A NOD TO CURRENT AFFAIRS AND MARKET VOLATILITY

It would be remiss to not make mention of global events, particularly the impact of deteriorating sentiment toward emerging markets as well as soaring commodity prices. It is important to emphasize that Africa is not a country, it's a patchwork of countries with vastly differing economies and varying, but mostly blessed, resource endowments. Vulnerabilities do exist, Egypt is a net wheat importer and Morocco is a net fuel importer, however mitigating factors mostly compensate. Importantly, the key megatrends in Africa of financial inclusion, urbanization and economic formalization are grinding on as they did through the GFC, the EU debt crisis, the taper tantrum, Covid lockdowns etc.

Moreover, companies in our three buckets, making up our Fintech exposure in Africa, are well funded and have robust business models:

Pure play Fintechs	Internally funded from already profitable businesses or recently raised equity.
Telcos	Bullet proof balance sheets, with mobile money growth accelerating toward mass adoption.
Innovative banks	Growing pool of cheap, sticky local deposits and not reliant on foreign credit lines.

AFRICA FINTECH OVERVIEW

Recent company news supportive of our views

MTN's (largest Fund exposure) recent stellar FY21 results vindicate what we have been saying on many levels. Our key learning, after 15 years researching and investing in Africa, is that there are large populations, however low incomes, so volume and market share is key. Companies that tend to do well in our QVG system, are those that are able to access the whole income pyramid:

- Thereby generating small, but high volume, repeatable purchases.
- Secondly, by leveraging scale-able technology, large distribution networks and brand loyalty.
- Thirdly, by offering additional products, for extra revenue but little or no marginal cost.

To the first and third points, we note that in Fintech, MTN added 10m new MoMo customers in 2021 and that the average, repeating spend per month of those customers was USD 1.3, at high margins. To the second point, MTN has the largest telco and distribution network across Africa, with 220m customers, the bulk of whom are direct relationship, facilitating up and cross selling.

To demonstrate the point above, we refer to long and wide runways for growth and in MTN's case it is best explained as thus. MTN has 220m customers (and still growing), of which:

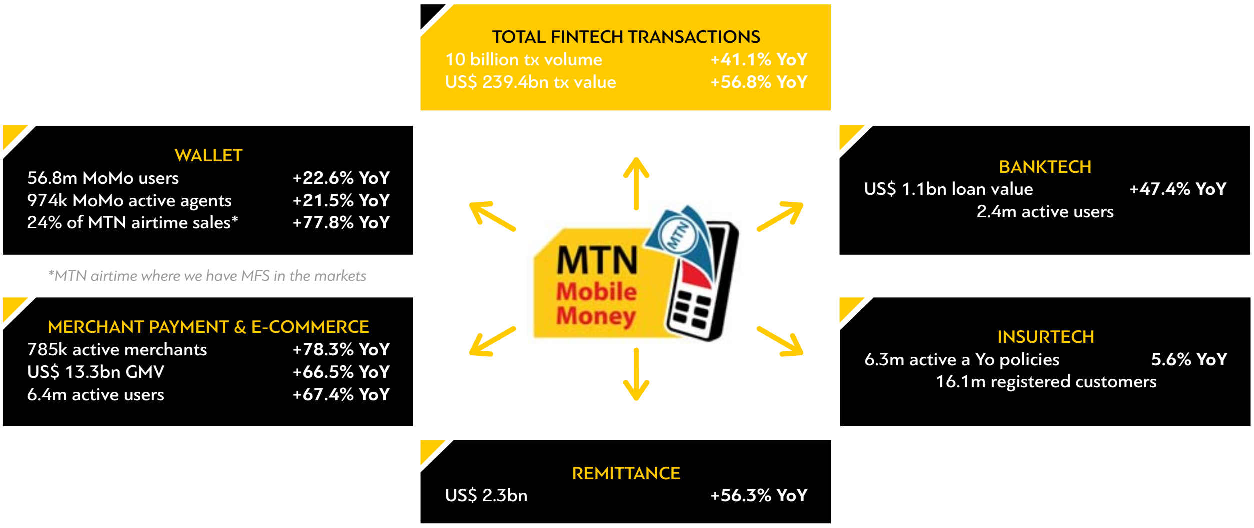
- 122m Data customers.
- 56m MoMo customers.
- 16.1m Insuretech customers.
- 6.4m Merchant payment & e-Commerce customers.
- 2.4m Banktech customers.

