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) –

Apr Performance (%)	LCY	USD
BRVM	6.8	9.3
Kenya	6.6	8.1
Mauritius	3.4	4.6
MSCI World	4.5	4.5
Morocco	2.9	4.3
Tunisia	1.1	2.9
MSCI EM	2.4	2.4
Botswana	0.6	2.2
Nigeria	2.0	1.4
Zambia	2.2	1.2
Egypt	-0.9	-0.6

This month's performance was led by Kenya +8.1%, Morocco +4.3% and Nigeria +1.4%. Offset by a negative performance from Egypt at -0.6%.

The inequality of vaccine access is becoming increasingly evident. Africa requires a quarter of global vaccines by volume, but under 1% is manufactured locally. So far, only 2% of the world's vaccinations have happened in Africa. The recent increase in COVID-19 cases is as a result of new variants that are more easily transmitted and the mixed messages around vaccine safety have only served to slow down the rollout. Covax is targeting 600m doses to be delivered to 40 African countries this year.

Economic and political overview

Nigeria – The Central Bank of Nigeria (CBN)'s move to allow banks to open USD accounts is bearing fruit, with weekly remittances growing from USD 5m to USD 30m within the first 2 weeks. The CBN has cut its liquidity mop-up efforts by 81% y/y through the OMO market, while resuming USD sales to portfolio investors this month to clear the backlog.

The IMF has raised Nigeria's 2021 growth forecast to 2.5% (Prev: 1.5%).

Macro releases (March stats):

- Inflation continued to rise, reaching 18.2% (Feb: 17.3%).
- FX reserves crept down to USD 34.8bn (Feb: USD 35.1bn).
- PMI was largely flat at 52.9 (Feb: 52.0).
- M3 growth slowed to 7.5% y/y (Feb: 14.1%).
- Private sector credit growth decelerated to 9.9% y/y (Feb: 14.7%).
- AUM of the pension industry grew 16.6% y/y to USD 12.25trn at end-February.

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- E-payment transactions grew +325% y/y by value to NGN 704trn (USD 1.7trn), while volumes grew 142% y/y in 2020.

Egypt – Egypt is in the early stage of its third wave as COVID-19 cases increase. The health authority has approved Sinovac's use for emergencies, as the 4th vaccine drug on the official list in Egypt together with Sinopharm, AstraZeneca and Sputnik V. Local manufacture of Sputnik V is expected to begin imminently alongside local vaccine manufacturer Vacsera. The target is to locally produce 20-60m doses for 10-30m people p.a.

The Central Bank of Egypt (CBE) announced new regulations this month, in a continued bid towards financial inclusion. Mobile wallet withdrawals and transfers have been increased to EGP 30 000 per day, with a monthly limit of EGP 100 000 for individuals and informal micro enterprises. Formal licensed micro enterprises can withdraw EGP 200 000 (USD 12 800) per month. Interoperability between mobile wallets and banks allows mobile wallet users additional access to loans, savings and other services. Banks are permitted to issue e-currencies subject to CBE approval, trading at 1:1 to the EGP for mobile payments, backed by deposits.

The net has also been widened for loans to various tiers of consumers: 1) Individuals with mobile wallets can apply for 1-year finance to a maximum of EGP 5 000. 2) Informal SMEs and craftsmen can access EGP 10 000. 3) Licensed small businesses can borrow up to EGP 15 000. Credit scoring is being developed by iScore, a state-backed rating agency, which is setting up an evaluation system specifically for borrowers without prior credit histories or bank records. There are 20m mobile wallets currently, 2020 growth of +300% y/y was accelerated by COVID-19.

Macro releases included (March stats):

- Inflation was flat at 4.5% y/y.
- FX reserves remained stable at USD 40.3bn (Feb: USD 40.2bn).
- PMI growth declined to 48.0 (Feb: 49.3).
- M2 growth was flat y/y at 20.1%.
- Current account deficit widened by 52% y/y to USD 4.8bn in 4q20, on account of the deteriorating trade deficit in both oil and non-oil sectors.
- Tourists reached c.500 000 in 1q21.
- Egypt launched the second phase of its economic reform programme with the IMF this month.

