Newsletter

Horizon Africa Capital

May 2015

In This Issue

Economic Roundup:

SUB SAHARAN AFRICA

The United Nations Economic Commission for Africa launched the Economic Report on Africa 2015 in March. The findings suggest that growth for the East African region is expected to increase slightly from 6.5% in 2014 to 6.8% in 2015.

Exchange rates in the region, however, are expected to continue to depreciate due to declining oil and commodity prices, tightening of monetary policies in developed countries, and large trade and fiscal deficits.

In February, the United States signed an agreement with Kenya, Uganda, Tanzania, Rwanda and Burundi to ease trade flows and set the stage for more US investment into the region. Trade between the US and the East African countries grew by 52% in 2014 to US$ 2.8 billion.

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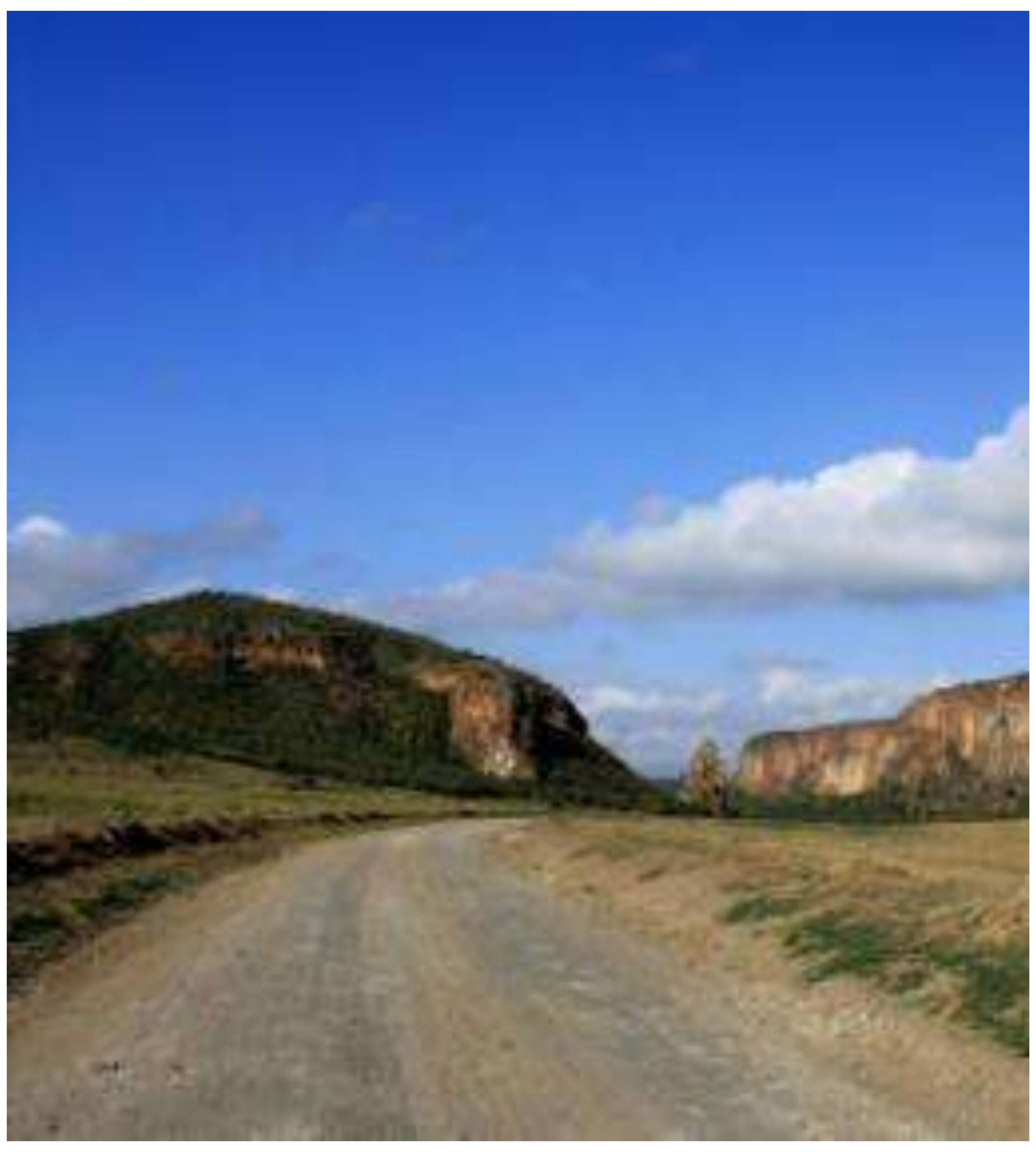


