IMARA Asset Management

Monthly Market Report

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

African markets were strong across the board in November. With the exception of Zimbabwe, all markets were up. The largest positive movers were South Africa +4.6%, Nigeria +3.6%, Kenya +2.7% and Morocco +2.6%. On the currency front, African currencies enjoyed a broad rally against the dollar, with most appreciating between 1-4%.

Economic and political overview

Nigeria – The recovery grinds steadily on. Q3 17 **GDP** rose 1.4%, up from a revised Q2 17 growth of 0.72% and Q3 16 contraction of -2.4%. November gross **FX reserves** rose USD 1bn to USD 35bn and merchandise imports cover now stands at 13 months. **PMI** for November stood at 60, down from a seasonally high October, but comfortably above 50.

Egypt – **PMI** 50.7 in November, up from 48.4 in October, representing the first reading above 50 in 25 months, which indicates expansion. External demand remained a key driver for private sector activity, with new export orders recording its highest reading to date. The reading indicates the private sector is recovering a year after the government introduced major structural economic reforms. We expect the economy to gain more ground in 2018, driven by i) lower interest rates ii) increased natural gas production and iii) normalization of consumption patterns in the absence of major economic shocks. **GDP** growth or Q3 17 came in at 5.2%, compared to 3.4% in Q3 16. In its final steps toward full **FX** market liberalization, the CBE has increased the cost of using the Guaranteed Repatriation Mechanism. Rather than spook the market by removing it completely, it has merely incentivized inward investors not to use it and rather go through the interbank market. ***For more insights on Egypt, please see Egypt trip notes at the end of the report.***

Kenya – The Supreme Court, in a unanimous decision, upheld the October 26th election results, confirming President Uhuru Kenyatta's re-election. He was sworn in on 28 November and encouragingly delivered a positive and conciliatory address. The opposition denial continues, with further boycott calls and a staged swearing in of Odinga scheduled for 12 December. We believe the hype is rapidly petering out and the general feeling on the street is that Odinga took a gamble and failed spectacularly. We remain positive on a second Uhuru term and believe he will move forward, less encumbered, on a number of political and economic objectives.

Morocco – Encouraging **credit growth** stats, moving further away from the anaemic figures of 2016 - loans were +5.2% y/y in October, up from 4.5% in September, supported by stronger investment loans growth (13.6% Y-o-Y in October vs. 12.1% Y-o-Y in September) and a pick-up in growth in loans to real estate developers (3.0% Y-o-Y in October vs. 0.8% Y-o-Y in September). Retail loan growth slowed to 3.9% Y-o-Y in October, from 4.3% Y-o-Y in September. **Cement stats** continue to look encouraging, with October YTD consumption down -3% from -9% as at June YTD. At the time of writing the Q3 17 **GDP** figures were not available, so we cannot determine how the overall economy is performing.

Zambia – The Bank of Zambia cut rates by 75bps to 10.25%. The move is to stimulate growth, by reversing contraction in private sector lending. The Bank believes this can be achieved, while comfortably maintaining inflation between its 6-8% target.

Zimbabwe – We published a detailed note on the events in Zimbabwe, which is available on request.

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Holdings review

Eastern Tobacco (Egypt, Consumer staples) Price increases: The government recently raised the tax brackets on cigarette packs, which results in an average ex-factory increase on locally manufactured cigarettes by 14%. The increase will be partly offset by higher cost raw material, post the EGP devaluation and we expect FY18 revs to be +32% and PAT +21%.

Attijariwafa (Morocco, Financials) 3Q FY 17: Another good set of results albeit off a weak base in 3Q16. PBT +34% y/y, driven +40% fees growth. 9M17 PBT +16% and more accurate reflection of growth momentum. No change to full year forecast. Met with management early November and they expect a similar mid-teens growth rate for FY18, as Egypt grows at +20% and Morocco prospects are for 10% growth y/y.

Stanbic IBTC (Nigeria, Financials) 3Q 17 update: A good set of results. 3Q17 PBT +54% y/y with +35% net interest margins and strong fee growth of 25% y/y from its pensions business. Management has built up substantial provision reserves and the NPL ratio is back down to 5.7% after peaking at 9.9% in March. Management comments that 2018 outlook is strong with a continued recovery in the macro, lower provisioning. ROE 36% versus 5 year average of 21%.

Safaricom (Kenya, Telco) 1H 18 update: Overall service revenue grew 12.1%, with a healthy contribution from traditional and new services. EPS grew by 22% and free cash flow by 60%, boosted by lower capex and working capital efficiencies. On the innovation side, new MPESA service transactions grew 41% and their revenue contribution to MPESA now stands at 26%, up from 10% three years ago. FTTH homes passed has risen from zero to 100k in less than a year and targets call revenue from fixed line telcos and viewing revenue from satellite TV operators. Guidance maintained on political concerns, but should be comfortably beaten.

Guaranty Trust Bank (Nigeria, Financials) 3Q 17 update: A good result echoing previous strong quarters. PBT flat y/y, impressive as the bank printed strong revaluation gains in the base number of 3Q16. Provisions much lower at 0.08% compared to 1.21% a year ago, and 0.56% YTD. MD comments that the bank is moving past the worst of the current NPL cycle. ROE 31% above 5 year average of 29.5%.

Nigerian Breweries (Nigeria, Consumer staples) 3Q FY'17: sales +12.8% y/y, EPS -75% for 3Q but EPS +19% for 9M17. Volume growth low single digits. Results slightly disappointed for the quarter but 9M results in line with expectations. Proposed interim dividend of N1 per share.

Nestle (Nigeria, Consumer staples) 3Q FY'17: sales +29% y/y, EPS N8.1 vs a loss of N0.06. In line with expectations both on a quarterly basis and nine month basis.

Market outlook

Nigeria – the outlook remains positive, particularly on the back of a good Q3 earnings season and clear signs of economic recovery.

Egypt – good Q3 earnings, continued IMF support and the much-anticipated commencement of gas production from the Zohr field should buoy sentiment. ***See trip notes below*.**

Kenya – positive outlook, however political spillover into economic activity could dampen Q4 results.

Morocco – stronger H2 economic activity and a bumper agricultural season should see continued positive sentiment.

Egypt trip notes - We met with various Egyptian corporates in November and early December by attending a North Africa investment conference in London and also doing a country visit. The key takeaways from the meetings are that:

1. Consumer recovery is underway. Empirical evidence shows first volume recovery happening in third quarter and then more momentum in October as well.
2. Where volumes declined by 40% for many price elastic products in 1Q17, the decline is now more like 20-25% y/y. Volumes should recover almost back to pre-devaluation levels in 2018.
3. Inflation remains elevated, but should get to the mid-teens level in early 2018.
4. Sisi government firmly in control. Underlying social tensions continue, with terrorist actions in the Sinai peninsula contained after attacks.
5. Banks growing deposit base by 20% in 2018, mainly from underbanked population. 70% of monetary base outside of the banking system.
6. Monetary policy will not move too quickly for fear of causing the carry trade, which is now USD18bn of net inflows, to reverse too fast. Gradual approach likely of approximately 200-300bps cut in 2018.

Tony Schroenn, Craig Bandason, Rainer Orth - Portfolio Managers, October 2017