AFRICA FINTECH OVERVIEW

A wave of positive news starts shoring up a very tough month in Egypt

Egypt's attractiveness was put on show and its resilience was tested, in a month where rising soft commodity prices and net bond outflows, saw the currency fall 16%. In a vote of confidence and support, a wave of capital in the form of investment and soft loans was directed towards the country. As at the end of March, and prior to the bulk of the inflows, the country's net foreign reserves stood at USD 37bn, down from USD 40bn prior to the Ukraine crisis.

Taking advantage of extremely low valuations in Egypt and showing conviction in Egypt's future, a number of strategic foreign investors bought large stakes in listed Egyptian corporates. Targets included CIB (largest private bank), Domty (second largest cheese maker), Fawry (largest Payments player) and IDH (largest medical diagnostics) amongst others.

On the soft loans side, a USD 3-5bn package is being worked on with the IMF, while gulf neighbours have pledged upwards of USD 15bn in support. As we have emphasized before, this help does not come automatically, rather it is the fruits of four hard years of IMF compliance and reforms, as well as Egypt playing a constructive and important role on the Middle East stage.

We have confidence in an independent Central Bank and a technocratic Finance Ministry, to maintain stability and keep Egypt on its strong growth trajectory.

COMPANY RESULTS – KEY HOLDINGS EQUITY GROUP AND HPS

Equity Group (Kenya, Financials) FY21 results: Strong earnings ahead of expectations with PBT +147% y/y and PAT +111% y/y. Solid revenue growth +21% y/y, driven by both NII and NFI. NII +25% y/y driven by strong asset growth which offset a slight decline in margin. NFI +16% y/y, driven by FX trading income +42% y/y, transaction fees +35% y/y. Cost of risk declined sharply to 0.8% which reversed much of 2020 provisioning. Deposit and loan growth +29% y/y and +23% y/y respectively. Management noted that 70% of deposits are CASA now which has positive implications for the bottom line. Management also announced that the Central Bank of Kenya (CBK) has approved its risk pricing model, which is a positive surprise given the timing during an election year. Notably, Equity is the first tier 1 bank to receive approval so it can act ahead of competition and gain market share. Management declared a DPS of KES 3.00.

+21%
REVENUE

+42%
TRADING INCOME

+35%
TRANSACTION FEES

HPS (Morocco, IT) FY21 results update: Exceptionally strong second half and new backlog bode well for 2022. Revenues came in +14.4%, EBITDA +31.6% and EPS +17.3%. Working capital improvements boosted FCF growth to 60%. After a soft first half, the bulk of the performance was driven by a very strong second half with revenues +20% vs only 8% in 1h. From a divisional perspective, Processing grew 110% and now represents 26% of Group revenue, while Solutions grew 4% and is now only 62%. Services, which is more of a historical appendage and highly lockdown sensitive, declined 6% and now only represents 12% of Group revenues. These trends have been well flagged and guided to by management. Looking forward, the Backlog is up 28% and the bulk of it should be booked in 2022, which guarantees 75% of our forecast for 2022. With a number of new customer wins set to go live in 2022, the business appears to have incredibly strong momentum.

+14.4%
REVENUE

+31.6%
EBITDA

+17.3%
EPS

ECONOMIC AND POLITICAL OVERVIEW

Nigeria – Fitch affirmed Nigeria's long-term default rating at B with a stable outlook. Higher oil prices will bolster external liquidity and support economic growth. However, this is offset by ongoing fuel subsidies. On the ground, power outages and fuel shortages have worsened, even leading to the aviation industry grounding some flights.

The FX shortages have led banks to limit international spending on Naira cards. The previous limit was USD 100 but it has now been decreased to USD 20. This move could force customers to open dollar accounts which banks will fund through the parallel market.

The National Communications Commission (NCC) received full payment for both 3.5GHz 5G Spectrum licences which were auctioned in December. MTN Nigeria and Mafab Communications won. This will have positive repercussions for GDP once activated. Internet subscribers reached 143.6m in January, with 2G having the widest network coverage at over 70% of the population.

