Monthly Market Report

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Africa Fintech Overview

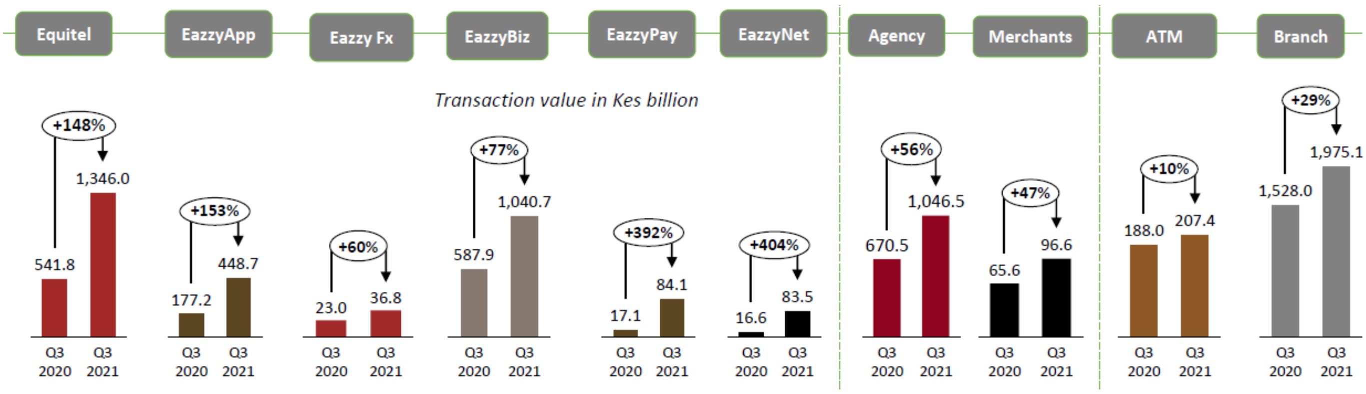
Company Results and Operating Statistics

The main highlight this month were excellent results in our key portfolio holdings, MTN, Equity Bank, Fawry and Safaricom.

MTN (South Africa, Communications services) – 9m21 trading statement: Very strong trading statement at the income statement and balance sheet level. Revenue +19.1%, EBITDA +24.1% on an EBITDA margin of 45.0% (from 42.9%). Data revenue +34.5% and Fintech revenue +35.0%. SA revenue +7.7% on an EBITDA margin of 41.6% (from 39.3%). Nigeria revenue +23.5% on an EBITDA margin of 52.6% (from 51.1%). On the balance sheet side, consolidated net debt/EBITDA now stands at a modest 0.6x, USD 500m of bonds were redeemed early and S&P gave the company an upgrade to investment grade. The IHS Towers listing, SA tower deals, Middle East sales and localization (share offers in Nigeria and Uganda) will provide further impetus to the deleveraging process over the next 18 months. Some interesting extracts from the results: Fintech platform continues to scaleActive MTN Mobile Money (MoMo) +2.2 million to 51.1 million.

- MoMo value of transactions +67.2% YoY to USD 175.5 billion.
- No. of active merchants accepting MoMo payments +58.3% YoY to 626k.
- Value of MoMo merchant payments +46.5% to USD 8.1bn.

Equity Bank (Kenya, Financials) 3q21 results – Continuing the strong 1H21 numbers with another impressive earnings release – 3q21 PBT +86% y/y. The two drivers, as before, being the improved margin on the DRC USD deposit base and the digital fee growth. Digital fee growth in Kenya is coming through strongly as shown in the snapshot from the results presentation below. The Eazzy app products are growing strongly. To compare, we expect MPESA to do USD 250bn of TPV in the FY ending March 2022. With a take rate of 40 bps translating to USD 1bn of revenue, we estimate a likely unbundled valuation of ~USD10bn. Taken together, Equitel and Eazzy app TPV is tracking to do USD 40bn of TPV for 2021 FY which should imply at least a USD 1bn valuation for the fintech subsidiary. We do think this value remains hidden within a Group structure that takes on substantial political risk in the region. We have engaged management on the monetisation of this value but they say it's too early in the steep growth path to talk about unbundling or exits.



