AFRICA FINTECH MARKET UPDATE

PUBLIC MARKETS – NIGERIAN BANKS STARTING TO LOOK REALLY ATTRACTIVE

From the heady days of 2007, driven by consolidation and recapitalization, to the fall from grace in the years thereafter, Nigerian banks have been the most controversial in the African public equity space. They operate in Africa's largest economy, where financial inclusion remains low and the investment opportunity is massive. Macro headwinds have created a tough operating environment for the banks, making it difficult justifying investing in them. However, despite this, a select few of the top banks have done incredibly well. The change of government and a new CBN head are fixing policy, substantially improving the operating environment and making the top banks incredibly attractive investment opportunities again.

GTCO

Our top pick, GTCO NL (10% of NAV), has an RoE of 28.3%, trades on a FY24 PE of 3.0x, P/bv of 0.8x and a div yield of 16%. It has very sufficient capital buffer with a CAR of 22%.

The question often gets asked, but what about bad loans and asset quality in Nigeria? Despite the significant macro-economic shocks, we think the impact of asset quality deterioration on the banks' asset quality should be relatively contained as: i) the unorthodox monetary policy of the previous governor led to average loans to assets falling from a peak of 46.8% in FY14 to 32.9% in FY22 and so the banks' exposure to higher risk assets is much lower compared to the previous cycle; ii) the banks' primary loan exposure is to the corporate segment, which is better able to withstand the macro-economic shocks; iii) the banks (in particular Access and UBA) have significantly increased their exposure to loans outside Nigeria; and iv) the banks (in particular GTCO, UBA and Zenith) have taken advantage of the exceptional gains in FY23e to increase their NPL cover, which will enable them to absorb any material deterioration in asset quality. On the last point, due to aggressive provisioning by some banks, we forecast the average CoR to increase from 1.0% in FY22 to 3.4% in FY23e before declining to 2.3% in FY24e and 1.0% by FY28e.

VENTURE MARKETS

The Briter Bridges African Investment Report is out for 2023 and paints a reasonably vibrant picture of investment and dealmaking on the continent. 149 fintech companies in Africa raised ~$1.55B in funding (equity & debt) across 169 transactions, according to the Afridigest Fintech Transactions Database.Equity funding raised by fintech startups in Africa in 2023: $900M and debt funding: $647m.

Total Fintech Funding by Country (The Big Four):

Egypt:	USD 541m raised across 17 deals (representing 35% of 2023 fintech funding and 10% of fintech deals)..
South Africa:	USD 367m raised across 25 deals (representing 24% of fintech funding and 15% of fintech deals).
Kenya:	USD 301m raised across 23 deals (19% of fintech funding and 14% of fintech deals).
Nigeria:	USD 243m raised across 60 deals (representing 16% of fintech funding and 36% of fintech deals).

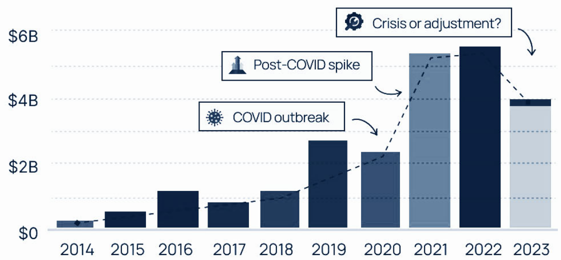
Africa's Venture Ecosystem has come a long way:

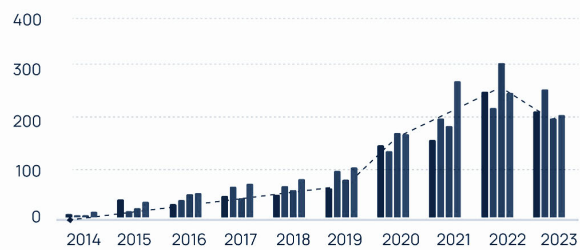
Africa Investment Report 2023

BRITER BRIDGES

$22B Announced deal volume over a **decade** (2014-2023)

SLOWDOWN OR ADJUSTMENT? After a decade of slow but steady rise, with **$18B** raised, African ecosystems after Covid (2021-2022) saw a sudden **funding spike. Growth halted** in **2023** due to factors such as a global venture investment downturn that impacted Africa's access to finance, rising concerns around inflated valuations, businesses' sustainability, and increased due diligence and scrutiny from investors.





