

## Eastern Africa Newsletter – January 2013

### PART I: KEY MARKET INDICATORS

#### Key Africa Equity Indices Performance

Equity Index	02/01/2012	01/12/2012	31/12/2012	% Ch. m/m	% Ch. Year to 31 Dec 2012
NSE20	3,212.86	4,063.09	4,133.02	1.7%	28.6%
DSEI (TZ)	1,303.23	1,476.72	1,485.63	0.6%	14.0%
UGSINDX	832.59	1,174.79	1,203.79	2.5%	44.6%
NGSE All Share	20,730.63	26,380.68	28,078.81	6.4%	35.4%
EGX 30	3,679.96	4,894.64	5,462.42	11.6%	48.4%
JALSH (SA)	31,985.67	38,049.74	39,250.24	3.2%	22.7%
S&P 500	1,258.86	1,409.46	1,426.19	1.2%	13.3%
FTSE 100	5,572.28	5,871.24	5,897.81	0.5%	5.8%

#### Key Global Currency Performance

Currency	02/01/2012	01/12/2012	31/12/2012	% Ch. m/m	% Ch. Year to 31 Dec 2012
KES / USD	85.10	85.53	86.10	-0.7%	-1.2%
TZS / USD	1,582.00	1,578.00	1,582.12	-0.3%	0.0%
UGX / USD	2,480.00	2,680.46	2,694.98	-0.5%	-8.0%
ETB / USD	17.29	18.20	18.27	-0.4%	-5.4%
ZAR / USD	8.07	8.89	8.49	4.8%	-4.9%
NGN / USD	162.30	157.35	156.15	0.8%	3.9%
EGP / USD	6.03	6.11	6.35	-3.8%	-5.1%
USD / GBP	1.55	1.60	1.63	-1.5%	-4.6%
EUR / USD	0.77	0.77	0.76	-1.5%	-1.5%

#### Key Global Commodity Performance

Commodity	02/01/2012	01/12/2012	31/12/2012	% Ch. m/m	% Ch. Year to 31 Dec 2012
Gold	1,590.00	1,718.00	1,664.00	-3.1%	4.7%
Oil	102.96	88.69	91.83	3.5%	-10.8%
Silver	2,878.00	3,342.00	2,995.00	-10.4%	4.1%
Copper	7,660.50	7,975.25	7,914.75	-0.8%	3.3%

#### Key Events

- London firm hires top analyst in hunt for corporate deals
- EA a major market for private equity
- Fund raising to be very competitive this year

#### Burbidge Capital Limited

##### Head Office:

4<sup>th</sup> Flr, Nivina Towers, Westlands Road,  
Nairobi, Kenya  
Tel: +254 (0) 20 2100 102

##### Uganda Office:

7th Floor, Course View Towers,  
Plot 21 Yusuf Lule Road, P.O. Box 7519,  
Kampala, Uganda.  
Telephone is +256 (0)312 314384

##### London Office:

i4 Albany, Piccadilly  
London, W1J 0AX  
Tel: +44 (0) 207 099 1452  
[info@burbidgecapital.com](mailto:info@burbidgecapital.com)

[www.burbidgecapital.com](http://www.burbidgecapital.com)

#### CONTACTS



**Edward Burbidge CFA**  
Managing Director  
[edward.burbidge@burbidgecapital.com](mailto:edward.burbidge@burbidgecapital.com)



**Vimal Parmar CFA**  
Head of Equity Research and Trading  
[vimal.parmar@burbidgecapital.com](mailto:vimal.parmar@burbidgecapital.com)



**Michael Chomba**  
Associate Director - Corporate Finance  
[michael.chomba@burbidgecapital.com](mailto:michael.chomba@burbidgecapital.com)



**Joel Ssemukaaya CFA**  
Corporate Finance Associate  
[joel.ssemukaaya@burbidgecapital.com](mailto:joel.ssemukaaya@burbidgecapital.com)



**Nicholas Immonje**  
Corporate Finance Analyst  
[nicholas.immonje@burbidgecapital.com](mailto:nicholas.immonje@burbidgecapital.com)



**James Njugunah**  
Corporate Finance Analyst  
[james.njugunah@burbidgecapital.com](mailto:james.njugunah@burbidgecapital.com)



