

Imara Asset Management Q4 2020 Investor Call - Transcript

Thanks Harry. Good afternoon everyone, thank you for taking the time to dial into the call. You can see on slide 2, we had another strong year of benchmark outperformance, which has continued into 2021. We believe this outperformance is underpinned by our QVG system. The bulk of this call will be focused on the G in QVG, which stands for Growth. If we can move onto the next slide, slide 3, we believe there are a number of transformational trends driving growth in Africa, these are financial inclusion, fastest rates of urbanization and economic formalization. These trends are driving strong growth in the Fintech, Payments, Banks, Telco and Healthcare sectors.

Bank penetration is still low, one of our top bank picks, Equity Bank is rapidly rolling out in the DRC, where 2% of the population has a bank account, but 60% have a cellphone. To understand the Payments and Fintech opportunity, I would ask you to look at the table, for the benefit of those who don't have a visual, I will shout out the key figures. In Egypt for example, 33% of people have a bank account, HOWEVER, only 4% use a card for payment, the rest simply draw cash and then use that for payment. Morocco has 70% internet penetration yet only 2% of people are making digital payments. People often ask, what is financial inclusion or what is the Payments/Fintech business and what is the opportunity. Simply put, it is bridging the massive gap between the relatively high cellphone and internet penetration on the one hand, with the very low non-cash payment penetration, on the other hand.

Moving on to the next slide, slide 4, we are delighted to be able to present Ebtikar, a high growth, undervalued Payments and Fintech business in Egypt. For those of you familiar with the Payments landscape globally, Ebtikar is much like PagSeguro in Brazil, PayPoint in the UK or Square in the US. Just to help everyone understand what a payments business is and what Ebtikar does, at its most basic level, they provide merchants with an alternative method to receive, and customers an alternative means to pay, other than cash. A merchant could be anything from a street vendor to a supermarket, to a restaurant, or other. An example of a Point of Sale device is a credit card swiping machine. The question is often asked, why don't banks offer this service? Well they do, but only to large customers and with Point of Sale devices that are expensive and have very limited functionality. You need specialists for the so-called last mile in terms of reach, size and number of offerings. Talking of number of offerings, at a merchant with an Ebtikar Point of Sale, you can buy bread, as well as pay your electricity bill, send money to a relative and top up your mobile phone. Without further ado, I will hand over to Ashraf el Ghannam of MTI, the parent company of Ebtikar.

Ashraf joined MTI (EBTIKAR's parent co) in 2017 to establish the Investor Relations department and provide strategic insight and financial assessments, of potential opportunities. Ashraf has a total of 14 years experience in some of Egypt's top companies. Over to you Ashraf...

Thanks Tony / Ashraf...turning to slide 5, a valuation perspective we are at cycle lows. The graph depicts the MSCI over the last approximately fifteen years and a series of events has led to derating of African equities since 2015. The strong dollar, some macro-economic challenges, and commodity price volatility (more specifically 2 oil price crises) combined to make the emerging and frontier markets unattractive to global macro investors. During the same period we have seen several African and frontier managers close Funds and businesses in turn creating more selling pressure on the continent.

More recently we have seen some buying interest come back as a weaker dollar and pro-EM equity allocation did take us off the Covid lows. But the market is still very cheap.

To put in perspective CIB, the heavyweight in the Egyptian exchange is now trading at the same multiples as during the lowest points of the Egyptian revolution, when Egypt was faced with severe political instability and running battles in the streets of Cairo.

More data. If you take our Top 10 positions over the last 5 years you see very stable and consistent growth. 78% for banks and 94% for industrial and consumer counters. But at the same time multiples have effectively halved. We estimate that most of our positions are between 50 to a 100% below their fair value on top of what is a very good growth trajectory between 10 and 20% each year. SO we think what is possible from a rerating of the market?

On average earning can double in the next 5 years. at the same time if ratings can get back to their historical averages and fair value. The simple math then indicates that if we get both the tailwinds of earnings growth and rerating the portfolio potential is a fourfold increase.

Thanks Rainer, to close I would like to leave you with some sense of the immense investment opportunity in Payments in Egypt. Only 2% of household consumption in Egypt is electronic, compared to Brazil at 8%, EU at 70% and Scandinavia at 80%. Like cellphone penetration, this gap can and will close. The time is now everyone. We are entering the steepest part of this technology's adoption curve and uptake from here is exponential. I repeat, despite the phenomenal performance of Payments in Egypt in 2020, we are yet to enter the exponential part of this curve. As to the opportunity in dollars and cents, I will leave you with this. The market cap of the listed payments sector in Brazil is USD 40bn (Stone and Pageseguro), that is 16 times bigger than Egypt at USD 2.5bn, yet Brazil, based household consumption, is only 4x bigger than Egypt. So the Egyptian Payments industry needs to quadruple, just to catch up, and nobody said Brazil is going to stand still! Back to you Harry.