Monthly Market Report

Edition:	**December 2020**
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) –

Dec Perf (%)	LCY MTD	LCY YTD	USD MTD	USD YTD
Nigeria	14.9	50.0	12.2	36.7
MSCI EM	7.2	15.8	7.2	15.8
MSCI World	4.1	14.1	4.1	14.1
Tunisia	0.9	-3.3	2.4	1.8
BRVM	11.1	-8.7	14.1	-0.4
Morocco	2.7	-7.3	4.7	-0.6
Botswana	0.2	-8.2	2.6	-10.1
Kenya	4.8	-8.6	5.6	-15.1
Egypt	-0.9	-22.3	-1.4	-20.8
Mauritius	2.9	-24.3	3.6	-30.5
Zambia	3.5	-8.3	2.6	-38.9

December was a positive month, driven by counters in Morocco. Nigeria had a very strong month driven by local heavyweights of MTN Nigeria and Dangote Cement.

Overall 2020 was a mixed year with strong performances from our fintech holdings of Fawry and HPS. The growth trajectory from new innovative products and client acquisition, we believe will remain intact for 2021. MM Group provides a new opportunity for 2021 in this theme and a scheduled unbundling and listing of its fintech arm could be an exciting value unlock trade.

On the negative side large allocations in Equity Bank and CIB did poorly. While we expected a year of playing offense, it became a year of playing defense, especially in high beta shares such as financials. At the outset Equity Bank, post rate caps, and CIB, initiating a strong capex cycle, were expected to see a very good year (earnings growth > 25%). The year marked an outlier event of a global pandemic which severely tested our process and resolve. The key question our process asks is whether the quality and growth prospects of the franchise remains in place. We believe the business model of both will comfortably absorb the stress on credit portfolios and still produce ROEs >15% which is remarkable in such a year. At the same time, both have strong underlying growth (customers. deposits and transaction numbers) in their business models.

Outside our innovative growth stories such as Fawry and HPS that trade with a lot of premium, valuations are at cycle lows and in many cases well below previous lows. A series of negative global and local macro events since 2016 has pushed multiples lower. Several frontier and Africa fund closures and a general lack of frontier risk appetite has created a constant stock overhang. This creates an opportunity to invest into value as sentiment recovers post-Covid.

Going into 2021 we think there is also a geographic tactical opportunity. Egypt and Morocco are expected to roll out their Covid vaccination programmes faster, well before many SSA countries, which will likely only manage to gain reasonable access towards the middle stages of 2021. If we find North Africa performs ahead of others there may be an opportunity to allocate more resources to SSA markets later in 2021.

Economic and political overview

Nigeria – Nigeria is opening up again. President Buhari ordered the immediate reopening of four main borders, with the remainder reopened by end-December. This action plus the gradual rise in FX liquidity are positives for economic activity to normalise. The shut down in August 2019 was cited as a bid to contain and limit smuggling.

Online transfers dominated transaction volumes in 3q20. Volumes totalled 2.8bn with a value of NGN 320trn (USD 812bn), with online transfers totalling 54% of volumes at 1.5bn. POS transactions grew +30% q/q to 112.1m. Mobile payments reached 112m (2q20: 86m). Even though customers moved onto the digital platforms by necessity, demand for digital technology is growing and we expect this trend to continue.

COVID-19 treatment centres have been reopened given the recent surge. Following the second wave, on-trade alcohol consumption has been curbed, with bars, restaurants and clubs closed with immediate effect. Hotel restaurants permitted remain open, and restrictions on gatherings have been reinstated.

Nigeria is in talks with the World Bank regarding a USD 1.5bn loan. The commitment has been confirmed, given specific conditions for its disbursement.

Macro releases (November stats):

- Inflation rose to 14.89% y/y (Oct: 14.2%).
- FX reserves stood at USD 35.41bn (Oct: USD 35.69bn).
- PMI slowed to 50.9 (Oct: 53.5).
- M3 growth was 0.3% y/y (Oct: 1.8%).
- Private sector credit growth was 11.1% y/y (Oct: 12.4%).
- Population estimated at 206m – last count was 198m in 2018.

Egypt – Egypt received its first 50,000 batch of the COVID-19 vaccine from the UAE.

1q20/21 to September GDP grew +0.7% y/y. The main negative was a -66% y/y contraction in tourism.

More POS roll-out positive for MM Group and Fawry. The Central Bank of Egypt (CBE) is set to finance 100 000 POS devices to facilitate digital uptake in under-penetrated regions. POS devices will total 356,000, aligned with the government's bid for a cashless economy. A new smart app is being released in 2021 to provide services for +500 000 citizens. The idea is to provide an integrated platform for service providers and make payments easier – including utilities, club and syndicate subscriptions as well as university tuition.

The CBE has extended credit facilities for workers within the tourism sector, including the grace period for loans extending to end-2021. The transaction fee ban has been protracted to June 2021, including card payments, mobile wallets and e-payments.

