# Newsletter

Horizon Africa Capital

**January 2015**

## In This Issue



## Economic Roundup:

### Sub Saharan Africa

The outlook for sub-Saharan Africa is promising for 2015 as policy makers continue to prioritise pro-growth policies notably in infrastructure, education and innovation, laying the foundation for increased productivity rates and competitive economies in the medium-term.

Oil prices fell sharply in the second half of 2014 as surging production was met by weaker demand. Low oil prices will help reduce import costs and inflation for a large number of oil consumers in the region. However, for oil exporting countries, the efficient management of resources will be pivotal to achieving medium-term growth goals.

Growth in East Africa is expected to remain positive driven by robust private consumption and growing investments in infrastructure and energy sector.

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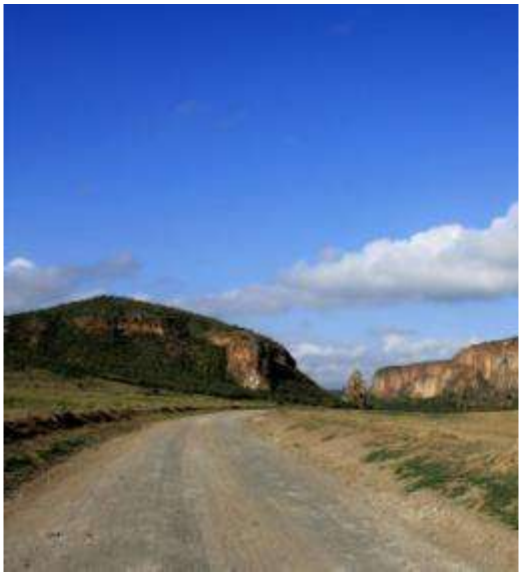


Economic Roundup: (continued)

Kenya

# European Union decides to restore Kenya's duty-free privileges

## KENYA

### Economic Update

Kenya's economy is estimated to have expanded by 5.5% during the third quarter of 2014. The growth was mainly supported by strong expansion activities in construction, financial services and the services sector.

The outlook for 2015 is positive as Kenyan tea exports are expected to benefit from high prices and closer integration with the East African Community will drive demand for Kenyan manufactured goods. Horticulture sales are also expected to be boosted by the EU's decision in December to restore Kenya's duty-free trade privileges.

### Exchange Rates

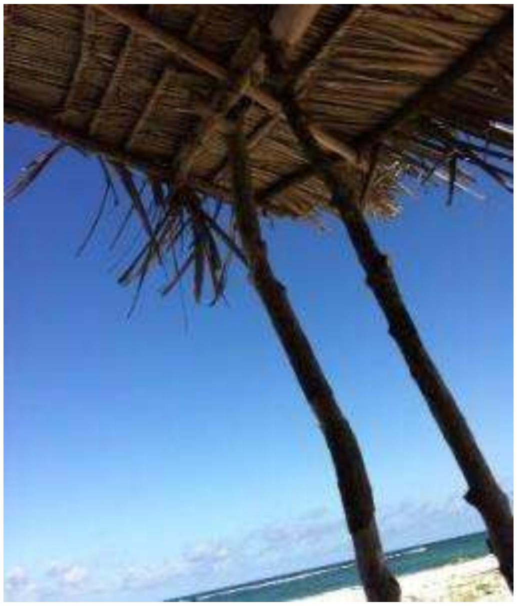
The Kenyan Shilling continued its decline to the US Dollar although the pace of depreciation is proving modest with no immediate risk to exchange-rate stability. The decline is attributed to low tourism numbers and global monetary tightening which is putting downward pressure on several emerging-market currencies. The country's Central Bank continued to build its foreign currency reserves as a buffer to any short-term shocks to the currency closing the year with c. US$ 7.4 billion, representing approximately 5 months of import cover.

