



**University of  
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# Value Drivers of Financial Service Providers in Financial Inclusion

Master Thesis  
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## Executive Summary

Microfinance has seen an unparalleled growth in equity investments in recent years. Most of the investments have been private since listed microfinance institutions (MFI) appear quite rare in the industry. However, the demand for equity investments in the microfinance sector has been steadily growing and is expected to further grow with the increased importance of impact investing. Nevertheless, private equity investments in MFIs are difficult to value since there is a lack of benchmark values and comparable institutions. This thesis tries to shed light on value drivers for equity investments in microfinance and provide benchmark values for future equity valuations. This is of high interest since the demand for microfinance investments is increasing while the number of public MFIs is still rather low. Since relative valuation methods are still widely used in the industry for equity valuations, but there is a lack of comparable data and benchmark values, this thesis tries to fill this gap. Using public and private data and an extensive set of possible value drivers, this thesis tries to identify drivers of equity valuations in microfinance with the latest data available. The results of this thesis should help investors to gauge their valuations against the found benchmark values and adjust the calculated numbers according to the value drivers proposed in this thesis. The found value drivers give the investors the possibility to put higher weight on such indicators and examine those parameters carefully and in more detail. As a consequence, this allows for a more accurate pricing of equity investments in microfinance and increases the transparency of the sector and eventually renders investments in microfinance more accessible and attractive.

In order to obtain the needed information, private and public data has been analyzed and leading to the following results: The overall mean for public data stands at 14.58 for the Price to Earnings ratio (P/E) and 2.48 for the Price to Book ratio (P/B) metric, while the mean for private transactions equals 13.9 for the earnings multiple and 1.49 for the book multiple. Over the observation horizon (2014-2017), P/B ratios of public and private institutions have been converging while P/E ratios have been diverging. This indicates that a benchmark value between 14 and 15 x earnings may be an appropriate price to pay for equity and according to the book multiple benchmark value, equity seems to be fairly priced around 2 x book value. The result of the regression analysis shows that Return on Equity (ROE), Return on Assets (ROA) and growth are important value drivers for both, public and private financial institutions. Except for the negative effect of the ROE on the P/E ratio, all above mentioned variables have a positive relationship with both multiples. For public institutions, leverage and portfolio quality have a negative and highly statistically significant influence. For private MFIs the number of clients and the transaction volume have a positive effect on the valuation and it seems private equity investors are willing to pay a premium for MFIs located in Asia.