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Imara Asset Management FY 2019 Investor Call - Transcript

Good afternoon everyone, thank you for taking the time to dial into the call.

Any performance numbers we mention in the presentation refer to the Imara Africa Fund class A, which is our flagship mutual fund. For the other funds you will have to refer to the individual factsheets that you receive monthly.

We did lots of travel last year, you will see on slide 2 some of the places we visited. Africa remains a vibrant, exciting consumer-oriented theme. In the snapshots you can see some of the impressive infrastructure that is being built as well as the bustling activity of the informal sector. The rapid and powerful disruption that is happening across the continent, particularly regarding the formalization of informal markets, is an important mega trend that we believe will result in outsized returns for our companies. A great example of this is cash displacement technology, later in the presentation we will discuss the payments landscape and why we feel that it is an alpha rich opportunity.

On slide 3 we have the performance numbers for our key markets. The fund closed the year up 10%. The largest positive contributions came from Egypt and Kenya. We finished the year with 24% of our portfolio allocated to Kenya and 22% to Egypt. Our other large allocations are in Nigeria 20% as well as Morocco 17%. Combined, MENK (Morocco, Egypt, Nigeria and Kenya) makes up 83% of the fund, as you know 90% of the liquidity of Africa ex SA is in these markets.

In terms of sector allocation, we favour domestic consumer-oriented stories. Currently we have 35% of the portfolio in financials, mainly strong deposit franchise banks with low cost of funds, high NIMs and strong fee income. 22% in communication which is mainly the market leading Telcos with strong network effects, incrementally higher ROICs and large free cash flow. 15% in fintech which is mainly pure-play payments businesses. These 3 sectors are roughly 70% of the portfolio, the remaining 30% is mainly in consumer staples, retail and healthcare.

On slide 4 we have our performance numbers over the years compared to the S&P Africa index. You can see that the relative gaps open up significantly during the down years where we outperform considerably, we believe this is due to our investment in quality companies. Tony, Rainer and I really spent a lot of time in these markets and as much as it is good to get strong performance numbers in up-cycles we believe it is even more important to avoid horrendous numbers in down-cycles. To use a weather analogy, we spent a lot of time trying to understand storms and droughts as opposed to just waiting for the sunny days. We needed to figure out when we will need an umbrella. Quality companies are your umbrella in down-cycles. We learnt this the hard way initially, but the Q-scoring framework was born out of that.

On slide 5, you can see that the macroeconomic outlook is robust with regional GDP growth ranging from 2.2% to 5.5%. East Africa is showing really strong growth with GDP growth expected to average 5.5% for 2020, this is followed by North Africa with GDP growth of 4.0%. The table on the right shows some key data points for our MENK markets. Nigeria has disappointed thus far – with relatively high inflation and GDP growth slightly below population growth. We believe the Nigerian macroeconomic policy is focused on curbing inflation and maintaining FX stability and this comes at the expense of GDP growth.

Now to a key theme for 2020 and beyond. In our previous call we presented on a stock addition in the payments space- Fawry. We thought it would be a great idea to focus on the theme as a whole and to share some useful data that supports our view on payments. Please turn to slide 6, some highlights, you have 5 bank branches per 100 000 people, 78% mobile penetration but 43% bank penetration and a population that is expected to double by 2050. In country, you see the same, young populations that are underbanked and underserviced. Across Africa cash is ubiquitous and dominant but there are handful of companies that are building the digital rail or the plumbing of the payments industry, they are solving a really basic, foundational problem, how can I pay for my goods and services? In most cases, the solution is telco-led, but with improved technological application we are seeing a lot more companies play in this space.

You can flick through the next few slides for some snapshots of how we see the value chain and where our companies can/do participate. Tony has created a simple framework for understanding the Telcos in this space and if you haven't received it already, we can share it with you. You can see some of our holdings in the space, the largest being Safaricom at 9.5%, Safaricom is the largest mobile money company in our universe with M-PESA which has 35m subscribers. Slide 8 shows you half the worlds registered mobile money customers are in Africa and account for 70% of the transaction volume and 66% of the value.

On slide 9 we have a bubble chart that shows you the growth in users/subscribers for these platforms. M-PESA (Safaricom mobile money) has been an incredible teaching tool for us in mobile payments and growing return on incrementally invested capital. We see the same network effects and ROICs in all the companies in our portfolio that are in this space. This is why we say it is alpha rich. The FCFs and ROICs these companies are generating are much larger than the rest of the companies in our portfolio, as well as our Africa universe. The bonus is that mobile money is repeat use, day-to-day activity and not lumpy or once-off revenue streams so it isn't cyclical. It has a long and wide runway for growth because 1) you are taking market share from cash and not an incumbent and 2) you can get additional revenue streams at an infinitely smaller incremental cost by adding more use cases (paying for parking, paying for utilities, paying for airtime, paying the hair salon, enterprise solutions, savings products, overdraft facilities).

Slide 10 shows where our markets are compared to each other and developed markets. You can see that as GDP per capita grows you can expect non-cash transactions to increase. You can also see from the chart that the pace of digitization has been much more rapid in Africa at our level of GDP per capita for most of our key markets.

Slide 11 is another simple model for one of our companies HPS in Morocco, we don't have time to go into a full case study, but again, it is a key theme for us in payments.

Slide 12 compares our valuation multiples to global peers. You can see that for the level of growth they are exhibiting on topline as well as EBITDA they all appear undervalued on a relative basis.

The last slide, shows that the valuations remain attractive, our portfolio trades at a premium compared to the rest of the continent, which is understandable given the quality bias. However, our dividend yield as well as the ROE is higher at 5.3% and 29.1% respectively. Thank you for dialing in. I will now open the line for questions.