Deal Tracker

Pre and post Covid-19: Africa-focused investor and lender activity

Using data tracked by Orbitt of transactions, comparing H2 2019 and H1 2020, we compare levels of activity. The information is gathered from the 477 institutional investors and lenders registered on its digital platform based on indicated interest in a deal, comparing 217 transactions in H2 2019 and 230 transactions in H1 2020. These include banks, private equity funds, private debt funds and trade finance providers located on and off the continent that are actively seeking $5m-$50m investment and lending opportunities in Africa.

+27%

H1 2020, post-Covid-19 has shown an increase in demand for cross-regional transactions, with investor and lender activity up by 27% for deals that incorporate more than one market. Meanwhile, there has been a 27% increase of all investor and lender interest in East Africa, an increase in Southern African deals by 65%, and a 49% drop in activity in West Africa.

–71%

Percentage drop in equity investors engaging in new investment leads (76 tracked in H2 2019 vs 47 tracked in H1 2020). There has also been a 55% drop in pure private debt lender activity. Meanwhile there has been a 44% increase in activity from trade finance providers during the same period.

21%
67%
21%

More attractive sectors
- Agriculture, Forestry and Fishing
- Industrial Conglomerates
- Mining & Quarrying

-154%
-112%
-231%

Less attractive sectors
- Consumer Services: -154%
- Construction & Real Estate: -112%
- Manufacturing & Retail: -231%

Deal news

Rand Merchant Bank – the natural gas partner

Mozambique is no stranger to mega-projects, including more recently the development of gas resources offshore. The $4.87bn project financing of the Coral Sul (South) Floating Liquified Natural Gas (FLNG) unit in Mozambique is a first for Africa. The unit will operate 80km from the coastline, extracting gas from wells located at a depth of 2km and producing approximately 3.4m tonnes of exportable LNG per year. RMB provided the largest funding commitment by an African bank, demonstrating their appetite to unlock opportunities for clients in the oil and gas sector.

The Segilola gold project: a template for developing the Nigerian mining industry

The Segilola Gold Project, billed to be Nigeria's first large scale commercial gold mine, is located in Osun State, Nigeria and owned by Thor Explorations, a Canadian company listed on the Toronto Exchange. Thor sought to raise $98m as capital costs and working capital to bring the project to production stage and has to date secured funding commitments in excess of $104m.

The African Finance Corporation has committed $86m in debt and equity to the project and now holds 19.5% of the issued shares of Thor. Thor has also signed a lump sum turnkey EPC contract with Norinco for the works. The project is scheduled to commence operations at the beginning of the second quarter of 2021.

Nigeria has vast reserves of untapped mineral resources, which policymakers have paid lip service to developing for decades. Mining has always been viewed as the most viable option to diversify from the over-dependence on petroleum in the short to medium term. The Segilola project may be the catalyst to incentivise investors and the template for developing the Nigerian mining industry.

Helium Health closes Series A investment round led by Global Ventures

Helium Health, an electronic medical records company based in Nigeria, has closed its Series A investment round. The investment round was led by Global Ventures, a UAE based venture capital firm with a focus on enterprise technology investments across Africa and the Middle East. The round was co-led by Africa Healthcare Master Fund with participation from US and international VC firms, such as HOF Capital, Tencent and Y Combinator.

Founded in 2016, Helium Health has developed a digital solution to the problem of recordkeeping in the Nigerian healthcare space where hospitals often record patients' information manually, allowing for a huge absence of concrete data, longer waiting times and possible mistakes on existing records.

The company has built a solution around the peculiarities of the African market by developing an electronic medical records (ERM) system that healthcare providers, regardless of their levels of computer literacy, can use. The proceeds of the investment will be used to support Helium Health's operations and expansion plans across Africa.

Global Ventures was advised on the investment by global law firm King & Spalding.

