IMARA Asset Management

Monthly Market Report

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Region:	**Africa ex SA**
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Market snapshot

Markets (MSCI indices in USD/currencies vs the USD) –

July Performance (%)	LCY	USD
MSCI EM	8.4	8.4
MSCI World	4.7	4.7
Morocco	0.6	4.5
Tunisia	-0.7	3.1
Botswana	-0.9	1.3
Nigeria	0.9	0.3
Egypt	-1.5	-0.4
BRVM	-5.3	-0.9
Zambia	-1.4	-2.0
Mauritius	-4.2	-2.8
Kenya	-3.2	-4.3

Mixed performances in July. The outlook for SSA remains bleak. The WHO notes that more than USD 31bn will be needed over the next year to develop medication to fight COVID-19. Hopes for a vaccine continue, with various clinical trials ongoing. The African Development Bank (AfDB) expects -6.6% growth for SSA as a worst case scenario.

Economic and political overview

Nigeria – Digital transactions for utility bills and subscriptions grew 86% y/y in the first 5 months of 2020, aligned with the Central Bank of Nigeria's (CBN) push toward financial inclusion. Interestingly volumes declined by 30%, while transaction value grew significantly, accelerated by movement restrictions during the pandemic. Broadband penetration grew to 40.14% in May, with 3G and 4G subscriptions reaching 76.62m.

The CBN adjusted the official currency rate by 6%, aligning with the IEFX window as the naira moved from 360 to 381. The parallel market rate stands at NGN 472. Nigerian banks limited amounts customers can spend abroad. Further loan restructures in the sector have increased significantly, to 41% of total loans at the end of May from 33% end-April.

On the ground, the interstate travel ban was lifted with domestic flights resuming. Schools were reopened and permitted to have face-to-face classes for graduating students.

Macro releases (June stats):

- Inflation came in at 12.6% y/y (May: 12.4%).
- FX reserves USD 36.2bn (May: USD: 36.6bn), 7.1months of import cover.
- PMI up to 46.4 (May 40.7).
- The current account deficit narrowed to -4.3% in 1q20 (4q19: -5.4%). Oil and merchandise exports declined, while non-oil imports remained largely flat.
- Pension assets rose to NGN 10.8trn in May (Apr: NGN 10.6trn).

Egypt – COVID-19 cases declined, and tourist arrivals climbed. Egypt received 22,000 tourists to the coast and resumed international flights at the beginning of July.

The government is introducing a 3-month programme to stimulate consumption, targeting EGP 100bn (USD 6.3bn) worth of consumer spending. The purpose is to provide durable and non-durable local products with c.15%-25% discounts for all citizens. Ration card holders will receive an additional 10% discount, costing EGP 12bn in subsidies. Further, the government is offering 2-year low-interest installment plans to pay for goods, with a dedicated online store for purchases.

The European Investment Bank (EIB) approved EUR 1.9bn for Egypt. 42% of the funds are designated for business impacted by COVID-19 and the remainder to public transport infrastructure development. Afreximbank has disbursed USD 3.6bn to the banking sector under its Pandemic Trade Impact Mitigation Facility (PATIMFA).

The Egyptian government is imposing a 1% Corona tax on salaries across all public and private sectors of the economy. This will be implemented for 12 months beginning 1 July. Additionally a tax of 0.5% will be deducted from state pensions.

Macro releases include (June stats):

- Inflation came in at 5.6% y/y (May: 4.8%), with non-food inflation rising marginally.
- FX reserves rose to USD 38.2bn (May: USD 36bn).
- PMI went up to 44.6 (May: 40.7).
- Trade deficit widened to USD 2.6bn in May (Apr: USD 2.4bn). The pandemic disruption may lead to a wider current account deficit.

Kenya – Standard & Poor's (S&P) lowered Kenya's outlook to negative from stable, affirming its long-term foreign and local currency debt ratings at B+/B.

