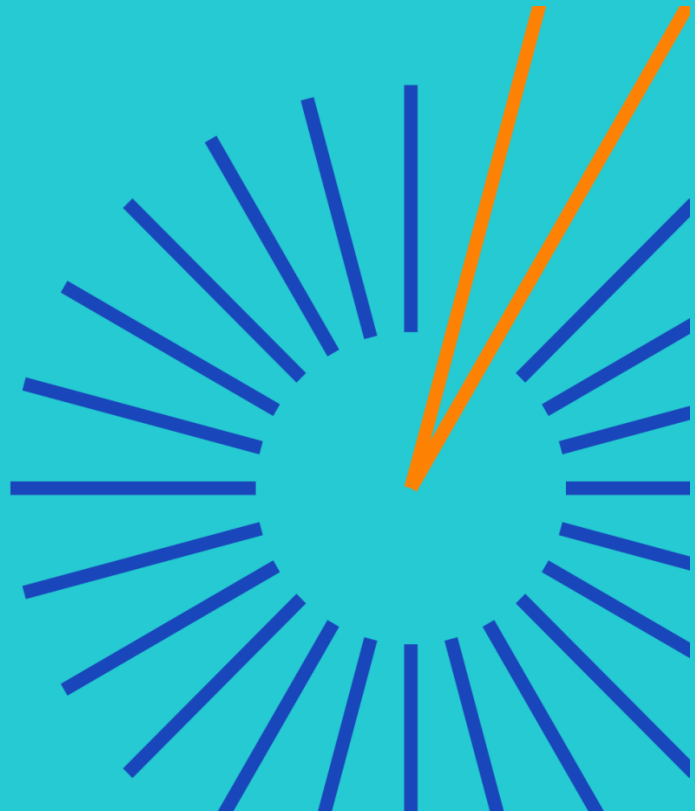




**i&M**BurbidgeCapital

# EAST AFRICA FINANCIAL REVIEW

OCTOBER 2017





# October in Numbers



## IMBC Deal of the Month



Quantum Global's exit from Seruji Limited, the majority shareholder of Savannah Cement.

# 6

The number of disclosed deals in EA

The total value of all disclosed corporate deals in EA in USDm

# c. 11m



*The underlying principles of sound investment should not alter from decade to decade, but the application of these principles must be adapted to significant changes in the financial mechanisms and climate - Benjamin Graham*



## In this Issue

- Key Market Indicators
- Deal Statistics
- Selected Deals Summary
- Key Press - East Africa
- Upcoming Events



# i&M Burbidge Capital

## MONTHLY COMMENTARY



Deal making remained resilient in the month of October with 4 M&A deals and 2 PE deals disclosed. The performance closely matched that of September and brought the total number of disclosed transactions in the year to date to c. 65 which is, however, 11 deals lower than the same period in 2016.

IMBC's Deal of the Month is Quantum Global's exit from Seruji Limited, the building and construction company that owns a 60% stake in Savannah Cement. Quantum Global's USD 1.1 billion Africa Infrastructure focused fund exited the company after only two years. It is estimated that Savannah Cement had a 15% share of the market as at the end of 2016, making it the fourth largest cement producer in the country. Quantum Global said it had fulfilled its objective of supporting the cement producer on a number of value creation initiatives, including the development and launch of new products and the optimization of existing facilities.

In the Oil and Gas sector, Zarara Oil & Gas Ltd, a subsidiary of Midway Resources International, plans to start drilling two wells for natural gas after it received approval from Kenya's National Environment Management Authority for well sinking on Pate Island off the coast in Lamu.

In the mining sector, Petra Diamonds announced that it plans to resume selling and exporting minerals from its Williamson mine in Tanzania. The company had shut down the mine about three weeks ago amid an export valuation dispute with the Tanzania government. In a statement issued by the company, Petra indicated that it is finalising the timing and process for the next diamond shipment to its marketing office in Antwerp, Belgium, and subsequent sales.

In the energy sector, Angaza Design, a San Francisco based alternative energy startup that offers technology to manufacturing and distribution companies to make clean energy devices for off-grid consumers, raised USD 10.5 million (Sh1.05 billion) through crowd funding to fund its local expansion. The company's operations are based in Kenya. Earlier in the month, M-Kopa Solar secured a USD 80 million credit facility from a consortium of financiers. The debt facility will be deployed primarily into off-grid households with the aim of doubling the current reach of solar-connected homes to one million.

