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Equity races ahead of rivals with Sh11b capital injection

By Michael Omondi

Equity Bank is to offer a 24.99 per cent stake to a London-based private equity fund firm in a record-breaking deal that sets the stage for a bruising battle for control of the Kenyan banking business.

The deal will see one of the funds (Helios EB Investors) managed by Helios Investment Partners pay Sh11 billion to acquire 90 million shares at Sh122 each — a small premium compared to the bank's closing price of Sh119 at the Nairobi Stock Exchange (NSE) yesterday.

Among the notable investors in the fund are prominent sovereign funds owned by the US and British governments and the World Bank. They include: US Overseas Private Investment Corporation, CDC Group, International Finance Corporation and Soros Funds Management.

The purchase comes after the bank secured a Sh8 billion loan from a number of international lenders, pushing its capital from Sh3 billion to Sh22 billion.

This forms the largest private direct foreign investment in Kenya, turning Equity Bank to the most capitalised bank in the local banking scene, after Barclays Bank whose capital base stands at Sh12.3 billion.

Proceeds from the deal would help Equity assemble a lending war chest it needs to defend its market share, which is under intense attack from Barclays Bank of Kenya.

Mr James Mwangi, the chief executive officer, said a huge fraction of the cash would support the bank's lending business.

"We want to go very strong into lending," said Mr Mwangi, stressing that the current size of the bank's capital could not support the firm's growth plan.

With a Sh22 billion capital base, Mr Mwangi says the bank would be in a position to fund deals of up to Sh5 billion up from the previous ceiling of 750 million, adding: "This deals gives us the capability to support huge products."

This move is expected to raise the stakes in the lending market as the industry's top players such as KCB, Barclays and Standard Chartered have all intensified their expansion plans.

It could trigger a fund raising cycle among banks worried of their strategic positioning and this could see a rush to issue corporate bonds and spark a merger wave.

Already, Barclays Bank has kicked off a Sh5 billion commercial bond that would aid it do long term lending as it seeks to grow its share of the loans market. The bond was admitted into the NSE yesterday. Besides lending, the cash injection will help Equity spread its network across the region, including Southern Sudan, Tanzania, Uganda and Rwanda.

And in doing so, the bank will be following in the footsteps of KCB which has cast its presence across the region as it seeks to capture growing clients with business interests across East Africa.

The bank is also looking at boosting its IT infrastructure with Sh1.4 billion investment in a move designed to improving efficiency and cut costs as a way of boosting its profit margins.

For the deal to go through, Equity Bank will have to create an additional 60 million shares since it has 300 million authorised with 270 million of them listed at the NSE.

The bank is expected to call an extraordinary meeting of its shareholders in the coming weeks to seek their approval to create extra shares.

Equity and Helios have hammered a shareholder agreement that will see the investment firm cede the acquired shares to the public through the NSE in a period of between three and seven years after tying up the deal. The investment firm has also committed not to grow its holding beyond the 25 per cent mark, a move that will allow the current Equity Bank shareholders to hold a veto vote on all decisions.

The deal, however, must get a nod from the Central Bank and the Capital Markets Authority, which Mr Mwangi hoped will come through before the end of the year.

"We intend to complete the deal before December 30," he said.

Helios runs investments worth Sh40 billion ($560 million) spread across the telecommunication industry, banking sector and the horticulture sector. In Kenya it has interests in Flamingo holdings and Afsaft communications.

The shareholders of Helios include the International Finance Corporation (IFC), CDC Group, US Overseas Private Investment corporation.

Mr Mwangi said having international shareholders on its board would help boost its profile besides giving it world class management and technical support
The deal comes just months after the bank acquired a 20 per cent in mortgage firm Housing Finance from the CDC Group.

Mr Mwangi said Equity Bank would inject Sh7 billion into Housing Finance to support the mortgage firms lending business with proceeds from the Helios deal.

The bank has over the past three years been driving a revolution in Kenya's conservative financial sector, offering products popular with the low end of the market and who were previously considered high risk and untouchable.

In the nine months to September the bank posted a 126 per cent increase in pre- tax profits to Sh1.2 billion.

When it was awarded a banking license in 2004, Equity broke ranks with the big boys of the industry and immediately started a rural expansion binge at a time when most banks were running away to the cities.

It also broke new ground when it allowed customers to open bank accounts without any deposits— a model that has since being copied by other banks.

Targeting the mid and low end of the market has seen Equity grow its client base at an annual rate of 30 per cent making it the largest bank by this measure. The bank has forecast to grow its account base to 1.8 million by year end from 1.7 customers.

To support this customer numbers the bank has rolled out a network 200 ATMs and plans to open five more branches before year end to push its network to 75.

This is the model that has earned Equity the distinction of being the only bank in Kenya to generate the largest fraction of its revenue from non-interest income at a time when the industry's net interest margin — gap between lending rates and deposit rate — is on the wane.

Besides boosting its non-interest income, the wide distributional channel has enabled the bank gather low cost deposits, which has given it room to lower its lending margins at a time when competition in the loans market has hit fever pitch.