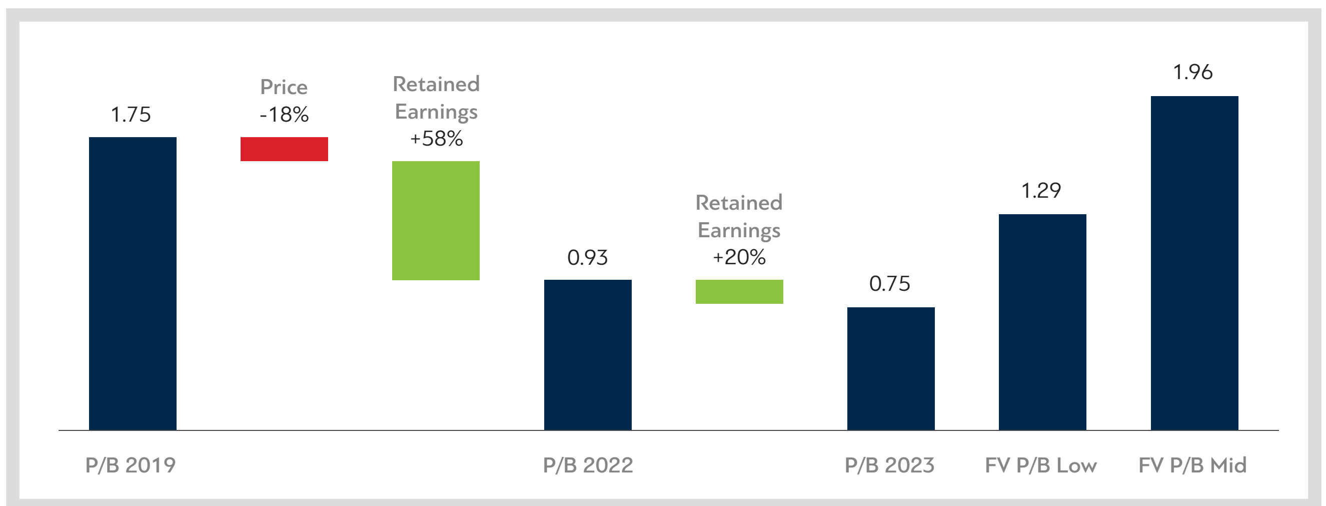
AFRICA FINTECH OVERVIEW

But this time its different...

Those five words are the cardinal sin of investing and most people are familiar with them. What most people are not familiar with, is that they apply equally to fatigue and pessimism as they do to exuberance. Just like bubbles always burst and overpriced stocks crash, oversold quality stocks ALWAYS COME ROARING BACK. It is not if but when. But, to have a proper sense of the when and by how much, we need to know exactly where we are and where we have come from.

Have a look at a waterfall chart we compiled, entitled "The Anatomy of a Capitulation" that shows us how one of Africa's best corporate success stories, the pioneer of agency and e-banking to the unbanked, arrives at the ludicrous multiple of 0.75x price to book. To be sure, a contracting multiple does not guarantee future success, on the opposite, it often foretells further deterioration, but this is NOT the case with Equity Bank. Despite generous dividends, despite more than adequate loan loss provisioning and despite Covid/Ukraine/SVB, the bank has grown shareholder's equity, by growing retained earnings 58% between 2019 and 2022. We conservatively estimate a further growth of 20% in 2023.



The two blue columns on the far right show a derived fair value multiple, firstly using draconian inputs and secondly more sensible ones. Either way, the upside from here is immense. As the table below shows, once these stocks turn, they turn hard and the USD return investors can get in the 12 months post the trough, is substantial.

COMPANY	COUNTRY	SECTOR	30 JAN-09	27 DEC-11	1 DEC-16	6 APR-20
Fawry	Egypt	Egypt	-	-	-	384%
MTN Group	Pan Africa	Pan Africa	51%	21%	17%	119%
HPS	Morocco	Morocco	28%	-29%	130%	95%
GT Bank	Nigeria	Nigeria	153%	67%	65%	53%
IDH	Egypt	Egypt	-	-	35%	31%
Safaricom	Kenya	Kenya	72%	63%	36%	31%
Equity Bank	Kenya	Kenya	10%	39%	39%	12%
EABL	East Africa	East Africa	16%	50%	-2%	-1%
MSCI Africa ex SA			**49%**	**39%**	**27%**	**34%**
S&P Africa ex SA			**60%**	**22%**	**29%**	**44%**

But are we at the bottom?