10 YEARS IN PERSPECTIVE

2023

Deal volume in USD Incl. undisclosed and acquisitions

4B 23% lower than **$5.2B** raised in **2022**

Deal count Incl. undisclosed and acquisitions

1030+ 5% higher than 975 in **2022**

Single largest deal in USD

$400M mnt halan

Deal count to at least 1 female founder

30% higher than the share in **2022**

Top funded ventures

mnt halan, HUSK, Zipline, M-KOPA, sun king, spiro, terrapay, Planet42

Top investors and accelerators

Launch Africa, Ventures Platform, a', algebra ventures, Catalyst Fund, Labs, Kepple Africa Ventures, norrsken22, voltron capital, Grindstone, Baobab Network, Google for Startups, SBC, Future Africa, Founders Factory Africa, mastercard foundation, 500, FLAT6LABS, norrsken accelerator, Catalytic Africa, VISA

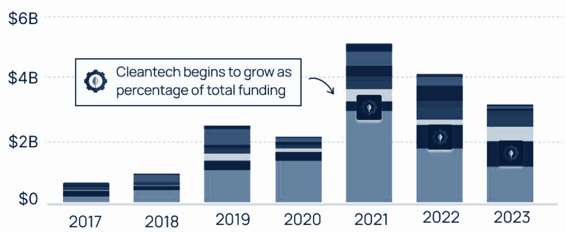
M&A activity

30+ Announced acquisitions

InstaDeep **$440M**

maxab, WaSoKo

30% investments into fintechs but growing **sector diversification**



68% of all funding in **Kenya, Egypt, Nigeria, South Africa**

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

A nice and poignant combination of bad and good news, a problem and a solution. On the negative side, in the third quarter of 2023 Nigeria spent NGN2.7trn (USD 3.1bn) to import premium motor spirit (PMS), diesel and jet fuel in the third quarter of 2023, according to data by the national bureau of statistics (NBS). This could be decried as criminy for Africa's largest crude oil exporter and the inability to refine locally has been an Achilles heel of Nigeria for decades. On the positive side, local industrialist, Dangote, to the rescue, with a 650k bpd refinery, enough for self-sufficiency in and export of refined products. This should save the country USD12-15bn annually in FX reserves, never mind increased employment and export opportunities for excess local production of refined products.

The first crude oil cargo to herald the production of petroleum products will berth at the Dangote refinery receiving terminal on December 7. The Dangote Refinery, situated on the outskirts of Lagos, Nigeria's commercial hub, has faced recurrent delays since its announcement in 2013, despite substantial installation progress made in 2019. Designed to process multiple crudes concurrently, the refinery aims to process three Nigerian crude grades — Escravos, Bonny Light, and Forcados. Upon reaching full operational capacity, the facility is anticipated to produce a daily output of 327,000 b/d of gasoline, 244,000 b/d of gasoil/diesel, 56,000 b/d of jet fuel/kerosene, and 290,000 mt/year of propane/LPG.

Macro releases included (Nigeria stats):

- Inflation accelerated to 28.9% y/y (Oct: 27.3%).
- FX reserves slipped to USD 33.0bn (Oct: USD 33.4bn).
- PMI was 48.0 (Oct: 49.1).

28.9% y/y	US$ 33.0bn	48.0
Inflation Rate	FX Reserves	PMI

EGYPT

Egypt Africa Finance Corporation (AFC) is targeting to launch several megaprojects in the Egyptian market in the coming period with investments of over USD1bn, AFC's CEO Samaila Zubairu said in an interview with Asharq Business. Zubairu highlighted that the AFC has partnered with renewable energy provider Infinity in wind energy projects in Egypt, adding that it is currently implementing a wind and solar energy megaproject in cooperation with the Egypt's and the UAE's governments. This is a positive development as Egypt is looking to increase energy and in particular, sustainable energy.

Egypt's food exports increased 15% Y-o-Y to USD4.3bn in 10M23, Hany Berzy, Head of the Food Export Council (FEC), said Tuesday. This is an all-time high for Egyptian food industry exports within the January to October timeframe, Berzy added. July showcased the most significant growth, with exports soaring 64% Y-o-Y to USD486mn. Arab countries emerged as the leading importers, accounting for 55% of the total share during the 10-month period and followed by the European Union (17%).

Egypt's net international reserves (NIR) increased by USD47mn in December, rising to USD35.2bn, according to data released by the Central Bank of Egypt (CBE) on Thursday. Reserves were up, thanks to a rise in the value of gold holdings, as that of foreign currencies dropped. Meanwhile, tier-II reserves were up by USD198mn in December to USD6.4bn. In that sense, total FX reserves are up USD245mn to USD41.6bn, with close to 6 months of import cover.
In a negative development, Egyptian remittances drop 29.2% y-o-y to USD4.52bn in 1Q23/2024 vs. USD6.39bn in 1Q22/23; Decline 2% q-o-q from USD4.61bn.

Macro releases (October stats):

- Inflation surged to 34.6% y/y (Oct: 35.8%).
- FX reserves were USD 35.2bn (Oct: USD 35.1bn).
- PMI slid down to 48.4(Oct: 47.9).
- M2 growth was +20.9% (Oct: 23.0%).

34.6% y/y	US$ 35.2bn	48.4
Inflation Rate	FX Reserves	PMI

KENYA

World Bank lines up Sh23 billion funding for small firms in Kenya – About 45,000 Kenyans are in line to benefit from new jobs in a Sh23 billion financing project for micro, small, and medium enterprises (MSMEs). The World Bank approved the Kenya Jobs and Economic Transformation Project (KJET) on Tuesday, which targets to increase private sector investments, access to markets and sustainable finance to create and improve jobs.