**Gerald Njugi**  
Corporate Finance Analyst  
[gerald.njugi@burbidgecapital.com](mailto:gerald.njugi@burbidgecapital.com)



**Beatrice Gitu**  
Corporate Finance Analyst  
[beatrice.gitu@burbidgecapital.com](mailto:beatrice.gitu@burbidgecapital.com)



**George Otim**  
Corporate Finance Analyst  
[george.otim@burbidgecapital.com](mailto:george.otim@burbidgecapital.com)



**May Mumo**  
Corporate Finance Analyst  
[may.mumo@burbidgecapital.com](mailto:may.mumo@burbidgecapital.com)



**Winnie Karanja**  
Corporate Finance Analyst  
[winnie.karanja@burbidgecapital.com](mailto:winnie.karanja@burbidgecapital.com)



Unsurprisingly, it was a fairly quiet month of deal making in December 2012, although the new year has already started with the announcement of a number of deals that were being structured at the end of the year. We have seen further improvement in the macro picture across the region with inflation continuing to decrease and interest rates being cut further, most notably in Kenya where CBK cut the CBR by 150 basis points to 9.5%. In Ethiopia, inflation has declined, somewhat unbelievably, from 36.3% to 13% in the last year, and this picture has been mirrored across the region. We will watch with interest to see the level that commercial banks now lower their base lending rates to. In particular, we would be keen to see a reduction in margins from East African banks, who have reported very good profitability growth in the last year. Lower rates may further support credit extension in the economy in the next 3-6 months, ideally to the consumer / prospective homeowner.

In M&A, two deals have already been announced in January, in the Horticulture sector (please see our Deals section) and in Private Equity we have seen two exits, one in the financial sector and one in agriculture. In 2012 we calculate there were 23 PE investments, 7 PE exits and 24 M&A deals done in Eastern Africa. In 2013 we expect to see increasing PE deals as more funds are raised and first time funds grow in confidence. We expect, in particular to see investments made in the growth sectors such as consumer, manufacturing, services, healthcare, natural resources, energy and agriculture whilst M&A deals will be particularly focused on the mature industries such as tourism and horticulture. This will depend, to a certain degree, on the conduct and outcome of the Kenyan election in March.

In Natural resources, the key issue continues to be that of local ownership (forced or otherwise) of exploration firms. We continue to believe that whatever the result is of the current political wrangling, the addition of significant local shareholders to the register is an intelligent move. We believe one of the best ways to achieve this will be through a local listing, likely on the GEMS market for exploration and development firms, as they will be restricted from listing on the Main Market or AIMS due to profitability requirements and high cost levels. The chamber of Mines has organised a conference to discuss exactly this issue on 30 Jan, at which we will be presenting (see further details in the Conferences section on p6). Tullow will announce the results of their third Kenyan well in Feb and we will then be a step closer to knowing whether the country will become an oil producing nation. Also in Kenya, African Queen Mines announced it will be moving its gold exploration focus from Mozambique to Western Kenya, a region that is growing in international interest since African Barrick's acquisition of Aviva Mining Kenya in November last year.

In listed equities, the month of December 2012 witnessed continued foreign interest in the market with the NSE 20 index up 3.8% and Kenya NASI up 5.8%. YTD, the indexes are up 5.2% and 7.1% respectively. We expect positive sentiments to continue driving interest in the market as we approach the earnings season in February and March supported by the current low inflation (3.2% in Dec 2012). However, it will be interesting to see the direction the market will take as we approach Kenya's presidential elections on 4 March 2012 and the outcome of them.

Finally, we are delighted to announce the appointment of Vimal Parmar who will head our listed equities research (see appointments on p.7)

**Edward Burbidge CFA**  
Managing Director

## OTHER KEY MARKET INDICATORS

### Interest Rates

Country/Region	Current Base Rate	Previous Base Rate
Central Bank of Kenya (Kenya)	9.50 %	11.00 %
Bank of Uganda (Uganda)	12.00 %	12.00 %
Bank of Tanzania (Tanzania)	7.58 %	7.58 %
South African Reserve Bank (RSA)	5.00 %	5.00 %
Central Bank of Nigeria (Nigeria)	12.00 %	12.00 %
Central Bank of Egypt (Egypt)	9.25 %	9.25 %
Bank of England (UK)	0.50 %	0.50 %
Federal Reserve Bank (USA)	0 % - 0.25 %	0 % - 0.25 %
European Central Bank (EU)	0.75 %	0.75 %

