Monthly Market Report

Edition:	**June 2020**
Region:	**Africa ex SA**
Issued by:	**Imara Asset Management Limited**
Author:	**Rainer Orth, Tony Schroenn**

Market snapshot

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

June Performance (%)	LCY	USD
MSCI EM	7.0	7.0
Morocco	3.2	4.2
Egypt	5.3	3.4
Mauritius	2.5	3.1
Tunisia	2.1	2.9
MSCI World	2.5	2.5
BRVM	0.6	1.9
Kenya	0.4	0.6
Zambia	-2.6	-1.7
Botswana	-2.2	-2.0
Nigeria	-3.1	-3.1

June was a mostly positive month with divergent performances. Morocco (+2.8%) and Egypt (+2.1%) rebounded. Kenya (-0.7%) and Nigeria (-4.3%) offset the positive performances. The IMF released an amended outlook for sub-Saharan Africa, citing a significantly worsened environment than was anticipated in April. Regional economic activity is now expected to contract by -3.2%. The World Bank has stated that emerging and developing global economies are likely to fall by -2.5% in 2020. The WHO has warned that the worst is yet to come as COVID-19 continues to climb in these markets.

Economic and political overview

Nigeria – The Central Bank of Nigeria (CBN) has disbursed NGN 49bn of its NGN 50bn targeted Credit Facility to cushion the COVID-19 impact on the economy. The CBN will further finance 1.6m farmers during this year's wet planting season (c.NGN 432bn). Restrictions have been lifted, with interstate travel permitted from 1 July and containment only for areas with acute cases. Highly impacted Nigerian businesses are requesting government grants to support over 50% of their workers' salaries for the next 4 months. Banks continue to restructure, with an overall view of restructuring a third of loans.

The President received senate approval to proceed with a USD 6.5bn external debt raise plan, and is in discussions with the World Bank and other multilateral lenders. The Federal Government plans to spend NGN 2.3trn (USD 5.9bn) to fund its Economic Sustainability Plan to revive the economy. The bulk of it, NGN 471bn, will go to the agricultural sector to expand production and boost small businesses.

The World Bank has reported an expected contraction of -3.2% for Nigeria in 2020, while the IMF has further revised Nigeria's growth prospects downwards to a -5.4% contraction (prev: -3.4%).

Macro releases (May stats):

- Inflation came in at 12.4% y/y (Apr: 12.34%).
- FX reserves grew to USD 36.59bn (Apr: USD 33.52bn), and remained flat at USD 36.2bn as at 25 June.

- PMI rose marginally to 40.7 (Apr: 37.1).
- Private sector credit growth grew +17.5% y/y (Apr: 15.7%).
- Lagged data showed total pension assets rose to NGN 10.57trn in April from NGN 10.2trn in December.

Egypt – Egypt is set to receive USD 2bn of the Stand-By Agreement worth USD 5.2bn from the IMF imminently. The funds will assist with pandemic challenges and to finance the budget deficit. The IMF has pegged Egypt's growth outlook at 2% in FY20/21. Preliminary data shows 1q20 GDP at 5%, which was impacted partially by the restrictions in March (4q20: 5.6%). The Ministry of Finance cut the target growth for FY19/20 to 4% (prev: 6%).

Egypt has reopened restaurants, clubs and places of worship while lifting the nighttime curfew. Social distancing guidelines are in place at restaurants with a reduced capacity of 25% allowed in the initial phases. Local and international flights are permitted as of 1 July, following a set of protocols to ensure safe travel. The Ministry of Health has indicated that hospital occupancy is at 59% and ICU units at 71% confirming their ability to cope with increasing case numbers.

Macro releases this month (May stats):

- Inflation slowed to 4.7% y/y (Apr: 5.88%).
- FX reserves fell to USD 36.0bn (Apr: USD 37.0bn).
- PMI rose to 40.7 as activity resumed (Apr: 29.7).
- M3 growth at 17.2% (Apr: 15.7%).
- 78 hotels along the Red Sea are operating at 20-22% occupancy rate. Current capacity 25%. 99 hotels have recently met health and safety guidelines, and are now allowed to receive guests at 50% occupancy.
- Trade deficit narrowed by 45% y/y in April 2020 to USD 2.36bn (Apr 2019: USD 4.28bn).

Kenya – The nationwide curfew has been extended (with adjustments) for an additional month. Following this, the Central Bank of Kenya (CBK) extended all emergency measures in place by 6 months to December. This means that free transactions for KES 1,000 will continue until then, as the need to help cushion the most vulnerable households is evident. Over 1.6m additional customers have been added through mobile money channels and traffic has surged.

