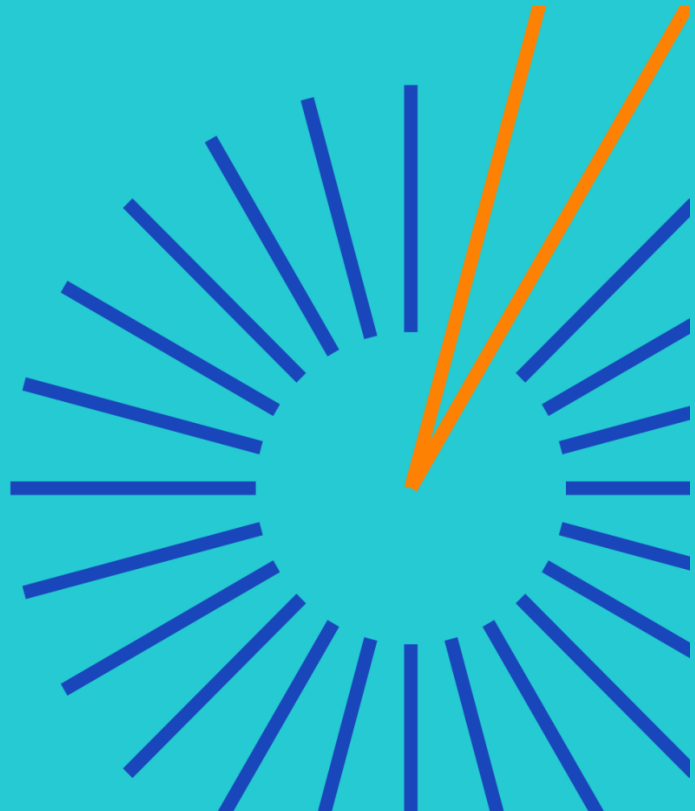




i&M Burbidge Capital

EAST AFRICA FINANCIAL REVIEW

APRIL 2018



IMBC Deal of the Month

Vantage Capital's USD 8 million mezzanine investment into Thara Limited.

11 The number of disclosed deals in EA

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

c. 89



I think the first thing is that you should have a strategic asset allocation mix that assumes that you don't know what the future is going to hold.
- Ray Dalio.



i&M Burbidge Capital

MONTHLY COMMENTARY



The Editorial Team

EDWARD BURBIDGE | LOREINE DOTTI | KEVIN KURIA

2Q2017 kicked off to a strong start with 11 corporate deals valued at c. USD 89 million announced in April, a significant rise from the previous month which recorded 7 deals worth c. USD 19 million and the same month in 2017 that recorded 5 deals worth c. USD 26 million. As we noted in our March 2018 edition, we have witnessed a resurgence in investor optimism and business confidence and expect that it will translate into significantly higher deal flow through the year.

The majority of deals were recorded in the ICT and Fintech sectors which have in recent years witnessed significant growth in both volumes and deal sizes. We are particularly keen on the Fintech and IT enabled energy spaces which have attracted significant investment from Silicon Valley based investors and homegrown technology funds. These sectors are well placed to take advantage of the favourable demographics, high levels of internet connectivity, culture of innovation and supportive government policies. We believe that transactions within these sectors will continue to increase in number and size in the medium and long term.

In our technical flashpoint series, we look at Syndicated Loans. Both governments and the private sector in the region have increased their investing activities in a high risk environment within the last decade which has necessitated the introduction of sophisticated funding structures that not only provide capital but also provide financiers with risk mitigation options. Syndication is one such mechanism that has seen uptake from both the government and the private sector. These facilities also enable small and medium sized banks to participate in large ticket transactions that they otherwise wouldn't be able to. Our subject matter expert, Swathi Rao, delves into the structures commonly used in these facilities and offers a bird's eye view of the process.