Fawry (Egypt, IT) 9m21 results update – Revenues came in +33.4%, EBITDA +43.3% and attributable earnings +28.3%. The trends observed in the first half continued with the largest contributor to revenues at 61%, ADP, only growing by 10%, while Acceptance +244%, Microfinance +101% and Supply Chain Solutions +47%. The poor flow through to earnings is as a result of rights issue expenses and non-cash charges from the ESOP program. In terms of some of the operating stats, PoS terminals grew 29% to 250k, myFawry App downloads increased 244% to 4.3m and the number of services provided increased 67% to 1,494. Looking forward, we are confident that new revenue streams, easing of restrictions and enabling regulation should see the company out of what has been a relatively "soft" patch this year.

Safaricom (Kenya, Communications services) 1H22 results update – Very solid set of results, boosted by base effects, but nevertheless a very reassuring bounceback. Revenues came in +17.3%, EBITDA +22% and net income +12% on higher taxes and finance charges from investment in Ethiopia. FCF (after capex, tax, interest and working capital) grew an impressive 46%. MPESA grew by 46% on removal of most zero rated charges on transfers and was also encouragingly also driven by 51% C2B Payments revenue growth, which did not benefit from any base effect. Data revenue growth slowed to 6%, largely due to extremely competitive pricing action and no base effect benefits. The Company increased its Kenya guidance, but reduced its overall Group guidance as a result of commencement of operations in Ethiopia. At this stage, investors are a bit spooked by events in Ethiopia and the realization that roll–out costs are going to be a drag on profits for the next few results releases.

Economic and political overview

Nigeria – The country posted GDP growth of 4.03% in 3q21 (2q21: 5.01%), off a low base during the pandemic. Oil fell -10.7% y/y, while non-oil growth eased to 5.4% y/y from 6.7% in 2q21. Agricultural growth was muted at 1.2% y/y, a continuation of the trajectory of 2q21 at 1.3%. The indirect oil economy constitutes 35% of GDP. Most sectors showed slower growth than 2q21.

Moody's affirmed Nigeria's rating to B2, and amended Nigeria's outlook from negative to stable.

Macro releases included (October stats):

- Inflation was stable on 16.0% y/y (Sep: 16.6%).
- FX reserves grew to USD 41.83bn (Sep: USD 36.78bn).
- PMI rose to 54.1 (Sep: 52.3) and has since continued upwards reaching 55.0 in November.
- M3 growth was 14.2% y/y (Sep: 12.3%).
- Private sector credit growth increased to 18.6% y/y (Sep: 13.8%).
- Remittances fell by -62.4% y/y to USD 1.96bn from Jan – Oct (2020: USD 5.21bn).
- Broadband subscriptions declined by -12.1% from January to October, a total fall of 9.8m.
- Mobile lines grew to 190.9m (+0.8% m/m) and internet connections grew to 140.3m (+0.4% m/m).

Egypt – GDP reached 9.8% y/y in 3q21, as key sectors showed solid recovery. Tourism had the strongest growth at +182% y/y, followed by Suez Canal +20% y/y and communications +16 y/y. The government has adjusted its growth forecast to 5.5% - 5.7% in FY22. The World Bank approved a loan for USD 360m aimed at pandemic recovery.

Comparably, unemployment was 7.5% in 3q21 (2q21: 7.3%). The rate is reflective of new graduates who have entered the job market, as youth make up 58.4% of the unemployed. Agriculture (19.6%), trade (15.1%), manufacturing (12.2%) and construction (13.7%) constitute the largest sectors of employment.

