Monthly Market Report

Edition:	**January 2021**
Region:	**Africa ex SA**
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Market snapshot

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

Jan Performance (%)	LCY	USD
Nigeria	5.3	10.8
Egypt	6.5	6.5
MSCI EM	3.0	3.0
Morocco	3.0	2.7
Kenya	2.3	1.4
Mauritius	-0.6	-0.4
MSCI World	-1.1	-1.1
Zambia	-0.2	-1.1
Botswana	-0.3	-1.8
Tunisia	-3.3	-3.7
BRVM	-7.9	-8.9

January saw positive performances led by Nigeria (+10.8%), Egypt (+6.5%) and Morocco (+2.7%). The World Bank estimates loss in productivity during 2020 at USD 115bn or a 3.3% GDP contraction. The forecast for 2021 GDP is 2.7%, rising to 3.3% in 2022.

Recovery is the key word in most management meets - the key message that lessons from the first wave help business operate with less disruption in subsequent waves. While dealing with lockdowns and curfews is a way of life, true recovery depends on vaccine supply and rollout. African governments were slow to secure supply and likely to lag the world. Positive news was that the African Union (AU) secured 670m doses of vaccines for the continent with 50m expected between April and June. This supply is mostly from the Serum Institute of India that produces the AstraZeneca vaccine, and is in addition to Covax facility doses already confirmed. Africa is estimated to need 1.3 billion doses at a cost of USD 7-10bn. We do agree with the International Red Cross and Crescent (IFRC) view that vaccine inequality is a world issue because if the virus is allowed to mutate unchecked in developing nations, specifically Africa, it could undermine vaccine nationalism elsewhere.

Economic and political overview

Nigeria – The World Bank has pegged GDP at +1.1% in 2021, after a -4.1% contraction in 2020. The IMF forecasts growth of 1.5% in 2021 (Prev: 1.7%).

FX liquidity is steadily improving into December 2020. December I&E FX volume at USD 3.2bn up from USD 2.4bn in November. Interestingly, only USD 1.1bn traded through the window in January which may reflect some seasonality.

The Central Bank of Nigeria (CBN) granted operational licenses to 874 microfinance banks. The CBN has initiated a Quick Response (QR) code, for all payments, switches and processors to ensure interoperability in accordance with their widely circulated e-payment framework. E-payment value grew to NGN 21.9trn (USD 57.5bn) in 2020, up +80% y/y (2019: NGN 12.2trn).

The Ministry of Health has announced that the first batch of COVID-19 vaccines from Covax is expected in February. As yet, the vaccine procurement and rollout is not in the budget. Over 400m doses will be required assuming 2 doses per person. Healthcare capacity is becoming an issue as cases have surged in the past month.

Macro releases included (December stats):

- Inflation rose to 15.75% y/y (Nov: 14.9%).
- FX reserves were flat at USD 35.37bn (Nov: 35.4bn). Fitch forecasts FX reserves rising to USD 42bn in 2021.
- PMI went up to 51.8 (Nov: 50.9).
- M3 growth accelerated to 11.2% y/y (Nov: 0.3%).
- Private sector credit growth was 13.0% y/y (Nov: 11.4%).
- Pension assets rose to NGN 12.3trn (2019: NGN 10.2trn).

Egypt – Following the review of the SBA loan, the IMF improved Egypt's GDP outlook to 2.8% (Prev: 2%) for FY 20/21. Modest recovery is anticipated in all sectors excluding tourism. The Ministry of Finance has also estimated an increase in GDP this year to 4% (Prev: 3.5%). Moody's has stated that due to post-deval reform, Egypt is one of the only countries in the MENA region expected to maintain its pre-COVID growth path.

The Central Bank of Egypt (CBE) has prohibited banks from distributing 2020 dividends, citing ongoing uncertainty due to COVID-19. Further, suspension of transaction fees has been extended to June. This includes transfers, mobile wallets, cards and ATM withdrawals.

Vaccine rollout is expected imminently, the first shipment of 50,000 doses was received from Sinopharm late last year. Now they can cover 20m people with the vaccine from the Covax facility. Another 20m will be covered through an agreement with AstraZeneca, with more shipments expected from Sinopharm. The Ministry of Health has secured 100m doses so far, allocating USD 1.6bn to make the vaccine available. COVID-19 daily infections continue to fall, down -21% in January.

