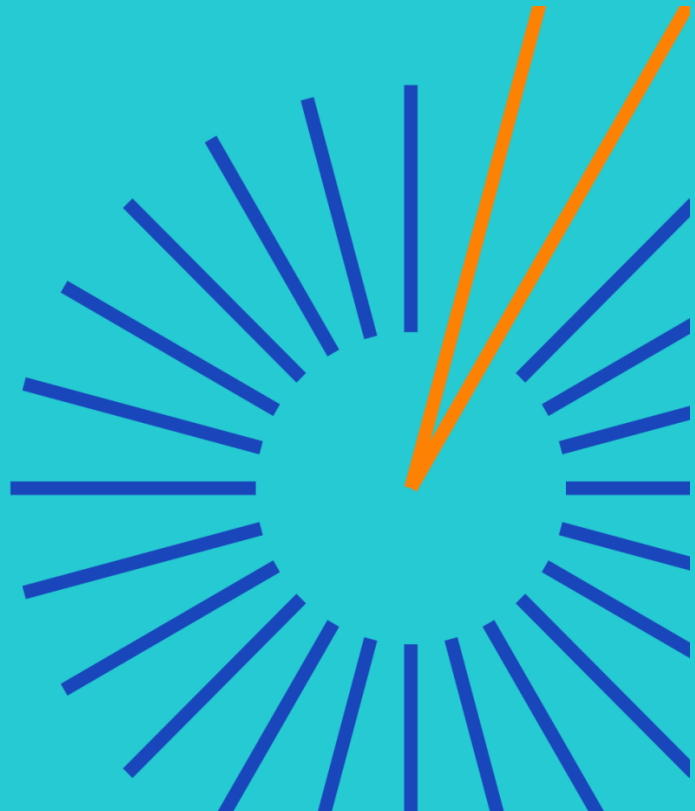




i&M Burbidge Capital

EAST AFRICA FINANCIAL REVIEW

FEBRUARY 2018



January and February in Numbers

IMBC Deal of the Month

Ascent Rift Valley acquires a majority stake in Auto Springs East Africa

9 The number of disclosed deals in EA

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

c. 30m



When growth is slower-than-expected, stocks go down. When inflation is higher-than-expected, bonds go down. When inflation is lower-than-expected, bonds go up.
- Ray Dalio.



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MONTHLY COMMENTARY



Carrying on from a resilient market in 2017, deal making in 2018 began on a slightly slower pace with 9 deals reported across the region with a combined value of c. USD 30 million over the first two months of the year. This pales in comparison to the 11 deals valued at c. USD 958 million reported in the corresponding period of 2017 and the 13 deals valued at c. USD 63 million in the previous two months.

We attribute the decline to a muted transaction origination environment and more cautious decision making in the second half of 2017 which subsequently lead to fewer deals closing as the new year rolled in. However, as we outlined in our Annual Financial Review of 2017, we believe, backed up by our own deal pipeline, that corporate deal making will follow the trend in the expected ramp up in economic and business activity leading to a gradual increase in the number of recorded transactions through the year.

IMBC's Deal of the Month is Ascent Rift Valley Fund's acquisition of a majority stake in Limuru based vehicle assembly and spare parts manufacturer, Auto Springs East Africa. The company manufactures original equipment including leaf springs, nuts, bolts and wiring harnesses for various models of commercial vehicles. The transaction is the third disclosed Private Equity investment in the automotive sector which has been dominated by mergers & acquisitions and foreign direct investment. Other Private Equity transactions in the sector have included Actis LLP's acquisition of a minority stake in Autoexpress and Pan African Investment Company's investment into Mobius, both in 2014.

In the oil and gas sector, Tullow Oil announced that it would pump an additional USD 2.9 billion into the Turkana operation targeting full-scale export of Kenya's oil, scheduled to begin in four years' time. The company plans to invest the additional amount in the development of the oil fields and the building a pipeline linking Turkana to Lamu. The gross capital expenditure is expected to comprise a USD 1.8 billion upstream investment and USD 1.1 billion for the 750-kilometre pipeline.

In the energy sector, Cayman Islands-registered oil firm Midway Resources International (MRI) announced plans to set up a gas-fired power plant in Lamu building on Kenya's rising profile as an emerging electricity production hub. Zarara Oil & Gas, MRI's subsidiary has begun work on a feasibility study to evaluate the project's technical, financial and environmental aspects. The study is expected to be completed by September 30.