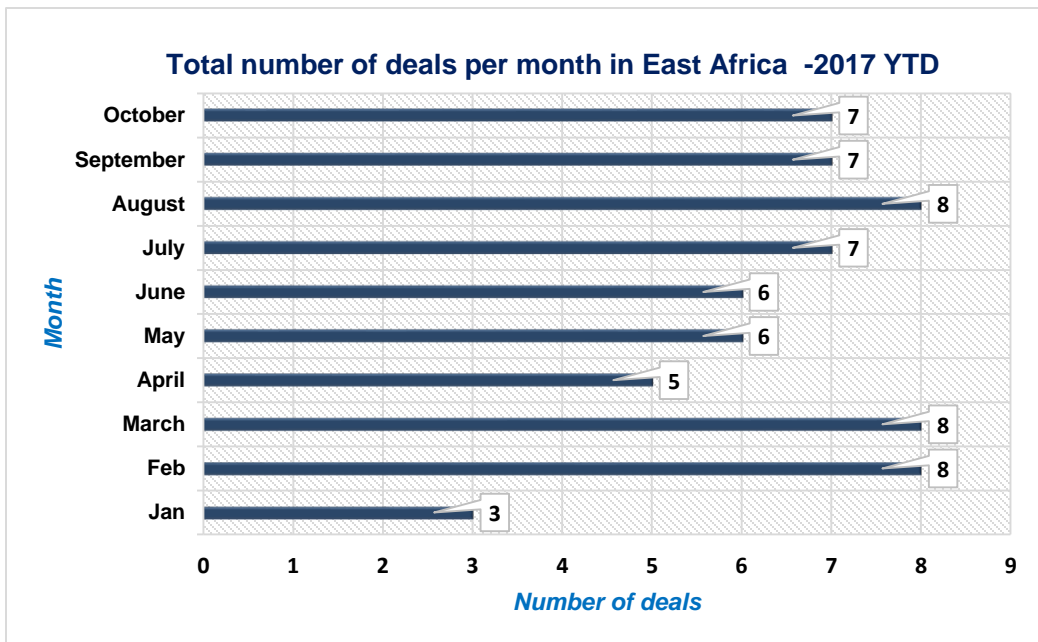
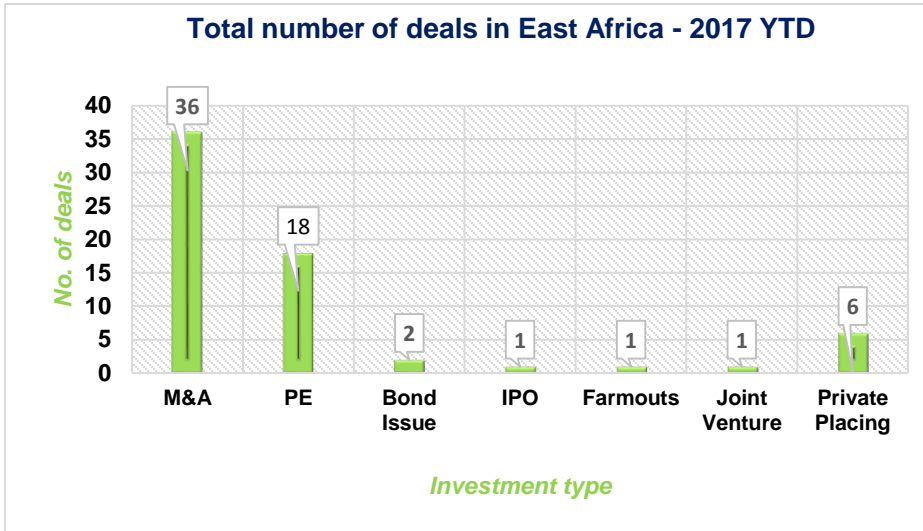
The NSE 20 Index's performance declined by 0.6% in the month of October, closing at 4,202.23 (YTD 17.0%). Trading activities declined to USD 90.52M (Previous month USD157.49). The market attracted net foreign outflows of USD 3.19M (Previous month outflows USD 56.19M). Foreign investors were long on Safaricom (USD 0.945M) and KCB (USD 0.89M). Equity bank and DTB were sold by foreign investors with net foreign outflows of USD 921.50K and USD 469.10K respectively.

