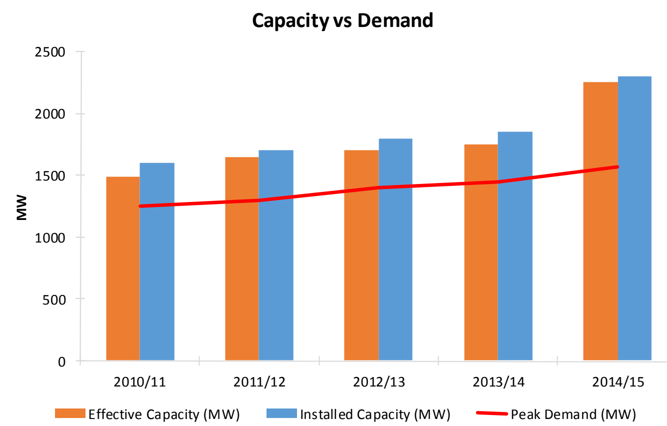
The Kenyan government's drive to increase capacity has also resulted in importing less energy from neighbouring countries. Kenya has more than halved total electricity imports to 46.5 million units, largely from Uganda, and doubled exports to 38.8 million units in the period January to October 2015.

Demand

In 2015 demand hit its highest level in Kenya's history at 1,569 MW. The Energy and Regulatory Commission (ERC) estimates that demand could grow by up to 80% in the next four years to 2,834MW. This will be driven by an initiative by

Newsletter feature… (cont.)

the Kenya Power and Lighting Company to connect a further 315,000 additional homes. The new plan will this year allow homes to connect to the power grid for KES 15,000, down from KES 35,000 previously, and will allow those connected to pay the fee over 36 months under a government-backed programme.



Supply

The growing power demand for productive activities bodes well for the economy as sector players have in recent past faulted the State's plan to inject an additional 5,000 MW to the grid, citing lack of capacity to absorb it. Hence with the growing demand and increased connectivity the government has continued in its mission to increase capacity in the coming years. Below is a list of the major power generation projects committed for the period 2016-2018:

	Plant	Type	MW	Expected Online Date
1	Kinangop Wind Park	Wind	60	2016
2	Marine Power – Akira	Geothermal	70	2016
3	Lake Turkana Wind Power	Wind	300	2017
4	Olkaria 1 – Unit 6	Geothermal	70	2018
5	Africa Geothermal International (AGIL)	Geothermal	70	2018
6	Kipeto Energy	Wind	100	2018

Power consumption is often a clear indicator of activity in an economy, with industrialized and advanced nations swallowing huge amounts of the utility every year. The continued progress of Kenya's power sector bodes well for the development of the country and hence will play an important role in growing the country's economy.

Worth Noting…

Treasury bonds interest rates rise

Central bank of Kenya (CBK) offered 2 and 10 year treasury bonds for the total amount of KES 35 billion on 20th January 2016. Treasury received bids amounting to KES 36.3 billion and accepted KES 24.1 billion. The rates for the 10 year Treasury bond rose by 3.2% to 16.1% from 12.8% in May 2015.

Kenya's NSE signs up six banks to clear derivatives

Kenya's Nairobi Securities Exchange has signed up six lenders as clearing banks for its yet-to-be launched derivatives market. The NSE, an entry point for foreign funds keen to tap robust growth in East African economies, has been planning to start offering derivatives trading since last year. The six banks are Barclays Kenya, Co-operative Bank of Kenya, CFC Stanbic, NIC Bank, Chase Bank and CBA Bank, the NSE said in a statement on 27th January, 2016. Its plan to launch a derivatives market, based on underlying financial instruments such as currencies and equities, has already received approval from regulator Capital Markets Authority.

Stanlib issues and lists Kenya's first income Real Estate Income Trust (REIT)

Stanlib's Fahari income REIT raised KES 3.6 billion which is above the minimum target of KES 2.6 billion the company set. International Finance Corporation (IFC) and Liberty Holding South Africa subscribed to a sizeable chunk of the investment. The REIT intends to acquire Green Span mall which is located in Embakasi Area of Nairobi.

Uchumi seeks KES 5 billion through strategic investor

The directors of Uchumi Supermarkets have authorised management to identify and negotiate with any suitable investor in order to raise KES 5 billion through equity, convertible debt or both forms investment instruments. The injection of new capital will fund the company's turn-around plan.

Central Bank of Kenya to revise bank interest setting formula

Falling world oil prices will not cause a major delay to plans to begin oil production in northwest Kenya, Africa Oil Corp's chief executive said in a statement in January 2016. Africa Oil and its partners aim to announce a final investment decision for production in early 2017. He also said that the biggest hurdle was finalising construction plans for a crude oil pipeline. The pipeline will run from land-locked Uganda across northwest Kenya to a planned port in Lamu, on Kenya's Indian Ocean coastline.

Diageo's Kenya Unit (East Africa Breweries) Eyes Congo to Expand East African Market

East Africa Breweries Limited (EABL) plans to begin operating in eastern Democratic Republic of Congo as part of a strategy to grow its market in the region. It will also aim to boost volumes in Rwanda (three-fold in the next three years) and strengthen its business in Burundi. Diageo, the London-based maker of Guinness stout and Johnnie Walker whisky, owns 50.03 percent of EABL, East Africa's biggest brewer by sales and Kenya's second-largest company by market value.

