

## Market snapshot

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

June Performance (%)	LCY	USD
Zambia	9.3	8.8
Mauritius	8.8	4.9
Kenya	2.1	1.9
MSCI World	1.4	1.4
Morocco	2.4	1.2
MSCI EM	-0.1	-0.1
Egypt	-0.5	-0.4
BRVM	2.4	-0.8
Nigeria	-1.4	-1.1
Botswana	0.5	-2.2
Tunisia	-2.0	-4.0

June was a month of mixed performances, led by Kenya +1.9% and Morocco +1.2%. As the third wave reaches the continent, countries are struggling to acquire sufficient vaccines. 31m people out of 1.3bn have received vaccinations, with 12m fully vaccinated. The WHO has highlighted concerns around the escalating COVID-19 cases in Africa, due to low access to vaccines, diagnostics and oxygen. Furthermore, over 90% of African countries will miss the September target to vaccinate at least 10% of the population. Vaccine hubs are being planned in South Africa, Rwanda, Senegal and Nigeria in order to start local production.

## Economic and political overview

**Nigeria** – Figures show that 50.6% of the 106m sized adult population are financially included through formal services. The National Financial Inclusion Strategy target for 2020 was 80%. The banked population constitutes 47.6m (44.8%), while the remainder are included through fintechs/mobile money. Nigeria ranks 3rd in Sub-Saharan Africa in terms of its banked population, but still shows low financial inclusion compared to South Africa (91%) and Kenya (83%). Digital channels have experienced significant growth since the introduction of the Central Bank of Nigeria's (CBN) cashless economy. NIBSS Instant Payments (NIP) and mobile money surged +195.1% y/y and +192.1% y/y respectively, in value terms, at the end of April.

We regularly meet with several fintech players active in Nigeria which confirm the high growth numbers reported on a headline level. We attended the virtual Standard Bank conference during the month which was well attended by several unlisted Nigerian fintech players including Flutterwave and Kobo360. Flutterwave focuses on helping online and offline retail merchants with payment acceptance (card, QR code) and also offers an e-commerce marketplace and a P2P solution called Barter.

The key highlights include:

- a Total Addressable Market (TAM) of c.300k merchants. Flutterwave serves only 10% of the TAM, so still some way to go.
- Several cornerstone clients/partners which include Uber and Jumia
- 750k Barter P2P transfer users
- Tracking between USD 17 to 20bn transaction value in 2021 which is a c.200% y/y growth rate
- Series C funding of USD 170m and a valuation exceeding USD 1bn

The World Bank revised the GDP forecast upwards for 2021 to 1.8% (Prev: 1.1%), calling for further FX reforms as a prerequisite for a USD 1.5bn loan. Given the need for cash injections, we wait to see the CBN's response.

Macro releases included (May stats):

- Inflation slowed to 17.9% y/y (Apr: 18.1%).
- FX reserves fell to USD 34.24bn (Apr: USD 34.88bn). This downward trend has continued, reaching USD 33.37bn at end-June.
- PMI went up to 54.4 (Apr: 52.9).
- M3 growth accelerated to 11.3% y/y (Apr: 8.9%).
- Private sector credit growth was 9.7% (Apr: 10.1%).
- Currently 4m Nigerians are fully vaccinated.

**Egypt** – 3q20/21 GDP (1q21) came in at 2.9%, up from 2.0% in 4q20. In the 9m to end-March, growth was 1.9% compared to 5.4% the year before, demonstrating the economic impact of COVID-19. Government forecasts GDP growth reaching 5.5% in 2q21. The World Bank has amended its forecast for that period to 4.5% (Prev: 5.8%) citing the pandemic's effect on tourism, manufacturing and oil and gas. An uplift to 5.5% is expected for FY21/22.