Economic Roundup: (continued)

Kenya

The construction, transport and IT sectors all expanded by more than 13% in 2014; tourism fell by 7%

KENYA

Economic Update

Kenya's economy recorded slower growth of 5.3% during 2014 compared to 5.7% in 2013. Kenya Bureau of National Statistics is predicting a 6.2% growth in 2015 driven by expansion of banking, telecommunications, urbanisation, and investment in infrastructure.

Exchange Rates

The Kenyan shilling fell to a three year low against the dollar in late April as the Central Bank intervened to stabilise the rate to 94.50, representing 4.15% depreciation from the beginning of the year. Besides a fall in tourism revenue due to security concerns, uneven rainfall has also hit the horticulture sector. Increased importation of machinery, especially on major infrastructure projects, is expected to pile more pressure on the shilling.

Inflation and Interest Rates

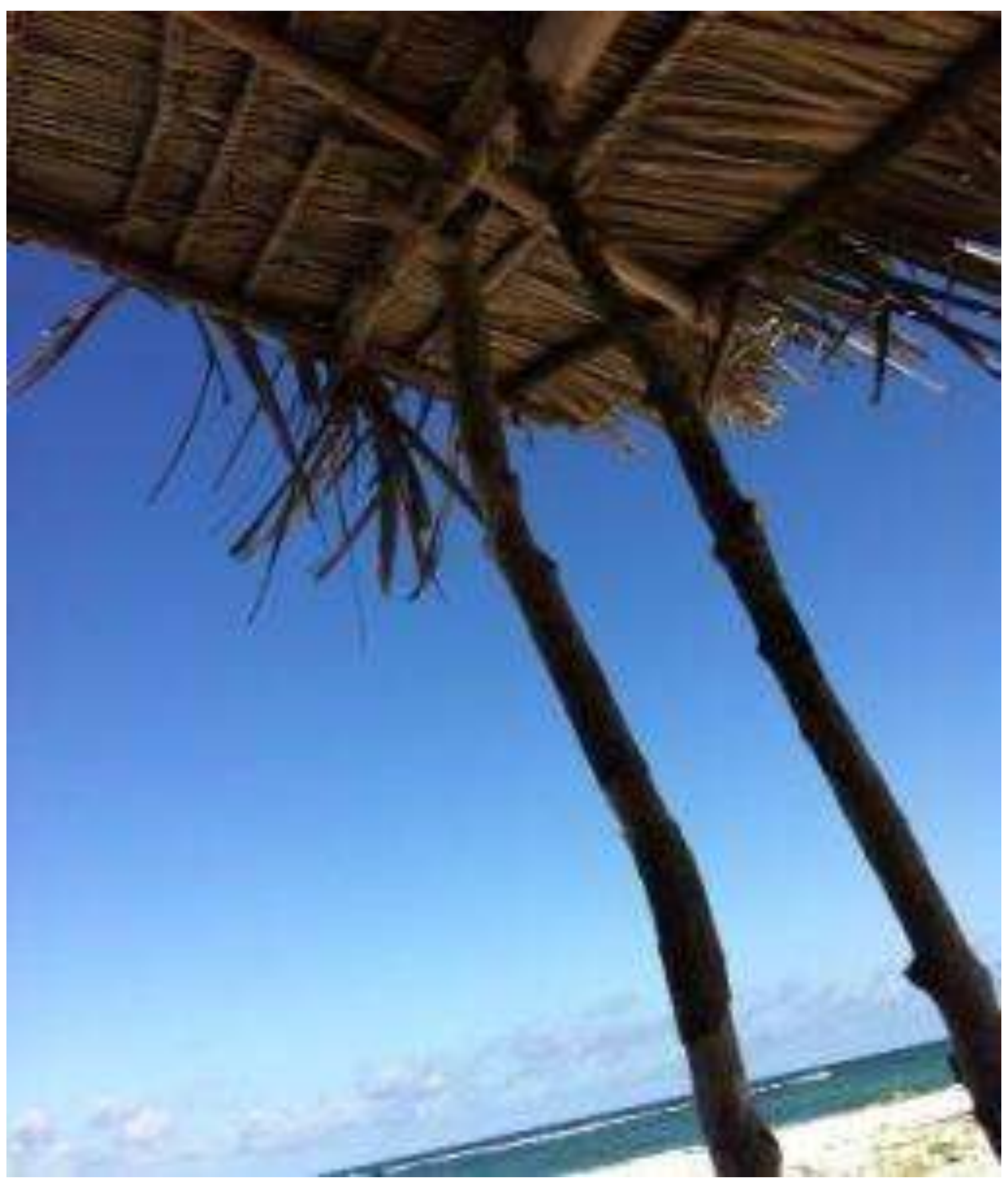
Kenyan annual inflation rate reached a 19 month low in January at 5.5% but subsequently rose to a 5 month high of 6.3% in March mainly due to a sharp increase in food costs. The Kenya Bankers Reference Rate used as the benchmark rate by banks in pricing loans, declined by 59 basis points to 8.54% in January due to a decline in T bill rates . KBBR is determined by the central bank rate and the CBR rate. The next KBBR review is set for June/July.

