



BRIGHTAFRICA

2018

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FOREWORD

The process of compiling this report again highlighted the marked structural differences between regions in Africa to our team. As the continent recovers from the hangover of the latest commodity cycle, it is these structural differences that shape the recovery of the different regions.

With strong ties to Europe, higher GDP per capita, relatively lower inequality and better capital markets, the Maghreb region appears to be shaking off the after effects quicker than the rest. Similarly, East Africa, with its limited exposure to the extractive sector and higher diversification, has sustained investor interest throughout the cycle. With high forecasted GDP growth for this region, interest is likely to persist.

Meanwhile, Nigeria has been slow to awake from its nightmare, but for the same reasons it was one of the most vulnerable, it is also one of the countries that will benefit most from the current cycle reversal. South Africa remains in many ways an anomaly with a higher level of diversification, more significant goods and services supplied by government, and highly developed capital markets, but also higher inequality and low growth expectations.

However, a number of themes unite the continent. The private equity industry continues to grow, with deal activity still increasing and asset prices remaining robust. The growth of Africa's pensions industry and the resulting increase in local capital available for investment also provide significant opportunity. With the reversal in the commodity cycle likely to provide an additional boost, it appears that the Africa Rising narrative may be alive and well.

ABOUT RISCURA

With African roots and a global reach, RisCura is an independent investment advisor and financial analytics provider that offers investment decision support in developed and emerging markets. RisCura provides a range of services to the largest investor base in Africa in listed and unlisted investments. We service institutional investors, asset managers, hedge funds and private equity clients with over USD 200bn in assets under advice.

ABOUT BRIGHT AFRICA

Africa's investors have become markedly more sophisticated in recent years. They understand that the continent is one of the world's fastest-growing and most rapidly changing regions, and they need to look past the headline GDP numbers to understand what is really happening on the continent. More importantly, Africa's investors want to know the most effective ways to harness the continent's growth.

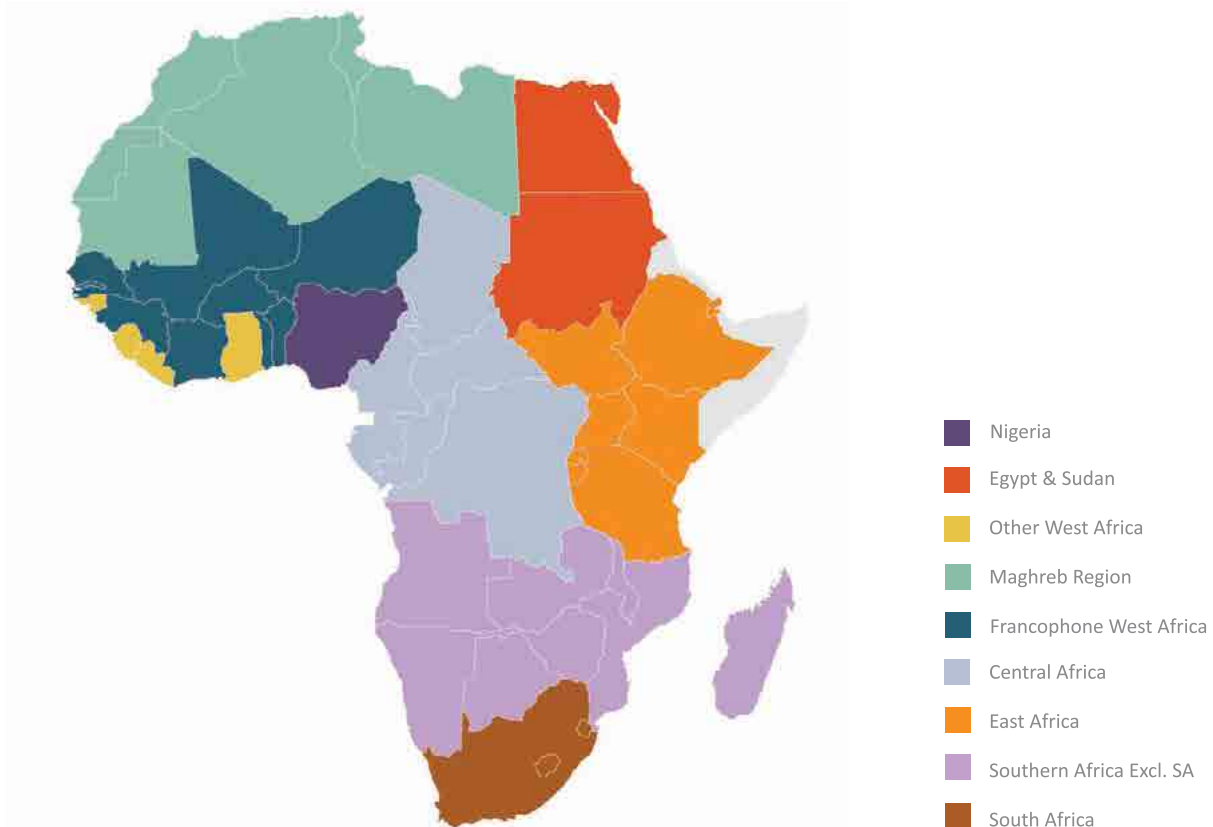
RisCura — through its ongoing research endeavour Bright Africa — seeks to answer some of these questions by providing insight into the drivers, enablers and managers of investment on the continent. This includes in-depth updates on Africa's:

- Imports and exports
- Pension systems
- Listed equity markets
- Unlisted equity markets

RisCura's Bright Africa research is ongoing, with new sections added regularly. The findings can be accessed at brightafrica.riscura.com

 For more information, follow @BrightAfrica_ on Twitter.

1. INVESTMENT IN AFRICA



**Note: The following countries are commonly excluded from the analysis due to insufficient data. When included, the impact is immaterial: Eritrea, Somalia.*

1.1 SEGMENTING AFRICA INTO MEANINGFUL MARKETS

It is important to recognise that Africa is not a single investment destination with a single set of standardised risk factors and homogenous potential for reward. Segmenting Africa into meaningful markets is an important exercise. Although some high-level similarities are evident, as one digs down into the specifics of certain regions and countries, it becomes clear that Africa is comprised of a range of distinct investment destinations; each with its own attractions, flaws, cultural differences and business practices.

Investors looking at Africa for the first time may begin by identifying the largest economies by GDP or the largest cities by population. While it is certainly useful to explore country- and city-level detail, it may be more pertinent to

start at a regional level by identifying groups of countries with similarities. By assessing Africa at a regional level, one can get a better understanding of the strengths and weaknesses of an investment destination by not only analysing the characteristics of the country of interest, but also the support that it receives from its regional partners. It also allows investors to identify the long-term potential of an investment by better understanding the potential growth areas into neighbouring countries. RisCura has identified these meaningful markets by analysing cultural connections, interconnectivity through trade blocs, sharing of expertise, good business relations, and relative ease of transportation, among others. These regions are displayed in the map above.

The **Maghreb region**, or the western portion of Northern Africa, constitutes the countries that form the Arab Maghreb Union, established in 1989 (Note: Western Sahara is excluded from all analysis). The region was established with the goal of functioning as a unified political and economic grouping. Political unrest in the region has stunted progress since its inception but hope still remains that the Union will fulfil its purpose in years to come. The region includes important cities such as Casablanca, Algiers and Tunis.

Egypt & Sudan previously united under British rule, still share strong ties, as well as one significant commonality – the trade facilitation through transport on the Nile River. As Egypt does not fall within the Arab Maghreb Union, it is separated from the rest of North Africa. However, Egypt's strong economic and cultural ties with the Middle East bring natural trading partners, and it is often seen grouped with the Middle East for investment purposes.

Francophone West Africa is a commonly recognised region on the continent, and typically includes Mauritania. However, RisCura has allocated Mauritania to Maghreb region as it is found to have closer ties to the North African countries. These French-speaking countries share more than just a language. Due to their common history as French colonies, they also share similar legal and socio-political systems.

Other West Africa includes Ghana, Liberia, Sierra Leone, Guinea-Bissau and The Gambia. This 'region' is included in the analysis where appropriate. Of course, due to the geographic placement of these countries, an analysis of intra-regional trade or transport infrastructure linking the 'region' would not be meaningful. Where appropriate, Ghana has been compared at a country level, rather than as a part of the 'Other West Africa' region. The Ghanaian economy is of a substantial size on a stand-alone basis and at times operates in isolation from its French-speaking neighbours.

Nigeria on its own is the size of the entire Maghreb region on an aggregated-GDP basis. While Nigeria is traditionally grouped with the rest of West Africa, its reliance on the rest of the region is less pronounced, likely as a result of its massive standalone GDP, its access to international markets via its three large ports, and its population of over 170 million people.

The countries constituting **East Africa** are a combination of the East African Community (Kenya, Tanzania, Uganda, Rwanda, Burundi), the LAPSET corridor (Kenya, South Sudan and Ethiopia) as well as Djibouti, a crucial link to the Indian Ocean for Ethiopia and South Sudan. Kenya has traditionally headlined this region through consistently generating the largest GDP and acts as the primary route to international trade through the Mombasa port. (Note: Somalia and Eritrea are excluded from all analysis.)

The **Central Africa** market is the same as that defined by the African Development Bank (AfDB) with the exception of Madagascar, which RisCura has classified as Southern Africa (ex-SA). On a GDP basis (Current, USD) and by population, the Central Africa region is on par with the Francophone West African region.

Southern Africa excluding South Africa (ex-SA) incorporates those countries south of central and eastern Africa, and north of the South African border. This region offers substantial oil resources in Angola, copper in Zambia and has access to both the Atlantic and Indian oceans. The region has support from the most developed economy on the continent from the South, and access to capital coming out of South Africa as large companies look to expand into the rest of the continent.

South Africa, like Nigeria, is a large African economy on a standalone basis. Due to the developed nature of South Africa relative to the rest of the continent, it has not been included in the Southern African region. South Africa boasts the largest GDP per capita of all the regions (double that of Nigeria) and is the most advanced investment destination on the continent. The South African market includes Lesotho and Swaziland due to their reliance and proximity to SA. The Swazi lilangeni is pegged to the South African rand, which is also accepted as currency within the country.

1.2 HOW AFRICA'S REGIONS COMPARE

1.2.1 GDP OUTPUT BY REGION

As a result of the currency devaluation over the last three years, Nigeria's GDP is now very comparable to that of the Maghreb and South Africa. The high growth in the Maghreb over the last year, combined with low growth in Nigeria and South Africa, leaves the Maghreb poised to become the region with the largest GDP.

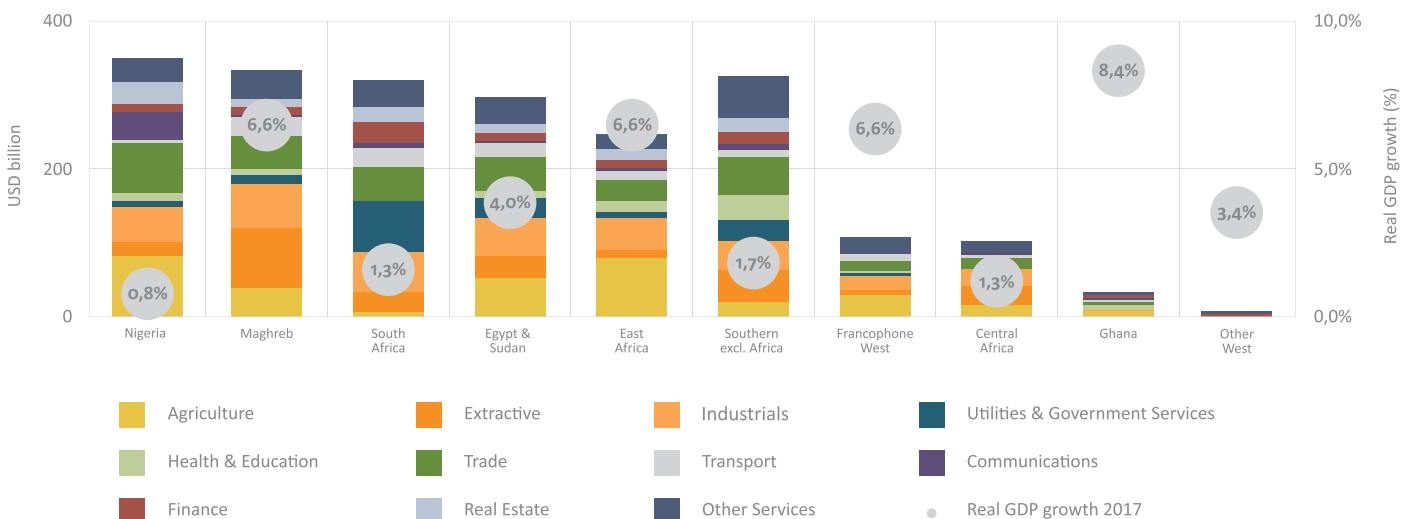
Considering the need for high growth both to reward investors and promote socio-economic security, the low rates of growth in Nigeria, South Africa, Southern Africa (ex SA) and Central Africa are worrying. In contrast the high growth in the Maghreb, East Africa, Ghana and Francophone West Africa, will reinforce investor interest in these regions.

It's interesting to note the comparatively large proportion that Utilities and Government Services contributes to GDP in South Africa. This highlights the structural difference between the South African economy and other sub-Saharan African countries.

Across all countries, GDP output is far more diversified than exports, which is significantly concentrated in extractives. This domestic diversification served as a mitigating factor against the impact of the commodity cycle in recent years. The impact however remains significant, including a decrease in government revenue, devaluation of currencies and curtailed public and private spending.

DIVERSIFIED GDP MITIGATES IMPACT OF COMMODITY CYCLE

Regional GDP (Nominal GVA) output by sector



Source: BMI Research, IMF World Economic Outlook, RisCura analysis

1.2.2 AFRICAN EXPORTS BY PRODUCT

The decline in global commodity (and particularly oil) prices has caused the total value of Africa’s exports to decline from 2014 to 2016, in USD terms. This has a direct impact on government revenues and foreign currency reserves.

The regions whose exports rely most heavily on extractive industries include Nigeria, Southern Africa (excl. SA), Central Africa and the Maghreb region. As a result, these regions have seen the largest decline in total export value over the 2014-2016 period.

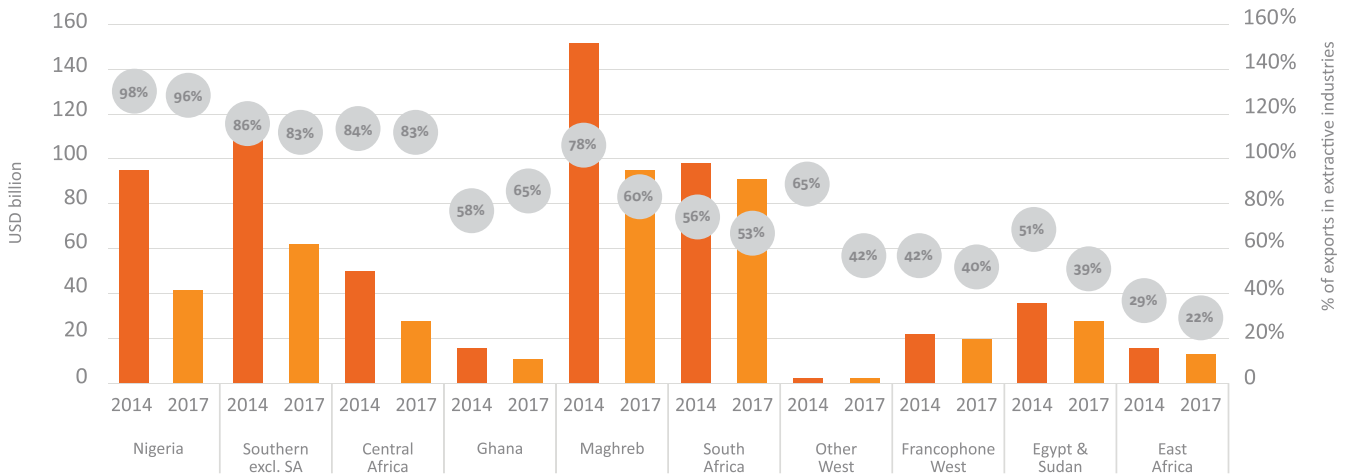
“The more diverse, or complex, a region’s GDP output and exports, the more resilient the region will be to adverse shocks to individual industries.”