**Edward Burbidge CFA & IMBC EA Review Team**

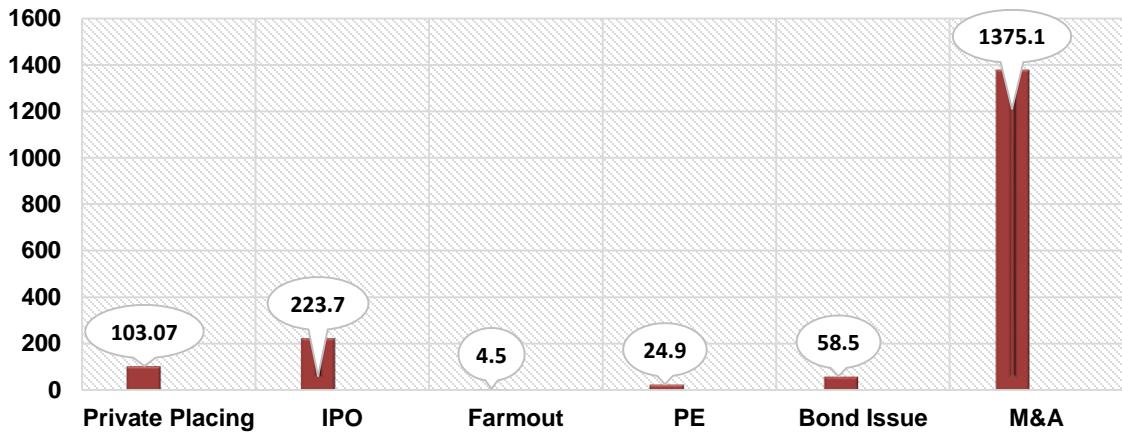
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### Yields on Government Securities

	91- Day T-bill	2- Year Bond	5- year Bond	10- year bond
Kenya	8.01%	11.52%	12.60%	13.10%
Tanzania	4.00%	11.76%	13.96%	15.75%
Uganda	9.35%	12.79%	14.55%	14.54%

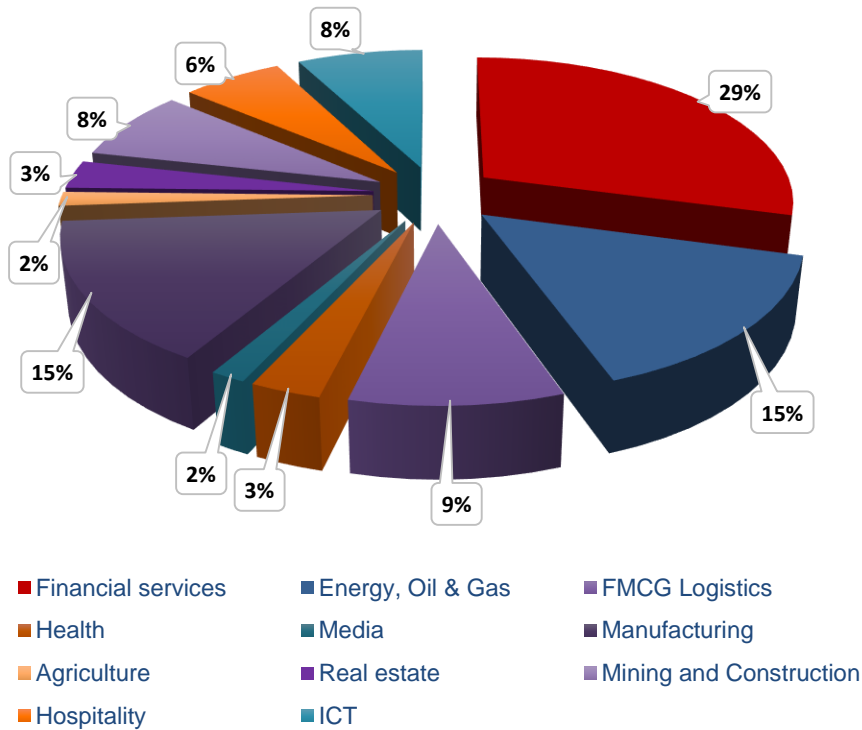


Deal values (USD mn) in East Africa - 2017 YTD<sup>1</sup>



Investment type

Number of deals per sector - 2017 YTD



<sup>1</sup>Based on deal values disclosed to the public or as estimated by I&M Burbidge Capital

<sup>2</sup>The top sectors which recorded the highest number of deals

Source: I&M Burbidge Capital Research

## Interest Rates

Country/Region	Current Base Rate	Previous Base Rate
Central Bank of Kenya (Kenya)	10.00%	10.00%
Bank of Uganda (Uganda)	10.00%	9.50%
Bank of Tanzania (Tanzania)	9.00%	9.00%
South African Reserve Bank (RSA)	6.75%	6.75%
Central Bank of Nigeria (Nigeria)	14.00%	14.00%
Central Bank of Egypt (Egypt)	18.75%	18.75%
Bank of England (UK)	0.25%	0.25%
Federal Reserve Bank (USA)	1.25%	1.25%
European Central Bank (EU)	0.00%	0.00%