Total customers are still growing thanks to under penetration and Africa's Megatrends, that is length of runway. The new services represent widening of the runway, noting that each of those services each have their own significant runways ahead of them. **Delivery in these services is what is driving revenue growth (+18%), while operating leverage is driving EBITDA margins (+220bps) and RoE (+260bps) significantly faster.**

+18%	+220bps	+260bps
REVENUE GROWTH	EBITDA MARGINS	ROE

SCALING OUR FINTECH PLATFORM

Building the largest and most valuable platforms in Africa



Strategic partnership delivered in 2021

VC INTO AFRICA AND PARTICULARLY FINTECH HAS ACCELERATED IN 2022

We cannot keep pounding the table enough on this one and include a table below, which shows VC investments made so far in 2022. In February, VC funding into Africa was up 133% MoM and 200% YoY. This is not hot, flavour of the month money, some of the names below are the smartest in the room and they have invested for the long term.

S/N	NAME	SECTOR	AMOUNT RAISED	STAGE	INVESTORS
1	Fluttenvave	FinTech	$250mn	Series D	B Capital Group, Ma Park Capital, Whale Rock Capital Management, Lux Capital, Avenir Growth Capital, Tiger Global, Glynn Capital, Green Visor, Salesforce Ventures
2	Instadeep	Deeptech	$100mn	Series B	Alpha Intelligence Capital. CDIB, BioNTech, Deutsche Bahn Digital Ventures. Google (VC), G42, Synergie
3	Clidcatell	Telecoms	$91mn	Series C	Arrowroot Capital, Kennedy Lewis Investment Management, Endeavor, Harvest
4	Copia	Retail	$50mn	Series C	Goodwell Investments, Zebu Investment Partners, the U.S. International Development Finance Corporation (DFC). Koa Labs, Lightrock, DEG, Perivoli Innovations
5	Reliance Health	Healthtech	$40mn	Series B	General Atlantic, Partech Africa, Picus Capital, Tencent, Africa Healthcare Master Fund, P1 Ventures, Laerdal Million Lives Fund, M3
6	MarketForce	FinTech	$40mn	Series A	V8 Capital, TEN13, SOSV, VU Venture Partners, Vastly Valuable Ventures, Uncovered Fund, Reflect Ventures, Greenhouse Capital, Century Oak Capital, Remapped Ventures
7	mPharma	Healthtech	$35mn	Series D	JAM Fund, Unbound, Lux Capital, Nodhstar, Social Capital, Novastar Ventures, To Ventures Food
8	Asaak	FinTech	$30mn	Pre-Series A	Resolute Ventures, Social Capital. HOF Capital, Founders Factory Africa, End Poverty Make Trillions. Decentralized VC. Angel investors
9	Poa Internet	Telecoms	$28mn	Series C	Africa50, Novastar Ventures, Angel Investors
10	Brimore	Retail	$25mn	Series A	IFC, Endure Capital, Fawry. Flourish Ventures, Endeavor, Algebra Ventures. Disruptech, Vision Ventures
11	Stitch	FinTech	$21mn	Series A	The Spruce House Partnership, PayPal Ventures, TrueLayer, Firstminute Capital, Raba, CRE Venture Capital, Village Global
12	Carry 1st	Gaming	$20mn	Series A	Andreessen Horowitz, Avenir Growth Capital. Google (VC), Riot Games, Konvoy Ventures, Raine Ventures. TTV Capital, Angel Investors
13	Thndr	FinTech	$20mn	Series A	Tiger Global, BECO Capital, Prosus Ventures, Base Capital, Firstminute Capital, Endure Capital, 4DX Ventures, Raba, Jameel Investment Management Company
14	Findusion Group	FinTech	$20mn	Venture Round	Future Africa, Angel Investors
15	Bamboo	FinTech	$15mn	Series A	Greycroft Partners, Tiger Global, Motley Fool Ventures, Saison Capital, Chrysalis Capital, Angel investors
16	Sistema Bio	Waste management	$15mn	Series B	KawiSafi Ventures. AXA Impact Fund. ENGIE, EDFI ElectriFi, Chrome Impact. Blink CV. Co Capital. Triodos Bank
17	Lipa Later	FinTech	$12mn	Pre-Series A	Cauris Finance, Lateral Frontiers VC, Greenhouse Capital, SOSV, Sayani Investments, Arian Financial Services
18	SeamlessHR	Services	$10mn	Series A	TLcorn Capital, Capria Ventures, Lateral Frontiers VC, Enza Capital, Ingressive Capital
19	Nala	FinTech	$10mn	Seed	Ampto, Accel (U.S.), Bessemer Venture Partners, DFS Lab, Angel Investors
20	Anka	Retail	$6.2mn	Pre-Series A	Bestseller Foundation, Investisseurs & Partenaires (I&P), VestedWorld. Enigmo, Groupe Prunay, Rising Tide Africa. Saviu Ventures

