

## Private Equity News

# New Frontiers, more Growth

### Private equity funds eye financial services for higher returns

*(Business Daily, 9th June 2011)*

Private equity funds in East Africa are eyeing investments in the financial services sector to tap high returns in the industry, a survey by consulting firm Deloitte has shown.

In interviews with 15 private equity funds, 15 per cent of the respondents said they would channel their money into financial services, 14 per cent into agriculture and agribusinesses and 13 per cent to the food and beverage sectors. About 12 per cent said they would invest in healthcare and pharmaceuticals and retail sectors. Another 10 per cent said they would invest in support services this year.

The growing demand for financial services, processed agricultural products, food and beverages and the need for better healthcare have caught the eye of private equity firms who are channelling more funds into these sectors. According to the Deloitte survey, demand for products in these sectors is largely being pushed by a growing number of individuals with increasing disposable incomes in the East African economies.



### Investments

This year so far, the private equity funds that have invested in East African companies include Leapfrog Investments, which invested Sh1.2 billion in APA Insurance and African Development Corporation that invested Sh184 million into Resolution Health for a 25 per cent stake.

Catalyst Principal Partners invested approximately Sh1.2 billion into a Tanzanian consumer goods producer, Chemi & Cortex Industries Limited while the Acumen Fund and Root Capital invested Sh176 million into a Ugandan Cotton Ginnery, Gulu Agricultural Development Company. The Acumen Fund in March also announced plans to double its assets under management in East Africa to Sh2.1 billion over the next two years.

“Generally, this is because the expectation of growth is high in these sectors,” said Alexander Van Schie, director, Financial Advisory Services, Deloitte Kenya adding that the growth in the number of people in the region and an increasing group of people with middle and higher incomes.

### Social impact

“They have more spending power and there is a high likelihood that they will spend more on retail and especially ‘upper’ market items, food and beverage and health care and they are also expected to access financial services,” he said.

## Most of the Private Equity firms want to invest in Kenya

The Acumen Fund’s portfolio senior associate, Amon Anderson, at said their focus on agriculture, health care, and energy sectors was

because they consider these as areas of high-growth and sectors of social impact that can promote greater access to critical goods and services to low-income populations. The research by Deloitte indicates that 54 per cent of the respondents expect to invest between Sh1.7 billion and Sh4.25 billion (\$20 and \$50 million) while 31 per cent expect to invest less than Sh1.7 billion this year.

Most of the private equity funds - accounting for more than 20 per cent want to invest in Kenya, between 15 and 20 per cent preferred to invest in Uganda and Tanzania while between 10 and 15 per cent wanted to invest in Rwanda.

“A lot of private equity firms are domiciled and run from Kenya,” said Michael Matu, chief executive Olympia Capital.

He said that this not only increased the country’s exposure to more funds but that Kenya’s market was larger and offered the funds more transactions and of a larger size.

“Kenya is a well-developed African market, has had a relatively stable currency over the past five years,” said Doug Lacey, a partner at Leapfrog Investments whose firm primarily invests in financial services and micro insurance.

He added that the country has a developed mobile money industry which has increased accessibility to bottom of the pyramid customers.

Alexander Van Schie at Deloitte however said that the choice for being based in Nairobi could be more of a logistical choice, as it is considered the financial and trade center of East Africa and “certain players actually focus more on the other EAC countries, especially Uganda and Tanzania where they perceive a higher upside potential”.

According to Deloitte, private equity funds faced challenges ranging from internal organization and capabilities of the companies they were investing in, increased competition and prices for small sized companies and acceptance of private equity in the region.

The consultancy firm said that 63 per cent of the investors faced corporate governance challenges stemming from a lack of distinction between the owners and managers and lack of transparency.

According to the economic survey 2011, financial intermediation sector recorded a 8.8 per cent growth last year compared to a 4.6 per cent growth in 2009 mainly due to increased lending which went up by 30.4 per cent to Sh1.27 billion from Sh978 million.

Growth in the sector - which is attracting the highest number of private equity funds - has been propelled by the introduction of technology and agency banking.



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## According to the economic survey 2011, the financial intermediation sector recorded a 8.8 percent growth last year

from Sh65 billion and Sh14.6 billion in 2009 respectively.

Six commercial banks also applied for agent network approval with the Central Bank which had approved 5,892 agents of which 4,392 were Telkom related.

### Centum posts massive 110pc growth (June 8th 2011)

Centum Investment has posted a 110 percent growth in its net income which stood at Sh2.2 billion for the financial year ended March 31, 2011. This was an impressive growth from the Sh1.1 billion posted a year earlier.

