Monthly Market Report

Edition:	**February 2021**
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) –

Feb Performance (%)	LCY	USD
Kenya	6.3	6.7
BRVM	3.6	3.5
MSCI World	2.5	2.5
MSCI EM	0.7	0.7
Egypt	-0.2	0.1
Zambia	2.0	0.0
Tunisia	0.3	-0.3
Morocco	-2.3	-2.2
Botswana	-2.8	-2.9
Mauritius	-2.4	-3.0
Nigeria	-6.2	-13.0

A positive month with a strong push from the recent additions of MM Group and Obour Land. Some divergent market performance with Kenya (+6.7%) in the lead, while Morocco (-2.2%), Mauritius (-3.0%) and Nigeria (-13.0%) lagged. On a currency level, the rand, Kenya shilling and Egyptian pound found some strength while the naira noticeably jumped to 415 to the USD (Prior I&E range: NGN 380-400).

Economic and political overview

Nigeria – After an initial flurry in capital market activity in January, interest has waned. Despite strong crude prices, government has been remarkably stingy on FX and letting the naira devalue. We still think it is inevitable and the cross has slipped above 400 recently but the slow movement on this is the proverbial elephant in the room.

The Central Bank of Nigeria (CBN) has instructed banks to automatically open USD bank accounts for customers to facilitate remittances, probably somewhat pushed by the increased popularity of crypto FX trading, which is outlawed. This allows for customers who have only naira-valued accounts currently to access the remittances directly, with a USD 2000 withdrawal limit. This announcement seems counter to actual FX trading in the I&E window. February FX trade volumes were at USD 1.3bn (January: USD 1.1bn) which is still far below the USD 2-3bn level attained between September and December and far below the pre-Covid range of USD 6-8bn.

4q20 GDP surprised at +0.1% y/y (4q19: 2.6%) amidst pandemic restrictions. The non-oil sector contributed 94% of growth, driven by agriculture (+14.0% y/y) and ICT sectors (+16.3% y/y). The IMF anticipates the country reaching pre-pandemic economic growth in 2022.

The Covax facility donated 16m doses to Nigeria, 3.9m of which have been delivered. Additionally the African Union (AU) has allocated 42m doses to the country.

Macro releases (January):

- Inflation accelerated to 16.5% y/y (Dec: 15.8%).
- FX reserves grew to USD 36.3bn (Dec: USD 35.4bn), and fell to USD 35.2bn as of 24 February.
- PMI slipped down to 50.7 (Dec: 51.8).
- M3 growth was 15.3% y/y (Dec: 11.2%).
- Private sector credit growth grew 14.7% y/y (Dec: 13.0%).
- Internet subscriptions grew 22% in 2020, even after a decline in December. This implies penetration of 78% (Africa's average is 16%), while mobile network penetration is at 103%.

Egypt – It is noticeable that capital market activity is picking up. We are meeting with several companies that are looking to come to market. The most interesting, a cosmeceutical player in Egypt and the region, called Macro, with very healthy margins and steady revenue growth. However, for now, we are mainly focused on the fintech side and the likely listing of Ebtikar which currently resides in the belly of MM Group. News of the clean-up of Ebtikar to only house the e-payments businesses Bee and Masary, getting it ready for listing in 2H21 created a strong reaction in the share prices of MM Group and B Investments, the two main shareholders in Ebtikar.

Employment numbers are surprisingly solid. 4q20 unemployment reached 7.2% (3q20: 7.3% and 4q19: 8%). The absolute number rose to 27.8m employed, which exceeded pre-Covid levels (4q19: 26.6m). That said, tourism continues to struggle, while trade and agriculture drive the bulk of employment growth.

Egypt is undergoing phase 1 of its vaccination drive, 35m people, specifically aimed at high-risk frontline workers. Phase 2 will incorporate other medical professionals. Citizens are able to pre-register for the vaccine from March. The country is currently awaiting 2 sizeable deliveries from the Covax facility and Sinopharm is expected imminently. Egypt expects a total of 40m doses from GAVI in 2021.

