



# Newsletter

Horizon Africa Capital

July 2014



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## Economic Roundup:

### Sub Saharan Africa

The region's recent strong period of economic performance looks set to be sustained, supported by an improved outlook for the advanced economies. Importantly, the impact on the region of the expected growth slowdown in emerging markets and tightening global monetary conditions is expected to be limited.

Much of the global growth impulse is expected to come from advanced economies, especially the United States. Although growth in emerging market economies as a whole is expected to pick up slightly in 2014, it is likely to remain relatively weak. This is true for some key trading partners for the region, such as Brazil and India, under the combined effect of policy tightening, reduced global liquidity and structural bottlenecks. This could have some negative effect on commodity prices and demand for major African exports.

(continued)



Economic Roundup:  
(continued)

Kenya

# Kenyan Monetary Policy Committee holds the Central Bank Rate unchanged at 8.50% in Q2, 2014

## KENYA

### Economic Output

According to data by the Kenya National Bureau of Statistics, year-on-year real GDP growth stood at 4.1% for Q1 2014, attributed mainly to weak agricultural output. Lower-than-expected rains in the main March and May wet season will limit agricultural and hydroelectricity production.

Additionally, tourism is set to suffer as security fears spread. The economy is however expected to grow by 5% in 2014 driven largely by consumer spending and infrastructure investments.

### Exchange Rates

Kenya's shilling weakened to its lowest level in more than 30 months in June 2014, as tea prices tumbled and tourist numbers dropped because of security concerns. The Shilling is expected to remain vulnerable to global monetary tightening, which is putting downward pressure on several emerging-market countries.

Robust portfolio investments and the sale of the Eurobond however, will provide support to foreign-exchange reserves, which remain above the government's target.

### Inflation and Interest Rates

Inflation accelerated to 7.4% year on year in June, a six-month high, as a result of price rises for food – the largest component of the consumer price index – energy and transport. Food prices and energy prices are likely to remain elevated for the remainder of the year given lower than expected rain fall and high world oil prices.

Despite retaining the CBR at 8.5%, the next adjustment is likely to be upwards, but the timing and scale is uncertain, depending on global monetary developments and domestic inflation trends.

### Capital Markets

The NSE 20 share index lost 1.5% during the quarter while the NSE All Share Index ("NASI") rose 4.6%. Overall, the NASI gained 10% since the start of the year to end of Q2, the while the NSE 20 has declined 0.9% over the same period.

Q2 also saw some firms announcing their end of year results, most notable of which was Safaricom with a 30% growth in net earnings driven mainly by revenue growth and increased efficiency.



## Economic Roundup: (continued)

Tanzania

Rwanda

# Tanzania's government plans a US\$ 1 bn sovereign bond in the second half of the year

## TANZANIA

### Economic Summary

Fiscal policy will be expansionary in the lead-up to the elections in October 2015. The government announced plans to spend US\$ 12 bn in the 2014/15 fiscal year, an 8% increase on the previous year's budget. It plans, however, to allocate 72% of spending to recurrent items, with just 28% slated for capital investment.

The government plans to launch a sovereign bond worth up to US\$ 1 bn in the second half of 2014. Economic growth over the next two years will be underpinned by rising investments in the natural gas sector and firm growth in private consumption.

### Exchange Rates

In Q2, 2014, the Tanzanian Shilling depreciated by c. 1.04% weighed down by the demand for the US dollar to buy oil – which accounted for almost 40% of the country's import cost in 2013. Oil imports are expected to remain high as inadequate electricity supply forces companies to use oil generators.

## Rwanda

### Economic Summary

The government plans to boost expenditure by c. 5% in the 2014/15 fiscal year according to its budget announced in Q2, 2014. Half of the total budget is to be allocated to a combination of "economic transformation", rural development, youth and productivity as well as governance. The authorities' overarching aim will be to ease infrastructure bottlenecks – particularly in roads and energy – and reduce poverty. Despite

Rwanda's economic growth will be supported by robust performance in the agricultural sector, which will benefit from investments aimed at boosting resilience to weather-related shocks, increasing productivity and promoting commercial farming. Manufacturing will be constrained by strong regional competition, mainly from Kenya and high electricity prices. Poor infrastructure will remain the highest barrier to expansion, although electricity generation from methane has in Lake Kivu and the construction of a hydropower plant on the Nyabarongo are expected to add significantly to the national electricity supply.

