cutting through complexity

DealSpace: East Africa

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Contents

Dear Reader

We are pleased to once again bring to your attention, DealSpace, a quarterly newsletter which provides insights on recent trends and expected developments in M&A and investment activities across Africa.

This edition focuses on East Africa, where the region is fast becoming a centre of attraction for M&A activity as investors flock to take advantage in anticipation of the medium to long term growth prospects. This DealSpace edition unpacks the trends and key drivers across East Africa - with Kenya and Tanzania leading the charge. We also highlight the activity and potential in Uganda, Rwanda and Ethiopia.

We hope you find DealSpace informative and useful as you consider opportunities in East Africa. Should you wish to find out more please feel free to contact our East Africa Transaction Leaders: Ketan Shah, Sheel Gill or Ernest Cheruiyot. Our T&R leaders contact details are at the back of this document. They can be contacted directly regarding any queries or comments.

Enjoy the read!
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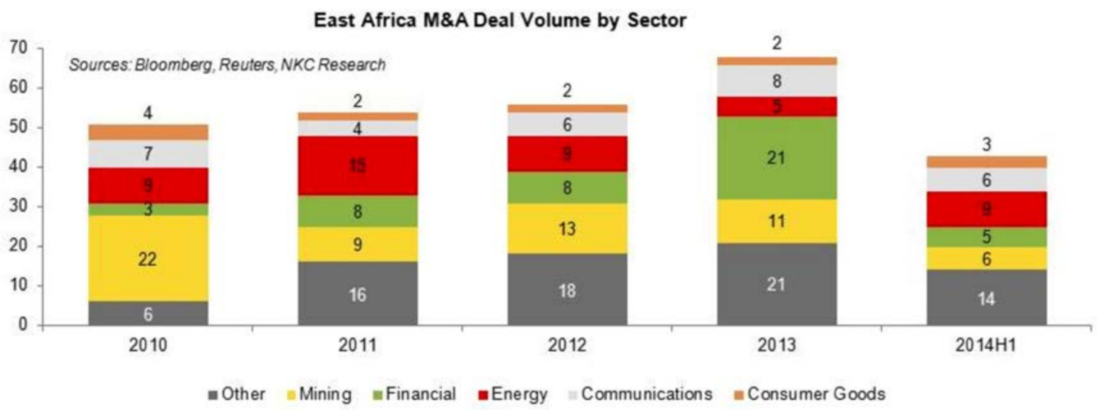
East Africa Overview

The East Africa region encompasses some of the fastest growing economies on the continent. In addition, the region boasts one of the most sophisticated economies on the continent, Kenya, while Uganda and particularly Tanzania have discovered significant energy resources in recent years. Africa's second largest country by population, Ethiopia, neighbours Africa's most progressive trade block, the East African Community (EAC), with a combined population of over 230 million. While the region is expected to show strong economic development collectively, the economic structures and regulatory environments vary significantly at a country level. The region's two largest economies, Kenya and Ethiopia, have largely opposing economic models, with a vibrant and sophisticated private sector driving economic growth in Kenya, countered by state-driven expansion with an underdeveloped private sector in Ethiopia. In addition, a country such as Rwanda which is internationally recognised for its forward-thinking and strong institutions is a neighbour of Uganda and Tanzania, which both struggle with corruption. Furthermore, strict controls on foreign participation in the Ethiopian economy are contradicted by efforts to attract foreign investment in all sectors in Rwanda and Uganda. Still, while the economic growth models differ significantly within East Africa, most countries are expected to show strong economic development over the medium term.

In terms of merger and acquisition (M&A) activity in recent years, the underdeveloped nature of most regional private sectors means that there is still limited scope for deal-making activity. The under provision of many goods and services within these countries could in some cases increase the attractiveness of establishing businesses instead of acquisitions of established businesses. In addition, the lack of financing could also limit the extent and scope of deal-making in these countries. However, the more sophisticated economies such as Kenya and Tanzania have witnessed increasing M&A activity in recent years. There are significant differences within East Africa when considering the countries' business environments. The World Bank's Doing Business 2014 report illustrates this point, with East African countries obtaining varying rankings. At the one end of the spectrum, countries such as Rwanda (32nd), Ethiopia (125th), and Kenya (129th) achieve relatively favourable rankings (in an African context), while other countries including South Sudan (186th), Eritrea (184th), and Djibouti (160th) perform poorly. In turn, countries such as Uganda (132nd), Burundi (140th), and Tanzania (145th) record largely average performances in an African context.

NOTE: The deals included in this report are based on publicly available information from various sources, including Bloomberg and Reuters. Due to numerous companies not publicly disclosing the values of deals that they are involved in, analysis of deal values is limited to a smaller sample than the collection used for deal volume analysis. The East Africa database consists of all publicly announced deals in Kenya, Tanzania, Uganda and Rwanda.