Macro releases (December stats):

- Inflation was 5.43% y/y (Nov: 5.5%).
- FX reserves crept up to USD 40.06bn (Nov: USD 39.2bn).
- PMI fell to 48.2 (Nov: 50.9).
- M2 growth stable at 19.7% y/y (Nov: 19.6%).
- External debt rose by 15% y/y to USD 125.3bn.
- Remittances grew +2.6% y/y in November.

Kenya – The World Bank foresees Kenya's growth at an optimistic 6.9% in 2021, following an estimated contraction of -1% to -1.5% in 2020. The IMF expects slower GDP recovery of 4.7% in 2021, while the Treasury maintains a 6.4% GDP forecast. COVID-19 vaccination rollout begins in February, and the curfew is being upheld until 12 March.

The IMF standby facility is up for renewal following tax cut reversals. The reversals will assist the fiscal debt position, after the consistently widening deficit in 2020. The facility of USD 1.5bn will support liquidity. In accordance with the IMF's guidance, Kenya is expanding public debt coverage to include state-owned enterprises.

Kenya was granted a debt repayment break of 6 months at the G-20 summit. This saves the government KES 32.9bn (USD 300m) over that period, allowing them to redirect cash flow to deal with the impact of COVID-19. China also deferred Kenya's USD 250m debt repayments to June.

Macro releases (December stats):

- Inflation was 5.6% y/y (Nov: 5.5%).
- FX reserves declined to USD 7.75bn (Nov: USD 8bn).
- PMI was flat at 51.4.
- Remittances up +19.7% y/y to USD 299.6m (Nov: USD 257.7m).

Mauritius – The first 100,000 doses of the AstraZeneca vaccine arrived on its shores. Citing the vaccine rollout, the IMF forecasts 10% growth in 2021 and Moody's forecasts GDP at 7.8%.

Macro releases (December stats):

- Inflation slowed to 2.7% y/y (Nov: 3.1%).
- FX reserves grew to USD 7.29bn (Nov: USD 6.97bn).

Morocco – The Planning commission predicts GDP growth of +0.5% in 1q21, which marks recovery to +4.6% for 2021 (2020: contraction of -7%). In addition to the pandemic, Morocco experienced a drought, which impacted agriculture in 2020. COVID-19 led to a fiscal deficit of -7.4% of GDP in 2020 (Target: -3.5% of GDP), but is expected to shrink to -6% of GDP in 2021.

Morocco received the first big shipment in Africa of 2m doses of the AstraZeneca vaccine. The rollout has been well-prepared, with 3,000 vaccine sites ready alongside mobile units for rural areas. Sinopharm vaccines followed with 500,000 doses available. Morocco has ordered a total of 65m from both companies.

Macro releases included (December stats):

- Inflation was 0.3% (Nov: 0.2%).
- FX reserves rose to USD 33.7bn (Nov: USD 29.9bn).

Company updates

Obour Land (Egypt, Consumer Staples) 4q20 results: An excellent set of results, with revenues +4% (equal split price and vol), however gross profit grew 20% on reduced COGS, largely as a result of opportunistic SMP buying during the year. EBIT was +32%, PAT +30% and a dividend hike of 20% to EGP 0.6 or 8% yield. The company generated an impressive ROE of 42% and RoIC of 27%. In terms of outlook, SMP prices have risen again, but they should be able to protect margins, with pre-purchased inventory to June 2021 and a fair amount of pricing power, given the paltry increases in 2020. New product lines, milk and processed spreadable cheese, are both doing well in the new year and will enhance revenue and plant utilization. They should comfortably grow earnings 20% in 2021. Valuation remains attractive on a trailing 2020 PE of 10.7x, 6.5x EV/EBITDA and high dividend yield.

