MONTHLY MARKET REPORT MAY 2023

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AFRICA FINTECH OVERVIEW

Positive feedback keeps rolling in...

EQUITY

Equity Group: This month we had the privilege of hosting Dr. James Mwangi and his team at our Mobile Banking in Africa conference. Attendees were treated to a lively, well-articulated presentation on the banking and Fintech opportunity in East Africa and the DRC. What became clear to the audience was just how much Equity Bank has achieved, but more importantly, the growth opportunity ahead. With a retail customer base of 18m and an addressable market of over 120m adults, there is a LONG runway of growth ahead. Excitingly, existing and new services that serve to WIDEN that runway are being taken up by customers. Mobile and Internet banking revenues grew by 270%.

Two key points that need to be highlighted:

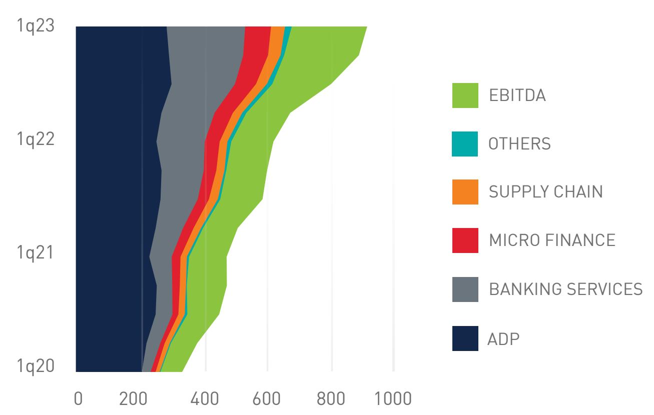
- The business generates a 30% RoE, has a healthy 13% yield on a modest payout ratio and yet trades at 0.6x book and a PE of 2.5x.
- The business has NEVER had to raise capital since its IPO in 2008, all growth has been financed by internally generated FCF.

This is a high QUALITY business and noone at the conference disagreed.

fawry

Fawry: Staying with the concept of long and wide runways, it would be hard to find a better example than Fawry, one of our key positions in the Egyptian fintech space. The chart below shows the evolution and contribution from 1q20 to 1q23 to revenues by the different streams, as well as the growth, in Green, of EBITDA. The Green line is critical, as we have long argued that these new revenues carry little incremental cost and therefore boost margins. Over the period, EBITDA has grown a fantastic 4 fold. Egypt's extremely low penetration of financial services will ensure that these growth rates will continue into the foreseaable future.

Fawry Revenue Streams (EGPm)



ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

Great sounds coming out of Nigeria for a change! Tinubu's inauguration speech hit all the right notes, and this month marked the long-awaited opening of the Dangote Refinery. Could this be the turn of the tide for the country? It looks promising. Highlights of Tinubu's speech include:

- Targetting higher GDP growth to curb unemployment.
- A commitment to repatriating funds owed to investors and foreign businesses.
- Elimination of the fuel subsidy with immediate effect; funds channelled into public infrastructure, education, healthcare and jobs.
- A review of monetary policy, noting that it requires "a thorough housecleaning."
- Working on a unified FX rate with the Central Bank of Nigeria (CBN), which will garner IMF support.
- Investing resources to improve security.

President Buhari commissioned the Dangote Refinery, with the country celebrating the potential of self-sufficiency in refined products. It has the immediate capacity to produce 650 000 bpd across 3 crude-oil grades. This will deliver a surplus of 38m litres of petrol, diesel, kerosene and aviation fuel daily, thus meeting the fuel supply requirement of the country. The aim is to reach Nigeria's refined petrol demand within 12m. Consequently the larger effects include the creation of 100 000 jobs, establishing a USD 21bn market from local crude oil production p.a., saving USD 30bn p.a. in FX and encouraging more inflows.

Macro releases (April stats):

- Inflation continued to inch upwards +22.2% y/y (Mar: 22.0%).
- FX reserves were USD 35.3bn (Mar: USD 35.5bn) and went to USD 35.1bn as at end-May.
- PMI was 53.8 (Mar: 42.3) and stayed flat in May.
- M3 growth was +18.9% y/y (Mar: 19.6%).
- Private sector credit growth was +17.8% y/y (Mar: 18.1%).
- Oil production fell to 1.18mpbd (Mar: 1.35mbpd) because of 2-week long protest action.
- Fitch maintained the sovereign rating at B- with a stable outlook this month.
- GDP was +2.3% y/y in 1q23 (4q22: +3.5%), the slowdown because of the cash crisis while growth was bolstered by the non-oil sector +2.8% y/y. Oil shrank by -4.2% y/y.
- The CBN's Monetary Policy Committee (MPC) voted to raise interest rates by 50bps to 18.5%.