*The Ugandan government is expecting to spend Ush15trn (US\$5.8bn) in 2014/15*



Economic Roundup:  
(continued)

Uganda

## Uganda

### Economic Summary

On June 4th the Bank of Uganda (BoU) reduced its benchmark interest rate to 11% from 11.5%. This is a result of the recent softening in inflation which declined to 5.4% in May. The Government's 2014/15 budget guidance seeks to maintain real GDP growth at the 7% level; supported by activity in the construction, transportation, telecommunications, financial services and oil industry. The government underlined the threat to the forecast, saying "the balance of risks remains tilted towards lower inflation and sluggish economic growth".

The June 12<sup>th</sup> budget speech revealed that the government is expecting to spend Ush15trn (US\$5.8bn) in 2014/15, which represents a 15% nominal increase on the prior period budget. The focus will continue to be on improvement of infrastructure in transport and energy.

The finance minister, Maria Kiwanuka, announced a series of measures to increase domestic tax revenue, which include the removal of numerous tax exemptions, including VAT relating to education and agricultural inputs, as well as increased duty on staple items, which may prove controversial should they gain parliament approval.

Aims to broaden the tax base arrive amidst the likely slow down in foreign aid as a consequence of Uganda's recent laws, which toughen punishments for homosexual acts. The Uganda shilling has continued to depreciate on the back of this negative sentiment and the continued high dollar demand in the market.



## Worth Noting...

### **Kenya's Eurobond attracts bids worth US\$ 8 bn**

Kenya secured bids worth US\$ 8 bn for its debut Eurobond, highlighting foreign investor confidence in the country despite recent security challenges. This marks the largest ever debut for an African country. The government however, accepted only US\$ 2bn (split into a \$500 million five-year tranche with a 5.875% coupon and a \$1.5 billion 10-year tranche with a 6.875% coupon) which will be utilised mainly for infrastructure projects. The President is hoping that the reduced reliance on domestic borrowing will help the country to lower interest rates and therefore spur lending.

### **World Bank cuts Kenya's growth forecast for 2014**

According to the World Bank, higher food and electricity prices are expected to raise inflation above its target level, citing poor rains and growing insecurity in the country. The Breton Wood institute estimates the 2014 economic expansion to be 4.7%, 0.5% lower than its initial forecast six months earlier. The government, however, has a more optimistic view, estimating 2014 growth to be at 5.8%.

### **Nigeria, Kenya Rank Top Destination for Global Investment**

Africa's largest economy, Nigeria has emerged as the number one frontier market economy in terms of attracting the most attention from European and American multinationals according to the Wall Street Journal. Kenya ranked fifth on the list, making it the second African country while Angola placed third. This may not come as a surprise as Nigeria is Africa's largest economy while still growing; Kenya is East Africa's largest economy and Angola's oil wealth has in recent times ensured accelerated growth

### **Budget highlights**

Kenya's 2014/15 (June-July) fiscal budget has been widely received as a step in the right direction for the country. The budget forecasts 1.581 trillion shillings (\$18 billion) in spending and a deficit of 342.4 billion shillings of which external financing amounted to 149.2 billion shillings, or 3.2 percent of GDP, while domestic borrowing would cover 190.8 billion shillings, or 4.1 percent of GDP. The budget focuses on enhancing security and infrastructure, in order to lower the cost of doing business in the country thereby promoting continued growth. The main highlights in taxation laws have been the increase in steel import duties to 25%, alignment of the NSSF, NHIF and PAYE due dates to reduce the administration burden for companies, and a tightening in Anti Avoidance provisions including stricter adherence to transfer pricing rules for both Head Offices and Permanent Establishments.

### **Kenya ratifies tax treaty with Mauritius**

Signed in May 2012, the Mauritius-Kenya tax treaty has been ratified by the Kenyan Parliament on 23 May 2014 and will enter into force on 1 January 2015. The new treaty will no doubt consolidate the position of Mauritius as a preferred investment platform for Africa and Kenya specifically.

