

# KASADA CAPITAL MANAGEMENT



**Olivier Granet**  
Managing Partner and  
Chief Executive Officer



**David Damiba**  
Managing Partner and  
Chief Investment Officer

Kasada Capital Management is an independent investment platform within the Kasada group, dedicated to hospitality in Sub-Saharan Africa. The firm was launched in 2018 with the backing of Qatar Investment Authority, the sovereign wealth fund of the State of Qatar, and Accor, a world leading augmented hospitality group.

Kasada Capital Management’s strategy spans all segments from economy to luxury and targets both greenfield and brownfield projects. In April 2019, the Kasada group closed on its maiden fund, Kasada Hospitality Fund L.P. (registered in Mauritius), with equity commitments of over US\$500mn.

**Olivier Granet and David Damiba discuss the opportunities in Africa’s hospitality sector and tourism trends on the continent.**

**Q: What’s the Kasada Capital Management story and what distinguishes Kasada from other private equity firms?**

Global hotel groups – including Accor – have for many years pursued an ‘asset light’ strategy, focusing on their core expertise of managing and operating hotels rather than owning, leasing or developing them. In sub-Saharan Africa (SSA) the sector is heavily fragmented and the idea of seeding an independent private equity style platform to de-risk this opportunity through expertise, innovation and scale, while making a positive impact on local communities, was born within Accor.

With that premise in mind, a working group that started at Accor was put together in order to see how the creation of an independent best in class private equity platform could be launched in order to deliver on a mandate focused on hotel ownership across SSA.

Both of us worked together with our shared vision to create a unique combination of multi-disciplinary skills across private equity, hospitality, credit, construction and regional expertise. The platform is now fully operational with 20 employees, and we have established Kasada as a solution provider, partner and game changer in the sector.

Despite difficult recent global macro circumstances, the business has grown well, having successfully executed two transactions since the beginning of the year, with



**NAME OF FIRM**

Kasada Capital Management

**FIRM TYPE**

General Partner

our first portfolio acquisition making us one of the largest hotel owners in West Africa. We already have a network of 10 hotels representing 2,000 rooms in four countries. Covid has obviously heavily impacted the sector. We were engaged in a number of transactions that were put on hold, but the pipeline is strong and progressing positively.

Kasada takes a strategic approach to its long-term outlook, with an investment horizon of 10-12 years. So, the delay due to Covid has not been that material, as our strategic view remains the same. We are unique in the geography we operate in as we bring an institutional private equity approach, backed by financing and expertise from large, strategic LPs to a sector and region that has traditionally been under-developed.

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**Q: What makes hospitality an attractive sector for investment?**

Our goal is to transform the hospitality sector in Africa from an industry with limited hotel supply built often many years ago and focusing predominantly on international travellers coming from Europe. We believe this is the time to invest, focusing first on the emerging African middle class, representing 80% of guests, to provide them with a new, modern and attractive offer at an affordable price while bringing internationally recognised brands and standards to Africa.

Africa's growing middle class will drive the demand to the sector. Over the next 10 years, thanks to the AfCFTA, we can expect domestic travel within Africa to increase, and Kasada is well-placed to supply this growing trend with suitable hotel destinations.

Weekend travel has been somewhat limited in Africa, but this is likely to change as the leisure market develops in the region. Some destinations such as Dakar, Senegal have already seen growth in weekend tourism, and we expect to see additional growth over the short to medium term.

Hospitality is an attractive sector for investment because it is a long-term play on real estate with an overlay of tourism, which means the asset class has a real estate asset value supported by recurring cash flow driven by tourism.

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**Q: The Covid-19 pandemic hit the hospitality industry especially hard last year. What impact did it have on Kasada?**

The fund was just getting started when Covid-19 hit, so we didn't have a portfolio at the beginning of the pandemic. We did see some transactions be put on hold which impacted the pipeline somewhat. For us, the impact was mainly on the inability to execute due diligence, and negotiations with asset owners stalled. We developed our own proprietary and research driven view on the sector as a result of the pandemic. This led to our first deal in Q4 2020.

The Accor portfolio was one of the few institutionally owned portfolios in Africa and was a logical acquisition for Kasada. The seller wanted to focus more on its core market (Europe) and Kasada was keen to acquire a mature portfolio of scale, so there was a natural fit between the buyer and the seller.

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**Q: So how has the experience of the pandemic shaped Kasada's investment strategy?**

We are learning a lot as we invest in the sector that is the most sensitive to the pandemic. One of the key takeaways of the dislocation caused by it meant we adjusted our balance between greenfield and brownfield investments, tilting towards a brownfield strategy and away from a greenfield one. Our adjustment means that

now 25% of the portfolio will be in greenfield, whereas before we were thinking of allocating more than half in greenfield. Due to present circumstances, preserving jobs and supporting the sector is becoming the priority rather than developing new properties.