Source: Crunchbase. Renaissance Capital

ECONOMIC AND POLITICAL OVERVIEW

Nigeria – GDP grew +3.98% y/y in 4q21 (3q21: +4.01%), translating to +3.4% for 2021 (2020: -1.9%). The year's growth was supported by non-oil sector growth +4.4% y/y led by the services sector +5.6%. Loosened movement restrictions supported growth, allowing increased transport and a higher demand for goods and services. However, the oil sector remained in contraction and has been since 2020, down -8.3% y/y.

The IMF concluded its Article IV consultation in Nigeria, noting economic recovery however the higher oil prices have not affected the fiscal deficit, it will widen to -5.9% in 2021.

The Governor of the Central Bank of Nigeria (CBN) announced a new RT200 FX programme (Race to USD 200bn in FX Repatriation) aimed at raising USD 200bn from non-oil exports over the next 3-5 years. The programme has 5 key anchors

1. a value-adding exports facility
2. a non-oil commodities expansion facility
3. non-oil FX rebate scheme
4. a dedicated non-oil export terminal and
5. bi-annual non-oil export summit. Under the programme, company loans are at 5% p.a. for 10-year loans, including a 2-year moratorium. Non-oil exports make up <15% of Nigeria's FX earnings, so a government boost would be beneficial.

The Governor also announced that the Naira4Dollar Scheme introduced in March last year by the CBN in 2021 has boosted weekly remittances from USD 6m to over USD 100m.

Macro releases (January stats):

- Inflation remained steady at 15.6% y/y.
- FX reserves inched down to USD 40.04bn (Dec: USD 40.52bn).
- PMI fell to 53.7 (Dec: 56.4).
- M3 growth was 14.9% y/y (Dec: 13.8%).
- Private sector credit growth was +15.7% y/y (Dec: +16.7%).
- Mobile voice customers increased +2.4% q/q to 195.5m in 4q21.

Egypt – Unemployment edged down to 7.4% in 4q21 (3q21: 7.5%). This was facilitated by a drop in male employment down 0.7 percentage points. The number of unemployed was unchanged at 2.2m, with a -1% y/y drop in the overall workforce.

4q21 GDP grew +8.3% y/y (3q21: +9.8%); details underlying this growth have yet to be released. The current Russian/Ukrainian crisis will affect Egypt as it is one of the world's top wheat importers with a total of 80% imported from the 2 countries. Moving forward, the government is ensuring importation can occur from any of the other 14 approved countries so as not to adversely affect the trade balance.

The Central Bank of Egypt has stipulated that Letters of Credit will be the primary facility for importation of goods. Concerns have been raised by various groups, stating that the requirement could cause supply issues and pressure on production.

Macro releases included (January stats):

- Inflation climbed to 7.3% y/y (Dec: 5.9%).
- FX reserves reached USD 40.99bn (Dec: USD 40.94bn).
- PMI declined to 47.9 (Dec: 49.0).
- M2 growth was 17.5% y/y (Dec: 18.3%).
- 29m residents have been fully vaccinated against COVID-19, with a supply for over 52m people available. COVID-19 test prices have been reduced by 30%.

Kenya – The Central Bank of Kenya has released a discussion paper on a proposed digital currency. The Central Bank digital currency (CBDC) will help to bring down transaction fees on digital payments and be exchanged 1:1 with cash. It is expected to function similarly to existing mobile money products on the market – transferable between accounts and wallets. Incorporating the current mobile money leaders in this national multi-operational platform would eliminate the issue of dominance. This follows a request by the CBK to digital payment providers to cut prices, arguing that the recent reduction in fees could still be pushed down further.

