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Kenya in prime position to attract more investments

Feb 15, 2016 | Paras Shah

Growing middle class and availability of quality, skilled labour offer investors mature market with several good opportunities available, writes Paras Shah

KENYA has in recent years seen a big increase in investment activity and deal interest, particularly from Europe, most notably the UK, and also the US. There has also been an increase in investment activity from India and the Middle East in the manufacturing sector.

South African companies are also growing more aggressive in their expansion plans into the continent, using Kenya as a gateway to the rest of East Africa.

Kenya facilitates access to the common market that includes Burundi, Rwanda, Tanzania and Uganda and the country also provides easier access to Ethiopia, the Democratic Republic of the Congo and South Sudan.

Recently, Mauritius Union Assurance Group's purchase of a controlling stake in Phoenix of East Africa Insurance Group was done through Kenya, but resulted in an entry by Mauritius Union into other East African markets.

With a growing middle class and the availability of quality, skilled labour, the Kenyan market is regarded as mature, with several good opportunities available.

Companies in Kenya are well respected in terms of the scale of their businesses and ability to compete. The financial and telecommunications sectors are robust and sophisticated. Transport infrastructure and links to the main centres are good, and the country has a stable and mature financial services sector. In addition, the availability of specialist advisers to guide deal processes is a major factor working in Kenya's favour.

Certain sectors are active in the private equity and mergers and acquisitions space — fast-moving consumer goods, financial services (especially banks, microfinance and insurance companies) and manufacturing.

The real estate and energy sectors have also seen significant activity. UK-based Old Mutual Property recently invested 6.4-billion Kenyan shillings ($6.4m) in the holding company of Centum's Two Rivers Mall, giving it an equivalent 50% stake in the firm. The activity in the real estate sector is partly because Kenya's rising middle class, and global companies setting up a presence there are expressing a clear preference for good quality commercial and retail property.

According to the Standard Chartered Emerging Affluence report issued in October, 72% of Kenyans expect to experience an increase in household disposable income in the next 12 months. According to the report, the top three spending priorities are children's education, household products, and property.

However, the real estate sector might experience a slight downturn because of oversupply and the banking sector is probably going to experience some degree of turbulence. With the recent financial market volatility and one major bank having been liquidated, tighter regulation and some fallout in this sector is to be expected. The negative effect is likely to be felt by Kenya's smaller banks in particular, and may result in some consolidation among them.

While there is a limited amount of activity in the healthcare sector, there is also a notable increase in demand for private healthcare clinics and pharmaceutical products. There are likely to be more deals in this sector.

Sectors showing a slowdown in merger and acquisitions activity include the natural resources sector — especially oil and gas — as well as mining infrastructure. The serious slowdown in this sector is also affecting companies involved in exploration, construction, and others supporting these sectors.

The regulation of competition law and the recent massive overhaul of Kenya’s legislative framework has deterred some investors. However, most chasing a good deal are willing to work around complex regulations in order to get the opportunities.

Late last year, the attorney-general began to bring into operation provisions of the new Companies Act. Kenyan company law is heavily based on the principles of English company statute law and the common law, as handed down through judge-made decisions of the courts.

The act preserves this English heritage. But the sheer scale of the legislation will have the effect of making statutory provisions out of former common law doctrines such as directors’ law and equitable duties, rights of shareholders, offences of fraudulent trading, and many others.

The new act will not annul or invalidate the actions, rights and powers of existing companies in the country. There will not be an overnight need to reregister or rewrite the rules.

There has yet to be a successful public private partnership (PPP) in the Kenyan market. There have been hybrid deals, but the state has not made its approach to PPP clear and may lack the technical capacity and financial resources needed to be a successful PPP partner.

The government announced a significant number of PPP projects when it came to power three years ago, but there has not been much activity since then.

Not all deals are successful and large merger and acquisition deals tend to fail because of macro shocks that can happen at any stage during a deal’s life span.

Fluctuations in Kenya’s exchange rate (albeit relatively mild compared to other African countries), for example, can make investors nervous. They also tend to shy away from corruption, which is a problem in Kenya.

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