Capital Markets

The main talking point this quarter was the re-introduction of capital gains tax on trading, which triggered a bear run in January as volumes dipped significantly, The NSE 20 Index did reach a 12-month high of 5,491 points by the end of February but has since fallen to the 5,000 mark.

The capital markets are set to introduce new products to the market as regulations for exchange traded funds (ETFs) are expected to be introduced by July this year. ETF is a fund to which investors contribute money which goes into buying securities that compose an index and is a cheaper form to construct a portfolio of companies.

In addition, Stanlib announced intentions to list a US$ 95 million Real Estate Investment Trust (REIT) by June this year. Further details are expected in May.



Economic Roundup: (continued)

Uganda

Tanzania

Uganda is abolishing VAT and withholding taxes to the oil, gas and mining industries to encourage growth

UGANDA

Economic Summary

Uganda's economy grew by 4% in Q4 2014 primarily due to an expanding agriculture sector. The government is projecting 5.3% growth for the 2014/15 fiscal year (ending June 2015) buoyed by increasing activity in financial services, telecommunications and infrastructure. In particular, the country is at various stages of implementing several large scale projects including two hydropower dams, an oil refinery, express highways, a railway line and plans to upgrade its sole airport as it prepares for oil production.

Exchange Rates

The Ugandan shilling has depreciated more than 7% against the dollar since the start of the year as corporate demand for dollars is heavily outstripping supply. Money has been flowing out of emerging markets as investors prepare for the US Federal Reserve's first interest rate increase since 2006.

TANZANIA

Economic Update

The inflation rate stayed below the government's 5.0% target for the fourth straight month in March at 4.3% after reaching a 4-1/2-year low of 4.0% in January. Similar to the region, the currency has depreciated against the dollar by almost 12% between January and April.

Capital Markets

The Dar Es Salaam Stock Exchange expects three financial-services companies to hold initial public offerings this year. These include Microfinance plc, Mbenga Community Bank and Mwanza Community Bank. In 2014, Tanzania scrapped controls on foreign ownership of shares which resulted in the 11-member Tanzania Share Index being Africa's best performer in 2014, gaining 64%.