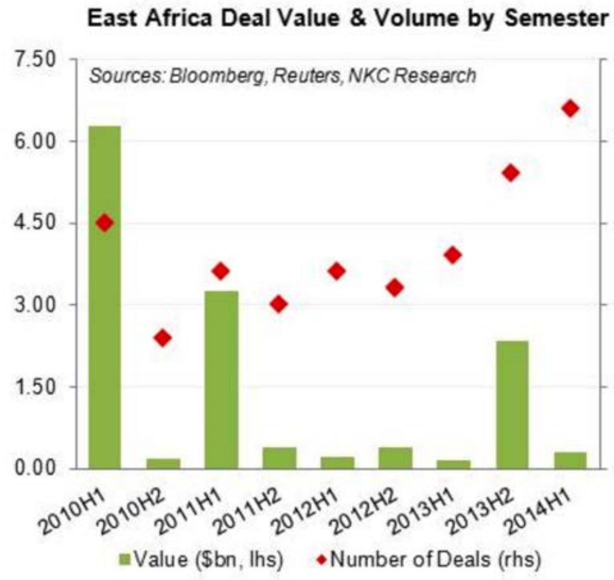
Key Observations

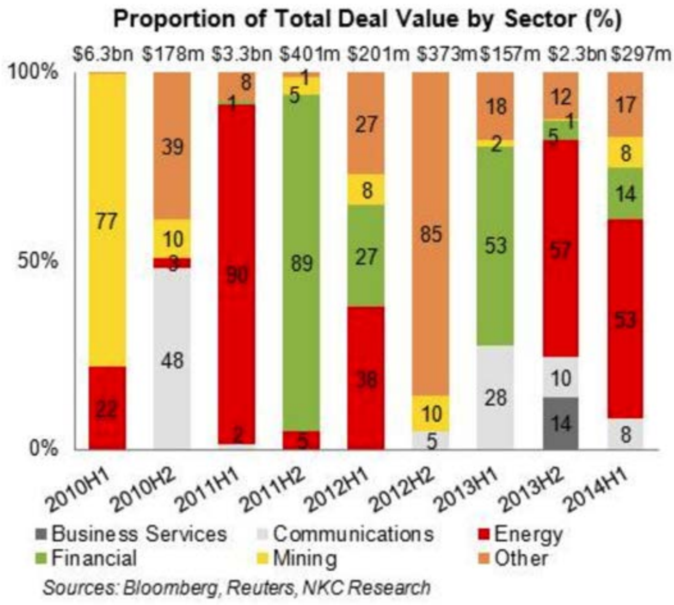
- **Deal volumes have steadily increased in the East Africa region since 2010.**
- **The mining sector has seen the most deal activity in terms of volume in recent years, followed by the energy sector and financial services.**
- **The number of deals in the financial services sector in particular has shown strong growth in recent years.**
- **Sectors such as manufacturing, tourism and healthcare have not seen significant deal activity.**
- **Trends during H1 2014 suggest that this year will eclipse 2013 in the number of deals across most sectors.**

The variation in economy sizes and economic structures within East Africa is reflected in M&A deal activity in the region. Kenya and Tanzania account for the vast majority of publicly announced deals between 2010 and H1 2014 due to the larger and more sophisticated economies that those countries boast. Countries such as Uganda and Rwanda are geographically small (thus lowering the potential for deals in natural resources, relative to the larger peers), with relatively smaller economies, which decrease the scope for making M&A deals. In turn, Ethiopia covers a large geographic area, with an economy whose size rivals that of Kenya, but government restrictions constrain deal making in the country. In addition, all three of the before mentioned countries are landlocked, meaning their private sectors do not benefit from the developmental effects (necessitating a more sophisticated private sector) that accompany a port. Still, the region has seen a general increase in M&A activity, albeit focused in Kenya and Tanzania.

From 51 publicly announced M&A deals in 2010, the volume of deals has increased to some 68 in 2013, and 43 in the first half of 2014.

The mining sector has been the main sector for regional M&A activity in recent years, but sectors including financial services, energy, and communications (primarily telecommunications) have seen an increase in deal-making. East Africa's mining industry has attracted significant investor interest in recent years. More specifically, gold production in Ethiopia and Tanzania has increased, while base metal production (particularly iron and tin) has commenced in Uganda and Rwanda, with substantial room for expansion. Sectors that continue to disappoint in terms of deal volumes are manufacturing, tourism, healthcare, and wholesale & retail trade.





Key Observations

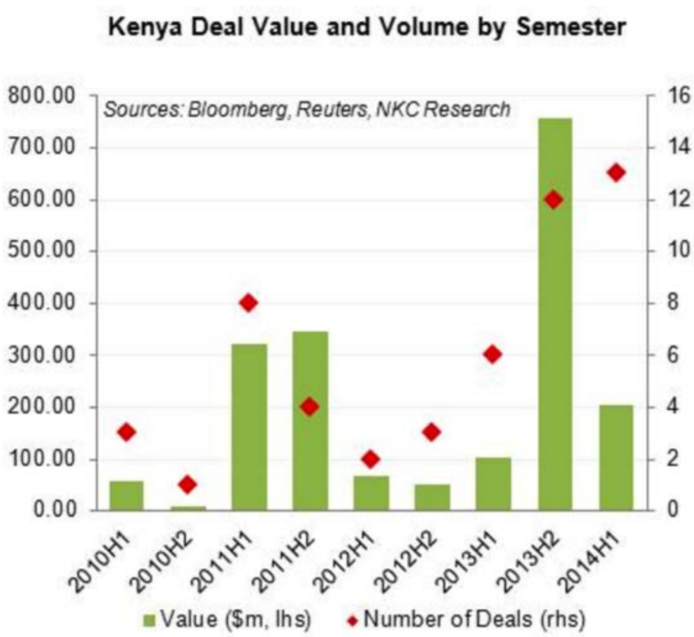
- **While deal volumes in East Africa have steadily increased, deal values remain dominated by large energy (2011H1, 2013H2) and mining (2010H1) deals. These include the $4.8bn acquisition of African Barrick Gold in Tanzania in 2010 and the sale of oil exploration areas by Tullow Oil worth nearly $3bn in 2011.**
- **After energy and mining, the sectors that have seen the largest deal values in recent years are financial services and communication. These include a $335m investment by City Trust in Kenyan I&M Bank in 2011, and a $243m investment by Vodacom Group in Vodacom Tanzania in 2013.**
- **The average deal size has generally decreased over the period under analysis.**

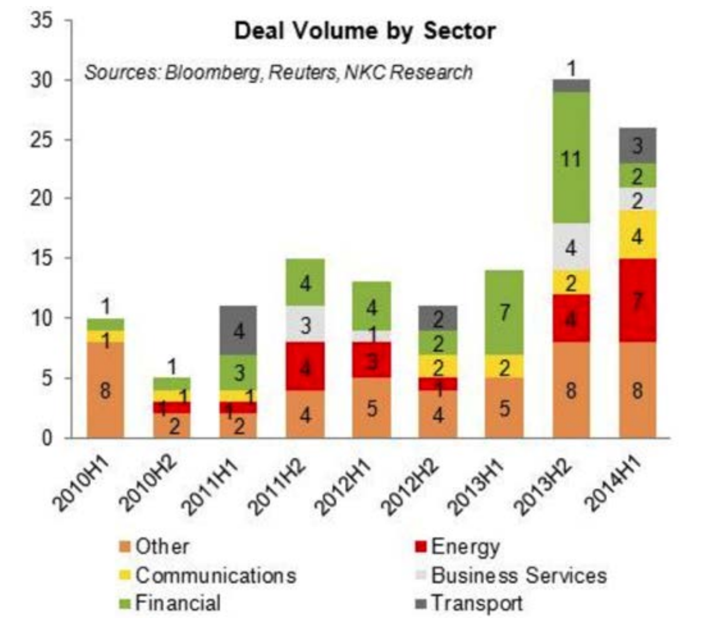
Looking at deal values, the general increase in deal volumes in the region has not been accompanied by a steady increase in total deal values. This is due to the distortionary effects of substantial deals in the mining and/or energy sectors in many of the economies. However, it should be noted that when these two sectors are completely excluded from the analysis, there is a steady increase in overall deal values within the region, with the exception of a slight downturn in 2012.
The value of all publicly announced deals within the region, excluding the mining and energy sectors, reached $201m in 2010, $689m in 2011, and $444m in 2012. This was followed by a substantial jump to $1.13bn in 2013. When including all the sectors, the average deal size has also generally decreased in recent years, from $281m in 2010, to $167m in 2011, $25m in 2012 and $80m in 2013. The average deal size in the first half of 2014 was $14m, indicating a greater volume of small-scale M&A deals.