Kenya – The IMF approved the Extended Credit Facility (ECF) and Extended Fund Facility (EFF) for a total of USD 2.3bn this month. The timeframe is 38 months, focused on stimulating growth and improving Kenya's debt picture. The first instalment of USD 2.4bn has been received, with USD 314m to be disbursed shortly. The 3 primary aspects being monitored are fiscal consolidation, structural reforms and monetary policy. The IMF updated the outlook for GDP to 7.6% for 2021 (Prev: 4.7%).

Kenya is allowing private importation of the vaccine as of July, which should speed up the rate of rollout. Movement restrictions remain in place until 29 May within the 5 counties.

Macro releases (March stats):

- Inflation accelerated to 5.9% y/y (Feb: 4.7%).
- FX reserves were largely stable, slipping to USD 7.3bn which is 4.5m of import cover (Feb: USD 7.6bn).
- PMI was 50.6 (Feb: 50.9).

Morocco – Morocco published a preliminary GDP headline of 0.7% y/y for 1q21. This was driven by 14% y/y growth in the agricultural economy, while the non-agricultural sector contracted -1% y/y.

The banking industry grew 4% y/y, with growth in overdrafts of 12.7% y/y and real estate loan growth of 2.3% y/y. The latter was driven by mortgage growth of 3.5%. Consumer loans were down --2.9% y/y, with NPLs at MAD 81.5bn (+14% y/y).

Macro releases included (March stats):

- Inflation was 0.1% y/y (Feb: 0.3%).
- FX reserves slipped down to USD 29.5bn (Feb: USD 32.2bn).

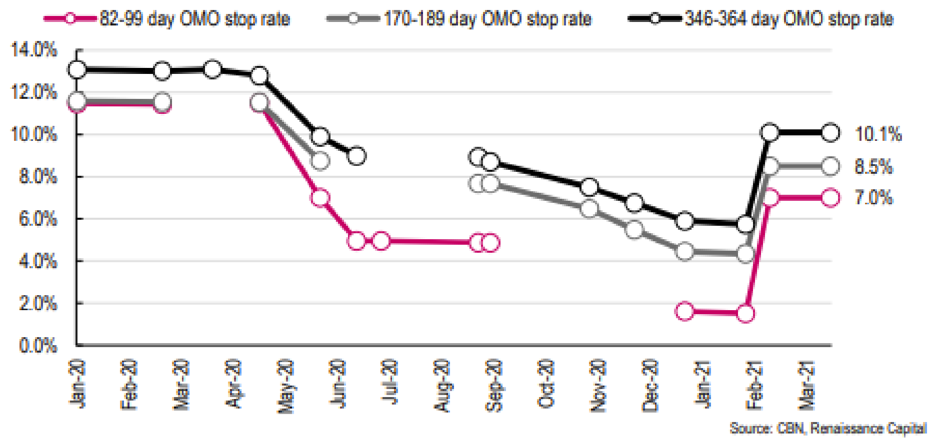
Company updates

Nigerian Breweries (Nigeria, Consumer staples) 1q21 results: Revenue growth surprised at 27% y/y, albeit off a low base pre-Covid. Growth was driven by both prices (+5.7%) and volumes (c.4.4%), which were bolstered by strong demand for Heineken and Tiger brands. Guinness Nigeria has dropped out of the lager race, and NB picked up volumes and market share as a result. GP margin was squeezed by 437 bps to 37.5% on account of raw material cost growth of 37% y/y. 60% of raw materials are sourced locally, but the combination of food inflation for wheat and barley, and currency pressures have adversely impacted COGS. Effective operating cost management led to strong PBT and PAT growth of 39% y/y. Net debt is down -55% y/y to NGN 33bn from NGN 82bn at its peak in 2q20. Short term credit included revolving credit facilities and commercial paper (which has since matured) as a defence against the deteriorating macro environment. This eased pressure on the bottom line with a normalisation of earnings. Looking ahead, we expect to see strong y/y growth given a weak 2020 as volumes resume their growth trajectory. Management have minimised price adjustments, squeezing distributor margins knowing that the majority of their end-users are highly price sensitive. Although the pricing outlook has improved, it is not sufficient to truly drive topline as yet. The risk continues to be currency pressure and raw material cost increases likely to filter through this year.