IMBC's deal of the month is the USD 8 million mezzanine investment by Vantage Capital, one of Africa's leading mezzanine funds, into Thara Limited, the developer of the high end Rosslyn Riviera Mall located in the upmarket suburb of Rosslyn/Runda in Nairobi. The transaction is significant in a number of ways as it is the first investment by Vantage Capital in Kenya and it raises the profile of mezzanine funding in the region which is ideal for quality real estate developments and other project based businesses with a significant lead time to cash flow generation.

In the Oil and Gas sector, the International Finance Corporation (IFC) announced it will lend USD 48 to Mombasa Gas Terminal Limited (MGT) to construct a liquefied petroleum gas (LPG) terminal in the port of Mombasa. The terminal will include a private berth for unloading mid-sized LPG carriers, an onshore storage whose capacity is 22,000 metric tonnes and associated infrastructure that will have multiple landing points for transfer of LPG to transport vehicles.

In the Energy sector, it was announced that Tanzania will start construction of the Stiegler's Gorge Power Generation Project in July, hoping to more than double its electricity production capacity in the next three years as part of its plans to become electricity sufficient and export the surplus. The plant will produce 2,100MW. The dam on the Rufiji River in the Selous Game Reserve will be the largest in the country.

In the listed equities market, the NSE 20 Index declined by 2.9% closing at 3735.06 (YTD 0.7%) in the month of April. Foreign investors were net sellers with net outflows of USD 19.64 million during the month (YTD outflow of USD 94.73 million). High foreign investor demand was witnessed on banking counters including Equity Bank (USD 1.58 million, YTD 23.9%), Barclays Bank (USD 0.71 million, YTD 38%) and Co-op Bank (USD 0.49 million, YTD 15.9). Safaricom, Equity Bank and KCB were the top 3 movers during the month, jointly accounting for 72.0% of total turnover.

Edward Burbidge, CFA & IMBC EA Review Team

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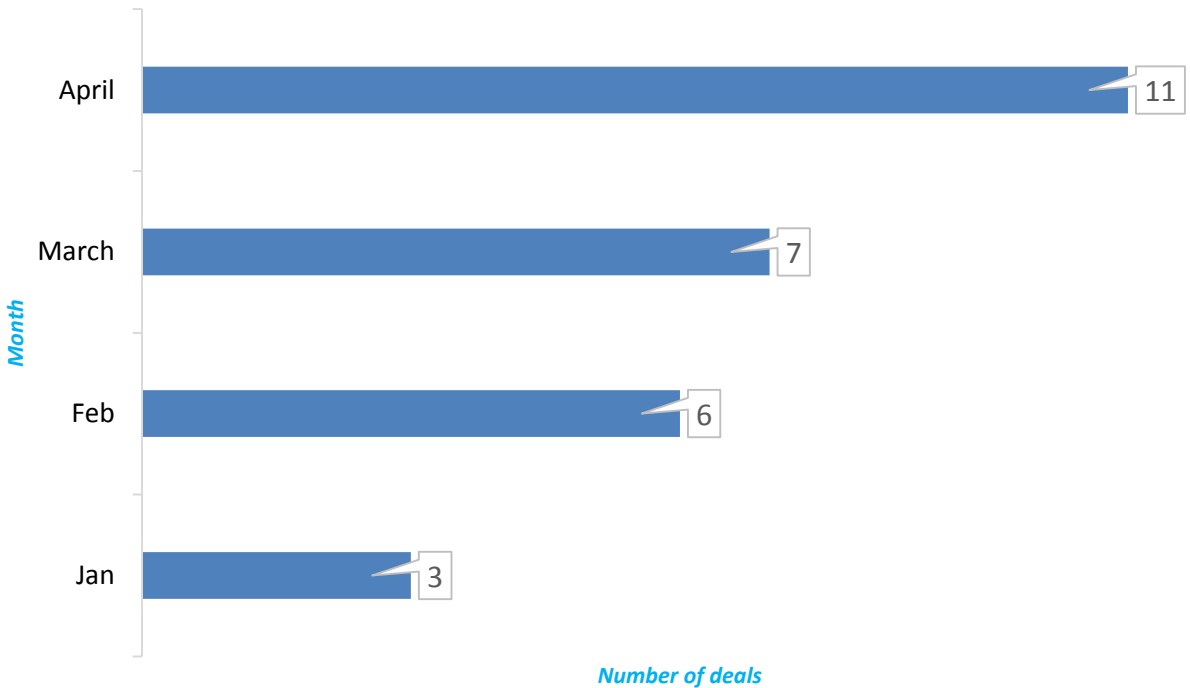
mellanie.nganga@isbi-kenya.org

