IMARA Asset Management

Monthly Market Report

Edition:	**February 2019**
Region:	**Africa ex South Africa**
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Market snapshot

Feb Performance (%)	LCY	USD
BRVM	7.5	6.8
Egypt	4.8	5.8
Nigeria	3.8	4.2
Zambia	3.8	3.3
MSCI World	2.8	2.8
Kenya	1.5	2.1
MSCI EM	0.1	0.1
Mauritius	-0.3	-0.1
Morocco	-1.9	-2.1

February was a strong month, with the majority of markets rising and notably, some of the African currencies (NGN, EGP, KES) strengthened against the USD. Egypt, Nigeria and Kenya share indices were up 6.8%, 4.8% and 2.7% respectively, while Botswana slipped back, mostly on currency weakness.

Economic and political overview

Nigeria – Despite a week long delay, the long awaited presidential elections have come and gone. President Muhammadu Buhari won, polling 15,191,847 votes (55.6%) to defeat his closest rival, Atiku Abubakar, candidate of the People's Democratic Party, who scored 11,262,978 votes (41.2%). While there were sporadic outbursts of violence and Atiku is heading to the courts to contest, it is mostly being regarded as a fait accompli. We were disappointed with the low turnout of 35.6% given the significant rise in registered voters from 68.8m in 2015 to 84.0m in 2019. The absence of major violence and the greater effectiveness of a second term presidency are broadly positive. The fixed income market has seen large inflows, while the equity market reaction has been more muted.

Macro releases included:

- 4Q18 GDP growth was +2.4%, with non-oil growth coming in at 2.7%.
- February PMI came in at 57.5 points, up for the 24th consecutive month, with nine of the fourteen sub sectors rising.
- January FX reserves showed a marginal increase to USD 43.2bn.

Egypt – The CBE MPC cut rates by 100bps during February, with the overnight deposit rate reduced to 15.75%. The MPC's statement referenced the rate cut to the "moderation of underlying inflationary pressures" and also mentioned that global tightening of financial conditions have eased and international oil prices have stabilized at low levels. Core inflation has been steady at c8% for the past four months.

Macro data releases included:

- Emirates NBD PMI at 48.2 in February, down from 48.5 in January.

- Finance Ministry has trimmed FY19 (June) GDP growth to 5.6% from 5.8%, but kept FY20 at 6%.
- FX reserves were flat at USD 42.6bn in January. Reserves should receive a boost in the next two months following the IMF's board approval of the fifth disbursement to Egypt, in addition to planned Eurobond issuances between USD5-7bn.

Kenya – February inflation surprised to the downside at 4.1% from further fuel price cuts and food inflation falling to 1.1% y/y from 1.6% y/y. Aside from the housing and utilities sub-index all the other sub-indices are below the 7.5% upper end of the inflation target band and in fact some, like food inflation, are below the lower end of the target band (2.5%).

For some time now the KES has been deemed to be overvalued, however we believe you need something to trigger currency weakness like inflation or a balance of payment crisis. Neither of those look likely in Kenya at the moment. Whilst the debt and the composition of debt is a concern, we are comfortable with the current levels of debt and we believe that they will likely refinance the upcoming Eurobond payment given the strong growth prospects of the country. FX reserves have risen USD232m since the beginning of the year, as the stronger shilling allows the regulator to bulk up reserves at a time of high dollar inflows. According to the CBK, reserves are now at a near four-month high of USD 8.2bn, having risen from USD8bn at the start of the year.

For one of Kenya's largest exports, tea, farmers earned USD 1.4bn in 2018, boosted by high volumes and at higher than average international prices. The earnings, were the highest in the last five years and production reached a high of 474,000 tons, up from 415,000 tons exported in 2017. The Tea Directorate has forecasted a drop in production, however higher prices should offset this.

Morocco – Bank Al Maghrib released its latest banking statistics for the end of December 2018, showing loan growth of 3.2% driven mainly by real estate loans which were up 3.6% (mortgage loans up 5.6%).

Morocco's headline inflation decelerated to 0.5% in January, from 1.9% in December. Annual food inflation rose to 2.3% in January compared with 1.3% in December, while non-food inflation slipped to 0.8% in January from 1.8% a month earlier. On an M-o-M basis, the CPI figure dropped to 0.3%, from 0.7% in December.

Company updates

Nigerian Breweries (Nigeria, Consumer Staples) FY18 results update: A disappointing set of numbers from NB. Positive surprise on topline in 4Q, but overall negative surprise on margins and bottom line. FY 18 net sales were down 5.8% and EPS was down 41.2%. 4Q 18 EPS was NGN 0.56 a recovery from a loss of -N0.46 in 3Q18. The environment remains challenging, overall volumes were down mid-single digits, but premium volumes grew double digits. The combination of excise duty increases (from June 18) alongside aggressive pricing from competition resulted in a poor performance in the second half of the year. We listened to the conference call and although we were encouraged by their cost cutting initiatives and smart pricing strategy we feel that the industry will only return to profit once competition raises prices. NB remains the largest and most profitable player in the space and an attractive recovery play.

