IMARA Asset Management

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) –

Oct Performance (%)	LCY	USD
Nigeria	13.8	12.7
Morocco	4.7	5.4
MSCI EM	2.0	2.0
BRVM	1.5	1.4
Kenya	0.1	0.3
Botswana	-1.6	0.2
Zambia	-0.4	-2.3
Mauritius	-2.6	-3.1
MSCI World	-3.1	-3.1
Tunisia	-2.9	-3.3
Egypt	-4.3	-3.9

Largely a positive month for the portfolio driven by strong performances in Nigeria +12.7% and Morocco +5.4%. Lagging performances came from Mauritius -3.1% and Egypt -3.9%. The removal of CIB's chairman by Egypt's central bank was the main negative catalyst.

Economic and political overview

Nigeria – Contrary to market performances, the country had a month of upheaval. Public and social media protests trended (#EndSARS), led by local celebrities and influencers, and called for an end to harassment and corruption by a police unit called SARS - the Special Anti-Robbery Squad. Opportunists used this time to loot malls, businesses and warehouses which in turn led to the 69 deaths as soldiers opened fire on protesters. A more stringent curfew and lockdown followed and after 12 days of protests the situation calmed down. The cost to the economy is estimated at USD 1.8bn.

Fitch affirmed Nigeria's sovereign credit rating at 'B' and raised the outlook from negative to stable. The IMF revised their forecast for GDP to -4.3% in 2020 (Prev: -3.4%), with a recovery of 1.7% in 2021. The World Bank predicts more muted growth of 0.3% in 2021.

Macro releases included (September stats):

- Inflation inched up to 13.7% y/y (Aug: 13.2%).
- FX reserves were stable at USD 35.74bn (Aug: USD 35.66bn).
- PMI was 52.5 (Aug: 54.6).
- Private sector credit extension grew 21.4% y/y in August (Jul: 24.3%).

Egypt – The Banking and Central Bank Law was approved by president Sisi, following Parliament's endorsement in July. Key points: 1) Banks contribute c.1% of earnings to a new industry development fund 2) Minimum capital adequacy of USD 318m (previous: USD 32m), and 3) term limits for bank officials and board members. The CBE immediately put the new law into practice, ordering the resignation of 3 bank Chairpersons including Hisham Ezz al-Arab of CIB. The other two banks are not publicly listed and did not attract much public scrutiny. CIB convened a task force to enact amendments based on the audit report from the CBE. We do not expect any financial or operational impact from the CBE action.

The economy is open amidst low reported levels of COVID-19 with only minimal support (c.USD 500m) extended to end 2020 for seasonal, irregular workers and vendors. The World Bank has pegged Egypt's growth expectation at +2.3% for FY20/21, and recovery at +5.8% in FY21/22.

Macro releases (September data):

- Inflation came in at 3.7% y/y (Aug: 3.4%).
- FX reserves remained stable at USD 38.43bn (Aug: USD 38.37bn).
- PMI was 50.4 (Aug: 49.4).
- M2 growth 18.6% y/y (Aug: 19.2% y/y).
- Credit growth went up to 18.9% y/y in August (Jul: 18.2%).
- Trade deficit fell by 20.5% y/y to USD 3bn in August (Jul: fell 51.8% y/y). This was due to a drop in both exports (-9.4% y/y) and imports (-16.6% y/y).

Kenya – GDP contracted by -5.7% in 2q20 (1q20: +4.9%) largely due to the movement restrictions instituted during the quarter and mostly hit restaurants and accommodation -83.3%, transport -11.6% and trading -6.9% y/y. Agriculture +6.4% y/y was the key positive. The IMF revised their 2021 GDP forecast to +4.7% (previous: 6.1%), citing an inconsistent recovery.

Kenya has seen a resurgence in cases since relaxation of restrictions last month. The government is holding an extraordinary summit regarding the possibility of a second wave given the spread of the virus in November.

The Central Bank of Kenya (CBK) has ended the 6-month freeze for listing defaulters with credit bureaus. This has opened the door for thousands of borrowers to be blacklisted with immediate effect. The end of the moratorium comes on the back of climbing default rates in the wake of the pandemic. For example, NPLs on M-Shwari (Safaricom's micro-credit platform) have grown to more than 4x since COVID-19. Historically NPL ratios were c.1.8%, but now figures are 8%. At the same time, volume in credit demand has spiked up. Safaricom processes 6 transactions per second, which translates to 492 480 overdraft requests per day. This is over 10x growth compared to the same period in 2019.

