Monthly Market Report

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Africa Fintech Overview

Recent news and deal flow – *They've got it!* **MTN Group (9% of NAV)** just announced that they have finally received their Payment Services Bank license in **Nigeria**. This is a massive step forward and will enable them to build on their tremendous successes in Mobile Money and Fintech in Ghana, Uganda, Rwanda and Zambia. MTN Nigeria already has 630k agents and 6.6m MoMo customers, with MoMo revenues for q3 21 +55%, however they are only able to offer basic transfer services. This license will enable them to offer payments and remittance services, collect NGN deposits and use agent networks to assist with their operations. This will massively boost financial inclusion in Nigeria, as well as provide numerous opportunities for collaborative banks. Nigeria is Africa's largest economy and MTN is the largest telco there, so this is very big news indeed. As we have stated previously, the spin-off of MTN Group's Fintech MoMo division is going to release a huge amount of value for shareholders, this news just increases that value.

In Kenya, Safaricom (8.5% of NAV) continues to make progress in developing new and lucrative revenue streams, this time over its Internet of Things (IoT) platform, previously abstract, but now reality. The company has announced two deals with major companies in Kenya, those being:

- Kenya Power Smart Meters – in Kenya's largest IoT project to date, a USD481m smart electricity meter deal, which will connect to over 300,000 electricity meters across the country. These meters will allow Safaricom to track electricity usage, power outages, and load on transformers in real-time and provide the data to Kenya Power.
- Smart Water Meters - Safaricom launched a smart water meters pilot project with Upepo Technology, the aim is to provide real-time IoT monitoring of water consumption at the Embu Water and Sanitation Company. By utilising smart water meters connected to the internet via Safaricom's NB-IoT Network, ultrasonic metering, and real-time data transfer, Safaricom and Upepo can provide real-time information on water consumption to the water company.

In South Africa, Purple Group (4.5% of NAV) announced that Discovery Bank will partner with Purple's subsidiary, Easy Equities, to give its clients a platform to trade local and international shares inside the Discovery Bank app.

Company Results and Operating Statistics – The main highlight were the MTN subsidiaries q321 numbers, where in Ghana MoMo revenues increased by 45%, Nigeria 55% and Rwanda 54%, providing strong evidence to our growth thesis.

Portfolio – The pullback in Fawry and MM Group spilled over into October, however the overall negative impact was muted with the Fund only down 1%, as strong rallies in MTN and Purple Group provided an offset. It should also be noted that sector globally has been under pressure recently, with flag bearers like PayPal, Square and the Brazilian players showing weakness. We continue to believe that the fundamentals in the sector are strong, particularly in Africa where the cash to non-cash revolution is only really getting started, with the steepest part of the adoption curve lying ahead.

Economic and political overview

Nigeria – The government launched the eNaira website after some delays, and had over 100 000 downloads in the first 24hrs. It is aimed at bridging financial inclusion, as 36% of adults do not have access to financial services. For access, users have to download the speed wallet, which is held and managed on a distributed ledger. Free transactions were permitted for the first 90 days. However, users soon began to complain about system malfunctions, and the speed wallet has since been removed from the Google Play Store. However, the merchant wallet for businesses is still available. The Central Bank of Nigeria (CBN) has stated that it bears no liability for any interruption or loss as a result of the eNaira website.

The World Bank approved USD 400m in credit to Nigeria in order to access COVID-19 vaccines, targeting 18% of the population and assisting with distribution throughout the country. Over 5.2m Nigerians have been fully vaccinated, and the government is instituting mandatory vaccinations for its workers from 1 December.

Nigeria had 1.5m new phone users which moved active subscribers to 189.3m in August (Jul: 187.8m). The GSMA report states that 19% of people in Nigeria do not have access to mobile broadband coverage. POS transaction value for Jan – Aug 2021 increased +45% y/y, reaching NGN 4.06trn (USD 9.9bn). E-payments grew +6.37% to NGN 24trn (USD 58.5bn) in September (Aug: NGN 22.64trn).

Macro releases (September stats):

- Inflation slowed to 16.6% y/y (Aug: 17.0%).
- FX reserves climbed to USD 36.78bn (Aug: USD 34.0bn).
- PMI remained flat at 52.3, and has since risen to 54.1 in October.
- M3 growth was 12.3% y/y (Aug: 13.2%).
- The IMF amended the GDP forecast for 2021 to 2.6% (Prev: 2.5%), and 2.7% in 2022 (Prev: 2.3%). The World Bank sees 2021 growth at 2.4% (Prev: 1.8%).

Egypt – The state of emergency, in place since 2017, has been lifted by President Al-Sisi citing improved security and stability. The World Bank expects Egypt to grow by 5.0% in FY21/22. This is an upward revision from 3.3% initially anticipated. Essentially this raises the World Bank's GDP expectations for 2021 to 5.5% (Prev: 4.5%). Fitch affirmed Egypt's long-term rating at B+ with a stable outlook.

