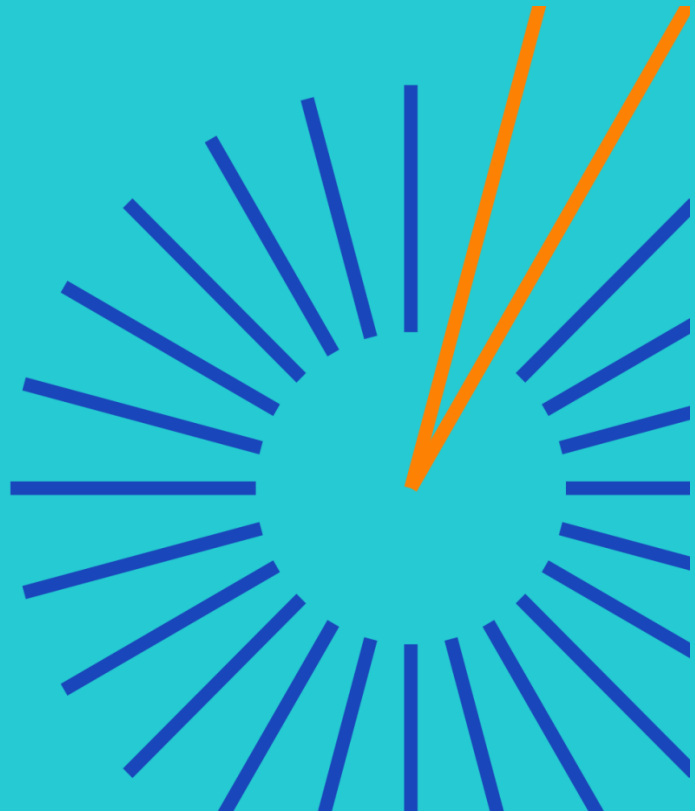




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EAST AFRICA FINANCIAL REVIEW

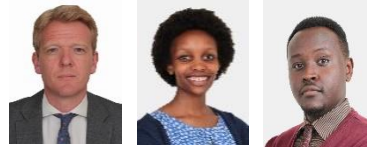
JULY 2018





IMBC Deal of the Month

GreenTec Capital Partners' Investment in insurance aggregator Bismart



The Editorial Team

EDWARD BURBIDGE | LOREINE DOTTI | KEVIN KURIA

July opened the second half of the year on a strong start with eleven disclosed deals valued at c. 228 million, reversing the declining trend recorded in May and June. This brought the number of deals as for the YTD to 46, 3 deals more than the 43 deals posted in the same period in 2017.

Corporate deals in the month of July were dominated by debt structured transactions with a combined value of c. 213 million drawn from a combination of development finance institutions, private equity firms and public market investors. We believe this is indicative of the changing debt financing landscape that has seen the entry of non-bank players in the market. These include financiers that offer sophisticated products such as mezzanine structured financing. This may be attributable to several factors such as positive economic growth prospects, particularly in consumer facing and IT related sectors and a slow down in funding to the private sector from the banking industry due to difficulties in risk pricing that stem from the interest rate cap. Additionally, there is an increased need for restructuring and refinancing in the market. We expect that this trend will both compete and, crucially complement bank financing to increase funding for projects that exceed banks' risk appetites.

The Technical Flashpoint of the month focusses on Asset Backed Securities (ABS) which are securities backed by the cash flows from a pool of assets. ABSs are used to provide liquidity for assets that are otherwise illiquid. Examples of ABSs include Collateralized Loan Obligations and Mortgage Backed Securities. ABSs enable lenders to increase the volume of loans issued for assets by transferring the risk of the loan from the lender to other investors. This type of asset market is nascent in East Africa but plans by the Capital Markets Authority and the Nairobi Securities Exchange are underway to increase their prevalence and use in the market.

IMBC's deal of the month is GreenTec Capital Partners' investment in Kenyan insurance aggregator Bismart. Bismart leverages digital platforms and technologies to connect its customers to the best insurance and investments solutions available in the market. The company is one of several start-ups applying technology to make insurance products more accessible to the population thereby increasing the insurance penetration rate in the country which currently stands at under 3%, which is low compared with rates in countries in Southern Africa such as South Africa that has a penetration rate of 16.99%. The Transaction demonstrates the foreign investor interest in Kenya's insurance sector, with more than 15 transactions having been recorded in the last 7 years.