Fitch has affirmed Rwanda's long-term foreign and local currency default rating at 'B+' with a 'Stable' outlook

Economic Roundup: (continued)

Rwanda

RWANDA

Economic Summary

Rwanda's economy grew by 7% in 2014 thanks to robust expansion in farming, services and the industrial sector. The central bank expects the economy to grow by 6.7% in 2015.

Capital Markets

The Rwandan subsidiary of I&M Holdings is set to go public with the Rwandese government selling its 19.8% stake in an IPO later this year. I&M's stake will remain unchanged at 55% but the IPO may provide an exit for other founding shareholders including Proparco and DEG. I&M acquired the bank (then trading as Banque Commerciale du Rwanda) in 2012 as part of a consortium that took over the 80% held by Actis.

Newsletter feature...

The Role of Capital Markets in Kenya's financial system

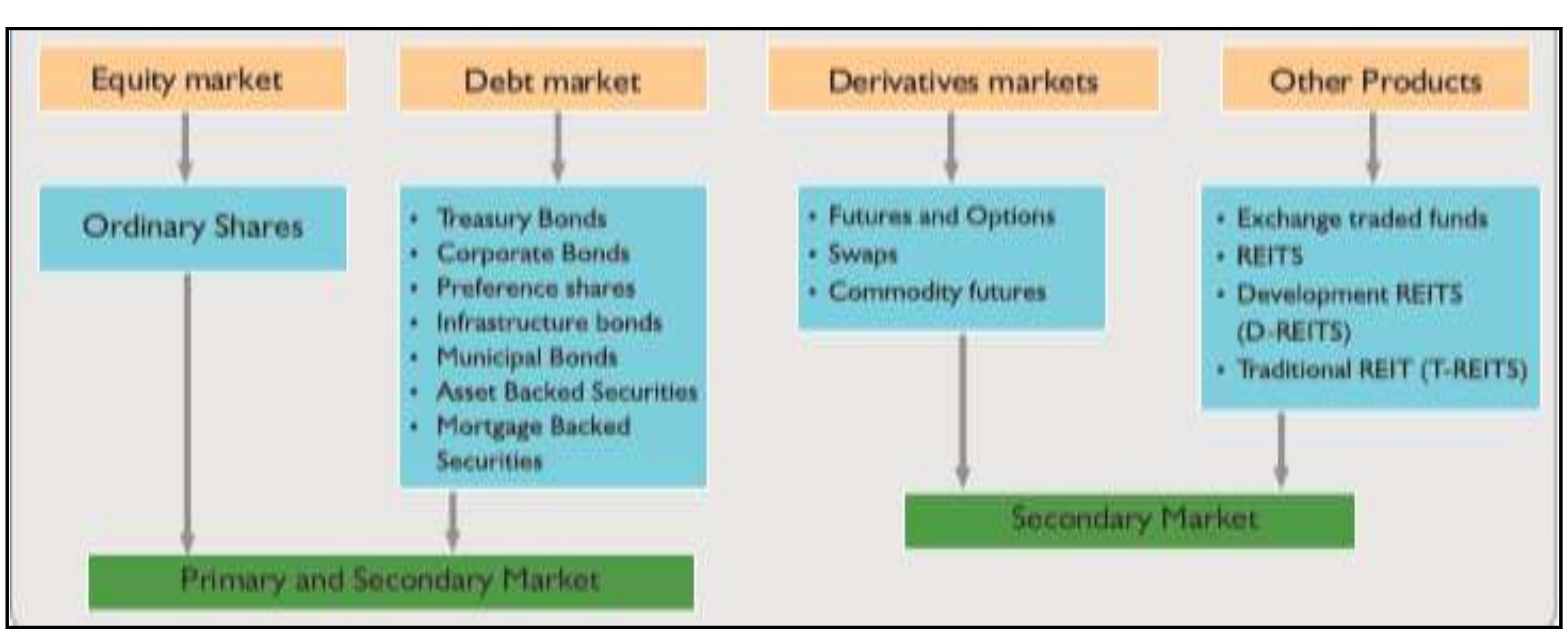
Horizon Africa recently co-hosted a seminar discussing dual listing opportunities in the Nairobi and London stock markets. The seminar was jointly hosted with the London Stock Exchange, Nairobi Securities Exchange, Capital Markets Authority and Stephenson Harwood, a global law firm. The seminar focused on the developments in the East African and London exchanges and the opportunities and challenges for those contemplating listings as a method of financing.

