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Sub-Saharan Africa

A strong gain in the Nigerian equity market was negated by weakness among many of the African currencies, which declined against the US Dollar; the Zambian Kwacha, Mauritian Rupee, South African Rand and Botswana Pula by 10%, 8.4%, 4% and 3% respectively. The USD-denominated Zimbabwean stock market was also down, albeit on very low volumes. The Nigerian Naira was stable after the recent weakness.

The major political news this month in Africa was, of course, the delayed elections in Nigeria, which are covered in detail under the Nigeria section. The fact that an opposition candidate won a decisive – and crucially, a peaceful - victory says much for how Nigeria's democracy has developed over the past fifteen years, as indeed it has in many other African countries. During March, furthermore, Boko Haram, which has being causing chaos in the North East of the country for the past year, was close to being silenced by the joint military efforts of Nigeria and its close neighbours. In order to reduce fraud, the country used biometric cards for the first time, another sign that technology is helping Africa to "leapfrog" other parts of the World. The fact that both parties had similar manifestos, suggests that the people just wanted a change after many years under the PDP party, not least former President Obasanjo, as we mentioned in last month's report! There is no doubt that the fall in the oil price was very bad news for former President Goodluck Jonathan as it clearly highlighted that, over the years of high oil prices, the benefits had been squandered; effectively exposing corruption or, at the very least, mis-management of oil revenues. Incoming President Buhari emphasized his anti-corruption stance in his manifesto, which clearly drew favour from a population fed up with excessive graft.

Kenya is also well known for corruption in most levels of Government and the civil service, especially in the past under former President Moi. Thankfully this does not impact seriously upon the private sector - but it is an issue nonetheless. It was therefore seen as extraordinary that President Kenyatta, at the end of his State of the Nation address to Parliament, stated that he would take action against those implicated in a dossier compiled by the Ethics and Anti-Corruption Unit. Many Presidents have made such threats in the past, only to sweep the issues "under the carpet" and taking minimal action. This time he actually published the dossier with his speech for all to see; far from taking no action against those implicated, an extensive list of individuals - from Ministers to senior civil servants, regional governors and many other public servants (including those from his own party) - have been suspended from duty, pending further investigations. We hope that - once further investigations have been concluded – appropriate action will be taken against those found guilty. This will send a very powerful signal to those looking to partake in graft in the future.

Whether the new Nigerian President will do the same is another matter. We suspect - and indeed hope - that he will target those areas most notorious for leakages: being the Nigerian National Oil Company and the subsidies on fuel imports. We hope that he will be able to reform the oil sector, by introducing the long-awaited Petroleum Industry Bill, which was something his predecessor was unable to do. We further hope that he will continue with the reforms to the Agricultural and the Power sectors. We will not be certain until he becomes President at the end of May but, hopefully, we will see some signs of intent before then. The stock market certainly took his victory well, jumping up by over 8% on April Fool's Day!

The Egyptian Government held a high profile Investment Conference inviting many Heads of State from the region and industry players from around the World. They announced investment pledges of US$12bn, largely from neighbouring GCC countries together with over US$60bn of projects. One such project is the establishment of a new capital city to be built near to Cairo, which will house the Government as well as over five million people. This is in addition to the other "mega-project" announced last year; being the second Suez Canal, a project that has already started. It is too early to say how many of these projects will ultimately get off the ground, but at least for now, the Government is doing its best to get the ball rolling.

This is in stark contrast to Zimbabwe, where the Cabinet, according to the local media, met on April 1st, for the first time since January 27th. This has been largely due to the absence of the President, who has been undertaking a number of State Visits in his new role as Leader of the African Union. The consequence of this is that there has been very little action in Government circles; this is also reflected in the local stock market, where volumes have been unsustainably low for the stock broking industry.

Nigeria

The MSCI Nigeria Index rose by 8.8% in US Dollar terms over the month. The Naira also rose by 1.7%, suggesting fairly heavy intervention by the Central Bank, given the political uncertainty – although, with the intense selling of recent months, there are probably few sellers left. The stock market is off by around one third in USD terms from the peak last July.