Briefing investors on Tuesday, Centum Chief Executive Officer James Mworira attributed the growth to a 54 percent growth in its assets under management to Sh15 billion shillings from Sh9.8 billion. Despite the stellar performance, Mr Mworira said there was still room for the listed investment firm to post even better returns and create more value for its shareholders. "These results are good but we are not satisfied with them until we are a significant player in the African investment space," Mr Mworira said.

Centum runs three business lines which all reported impressive growth. Its private equity line, which is the firm's flagship business, was up 57 percent contributing Sh7.6 billion. Real estate stood at Sh3.5 billion while quoted private equity brought in Sh3.9 billion.

Gross premiums and investment income in the insurance industry which had 46 insurance companies, 158 insurance brokers and 3,788 insurance agents at the end of last year also increased by 20.2 and 20.5 per cent to Sh78.1 billion and Sh12.1 billion

Centum has invested in a number of counters at the Nairobi Stock Exchange (private equity), including Safaricom, British American Tobacco, Kenya Airways, Barclays Bank, East African Breweries and CMC Motors.

Its investments in quoted companies outperformed the NSE-20 Share Index by 14 percent.

"Our strategy is to continually outperform the market. Centum records a return of 37 percent on opening shareholder funds against the NSE Index which declined by five percent in the comparable period," Mr Mworira said.

It holds stakes in private companies like NAS Airport Services, UAP Insurance, K-Rep Bank, General Motors, AON Minet Insurers, and Nairobi Bottlers, among others.

In quoted stock investments, Centum intends to increase its stake in a number of blue chip companies. Private equity comprises investments of between \$2 million to \$20 million in companies in the financial services, beverages and education industries.

"We want to scale up our minimum investment size in some of these companies. In some we shall go in with a strategic partner so that we are not over exposed in the market," he said without giving details on the companies.

At the same time, he highlighted that at least two companies had reached maturity, and that Centum would soon be exiting those companies.

In the real estate industry, the company has acquired 100 acres in Runda Kenya and another 300 acres in Entebbe Uganda on the shores of Lake Victoria. Centum plans to zone the land for residential and commercial use.

On infrastructure development the

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Centum's mix of investments has enabled the company outperform the Nairobi Stock Exchange in terms of shareholder returns.

company is looking to venture into the energy generation space and has already engaged the geothermal development Company.

"As Centum we have the capacity to mobilise local capital to invest in energy projects," Mr Mworia said.

In February, Centum listed on the Ugandan Securities Exchange and is looking at both the Dar-es-Salaam and Rwanda bourses.

The firm has a target of growing its assets under management to Sh30 billion by 2014. In line with its pan African growth strategy, Mr Mworia said he intends to have half of those assets outside Kenya.

Earnings per share rose to Sh3.79 from Sh1.81. However, in line with the firm's zero dividend policy, Centum announced a bonus share issue of one for every 10 held.

## Helios raises \$900m fund targeting Africa

*(Business Daily, 13 June 2011)*

In line with investment strategies in its previous fund, the new fund - Helios Investors II - would invest \$25 million to \$250 million of equity per transaction in various forms, including business formations, growth equity investments, structured investments in listed entities and large leveraged acquisitions, the group said.

Helios said the fund's investments would be focused on high-growth sectors which had been deregulated, were core to the economy and were sectors in which the firm had particular

expertise including telecommunications & media, financial services, power & utilities, distribution & logistics and fast moving consumer goods.

In recent months, Helios said it had made three investments through the Helios II fund: the acquisition of Interswitch, Nigeria's leading electronic payments processing company; the establishment of Helios Towers Africa which builds and operates telecommunications tower businesses across Africa, and the acquisitions of tower portfolios in Ghana, Tanzania and the DRC; and the acquisition of Continental Outdoor Media, Africa's largest outdoor advertising company.

In addition, Helios recently announced the acquisition of Shell's downstream fuels business across Africa.

The group noted that Helios II was substantially oversubscribed, despite the challenging global fundraising market conditions, with demand exceeding \$1 billion.

"Continued political and market liberalisation and strong economic growth have prompted global investors to evaluate investment opportunities in Africa more closely.

"The Fund's potential to make attractive risk-adjusted returns with comparatively low correlation to developed markets enabled it to attract a diverse investor base, which includes support from institutional investors in the predecessor Helios fund, as well as first time commitments to Africa from a broad range of endowments and foundations, funds of funds,

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## Pan-African private equity firm Helios Investment Partners this week closed a \$900 million African private equity fund, its second Africa-focused fund



corporate pension funds, sovereign wealth funds and development finance institutions across the USA, Europe, Asia and Africa," it said.