sophie.ndwiga@imburbidgecapital.com

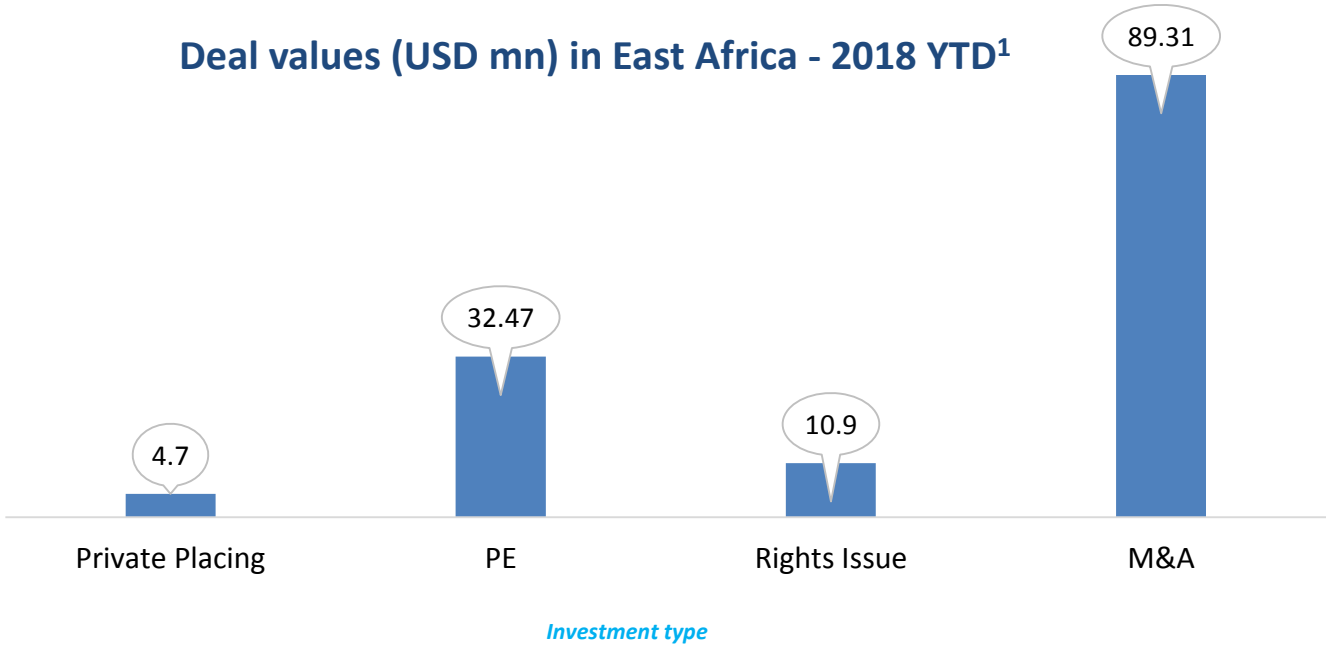
Total No.of deals in EastAfrica - 2017 YTD