Yes we are. How do we know? Simply because insiders and PE Funds are starting to pile in. Enough said.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

The Central Bank of Nigeria's (CBN) Monetary Policy Committee (MPC) hiked rates by 50bps to 18.0% and retained the CRR at 32.5%. We expect additional interest rate increases this year given soaring inflation, but this heavily depends on the economic stance adopted by the new administration.

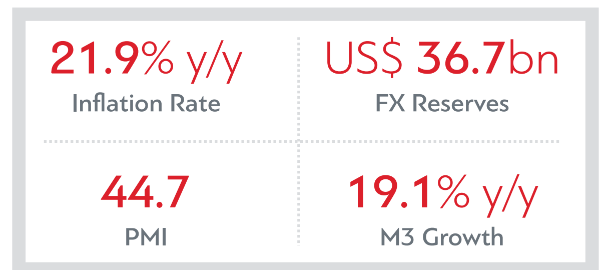
Tinubu, the potentially business-friendly president elect, presents a catalyst for change. As we have mentioned before, this is one of a few key shifts needed to propel the country into an upswing. Shifts and realignment of CBN monetary and fiscal policies will also be a core part of this. The World Bank (WB), in its Nigeria Development Update published in December 2022, asserts that Nigeria will follow one of 3 paths: rising to potential, business as usual and things fall apart. Rising to potential is GDP growth of +7% p.a. attained by sustainable economic reforms. Business as usual may be untenable and likely to create economic stagnation, given negative events highlighting insecurity and the prevailing cash crisis. A global macroeconomic shock would lead to things falling apart. As such, the WB suggests a 3-pronged approach:

1) Increasing oil and non-oil revenues to match or exceed pre-Covid levels, eliminating fuel subsidies and broadening the tax base
2) Inflation reduction with a coordinated approach to trade, monetary and fiscal policies
3) Adopting a more flexible, market-responsive exchange rate regime.

Covering these bases would achieve macroeconomic stability and improve the country's competitiveness.

Macro releases (February stats):

- Inflation inched upwards to 21.9% y/y (Jan: 21.8%).
- FX reserves slipped to USD 36.7bn (Jan: USD 37.0bn).
- PMI fell to 44.7 (Jan: 53.5).
- M3 growth was +19.1% y/y (Jan: +17.9%).
- Private sector credit growth was +16.0% y/y (Jan: +18.1%).
- Mobile subscriptions rose to 226.8m (Jan: 225.9m).
- Oil production reached 1.55mbpd, +4% m/m and +2% y/y.



EGYPT

GDP in 4q22 slowed to +3.9% (3q22:+ 4.4%, 4q21: +9.8%). Growth was driven by telecommunications, agriculture, real state and wholesale sectors. The Minister of Finance's draft budget targets GDP growth of 5% this year, and a primary surplus of 2.5%. President El-Sisi announced a social package totalling EGP 150bn, incorporating wage hikes up +15% for the public sector and pension increases as of April 2023.

The Central Bank of Egypt (CBE)'s MPC hiked rates by a material 200bps, bringing the lending rate to 19.25%. This was expected given soaring inflation. The government also increased fuel prices this month, in accordance with the move toward aligning domestic fuel prices with global price moves – a key pillar under the IMF's 46m EFF arrangement. 95-octane up +7%, 92-octane by +10.8% and 80-octane by +9.4%. Diesel prices were kept stable.

Macro releases included (February stats):

- Inflation surged to 31.9% y/y (Jan: 25.8%), with the Minister of Planning and Economic Development highlighted that this was due to the Russian/Ukraine conflict.
- FX reserves were USD 34.4bn (Jan: USD 34.2bn).
- PMI went up to 46.9 (Jan: 45.5).
- Tourist arrivals surged +34% y/y; a strong resumption of tourist numbers is expected in 2023. The government is implementing a 1% fee on hotel room revenues to support the tourism fund, set up to provide technical assistance.
- Non-oil sectors drove FDI inflows in 1q22/23, reaching USD 3.6bn (1q21/22: USD 1.7bn).