The tourism industry lost KES 80bn (USD 742m) from January to June this year. It contributes c.9% of GDP, challenged by the international travel ban. Domestic flights resumed on 15 July, with lower fares which boosted demand. Flights reached 65% seat capacity. International flights have just resumed on Kenya Airways, which has been cleared to reach 30 destinations.

Horticulture export earnings defied the odds, growing to KES 7bn (USD 65m) to end-May, bolstered by high demand for fruit and vegetables. Earnings from fruit rose +83%, vegetables +4% and flowers +4.2% y/y.

Restructured loans reached KES 844.4bn (USD 7.8bn) by end-June, constituting 29% of the combined loan book. Household loan restructuring worth KES 240bn (USD 2.2bn) is 30% of the gross lending to this sector. Businesses restructures were worth KES 604.4bn (USD 5.6bn), composed of trade firms, real estate, transport, communication and manufacturing industries.

Macro data (June stats):

- Inflation slowed to 4.59% y/y (May: 5.47%).
- FX Reserves grew to USD 38.2bn (May: USD 36.0bn).

- PMI improved to 46.6 (May: 36.7).
- Current account narrowed to 5% of GDP y/y (May: 5.2%)
- Remittances recovered to USD 288.5m (May: USD 258.1m), after a dip in April.

Morocco – Bank Al-Maghrib's Board cut interest rates to 1.5% from 2.0%.

Macro releases (June stats):

- Inflation decelerated to -0.7% y/y (May: -0.2%).
- M3 growth in May came in at 7.1% (Apr: 6.1%).

Company updates

Nestle (Nigeria, Consumer staples): Topline growth flat in 1H20, and -0.3% y/y for the quarter. 2q20 saw the food segment outpace beverage growth – precisely the opposite of the previous quarter. Despite a price increase of +8%, the beverage segment declined -7% y/y and put a drag on revenues. This may be due to the beverage segment catering to the more corporate market e.g. Nestle Water, which is a staple stock item in many (closed) corporate offices alongside their hot beverage options. Food demand remained strong despite the growing competitive environment. Management have indicated that they maintained market share, and see border closures as an opportunity to grow. Smaller players are likely to lose access to credit and market share. The CBN released a circular immediately curtailing the importation of maize. This is unlikely to affect Nestle, with 80% local sourcing and their active work with farmers in the supply chain. Gross margins contracted by 343bps. Transport costs increased although interstate borders continue to accommodate food distributors. With shifts and cost adjustments, operating costs were lower by -6% in the quarter, meaning flat costs for 1H20. PBT was -16.3% with varying performances between segments. While prices were flat for food and PBT growth of 200bps, beverages contracted by 600bps. Nestle is positioned for recovery beyond COVID-19, with a strong balance sheet, efficient working capital cycle and well-positioned consumer brands. The company announced the change of its CEO, effective 1 September. This is not a surprise with average tenures historically of 3 years.

EABL (Kenya, Consumer staples): Rev growth -9.2% and PBT -40.2%. Even with management's profit warning in May, the results underperformed. This seems to indicate the significance of on-trade (bars, restaurants) in the consumption of alcohol in Kenya. Revenues in Kenya declined -14%, Uganda -5% y/y and Tanzania +14% y/y. Despite being available through retail outlets, demand in their largest market has been negatively affected by movement restrictions. The bottom line was hit by a sharp increase in other expenses, explained as provisions for obsolete stocks, COVID-19 support funds and impairments in line with IFRS 9. Additionally the tax rate was higher than expected at 34.1%. Bars and restaurants were reopened in May, so EABL had 2 months of improved revenues in accordance with resuming economic activity. However the Health Ministry has reinstated the alcohol ban in these establishments until further notice as of end-July. As international flights resume, there may be more trade in the tourism and hospitality segments. Excise remission reduction has been postponed to 2021 which is largely supportive for growth. Following a call with management, we believe that their focus is supporting stronger growth beyond COVID-19, and taking the impact upfront through provisions and pandemic support. We see full recovery in FY22, as the brewer stays afloat amidst the prolonged uncertainty.