The President presented his KES 2.79trn budget (USD 26.2m) in June. It incorporates a stimulus package to restart the economy focused on SMEs, Education, Taxes and Digital growth. Waivers have been granted within these segments, while online transactions will have 1.5% digital tax on the back of significant e-commerce growth.

Bed debts totalled KES 366.8bn (USD 3.4bn) in April, defined as unpaid credit for more than 90 days. NPLs rose to 13.1% in April from 12.5%.

The IMF has revised Kenyan growth for 2020 from 1% to a -0.3% contraction, with a rebound of 4% expected in 2021.

Other macro releases (May stats):

- Inflation was 5.47% y/y (Apr: 5.62%). June inflation slowed to 4.59% y/y.
- PMI rose marginally to 36.7 (Apr: 34.8).

- Tourism industry lost KES 80bn up until 30 June.
- Lagged data showed the trade deficit narrowed to KES 76.5bn in April (Mar: KES 82.7bn).

Mauritius – Inflation slowed to 2.8% after a spike of 4.2% in April. The Bank of Mauritius reported that the current account deficit widened to USD 132m in 1q20 (1q19: USD 111m) as imports declined quicker than exports.

Tourist arrivals fell by -13.5% in 1q20, while earnings went down -14.5% y/y. FX reserves remained largely flat at USD 6.86bn (Apr: USD 6.97bn). The economy was reopened in June, following no new COVID-19 cases.

Morocco – Final figures for 2019 were released, and GDP was 2.5% y/y (2018:3.1%). The slowdown was driven by a drop in the agricultural sector (-5.8%), while the non-agricultural economy grew at +3.8%.

Inflation dropped to 0.2% (Apr: 0.9%) due to food prices.

The banking industry showed +6.7% y/y loan growth. This was driven by +14.2% debt and overdraft growth, +2% real estate loan growth and +7.5% progression in equipment loans. Consumer loans grew marginally by +1.5% while NPLs rose by 7.6% y/y to MAD 73bn (USD 7.5bn).

Port traffic has increased +6.9% y/y as at end-April.

Company updates

EIPICO (Egypt, Healthcare) Call with management: The overall retail pharma market declined -16% y/y to EGP 5.37bn in May. Management cited May as a challenging month in alignment with this, recovery being seen in June. Exports have started to rebound, and they are now able to export to 65 countries. The target for year-end revenues is EGP 3.7bn, consisting of EGP 600m in exports and EGP 3.2bn in tenders. On site, management have instituted various measures to detect and ensure minimise COVID-19 spread. These processes have reduced manpower by 30-35%. Additionally they are providing over 5000 employees with gloves and masks, the latter of which need to be changed several times a day. Transport, social distancing, adjusted staff services and consistent sanitisation has had some impact on costs. Moving forward, the strategy is to customise and focus on profitable products, while renegotiating API pricing. As volumes pick up, these margin enhancing effects should come through. Out of 596 products, they have identified 259 as profitable SKUs with additional savings on APIs. 172 SKUs are for the local market, and the bulk (205) are for the export market which are generally higher margin products. In the pipeline, EIPICO is working on prophylactics and paracetamol as well as syrups/vitamins which have been in high demand on the back of the pandemic. Dexamethasone, which assists with the treatment of COVID-19, is also within their product range and likely to see higher demand. So far they have launched 8 out of 20 products for the year, incorporating repricing, and the remainder will come through in 2H20.

Fawry (Egypt, IT) 1q20 and Call with Management: Fawry released a strong set of results with active customers +19%, PoS terminals +50% to 151k, acceptance enabled merchants +468%, transactions +48% and services provided +45%. This talks to the investment case of a long and wide runway for growth. Revenues were +48%, EBITDA + 62% and EPS +88%. In terms of outlook, Fawry is in a strong position and not seeing much of an adverse impact from COVID-19.

Management is maintaining original guidance for 2020. All segments have shown strong growth, while decreasing Alternative Digital Payments (ADP) contributions to overall revs to 77%. The strategy is to shift to more acceptance and lending businesses with higher margins, which should see EBITDA margins grow this year. In the past 3 months, their mobile app has added 250 000 new users, with a total base of 400 000. They foresee total users growing to 600 000 by year-end. Microfinance growth has been the most significant through the crisis, growing 2-3 times, but business lines like entertainment and transport have slowed down. The supply chain was affected initially in 1q20, but was resolved in 2q20. Growth in POS devices has not been affected and still on track. Overall Fawry's market share stands at over 50%, and they are not experiencing any aggressive competition on the ground. Management is confident that their current growth trajectory is sustainable given the shifts in mix.