The concentration to extractive industries has improved substantially in the Maghreb and Egypt & Sudan due to growth in other areas of the economy partially offsetting the decline in extractive exports. In the Maghreb region, exports in animals and animal products increased by about USD 500m (32%) and exports of transportation goods increased by USD 1.8bn. This, compared to the decline in extractive exports of about USD 60bn, seems rather minor, which limits the improvement in the concentration factor.

While Nigeria, the Maghreb region and Southern Africa ex-SA had larger exports than South Africa in 2014, the result of the downward turn in the commodity cycle has brought their export value in line with and below South Africa in 2016. South Africa boasts a more diverse export basket, highlighting another structural difference between South Africa and the remainder of the continent.

DECLINE IN EXPORTS AND CONCENTRATION TO EXTRACTIVES

Exported value by region, % of exports in extractive industries



Source: TradeMap, RisCura analysis

1.2.3 RELATIVE WEALTH OF REGIONS

South Africa has the greatest wealth per individual on the continent (using GDP per capita as a proxy). However, the country also has the highest Gini coefficient than all the other regions in Africa. This contrast provides both opportunities and heightened risks for investment activity.

A high GDP per capita suggests a high living standard for the general population. This creates an opportunity from an investment perspective as it provides a conducive demand environment for a diverse array of business activities. However, a high Gini coefficient indicates a large degree of income inequality within the population, suggesting that the wealth of the country is concentrated amongst a limited number of high-income earners in the population. This creates an investment risk, as the income elasticity of demand becomes a greater consideration when engaging in business activity; as there may be less demand by the general population.

The Maghreb and Egypt & Sudan regions have large GDP per capita, and the lowest Gini coefficient in Africa. The combination of these two factors makes these regions comparatively attractive for investment as it indicates a larger consumer bracket. Southern Africa and East Africa both have a Gini coefficient higher

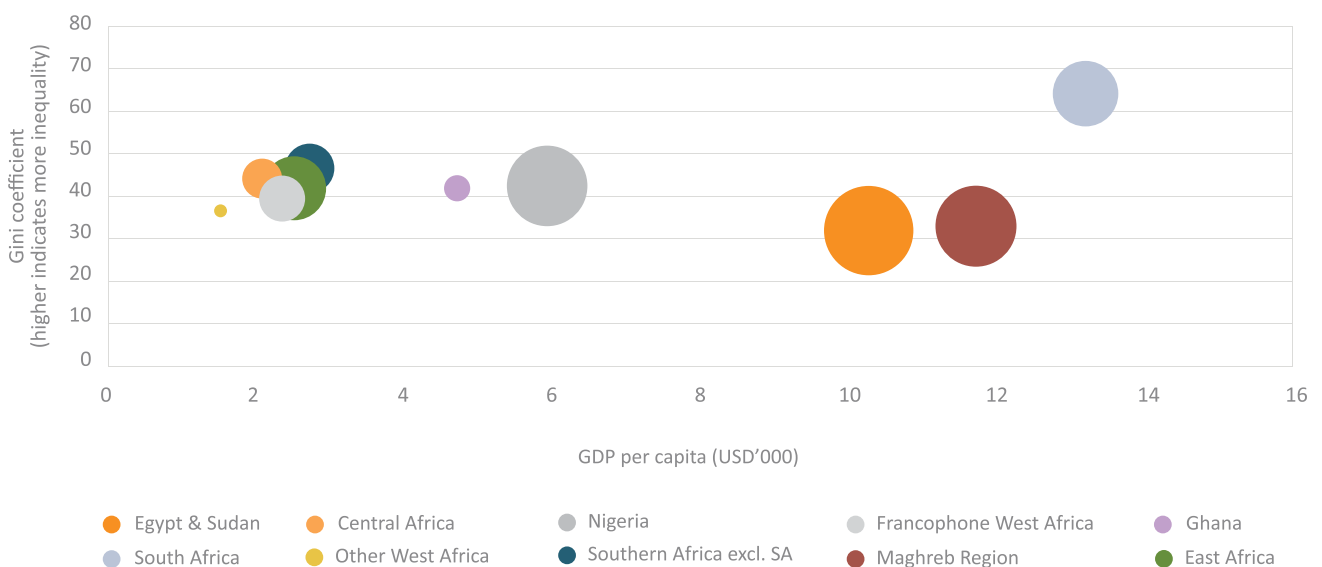
“The Maghreb and Egypt & Sudan regions have large GDP per capita, and the lowest Gini coefficient in Africa.”

than the global median and GDP per capita below the African median. The high levels of inequality, coupled with the relatively low levels of wealth, highlights the need for inclusive growth, to both create investable depth in an economy and social and political stability.

The modified Gini coefficient considers income and free services received because of wealth redistribution policies established by the government. As South Africa is the only African country with substantial redistribution policies in place, the use of this metric would result in a lower Gini coefficient for South Africa. The modified calculation, however is not widely published and as such, comparable data is not available continent-wide.

WEALTH OF INDIVIDUALS NOT ILLUSTRATED IN GDP

GDP per capita, Gini coefficient and size of economy by region

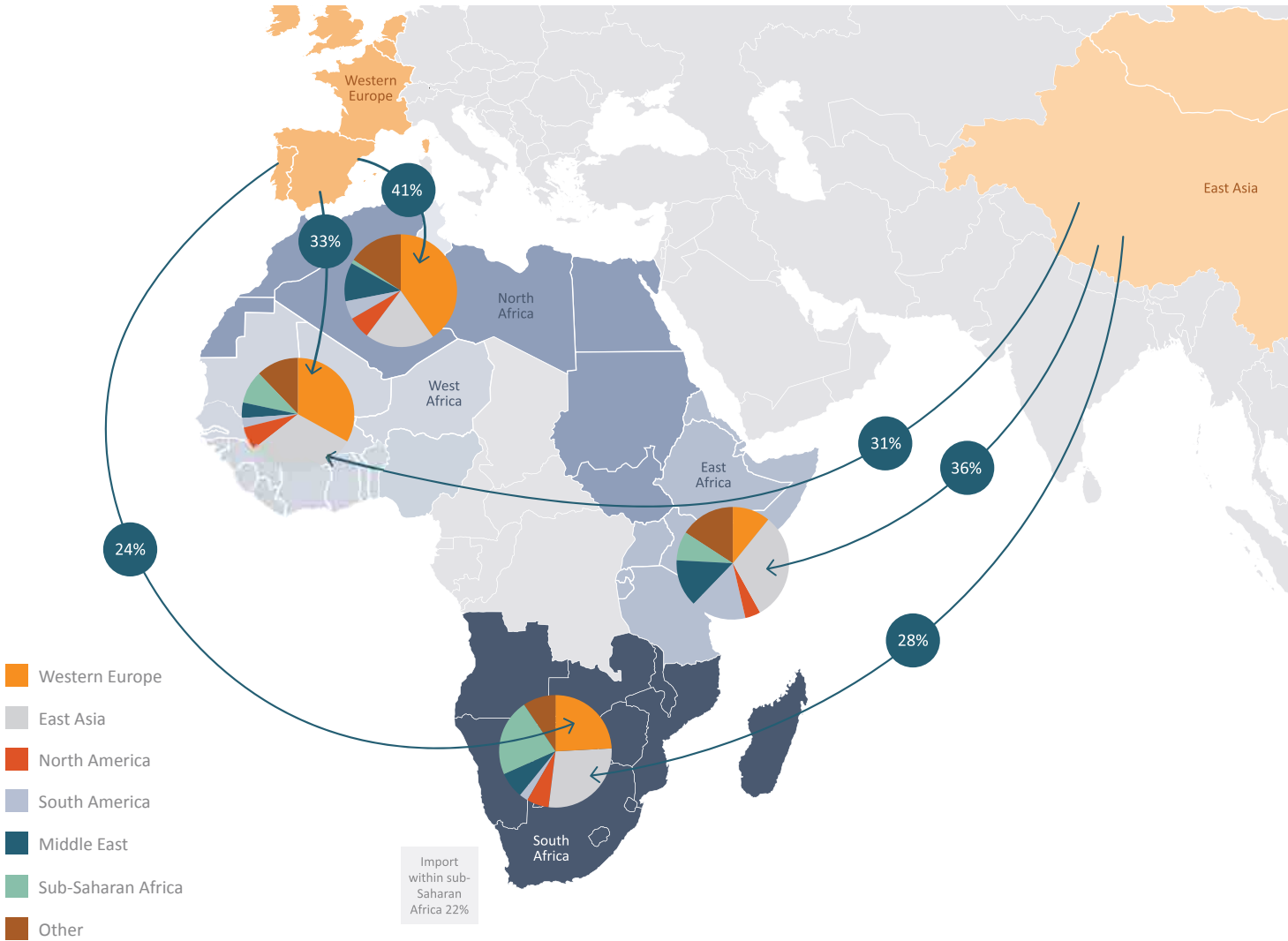


Source: World Bank, IMF World Economic Outlook, RisCura analysis

1.3 AFRICA'S LINKS TO THE GLOBE

REGIONAL TRADE DIFFERENCES HIGHLIGHT UNIQUENESS ACROSS REGIONS

Import partners by region



Source: TradeMap, RisCura analysis

When the continent's imports are viewed on an aggregated basis, there is a significant concentration of imports from Western Europe (31%) and East Asia (26%). While each region certainly does have a large exposure to those two export powerhouses, there is significant variation between regions.

East Africa, for example, has a far larger reliance on East Asia for its imported goods, making up 36% of the region's total imports. The region also has a much larger exposure to the Middle East, and a significantly lower exposure to Western Europe than the rest of the continent. This variation is partially the result of geography and partially the result of cultural ties.

Southern Africa stands out with its impressive intra-continental trade, with 22% of imports coming from within the sub-Saharan African region. This is mainly due to South Africa exporting to its neighbours in Southern Africa, highlighting the potential for intra-African trade as well as the importance of good transport links. Again, the structural difference between South Africa and other sub-Saharan countries is highlighted, but also how this also influences the structure of the economies of South Africa's neighbours.

“East Africa, for example, has a far larger reliance on East Asia for its imported goods, making up 36% of the region’s total imports. The region also has a much larger exposure to the Middle East, and a significantly lower exposure to Western Europe than the rest of the continent.”

North Africa has the overwhelmingly largest exposure to Western Europe, with 41% of imports coming from across the Mediterranean. And, the region’s trade with sub-Saharan Africa is negligible. This along with the difference between this region and the rest of Africa, in terms of wealth and distribution in wealth, results in a unique investment environment distinct from sub-Saharan Africa.

“By far the most economical way to get goods to Africa is by sea, meaning that the shortest oceanic voyage becomes the preferred partner, by default.”

We argue that the reason for this interesting differentiation of trade partners between regions is mainly due to the large impact of transport costs on import decisions, as well as cultural preferences due to relationships that have built up over time. Due to most products in Africa being imported from far away, the proximity to the import destination makes a big difference in the selection of trade partners. By far the most economical way to get goods to Africa is by sea, meaning that the shortest oceanic voyage becomes the preferred partner, by default.

SIGNIFICANT RELIANCE ON IMPORTED MACHINERY IN AFRICA

Africa's imports by product



***5% other imports**

Source: TradeMap, RisCura analysis

There is very little differentiation across regions in terms of the suite of products that the continent is required to import.

A significant portion of imports (28%) is machinery, electronics and vehicles. Of this amount, about a quarter is imported from China, with Germany, Italy, France and the USA combined making up another 27%.

About 18% of Africa's imports is ironically made up of mineral products, the majority of which are refined fuels. Nigeria's Dangote refinery, estimated to be completed in 2019, will have a major impact on the quantity of refined fuels imported into Africa from offshore, as the refinery will have sufficient capacity to meet the country's needs and supply the surrounding region. Ghana has also recently publicised its interest to import petroleum from the Dangote refinery rather than internationally once it comes online. Nigeria currently imports its refined petroleum from Belgium, the Netherlands and France and distributes to its neighbours.

2. PENSION SYSTEMS IN AFRICA

2.1 KEY ISSUES

2.1.1 AFRICA'S GROWING PENSION NEEDS

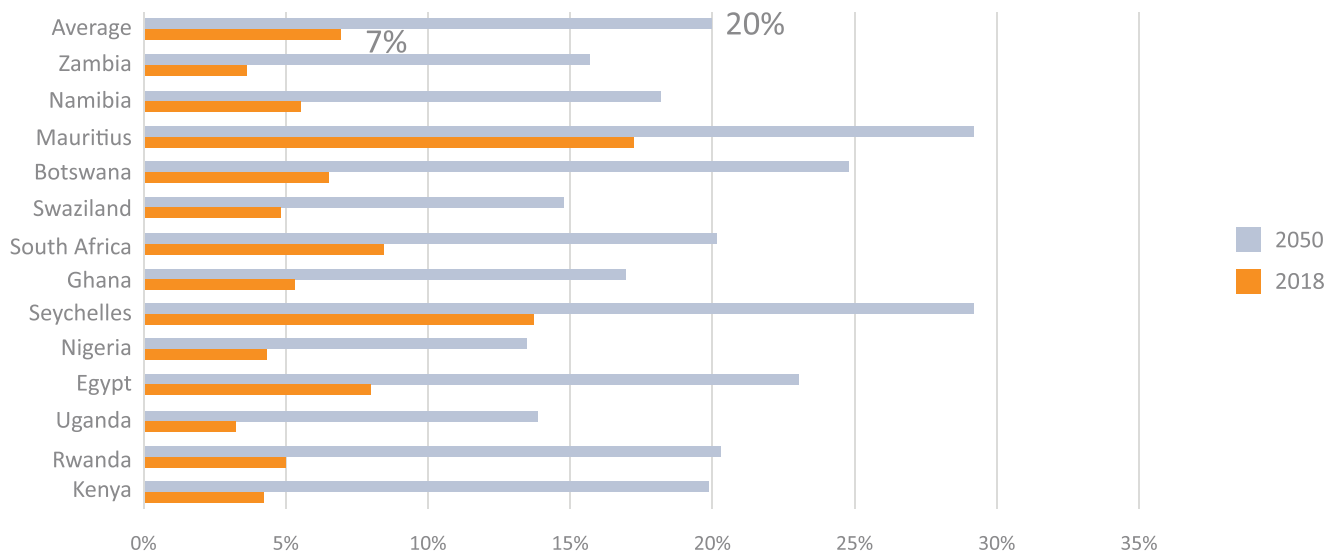
For many living in sub-Saharan Africa, retirement remains the preserve (and luxury) of the few employed by the formal sector. For the majority, working well past the “traditional” retirement age of 65 is a norm. The United Nations Department of Economic and Social Affairs reports among those Africans above the age of 65, 52% of males and 33% of females were active in the labour force in 2015. The reality is that the majority of older persons in sub-Saharan Africa have no choice but to continue to work for as long as they are physically able, due to the absence of adequate savings. When compared to their contemporaries in Latin America

and the Caribbean, 38% older men and 17% older women were working. In Europe, the measure is even more telling; 10% older men and 6% older women remained active in the labour force.