## Projected Inflation and GDP Rates

	Kenya	Uganda	Tanzania	Nigeria	South Africa	Sub-Saharan Africa	UK	USA	Euro Area	
Projected GDP Growth	2017	5.00%	5.53%	7.24%	0.65%	0.80%	2.85%	1.05%	2.20%	1.51%
	2018	6.47%	5.87%	6.79%	1.57%	1.60%	3.58%	1.65%	2.08%	1.59%
Projected Inflation (%)	2017	5.51%	5.05%	5.00%	17.00%	5.50%	10.00%	2.50%	2.56%	0.96%
	2018	5.02%	5.00%	5.00%	16.00%	5.50%	9.18%	2.60%	2.66%	1.23%

Date	Buyer	Seller	Investment size in USD 'millions	Sector	Investment type	Country	Synopsis
02 October 2017	Sahara Game Technology Corp	John Power Kenya Ltd	Undisclosed	Hospitality	M&A	Kenya	Sahara Game Technology Corp of Seychelles acquired John Power Kenya Ltd, a Nairobi-based provider of gambling services.
04 October 2017	AfricInvest	Britam Holdings Plc	Undisclosed	Financial Services	PE	Kenya	AfricInvest Fund III in partnership with DEG-Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), The Dutch Development Bank FMO, and Proparco, a subsidiary of Agence Française de Développement (AFD), finalized an agreement to invest in Britam Holdings Plc (Britam). AfricInvest has entered into a share subscription agreement with Britam, pursuant to which it will, along with the other partners, subscribe to ordinary shares to be issued by Britam. Upon completion of the transaction, AfricInvest and its co-investment partners will hold approximately 14.3% of the issued ordinary shares of Britam.
17 October 2017	Panalpina Group	Air Connection Ltd	Undisclosed	Transport and Logistics	M&A	Kenya	Swiss freight forwarding and logistics company Panalpina has completed the acquisition of Air Connection, a specialized forwarder of flowers and vegetables following the approval by the Competition Authority of Kenya. The move follows Panalpina's acquisition of Airflo in 2016 and positions the company as a clear market leader in perishables in Kenya. The Panalpina Perishables Network offers customers in both origin and destination countries complete end-to-end solutions on a global scale. Founded in 1993, Air Connection has operations close to Jomo Kenyatta International Airport in Nairobi and in Mombasa. The company specializes in the export of flowers and vegetables from Kenya to multiple destinations, including the Netherlands and the UK. The perishables business of Air Connection will be merged with Panalpina Airflo.
19 October 2017	Engie SA	Fenix International	Undisclosed	Manufacturing	M&A	Uganda	Engie SA of France planned to acquire the entire share capital of Fenix International, a Kampala-based manufacturer of heating equipment.
23 October 2017	Mace Group Ltd	YMR Partnership	Undisclosed	Construction	M&A	Kenya	Mace, a UK-based global construction and consultancy firm, has acquired an undisclosed stake in Kenya's quantity surveying firm YMR, highlighting continued foreign investor interest in the Sub Saharan Africa region.
23 October 2017	Benson Ndeta	Quantum Global	Undisclosed	Construction	PE Exit/MBI	Kenya	Quantum Global, the Africa-focused private equity and infrastructure investment manager, has exited its investment in Saruji, a building construction company after the sale of its 49.0% stake in the company. Saruji is the majority shareholder in Savannah Cement;
30 October 2017		Angaza Design	10.50	Energy	Private Placement	Kenya	A Kenya-based US solar kits firm raised USD 10.5 million through crowd funding to power local expansion. Angaza Design, whose headquarters are in San Francisco, is an alternative energy start-up that offers technology to manufacturing and distribution companies to make clean energy devices for off-grid consumers, said the new debt finance will also power its regional expansion. The Kenyan solar kits market has attracted multinationals like Indian firm Orb Energy and Germany-based Mobisol as well as local company M-Kopa.

### Kenya's private sector activity contracts to lowest level in history – PMI

Political instability led to another severe contraction in the Kenyan private sector during the month of October 2017, according to the monthly report from Markit economics. The seasonally adjusted PMI fell to a new survey-record low of 34.4 in October from 40.9 in September. This signaled the sharpest deterioration in the health of the private sector since the inception of the survey in January 2014. Moreover, the headline PMI registered below the neutral 50.0 threshold for the sixth month in succession. The overall downturn reflected survey-record declines in output, new orders, employment and stocks of purchases. On the price front, firms raised selling prices for the first time in six months as their ability to absorb higher input costs was restricted. The headline figure derived from the survey is the Purchasing Managers' Index™ (PMI™).