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Finally! Nigeria held elections, which saw Muhammadu Buhari (of the APC) elected in a fairly decisive manner. Goodluck Jonathan conceded defeat and relinquished power peacefully. The defeat of an incumbent and the peaceful handover was perhaps a bigger moment for Africa than for Nigeria, where there was little policy difference between either camp. The key rallying points of the Opposition were "change" and an "end to corruption" – although this was perhaps not surprising given that the APC was forged (two years ago) from a disparate group of Opposition parties with the simple and express intention of removing Jonathan.

General Buhari takes over on May 29th. He is known as a disciplinarian but he will no doubt have his work cut out managing the expectations of the APC. A "honeymoon" period, however, is the best time to introduce big change. In the absence of political "reality" – a big assumption – this might include replacing the NNPC (Nigeria's oil company) with another entity (as this organisation seems to be the source of most corruption), removing petrol price subsidies (another source of corruption and a brake on the development of the mid-stream), floating the currency/sterilising oil inflows (via a Sovereign Wealth Fund) - to make the non-oil export sector more competitive – as well as continuing with Jonathan's electricity and agricultural reforms.

In the banking sector, GT Bank and Zenith Bank both reported quarterly figures for Q4.14 and for the Full Year; both also surprised slightly on the upside, as a result of gains in non-interest income, largely from FX trading and fees. Similar gains are expected in Q1.15, however the flipside will be a potential rise in NPL's arising from the falls in the oil price and the currency. GT Bank's PAT rose by 9.6% and Zenith's by 3.7% YOY. Loan growth was noticeably strong for both banks (up approximately 30%) as a large portion of their loan books are in USD-denominated loans but deposit rates also rose sharply, resulting in fairly muted interest income growth. StanbicIBTC reported PAT up 54% on the last day of the month but, as yet, no further details have been released.

The Consumer sector remains weak. PZ Cussons reported flat sales for the nine months to February 2015 while PAT was down 27.8%. Dismal as they were, these were actually in line with expectations and consistent with industry trends. They also reflect a glimmer of hope as Q3 sales rose by 5.4% YOY. The main influence on these results was a rise in interest expenses as PZ Cussons bought stock and currency forward in anticipation of the devaluation - so that margins remained stable over the period. The parent company also bought back shares.

Unilever reported a similar decline: sales fell 7.1% YOY for 2014 whilst PAT fell by 39.8%. A 35% YOY fall in operating expenses was the one bright spot in an otherwise poor set of results. While the poor results were expected – the shares have outperformed the Index YTD – Unilever Plc announced a bid to raise its stake in its Nigerian subsidiary from 50% to 75% at N45.5/share (vs. N34/share before the announcement); this is the average price of the last five years - with the high being N76 in 2013. This is a reasonable premium to the pre-bid price but it is at a low point in the earnings cycle as well as coinciding with the uncertainty created by the election; it is also two thirds of the valuation of comparable companies such as Hindustan Unilever and Unilever Indonesia, based on EV/EBITDA. On an EV/sales basis, which is possibly less cyclical, Unilever Nigeria is considered cheap vs. "daughter" companies and in line with global giants like Colgate-Palmolive and Procter & Gamble.

Finally, Nestle, which reported earnings last month, commented on future capex plans: the last six years has seen a fairly fast growth in capex in their foods and cereals division, but this should fall over the next eighteen months as investment grows in other areas, like packaging – which is currently largely imported. They are expecting single digit growth for 2015 and a Naira exchange rate of N220-50/USD (in line with market consensus).

Zimbabwe

After a positive February, March was dreadful with the stock market falling on historically very low volumes, largely in the blue chips companies. The extremely low volumes are putting tremendous pressure on the local stock broking industry as both local and foreign investors remain on the sidelines.

