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) –

July Performance (%)	LCY	USD
Zambia	1.5	19.7
BRVM	5.1	5.2
Egypt	4.7	4.6
Mauritius	2.8	3.2
Kenya	2.3	1.8
MSCI World	1.7	1.7
Nigeria	1.7	1.6
Tunisia	0.8	0.8
Botswana	1.2	0.1
Morocco	-0.8	-0.5
MSCI EM	-7.0	-7.0

July was a challenging month for the portfolio given difficult macroeconomic factors affecting emerging markets. The IMF released its updated World Economic Outlook this month. While advanced economies had upward revisions, emerging markets were forecast to decline on the back of slow vaccination rollouts. This has increased the risks in terms of virus mutations, with the delta variant particularly virulent and new variants, like lambda, being found in different countries. Emerging markets are still contending with resurgent infections and pressure on healthcare systems, slowing down normalisation of activity. The IMF is maintaining Sub-Saharan Africa’s GDP at 3.4% for 2021. The World Bank and Covax have established a partnership to assist developing countries to finance vaccine supplies. The target group consists of 92 developing countries.

Economic and political overview

Nigeria – The country is taking strain from a confluence of factors affecting the economy. Coronavirus cases have risen to their highest level since March, recording an increase of 77% in one week. The government has pledged NGN 36bn (USD 87m) to curb the surge. The pandemic affected remittance inflows by a steep decline of -20%. Capital flows declined by -61% in 1H21, down from USD 7.15bn to USD 2.78bn. The World Bank highlighted the unemployment crisis this month, exacerbated by accelerated inflation significantly impacting purchasing power. Most core basket food items have surged – for example beans + 253% y/y and tomatoes up +123% y/y. Rice, the staple food, has moderated in recent months but still risen by +51.5% y/y. Furthermore the active labour force is down by 20m from 2018-2020. Nigeria boasts the unfavourable title of the lowest revenue to GDP ratio in the world. Even then, the IMF retained their GDP outlook at 2.5% for 2021, and raised the 2022 forecast to 2.6% (Prev: 2.3%).

Internal factors have also played a part. The Central Bank of Nigeria announced that it will no longer sell forex to Bureau de Changes (BDCs). Most of this allocation will be diverted back to commercial banks, a total of c.USD 5.72bn p.a. Additionally no new licenses for BDCs will be issued. Following the announcement, the parallel market rate weakened. The implication for importers is material increases for inputs unable to be sourced through official channels. The CBN then directed USD 200m to commercial banks to meet legitimate FX demand.

Even in that challenging context, Nigeria holds the title of the highest mobile app market growth in Africa ahead of Kenya and South Africa.

Macro releases (June stats):

- Inflation was still elevated at 17.8% y/y (May: 17.9%), driven by food inflation of +21.8%.
- FX reserves eased to USD 33.37bn, down -8.1% since January (May: USD 34.24bn).
- PMI was 53.6 (May: 54.4).
- M3 growth came in at 10.2% y/y (May: 11.3%).
- Private sector credit growth was 10.4% y/y (May: 9.7%).

Egypt – Vaccinations are progressing albeit slowly; the government has vaccinated 3.6% of the population. Comparatively Morocco has vaccinated 32%. Egypt is actively acquiring vaccines from various sources, which were received this month.

On a positive note, the Financial Regulatory Authority has issued a decree instituting mandatory ESG reporting requirements for companies listed on the Egyptian Stock Exchange. Compliance for companies with capital of EGP 100m consists of an annual ESG disclosure. For larger companies of over EGP 500m, they will be required to report on indicators based on the Task Force on Climate Financial Disclosure (TCFD). This is expected to commence in 2022, with quarterly disclosures in the interim outlining steps being taken to align with it.

The Central Bank of Egypt (CBE) is launching a mortgage financing programme for low and middle income earners. The stipulations allow access to mortgages at a rate of 3% with a repayment period of 30 years.