Regional Leaders: Kenya &Tanzania

Kenya

Kenya is the regional leader in East Africa, and this position is expected to be cemented over time. The economy is fairly diversified, with a strong and well-developed services sector. The financial services industry in particular is well developed and the country is considered East and Central Africa's hub for financial services. Kenya is also the preferred entry point for companies wishing to expand further in the region. Moreover, East Africa's largest economy is one of the most innovative on the continent, which bodes well for future economic development. The country is a key investor within the region, while the largest chunk of intra-regional trade is due to Kenya. However, economic growth has been fairly volatile over the past decade. Agriculture remains very important to the economy as it is a major source of both employment and foreign exchange. Since most agricultural activities remain largely rain-fed, the sector is exposed to the vagaries of the weather. Still, the country boasts a vibrant services industry and dynamic private sector, which has exhibited strong growth over the past decade. Some of the fastest-growing sectors in the services industry include telecommunications, hotels & restaurants, trade, and banking. Meanwhile, within the industrial sector, mining activities have expanded rapidly, though from a very low base. The country's relatively sophisticated private sector has given Kenya an advantage in being a regional services and business hub, with sectors such as banking and telecommunication showing strong regional expansion. The country is the epicentre of deal-making activity in East Africa, in this is expected to remain the case over the medium term.



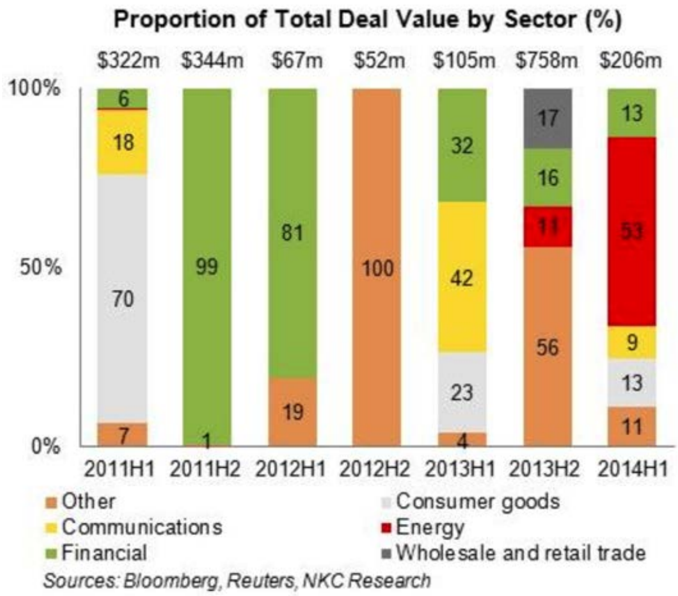


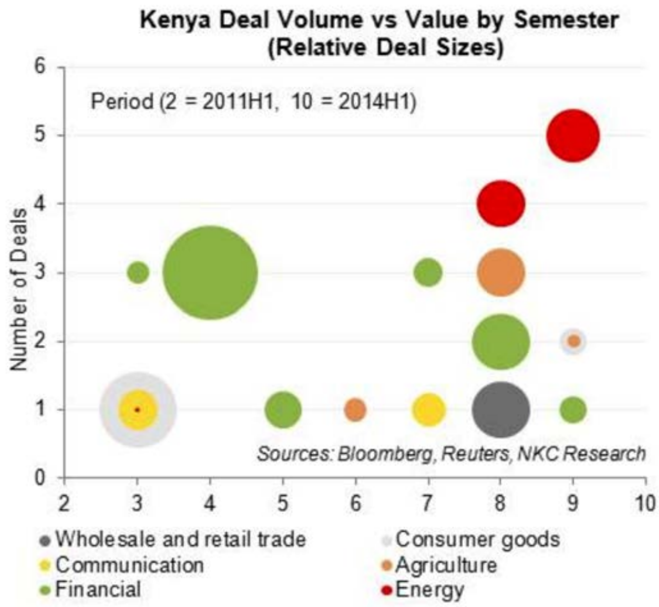
Key Observations

- **The volume of deals in Kenya has increased significantly after reaching a recent low in early 2012.**
- **The financial services sector has witnessed the most deals in recent years, followed by the energy and communication sectors.**
- **The latter part of 2013 saw a substantial increase in the amount of deals as well as the total value of deals, largely focussed in the financial services and energy sectors.**

Kenya's position as the region's most sophisticated economy is reflected in the breakdown of M&A deals by sector, with a broad range of sectors recording relatively strong deal volumes. The amount of publicly announced M&A deals in Kenya has jumped from just 15 in 2010 to 44 in 2013, with a more diverse coverage of sectors. The financial services sector has witnessed the largest increase in deal activity, from a mere two deals in 2010 to 18 deals in 2013. Deals in the financial services sector in 2013 range from bank acquisitions to investments and mergers in the insurance and asset management sub-sectors. Examples include the acquisition of a majority share of Genesis Kenya Investment Management by Centum Investment, and the acquisition of Real Insurance by British-American Investments. Furthermore, the energy sector has also seen an increase in deals in recent quarters, with the oil sector in particular seeing deal volumes increase in the latter part of 2013 and early 2014. These include various acquisitions of oil blocks, and a $20m investment by the Bill & Melinda Gates Foundation in M-Kopa Kenya, a company focussed on solar energy. Sectors that continue to lag behind with regard to deal volumes include the tourism and manufacturing sectors.

NOTE: In the Deal Volume vs. Value graphs, the size of the bubble represents the relative value of deals in that specific sector in that period, i.e. the larger the bubble, the greater the total value of deals in that sector. The y-axis indicates the amount of deals in that period in that sector, while the x-axis represents time, i.e. 2=2011H1, 3=2011H2 etc.