### Projected inflation rates and change in GDP

Country	Projected Inflation Rates		Projected GDP Growth	
	2013	2014	2013	2014
Kenya	7.0%	5.0%	5.6%	6.4%
Uganda	5.0%	5.0%	5.7%	6.5%
Tanzania	9.6%	6.6%	6.8%	7.1%
Rwanda	5.9%	5.0%	7.5%	7.2%
Burundi	8.4%	6.1%	4.5%	5.1%
Ethiopia	9.0%	9.0%	6.5%	6.5%

Source: IMF, World Economic Outlook Database, October 2012

Date	Buyer	Seller	Investment size	Synopsis
10th Jan 2013	James Finlays	Agrifresh Kenya		London-based agribusiness firm James Finlay acquired a Kenyan fruits and vegetables exporting firm after cutting its interests in Kenya's flower sector. The company has bought Agrifresh Kenya, a Mount Kenya-based firm that exports salad vegetables like rocket salad, broccoli, salad onions and peas.
9th Jan 2013	Lamorna Limited	James Finlays		UK agro-based firm James Finlays cut back on its Kenya flower business after selling part of the unit to a local company. The firm, which also deals in tea, property and aviation, has sold part of its flower business in Naivasha to Lamorna Limited for an undisclosed fee. Lamorna, which is wholly owned by UK's Swire Group, also has extensive tea interests in Kenya, South Africa, Sri Lanka and China over and above horticulture in these countries.
7th Jan 2013	Voxtra		USD 1.4 million	Voxtra announced a USD 1.4 million investment in Western Seed Company. The investment is structured as a quasi-equity debt instrument. Western Seed Company produces and markets hybrid seed maize to smallholder farmers. With an annual production of about 3,000 tons of seed, it is the largest independent seed company in Kenya. With this investment, Voxtra joins Western Seed's current investors, Acumen Fund and Pearl Capital Partners (PCP).
19th Dec 2012	Kenya Tea Development Agency	AfricInvest FMO Norfund		Three private equity funds sold a 22.3 per cent stake in Family Bank to Kenya Tea Development Agency and the pension fund for local authorities, Laptrust, more than two years after the funds bought the stake for KES 916 million. The funds — Tunis-based AfricInvest, Netherlands' FMO and Norway's Norfund — sold the stake for an undisclosed fee to KTDA and Laptrust ahead of the lender's KES 1.25 billion rights issue.
19th Dec 2012		Pearl Capital Partners (PCP)		Pearl Capital Partners (PCP), exited its investment in a Kenyan agricultural firm in a deal that saw it triple its investment in six years. PCP sold its 36 per cent stake in Africert to a local investment firm, completing its exit from the company. Africert deals in inspection, accreditation and certification of vegetables, fruits and cash crops such as coffee, tea, cocoa and cut flowers.

## London firm hires top analyst in hunt for corporate deals

Burbidge Capital, an investment advisory firm with offices in London, Nairobi and Kampala, has hired a top analyst to bolster its hunt for high profile corporate finance deals. Burbidge Capital is one of four Nairobi Securities Exchange (NSE) approved adviser for firms seeking to list on the growth and enterprise market segment (GEMS), which is set to be launched later this year. The firm has also helped a number of firms in the region and others mainly in the United Kingdom to raise funds and become public companies.

The firm has hired Vimal Parmar, who was formerly the head of research at Kestrel Capital, to head its research unit. According to Edward Burbidge, the managing director, this will help them offer research driven products to support significant capital raising and secondary market liquidity for its clients corporate clients in the region as well as encourage growth oriented investors to take long-term positions in GEMS listing. Mr Parmar, who formerly worked at African Alliance Investment Bank's research department, is credited with helping Kestrel Capital to grow its foreign investor customer base by offering them regular research notes. The researcher was nominated as one of Business Daily's Top-40-Under-40 Men in 2011, which recognises entrepreneurs and employees who have excelled in their work. He is a Chartered Financial Analyst charter holder and a Bachelor of Business Information Technology graduate from Strathmore University.

