

## Market snapshot

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

Aug Performance (%)	LCY	USD
Zambia	0.7	21.1
BRVM	4.8	4.4
Egypt	3.7	3.8
Morocco	3.2	3.0
MSCI EM	2.4	2.4
MSCI World	2.3	2.3
Nigeria	1.7	1.7
Kenya	2.7	1.5
Mauritius	1.9	1.2
Tunisia	0.7	0.6
Botswana	0.6	-0.1

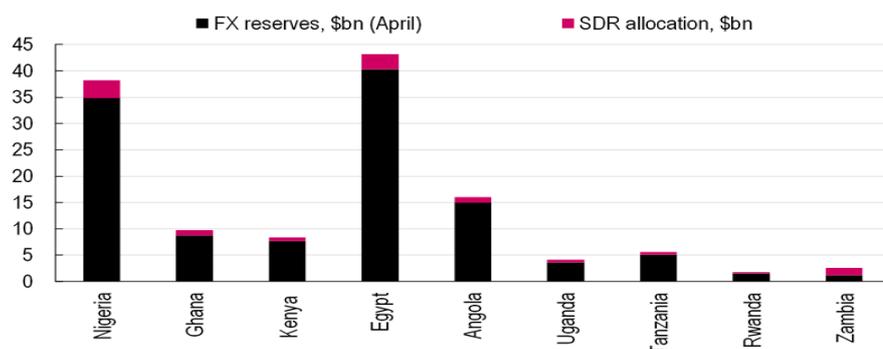
August was led by Egypt +3.8%, Morocco +3.0% and Nigeria +1.7%. The WHO noted that vaccinations in Africa tripled in the last week of August. However, reaching even a 10% vaccination rate by end-September is an ambitious target, with herd immunity no longer the focus given the virulent nature of new variants.

## Economic and political overview

**Nigeria** – 2q21 GDP surprised at 5.01% y/y (1q21: 0.51%), the strongest growth since 2014. This clearly indicates a return to normal business activity, with international travel also contributing to the growth.

Nigeria's daily COVID-19 cases appear to be spiking, but not enough to warrant additional restrictions according to the government. Nigeria received 4m Moderna doses from the US, signalling phase 2 of the vaccine rollout. Additionally, the country received 176 000 doses of J&J as part of a share of 400m doses given to AU member states. Nigeria has been allocated 29.85m doses, the remainder expected in the near future.

Nigeria's Special Drawing Rights (SDR) allocation from the IMF became effective on 23 August; the country receiving c. USD 3.4bn. The graph below shows FX reserves after SDR disbursements:



\* Source: Renaissance Capital

Macro releases included (July stats):

- Inflation was 17.4% (Jun: 17.8%).
- FX reserves remained flat at USD 33.4bn, which have since grown to USD 33.57bn as at 26 August.
- PMI was 55.4 (Jun: 53.6).
- M3 growth slowed to 8.1% (Jun: 10.2%).
- Private sector credit growth was 8.8% (Jun: 10.4%).
- Tourism sector announced over 770 000 job losses in the sector due to COVID-19.

**Egypt** – Unemployment came in at 7.3% in 2q21, largely unchanged from 1q21 at 7.4% (2q20: 9.6%). The absolute numbers indicate a 40 000 drop in the number of unemployed citizens, while the labour force fell marginally by -0.7% to 29.1m.

6m citizens of the 11m registered participants have been vaccinated, as the country prepares for the anticipated 4th wave in September/October. Egypt has received 525 000 doses of AstraZeneca, and an additional 1.7m doses through the Covax facility. Egypt's allocation from the AU is 25m, and they have received 260 600 doses of this so far. The country also received 2.5m doses of Pfizer to accelerate its vaccine rollout. The aim is to vaccinate 800 000 people per day, to reach a target of 40% vaccination rate of the total population before the next wave. 1m doses of locally manufactured Sinovac are available and the Vacsera's facility is set to open at the end of November, assisting the country to reach 74m vaccinated citizens by year-end in addition to other doses expected.

Mobile wallet numbers grew +16% y/y in 1H21, while the number of transactions surged at +175% y/y to 81m in 1H21. MNOs have started disbursing pension distributions this month in alignment with the new interoperability system regulations from the Central Bank of Egypt (CBE). People can now use all cards and mobile wallets to withdraw, deposit and transfer funds regardless of the network operator of the bank. Banks have 12m to fully comply.