Nestlé (Nigeria, Consumer staples) 1q21 results: Strong revenues ahead of expectations at 24.1% y/y growth, driven by both prices and volumes in the main segments. In spite of increased competition in food cubes, Nestlé grew 26.2% y/y off the pre-Covid base. The beverage segment continued on its strong growth trajectory, up 21% y/y with marked growth in Milo and Nescafe. COGS grew 36% y/y, with double digit growth in all major inputs. Gross profit was hit, only up 10% y/y. GP margin contracted by 520bps to 39.8%. Good opex management meant EBIT growth of 16% and PAT growth of 11% y/y. The balance sheet is liquid, with strong cash generation, growing 5x from 1q20. Although net cash, debt has grown, making the business susceptible to FX devaluation. Overall, a strong set of numbers for the quarter. Looking ahead, margins will be under pressure with input prices of soy, palm oil and sugar increasing materially.

Guaranty Trust Bank (Nigeria, Financials) 1q21 PBT came in at a disappointing 9% down. The key driver of depressed results was a sharp drop in interest income. We have tracked the evolution of interest from bills and bonds (depicted in chart below) and believe that several maturities in December to February could not be seamlessly reinvested as yields were at very low levels at that time. Management guides to much better yields going forwards as t-bills have recovered to 10% from below 1% previously. On the positive side, fees are +12% with the star performer being mobile transactions. No disclosure on actual mobile transaction y/y for 1q but we expect it to be north of 30% - it was +43% for 2020. Interestingly, despite much newsflow on the impact on fintech in the payments space, the banks still dominate. GTB is the largest player at 18% of the NIP (Nigeria switch) market. The next 2 competitors at 16% and 14% respectively are both banks. Fintech as a whole equals 17% of the NIP market. Guidance for 2021 PBT is +4% y/y but the momentum of the coming quarter should indicate a trajectory of 10%+ as the dip of 1q21, and the crash in bill rates, washes out. Valuation at an all-time low of 1x book. To put it in perspective, Flutterwave, a newly crowned fintech unicorn has a USD 1bn valuation. GTB has a payment business that is greater than all fintechs combined plus the best Tier 1 banking operations in the region and has a valuation of USD 2bn.

Nigeria T-bill rates market



Stanbic IBTC (Nigeria, Financials) 1q21 PBT -45% y/y reflects the same dynamics that drove GTB's results - very low t-bill rates from December to February which curtailed SIBTC's ability to lock in yield. Rest of business is healthy with a small credit provision writeback on an improving NPL to 3.6% (Dec: 4%) while customer deposits +6% for the quarter. Like GTB, subsequent quarters are expected to have better topline performance.

Fawry (Egypt, IT) FY20 results update. Fawry closed off a good year with revenues +39.6%, EBITDA +59.5% PAT up 73.3%. These were underpinned by impressive operational stats where PoS terminals grew 60%, Acceptance Enabled Merchants 188% and throughput value 52%. Interestingly, within the throughput number, is mobile wallet throughput, which grew by 145%. It still only represents 7% of the total, but is clearly growing fast. The number of services offered across their various platforms (widening of the runway) now numbers 1,186, up 30% on last year. In terms of length of runway, the company believes they can roughly double revenues every year for the next five years. Fawry has previously noted that only 2% of household consumption in Egypt is non-cash vs Brazil at 8% and EU closer to 80%. On a separate note, the company is likely to be included by MSCI in its country and regional indices during May, which will bring first time passive inflows and substantially increased liquidity.

