Monthly Market Report

Edition:	**April 2020**
Region:	**Africa ex South Africa**
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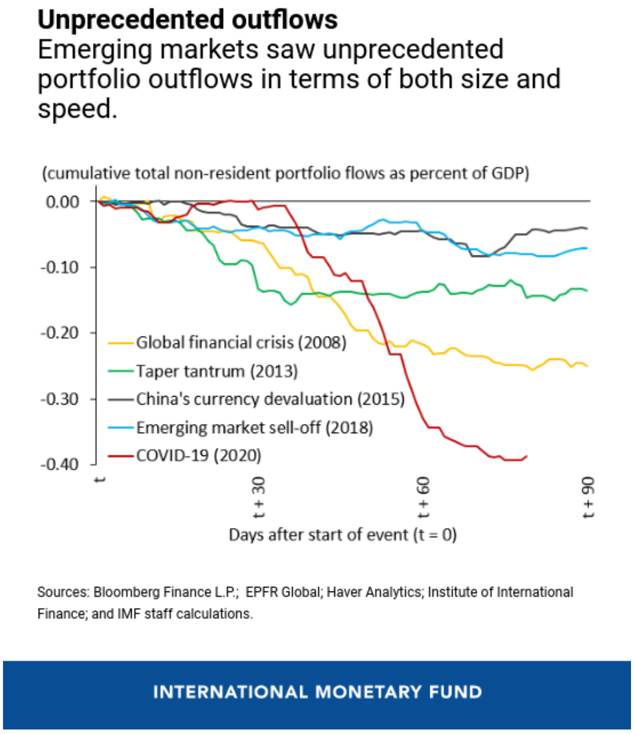
Market snapshot

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

Apr Performance (%)	LCY	USD
MSCI World	10.8	10.8
Egypt	10.0	10.0
MSCI EM	9.0	9.0
Nigeria	8.1	7.8
Kenya	5.9	3.9
BRVM	2.1	1.7
Morocco	-3.1	-0.3
Mauritius	0.1	-1.0
Botswana	-0.8	-3.1
Zambia	-2.0	-4.5
Tunisia	-4.2	-4.6

April saw some discernment in pricing action after the March sell-down. Indeed, IMF data (graph below) shows the largest outflow from EM in terms of size and speed. The outflow was USD 4.2bn from sub-Saharan Africa in that period. In April, the buyers stepped in especially on essential and large cap names, leading to a pop in performance. Overall, most currencies are still under pressure. Coronavirus numbers are steadily climbing with testing increasing across the board and various measures instituted to contain the spread. May will see various attempts to open some economic sectors while minimising movement.



Economic and political overview

Nigeria – Nigeria is easing lockdown measures in Lagos, Abuja and Ogun States for the next 6 weeks. The easing will be gradually implemented in 2-week phases, initially consisting of full-day office hours from 9am-3pm and a nighttime curfew from 8pm to 6am. The President's Chief of Staff passed away from COVID-19 earlier this month.

The IMF has made USD 3.4bn available for budgetary support of the economy, doubling access to the emergency facilities. The IMF has cited the need for exchange rate flexibility and estimates a contraction of -3.4% in 2020, rebounding to 2.4% in 2021. Since the Central Bank of Nigeria (CBN) proposed their stimulus package 3 weeks ago, 80 000 applications have been received for the targeted credit facility.

The government revised the 2020 budget revenue down by USD 8.5bn assuming an oil price of USD 30pb, and production volume of 1.7mbpd. To help struggling consumers, the power producers have proposed 2 months of free electricity. Details of implementation are yet to come.

Fitch Ratings Agency downgraded Nigeria's default rating to B with a negative outlook from B+. This was not a surprise following the series of shocks that have hit the country. Moody's left credit ratings unchanged at B2 with a negative outlook.

Other macro releases included (March stats):

- Inflation at 12.26% y/y (Feb: 12.2%)
- FX reserves dropped to USD 35.16bn (Feb: USD 36.3bn).
- PMI dipped to 53.8 (Feb: 55.0).
- 4Q19 Current Account Deficit expanded to -5.4% of GDP (3Q19: -2.2% of GDP), following the largest net outflow in USD terms.

Egypt – Coronavirus testing is centralised and tested by the Ministry of Health, with over 6000 cases to date. The government has officially requested assistance from the IMF via 2 facilities: The Rapid Finance Instrument (RFI) and a Stand-By Agreement (SBA). RFIs have been relied upon most frequently during the pandemic, ensuring immediate release of funds without any prior actions nor targets to be reviewed. Egypt is eligible for USD 2.8bn through the instrument with 50-100% accessible within 1 year. The exact size of the SBA is still under negotiation. Additionally, a World Bank facility has been approved by the Cabinet for USD 400m. This facility is designed to finance the improvement of healthcare infrastructure and ensure inclusion of vulnerable groups into the system.