Our feature segment for this newsletter will take a deeper look at Kenya's capital markets and its role in developing the country's long-term economic growth plan.

Exchange traded funds are expected to be introduced in the capital markets this year

Overview of Kenya's Capital Markets

The capital markets in Kenya are currently made up of the equity and debt markets. A derivatives market and other products including exchange traded funds (ETFs) and real estate investment trusts (REITs) are in the process of being setup. All products are regulated and supervised by the Capital Markets Authority, an independent public agency which was established in 1989.



The Nairobi Securities Exchange currently has 65 listed firms with a total market capitalization of c. US$ 25 billion (at the end of 2014). The bonds market is still in an infancy stage, attracting more government bonds than corporate.

Newsletter feature… (cont.)

Capital markets will facilitate the deepening of the financial sector

Kenya's growth forecast between 2015 and 2019 is estimated at 6% per annum while long term growth according to the Kenya Vision 2030 development plan targets an annual rate of 10%. Investment levels, as a percentage of GDP, are expected to increase from the current level of 20% to 30%,

Whilst Kenya's financial sector is viewed as substantially diversified relative to other countries in the region, it is dominated by banking institutions which have not yet evolved to provide adequate long term capital. In the Kenyan context, a growing concern is that financial system development, and broader economic welfare, will be inhibited by the relatively underdeveloped nature of Kenya's corporate bond and equity markets.

Kenya's capital markets need to serve as an engine for growth for the economy and serve as a realistic alternative method of financing

In order to achieve the anticipated investment level and realize the growth targets stated above, Kenya's capital markets need to serve as an 'engine for growth' for the economy. The equity and debt capital markets need to gain momentum to serve as a realistic alternative to financing and reduce the burden on the banking and private equity sectors.

In recent years, the Initial Public Offerings that have taken place including the demutualization of the Nairobi Stock Exchange, Britam, Kengen and Safaricom have all been oversubscribed, a sure demonstration that investors are looking for alternative financial assets to invest in. If this trend is sustained, more firms may be encouraged to publicly list as an alternative to bank funding or private equity, especially as future funding rounds become much more accessible and easier on the stock markets.

With respect to debt markets, the liquidity of the government bond market will influence corporate debt development. In an effort to develop a liquid secondary market for government securities and a reliable yield curve, CBK

Newsletter feature… (cont.)

identified specific maturities of 2, 5, 10, 15, 20, 25 and 30 years to serve as its benchmark issues. A well-developed and liquid government yield curve will set a benchmark in the pricing of the securities for banks and non-financial corporates looking to issue corporate bonds. Over time, continued growth in corporate bond issuance should help to build market liquidity and broaden the investor base for corporate debt in Kenya.

Reforms to Kenya's Capital Markets' Framework and how they will serve as the 'engine for growth'