Last week Helios Towers Nigeria, a unit of Helios Investment Partners, got the upper hand in a court battle with SA telecoms operator Telkom-owned (TKG) Multi-Links after the Lagos High Court in Nigeria found in favour of Helios Towers Nigeria in the matter regarding the validity of a master lease agreement between the two companies.

The damages claim by Helios Towers Nigeria for anticipatory breach of contract for US\$252 million, however, had not yet been set down for hearing.

On Monday, Telkom said that its proposed transaction for the sale of its Nigerian Multi-Links CDMA operation would not proceed.

In April Telkom outlined its proposed sale of Multi-Links Telecommunications Limited's CDMA business to Visafone Communications for US\$52 million. The settling of the Helios Towers Nigeria dispute, however, was one of the conditions precedent to the transaction.

"The Telkom Board has resolved to stop all the funding to Multi-Links," the group said.

## **Centum to Invest Sh15 Billion across Africa**

*(Business Daily, 9th June 2011)*

East Africa's largest listed investment firm centum plans to invest Sh15 billion in eight African countries in the next three years, it announced yesterday.

This will raise the firm's investment portfolio held in other parts of Africa from the current 20 per

cent to 50 per cent, according to managing director John Mworira.

The firm currently has a strong investment in Uganda where it has just bought a 300 acre piece of prime land and plans expansion into Mozambique, Malawi, Zambia, Angola, Nigeria, Rwanda, South Sudan and Ghana.

The company also announced plans to cross-list its shares on the Rwandan and Tanzanian stock exchanges this year. It is already cross-listed on the Ugandan bourse. "By 2014, we shall have 50 per cent of our investment outside Kenya," said Mworira during an investor briefing yesterday adding that by that time the asset base would have doubled from the current Sh15 billion to Sh30 billion. The company has 7.6 billion in private equity, Sh3.5 billion in real estate and another Sh3.9 billion in quoted private equity.

Yesterday, the firm announced a 110 per cent growth in profit before tax to Sh2.2 billion for the year ending June 2011 compared to Sh1 billion posted in 2010. The firm said the growth was as a result of strong investment income which rose by a massive 118 per cent to hit Sh2.2 billion compared to Sh1 billion in 2010.

The company however said it would be maintaining its zero dividend policy this year but announced a one bonus share issue for each 10 shares held by investors.

Going forward, the firm is targeting to start working on a 100 acre piece of land in Nairobi's Runda area before the end of the new financial year. It

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plans to establish the area as a diplomatic hub Mworira said, adding that plans to develop the 300 acre plot in Uganda were also under way.

The company which also sold its 22 per cent entire stake in Centum Investment has sold its 22 per cent stake in industrial gas producer Carbacid Investment early this year said it is looking at exiting from other two investments this year. "We have identified one or two companies in our portfolio that are our mature for our exit," said Mworira. This year, the firm plans to spend US\$20 million for new investments.

### Centum to Start Investing in Geothermal Power Projects, CEO Says

*(Bloomberg, 7th June 2011)*

Centum Investment Co. plans to invest in geothermal projects in Kenya, Africa's largest producer of power from this source, Chief Executive Officer James Mworira said.

East Africa's biggest investment company will fund projects undertaken by Kenya's state-run Geothermal Development Co., known as GDC, in the fiscal year through March, he said in an interview today in the capital, Nairobi. Centum will also invite its partners to join it in the geothermal projects, Mworira said.

"In geothermal, the opportunity is huge and we have significant geothermal resources," Mworira said. "I don't think we have enough capital, all of us combined, to exploit this particular resource we have".

GDC invited tenders to develop eight 100-megawatt, steam-powered electricity plants at the Bogoria-Silali block in northwestern Kenya, it said on March 9. Development will begin in July and the project is expected to be completed by 2017.

Centum's profit more than doubled to 2.29 billion shillings (\$26.3 million) in the year through March as investment income increased, the company said in an e-mailed statement to the stock exchange today.

Investment income climbed to 2.26 billion shillings 1.04 billion shillings.

The stock rallied 3.3 percent to 23.5 shillings by the 3 p.m. close in Nairobi, the highest since May 19.

### Sales, Acquisitions

Centum, which has investments in real estate, infrastructure and private equity, plans to sell its stake in two private companies by the end of its financial year in March 2012, Mworira said, declining to name them.

"The objective is to get an optimum price for the assets that we are looking to exit," he said.

