

AFRICA FINTECH OVERVIEW

June was a positive month, as Morocco +8.1% and Kenya +1.7% led performances. Nigeria took a knock following the announcement of the floating naira as Tinubu demonstrated his commitment to reforms. The Economic Outlook published by the OECD estimates global growth at +2.7% this year, a relatively weak recovery following a tough few years. The World Bank (WB) estimates 2.1% GDP growth globally in 2023 and 2.4% in 2024. The WB forecasts GDP growth in Sub-Saharan Africa at 3.2% in 2023 and increasing to 3.9% in 2024. The MENA region is expected to be slower at 2.2% in 2023 and 3.3% in 2024.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

No sooner had we celebrated newly-elected Tinubu's inauguration speech, did he spring into action. Given his history, we surmised that he was pro-business and keen to return Nigeria to the global stage, but his first month in office has far exceeded expectations. We cannot help but be buoyed by headline-grabbers like "Tinubu's two weeks in office surpass Buhari's three years," hoping this also signals genuine interest from the global investment community. In just over 2 weeks, in addition to the fuel subsidy removal, he ratified the Electricity Bill and Students Loan Bill as well as collapsing all FX channels into a single I&E window. The WB released a Development Update Report for Nigeria, highlighting that fuel subsidy removals will generate about NGN 2trn (0.9% of GDP) in fiscal savings in 2023. Changes within the Central Bank of Nigeria (CBN) were expected, given that Empfield's term was coming to an end, but not anytime soon. Tinubu had Emefiele suspended from office with immediate effect, following investigation of his office.

Macro releases included (May stats):

- Inflation was 22.4% y/y (Apr: 22.2%).
- FX reserves slipped to USD 35.1bn (Apr: USD 35.3bn).
- PMI was 54.0 (Apr: 53.8).
- M3 growth slowed to +15.0% y/y (Apr: 18.9%).
- Private sector credit grew +15.0% y/y (Apr: 16.6%).
- Oil output reached 1.27mbpd (Apr: 1.1mbpd).
- 1q23 showed a decline in company income tax -15% y/y and 38% q/q.
- The World Bank approved USD 500m to drive women's empowerment in the country, and sees GDP slowing to 2.8% in 2023.

22.4% y/y
Inflation Rate

US\$ 35.1bn
FX Reserves

54.0
PMI

+15.0% y/y
M3 Growth

EGYPT

As the country closed off the month with Eid, President Sisi announced that Egypt will not undergo further devaluation of its currency for now, despite surging inflation. Also contrary to expectation, the Central Bank of Egypt (CBE) held the lending rate at 19.25%. The President signed income tax amendments into law this month, as tax exemptions on T-bills and bond returns are abolished.

The IMF noted that the country needs to focus on 3 key reform measures to undertake the first review: 1) State withdrawal from sectors where the private sector is better positioned to operate, 2) edifying social security and support to the most vulnerable and 3) policy implementation to protect and grow FX reserves.

Macro releases (May stats):

- Inflation accelerated to 32.8% y/y (Apr: 30.6%).
- FX reserves were USD 34.7bn (Apr: USD 34.6bn).
- PMI was 47.8 (Apr: 47.3).
- M2 growth was +25.3% y/y (Apr: 25.8%).
- Trade deficit reached USD 2.33bn (Mar: USD 1.97bn).

32.8% y/y
Inflation Rate

US\$ 34.7bn
FX Reserves

47.8
PMI

+25.3% y/y
M2 Growth

KENYA

President Ruto’s dedication to the recommendations of the IMF and World Bank was shown through several key developments with significant economic implications this month. First, the FY24 Budget approval, pencilling in a +2.2% increase in expenditure and +17% ordinary revenue increase. Consequently, this means high tax rates, especially without equally strong GDP growth. The fiscal deficit stands at 4.6% of GDP. The market is largely skeptical about this ambitious target, with as much as 60% of collections going to service debt. It is worth highlighting that any country has yet to demonstrate dependence on increased rates leading directly to sustainably higher revenue. So the long-term ramifications remain to be seen. Accordingly, the President ratified a Bill that increases taxes on a wide range of items, increasing fuel tax to 16%, introducing a new housing levy and investment levy which will heavily affect consumers.

Second, the National Assembly appointed Dr Kamau Thugge to replace Dr Patrick Njoroge as of 18 June. Dr Thugge served as one of President Ruto’s economic advisors and was at one stage principal secretary at the National Treasury. Within 10 days of his appointment, the new Governor convened an emergency meeting of the Central Bank of Kenya (CBK)’s Monetary Policy Committee. An interest rate hike followed, up by a material 100bps to 10.5%.

Lastly, President Ruto announced that Kenya plans to repurchase half of its USD 2bn Eurobond, with June 2024 maturity. This is a positive development, as the government can then create savings on the 2024 bond repayment which will invariably improve sentiment. Additionally, the substantial windfall from the World Bank and IMF should see the country able to adequately service its debt.