Investing in Africa is commonly associated with much coined themes – demographic dividend (youthful population) and emerging middle class. While much focus is on the compelling economic narrative supported by these themes, less coverage has been afforded to the African pension systems that must serve this youthful cohort when they inevitably grow old.

AFRICA WILL SOON HAVE MORE PENSIONERS THAN EVER

Africa's over 60s in 2018 vs. 2050



Source: Pension Watch, RisCura analysis

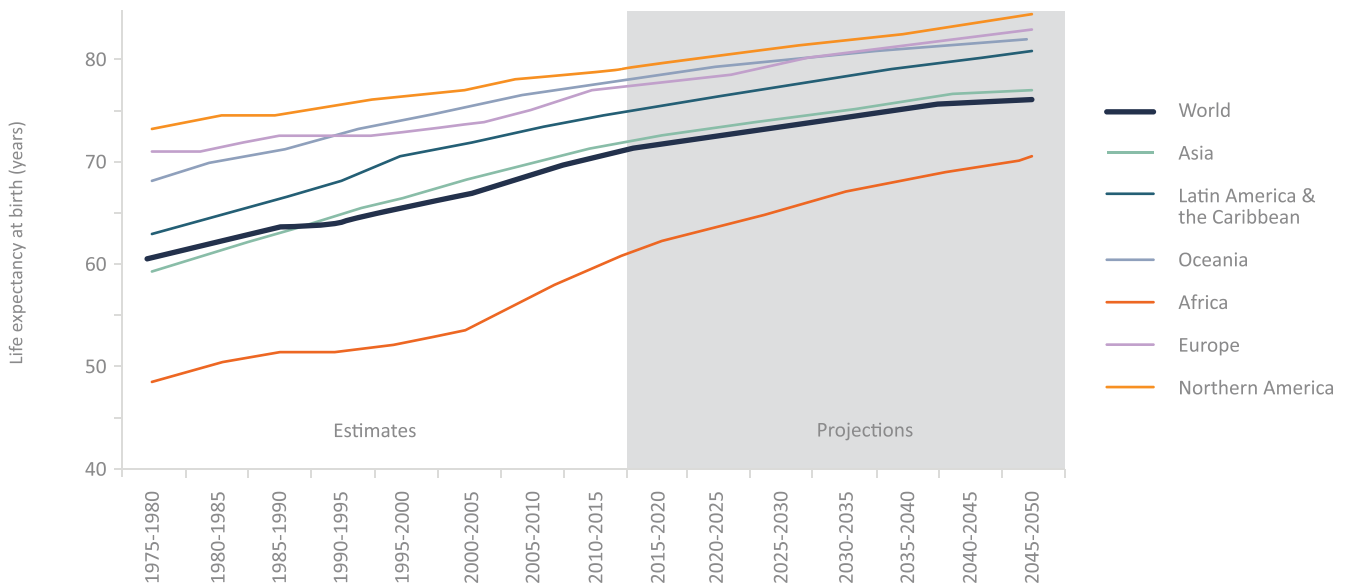
Africa’s youth will not only age, but will also live longer – introducing longevity risk. According to the UN (United Nations) World Population Prospects: The 2017 Revision, globally, life expectancy at birth is projected to rise from 71 years in (2010 – 2015) to 77 years in 2045 – 2050 as illustrated by the graph below.

Pension systems serve as the conduit through which the current youthful African middle class will defer their income (save) for their retirement. Savings are the necessary ingredient for the development of institutional investment and investors in Africa. The symbiotic relationship between the pension systems (suppliers of savings) and the institutional investors (investors of savings) allows for the creation of assets that should safely and sustainably fund the retirement goals of African savers, both formal and informal.

“Africa is projected to gain nearly 11 years of life expectancy by 2050, reaching 71 years in 2045-2050.”

AFRICA’S PENSIONERS WILL LIVE LONGER

Life expectancy at birth (years) by region: estimates 1975 – 2015 and projections 2015 - 2050



Source: Regulator annual reports and websites, RisCura analysis

2.1.2 HARNESSING AFRICA'S INFORMAL SAVINGS

“The commercial landscape of Africa is littered with mosaics of these unregulated enterprises which slowly but firmly support the economy of member countries with the dexterity and flexibility of an octopus. It is a sector whose activism has crystallized into an indispensable partner which is increasingly referred to as the underground Economy”. (Daodu, 2001)

The large percentage of people employed by the informal economy (estimated at 70%) have historically limited the size of traditional pension funds, which has partially resulted in the continent’s low level of pension coverage. Formal pension funds are unable to cater for very low incomes, which are irregular as many workers are seasonal and migrant. Considering this, there appears to be merit in policy-makers, pension practitioners, development finance institutions and other stakeholders in the African pensions system, to embrace this reality and enable savings for this group, rather than spurn them.

These workers include young adults, a demographic that is being economically excluded world-wide. They may still be living at home and are, by definition, “unemployed”, however economically active. They contribute to the household income and have aspirations, which include saving for their future.

Saving is happening – just outside the traditional definition. Most recent data from the 2017 Global Findex database for sub-Saharan Africa speaks to the fact that saving semi-formally is a common method of saving. On average across sub-Saharan Africa:

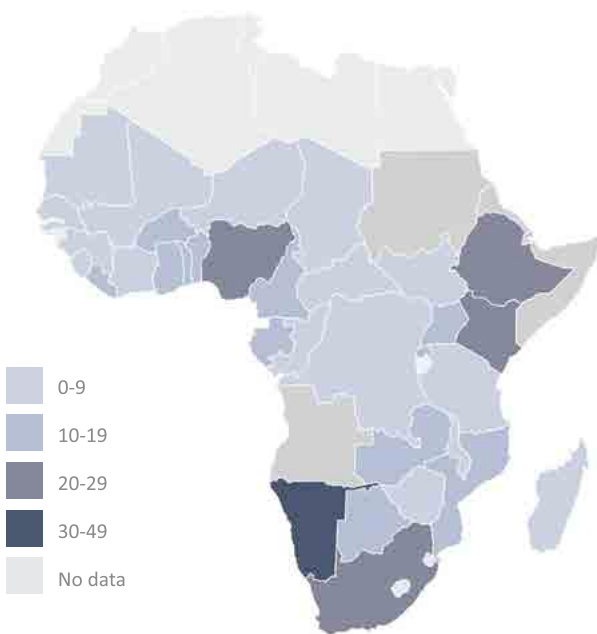
26% of adults reported having saved in the past year using a savings club or a person outside the family.

19% of adults who reported having saved money semi-formally but not formally.

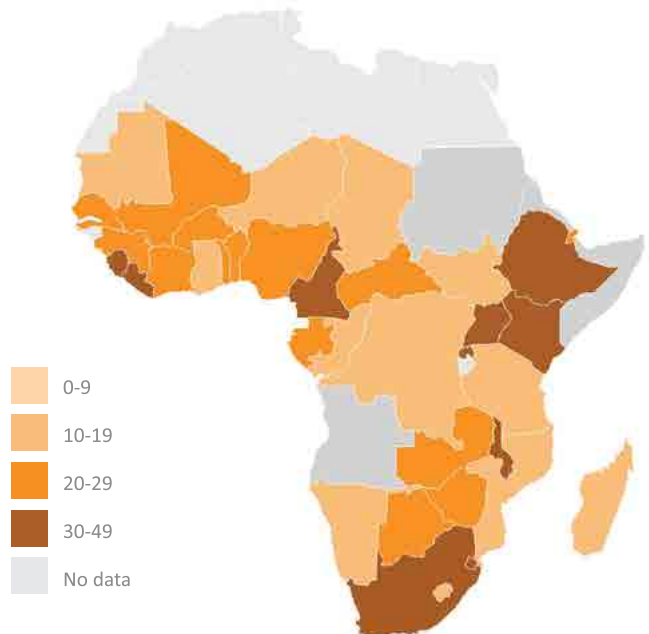
IN SUB-SAHARAN AFRICA SAVING SEMIFORALLY IS MUCH MORE COMMON THAN SAVING FORMALLY

Adults saving in the past year (%) 2017

Saved Formally



Saved Semiformally



Source: Global Findex database

Note: Data are displayed only for economies in sub-Saharan Africa

The pension systems of Nigeria and Kenya serve as examples of systems that are trying to embrace alternative forms of savings. In Nigeria, the Micro Pension Plan is designed to cover small-to-medium sized enterprises, self-employed Nigerians and the broader informal sector. It is estimated that the informal sector constitutes 70% of Nigeria’s total workforce. As at the end of 2016, there were an estimated 38 million potential contributors to Nigeria’s Micro Pension Plan. The Nigerian pension industry’s strategic objective is to cover 30% of the country’s working population by 2024, which will only be achievable by reaching out to the informal sector.

The Mbao Pension Plan of Kenya equally targets workers in the informal sector who run micro, small and medium sized enterprises in Kenya. Under Mbao, members must make a daily minimum KES. 20 (US\$0,20) contribution using their mobile phones.

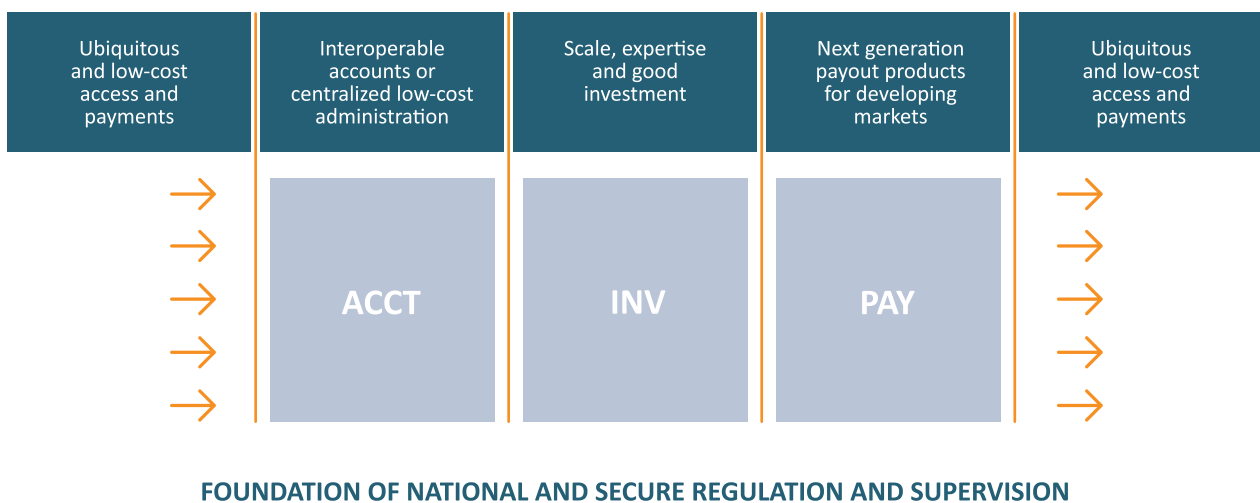
They use the mobile money transfer services offered by the two leading mobile phone networks in Kenya, namely, Safaricom and Airtel. They can, therefore, make their payments through M-PESA and Airtel Money transfer services in real-time, 24 hours a day, and from anywhere within the mobile phone network coverage.

These plans clearly show the considerable leverage that mobile phone penetration offers in the enhanced delivery of pensions. With mobile penetration rates in both countries above 80%, the handset and mobile phone coverage present immediate solutions to limitations that would otherwise preclude this constituency from more formal pension arrangements.

“The commercial landscape of Africa is littered with mosaics of these unregulated enterprises which slowly but firmly support the economy of member countries with the dexterity and flexibility of an octopus. It is a sector whose activism has crystallized into an indispensable partner which is increasingly referred to as the underground Economy.”

These schemes are reflective of international trends, where digitally integrated payment, administration and investment functions allow greater flexibility in participation as well as lower costs, as illustrated below.

CREATING A NEW VALUE CHAIN FOR DIGITAL PENSION INCLUSION



Source: Saving the Next Billion from Old Age Poverty

2.2 AFRICA'S PENSION FUND ASSETS

2.2.1 ASSETS UNDER MANAGEMENT

The Organisation for Economic Co-operation and Development (OECD) records pension assets amounting to USD 38tn in 2016 in OECD countries. The US continues to be the largest market at USD 25tn (66%) of OECD countries with the Canada and the UK at USD 2.4tn and USD 2.3tn respectively; these three countries account for more than 78% of total pension assets in the OECD.

Pension fund assets globally are on the increase as countries move from unfunded to funded (or partially funded) status, and as many outsource pension fund management to private firms and move from defined benefit to defined contribution schemes.

A common measure used to equate the significance of pension assets to a country's economy is the pension assets-to-GDP (Gross Domestic Product) measure. In OECD countries, on average, these assets-to-GDP measures increased from 37% in 2006 to 50% in 2016. In the non-OECD jurisdictions, these measures also recorded an improvement, from 12% to 20%.

In global terms, the proportion of Africa's pension assets remains relatively small. Promisingly for Africa's unfolding economic development, African pension systems are in reform. While the assets in African pension funds are still relatively small, the pace and direction of regulatory reform now taking place in Africa speaks to a common purpose, and pension systems therefore cannot fail in contributing to two equally important goals, funding retirement and contribution towards the development of the continent's economy and capital markets.

A sub-set of African countries is depicted below where the measure of asset-to-GDP ratio depicts the variation in the development of pension systems and economic development across the continent.

RisCura estimates pension fund assets in Africa to be USD 372bn, representing only 29% of the above-mentioned countries' GDP. Similar to the global picture, there is a large country bias present in Africa, with 90% of the assets concentrated in Nigeria, South Africa, Namibia and Botswana. Within these countries, a few large funds also tend to dominate. Examples include Government Employees Pension Fund (GEPF) in South Africa, Government Institutions Pension Fund (GIPF) in Namibia, Botswana Public Officers Pension Fund (BPOPF) in Botswana and a few larger vehicles in Nigeria.

“Similar to the global picture, there is a large country bias present in Africa, with 90% of the assets concentrated in Nigeria, South Africa, Namibia and Botswana. Within these countries, a few large funds also tend to dominate.”

