Monthly Market Report

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

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

May Performance (%)	LCY	USD
Nigeria	9.8	9.8
Morocco	4.8	5.6
Tunisia	4.4	5.0
MSCI World	4.6	4.6
Mauritius	3.1	1.8
Botswana	-1.4	1.5
MSCI EM	0.6	0.6
BRVM	-1.3	0.2
Zambia	-3.0	-1.2
Kenya	-1.8	-1.5
Egypt	-3.2	-3.9

The recovery in April spilled over into May, although with a lot less conviction. This saw a mixed bag of performance numbers, with Nigeria and Morocco producing the best numbers. Nigeria was driven by locals with NGN liquidity and foreigners with trapped funds going back into the market.

Overall Macro and COVID-19 response - In general, we saw increased economic activity this month as some sectors opened up following lockdowns and curfews. The prevalent issue in Africa has shifted from a focus on healthcare capacity to food security. The UN estimates that on the back of COVID-19 this year, the number of people classified as “acutely food insecure” will double to c.265m with the majority in Africa. The concern is valid enough for governments to shift their positions and consider opening up economies in the midst of rising case numbers.

This response becomes understandable as the April and May economic indicators come rolling in, which we document below.

Economic and political overview

Nigeria – The country is the third most impacted by COVID-19 in Africa, unsurprising as the most populous nation. The pandemic battle is moving to the individual States as the Federal Government began loosening restrictions this month. The three largest states under lockdown were eased from 4 May, and domestic flights are set to resume on 21 June.

The Central Bank of Nigeria’s (CBN) Monetary Policy Committee (MPC) cut policy rates by 100bps. This brings the lending rate to 12.5%. Despite easing rates, the CBN is simultaneously tightening liquidity through enforcement of its cash reserve ratio (CRR) requirement for banks.

GDP growth stood at 1.87% in 1Q20, on the back of dual crises for the country (4Q19: 2.28%). COVID-19 and the plunging oil price have resulted in a series of growth disruptions. A worst case scenario has been presented by the Ministry of Finance indicating shrinkage of -8.9% in 2020. Best case is -4.4% contraction without fiscal measures.

Other macro releases (April stats):

- Inflation came in at 12.34% (Mar: 12.26%).
- FX reserves dropped to USD 33.5bn as foreign portfolio investors exited (Mar: USD 35.2bn). Reserves have since risen to USD 36.5bn as at 28 May on IMF receipts.
- PMI fell sharply to 37.1 (Mar: 53.8).
- Private sector credit declined -61% y/y (Mar: 12%).
- FDI fell to USD 214m in 1Q20 (1Q19: USD 247m, 4Q19: USD 257m).
- Importations were USD 5.9bn in 1Q20, a -31.2% contraction from USD 8.5bn in 1Q19.
- Lagged data shows internet subscription growth of 15% y/y in February. This infers 66% penetration, well above the African average of 16%. In February alone there were 3.3m new internet subscriptions. Mobile data has also benefited from movement restrictions. MTNN, for example, showed 1Q20 growth of +59% y/y in data revenues.

Egypt – GDP grew at 5% in 1Q19/20, missing the government's target of 5.9%. The government has amended the FY20/21 projection to 3.5% if the restrictions end by June, as the country resumes economic activity. The projection estimates 2% growth if the pandemic continues to affect productivity until year-end. On the ground, economic activity is picking up with most sectors functional. Moody's affirmed Egypt's B2 rating with a stable outlook, citing that debt reduction will be delayed, and not disrupted.

FX reserve development shows just how strong the COVID impact has been. The table below breaks down to movement in the two months from February to April.

	NIR	Tier II	Reserves	Banks FA	Total FX
Opening (end Feb)	**45,510**	**6,970**	**52,480**	**22,980**	**75,460**
Portfolio outflows					(17,000)
Debt amortization					(2,000)
CAD funding					(3,195)
Closing (end April)	**37,037**	**3,229**	**40,266**	**12,999**	**53,265**

Looking out to the May figures we expect NIR to stabilize and in fact increase to c.USD 43bn (just off February peak), with the key levers being:

- USD 2.8bn Rapid Facility Instrument from the IMF.
- USD 5bn from the Eurobond.
- USD 1.5bn outflow from the CAD.

It is also worth noting that as at the end of May, the total foreign held T-bills, is USD 9-10bn (USD24bn end Feb), a large but manageable amount. Beyond the May receipts, there are further available facilities of:

- USD 5bn Standby Agreement from the IMF.
- USD 3-4bn from other international finance institutions.

The above developments, when contrasted with 2015-16 and some other countries, highlight the importance of the improved preparedness, pro-active behaviour and increased trust in Egypt.

Egypt's isolation hospitals have reached maximum capacity, with alternatives being sought to house COVID-19 patients. The Ministry of Health is the only entity overseeing testing and treatment, while private hospitals have been left untouched. This is mildly reassuring as it implies that there is some spare capacity in the country to deal with a surge.