Macro releases included (May stats):

- Inflation inched up to 8.0% y/y (Apr: 7.9%). The CBK expect this to persist due to fuel subsidy removal, increased electricity tariffs and food prices.
- FX reserves remained stable at USD 6.5bn.
- PMI went up to 49.4 (Apr: 47.2).
- Remittances grew +3.7% y/y to USD 352.1m (Apr: -9.8%, USD 320.3m); the growth slowdown primarily due to economic challenges faced by Kenyans in the US.
- 1q23 mobile money transactions drop -0.3% y/y.
- The World Bank estimates GDP at 5.0% in FY23.
- S&P retains Kenya’s rating at B with a negative outlook.

8.0% y/y
Inflation Rate

US\$ 6.5bn
FX Reserves

49.4
PMI

MAURITIUS

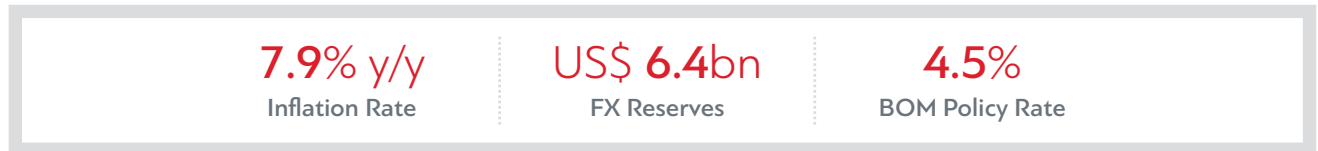
The National Budget for 2023/24 was presented this month under the theme “to dare and to care”. The 3 key focus points are solidifying economic foundations, working toward a sustainable economy and a positive future. Revenue estimates have grown +2% to MUR 153bn (USD 3.3bn) as the economy has performed above expectations, and projections forecast reaching MUR 179bn (USD 3.9bn). Income taxes drive most of the revenues into the next few years. Approx. 60% of tax revenue is based on goods and services, with an increase of +20% more in taxes expected.

Some highlights from the budget speech included:

- Increasing Mauritius’s competitiveness as a tax efficient country for debt and improving the ease of doing business.
- Enhancing as a hub for wealth management as new licenses are introduced.
- Special levy on banks will be a flat 5.5% moving forward.
- A digital Rupee pilot will be rolled out in November.
- The aim of being a carbon neutral economy.
- The government is working on reform of its migration policy to address labour shortages.

Macro releases included (May stats):

- Inflation was 7.9% y/y (Apr: 8.3%).
- FX reserves inched down to USD 6.4bn (Apr: USD 6.5bn).
- The Bank of Mauritius held its policy rate stable at 4.5%.



MOROCCO

The World Bank granted Morocco 2 loans of USD 350m each. The first of which is for social protection, to support vulnerable households and assist with basic healthcare and family allowance challenges. The second loan is to support climate change, and improve local resilience to global warming and difficult weather conditions.

Morocco's Central Bank, Bank Al-Maghrib (BAM), maintained interest rates at 3.0% at the latest meeting. BAM forecasts GDP growth at 2.4%, driven by non-agricultural production and with expectations that agriculture growth returns to positive territory. GDP is expected to accelerate in 2024, reaching 3.3%. Additionally, the Central Bank sees the budget deficit reaching -5% of GDP in 2023. The OECD is more bullish on Morocco's growth, estimating GDP at 3.5% in 2023 and 3.7% in 2024.

Macro releases (May stats):

- Inflation slowed to 7.1% y/y (Apr: 7.8%).
- FX reserves slipped to USD 34.8bn (Apr: USD 35.6bn).
- National production slipped from Jan-Apr with a decrease in activity noted by the Central Bank. The Capacity Utilisation Rate, measuring output vs production, was stable at 72%.
- Remittances grew +15% y/y from Jan-May, and cumulatively reached USD 4.5bn.



COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY)



MTI (Egypt, Consumer discretionary) – 1q23 results update: Good recovery off a low base. Revenues came in +28%, GP +59%, EBITDA +92% and PAT +202%. Base effect will continue to help headline numbers for the first nine months of 2023. The 2022 problems were more of a supply issue than a demand issue, as a number of imported goods in Egypt were held up due to FX shortages. Early backlogs have been cleared, but more importantly, Samsung, one of MTI's

key products, has begun local assembly, which now ensures availability. Interestingly Samsung now represents 60% of the cell phone market and MTI is 25% of Samsung. On a divisional basis, Consumer Electronics, which represents 77% of revenues, grew by 30% while Automotive grew by 30%, both helped by easing of supply constraints. Looking forward, and given increasing FX constraints, MTI is well positioned with its exposure to Samsung.



Fawry (Egypt, IT) – 1q23 results update: A defining set of results and in many ways what we have been waiting for. Revenues came in +40%, EBITDA +79% and attributable earnings +338%. The portfolio effect has finally kicked in, with ADP now only making up 41% of revenues, down from almost 90% at the IPO in 2019. Conversely, Banking Services and MicroFinance are now 37% and 12% from virtually nothing. These newer and now heavier weighted streams are

growing at 60% plus, compared to ADP at +13%, helping to drive total revenue up by 40%. This trend will continue as ADP's weighting steadily falls. Encouragingly, these incremental revenue streams are coming at a lower marginal cost, which drives EBITDA up by 79%. An additional boost to attributable earnings come from the lower minority charge on new stream profits, compared to ADP where there was leakage.

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.