In the mining sector, The Australia Stock Exchange (ASX) listed Volt Resources announced it raised USD 4.7-million to support the fast-tracking of the first stage of development of its flagship Bunyu graphite project in Tanzania. Volt aims to develop Bunyu Stage 1 to process 400 000 tonnes per year of ore and produce a nominal 20 000 tonnes per year of graphite products..

The NSE 20 Index gained 0.4% (1.1% YTD) in the month of February closing at 3750.75 points from 3737.27 points in January. Turnover however slipped to USD 175.92m down from the previous month's USD 198.61m. The bourse recorded net foreign outflows of USD 50.1m down from net foreign outflows of USD 13.76m in the previous month. Top gains in the month were marked by Unga group +50.9% m/m (+45.7% YTD) and Car and General K +34.2% m/m (21.4% YTD). Foreign investors sold Safaricom (USD 19,781.9k) and KCB (USD 11,044k) stocks and were long on DTB (3,057.9k) and Centum (1,846.9k). DTB gained 2.4% (9.4% YTD) while Centum gained 2.7% (8.0% YTD). Both were ranked among the top 20 companies by market capitalisation with DTB registering the 5th highest turnover (USD 11,728k). Uchumi Supermarket -15.5% (-34.8% YTD) and Athi River Mining -12.8% (-13.5% YTD) were the top losers of the month.

Edward Burbidge, CFA & IMBC EA Review Team

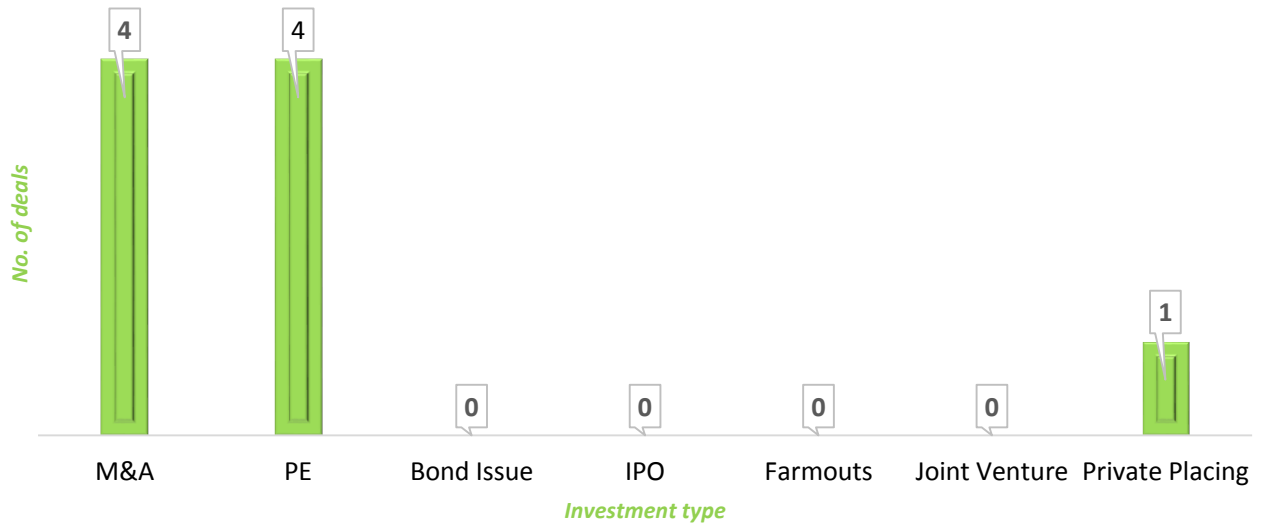
Yields on Government Securities

| | 91- Day T-bill | 2- Year Bond | 5- year Bond | 10- year bond |
|----------|----------------|--------------|--------------|---------------|
| Kenya | 8.03% | 11.80% | 12.35% | 12.90% |
| Tanzania | 3.40% | 9.21% | 12.16% | 15.09% |
| Uganda | 8.69% | 11.00% | 15.04% | 15.51% |