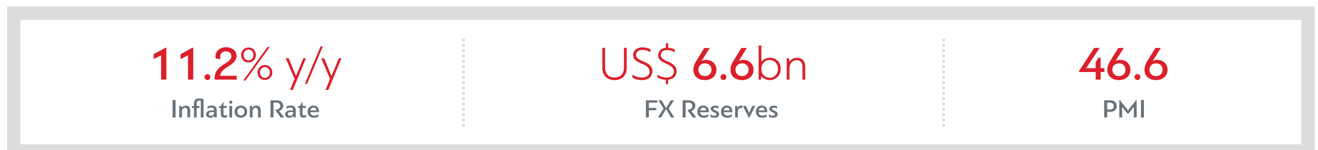
KENYA

The Central Bank of Kenya (CBK)'s MPC raised rates by a surprising 75bps to 9.5%. The MPC cited inflation within the backdrop of elevated global risks. Despite this, domestic growth is still expected to be strong this year. The government aims to reduce the fiscal deficit to 5.7% of GDP in FY22/23 (FY21/22: 6.3%). The funding gap will be closed by issuing a syndicated loan of USD 900m and a USD 1bn loan from the World Bank. Additionally, FX swaps with multilaterals are available.

The CBK recently appointed Koech as Deputy Central Bank Governor to assist in restoring the FX interbank market, and issued a FX Code detailing interbank market rules. For the past 2 years, banks had been independently pricing to clients as the interbank market was dormant – no liquidity and lack of price discovery. However, in accordance with President Ruto's initiative, this has shifted with banks quoting 2-way trades based on supply/demand and liquidity which was confirmed by Equity bank management. Volumes are still a fraction of previous levels, but we expect to see this improve with time.

Macro releases (February stats):

- Inflation rose further to 9.2% y/y (Jan: 9.0%).
- FX reserves declined to USD 6.6bn (Jan: USD 7.0bn), highlighting external strains according to Fitch.
- PMI fell to contraction levels again, at 46.6 (Jan: 52.0).
- Remittances fell -3.8% y/y to USD 309.2m (Jan: +3.2% y/y, USD 349.4m).

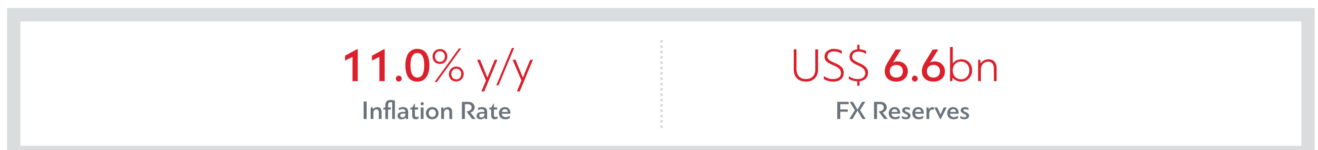


MAURITIUS

Tourist arrivals fell -14.7% m/m (Jan: -20.1% m/m), even though European arrivals inched upwards for the month. The Russia/Ukraine war presents a major hurdle with regards to tourist travel; tourists from Europe constitute c.60% of total visitors.

Macro releases (February stats):

- Inflation moderated to 11.0% y/y (Jan: 11.8%).
- FX reserves were USD 6.6bn (Jan: USD 6.8bn), 14.4m of import cover.

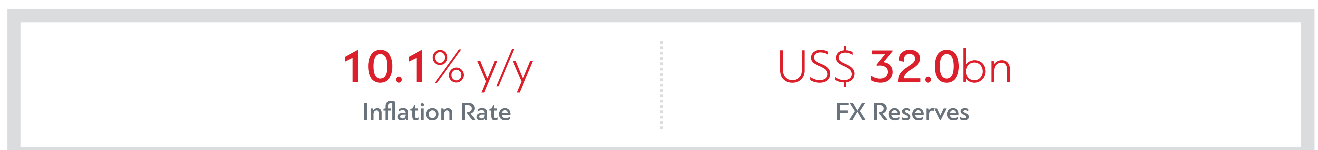


MOROCCO

Bank Al-Maghrib (BAM) raised interest rates by 50bps to 3%, mirroring the European Central Bank's hike to control surging inflation. BAM anticipates even higher inflation in 2023 than forecast at year-end, reaching 5.5%, with elevated inflation expected even in 2024. Morocco signed a USD 100m development project deal with the World Bank this month, to invest in the upgrading and enhancement of Casablanca. The idea is to better improve services and access, and mitigate climate risks.