Transaction Highlights in East Africa

Sector	Acquirer	Target	Transaction Description
November 2015			
Banking	Atlas Mara	Banque Populaire de Rwanda (BPR)	Atlas Mara, a financial services company founded by ex-Barclays executive, Robert Diamond and entrepreneur, Ashish Thakkar has completed the purchase of a majority in BPR. Atlas intends to merge BPR with BRD Commercial Bank and create the largest bank in Rwanda.
Telecoms	Helios	Orange Group	Helios Investment Partners, an African focused private equity firm, has signed a binding agreement under which Orange would sell their 70% equity stake in Telkom Kenya, subject to regulatory approvals. The deal value has not been disclosed. According to statistics released by Communications Authority of Kenya (CA), Telkom Kenya's market share stood at 7.6% for the period July to September 2015.
Real estate	Helios	Acorn Group	Helios filled the gap created by Acorn's recent split from Britam to partner with the Kenyan property developer by providing the financial muscle required to take advantage of opportunities in the real estate sector. Helios and Acorn entered into a 50:50 joint venture.
Agro-processing	Razco Ltd	Alpha Dairy Limited	Razco, popularly known for the Lyons Maid ice-cream brand has been cleared to buy out its competitor, Alpha Dairy, popularly known for the "Ooh!" Ice-cream brand name. According to various newspaper articles, the combined revenue of both the companies stood at approximately USD 6.6 million.
December 2015			
Energy	Generation Investment Management LLP	M-KOPA	M-KOPA raised USD 19 million from Generation Investment Manager, an investment management firm and several high net worth people. M-KOPA sells power systems at a cost of USD 200. The rural clients are expected to fork out USD 35 up front and pay the balance USD 165 over a period of 365 days.
Real Estate	International Finance Corporation (IFC)	Stanlib Income Real Estate Investment Trust (REIT)	IFC invested USD 6.7 million in the Stanlib's Fahari Income REIT, the first REIT issue in Kenya for a stake of 20%. The I-REIT raised USD 36 million which was below their ceiling target (USD 125 million) but above the floor target (USD 26 million).
January 2016			
Pharmaceuticals	54 Capital	Addis Pharmaceutical Factory (APF)	54 Capital, an Africa focused asset manager founded in 2013, has invested USD 30 million in APF with an option to invest an additional USD 12 million. The company has factories in Adigrat, north of country and Addis Ababa. It produces over 80 high quality pharmaceutical products for the Ethiopian market.
Real Estate	Old Mutual Property	Two Rivers Lifestyle Centre (TRCL)	Old Mutual has invested USD 64 million in TRCL, the holding company which has a majority stake in the Two Rivers development. Old Mutual has acquired 10% shareholding in TRCL and extended a convertible loan facility which can see Old Mutual's equity stake rise to 50%.

News from Horizon

Horizon's Sector Expertise

Agriculture & Agro-processing

Real Estate

Energy, Oil & Gas

Fast-Moving Consumer Goods

Financial Services

Hospitality

Heavy & Light Manufacturing

Information and Communication Technology

Infrastructure

Telecommunications

Transport & Logistics

Transactions Update

Selected Completed Transactions: 2015

- Buy-side advisor for a manufacturing company in East Africa
- Buy-side advisor for a financial service company in Kenya
- Debt raise for a commodity trading business in Kenya
- Valuation advisory for a medical services business in Kenya
- Valuation and advisory for one of the largest medical services company in East Africa
- Advising on a financial feasibility for a heavy manufacturing plant in Ethiopia
- Valuation and advisory for a renewable energy power plant in Kenya
- Financial modelling for a PPP infrastructure project bid
- Feasibility study of potential entry to Africa for a renowned international food packaging company

Selected Ongoing Transactions: 2016

Mergers & Acquisitions

- Sell-side advisor for a healthcare company in East Africa
- Sell-side advisor for a financial services company in East Africa
- Sell-side advisor for an automobile company in East Africa
- Sell-side advisor for prime land located in East Africa
- Sell-side advisor for an agricultural business in Tanzania
- Sell-side advisor for a logistics company in East Africa
- Sell-side advisor for a data management company in East Africa
- Buy-side advisor for a financial services company in East Africa

Capital Raising

- Capital raise for a construction company in Kenya
- Debt restructuring and capital raise for a healthcare company in East Africa
- Debt raise & restructuring for a manufacturing company in Tanzania
- Capital raise for an experiential marketing company in Kenya
- Debt raise for three commercial real estate projects in Kenya
- Debt restructuring for a manufacturing business in Zambia
- Debt Advisory for a mixed used real estate project in Tanzania

Transaction Services

- Financial restructuring of a hospitality company in Kenya
- Advisory for a support service company in Kenya
- Research on the Kenyan financial services sector

About Horizon Africa Capital

Horizon Africa Capital is a boutique mergers and acquisitions (M&A) advisory firm headquartered in Nairobi, Kenya.

Horizon's primary activities are M&A advisory, capital raising and corporate financial brokerage in Sub-Saharan Africa. Our approach is based on providing differentiated, integrated financial advisory services throughout the life of a transaction, from inception to execution. We have expertise in a number of sectors including Energy, Real Estate, Technology, Heavy and Light Manufacturing, Hospitality and Agro-processing.

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