In the energy sector, it was announced that the cost of electricity in Kenya is set to come down following completion of the Garissa Solar Power Plant which is expected to be complete by September. The solar plant, is expected to lower the cost of electricity to 5.4 cents per unit and also help lessen the carbon footprint by reducing carbon emissions into the atmosphere by about 43,000 tonnes. The plant consists of about 210,210 PV panels — 300,000 photovoltaic (PV) solar system — of 260 watts each, sitting on 85 hectares, and will be able to generate power capable of lighting around 625,000 homes.

In the oil and gas sector, Chinese state-owned enterprise Poly Group is working with another Chinese company, Golden Concord Group, began work on oil & gas fields in the Ogaden region of Ethiopia with oil being exported by road through Djibouti. The companies are working in three areas of the Hilala and Calub localities of Ogaden. The Calub field is estimated to hold 2.7 Trillion cubic feet of natural gas. Half of the refinery's output will be directed to the Ethiopian market and the remainder exported to neighbouring countries in East Africa.

In the listed equities market, the NSE 20 index increased by 0.3% (YTD – decline of 14.6 %) to close the month at 3296.68. Overall, the market witnessed foreign investor outflows of USD 21.39 million. At the individual stock level, Standard Chartered Bank witnessed the highest foreign net inflows at USD 432.0k (YTD – decline of 2.4 %) while KCB and EABL experienced the highest foreign net outflows of USD 11,066.7k and 5,644.9 k (YTD – increase of 9.9% and decline of 5.5% respectively). Top gainers in the month of July included Athi River Mining, which increased by 39.3% (YTD – decline of 67.3%) and Nairobi Business Ventures (listed on the GEMS) which increased by 32.4% (YTD – decline of 32.8%). Crown Berger experienced the highest decline of 32.5% to close the month at KES 54 per share.

Edward Burbidge, CFA & IMBC EA Review Team

11 The number of disclosed deals in EA

The total value of all disclosed corporate deals in EA in USD m

c. 228



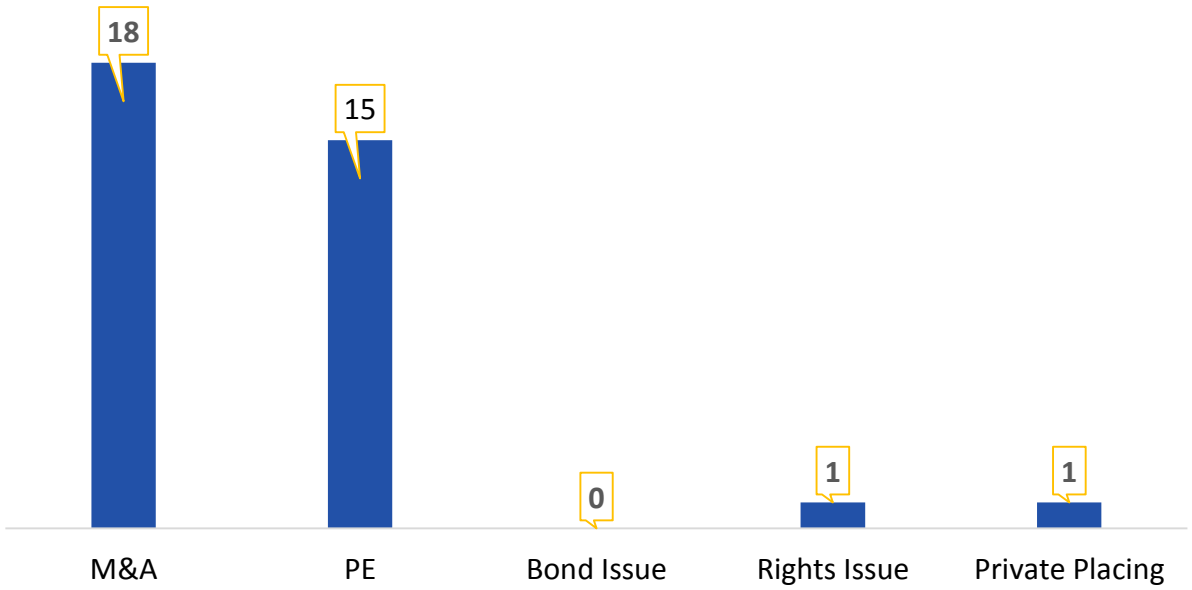
The best way to look at any business is from the standpoint of the clients.

