



Equator Capital Partners invests in Jamii Bora Bank

Equator Capital Partners, a US based private equity fund, has invested Kshs 600 mn through its ShoreCap II fund into Jamii Bora Bank, for an equity stake of 15%. The investment is by way of conversion into equity of a convertible debt Equator Capital Partners held of Jamii Bora Bank. As per our Cytonn Weekly #15, total debt was provided by Equator Capital Partners and Progression Capital Africa Limited of Kshs 1.2 bn, which was to be used to grow Jamii Bora Bank's rural and urban network and also increase its capacity to lend to the SME sector, as part of their Kshs 5.0 bn financing plan.

Jamii Bora Bank, a Tier III bank, has a customer base of 400,000 customers and a network of 26 branches, and is ranked 25th out of 41 banks in Kenya with a market share of 0.5%. Earlier in the year, the bank looked to raise Kshs 5.0 bn in a mix of debt and equity, and was only successful in raising the debt component by issuing a convertible bond of Kshs 1.2 bn to Equator Capital Partners and Progression Capital Africa Limited.

The transaction details are as below:

1. Equator Capital Partners is acquiring a 15% equity stake in Jamii Bora Bank for Kshs 600 mn,
2. This is by way of a convertible debt into equity, following Equator Capital Partner's earlier participation in the bank's debt funding at an undisclosed amount,
3. As at Q3'2016, the bank had a book value of Kshs 3.1 bn,
4. As such, the transaction is being carried out at a 1.3x price-to-book valuation, relatively cheaper than the average banking sector transactions over the last three-years, which have been carried out at a price to book multiple of 1.9x.

Acquirer	Bank Acquired	Book Value at Acquisition (bn)	Transaction Stake	Transaction Value (bn)	P/Bv Multiple	Date
Equator Capital Partners	Jamii Bora Bank	3.14	15.0%	0.60	1.3x	Dec-16
SBM Holdings	Fidelity Commercial Bank	1.75	100.0%	2.75	1.6x	Nov-16
M Bank	Oriental Commercial Bank	1.80	51.0%	1.30	1.4x	Jun-16
I&M Holdings	Giro Commercial Bank	2.95	100.0%	5.00	1.7x	Jun-16
Mwalimu SACCO	Equatorial Commercial Bank	1.15	75.0%	2.60	2.3x	Mar-15
Centum	K-Rep Bank	2.08	66.0%	2.50	1.8x	Jul-14
GT Bank	Fina Bank Group	3.86	70.0%	8.60	3.2x	Nov-13
Average			68.0%		1.9x	

Key take-aways from this transaction:

- i. Private equity investment activity in Kenya's financial services sector is set to continue given the attractive valuations witnessed in the private sector, and,
- ii. There is value in the banking sector. Sophisticated investors are willing to pay 1.3x book for a sector trading at 1.0x book value.

As the banking sector continues to go through transition and with the moratorium on licensing of commercial banks in Kenya, foreign investors eyeing Kenyan banking space are likely to get access to Kenyan banking space through acquisition and buying stakes in existing banks.