Mobile cash transactions grew +31.7% y/y in 2021, with agents handling KES 6.8trn (USD 59.7bn).

Macro releases (January stats):

- Inflation was 5.4% y/y (Dec: 5.7%), which fell in February to 5.1% y/y.
- FX reserves slid down to USD 8.29bn (Dec: USD 8.82bn).
- PMI fell to 47.6 (Dec: 53.7).
- Remittances grew +21.7% y/y to USD 338.7m (Dec: +17.0% growth to USD 350.6m), although down -3.4% m/m due to seasonality.

Morocco – The economy showed a strong GDP rebound +7.2% y/y in 2021 (2020: -6.3%). This effectively indicates 2.0% growth for 4q21. Therefore, the bulk of the rebound was seen in 2q (+15.2%) and 3q (+10.9%), driven by both the agriculture and non-agricultural economy. However, due to the constrained environment for small and medium businesses as well as slow tax reforms. the government forecasts the economy growing by +3.5%.

The government has made available MAD 1bn for supporting specific tourism establishments who have been identified as needing financial support. This is especially following the closure of Moroccan airspace for 3m in November. Tourism numbers have improved, increasing by +34% y/y in 2021 (2020: -78.5%). Overnight stays grew +51.1% in December and up +31.8% in 2021, even without flights in and out of Morocco.

Macro releases (January stats):
- Inflation was 3.1% y/y (Dec: 3.2%).
- FX reserves were USD 35.69bn (Dec: USD 35.65bn).
- FY21 trade deficit widened by -25% y/y to USD 21.2bn.

COMPANY UPDATES

Mutandis (Morocco, Consumer staples) FY21 results: Solid revenue growth +20.7% y/y, aligned with expectations. Largest growth segmentally was in beverage bottles (16% of topline) +53.1% y/y, as well as the new Season Brand acquisition which was only incorporated for half the year but contributed a material 12% of revenues. Seafood grew a steady +5% y/y and fruit juice was up +9%. Home care performance (37% of revenues) was lacklustre, down -6% for the year, off a high base due to overconsumption. This should ease in 2022 along with the introduction of new products. The solid topline growth was offset by significant input costs, raw materials up +31% y/y. GP margin contracted by 531bps to 35%. In addition to cost prices, the Season Brand acquisition was financed 100% by debt – totalling MAD 406m. which had a significant effect on gearing. Net debt doubled from MAD 366m to MAD 716m, resulting in higher interest payments. As a result, PBT and PAT declined -11% y/y. Management announced a capital increased to raise MAD 300m in January, to finance developments and projects. FCF is negative and given rising input costs, they have difficulty raising internal funding. The capital raise essentially covers the acquisition of Season Brand, which was an unforeseen purchase at IPO, bringing gearing closer to 50%.

CIB (Egypt, Financials) FY21 results: Flat net revenue growth y/y, following a decline in 1H21 and a rebound particularly in 4q. Interest income grew +7% y/y, as the yield curve shifted upwards. However, interest expenses grew +18% y/y, as cost of funds only began to decline in 2H21. Given how the year began, it was encouraging to see NII grow sequentially q/q, as the bank offloaded expensive time deposits and increased CASA acquisitions. NFI grew a solid +8.0% y/y, driven by other fees +44% and fees and commissions +18%. CIB took upfront provisions in alignment with management's outlook for the year. With the normalisation in 2H21, provisions for the year declined -67% y/y. Earnings grew a solid +30% y/y; slightly behind our estimates as cost of risk did not normalise as quickly as expected. Deposit growth was up +17%, as management focused on acquiring cheap deposits. CASA now comprises 97% of new deposits. Loans grew +22% y/y. CIB announced a dividend payout of 20%; a dividend per share of EGP 1.36 which disappointed given their previous guidance. The payout ratio is expected to gradually increase over time. Management anticipates capex lending soon due to the positive post-Covid outlook.