Burbidge Capital was in 2006 involved in a financial advisory deal for East African Breweries, London Stock Exchange (LSE) listed Titanium Resources Group's USD 25 million (KES 2.2 billion) equity placing and mining and exploration company Mineral IRL's USD15 million (KES 1.2 billion) equity placing both of which were done in 2009. The firm has also been involved in deals such as LSE listed Randgold Resources USD 200 million (KES 17.2 billion) global equity offering in 2009, a GBP 25 million (KES 3.5 billion) equity placing for another LSE listed company Xcite Energy and in 2011 the firm was also involved in Uganda based Mubende Parents School USD 145 thousand (KES 12.5 million) debt investment.

Mr Burbidge said his company's strategy this year centres on growing its position as a mid-cap focused advisory and broking firm. He said mid-sized companies in East Africa offer the most exciting growth potential to investors. As firms approved by the NSE, Burbidge Capital, together with three other companies; Emerging Africa Capital, NIC Capital and Standard and Mutual will be allowed to help companies list their shares on the GEMS board. He said that efforts by the NSE to launch the GEMS will provide small and medium enterprises with a chance to access institutional capital from the market to grow their businesses, adding that this will provide both institutional and retail investors with wider investment options to include in their portfolios. "According to our deal pipeline we will be seeing initial public offers and private equity investment transactions in the growth sectors such as consumer, manufacturing, services, healthcare, natural resources, energy, agriculture and mergers and acquisition deals," he said. Mr Burbidge predicted that foreign mining firms which must now comply with the 35 per cent local equity component which came into force through Legal Notice No. 118 will probably use a listing on NSE as the easiest method to achieve the ownership obligation. He said that GEMS listed firms will be able to grow into the main market segment and the increased market capitalisation at the NSE will further increase the visibility of the Kenyan capital markets in the global arena. "GEMS will likely provide a good platform for these firms given the unlikelihood of an exploration company being able to comply with profitability requirements for listing on the main market or the alternative markets segment of the NSE," said Mr Burbidge. (Source: Business Daily, Jan 9 2013)

## EA a major market for private equity

Kenya is among African markets considered a favoured destination for private equity investments in 2013 while Tanzania and Rwanda will be favourites in East Africa, according to a forecast by White Lake Group, a global private equity consulting company. Though Kenya does not benefit from the resources of many other African countries, its relatively well-educated workforce and position as a strategic trading hub in East Africa has made its economy relatively dynamic. It noted that other factors making the country attractive to PE deal seekers include efforts being made to make the capital Nairobi a regional technology hub with opportunities offered by a mass market with high purchasing power.

For example, the Kenya-based InReturn Capital said it will be announcing a merger with a foreign-based fund this month while Catalyst Capital Partners is also expected to announce new investments in the country in the first quarter of this year. Africa Finance Corporation has line up a USD200 million investment in the country this year.

Tanzania's fast growing economy will be a big attraction for PE investments and forecast by development finance groups like the Africa Development Bank shows that Tanzania's economy will be one of the fastest growing in Africa in the next five years. The country is expected to have opportunities in mining, banking, tourism, and oil and gas. White Lake also identifies Rwanda as a favourite destination for deal hunters, an indication that things are looking up for East Africa. The forecast's increased activity for PE funds in the region is in line with the progress made in the past two years when more than 10 private equity funds were formed in the region. Some of these include: Batian Fund, Fusion African Access, Rift Valley SME Fund 1, and Catalyst Principal Partners. The While Lake Group report however identifies lack of adequate infrastructure as one of the biggest hurdles facing attractiveness of Africa to PE funds despite the continent's potentially huge market for goods and services. (Source: The EastAfrican, Jan 12 2013)

### Fund raising to be very competitive this year

This year, 1,949 funds will be seeking to raise USD797.1 billion globally, more than double the amount raised in 2012, making 2013 very competitive for fund raising.

