AVCA Member Interview: Centum Investment Company Limited

Since 1967, Centum Investment Company Limited (Centum), a Kenyan listed investment company, has been focused on generating strong returns for its investors through high-growth and scalable investments in East Africa.

The company aims to grow its total assets under management from US$300mn in 2015 to US$1.2bn by 2019 by investing across eight target sectors namely: Financial Services, Fast-moving Consumer Goods (FMCG), Real Estate, Power, Agriculture, Healthcare, Education and Information & Communications Technology (ICT).

Overseeing the execution of this strategy is Fred Murimi, the Director of Centum's investment arm, who joined the company in January 2013. Fred talks to AVCA about Centum's approach to investing in East Africa and its ambitions in the lead-up to 2019.

Q: How does Centum's operating model differ from traditional private equity (PE) houses?

A: Centum was set up in 1967, and the vision of the founding fathers was to create a vehicle through which Kenyans could access investment opportunities via public markets. To date, we have over 37,000 institutional and retail shareholders, over 90% of whom are Kenyans.

As a public company with permanent access to capital, we can be long-term investors. We can afford to focus on achieving strong returns from our investments by evaluating and investing in sectors that others may not have the appetite or endurance for. A solid example of this is our exit from UAP Holdings in 2015, which we were invested in for twelve years. If we were forced to exit earlier, we would have only realised a third of the value that we did last year.

Q: In your remit to deliver on Centum's strategy, how do you envisage achieving US$1.2bn in assets under management?

A From 2009 to 2015, we grew our assets from circa US$70mn to just under US$300mn through the acquisition of new subsidiaries, improved performance and efficiency in businesses, increasing our stake in existing investments and making profitable exits. We also reinvested exit proceeds towards the creation of new investment grade opportunities.

Our current strategy aims to develop extraordinary enterprises for investors in East Africa, with Kenya as our main focus. We are now one third of the way to achieving our US$1.2bn target by 2019 and have an exciting undertaking ahead of us.

Q: What notable opportunities are you seeing across the sectors you are investing in?

A: One of the catalysts for economic growth in Kenya is the industrial sector. Two of the biggest constraints to this have been the cost and availability of reliable power and the cost of transport. Two key government initiatives on the horizon, which will stimulate growth in Kenya, are the addition of 5,000 megawatts to the national grid by 2020, and the development of a new standard gauge railway by December 2017. Centum's vision is to be East Africa's leading independent power producer through the delivery of 1,200 megawatts to the national grid over the next three to five years.

Affordable power is a key catalyst to industrial development. Across the East African region, there is a huge opportunity to provide cheaper power with connectivity rates standing at 24%, 17%, 22%, 22% and 18% in Kenya, Uganda, Tanzania, Ethiopia and Rwanda respectively. We aim to be the cheapest and most reliable power source available in East Africa.

In the Education sector, we have partnered with a Lebanese-based group called SABIS, that operates schools in over sixteen countries across four continents with more than 70,000 students. The operator wants to establish a chain of schools across Africa and has identified Centum as a partner. The first school (due to open in Nairobi in September 2017) will serve as a model to demonstrate the unique platform of education that is being brought to Africa. Following this, we hope to build out a platform of close to thirty additional schools in sub-Saharan Africa.

In Agriculture, we have identified opportunities in the herbs space, and are investigating the investment potential around protein deficiency in Africa to determine which position in the value chain would present the most attractive opportunities for us.

In Healthcare, our aim is to build and roll out hospitals and out-patient facilities. We see this as a significant avenue to build our expertise in the sector.

In ICT, we hope to uncover attractive targets as the region already has a fairly competitive landscape. Despite this, we are pursuing scalable opportunities that will be of interest to investors looking to move into this space.

Q: Tell me more about some of your most recent transactions.

A: We have had a lot of traction in the Real Estate sector recently. We recently acquired circa 12,000 acres in Vipingo. At Vipingo, we have started out with a strategy to develop a new hub for cities across East Africa. Industrial areas across Kenya are saturated at present and although the industrial sector has grown, the development of our infrastructure has not kept up with this growth.

We have an ambitious target to develop a whole new city in five years. This is the single largest opportunity for us in this sector, and possibly the entire Centum portfolio. There is an enormous need for better planning around the use of land in Kenya, and we believe we have something significant to offer at Vipingo.

Our inaugural foray in real estate development was Two Rivers Development in Nairobi, which sits on 102 acres of agricultural land – ten of which will be occupied by the largest mall in sub-Saharan Africa upon completion in March 2016. The mall will be the anchor investment on the development which will also feature residential apartments, commercial offices, two hotels and, potentially, a hospital. We have invested roughly US$20mn of our own equity and we secured a commitment of US$75mn from third party investors in return for a 42% stake.

In addition, we sold 50% of the mall (Two Rivers Lifestyle Center) to Old Mutual for US$63mn. This investment by Old Mutual underscores Centum's competency, scale and reputation in real estate development.

Q: How have you seen the PE landscape develop in Africa and what have these changes meant for you?

A: The increased number of exits from 2008-9 vintage funds in Kenya is a strong indicator of a healthy market and a good signal for institutional investors.

We have seen a positive increase in competition for assets in the PE landscape from strategics, financial investors and PE funds. This interest has reinforced to us that if we are able to build quality investment grade assets that are scalable, there will be significant demand from investors when we want to further expand or exit.

Success Story

Company: UAP Holdings

Sector: Insurance Services

Entry Date: June 2002

Investment Size (2002): US$2mn

Value of Gross Written Premiums (2002): US$14mn

Exit Date: January 2015

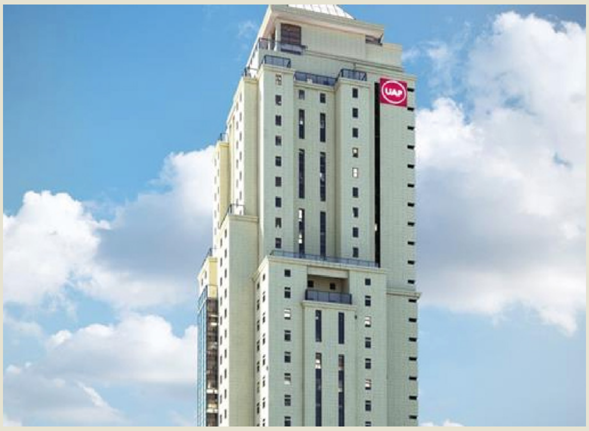
Value Realised Upon Exit (2015): US$52mn

Realised Multiple Upon Exit: 26x

Value of Gross Written Premiums (2015): US$150mn

Value Creation:

- Centum led the recapitalisation of the business through the sale of a 37% stake to PE funds for US$52mn
- Centum supported management in the expansion process of UAP's presence from one to six East African countries
- Centum supported the business to manage over twenty subsidaries covering Life Insurance, General Insurance, Real Estate and Asset Management
- During ownership, Centum identified a strategic buyer who acquired a 60% stake in the company for US$250mn



UAP Holdings, Centum Investment Company Limited