Country	Region	Year	Currency	Currency Code	AUM (LCL million)	AUM (USD million)	GDP (IMF 2016) USD billion	GDP (IMF 2016) USD million	AUM as % GDP
Kenya	East Africa	2016	Kenyan Shilling	KES	1 080 000	10 701	68,92	68 919	16,0%
Rwanda	East Africa	2015	Rwandan Franc	RWF	633 791	735	8,41	8 406	9,0%
Tanzania (including Zanzibar)	East Africa	2015	Tanzanian Shilling	TZS	11 208 861	4 927	47,18	47 184	10,0%
Uganda	East Africa	2016	Ugandan Shilling	UGX	6 531 508	1 713	26,20	26 195	7,0%
Egypt	Egypt	2016	Egyptian Pound	EGP	48 300	2 705	332,35	332 349	1,0%
Nigeria	Nigeria	2016	Nigerian Naira	NGN	6 078 000	16 837	405,95	405 952	4,0%
Seychelles	Other East Africa	2016	Seychellois Rupee	SCR	2 637	189	1,41	1 405	13,0%
Ghana	Other West Africa	2015	Ghanaian Cedi	GHS	12 628	2 870	43,26	43 264	6,6%
South Africa	South Africa	2016	South African Rand	ZAR	4 035 825	306 653	294,13	294 132	104,0%
Swaziland	South Africa	2015	Swazi Lilangeni	SZL	22 842	1 721	3,77	3 770	45,7%
Botswana	Southern Africa excl. SA	2016	Botswana Pula	BWP	72 847	7 191	15,02	15 018	48,2%
Mauritius	Southern Africa excl. SA	2015	Mauritian Rupee	MUR	154 300	4 604	11,95	11 950	38,5%
Namibia	Southern Africa excl. SA	2016	Namibian Dollar	NAD	137 462	10 497	10,65	10 646	99,0%
Zambia	Southern Africa excl. SA	2016	Zambia Kwacha	ZMW	5 798	567	21,31	21 310	3,4%
TOTAL						371 911		1 290 500	29,0%

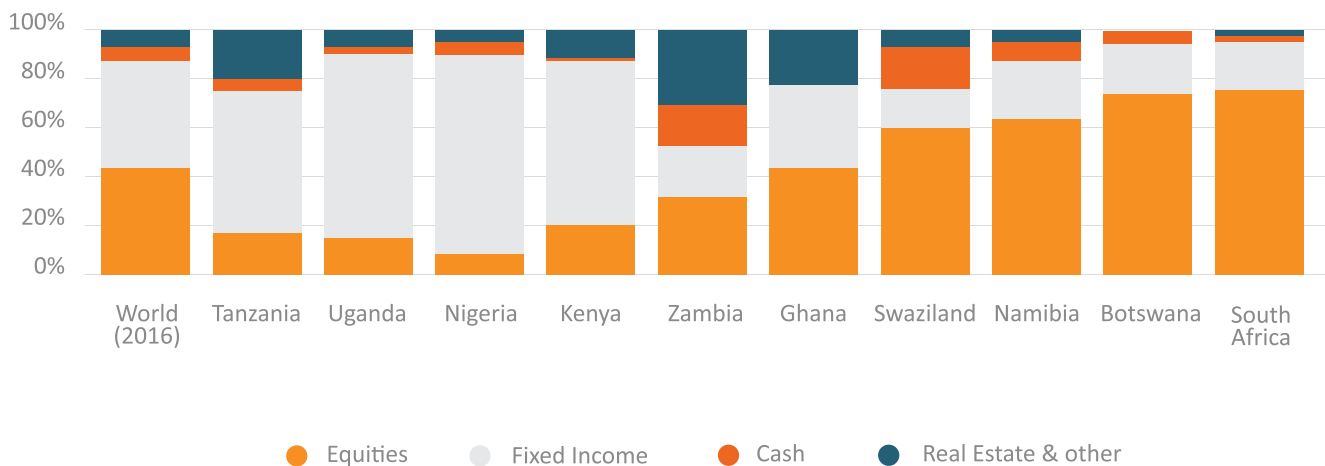
2.2.2 PENSION FUND ASSET ALLOCATION

In most OECD and many non-OECD countries, bonds and equities remain the two predominant asset classes for pension funds. While globally there is a larger allocation to equities (45%), the picture in Africa is more disparate. Asset allocation in sub-Saharan Africa has favoured equities, which have shown a steady increase enabled by the development of capital markets and regulatory change. In Nigeria and East Africa asset allocation is dominated by fixed income allocations, which predominantly constitute local bonds. When viewed alongside the high asset-growth in these regions, it reflects both regulation as well as a lack of alternative local investment opportunities.

“This highlights one of the key challenges pension funds face; identifying enough appropriate, local investment opportunities to invest ever-increasing contributions.”

ASSET ALLOCATION DEPENDENT ON MARKET OPPORTUNITIES

Pension fund asset allocations (2015/2016)



Source: Regulator annual reports and websites, RisCura analysis

Local regulation remains one of the main drivers of asset allocation. There are often significant differences between the regulatory allowances for pension funds, size of local capital markets and actual portfolio allocations between regions. This is reflective of a number of factors, including familiarity with alternative asset classes, such as private equity, development of local capital markets and availability of investment opportunities. In many countries, assets are growing much faster than products are being brought to market, limiting investment opportunities if regulation does not allow for pension funds to invest outside of their own countries.

Alternative assets

One of the ways in which the current shortage of investment opportunities can be addressed, is through investment into alternative assets classes. While investment in alternative assets in emerging markets has historically come from developmental finance institutions (DFIs), pension funds are slowly joining in. As pension assets continue to grow and international development assistance decreases, African pension funds have a pivotal role to play in facilitating inclusive growth and social stability. Larger pools of capital allow for investment in economic and capital market development. Local institutional investors lend credibility and often serve as a catalyst for greater external interest. Local investors also allow global peers to leverage local knowledge and networks.

- **Private equity**

A number of countries including South Africa, Botswana, Nigeria and Namibia have led the way in investing in alternative asset classes such as private equity. South African pension funds, for example, have been active in African private equity investment, both locally and across the continent, enabled by regulatory change.

In Nigeria, the regulator, National Pension Commission (PENCOM) prescribed a limit of 5%, for pension funds to invest in private equity as an asset class; this allowance has existed since December 2010. Using 2016 figures, this represents potential Limited Partner commitments of an estimated USD 842m. However, PENCOM also prescribes additional restrictions such as a minimum of 75% of the private equity fund to be invested in Nigeria, registration of the fund with the Nigerian SEC, and a minimum investment of 3% in the fund by the General Partners (GP). Deregulation of prescription will unlock capital to flow where it is required in Africa. Looking specifically at private equity, if African pension funds are to take the lead from DFIs in further deepening of the private equity industry, capital must be allowed to seek the most compelling investment opportunities.

“Deregulation of prescription will unlock capital to flow where it is required in Africa.”

- **Infrastructure**

The pensions industry across Africa is aware of the immediate need to accelerate investment into Africa’s infrastructure. The Africa Infrastructure Country Diagnostic (“AICD”) states that USD 93bn per year is required to address Africa’s infrastructure needs with longer investment horizons, pension funds can serve as anchor investors for infrastructure and social development projects. Extensive engagement is currently underway across African pension systems where regulatory authorities and pension industry stakeholders are looking to develop frameworks within which pension funds can invest in infrastructure, mindful of the prudential oversight and limits necessary for pensions and savings investment.

3. LISTED EQUITY

3.1 INVESTABILITY OF AFRICA'S LISTED MARKETS

3.1.1 LIQUIDITY

Outside of the Johannesburg Stock Exchange (JSE), Africa's stock exchanges remain stubbornly illiquid, with the Egyptian Exchange (EGX), currently exhibiting the second highest daily turnover across the African exchanges with a total of USD 72m traded daily, compared to the JSE's USD 1800m.

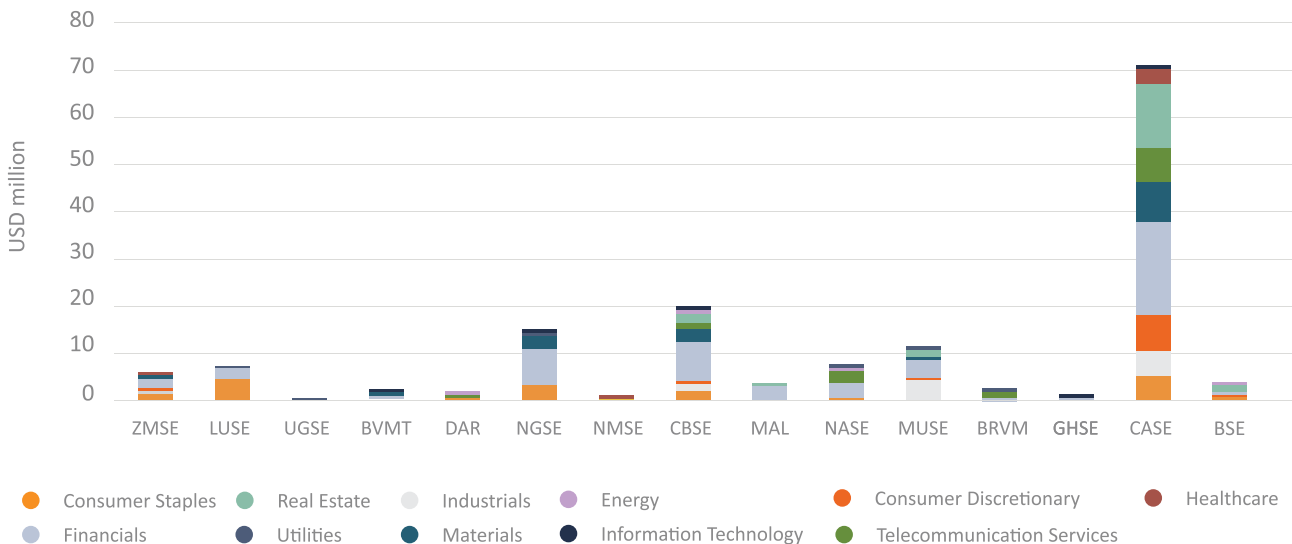
The next most liquid exchange, by turnover for 2018, is the Casablanca Stock Exchange (CBSE) followed by the Nigerian Stock Exchange (NGSE), at USD 17m and USD 15m, respectively, but this still represents less than 1% of the trade on the JSE. The NGSE showed a 71% increase in daily turnover during 2018, due to a

median increase in turnover of 125% across its 10 largest companies, all of which are in the Financial sector. This improvement can be attributed to the recovery of the oil price seen towards the end of 2017 with the knock-on effect being increased investor sentiment as economic fundamentals see improvement.

The Financial sector has on average the highest daily turnover value across the African exchanges (ex. JSE) and continues to house most of the market capitalisation. Of the capital held within this sector, 63% of this is concentrated across the CBSE, EGX and NGSE exchanges at, 30%, 18% and 15%, respectively.

AFRICAN STOCK EXCHANGES RELATIVELY ILLIQUID

Daily traded value by sector (1-year average)



ZMSE: Zimbabwe Stock Exchange | LUSE: Lusaka Stock Exchange | UGSE: Uganda Securities Exchange | BVMT: Bourse des Valeurs Mobilières de Tunis
 DAR: Dar es Salaam Stock Exchange | NGSE: Nigerian Stock Exchange | CBSE: Casablanca Stock Exchange | MAL: Malawi Stock Exchange | NASE: Nairobi Securities Exchange
 MUSE: The Stock Exchange of Mauritius | BRVM: Bourse Régionale des Valeurs Mobilières | GHSE: Ghana Stock Exchange | EGX: Egyptian Exchange
 BSE: Botswana Stock Exchange | NSX: Namibian Stock Exchange

Source: S&P Capital IQ, RisCura analysis

A driving factor of liquidity is the size of the free-float. The free-float represents the proportion of listed companies' shares that are available for active trading and thus exclude any directors' holdings, shares with lock-in periods and those otherwise held without the intention of trading pursuant to a regulatory or commercial purpose. Excluding these shares from the liquidity consideration, provides a truer representation of the liquidity in an exchange. The JSE, which is not shown due to its comparative size, has an adjusted market capitalisation of USD 750bn and a free-float of 73%.

From the graph, it appears that on average larger exchanges exhibit higher levels of free-float. This is to be expected. However, the spread amongst the top and bottom half of the group is less than 12%. The small difference is due to the low free-floats of the EGX and CBSE exchanges (average of 26%) relative to the size of their market capitalisations.

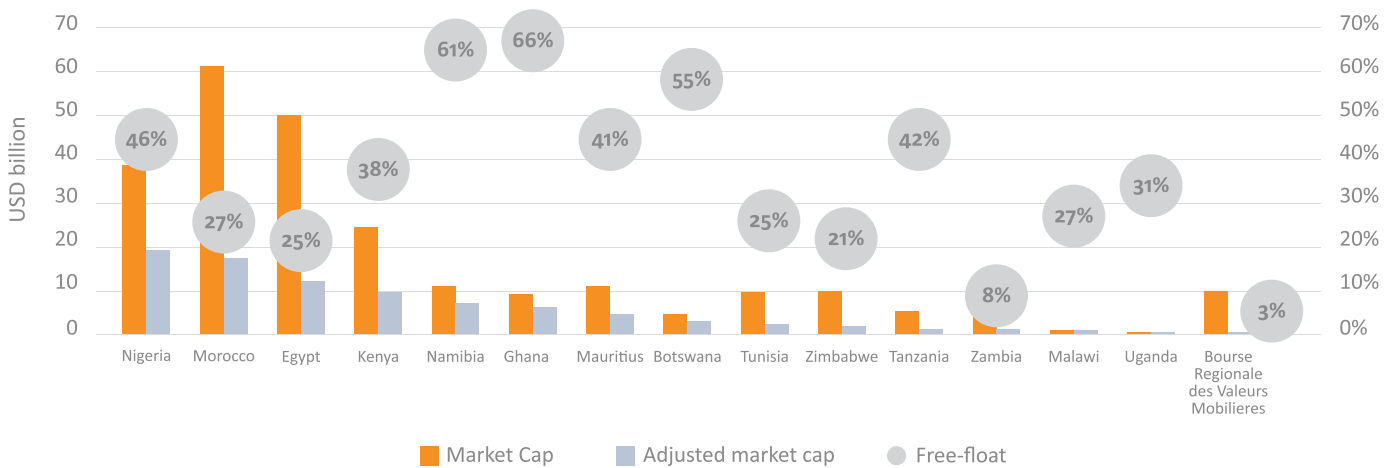
The JSE ranks highest in terms of market capitalisation and on an adjusted market capitalisation basis. It also has highest free-float of 73%.

The NGSE leads the group (ex. JSE) as having the highest adjusted market capitalisation. It has a free-float of 46%. The CBSE and EGX rank ahead of the NGSE, by market capitalisation, however, they place second and third, respectively when looking at adjusted market capitalisation. This is due to the relatively small free-floats of both these exchanges, averaging 26%, compared to the NGSE's 46%. Interesting to note is despite CASE's relatively low level of free-float, it has the highest daily value traded (ex JSE) by far.

The Ghana Stock Exchange (GHSE) exhibits the highest free-float (ex. JSE) at 66%, followed by the Namibian Stock Exchange (NSX) at 61%. The lowest free-float level relates to the Bourse Régionale des Valeurs Mobilières (BRVM) exchange, which has a free-float level of only 2%.

LOW FREE-FLOAT CONTRIBUTES TO LOW LIQUIDITY

Market capitalisation vs. Adjusted market capitalisation



Source: S&P CapitalIQ, RisCura analysis

3.1.2 COST OF TRADING

It is difficult to obtain cost of trading information in Africa. Reflected below are the markets for which reliable information could be obtained. The cost of trading on African exchanges is substantially higher than developed markets. A significant portion of trading fees is made up of brokerage commissions. The substantial portion of other fees in South Africa, mostly represent Securities Transfer Tax, which is not charged in most developed markets.

The limited pool of licensed brokers in each country results in very low power to investors to switch to a more affordable competitor. However, the low volume of trades on these exchanges means that brokers charge more on each trade to cover their costs.