### Inflation and Interest Rates

Inflation eased in the final quarter of the year from a high of 8.2% in August to 6.02% in December – a 17-month low. The drop was underpinned by lower fuel costs and cheaper electricity tariffs – reliance on costlier oil-fired plants has declined with the start-up of new geothermal plants. The return of inflation within the informal 2.5% - 7.5% target range of the Central Bank of Kenya (CBK), after a temporary breach in July and August reduces the likelihood CBK's rate setting committee will raise its benchmark rate which has remained on hold at 8.5% since May 2014.

### Capital Markets

The NSE-20 share index declined by 2.6% over the quarter with the decline attributed primarily to profit-taking activities as investors locked in their gains. The outlook for 2015 positive given that cheaper energy costs and lower interest costs will result in better corporate earnings.



Economic Roundup: (continued)

Uganda

Tanzania

*Construction of the 60,000 barrels per day oil refinery in Uganda expected to begin in 2015*

## UGANDA

### Economic Summary

After reducing its benchmark central bank rate by 50 basis points, to 11.5%, in mid- 2014, the Bank of Uganda left its policy rate unchanged at its three subsequent meetings (the latest of which was in December).

Uganda's energy sector is expected to attract significant investments in the near future with construction of the 60,000 barrels per day oil refinery in Hoima district expected to start in 2015. This refinery and a pipeline connecting the district to Kampala paves way for the start of commercial oil production in 2018. The onset of oil production is expected to boost GDP growth to double figures in 2018/19.

### Inflation

After declining to a 4-year low of 1.4% year on year in September 2014, the inflation rate ticked up slightly, reaching 2.1% in November. Good weather has boosted the domestic harvest and lower global energy prices are subduing price pressures.

## TANZANIA

### Economic Update

Real GDP is forecast to rise by 7.3% in 2015 underpinned by a loose fiscal stance ahead of the elections and rising investments in the natural gas sector. The services sector is also expected to grow, driven mainly by telecommunications, transport and financial services.

### Inflation

Inflation slowed to 4.8% year-on-year in December 2014 from 5.8% in the previous month. Inflation is expected to remain low for 2015 given positive prospects for food prices (represent c. 48% of the CPI), owing to favorable domestic weather conditions and lower global food prices.

*Robust performance in agriculture expected to support economic growth in Rwanda*

Economic Roundup: (continued)

Rwanda

## RWANDA

### Economic Summary

According to the budget for the 2014/15 fiscal year, the government plans to boost expenditure to US$ 2.5 billion, up by nearly 5% from the previous budget. The authorities' overarching aim remains the easing of infrastructure bottlenecks – particularly in energy and roads – and reducing poverty.

For 2015, Rwanda's economic growth is expected to be supported by robust performance in the agricultural sector, which will benefit from continued investments aimed at boosting resilience to weather-related shocks, increasing productivity, and promoting commercial farming.

### Exchange rate

The outlook for the Rwandan franc is uncertain, as the authorities have accepted an IMF recommendation to move the exchange-rate system away from a peg towards a more market-based arrangement, allowing greater flexibility. As the peg to the US dollar has loosened, the franc has continued to depreciate.

# Industry Insight…

## INSIGHT INTO THE KENYAN INSURANCE INDUSTRY

"Banking the unbankable". This has been a catchphrase used in the financial services industry since the early days of Equity Bank's rise to prominence. As primary banking services such as deposits, savings and, to a lesser extent, borrowings have been made accessible to the wider population, we view insurance as the next product to follow a similar trend over the next decade.

**Micro-insurance – small covers, big opportunity**

One of the big opportunities of course is unlocking the micro-insurance market. Understanding that a large segment of the micro-insurance target market is those employed in the informal sector is critical; staggered incomes means that they are unlikely to sustain consistent premium payments and therefore innovative products/solutions would need to be tailored.

*Understanding that a large segment of the micro-insurance target market is in the informal sector is critical.*

The Insurance Regulatory Authority (IRA) released a paper on micro-insurance in 2014 in which the framework recommends creating a micro-insurance company licence to aid this process. This licence would require lower regulatory requirements to reduce barriers to entry and all products would need to be approved by the IRA to ensure adequate protection.