Aruwa Capital Management invests in Nigeria's pioneer manufacturer of daily personal hygiene products

Aruwa Capital Management, a Lagos based, growth equity, impact and gender lens private equity fund, has invested an undisclosed amount into Wemy Industries, Nigeria's first indigenous manufacturer of a range of daily essential hygiene products.

Operating out of Lagos, the company has six production lines producing baby diapers, baby wipes, sanitary pads, adult diapers, net maternity pads and underlay pads. Established 40 years ago, Wemy has built a loyal brand following for its affordable personal care ranges. Aruwa's investment was targeted at significantly increasing capacity to meet demand for the company's locally manufactured products.

Deal opportunities

Human capital group Aldelia accelerates further in Africa

Aldelia, one of the leading pan-African human capital groups (recruitment, outsourcing & HR services), is further accelerating its growth in Africa.

Having served global world groups across Africa as well as large African companies for the last 15 years, the group is opening in six additional countries.

Through its recent partnership with the IOM-Match Project, funded by the European Commission, Aldelia has launched earlier than planned its online HR marketplace, which is already catering for 150,000+ African talents.

The Areebajob platform provides access to African candidates willing to market themselves across the continent to all Aldelia clients. The platform will provide a full set of online training content and tools to develop employability online.

Having raised $1m in 2018 with TLG Capital, Aldelia is now in negotiations to secure additional funding to support its rapid growth as well as selectively looking for bolt-on acquisitions to complement its geographic footprints and service offering.

Medical & healthcare education provider seeking investment

TAU is a leading provider of higher education and is looking to raise $10m.

Established in 2010, it has campuses in South America and sub-Saharan Africa. It has a portfolio of 52 courses and over 4,000 students from more than 80 countries have enrolled in its programs (face to face 1000+, distance & online programme 2800+, postgraduate 600+).

The group is extending into sub-Saharan Africa to tap the largely untapped market for higher education and aims to establish itself as a leading player in the region by 2025.

Its first campus in the SSA region has been operational in Zambia since 2017. Three more campuses, one each in Ghana, Rwanda, and Ethiopia, are being set up to be fully functional by 2022.

The four campuses are projected to have, combined, 10,000 students on campus and the same amount enrolled under the Distance and Blended Learning Programmes (DBLP) delivered online.

The business projects revenues of $38m by 2024, with a EBIDTA margin of 39%.

DEG arranges $104.2m facility for ETC Group

The German development finance institution (DFI) DEG, a subsidiary of KfW, has provided ETC Group (ETG) with $40m of long-term working capital and syndicated a further $64.2m.

Besides DEG, the consortium comprised Ecobusiness Fund Africa (Finance in Motion), Finnish DFI Finnfund and French DFI Proparco, as well as a tranche from EFP – European Financing Partners, the co-financing vehicle of European DFIs in cooperation with the EIB. DEG acted as mandated lead arranger.

ETG, a major player in the agricultural supply chain of many African and Asian countries, owns and operates more than 460 warehouses and over 120 processing plants. The facility will enable it to further stabilise and develop its business.

Vantage Capital exits Vumatel

Vantage Capital, Africa's largest mezzanine debt fund manager, announced that it has fully exited its investment in Vumatel, the largest fibre-to-the-home network provider in South Africa. The company was established in October 2014 by Niel Schoeman and Johan Pretorius, industry veterans who had previously started up the Birchman Group and Conduct Telecom before creating Vumatel.

At the time of Vantage's investment in 2016, Vumatel had deployed its open-access fibre optic network across 14 suburbs in Johannesburg, passing 16,000 homes and had secured around 4,000 subscribers. It had also received an equity investment from Investec Equity Partners.

Vantage has successfully exited 12 investments across its three generations of mezzanine debt funds generating cumulative proceeds of R4.2bn ($360m).