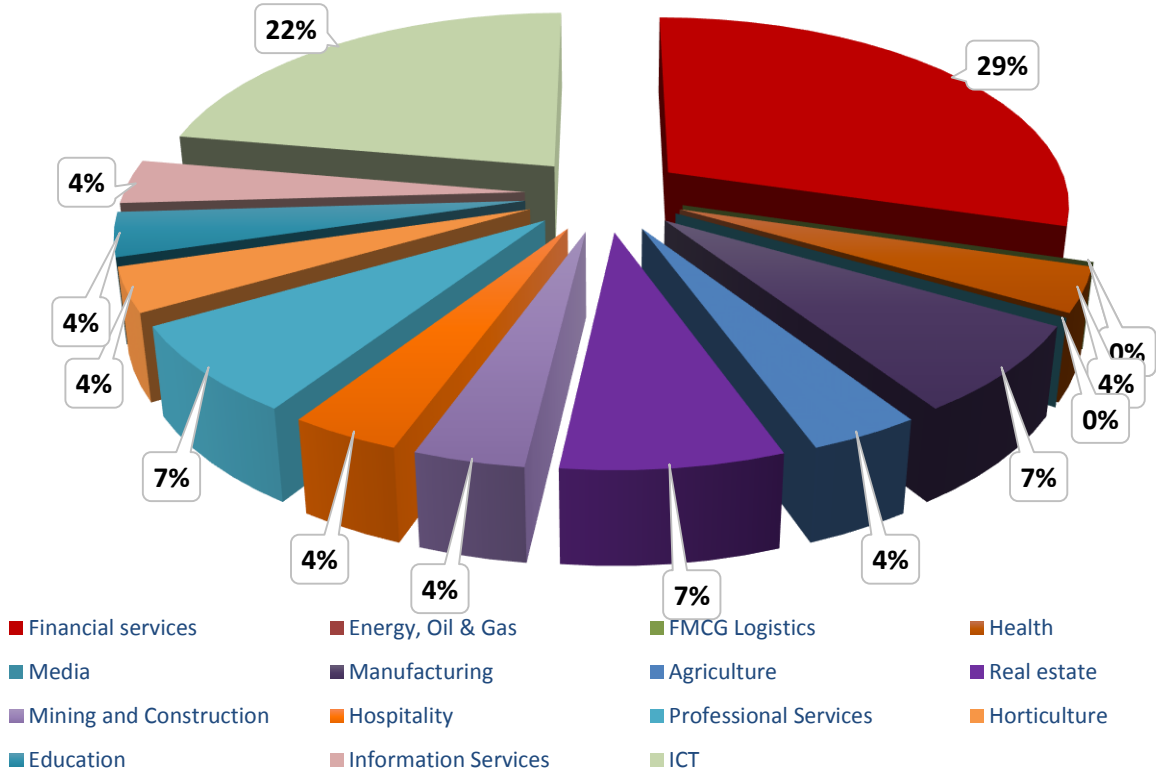
Total number of deals per month in East Africa -2018 YTD



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

Yields on Government Securities

	91- Day T-bill	2- Year Bond	5- year Bond	10- year bond
Kenya	7.97%	11.70%	12.65%	13.15%
Tanzania	1.96%	8.52%	11.06%	13.86%
Uganda	8.76%	11.20%	13.50%	14.30%

