Monthly Market Report

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Region:	**Africa ex South Africa**
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Market snapshot

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

March Performance (%)	LCY	USD
Kenya	3.3	2.6
MSCI World	1.0	1.0
MSCI EM	0.7	0.7
Egypt	-0.4	0.6
Botswana	0.2	-1.3
Nigeria	-2.1	-2.2
Tunisia	-3.5	-3.0
Morocco	-2.0	-3.2
BRVM	-2.6	-3.7
Mauritius	-1.9	-4.0
Zambia	-5.0	-5.6

March was a mostly negative month with Kenya and Egypt the only gainers at 2.6% and 0.6% respectively. Zambia was the largest decliner (-5.6%), with Mauritius (-4.0%) and Morocco (-3.2%).

Economic and political overview

Nigeria – The Central Bank of Nigeria (CBN) reduced the Monetary Policy Rate, from 14.0% to 13.5%. Retaining the Cash Reserves Ratio at 22.5%, the liquidity ratio at 30%; and the asymmetric window at +200 and -500 basis points around the MPR.

PMI sustained its upswing in March as it increased to 57.4 index points - 24th consecutive month. 11 of the 14 sub-sectors surveyed reported growth with highest performing being cement, food and beverage.

Lawyers representing Nigeria's attorney general appeared in court on 26 March to argue that telecoms company MTN Group did not have grounds to oppose a USD 2bn tax bill. MTN faces the demand from the country's attorney general, a claim which the company has said is without merit. Nigeria handed MTN the tax bill in September, but the company said the attorney general had exceeded his powers in making the demand. The case is adjourned until May 7.

In a bid to generate revenue, the Federal Government plans to cut its stakes in Joint Ventures (JV) assets with the IOCs (major oil/gas companies). Estimates suggest that the government could generate a revenue of $9bn from this sale. According to the minister of Budget and National Planning, the government will reduce its stake to 40% from 55% with Shell and 60% with the other IOCs. IOCs who currently have JVs with NNPC include Mobil, Chevron, Shell, Total and Agip with a total 2017 production of 751kb/d, representing 39% of Nigeria's total production.

Egypt – The cabinet approved the budget for FY19/20. The main feature is a 42% subsidy cut for petroleum to cEGP 52bn, against EGP 89bn in FY18/19. The approved budget will also see the deficit dropping to 7.2% of GDP, and targets a GDP growth rate of 6%. Ministry of Finance noted that the last USD 2bn tranche of the IMF loan to be disbursed in July.

Fitch Ratings upgraded Egypt's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'B+' from 'B', with a stable outlook. The decision reflects the progress in implementing economic and fiscal reforms. Improvements are: i) the structural budget reforms that supported generating a primary budget surplus, signaling that government debt/GDP is on a downward path; ii) adequate monetary policy reducing inflation; and iii) stable international reserves level covering 6x months of current external payments.

Data released by the World Tourism & Travel Council (WTTC) shows that Egypt's tourism industry grew by 16.5% in 2018. The industry now accounts for 11.9% of GDP and 9.5% of total employment. International visitors spent EGP218.1bn in Egypt last year, with Germans accounting for the single largest bloc of tourists. Jobs in the sector are expected to continue to grow to 3.2mn, while the number of visitors is forecast to reach 11.7mn.

Inflation picked up again in February. Inflation came in at 14.4% y/y, up from 12.7% in January and 12.0% in December, now above the mid-point of the 10-16% target range set for the end of 2018. CBE's target for end of 2020 remains 9%. Food inflation was +3.5% m/m in February, while non-food inflation was largely benign.

Kenya – The Central Bank of Kenya (CBK) kept its key interest rate unchanged at 9% for a fourth consecutive meeting as inflation remained well anchored within the target range and the economy operates "close to its potential". Inflation, which slowed to 4.1% in February (4.7% in January), will probably remain within the target range in the near term because food supplies remain adequate, despite the drought, according to the MPC statement.

The KES FX market has remained stable, supported by the narrowing of the current account deficit to 4.7% of GDP in the 12 months to February, from 5.5% in February 2018. This reflects robust performance of exports particularly horticulture, resilient diaspora remittances, and higher receipts from tourism and transport services. Private sector credit grew by 3.4% in the 12 months to February, compared to 3.0% in January. From our management meetings with Equity Bank and Kenya Commercial Bank, private sector credit growth is expected to strengthen in 2019.