Macro releases (February stats):

- Inflation continued to climb, reaching +15.7% y/y (Jan: 15.6%).
- FX reserves were steady at USD 39.6bn (Jan: USD 39.9bn).
- PMI rose to 57.3 (Jan: 53.7). Softer growth on the back of inflation led to a PMI decline to 54.1.
- M3 growth was 15.3% (Jan: 14.9%).
- Private sector credit growth rose to 21.0% y/y (Jan: 15.7%).
- AUM for the pension industry grew +30% y/y to NGN 13.6trn at end-Jan.

Egypt – The Central Bank of Egypt (CBE) raised interest rates by 100bps, bringing the lending rate to 10.25%. Additionally, there were 3 developments: 1) The exchange rate was devalued by 16% 2) State-owned banks issued 1-year CDs with 18% yields and 3) the Abu Dhabi Development Holding Company PJSC has acquired stakes in CIB (18%), CP and Fawry through an agreement with the government.

The CBE launched a national digital payment app, InstaPay. It provides secure payment services between banks, Meza cards and mobile wallets through the nationwide payment network.

Although several cargoes of wheat from Ukraine, Russia and Romania recently reached Egypt, supply chain disruptions are a concern for the country given the Russian-Ukraine conflict. President El-Sisi has called on the government to offer additional incentives to farmers as a means of growing local wheat production. Additionally, the wheat supply season will start 2 weeks earlier to improve reserves.

Macro releases included (February stats)

- Inflation rose to 8.8% y/y (Jan: 7.3%).
- FX reserves remained flat at USD 41.0bn.
- PMI was 48.1 (Jan: 47.9) and has since fallen to 46.5 in March.
- M2 growth was 18.4% y/y (Jan: 17.5%).
- Remittances for FY21 grew +6.4% y/y to USD 31.5bn.
- The government forecasts FY21/22 GDP growth reaching 5.5% (Prev: 5.7%) due to the ongoing Russian/Ukraine conflict.
- Vaccination rates have risen, with over 43% of citizens receiving at least one dose and over 1.9m with booster shots.
- FY21 prepaid and credit cards reached 52m (FY19: 36.9m).

Kenya – The economy is under pressure, with fuel prices raised this month and continued double-digit commodity price increases. The IMF anticipates 2021 GDP to beat 5.9%, given 3q21's positive growth of +9.9%. However 2022 presents uncertainty, affected by the global climate and Presidential elections.

Fitch affirmed Kenya's default rating at B+ with a negative outlook. The outlook has been maintained since June 2020, due to concerns about fiscal consolidation. Meanwhile, the World Bank has granted a loan of USD 750m to support its budget and drive fiscal reforms under the Development Policy Operation (CPO). The loan has an interest rate of 3%, with a 5-year grace period and a 30-year maturity.

The Central Bank of Kenya (CBK) has issued a regulation requiring digital lenders to acquire new licences for up to 6months. Additionally, mobile phone lenders will have to disclose a charge breakdown to customers as of September this year. The idea is to streamline the industry and develop sufficient oversight.

Gulf African Bank (GAB) has partnered with Safaricom to launch the first mobile-based Shari'ah compliant digital product in Kenya.

Macro releases (February stats):

- Inflation decelerated to 5.1% y/y (Jan: 5.4%).
- FX reserves fell to USD 7.9bn as of 3 March (Jan: USD 8.3bn).
- PMI was 52.9 (Jan: 47.6). March PMI fell to 50.5.
- Remittances reached USD 321.5m, up +23.5% y/y (Jan: USD 338.7m, +21.7%).
- Private sector credit growth +9.1% y/y (Dec: +8.6% y/y).

Morocco – Morocco was largely stable, with Bank Al-Maghrib keeping policy rates at 1.5%. The central bank forecasts GDP at +0.7% for 2022, and a rise to +4.9% in 2023.