The Central Bank of Egypt (CBE) waived fees on e-payments for SMEs on payment gateways and QR code platforms until end-June. To further support this sector, the CBE has instructed banks to increase the required proportion of SME loans to 25%, up from 20%. This is to be a static target as opposed to a constant mix over time, with 10% specifically lending to small businesses (Revenues <EGP 20m) and the remainder to medium-sized companies.

Macro releases included (January stats):

- Inflation slowed to 4.3% y/y (Dec: 5.4%).
- FX reserves were flat at USD 40.1bn.
- PMI was 48.7 (Dec: 48.2), which has since risen to 49.3 in February.
- M2 growth was 19.8% y/y (Dec: 19.7%).

Kenya – The IMF announced a staff-level agreement to access up to USD 2.4bn for 38 months. This falls under a combination of the Extended Fund Facility and Extended Credit Facility, intended to assist with pandemic recovery and fiscal consolidation.

Card payments fell in 2020, as mobile money services picked up the lost value. POS device value was down -3.8% y/y (2019: +33%). However, volumes did not suffer and grew +4.5% y/y.

Kenyan regulators have approved the use of the vaccine from AstraZeneca; rollout commences in March.

Macro releases (January stats):

- Inflation came in at 5.7% y/y (Dec: 5.6%).
- FX reserves stood at USD 7.7bn (Dec: USD 7.8bn), and has since slipped to USD 7.6bn as at February 25.
- PMI inched up to 53.2 (Dec: 51.4), then dipped to 50.9 in February.
- Remittances grew 7.3% y/y to USD 278.4m (Dec: 10.7%).
- 2020 tourism stats show a drop of -71.5% in international visitors (c.1.1m).
- Trade deficit narrowed by 17.0% in 2020 due to the drop in imports.

Mauritius – India and Mauritius signed a free trade pact allowing Mauritius to preferential access to the Indian market for 615 products. India will get the reciprocal for 310 products, as well as access to specific subsectors of the economy. Mauritius will also receive a credit line for USD 100m, as well as a USD 5m grant from India.

Macro releases (January stats):

- Inflation fell to 1.0% y/y (Dec: 2.7%).
- FX reserves grew to USD 7.76n (Dec: USD 7.3bn).

Morocco – Unemployment data showed a rise to 11.9% y/y in 2020 (2019: 9.2%). Coupled with the onset of the pandemic, there was a drought which exacerbated the impact on vulnerable sectors of the economy. The unemployment rate amongst the youth (15-24) stood at 31.2%. Economic activity has started to recover from the hit in 2q20.

Moody's maintained Morocco's long-term foreign debt rating at Ba1, but downgraded the outlook to negative.

Macro releases included (January stats):

- Inflation was 0.0% y/y (Dec: 0.3%).
- FX reserves declined to USD 32.6bn (Dec: USD 33.7bn).
- Trade deficit fell -23% y/y to MAD 158.7bn at end-December.
- Credit growth was 4.5% y/y for 2020 (2019: 5.3% y/y), benefitting from the government-guaranteed credit schemes to support SMEs and individuals during the pandemic.

Company updates

Label Vie (Morocco, Consumer staples) – FY20 results update: Overall a good set of results for the year, with a few trends to explain in the second half. FY20 revenues grew by 6%, Gross profit 7.8%, EBITDA 15% and EPS 6%. The company also increased the dividend by 7% to MAD 60 per share. The leakage from EBITDA to net income came from one off charges such as the Covid Fund contribution. On a format basis, Supermarkets grew revenues by 12% (5% LFL), Hypermarkets by 13% (1% LFL) and Atacadao a disappointing 1% due to depressed HORECA and closure of mom n' pop stores. The format mix has an impact on profitability, as Atacadao is lower margin. Interestingly in 2H20, group revenues declined by 1%, however Gross Margin popped from 17.5% in 1H19 to 19.2% in 2H20. 2020 also saw the successful IPO of Aradei Capital (58% owned Real Estate arm) as a REIT. The issue was 4x oversubscribed and the current market capitalization is MAD 4.2bn. Were they to sell their stake, they would realize approx. MAD 2.4bn (note net debt is c2.6bn) and record a tax free capital gain of MAD 600m, which is about double one year's PAT. In terms of outlook, management are looking to aggressively resuscitate the store roll-out plan during the course of 2021.