22.2% y/y	US$ 35.3bn	53.8	+18.9% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

EGYPT

In alignment with the S&P's downward outlook revision, Fitch downgraded Egypt's sovereign rating to B with a negative outlook (Prev: B+). Reasons include the increasing external financing risk and weak liquidity. Moody's is currently undergoing a review for downgrade. Several banks have been downgraded in accordance with this.
The unemployment rate slipped to 7.1% in 1q23 (4q22: 7.2%). Youth (ages 15-29) account for 63% of the unemployed, while the rate slipped slightly q/q for both adult male and female populations. The labour force participation rate, however, inched up to 43% (4q22: 42.8%).

Macro releases included (April stats):

- Inflation finally on the deceleration path +30.6% y/y (Mar: 32.7%).
- FX reserves reached USD 34.6bn (Mar: USD 34.5bn).
- PMI was 47.3 (Mar: 46.7) and was 47.8 in May.
- M2 growth was +25.8% y/y (Mar: 26.8%).
- Tourist arrivals grew +43% y/y and hotel occupancy reached 85% in 1q23. Tourist arrivals reached 4.5m from Jan-Apr this year, up +33% y/y. The aim is to reach 15m tourists in 2023.

30.6% y/y	US$ 34.6bn	47.3	+25.8% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

KENYA

The IMF concluded its 5th review this month and announced an increase of the EFF/ECF loan programme. Kenya can access an additional USD 544m, while the programme has been extended to April 2025. Further, the country has signed a staff level agreement for another facility for USD 560m under the Resilience and Sustainability Facility (a 20m programme) as of November, conditional on policy reforms. This means a total of USD 1.1bn in funding from the IMF will be available over the next 2 years. Kenya has already started implementing reforms, with fuel subsidies removed.

Additionally, the country received a USD 1bn loan for a Development Policy Operation by the World Bank. These funds are focused on 3 pillars: 1) supporting fiscal consolidation and debt management 2) raising agricultural export competitiveness, and 3) improving governance and financial inclusion. Climate change and inclusion are common themes that cut across all 3.

2022 GDP slightly undershot expectations, up +4.8% (FY21: +7.6%). 4q22 GDP growth was down to +3.8% from +4.3% in 3q22. Agriculture contracted -1.6% for the year, with lower production following the drought. The elections also brought uncertainty, and general economic activity slowed. Moody's downgraded the country's rating to B3 (Prev: B2) with a negative outlook due to the significant liquidity risks.

Macro releases (April stats):
- Inflation slowed to +7.9% y/y (Mar: 9.2%).
- FX reserves were USD 6.5bn (Mar: USD 6.4bn).
- PMI fell to 47.2 (Mar: 49.2).
- Remittances fell -9.8% y/y to USD 320m (Mar: -1.8%, USD 357m).

7.9% y/y	US$ 6.5bn	47.2
Inflation Rate	FX Reserves	PMI

MAURITIUS
Stocks have risen, a key indicator of investment activity rebounding following an austere 2years. MCB has been the key reason for the boosted gains.

Macro releases (April stats):
- Inflation slowed to +8.3% y/y (Mar: 9.1%).
- FX reserves slipped to USD 6.5bn (Mar: USD 6.7bn).

8.3% y/y	US$ 6.5bn
Inflation Rate	FX Reserves

MOROCCO
Bank Al-Maghrib (BAM)'s Governor, Abdellatif Jouahr, is among the top 5 bankers in Africa, due to the financial stability fostered under his leadership. Additionally, he is in the top 20 central bank governors globally; 1 of only 3 African bankers to receive this honour.

Morocco is well-known and recognised for its fisheries industry, the top sardine exporter in the world contributing 59% to GDP and employing 52% of the labour force. It provides over 700 000 direct and indirect jobs. In addition to that, Morocco is improving in the ranks to become one of the top 3 exporters of raspberries globally. The government is actively growing employment in these sectors. Unemployment reached 12.9% in 1q23 (1q22: 12.1%). The unemployment rate in urban areas increased to 17.1% (1q22: 16.3%), while rural areas also rose to 5.7% (1q22: 5.1%).