Distribution will also be key. Bancassurance can be expected to become a more popular model as the cross-selling of insurance products to existing customers/members of banks, MFIs and SACCOs presents an immediate opportunity to integrate the financial services provided to a customer. Several insurance companies already have a tie-up with commercial banks but none so in the micro-insurance space.

Mobile money platforms will offer a parallel distribution platform, especially to reach the vast rural communities. On the horizon we would expect to see more mobile-based products e.g. life insurance products that are directly

# Industry Insight… (cont.)

linked to the customer's mobile money account. 'Linda Jamii' is a recent micro-insurance healthcare product developed between Britam, Changamka Micro-insurance and Safaricom that can be subscribed from and paid for using a mobile phone and mobile money respectively.

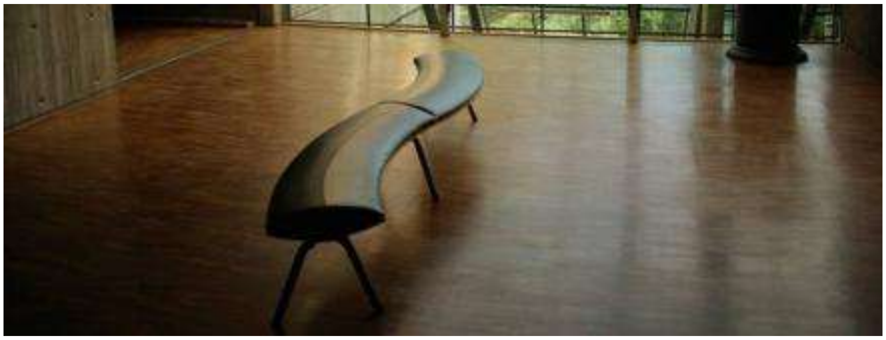
**Paying a premium for premiums**

Although insurance penetration in Kenya is creeping up slowly and is currently at c. 3.5%, premiums for both life and non-life insurance doubled in the five years between 2009 and 2013… while the returns on capital employed for the industry as a whole averaged 23% across this period.

*Premiums both life and non-life insurance doubled between 2009 and 2013 while the R.O.C averaged 23%.*

Deal activity over the last two years is testament to the rosy outlook ahead with at least fifteen completed deals across both the life and general businesses. Interestingly, most of the transactions were strategic majority acquisitions by foreign entrants once the restrictions on foreign ownership were relaxed. Further evidence of the bullish future is witnessed in the valuation multiples being valued at between c. 2.0x and 2.6x book value.

Going forward, the industry is expected to shift to international standards of risk measurement. Currently, the industry regulator prescribes fixed levels of equity capital of c. US$ 3.3 million for general insurance and c. US$ 1.6 million for life insurance. However, this will change to a formulaic approach using a standardised risk ratings scale, which will determine the amount of capital required in relation to the risk profile of the balance sheet. Given that the average contribution to top-line revenue from investment income (i.e. non-insurance related) across the industry is c. 30%, it is likely that an increase in the capital base will be required to meet the more stringent regulatory standards. External equity, mergers and listings will be three ways to bridge this gap and we expect deal activity to remain buoyant for the next few years. Whether this will result in valuation multiples to decrease remains to be seen… in the short term, however, expect a premium to be paid for those premiums…



# Worth Noting…

### Geothermal Overtakes Hydropower

Geothermal energy became the main source of electricity in September 2014, overtaking hydro power, according to data released by the Kenya National Bureau of Statistics (KNBS). Generation of geothermal power climbed to 293 GwH, 92% higher than a year earlier and equivalent to a 39.7% share of the energy mix reflecting the addition of 210 MW of new geothermal capacity in August and September. This lifted the total national generating capacity to 1,850 MW. The Geothermal Development Company (GDC) signed partnerships with three private firms in Q4, 2014 that will see an additional 105 MW come online in 2015/16. Currently, hydropower and geothermal account for c. 80% of electricity generation in Kenya which means lower electricity tariffs as reliance on expensive heavy fuel oil (HFO) plants is reduced.