MCB (Mauritius, Financials) 1H 19 results update: PBT +19% very positive ahead our 15% forecast for June 2019 full year. Very strong momentum on the USD lending book which is up 22% y/y. Trade finance (oil trade confirmations in Africa) where they act as counterparty and project finance is pushing the step up in credit growth. Management outlook is also positive and expect more growth from this source. Mauritian rupees business is slow but stable mostly boosted by slightly higher T-bill yields. Overall, 10% expansion in margins, NIMs moving to 3.4% vs. 3.1% driving ROE higher from 14 to 16.5% in a very short time. We expect it should provide a positive catalyst to unlock a low PB rating of 1.22x.

Maroctel (Morocco, Communications services) FY18 results update: A solid annual performance, but Q4 on the light side. FY18 Revenues grew 3.1% to MAD 36bn, EBITDA +4.1% to 17.9bn and EPS and DPS 5.3% to 6.84, implying a yield of 4.5% and PE of 22x. RoIC nosed up from 21.1% to 21.7% on lower capex, following a number of licensing rounds and network upgrades in 2017. Lower capex saw FCF rise 25% to 17% of revenue. Group revenues contracted by 0.5% in Q4 18 and EPS was flat. Weaker results in their Francophone West African businesses in the third quarter continued in the fourth quarter and the domestic mobile division grew revenues by only 1.1% y/y, down from a strong 7.9% y/y in 3Q 18. We have not yet established whether this was loss of market share, pricing pressure or even a softer consumer.

Safaricom (Kenya, Communications services) new services update: Fuliza, Safaricom's new lending product in partnership with two local banks KCB and CBA, appears to be having success, with daily advances already at KES 200m (USD 2m). At the current trend, based on fee and revenue sharing, my initial estimates for Fuliza suggest that MPESA's share of fees should be KES 7bn, which, if annualized, would be 3.5% of March 19 revs and assuming no variable/direct costs, then 8% of PBT. In addition to the financial contribution, it appears to be another successful overlay, over a superior network (physical, data analytics, customer care), leveraging off East Africa's number one brand, MPESA.

Market outlook

Nigeria – Results confirm a slow recovery and a path to normalisation of the economy. For the most part, consumer companies are able to shift volume and we expect pricing to improve on the back of consumer income recovery, with the new minimum wage adjustments, we should see this happen in 2H19. We maintain a large allocation to banks and the top consumer names in the food and beverages sector. Valuations are deeply discounted and attractive. Our preferred banks are well positioned to make money from fees. Overall, banks will make less profit from yields as the curve drops, but higher NGN liquidity, strong growth in trade facilities (LCs) and mobile bank fees will still mean good growth in earnings. Since we are past the election hump we hope to see more expansionary monetary policy and credit creation to stimulate growth and spur the economy out of this early recovery phase.

Egypt – The economic recovery is continuing as expected and most management teams are positive and expect conditions to improve further. We see volumes recover as wages catch-up to inflation and this is further supported by corporates restocking as demand picks up. Upside risk to inflation from subsidy removal and rising oil prices, but there is enough positive momentum to maintain the growth trajectory. The earlier than expected 1Q19 cut in rates should further support growth for 2019.

Kenya – The political decision not to remove interest rate caps removes the opportunity for an asymmetric trade on the banking shares and reduces economic momentum. However, low inflation and a multi-year investment in infrastructure have created a platform for strong real GDP growth. On a bottom up basis, we remain very optimistic on the payments and fintech growth theme which we play through telco and banking.

Mauritius – Our investment in Mauritius, MCB, is doing extremely well, with very strong momentum in trade finance. MCB continues to grow earnings above GDP and expand NIMs, increasing the ROE further above the cost of capital and creating scope for further rerating.

Morocco – We continue to search for attractively priced growth investment opportunities with our existing investments showing moderate growth and attractive dividend yields. We recently added Label Vie (supermarket, hypermarket, cash n carry), which we believe is well positioned to benefit from low formalized retail penetration in the country.

Zimbabwe – We have always taken a long term view to Zimbabwe, preferring to look through the political noise and focusing on identifying corporate champions that can generate shareholder wealth no matter the environment. OMIR allows us to get both liquidity and a reasonable valuation as we wait. Bottom up, the 1H18 corporate results are very strong and the companies in our portfolio have survived hyperinflation before and they have highly capable management teams. Key to Zimbabwe's economic recovery is a fresh capital injection and debt forgiveness/restructuring, we believe that announcements signaling progress in this regard will be catalytic for our investments in the country.