The Central Bank of Egypt (CBE) expanded the stimulus package to incorporate the agricultural sector, allowing companies with revenues of EGP 50m to EGP 1bn to access the financing package. Banks are functioning with shorter opening hours, implementing the 6 month mandatory moratorium and withdrawal limits as stipulated by the CBE. A grant of EGP 500 (c.USD 30) per month has been accommodated for temporary workers and tax holidays introduced for corporates affected. The CBE has also cut rates on 2-year soft loans to the tourism sector from 8% to 5%. Standard & Poor's Ratings Agency affirmed Egypt's credit rating at BB with a stable outlook this month.

Egypt is currently managing the spread of the pandemic through a strict daily curfew. The National Telecom Regulatory Authority (NTRA) stated that internet usage and voice calls have experienced remarkably high traffic since measures were introduced. Home internet usage + 87%, mobile data use +18%, web browsing +131%, international voice calls +15% and local voice calls +3%. The usage of video applications such as TikTok, Netflix and YouTube witnessed marked growth: +194%, +69% and +41%, respectively. Additionally the usage of Facebook, Instagram and WhatsApp applications also increased: +151%, +59% and +34%, respectively. The rate of online game applications used on the internet increased by 96%.

Macro releases (March stats):

- Inflation rose to 5.1% y/y (Feb: 5.3%) due to fruit and vegetable prices.
- FX reserves fell to USD 40.1bn.
- PMI fell to 44.2 (Feb: 47.1) indicating the sharp deterioration in business conditions. This reading has since fallen further, reaching 29.7 in April.
- Imports fell by 24% y/y in 1Q20.

Kenya – Kenya went into 21 days of restricted movement between its largest cities this month. The Central Bank of Kenya's (CBK) Monetary Policy Committee (MPC) cut rates by 25bps to 7.0% to further support the economy. Kenya expects to raise USD 2.75bn from the World Bank, IMF, bilateral developmental partners and some multilateral agencies. The finance minister announced a growth estimation of 3% or less in 2020, down from 6.1%. The World Bank has forecasted GDP growth of 1.5% – one of the few African countries not expected to contract this year. Fitch Ratings Agency expects Kenya's budget deficit to widen to 9% given the measures to support the economy during this time.

More than 1m borrowers will be removed from the country's credit reference bureaus following the CBK's forbearance for loans below KES 1000. This should assist cash-strapped consumers. Data from Kenya's three CRBs — Metropol, TransUnion and Creditinfo International-- show that the accounts that were negatively listed had jumped from 2.7m last year, a significant number of them linked to mobile digital loans of less than KES 2,000.

Mobile money transactions grew to KES 350.5bn (USD 3.3bn) with 4,251 new mobile paypoints, bringing the agent network total to 235 543 throughout the country. Safaricom has reported 40% more traffic as customers increase their internet usage. In combination, mobile and internet data totalled 2.34 petabytes which is 5m hours of continuous viewing. The company's traffic to Netflix rose 4 times to 60Gbps allowing users to stream 20,000 movies simultaneously. Social distancing has encouraged social media, with data for Facebook screening peaking at 100Gbps with 100,000 users on Facebook Live at the same time. However the KES 1,000 waiver will impact M-Pesa revenues by 7.3%.

Macro releases included (March stats):

- Inflation inched down to 5.51% y/y (Feb: 6.37%). Inflation in April just released at a stable 5.62% y/y.
- FX reserves fell to USD 7.965bn, which is 4.84 months import cover. This has since stabilised, reaching USD 7.85bn on 23 April (4.74 months import cover).
- PMI fell to 37.5, hit by the shortage of raw materials, low orders and declining activity (Feb: 49.0).

- Public debt increased by KES 127bn (USD 1.2bn), with total loans at KES 6.28trn – foreign loans of KES 95bn and domestic debt of KES 32bn.
- Diaspora remittances rose to USD 228.9m (Feb: USD 218m) with more than 40% of flows from North America. The figures for 1Q20 show 6.2% y/y growth, reaching KES 75.6bn (USD 707.3m).

Morocco – Morocco extended its national lockdown to 20 May to curb the spread of COVID-19, following a rise in active cases. This means only essential services remain open – food & beverages, pharmacies, banks – while wearing masks is mandatory in public. They have also set up a national response committee to plan for the challenges of the pandemic. A stipend for households whose providers work in the informal sector has been introduced of up to MAD 1,200 (c.USD 120).