-Jamie Dimon.

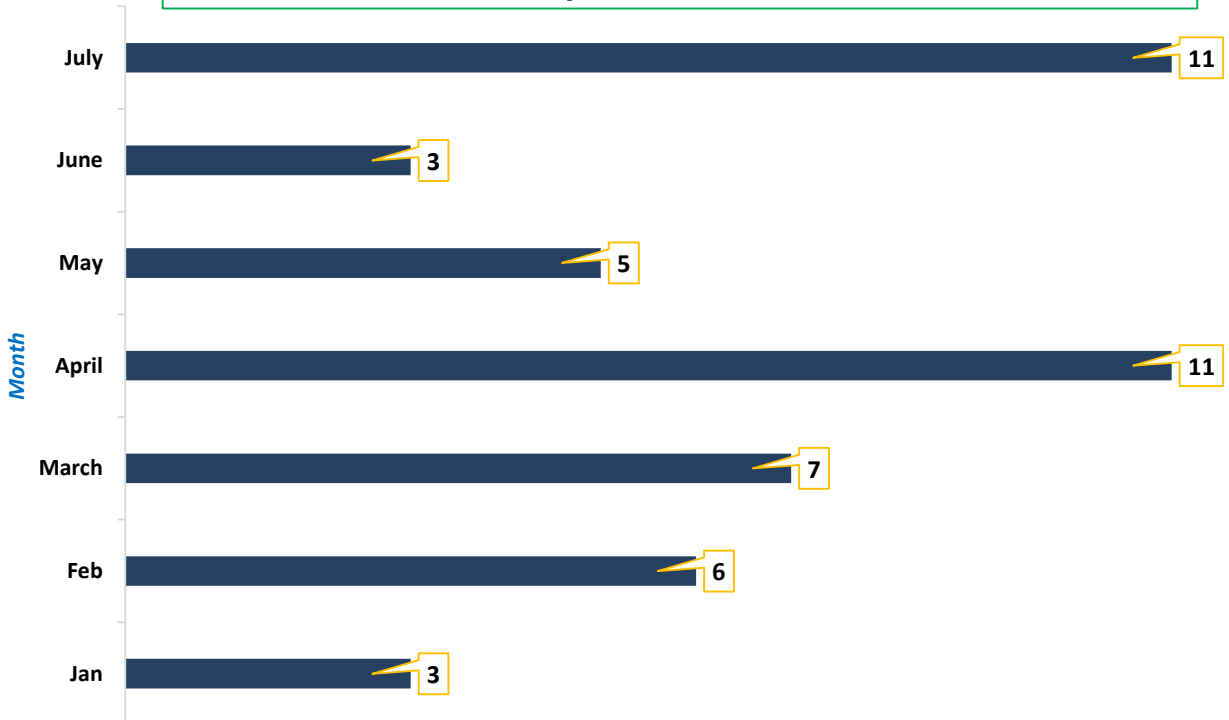
In this Issue

- Key Market Indicators
- Deal Statistics
- Selected Deals Summary
- Technical Flashpoint of the Month
- Upcoming Events