Banking industry stats were released, showing +3.3% y/y growth in outstanding loans. This was led by +5.9% growth in debtors and overdrafts, as well as +2.7% y/y real estate loan growth. Equipment loans declined by -2.0% y/y. NPLs reached MAD 85.9bn, up +5.4% y/y.

Macro releases included (February stats):

- Inflation was 3.6% y/y (Jan: 3.1%).
- FX reserves reached USD 35.8bn (Jan: USD 35.7bn).

COMPANY UPDATES

HPS (Morocco, IT) FY21 results update: Exceptionally strong second half and new backlog bode well for 2022. Revenues came in +14.4%, EBITDA +31.6% and EPS +17.3%. Working capital improvements boosted FCF growth to 60%. After a soft first half, the bulk of the performance was driven by a very strong second half with revenues +20% vs only 8% in 1h. From a divisional perspective, Processing grew 110% and now represents 26% of Group revenue, while Solutions grew 4% and is now only 62%. Services, which is more of a historical appendage and highly lockdown sensitive, declined 6% and now only represents 12% of Group revenues. These trends have been well flagged and guided to by management. Looking forward, the Backlog is up 28% and the bulk of it should be booked in 2022, which guarantees 75% of our forecast for 2022. With a number of new customer wins set to go live in 2022, the business appears to have incredibly strong momentum.

Label Vie (Morocco, Consumer staples) FY21 results update: After a soft 1h21 (due to high base effect in 1h20), the second half and annual results came in strongly. Revenues were up 6.8%, EBITDA +14.0% and EPS +23.2%, with a special double dividend bringing total DPS to 140.8. Like for like revenue growth was only 1.5%, with the total being driven by a revitalised store opening program. A good portion of the EBITDA growth came from a 110bps increase in the Gross Margin from 18.8% to 19.9%. Looking at the second half, revenues grew 14.2%, EBITDA 24.2% and EPS +77.6%. The strong boost to EPS came from improved performance in Aradei, their 41% owned REIT, as offices re-opened. Encouragingly the Aradei share price has performed strongly over the last year and Label Vie's stake now comfortably outweighs net debt, which has always been on our radar. They are exploring new avenues to spin off the substantial real estate portfolio they still own directly. Rising commodity prices remain a concern for us (and management), however they believe longer term this will play into their hands as it will put more pressure on smaller, sub scale operators.

Stanbic IBTC (Nigeria, Financials) FY21 results: Disappointing, yet not unexpected, topline with net revenue growth down -14% y/y. After 3 consecutive quarters of negative growth, 4q21 showed a positive turnaround. The year's performance was dragged down by NFI -23% y/y, with material declines in trading income -75% y/y and other revenue -128% y/y. NII growth was marginal at +2% y/y; a decline in cost of funds could not offset the low yield environment. The constrained topline trickled to the bottom line even with a significant decrease in impairments. PBT was down -30% y/y. Notably, Deposits grew +18% y/y and loans grew a strong +48% y/y. Management declared a dividend of NGN 2.00 per share and the continued focus is on the digital strategy going forward.

EQUITY

Equity Bank (Kenya, Financials) FY21 results: Strong earnings ahead of expectations with PBT +147% y/y and PAT +111% y/y. Solid revenue growth +21% y/y, driven by both NII and NFI. NII +25% y/y driven by strong asset growth which offset a slight decline in margin. NFI +16% y/y, driven by FX trading income +42% y/y, transaction fees +35% y/y. Cost of risk declined sharply to 0.8% which reversed much of 2020 provisioning. Deposit and loan growth +29% y/y and +23% y/y respectively. Management noted that 70% of deposits are CASA now which has positive implications for the bottom line. Management also announced that the Central Bank of Kenya (CBK) has approved its risk pricing model, which is a p ositive surprise given the timing during an election year. Notably, Equity is the first tier 1 bank to receive approval so it can act ahead of competition and gain market share. Management declared a DPS of KES 3.00.

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 2022 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.