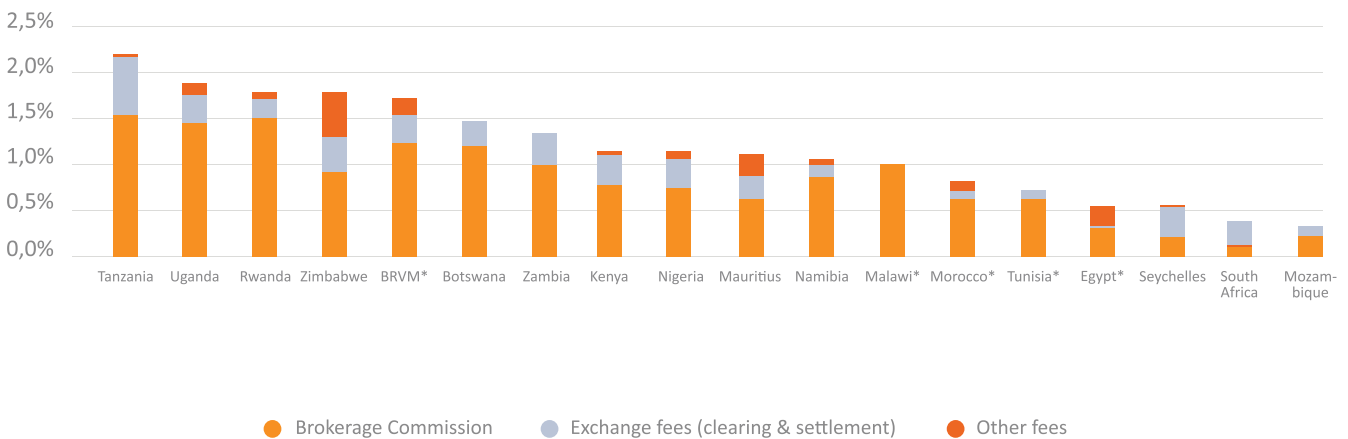
It's a difficult position to get out of without incentivisation for brokers to lower their fees.

The cost of trading below represents the cost of a single transaction, but in order to realise profits investors would need to also sell shares resulting in double the costs. Trading costs of up to 4% makes short-term trading strategies unviable, further reducing the liquidity in these markets.

Egypt's relative high liquidity, in comparison with Nigeria (which has a similar free-float), can at least in part be attributed to the significantly lower cost of trading.

BROKERAGE COMMISSION SUBSTANTIAL COST IN AFRICAN EXCHANGES

Explicit costs - Total transaction fees for investing into a share



Source: Barclays Africa, Imara African Securities, RisCura analysis

* Note: This is data last obtained in 2014 for selected countries. More recent data could not be reliably obtained at the time of publishing this report.

3.2 AFRICA'S LISTED EQUITY PERFORMANCE

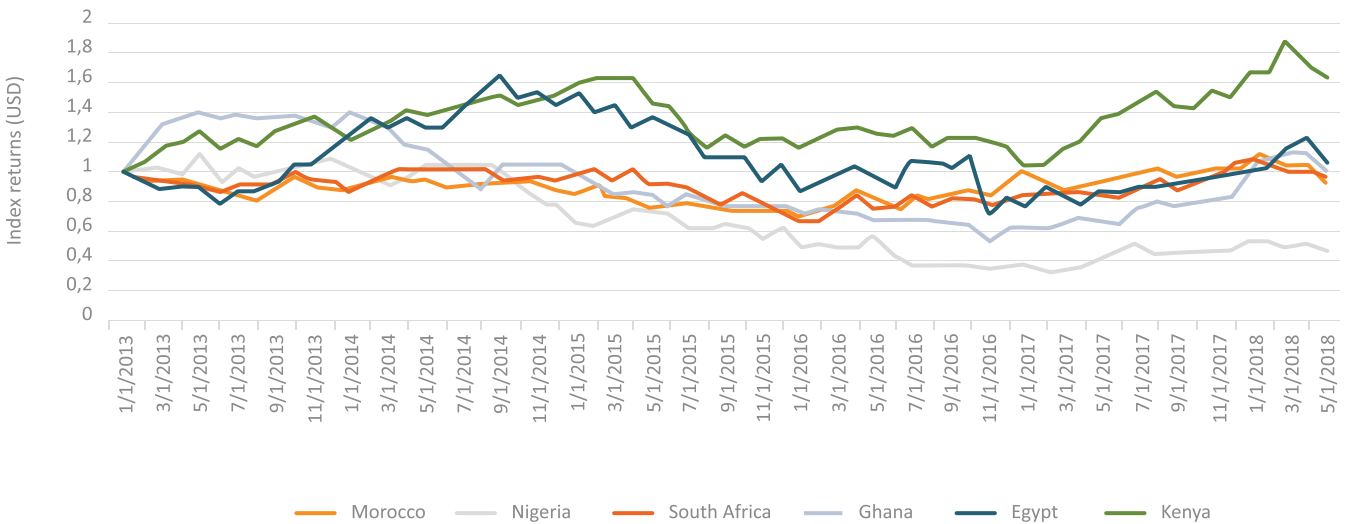
Listed equity performance over the last five years, based on US dollar returns of the major African markets, highlight significant differences in performance. From 2014 to mid-2016 African stock markets failed to grow, largely due to decreasing commodity prices and a flight to safety from global investors. In 2015 the region saw the lowest recorded growth rate since 1998. The last quarter of 2016 heralded in the start of the African equity recovery.

While the other exchanges on the continent currently have recovered their pre-commodity crisis value, the Nigerian exchange still lags behind. The relative severity and longer lasting impact of the crisis on the Nigerian economy, as well as concerns on the lack of structural reform in the economy, has kept asset prices depressed.

Kenya stands out as Africa's overall winner. The country's relative immunity to the commodity cycle, business-friendly environment and the continued integration of the East African Union, has resulted in relatively high levels of investor confidence when compared to other regions in the continent. These returns, however, still only represent a compounded annual return of 10% in US dollar terms.

“Kenya stands out as Africa’s overall winner.”

KENYA OUTPERFORMANCE RELATIVE TO COUNTERPARTS Major index returns in USD



Source: Capital IQ, MSCI, RisCura analysis

3.3 COMMON INVESTOR ACCESS

Why MSCI Ex South Africa?

The following analysis uses the MSCI Emerging Frontier Markets Africa Ex South Africa Index as well as the MSCI Emerging Markets Index as a proxy for Africa and global emerging markets. The exclusion of South Africa, is due to its relative size and sophistication from the African benchmark, which provides a clearer picture of the economic distribution within the continent. South Africa's

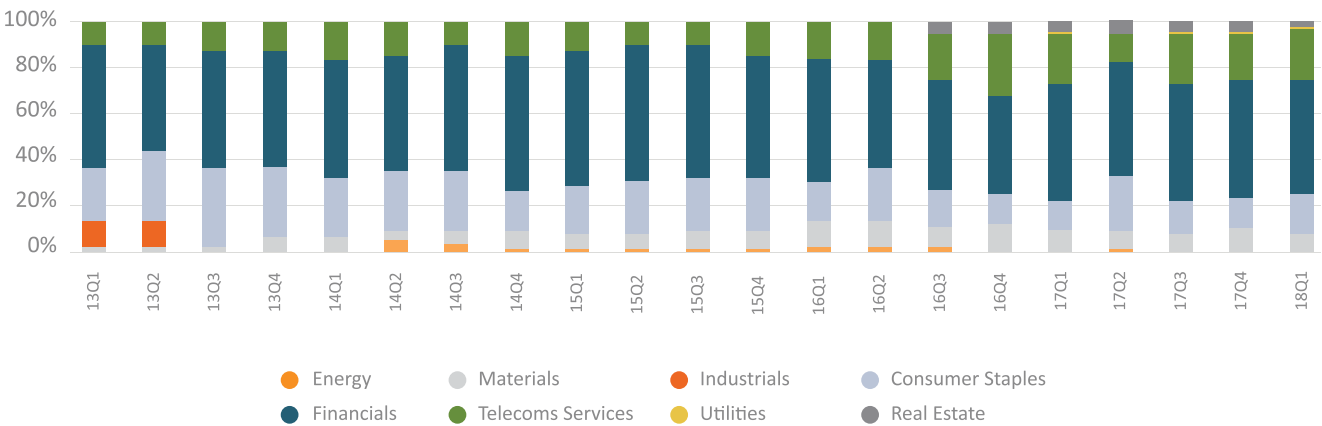
financial markets are far bigger and more developed than the rest of Africa. These proxies are most suitable due to the consistency in methodology across both indices, which allows for a like-for-like comparison. Comparing the MSCI Emerging Frontier Markets Africa Ex South Africa Index to the MSCI Emerging Markets Index sheds light on the economic disparity between African economies and the rest of the developing world.

3.3.1 COMPOSITION

Sector composition

FINANCIAL SECTOR'S DOMINANCE REMAINS

Sector exposure of the MSCI over time



Source: MSCI, RisCura analysis

The MSCI Emerging Frontier Markets Africa Ex South Africa Index captures large and mid-cap companies. This index includes 36 constituents, covering about 85% of the free float-adjusted market capitalisation in each country. The sector exposure of the index has remained relatively consistent over time. Financials have remained a dominant sector, while growth of telecoms, materials and, more recently, real estate has slightly eroded exposure from consumer staples and financials. Africa has not followed global trends in the significant expansion of the listed Information technology sector, although it contributes significantly to private equity activities.

Country composition

According to market capitalisation, Nigeria's concentration within the index has decreased from 48% in the first quarter of 2013 to 22.0% in the first quarter of 2017, recording its lowest concentration within the analysed period. This is the result of Nigeria's asset prices which remain depressed in comparison to the remainder of the continent

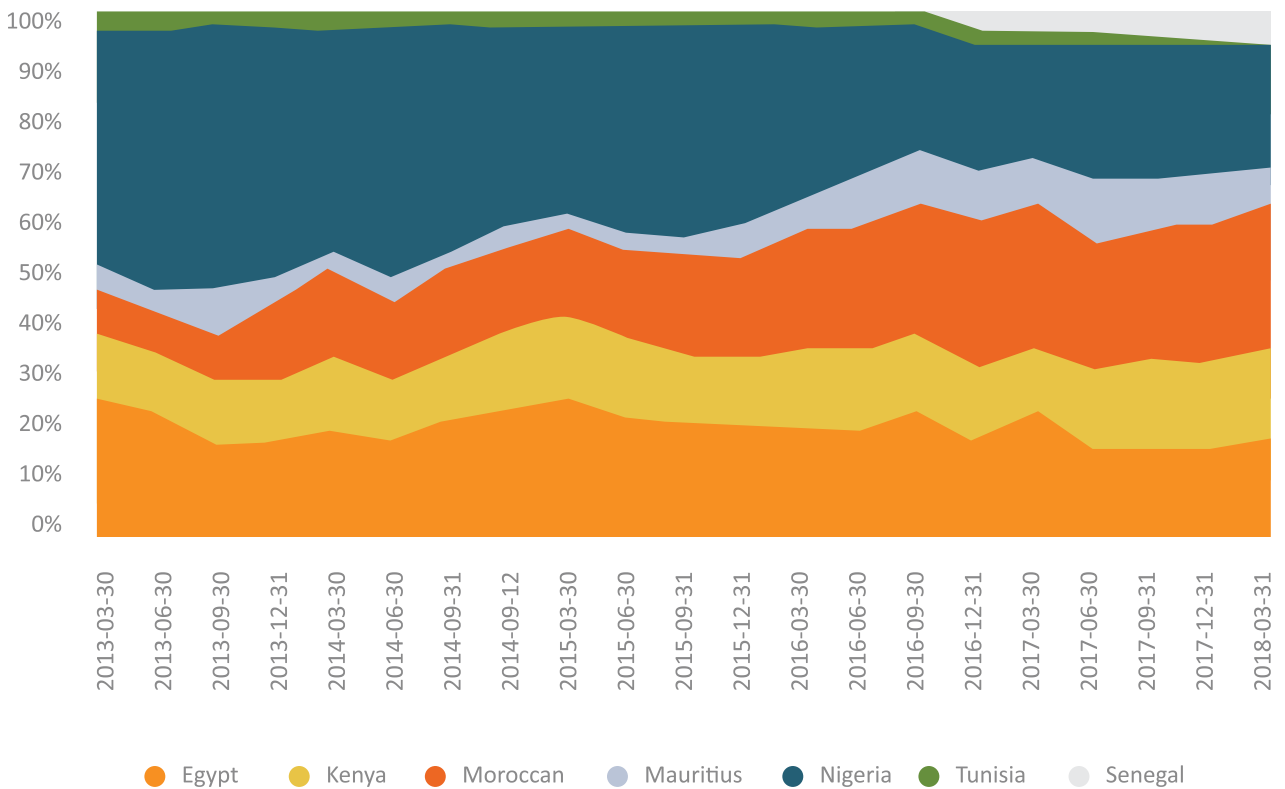
While Morocco has steadily increased in concentration from 8.5% in the first quarter of 2013 to be the largest constituent in 2018 at 26%.

Egypt has decreased from 26% in the first quarter of 2013 to its lowest concentration of 10.7% in the second quarter of 2017. About 70% of Egypt’s exposure within the index is from Commercial International Bank of Egypt, further highlighting the concentration of the Financial sector in listed markets.

“About 70% of Egypt’s exposure within the index is from Commercial International Bank of Egypt, further highlighting the concentration of the Financial sector in listed markets.”