During March the blue chip stocks took the knock; Barclays (after its strong rise YTD) gave up 11%, however it still remains 48% higher for the year. Delta, Innscor and Econet were all down, 9%, 7% and 3% respectively. There were few liquid counters in positive territory, while much of the market didn't trade at all. Over the whole quarter - with the exception of Barclays and Seed Co which gained 48% and 8% - the top ten counters were all illiquid shares.

Barclays Bank reported very strong results, in sharp contrast to many of the other listed banks. Net profits rose by 120%, although these were boosted by a capital gain on offshore investments which were liquidated to enable the funds to be redeployed in lending locally. Their analysts' briefing was interesting in that they suggested that top borrowers in Zimbabwe could now borrow at rates of 5% from offshore sources, which is a marked fall from just two years ago. Barclays has arranged such facilities. Their cost of funds fortunately also fell due to an increase in low-cost deposits. Deposits grew by 17%. Their average cost of funds is under 1%, which compares with a local bank at around

7% - such has been the flight to quality. This therefore allows Barclays to charge a lower interest rate on its loans, while the local bank has to charge rates of 12% or more to earn a similar margin, a level that is more likely to result in higher loan losses, as the borrowers struggle with high interest rates. By contrast, Barclays has very low impairments and non-performing loans among the local banks. Barclays' loan to deposit ratio still has room to grow at 59%, as compared with 47% in 2013.

With the majority of banking results now in - including the unlisted ones such as Standard Chartered and Stanbic - we have collated the data that we can. We await data for banks with different reporting dates while Bank ABC, which Bob Diamond's Atlas Mara bought out last year, did not give details for their regional operations. They did impair a "whopping" US$72mn of loans for the Group as a whole. We suspect that a large part of that might be from the Zimbabwean unit. At the end of December, the Central Bank reported that total non-performing loans were 16% of total loans, although that number would include banks under curatorship or liquidation. Barclays had NPL's of 2% while Standard Chartered and Stanbic reported theirs at 6%. Government-owned ZB Bank, on the other hand, had NPL's of 37% of total loans! ZB is – unsurprisingly - seeking to raise more capital. There is little systemic risk in the banking system as there is no real interbank market in Zimbabwe as yet.

The IMF issued a preliminary report following its visit in March which was relatively upbeat, an extract of which is below. The full report should be issued in April.

"Despite substantial economic and financial difficulties, the authorities have made progress in implementing their reform program, meeting all quantitative targets and structural benchmarks for the first review under the SMP. Moreover, they have stepped up reengagement with creditors by raising payments to the World Bank and by developing a roadmap to seek debt rescheduling under the umbrella of the Paris Club. These developments constitute important steps toward reengaging with the international financial institutions. The mission welcomes the actions to restore confidence in the financial sector, and the progress to clarify the indigenization laws, which were modified in January. In February, in light of improvements in the regime for anti-money laundering and combating the financing of terrorism (AML/CFT), the Financial Action Task Force (FATF) removed Zimbabwe from the list of countries subject to the FATF monitoring process."

We understand that the IMF would like to move to a Structural Adjustment Programme in 2016, which would be a major step forward.

East Africa

Global equities reacted positively to the cautious outlook in the Federal Reserve's March policy statement, which suggested a less aggressive timeline for raising interest rates. These developments, coupled with weaker-than-expected US economic data, resulted in the US Dollar paring back previous gains. All regional currencies – with the exception of the Rwandese Franc, which strengthened marginally by 0.3% - weakened further against the USD: the Mauritian Rupee, Uganda Shilling and Kenya Shilling declined by 8.4%, 2.9% and 1% respectively.

