AFRICA FINTECH OVERVIEW

Consumus Robustus!

A robust African consumer is a pillar of our investment case. We are a bottoms up, numbers driven investment team, so without further ado here are some of the latest consumer company results releases to June 2022:

- Obour Land – the leading dairy staples manufacturer in Egypt, revenues +37%.
- Mutandis – the leading manufacturer of consumer staples in Morocco, revenues +21%.
- MacroPharm – generic cosmeceuticals in Egypt, revenues +47%.
- EABL (Diageo) – the leading beverage company in East Africa, revenues +27%.
- Nestle Nigeria – revenues +30%.
- Nigerian Breweries (Heineken) – leading beverages company in Nigeria, revenues +31%.

There is a lot of daylight between these figures and inflation, which depending on which country, is running between 7% and 15%.

Why is the above so important? Well, put simply, the bulk of the above consumption is still done in CASH! So as consumption grows, Fintech will convert ever more cash to non-cash.

We are positioned in those companies set to benefit the most.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

A minority group of opposition senators are calling for President Buhari's impeachment, even as his term draws to an end. The reasons cited stem from the rising tide of insecurity spreading across the nation and overall economic concerns. The ruling party, the APC, controls parliament and in order to proceed with impeachment the motion would need a 2/3 majority of 109 senators. Furthermore, the Senate summoned Governor Emefiele to explain the material currency depreciation.

The Central Bank of Nigeria's (CBN) Monetary Policy Committee (MPC) voted to raise the interest rate by 100bps to 14.0%. The country's vulnerability to external shocks and rising commodity prices were given as key drivers for the decision.

Macro releases (June stats):

- Inflation rose to 18.6% y/y (May: 17.7%).
- FX reserves climbed to USD 39.16bn (May: USD 38.48bn).
- PMI fell to 50.9 (May: 53.9).
- M3 grew at 23.7% y/y (May: 21.8%).
- Private sector credit grew 20.4% y/y unchanged from the previous month.
- Active voice subscriptions grew +3.7% y/y to 200m in 1q22 (1q21: 192m).
- Nigeria produced 1.24mbpd, below the month's target of 1.77mbpd.
- AUM for the pension industry grew +14% y/y to NGN 14.2trn (USD 34.2bn) as at end-May.

18.6% y/y	US$ 39.1bn	50.9	23.7%	20.4%
Inflation Rate	FX Reserves	PMI	M3 Growth	Credit to Private Sector

EGYPT

FY21/22 GDP (1H22 calendarised) came in at +6.2% y/y; a positive surprise given the current macro (1H21: 3.3%). There was good growth in all sectors, even though the economy suffered a slowdown in April to June given the impact of the Ukraine crisis. The IMF maintains its 2022 forecast of 5.9% and lowered its 2023 estimate to 4.8%.

The Central Bank of Egypt (CBE) has lifted its waiver on interbank ATM withdrawal fees as of 1 July. Fee exemptions on interbank EGP transfers, e-payments and mobile wallets have been extended to year-end.

Egypt, IMF in 'serious' negotiations over USD5-7bn loan - final outcome should be out in the next few days. Meanwhile the GCC nations are all making noises regarding large support and investment into the country. As stated previously, the main focus will be taking positions in Egypt's privatisation of state assets.

Macro releases included (June stats):

- Inflation was 13.1% y/y (May: 13.5%).
- FX reserves slipped to USD 33.38bn (May: USD 35.5bn).
- PMI was 45.5 (May: 47.0).
- M2 growth was 23.3% (May: 23.6%).
- FDI almost tripled in 1q22 to USD 4.1bn (1q21: USD 1.4bn).

13.1% y/y	US$ 33.38bn	45.5	23.3%
Inflation Rate	FX Reserves	PMI	M3 Growth

KENYA

GDP growth was +6.8% y/y for 1q22 (1q21: 2.7% and 4q21: +7.4%). Notably however, this was bolstered by favourable base effects. Services grew +9.2% y/y, while the industrial sector was up +5.5% y/y, most sectors rebounding as the economy reopened compared to stringent health restrictions in 2021. Agriculture, however, contracted due to lower rainfall from delayed rains.