Macro releases included (June stats):

- Inflation was 4.9% y/y (May: 4.8%).
- FX reserves were stable at USD 40.59bn (May: USD 40.48bn).
- PMI went up to 49.9 (May: 48.6).
- Primary surplus of 1.4% of GDP in FY20/21.
- Budget deficit narrowed to -7.4% of GDP (FY19/20: -8% of GDP).
- Tourism revenues went up to c.USD 3.5bn following 3.5m visitors in 1H21. Hotel occupancy in Red Sea resorts was up to 35-40% during this period (1H20: 20-23%).
- Moody's affirmed Egypt's B2 rating with a stable outlook.

Kenya – The delta variant has resulted in a resurgence of COVID-19, and the government has banned public gatherings and extended the nighttime curfew in response.

817 000 vaccines are anticipated from the UK, assisting with the vaccine rollout. In the meantime, Kenya turned to the Global Fund for additional funds of USD 31.1m to bolster the vaccination programme aimed at vaccinating all 26m adults

by end-2022. The country received USD 30.9m under the COVID-19 Response Mechanism programme, which went to procuring test kits, PPE and oxygen equipment.

Macro releases (June stats):

- Inflation accelerated to 6.3% y/y (May: 5.9%). If inflation continues at these levels, the IMF will pause funding on the 3-year programme.
- FX reserves climbed to USD 9.49bn (May: USD 7.48bn) on the back of external debt receipts.
- PMI slowed to 51.0 (May: 52.5).
- Remittances grew by 6.0% y/y to USD 305.9m (May: 33.2%).
- Tourist arrivals declined by -22% in 1H21, but included over 300 000 international guests.

Morocco – The government is setting up a local plant with Recipharm, a Swedish pharmaceutical company, to produce vaccines. Sothema, a local company, will produce 5m doses of the Sinopharm vaccination per month. So far, the government has administered over 20m doses of vaccines. Cases have started to rise recently, leading to a stricter nighttime curfew.

Macro releases included (June stats):

- Inflation was 1.5% y/y (May: 1.9%).
- FX reserves grew to USD 34.0bn (May: USD 32.0bn).
- Remittances in 1H21 grew +48% y/y to MAD 44.2bn.

Company updates

Nestlé (Nigeria, Consumer staples) 1H21 Results: Revenues were up +21.6% (1q21: +24.1%, 2q21 +19%) driven by both prices and volumes. This was stronger growth than we expected considering the context, although it did not translate into any material gains at the bottom line. Nestle increased prices m/m this year, cushioning the effect on margins given significant input price increases. Beverage topline growth outpaced food, resulting in +27.8% y/y growth for 1H21. Food showed more moderated growth at +17.6% y/y, slowing down in 2q21 after a strong start in 1q21 at +26.2% y/y. Nestle maximised on pent-up demand, an industrywide trend, following a period of heightened restrictions. Beverages were the category of choice with growth in all line items. Input prices quickened to +31% y/y; most significant in 1q but moderating in 2q. This offset most of the topline gains, resulting in Gross Profit up a modest +9% y/y. The GP margin was down 439bps to 39% from 1H20. Opex grew +13.6% y/y, spiking in 2q21 up +27% y/y with higher marketing spend. Operating profit for 1H21 was +5.8% y/y, 1q21 strong at +16% y/y but offset by 2q21 at -5% y/y. The bottom line took a hit with the increased interest expenses resulting in PBT -1.4% y/y and flat PAT off a low base during the height of pandemic restrictions in 1H20.

Nigerian Breweries (Nigeria, Consumer staples) 1H21 results: Topline surprised with +37.8% y/y growth, 2q21 revenues up +50.9% y/y. Revenues were driven by prices – increases were announced for most brands in June – and supported by a volume rebound due to pent-up demand. Additionally, some consumers have migrated to off-trade, buying more for less. The strong volume growth is in stark contrast to the current macro context, particularly the state of the Nigerian consumer. Interestingly, price increases were led by International Breweries as opposed to NB making the first move. The global raw material cost increases led to COGS growth of +41.7% y/y. Gross profit was up +31.7% y/y, off a very low base in 1H20. The GP margin remained flat from 2H20, moderated by the combination of price and volume growth. Operating costs were up +29.2%, 2q21 up 57% y/y due to marketing and advertising for their new brands and campaigns. PBT was +6% y/y after interest expenses incorporating FX losses. PAT up 38.1% y/y. We may see continued demand next quarter, but there is a risk of volume weakening and the unsustainability of this level of volume growth. Coupled with input price increases, margin pressures are likely to continue to be an issue.