Sefalana (Botswana, Consumer staples) FY20 to 30 April results. On the whole a solid set of results and consistent with our management meeting earlier in the year. Revenues +9.1%, EBITDA +7.3% with flat earnings. The results were negatively impacted by COVID/lockdowns falling within year end, as well as significant FX weakness from operations in South Africa, Lesotho and Namibia, with the latter two countries being ZAR linked. Encouragingly, their main operation, Trading & Consumer Goods in their home market of Botswana (60% of revs), grew revenues +15% and EBITDA +11%. The company remains attractively valued at 11x current PE.

MTN Nigeria and Ghana - 1H20 results: Both entities reported a strong set of results with similar trends in revenue streams. Voice under pressure, but still resilient, while data, mobile money and FTTH/FTTB all very strong. Nigeria represents c40% of Group EBITDA and Ghana c15%. MTNN saw revenues +12.6% and EBITDA +8.2%, while MTNGH grew revenues by 19.5% and EBITDA 29.1%. We have pasted in an extract from MTNN's commentary on how they are dealing with and contributing to, the fight against COVID-19.

"Through various contributions and initiatives, we supported our customers, communities and government in the transition through this unique situation. This includes support for the Federal Inland Revenue Services' (FIRS) revenue acceleration efforts with an early payment of our taxes ahead of established deadlines.

We launched a free SMS initiative in early April targeted at the low-income mass market concluded at the end of June, with more than 4.3 billion free SMS's sent by more than 53 million customers. Customers used more than 3,000TB of free data to access zero-rated healthcare websites. We have now expanded this initiative to include a range of education platforms endorsed by Nigerian federal and state governments. This is in addition to the N1 billion donation we have made to the Coalition Against COVID-19 (CACOVID), the N250 million of personal protective equipment (PPE) delivered to the Nigeria Centre for Disease Control (NCDC) through MTN Nigeria Foundation, and the logistical and communications support provided to the Nigerian Governors Forum, NCDC and State Governments."

CIB (Egypt, Financials) 1H20 results were impressive. PBT +2% y/y and +6% q/q. PBT numbers are net of high provisioning numbers with CoR at 1.9% YTD. More importantly the operational growth numbers are very strong. Banking income 26% y/y for 1H20, standalone 2q20 was +27% y/y. Loans and deposits +4% q/q. We still believe management's strategy is to provide further before credit quality unfolds after September extension ends. This means earnings will be muted (flat to +5%) in 2020.

Market outlook

The impact of COVID-19 is still being assessed but at this stage it is the main driver of short-term negative macro performance in all our markets. In addition, a lower average oil price in the past 4 months has negatively impacted Nigeria's ability to clear USD FX demand in particular. Overall, we have focused on business models that are either essential or innovative (e.g. Fawry in Egypt) and that can meet our minimum quality criteria. **Nigeria –** Nigeria's outlook remains particularly murky with the twin negatives of COVID-19 and oil. We have revised our previously constructive view on recovery, albeit slow, to negative. The allocation to Nigeria is lower for the time being. Three catalysts will change our view to a more positive stance: 1) full devaluation of the NGN 2) normalisation of the local bond market and 3) Dangote's megaproject fuel refinery coming online. The underlying portfolio companies are very robust in a tough environment. **Egypt/Morocco –** Egypt and Morocco will see some pressure from lower tourism on consumer demand but we expect the overall impact on macro to be relatively muted. In addition, the businesses we have selected are hedged against lower consumer demand. We are therefore comfortable holding larger positions here. **Kenya –** Our view on Kenya is more negative for 2020 but we have not altered our relatively positive medium term outlook. We expect investments here to remain robust and rebound strongly as the economy recovers. **Mauritius –** Mauritius is very dependent on the timing of large scale tourism recovery. Unless tourism comes back strongly in 2021, the macro and MCB will be under pressure.