Interest Rates

Country/Region	Current Base Rate	Previous Base Rate
Central Bank of Kenya (Kenya)	9.50%	9.50%
Bank of Uganda (Uganda)	9.00%	9.00%
Bank of Tanzania (Tanzania)	9.00%	9.00%
South African Reserve Bank (RSA)	6.50%	6.50%
Central Bank of Nigeria (Nigeria)	14.00%	14.00%
Central Bank of Egypt (Egypt)	16.75%	16.75%
Bank of England (UK)	0.50%	0.50%
Federal Reserve Bank (USA)	1.75%	1.75%
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
03 April 2018	AdvTech, Paul Scholes	Makini Schools	undisclosed	Education	M&A	Kenya	An investor group, comprised of ADVTECH Ltd and Paul Scholes acquired Makini Schools. Terms of the transaction were not disclosed.
05 April 2018	I&M Insurance Agency Ltd	Youjays Insurance Brokers Ltd	undisclosed	Financial Services	M&A	Kenya	I&M Insurance Agency Ltd, a unit of I&M Holdings Ltd, acquired the entire share capital of Youjays Insurance Brokers Ltd, a Nairobi-based insurance agency.
09 April 2018	North Base Media, CRE Venture Capital, Singularity Investments, Lateral Capital, LC Partners, Spice Fund, Outlierz Ventures, and Zephyr Acorn	Asoko Insight	3.60	Information Services	M&A	Kenya	African corporate information platform Asoko Insight has completed a US\$3.6 million Series A fundraising round as it moves into the next stage of its pan-African expansion plan. Asoko Insight operates through research bases in Accra, Lagos, Nairobi, Addis Ababa and Abidjan, collecting and analysing company information through channels such as technology, partnerships and teams of research analysts and data services personnel. Early shareholders, including North Base Media, CRE Venture Capital, Singularity Investments and Lateral Capital, participated in the funding round, joined by new participants such as LC Partners, Spice Fund, Outlierz Ventures, and Zephyr Acorn. The round was oversubscribed by 20 per cent.
18 April 2018	Revolution Growth, IVP, Data Collective, Lowercase Capital, Ribbit Capital and Female Founders Fund.	Tala	64.70	Financial Services	M&A	Kenya	Mobile lending firm Tala raised Sh6.5 billion in a recent round of investment funding to be spent on product development and further deepening its market reach in the country. The company, which intends to launch operations in India and Mexico later this year, said the Series C funding was led by Revolution Growth with existing investors IVP, Data Collective, Lowercase Capital, Ribbit Capital and Female Founders Fund participating in the exercise. Series C funding is a company's third round of capital injection from outside sources.
19 April 2018	TLcom Capital	mSurvey	3.50	Technology	PE	Kenya	mSurvey, a Kenyan start-up that uses mobile phone short-messaging to gather customer feedback for clients, secured USD 3.5 million to fund expansion into Nigeria and South Africa. The firm, founded in 2012 with backing from Kenyan telecoms operator Safaricom, collects feedback for Kenyan firms including lender CBA Group and Java, a chain of coffee shops. The company's new funding round this month was led by Africa focused venture firm TLcom Capital, with investment from Social Capital, Kapor Capital and Golden Palm. The new funding round, which was destined for Africa expansion, followed seed investment rounds from Cross Culture Ventures, Alpha Angels and Safaricom's Spark Venture Fund. Griffith co-founded mSurvey with a Kenyan partner.
22 April 2018	Digital Financial Services	Cherehani	0.20	Technology	PE	Kenya	Two Kenyan financial technology (fintech) start-ups are among four selected to benefit from a Sh20 million grant from US-based Digital Financial Services Lab (DFS Lab). DFS will inject an undisclosed seed capital in Cherehani Africa, whose mobile-based technology on credit and personalised financial literacy content distribution service targets women and girls running micro-enterprises.
23 April 2018	DOB Equity	Sarura Commodities	undisclosed	Agriculture	PE	Rwanda	DOB Equity, a Dutch family-backed impact investor, has made its first investment in Rwanda's Sarura Commodities. The funds will help the grain trader to improve its storage infrastructure, promote its sourcing platform, and expand its operations in Rwanda's premium grain market.
25 April 2018	Vantage Capital	Thaara Ltd	8.00	Real Estate	PE	Kenya	Vantage Capital, Africa's largest mezzanine fund manager provided \$8 million of funding to Rosslyn Riviera Shopping Mall, a convenient neighbourhood shopping mall in the upmarket suburb of Rosslyn/Runda in Nairobi that officially opened for trading in 2017. Sitting on 4.5 acres, Rosslyn Riviera combines the atmosphere of modern world class design against the backdrop of nature that takes advantage of a natural river on the property. It is spread over 18,211 sq.m of customer paradise offering visitors a selected blend of shopping, comprising of grocery, fashion, dining, health, wellness and entertainment establishments.
26 April 2018	WPP Scangroup	Kantar TNS	undisclosed	Professional Services	M&A	Kenya	WPP Scangroup announced it has reached an agreement to acquire a majority stake in Research and Marketing Group Investment Limited which runs Kantar TNS. The acquisition is subject to approval by Kenya's Capital Markets Authority and WPP Scangroup's shareholders. Once approved, WPP Scangroup will acquire 70 percent stake in Research and Marketing Group Investment Limited held by Russell Square Holdings BV (a subsidiary of WPP Plc) and 10 percent of the remaining 30 percent stake will be held by International Research and Marketing Group Holdings Limited.
30 April 2018	Orange Digital Ventures Africa	Africa's Talking	8.60	Technology	PE	Kenya	Orange Digital Ventures Africa, the Orange investment fund's new initiative for Africa launched last June, helped Africa's Talking to raise \$8.6 million (Sh860million) alongside the IFC World Bank and Social Capital. Based in Nairobi, Kenya, Africa's Talking is currently providing access to telecom operators' communication and payment APIs (programming interfaces) for developers. The transaction is subject to the usual conditions precedent, including the approval of Kenya's competent authorities. Upon completion, Africa's Talking plans to accelerate its internationalisation to support its clients' expansion strategies. Beyond Kenya, the company has started working in Uganda, Rwanda, Tanzania, Malawi, Nigeria and Ethiopia.
30 April 2018	American Tower Corporation	Jamhuri Holdings Limited	undisclosed	Telecommunications	M&A	Kenya	American Tower Corp of the US planned to acquire 723 towers of Telkom Kenya Ltd, a Nairobi-based wired telecommunications carrier, owned by Jamhuri Holdings Ltd.