### Fitch Affirms Kenya at B+ with a Stable Outlook

Fitch Ratings has affirmed Kenya's long term foreign and local currency Issuer Default Rating (IDR) at 'B+' and 'BB-', respectively with stable outlooks. Kenya has increased debt levels significantly to fund large-scale infrastructure projects – the standard gauge railway project alone is estimated to cost US$ 3.8 billion (or 5.5% of GDP). The ratings agency however, views the increased debt levels as sustainable. The five-year growth has been revised to 5.8% compared to 5% previously due to stronger growth in construction, agriculture and domestic trade. The large-scale infrastructure projects in power and rail are expected to boost growth to above 6% in the foreseeable future.

### Africa IPOs expected to rise by 25% in 2015

The number of African companies listing shares could rise by 25% this year if all the firms that are planning an initial public offering (IPO) move ahead. 30 firms are considering listing this year, up from 24 firms in 2014. Last year the number of IPOs had risen by over 30% - the highest level since the global financial crisis, raising a total of US$ 2 billion. Firms in real estate, financial and energy sectors were expected to be most active with most new listings expected in Egypt, Kenya, South Africa and Tunisia.

### Tanzanian Economy Increases by Over 30% after Rebasing

The size of the Tanzania economy increased by almost a third after the East African nation factored its expanding industries such as oil, gas and telecommunications into its GDP calculation by rebasing to 2007 from 2001. The country's gross domestic product stood at US$ 41 billion in 2014, up from US$ 30 billion in 2013. The country produces natural gas for domestic consumption and has estimated reserves of 50.5 trillion cubic feet of the resource being developed for export. The move by Tanzania follows similar exercises in 2014 which increased the size of GDP in other African nations such as Kenya, Uganda and Nigeria – which overtook South Africa to become the continent's largest economy after updating its base year.

# Transaction Highlights in East Africa

| Sector | Acquirer | Seller | Transaction Description |
|---|---|---|---|
| **November 2014** | | | |
| **Financial Services** | LeapFrog Investments | Resolution Insurance | LeapFrog is to invest US$ 18.7 million for a majority stake in Resolution Insurance and plans to push Resolution's broader growth strategy of delivering insurance to emerging consumers and businesses in East Africa. The Kenyan non-life insurance market is growing at c. 20% p.a., with the health insurance sector growing even faster, at c. 38% p.a. |
| **Agribusiness** | DOB Equity | Joseph Initiative Ltd. | DOB Equity completed an equity investment in Joseph Initiative Ltd. a Ugandan agricultural trading company. The funding will go towards expanding the Company's processing and storage facilities in Western Uganda. Joseph's Initiative focuses on delivering bulk high quality agriculture produce to East African markets. The Company developed an integrated supply chain for maize that stretches from village-level-farm-gates across Western Uganda to high-value regional markets. |
| **Real Estate** | Fusion Capital | Meru Greenwood Park | Fusion Capital has invested in Meru Greenwood Park, a US$ 22 million integrated development in the heart of Mery County. The project is located within the county's central business district on a 7-acre piece of land. The project is envisaged to have a 25,000 sqm shopping mall, a Grade A office block occupying 20,000 sqm, 50 apartments and a 240 space public car park. Other amenities include a swimming pool, sports club and cinema theatre. |
| **Financial Services** | Catalyst Principal Partners | Jamii Bora Bank | PE firm Catalyst bought a stake in Jamii Bora bank for an undisclosed fee. The deal is set to raise the small-tier bank's core capital, boosting lending. |
| **Healthcare** | IFC | Mimosa Pharmacy | IFC is to lend Mimosa Pharmacy c. US$ 4.5 million which is to go towards the firm's expansion. Mimosa plans to open new stores in Nairobi and other major cities in East Africa. Catalyst Principal Partners and Africa Chemist & Beauty Care bought into the chain in September for an undisclosed fee. Mimosa is expected to add more than 50 stores in the region over the next five years. |
| **December 2014** | | | |
| **FMCG** | Amethis Finance | Ramco Plexus | Amethis acquired c. 33% of Ramco Plexus in order to foster the Group's expansion in Kenya and across the region. With over 29 years of experience in the print and packaging sector, Ramco Plexus is a consortium of nine companies (with a combined turnover of c. US$ 62 million) and is part of the Ramco Group. It provides a fully integrated solution for the printing and packaging sector in Kenya. |
| **January 2015** | | | |
| **Financial Services** | Norfund | Helios Investment Partners | Norfund and Nor Finance AS (a JV between Norfund and Norwegian private investors) have agreed terms with Helios to purchase a 12.2% stake in Equity Bank (representing half of Helios' stake in the bank). Equity Bank is the leading inclusive banking group in East Africa with 10 million customer accounts and c. US$ 4 billion in assets. The Bank has delivered exception performance with profit after tax growing by c. 30% annually between 2007 and 2013. |