#### I&MBC Analysis

*The recent political instability has led to a significant negative impact on the seasonally adjusted PMI. However, due to the recent rains and the support it brings to the agricultural industry and the close of the aforementioned political impasse, the PMI is expected to show signs of improvement over the near to medium term.*

(Source: Kenyan Wall Street, IMBC Research)

### Kenya awards firm licence to drill for natural gas

Zarara Oil & Gas Ltd will start drilling two wells of natural gas after Kenya's National Environment Management Authority (Nema) approved environmental licences for well sinking on Pate Island off the coast in Lamu. The company has been set strict deadlines by the Ministry of Energy to start drilling Pate 2 by the end of the year and later Pate 3 as the government wants to reduce the country's dependence on expensive hydro and thermal 3 power. Tanzania — which has discovered 57.6 trillion cubic feet (TCF) of gas both onshore and offshore — is the only country in East Africa using natural gas to generate power and plans to use the commodity for fertiliser production. Zarara's licences will run until July 2019. Zarara is required to undertake exploratory drilling at an estimated cost of USD159 million. Sinking of Pate 2 well is expected to take 120 days to drill. Kenya Oil and Gas Working Group (KOGWG) and World Wildlife Fund (WWF) have rolled out a programme to manage the expectations of the local community in Lamu to avoid the Pate project being abandoned by the investor.

#### I&MBC Analysis

*The potential discovery of natural gas deposits will enhance the country's energy mix and provide additional source of revenue. Kenya's exploration for hydro carbons comes against the backdrop of Tanzania's discoveries. Last year, Tanzania discovered an additional 2.17 trillion cubic feet (tcf) of possible natural gas deposits, raising total estimated recoverable natural gas reserves to more than 57 tcf. Most of the gas discoveries in Tanzania have been made in deep-sea offshore blocks south of the country near the site of a planned liquefied natural gas (LNG) plant.*

(Source: The East African, IMBC Research)

### Diaspora cash transfers increase by over a 20.0%

Diaspora remittances in September 2017 hit USD 176.1 million (KES 18.3 billion) after rising c.20.0% over the similar period in 2016, according to the Central Bank of Kenya. This was the second month in a row the remittances touched a record high after hitting USD 166.4 million (KES 17.3 billion) in August, which had broken the previous record of USD 161.5 million (KES 16.7 billion) in May 2017. Cumulatively, Kenyans in foreign countries sent home USD 1.4 billion (KES 143.3 billion) in the nine months to September, USD 105.0 million (KES 10.9 billion) higher to the similar period in 2016 (USD 1.3 billion). This consolidated diaspora remittances position as the country's top foreign exchange earner ahead of tea exports and tourist receipts. In September inflows from the diaspora have played a major role in supporting the shilling, which has been relatively stable, depreciating a marginal 1.14 percent against the US dollar in 2017.

#### I&MBC Analysis

*The World Bank projects remittances in Sub-Saharan Africa to grow by 10% to USD 38 billion in 2017, buoyed by improved economic activity in high income OECD countries. Nigeria is expected to have 11.1% growth, Ghana 4.3% and Kenya 4.1%. Remittances have remained Kenya's largest source of foreign exchange over the past three years largely driven by investment in property and real estate development.*

(Source: Business Daily, I&MBC Research)

## PART V: UPCOMING EVENTS/CONFERENCES

Events	Date	Venue	Theme
4th Africa LPG Summit 2017	11-12 July 2017	Emperor's Palace, Johannesburg, South Africa	The 4th Africa LPG Summit will take place on 11th and 12th of July 2017 at the Emperor's Palace, Johannesburg, South Africa. This annual gathering of the top LPG executives in Africa aims to build a sustainable platform on which to promote LPG.
Africa Hotel Investment Forum	11th - 12th October	Radisson Blu and Kigali Convention Centre Rwanda	The Africa Hotel Investment Forum (AHIF) is an annual hotel investment conference that connects business leaders from the international and local markets. The event brings together the who's who of the hotel investment community that drive investment into tourism projects, infrastructure and hotel development across Africa. It is the annual conference that connects business leaders from international and local markets to do deals across the region.
Kenya Mining Forum	15th - 16th November 2017	Radisson Blu Hotel Nairobi Upper Hill, Nairobi, Kenya	Kenya Mining Forum is a premium annual mining investment event that showcases Kenya's 'open for business' potential. The forum will be a stakeholder-led gathering focused on a specific delegate profile with a distinct end goal – the search for credible investors in Kenya's mining industry, as well as associated support services. Supported by case studies and presentations, growth strategies and market data, the inaugural edition of Kenya Mining Forum will showcase the country as an emerging destination for mining.



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