Monthly Market Report

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

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

Mar Performance (%)	LCY	USD
Tunisia	6.2	3.3
MSCI World	3.1	3.1
Morocco	1.1	-0.3
Zambia	0.9	-0.4
Nigeria	-1.9	-1.2
BRVM	1.5	-1.5
MSCI EM	-1.7	-1.7
Mauritius	0.1	-2.1
Botswana	-2.1	-2.4
Kenya	-4.1	-3.7
Egypt	-8.3	-8.5

March was a weaker month, with lagging performances from Kenya -3.7% and Egypt -8.5%. Africa is behind the curve with regards to vaccine rollout, with only c.7m doses administered so far. More than 14.6m doses have been delivered to 22 countries on the continent since February, through the Covax facility. However only 10 countries have begun with consistent rollout. The concerns are emerging variants while many remain unvaccinated, which will ultimately have a global effect.

Economic and political overview

Nigeria – The Minister of Finance confirmed the adoption of one FX rate (Nafex) which is currently at NGN410/USD - 8% weaker than the official fixed rate at 379. This allows government transactions to use this same rate, and aligns to recommended reform by the World Bank and IMF.

Nigeria received 3.94m doses from the COVAX facility earlier this month. As of 31 March, c.600k Nigerians have been vaccinated. Another 129m free doses are expected during the year from various sources.

Nigeria Communications Commission (NCC) has announced a flat fee for USSD services starting this month. The pricing structure was previously determined by banks and telcos, and generally not an additional charge as the channel is used in areas of low connectivity. This will likely propel growth of mobile money operations as users shift usage. This move may, however, reduce USSD volumes at the lower end. Mobile money accounts grew to 1.2bn in FY20, an increase of c.136m throughout the year.

Macro releases (February stats):

- Inflation continued to rise reaching 17.33% y/y (Jan: 16.5%).
- FX reserves fell to USD 35.1bn (Jan: USD 36.3bn).
- PMI rose to 52.0 (Jan: 50.7).
- M3 growth was 14.1% (Jan: 13.6%).

- Current account deficit was down -10.3% y/y to NGN 7.4trn in FY20 (2019: NGN 2.2trn surplus), hit by lower exports.
- Unemployment rate was 33.3% to end-Dec 2020 (2q20: 27.1%).
- Remittances -27% y/y to USD 17.2bn in FY20 (2019: USD 23.6bn).

Egypt – Egypt started its vaccine rollout to the registered public, targeting the elderly and those with chronic conditions. Tourism workers were added to this list. Over 488,000 people have registered for vaccinations online, with 20 000 new registrations per day. Egypt has received 650,000 doses since December. The Covax facility delivered 854,000 doses this month. Another 8.6m doses of the AstraZeneca vaccine are expected imminently. Private companies are able to import the vaccine e.g. Prime Speed Medical, but administration is being done solely by the Ministry of Health.

GDP grew to 2% in 4q20 (3q20: 0.7%), indicating a slow recovery because of the continued impact on tourism. Outdoor entertainment and events are permitted to resume activities at 50% capacity.

Fitch Ratings Agency affirmed Egypt's sovereign rating at B+ with a stable outlook.

Macro releases included (February stats):

- Inflation came in flat at 4.46% y/y (Jan: 4.3%).
- FX reserves were also flat at USD 40.2bn (Jan: USD 40.1bn).
- PMI inched upwards reaching 49.3 (Jan: 48.7).
- M2 growth was 20.1% (Jan: 19.8%).
- Remittances grew by 10.5% y/y to USD 29.6bn in FY20.

Kenya – Kenya received its first batch of vaccines this month totalling 1.02m doses, just as cases peaked (c.1000 new cases per day). The country is officially experiencing a third wave. The government has extended curfews for 60 days and banned political gatherings in addition to existing containment measures. Most recently, the President instituted movement restrictions between 5 counties in an attempt to isolate hotspots, as well as closing bars in the affected areas. This inevitably affects EABL's post-pandemic recovery.

Ratings Agency S&P downgraded Kenya's long-term sovereign credit rating to 'B' from 'B+' with a stable outlook. Fitch affirmed Kenya's 'B+' rating but downgraded the outlook to negative given the uncertainties regarding fiscal consolidation. The Central Bank of Kenya (CBK) has publicly disputed the negative outlook, citing that medium-term growth is better than indicated.

