

Private Equity news

Driving growth in East Africa?

Citadel Capital of Egypt Says It Plans to Boost Investment in East Africa

Bloomberg, 2nd August 2011

Citadel Capital SAE, an Egyptian private-equity company with \$8.7 billion in assets under management, said it will boost spending in eastern Africa after a “gratifying experience” investing in Kenya and Uganda.

The company, based in Cairo, will invest in commercial agriculture, energy, low-income housing and food processing, Chairman Ahmed Heikal said yesterday in an interview in the Kenyan capital, Nairobi.

“We are interested in increasing our exposure,” Heikal said. “All of this is on the back of clear encouragement and support from both governments in RVR.”

In Kenya, the company owns 51 percent of Rift Valley Railways Ltd. or RVR, the operator of the Kenya-Uganda rail line. RVR is today scheduled to sign a \$164 million loan accord that forms part of a \$287 million expansion plan for the railway that links the Ugandan capital, Kampala, to the Kenyan port of Mombasa, East Africa’s biggest.

Citadel’s investments will be in Kenya, Uganda and Tanzania. In South Sudan, the company has oil concessions and a banking license that it will “pursue,” Heikal said, without providing further

details. The company has a 250,000-acre (101,181-hectare) farm in southern Sudan and a similar-sized area of land in the north.

Last month, Citadel said the Egyptian Financial Supervisory Authority approved a \$175 million rights offer. The sale of stock to existing shareholders will increase Citadel’s capital to 4.36 billion Egyptian pounds (\$732 million). The company’s shareholders are expected to approve the transaction during an extraordinary general assembly on Aug. 3, Heikal said.

Fusion starts investing \$150 mln East Africa fund

Reuters, 18th Aug 2011

Nairobi (Reuters) - Fusion Capital, part of Britain's Fusion Investments, will invest its new \$150 million private equity fund in small and medium-sized enterprises across east Africa, its chief executive said on Thursday.

With the integration of Rwanda, Burundi, Uganda, Tanzania and Kenya into a



common market of 133 million people and combined GDP of \$75 billion, the region has been attracting private funds.

"We began investing in March and expect to invest all this money by the end of the year. The first term will be a five-year payback period with at least 25 percent rate of return," Fusion Capital Chief Executive Luke Kinoti told Reuters.

Known as Fusion African Access and wholly based in east Africa, the fund will invest between \$250,000 and \$5 million in small and mid-sized firms across all sectors.

It has invested in a housing project in Athi River, a town some half an hour's drive to the east of the Kenyan capital, Nairobi.

During the initial phase it is also investing in a private cemetery in Kenya, a Rwandan manufacturer and financial services firms in Rwanda and Uganda.

Small and medium-sized enterprises are estimated to contribute about 40 percent of Kenya's gross domestic product (GDP) while returns from real estate investment outpaced those from investments in Kenyan shares in the decade from 2000.

Phil Godwin, Fusion Capital's chairman, said there were some risks for investors.

"Country risk, politics and currency volatility are a fact of life in frontier markets," Godwin told a launch ceremony.

"Our approach is not at all about making predictions of what will happen but ensuring that, whatever happens, we have made good long-term investments for our investors."

He said the weaker shilling currencies in the region offered a good opportunity to invest into a region which has had stable economic growth of 5-6 percent in the last five years.

The Kenyan, Tanzanian and Ugandan shillings have hit a series of record lows this year, largely due to rising food and oil prices.

Helios, AIIM funds eye Telkom Safaricom mobile tower deal

The East African, 27th August 2011

Two private equity fund managers are eyeing a joint tower management firm by mobile phone services operator Safaricom and Telkom Kenya.

Africa Infrastructure Investment Managers (AIIM), a South African infrastructure equity investment fund manager recently set up offices in the country. AIIM listed the tower management company as one of the deals it is looking to clinch.

Helios Towers Africa, the private equity-backed telecommunications towers manager, plans to enter Kenya and Uganda after it was granted the first license by the Tanzania Communications Regulatory Authority to independently operate a network of telecom towers in the country two weeks ago.

