

AFRICA FINTECH OVERVIEW

Bottoming out

June was a difficult month globally, and not much better in our markets. Rising interest rates, spill-over effects of the ongoing conflict in Russia/Ukraine and pandemic recovery have also pushed many African countries into challenging macroeconomic terrain. We remain confident however that improved politics and governance, as well as IMF alignment in most cases, will see our investments in Africa's corporate champions and the megatrends they are tapping into, bear fruit for patient investors. We have been through this time and time again, and share prices of quality companies always come roaring back.

Buffet said on macro/political events "Something different happens all the time. And that's one reason economic predictions just don't enter into our decisions. Charlie Munger, my partner, and I – in 54 years now – never made a decision based on an economic prediction. We make business predictions about what individual businesses will do over time, and we compare that to what we had to pay for them. But we have never said yes to something because we thought the economy was going to do well in the next year or two years. And we have never said no to anything because we were right in the middle of a panic."

Surging underlying trends

According to the Nigeria Inter-Bank Settlement System (NIBSS), Nigerians spend on electronic bills grew by 387% in the first four months of 2022 to N923bn (USD 2bn) compared to the corresponding period of 2019. NIBSS concurs with our view that this has been driven by increased mobile usage, increased use of mobiles for payment as well as increased financial inclusion. More importantly, like us they feel that this trend is set to continue as the cash to non-cash revolution surges ahead. Our Fintech Fund is specifically set up to capture these trends.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

OPEC raised its production target despite prior misses, as countries count on it to improve oil supply following Russian oil being banned from the EU. Nigeria's target is now 1.799m bpd (June: 1.772m bpd). However, Nigeria is down to 1.3m bpd from its former historical average of 2.0m bpd. The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) has put together a committee to urgently boost crude oil production and revive inactive oil wells.

Former Lagos State governor, Bola Ahmed Tinubu, won the presidential candidacy of the ruling party, the APC, ahead of elections in February 2023. We see this as a potential positive catalyst for Nigeria. He is a seasoned administrator and generally pro-business. Between 1999 and 2007, as state governor of Lagos, he pushed through several reforms such as improving the state's revenue generation through tax collection and investments in the power sector. He also attracted Nigerians in the diaspora to return home and work in his administration. He has widespread support in the South West, primarily by the Yoruba tribe, as well as strong support in the North from Buhari's camp. Although there is room to ramp up support in the North, the APC has c.22 states out of 36 under its wing. The main opposition candidate is Atiku Abubakar of the PDP, whose manifesto and strategy is as yet unknown but is seen as the primary contender. The other opposition is from the Labour Party, Peter Obi, who appeals to a younger, more knowledgeable voter base.

Macro releases (May stats):

- Inflation continued to climb to 17.7% y/y (Apr: 16.8%).
- FX reserves fell to USD 38.5bn (Apr: USD 39.6bn).
- PMI declined to 53.9 (Apr: 55.8%).
- M3 growth was 21.8% y/y (Apr: 18.9%).
- Private sector credit growth reached 18.9% y/y (Apr: 16.4%).
- The Central Bank of Nigeria (CBN) hiked interest rates by 150bps to 13.0%.
- Active mobile lines grew to 204.6m, bringing the teledensity rate to 102% in May. Internet connections rose to 149.3m, reaching an internet penetration rate of 75%.

17.7% y/y
Inflation Rate

US\$ 38.5bn
FX Reserves

53.9
PMI

21.8%
M3 Growth

16.4%
Credit to Private Sector

EGYPT

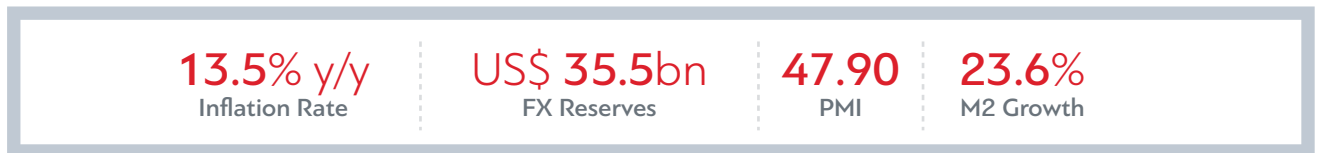
Overall, the recovery is solid despite the inflationary impact of the Russia-Ukraine conflict. The government has lifted all travel restrictions instituted during the pandemic for both local and foreign travellers, including COVID-19 tests and/or vaccination certificates. The World Bank improved its 2022 GDP forecast to 6.1% (Prev: 5.5%).