Kenya has approached the World Bank to help with a funding shortfall for COVID-19 vaccines. The loan is for KES 10bn (USD 91.4m), aimed at acquiring 11m AstraZeneca doses.

Macro releases (February stats):

- Inflation slowed to 4.67% (Jan: 5.7%).
- FX reserves stood at USD 7.61bn (Jan: USD 7.66bn).

- PMI fell to 50.9 on the back of the COVID-19 surge (Jan: 53.2).
- Current account deficit narrowed to -4.7% of GDP in 2020 (2019: -5.8% of GDP), due to a fall in imports.

Morocco – Morocco is leading the vaccine rollout race in Africa. 4.3m people have received their first jab of the AstraZeneca vaccine, and 3m their second. 4.2m doses are expected imminently, a combination of Sinopharm, Sputnik V and AstraZeneca. The goal is to achieve herd immunity by summer.

GDP in 4q20 contracted -6% y/y (3q20: -8.7%), with protracted containment measures for COVID-19. Agriculture contracted -7.3% and the non-agricultural economy was down -5.5%, dragged by tourism, transport and trade. This brings GDP for 2020 to -7.1% (2019: +2.5%).

Macro releases included (February stats):

- Inflation was 0.3% y/y (Jan: 0.0%).
- FX reserves were flat at USD 32.2bn (Jan: USD 32.6bn).

Company updates

EIPICO (Egypt, Healthcare) - FY20 results update: Topline missed expectations at -14.7% y/y driven by a significant volume decline due to COVID-19. Average selling prices went up by +7.9% while volumes were down c.-21% for the year. 14 new launches contributed EGP 39.2m to revenues (2019: 8 launches). 4q20 showed a partial recovery at -7.4% y/y, up from -17% y/y in 3q20. Despite this, GP margin expanded by 222bps for the year, on account of API pricing negotiation reducing COGS. Opex down -8% and EBIT down -11% y/y. The balance sheet has shifted to net debt of EGP 1bn, with the introduction of interest payments which hit the bottom line. PAT down -27% y/y. Capex grew to 7% of revenues, and this is expected to climb for the next 2 years totaling EGP 2bn mainly directed to the biosimilars plant. EIPICO announced a dividend payout of 61% at EGP 3 p/share.

MM Group (Egypt, Consumer discretionary) - FY20 results update: 2020 was a difficult year for the consolidated businesses with revenues down 11.7% and EPS -20.3%. The company was able to partly mitigate with Gross Profit down only 3% and substantially improved margins. Over and above the obvious impact of lockdowns and reduced discretionary spend, smartphone sales were delayed owing to fewer new launches by Samsung in 2020. Indications from management are that 2021 has gotten off to a stronger start, which should gain momentum as vaccines are rolled out. We were not able to the performance of Ebtikar, its Payments investment, as it is not consolidated and management is giving minimal disclosure, owing to the upcoming IPO. Management has confirmed it has now broken even, so should be a positive contributor to 2021 numbers.

HPS (Morocco, IT) - FY20 results update. Lower EPS from FX losses and Covid costs, belies a very strong performance and outlook. Revenues grew 1.2% (4% constant FX), EBIT declined 4.8% on higher Covid related costs and EPS was -9.7% on FX losses, as the MAD appreciated vs the USD during 2020. FCF generation quadrupled from working capital improvement and lower capex. On a divisional basis, Solutions (71% of revs) was down 2%, Processing (14% of revs) up 46% and Services (15% of revs) was down 8%. Services struggled as project implementation and consulting were difficult under Covid. This is not a core business, so is not a major concern. In terms of outlook, the company is very bullish having a) landed a number of new wins, with large reputable institutions in Middle East and Asia and b) started onboarding some of their previous wins such as Capitec, SocGen and ABSA Africa. Encouragingly, recurring revenues were up 11% and now represent 62% of total revs, from 57% in 2019.

Equity Group (Kenya, Financials) - FY20 results update: PBT -33% y/y was below expectations. We had expected a 26% decline for the year. The main culprit was an additional heavy provision in 4q20, taking the write down to 5.5% of the loan book for 2020. We believe this is more of prudent risk management and a long-term view on credit risk recovery. Operational metrics are strong on the mobile payments side for FY20: EazzyApp +73%, EazzyFX +158% and EazzyBiz +58% y/y. Overall Bank revenue was +23% y/y with fees mainly driven by the mobile channel +25%. No dividend declared.

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.