This puts the two private equity funds (AIIM and Helios) in competition for the towers set up by Safaricom and Telkom Kenya.

In July, Safaricom and Telkom Kenya their plan to set up a joint tower management company, the first of its kind in Kenya. The tower company would seek a separate network facilities licence from industry regulator Communications Commission of Kenya to allow it operate an open access model, according to the partners.

The shared tower model ensures accessibility and affordability of communications service through increased efficiency and competition to the users.

In return, the private equity funds look to profit from leasing back the towers to the mobile phone service providers.

“We are looking for any open opportunities; we are in talks with various telecos,” Helios chief executive Chuck Green explained.

Helios said it anticipated reducing cost of tower operations in Africa while making it affordable to competitors by building the network and leasing back to the operators.

“Local operators are not willing to share the infrastructure with their competitors, we would like to see more joint deals,” Mr Green said.

The Safaricom/ Telkom joint tower management company is expected to focus on leasing tower space to anyone wishing to install wireless communication equipment. It will also be involved in the management of energy costs.

AIIM said it is looking for opportunities in Kenya.

“We have identified a number of opportunities in Kenya, our offices are fully operational,” AIIM associate director Mitesh Pema said.

Kenya joins South Africa and Nigeria in the list of countries AIIM has ventured.

Old Mutual Investment Group (SA) that jointly owns AIIM with Macquarie Capital of Australia recently raised an infrastructure fund for Africa that targets projects across sub-Saharan Africa.

Analysts assert that Safaricom/Telkom deal requires massive investment that might require funding at certain levels but the choice on where to get the funds from remained in the hands of the stakeholders.

“Infrastructure sharing requires negotiations, priorities at particular levels can require funding,” explained Eric Musau , an analyst with Standard Investment Bank.

According to Safaricom, details of the tower deal including who the prospects for the independent tower management company were a non- disclosure arrangement.

“We shall of course be in a position to share more information in future as and when our discussions with Telkom permit for public disclosure,” said Nzioka Waita, Safaricom’s Corporate Affairs Director.

The two companies hope to reduce the cost on the 4,000 towers between them, according to Telkom Kenya CEO with finances at the centre of the deal.

“In addition to the initial equity and debt financing, each partner will contribute some of its existing infrastructure into a common pool,” explained Mr Mickael Ghossein CEO of Telkom Kenya.

Initially, the proposed company will be formed between the two and a mutually designated professional and independent tower management company on agreed terms.

New avenue for pension schemes

Daily Nation, 18th August 2011

Pension funds and collective investment schemes could soon be allowed to invest in private equity funds if plans by the Capital Markets Authority and the Retirement Benefits Authority to review regulations pull through.

Mr Kung'u Gatabaki, the capital markets regulator chairman, said the move would provide financing for growth of small and medium enterprises (SME).

“The existing regulatory framework for pension funds and collective investment schemes limits their investment in private equity funds but if allowed, they will provide the much-needed financing to boost growth of the sector,” he said.

The authority, according to Mr Gatabaki, will also review its regulatory framework to allow private equity funds and venture capital funds to list on the Nairobi Stock Exchange.

“This will offer an exit mechanism as investors seek to unlock the value of their investment,” he said.

Speaking during the fifth anniversary of Fusion Capital Ltd in Nairobi yesterday, Mr Gatabaki said the introduction of a new Capital Markets Authority Bill and Securities and Investment Bill for tabling in Parliament was part of reforms to be aligned to international best practices.

International best practices call for good governance within the market to avoid any future collapse of stockbrokers.

Fusion Capital Ltd is a private equity fund that finances the growth of companies, especially SMEs in East Africa.

Increasing demand draws financiers to private schools

Business Daily, 24th September 2011

Growing demand for private schools has attracted financiers into the education sector, who are putting money into schools directly or through commercial banks.

Fanisi Capital is the latest private equity firm to venture into this area having bought the Hillcrest Schools in a multi-million shilling deal in August.

