AFRICA FINTECH OVERVIEW

July performance was led by Morocco +4.9% and Nigeria +4.6%. Egypt and Kenya dragged -0.5% and -2.7% respectively. The IMF published its World Economic Outlook Update this month, and global GDP growth is anticipated higher than previously forecast at +3.0% for 2023 (Prev: 2.8%). While the advanced world should see sluggish growth +1.5%, developing nations' GDP growth is pegged at +4.0%. Sub-Saharan Africa is expected to reach +4.0% in 2023 and +4.1% in 2024, demonstrating the resilience of African markets.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

The Central Bank of Nigeria (CBN) held its first Monetary Policy Committee (MPC) meeting after the suspension of former governor Emefiele. The MPC voted to hike rates by 25bps to 18.75%, citing higher inflation following fuel subsidy removal and FX liberalisation. This will help to push liquidity in the right direction, thereby allowing commercial banks to invest at higher interest while attracting USD flows which will hopefully clear up pent-up dollar demand. The CBN projects GDP for the year at +2.7%. The IMF is more bullish, and forecasts GDP reaching +3.2% in 2023 and +3.0% for 2024.

Macro releases (June stats):

- Inflation continued its upward trajectory, reaching 22.8% y/y (May: 22.4%).
- FX reserves slipped to USD 34.1bn (May: USD 35.1bn).
- PMI was 53.2 (May: 54.0).
- M3 growth surged +32.7% y/y (May: 14.8%).
- Private sector credit grew strongly +34.6% y/y (May: 16.5%).
- Crude oil production improved to 1.48mbpd (May: 1.43mbpd).
- Financial inclusion statistics indicate a 64.1% inclusion rate; the CBN is targeting 95% in 2024.

22.8% y/y	US$ 34.1bn	53.2	+32.7% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

EGYPT

The government forecasts GDP growth of +4.2% this year, and a budget deficit of 6.2%. The IMF sees GDP lower for 2023 reaching +3.7%, and accelerating to +4.1% in 2024. Interestingly, the IMF also sees inflation accelerating even further next year, reaching 32% in 2024. Tourism growth has rebounded with strong numbers still being reported. Hotel occupancy rates reached 80% in 1H23 (1H22: 65%), with accumulated tourists at 7m. As a result, the Central Bank of Egypt (CBE) has eliminated the tourism financing initiative, focusing on a new initiative under consideration.

The CBE also announced a new regulatory framework for digital banking in Egypt, following the introduction of digital-only banks in 2020. Key aspects include:

- Minimum capital requirements of EGP 2bn for local banks and USD 60m for foreign based banks (capital requirement for traditional banks is EGP 5bn).
- Single customer deposits are limited to EGP 200m.
- No exposure to large corporate lending; approval required from CBE if required.
- Minimum 30% equity interest with the majority shareholder a financial institution.
- Digital banks will not have physical branches, only a head office.

Macro releases included (June stats):

- Inflation surged at 35.7% y/y (May: 32.8%).
- FX reserves were USD 34.8bn (May: USD 34.7bn).
- PMI rose to 49.1 (May: 47.8).
- M2 grew +24.7% y/y (May: 25.3%).
- Mobile transaction value reached EGP 100bn, at 85m transactions. Mobile wallets increased +20% y/y to 34m accounts.
- FDI increased to USD 7.9bn in the first 9m of the fiscal year (USD 7.3bn).
- 3q22/23 (1q23) current account deficit narrowed to USD 3.5bn (1q22: USD 5.8bn).

35.7% y/y	US$ 34.8bn	49.1	+24.7% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

KENYA

Fitch Ratings agency affirmed Kenya's rating at B, but downgraded the outlook to negative. This following a ratings downgrade in December 2022 from B+. In a similar vein, Moody's reduced the outlook to negative while affirming the rating at B3. Although the government is committed to fiscal reforms, there remain downside risks due to liquidity and refinancing requirements.

The IMF completed its 5th programme review, disbursing KES 58bn with immediate effect (USD 415.4m). Also approved was a 20-month arrangement for private climate financing and building resilience to climate change, totalling KES 77bn (USD 551.4m). The IMF is in support of the recent Finance Act of 2023, pushing for higher taxes. However the Act has proven to be controversial, and is currently the subject of a court petition.

On the ground, opposition leader Odinga sparked anti-government protests given the high cost of living. This led to a politically uncertain week with civil dissension leading to injuries and 2 deaths. President Ruto has agreed to set up a committee to discuss the issues with Odinga, and demonstrations were subsequently called off.

