Monthly Market Report

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Region:	**Africa ex SA**
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Market snapshot

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

Nov Performance (%)	LCY	USD
Nigeria	14.8	13.2
MSCI World	12.7	12.7
Mauritius	9.1	9.4
MSCI EM	9.2	9.2
Morocco	5.1	6.2
Tunisia	4.1	5.8
Egypt	4.1	4.4
BRVM	2.1	4.2
Kenya	3.7	2.5
Botswana	-0.3	2.5
Zambia	-0.8	-3.4

A month of strong performances as a result of risk allocation to emerging markets, led by Nigeria +13.2%, Mauritius +9.4%, Morocco +6.2% and Egypt +4.4%.

Economic and political overview

Nigeria – 3q20 GDP declined -3.6% y/y on the back of lower oil production, continued pandemic restrictions and FX shortages. Declines in oil production -14% y/y and non-oil -2.5% y/y. Agriculture (25% of GDP) grew +1.4%, slowing from 1.6% in the previous quarter. Telecommunications was the fastest growing sector at +14.6% y/y.

The Central Bank of Nigeria (CBN) has permitted the release of banks' excess cash reserve requirement (CRR) through the issuance of 90-day CBN Bills. The CRR is 27.5%, and for banks in excess of that, the issuance of bills will improve liquidity and support the economy through credit extension. In a surprise move to further enhance liquidity, the CBN has announced a new policy granting access to FX from the diaspora and other money transfer agencies. This redirects forex to formal channels as opposed to the black market. Essentially remittances can now be collected in USD OTC, also available for those without bank accounts.

FMDQ statistics show an increase in liquidity in the I&E window. September and October did c.USD 2bn after the lows of USD 700m in May/June. Data available to 18 November show a further USD 1.5bn cleared the window. That implies a run-rate of USD 2.3bn for November.

Macro releases (October stats):

- Inflation crept up to 14.23% y/y (Sep: 13.7%).
- FX reserves flat at USD 35.69bn (Sep: USD 35.74bn).
- PMI at 53.5 (Sep: 52.5).
- M3 growth slowed to 1.8% y/y (Sep: 2.6%).

- Credit to the private sector was 12.42% y/y (Sep: 16.7%).
- Internet subscriptions grew +23% y/y, totalling 151.5m in September. August saw 1.7m new internet subscriptions, fuelled by the work-from-home approach.

Egypt – GDP for 2q20 came in at 1.7% y/y. Private consumption grew +19.6% y/y in spite of weak sentiment. The unemployment rate recovered to 7.3% (2q20: 9.6%), as economic activity resumed and curfews were removed. Net imports increased +49% y/y. Construction activity was permitted during the quarter but capital formation contracted -54.9% y/y.

In a bid to further stimulate the economy, the Central Bank of Egypt (CBE)'s Monetary Policy Committee (MPC) cut rates by 50bps. Reasons given include forecasted inflation for 4q20 not meeting the min.6% target.

COVID-19 concerns have crept in again as daily cases have started rising. The government warned that preventative measures may be reinstated should the public not adhere to safety measures. Cabinet has entered an agreement with GAVI vaccine alliance to provide the country with 20m doses (20% of population) of COVID-19 vaccines, prioritising the elderly and front-line workers. Another 30% of the population is to be sourced from AstraZeneca, while the state-affiliated manufacturer is expected to begin production as well. Vaccine roll-outs expected in 1q21.

Rating agencies reassessed the country, and S&P retained Egypt's credit rating at 'B' with a stable outlook. Both S&P and Fitch forecast GDP growth of above 4% p.a. beyond 2020.

Macro releases included (October stats):

- Inflation rose to 4.52% y/y (Sep: 3.69%), driven by non-food prices.
- FX reserves grew to USD 39.22bn (Sep: USD 38.43bn).
- PMI increased to 51.4 (Sep: 50.4).
- M2 growth was 19.4% y/y (Sep: 18.6%).
- 1H20 tourist arrivals fell by -62.3% y/y. However since July, the country has welcomed 400,000 tourists, c.3,000-4,000 tourists daily, since international flights were reopened. Hotel occupancies stand at 67%.
- Mobile wallets grew +17% y/y to 14.4m between Mar-Oct.

Kenya – Kenya faces a COVID-19 resurgence, with the President unwilling to reintroduce restrictions due to the wider impact on the economy. Bars have been permitted to continue operating, and the daily curfew has been increased by 1 hour.

Kenya has requested budget support from the IMF for the second time, following USD 739m received in May. The support is in the form of an immediate disbursement facility, where money flows straight into the budget and subject to government discretion for distribution.

Horticulture exports increased +8.6% to KES 126bn (USD 1.15bn).

Macro releases (October stats):

- Inflation was 4.84% y/y (Sep: 4.2%), and has since crept upwards to 5.46% in November.