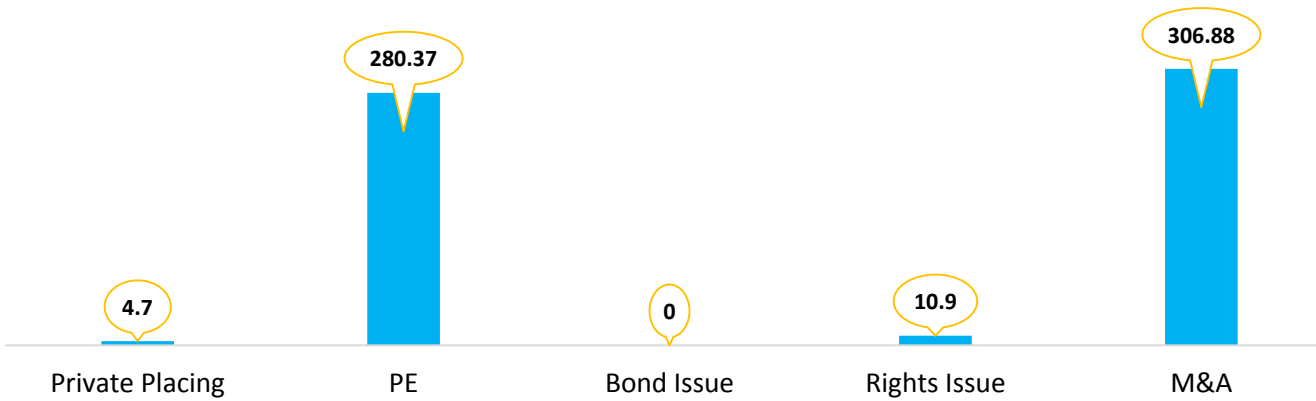
Total No.of deals in EastAfrica - 2018 YTD



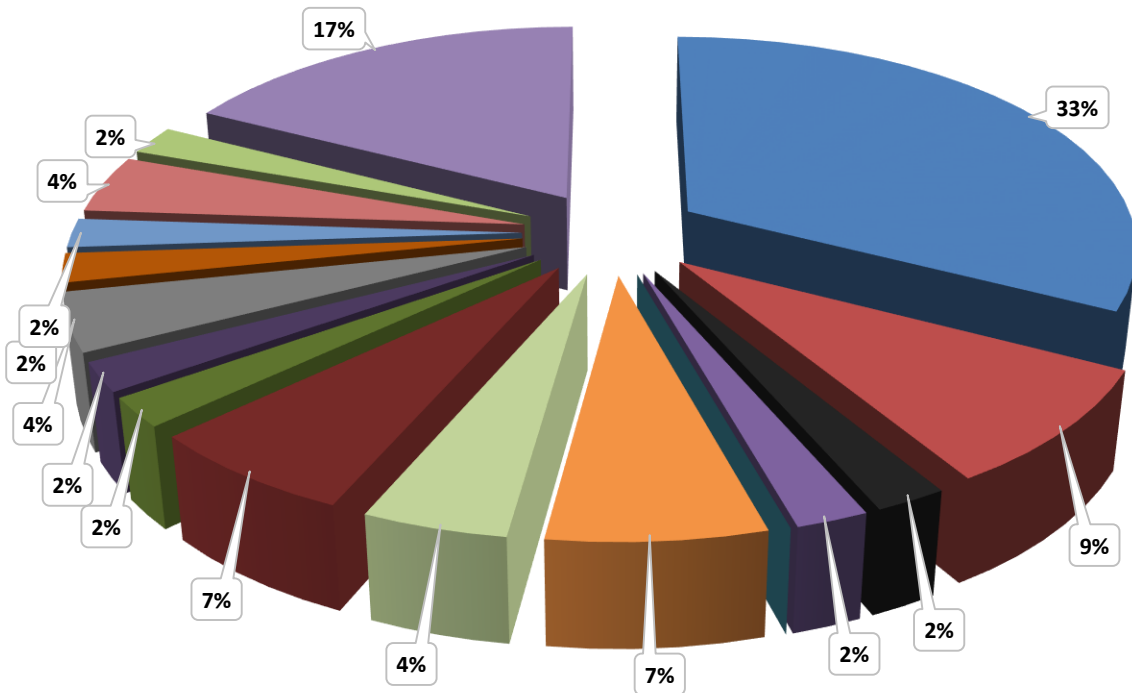
Total number of deals per month in East Africa -2018 YTD



Deal values (USD mn) in East Africa - 2018 YTD¹



No. of deals per sector - 2018 YTD



- Financial services
- Energy, Oil & Gas
- FMCG Logistics
- Health
- Media
- Manufacturing
- Agriculture
- Real estate
- Mining and Construction
- Hospitality
- Professional Services
- Horticulture
- Education
- Transport & Logistics
- Information Services
- ICT

