



# 2017 NIGERIAN PRIVATE EQUITY OUTLOOK

## 2016 IN RETROSPECT

2016 was an economically significant year for Nigeria as the period saw inflation hit a record high and also saw the Nigerian economic slip into a recession with back to back negative economic growth. 2016 also saw an economic impossibility occurring in Nigeria with the country slipping into recession and prices of goods hit a record high.

Despite these economics crisis that faced Nigeria, the Nigerian private equity sphere witnessed some very good private equity deals in the area of fund raising and investments across several sectors of the economy. Below are some transactions in 2016 that are worthy of mention:

### Fundraising:

- Verod Capital closed its Verod Capital Growth fund II (VEROD FUND II) at \$115 Million USD. The fund had an original target of \$100 Million USD but was oversubscribed by \$15 million USD.
- ARTIC raised over \$500 Million USD for its African Real Estate Fund ARE3 which is targeted at prime retail, office and industrial real estate development in East, sub-Saharan and west Africa.

### Investment

- The year opened with the IFC (a member of the World Bank Group) together with IFHA-II Cooperatief (a private equity fund focused on investing in the health care sector) making a \$66.8 Million dollar investment in Hygeia Nigeria Limited.
- African Capital Alliance through its CAPE IV Fund acquires 49% stake in Nigerian insurance company Continental Insurance Plc the largest reinsurance company in West Africa.
- IFC a member of the World Bank group invests \$73.5 million USD in OIS Indorama Eleme Fertilizer Company.

- Synergy Capital invests in Suburban Fiber Company a broadband provider that delivers content products and services to residential customers in Abuja and Lagos.
- CDC, the UK's development finance institution, made a EUR50m equity investment in Africa Internet Group ("AIG"). AIG is the parent company of Jumia, Africa's leading e-commerce firm, as well as nine other online consumer businesses operating in 23 countries across the continent(including Nigeria).
- Africa Finance Corporation ('AFC') acting as lead arranger secured about US\$425 million senior mezzanine facility for New Age (African Global Energy) Limited ('New Age'), a privately held oil and gas exploration, development, and production company with assets primarily across Africa, to enable the company to further develop its existing assets and expand operations including OML 113.
- Sahel Capital through its Fund for Agric Finance In Nigeria (FAFFIN) invests in Dayntee Farms Limited, a commercial poultry farm in Kwara State.

#### Exits

- Helios Investment Partners exited from HTN Towers with the sale of HTN Towers the pioneer of tower infrastructure sharing in Africa to IHS Holding Limited, the largest mobile telecommunications infrastructure provider in Africa, Europe and the Middle East.
- ACTIS exited from Emerging Markets Payment with the sale of its stake in the company to Network International.

#### Key regulatory activities in 2016

- 2016 also saw the Securities and Exchange Commission (SEC) Nigeria's apex regulatory body for securities and investment in Nigeria release the list of fully capitalized private equity fund managers. The said list sadly only consist of 2 (two) companies.

It is important to note that the mere fact that there are just 2 companies on the list does not mean that there are only 2 private equity fund managers in Nigeria. Rule 558 of the Consolidated Securities and Exchange Rules makes it mandatory for private equity

companies managing funds with a minimum commitment of N 1 Billion (about \$3,000,000) must register such funds with the Security and Exchange Commission.

- The Nigerian Pension Commission finally gave its approval for pension funds to be invested in Infrastructure in Nigeria.
- The Securities and Exchange Commission (SEC) increase of the minimum share capital for Private Equity Companies to N 150, 000, 000 (One Hundred and Fifty Million Naira).
- The Federal Government relaxed the foreign exchange regime of Nigeria with the floating of the Naira. This technically devalued the Naira by almost 43%. Although the government technically devalued the Naira, it however continued to control the interbank sale of foreign currency in Nigeria
- The Federal government executed a currency swap deal with the Chinese government. The implication was that the deal would see Nigerian businessmen and their Chinese counterpart conclude their deals in the Chinese Yuan as opposed to dollars.

2017 is there light at the end of the tunnel? or are we yet to get to the tunnel?

#### Scenario 1:

1. 2016 saw a lot of the funds investing in Nigeria registered abroad as opposed to local funds. This means the Limited Partners of these funds have zero confidence in the regulation of PE funds in Nigeria. To arrest this trend, Nigeria needs to immediately address the laws dealing with Private Equity in Nigeria. The major culprit is the Companies and Allied Matters Act (CAMA). The CAMA needs to be amended to address issues dealing with the registration of Limited Partnership. It is our view that the CAMA needs to provide a regulatory frame work for the registration of Limited Partnership while the various federating states that makes up the entity Nigeria would replicate or domesticate a Limited Partnership Law. Another area which needs legislative intervention is the ability of Limited Partnerships to hold shares. This has greatly hampered PE investments in Nigeria. At the moment the CAMA and the

Corporate Affairs Commission (the agency saddled with the responsibility of implementing the CAMA) are not sure of what to do when a Limited Partnership seeks to hold shares in a company it is interpreted purely on the whims and caprices of the CAC officers. Currently under Nigerian law, Partnerships are regarded as non juristic persons and as such cannot hold share.

- II. The passage of the Petroleum Industry Bill (a bill often referred to as the orphan of the National Assembly). The bill has spent close to a decade in the National assembly with no clear reason on what to do. It is expected that the passage of the bill which will provide legal and regulatory framework for the oil industry, is the singular reason why the huge investment potentials in the refining, deregulation, deal financing etc. of the industry are yet to be harnessed and maximized.
- III. The 2017 budget: The 2017 budget seeks to spend about 30.7% of the total budget on capital expenditure. If the budget is fully implemented, it would see Nigeria get more than a face lift in key infrastructure like power, roads railway lines and airports. These areas are critical in easing the cost of doing business in Nigeria.
- IV. Economic diversification: part of the reason Nigeria slipped into recession in 2016 was as a result of over dependency on crude oil to sustain the economy. The implication is that if anything happens to the price of crude oil in the international market, the Nigerian economy would be affected by such happenings. To boost PE in 2017, the governments both at the center and at the federating level need to seek new avenues to sustain the economy. With agriculture and fast moving consumer goods critical to the economy
- V. Clear cut foreign exchange policy: with a clear cut foreign exchange policy and a guarantee that there would be no policy somersault foreign direct investment would be sure.
- VI. Address the various security challenges facing the country from militancy in the Niger Delta to commercial kidnapping in the east, boko haram in the northeast, the activities of Fulani herdsmen and cattle rustler in the north central and north west

## Scenario 2

Failure to address these issues in scenario 1 would mean:

- I. PE funds (especially foreign PE Funds) would exit their investments in Nigeria
- II. Fewer local funds would be recorded
- III. Fewer investments would be recorded especially in middle markets

## Conclusion

In conclusion, despite all that happened in 2016, the Nigerian market is still an investors' favorite in Africa, because of the return on investment, population, market, consumption pattern and demographics.

It is our firm belief that PE would soar in 2017 with the right approach and commitment from the government and key players in the industry.

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