Syndicated Debt Facilities



Swathi Rao

Analyst – Corporate Finance

A syndicated loan, also known as a syndicated bank facility, is a process by which more than one lender comes together under a common loan agreement and terms & conditions to provide a loan facility to a borrower. Such a facility is put together by an arranger(s) and managed by a designated facility agent through the life of the loan.

The syndicated loan market can trace its origins back to the 1960s. At its inception, the syndicated loan market was principally used by sovereigns to finance the development of infrastructure and other projects. Today, however, large corporates commonly use this to finance acquisition transactions or expansion projects.

For a borrower, while the primary purpose of a syndicated loan is to raise money, it has other benefits as well. It can be used to develop new banking relationships or just as easily reduce the number of bank relationships. A syndicated loan can also enhance a borrower's market profile.

There are several reasons why lenders would want to spread the exposure from a large chunk of debt amongst themselves, chief amongst them being that the banks need to achieve diversification in their loan portfolios. Additionally, for small and mid-sized banks, participating in syndicated loans can give these banks a chance to lend to borrowers in regions and industries to which they might otherwise have no convenient access.

Banks are usually restricted in terms of the amount that can be lent to a single borrower more commonly known as single obligor limit. This usually varies from 15-25% of the capital as is determined by the local regulators. Occasionally, banks are limited by their capital adequacy ratios and to avoid taking on significant exposures on their balance sheet may choose to share them with other banks.

Syndication Structures

To the borrower, the syndicated facility is a single loan whilst to the lenders, and legally, the loans are independent of each other. This presents a unique situation where none of the lenders in syndication transactions can take enforcement action without majority votes of the entire consortium being in favor of such enforcement action. The security is also shared on a pari-passu basis where each lender ranks as per their contribution and is paid pro-rata of all payments or recovery. There are three types of syndicated loans:

Underwritten Deal

Under this arrangement, the lead agent or underwriter, usually the originating bank, guarantees and syndicates the entire loan. If the loan has not been fully subscribed, the lead agent is usually obligated to absorb the undersubscribed portion. Then, if market conditions are bullish, the lead agent can sell to other investors the undersubscribed amount of the loan that it has absorbed. However, if markets are bearish, the lead arranger may be forced to sell any undersubscribed portion at a discount or simply consider the whole thing as a loss.