- FX reserves stood at USD 8.12bn, 4.9m of import cover (Sep: USD 8.63bn).
- PMI rose to 59.1 (Sep: 56.3).
- M3 growth was 10.7% y/y in September (Aug: 11.0%).
- Remittances increased +17.3% y/y to USD 263.1m (Sep: USD 224.3m). That brings the total to USD 2.54bn from Jan-Oct, up 9% y/y during the same period in 2019.
- Current account deficit narrowed to 4.9% of GDP (Oct 2019: 5.3% of GDP).

Mauritius – IMF forecasts GDP to decline by as much as -15% in 2020, and only marginally recover to -9% in 2021. Full recovery is not expected until 2023 due to heavy reliance on the tourism sector. The government introduced two primary measures: 1) two bailout schemes worth USD 3.5bn to support corporates and individuals 2) regulations to address deficiencies highlighted by the Financial Action Task Force (which placed Mauritius on the grey list). The aim is to exit the grey list by 1H21.

Macro releases included (October stats):

- Inflation came in at 3.2% y/y (Sep: 2.6%).
- FX reserves fell to USD 6.97bn (Sep: USD 7.21bn).

Morocco – IMF has pegged growth at c.-6-7% in 2020, and +4.5% in 2021. The IMF is willing to renegotiate Morocco's liquidity line, as the country utilised its USD 3bn credit line for the first time this year. Morocco has since extended its COVID-19 Emergency Status to 10 January.

Banking statistics showed 5.2% y/y growth in September. This was driven by +9.2% in overdrafts and receivables, +3.4% y/y growth in equipment loans and +1.6% increase in real estate loans. NPLs stood at MAD 79bn (USD 8.7bn), growth of +14.6% y/y.

Macro releases (October stats):

- Inflation flat at 1.3% y/y (Sep: 1.4%).
- FX reserves came in at USD 29.5bn (Sep: USD 30.9bn).
- M2 growth was 11.2% y/y in September (Aug: 10.1%).

Company updates

Safaricom (Kenya, Communications services) 1H21 results update: A frustrating set of results. Despite an excellent set of operational KPI's, revenues came in -4.8% and EPS -6.0%. The key culprit was the zero rating of MPESA transactions below KES 1000, as customers abused the privilege by breaking up larger transactions into smaller amounts. Management is not willing to publicly commit to when this might end, with the most likely outcome being December this year. Other negative impacts were 6.5% lower voice revenues (trend here to stay) and slowing merchant till acquisition during the three months of lockdown April-June. It is important to note that merchant till acquisition jumped strongly from June to September and is up very strongly by 77% y/y. The uninterrupted positives were Data revs +14.1% and FTTH revs +47.2%. Management was also partly able to mitigate the situation by keeping direct costs down 0.6% and reduce opex by 10.6%.

Equity Bank (Kenya, Financials) 3q20: PBT -12% y/y, a much improved performance vs. 1H20 - 29% y/y. It reflects the positive accretive effect of the BCDC (DR Congo) acquisition and some recovery in the core Kenya business q/q. The Kenya subsidiary (c.80% of Group) 3q20 PBT of KES 4.8bn compares to the 2019 quarterly run rate of c.6.4bn, a 25% slower pace. Yet, it is much improved from the KES 4.1bn of 2q20. The main negative for Kenya is provisions which at a CoR of 3.5% is now KES 15bn vs. KES 2bn at September 2019. Management has taken a 3 year view on recovery and restructured 45% of the loan book - term lengthening to lower monthly payment. Excluding provisions, the banking income of Kenya is +13.5%, Group +17% y/y and reflects a strong NIM performance, almost +20% y/y. The Kenya deposit book is up KES 78bn, +26% y/y - very impressive. NIM is really the star performer as Kenyan fees are flat y/y faced with a mix of higher mobile and FX transaction volumes vs. zero fees on small amounts (<$9) and -26% merchant transaction (tourism peak season and lockdown). Fees hide the underlying positive trend despite the lockdown where digital transactions on app are +43% y/y and value of transactions +50% to USD 6bn. The bottomline: What the digital business reflects is that there are two ways to make money: 1. transactions, likely to improve when fees are not waived and 2. the float, +26% deposits y/y a function of digital distribution structure.

Fawry (Egypt, Consumer finance) 3q20 results: Revenues grew 42.2%, GP by 55.3% as margins expanded by 460bps to 55.7% and PAT by 55%. The underlying KPI's remained strong, with Covid having an overall positive impact on the business model. PoS terminals grew 55% to 194k, Acceptance enabled merchants 154% and number of services provided 7% to 894. Throughput in 2q20 jumped 57% y/y to USD 1.7bn and encouragingly rose by 24% sequentially over the second quarter. What was interesting was the sequential jump in KPI's from the lockdown quarter of April to June, vs the break out from July to September. PoS terminals grew sequentially by 17% and Acceptance enabled merchants jumped 134%! An Acceptance enabled merchant is someone who does not have a bank account, nor means of accepting any other means of payment than cash, but has now been enabled by Fawry to do so. Lockdowns slow merchant acquisition and activity, that is because they struggle to physically receive their PoS devices and, their points of sale, be it a stall or shop, are shut during lockdown.