A total of 4m vaccines are expected this month: 210 000 doses of Sputnik V have been received, 1.9m doses of AstraZeneca through Covax, 500 000 Sinovac with another 1m expected imminently. The AU is providing 300m doses of J&J to Africa, 25m of which goes to Egypt before year-end. In light of this, the government has increased vaccination centres to 406. The first batch of locally manufactured Sinovac is being analysed before distribution to clinics. Additionally Pharco pharma aims to produce Sputnik V before the end of the year, covering both local demand and exports to neighbouring countries. The government has just increased permissible capacity for hotels and cinemas to 70%, up from 50%.

The Central Bank of Egypt (CBE) announced its decision to extend fee waivers on select banking services until end-December. The 4 main categories for waived fees and commissions are: 1) Letters of credit transfers 2) opening e-wallets and transfers 3) issuance of prepaid cards and 4) ATM withdrawals.

Macro releases (May stats):

- Inflation went up to 4.8% y/y (Apr: 4.1%).
- FX reserves were USD 40.48bn (Apr: USD 40.35bn).

- PMI rose to 48.6 (Apr: 47.7).
- Egypt M2 growth was 18.1% y/y (Apr: 19.1%).
- Red Sea hotel occupancy rates went up +28% in 1H21. 2m tourists visited Egypt from Jan-May, averaging 400 000 people p.m. In 2019 pre-pandemic tourists averaged 1.1m visitors p.m. Fully vaccinated individuals no longer have to present negative PCR tests upon arrival.

**Kenya** – The IMF approved the second instalment of the 38month financing programme. Budgetary support of USD 407m will be sent towards the government’s economic and structural reforms, following USD 2.4bn received in April. Access to loans from multilaterals has eased Kenya’s debt exposure to commercial debt to 25.9% from 33.1%.

The government has budgeted KES 21.3bn (USD 197m) to fund the vaccine rollout targeting the entire adult population’s full inoculation by end-2022. The World Bank approved a loan for USD 130m to boost the vaccination programme. Kenya is set to receive 13m J&J doses in August, with the threat of a possible fourth wave at that time caused by the Delta variant.

Macro releases (May stats):

- Inflation grew to 5.9% y/y (Apr: 5.8%). This has since accelerated to 6.3% y/y in June.
- FX reserves fell slightly to USD 7.48bn (Apr: USD 7.66bn).
- PMI rose to 52.5 (Apr: 41.5) as economic activity resumed.
- Kenya has lifted a ban on flights between Nairobi and London ahead of summer. The UK has historically been the top international visitor, making up 14% of tourists in 2020.

**Morocco** – The World Bank announced a loan of USD 450m to Morocco through its Financial and Digital Inclusion Development Policy Financing programme (DPF). This is the second of three such loans to the country, aimed at improving digital infrastructure. The government aims to expand digital ID access to allow a wider reach of assistance during economic difficulties.

The banking sector grew +2.5% y/y in May, driven by +4.7% increase in debtor accounts and overdrafts and a +4.4% increase in real estate loans. NPLs reached MAD 82.7bn, up +12.2%.

Morocco’s vaccination drive is consistently ahead of its African peers, although there are currently fears of the fourth wave starting as cases rise.

Macro releases included (May stats):

- Inflation crept up to 1.9% y/y (Apr: 1.4%).
- FX reserves were USD 32.0bn (Apr: USD 31.8bn).
- Remittances reached MAD 36bn (USD 4bn) from Jan-May, an increase of +50.2% y/y.

## Company updates

**IDH (Egypt, Healthcare) 1q21 results update** – A very strong set of results, with revenues +126%, EBITDA +189% and PAT 230%. Results were boosted by a low base and Covid testing. The proposed dividend of USD 0.0485 was approved yesterday (6 July) by shareholders. Excluding PCR and other Covid related tests, revenues increased by 20%. A major contributor to revenue recovery in non-Covid/conventional testing was due to House Calls ramping up across all geographies, where the service now represents 23% of revenues, up from 12% in 1q20. Encouragingly AI Borg scan, which is more elective as well as Nigeria are showing strong improvements. The outlook remains very strong, the low base will last through to the end of q3 and despite increased vaccinations, Covid related testing will be with us for some time. The company is bullish on its conventional test and current footprint, opening 26 new branches.

## 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.