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

Source: I&M Burbidge Capital Research

Yields on Government Securities

	91- Day T-bill	2- Year Bond	5- year Bond	10- year bond
Kenya	7.67%	11.70%	12.10%	13.15%
Tanzania	2.99%	9.00%	11.30%	14.41%
Uganda	9.72%	13.45%	16.49%	17.30%

Interest Rates

Country/Region	Previous Base Rate	Current Base Rate
Central Bank of Kenya (Kenya)	9.50%	9.00%
Bank of Uganda (Uganda)	9.50%	9.00%
Bank of Tanzania (Tanzania)	9.00%	9.00%
South African Reserve Bank (RSA)	6.75%	6.50%
Central Bank of Nigeria (Nigeria)	14.00%	14.00%
Central Bank of Egypt (Egypt)	18.75%	16.75%
Bank of England (UK)	0.50%	0.75%
Federal Reserve Bank (USA)	1.50%	2.00%
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									
2018	5.50%	5.10%	6.80%	2.50%	1.10%	3.20%	1.40%	2.50%	2.10%
2019	5.90%	5.70%	6.90%	2.80%	1.70%	3.50%	1.60%	2.20%	1.70%
Projected Inflation (%)									
2018	5.20%	5.60%	5.00%	14.80%	5.30%	9.90%	2.70%	2.10%	1.40%
2019	5.00%	5.00%	5.00%	14.30%	5.50%	8.90%	2.30%	2.20%	1.70%