IDH (Egypt, Healthcare) 3q20 results update: Finally a like-for-like quarter! This was the first full quarter with no 100m Lives Campaign in the base as well as no full lockdown in the numerator. This was a genuinely encouraging performance, with most metrics, products and geographies doing well. Revenues were +23% and EPS came in +38%. Patients and tests were flat at 1.9m and 7.5m respectively, as people still tended to stay away from gathering points, particularly hospitals. This was only partly offset by new branch openings and home visits, which the company now charges for, providing a boost to margins. Revenue per test was +21.4% on small price increases, but mostly mix i.e. radiology (Al Borg Scan) and PCR (COVID). New Al Borg branch openings and continued PCR testing bode well for this trend. COGS/test grew only 13.6%, which helped GP and EBITDA growth, with EBITDA margin reaching 48%, well up from the typical 40%. Interestingly Nigerian operations turned EBITDA-positive, supported by a strong ramp up in sales during the quarter, up 58%, albeit in NGN.

Obour Land (Egypt, Consumer staples) 3q20 results update. A mixed set of results, with strong top-line not making it through to profits. Revenue grew 9%, helped by market share gains in its main white cheese business as well as gains in fruit juice and dairy. Its recently launched spreadable yellow cheese is also starting to gain traction. Gross profit declined

4% as a result of higher edible oils prices and full allocated overheads on only partially ramped up new facilities. The scale benefits of new facilities and opportunistic SMP purchases, will only start showing on a y/y basis from Q4 and into 2021. The price increase of 1.5% on white cheese at the end of September, will only filter through toward the end of the year. EPS declined 12% y/y. We expect a strong Q4 at the earnings level, which together with a very strong FCF performance in the first nine months, should see the DPs at least maintained and most likely increased. The trailing div yield is 10% and the 2020 multiples are very attractive with PE at 7.0x and EV/EBITDA 4.2x in a 40% RoE, post capex-hump business.

EIPICO (Egypt, Healthcare) 3q20 results: Revenues down -17.0% y/y. This was driven by local sales (70% of revs) which dropped -29% due to shifting consumer demand and the core product mix. Chronic drug demand was a stable driving force for industry growth in 3q20, but EIPICO had very low contributions from this segment. Further, the COVID-19 medication demand slowed as cases declined, along with decreased tender sales. On a positive note, exports increased +22% y/y as restrictions eased and borders reopened in more markets. Cost containment has been successful in managing the operating costs down through the API pricing renegotiation, leading to GP margin expansion of 280bps to 38% from 3q19. S,G&A costs were flat even as management increased pay for frontline staff and introduced medical insurance for all employees. Finance costs increased +51% y/y, and the higher effective tax rate led to PBT down -36% y/y and PAT -35% y/y. Looking ahead, EIPICO expects its new biosimilar project plant’s first phase to be operational in 2q22, and fully operational by end-2022. This will contribute EGP 605m to revenues within the first year, and allow full development of biosimilar products and related APIs.

Guaranty Trust Bank (Nigeria, Financials) 3q20: PBT +5% y/y shows another good set of results in a tough environment. The key aspect that surprises the market, but not us, is the low provisioning number at 0.22% for the quarter and 0.64% YTD. As noted at previous results in April and July, we believe management when they say the risk of COVID-19 and lower oil prices is not evident in their loan book. Secondly, GTB's was well hedged against FX devaluation - we can see it in the 25% growth of NAV YTD. Liquidity and mobile money conversion remain the exciting growth prospects for the bank. Deposits +3.4% for the quarter and +33.5% y/y; and customers, adding 6m customers or +46% y/y to 19m. For now, lower yield trajectory and lower regulated fees in the past 1-2 years has meant a robust yet muted topline performance. NIMs are down 1.14% to 5.81%, a 16% drop in margins. Overall net interest income +9.8% y/y despite the spike in liquidity. Fees down 2.2% y/y. We expect headwinds of lower treasury yields to remain a feature of results in 4q20 as the treasury book reprices further but expect fee growth to come through at the new reset fee levels in 2021. Valuation now at 1.3x FY20 PBV, after dipping to 0.9x, still substantially below the 1.8x average for the past 5 years and far below our 2.5x fair value multiple.

Mauritius Commercial Bank (Mauritius, Financials) 1q21 results: Still muted results with PBT -25% y/y - the main culprit being ongoing high CoR of 0.51%. The q/q outcome is better +15% but only because CoR did not match the heavy 0.94% CoR of 4q20 to June. The operating results remain good considering Covid disruptions. Banking income +2% y/y. We expect the quarterly trend of higher provisions to continue until we get see-through to a tourism restart, likely 4q21, but 2022 is really the year of recovery. Overall, a 12% ROE vs. its normal level of 16-18% ROE.

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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 this year 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 be 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.