NIGERIA DOMINANCE DILUTED

Country composition of the MSCI over time



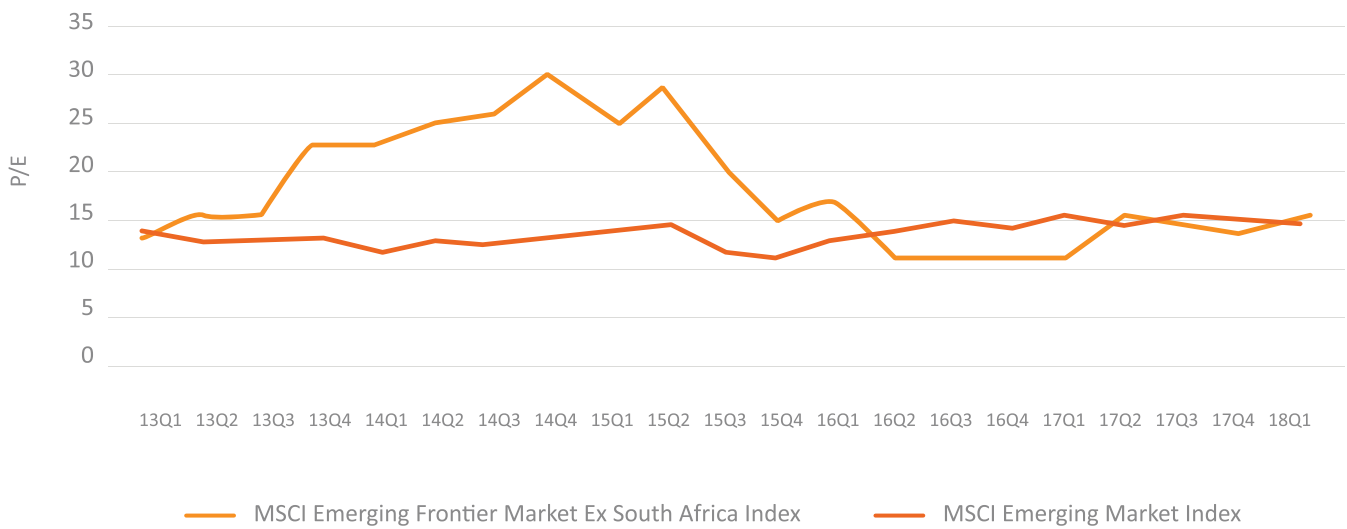
Source: MSCI, RisCura analysis

3.3.2 RELATIVE PRICE INDICATORS

Price-to-earnings ratio

PRICE-TO-EARNINGS RATIO NORMALISES

Price-to-earnings ratio over time

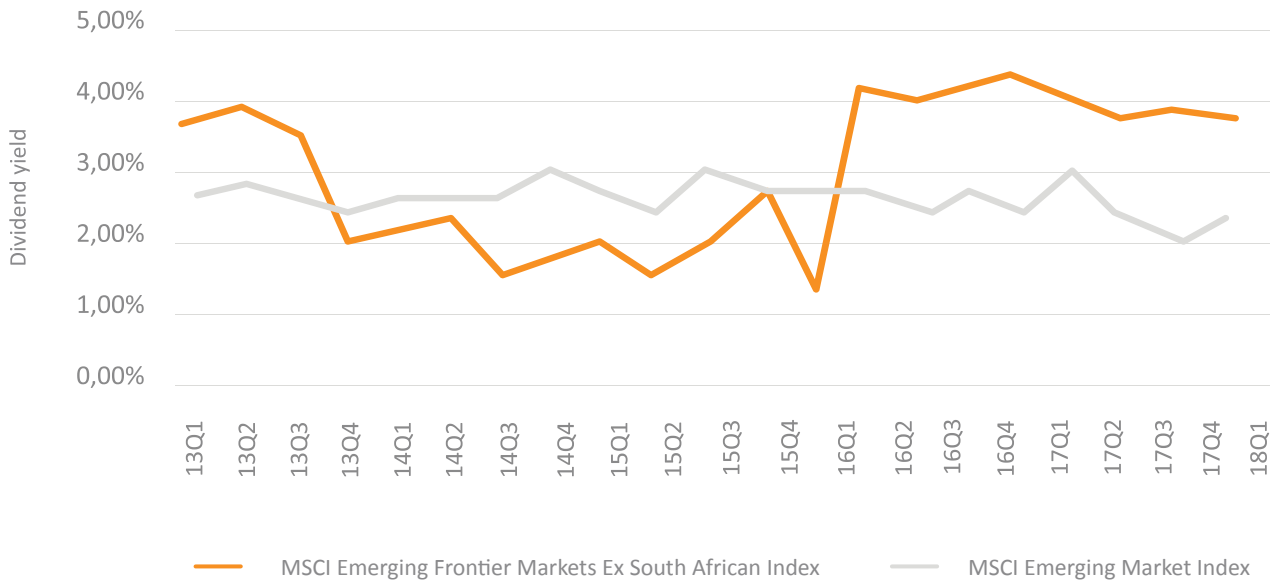


Source: MCSI, RisCura analysis

The two years between 2013 and 2014 saw a major increase in the price-to-earnings ratio of the MSCI Emerging Frontier Markets Africa Ex South Africa Index, from 13.29 in the first quarter, to 30 at the end of 2014. Investor confidence within Africa was high relative to MSCI Emerging Markets Index, which had a price-to-earnings ratio of about 13 at the time. The subsequent years saw a drastic reversion in the price-to-earnings ratio back in line with emerging markets.

AFRICAN MARKET HIGH DIVIDEND YIELD

African and emerging market dividend yield over time



Source: MCSI, RisCura analysis

Dividend yield

Dividend yields for MSCI Emerging Markets indices have remained constant between 2.5% and 3% since 2013. Between the end of 2013 to the first quarter of 2016, Emerging markets achieved a higher dividend yield relative to MSCI Emerging Frontier Market Ex South Africa.

In the second quarter of 2016 MSCI Emerging Frontier Market Ex South Africa surpassed the Emerging markets by 86 basis points and has remained the highest thus far. The dividend yield graph of the MSCI Emerging Frontier Market Ex South Africa highlights the close relationship that most African economies have to the commodity cycle. From the graph it is clear that dividend payout ratio decreased in line with commodity prices and that the subsequent recovery tracked the commodity price recovery.

4. PRIVATE EQUITY IN AFRICA

4.1 MARKET CONDITIONS

In this section the market conditions that influence private equity pricing in African markets are discussed. First, we cover the theoretical cost of equity, which reflects the risk and reward profile of the markets. Secondly the supply and demand of capital in the private market is reviewed by examining fundraising for private equity funds. Lastly, we discuss the pricing of the listed market.

4.1.1 COST OF EQUITY

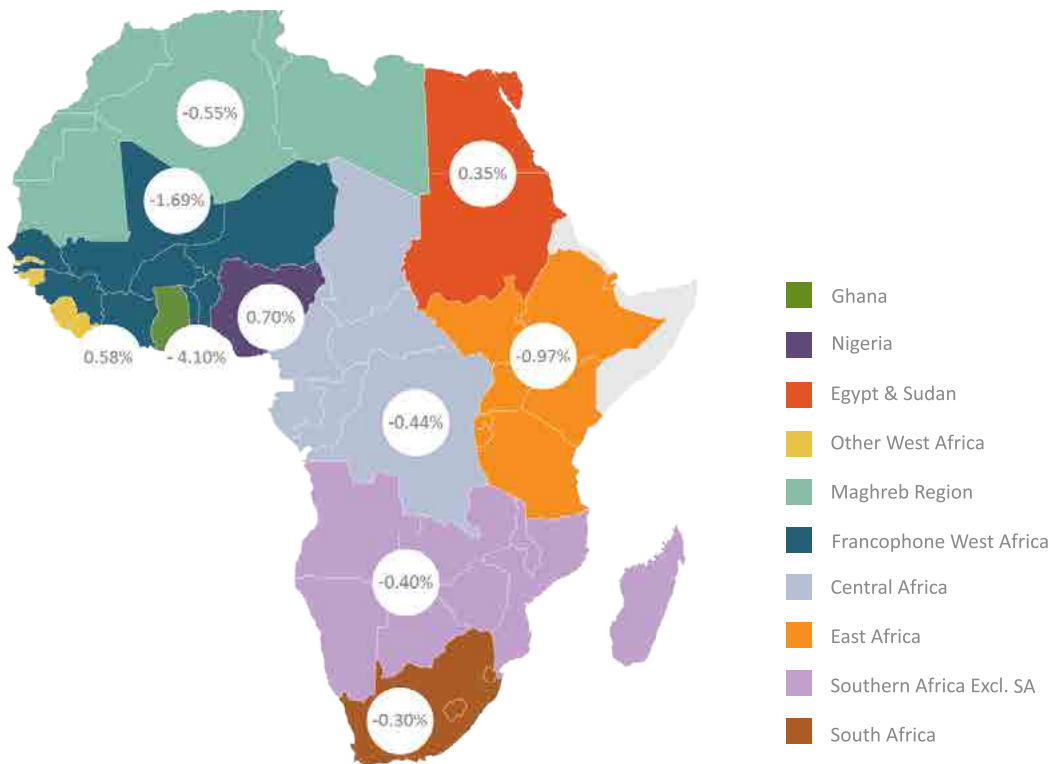
Risk versus reward is a key determinant of investment activity. Cost of equity is representative of the investor’s evaluation of the

risk that the enterprise is exposed to. We estimate that the GDP weighted cost of equity for the continent is 21% and has decreased in the current year by 0.35%.

Most regions showed a decrease with Egypt & Sudan; Nigeria and Other West Africa being the only regions to record increases. Sudan’s current political instability and hyper-inflation drives the increase in that region, while Nigeria’s relatively small increase represents the final negative impact of the commodity cycle and the resulting currency devaluation.

REDUCTION IN PERCEIVED RISK ON THE CONTINENT

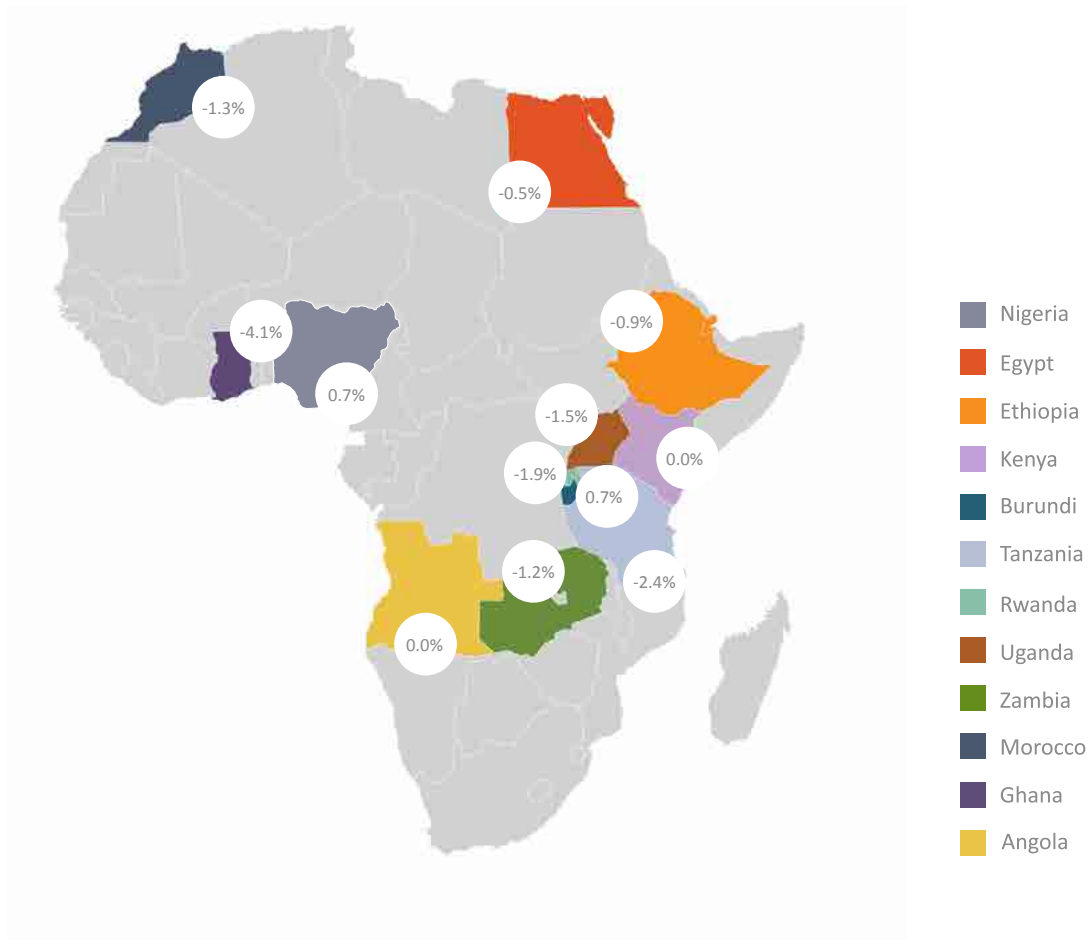
Change in cost of equity in 2017: Regional



Source: RisCura, Moody's, BMI Research
 *Note: The following countries are commonly excluded from the analysis due to insufficient data. When included, the impact is immaterial: Eritrea, Somalia.

REDUCTION IN PERCEIVED RISK ON THE CONTINENT

Change in cost of equity in 2017: Country



Source: RisCura, Moody's, BMI Research

The remainder of the continent showed reductions in cost of equity reflecting the lowering of investment risk and supporting the increase in asset prices over the period. East Africa has shown a 1% decrease in cost of equity. Kenya, the largest economy in the region's risk profile, has remained steady over the year, with Tanzania, Rwanda and Ethiopia all recording decreases in risk. This is the second year in which this region has recorded a decrease in cost of equity, lending some support to the increased asset prices in the region.

4.1.2 PRIVATE EQUITY FUNDRAISING OVER TIME

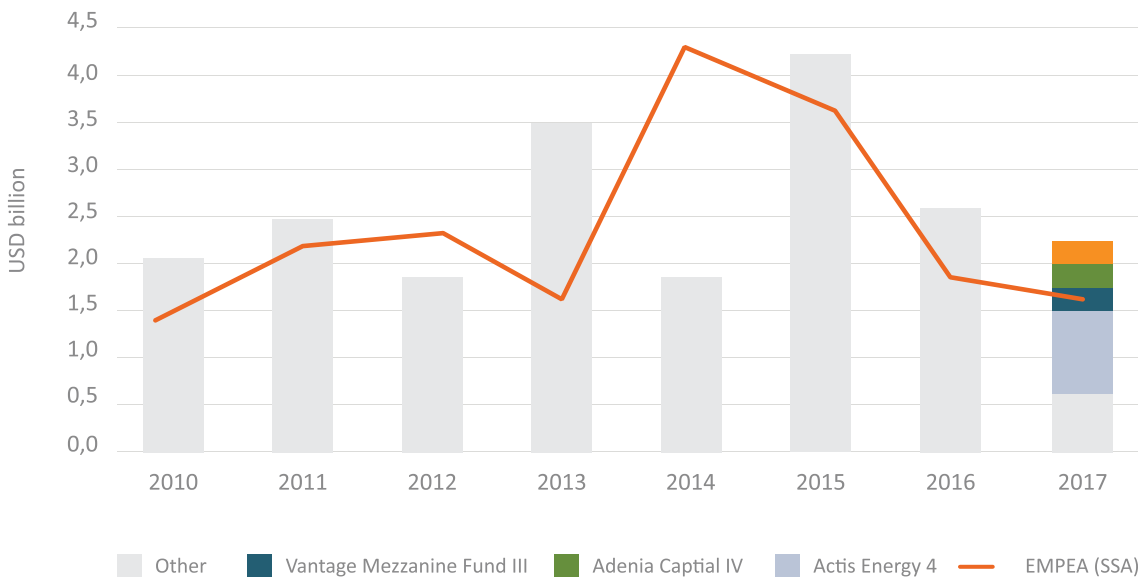
Total fundraising in 2017 reached USD 2.3bn, compared to USD 2.6bn in 2016. A total of 11 funds raised capital during 2017, the largest being Actis Energy IV, Vantage Mezzanine III and Adenia Capital IV.

In recent years, investment from commercial investors, particularly pension funds and endowment funds has increased, reducing the concentration of development finance institution (DFI) funding within the private equity industry.

- Actis Energy IV closed at USD 2.75bn and will cover Africa, Latin America and Asia, with USD 920m expected to be invested in Africa.
- Vantage Mezzanine Fund III closed at USD 280m and will have a Pan-Africa focus.
- Adenia Capital IV will cover sub-Saharan Africa and reached a final close of USD 254m.