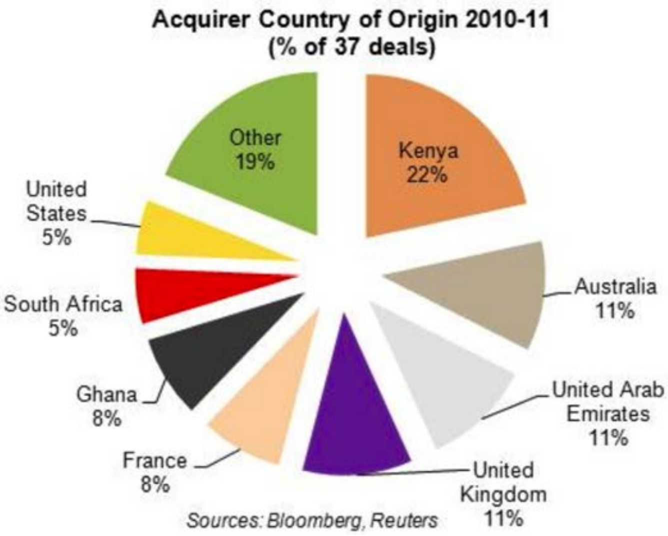


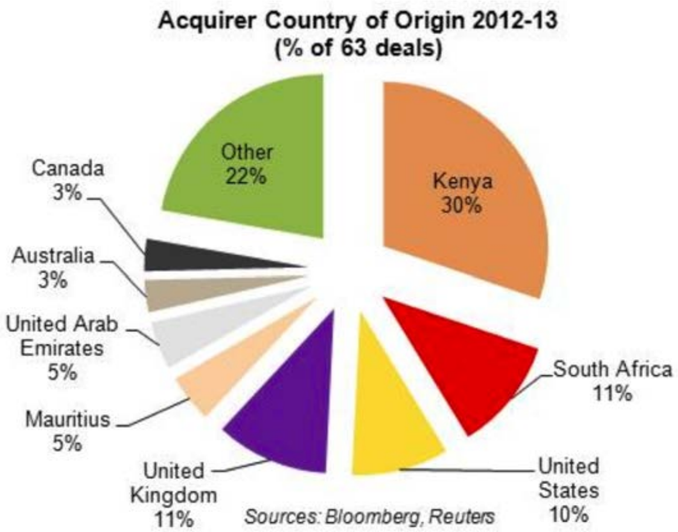
Key Observations

- **There is notable variation in financial sector deals in terms of size over time, with some deals smaller than $3m while others reach $100m.**
- **The country has seen a significant increase in energy (mostly related to oil) deals, with most ranging between $20m and $40m.**
- **The largest deal in the sample is a $224m acquisition of a share in Kenya Breweries during early 2011.**

Turning to deal values, there is no single sector that consistently dominates Kenya's M&A landscape. The total value of publicly disclosed deals in 2011 reached $667m, but dropped significantly to reach only $119m in 2012. This was followed by a notable recovery, with total deal value reaching $863m in 2013. While the financial services sector is consistently prevalent in value analysis, this is due to the sector also attracting large deal volumes.

The largest financial services deal in the sample is the $100m acquisition of a 70% stake in Fina Bank by Gauranty Trust Bank in mid-2013, while the average size of the remaining four deals in 2013 was $39m. After reaching $56m in 2011, the average deal size in the sample has dropped off significantly to $16m in the first half of 2014, also showing a more diverse distribution of deal values by sector.





Key Observations

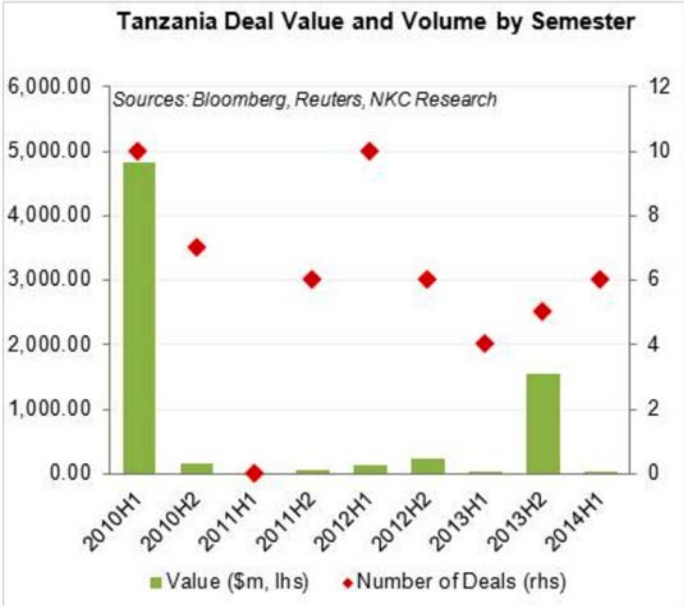
- A significant number of acquirers or investors in Kenya are domestic firms.
- Countries such as South Africa and the US have increased their contribution to total deal activity during 2012-13 compared to the preceding two years, while Australia and France have seen a decline.
- A majority of deals involve African firms, but North America, Asia and Europe all have strong representation in the country.

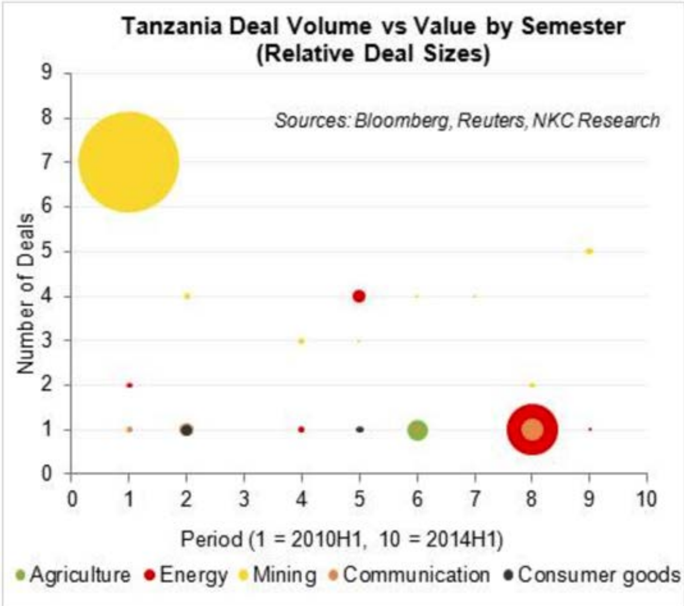
Top 10 Deals by Sector				
Target Company	Acquirer Name	Deal Value	Sector	Date Announced
I&M Bank Ltd	City Trust Ltd	$335m	Financial Services	October 2011
Ardan Risk & Support Services Ltd	Africa Oilfield Logistics Ltd	$329m	Business Services	August 2013
Kenya Breweries Ltd	East African Breweries Ltd	$224m	Consumer Goods	June 2011
CMC Holdings Ltd	Al-Futtaim Group	$127m	Wholesale and Retail	September 2013
Fina Bank Ltd	Guaranty Trust Bank PLC	$100m	Financial Services	July 2013
Wananchi Group Ltd	Oppenheimer Funds	$58m	Communication	May 2011
UAP Holdings Ltd	Swedfund International AB, Aureos Capital Ltd	$54m	Financial Services	June 2012
West Kenya project	Decimal Software Ltd	$53m	Mining	March 2010
AccessKenya Group Ltd	Nippon Telegraph & Telephone Corp	$44m	Communication	May 2013
Oil Block 11A	CEPSA	$39m	Energy	November 2013