In possibly the worst terror attack since the 1998 bombing of the US Embassy in Nairobi, gunmen staged a dawn attack on Garissa University College in North Eastern Kenya on Thursday 2nd April and, by the end of the ensuing twelve-hour siege, 147 people (mostly students and four terrorists) lay dead, with 79 injured. The "Al Shabaab" group claimed responsibility, saying that the attack was in retaliation for the presence of Kenya Defence Forces (KDF) troops in neighbouring Somalia. Kenyan troops entered Somalia in October 2011 in an effort to stop the militants from crossing the long, porous border and kidnapping people, which was threatening the Tourism industry. The attack, coming soon after a series of security-related international travel advisories issued by the US, UK and other Western countries in response to the terror threat, once again highlighted Kenya's vulnerability as the country continues to bear the brunt of terrorist attacks in the region due to its proximity to the "front line" and presents another heavy blow to the ailing Tourism industry.

The previous week, Kenya's President, Uhuru Kenyatta, in his annual State of the Nation address to the National Assembly, declared that 175 officials in national and county governments, legislature and judiciary that have been adversely mentioned in an Ethics and Anti-Corruption (EACC) Report must step aside pending investigations. This followed a public outcry against mega-corruption within the Government and resulted in the "stepping aside" of several members of the Executive including Cabinet Secretaries (Ministers), Principal Secretaries and Heads of State Corporations. Questions remain as to whether elected officials such as Governors, Senators and Members of County Assemblies (MCAs) will follow suit and even if the latest steps will finally slay the "hydra-headed" corruption monster and improve governance.

As the corporate earnings season continued, Equity Bank reported FY.14 EPS up 27.8% YOY, driven mainly by strong regional business performance and a one-off US$12mn gain from the sale of Housing Finance shares in 2014; PAT grew by 19.8% YOY, without the exceptional gain. The bank has announced a ten-country Pan African expansion plan, into Ethiopia, Burundi and DRC within the next two years,

followed by Mozambique, Malawi, Zambia and Zimbabwe, and finally into West Africa through Nigeria, Ghana and Cameroon; all to be financed through acquisitions and share-swap arrangements. East African Breweries Limited, meanwhile, announced the conditional sale of its Central Glass Industries Ltd (CGIL) subsidiary to South Africa's Consol. The transaction proceeds (estimated at US$63.7mn) are likely to be allocated towards reducing the significant debt (over US$200mn) incurred by EABL from the 2011 buy-back of a 20% stake in Kenya Breweries Limited from SABMiller.

In Uganda, headline inflation rose for the second consecutive month, from a revised figure of 1.6% in February to 1.9% in March, driven by an increase in non-food prices. Core inflation rose to 3.7% from a revised 3.3% in February. The Central Bank maintained the policy rate at 11% and expects core inflation to rise to between 4% and 6% over the next year. Overall inflation rose by 1.5% from a revised 0.7% in February. The Uganda Shilling continued to depreciate against the USD, touching a record low of UShs.3110/USD, with the consistent slide blamed partly on the global strength of the USD but mainly attributed to concerns over increased state spending before the 2016 presidential and parliamentary elections. After the 2011 Election, inflation surged to an eighteen-year high, accompanied by a sharp weakening of the Shilling and a spike in interest rates, as well as strong local demand for forex from the Manufacturing, Energy, Telecommunications sectors and Commercial Banks to pay dividends. The local currency is generally expected to remain weak for most of Q1.15 owing to the unfavorable trade balance.

In Mauritius, a rebound in the Construction sector, as a result of major public projects and growth in tourist arrivals is expected to result in improved economic growth, from 3.5% in 2014 to 4.1% in 2015. The country - which markets itself as a "bridge between Africa and Asia" - is trying to shift from an economy reliant on Sugar, Textiles and Tourism by growing the Offshore Banking, Business Outsourcing, Luxury Real Estate and Medical Tourism sectors. Tourism arrivals for 2015 are projected to be 1.1mn, up from 1.04mn in 2014. The new Finance Minister, Seetanah Lutchmeenaraidoo, expects the economy to grow at 5.3% in the fiscal year 2015/16 (July-June).

