



Africinvest III invests in Britam

Britam Holdings Ltd. (Britam) has announced a deal where Africinvest III, a special purpose vehicle (SPV) managed by Africinvest Capital Partners Management II, will acquire a 14.3% equity stake in Britam Holdings Ltd. The transaction, which is subject to approval from both regulators and shareholders, will see Africinvest III inject Kshs 5.7 bn for an allocation of 360.9 mn new ordinary shares at a subscription price of Kshs 15.9 per share, a 6.0% premium to the current market price of Kshs 15.0 per share.

Britam is a diversified financial services group with operations in Kenya, Tanzania, South Sudan, Uganda, Rwanda, Malawi and Mozambique. Britam is Kenya's largest player in the life segment with a market share of 23.0%. Britam Holdings Ltd is yet to disclose how they intend to use the proceeds from this transaction, but we believe the mostly likely drivers are to (i) shore up capital ratios, given that they have the lowest buffer of the local insurance firms, as shown by the Tangible Equity Tangible Assets (TeTa) ratios below, (ii) fund their real estate development strategy, as part of the group's strategy to diversify and reduce portfolio risk, and (iii) raise funds early so as to pay off the 5-year medium term note worth Kshs 6.0 bn, issued in August 2015, and set to mature in August 2020.

Kenya Listed Insurance Companies TETA	
Britam	19.4%
CIC	25.2%
Jubilee	23.6%
Sanlam	13.2%
Liberty	18.2%
Average	19.9%

The transaction details are as below:

1. Africinvest III is acquiring a 14.3% equity stake in Britam for Kshs 5.7 bn,
2. This is through the issuance of additional new 360.9 mn ordinary shares, bringing the total to 2.5 bn outstanding shares,
3. As at H1'2017, the group had a book value of Kshs 19.2 bn,
4. As such, the transaction is being carried out at a 1.4x Price-to-book post money valuation, which is a 38.5% discount to the average insurance sector transaction multiple of 2.3x over the last seven years, hence a relatively cheaper transaction valuation,
5. Following the new issued shares, current shareholders will have their ownership stake diluted by 14.3%,

Insurance Sector Transaction Multiples over the last Seven years						
Date	Acquirer	Insurance Acquired	Book Value (bn Kshs)	Transaction Stake	Transaction Value (bn Kshs)	P/Bv Multiple
Sep-17	Africinvest III	Britam	28.5	14.3%	5.7	1.4x
Mar-17	IFC	Britam	22.5	10.4%	3.6	1.5x
Jun-15	Barclays Africa	First Assurance	2.0	63.3%	2.9	2.2x
Mar-15	Pan Africa Insurance Holdings	Gateway Insurance	1.0	51.0%	0.6	1.1x
Jan-15	MMI Holdings	Cannon Assurance	1.7	75.0%	2.4	1.9x
Jan-15	Old Mutual Plc	UAP Holdings	9.6	60.7%	25.6	4.4x
Nov-14	Leap Frog Investments	Resolution Insurance	0.2	61.2%	1.6	11.7x

Nov-14	Britam	Real Insurance Company	0.7	99.0%	1.4	2.1x
Oct-14	Swiss Re	Apollo Investments	0.6	26.9%	Undisclosed	N/A
Sep-14	UK Prudential	Shield Assurance	0.1	100.0%	1.5	10.2x
May-14	Union Insurance of Mauritius	Phoenix of East Africa	1.8	66.0%	2.0	1.6x
Apr-14	BAAM	Continental Re Kenya	0.7	30.0%	0.3	1.4x
May-13	Swedfund	AAR	0.4	20.0%	0.4	5.4x
Jan-13	Saham Finances	Mercantile Insurance	0.5	66.0%	Undisclosed	N/A
Dec-11	Leapfrog Investments	Apollo Investments	0.3	26.9%	1.1	15.6x
Dec-10	Africa Development Corporation	Resolution Health East Africa	N/A	25.1%	0.2	N/A
Harmonic Mean				32.3%		2.3x
Median				60.7%		2.2x

Key take-outs from this transaction:

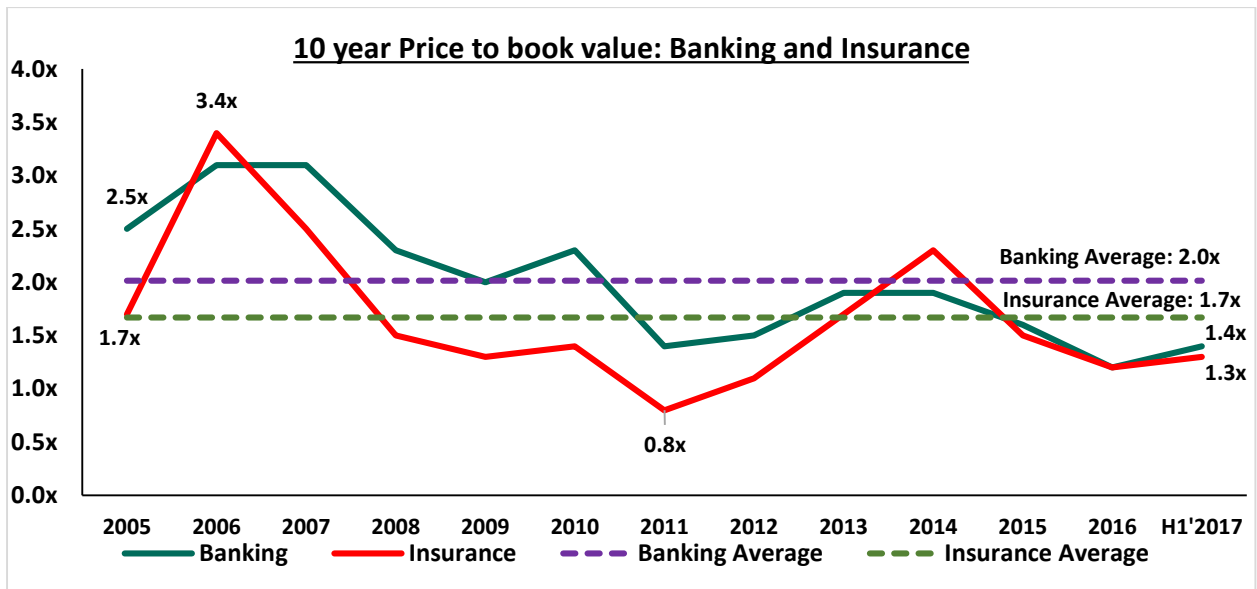
- i. It is an opportune time to enter the market for investors, with the last 5 insurance sector acquisitions being carried out at an average 1.6x P/B multiple, compared to a P/B multiple average of 2.3x over the last seven years. Africinvest managed to carry out the transaction at just above the current Insurance sector multiple of 1.3x times,
- ii. On the corporate governance (CGI) front, the transaction will shed positive light, given that Britam will be bringing on board an internationally renowned partner. This transaction will see Britam Group's CGI score maintain at 62.5%, given the shareholder composition remains relatively unchanged, with the overall ranking standing at position 33 out of the 50 companies.
- iii. This represents a good transaction for both parties: For Africinvest III they get to pick a compelling asset, with a solid regional presence, a strong distribution network and a diversified business strategy at a very attractive valuation of 1.4x P/B, compared to the seven-year average P/B multiple of 2.3x. For Britam, they get a sound business partner as a significant shareholder, that will help in boosting growth.

This deal by Africinvest III demonstrates that there is value in the financial services sector, where valuations are currently at 1.4x P/B for the banking sector and 1.3x P/B for insurance, compared to the 10-year average of 2.0x and 1.7x P/B, respectively.

The lower valuations, coupled with increased capital requirements across the sector and regulatory demand for more discipline in the Financial Services sector, will most likely lead to more mergers and acquisitions transactions over the coming year; On one hand are capital hungry businesses at attractive valuations and on the other is shrewd money seeking attractive returns, and we believe going forward this should make for an active deal environment.

Pro-Forma Britam Ownership Summary			
No.	Major Shareholders	No. of Shares (mn)	% ownership
1	British American (Kenya) Holdings	452.5	17.9%
2	Equity Holdings Ltd	405.0	16.0%
3	Africinvest III	360.9	14.3%
4	IFC	224.2	8.9%
5	Jimnah Mbaru	200.3	7.9%
6	Benson Wairegi	100.4	4.0%
7	KCB Nominees A/C 915B	97.0	3.8%
8	Peter Munga	75.0	3.0%
9	James Mwangi	75.0	3.0%
10	Coop Bank Custody A/C 4012	60.0	2.4%

Below is a graph of the 10-year price-to-book value of listed banking and insurance companies, which suggests that listed insurance and banking stocks are attractive.



For more information or any further clarification required, kindly contact the research team at investment@cytonn.com