GTB (Nigeria, Financials) FY21 results: Tough year for the group as net revenue down -2%. The low yield environment persisted, and interest income declined -11% y/y. Cost of funds improved, declining by 32bps and allowing interest expense to fall slightly -2% y/y. NII fell -13% y/y. NFI growth partially offset the loss, up +16% y/y. Non-interest revenue was driven by fees/ commission income (38% of total NFI) +40% y/y and other income (49% of total NFI) +10% y/y. E-business grew at an encouraging +79% y/y; the single highest growth line. Despite a decline in provisions and moderate opex cost growth, PBT was down -5.7% y/y. and PAT down -12% y/y. Results were not completely surprising following a much slower-than-expected rebound in 3q21. Dividend declared of NGN 2.70 per share.

Nigerian Breweries (Nigeria, Consumer staples) FY21 results: Strong revenue growth up +29.7% y/y, with 4q +24.3% continuing the robust recovery trajectory (3q21: 21.6%). NB led with price increases, introducing 5 over the course of the year; the final 2 within 2 months. Volume growth rebounded at c.12% after a tough 2021 given pandemic restrictions which limited on-trade. The GP margin expanded by 147bps to 36.7%, as topline offset the input cost prices. Operating expenditure increased by +37.4% y/y and EBIT growth +5.2%. A slight decline in interest costs and 4x increase in other income, led to PBT growth of 104.8% y/y. Despite a +10.2 percentage point increase in the effective tax rate, PAT grew +72% y/y, albeit off a low base. The main driver for this abnormal rate was the effect of the gain on the right-of-use-asset derecognition (not tax deductible). Net debt has been significantly reduced -76% y/y, while the group invests more into increasing capacity while simultaneously increasing debt payments. It is encouraging that the pricing outlook has improved. Currency pressure continues to be a risk, as well as disclosure from Heineken that Nigeria was under production constraints. January also saw another material price increase, and this year is likely to have several to catch up with inflation. We expect volumes to grow but due to cost and currency pressures, margins are unlikely to expand materially.

Nestle (Nigeria, Consumer staples) FY21 results: Revenues grew a strong +22.9% y/y; unfortunately, this did not trickle down to the bottom line. Topline was driven by price growth primarily, while volumes were stable – bolstered by both food +21.3% y/y and beverages +24.4% y/y. Each quarter in 2021 posted growth in both segments, alternating in terms of which segment outpaced the other. Food, which historically constituted a stable 60% of revenues, has now hit below that mark as competition increases. The group took material price increases across the board of their brand portfolio, so this was expected to offset input costs. Margins contracted more than expected, as Nestle fell under the pressure of global input cost price increases and FX shortages. GP margin was squeezed by 405bps to 37.5%, the significant contraction occurred in 4q. EBIT grew +11.7% y/y. Interest costs materially increased as net debt grew +28% y/y, resulting in PBT and PAT growth +2% y/y. Looking at 2022, there could be supply chain disruptions as the political landscape heats up pre-elections, and raw material price pressure will likely remain. Management announced a final dividend of NGN 25.50 p/share.

MARKET OUTLOOK

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 – Nigeria's outlook is improving with substantially higher oil prices making painful but necessary economic reforms more likely. However, the latest plan to delay fuel subsidy reform again shows institutional weakness. We still wait for a signal from the CBN for a free flow and float of the Naira which is for us the real trigger for economic recovery. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples. Egypt – The outlook for Egypt remains positive especially towards the end of 2022 when a new capex cycle is expected to kick off. The exceptional progress made under the IMF program from 2017 to 2020 has been evidenced in a stable FX and net reserve position. Moving from gas importer to exporter helped cushion the blow from lost tourism revenues and the CBE's sound monetary policies have kept the bond carry trade alive. With 98% 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. Management teams are signalling a new capex cycle. We expect an acceleration of capex projects towards the end of 2022 as capacity becomes stretched. Morocco – Morocco's key economic drivers are mining, agriculture and tourism. Strong commodity prices and a good rainy season should help to offset weakness from tourism. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail and fintech. Kenya – Kenya missed its key tourist season of July-August, owing to travel restrictions. Some support will be provided by a good agriculture season and high soft commodity prices, where Kenya is a large exporter of tea, coffee, flowers and vegetables. Overall, we are satisfied by the performance of our financial inclusion focus here and expect growth to be steady. Mauritius – Mauritius remains very dependent on the timing of large-scale tourism recovery. Unless tourism comes back strongly in the peak December 2021 season, which is now under threat from the Omicron variant, the macro and MCB will be under pressure. Vaccine roll-out is making strong progress in our core markets, with Morocco almost fully vaccinated.