The government lifted the threshold on foreign debt in anticipation of declining FX reserves. The appropriation bill limits foreign debt at MAD 31bn (USD 3.12bn). Morocco has an existing untapped credit line of USD 3bn with the IMF; they have not used the facility since the arrangement was negotiated in 2012.

GDP came in at 2.1% in 4Q19 (3Q19: 2.2%) as a result of the drought affecting agricultural activity (-5.3%). Non-agricultural sector slowed to 3% down from 3.3% in 3Q19. There were areas of growth such as construction (+1.3%), transport (3.2%), telecoms (+1.9%), public administration (+4.4%) and education, health & social care (+1.6%).

Macro releases included (March stats):

- Inflation crept up to 1.5% y/y (Feb: 1.1%), following high food & non-alcoholic beverages prices (+3% up from +1.2% in Feb).
- FX reserves stood at USD 24.38bn (Feb: USD 23.6bn).
- The Banking Industry saw loan growth of 4.2% y/y in February. This is due to the 3.4% increase in real estate loans and ongoing increases in consumer loans (+4.1%).

Company updates

Guaranty Trust Bank (Nigeria, Financials) 1Q20 PBT +2% y/y. Loans and deposits both +8% YTD explain a very good +10.4% growth in net interest margin. This also falls in line with management's target in 2020 to target income from loans. We expect further loan growth and market share gains as GTB undercuts competitors on rates and pricing. Fees were -1.5% y/y which was to be expected after regulated fee cuts. Overall, a decent set of results at 32% ROE and in line with our expectations.

Stanbic IBTC (Nigeria, Financials) 1Q20 PBT +4% y/y. Overall fees +21% y/y with pension business fees coming through strongly. Despite YTD loans +15% YTD, net interest margin was -2% y/y, we believe partly through a substantial build in liquidity/deposits in the last period. We are comfortable with that as having adequate buffers of liquidity during economic stress is the right path. Management's feedback on COVID-19 was simply that they have done several stress tests and are adequately liquid and provisioned.

Commercial International Bank (Egypt, Financials) 1Q20 PBT -3% y/y. Results largely reflect our feedback last month. Management said they would take any operating profit growth to provisions. So banking income was +24% y/y and most of that found its way to the provisioning account. CoR is 4.3% vs. FY19 CoR of 1.2%. Also, loans -3.3% YTD reflecting management's decision to scrap capex loan strategy. Initially their target was to book c.USD 700m of capex loans in 1H20. Also, working capital loans are slower as the economy slows. Overall, as explained last month this will boost net interest earnings if more liquidity is allocated to treasuries versus lower priced loans (down 6.5% in yield vs. 2019). At the same time a higher CoR will dampen FY20 earnings. We now forecast +2% PBT y/y from +22% previously.

Mauritius Commercial Bank (Mauritius, Financials) COVID-19 call with Imara. We organised a call with MCB to focus on liquidity and asset quality stresses. On the credit quality side we think the 10% in tourism and 5% in upstream oil/gas are the most important stress points. A smooth restart to the tourist season (usually from October to April) is unlikely in 2020 which pushes many of the facilities to 18 months without substantial cash flow. We expect restructuring to follow on half the book. On the reserve-based oil/gas lending exposure, MCB is protected by some futures hedging of production and credit insurance on 22% of the exposure. Overall, we assume MCB's NPL in 2021 will rise to 10% from the current 2.5%. The fortunes of MCB are largely linked to Mauritius. MCB will suffer the downgrades in line with its sovereign, as it did by receiving the same negative watch which Moody's gave the country in early April. So the larger context is the recovery plan of the country. Management revealed that there are talks between government, business and labour, and that a strong social pact will lead to a strong plan. Fortunately, the government is not overly geared, especially on FX debt, so it does have some firepower to support vulnerable sectors and/or employees.

Letshego (Botswana, Financials) COVID-19 call. The new CEO Andrew Okai did well with this call after a mixed first call on FY19 results. It is clear that he functions well in the world of stress testing. They have done several scenario tests especially on length of COVID-19 lockdown. On credit exposure 85% is to government employees and mostly deduction at source collection. As no African government has cut salaries of staff, this is for now a relatively safe segment. In some cases, customers are better off given tax rebates and incentives for essential civil service employees. The 15% exposure to micro enterprises is their main concern for now, especially where exposures are to the transport and hospitality sector. They expect the loss ratio to pick up from 2.4 to 4.5% in the next 12 - 18 months. What is interesting is that they have accelerated their digital strategy in a very short time, launching several apps in the last 3 weeks. They noticed a sharp drop in face-to-face transactions and are unlikely to return post-COVID-19. They believe the way of doing business will fundamentally change to digital.