Macro releases included (February stats):

- Inflation was 10.1% y/y (Jan: 8.9%).
- FX reserves were USD 32.0bn (Jan: USD 32.9bn).
- Tourism has rebounded with airports surpassing pre-pandemic traffic in January, +6% above 2019.



COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)

HPS /

HPS (Morocco, IT) FY22 results update and Outlook: A pretty solid set of results with decent top line growth of 20.8% and slightly soft earnings growth of 18.4%. The soft results belie the incredibly strong underlying developments and positive catalysts. The main reason for the softer earnings growth was simply higher expenses due to R&D and business development, as well as and most importantly due to the preparation and distribution of POWERCARD v4. History has shown that expenses peak in the year leading into launching a new version, but that revenues substantially increasing following the launch. New customers hold back until the launch and existing customers can be sold a whole new suite of upselling products once their software has been upgraded to v4.

Most tangible is the booming backlog +27.5% and 93% of 2022 total revenues, which alone is set to translate into 20-25% revenue growth in 2023. Interestingly, at 93% of 2022 revenues, the backlog is at its highest percentage of revenues, in recent history. There has been an 84% growth in the projects backlog and a 49% growth in the upselling backlog. Also, regular and recurring revenues now represent 70% of total revenues. Management is guiding to 20-25% revenue CAGR over the next five years, which would take its very unchallenging 2022 EV/Rev multiple of 4.4x to 2.4x in three years' time.

Label Vie (Morocco, Consumer staples) FY22 results update and outlook: A very encouraging set of results with revenues and EBIT+18.6% and EPS +82.5% due to a capital gain from the transfer of a portion of real estate to the Terramis REIT. DPS was raised from MAD 140 to 155. The LFL growth across the various formats was varied, with Supermarkets delivering only 2% LFL growth, whereas Atacadao delivered 23% and Hypermarkets 13%. The uptick in the two larger formats is due to recovery in HORECA and consumer mobility. The company executed on an ambitious store roll out plane in 2022, opening 18 supermarkets and 1 Atacadao, taking total stores to 157. The 2023 plan is even more ambitious, with a plan to roll out 1 new Hypermarket, 4 Atacadaos and 20 Supermarkets. If suitable locations can be found, more Hypermarkets will be opened. The Hypermarkets are positioning themselves as a destination, particularly for young families, with restaurants, coffee shops and kids play areas. The retail formalisation story is unfolding according to plan in Morocco and has risen from 15% in 2018 to 20% in 2022, with substantially more headroom to grow. A less obvious, but critical part of the growth and investment story, are the volume rebates from suppliers. As footprint grows, volumes grow and as volumes grow supplier targets are met and exceeded, which through rebates, lowers input costs and expands margins and/or increases competitive pricing power. From an investment perspective, this is playing out in the delivery of higher RoIC, which, despite the aggressive store roll out, rose from 14.1% to 15.6% in 2022. A forward PE of 20x and EV/EBITDA of 9x is not challenging for a business like this.