Egypt's COVID-19 vaccination rate is improving, with c.31.7m vaccinations dispensed so far. 3m of 3.5m government employees and 70% of school staff have been vaccinated, and the Ministry of Health is considering bringing down the age of vaccine eligibility to 12. The country has also received its 3rd batch of J&J doses, 250k AstraZeneca, 4.4m Sinopharm and 1.6m of Pfizer during the month with more shipments expected. Currently, total vaccine stock stands at 63.2m doses. Furthermore, cabinet approved a decision to reduce PCR test costs by 25% for both locals and foreigners. The COVID-19 high committee is instituting mandatory vaccinations, and unvaccinated employees will not be admitted into their work premises from mid-November unless they receive a weekly PCR test. Similarly unvaccinated citizens will not be allowed into government facilities as of 1 December.

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Tourism seems set to recover with a cohort of Russian tourists expected in early November, and the resumption of direct flights to and from London this month. Red Sea occupancy rates are 80%, and hotels countrywide are permitted to operate at full capacity.

SICO Technology is Egypt's first smartphone maker and seeks to be the primary builder of electronics on contract for the rest of Africa. The Ministry of Communications and IT owns 20% of SICO and has factories In Cairo and Assuit. 45% of their parts are locally sourced, and the company has guided that it will produce a total of 1.5m devices in 2021. Meanwhile Fawry entered a partnership with Uber, allowing customers to recharge their wallets via the Fawry network.

Macro releases included (September stats):

- Inflation rose to 6.6% y/y (Aug: 5.7%).
- FX reserves were USD 40.83bn (Aug: USD 40.7bn).
- PMI declined slightly to 48.9 (Aug: 49.8) on the back of weaker customer demand. This inched down in October to 48.7.
- M2 growth was flat at 17.2% y/y.

Kenya – Kenya is opening up, and the President lifted the curfew for the first time since the start of the pandemic. However, bars remain closed after 7pm. COVID-19 positivity rates hover at <1% currently, although the country has a low vaccination rate of c.6%. The World Bank's approved loan of KES 14.4bn (USD 129m) is expected and will assist Kenya in reaching its vaccination target of 10m residents by December. There is an air of optimism for consistent recovery; tourism saw a 20.5% y/y increase in hotel tourists in September. Local tourism has risen, with local guests taking up the remainder of accommodation. Kenya has yet to release GDP information for 2021, but the Central Bank of Kenya forecast GDP growth of 6.1% in 2021 and 5.6% in 2022.

Transactions handled by mobile money agents grew 41.5% y/y in the 9m to end-September, reaching KES 5.02trn (USD 45bn). Bank transactions managed on mobile phones and digital platforms grew +84.8% y/y for the first 8m of 2021. This includes mobile money, transfers and checking balances.

Macro releases (September stats):

- Inflation accelerated to 6.9% y/y (Aug: 6.6%).
- FX reserves increased to USD 9.44bn (Aug: USD 9.0bn).
- PMI was 50.4 (Aug: 51.1).
- Remittances grew +18.7% y/y to USD 309.8m (Aug: 14.2%).

Morocco – The government introduced a mandatory vaccine pass in order for people to access public spaces, which in turn led to a surge in demand for vaccinations. That said, Morocco already has a high vaccination rate of 64% and has begun distributing booster doses. Momentum is expected to continue, with the aim of reaching another 6m people. This will result in herd immunity of 80% of the 12+ population. The government is being cautious, and suspended flights from the UK, Germany and the Netherlands due to a rise in COVID-19 cases in Europe.

King Mohammed VI announced the new government following the election. Sentiment has been largely positive: there are a limited number of posts (down to 24 as opposed to 35), average age lower, an increase in female representation and the ministers have strong qualifications.

Macro releases included (September stats):

- Inflation was 1.2% y/y (Aug: 0.8%).
- FX reserves rose to USD 36.16bn (Aug: USD 31.4bn).
- The IMF revised the GDP forecast for 2021 to 5.7% (Prev: 4.5%), and 3.1% in 2022 (Prev: 5.1%).
- Unemployment fell to 11.8% in 3q21 (2q21: 12.8%).

Company updates

Nestlé (Nigeria, Consumer staples) 3q21 results: Positive results with revenue growth of +25.7% y/y, a continuation of the trajectory from 1H21 (+21.6%). 2q GDP showed strong wholesale and retail trade growth, and Nestlé's performance aligns with this indication of consumer recovery. Food (59% of revenues) grew strongly at +42.4% y/y, driven by both prices and volumes. While beverages (41% of revenues) were a muted +7.6% y/y, remembering that 3q20 was a very strong base for this segment. Competitors seem unable to consistently deal with FX scarcity, with stock outs of some key competitive brands on the shelves. COGS grew 30% y/y, leading to a GP margin decline of 204bps from 3q20 to 38.7%. Operating cost increases were marginal, and EBIT was up +24.8% y/y. Borrowings have more than doubled since 3q20, primarily due to an inter-company loan, so the higher interest expenses hit the bottom line. This loan is said to assist with importing raw materials. That said, the business is still in a strong net cash position. PBT grew +18.2% y/y, and PAT +17.2% y/y. Management also announced the interim dividend of NGN 25.00, matching that of 3q20. On a recent call with management, they indicated a focus on affordability and cost-competitiveness in managing existing SKUs for lower-end consumers. Additionally they plan on expanding distribution channels for both Milo and Maggi.