The High Court declared the interest rate cap law unconstitutional. The basis for the ruling was on issues related to ambiguity of the clauses. The Court ruled that MPs have 12 months to amend the irregular clauses before the declaration of the ruling is given effect. In response, Jude Njomo, the Member of Parliament who introduced the rate cap bill, says Parliamentarians may still be guided by the interests of the common person. Parliamentarians might fight any attempts to repeal the rate cap. They believe that the High Court judgment came in good faith and that Parliament may review the section for clarity's sake. At this point, they are not convinced the rate cap will be removed. We asked the banks on the issue. They are not commenting on the judgment and generally say they will rather keep their focus on running their business as is.

Markit Stanbic Bank Kenya Purchasing Managers' Index (PMI) for manufacturing and services fell to 51.2 from 53.2 in January. This was the lowest reading for the PMI since November 2017.

Cement consumption declined for the second consecutive year, down 4.7% y/y to 5.5m tons. Notably, cement production declined faster at 8.5% y/y to 5.6m tons as a number of cement firms faced production difficulties, occasioned by slow ramping up of new capacities, working capital challenges and plant break downs due to inadequate maintenance.

Zimbabwe – Zimbabwean farmers are expected to sell up to 240 million kg of tobacco this year, a 5% dip from 2018 due to drought, an industry official said on Wednesday at the start of the selling season that could help ease a severe dollar shortage. The opening of tobacco auctions traditionally leads to improved foreign exchange inflows in the southern African nation, as buyers bring in dollars from offshore banks to purchase the crop. Tobacco, which is grown by more than 170,000 mostly small-scale farmers, is Zimbabwe's second-biggest earner of foreign exchange after mining and last year brought in $892 million. The current FX regime is still very opaque and it is not known if or how these proceeds might be applied to meet demand for USD.

Morocco – The Board of Bank Al Maghrib held its quarterly board meeting and decided to maintain unchanged its key interest rate at 2.25%. They cited the reasons for the decision due to:

- A likely deceleration of inflation in 2019, expected at 0.6% and at 1.1% in 2020. Headline inflation decelerated to 0.5% in January, from 1.9% in December.
- Moderate GDP growth in 2018, standing at +3.1% due to a deceleration in the agricultural activity, and a slight acceleration in non-agricultural GDP growth of +2.9%.

Tourist arrivals and overnight stays up by 8% by the end of 2018. Tourism indicators are showing, by the end December, an 8.3% growth in arrivals, thanks to the good performance of French and Spanish markets (respectively +8% and +6%), as well as, an increase in German tourists arrivals (+10%). It is worth highlighting that American and Italian tourists arrivals increased by respectively 16% and 15%.

Company updates

Equity Bank (Kenya, Financials) FY18 update: PBT +6% and 22% ROE. Lower mobile money fees plus slightly higher provisions trimmed results. Our expectation was +16% PBT and 24% ROE. Management flagged fees issue at 1H18 and 3q18. Promotional fees on launch of new mobile platform was a feature of 2018 and prices should revert to a higher level in 2019. On provisions CoR came in at 1.25% versus 1% expected. The flipside is a higher coverage of 89% compared to previous 70% level. The positive surprise is the momentum on loan growth in 4q18. Management's tone is also much different. After 2 years of not lending at all, it targets 10-15% of loan growth in 2019 and the evidence can already be seen. 4q18 net interest income was 20% higher at KES12bn compared to run-rate of KES10bn in previous quarters. Although a poor set of numbers, we expect earnings growth with new fuel from credit growth to come through in 2019. We expect ROE of to get back to 23.6%. Valuation of 1.4x book (40% upside to fair value) and 6.5% dividend yield is attractive.

Guaranty Trust Bank (Nigeria, Financials) FY18 update: PBT +7% y/y and 33% ROE. A very good set of results that matched our expectations. We are pleased that they were able to record strong deposit growth of 14% y/y and fee growth of +25% y/y to offset lower yields. Yield income declined by 10% as T-bill yields came down. Interestingly, while the loan book shrunk by 13% in 2018, management's outlook is for 10% growth in 2019. They guide to more credit demand in manufacturing and retail sectors as the economy builds momentum again.

Stanbic IBTC (Nigeria, Financials) FY18 update: PBT +44% y/y matched our positive expectations. The growth was mainly driven by write-backs from a large upstream oil/gas restructured loan and better outlook on retail loans. Corporate banking PBT +13%, also supported positive earnings momentum. Management disclosed that regulation requires its Wealth (pensions) business to cut fees by 15, 10 and 10% over the next 3 years, which they commenced in 2H18. Clearly it will curtail pensions revenue growth over the next 2.5 years and the impact can already be seen in 2H18 Wealth division numbers. The net effect is PBT from pensions plateauing at NGN20-22bn, which represents c.30% of total PBT. For Group earnings the impact is 4% lower for next 2 years.