In this Issue

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

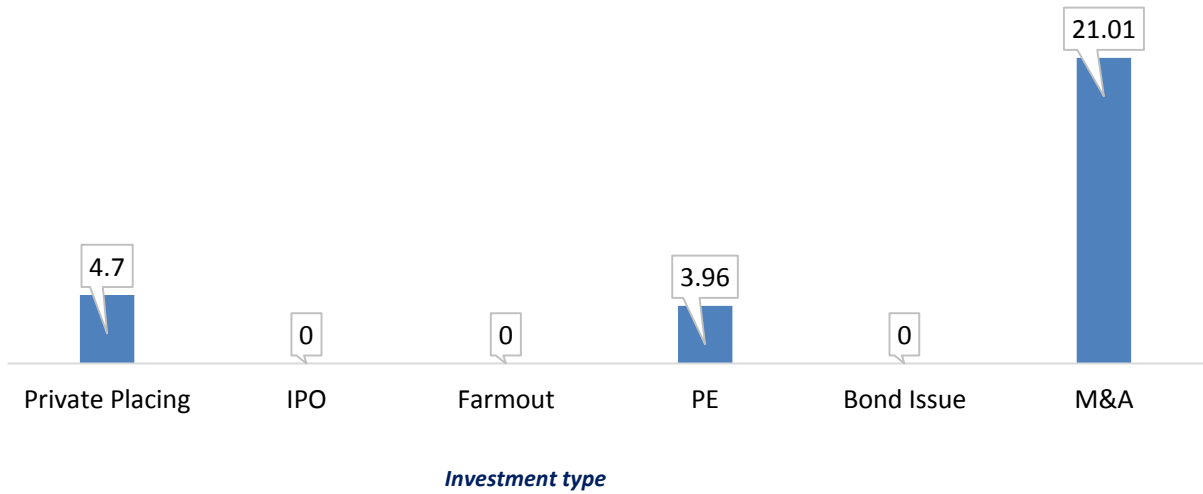
Total No.of deals in EastAfrica - 2018 YTD



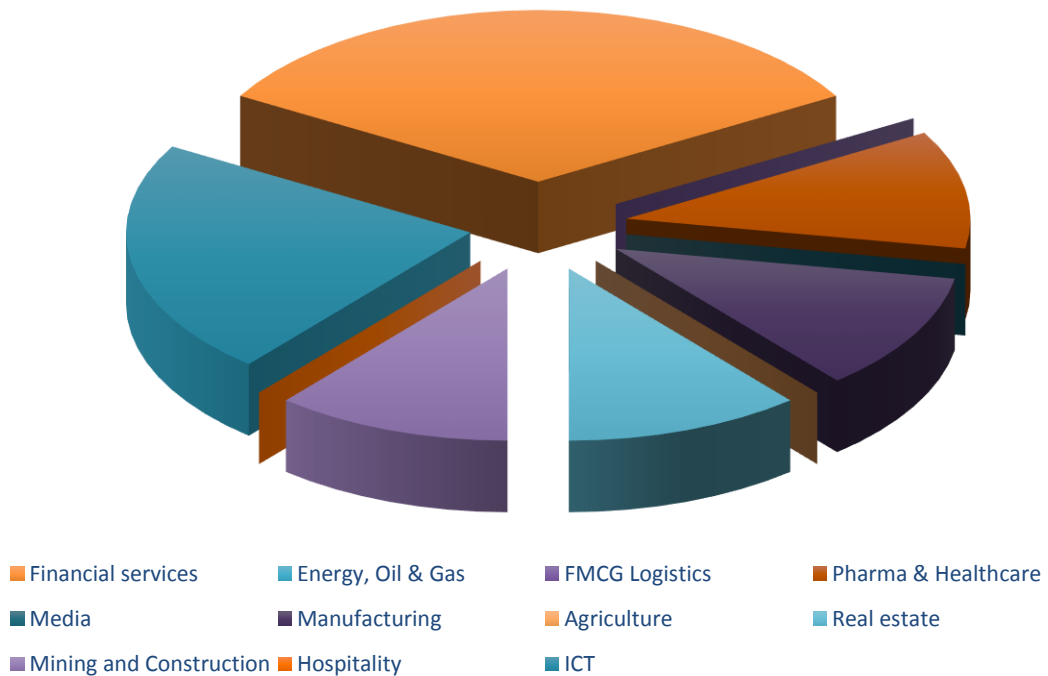
Total number of deals per month in East Africa -2018 YTD