PART III: SELECTED DEALS

Date	Buyer	Seller	Investment size in USD 'millions	Sector	Investment type	Country	Synopsis
02/07/2018	IFC	Twiga Foods	3.00	Transport & Logistics	PE	Kenya	The International Finance Corporation (IFC) is set to invest \$3 million (Sh300 million) in Kenya's mobile-based food delivery firm Twiga Foods as part of the company's efforts to raise more than Sh700 million from multiple investors. Twiga runs a mobile cashless platform through which vendors can order and pay for fresh food and vegetables from farmers, resulting in lower prices and more efficient supply chains by from elimination of multiple layers of middlemen. The stakes that IFC and its partners will take in Twiga Foods was not disclosed.
03/07/2018	Shareholders	Fastjet	10.00	Transport & Logistics	Rights Issue	Kenya	Troubled African budget airline Fastjet was saved from imminent collapse with a Sh1 billion (\$10 million) cash injection from its shareholders. However the airline, which already halted operations in Kenya, said the cash injection will only give it enough funds to keep going for the rest of this year. Half the funds will be used to support Zimbabwe and Mozambique operations and to repay some loans while the rest will go to trading in Tanzania. Fastjet admitted that it was on the brink of collapse and acknowledged it would go bust unless it secured a rescue deal. The airline has endured several years of difficult trading, with investors being asked for a cash injection four times to keep it flying since 2016.
10/07/2018	Investors	Branch International	3.50	Financial Services	Commercial Paper	Kenya	Francisco based mobile loans company, Branch International, raised Sh350 million for lending in Kenya. Branch in a statement on Monday said the fresh capital—its second issued commercial paper in the Kenyan market since 2017 – will help grow its loan book. Last year Branch, a Silicon Valley start-up that launched in Kenya in April 2015 and which has since disbursed more than Sh10 billion via mobile money platform M-Pesa, raised Sh200 million for the Kenyan market expansion. The company said it plans to expand into savings and payment products in the future for its more than one million users.
11/07/2018	Oman Trading International	Hass Petroleum		Oil and Gas	M&A	Kenya	Oil marketer Hass Petroleum Group partnered with Muscat-based, Oman Trading International (OTI), to market its petroleum products in East Africa. Oman Trading International (OTI) acquired 40 per cent stake in Hass Petroleum Group. OTI commented that it was confident the partnership with Hass Petroleum would not only reinforce the trade relations between the sultanate and Kenya, but also help establish new streams of collaboration between the two nations and her neighbours. Hass Petroleum also plans to expand its distribution network in the region, including Uganda, Tanzania and the Democratic Republic of Congo.
12/07/2018	IFC	ARM Cement	120.00	Manufacturing	PE - Mezzanine and Debt	Kenya	The International Finance Corporation (IFC) is set to take over \$120 million (Sh12 billion) of ARM Cement loans as part of the Nairobi Securities Exchange-listed firm's efforts to ease its debt burden. This will add to a \$20 million (Sh2 billion) loan to be provided by British investment fund CDC Group, which has a 41 per cent stake in the company. The IFC loan will be repaid at an interest rate of about six per cent and mature in 10 years.
12/07/2018	Globeleq & CDC Group	Malindi Solar Group	66.00	Energy	PE - Mezzanine and Debt	Kenya	Alongside its partner, Globeleq, CDC Group (CDC) has announced a US\$66mm debt investment in Malindi Solar Group, to build a 52 MWp solar photovoltaic power plant in South-East Kenya. The long-term, 16-year financing will provide much needed power in the Malindi area, which currently struggles with regular power shortages and relies largely on expensive thermal plants. The Malindi plant will provide 52 MWp of clean generation capacity to the Kenyan grid.
13/07/2018	IFC	Global Tea & Commodities	4.00	FMCG	PE - Mezzanine and Debt	Kenya	Global Tea & Commodities, the Mombasa-based maker of Kericho Gold Tea brand, received Sh400 million loan from World Bank's commercial affiliate International Finance Corporation (IFC) for expansion in Kenya and Malawi. The commodities exporter, which also processes macadamia, plans to increase its packaging capacity at its factory in Kenya, IFC said in a statement. Global Tea reckoned the cash would help it directly source an additional 5,000 metric tonnes of tea from farmers and local factories and via the tea auction in Mombasa.
20/07/2018	GreenTec Capital	Bismart		ICT	PE	Kenya	Frankfurt-based GreenTec Capital Partners has inked a financing deal with a Kenyan insurance aggregator Bismart to enable the start-up upscale its digital and online platforms and connect more customers. GreenTec invests in African start-ups and SMEs with a focus on combining social and environmental impact with financial success. It will invest undisclosed amount in Bismart and unveil a team to help implement latest technology to the model, to extend its local value chain. Bismart chief executive Eunice Maina said the digital interface being developed by the company with assistance from GreenTec will allow the distribution of insurance products across Africa, facilitating the rapid roll-out and scaling of the business. The platform will also help Bismart to increase efficiency and transparency through the implementation of Blockchain technology.
30/07/2018	EDF Group	SunCulture		Energy	M&A	Kenya	Kenyan-based technology company in solar water pumps and irrigation solutions for small holder farmers 'SunCulture' has closed an investment round with the EDF Group, one of the world's largest electric utility companies and a global leader in low-carbon energy. EDF joins SunCulture's existing institutional investors like the Energy Access Ventures and Partners Group. SunCulture will open up the East African market for EDF to expand the impact of its off-grid solutions across the continent. SunCulture's deep understanding of smallholder farmers' needs will provide invaluable data for EDF to develop its off-grid offering into the agriculture space. EDF is already selling off-grid household technologies in Côte d'Ivoire, Ghana and Senegal.
30/07/2018	Badoer Investments Ltd	Sumac Microfinance Bank	1.00	Financial Services	PE	Kenya	Dubai-based investment firm Badoer Investments Ltd has pumped in Sh100 million (\$1 million) into Sumac Microfinance Bank, taking up 15.6 per cent stake in the SME lender. The deal, which values Sumac at Sh641 million, will see the company's founder Ricardo Badoer take up a seat on the board of Sumac. Sumac says it will use the funds to boost its capital as it looks to expand its loan book. Sumac currently has two branches in Nairobi, one in Githunguri in Kiambu and another in Nakuru. It is looking to expand to Eldoret, Kisumu and Meru targeting agribusinesses. The firm has a clientele base of 10,000 and loan book of Sh1 billion.
30/07/2018	Investors	Musoni Microfinance Bank	20.00	Financial Services	Private Placement	Kenya	Musoni, a Microfinance Institution (MFI), which targets small-scale farmers and the informal sector, is set to issue Kshs 2.0 bn in debt notes through a private placement. The main targets are asset managers, trust management funds and high net-worth individuals. The move is aimed at shifting from foreign based funding to funding from local institutions in Kenya. The Kshs 2.0 bn debt notes will be used to grow the loan book, which stood at Kshs 18.0 bn.