During the same period, Centum plans to make an investment in at least one private company, he added. "Last year we evaluated in excess of 150 private-equity opportunities," Mworira said.

Last month the company sold its 22 percent stake in Carbacid Investments Ltd. (CBIL), earning 1.2 billion shillings in dividends and disposal proceeds since acquiring it in May 2009. The sale is meant to raise funds for other

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Kenya, East Africa's biggest economy, plans to develop 10,000 megawatts from geothermal steam sources by 2030, shifting the nation's electricity load from weather-dependent hydropower sources to renewable geothermal



investment opportunities, Mworira said at the time.

## Helios eyes investments in telecom sector

*(Business Daily, 20th June 2011)*

Helios Investment Partners, the private equity fund that owns a quarter of Equity Bank's shares, is seeking to deepen its presence in Kenya by raking up its investments in the telecommunications and outdoor advertising sectors.

Helios announced last week that it had raised Sh80 billion (\$900 million) from investors, which analysts termed as one of the biggest amount of capital ever raised by an Africa-dedicated private equity fund.

The money for Helios II fund came from endowment funds, foundations, corporate pension funds, sovereign wealth funds and development finance institutions in America, Europe, Asia and Africa. "We are looking to grow our footprint in Kenya through our investments in Continental Outdoor and Helios Towers Africa," said the firm in an e-mail statement.

Helios also owns 8.5 per cent of Kenya's Flamingo Holdings, for which it paid Sh1 billion (\$12.3 million) in 2004.

A gradual decrease in political risk and a higher return relative to more mature markets in the West have made investors willing to put money in Africa.

In December 2007 Helios completed the Sh16 billion (\$178.7 million) acquisition of a 24.99 per cent interest in Equity Bank.

The fund also acquired a stake in the fuel business through ShellHelios' partnership with Vitol, a leading global trader of oil, to buy Shell's retail operations in Africa, including in Kenya.

Continental Outdoor is South African-based outdoor advertising agency which Helios bought for Sh13.17 billion in 2009.

It operates in 14 African countries.

Helios Towers Africa builds and operates telecommunications towers across Africa. "We cannot give a specific breakdown, however we are looking to grow our footprint in Kenya," added the statement. Dan Awendo, chief executive of venture capital Investeq Capital says, the global financial crisis has changed foreign investors' perception of Africa. "After the global financial crisis everyone realised that there is really no safety net," said Mr. Awendo.

Helios said the money raised will go into media, logistics, utilities, finance and petroleum industries. Outdoor advertising was valued at Sh3.9 billion as per 2008 data.

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## Catalyst woos new investors as it expands footprint in East Africa

*(Business Daily, 02 May 2011)*

Private equity firm Catalyst Principal Partners expects to raise Sh10 billion by the end of September to invest in infrastructure consumer goods, technology and financial services businesses in East Africa.

The PE firm said on Friday that it has enlisted local, South African and European investors who have committed to contribute Sh8 billions of this amount by July.

About two months ago the fund said it had bought a stake worth up to Sh1.3 billion (\$15 million) in a Tanzanian consumer goods producer, Chemi & Cortex Industries Ltd (CCIL), which makes toothpaste, among other goods.

Managing director of the firm, Biniam Yohannes, however said he could not reveal the identities of the companies currently in negotiations for new investments due to confidentiality agreements signed with them.

In February the company announced that it had raised Sh5.8 billion (\$70 million). Catalyst Partners do not necessarily invest in firms that are in profit territory, but choose those that have attractive underlying fundamentals such as regular cash flows.

Catalyst Partners is incorporated in Mauritius. Kenya is however its business hub, focusing also on six other countries including Tanzania, Uganda, Rwanda, the Democratic Republic of Congo, Ethiopia and Zambia.

### Profitable sectors

The firm believes that the region has profitable sectors it would want to exploit.



The economic growth as well as integration initiatives currently taking place, especially that of the East African Common Market, make the company believe the prospects for success are even greater.

Catalyst Partners is one of the growing number of top private equity firms that are focused on the region.

Already UK's Actis and Egyptian-based Citadel Capital are increasingly devoting more resources to the region including actively looking for new opportunities.

Citadel revealed last year that it was devoting up to Sh33 billion (\$400 million) in the region in the next three years.

Actis has not disclosed the amount it intends to invest in the region.

Catalyst Partners has pointed at the economic story of the countries in the region which has been engaged in integration in recent years.

It notes that the seven eastern African region countries have good economic fundamentals including a combined nominal gross domestic product of \$132 billion, with 2005-09 GDP growth rate of 7.2 per cent, 2010-2014 GDP forecast of 6.6 per cent, a population of 286 million equivalent to 30 per cent of the whole of Africa.