Mutandis (Morocco, Consumer staples) FY20 results: Revenues down -4.5% y/y (-2.5% at constant PET prices) impacted by Covid. The homecare segment (47% of revenues) was resilient +2.6% y/y with bleach growing +34% y/y and Magix handpowder as market leader. Beverages (13% of revenues) down -23.6% y/y and Fruit juice (5% of revenues) down -3.3% y/y due to movement restrictions. Management noted that their own brands grew in each category clearly indicating downtrading by consumers. Seafood (35% of revenues) declined -4.7% y/y, losing 10% of production days among the 4 factories (400 employees each) affected by Covid. Raw material prices declined in detergents and juice segments, which led to GP margin expansion of 95bps to 41%. Operating costs also benefitted from discounted marketing spend and the absence staff bonuses. Cost declines kept the dividend stable at MAD 8.5/ share. PBT down -21% y/y and PAT -15% y/y. 2021 will see the launch of an economical fish paste and expanding the Magix brand to machine powder and inexpensive paste. Capex is expected to be higher over the next 3 years as they launch a MAD 300m investment programme mainly focused on the homecare segment.

Nigerian Breweries (Nigeria, Consumer staples) FY20 results: Revenue growth came in ahead of our expectations at +4.3% y/y (2019: -0.4%). 4q20 revenues were up 17.9% y/y slightly undershooting the previous quarter as a result of protest action in October. Growth was largely driven by price throughout the year, while volumes recovered in 2H20. NB benefitted from a mix effect, with the premium category growing strongly with double digits led by Heineken and Tiger. GP margin contracted from 41% in 2019 to 35% in 2020 following price increases in raw materials. Opex was down -7.4%, but overall costs increased leading to erosion of the EBITDA margin by 84bps to 19.5%. FX losses were NGN 1.1bn after naira devaluations during 2020 which hit the bottom line. PBT was down -50.4% y/y and PAT -54.3% y/y. NB have launched several new products including Desperados, the world's first Tequila flavoured beer, which has been well received. NB has strong long-term upside potential, the macro environment will likely mean a protracted recovery.

Nestlé (Nigeria, Consumer staples) FY20 Results: Topline growth flat 1.1% y/y, slightly undershooting expectations, with sluggish 4q20 growth of +2.3% (3q20: +3.3%). Food revenues were volatile, declining -2.5% y/y for the year. In 3q20 food showed a -14.2% slump after volume declines in Maggi, which recovered to +9.2% y/y in 4q20. Beverages grew +7% in FY20 with a slowdown evident in 4q20 (-8.4% y/y) but bolstered by strong growth the previous quarter (+32.7% y/y). The overall mix has largely remained constant, with a 60/40 split for food:beverages. Higher input costs for raw materials and the naira devaluation led to COGS growth of +8% y/y, and GP margin decline of 359bps to 41.5%. Nestle contributed a total of NGN 700m towards the COVID-19 response during the year as a once-off outflow. The impact of the naira devaluation started coming through in 4q20, and this continues to be a risk moving forward. PBT down -14.7% y/y and PAT -14.2% y/y. Strong FCF generation has put Nestle back to a net cash position.

CIB (Egypt, Financials) FY20 PBT -8% y/y finished the year in line with our expectations. During our call, management reflected on the year noting they took a very conservative stance on credit but did not see much deterioration in their credit book. The outlook for 2021 pointed to some provisioning early in the year but at a much lower level - EGP 2bn vs. EGP 6bn in 2020. As cost of risk normalises, 2021 earnings should range between +40 and +50% y/y. Essentially, provisioning was an IFRS 9 mitigation effect for a risk that did not transpire. The recovery in earnings jump will reflect the catch up of 2 years earnings growth. EGP deposit growth came in strong at +17% y/y which reflects continued growth of their main strategy to build their depositor franchise. The story is now at various extremes: No dividends (ban by CBE), 31% CAR and 1.3x book value which matches the valuation during the Egyptian revolution, yet we do not sense the volatility in the business model. It just keeps on doing the same thing which is to build the balance sheet at healthy margins and controlled cost. The catalyst for share price performance is dependent on a more confident post-Covid view.

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.