Global funds research company Preqin said of these, 53 per cent plan to make new commitments in 2013, with a further 34 per cent investing opportunistically, according to the company's study undertaken last December and released on 7<sup>th</sup> January 2013. Global private equity funds raised USD 311.7 billion last year, a small increase from the USD311 billion raised in 2011, said Preqin. The latest data shows that the funds that closed in the final quarter of the year raised a similar amount to those closed in the previous quarter. It also shows that USD 74.6 billion was raised by 114 funds in the fourth quarter of 2012, compared with the slightly more USD 75 billion raised in the third quarter. However, they expect the fourth quarter figure to increase by around 10-20 per cent and exceed the third quarter total as further information becomes available. The second quarter of 2012 was also reportedly the strongest of the year for fund raising, with 212 funds reaching a final close having collected USD 90.2 billion in commitments. According to the research company, fund raising continued to be very challenging in 2012, but the year ended with a slight improvement on the level of fund raising seen in 2011. Since 2008, it has seen the level of fund raising fluctuate around USD300 billion each year and therefore it is positive to see the amount raised in 2012 surpass that. According to Helen Kenyon, senior manager at Preqin, with a record number of funds on the road and with the time taken to raise funds increasing slightly, the market will remain very competitive during 2013.

North America-based focus funds were the most successful by close of the fourth quarter of 2012, with 58 funds raising an aggregate USD 44.3 billion in capital commitments. Real estate funds accounted for the largest proportion of capital raised of any fund type in that quarter, with 29 funds closing on a combined USD 22.6 billion. Blackstone Real Estate Partners VII was the largest fund to hold a final close in the fourth quarter. The global real estate fund raised USD 13.3 billion and was also the largest fund to close in the said year. Buyout funds contributed the largest proportion of the aggregate capital raised throughout the year of any fund type as 104 such funds closed having raised a combined USD 86.6 billion. *(Source: The EastAfrican, Jan 12 2013)*

## PART V: UPCOMING EVENTS/CONFERENCES

Events	Date	Venue	Theme
East Africa New Frontier Exploration Forum	21-22 Jan 13	Marriott London Marble Arch Hotel, United Kingdom	Key Topics: Gain an insight into Africa's newest discoveries, Understand how gas monetisation is key to operational success, Discuss the role of LNG in commercialising East African gas, Examine the future potential for oil in the region and Assess the current infrastructure and learn about future development
Powering Africa - Ethiopia	21-22 Jan 13	The Radisson Blu hotel - Addis Ababa - Ethiopia	Ethiopia's power sector holds significant potential for investment. Demand for power is estimated to be growing at 24% annually, yet only 3% of the country's hydropower capacity is being exploited. Powering Africa: Ethiopia is an executive dialogue bringing together Ethiopia's public sector leaders, international power developers and financial investors to examine the investment climate for power generation transmission and distribution in Ethiopia.
Forum on Local Equity Participation in the Mining Industry	30-Jan-13	Norfolk Hotel, Nairobi	Following a gazette notice by the Ministry of Environment & Mineral Resources that requires that all exploration & mining companies operating in Kenya to incorporate local equity participation of at least 35%, the Kenya Chamber of Mines (KCM) is holding this consultative forum to discuss and assess the capacity of the local market to implement this regulation. This consultative meeting will host 40-60 carefully selected mining firms and potential investors.
Investing in African Mining Indaba	4 - 7 Feb-13	Cape Town, South Africa	Investing in African Mining Indaba is the world's largest mining investment event and Africa's largest mining event. For 19 years, Investing in African Mining Indaba along with its partners in Africa have channeled billions of dollars of foreign investment into the mining value chain. Mining Indaba is the world's largest gathering of mining's most influential stakeholders and decision-makers vested in African mining.
The Africa Summit 2013	05-Feb-13	London, UK	The Africa Summit will be a special one-day examination of the world's new economic engine. By bringing together the politicians, business leaders and investors defining Africa's future, the summit will explore the latest commercial opportunities across the continent.
Private Equity Africa Evening Seminar	12-Feb-13	Clifford Chance, London, UK	Key Topics: Data analysis of 2012 deal making & fundraising; Top Exits in 2012; Analysis of recent exit strategies; Macroeconomic overview; Key sub-Saharan Africa opportunities; Risks & Regulations in 2013; Sectors investors will be targeting in 2013 and; Exits outlook: will this improve over the next year?
15th Annual Africa Business Conference	15-17 Feb-13	Harvard Business School campus Boston, United States	The Africa Business Conference is the world's largest student-run event focused on business in Africa. It brings together about 1,200 participants and is the ultimate networking opportunity for business and community leaders, corporate sponsors, students, educators from around the world and anyone passionate about business opportunities in Africa.
The 7th Africa Economic Forum 2013	06-Mar-13	Johannesburg, South Africa	The 7th Africa Economic Forum 2013, is a Premier-Annual Forum focused on the fundamentals shaping Africa's economic future and brings together leading corporates, state officials, industries, senior executives and economic thinkers on Africa's economies in a content-rich meeting. The Agenda is shaped around leading-edge shifts within the Continent's political economy, evolving commercial landscapes impacting investment and business operations, and Africa's emerging role/s and strategic position within a highly competitive, rapidly globalizing world.
Power And Energy Africa	29 Apr - 01 May - 13	Kenyatta International Conference Centre (KICC) Nairobi, Kenya	Power And Energy Africa is an internationally acclaimed trade expo on energy and power related industries. The trade fair attracts participation from sectors such as power transmission equipments, transitional and renewable energyall others that contribute significantly to the power engineering and alternative energy sectors of the region.
World Economic Forum on Africa 2013	8-10 May-13	Cape Town, South Africa	Under the theme "Delivering on Africa's Promise", the 23rd World Economic Forum on Africa will provide an important platform for regional and global leaders from business, government and civil society to deepen the continent's integration agenda and renew commitment to a sustainable path of growth and development by addressing the following themes: Accelerating Economic Diversification, Boosting Strategic Infrastructure and Unlocking Africa's Talent.
Kenya Mining, Energy/Oil & Gas and Infrastructure 2013   Mining, Energy/Oil & Gas Kenya ("KMEOGII 2013")	5-6 Jun-13	Nairobi, Kenya	KMEOGII 2013 is a turnkey event focusing on Kenya's Mining, Energy/Oil & Gas and Infrastructure investment potential.
4th Eastern Africa Oil, Gas & Energy Conference 2013	19 - 20 Jun-13	InterContinental Hotel, Kenya	Themes covered include: Government policies, state interventions in the oil/energy market, state oil/energy companies, private energy investments and interests, corporate portfolio and strategies, new entrants, competition and regulation, plus critical issues impacting the Eastern African future
AITEC Banking & Mobile Money 2013   AITEC Banking & Mobile Money 2013 Event Africa	11- 12 Sep-13	Kenyatta International Conference Centre Nairobi, Kenya	Now entering its Seventh year as the region's leading banking forum, AITEC Banking & Mobile Banking COMESA 2013 will address the key issues faced by the region's increasingly dynamic financial services sector.