By February this year, those who had put cash in the Catalyst Fund-1 included both local and international investors along with institutions such as World Bank's private financing arm International Finance Corporation (IFC), UK's Commonwealth Development Corporation, African Development Bank, German (DEG) and French development organisations (Proparco).

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**“We have been talking with investors and we are confident the second closing will be in June-July with \$100 million raised. We are already negotiating for investment opportunities in the region for this cash,” - Mr. Biniam Yohannes, MD, Catalyst Principal Partners.**

## **Dutch investor injects Sh4.5bn into Mwanga bank**

*(The Citizen, 03 May 2011)*

Mwanga Community Bank Limited (MCBL) may soon open branches countrywide as a Dutch investor plans to inject \$3million (about Sh4.5 billion) to boost operating capital for the Kilimanjaro-based financial institution.

The Netherlands' private equity fund - FASO Investment B.V. – is investing Sh4.5 billion into the community bank on condition that it (the Dutch equity fund) owns the shares for five years after which it will be able to sell them (its shares) to the public through the capital markets or any other means.

Representatives from FASO and MCBL signed an investment and consultation agreement in March 2011 that requires the former to, among other issues, also carry on capacity building to bank employees and management.

“The deal, currently in the hands of the Bank of Tanzania (BoT) for approval, also requires that FASO Investment B.V. be represented into the bank's management and the board of directors,” the bank's managing director, Mr. Abby Ghuhia at the bank's annual general meeting in Mwanga recently. MCBL started its operations in 2000 with a core-capital of Sh89 million.

According to Mr. Ghuhia however, the capital has reached Sh761 million over the year – giving it the opportunity to open a new branch in Moshi, the Kilimanjaro Region headquarters.

“We need a lot of capital to open more branches – including the Moshi one.....we need money to purchase and install office furniture, renovation of the building and purchase of office equipment among others....the Bank of Tanzania wants banks to spend less than 50 per cent of their core capital fund for buying office equipment,

renovation of the branch or building of offices etc.,” he noted.

## **ICEA teams up with Imara, Norfund in \$100m venture**

*(The East African, 29th May 2011)*

A Kenyan insurance firm has been linked as an investor in a new private equity fund that is set to be launched in July targeting small and medium enterprises in East and Central Africa.

The new development comes about a year after ICEA merged with Lion of Kenya under a holding company whose asset base was estimated at over \$350 million at the time of the merger, and annual premium revenue of \$100 million.

This was motivated by a bid to comply with new guidelines introduced by the Insurance Regulatory Authority that barred a single insurance company from offering both life and general products.

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**In a rare gesture where a private equity fund taps into domestic sources of capital, the Nairobi-based Insurance Company of East Africa (ICEA) has teamed up with Imara Securities, a Botswana investment group, and the Norwegian Investment Fund for Developing Countries (Norfund) in the \$100 million venture that is dubbed Batian Fund.**

Its investment into Batian Fund is a departure from the current trend in the industry where most private equity funds that operate in the region

are mainly invested in by development finance institutions and other foreign investors.

Among the strategies that have been proposed to unlock such domestic pools of capital is intensified training to possible sources of domestic capital, as well as detailed studies to identify bottlenecks.

The new venture strikes at the heart of the industry's wishes. In addition to insurance funds, there have been calls for local pension funds and high net worth individuals to invest in the burgeoning private equity industry.

This is the path that ICEA has taken. The move, analysts say, is likely to contribute towards building confidence and encouraging more domestic capital into private equity.

The fund in which it has invested shares a name with the highest peak on Mount Kenya, the second highest mountain in Africa, perhaps a demonstration of not only its aspirations, but also those of the industry.

The chief executive of Batian Fund, Shaun Collyer, said that it would make investments of

up to \$10 million in SMEs that are valued between \$5 million and \$25 million in these regions. The targeted countries are mainly Kenya, Tanzania, Uganda, Zambia and Botswana; as well as Mozambique, Zimbabwe and Rwanda.

"We are concentrating more on consumer-driven businesses, services, financial services, information communication services, and infrastructure businesses," Collyer said, adding that they would not invest in the agricultural and resources sectors. This is because of the larger amounts of capital that they require, besides a longer period for turnaround.

It is expected that the new fund will hit the ground running. "We are looking at closing by the end of this year and to be deploying capital by around that time. We are incubating transactions at the moment."

As the region awaits the birth of this new fund, the private equity industry will be watching keenly to see which other insurance company or pension fund follows suit.



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