Sources: Bloomberg, Reuters

Tanzania

The Tanzanian economy has consistently recorded strong growth figures in recent years, keeping pace with the fast-growing East African region. The country has been able to take advantage of the region's positive prospects, and should continue to do so in coming years. The country has good prospects for economic growth and foreign direct investment (FDI), import cover levels are comfortable, and political risk is relatively low. Tanzania's notable economic expansion in recent years has been facilitated by open-market policies related to global commerce. The financial sector and the investment framework are relatively well developed for the region. However, these strengths are offset by weak socioeconomic indicators, structurally large current account and budget deficits, and rising debt levels. Growth in the agricultural sector has been driven by increased production of major food crops such as maize, paddy, sorghum and cassava, but the sector's performance remains below potential. In turn, the services and industrial sectors have shown strong growth. The nascent banking sector and expanding telecommunications sector are key drivers behind services growth, while construction, electricity generation, manufacturing and mining are salient sub-sectors in industrial activity. Looking ahead, the banking and telecommunication sectors will continue to support services growth, while increased electricity generation capacity will benefit the expansion of the manufacturing industry. The country is second only to Kenya in the region in terms of deal-making, with the energy and mining sectors in particular witnessing M&A deal activity.

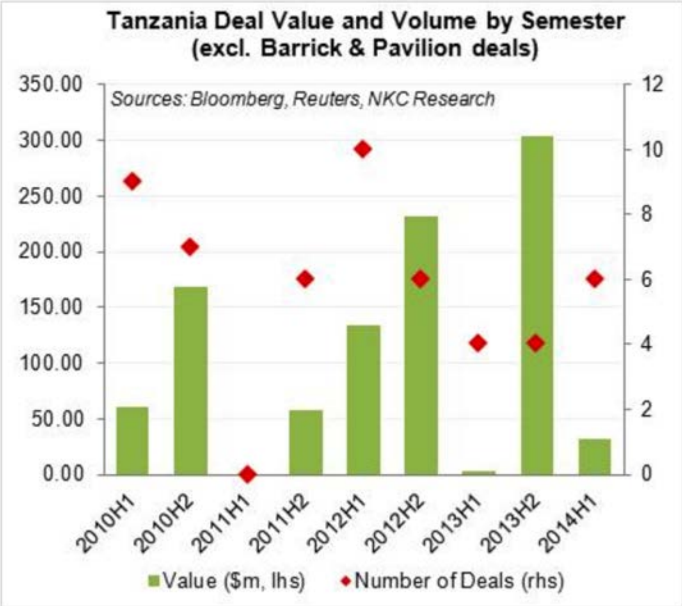


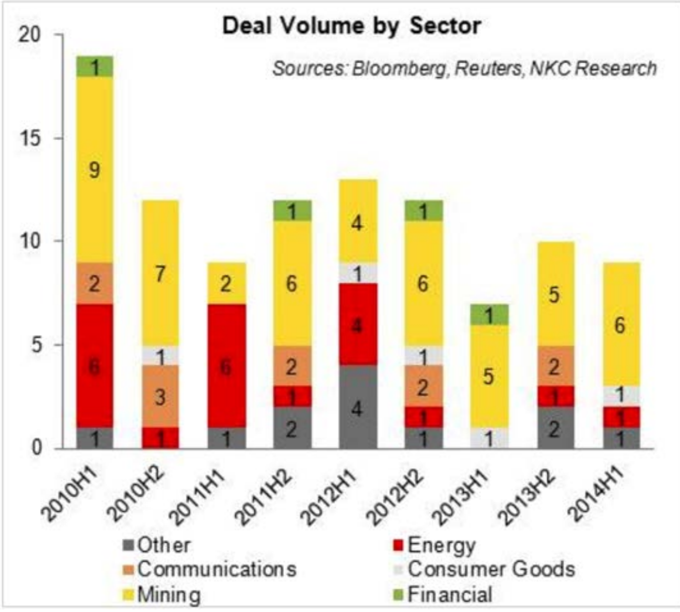


Key Observations

- **There is no clear trend in the volume of deals across time while the value of deals is driven by a few big transactions.**
- **A $4.8bn mining deal (the acquisition of African Barrick Gold in early 2010) and a $1.3bn energy deal (the acquisition of three oil blocks by Pavilion Energy in late 2013) dwarf all other Tanzanian deals in terms of value.**

NOTE: Due to the distorting effects that the African Barrick and Pavilion Energy mega-deals have on overall value analysis, these deals are excluded from the sample when looking at proportional values to more effectively break down each sector's relative contribution. Furthermore, due to numerous deals not publicly disclosing the values involved, analysis of deal values cover a smaller sample than that used for volume analysis.