Egypt is set to receive a USD 500m loan from the World Bank to support food security, while Saudi Arabia said it could support Egypt with up to USD 12bn. The two countries signed USD 7.7bn of investment deals in June.

The Central Bank of Egypt (CBE) raised rates by 200bps to 12.25%.

Macro releases included (May stats):

- Inflation was 13.5% y/y (Apr: 13.1%).
- FX reserves slid to USD 35.5bn (Apr: USD 37.1bn).
- PMI remained relatively flat at 47.0 (Apr: 46.9).
- M3 growth was 23.6% (Apr: 23.8%).
- Trade deficit was USD 1.7bn in April (Mar: USD 2.3bn).



KENYA

Disappointing long rains has pushed some areas in Kenya into a drought which will likely take the gloss off some very impressive economic growth numbers. 1q22 GDP grew +6.8% y/y (4q21: 7.4%) with expansion in most sectors. Agriculture was the exception, contracting by -0.7% y/y as poor rains take effect. The World Bank forecast for 2022 is now 5.5% (Prev: 6%).

Political risk is also heightening in our opinion. President Uhuru Kenyatta, who is not able to stand again, has decided to back long time opponent Raila Odinga. A surprise, as he was widely expected to back his deputy, William Ruto, after years of the stable Jubilee political pack. This will likely raise tension going into the 9 August election date. Many will look on nervously, with the violent 2007 experience in mind. We do think most participants will be more vigilant where the 2007 experience was largely unexpected.

The Energy Secretary has announced that the government will be ending the fuel subsidy in the next few months. The persistent increase of the petrol price and other basic goods and services has severely constrained the fuel stabilisation fund, making it unsustainable.

The country received KES 137.9bn (USD 1.2bn) from the World Bank and other countries to fund the budget deficit. The IMF loan of USD 244m has been delayed; this is the 3rd tranche under the EFF/ECF arrangement

Macro releases (May stats):

- Inflation was still high at 7.1% y/y (Apr: 6.5%).
- FX reserves were USD 8.2bn, 5m of import cover (Apr: USD 8.4bn).
- PMI fell to 48.2 (Apr: 49.5).
- Remittances slowed to 7.6% y/y (Apr: 18.6%).



MOROCCO

Morocco began receiving wheat imports from Brazil to plug the gap created by the Russian-Ukraine war. The country is looking at potentially drawing on the USD 3bn IMF line, and seeking a bond issue of USD 1bn to fund the budget deficit which is expected to widen during the year.

Banking stats show a stable economy. Loans grew +4.7% y/y in May, driven by +11.6% rise in debtor accounts and overdrafts. This was also bolstered by +2.0% y/y increase in real estate loans; mortgages up +2.9%.

Macro releases (May stats):

- Inflation was flat at 5.9% y/y.
- FX reserves were USD 32.6bn (Apr: USD 32.9bn).
- Bank Al-Maghrib kept interest rates flat.



SOUTH AFRICA

An unprotected strike pushed Eskom in the worst load shedding (6-8 hours per day) seen for several years. The labour strike did achieve its 7% pay hike demand as Eskom settled a week into the cut episode. However, several unplanned breakdowns still linger at the time of writing, three weeks later with 2-4 hours of load shed per day. Again, it pushes for more pressure to liberalise the sector faster and move to renewables as part of the mix.

More positively, the economy had been on a stable recovery mode, prior to this setback. 1q22 GDP came in higher than expected at +3.0% y/y (4q21: +1.7%). The manufacturing sector led in contributions, while a total of 8 sectors reported positive growth. Additionally, the official unemployment rate was 34.5% in 1q22 (4q21: 35.3%). On the surface, the rate is very strong showing brisk job growth. However, this is only a partial recovery of the jobs lost in the July unrest with employment lower than the same period a year ago (1q21 unemployment: 32.6%).