In terms of re-opening of the borders and international inbound tourism, there is an intention to resume international flights at the beginning of July, however nothing has been formalized yet.

Macro releases included (April stats):

- Inflation reached 5.88% y/y (Mar: 5.09%).
- FX Reserves fell to USD 37.0bn (Mar: USD 40.1bn).
- PMI dropped to 29.7 (Mar: 44.2).PMI rebounded to 40.7 in May.
- Unemployment declined to 7.7% in 1Q20 (1Q19: 8.1%). However this rate had already risen to 9.2% at end-April.

Kenya – The IMF has stated that USD 2.1bn is needed to bridge Kenya's external financing gap, and tourism will not bounce back sufficiently to offset this in the near term. Moody's Ratings Agency cut Kenya's outlook from stable to negative in the midst of the rising financial risks.

The banking sector saw large loan restructuring, the largest banks totaling KES 176bn (USD 1.65bn). The majority of these are for SMEs and the tourism sector hit the hardest by the pandemic. The manufacturing sector has witnessed a loss of 30 000 formal jobs. Exports are expected to decline by at least 30% this year.

Macro releases included (April stats):

- Inflation was 5.62% y/y (Mar revised: 5.51%). May inflation just released at 5.47%.
- FX reserves reached USD 7.7bn (Mar: USD 8.0bn), equated to 4.7 months of import cover.
- PMI fell to 34.8 (Mar: 37.5).
- Diaspora remittances fell by -10% m/m to USD 208m (Mar: USD 228m).
- Foreign investor participation rose 4.9% m/m to 65%, the highest since Dec 2019.

Morocco – The official statistics show that Covid-19 has been very well contained with total case growth slowing and active cases falling sharply, driven by recoveries as opposed to deaths. Even so, the lockdown has been extended to 10 June, with no indication of when borders will be reopened, particularly for tourism. This is frustrating for the tourism industry, especially that competing destinations are partly opening up (Spain, Tunisia, Greece). As with Egypt, cases have been restricted to state hospitals and facilities, implying any surge could be at least partly met by the private sector.

Bank Al-Maghrib, Morocco's Central Bank, has requested that banks cancel 2019 dividend payments in a move to reinforce stability of the banking sector.

Macro releases (April stats):

- Inflation slowed to 0.9% (Mar: 1.5%).
- FX reserves grew to USD 25.4bn (Mar: USD 24.4bn).
- M3 growth at 6.1% (Mar: 5.1%).
- Banking industry growth +5.3% y/y. This was facilitated by a rebound in overdrafts +8% y/y, +8.2% increase in equipment loans and +3.2% increase in real estate loans.

Mauritius – With a total case count of 335, only 3 active cases (two of which are citizen repatriations), 322 recoveries and 10 deaths, the battle has deemed to have been won, with the lockdown mostly lifted. Resumption of international flights is scheduled for early July, and the very BIG question is whether there will be sufficient demand to start filling the hotels for the peak November to January season.

Company updates

Hightech Payment Systems (Morocco, IT) 1q20 Trading Statement: Group revenues rose 16.9%, with recurring revenues growing 18.4% within that. Solutions (68% of revs), which provides licensing, maintenance, project work and upselling grew revenues 15.2%. Processing (13% of revs), which provides switching and payment services, grew 55.9%. Services division (19% of revs) grew only 0.7%. In terms of COVID-19, they have managed well so far and believe demand for their services has been reinforced. They have recently put several new projects into production, notably the commissioning of the payment platform by QR Code with Ghana Interbank Payment and Settlement Systems and bringing the ABSA African subsidiaries (mostly ex-Barclays Africa) onto the HPS platform. The Services Division has been negatively impacted by COVID-19, but should not materially impact Group revenue growth.

Label Vie (Morocco, Consumer staples) 1q20 Trading Statement: Group revenues grew 26.1%, with the supermarket segment growing 25.9%, Hypermarkets 27.8% and Atacadao hyper-cash wholesale segment with sharp growth at 32.6%. Gas station revenues were down strongly on the lockdown. We had previously commented on the broader trends, following our call with management. These figures, although only up to the end of March, are putting some numbers to those. As a reference 1Q19 Group revenues grew by 12%, so this represents a significant acceleration.

Equity Bank (Kenya, Financials) 1q20 Results: PBT down 21% y/y on the back of higher impairments. NII was up +11%. Non-interest revenue grew +16% y/y with strong growth across all lines. Fee income benefited from the growth in alternative banking channels. Mobile and internet banking transactions grew +14% and Merchants, EazzyPay and EassyBiz volumes went up by +33%. NIMs were squeezed by 30bps as a result of lower yields. Absolute impairments rose 7.6x. Management opted to restructure 25% of their book focused on SMEs, similar to what they did in 2011. The extended maturity ensures cash flow and lowers monthly payments while reducing the need for a moratorium. We see this as a positive move. Loans and deposits grew +3% q/q, the muted growth not a surprise given the environment. NPL ratio deterioration happened as anticipated, up to 10.9% vs 9% in 1q19. Equity cancelled its proposed dividend payment, prioritising the conservation of cash during this time.