IMF funding of USD 1.67bn confirmed at end-December, after the review of the USD 5.2bn total financing agreement. To date the total disbursement has reached USD 3.6bn.

Macro releases (November stats):

- Inflation was 5.7% y/y (Oct: 4.5%).
- FX reserves flat at USD 39.22bn (Oct: USD 39.22bn).
- PMI came in at 50.9 (Oct: 51.4).
- Remittances grew 17.4% y/y in September.
- Current account deficit widened to USD 11.2bn in FY19/20, showing the impact on the tourism sector. Exports fell -28% y/y and imports fell -13% y/y.
- Monetary statistics showed loans up 22% y/y in October (Sept: 21%), driven by private corporate +21% y/y and retail +31.6% y/y.

Kenya – The government has lowered its 2020 economic growth forecast projections down to 0.6% (Prev: +2%), with a rebound to 6.4% in 2021. Budget support of USD 2.3bn is expected to be finalised with the IMF and expected by April 2021.

Mobile money transactions rose to a record KES 528bn (USD 4.8bn) in October. Volumes have continued to grow m/m, as the Central Bank of Kenya (CBK) enforced measures to boost cashless transactions with the free transfer limit of KES 1,000. The free transfers have been lifted since 1 January, after a +87% y/y increase in P2P transactions from February to October. Safaricom has reached a deal with the CBK, cutting fees by up to 45% to retain customers, and anticipating compensation by volumes. Banks have cut the number of ATMs as customers use more agency, internet and mobile banking. 54 ATMs have been closed in the last 12 months, with 2409 left as at end-October. Banks have also saved KES 6.3bn (USD 58m) after shutting down branches thereby reducing rental payments.

The first consignment of COVID-19 vaccines is expected in January, to be apportioned to high-risk groups and covering c.20% of the population.

Macro releases included (November stats):

- Inflation crept up to 5.46% y/y (Oct: 4.8%).
- PMI fell to 51.3 (Oct: 59.1).
- Flower production rose to 88% of capacity, up from 61% in March.

Morocco – Banking statistics show +4.3% y/y growth in loans as at end-October. This is due to debtor and overdraft facilities growing +10.8% y/y, real estate loan growth of +1.8% y/y and +1.4% y/y growth in equipment loans. NPLs grew +14.3% y/y, while consumer loans declined -2.9% y/y.

The government executed a bond issuance of USD 3bn this month, to fund the worsening public deficit. It is expected to be 8% of GDP for the year (2019: 4.1% of GDP). Notably this is their second issuance, after EUR 1bn in September, as well as drawing on USD 3bn available from the IMF earlier in the year.

Macro releases (November stats):

- Inflation decelerated to 0.2% y/y (Oct: 1.3%).
- FX reserves flat at USD 29.7bn (Oct: USD 29.5bn).

Company updates

Commercial International Bank (Egypt, Financials) 3q20 results were below expectations. PBT -15% y/y and -5% q/q is a slight blip from the flat guidance. And while pre-provision the results are still far above average which bails out the overall number, poor optics from the CBE judgment reverberates through the financial release. The main culprit was a higher provision number - EGP 1.6bn vs. EGP 1 - 1.2bn in previous quarters. Management did say they applied "their judgment and included their current estimate of the CBE findings in the financial statements including impact on provisions and legal charges" yet they did not quantify what proportion of the 1.6bn was the CBE impact. We assume, for the moment, until full year disclosure perhaps finalises the impact, at EGP400m. Interest income and liquidity still remain the main positive at +17% y/y, from 10% deposit growth y/y and a 7% expansion in NIM to 6.5% - so the basic strategy of liquidity growth in place. The bank maintains a very high Tier 1 CAR at 26% (3q19: 24%) which we believe still reflects an outlook of high growth in Risk-weighted assets rather than defensive positioning. The NPL trend is stable at 3.96% NPL ratio vs. 4% at June 2020, with new provisions mainly linked to some new Stage 1 and 2 loans. NPL coverage is very high at 260% (3q19: 190%). For this reason, ROE is tracking at 18% for 2020. Looking forward, we expect a post-Covid recovery back to 22% for 2021 and back to a historical average of 27% thereafter as CAR levels drop and RWA picks up. Current 2020 at 1.5x book and forward 2021 at 1.25 book. That compares to a 5-yr average of 3x and a 2.5x pre-Covid/2019 book value. We place fair value at 2.4x book, or 94% upside to 2021 book value. It is worthwhile to note that it is a very deep discount even below the average for 2011, the year of Revolution, when CIB traded at 1.7x book. In that year the lowest price was at 1.3x book during post-revolution street battles.

Market outlook

The impact of COVID-19 is still being assessed but at this stage it is the main driver of short-term negative macro performance in all our markets. In addition, a lower average oil price in the past 4 months has negatively impacted Nigeria's ability to clear USD FX demand in particular. 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 –** Our view on Kenya is more negative for 2020 but 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.