EABL (Kenya, Consumer staples) FY21 results: Revenues grew +14.7% y/y, higher than expected given the -3% decline in 1H21. This figure is +4% above that of FY19 pre-Covid. The growing off-trade consumption has bolstered volumes, with alcohol consumption centered around casual occasions and smaller groups. There was growth in all markets, Kenya (66% of topline) +10%, Uganda (19% of topline) +33% and Tanzania (15% of topline) +15% for the year. This was despite movement restrictions in Kenya and Uganda which hampered consumption. Spirits led by category, up +23% y/y, followed by Premium brands which grew +21% y/y. The cost lines had material increases – COGS up +15.9% y/y driven by input prices and opex +43.2% y/y due to new brand campaigns. Gross profit was also impacted by the introduction of digital tax in Uganda and excise increases in Kenya. EABL managed to maintain its GP margin at 44% from 2020, down 210bps pre-Covid. PBT was +2% y/y and PAT was flat y/y. Management decided not to declare dividends citing macroeconomic uncertainty, particularly following COVID-19 resurgence in Kenya and continued pandemic concerns in the other markets.

Mutandis (Morocco, Consumer staples) 1H21 Financial Release: Revenues were stable at 1.1% y/y (2q21: +11.5%). 1q21 (-10% y/y) was a slow start given the tail-end of a pandemic wave and the start of the vaccine race. 2q21 saw volumes start to rebound but still within a difficult context. Segmentally, the two largest categories were down in 1H21 while the smaller categories had good growth. Homecare (42% of revenues) was down -12.6% y/y. Own brands, usually the go-to in terms of affordability, were down -11% y/y. Homecare revenues were off a high base after a one-off spike in 1H20 which drove revenues upward as consumers anticipated COVID-19 restrictions. Seafood (29% of revenues) was down -11.2% y/y, dragged by sardine and mackerel revenues which declined -17% y/y due to supply chain issues. Mutandis generally gets 50% of their sardine supply from their own fleet, and the other 50% through external fishermen. Management noted that there were fewer traditional fish catchers – the smaller enterprises who dwindled in number following the pandemic. Bottles (22% of topline) were up a strong +82.1% y/y, driven by prices but also bolstered by volumes as pandemic restrictions were lifted. Fruit juices (6% of topline) grew +12% y/y, due to volume growth of +14% y/y. Management see 2H21 being favourable for the Homecare segment as activity normalises. Mutandis announced the 100% acquisition of US Brand LLC – a premium brand business in canned sardines. This is a positive move with clear synergies with the existing Seafood business, as well as gaining access to the US market. 90% of season brands are bought out of Morocco, excluding Mutandis, and management would like to retain and grow those existing relationships. Ultimately the business should add c.MAD 480m (USD 53.6m) to revenues p.a. The topline benefits of the transaction will start to come through in 2H21.

CIB (Egypt, Financials) 1H21 results: PBT +15% y/y is the positive result we expected with the same management outlook repeated - economy recovering from Covid-19, credit losses limited and credit growth >20% y/y expected. Loan growth is now 10% YTD driven by14% LCY loans offset by some USD based facility paydowns. Two loans were moved to Stage 3, one tourism and one syndicated, but both are fully provisioned and collateralised. So, do not expect new provisions for 2H21. CIB's management stated that there were plans to approach the regulator for permission to pay a special dividend from 2020 earnings, or a double dividend next year as plan B. The recently announced bonus issue is entirely separate from this, as management is still pursuing the special dividend payment plans with the regulator. We expect more news on their digital bank strategy to only materialise in 2022 - not much further colour on this during the call. The bigger catalysts, at the moment, remain a change to more positive IFRS assumptions to match management's positive macro outlook and positive news on dividends. For technical reasons IFRS assumption changes need to wait for actual change in Covid cases and vaccination rates while the dividend decision is currently with the regulator.

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.