FairMoney secures a $13m debt facility from Lendable

Fintech startup FairMoney is building a challenger bank in Nigeria and beyond. The $13m debt facility was provided by Lendable, an Emerging Market fintech lender. The fresh capital injection is expected to help FairMoney reach a run-rate disbursal of approximately €200m ($219m) by December.

FairMoney provides a fully digital solution to lending and banking services, all via a mobile app. Lendable is a data-driven fintech lender. It has deployed over $50m to date with offices across Nairobi, Singapore, London, and New York.

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SunFunder has adopted an agile approach to finance and foster the expansion of Daystar Power Energy Solutions in Nigeria. **Richard Ndem** *reports from London*

SunFunder creates flexible solution for Daystar

Power in Nigeria has been a never ending conundrum. Despite the unbundling of the Power Holding Company of Nigeria (PHCN) in the previous decade and the subsequent privatisation of the upstream segment (generation companies) together with the downstream division (distribution companies) reliable electricity from the grid is still an issue.

Given the poor reliability of the grid power network, individuals and businesses have traditionally used diesel generators as backup supply of power (gensets). This is both costly and polluting. According to Jasper Graf von Hardenberg, CEO and co-founder of Daystar, this type of power costs up to $0.24 per kilowatt hour (kWh) as compared to a cost of $0.07/kWh for an industrial group in the USA, thus denting competitivety. The figure excludes other associated costs such as maintenance.

The grid's problem has been one of financial viability. Distribution companies have too often failed on the collection side from the end user and as a result have been unable to pay the power generation companies. As a result banks and financial institutions have been reticent to lend to the sector.

Renewables and off-grid solutions are often touted as a possible way out. Despite some green shoots, renewable energy is still perceived by financiers and end-users as uncompetitive, less reliable, slow to deploy and difficult to maintain compared to traditional fuel fired power systems. In this context, raising finance to develop renewable power projects in Africa, on-grid and off-grid projects alike, has proven challenging for developers. Our Deal of the Month hopes to provide a case study in how to overcome some of these challenges.

Hedging risk

Daystar Power Energy Solutions (Daystar) was incorporated in 2017 with the purpose to provide businesses with a viable alternative energy solution to traditional gensets, says von Hardenberg. It operates as a fully integrated solar independent power producer for blue-chip companies such as banks and large manufacturers. Installation size ranges from 50 KW for banks to several megawatts for large factories and Daystar can propose hybrid solutions with storage equipment along with gensets. Depending on system size and contract tenor, electricity provided by Daystar can be as low as $0.12/kWh.

One of the advantages to servicing blue-chip companies is the reliable payments pattern they provide. Daystar services ensure that clients are locked-in for a long duration, between five to 10 years providing visibility on revenues.

Furthermore, Daystar incorporates a foreign currency risk movement strategy as the company's capital expenditure is incurred in US dollars whereas revenues are denominated in naira. The company's strategy includes two components. Firstly, the commercial agreement signed with the client includes a payment mechanism which is reviewed monthly and that reflects the negative movements of the naira against the US dollar. Secondly, Daystar uses financial instruments such as non-deliverable USD/naira forwards. Consequently, Daystar cash flows can absorb local currency fluctuations in a US dollar cost-driven environment, explains von Hardenberg.

Financing its requirements

To meet the growth in demand, Daystar was in need for a flexible financing solution. Daystar has been seeking a financing structure that would allow the company to finance the execution of short-term opportunities whilst giving them the ability to reach out to other borrowers for further expansion.

This need was met through SunFunder, a financing vehicle incorporated in 2012 which specialises in providing financial services to small and medium solar power projects and companies in sub-Saharan Africa. SunFunder's first capital raise amounted to $0.4m via crowdfunding, says Ryan Levinson, CEO and founder of SunFunder. Since 2013, the company has scaled up its operations significantly and since has successively raised finance of over $130m. Today investors include high net worth individuals, institutional investors and development finance institutions.