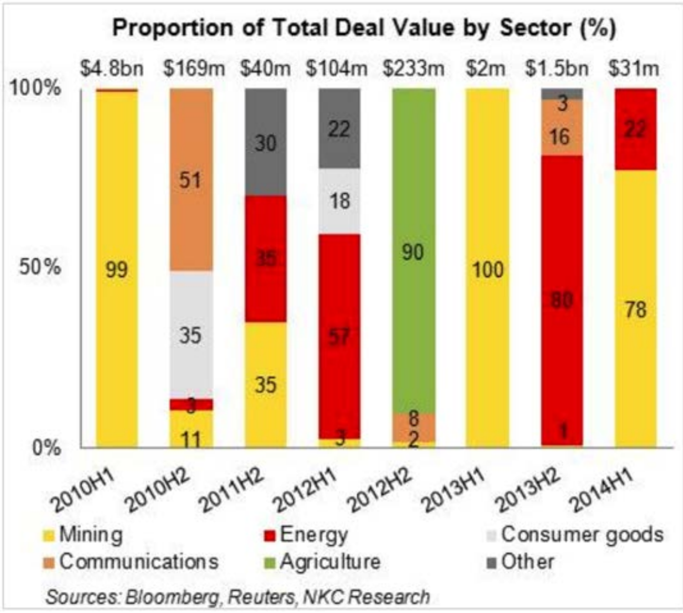


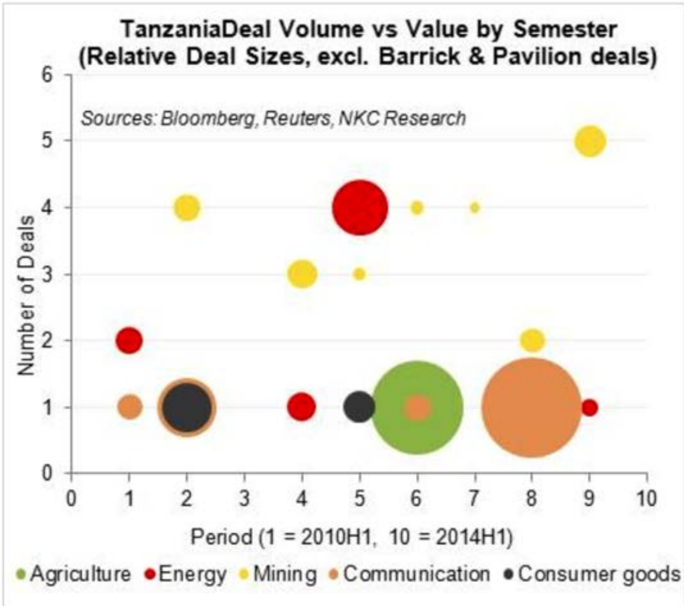


Key Observations

- The mining sector has witnessed the most deal activity in terms of volume in recent years.
- The total value of deals remains relatively low when excluding the two mega-deals, not exceeding $400m in any of the years under analysis.
- The majority of deals are in the mining, energy and communication sectors, with few or no deals in the manufacturing, healthcare and business services sectors.

The number of M&A deals in Tanzania has not displayed a general upward trend as seen in Kenya, decreasing from 31 in 2010 to 17 in 2013. The mining sector dominates M&A in terms of deal volume, accounting for 52% of deals in 2010, 38% of deals in 2011, 40% of deals in 2012, and 59% of deals in 2013. In addition to the acquisition of African Barrick Gold, large mining deals in recent years include the $19m investment by Peak Resources in Zari Exploration, and the $18m acquisition of Lake Cement by an undisclosed buyer. The energy sector has also made a significant contribution to total deal count in recent years, particularly in 2010 and 2011. Examples include the acquisition of natural gas exploration blocks by ExxonMobil, and the acquisition of Baobab Energy Systems Tanzania (a provider of energy-production equipment) by EDMI Ltd. In fact, the decreasing deal volume in recent years can largely be attributed to lower amounts of deals in these two sectors, with no comparable increase in deals in other sectors. Other sectors that have seen M&A activity in recent years include communications and consumer goods, including the sale of $86m in assets by Millicom International Cellular to SREI Infocomm Services, and the acquisition of the majority assets of Serengeti Breweries by East African Breweries, both in 2010. Deal activity remained largely focussed in the mining and energy sectors in the first half of 2014, with the mining sector alone accounting for 67% of total deal volumes over the period.

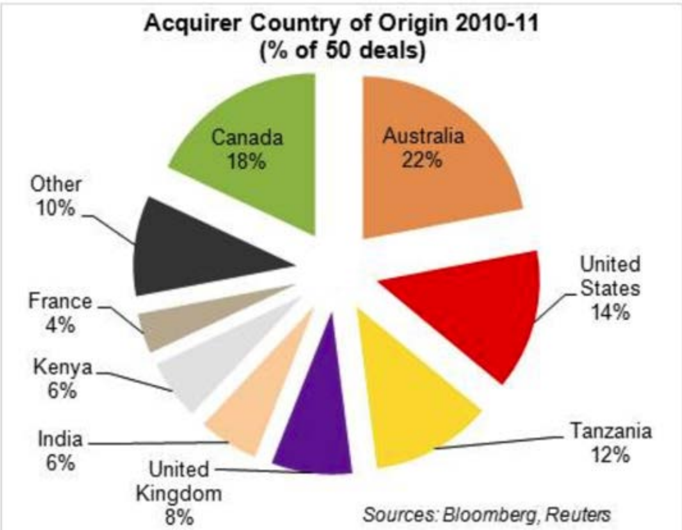


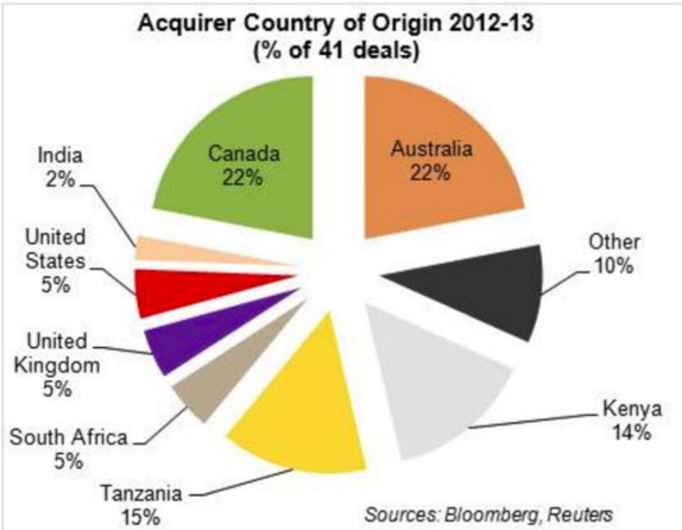


Key Observations

- **Mining and energy also dominate in terms of overall deal values.**
- **While the mining sector witnessed the largest deal in the sample under analysis (the acquisition of Africa Barrick Gold), the sector is more generally characterised by numerous small deals, with many deals not exceeding $2m.**
- **The energy sector has also seen notable variation in deal sizes, ranging from small oil exploration amalgamations to the acquisition of large power plants (the $13.5m acquisition of Mtwara Power Plant by Tanzania Electric Supply Co.).**
- **The country received a substantial ($210m) agricultural investment in late-2012 from a consortium of investors including Standard Chartered and the Carlyle Group, with a distinct focus on agricultural exports; and a $243m telecommunications deal in late-2013.**

In addition to in a combined fashion accounting for the majority of deal volumes, the mining and energy sectors also dominate Tanzania's M&A landscape in terms of deal values. The only two exceptions are 2010H2 and 2012H2, with the former incorporating an $86m communications deal and a $60m consumer goods deal, and the latter recording a $210m agriculture deal. When excluding the Barrick Gold and Pavilion Energy deals, total deal values have largely disappointed in recent years. After dropping from $211m in 2010 to $57m in 2011, Tanzania's total deal value increased to $366m in 2012, only to drop again to $306m in 2013. It is interesting to note that, excluding the Barrick deal, the average mining sector deal has averaged around $1m in 2012 and just
under $3m in 2013.