Macro releases (September stats):

- Inflation was flat at 4.2% y/y (Aug: 4.4%).
- FX reserves have been dropping in the last month, reaching USD 8.63bn end-September and USD 8.22bn at 22 October.
- PMI grew to 56.3 (Aug: 53.0).
- Current account deficit flat in August at -4.7% of GDP.
- Remittance growth stayed strong, up 21.5% y/y (Aug: 27.9%).

Morocco – Credit growth slowed to 4.9% y/y in August. Bank credit benefitted from corporates wanting access to cheap loans. Overdrafts grew +12.0%, equipment loans up +3.0% and real estate loans up +1.7%. Consumer loans decreased slightly by -2.1%. NPLs grew 12.8% y/y (Jul: 8.2%). Business activity has had slow recovery post-COVID. State-owned enterprises are expected to be at virtually zero profitability in 2020. The World Bank predicts a GDP contraction of -6.3% in 2020, with a 3.4% recovery in 2021.

The government hopes to boost unemployment amongst youth with income-tax exemptions. Morocco will support credit access through guarantees with MAD 91bn (USD 10bn) planned in 2020/2021.

Macro releases included (September data):

- Inflation crept up to 1.4% y/y (Aug: 0.9%).
- FX reserves came in at USD 30.9bn (Aug: USD 29.7bn).
- M2 growth went up to 12.1% y/y in July (Jun: 11.0%).

Company updates

Nestle (Nigeria, Consumer Staples) 3q20 results: Resilient revenue growth +3.3% y/y aligned with expectations. This growth was both price and volume-driven mainly by the beverage segment (2q20 rev growth: -0.3%). Beverages grew strongly +32.7% y/y on the back of a combination of price increases and volumes. Food sales were surprisingly weak at -14.2% y/y, with an estimated volume decline of -16.2% in Maggi. The food segment has proven quite volatile this year, likely due to increased competition in the cube segment. SKUs had material increases of c.2.3% for Maggi and 10.8% for Milo. Notably the beverage prices are +27.0% y/y higher than 3q19. GP margin contracted by 283bps to 40.7% on the back of higher input costs. Operating cost containment led to a -2.1% y/y decline in S,G&A which offset the GP decline. EBIT came in at -4.6% y/y which flowed down to the bottom line which was down -4.6% y/y. Nestle still maintains a strong cash position, with FCF generation 15.2% stronger this quarter. Borrowings materially increased from the parent company, and the interim dividend has been approved.

Stanbic IBTC (Nigeria, Financials) 3q20 results: Another good performance catching the many overly negative views in the market offside. 3q19 PBT flat y/y after a strong 1H20 +17% y/y. The performance shows the hedged nature of the bank model on the NIM side. Where previously it was a margin or pricing game, now it's a volume game. Deposits are +40% YTD which partly reflects the excess NGN liquidity seeking a home as the carry trade remains off the table. So, despite margins crashing the bank is still able to maintain its funded banking income to near 2019 levels. The pensions business continues its low volatility positive trend as well with AuM +13% y/y. Fees +6% y/y with recovery from lower levels and greater mobile payments the main themes. Provisions are muted - 10bps for 3q20 and 1.21% YTD. Despite many fears in the market the COVID and oil risk to the book did not materialise yet. Understandably, the mood remains conservative and capital levels high. Our view in the March report on the importance of a long USD position is coming through. The boost to capital growth is now +26% y/y. This also means despite the recent rally the book value is still undemanding at 1.4 and 1.1x 2020 and 2021 respectively. The overall feeling from management feedback is despite a tough macro and micro environment, the situation is very much under control.

Nigerian Breweries (Nigeria, Consumer Staples) 3q20 results: Strong net revenue growth +25.6% y/y off a weak 3q19. This was due to double-digit volume growth, ahead of expectations and a positive surprise given their struggle to grow volumes in previous quarters. The exact source of unlocking volumes we will establish from management, but safe to say that as the economy opens up, alcohol demand rebounded swiftly. GP margin was flat at 37.5% on account of higher COGS with price increases for major inputs. It was encouraging that margins were not sacrificed for topline growth, and remained resilient for the quarter. Operating expenses down -2.3% y/y leading to EBIT margin expansion of 820bps. Once interest expense and tax taken into account, bottom line grew +228% y/y. Business ensured strong FCF generation, resulting in a healthy cash balance. Net debt/equity grew 13% y/y with the increased debt on the books. EBITDA margin expanded by 803bps to 21.0%. NB announced an interim dividend payment of NGN 0.25.

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 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.