Asset Backed Securities

Linda Obwora

Analyst – Corporate Finance

An asset-backed security (ABS) is a security backed by the cash flows from a pool of assets. The assets typically tend to be illiquid assets which are difficult to sell directly and represent debts of smaller amounts which individually generate relatively little income but which can be grouped together to make up a more valuable pool.

Examples of assets that can form a pool for the ABS are home equity loans, auto loans, credit card receivables, and student loans. However it should be noted that, nearly any cash-producing pool of assets can be securitized.

Collateralized bond obligations (CBOs) and collateralized loan obligations (CLOs) are a fast growing new sector of the private asset-backed securities market. “CBO” or “CLO” generally refers to a debt obligation whose underlying collateral and source of payment consists of existing bank loans, emerging-market, high-yield or other forms of debt obligations.

History of Asset Backed Securities

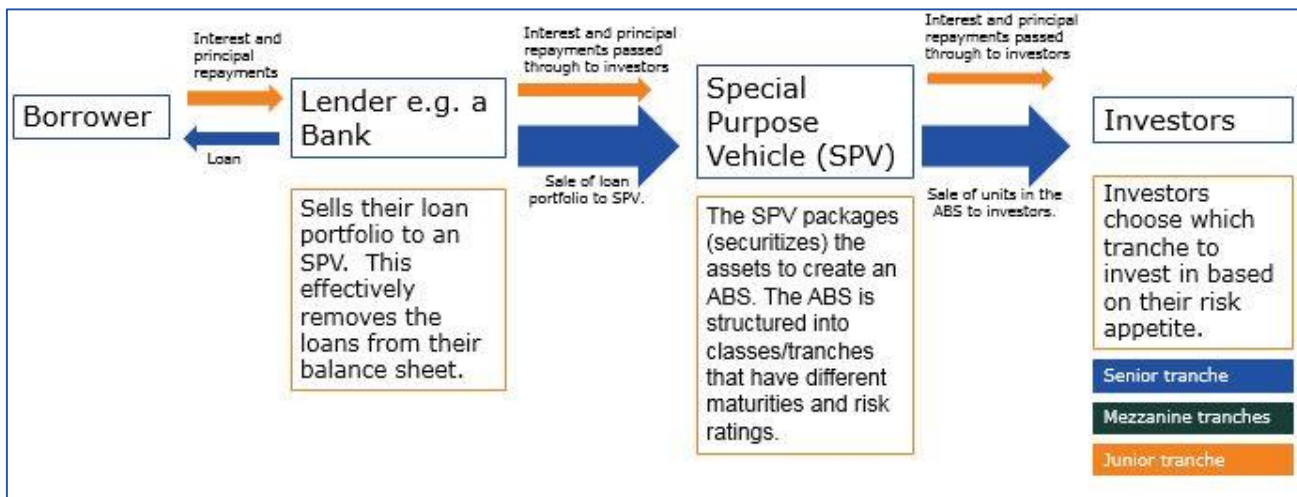


Asset Backed Securities

How it Works

When a consumer takes out a loan, their debt becomes an asset on the balance sheet of the lender. The lender, in turn, can sell these assets to a trust or “special purpose vehicle,” which packages them into an asset-backed security that can be sold in the public market. The interest and principal payments made by consumers “pass through” to the investors that own the asset-backed securities. Typically, individual securities are gathered in “Tranches” or groups of other loans with similar ranges of maturities and delinquency risks.

The benefit for the issuer of an ABS is that the issuer removes these items from its balance sheet, thereby gaining both a source of new funds as well as greater flexibility to pursue new business. The benefit to the buyer – usually institutional investors – is that they can pick up additional yield relative to government bonds and augment their portfolio diversification. ABS holders bear two main risks. Interest risk which arises when rates rise resulting in a decline in the value of their investments. When rates decline, there is a chance that investors will experience reduced cash flows caused by borrowers paying off their loans early as borrowers may opt to refinance existing loans with new, lower interest-rate loans. This is known as prepayment risk.