The IMF has approved a USD 236m loan to Kenya as the third tranche under this program. Additionally, the IMF has stipulated a fresh loan condition, specifying the government drop the fuel subsidy by October 2022. This is to access a 38-month budget support scheme totalling USD 2.34bn. As a result, motorists will experience a material fuel price increase from which they were previously buffered. The President had only recently announced additional fuel subsidies this month, keeping the prices of diesel, petrol and kerosene unchanged to mid-August.

Consumers are already feeling the pinch, as the government introduced new consumption taxes covering alcohol, juices and cosmetics in a bid to fund the budget. This, in addition to food inflation, will have a material impact on disposable income.

The Nation Media Group and Ipsos released a new election poll on the 2nd of August showing Raila Odinga's lead widening from 3% prior to 8%. Odinga projected at 49% versus William Ruto's 41%. There is a high probability of a runoff as fringe candidates do better than expected and dilute an outright 50% + 1 result. The first round of the election is on the 9th of August.

Macro releases (June stats):

- Inflation climbed to 7.9% y/y (May: 7.1%).
- FX reserves were USD 7.98bn (May: USD 8.18bn).
- PMI fell to 46.8 (May: 48.2).
- The Central Bank of Kenya (CBK) left the policy rate unchanged at 7.5%, defying expectations.
- Mobile money accounts reached 70m in May (May 2021: 67.8m). The value of transactions grew +16.1% y/y in the 5m to end-May to KES 3.2trn (Jan-May 2021: KES 2.7trn).

7.9% y/y	US$ 7.98bn	46.8
Inflation Rate	FX Reserves	PMI

MOROCCO

Moody's upgraded the Moroccan economic outlook to stable in July, maintaining its rating at Ba1. The ratings agency has noted that the government is able to meet its debt commitments, and that GDP has already bounced back to pre-pandemic levels in 2021.

The World Bank has flagged possible sharp deceleration in 2022, however, forecasting 1.3% (2021: 7.9%). The primary reason is the infrequent rains causing drought. The Moroccan Higher Planning Commission projects FY22 GDP in alignment with the WB at 1.3%.

Macro releases (June stats):

- Inflation grew 7.2% y/y (May: 5.9%).
- FDI rose by +43% y/y in 2021.

7.2% y/y	43% y/y
Inflation Rate	FDI

SOUTH AFRICA

The South African Reserve Bank (SARB) raised rates for the third month in a row. Interest rates were hiked by 75bps to 5.5%. Reasons given are inflation expected to average 6.5% in 2022 (Prev estimate: 5.9%), with upside risks. Fuel inflation also doubles up on rising costs, but expected to ease in 2023. SARB estimates GDP coming in at 2.0% (Prev: 1.7%) in 2022 and 1.3% (Prev: 1.9%) in 2023. The IMF forecasts higher GDP in 2022 at 2.3% (Prev: 1.9%). Given the current energy crisis with extensive load shedding countrywide, GDP will potentially contract in 2q22.

Eskom load shedding came to an end but more intermittent power cuts are expected to resume at short notice when breakdowns occur.

Fitch affirmed SA's long term FX debt at BB- with a stable outlook. This is as a result of 2021 government debt being lower than previously anticipated.

Macro releases included (June stats):

- Inflation rose to 7.4% y/y (May: 6.5%).
- FX reserves were USD 58.92bn (May: USD 59.26bn).
- PMI slipped to 52.2 (May: 54.8).
- M3 growth was 8.3% y/y (May: 7.3%).
- Private sector credit extension grew 7.5% y/y (May: 5.3% y/y)

7.4% y/y	US$ 58.92bn	52.2	8.3%
Inflation Rate	FX Reserves	PMI	M3 Growth

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)

CIB (Egypt, Financials) 1H22 results: PBT +31% y/y and +13% y/y for 2q22. Results mainly driven by very strong loan growth of 30%. Deposit growth has been mild at 11% due to the backdrop of many EGP deposits either dollarising or seeking high yield CD rates at the state banks. The readthrough of a strong dollar is clear to see, and filters through to most macro views at this stage. That being said, the call noted that consumption is still strong, and companies are able to book USD for importation. We think that comment is probably skewed towards the larger multinational and local large companies that CIB focus on. No pressure on the credit quality as yet which reflects CIB's higher end focus and low retail exposure. We are positive on earnings as net interest margins are expected to expand while CIB's funding costs will remain very low. Typically, CIB does very well during risk off and crisis macros. ROE at 25% guided from current 22%.

