Monthly Market Report

Edition:	**May 2021**
Region:	**Africa ex SA**
Issued by:	**Imara Asset Management Limited**
Author:	**Rainer Orth, Tony Schroenn**

Market snapshot

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

May Performance (%)	LCY	USD
BRVM	4.0	5.7
Tunisia	3.2	4.0
Morocco	2.6	3.8
Botswana	0.3	2.6
MSCI EM	2.1	2.1
Zambia	2.7	1.7
Mauritius	3.6	1.6
MSCI World	1.3	1.3
Kenya	0.5	0.6
Egypt	-1.6	-1.7
Nigeria	-3.5	-3.9

This month's performance was led by Morocco +3.8%, Mauritius +1.6% and Kenya +0.6%. Negative performances came from Egypt -1.7% and Nigeria -3.9%.

Africa's COVID-19 death toll lags the developed world. The global average for critically ill is 32%, while the death rate in the month after admission in Africa is c.48%. Increasing the speed of vaccine rollout is vital and the top of the current agenda in most countries.

Economic and political overview

Nigeria – GDP grew 0.51% y/y in 1q21, up from 0.11% y/y in 4q20. Growth was driven by the oil sector, down -2.2% y/y which was a partial recovery from the -20% contraction in 4q20. The manufacturing sector reversed its previous contraction, growing +3.4% y/y. Trade contracted by -2.4% y/y even as borders reopened.

Nigeria's vaccine rollout is underway, with a target to vaccinate 70% of the population by year-end. This is likely to be slowed down after supply disruptions from India, a major supplier of AstraZeneca vaccines to Covax, which has now suspended exports until the end of the year. That said, the WHO has ranked Nigeria's COVID-19 rollout as the best in Africa, both in terms of storage and strong distribution to the population.

The volume in the I&E FX window (table below) improved substantially to USD 2.5bn. This level is more in line with September to December 2020 but still only c.40% of the pre-pandemic and oil shock level of USD 6bn per month.

Month	Total Value Traded (US$)
January	1 146 169 877,06
February	1 329 115 175,44
March	1 532 474 244,16
April	1 181 634 356,18
May	2 501 862 172,64

Macro releases included (April stats):

- Inflation slowed slightly to 18.1% (Mar: 18.2%).
- FX reserves were USD 34.88bn (Mar: USD 34.82bn), but have since declined to USD 34.24bn as of 28 May.
- PMI remained flat at 52.9, and since risen to 54.4 in May.
- M3 growth rose to 8.9% y/y (Mar: 8.0%).
- Private sector credit growth grew by 10.1% y/y (Mar: 9.9%).
- AUM of the pension industry was up 17.2% y/y to USD 30.2bn.

Egypt – Egypt underwent its final review by the IMF for the Stand-by Arrangement. A final tranche of USD 1.6bn is expected shortly. The IMF raised its GDP growth expectations to 2.8% FY20/21 (June year-end) and 5.2% in FY21/22. Growth is likely to be facilitated by less stringent restrictions. Egypt has extended its nighttime curfew, lifting the restrictions put in place earlier this month. Hospitality workers, particularly in Southern Sinai and the Red Sea, have been vaccinated. Schools resume online classes on 1 June.

50% of the population is the target for vaccinations by year-end. 7m doses are expected next month, 3m from the locally produced Vascera and the remainder from a combination of AstraZeneca and Sinopharm. 20m doses of Sputnik V are expected before year-end.

Macro releases (April stats):

- Inflation was 4.1% y/y (Mar: 4.5%).
- FX reserves remained stable at USD 40.35bn.
- PMI came in at 47.7 (Mar: 48.0).
- M2 growth was 19.1% y/y (Mar: 20.1%).
- Tourism is showing signs of recovery; 1q21 reached 60% of pre-pandemic levels. Over 500 000 tourists visited from over 20 countries in April.
- The unemployment rate rose to 7.4% in 1q21 (4q20: 7.2%).

Kenya – Moody's affirmed Kenya's B2 rating with a negative outlook. S&P, following the downgrade to B in March, just updated its economic risk score for Kenya to reflect the weaker external position. S&P estimates a current account deficit of -5.4% of GDP and GDP growth of 4.4% this year.

Macro releases (April stats):

- Inflation was 5.8% y/y (Mar: 5.9%), and crept back up to 5.9% y/y in May.
- FX reserves grew to USD 7.66bn (Mar: USD 7.34bn).
- PMI slowed to 41.5 on the back of movement restrictions (Mar: 50.6).
- Remittances have grown by 43.7% y/y off a low base, to USD 299.3bn (Mar: 27.1%).
- Current account deficit widened to -5.2% of GDP (Mar: -5.1% of GDP) as imports outpaced exports.

Morocco – March figures released show banking sector loan growth up 3.3% y/y. This was driven by +8.1% y/y growth in debtor accounts and overdrafts, and +2.6% increase in real estate loans. Equipment and consumer loans fell -5.3% and -3.1% respectively. Non-performing loans stood at MAD 80.5bn.

The Special Commission on the Development Model (CSMD) presented Morocco's 2035 goals this month. The report addressed a wide range of factors and outcomes, including doubling GDP and increasing private investment to 65% of total. Additionally the Casablanca Stock Exchange is targeted as a key regional player, increasing the quality and efficiency of the market. Furthermore the view is for renewable energy to constitute 40% of total consumption by 2035.