5G users in Kenya on steady rise of 13% in three months – The number of mobile data subscribers in Kenya that subscribed to the super-fast fifth-generation (5G) network increased 13% during the three months to September 2023 to 509,737, the Communications Authority of Kenya (CA) data shows. This is after it rose by 59,943 from the 449,794 recorded by CA as at June. This points to an enhanced consumer appetite for high Internet speeds in the wake of rapidly evolving technological advancements.

Macro releases (October stats):

- Inflation was 6.9% y/y (Sep: 6.8%).
- FX reserves were USD 6.8bn (Sep: USD 6.9bn).
- PMI fell to 46.2 (Sep: 47.8).
- 2q23 current account deficit widened to KES 138.7bn (USD 920m).
- The Central Bank of Kenya (CBK) anticipates GDP growth for 2023 at 5.7%.

6.9% y/y	US$ 6.8bn	46.2
Inflation Rate	FX Reserves	PMI

MAURITIUS

Macro releases (October stats):

- Inflation slowed to 4.6% y/y (Sep: 5.2%).
- FX reserves slipped to USD 6.7bn (Sep: USD 6.6bn).
- Bank of Mauritius (BoM) kept the interest rate unchanged at 4.5%.

4.6% y/y	US$ 6.7bn	4.5%
Inflation Rate	FX Reserves	Interest Rate

MOROCCO

In a positive development, the World Bank granted a USD 300m loan to Morocco for the transformation of higher education. This is extremely relevant, as Morocco has successfully shifted from a basic, to a more advanced manufacturing economy. STMicroelectronics recently opened a factory, to produce 25m integrated circuits per day. Increased spend on higher education, reinforces these developments.

The World Bank's board of directors approved on December 14th, 2023, a USD 300m Program loan to support the Moroccan government in implementing its National Plan to accelerate the transformation of higher education, ecosystem scientific research and innovation. This program is notably designed to (i) improve the labor market relevance of university programs, (ii) promote scientific research based on international standards and national priorities and (iii) enhance governance at the central and university levels. The program will contribute to (i) establish a mechanism for tracking graduate employability, (ii) mainstream transferable skills in academic programs, (iii) certify over 200,000 students in language or digital skills, and (iv) boost student enrollment and graduation in priority degree programs responding to the needs of socio-economic sectors by 2029. In fine, this program aims to enroll over 4,000 new PhD students in key disciplines and to facilitate national and international research networking and collaboration.

Macro releases included (October stats):

- Inflation was 4.3% y/y (Sep: 4.9%).
- FX reserves fell to USD 34.6bn (Sep: USD 34.5bn).
- Gross investments into Morocco slowed, down -3.1% in 2q23 (2q22: -8.4%).

4.3% y/y	US$ 34.6bn	-3.1%
Inflation Rate	FX Reserves	Gross Investments

COMPANY UPDATES

Key to brackets: (Country, Industry)

There no company updates this month.

MARKET OUTLOOK

Africa is expected to outperform the rest of the world with an improved outlook in 2024. We continue to allocate to high quality businesses; those that score highly on our internally developed, Likert Q-scoring system, both currently and over time. We have two additional quantitative overlays, valuation and growth. We also have two qualitative overlays being management and ESG. What is particularly exciting is that we have a number of businesses across Africa that fit these criteria. The key transformational trends of financial inclusion, urbanisation and economic formalisation underpin a robust African consumer story that is taking shape regardless of global volatility. We allocate to the best companies in the sectors that tap into this transformation. At the moment, we have a bias towards financial inclusion and fintech themes as they do particularly well on our growth metrics.

Nigeria – The new President is taking reforms seriously, collapsing all rates to a single I&E window; a hugely positive signal to the markets. This, as new bills have been signed into law coupled with other positive moves, including the removal of fuel subsidies. The road to full recovery will take committed policy change and will be bumpy. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples.

Egypt – The short term outlook for Egypt is opaque as the CBE weighs up FX devaluation versus inflation, however longer term it remains positive. The tourism outlook has improved, wheat prices have halved, and strong remittance growth continues. With the bulk of household consumption in cash, the investment opportunity for us in fintech is immense in this 100m population country and it will also drive economic formalisation and increased government revenue through widening of the tax net.

Morocco – Morocco's key economic drivers are mining, agriculture and tourism. Agricultural production is promising, with good rains since November supportive of growth. Tourism is rebounding with positive indicators for 2024. In terms of outlook, it remains a stable, mid-growth country with excellent opportunities in retail, manufacturing and fintech.

Mauritius – Tourism rebounded and growth prospects are positive.

Kenya – Peaceful elections and a new, business-friendly President bode well for the country in the foreseeable future. Continued recovery in tourism, lower soft commodity import prices and a rebound in food exports should provide tailwinds. Corporate expansion into neighbouring countries such as the DRC and Ethiopia, provide significant opportunities for Kenya. Safaricom and Equity Group are the two main drivers. IMF and World Bank support will also allow the country to maintain a strong growth trajectory.