Egypt has vaccinated a quarter of its population and the government is detailing plans to administer boosters for the vaccinated population. Additionally, high school students are receiving vaccine doses. Egypt has joined the rest of the developed world in banning flights from Southern African countries over new variant concerns.

The government has announced that mobile phones that are imported will be charged a 10% import tariff.

Macro releases (October stats):

- Inflation was 6.3% y/y (Sep: 6.6%).
- FX reserves reached USD 40.86bn (Sep: USD 40.83bn).
- PMI was 48.7 (Sep: 48.9).
- M2 growth was 17.6% y/y (Sep: 18.8%).

Kenya – GDP data was finally released for the first and second quarters this year. GDP growth was 0.7% in 1q21 (1q20: 4.4%), due to the ongoing restrictive COVID-19 measures underway at that time. 2q21 GDP grew +10.1% (2q20: -4.7%), driven by significant rebounds as economic activity resumed.

Kenya and the IMF reached a staff-level agreement for the second review of the EFF/ESF program. This should allow USD 264m to be released once approved.

Digital lenders are required to disclose full fees and penalties to solve the issue of hidden charges.

Macro releases included (October stats):

- Inflation was 6.5% y/y (Sep: 6.9%).
- FX reserves slid downwards to USD 9.18bn (Sep: USD 9.44bn).
- PMI rose to 51.4 (Sep: 50.4).
- M3 growth was 7.3% (Sep: 8.7%).
- Remittances rose by 28.2% y/y to USD 337.4m (Sep: 18.7%).
- Current account deficit reached -5.4% of GDP (Sep: -5.6% of GDP).

Morocco – Unemployment slid down to 11.8% in 3q21 (2q21: 12.8%). Youth unemployment was at 31%, graduates 19% and women 17%. 642,000 jobs were created during the quarter following a positive agricultural yield.

Morocco suspended all incoming flights for 2 weeks in response to the uncertainty surrounding the Omicron variant.

Macro releases (October stats):

- Inflation was 1.7% y/y (Sep: 1.2%).
- FX reserves crept down to USD 32.1bn (Sep: USD 36.2bn).

- Remittances reached a total of USD 7.92bn from Jan-Sept.
- Banking industry grew +3.1% y/y due to +9.6% growth in overdrafts/debtor accounts and +3% increase in real estate loans.

Company updates

IDH (Egypt, Healthcare) 9m21 results update: Another excellent set of results, building on the momentum of the first half. Revenues were up 126%, EBITDA +180% and PAT +206%. Conventional test revenue was +30%, which is above their historical 20-25% range, assisted by house calls, which now contribute 20% of revenues. Interestingly the number of tests per house call patient is 5.2 vs the Group average of 3.3 tests, so a disadvantage has been flipped into an advantage. Al Borg Scan (radiology) saw a 92% increase in revenue, with their third branch being inaugurated in September and another two coming on stream over the next 12 months. Jordan grew revenues 192% (35% conventional) and Nigeria recorded 62% growth.

As much as one can say these results are simply being boosted by Covid, that statement would ignore the successes in geographic and product expansion, as well as the fact that people are still staying away from hospitals, labs, electives and anything but the absolutely necessary. The company themselves are not standing still, and rolled out 36 new branches or +8%, under challenging circumstances. FCF (after interest, tax, capex and working capital) was up 5x to EGP 1.5bn, which annualized equated to 20% of its market capitalization.

CIB (Egypt, Financials) 3q21 results: A very strong set of results PBT +45% y/y. Fee income +86% y/y. NIM is relatively flat as yields are lower. Provisions are low confirming management's view that Covid-19 did not affect their largely corporate client base. Deposit base and loan growth is strong in local FX terms with EGP deposit and loans > +25% y/y which shows a strong working capital environment. ROE has recovered back to 22%, from mid teens, somewhat dragged down by the excess capital position (no dividend payment in 2020 and 2021). A special dividend in addition to the normal dividend is expected in 2022 subject to CBE approval.

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 it has started to speed 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.