

GHANA EQUITY NOTE

Making Sense of Enterprise's Rights Offer

When the Enterprise Group (EGL) announced a USD 50 million rights issue on August 8th, neither the *rationale nor the arithmetic for this initiative was immediately apparent*.

1) In the first place, it was curious that EGL should have felt the need for an additional capital infusion - less than 60 days after announcing that Black Star Holdings Ltd. had acquired a 40% interest in the group¹, while providing "USD 50 million to fund future growth."²

2) Launching the prospective rights issue³ "to support the company's growth agenda of expanding into the West Africa region", as announced, would imply an expansion drive **equivalent to almost one-third of the Group's most recent valuation**⁴. This seems **an ambitious goal** for a Ghanaian insurer with no cross-border experience.

3) At GHC 6.00, the rights offer is priced at **more than 2.24x EGL's closing price on the announcement date** - which seems an extraordinary premium for the privilege of providing the Group with additional capital.

However, it is worth noting that the USD 130 million **Black Star** (BSHL) **paid** for its stake equated to **USD 2.50** (at the time, GHS 11.00) per share⁵. As such the pricing on the **rights offer represents a hefty 45% discount** to this entry point.

4) On the basis of the foregoing, we anticipate that the lion's share of the **pending rights offer will be subscribed to by BSHL**, with a minimum take-up by legacy shareholders⁶. For Black Star, the transaction would produce two very favourable results:

- ⇒ Acquiring the new shares **would give the entity** - and its beneficial owner, Prudential - **control over Enterprise** by lifting its stake in the group from 40% to potentially 52.90%.
- ⇒ Fully subscribing to the rights deal would **lower BSHL's average cost per share by 20%** - i.e. from USD 2.50 to USD 2.00, as illustrated in the accompanying table.

Black Star's acquisition		
Shares outstanding	133,820,000	
Stake acquired	40%	
Shares purchased	53,528,000	
Total consideration	\$130,000,000	GHS 572,000,000
Price per share	\$2.50	GHS 11.00
GSE px	\$0.59	GHS 2.58
Acquisition premium		4.26x
Rights offer		
Expected proceeds	\$50,000,000	GHS 220,000,000
New shares	36,666,667	
Rights offer px	\$1.36	GHS 6.00
Valuation comparisons		
Aug. 17 stock price	\$0.77	GHS 3.40
Premium vs. px at announcement		2.24x
Premium vs. Aug 17 px		1.76x
Premium vs. BSHL's px	0.55x	
Impact of Rights offer		
Total shares outstanding	170,486,667	
Total BSHL holdings	90,194,667	
BSHL's adjusted stake	52.90%	
BSHL's avge. cost/share	\$2.00	GHS 8.78

It remains to be seen **how productively the recapitalized Enterprise group will be able to deploy its USD 100 million war-chest**.

¹ Black Star, a vehicle backed by the US insurance giant Prudential purchased the 53.5 million shares from Sanlam in what was an arguably pricey off-market transaction. For strategic reasons the South African insurer urgently needed to dispose of the position - for which it had paid a mere USD 21.3 million in early 2014.

² As reported in "LeapFrog acquires minority stake in Enterprise Group", posted by *CitiFMonline* on Jun. 24, 2017.

³ In the immediate aftermath of the USD 50 million in fresh capital provided at the time of Black Star's acquisition in June.

⁴ i.e. USD 130 million ÷ 0.40 = USD 325 million - equivalent to approximately GHS 1.43 billion.

⁵ As shown in the accompanying table, this represented a 4.26x multiple of the GHC 2.58 price that on the local stock exchange.

⁶ From the standpoint of legacy share-holders the dilution of their aggregate stake - from 60% to 47.1% - will be more than offset by the prospective 76% appreciation in the stock price.

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