FUNDRAISING REMAINS MUTED IN 2017

Total value of African private equity fundraising, by year of final close, USDbn



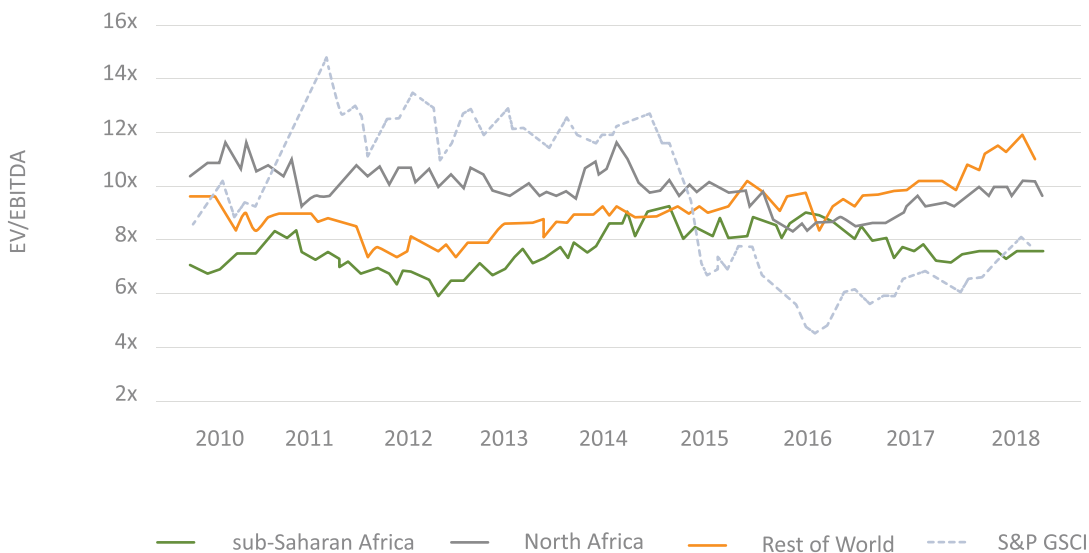
Source: AVCA, EMPEA, RisCura analysis

4.1.3 LISTED EV/EBITDA MULTIPLES

When looking at the levels of enterprise value to EBITDA ratio, the structural differences between the different regions of Africa once again become apparent. There is a stark contrast between listed EV/EBITDA multiples on the North African exchanges and the sub-Saharan African exchanges.

DIVERGENCE AND POSSIBLE RECOVERY OF AFRICA'S LISTED MULTIPLES

Listed EV/EBITDA multiples over time



Source: S&P Capital IQ, RisCura analysis

*Note: Rest of the World refers to US, UK, Japan, LatAm, BRIC markets as a proxy.

The North African exchanges are significantly higher than the rest of the continent, having diverged from the remainder of the continent over the past two years, and moved in parallel to the Rest of the World*. As identified in previous sections of this report, these countries have significant structural differences when compared to much of sub-Saharan Africa, including their

strong links to Europe. The Maghreb region is set to have a strong 2018, following positive investment reforms taking place in several countries. Morocco and Egypt have continued to position themselves as high-quality African investment destinations. The global uptick in commodity prices will likely add further stimulus to the Egyptian economy.

In contrast, the sub-Saharan Africa exchanges have diverged from the rest of the world since the downturn in global commodity prices. However, slow signs of recovery in the past year suggest that a price correction is imminent and may have already begun. African countries experienced modest growth in EV/EBITDA multiples; although most countries ended 2017 with multiples below 8x, not materially different from 2016. The slight upward trend in African listed multiples reflects a renewed interest in African investment opportunities resulting from stronger global growth prospects and higher commodity prices.

“EV/EBITDA multiples in Kenya increased the most, at 42% over the year.”

EV/EBITDA multiples in Kenya increased the most, at 42% over the year with the average EV/EBITDA multiple moving from 5.8x in December 2016 to 8.3x in December 2017. Multiples in Ghana

increased by 11% while the multiple for Francophone West decreased by 44% over the period to a more sustainable level.

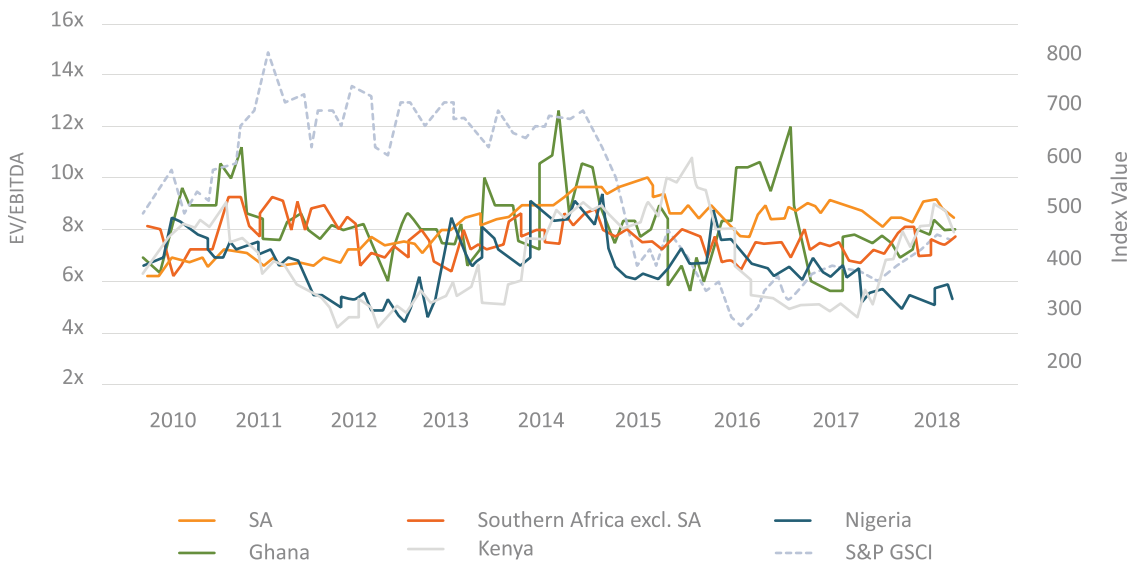
“In Nigeria, multiples decreased by 14%, from 6.1x in December 2016 to 5.3x in December 2017.”

In Nigeria, multiples decreased by 14%, from 6.1x in December 2016 to 5.3x in December 2017. This multiple has been trending upwards in 2018 so far, as the Nigerian economy has started to recover as previously noted, which is beginning to reflect in country’s listed multiples.

In 2017, multiples in South Africa were flat, while multiples in Southern Africa decreased by 5%. Multiples in the Maghreb region increased by 7% over the period.

NIGERIA’S RECOVERY LAGGING

Listed EV/EBITDA multiples over time



Source: S&P Capital IQ, RisCura analysis

4.2 AFRICA'S PRIVATE EQUITY TRANSACTIONS

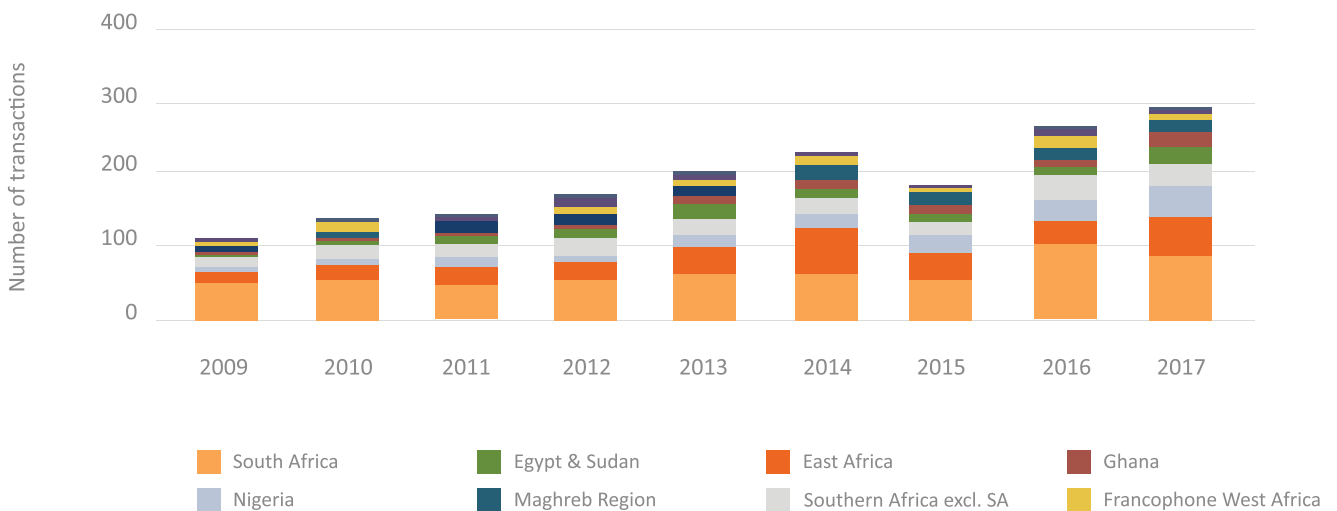
4.2.1 GEOGRAPHIC FOCUS

Total private equity (PE*) transaction activity has increased by 7% from 2016 to 2017 as fund managers continue to deploy the significant amount of dry powder created in the market during the 2013 and 2015 fundraising years.

“South Africa makes up a large proportion of PE transaction activity in the current year, however, this concentration has reduced significantly from 50% in 2009 to 31% in 2017.”

ACTIVITY CONTINUES TO TREND UPWARD

Number of private equity transactions by region



Source: RisCura, S&P Capital IQ

*Note: In this chart the definition of private equity includes transactions in venture capital, real estate and private equity sectors.

South Africa makes up a large proportion of PE transaction activity in the current year, however, this concentration has reduced significantly from 50% in 2009 to 31% in 2017. This shift in investor focus away from South Africa is attributable the increase in opportunities to capture growth in the rest of the continent, coupled with sluggish GDP growth, political uncertainty and increasing unemployment which have been prevalent in the South African economy.

“Kenya continues to dominate the East African PE investment landscape because of the country’s large and diversified economy, pro-business government policies and relatively low dependence on extractive commodities.”

We have seen increases in deal activity in Nigeria and East Africa over the past year. The increase in Nigeria is driven by improved investor sentiment, which results from higher than expected GDP growth, recovery of the oil price, government incentives and improved foreign exchange liquidity. Deal activity in East Africa in 2017 has mostly been driven by Kenya and Uganda, with the former contributing 61% to East Africa’s total deal activity.

Kenya continues to dominate the East African PE investment landscape because of the country’s large and diversified economy, pro-business government policies and relatively low dependence on extractive commodities. The country has continued to grow at 5% annually in real terms over the past five years.

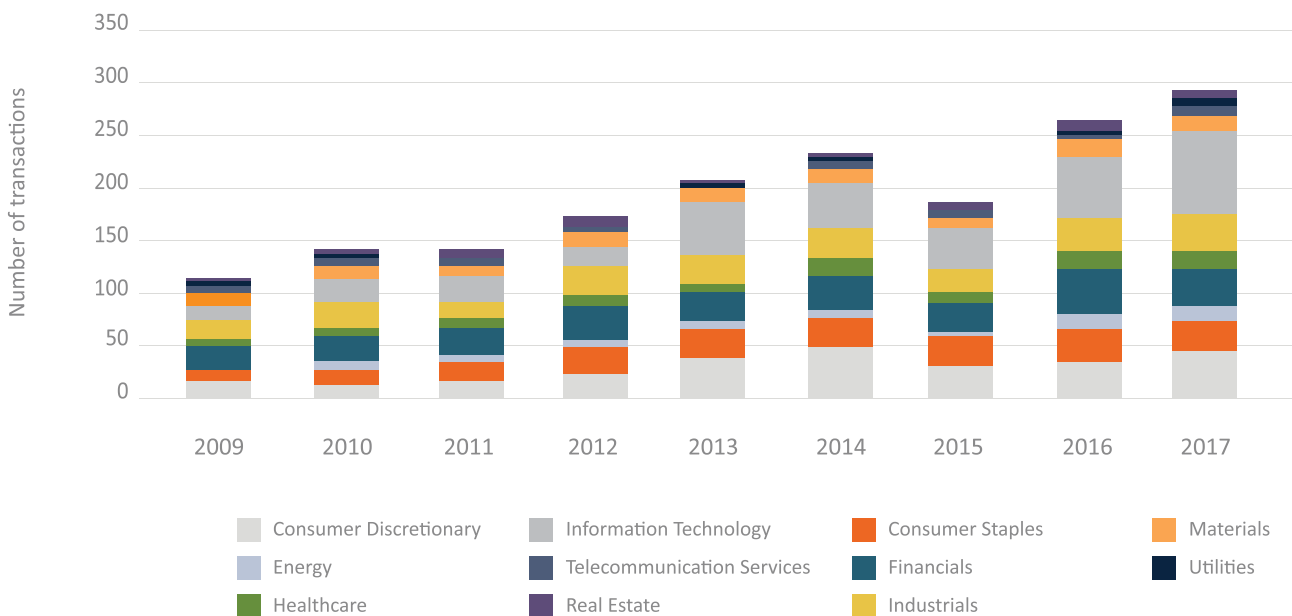
Deal activity in Egypt has increased to 9% of total transactions in 2017 (2016: 6%). The increase has been driven by the rise in investor confidence following the devaluation of the Egyptian Pound in September 2016 and a series of regulatory reforms instituted in June 2017 that provide various investment incentives. Egypt was ranked as the No. 1 investment destination in Africa by RMB’s “Where to invest in Africa” 2018 report and has seen a significant increase in foreign direct investment (FDI) inflows in recent years.

As it becomes clear how the countries affected by economic difficulties will fare during the recovery, activity is likely to increase in several key markets.

4.2.2 SECTOR FOCUS

INFORMATION TECHNOLOGY IN DEMAND

Number of private equity transactions by sector



Source: RisCura, S&P Capital IQ

Investment activity in consumer discretionary and consumer staples has remained relatively flat over the past three years as a proportion of total activity.

Consumer products have historically been the focus of private equity in Africa, due to the perceived opportunities resulting from the continent's growing middle-class. Within consumer discretionary, investor interest has moved toward online retail, education services, advertising and publishing; possibly showing a shift from a lower to a higher income group.

The other two traditionally large sectors for investment, Financials and Industrials have also attracted similar levels of investment in the current year when compared to the prior year. The abovementioned sectors have contributed a total of 14% and 11% of the total investment activity, respectively.

As in 2016, Information Technology (IT) is the leading investment sector in Africa in 2017, making up a total of 26% of all African investment activity in the current year, this has increased from 21% in 2016. A significant portion of IT investment is taking place in Nigeria and South Africa's venture capital sectors. In 2017, there has been a sharp increase in investment in companies such as payment processors, internet software and IT services providers. These investments are positioned to take advantage of the continued increase in internet usage due to growing smartphone penetration.

“A significant portion of IT investment is taking place in Nigeria and South Africa's venture capital sectors.”

Africa's large and increasing youthful population is expected to continue to drive demand for internet software and services due to their affinity for technology.

Industrials remains another popular sector for investment, including the construction, engineering, transport, logistics, equipment and machinery industries. Investment is mostly in the light industrial sector with a focus on import substitution.

The telecommunication sector has experienced a large increase in transaction activity during 2017. Most of the current year's transactions were focussed on alternative carrier and wireless telecommunication services companies.

4.3 PRIVATE EQUITY MULTIPLES IN AFRICA

4.3.1 OVER TIME

As discussed in previous sections, the median EV/EBITDA multiples of listed equity in Africa have trended downward since the end of 2014. Conversely, median private equity multiples have steadily increased. There is a convergence of private equity and listed equity multiples at around 8x EV/EBITDA in 2017.