Macro releases (June stats):

- Inflation moderated to 7.9% y/y (May: 8.0%).
- FX reserves reached USD 7.5bn (May: USD 6.5bn).
- PMI was 47.8 (May: 49.4).
- Remittances grew +6.1% y/y to USD 345.9m (May +3.7% to USD 352.1m).
- 1q23 current account deficit was down -40% y/y to KES 84.9bn. This was due to increased tourism receipts, offset by flat imports and exports while T-bill spreads widened significantly.

7.9% y/y	US$ 7.5bn	47.8
Inflation Rate	FX Reserves	PMI

MAURITIUS

S&P Ratings agency assigned a rating of BBB- with a stable outlook, affirming the country's strong GDP growth. GDP is expected to reach +5.5% in 2023, and +3.9% in 2024. Tourism is expected to tick upwards, with July already showing a significant increase in tourist numbers given the hot European summer. While inflation is anticipated to remain at c.8% for 2023. This rating is a strong positive for Mauritius, and the country will benefit from increased access to international capital markets.

Macro releases (June stats):

- Inflation was flat at 7.9% y/y.
- FX reserves accumulated to USD 6.7bn (May: USD 6.4bn). The government has indicated its aim to boost reserves to USD 8bn by June 2024 as a buffer to external shocks.

7.9% y/y	US$ 6.7bn
Inflation Rate	FX Reserves

MOROCCO

GDP grew +3.5% in 1q23, a significant improvement over the previous quarter +1.4%, and 1q22 at +0.5%. Growth was driven by the agricultural sector, up +6.9% y/y as external demand bolstered output. Even though fisheries fell -0.3% y/y, this was an improvement on 1q22's -3.3% y/y decline. The non-agricultural sector grew +3.2% y/y. Using the value-added method, hotels & restaurants contributed 53.9% (1q22: 31.6%) and transport and storage 7.1% (1q22: 2.3%). The government forecasts 2024 growth at +3.7%.

The World Bank is funding a USD 350m programme to support Morocco's National Potable Water Supply and Irrigation. Morocco aims to improve water security, investing in projects to bolster supply and irrigation especially given the high incidences of drought in recent years.

Macro releases included (June stats):

- Inflation fell to 5.5% y/y (May: 7.1%), a relief for consumers as recent surveys indicated a definite scaling back on food purchases due to high costs.
- FX reserves were USD 34.9bn (May: USD 34.8bn).
- Tourism revenues hits USD 4.1bn in May (May 2022: USD 2.14bn), with well over 1.1m tourists recorded that month alone.

5.5% y/y	US$ 34.9bn	US$ 4.1bn
Inflation Rate	FX Reserves	Tourism Revenues

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY)

CIB (Egypt, Financials) 1H23 Results: Strong results – topline trickling down to bottomline, earnings growth reaching +90% y/y. Net revenues grew +68.3% y/y, the upward trajectory surged in 2q23 with revenues up +86.6% y/y. Topline growth was driven by both NII +74% y/y and NFI +45.7% y/y. Interest income went up +85.6% y/y, offset by a higher cost of funds leading to interest expense growth of +101% y/y. Despite this, net interest income grew strongly. NFI growth was driven by net fees and commissions +50% y/y and FX profits up +46% y/y. Impairments expanded as management recognise the need to adjust the impairment model to reflect the loan book's strong performance, while opex grew +31% y/y. PBT grew a strong +76.6% y/y and PAT surged +89.9% y/y even as the tax rate increased slightly. In terms of the balance sheet, deposits grew strongly +58.0% y/y and loans were up +29.3% y/y.

Nestlé (Nigeria, Consumer staples) 1H23 Results: Disappointing results, FX losses hitting bottomline with nowhere to hide. Topline grew +18% y/y, 1q and 2q up +16% y/y and +19% y/y respectively. Food (64% of revs) led growth +26% y/y and Beverages (36% of revs) +6% y/y. COGS grew a muted +9% y/y, allowing GP margin expansion of 495bps to 41%. Operating costs grew +37% y/y, as marketing costs surged +42% y/y and admin +9% y/y. EBITDA margin widened by 243bps to 25.3% on the back of the resilient operational results. This is where the good news ends. Interest costs grew from a moderate NGN 2.4bn to NGN 129.9bn due to a combination of debt doubling y/y (primarily related party loans) and FX losses. Earnings were down significantly y/y. And while Nestle's balance sheet has been strong historically, the recent high debt coupled with dwindling equity (negative retained earnings) has weakened the balance sheet significantly, especially in 2q23.

MARKET OUTLOOK

Africa is expected to outperform the rest of the world with an improved outlook in 2023. 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 outlook for Egypt remains positive with continued accumulation of FX reserves and the CBE's sound monetary policies keeping the bond carry trade alive. 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 2023. 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.