The country is implementing its 3rd budget extension totalling USD 1bn. The funds are allocated to managing inflation and supporting tourism. And the country has allocated USD 22m for wildfire Prevention and Control Measures.

Macro releases included (April stats):
- Inflation decelerated to +7.8% y/y (Mar: 8.2%). BAM expect inflation to gradually fall and normalise to +4.7% by year-end.
- FX reserves reached USD 35.6bn (Mar: USD 34.8bn).
- Credit extension loan costs went up 70bps to 5.0%.
- Trade deficit eased to MAD 72.6bn (USD 7.2bn) as at end-March.
- M3 grew +6.9% y/y as at end-March.

7.8% y/y	US$ 35.6bn	70bps	+6.9% y/y
Inflation Rate	FX Reserves	Credit Extension	M3 Growth

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY)

Mutandis (Morocco, Consumer staples) 1q23 Results: Good results overall, all segments showing double-digit growth aligned with expectations. Strong topline +22.7% y/y, driven by prices and supported by volumes. COGS was hit by high input prices, although these have stabilised. Strongest growth was in Season Brand, the US-based seafood business now at 29% of revenues, which grew +38.5% y/y supported by can volumes. Seafood (21% of revenues) went up +23.6% y/y due to price mix effects, as volumes of cans were stable and US demand offset Africa's reduced demand. Bycatch sales grew +16% y/y. Detergents (31% of revenues) grew +13.2% y/y driven by prices, while volumes grew a muted +3% y/y. Own Brands grew +15% y/y as machine and handwashing powder led detergent sales. Export revenues still constitute a minor part of detergents, and grew +26% y/y. The smaller segments – Beverages and Fruit juices constituted a combined 18% of topline – and grew +15.3% y/y and +23.8% y/y respectively. Beverage volumes grew +5% y/y. Fruit juices growth was bolstered by the new launch of "Frut", a healthy alternative to carbonated drinks. This has been well-received, and own brand revenues grew +20% y/y, driven by +43% y/y growth in volumes. The group is currently completing the acquisition of a water bottling plant Ain Ifrane, to be included in the release for next quarter.

Attijariwafa (Morocco, Financials) 1q23 Results: Net revenue growth was muted +4.1% y/y, driven by NII +12.4% y/y. Yields inched upwards and interest income +14.7% y/y. Cost of funds increased, so interest expense grew +21.2% y/y. NIMs expanded slightly by 20bps from 1q22 to 3.2%. NFI declined -9.9% y/y, even as fee income increased +16% y/y. Trading income, on the other hand, fell -80% y/y as FV of trading bonds shifted adversely. Provisions declined -35.1% y/y as cost of risk is normalising. Opex growth was muted +6.2% y/y. PBT and PAT grew +12.2% y/y and 14.8% y/y respectively. Loans grew +7.1% y/y and deposits +8.3% y/y, but both declined q/q.

CIB (Egypt, Financials) 1q23 Results: Impressive results. Robust net revenue growth +52.5% y/y, driven by net interest income +62% y/y. Yields rose and interest income +65% y/y, while cost of funds also increased so interest expenses grew +69% y/y. NIMs expanded by 140bps to 6.8%. NFI grew +26.8% y/y. This was driven by FX trading income which went up 5x and fees and commissions (63% of NFI) grew +67% y/y. Provisions returned to normalised levels for the quarter, cost of risk declined to 1.6% and NPL ratio 5.3%. Opex grew +32.7% y/y. PBT grew +46.1% y/y and PAT +59.4% y/y. Loans and deposits grew strongly, up 34% y/y and +35% y/y respectively.

GTB (Nigeria, Financials) 1q23 Results: Net revenue grew +29.1% y/y, driven by NII +43.6% y/y. Yields continued upward, interest income +47.3% y/y. Cost of funds rose and partially offset this, with interest expenses up +63.2% y/y. NIMs expanded by 79bps to 5.4%. NFI grew +11.1% y/y, driven by net fees and commissions (58% of NFI) +38% y/y. E-business (22% of NFI) grew +62% y/y and other fees (8% of NFI) grew +59% y/y. Trading income (21% of NFI) fell -31% y/y due to FX losses. Impairments rose 3x, following the year-end Ghanaian govt bond default, and this is expected to return to normal levels during the year. Opex grew +16.8% y/y. PBT grew +36.5% y/y and PAT +34.6% y/y. Loans lagged deposits this quarter, with deposit growth up +25.3% y/y and +10% q/q while loans grew +8% y/y and -2% q/q.