IDH (Egypt, Healthcare) Call with Management: Covid-19 has hit volumes, especially in the Walk-in segment. Overall volumes in April -40%, -20% in May, however they have seen a steep increase in the first three weeks of June. Home visits, previously 10% of revenue, is now 30%. There has been a shift in mix toward Covid indicative (still not allowed to test for Covid directly), so avg rev/test has risen, which partly mitigates the volume effect. Test kits have a shelf life of roughly a year, so they do not anticipate inventory write-offs, nor are they seeing any supply side issues. They noted that in Jordan (12% of revs) all branches are open and direct Covid testing is now making up 20% of revenue, which speaks to the potential opportunity in Egypt. They are seeing strong growth in Nigeria, albeit only 2% of revenue. In terms of outlook, they still see the main opportunity in Egypt, increasing penetration and adding new services like they did with Radiology. Pre-Covid they were at 55% cu, so have ample room to grow. In terms of competition, they have over 1,500 tests, substantially higher than the next operator and are the only CAP accredited operator in Egypt.

HPS (Morocco, IT) Call with Management: Interestingly they have seen the main Covid hit in their Processing division, with revenues down 20%, mostly on reduced traffic over the Moroccan interbank and mobile money switch, as a result of HORECA shutdown. This appears to buck the trend seen elsewhere and talks to the limited penetration of non-cash payment in Morocco. They are confident this will bounce back as HORECA reopens and PoS and mobile wallets increase. Recent new contract wins (SocGen Africa, Tunisia and Saudi switch) are only starting to contribute to Processing revenues and should ramp up significantly. In terms of outlook, they are guiding to 20% revenue CAGR to 2025 (pipeline based and forecast with 90% accuracy), Processing revenues (Switch and Saas) matching Solutions (License), with EBIT margins rising from 20% currently to 25%. In terms of blue sky opportunities, they believe amongst other regions, the US has tremendous potential, as demonstrated by the figure at the end of the report.

Label Vie (Morocco, Consumer staples) Call with Management: April volumes were softer than March but still very strong y/y, May was softer y/y and June was up single digit. In terms of outlook, borders should open in July and restaurants have been reopened, but limited to 50% capacity. Of their planned 18 store openings, only 10 will be completed (8 super and 2 hyper markets). They are targeting 9% EBITDA mgn, up from 7.5% in 2019, however flat earnings owing to one-offs, mostly their contribution to the Moroccan Covid Fund. As a data point, they noted fresh produce, not alcohol, yields their highest margins. In terms of competition, Marjane, the largest, has fallen to 46% share, while LBV has risen from 30% to 31%. Interestingly and one we will need to keep an eye on, Bim the Turkish hard discounter has gained share in the last 6 months.

Equity Bank (Kenya, Financials) Call with Management: A positive from our call with management was the continued strong deposit growth at 15% expected for the year. The added liquidity allows them to weight heavier in longer duration yields. Long end yields have trended up with higher deficit expectations. Overall, NIM is expected to be slightly higher (50-100bps) despite much lower short end rates and loan yields by flexing their liquidity at the longer end. Despite a slowdown in the overall remittance market, Equity's remittance is up strong y/y and they are doing much more volume in FX as well. Again, this will offset lower fee waivers on mobile transactions. Provisions are expected to remain high as they build higher coverage ratios. Cost of Risk of 3-4% likely. All in all, management is doing the steps to protect earnings in 2020 although some pressure is likely. We estimate ROE declining to between 18-20%, rebounding to 24% in 2021. Guidance will be updated at 1H20 call in August.

Guaranty Trust Bank (Nigeria, Financials) Call with Management: NIM will be under pressure but not as much as peers as they have locked in short yields at relatively high levels and maturities are only due in November. Remarkable that they do not see cost of risk higher than 1%. This speaks to their aggressive IFRS equity charges made in 2017/18. They redirected NGN 150bn (c.USD 400m) of equity to future bad debt which leaves them in a very comfortable position. Based on this simple fact, we expect their earnings to be flat to up, and to certainly positively surprise the market. That being said, Nigeria will see a tough macro and recovery is being pushed out. At the same time the real catalyst is liquifying the FX market with the USD demand backlog building. Guidance will be updated at 1H20 call in August

Stanbic IBTC (Nigeria, Financials) Call with Management: An interesting discussion on provisioning cycle. Management claims that this time around the provisions will not be as severe as the 2016/17 oil crisis. Firstly, they expect CBN to move faster on devaluation this time once reserves are back above USD 40bn. We may be more skeptical on this - seeing is believing. Also, banks have hedged most of oil production above USD 50 pb for next 2 years. The latter is certainly a valid point. While provisions will rise from a slower economy we do not expect an oil/gas fallout like in 2016. The wealth management business doing well +15% asset growth which should offset provisions somewhat. Guidance will be updated at 1H20 call in August.

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 mega-project 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 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.