Obour Land (Egypt, Consumer staples) – 2q22 results update: A strong set of results with revenues +37%, Gross Profit +23%, EBITDA +23% and PAT +22%. Volumes were up 8%, with the balance of revenue growth coming from cumulative price increases since 2q21. The impact of higher input costs, mostly Skim Milk Powder (SMP) and a weaker EGP are clear in the slower Gross Profit growth. SMP prices spiked and peaked into end March (USD 4,500/t), but have since fallen back to October 2021 levels of USD 3,500/t. They typically carry two to three months inventory, so the benefit should be felt by q322 already. This remains a high quality, robust story.

Nestle (Nigeria, Consumer staples) 1H22 results: Robust revenue growth +29.8% y/y, bolstered by topline growth in 2q +33.3%. Brand strength seems to have stood the group in good stead, with volume growth supporting topline sales despite price increases. 1q22 saw c.20-25% price increases. Food still constitutes 60% of topline, slightly outpacing beverages at +31% y/y growth. Beverages grew at +28% y/y. The group was hit by high input price increases, with COGS +35.5% y/y leading to GP margin decline of 269bps to 36.1%. EBITDA margin contracted by 74bps to 22.8%. Marginal opex growth of +13.0% y/y allowed PBT to grow by +31.0% y/y and PAT by +27.7% y/y. 2q22 however, saw only single digit growth in earnings, so the strong earnings were gained in 1q. No material changes to our forecasts, and monitoring FCF generation which was negative this quarter.

Nigerian Breweries (Nigeria, Consumer staples) 1H22 results: Topline growth of +31.0% y/y, both 1q and 2q solid with an accelerating trajectory. The brewery sector is finally implementing price increases, with NB benefitting from a price mix effect. AB InBev noted that Nigeria suffered from supply chain constraints which adversely affected volumes. COGS were up +17.2% y/y, impressive given input prices and inflation. This led to GP margin expansion of a significant 667bps from 1H21 to 43.3%. Operating expenditure increased +48% y/y, material growth in both quarters driven by advertising costs which doubled and distribution expenses which grew 2.7x from 1H21. PBT growth was strong, off 2q21's weak base, up +115% y/y and PAT up +143% y/y. We await further detail from management about the negative FCF generation in 2q22.

EABL (Kenya, Consumer staples) FY22 results: Resilient topline growth of +27.3% y/y, beating our expectations. Revenue growth was driven mainly by volumes up +22%, and supported by prices +5%. The group experienced double digit growth in all markets: +30% in Kenya, +24% in Uganda and +21% in Tanzania. Beer and mainstream spirits both grew a strong +27% y/y, premium at +26% y/y and new frontiers led with robust growth of +35% y/y. COGS growth was marginal, given the wider context of inflation and input costs, at +16.5% y/y. GP margin expanded by a material 479bps in FY21 to 48.3%. Management is confident in the group's ability to maintain current margins. Opex costs grew +9% y/y, and PBT grew a significant +121% y/y and PAT +124% y/y. Share still at a very attractive valuation, especially given such strong earnings growth.

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 net reserve position. We view the recent FX devaluation as the right step to avoid imbalances building up as wheat is a large portion of the import bill. 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.

South Africa – After an initial hard lockdown, it has been quick to open the economy from excessive restrictions. We expect a relatively strong recovery in retail trading, although we wait for more confirmation on this. Recent data such as property sales, car purchases and retail numbers show a resilient consumer despite macro headwinds. The reduction in Eskom debt and an unexpectedly good tax revenue receipt has bolstered the macro and the rand. We prefer playing the resilience and recovery theme through our quality retail and consumer selections.

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. Political risk is rising as the election nears and remains one caveat to a positive outlook.