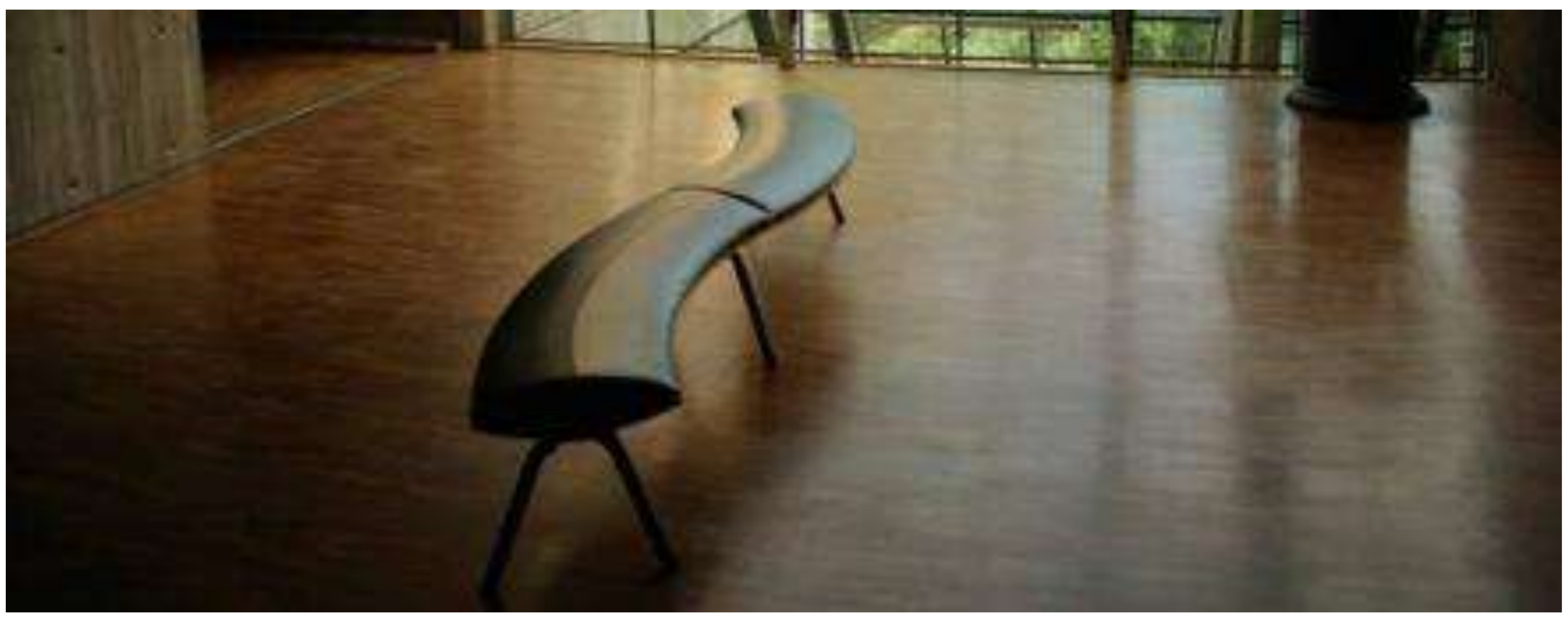
Policy and institutional factors will play a key role in continued development and growth of the Kenya's capital markets. The Capital Markets Authority is undertaking some key reforms which will further enhance the capital markets and provide a gateway for regional and international capital flows. Key capital markets developments include:

- Demutualization of the Nairobi Securities Exchange
- Development of the commodities and derivatives market
- Development of a harmonized legal & regulatory framework for East Africa
- Overhaul of the corporate governance framework

The Capital Markets Master Plan was launched in 2014 and demonstrates the CMA's ambition in leveraging the capital markets to deepen the country's financial sector. Some of the key targets laid out in the plan are shown below:

Targets	**Current January 2015**	**Short Term December 2016**	**Medium Term December 2020**
10% value of equity market capitalization	US$ 24 bn	US$ 29.5 bn	US$ 35.7 bn
Number of Growth and Enterprise Market Segment (GEMS) listings	3	12	27
Exchange-traded financial derivatives: value of contracts outstanding	0	0	US$ 50 bn

By channeling the wealth of savers to those that are seeking to raise sustainable capital, the listed markets will complement the intermediation role played by banks and other financial institutions. Moreover, as the capital markets become more efficient, they will also continue to facilitate inflow of much larger foreign financial resources into the domestic economy. The ongoing development of the capital markets will enable the implementation of long term projects thereby promoting Kenya's economic growth.