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



No. of deals per sector - 2018 YTD²



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

²The 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) | 9.00% | 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) | 17.75% | 18.75% |
| Bank of England (UK) | 0.50% | 0.50% |
| Federal Reserve Bank (USA) | 1.50% | 1.50% |
| 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 | 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 |
|------------------|---|---------------------------------|----------------------------------|------------------------|-------------------|---------------|---|
| 09 January 2018 | Empire Capital Partners and Cove Capital | Volt Resources limited | 4.7 | Mining | Private Placement | Tanzania | Tanzanian-focused flake graphite development company Volt Resources Limited aimed to raise a further USD 4.7 million after entering into an Option Underwriting Agreement with Empire Capital Partners Pty Ltd and Cove Capital Pty Ltd. Under the agreement, Empire and Cove have agreed to act as joint underwriters to exercise any shortfall arising from Volt's 233,648,431 listed options exercisable at \$0.02, with an expiry date of 31 December 2017. The total amount to be raised from the exercise of the listed options and therefore the amount underwritten is approximately USD 4.7 million. |
| 18 January 2018 | Kuramo Capital | Sterling Capital | | Financial Services | PE | Kenya | Kuramo Capital, a New-York based private equity firm, has completed a transaction to acquire a minority stake in Kenyan investment bank Sterling Capital for an undisclosed amount. The acquisition follows the reinstatement of Sterling's investment banking license in October 2017, after it was downgraded to stockbroker level in 2011, after it failed to meet CMA's revised minimum capital limit for market players |
| 26 January 2018 | Metrofile | G4S Secure Data Solutions Kenya | 21.01 | ICT | M&A | Kenya | South African records and information management firm Metrofile confirmed it completed the acquisition of G4S Secure Data Solutions Kenya (SDS Kenya), one of the largest records management companies in East Africa. The company will take over the operations and staff of the Nairobi firm. Capital for the deal had been raised through internal resources and debt facilities, with the company's board saying it had opted not to raise additional capital by way of a rights issue or placement. |
| 05 February 2018 | International Finance Corporation (IFC) | Goodlife | 2.97 | Pharmaceuticals | PE | | International Finance Corporation (IFC), the investment arm of the World Bank has announced that it will invest KES 300 million (USD 2.97 million) in Kenya's leading pharmacy brand Goodlife Pharmacy. The funds will be used to open 100 drug stores across East Africa and hopefully reach about 4 million customers. If executed right, Goodlife Pharmacy will become the leading retail pharmacy chain in the East African region |
| 08 February 2018 | Turner & Townsend | Mentor Management Limited | | Real Estate | M&A | Kenya | Turner & Townsend acquired majority stake in MML from leading growth markets investor – Actis. The new entity, MML Turner & Townsend, will operate across the real estate, infrastructure and natural resource industries. Turner & Townsend's existing team will join MML's Nairobi operation, as a combined team of over 40 experts, delivering a range of services including: advisory, programme management, project management and cost management. |
| 12 February 2018 | BitPesa | TransferZero | | Financial Services/ICT | M&A | Kenya | BitPesa, the blockchain payments platform announced their acquisition of TransferZero, an international, online money transfer platform that specializes in sending money to consumers and companies in 200 countries using over 50 different currencies. TransferZero is the first FinTech company licensed by the Bank of Spain as an authorized payment institution and was founded in May 2016. TransferZero has network integrations on four continents, and a team with decades of experience working with enterprise clients in need of global payment solutions. They are the only remittance company that does not charge a fee, aside from a small percentage in the FX. Under the acquisition, TransferZero will continue to operate under the same brand name and all of its employees will stay with BitPesa. The headquarter will remain in Madrid. |
| 12 February 2018 | Ascent | Auto Springs East Africa | | Manufacturing | PE | Kenya | Ascent Rift Valley Fund (ARVF), signed an investment deal that will see it acquire a majority stake in Auto Springs East Africa. The deal is their first investment in the auto-mobile industry in the region and their second investment in Kenya. The Limuru-based factory produces a wide range of products for the motor assembly and vehicle spare parts industry including a variety of wiring harness, leaf springs, nuts, bolts and washers to fit cars, trucks and SUVs. Ascent Rift Valley Fund will acquire a majority stake in Auto Springs East Africa in a partnership deal with SFC Finance Limited (SFC), a non-bank financial institution which provides secured medium and long-term debt financing to SMEs in Africa. Ascent announced the financing will be used for product expansion and factory improvements. |
| 16 February 2018 | Fonds Européen de Financement Solidaire (Fefisol) | Musoni | 0.99 | Financial Services | PE | Kenya | Luxembourg-based private equity (PE) firm Fonds Européen de Financement Solidaire (Fefisol) has invested Sh100 million in Musoni Microfinance Ltd that targets small-scale farmers and the informal sector. The funds will go towards developing financial products that stimulate food production and agri-business. It uses Safaricom's M-Pesa platform and real-time gross settlement (RTGS) transfers to conduct its digital lending. |
| 20 February 2018 | Commercial Bank Africa (CBA) | Crane Bank Rwanda (Dfcu Bank) | | Financial Services | M&A | Kenya, Rwanda | Kenyan mid-tier Commercial Bank Africa (CBA) acquired Crane Bank Rwanda from Uganda's Dfcu Bank. CBA received regulatory approvals from Kenya, Uganda and Rwanda central banks. The deal, which was concluded last week, will save the Kenyan lender the lengthy process of starting a greenfield operation as a commercial bank in Rwanda. CBA has operations in Kenya with 33 branches, Tanzania 11 and two in Uganda. The lender entered Rwanda in 2016 with a microfinance licence offering a mobile banking service, MoCash. CBA is expected to start banking operations in March in the three branches in Kigali that were owned by Crane Bank |