EABL (Kenya, Consumer Staples) 1H21 results: Flat revenue growth -3% y/y indicating partial recovery (2H20: -29% y/y). The rebound was driven by price increases while volumes lagged. Unsurprising as bars and restaurants in Kenya (66% of revs) are still closed until March. The group has had to rely on its “off-trade” which has now become a larger part of the portfolio. Kenya fell -10% y/y in revenues, on account of volumes with Senator Keg bearing the brunt of restrictions. Uganda sales (18% of revs) up +13% y/y and Tanzania (16% of revs) showed strong growth +17% y/y, with both markets showing sustained growth in all categories. In terms of the portfolio, premium brands and beer were flat y/y while spirits demonstrated resilient growth of +12% y/y. GP margin was 43%, clawing back 415bps from 2H20 but still below 1H20’s GP margin of 48%. PBT still underperforming at -45% y/y, exacerbated by one-off items such as tax provisions and FX losses. Operational improvements were masked by the high fixed costs, but recovery is expected in 2021. No interim dividend was declared, with management choosing to reinvest. Primary risks include excise duties and packaging amendment proposals which would have a major impact on profitability.

Stanbic IBTC (Nigeria, Financials) FY20 results were good, PBT +5% y/y, slightly ahead of our forecast for flat earnings. 4q20 PBT -12% y/y were slightly weaker than the previous quarter mainly driven by lower treasury yields and one third of the year's provisions taken at the end. Still, CoR at 1.6% was low and reflects an issue we have mentioned before - loan portfolio risk from Covid-19 and low oil prices did not materialise. At the same time, the bond and FX trading desks did really well - something one should expect when FX liquidity can be supplied at a premium/margin and bond trading volatility assists trading. We expect, a full devaluation would provide further tailwinds to performance and trading in 2021 while the wealth and pension business is growing steadily. The retail business is still struggling to break even as provisions were largely centred there, however the potential still remains with a fast growing mobile money platform and a source of lower cost funding that benefits the whole banking book. The dividend for FY20 has not yet been declared as disclosure still unaudited and management awaits CBN approval. We expect a NGN 3/share dividend like FY19 which is a 7% yield. As we roll our model forward, we raise our fair value to NGN 70/share (previous: 60/share) or c. 60% upside. Currently, trading at a very low 1.2x FY21 book vs. cycle highs of 2.7x and a 5-yr average rating of 1.5x book.

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.

Additional Notes: Safaricom Call with Head of Networks

- Press speculation that they have abandoned Huawei and 5G ambitions are false. They are reinforcing 4G advantage and continuing 5G trials and spectrum redeployment. They now have 93% 4G coverage and 4G represents 63% of traffic, up from 35% in 2019.
- Main suppliers are NOKIA and Huawei.
- Niche suppliers are AVIAT and CERAGON, who are mostly helping with upgrading and improving backhaul capability. Backhaul and the transit network are critical, as you can have all the spectrum and latest tech on the tower, but it is meaningless if you cannot carry it from one tower to the next or connect it to country and global networks at high speed.
- Safaricom's key advantage is that 63% of towers are connected to its own fiber network. The balance are connected via Safaricom's microwave network. Competitors must use a variety of spotty independents or piggy back off Safaricom (extra unregulated revs for Safaricom) or try to build their own (limited financial resources).
- Limited spectrum is a big problem – Safaricom and Airtel have the same spectrum allocation, yet Airtel has 20% of the customers, which means Airtel offers superior quality and lower congestion.
- Solving the problem – Safaricom have solved the problem by jumping a generation ahead, to 3G then 4G and soon 5G. They also have two other critical support factors.
- Redeploying spectrum from the WiMax network.
- Further expanding fiber. On a massive drive to connect more homes and businesses.
- Internet of Things (IoT) – they have two platforms deployed. EABL is the largest customer and they are piloting smart metering with KPLC. They also have Narrowband IoT, facilitated by the ubiquitous 4G network. They see this as a big source of enterprise growth.
- Data centres – Safaricom has always had a policy of not owning land, so offices and data centres are on leased land. The increasingly mission critical nature of data centres has compelled them to buy land and build data centres.
- Global connectivity – own the TEAMS network, are partners in a number of other networks and are part of the new Simba consortium in Tanzania.
- Threat from balloons and satellites – there has been a lot of talk about balloons (Google, Microsoft) and low level satellites (SpaceX, UK-Japanese govt acquisition of OneWeb low orbit satellites). Safaricom still sees this as a rural solution as the physics don't stack up. I agree short and medium term, but think it is a long term issue.

Conclusion – Overall very impressive and further evidence that Safaricom continues to skate to where the puck is going to be, in this case exponential demand for data and increased network functionality.