The Braeburn Group of Schools got a Sh540 million (\$6 million) loan facility from the IFC last year which will finance expansion.

The International Finance Corporation has in the past invested indirectly through Sh120 million it gave to K-Rep Bank which was to be loaned out to investors in the education sector.

IFC and the Commercial Bank of Africa have a Sh280 million loan facility for graduate and undergraduate students attending Strathmore University.

Students take up one-year loans which the IFC says in addition to increasing quality education at subsidised rates shows that there is an opportunity to earn a profit from the social sector.

“The programme seeks to promote the development of the nascent consumer finance business in Kenya by demonstrating that student tuition lending can be a viable and profitable business,” says IFC.

The loan is offered at a fixed rate below CBA’s prevailing base rate minus a one per cent spread.

The return on investment takes about eight years, said the Kenya Private Schools Association (KPSA) national chairman Mr John Mwai.

A few schools

A large and young population coupled with a government that is faced with huge development needs against limited financial resources means that it is difficult for the State to solely invest in the education sector.

Slightly over 50 per cent of Kenya’s 39 million people are below the age of 20 or belong to the school-going age and educationists say that learning institutions that cater for this youth group are underserved.

Mary Okello, the founder of the Makini Group of Schools said a few schools were being built especially at the high school level and this is where the biggest gap is.

The Economic Survey 2011 shows that the number of students enrolled in secondary schools was 1.7 million as at 2010, a 13 per cent increase from 1.5 million 2009.

The number of schools has not grown in tandem.

Over the same period, the total number of high schools was 7308, a 4 per cent increase from 6971 in 2009.

While the number of schools is important the Key indicator is the teacher to pupil ratio said Mr Mwai.

The teacher to student ratio stands at 1 to 75 against the recommended ratio of 1 to 30.

For entrepreneurs in the sector, it takes approximately eight years to get a return on investment said Mr Mwai, but quality is the only assurance to make this return.

Khama Rogo, from the World Bank, said that what the private sector can do for this sector is what happened to the telecommunication industry, mainly creating competition whose biggest effect is on the consumer.

Investments would also save the country billions in money that is spent in expensive courses such as medicine.

“All over East Africa we are training doctors in India because there is no space in universities,” Dr Rogo told the Business Daily.

A course in medicine costs roughly Sh500,000 per year.

Government bodies also recognise the effect of increased population amidst limited institutions.

The Kenya Civil Aviation Authority (KCAA) estimates that number of commercial planes in the country will jump to 120 from the current 40 in the next 20 years in what will more than triple demand for the critical staff including pilots, cabin crews and air controllers.

Actis halts sale of Dfcu Bank shares

Daily Monitor, 17th August 2011

Ownership of Dfcu Limited will remain intact after Actis, a London-based private equity firm which holds a controlling stake of the bank withdrew from the sale of its shares.

Actis owns 60 per cent of Dfcu Bank and owns 100 per cent of power distributor Umeme Limited in Uganda. The investment firm is a joint venture between the British government which owns 40 per cent of Dfcu and Actis' senior managers who hold the controlling stake in the company.

Tax evasion

The government was set to sell its stake in the company, following revelations that Actis was not paying tax and giving the state its share of profits. In light of the sale, Dfcu issued a cautionary announcement in June warning local investors about a potential change in the company's share price.

Ms Agnes Tibyeita Isharaza, the corporation secretary of Dfcu Limited,

said the transaction has been suspended. ***“There shall be no share transfer. The cautionary announcement in issue is therefore hereby withdrawn,”*** she said. By press time, Ms Tashi Lassalle, a spokesperson of Actis had not explained why the sale was cancelled.

Income results

But Dfcu published the new statement following the end of the discussions regarding the possible transfer of a substantial number of shares in the company.

As a listed company, Dfcu is required by the Uganda Securities Exchange, the regulator of the local stock market, to update investors about the status of the transaction affecting the ownership of the firm. Actis received an expression of interest for the purchase of a substantial number of shares in June forcing Dfcu to issue a cautionary announcement. .



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