Equity Bank (Kenya, Financials) COVID-19 call. The bank noted that anecdotal evidence shows a spike upwards in mobile transactions. Below USD 10 transactions +100% y/y and USD 10-50 transactions +25% y/y. At the same time, overall transactions in the economy which is still 90% cash will slow down. So, they see a positive impact in their mobile transaction volume but with overall working capital in the economy slowing down, credit risk is a key concern. Going forward, their strategy is to stress test their SME credit exposure which is c.50% of their loan book or 17% of overall banking income. They will provide more colour and exposure to troubled sectors such as hospitality and transport during 1Q20 call in May. The other part of their strategy is to simply press their digital strategy as they have for the last 8 years. In terms of that, they believe they can still do well in mobilising deposits and allocating that mainly to treasuries and immediate working capital needs - very similar to the strategy they followed in the rate cap years of 2016-2019.

Safaricom (Kenya, Communications) 31 March FY20 results: A very good set of results, with an encouraging uptick in 2H 20. Revenues for the year came in +4.9%, EBITDA +8.3% and underlying EPS +14.3%. There was a one-off gain that took reported EPS up 19.5%. FCF grew by 11.4% and a DPS of 1.4, up from 1.25 was declared. The second half results were strong, with underlying EPS +17%, vs +12% in 1H.

M-Pesa revenues grew 12.6%, despite loss of betting revenues. Underlying performance was +17%. A highlight in the operating metrics was Tills (merchants using M-Pesa) growing 40%. Data revenue at +21%, was particularly encouraging, as at 1H 20 we were at pains to highlight that this would recover strongly from +2% in 2H 19 and +4% in 1H 20. The stats driving this are impressive, with customers +14%, active 4G devices +84%, avg Mb/user +47% (surging to +70% on Covid-19 lockdowns), enabling revenue growth, despite rate/Mb cuts. At the Fixed data level, particularly FTTH, the building blocks stacking up nicely, with homes passed +11%, homes connected +32% and customers +43%.

On the ESG side, they made some admirable contributions, including but not limited to: •

- Made available its network of 175,000 agents nationwide to distribute masks for the government and Aid organizations.
- Zero rated all person to person transfers less than 1,000 Shillings as well as zero rating all transfers made by hospitals and dispensaries.
- Doubled the speed of its home fiber, for NO extra cost, for the next 90 days.

Nigerian Breweries (Nigeria, Consumer staples) 1Q20: Revenues were flat leading to a 19bp squeeze in GP margin to 41.9%. NB introduced price increases on 1 February and absorbed excise duties which inferred a volume decline of -1%. Opex costs had the most significant impact on EBIT and the bottom line jumping +14.0% y/y, the bulk cited as advertising costs (+50% y/y). EBIT came in at -22.8% y/y and PAT at -31.4% y/y. The COVID-19 crisis will impact the business in 2Q20, following restricted movement regulations and the ban on public gatherings. Brewers are banned from producing alcoholic beverages in Lagos, meaning that laga sales will drop off in the next quarter numbers. We anticipate some shifts in consumer behaviour following the pandemic, and it could take time to resume previous footfall in outlets but they are likely to bounce back in 2H20. The biggest risk is a devaluation of the naira which will have a larger impact on margins and value.

EABL (Kenya, Consumer staples) Management Call on COVID-19. Alcoholic beverages are included as essential services in Kenya, but trading pressures are inevitable due to movement restrictions. Foot traffic has decreased significantly in Kenya and Uganda so many outlets are closed voluntarily. Up until mid-March, their strong performance continued however this has shifted in recent weeks. The most popular brand, Senator Keg, is being reconfigured from bottles to cans, with production permitted for spirits and canned beer. Beer constituted 73% of revenues and spirits 27% in 1H20. Consumers are buying cans from the shelf, and even though this has increased it does not substitute the sales in other formats so beer volumes have fallen. Distributors have access to finance through the banks, and they have started selling directly to people. Online orders have climbed from 5% to 10% during this period. Production has been amended in alignment with demand; Kisumu brewery spirits production continues as normal while limited shifts have been implemented for beer. EABL have frozen discretionary spending and hiring, and reduced marketing and advertising costs. They proceeded with the interim dividend but have given no guidance on the final dividend. In addition to the interventions noted prior, EABL have handed out 1m hand sanitisers and hand wipes to police and bars. Further they are assisting the few remaining open bars with improving hygiene and social distancing measures.

Market outlook

We will be updating this on a case by case basis as the full impact of COVID-19 becomes clearer. Our overall view is that the portfolio is mostly allocated to "essential service" businesses focused on food production and retail, communications, data and fintech which should be better positioned to absorb an economic shock and slowdown.