The South African Reserve Bank (SARB) raised rates by 50bps to 4.75%.

Macro releases included (May stats):

- Inflation rose to 6.5% y/y (Apr: 5.9%).
- FX reserves were USD 59.3bn (Apr: USD 60.3bn).
- PMI rose to 54.8 (Apr: 50.7).
- M3 growth was 7.3% y/y (Apr: 7.5%).
- Private sector credit growth slowed to 5.3% y/y (Apr: 5.9%).
- Current account surplus expanded to 2.2% of GDP in 1q22 (4q21: 2.1%).



COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)



Label Vie (Morocco, Consumer staples) 1q22 Business Update: Management gives a very limited, high level update. Revenues came in +15%, driven by 8% LFL growth and the concerted store opening effort in 2021. A further four stores have been opened in 2022 so far.



HPS (Morocco, IT) 1q22 Business Update: Revenues came in +28.7%, with recurring revenues +38.8% and R&D expenditure +16.6%. On a divisional basis, Payment Activity (License and Saas, 81% of Group) grew 36.4%, Testing (previously Services, 11% of Group) grew 3.9% and Switching (previously part of Processing, 8% of Group) grew 5.0%. If there is an area of sluggishness it is Switching, where the dampened HORECA segment is still having an impact on card transaction volumes. This should be resolved as the sector heads into peak season, mostly unfettered by Covid related restrictions. Management are positive on the Outlook for payments globally and HPS role therein.



Fawry (Egypt, IT) 1q22 results update: Top line growth making a comeback. Revenues increased 38.4% and Gross Profit 42.3%, however increased staffing and marketing saw negative operating leverage, with EBITDA up 32.3%. Encouragingly ADP which now only makes up 50.8% of revenue, from 63.8% a year ago, reverted to growth, up 10% vs 6% in q421. Management has guided to 15%, as over and above mobile top up, customers will increasingly use Fawry to pay water, electricity and ADSL bills. Other revenue streams like Banking Services (+115% and now 32% of revs vs 20% in q121), Microfinance +70% and Supply Chain Solution +21%, continued their high growth trend and contribution to total revenue. The trend in EBITDA is expected as management have guided to higher expenses as the Group increases staff and continues building out its platform during 2022. The operating stats remain impressive with PoS devices +25% to 290k, myFawry app downloads up 144% to 5.7m, mobile wallet throughput +161% and total throughput value up 66% to EGP 41bn.



IDH (Egypt, Healthcare) 1q22 results update: Back to the future. It seems as quickly as they arrived, restrictions and PCR tests are disappearing and IDH is returning to what was its future trajectory three years ago. However, as q122 results gave a glimpse of, base effects are going to be negative on headline numbers for the next three quarters. Revenues were +5%, EBITDA -22% and EPS -8%. The main culprit for lower EBITDA was substantially reduced PCR test prices, while cost/test remained the same. The core business remains strong, growing revenue 24% over an incredibly challenging three years and 8% vs q1 21. This will accelerate as normal life resumes and people are more comfortable returning to medical facilities. It will be further boosted by branch expansion of 8% and new verticals like Radiology growing revenue by 89%, with management guiding to 18-20% conventional test revenue growth in 2022. The impact of the EGP depreciation is being managed by front loading with six months inventory at the old FX rate as well as selling price increases. The business remains highly cash generative, despite working capital investments, achieving a FCF/revenue of just above 30%. Over and above a generous dividend, the company is considering share buybacks.



MRP (SA, Consumer discretionary) FY22 Results: Strong results for the group, aligned with expectations. Retail sales grew +23% y/y, led by the Apparel segment up +28% y/y which contributes 60% of topline. The home segment (23% of revenues) was up +13% y/y. The 2 most recent acquisitions continue to bear fruit for both topline and earnings. COGS growth was a significant +26% y/y, on the back of increased input costs and a material inventory write-off due to the civil unrest of 2021. GP margin contracted by 147bps to 41%. Despite this, with strong other income growth and marginal opex growth, PBT and PAT both grew +26% y/y. The group continues to increase market share and maintains its strong balance sheet. At the current price, there is still 50% upside to the share.

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.