Macro releases included (April stats):

- Inflation picked up to 1.4% y/y (Mar: 0.1%).
- FX reserves rose to USD 31.8bn (Mar: 29.5bn).

Company updates

Obour Land (Egypt, Consumer staples) – 1q21 results update: A good top line performance, but soft commodity prices biting. Revenues came in +14%, a combination of white cheese vols +5% and prices +5%, plus increased revenues from milk and processed cheese. Gross profit only grew 9% on higher SMP and palm oil prices, while EBITDA was +5% on higher distribution and marketing expenses. Obour is the cheapest and most efficient player, by virtue of its size and more modern equipment, hence it can largely dictate price increases relative to competition, however relative to the end consumer it is more constrained. The company remains high quality and attractively valued (8x FY21 PE and 9% div yield), however meaningful earnings growth should be difficult to come by in 2021.

Fawry (Egypt, IT) 1q21 results update: Hot on the heels of the FY numbers, the 1q21 results show continued growth, albeit it compared to quite a tough comparable in 1q20. Revenues were a bit "soft" at +35.5%, given that operating metrics were mostly very strong. PoS terminals +53%, Acceptance Enabled Merchants +267%, myFawry App downloads +622%. We believe this reflects the lockdowns and curfews, where the infrastructure has been laid out, but the merchants and their customers have been restricted. The financial model remains intact, with diversified revenue streams and operating leverage seeing EBITDA +72.9% and attributable earnings + 146.2%. As committed to at the IPO, Alternative Digital Payments would continue to grow, but fall in contribution to total revenues as other services grew substantially faster. In their maiden results as a listed company, 2q19, ADP was 85% of revenues vs 64% in 1q21, driven by Banking Services, Supply Chain and Microfinance growth.

Safaricom (Kenya, Communications) FY 2021 (to 31 March) results update: The annual results do not look particularly exciting, however we have already had a weak first half set of results and the second half now shows a reasonably strong bounceback. As with the first half the key detractor was zero rated MPESA transfers below Ks 1,000, albeit for only three of the six months to 31 March 2021, as the zero rating was removed 1 January 2021. Revenues for the year were up 0.6% and EPS was down 6.8%, on higher Covid costs and interest charges on the maiden interim dividend. For the second half revenues were +5.2%, with MPESA up 10% y/y vs -14% y/y in the first half. The underlying drivers, subscribers and usage, remain strong across all business lines and the continued roll out of 4G towers, fixed fiber and the IoT platform, position the company for growth.

The big news is the acquisition of the Ethiopian mobile license for USD 850m, having beaten the MTN consortium who only bid USD 600m. Safaricom will own 56% of the venture and the news that mobile money services can be provided is a key positive. With 110 million people and extremely low penetration, Ethiopia remains an immense opportunity. It is not without its risks however, given the ongoing Tigray conflict, recently imposed US sanctions and a generally belligerent government. In the past the country has been hostile to foreign investment and a difficult place to do business. Ultimately it will depend on management, who over time have consistently delivered and shown good capital discipline. The local market has taken the announcement very positively as Kenyans mostly view Ethiopia as a country with promising investment opportunities.

Equity Bank (Kenya, Financials) 1q21 results: A very encouraging performance with PBT +67 y/y driven by a sharp decline in provisions, liquidity growth and the DRC acquisition. Cost of risk came down to 0.26% vs. 0.86% a year earlier. While NPLs are still elevated at 11.3%, bad debt formation has peaked. Most of the restructured book has started payments again but management expects 7% of NPLs lost to this cycle. Given a 5.5% provision last year, one can assume that it is in the base already. Liquidity growth is very strong. Deposits +49.8% y/y driven most by organic sources and ~20% from acquiring the DRC book. On the fees side growth was 30% y/y but within that newer fintech apps and mobile channels are up >100% y/y. Overall, the risk profile has become higher risk with DRC the biggest subsidiary after Kenya and about 25% of the Group. However we are positive on management's ability to execute their agency banking model in the DRC market. ROE at 25.3%, substantial growth prospects, a valuation at 0.9x 2021 book with an under-appreciated fintech business in the Group, are all ingredients that make us very comfortable with this position.

CIB (Egypt, Financials) 1q21 results: PBT+12% y/y in line with our positive expectations for the year mainly driven by a reduction in provisions. As mentioned in our full year feedback, provisions were made in 2020 which did not transpire in actual bad debt. The theme for this year will therefore be lower provisions and a catchup in earnings. The next few quarters should be stronger as the outlook-based determination of provisions in IFRS models can be adjusted. It is still too early to adjust models although the economy is coming out of the Covid-19 pandemic. Management is waiting on vaccination roll-out to adjust its outlook. EGP loans +21% and deposits +22% shows a healthy trajectory. CIB also announced the launch of a digital bank which will be a separate subsidiary to service C and D clients more efficiently by virtual and agency means. This follows CIB's withdrawal from the Fawry Plus consortium (an agent bank solution which also included state-bank Banque Misr) and shows they want to build their own agency and digital solution. We look forward to more detail on this in our next call with management. ROE now at 19.5% and expected to be stronger in the second half to get to our 21.3% forecast. A very heavy capital load, CAR now at 28%, is unusual for the moment. Question on a possible special or higher dividend in 2022 is topical, but management prefers to focus on funding a strong recovery and growth. We can well see growth rates above 30% going forward. Valuation at 1.2x 2021 book is very attractive.

IMARA
Asset Management

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.