Standard & Poor raised its long-term foreign currency sovereign credit ratings on Rwanda from "B" to "B+", owing to an improved external position. This arose as a result of lower risks from external shocks (i.e. stable donor flows and the country's enhanced ability to access the domestic and international capital markets), a rebound in real GDP growth (from the low of 4.6% in 2013 to 6.0% in 2014 and projected to be 7% for 2015-2018), fiscal consolidation, narrowing fiscal deficits and expectations that the upcoming presidential succession in 2017 will be well managed.

Resources

This past month saw commodity prices come under further pressure and mining stocks suffered further downward momentum; with little positive news in sight to turn commodity prices around. The MSCI World Commodity Index fell 6%.

In South Africa, the law requires that SA mining companies have a 26% Black Economic Empowerment (BEE) shareholding. Problems have arisen when some BEE shareholders cash in their gains and then certain voices within Government and the ANC demand that another set of 26% shareholders is accommodated. This is hugely dilutive and in our minds, extortion; so we are happy to hear that the Minister of Mines, Ngoako Ramatlhodi, has decided to co-operate with the mining industry in seeking a legal determination on the contentious principle of 'once-empowered, always-empowered'. We are hopeful that a trained legal mind will soon clear this matter up.

Mining.Com reported last week that, "Chile's Codelco, the world's largest copper producer, became the first mining company to join the Industrial Internet Consortium (IIC), an organization dedicated to developing standards for online solutions that can drive innovation. The move into the digital world includes "real-time dashboards, autonomous trucks that reduce accidents and mobile and analytics applications to enhance the efficiency of its entire operation". Codelco said it is slowly transitioning to a scenario where no miner may ever again need to work in dangerous underground environments. "We are reinventing mining as we know it," it said.

The bear market in commodities is not only seeing weak, high cost producers being closed down, but also old mining and processing methods being challenged. We continue to believe that the weak commodity markets offer smart African Governments a huge opportunity to embrace modern technologies to efficiently exploit their mineral wealth. The age-old missing "piece in the puzzle" is Government investment and tax policies that will stand the test of time.

Corporate news of note included the following:

From being a copper explorer in the DRC not long ago, Tiger Resources has now closed its successful three-year Phase 1 HMS plant and, in September 2014, successfully achieved annual nameplate capacity of 25kt of cathode copper at its new SXEW plant. An incredible performance

in a country deemed by the global investment community as being extremely high risk. EPS to Dec 2014 fell from 2.3cps to 0.34cps, impacted by: a cessation of HMS production; ramping up and achieving nameplate capacity at the new SXEW project; relying fully on expensive generators for power; buying out the 40% Government interest; higher finance costs associated with the previous two points; and a lower copper price. At the current copper price, 2015 is going to be tough year. We believe that the repayment period of the debt is too short and think that a rights issue is needed.

With its operations located in Western Eritrea, Nevsun Resources has been one of the stand-out African mining success stories. The mineral resource is a three-metal Volcanic Massive Sulphide orebody: from which gold was initially produced; now copper; and, by 2017, will transition into a primary zinc/secondary copper producer. Nevsun is currently one of the highest grade (4.6%) open pit copper mines in the world. Earnings for the year to December 2014 increased from 6cps to 47cps and the company ended the year with no debt, cash of US$442mn and US$48mn still due from the State entity, ENAMCO.

Mining.Com reports that First Quantum Minerals laid off 343 contract workers on Friday at its Sentinel Refinery, which was completed in December 2014. FQM believes it followed all protocols, while Government disagrees and is asking FQM to reinstate 93 of the dismissed workers. “This impasse adds to the already jumpy relationship between FQM — Zambia's largest foreign investor — and the Government, as a result of an ongoing dispute over taxes”. The Zambian Chamber of Mines estimates that the higher royalties could result in 12,000 job losses and mine shutdowns; on a somewhat more positive note last week, “the new Zambian President, Edgar Lungu, asked his finance and mining ministers to change the new tax system by April 8 and consider options to resolve the impasse. These include negotiating interim tax deals with the individual mines most affected, modifying existing laws, deferring the new regime, or temporarily reverting to the old mine tax as a new one is negotiated”.