MEZZANINE FINANCING

Mezzanine financing is a hybrid financial instrument that has features of both debt and equity. It most commonly gives the lender the right to convert their debt investment to equity interest in the company at a pre-determined price. Mezzanine financing expands the leverage capacity of a business without the associated immediate high interest costs. It may provide for equity-like features such as share purchase warrants or participation in cash flow. This type of financing is usually subordinated debt and as such has higher interest costs to compensate investors for the higher risk profile. Funds lent under this structure are almost always lent in US dollars which introduces currency risk to business financed under such models where most of their cash inflows are in local currencies.

In developed markets, this instrument is typically used to fill a gap in the capital structure; providing additional levered investments for over-invested Private Equity funds. In emerging markets such as Africa, mezzanine financing is a key tool in addressing the narrow band of sources of capital in the mid-market, especially for small and medium sized companies looking to raise between USD 5 - 20 million. Mezzanine financing also provides established but highly geared companies access to capital that is usually more flexible. It has a less dilutive effect when compared with private equity investment for entrepreneurs or family owned businesses looking to retain control as the debt conversion to equity kicks in much later in the investment tenor, giving the promoters more time to increase the value of the business.

The structure of a mezzanine investment will vary on a case by case basis but ultimately depends on the cash flow profile of the company. There are, however, common features that drive the composition of a mezzanine investment: The first is the contractual element, comprising both cash interest and PIK (“pay-in-kind”) interest, which accrues and is paid when the loan is repaid in full (a benefit of PIK interest is that it enables the company to efficiently defer payment of a portion of its interest, reducing the immediate financial burden on its cash flows allowing it to invest cash into growing its business). The second component of a mezzanine instrument, as is structured, is the equity kicker or option, which through a variety of mechanisms, entitles the investor to acquire or have a right to an equity stake in the company at a fixed price for a fixed percentage that is agreed upfront.

Debt-like Instruments



▪ Junior/ Partially unsecured Mezzanine Loans

• Loans with tailored repayment structure and flexibility on collateralization requirements. Payments to the fund manager are sculpted around the specific situation of a company, often allowing for long grace periods or seasonality on principal repayments and interest payment

▪ Bullet Repayment

⑩ A bullet repayment is a lump sum payment for the entirety of a loan amount paid at maturity. Loans with bullet repayments are also referred to as balloon loans, and are commonly used in business loans to reduce monthly payments. The existence of a bullet repayment due at a loan’s maturity often necessitates advanced planning to have a refinancing facility in place, unless the borrowers have cash to pay off the lump sum

▪ Payment in Kind

⑩ Payable in kind interest is a periodic form of payment in which the interest payment is not paid in cash but rather by increasing the principal amount of the security in the amount of the interest.

▪ Royalty based lending

• Provides the investor with a base interest plus royalties, which are payments that are dependent on the performance of the company, usually a percentage of revenue or EBITDA.

▪ Equity Kicker

• Loan agreement under which a lender agrees to charge lower than normal interest rates in return for a share of ownership in the property or business for which loan is advanced.

▪ Convertible loans

• Typically a loan with a maturity date and a regular repayment schedule, and an option to convert the loan into shares of the company

▪ Preference shares

• Shares which have preference over ordinary shares, including priority in receipt of dividends and upon liquidation, often with a fixed annual dividend

▪ Redeemable equity

• Mostly similar to ordinary shares, but with a right to sell the shares back to the entrepreneur (put option), typically using a predetermined price or a formula

Equity-like Instruments

Mezzanine Financing is growing rapidly as an investment structure in East Africa and we see an increasing proportion of corporate transactions containing an element of mezzanine financing. For example, in 2012, the Africa Finance Corporation provided USD 50 million to ARM Cement in a convertible loan and just recently, 11 Kenyan banks converted their loan stock in the Kenyan national carrier, Kenya Airways to equity.

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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