Macro releases (July stats):

- Inflation was 5.5% (Jun: 4.9%).
- FX reserves marginally increased to USD 40.62bn (Jun: USD 40.59bn).
- PMI was 49.1 (Jun: 49.9).
- M2 growth was 17.3% y/y (Jun: 18.1%).
- Hotel occupancy rates reached 70% in Cairo and Alexandria. 48% occupancy in Hurghada and South Sinai.
- Bread prices, subsidised, have been increased for the first time since 1977.
- Egypt is set to receive USD 2.8bn of the IMF's SDR allocation.

**Kenya** – The tourism industry is set to see improved recovery after the government eased restrictions this month, allowing hotels to host meetings and conferences for a max of 30 people. Hotels are rehiring staff as demand picks up, with estimates showing employment at 62% of pre-pandemic levels. Restaurants are open until 9pm, allowing some normalisation of activity to resume.

Kenya received its first shipment of the Moderna vaccine.

Macro releases included (July stats):

- Inflation was 6.4% (Jun: 6.3%).
- FX reserves fell slightly to USD 9.34bn (Jun: USD 9.49bn).
- PMI was 50.6 (Jun: 51.0).
- Private sector credit growth expanded in June +7.7% (Apr: 6.8%), below the government target of 8.5%.
- Remittances grew +21.6% y/y to USD 372m (Jun: 6.0%).
- Mobile money transactions rose +52% y/y to KES 3.27trn (USD 30.3bn) in 1H21.

**Morocco** – 1H21 unemployment rose to 12.8%, from 12.5% in 1H20. The rural areas absorbed job demand following a good crop year with high rainfall. However, the urban areas suffered on the back of the pandemic, losing 228 000 jobs.

Nighttime curfews have been extended this month, but apply only to the non-vaccinated while waived for the fully vaccinated.

Macro releases included (July stats):

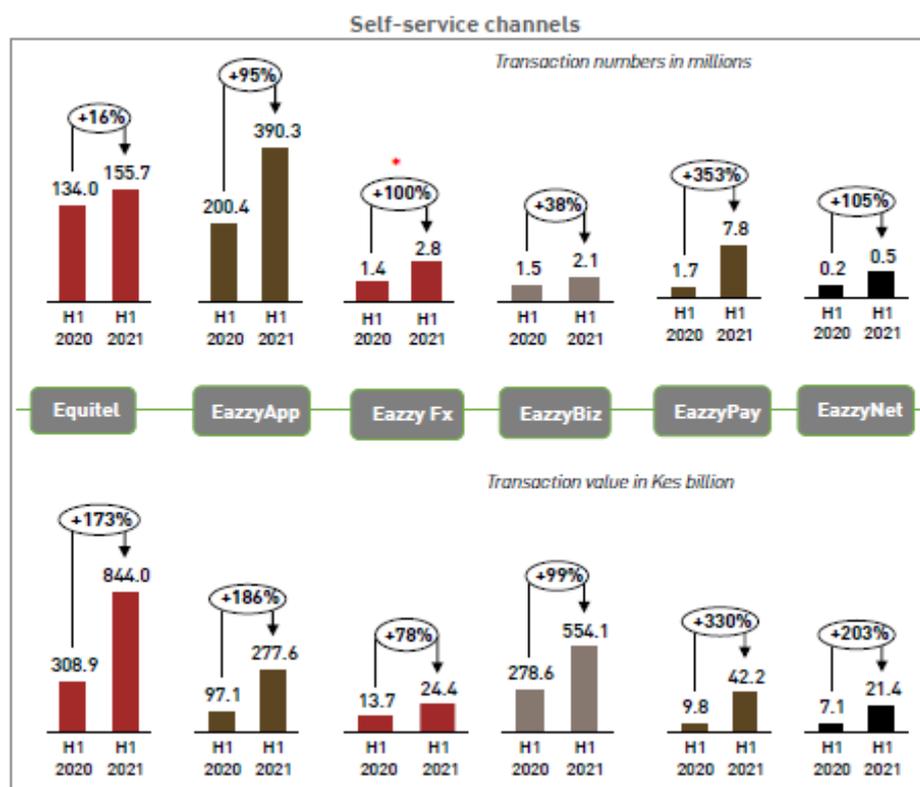
- Inflation was 2.2% (Jun: 1.5%).
- FX reserves grew to USD 35.3bn (Jun: USD 34.0bn).