Equity Group (Kenya, Financials) 1q23 Results: Strong topline but muted earnings, offset by expenses. Net revenue grew +28.2% y/y, driven by NFI which increased by a significant +54% y/y. FX trading income (28% of NFI) grew +152% y/y and other fees (50% of NFI) went up +50% y/y. NII grew +12% y/y, due to a rise in funding costs and interest expenses grew +47% y/y. This offset interest income up +22% y/y. NIMs contracted by 11bps to 6.3%. Provisions increased significantly, up +93% y/y. The reported NPL ratio sits at 9.1%, while cost of risk has increased from 1% in 1q22 to 1.7%. Opex grew +39% y/y, driven by other expenses +53% y/y and staff costs +33% y/y. PBT grew +10.5% y/y and PAT +6.6% y/y. Loans and deposits continued on the strong upward trajectory, +21% y/y and +25% y/y respectively. Notably loans grew +57% y/y in the DRC alone and +12% y/y in Kenya. Share is still incredibly attractive at PBV of 0.8x.

MCB (Mauritius, Financials) 3q23 Results: Great results, continuing the upward trajectory this year. Robust net revenue growth +41.8% y/y, bolstered by both NII +44% y/y and NFI +36% y/y. The yield curve shifted upwards strongly, interest income +112% y/y. Funding costs rose significantly, 5x growth y/y. NIMs expanded by 65bps to 2.81%. NFI was driven by other income +84% y/y and net fees and commissions +11% y/y. Provisions reduced -17% y/y, and the NPL ratio declined 30bps to 3.6%. Opex grew +21% y/y. PBT grew +81% y/y and PAT +77% y/y. Loans grew +7% y/y and deposits grew +13% y/y.

MARKET OUTLOOK

Africa is expected to outperform the rest of the world with an improved outlook in 2023. We continue to allocate to high quality businesses; those that score highly on our internally developed, Likert Q-scoring system, both currently and over time. We have two additional quantitative overlays, valuation and growth. We also have two qualitative overlays being management and ESG. What is particularly exciting is that we have a number of businesses across Africa that fit these criteria. The key transformational trends of financial inclusion, urbanisation and economic formalisation underpin a robust African consumer story that is taking shape regardless of global volatility. We allocate to the best companies in the sectors that tap into this transformation. At the moment, we have a bias towards financial inclusion and fintech themes as they do particularly well on our growth metrics.

Nigeria – An election year signals muted growth; but the election of a pro-business President is a positive sign. Adjusted economic reforms are more likely given new leadership. However, fuel subsidy reform delays show institutional weakness. We still wait for a signal from the CBN for a free flow and float of the Naira which is for us the real trigger for economic recovery. The road to full recovery will take committed policy change and will be bumpy. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples.

Egypt – The outlook for Egypt remains positive with continued accumulation of FX reserves and the CBE's sound monetary policies keeping the bond carry trade alive. The tourism outlook has improved, wheat prices have halved, and strong remittance growth continues. With the bulk of household consumption in cash, the investment opportunity for us in fintech is immense in this 100m population country and it will also drive economic formalisation and increased government revenue through widening of the tax net.

Morocco – Morocco's key economic drivers are mining, agriculture and tourism. Agricultural production is promising, with good rains since November supportive of growth. Tourism is rebounding with positive indicators for 2023. In terms of outlook, it remains a stable, mid-growth country with excellent opportunities in retail, manufacturing and fintech.

Mauritius – Tourism rebounded and growth prospects are positive.

Kenya – Peaceful elections and a new, business-friendly President bode well for the country in the foreseeable future. Continued recovery in tourism, lower soft commodity import prices and a rebound in food exports should provide tailwinds. Corporate expansion into neighbouring countries such as the DRC and Ethiopia, provide significant opportunities for Kenya. Safaricom and Equity Group are the two main drivers. IMF and World Bank support will also allow the country to maintain a strong growth trajectory.