The risk adjusted strategy and macro-environment changed in some countries. The impact of the pandemic wasn't the same in every region, so we had to spend time understanding the local impact and adjust financial structures in various jurisdictions from a risk mitigation standpoint. We were more creative around capital structures in light of regional impact and came up with hybrid solutions to, for example, solve debt problems.

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**Q: In your view, how competitive is the hospitality industry?**

The sector is considerably under-served, with Sub-Saharan Africa having 10x fewer hotel rooms per inhabitants than developed markets. The presence of international brands is also lower in Sub-Saharan Africa compared to other markets with 10 – 15% in the region vs 75% in the US and 25% worldwide, meaning there is space for international brands to enter the sector and bring their global expertise.

The hospitality sector is correlated to GDP growth both in Africa and globally, so if you accept that in the medium term both will grow, you begin to understand the scale of the opportunity. Apart from Morocco and South Africa, there is a lack of financial platforms involved in the sector, which means there is limited support to help them grow. Kasada is an answer to this market fragmentation to fill the gap to supply suitable financing, management expertise and international standards.

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**Q: What are some of the trends you're seeing in consumers' attitudes towards travel and tourism in Africa?**

We are confident in the sector, based on the fact that for the last 30 years, the tourism sector grew on a global basis by 4-5% per annum, driven by the growing global population and growing middle class. There is no reason for this trend not to continue post-Covid.

As some countries ease travel restrictions, we have seen an immediate pick-up in occupancy rates, so there is evidence of a strong appetite for people to travel for business or leisure, as long as conditions are suitable for it.

There will be some new trends as a result of the pandemic that hotels will need to adapt to. It is likely the number of business trips will reduce as people use video conferencing more, but at the same time there will be more requests for flexible working, meaning hotels which traditionally focussed on travellers, will now likely see an increase in the number of guests who visit to work remotely from that location.

Hotels will need to adapt their offering to cater more to flexible workers.

Healthy offerings are also a big driver, with guests more likely to demand locally sourced food from businesses with sustainable practices, especially around waste management, and well-being facilities for example, to ensure they have an experience that is consistent with their values and expectations.

We are strongly committed to ESG standards, especially around water and energy consumption. It's a priority for us to ensure our portfolio companies are mitigating their impact on climate change in Africa.

**Q: The Covid-19 vaccine rollout could potentially change the way we travel. What impact do you think this would have on the hospitality industry going forward?**

Establishing a common set of rules and procedures between countries will be important for travel. Ensuring that safety and vaccine rules are unified between countries will provide clarity to travellers and enable them to properly plan their trips.

We can see evidence that travel rates will increase as the vaccine roll-out continues. Last month we already saw some of our hotels with occupancy rates of over 70%. However, the rebound of the industry will require more visibility for the guests on rules to travel and safety protocols. In partnership with Accor (our operating partner), we are implementing the ALLSAFE protocol in all our hotels to give guests the assurance that all necessary measures have been implemented.

**Q: What is Kasada's value creation strategy?**

Firstly, we want to create a portfolio of high performing assets. We are highly selective in our asset mix and work closely with Accor to ensure quality for the guests, team engagement and ESG commitment. Delivering on this mandate is a key pillar of value creation.

Value creation is also driven by optimising the capital structure and protecting against risk. This sounds self-evident but it happens to be one of the key failings in this sector in Africa. We are diligent in how we use leverage, optimise cash flow and bring an institutional PE and debt management expertise to real estate in order to create long term value and stability by mitigating risk through long-term cycles.

There is value creation in the actual platform as well with a long-term view on exits. If we execute our plan of creating an institutionally managed and well-optimised portfolio of yielding hospitality assets, one can envisage platform premia that in the long term could also be monetised via an exit.

**Q: How has AVCA been of value to Kasada?**

AVCA has an excellent research platform that enables us to keep track of investments and fundraises in the sector and region. In addition, AVCA has been helpful for teach ins, fundraising and hosting conferences. The webinars organised during this critical period with many uncertainties had a lot of value thanks to the quality of speakers providing their views and insights. We look forward to the return of face-to-face meetings and in-person conferences.

Find out more about Kasada Capital Management on the firm's website: [kasada.com](http://kasada.com)

**CONTACT AVCA**

37 North Row  
3rd Floor  
London W1K 6DH

E [avca@avca-africa.org](mailto:avca@avca-africa.org)  
W [www.avca-africa.org](http://www.avca-africa.org)  
T +44 (0)20 3874 7008

 African Private Equity and  
Venture Capital Association