# Transaction Highlights in East Africa



Sector	Acquirer	Seller	Transaction Description
<b>July 2014</b>			
<b>Agribusiness</b>	Danone	Brookside	Danone has reached a deal to buy a 40% stake in Kenyan dairy company Brookside Dairy Limited as the French yogurt maker seeks to expand its footprint in Africa. The deal with Brookside—the largest milk collector in East Africa—will allow Danone to enter one of Africa's largest milk markets.
<b>Media</b>	Fusion Capital	Xtra Publishing	Fusion Capital announced a partnership with Xtra Publishing Limited, a free newspaper 'X News' and digital content company after acquiring a 40% equity stake in the company. Xtra is set to be the pioneer in the continent in its efforts to leverage free print and digital services in an attractive new media hybrid model.
<b>Logistics</b>	Frontier Services Group	Phoenix Aviation	Frontier Services Group has completed its US \$14m acquisition of Phoenix Aviation, which is based in Kenya. The acquisition will ramped up Frontier's capabilities and capacity for pan-African secure logistics and transportation services.
<b>June 2014</b>			
<b>Floriculture</b>	KKR	Afriflora	Global investment firm Kohlberg Kravis Roberts (KKR) have made their first Africa private equity deal with a US \$200m investment in Ethiopian flower firm Afriflora. The company will use the funds to finance their expansion, planning to add 200ha of cultivated land to the existing 310ha.
<b>Agribusiness</b>	8 Miles	Biyinzika Poultry International	8 Miles have announced an investment in Uganda's Biyinzika Poultry International Ltd (BPIL). The amount invested was not disclosed. Founded in 1990, BPIL is the market leader for day-old chicks and has 21 outlets around the company, selling to both small farmers as well as large commercial farmers.
<b>Financial Services</b>	Britam	Equity Bank	Britam announced that it would buy a 24.76% stake in Housing Finance that was previously owned by Equity Bank. The buyout of Equity's stake will result in Britam increasing its shareholding in the mortgage lender to 46.08%. The proposed acquisition will give Britam a firm grip on the mortgage industry. The deal is valued at KES 2.2 Billion (c.US \$25M).
<b>Information Technology</b>	Millicom	ADC	African Development Corporation AG (ADC) announced the sale of RSwitch, the national e-payment switch of Rwanda, to Millicom, a digital services provider operating under the Tigo brand in 15 markets in Africa and Latin America, on the basis of an enterprise valuation of US \$6.5 million.
<b>Real Estate</b>		Centum	Centum Investments has ceded 42% shareholding of its Two Rivers real estate project to two investors in a deal which saw it receive KES 6 billion (US\$ 75M) valuing the project at KES 15 billion. The NSE-listed investment company is building what is tipped to be the largest mall in Kenya at 58,000 sqm.
<b>May 2014</b>			
<b>Real Estate</b>	Phatisa & Africa REIT		Johannesburg-based Phatisa private equity firm and Nairobi's Africa REIT are set to develop a KES 500 million residential estate on the outskirts of Kenya's capital Nairobi. The partners have a 50% stake each in the joint venture.
<b>Financial Services</b>	Atlas Mara	Development Bank of Rwanda	Atlas Mara has received regulatory approval to acquire a majority stake in the Development Bank of Rwanda (BRD) in a deal that will see the government divest from the lender. Atlas Mara said it had agreed to buy the government's 77% stake in the bank in the company's second deal on the continent.





# News from Horizon

## 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

## Transaction Update: 2014

### Selected Completed Transactions

#### Mergers & Acquisitions

- Raised \$2.3M in equity capital for Kenyan dairy processor
- Advised on the sale of minority stake in a regionally established agro-processing group

#### Corporate and Transaction Advisory

- Valuation of an agro-processing firm that is considering a sale to a foreign investor
- Provided East African specialty retailer with business planning and valuation advisory services

#### Capital Raising

- Debt raise of \$7M for expansion capital of a oil refinery in Kenya

### Selected Ongoing Transactions: 2014

#### Mergers & Acquisitions

- Advising on the sale of an inks and paints manufacturer
- Advising on the sale of a steel and manufacturing business
- Sell-side advisor for a Bank in the DRC
- Sell-side advisory for a security printing firm in Kenya
- Sell-side brokerage for a tea plantation in Tanzania
- Advising on the sale of 45% stake in a HFO power plant in Kenya
- Sell-side advisor for a mobile value added services business
- Buy-side advisor to a fund focused on FMCG manufacturing businesses in East Africa
- Advising one of the largest cosmetics companies in East Africa in identifying acquisition targets

## 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 the establishment of a waste paper plant in Uganda
- Debt raising for a fruit processing plant in Malindi
- Debt raise of \$70M for the development of 2 sugar plants
- Debt raise of US\$ 18M for the development of a hotel in East Africa
- Advisory services to raise debt in the construction of a mixed use development in Dar es Salaam up to \$36M in senior debt and \$6M in mezzanine finance.
- Debt Raise of US\$ 50M for working capital for an Oil and gas company in Kenya
- Debt raise of >\$60M for a hospital in Nairobi

## Corporate and Transaction Advisory

- Assisting in the structuring of a real estate fund
- Financial due diligence on the minority purchase of a healthcare group.
- Valuation advisory for a large FMCG company in East Africa
- Group restructuring and valuation advisory for a global tea and coffee producer
- Advising on the business plan and valuation for a Kenyan healthcare company looking to expand on the number of their clinics
- Advising a large Tier 2 bank on establishing a collateral financing program
- Advising minority shareholders of a logistics company on the intended exit by majority shareholders



## 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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