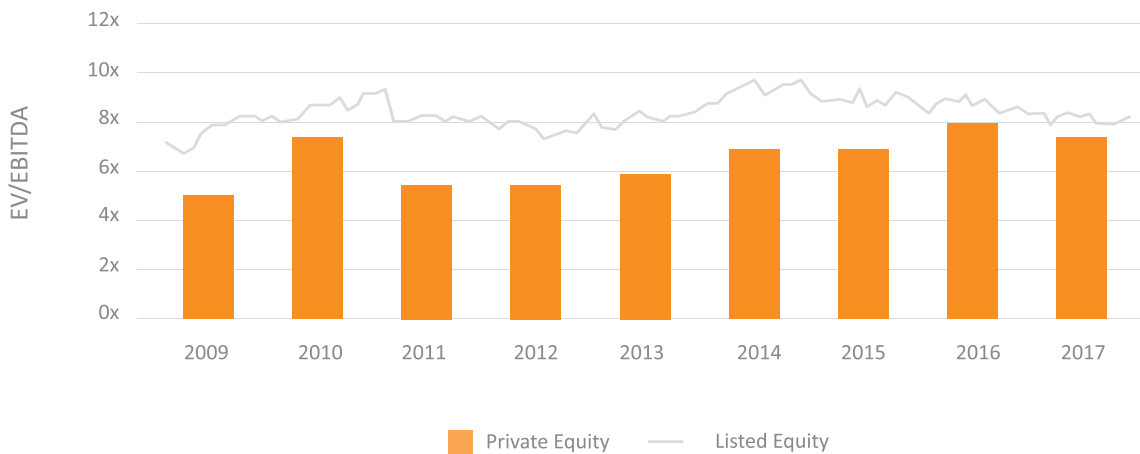
Let's consider the increase in private equity multiples with reference to the trade-off between growth expectations and risk perception in Africa. When listed equity multiples started a slow downward trend in mid-2014 when the commodity cycle

weakened, private equity multiples did not follow suit, but held firm all through 2015. In 2016 private equity multiples did weaken as expected and the relationship between listed and un-listed equity multiples appeared to briefly normalise.

“There is a convergence of private equity & listed equity multiples at around 8x EV/EBITDA in 2017.”

STRONG PERFORMANCE FOR PRIVATE EQUITY

Median EV/EBITDA of listed and private equity transactions in Africa



Source: RisCura, S&P Capital IQ

The investment and growth outlook remained challenging during 2017 as the commodity cycle started to turn again. The continued impact of the downturn on countries and political uncertainty in some of Africa’s largest markets, continued to dampen listed market multiples. Private equity multiples, however, showed a marked improvement. The apparent convergence of listed and unlisted multiples could be the result of the gradual recovery of prices on the listed market, which has been slow to reflect improvements in investment conditions, or it could be the result of factors that specifically influence the pricing of private equity, but not listed equity.

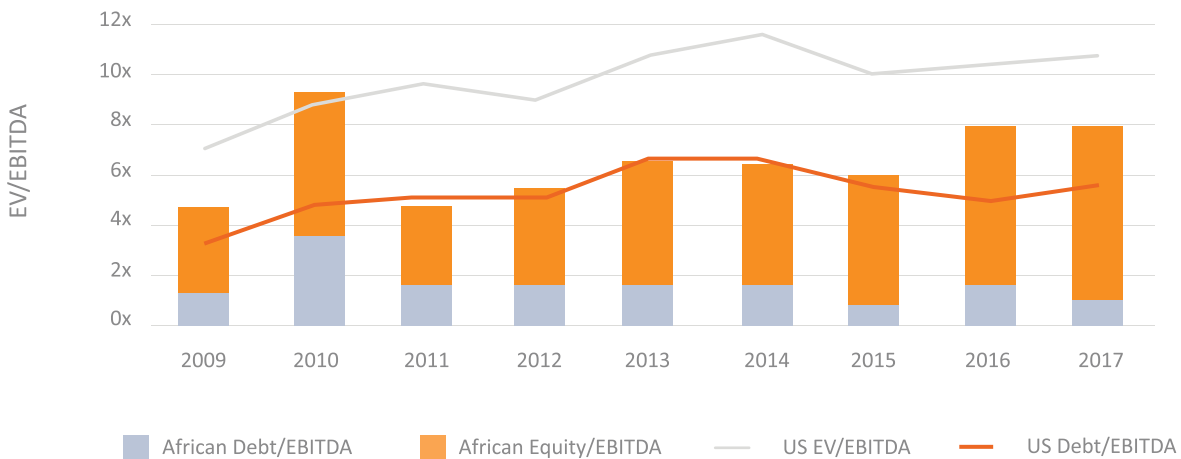
One of these factors could be increased competition for attractive investment opportunities. A substantial amount of dry powder in the market and an increased number of deals taking place via auction in recent years, could be a reason that prices are being driven up for high-quality deals.

In the US, debt consistently remains a determinant of the multiples paid for private equity transactions and the availability of debt within the US market remains a contributor to fluctuations in multiples. In the US, multiples are typically determined by adding a relatively fixed equity margin onto the amount of debt that can be raised.

Of the African transactions with reported Enterprise Value, just over half of companies entered by PE funds in the 2009 to 2017 period reflected a Net Debt position on their balance sheets. The average Debt/EBITDA position of these companies was 1.9x over the period, which drops down to 1.63x if 2010 is excluded. The median Debt/EBITDA multiple was 1.27x at 2017, which represents a decrease compared to 2016.

INCREASE IN AFRICAN MULTIPLES DRIVEN BY EQUITY

Median EV/EBITDA of transactions with debt



Source: RisCura, Pitchbook

The consistently low level of debt indicates that the private equity industry in Africa is still not debt driven, with poorly developed local debt markets. Most fluctuation in multiples relates to investors' availability and willingness to provide equity funding. PE firms do provide financing where obtaining affordable debt is not a viable option, as is the case across many African countries. There has also been a significant uptick in interest for private credit, with a number private credit funds being raised in recent years:

TLG

CAPITAL AFRICA CREDIT OPPORTUNITIES FUND (2016)

226.5M USD

INVESTEC AFRICA CREDIT OPPORTUNITY FUND 1 (2015)

280M USD

VANTAGE MEZZANINE (2017)

4.3.2 BY PRICE RANGE

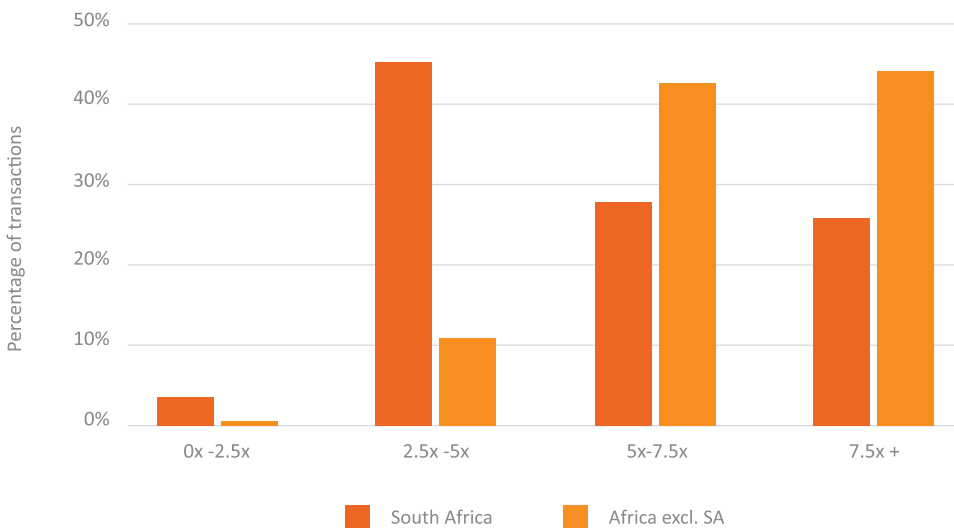
Private equity transactions in South Africa occur predominantly in the 2.5x-5x bracket, whereas in the remainder of Africa most of the deals take place in higher brackets.

"Private equity transactions in South Africa occur predominantly in the 2.5x-5x bracket."

According to the 2017 Deloitte SAVCA Africa Private Equity Confidence Survey, most respondents expect entry multiples on transactions in Eastern and Western Africa to increase over the next 12 months due to increased competition for new investments. This competition is expected to be driven by growing interest by development finance institutions in the Eastern region and the recovery of oil price and improved foreign exchange liquidity in the Western region.

AFRICAN TRANSACTION MULTIPLES HIGHER OUTSIDE OF SA

Count of EV/EBITDA multiples by price category (2012-2017)



Source: RisCura, S&P Capital IQ

4.3.3 BY DEAL SIZE

There is a clear relationship between the size of the transaction and the size of the EV/EBITDA multiple used to price the investment.

Higher priced transactions tend to take place at the larger end of the spectrum. In this case the category of companies with Enterprise Value greater than USD 250m are attracting multiples of almost 8x.

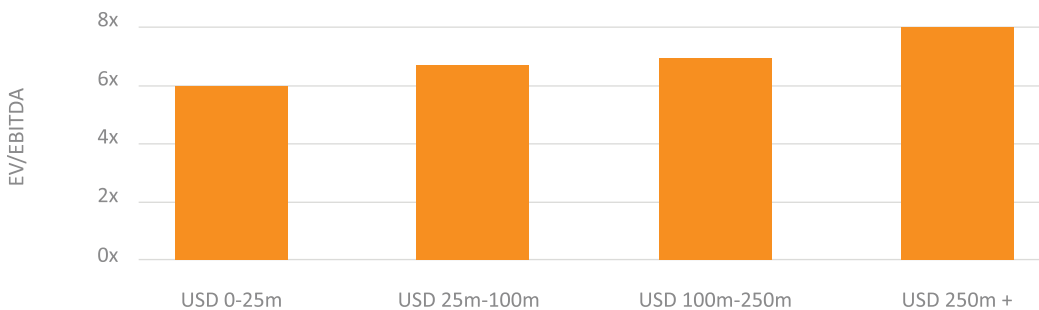
On the other end of the spectrum, the median multiple for small transactions (under USD 25m) is around 6x.

The size of investee companies is largely determined by the fund's investment approach and fund size. Larger funds will target larger-sized companies with established market positions. Funds may also strategically target larger, later-stage companies with stable and sustainable cash flows, particularly during uncertain economic times.

“The size of investee companies is largely determined by the fund’s investment approach & fund size.”

TRANSACTION MULTIPLES INCREASE WITH SIZE

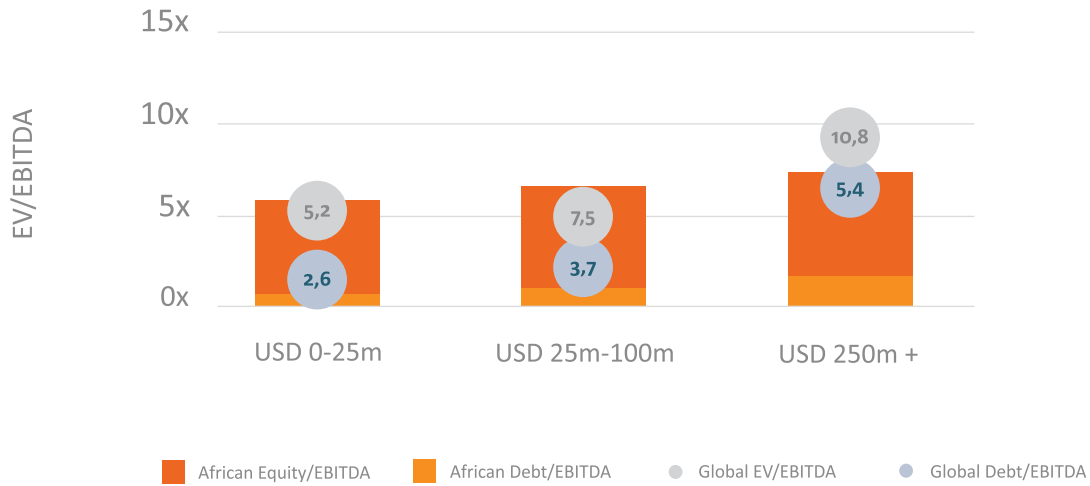
Median EV/EBITDA multiples of private equity transactions (2012-2017)



Source: RisCura, S&P Capital IQ

LARGER COMPANIES ALLOW FOR GREATER LEVERAGE

Median EV/EBITDA multiples by enterprise value (2012-2017)



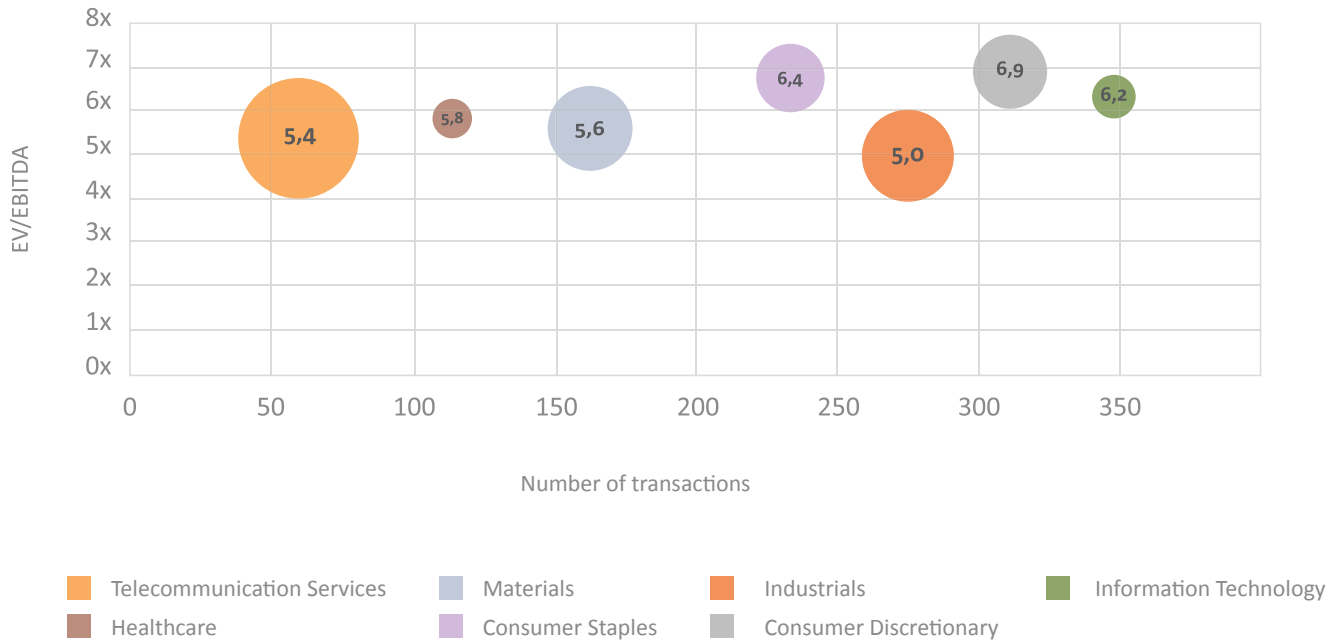
Source: RisCura, S&P Capital IQ, Pitchbook

The debt level in African private equity increases marginally with deal size but doesn't exceed 2x debt/EBITDA. Compared to the global norm, where debt/EBITDA increases more rapidly and to a far higher level as company size increases.

4.3.4 BY SECTOR

RANGE OF MULTIPLES ACROSS SECTORS IS SMALL

Median EV/EBITDA multiples by sector (2006-2017)



Source: RisCura, S&P Capital IQ

Note: The size of the bubble represents the average size of the company (Enterprise Value) within each sector.

Historically, the range of multiples across sectors is relatively small.

The highest multiples have historically been seen in the consumer discretionary and consumer staples sectors, which promise high growth due to African demographics.

The materials sector has seen a slight uptick in activity and pricing during 2017, with the majority of activity taking place in Southern Africa and during the second half of the year, coinciding with the beginning of the commodity market recovery, possibly driving a slight increase in prices.

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