IMARA Asset Management

Monthly Market Report

Edition:	**December 2021**
Region:	**Africa ex SA**
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Market snapshot

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

December Perf (%)	LCY MTD	LCY YTD	USD MTD	USD YTD
Zambia	13.1	54.9	20.8	96.6
BRVM	2.0	39.1	2.7	29.3
MSCI World	4.2	20.1	4.2	20.1
Mauritius	4.3	27.3	3.5	15.5
Morocco	2.1	18.3	2.4	14.4
Egypt	4.9	10.2	5.2	10.4
Kenya	1.6%	9.4	1.0	5.6
Nigeria	-1.2	6.1	-3.6	0.1
Tunisia	0.0	2.3	0.6	-4.1
MSCI EM	1.6	-4.6	1.6	-4.6
Botswana	0.2	1.9	0.0	-6.2

December was a positive month to cap a strong 2021 calendar performance. Overall, 2021 matched our positive view on earnings for most of our portfolio companies. In many cases, we believe good earnings also drove share price performance which means the flipside of valuation remains reasonable, or even cheaper in some cases.

Not everything was positive in 2021. Nigeria disappointed again as the CBN failed to confront its FX problem, seemingly unaware just how far it has slipped in the eyes of emerging market investors. We still think it's a matter of when, not if, they normalise FX liquidity (and with that bond yields and cost of equity). But the time risk of that means that from an allocation point of view, we have preferred to default to a lower country weight until we get more tangible steps to policy changes. The positive theme of mobile money (MTN and banks) keeps us very keenly aware of the opportunity, while the consumer play (Nestle) remains on ice while the FX issue makes inventory management and pricing challenging,

Overall, Egypt, Morocco and Kenya delivered on a macro and earnings level and we think 2022 will be more of the same. Fawry's sharp derating into the final quarter was probably overdue, but the quantum and size of derating was surprising. Brazilian fintechs PagSeguro and StoneCo, key sector comparables, are 70-80% off highs, and have shifted the global sentiment from overly exuberant to more circumspect on the sector. We remain very positive on the growth prospects for Fawry's 2022 transaction and revenue growth in Egypt.

Africa Fintech Overview

December was a good month for Fintech share prices, with the bulk of companies in the sector performing strongly after a relatively weak August to November period. There were no major specific company financial or operational updates.

Economic and political overview

Nigeria – Ratings agency S&P raised its long-term sovereign credit rating on Nigeria by one notch to BB- (with a stable outlook). The reasons cited include strengthening reserves and improved government reform.

China has offered another billion doses of COVID-19 vaccines to Nigeria and other African countries as concerns mount about increasing cases amidst the presence of the Omicron variant. The government has started administering booster shots as the country faces its 4th wave.

The World Bank is rolling out a facility to access NGN 329.5bn (USD 800m) for a large-scale Conditional Cash Transfer Programme. This fund will be managed through the Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development to primarily support the poor.

Macro releases included (November stats):

- Inflation was 15.4% y/y (Oct: 16.0%).
- FX reserves fell slightly to USD 41.19bn (Oct: USD 41.83bn).
- PMI was 55.0 (Oct: 54.1).
- M3 growth was 15.2% y/y (Oct: 14.2%).
- Credit to the private sector was 20.1% y/y (Oct: 18.6%).
- Real household consumption expenditure has shown a sharp recovery in 2021, rising to 76% of GDP in 2021 (2020: 62% of GDP).

Egypt – Egypt is experiencing its 4th COVID-19 wave, with various vaccine doses received and booster shots being disseminated. The Omicron variant has also been detected in the country. Additionally, the government is working with private company Eva Pharma to produce the second locally-produced COVID-19 vaccine. Concurrently, the Ministry of Health has expanded its universal healthcare coverage insurance scheme to an additional 15m citizens. Now 69% of the population have access to health insurance (including private schemes).

The Central Bank of Egypt (CBE) has extended the fee waiver on cash withdrawals to end-June. Additionally the CBE issued a circular outlining instructions for financial institutions to support SMEs over the next 18 months. Specifically, SMEs are to be categorized as Stage 3 loans after late payments up to 180 days, as opposed to the current standard of 90 days. These loans can then progress to Stage 2 after performing for 90d. The idea is to accommodate distressed SMEs, and the CBE has encouraged banks to allow for various options on a case-by-case basis.

Pushing financial inclusion, the CBE announced the launch of an electronic portal for managing mobile money accounts. Citizens can use the portal to make enquiries regarding registration, and unsubscribe from any wallet without needing to physically visit branches when changing service providers.

Macro releases (November stats):

- Inflation slowed to 5.6% y/y (Oct: 6.3%).

- FX reserves grew to USD 40.92bn (Oct: USD 40.86bn).
- PMI was flat at 48.7.
- M2 growth was 18.5% y/y (Oct: 17.6%).
- The government forecasts growth of 6-7% in 4q21.
- E-commerce transactions reached EGP 80bn (USD 5bn) in 2021, driven by electronic products (28%), fashion (21%) and personal care (19%).

Kenya – The Central Bank of Kenya (CBK) has ruled out a cap for digital lenders, instead opting for a pricing model for loans that is comparable to banks. The President signed a law bringing digital lenders under the watch of the CBK for the first time to prevent predatory lending.

Mobile money agents handled USD 49.8bn up to end-October, up +38% y/y. This shows the strong push towards a cashless economy and continued success of financial inclusion in the country. Further, the Communications Authority of Kenya cut the interconnecting rate for mobile phone operators by 88% which could in turn mean lower call tariffs. Technological advances have allowed for more affordable inter-provider access.

Macro releases included (November stats):

- Inflation decelerated to 5.8% y/y (Oct: 6.5%).
- FX reserves declined to USD 8.74bn (Oct: USD 9.18bn).
- PMI went up to 53.0 (Oct: 51.4).
- The hospitality industry has seen a strong recovery in recent months, reaching 78% of pre-Covid levels prior to the festive season.
- COVID-19 cases are increasing, but hospitalisation and the death roll have been declining over the past several weeks.

Morocco – The World Bank is lending MAD 4.1bn (USD 450m) to Morocco to modernise its public sector. The loan falls under the Morocco Public Sector Performance Program (ENNAJAA). These funds support governance reforms and are key to the government's medium-term strategy to improve service delivery.

Morocco is currently seeing a spike in Covid cases, with students demanding online exams as a result.

Macro releases included (November stats):

- Inflation was 2.9% y/y (Oct: 1.7%).
- Remittances have reached USD 9.3bn so far in 2021. This is 7.4% of Morocco's GDP.
- The government has decided to extend the aid for the tourism sector to end-December 2021.

Company updates

No holdings reviews for December.

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 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. 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 missed 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. **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 it started speeding up 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.