Market outlook

Overall, we have focused on business models that are either essential or innovative (e.g. Fawry in Egypt) and that can meet our minimum quality criteria. **Nigeria –** Nigeria's outlook remains particularly murky with the twin negatives of COVID-19 and oil. We have revised our previously constructive view on recovery, albeit slow, to negative. The allocation to Nigeria is lower for the time being. Three catalysts will change our view to a more positive stance: 1) full devaluation of the NGN 2 normalisation of the local bond market and 3) Dangote's mega-project fuel refinery coming online. The underlying portfolio companies are very robust in a tough environment. **Egypt/Morocco –** Egypt and Morocco will see some pressure from lower tourism on consumer demand but we expect the overall impact on macro to be relatively muted. In addition, the businesses we have selected are hedged against lower consumer demand. We are therefore comfortable holding larger positions here. **Kenya –**We have not altered our relatively positive medium term outlook. We expect investments here to remain robust and rebound strongly as the economy recovers. **Mauritius –** Mauritius is very dependent on the timing of large scale tourism recovery. Unless tourism comes back strongly in 2021, the macro and MCB will be under pressure.

Updates on ESG: Equity Bank – Call with Head of Strategy and E&S Team

The ESG strategy was borne out of identifying gaps seen as pivotal to the success of their business. Feedback from clients, customers and partners over the years has given them insight into gaps for intervention. As an agency-led bank, focused on financial inclusion, the ecosystem around banking is a central theme, and the household seen as the centre of the economy. This feedback has driven innovation into new directions. The interdependence of each aspect means that development in one helps to drive and push innovation in others. This ultimately feeds back into the core operations of the Group, and contributes to earnings sustainability. They have a strong social focus and this is the core of their strategy:

1. Education & Leadership Development: Equity Group is involved in every stage of the training cycle – from schooling (quality education) right up to employment and entrepreneurship.
   - The idea is to strengthen leadership in Africa.
   - So far, they have provided secondary school scholarships for c.26 000 students in Kenya alone, as well as supporting 14 000 students through university.
2. Enterprise Development and Financial inclusion: stimulating job creation and economic growth while providing accessible, affordable products across the value chain. Their work with different small and medium-sized businesses led to this pillar, which is focused on training, mentorship and financial literacy.
   - Equity has trained over 191 000 micro and small businesses in financial literacy
   - 2.2m youth/individuals trained
3. Health: The group provides outpatient services. They noted that 30-40% of NPLs in the entrepreneur and micro enterprise space are due to health-related issues. The Group provides high quality, low cost healthcare and have 36 franchise health clinics. Equity Afia Clinics are available to the public, and linked to 35 insurance companies.

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They used this vehicle to reach out to 1m customers/patients with COVID-19 education and integrated their service with the national health insurance scheme.

- Long-term they want to create a hub and spoke model, with local level clinics manned by nurses with basic services, which refer to satellite clinics and top tier hub, with a wider, more complex range of services.

4. Food & Agriculture: Their work with farmers gave them unique insight into how the agricultural sector works, and their decision to delve into this is due to its significant contribution to the Kenyan economy. The operating environment is different to that of other sectors, so this pillar is focused on improving market access and expanding agricultural production.
5. Energy and environment: this was borne out of education.
    - When they began the “Wings to Fly” scholarship programme, the need for understanding the environmental impact as well as the social context in which it sits was apparent. Supporting students meant understanding how to support their households in order to give them the best chances to excel. This brought them into households and into issues of sustainable energy generation.
    - This pillar also links directly to agriculture, as they assist farmers in sustainable practices and focus on sustainable sourcing.
    - Climate finance investments as well as GHG emissions and tracking targets monitored.
6. Social Protection: Alleviating poverty and reducing social and economic risk. This pillar directly impacts individual households, disbursing funds and supporting programs. The strong focus on the social aspect is due to their context. The DRC is the most critical fragile state and the focus is to transition them into these social pillars.

The focus now is on 2025 objectives, aimed at improving MSMEs to reach 65% of loans, as well as increasing agricultural lending contribution.

Conclusion: The call highlighted the clarity around which they view sustainability as a core part of their daily functioning. E&S in their business is driven from Strategy at board level and filters down to every part of the organisation.