Worth Noting…

Actis launches Lekela Power... divests Globeleq

Actis has invested alongside Mainstream Renewable Power, a global wind and solar developer, in a US$ 1.9 billion pan-African renewable energy platform called Lekela Power. Lekela Power will provide between 700 and 900MW of wind and solar power and will be funded over three years through a combination of equity and debt. Lekela has a pan-African pipeline with announced projects including three wind projects in South Africa, the 225MW Ayitepa wind project in Ghana and 100MW of wind and solar power in Egypt.

Norfund has acquired a significant minority stake in Globeleq Africa from the Actis Infrastructure 2 Fund for US$ 225 million. CDC is to sell a small part of its holding so that post acquisition (pending government/lender approval), Globeleq will directly be owned by Norfund and CDC at 30% and 70% shareholding respectively. Globeleq is an operating power company, actively developing energy projects across sub-Saharan Africa. It has eight major generating assets in Côte d'Ivoire, Cameroon, Kenya, South Africa and Tanzania with a total gross capacity of 1,095MW. Under the new ownership, Globeleq will pursue early-stage and other development opportunities in power generation across Africa.

Strong appetite for investment across sub-Saharan Africa and the wider continent

Several funds closed capital raising rounds in Q1, indicating a strong appetite for investment and positive outlook across the continent. Some of the larger ones include Helios at US$ 1.1 billion (pan African), Abraaj Group at US$ 990 million (sub-Saharan Africa only) and Development Partners International at US$ 725 million (pan African).

Private equity interest in proposed 'Mwaporc' corridor

Brookwoods Capital has expressed interest in investing US$ 27 billion in the construction of the Mwambani Port and Railway Corridor ('Mwaporc') in Tanga, Tanzania. The project includes a deep sea port, a free port (EPZ) and a heavy-haul standard gauge railway that will link Tanzania with Uganda and the Democratic Republic of Congo. The construction of the deep-sea port is expected to allow direct shipping from international ports, which is ultimately expected to cut the cost of logistics for exporters and importers. Tanzania's National Social Security Fund and the National Housing Corporation have also shown interest in the project.

FastJet raises US$ 75 million to fund Africa expansion

London Stock Exchange listed FastJet sold five billion shares to investors at a discounted price of Ksh 1.36 to raise c. US$ 75 million to finance its expansion into Kenya and other African routes. FastJet is a budget airline that currently operates three domestic routes in Tanzania and four international routes from Dar es Salaam to Johannesburg, Harare, Entebbe and Lusaka. Building on the success within Tanzania, the company plans to roll out the model across the entire continent.

Transaction Highlights in East Africa

Sector	Acquirer	Target	Transaction Description
February 2015			
Manufacturing	Flame Tree Group	Chirag Kenya	Nairobi Securities Exchange-listed Flame Tree Group has acquired four brands and 60 employees from Chirag Kenya, a snacks and spices manufacturer. The brands include Natures Own (spices), Chigs (potato crisps), Honeycomb (biscuits) and Gonuts (nuts). The revenue of the acquired assets was c. US$ 1 million compared to Flame Tree's 2013 audited revenue of c. US$ 17 million. The company did not disclose the acquisition cost.
March 2015			
Manufacturing	Consol Glass	Central Glass Industries	East African Breweries (EABL) has announced plans to sell 100% of its fully-owned subsidiary, Central Glass Industries, to Consol Glass, the leading glass manufacture in Southern Africa. Consol is majority-owned by Brait, an investment holding company listed on the Luxembourg and Johannesburg stock exchanges. The deal value has not yet been disclosed publically.
Logistics	Frontier Services Group	Cheetah Logistics	Hong Kong listed Frontier Services Group (FSG) bought all the shares and certain assets of Cheetah Logistics, a transport logistics company based in Democratic Republic of Congo, for a combined amount of US$ 1,300,000. FSG is chaired by Erik Prince, the founder of the US private security firm previously known as Blackwater. Mr. Prince was also a 49% beneficial owner in Cheetah.
April 2015			
Banking	Mwalimu Sacco	Equatorial Commercial Bank	Mwalimu Sacco has been given the approvals to complete its 75% purchase of Equatorial Commercial Bank for c. US$ 27 million. Mwalimu is the largest savings co-operative in the country with a membership of c. 61,000 and savings of US$ 195 million. The transaction gives the sacco ownership of Equatorial Insurance Brokerage and an indirect interest in Fidelity Shield Insurance.
Real Estate	AVIC, ICDC	Two Rivers	The Aviation Industry Corp of China (AVIC) has invested US$ 70 million into Centum Investment's Two Rivers Development for a 38.9% equity stake making it one of the largest foreign direct investments in the region by a Chinese corporation. State-owned investment firm ICDC, which also has a 23% stake in Centum, invested US$ 5 million while Co-operative Bank is providing US$ 77 million in debt financing for the project. The mixed use project is set on 102 acres in Nairobi and will consist of a mall, hotels, apartments and office space.
FMCG	Fanisi Capital	European Foods Africa	Fanisi has invested c. US$ 2.1 million in European Foods Africa (EFAL) via a combination of debt & equity. EFAL is the distributor of Dr. Oetker frozen pizzas and will use the proceeds to expand processing and distribution of pizzas, whole berries and fresh beverages to retail outlets in Nairobi & Mombasa.