Attijariwafa Bank (Morocco, Financials) FY18 update: PBT +5% y/y was lower than the 12% we had expected. Egypt (5% of Group PBT, down from 7.5% in 2017) did poorly. Banking income was down 27% y/y due to lower NIMs. Yields came down but cost of funds went up as well as they lost some low cost corporate deposits post-acquisition. Investment in new branding/IT/human resource also weighed on the Egypt contribution. Management expect the Egypt contribution to recover in 2019. In contrast, Morocco did very well with banking income +18% y/y driven by corporate loan growth of +12% y/y. They took advantage of new lending opportunities in financing VAT receivables, and expect more good growth from this source in 2019. We expect a PBT of +7% in 2019.

Label Vie (Morocco, Consumer staples) FY18 results update: Overall a good set of results with formalization of retail progressing from 15% penetration in 2017 to 17% in 2018. Like for like sales growth was 6.4%, of which 2.0% was price and 4.4% volume, with overall revenues coming in +9.2% to MAD 9bn. The economies of scale theme is also playing out, with GP margins rising to 18.9% in FY18 from 18.2% in FY17, with an all-time high of 19.5% achieved in the second half of the year. EPS was +20% to MAD 102 and DPS flat at MAD 53. Net debt remains stubbornly high at MAD 1.8bn, albeit backed by significant real estate collateral. In terms of outlook, trends for 2018 have continued into 2019, with LFL sales growth of 6% and mgmt is comfortable with its target EBIT margin of 6% by 2020 from 5.2% in 2018. The retailer aims to open 16 stores in 2019, having opened 17 in 2018.

IDH (Egypt, Healthcare) FY18 results update: The company produced a strong set of results with all the levers for growth working in tandem. Patients +10.7%, tests per patient +1.2% and revenue per test +13.2%, yielding revenue growth of 26.9%. Cost of sales per test rose 10.6% (behind rev/test), with raw materials per test restricted to +2.0% on a stable EGP and the company's buying power. Overall Gross Profit rose 30.0%, however aggressive marketing +58% dampened EBITDA growth to 26.6% with a margin in line with guidance of 40%. EPS grew 34.2% due to higher interest income and minorities sharing in the losses from Nigeria. Looking forward, management expects revenue growth of 20% and EBITDA margin of 40%, noting that they expect Nigeria to make a positive contribution in 2019.

Market outlook

Nigeria – Results confirm a slow recovery and a path to normalisation of the economy. For the most part, consumer companies are able to shift volume and we expect pricing to improve on the back of consumer income recovery, with the new minimum wage adjustments, we should see this happen in 2H19. We maintain a large allocation to banks and the top consumer names in the food and beverages sector. Valuations are deeply discounted and attractive. Our preferred banks are well positioned to make money from fees. Overall, banks will make less profit from yields as the curve drops, but higher NGN liquidity, strong growth in trade facilities (LCs) and mobile bank fees will still mean good growth in earnings. Since we are past the election hump we hope to see more expansionary monetary policy and credit creation to stimulate growth and spur the economy out of this early recovery phase.

Egypt – The economic recovery is continuing as expected and most management teams are positive and expect conditions to improve further. We see volumes recover as wages catch-up to inflation and this is further supported by corporates restocking as demand picks up. Upside risk to inflation from subsidy removal and rising oil prices, but there is enough positive momentum to maintain the growth trajectory. The earlier than expected 1Q19 cut in rates should further support growth for 2019.

Kenya – The political decision not to remove interest rate caps removes the opportunity for an asymmetric trade on the banking shares and reduces economic momentum. However, low inflation and a multi-year investment in infrastructure have created a platform for strong real GDP growth. On a bottom up basis, we remain very optimistic on the payments and fintech growth theme which we play through telco and banking.

Mauritius – Our investment in Mauritius, MCB, is doing extremely well, with very strong momentum in trade finance. MCB continues to grow earnings above GDP and expand NIMs, increasing the ROE further above the cost of capital and creating scope for further rerating.

Morocco – We continue to search for attractively priced growth investment opportunities with our existing investments showing moderate growth and attractive dividend yields. We recently added Label Vie (supermarket, hypermarket, cash n carry), which we believe is well positioned to benefit from low formalized retail penetration in the country.

Zimbabwe – We have always taken a long term view to Zimbabwe, preferring to look through the political noise and focusing on identifying corporate champions that can generate shareholder wealth no matter the environment. OMIR allows us to get both liquidity and a reasonable valuation as we wait. Key to Zimbabwe's economic recovery is a fresh capital injection and debt forgiveness/restructuring, we believe that announcements signalling progress in this regard will be catalytic for our investments in the country.