Nigerian Breweries (Nigeria, Consumer staples) 3q21 results: A tough quarter with revenue growth of +21.6% y/y driven by both prices and volumes, off a strong base in 3q20 (+ 25.6%). Input cost pressures along with FX scarcity led to high COGS growth of +31.1% y/y eroding topline gains. GP margin declined by 485bps. Operational expenses grew just above inflation as expected at +19% y/y. These were driven by advertising and marketing which increased during the quarter as a means of gaining market share. Operating profits suffered as a result of negative jaws, with PAT down -63.1% y/y. Notably, NB increased prices in late September and this may support an earnings uplift next quarter. Management declared an interim dividend of NGN 0.40 per share.

Stanbic IBTC (Nigeria, Financials) 3q21 results: PBT -16% y/y continues the weak y/y numbers we have seen this year after a relatively good year of stable earnings in 2020. The +16% q/q in PBT is the important directional datapoint as yields improved from very low levels. The wealth business continues to grow at ~15% y/y which somewhat offset the overall net margin and bond trading challenges.

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.

Seaspiracy Feedback

As a documentary that garnered support from public figures, we thought it apt to assess and critique the claims made and their relevance in our markets. There were 14 primary claims, 6 of which we found to be true. These include the extent of shark bycatch, the importance of micro-organisms and the existence of fishing industry subsidies. It was successful in highlighting the two major issues with industrial fishing: **overfishing and trawling**. These have very destructive consequences on our oceans and the documentary brought attention to these pertinent issues.

We engaged with the Mutandis management team to understand what their approach to sustainable fishing is, and to discuss some of the claims made in relation to their everyday operational realities. Digging a bit deeper into some of the claims we found interesting:

- **'The Ocean will be empty of fish by 2048'** – This claim was initially published in 2006 by Boris Worm but even as far back as 2009, studies showed a recovery in stock with more efforts put into rebuilding depleted fish populations. In contrast, a 2015 study by the National Academy of Sciences in the US predicted that c.50% of fish stocks could be sustainable by 2050. This directly contradicts another claim that **'Sustainable fisheries do not exist'.**

- '**Bycatch (unintended fish types) and discards make up 49% of catches'** – A claim refuted by both companies and opposed by public data available on the subject. Discards make up c.10% of the world's catch, and although high, this is much lower than the claim. The bycatch rate can be as high as 48%, however most of this fish is taken to market.
    - Mutandis have a 2% bycatch rate, and this in turn gets sold as fresh fish. 60% of their catch is the right quality and size for their core canned sardine business, while 40% is used to develop fish paste. As of 2022, some of the remainder will go into developing hydrolysates for agricultural applications. Management's aim is for a fully integrated cycle with minimal wastage.

- **'The Great Pacific Garbage Patch – 46% is discarded fishing nets'** – This is true for buoyant plastic only. Plastic tends to sink, and a study in 2019 by Greenpeace found that fishing nets make up c.10% of plastic waste (below the surface). Mutandis management buys and sells fish nets to smaller fishermen as they age.

- **'Food safety certifications do not guarantee the safety of fishing practices'** – the implication was that sustainable fishing programs like 'Dolphin Safe' are part of a conspiracy to benefit global fishing industries. However the reality is that the Dolphin Safe tuna programme has contributed to the largest decline in dolphin deaths by tuna fishing vessels, reducing dolphin deaths by more than 95% and preventing the slaughter of over 100 000 dolphins p.a.
    - Mutandis audits every factory through the Business Social Compliance Initiative (BSCI) which has seen them move to Grade A and is a trusted source of objective information. Members of the organisation come on site to independently and discreetly conduct interviews at different levels.

- **'Stop eating fish to reduce the impact on the oceans'** – Given the audience, this would likely not have the intended effect. While giving up fish is admirable, some countries do not have a wide range of alternative food sources available for the majority of their population. Furthermore, many communities have integrated fishing into their history, culture and everyday lives and thus not eating seafood would not be a realistic option. This assertion has economic implications as well, as the industry employs over 60m people worldwide. Over 3bn people get at least 20% of their protein intake from seafood. Considering the contribution of the industry to some countries' GDP, this would also disadvantage certain communities.
    - Morocco, for example, has a strong seafood culture, as well as a host of traditional fishermen who feed their families and make a living off the fishing industry. Mutandis connects with these by owning 50% of the fleet and the other half is contributed by traditional fishermen's catches.

- The issue is not so much the on-the-ground everyday consumer's food choices, but targeting better practices by industrial fishing companies which means a larger policy issue for governments who make the decisions that shape the oceans.

Conclusion: There are aspects of the documentary that highlight the possibility of bias; as a result, we do not believe that the documentary presented a balanced view of the industry. There was a lack of diversity and representation with regards to the experts interviewed, with no scientists interviewed in our markets. As decarbonisation of the fisheries was raised at the COP26, we look forward to seeing how policy and oversight may shift things in the industry.