Transaction Highlights in East Africa

Sector	Acquirer	Target	Transaction Description
April 2015			
Agriculture	Centum Investments	Rea Vipingo (assets)	Centum has agreed to purchase 10,546 acres of land for US$ 22 million in exchange for withdrawing its hostile takeover bid for the company. Centum said it has no immediate plans with the land and will lease it to back for continued use as sisal plantations.
Agriculture	Rea Trading	Rea Vipingo (shares)	The asset sale to Centum allows the two brothers whose vehicle already owns 57% of Rea Vipingo to proceed with buying out other shareholders at Ksh 85 per share and de-list it from the stock market. This week, minority shareholders agreed to the offer and have until May 13th to officially respond. 75% ownership is required to initialise delisting and 90% for compulsory acquisition.
Agro-processing	Alteo	Transmara Sugar	Mauritius Stock Exchange investment firm Alteo has announced completion of due diligence on Transmara Sugar with a view to acquire a 51% stake. Alteo has interests in sugarcane farming and processing, energy, property development and hospitality. The deal is yet to be concluded.
Hospitality	Heron Portico	Zehneria	The owners of Heron Portico have announced the buyout of a recently opened hotel in Westlands called Zehneria for c. US$ 12 million. The Heron Portico is managed by Indian hospitality group Sarovar Hotels & Resorts and the acquired property has been branded under the same name in an attempt to penetrate the conference tourism and hospitality industry. According to media reports, the deal was financed 80% using debt.

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 Ongoing Transactions: Q1 2015

Mergers & Acquisitions

- Sell-side advisor for an oil and gas distributor in Mozambique
- Sell-side advisor for a business services company in sub Saharan Africa
- Sell-side advisor for two manufacturing companies in East Africa
- Sell-side advisor for a financial services provider in Kenya
- 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 to a global supply chain solutions provider looking at acquisition targets in Africa
- Buy-side advisor for a financial services company entering into the Kenyan market

Capital Raising

- Capital raise for a hospital in Kenya
- Debt raise for three commercial real estate projects in Kenya
- Debt restructuring for a manufacturing business in Zambia
- Debt restructuring for a property group in Kenya
- Debt restructuring for a commodities business in Kenya

Transaction Services

- Valuation advisory for a medical services business in Kenya

Selected Completed Transactions: Q1 2015

- Advising on a 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

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.

Our value proposition is enhanced by the strength and breadth of our relationships. Horizon has cultivated a strong global network of private equity firms, family investment offices, development finance institutions and commercial banks from which it routinely draws upon to identify investment opportunities and potential investors for transactions in Africa. Horizon is the first African Partner of the Global M&A network. Our network also includes the Africa Legal Network (ALN), an association of leading law firms across the region specializing in corporate and commercial legal work.

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