This blend of capital providers allows SunFunder to offer its clients longer maturity profiles and consequently to grow its assets base, according to Levinson. Its latest fund, the $70m Solar Energy Transformation (SET) Fund matures in 2028, thus offering its clients more patient capital. This can be converted into door-to-door tenor facilities of up to eight years, which is a considerable offer for small scale solar power projects in Africa. Further, US dollar denominated facilities ranges from 9% to 13% which is competitive given the risk profiles of the transactions. Loans in local currency are also available. They provide loans starting at $300k with a flexible lending model to accommodate clients with long tenors whilst providing flexibility in its approach, something you wouldn't normally get from rom more traditional lenders, explains Levinson.

Matching bidder and suitor

SunFunder had been planning to expand its operations in Nigeria and Daystar's business model, the quality of its receivables along with its prudent currency risk approach made the deal appealing.

"For us, Daystar presented an opportunity to enter the Nigerian market with a risk driven transaction with strong potential for growth," says Rim Azirar, the investment officer, who led the transaction for SunFunder. They ended up providing a long-term facility of up to $4m for the financing of a series of Commercial and Industrial (C&I) solar power projects which would represent a total generation capacity of up to 3 MW. The facility derives from the SET Fund and can be utilised in successive drawdowns, each with a five-year tenor door-to-door. The long tenor will give Daystar sufficient leeway to build up its cash flows from clients, says Azirar. "We wanted to ensure we provided an agile and flexible approach to support the financing requirements of Daystar," she added.

From left to right: Jasper Graf von Hardenberg, CEO and co-founder of Daystar; Rim Azirar, investment officer at SunFunder; Ryan Levinson, CEO and founder of SunFunder; and Olayemi Anyanechi, managing partner at Sefton Fross.

An innovative debt structure

Finance orthodoxy would dictate that each of Daystar's C&I solar power projects should be considered as a ring-fenced project finance transaction, with respective equity injection and associated debt finance in a pre-agreed proportion. However, given the growing business opportunities for Daystar and the speed of execution needed by the company to finance and deploy the equipment for each of its clients, this methodology was not practical, says Azirar.

To offer more flexibility, the financier structured the debt as a combination of recourse and limited recourse finance with a borrowing base component. The $4m facility is split in several tranches and is not fully committed. The client can utilise the committed tranches to finance a new project providing that it satisfies pre-agreed eligibility criteria. The progressive unlocking of the tranches based on the pipeline also provides some comfort for SunFunder as it allows it to closely monitor Daystar's progress and the performance.

A security package suited to the borrower's needs

To allow pace of execution to match Daystar's needs, the legal documentation too had to follow suit. SunFunder had to create a replicable legal framework for each of Daystar's transactions to facilitate rapid drawdowns on the facility. In practice, from the financing request application received from Daystar and the disbursement, the process can be done within two weeks, Azirar explains.

In terms of securitisation, although the facility takes the form of a balance sheet loan in favour of Daystar, SunFunder does not have recourse to the whole balance sheet but rather only to the equipment financed. However, SunFunder benefits from a pledge on each asset it finances, on the project receivables and on the collection account. This approach is innovative given that lenders in Nigeria tend to get an all asset debenture over the assets of a company, emphasises Olayemi Anyanechi, managing partner at Sefton Fross, the law firm advising on the transaction.

This structure provided sufficient comfort to the lender and achieved what the borrower needed. Importantly it also provided Daystar with the ability to continue to raise additional finance such as working capital facilities or corporate loans from other lenders. As we went to press, Daystar was in the process of raising equity and third-party debt, confirmed von Hardenberg, adding that this innovative financing structure allowed Daystar to finance the short-term pipeline cost effectively whilst planning for long-term financing.

Relief fund

SunFunder is collaborating with other financing institutions on a new relief fund, the $100m Energy Access Relief fund, that will provide additional liquidity to developers in the renewable space who have witnessed a dramatic drop in revenues due to Covid-19. ■