# Transaction Highlights in East Africa (cont.)

| Sector | Acquirer | Seller | Transaction Description |
|---|---|---|---|
| **January 2015** | | | |
| **Financial Services** | Old Mutual Group | • Centum Investment Company Ltd<br>• AfricInvest<br>• Aureos Africa<br>• Swedfund | Old Mutual Group has agreed to purchase 60.6% in UAP Holdings Ltd, a Kenyan insurance company, from its current shareholders subject to regulatory approvals. The transaction was in two tranches with Old Mutual Group acquiring a 23.3% stake from Centum for an undisclosed amount; and subsequently acquiring a 37.3% stake from Africa Invest, Aureos Africa and Swedfund for US$ 155.5 million. The transactions are expected to be completed in the first half of 2015. |

# News from Horizon

## Transaction Update

Horizon's Sector Expertise

**Agriculture & Agro-processing**

**Construction**

**Energy, Oil & Gas**

**Fast-Moving Consumer Goods**

**Financial Services**

**Hospitality**

**Heavy & Light Manufacturing**

**Information and Communication Technology**

**Infrastructure**

**Telecommunications**

**Transport & Logistics**

### Selected Completed Transactions in 2014

**Mergers & Acquisitions**

- Raised US$1.5 mn in equity capital for African media company
- Raised US$ 2.3 mn in equity capital for an agro-processing company

**Corporate and Transaction Advisory**

- Buy-side due diligence on a financial services company
- Buy-side due diligence for an investment into an agro-processing company in DRC
- Financial due diligence on the minority purchase of a healthcare group

**Capital Raising**

- Debt raise of US$ 18 mn for the set up of waste paper plant in East Africa
- Debt raise of US$ 14 mn for an FMCG company
- Debt raise of $18 mn for the development of a hotel in East Africa

### Selected Ongoing Transactions: 2015

**Mergers & Acquisitions**

- Sell-side advisor for an FMCG distributor in East Africa
- Sell-side advisor for an oil and gas distributer in Mozambique
- Sell-side advisor for a minority stake and additional capital raising for a real estate company in sub Saharan Africa
- Sell-side advisor for a packaging company in East Africa
- Sell-side advisor for a financial services provider
- Buy-side advisor to a global leader in supply chain solutions looking at acquisition targets in Africa

News from Horizon:

Ongoing Transactions (continued)

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**

**Capital Raising**

- Debt raise for a state of the art hospital in Kenya
- Debt raise for three commercial real estate properties in Kenya
- Debt and equity raise for a hospital targeting the middle-income demographic in Kenya

**Corporate and Transaction Advisory**

- Advising on a feasibility for a heavy industry manufacturing plant in Ethiopia
- Valuation and advisory for an education provider in Kenya
- Valuation and advisory for a clean energy plant

# 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, Aviation 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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