MCB (Mauritius, Financials): 3q20 PBT decline of -61% y/y (9 month PBT decline of -7.4% y/y). 3q19 results expectedly diverted from the very strong prior trend of +20% growth in PBT. The key driver of the results was an additional ECL charge of MUR 1.5bn (c.USD 40m) which comprised management's best estimate of credit loss in key vulnerable sectors. Most of the discussion centred around the loan book - we expect tourism 10%, property development 10% of total loans to be most at risk. Management was not willing to give too much light on what their exact restart assumption is for tourism, saying it is still unclear as to the impact of government assistance (expected in the 4 June budget) and the restart of global tourism. We expect the ECL charge could grow in subsequent quarters if a reasonable (40-50% of previous level) tourist season does not materialise later in 2020. We view substantial tourism as unlikely so expect more ECL. Property development is also a sector sensitive to the happenings of tourism as it is often international investors. In addition, two opposing drivers on the horizon. Firstly, the budget and Bank of Mauritius can be very positive for the tourism sector - we await further details. Secondly, Mauritius' status as an offshore haven is being reviewed by the EU. An unfavourable view with regards to anti-money laundering can put a large dent in various businesses linked to the offshore sector, and most importantly the funding and investment into property development. Trade finance most focused on the energy sector, is doing well as most of it is self-liquidating trade facilities for petroleum products (already hedged). Reserve based lending may be an area of pressure if the oil price collapses again. We estimate the exposure from this source at USD 80m (40% of 2021 PAT) in a worst case scenario. At this stage all facilities are performing and most oil producers have hedged 50% of production for 2 years > USD 50 pb. A more pressing matter would be if Mauritius and most likely with that MCB were de-notched by two ratings. While management said it would impact them in terms of confirming international banks, they believe they have built up credibility with trade partners that should see them still operate at that level. Mauritius is not yet downgraded although outlook was placed on a negative watch in April. We expect medium term ROE to decline to the 12-13% in the next 3 years even with a moderate to opening in 2021 which causes our fair value to decline from the previous target price of 400/share to 250/share.

EIPICO (Egypt, Healthcare) 1Q20 results: Revenue decline of -16% y/y. This came as a result of COVID-19 restrictions reducing local revenues by -14.2% and pandemic regulations which hit export revenues, falling by -23%. Many of the big names in the industry showed double digit revenue declines, so this was largely in line with peers. Movement restrictions in Egypt shifted consumer behaviour for the quarter, reducing footfall in pharmacies, and declines in the number of elective surgeries and prescriptions. EIPICO's generic ranges are well-known and affordable, but they have no antiviral products that may be of interest to consumers at this time. The export regulation focuses on meeting local demand first, then getting stock for exports approved. Exports make up 20% of sales and 50% of profitability. Costs were contained with COGS down -7% and S,G&A down by -33.7%. EBITDA margin fell by 191bps, and the bottom line was down -13.5% y/y. Two recent coronavirus incidents in their facilities resulted in a 2 week shutdown for hygiene purposes. This has largely not affected production which resumes on 29 May. Moving forward, EIPICO is shifting from a 5-day to 7-day week, while increasing the number of shifts per day to reduce employee numbers per shift. They have recently had a consignment to Saudi Arabia approved, and with eased restrictions they hope to further increase exports. Construction continues on their 3rd facility, which will start to contribute towards revenues in 2022. On the ground, economic activity appears to have resumed with an increase in number of patients and teleconferences noted by private hospital groups. We expect some form of recovery in 2H20 on the back of this and as restrictions ease in mid-June. EIPICO's Board approved a share buyback of up to 1.6%. EIPICO is currently trading at 8% of its range.

EABL (Kenya, Consumer staples) cautionary statement and COVID-19 call: EABL issued a profit warning, stipulating an expected -25% decline in PAT in their year-end numbers on 30 June. Management have cited the main driver as the pandemic measures taken in their various jurisdictions. Brands are available through cheaper routes such as liquor stores and supermarkets, but consumer behaviour has been forced to shift leading to significant volume declines. 97% of beer consumption is traditionally 'on-trade' i.e. bars. In Kenya, this number is upwards of 23 000 bars which have effectively been shut off for distribution. Senator Keg, their biggest beer brand, has posted negligible sales so far. 2H20 (1H20 calendarised) will be particularly tough in the Kenyan and Tanzanian markets, Kenya inferring a revenue loss of 40%. As previously mentioned, EABL reduced production at the Kisumu brewery on account of lower beer volumes. Social distancing will continue to have an adverse effect on their topline, but there is still time for some volume rebound should restrictions ease. Uganda is already easing with the opening of hotels, and the Kenyan framework is being reviewed on 6 June. Moving forward, we expect earnings to normalise in FY21. No guidance given wrt final dividend payment as yet, but the interim dividend went ahead.

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.