MTI (Egypt, Consumer discretionary) FY22 results update and Outlook: Thankfully 4q22 put a shine on what was a very difficult year for a business like this. A very shrewd management team needs to be commended on minimising earnings decline as well as increasing FCF and RoIC, through working capital management. For FY22, revenues declined 23%, EBIT 18% and EPS only -7%. FCF was up 151%, primarily as a result of dramatically reducing Inventory and Receivables. The Company's net cash position rose to just shy of EGP 1 billion and RoIC rose to 36% from 29%. The key negative event, and why they are so vulnerable in a year like 2022 (and possibly 2023) is that the kinds of products they sell are imported and deemed non-essential, therefore at risk of not being allocated FX for importation. Looking backwards, the Company partly mitigated this by stockpiling inventory in 4q21, which saw them gain market share in 2022. For example, Samsung had market share in cellphones of 35% in 2021, it is now 50%! Looking forward, most Samsung models are now manufactured in Egypt, which means no supply issues and even greater sales and market share potential. On the home appliance side, Bosch is in the process of switching to local manufacture as well. In terms of financial outlook, management is not comfortable giving guidance for 2023, but did say that a strong 4q22 and now strong 1q23, give a good indication of future prospects. The company is on a FY23 PE of 10x and EV/EBITDA of 3.5x.

Stanbic IBTC (Nigeria, Financials) FY22 Results: A strong set of results. Net revenue grew +40.3% y/y, driven by robust NII +50.1% y/y and strong NFI +32.6% y/y. Cost of funds increased by 27bps to 2.8%, giving rise to increased interest expenses +34.6% y/y. This was outpaced by yields rising, interest income up +45.7% y/y and NIMs expanded by 116bps to 4.8%. NFI was driven by trading revenue (27% of NFI) up 1.6x, while Fees and commissions (76% of NFI) grew +9% y/y. Interestingly, e-banking fell -32% y/y while card-based commissions doubled y/y. Provisions returned to normal levels, and opex grew +21% y/y. PBT was up +52% y/y and PAT +43.7% y/y. Loans grew strongly, up 28.9% y/y, while deposits trailed slightly up 11% y/y. LDR is 70. Tier 1 CAR is 21%. Management declared a dividend of NGN 2.00 per share.

Zenith Bank (Nigeria, Financials) FY22 Results: Earnings miss but moderate topline, bolstered by 2H22 net revenues. Overall net revenue grew +18.7% y/y, but in Nigeria that's muted growth matching inflation. NFI was stronger +23.3% y/y, driven by T-bill income (56% of NFI) up +68% y/y and net fees and commissions (35% of NFI) up +27.7% y/y. Yields inched up slightly, and interest income grew +26.3% y/y. Cost of funds expanded by 50bps to 1.9%, increasing interest expenses by +62.5% y/y. This offset hit net interest income +14.3% y/y. NIMs were squeezed by 27bps to 4.1%. Provisions were taken upfront, with reported NPLs at 4.3% as the credit environment deteriorated. Their Ghanaian subsidiary had significant debt restructuring which increased the cost of risk, now at 3.2% (FY21: 1.9%). Roughly 50% of Ghana's govt bonds were impaired. This, coupled with opex +17% y/y hit bottom line bringing PBT +1.5% y/y and PAT -8.4% y/y. Loans and deposits grew +19.6% y/y and +38.7% y/y respectively. Tier 1 CAR at 19%. Despite this, management announced a dividend per share of NGN 3.20 which increased the payout ratio from 40% to 45%.

Equity Group (Kenya, Financials) FY22 Results: Strong operational performance; net revenue growth +28.7% y/y driven by both NFI and NII. Yields rose leading to interest income +26.8% y/y, but offset by an increased cost of funds of 25bps, leading to increased interest expenses +31.7% y/y. NII, 59% of topline, grew +25% y/y. NFI expanded +34.5% y/y, bolstered by FX trading income (22% of NFI) +58% y/y and other fees and commissions (47% of NFI) +30% y/y. NIMs expanded by 37bps to 6.7%. Impairments multiplied 1.6x, as management chose to take an upfront conservative approach to global macroeconomic uncertainty. Operating costs grew +27% y/y, with increases related to the integration of the DRC subsidiary. This affected bottom line, with PBT up +15% y/y and PAT +14.6% y/y. Deposits, primarily CASA with a low contribution from term deposits, grew +13.8% y/y and loans expanded +20.2% y/y. Dividend declared of KES 4.00, a 33% increase y/y. Notably the group's risk-based pricing model was approved during the year, so gains from new lending will come through in 2023.

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 – An election year signals muted growth; but the election of a pro-business President is a positive sign. Adjusted economic reforms are more likely given new leadership. However, fuel subsidy reform delays show 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 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.