Global ABS market

According to the Global Structured Finance Outlook 2018 report, the global structured finance market grew by 39% in 2017 from transactions worth USD 667 billion in 2016 to USD 930 billion in 2017. The US alone accounted for USD 510 billion worth of the transactions in 2017 while Europe and China accounted for USD 82 billion and USD 220 billion respectively. S&P Global Ratings expects this trend to continue and according to forecasts expects approximately USD 1 trillion of global structured finance issuance in 2018.

The market for ABS and other derivatives in East Africa

There is currently no formal exchange on which ABS and other derivatives are traded in East Africa. However, the Nairobi Securities Exchange (NSE) received authorization from the Capital Markets Authority (CMA) to trade in Equity Index Futures and Single Stock Futures in 2015.

Whilst the plans to roll out the market have been delayed, NSE recently announced plans to roll out a test launch of its derivatives market by the end of 2018 after obtaining the necessary approvals from the Central Bank of Kenya (CBK). Stanbic Bank of Kenya and the Cooperative Bank of Kenya will participate as clearing and settlement members during the pilot testing phase.

PART V: UPCOMING EVENTS/CONFERENCES

Events	Date	Venue	Theme
Africa Mini Grids Summit	21-22 Mar 2018	Hotel Intercontinental, Nairobi, Kenya	The Africa Mini Grids Summit will cover areas such as: Analysing the Different Approaches to Mini Grids Implementation and Partnerships; Mini Grid Policies and Regulation Updates in African Countries; Advancing the Use of Green Mini Grids in Africa; Attaining the Social License to Operate from Local Communities; Avoiding Stranded Assets and Managing Investor Risks when the Grid Arrives; Hybrid Technologies Integration plus the Growing Importance of Energy Storage in Mini Grids; Attracting Big-Time Investors and Commercial End-Users to Recharge the Mini Grids Ecosystem; Pricing Issues for Africa - Affordable Costs of Energy vs Investor/Business Profits; and Investor risk vs What is Acceptable Profit in the African Context.
Africa CEO Forum	26-27 March 2018	Abidjan, Côte d'Ivoire	The Africa CEO Forum brings together more than 1000 world-class CEOs, bankers and investors. It provides a unique platform for thought-provoking discussions. The Africa CEO Forum is an opportunity for business leaders to develop their business, shape their strategy and enhance their company's competitiveness.
15th annual AVCA Conference	22-26 April 2018	Marrakech, Morocco.	The annual AVCA Conference is the largest private equity gathering globally, attracting investors who collectively manage over US\$1.5trn in assets. Over the past 15 years, the AVCA conference has become the most important forum for promoting, developing, and stimulating private investment in Africa.
East Africa Property Investment Summit	25-26 Apr 2018	Radisson Blu Hotel Nairobi Upper Hill, Nairobi, Kenya	The East Africa Property Investment Summit will cover discussions on logistics property and business, retail and franchise property investments.
5th East Africa Oil and Gas Summit and Exhibition	14-15 June 2018	Intercontinental Hotel, Nairobi, Kenya	EAOGS annually provides a platform for East African ministries and the National Oil companies to engage with international and local investors to examine the vast opportunities across East Africa. EAOGS 2018 also incorporates an exhibition where companies can display their latest products, services to their key target audience of oil and gas decision makers from around the world.
Sub-Saharan Africa M&A Forum	June, 2018	Johannesburg	The definitive event for M&A in sub-Saharan Africa returns to Johannesburg for mergermarket's annual event. Attracting 120 attendees and 20 speakers, this event helps the corporate finance and investment banking communities to forge new relationships to get deals done.
Africa Oil & Power	12-14 September	Cape Town International Convention Centre, Cape Town, South Africa	Africa Oil & Power's theme for 2018 concentrates on the best way to drive Africa's energy sectors forward — through energy coalitions, from regional cooperation at the government level and private companies coordinating on development and financing deals to how the private and public sectors can collaborate together.
Bonds Loans and Sukuk Kenya Conference Nairobi	02 Oct 2018	Villa Rosa Kempinski, Nairobi, Kenya	Bonds, Loans & Sukuk Kenya is Kenya's only annual credit market event and brings together government officials, borrowers, issuers, regulators, bankers, investors and advisors to discuss and debate pertinent developments in Kenya's debt capital markets.

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DAR –ES SALAAM

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