### Vimal Parmar, CFA Head of Equity Research and Trading

Vimal has over eight years working experience with about 6 years in Financial Services specializing in Equities research. Prior to joining Burbidge, Vimal headed a research Team at Kestrel Capital (EA) Limited. Vimal continues to be recognized, both locally and internationally, as one of the top analysts in the East African Financial Services industry whose research reports stand out in the investments arena.

Vimal is a Chartered Financial Analyst® Charterholder, member of East Africa Society of Investment Professionals, CFA Society South Africa and CFA Institute. He has also trained in South Africa on Banking Financial Distress and Risk Analysis modeling. He holds a Bachelor of Business Information Technology (Hons) degree from Strathmore University. Vimal sits on the board of one of the not-for-profit organizations as a Non-Executive and Independent Director and is a part-time lecturer at Strathmore University. He has also presented on specific sectors in the East African markets at International conferences.

## *Disclaimer*

**THIS DOCUMENT HAS BEEN PREPARED ON THE BASIS OF INFORMATION AND FORECASTS IN THE PUBLIC DOMAIN. NONE OF THE INFORMATION ON WHICH THE DOCUMENT IS BASED HAS BEEN INDEPENDENTLY VERIFIED BY *BURBIDGE CAPITAL LIMITED* NOR ITS AFFILIATE BODIES AND ASSOCIATES, WHO NEITHER TAKE RESPONSIBILITY FOR THE CONTENT THEREOF AND DO NOT ACCEPT ANY LIABILITY WITH RESPECT TO THE ACCURACY OR COMPLETENESS, OR IN RELATION TO THE USE BY ANY RECIPIENT OF THE INFORMATION, PROJECTIONS, OPINIONS CONTAINED IN THE DOCUMENT.**