Key Observations

- **Australia and Canada are the largest sources of acquirer/investor firms, with the majority of these deals taking place in the mining sector**
- **Kenya and South Africa have significantly increased their contributions to total deal activity in recent years.**
- **Domestic firms still play a notable role on the acquisition side of deal activity.**

Top 10 Deals by Sector				
Target Company	Acquirer Name	Deal Value	Sector	Date Announced
African Barrick Gold	Shareholders	$4,781m	Mining	February 2010
Tanzania Blocks 1, 3 & 4	Pavilion Energy Ltd	$1,250m	Energy	November 2013
Vodacom Tanzania Ltd	Vodacom Group Ltd	$243m	Communication	November 2013
Export Trading Co Ltd	Consortium of Investors	$210m	Agriculture	November 2012
Millicom International Cellular SA -Tower Assets	SREI Infocomm Services Ltd	$86m	Communication	August 2010
Serengeti Breweries Ltd	East African Breweries Ltd	$60m	Consumer goods	October 2010
Shoprite Holdings Ltd-Stores(3)	Nakumatt Holdings Ltd	$47m	Wholesale and retail trade	December 2013
Mnazi Bay	Wentworth Resources Ltd	$39m	Energy	January 2012
Hotel Movenpick in Dar es Salaam	Serena Hotel Group	$28m	Hotels, restaurants & tourism	January 2012
Shelys Africa Ltd	Aspen Pharmacare Holdings Ltd	$25m	Consumer goods	March 2012

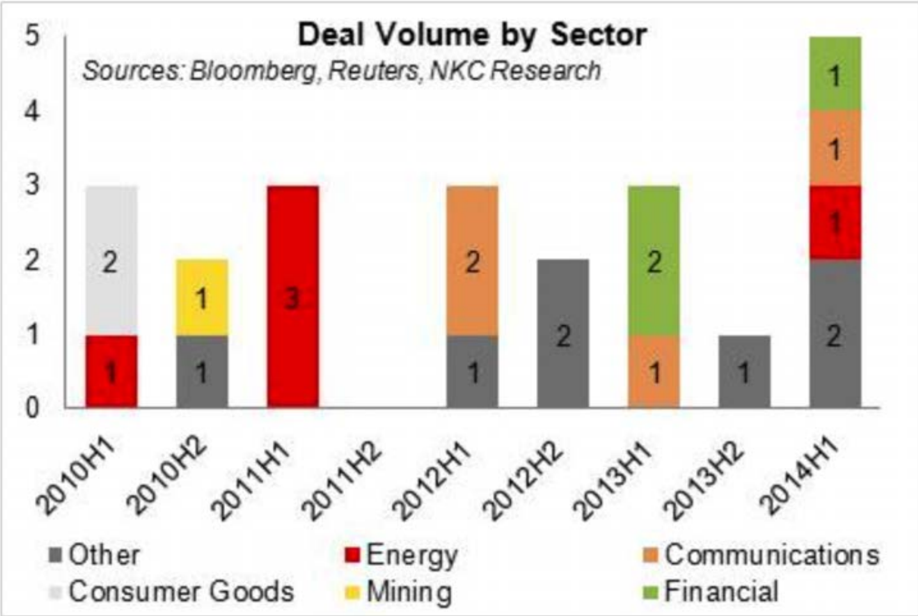
Sources: Bloomberg, Reuters

Future Hotspots: Uganda & Rwanda

Uganda

The Ugandan economy has showed a remarkable recovery following a slowdown in 2012. Most macroeconomic variables remain sound, with an adequate level of foreign reserves, relatively low external debt figures, and positive GDP growth prospects. However, the country's current account deficit remains wide, while the shilling has been under increasing pressure in recent months, which could translate into higher inflation going forward. However, due to the relatively underdeveloped private sector, it is difficult to obtain reliable statistics on M&A activity in the country. There are very few local private equity funds and those that do exist undertake most of their fund raising externally. The larger private equity players in Uganda tend to be regional firms with funds to invest across Africa in general, including Egypt's Citadel Capital, and Actis' Commonwealth Development Corporation (CDC). Local private equity funds are mostly involved at the small- and medium-sized end of the business, helping SMEs access capital in a market where interest rates on bank loans are still very high.

Given the low levels of upstream private equity activity in Uganda, private equity transactions tend to manifest in the form of mergers and acquisitions. In addition to the benefits of an economy with strong growth prospects, Uganda does not have any restrictive exchange controls, while the country also lacks a comprehensive competition regulatory regime, which means there are fewer legal concerns when considering M&A activity. Looking forward, the liberalisation of the pension sector in Uganda may boost M&A activity as local pension funds may become attractive domestic sources of private equity funds over the medium to long term. Furthermore, considerable opportunity lies in the impending coming on-stream of domestic oil production, with Uganda boasting approximately one billion barrels of proven crude oil reserves. Development of the oil sector has the potential and ability to transform the country's economic landscape, potentially increasing the scope and attractiveness of deal-making in the country.

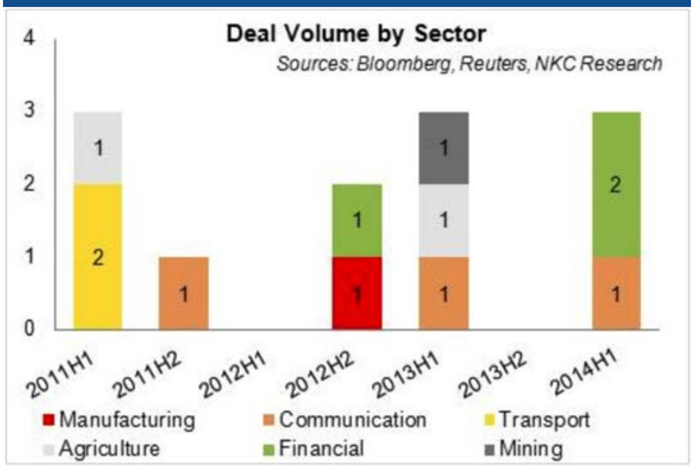


Key Observations

- Uganda has witnessed significantly lower deal activity compared to its larger regional peers.
- The energy sector has seen the most deal activity in recent years, most of which were related to the nascent oil industry.
- The energy sector is followed by the communications and financial services sector in terms of deal count.
- Deals related to the energy sector also dominate in terms of deal value, with three oil-related deals in the sample together amounting to nearly $4.3bn.
- The country has not witnessed any publicly announced deals in the business services sector.