There are several reasons why a bank may decide to become the underwriter. First, this type of loan can make a financial institution look more competitive and thus enhance its ability to win similar mandates. Secondly, syndicated loan transactions attract higher fees for the lead arranger as a reward for attracting other banks to the offer and structuring the transaction. This translates into additional profit centres for the bank. Lastly, underwritten deals now have floating interest rates, thus the risks are no longer as high as debts with fixed rates.

Club Deal

This type of syndication usually involves a smaller amount as compared to underwritten loans. The main feature that makes this type of syndicated loan unique is the fact that the lead agent and other members of the club deal consortium all have an equal or nearly equal share of the fees earned from the loan facility.

Best-Efforts Syndication Deal

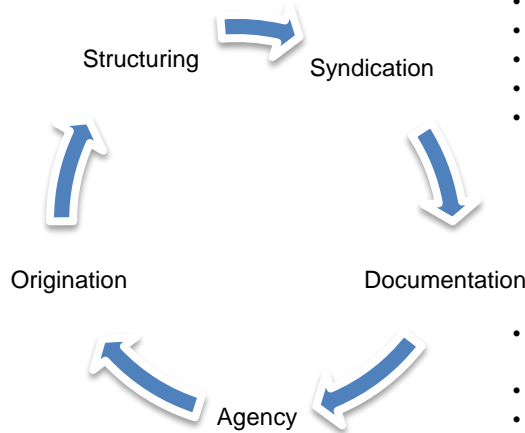
This is the most common type of Syndicated Loan Facility. Under this arrangement, the lead agent does not commit or guarantee the entire amount of the loan and any undersubscribed portion of the loan is filled up by taking advantage of changes in market conditions. However, if the loan continues to be undersubscribed, the borrower may be forced to accept a lower loan amount or the transaction is cancelled entirely.

Syndicated Debt Facilities

Loan Syndication Process

Continuity throughout the life of the loan provides for efficient execution

- Term Sheets
- Negotiations
- Projections
- Mandate Letters
- Commitment Letters
- Fee Letters



- Marketing Material
- Information Memorandums
- Company Presentations
- Road-show
- Bank Meetings
- Follow-up Prospective Lenders

- Identifying Business Opportunities
- Financing Discussions w/ Management
- Pitch Books

- Drafting of Loan Documentation
- Managing Syndicate Banks
- Transaction Management

- Day-to-day Business (i.e. Postings to Intralinks of Financial Reports, Insurances, Compliance Certificate, Broker Valuations, Press Releases, Presentations)
- Amendment Requests, Waiver, Restructurings, Work-outs

Whilst syndicated loan transactions are usually not made public, we believe that the market for these transactions will grow significantly in the medium term driven by several factors among others being – restrictions in loan pricing imposed by the rate cap law, increased foreign investment in the country and the government’s push for inclusion of the private sector in infrastructure funding.

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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i&M Burbidge Capital

CONTACT US:

HEAD OFFICE:

3rd Floor Block A, Eldama Park,
Eldama Ravine Road, Westlands,
P.O. Box 51525-00100,
Nairobi, Kenya.

Tel: +254 719 088 160 | +254 732 100 160 |
+254 (20) 322 1160

UGANDA OFFICE:

Suite FC6
1st Floor, Crown House,
4a Kampala Road,
P.O. BOX 3331,
Kampala, Uganda.

Tel: + 256 (0) 794 476 967

CONTACTS OF THE EDITORIAL TEAM



Edward Burbidge, CFA
Chief Executive Officer
edward.burbidge@imburbidgecapital.com



Loreine Dotti
Analyst – Corporate Finance
Loreine.dotti@imburbidgecapital.com



Kevin Kuria
Analyst – Corporate Finance
kevin.kuria@imburbidgecapital.com

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