Edition:	**October 2019**
Region:	**Africa ex South Africa**
Issued by:	**Imara Asset Management Limited**
Author:	**Craig Bandason, Rainer Orth, Tony Schroenn**

Imara Asset Management Q3 2019 Investor Call - Transcript

Good afternoon everyone, thank you for taking the time to dial into the call.

Any performance numbers we mention in the presentation refer to the Imara Africa Fund class A, which is our flagship mutual fund. For the other funds you will have to refer to the individual factsheets that you receive monthly.

On slide 2 we have our performance numbers over the years compared to the S&P Africa index. You can see that the relative gaps open up significantly during the down years where we outperform considerably, we believe this is due to our investment in quality companies.

If you turn to slide 3, you can see that for the third quarter, the Imara Africa Fund class was down 3.9%. Year to date, the Fund is up 2.8%. The negative performance in 3Q was mainly due to large negative contributions from Nigeria and Zimbabwe. In our 2Q call we covered some of our contrarian calls in Nigeria as well as the debasing of the Zimbabwean currency. EM in general underperformed developed markets with the MSCI EM index down 5.1% in 3Q19. On slide 4 you have the summary of our third quarter SAA meeting, nothing much has changed from the second quarter and the beginning of the year really. We are positioned the same way – our key exposures being strong deposit franchise banks, payments, consumer staples and healthcare. Our top 5 ideas are in the table on the right, all of them are trading below historic averages with Equity group and GTB towards the low end of the range. On a bottom up basis, we added a new position, in a business/concept/theme that we like, Fawry Banking and Payments Technology. I would like to briefly give you the highlights of the investment case for Fawry. The company participates at various levels in the payments chain. The focus of the company is to offer:

- Customers a means to make payments through in-store POS terminals, ATMs, mobile, internet banking and Fawry Plus locations.
- Corporates a means to expand reach at low cost (essentially it is a 3rd party distributional channel for the banks)
- Services to merchants to help them grow through online and in-store acceptance and payments to suppliers.

86% of the revenue of the company is from bill payments; mobile top-ups, government payments, utilities and general bills through an omnichannel presence (POS/ATMs/online/Fawry Plus channels). Growth will come from offering additional services to existing customers, but also from capturing new customers as corporates expand to cover white spots. Banking penetration remains low at 32% and digital penetration is 23%. We believe they can become the plumbing for the e-payments industry in Egypt, they own their own technology and is no competitor with the breadth of services and channels that Fawry possesses. Ultimately the market share fight isn't against competition, but it is against cash. A theme that we believe over time has a long and broad runway for growth. Growth doesn't depend on stealing market share from an incumbent, it depends on cash displacement/stealing market share from cash, a much easier game than fighting a fierce competitor directly. The biggest risk to us, seems to be regulatory risk. The second major risk to us is key man risk. During our DD on the company, we talked to the founder, Ashraf Sabry twice, and it was clear to us that a significant source of the company's success is due to him and the strong relationships he has built with the banks and telco's as well as merchants, investors and regulators.

We typically don't invest in IPOs, mainly because we haven't built a relationship with management. However, the theme fits into our mega-trends that we have identified for growth and the investment case is compelling. Commercial International Bank, CIB, the largest private bank in Egypt, is another company we like and they use Fawry too, they gave a glowing reference not just on the CEO but on the company and the service they provide.

You can see some of the KPIs from the recent 1H19 results in the table, from 2016 to 1H19

- Monthly active users up from 15m to 23m in 1H19
- Number of POSs 54k to 110k
- Transactions up from 455m to 772m
- Throughput up from EGP14bn to EGP44.8bn
- This is not in the table, but contracted banks increased to 33 banks from 25 last year

In terms of our QVG metrics. On our quality metric score, it scores a 14, which is a positive score, the valuation was reasonable for a high growth payments company, especially compared to global peers where it is 21% of the EV/EBITDA high- low range. In terms of growth, 5yr revenue CAGR 38%, FY19 EBITDA growth 59% and FY20 EBITDA growth 42%. Given the strong growth prospects of the company, the EV multiples should unwind rapidly as the company meets its growth targets.

I would like to Zoom out for a bit now and talk about why we like payments so much, so please turn to slide 6. Taking inspiration from Jim Collins flywheel effect in good to great. We show on the right the traditional sources of competitive advantage as flywheels – Brand, Network Effects, Switching costs and Economies of Scale. In some of our meetings I have described it as a logical sequence that builds momentum. You don't need all of them to have a great business, you just need one to drive high ROICs. For us, Safaricom's mobile money platform, Mpesa has been an incredible teaching tool for payments and growing return on incrementally invested capital. It has given us a framework that we view the payments industry with. You can see that Safaricom (Mpesa) has at least 3 of these competitive advantages, if not 4 if you include the brand. Added to the fact that MPESA is repeat use, day to day activity, not lumpy or once-off revenue streams. The incremental revenue that comes in at an infinitely smaller cost results in very high margins and high ROICs (Safaricom is currently sitting on a ROIC of 53% and we expect it to grow). Let's go through the diagram, in the top right circle, you have network effects, more users and use cases (paying for parking, paying for utilities, paying for airtime, paying the hair salon, enterprise solutions, savings products, overdraft facilities) leads to higher platform value and that in turn leads to more users. Drop to the bottom circle for economies of scale, having more users leads to a lower fixed cost per unit, which, other things equal results in higher margins and higher ROICs, which you reinvest further into making the product better, which leads to more users (5 steps to 3 as convenient as a QR reader). Then comes the last one which is switching costs, the more users that use MPESA the greater the lock-in, especially for P2P, it becomes the plumbing of the industry and just becomes the way you do things, which locks-in customers and squeezes out competition further cementing the high ROICs. We think Momoney (MTN), Fawry, Ecocash (Cassava), Equitel have similar characteristics and potential to make high returns on capital.

In closing I would just like to fly through the final 3 slides. The first one is a map from RMB where to invest in Africa report. Gdp growth in North Africa 4%, Southern Africa 2.2%, West Africa 3.6%, East Africa 5.5% and Central Africa 3.9%. The long term growth prospects remain strong. If you look at the table on the right, Nigeria is growing less than we would expect, Egypt and Kenya are showing strong growth with gdp growth of 5.7% and 5.6% respectively in the second quarter of the year. The IMF has a 2019 growth projection of 3.5% for the continent, strip out Nigeria and South Africa and that number shoots up to 5%. The general trend in macroeconomic policy is towards easing, which should be a positive catalyst for equity valuations domestically.

On the next slide, a brief update on our ESG database: it is complete for 1H19, we have 79 companies on the database. The response time frame is improving and we have started engaging in dialogue where low scores are identified. This information is available to invested clients. We are excited about the overlap between high ESG scores and good quality metrics in our Q score.

The last slide, shows that the valuations remain attractive, our portfolio trades at a premium compared to the rest of the continent, which is understandable given the quality bias. However, our dividend yields as well as the ROE is higher. Thank you for dialing in. I will now open up the line for questions.