## Company updates

**Fawry (Egypt, IT) – 2q21 results update:** Fawry released a reasonably positive set of numbers, revenues were +35.1%, EBITDA +31.6% and PAT +7.1%. The lack of operating leverage was due to increased capacity building, particularly on the HR side, where key executives have been hired for each of the major product lines. The slower PAT growth was due to the rights issue and ESOP expense being recorded in the quarter. The operating indicators remained strong, with Acceptance enabled PoS's (formerly Acceptance Enabled Merchants) growing 78%, myFawry app downloads growing 338% and mobile wallet transactions growing 58%. The revenue trends are consistent with what was guided to at IPO, where ADP would continue to grow, but fall in contribution as other streams come to the fore. ADP now represents 61% of revenue, down from mid 80's at IPO and is growing at 14%. Banking services grew 99%, Microfinance 143% and Supply chain solutions 45%. An interesting development in Microfinance is that Fawry is able to disburse credit to a merchant through the PoS and digitally earmark it for supplier payment. In addition the central bank has increased the cap for SME lending to EGP 200k. In Banking services, Fawry kicked off its partnership with Nasser Bank and the Ministry of Social Solidarity during 2Q 2021. The partnership will see Fawry develop a solution which allows pension recipients to claim their payments online, directly from nodes in Fawry's nationwide retail network, or from their nearest FawryPlus branch.

**Equity Group (Kenya, Financials) 1H21 results update:** PBT +99% y/y almost doubled driven by lower CoR this year at ~0.5% vs 2% for last year's first half and very strong transaction volume and fees driven by its strong payments franchise and the Covid-19 acceleration of app based payments (See chart below from their 1H21 results presentation). As the chart shows, all mobile based channels are growing rapidly. There is a steady migration from the 2G-based USSD channel of Equitel to app-based channels especially by transaction volume. We had a 1on1 meeting with management and were very encouraged by their update on the DRC business. They are doing the right things in the near-term such as cutting opex

and improving margin. On the cost side, historically 85% of the opex was related to BCDC's expat management staff, which has now been cut as of April this year. On the margin side, most of the USD deposit base was earning 40bps and this has been partly reinvested in the Kenya Eurobond at 7% USD yield. They will over time encourage more LCY lending as their LCY deposit book ramps up. They are busy rolling out their agency business plan which should be very exciting. DRC on an opportunity basis is compared to Kenya ~1999. A very long runway of growth lies ahead. Overall, NPL risk is still the main negative to consider but it seems management's restructure of its loan book is going well. ~95% of the restructured book is performing. Overall, a very good set of results that shows that management is getting on the front foot with regards to delivering growth. If management can achieve its ROE guidance of 25-30% we expect the buying pressure in the share to continue.



## Market outlook

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** – Nigeria's outlook is improving with substantially higher oil prices making painful but necessary economic reforms more likely. Most importantly the free flow and float of the Naira. 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. While travel restrictions and lockdowns have hit Egypt hard, the exceptional progress made under the IMF program from 2017 to 2020 has by no means been derailed. Moving from gas importer to exporter helped cushion the blow from lost tourism revenues and the CBE's sound monetary policies have kept the bond carry trade alive. With 98% 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 formalization and increased government revenue through widening of the tax net. **Morocco** – Morocco's key economic drivers are mining, agriculture and tourism. Strong commodity prices and a good rainy season should help to offset weakness from tourism. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail and fintech. **Kenya** – Kenya will miss its key tourist season of July-August, owing to travel restrictions. Some support will be provided by a good agriculture season and high soft commodity prices, where Kenya is a large exporter of tea, coffee, flowers and vegetables. Overall we are satisfied by the performance of our financial inclusion focus here and expect growth to be steady. **Mauritius** – Mauritius remains very dependent on the timing of large scale tourism recovery. Unless tourism comes back strongly in the peak December 2021 season, the macro and MCB will be under pressure. **Vaccine roll-out** – As a general comment, vaccine roll out will play an important role in the timing and pace of the recovery, particularly in sectors like tourism. With the exception of Morocco, this has been slow, however we do anticipate it to speed up dramatically in 2H21. **Bilateral funding, donor support** – Fortunately most countries have constructive relationships with the IMF/other, who are all continuing and even increasing their support and relief programs.