Private Equity firms AfricInvest and Catalyst Principal Partners acquire a minority stake in Prime Bank Kenya

Private Equity firms AfricInvest, which is based in Tunisia, and Catalyst Principal Partners, based in Kenya, have acquired a minority stake in Prime Bank Kenya. The stake acquired is 24.2% of Prime bank, through a capital injection of Kshs 5.1 bn, with the capital targeted to carry out strategic plans including expanding locally and into the region. This will be the first bank acquisition in 2019, and will be in line with our expectation of consolidation in the Kenya banking sector following the enactment of the Banking (Amendment) Act, 2015 and the fact that Kenya is overbanked, as highlighted in our Q3'2018 Banking Sector Report.

Prime Bank is a Tier II bank with an overall market share of 2.0% according to the Central Bank of Kenya's Annual Supervisory Report, 2017, and has 1.9% of total deposits in the banking industry. The bank focuses on corporate banking, has 21 branches and recently acquired an insurance subsidiary.

AfricInvest targets growth-capital investments in small and medium-sized enterprises (SMEs) that are well positioned in their local markets with the potential to scale up their activities beyond their own country's borders. Catalyst Principal Partners invests in emerging and mid-sized companies with strong growth and profitability prospects, in alignment with experienced management teams.

The transaction details are as below:

1. AfricInvest and Catalyst Prinicpal Partners have acquired a 24.2% stake in Prime Bank through the injection of Kshs 5.1 bn of capital into the business,
2. The investment has been carried out through a special purpose vehicle, AfricInvest Azure, formed jointly by AfricInvest and Catalyst, on terms which have not been disclosed,
3. As at Prime Bank's last reporting in Q3'2018, the bank had a book value of Kshs 21.2 bn,
4. As such, the transaction is being carried out at a price-to-book value (P/Bv) of 1.0x, which is a 23.6% discount to the market's current trading valuation of 1.3x P/Bv for listed Kenyan banks.

The table below indicates previous banking acquisition deals and their transaction multiples in the Kenyan banking industry;

Acquirer	Bank Acquired	Book Value at Acquisition (Kshs bns)	Transaction Stake	Transaction Value (Kshs bns)	P/Bv Multiple	Date
AfricInvest Azure	Prime Bank	21.2	24.2%	5.1	**1.0x**	Jan-19
NIC Group	CBA Group	30.6**	Undisclosed	Undisclosed	**N/A**	Dec-18*
KCB Group	Imperial Bank	Unknown	Undisclosed	Undisclosed	**N/A**	Dec-18
SBM Bank Kenya	Chase Bank ltd	Unknown	75.0%	Undisclosed	**N/A**	Aug-18
DTBK	Habib Bank Kenya	2.4	100.0%	1.8	**0.8x**	Mar-17
SBM Holdings	Fidelity Commercial Bank	1.8	100.0%	2.8	**1.6x**	Nov-16
M Bank	Oriental Commercial Bank	1.8	51.0%	1.3	**1.4x**	Jun-16
I&M Holdings	Giro Commercial Bank	3.0	100.0%	5.0	**1.7x**	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.2	75.0%	2.6	**2.3x**	Mar-15
Centum	K-Rep Bank	2.1	66.0%	2.5	**1.8x**	Jul-14
GT Bank	Fina Bank Group	3.9	70.0%	8.6	**3.2x**	Nov-13
Average			**73.5%**		**1.7x**	

** Announcement date*

*** Book Value as of the announcement date*

From the table, we can see that our local bank acquisition price-to-book average is at 1.7x, down from the previous 1.8x due to the Prime Bank deal, which has the second lowest multiple at 1.0x, behind the DTBK-Habib acquisition at 0.8x. The average stake acquired is at 73.5%, down from 80.3%. Previously, transactions have taken place at a premium, (i) SBM and Fidelity at 57.0% above market, (ii) I&M Holdings and Giro at 30.8% above market, and (iii) M Bank and Oriental at 9.0% above market.

Key take-aways from this transaction are:

i. Kenya's banking sector consolidation will continue to happen and it will lead to a more stable, safer banking sector,
ii. Private equity investments in Africa are set to continue, supported by increasing investor interest, as there exists attractive valuations in Sub Saharan Africa's private markets compared to its public markets.

This is a further case of attractiveness in the financial services sector in Kenya with private equity firms looking to increase investments into the sector through acquisitions. It continues to echo our sentiments on the attractive investment opportunity in financial services in Kenya.