Rwanda

The development of an economically inclusive and politically accountable institutional environment has been the foundation of Rwanda's elevation to a model for other African countries to imitate. The country's stable political environment is accompanied by supportive regulatory policies, which are both conducive to strong economic development. The Rwandan government has adopted a general policy framework of creating an accommodative business environment to foster a vibrant private sector, with the government only playing a supportive role in the economy. This has resulted in more widespread economic development, with growth not restricted to a specific sector or industry. The country boasts a strong GDP growth outlook, with a large and growing services sector accompanied by a nascent and rapidly expanding mining sector. Furthermore, most economic fundamentals remain sound. Rwanda's external accounts are largely stable with positive trendlines, relatively low public and external debt levels, and a stable monetary environment. However, while rapidly growing, Rwanda's private sector remains underdeveloped in a deal-making sense, with attractive business creation opportunities decreasing the necessity of mergers or acquisitions. Still, increasing competition could result in business consolidation going forward, while further economic development will attract international interest to partake in the country's rapid development. The government's ambition to become a services-based economy over the medium to long term could support deal-making in the tertiary sector, particularly telecommunications, while the development of the mining sector should see more deal activity going forward.



Key Observations

- **Rwanda has seen the fewest deals between the four countries under analysis.**
- **The financial services and communication sectors have seen the most deals, albeit only three publicly announced deals each since the start of 2011.**
- **Sectors such as retail trade, tourism, business services and consumer goods have not seen any publicly announced deals over the period under analysis.**
- **The largest publicly disclosed value in the sample is the $69m deal in the manufacturing sector, involving an investment in a cement factory.**

Sleeping Giant: Ethiopia

As Africa's fastest growing, non-energy driven economy, and with annual GDP rivalling that of Kenya, Ethiopia has attracted significant investor interest in recent years. However, the country's economic growth model – based on government-led investment and state control in numerous sectors – creates an idiosyncratic investment environment supportive of large deals in certain sectors, but not accommodative for smaller deals in a variety of sectors. In addition, there are severe restrictions on any foreign participation in the media, banking, insurance and telecommunications industries, while several other industries are limited to the amount of foreign investment they are permitted to receive. Furthermore, the underdeveloped private sector decreases the scope for deal-making, with business sizes congregating at the two extremes: small family-owned vendors and repair shops, or large multinational/state-owned enterprises.

Still, the country's future potential continues to attract investor interest, regardless of the hurdles involved. The government's privatisation efforts have attracted large international companies to invest in sectors such as manufacturing and agriculture. Furthermore, Schulze Global Investments, a private investment firm, launched the Ethiopia Growth and Transformation Fund (EGTF) in 2012. The EGTF is the first-ever private equity fund devoted solely to Ethiopia. The $100m fund is anchored by the Schulze family as well as leading development finance institutions including the CDC Group and DEG out of Germany.

The Prime Minister has previously stated that the telecoms, retail and banking industries are still too weak to withstand external competition, which implies access once the industries grow. The country's slowly changing mind set towards foreign participation in the economy is also illustrated by the decision to allow foreign managers in the country's retail business. However, the government has emphasised that a newly created, state-owned cash-and-carry wholesaler called Alle – to be run along the lines of a private firm – will still steer the retail market. In addition, the National Bank of Ethiopia (NBE, the central bank) recently allowed local and foreign private companies to enter the capital goods leasing business. Furthermore, according to reports, Standard Bank plans to open a representative office in Ethiopia this year to create a platform into Africa's second-most populous nation. The opening of a representative office by Standard Bank raises questions about whether the bank is moving in anticipation of the future liberalisation of Ethiopia's banking sector. Ecobank opened a representative office in Ethiopia last year, stating that the move was ahead of the anticipated deregulation of the banking sector.

Selected M&A Deals in Ethiopia

Brewer Privatisation

At the end of 2011, Diageo, the world's largest distiller, agreed to buy Ethiopia's state-owned Meta Abo Brewery for $225m after outbidding rivals SABMiller and Heineken. According to a spokesman from Ethiopia's Private and Public Enterprises Supervising Agency, SABMiller, the world's second-biggest brewer by volume, bid $190m for the asset, and Heineken offered $188m. The Meta Abo Brewery deal marked the final Ethiopian state-owned brewing assets to be sold, after Heineken acquired the Bedele and Harar breweries for $85m and $78m, respectively, earlier in 2011. International brewers are entering Ethiopia to take advantage of the second largest population in Africa, but that still only consumes a fraction of the litre per head of most other African countries. Furthermore, a group of investors including DEG Group and Vasari Group have provided the Ethiopian company Dashen Brewery with an equity investment of $90m to expand the company's business. The deal, which was announced in May 2012, allowed Dashen to benefit from the provision of state-of-the-art German brewing technology and the capital required to expand its production capacity and improve its distribution facilities.

Horticulture Exports

The private equity giant Kohlberg Kravis Roberts (KKR), announced in June this year that it is investing $200m in Ethiopian flower company Afriflora. Afriflora grows about 730 million flowers a year to export to Europe, making it a significant player in the country's burgeoning horticulture industry. The deal marks KKR's first venture in Africa, and the company plans to expand Afriflora's farm by adding 200 ha to the 310 ha it currently cultivates. The Dutch Barnhoon family, who founded the Ethiopian company in 2004, will remain as a shareholder and manager once the transaction is complete.

Potash for Africa

Allana Potash has recently entered into a strategic partnership with ICL (formerly known as Israeli Chemicals Limited) to fulfil a vision they have called "Potash for Africa First". According to reports, the deal will entail ICL investing up to $84m to develop and market Allana Potash's Danakhil project, while also agreeing to take all the annual production up to one million tonnes. According to InvestorIntel, Africa only consumes about 750,000 tonnes of potash annually, but with the proper infrastructure as much as six million tonnes a year could be sold into sub-Saharan Africa. In addition, Africa does not have a sufficiently large fertiliser industry to meet its own needs, while there is also growing demand for fertiliser from large foreign companies which are increasingly investing in African agricultural projects. Allana will be producing muriate of potash for staple crops production and Danakhil is expected to be one of the world's lowest cash-cost potash projects.

Outlook

While M&A activity remains limited in East Africa, the region's positive economic growth prospects and the development of more sophisticated domestic economies should support an increase in deal making going forward. The established private sector in Kenya could act as a springboard into other regional economies, and as such supporting the development of neighbouring private sectors. The region should continue to see M&A activity in the mining and energy sectors, while the strong growth in the regional services industry will increase scope for further deal making. The formation and deeper integration of the EAC hold significant opportunity for investment in East Africa. The increased market size as well as the availability of natural resources improves the investment potential of the region. Progress with regard to the development of institutional infrastructure has significantly benefited integration efforts. Furthermore, a strengthening of Ethiopia's economic engagement with the EAC will take place once Ethiopia can export electricity on a large scale, when current hydropower projects are complete. This will increase the scope for cross-border deal making, while also increasing the market potential of investments in East Africa. Further integration of the EAC will have a significant impact on the regional economy going forward, and increasing electricity exports by Ethiopia will lower the cost of doing business in the region.

Source of information

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