IMARA
Asset Management

Monthly Market Report

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Market snapshot

April was a mostly down month for African markets, partly as a result of a stronger USD. A stand out performer was Zimbabwe up 13.6%, with Egypt up 3.1%. The rest of the markets all declined with BRVM (-6.0%) and Botswana (-4.5%), leading the pack.

Economic and political overview

Nigeria – Headline inflation fell to 13.3% in March down from 14.3% in February, this is the 14th month of disinflation. The next MPC meeting is on the 22nd of May and with inflation now below the policy rate of 14%, there is an expectation for lower rates. However our view is the MPC will continue to adopt a wait and see approach, looking for further declines in inflation. We expect the CBN will continue the use of OMOs (Open Market Operations) as its primary tool to manage liquidity/inflation. Historically the target range for inflation for the CBN is between 6-9%. This theme of disinflation is also coming through in the consumer company results, with volume driven growth rather than price increases, driving sales. Business confidence remains high, with a Stanbic PMI reading of 58.1 in April, slightly down from the historic high of 58.8 in March. April FX reserves were up USD 1.6bn to USD 47.5bn, the highest since June 2013.

Egypt – Russian flights between Moscow and Cairo finally resumed on Wednesday the 11th of April, with Russian carrier Aeroflot touching down safely at Cairo International Airport. It has been just over two years since the last Russian flight to Egypt. As highlighted in our previous monthly commentary, the recovery of tourism revenues is a key driver behind the narrowing of the current account deficit, as well as a key source of employment and GDP growth. In 2017, Egypt recorded 8.3m tourist arrivals, up 53% from 2016. However, this is still significantly below 2010 peak levels of 14.7m tourists. Russia standalone, typically brings in 2-3m tourists per year. The first two months of the year started off well, with tourist arrivals up 33% y/y. The government expects 5.5% GDP growth for this year and a better than expected recovery in tourism could push this number higher. The Emirates NBD PMI for Egypt finally recorded a reading above 50, edging upwards to 50.1 in April, up from 49.2 in March. This is further confirmation of the recovery in economic growth in Egypt.

Kenya – Inflation declined to 3.7% in April 2018, down from 4.2% in March 2018, food inflation significantly decreased from 2.2% in March to 0.3% in April. Similar to most of our markets, we are seeing disinflation, which is accompanied by a cycle of reducing interest rates. Last March, the MPC lowered rates by 50bps, citing better than expected inflation numbers, this latest number may provide scope for further cuts. However, the real enabler for the economy or credit demand, will be the removal or repeal of the interest rate cap. The president reiterated his support for the repeal/modification of the law, citing the drop in credit lending, particularly to SMEs, as crippling to the economy. Some MPs are still against repealing the law, so there is likely to be a lot of noise until the final decision is made.

The Kenya Bureau of Statistics released its 2018 economic survey. They estimate the economy grew 4.9% in 2017, a similar number to World Bank and in line with what we expected. The Stanbic Kenya PMI was 56.4, which is the second highest reading ever achieved.

On the mobile money front, the Communication Authority of Kenya (CAK) released its quarterly report for end December 2017. The report confirms a very strong 11% q/q growth in the value of mobile money transactions to USD 13.7bn. P2P money transfers, which is approximately a third of the mobile money market, increased by 10% q/q to USD 5.8bn. The real driver is the growth in mobile commerce, which include bill payment and payment for goods/services from B2B and C2B channels). Safaricom grew its mobile commerce transaction value by 13% q/q to USD 5.3bn, while Equitel's mobile commerce transaction value grew by 11% q/q to USD 2.5bn.

Morocco – Morocco's trade deficit grew by 10.6% in the first 3 months of the year to MAD48.7bn. The major component behind import growth was equipment imports, which were up 12.4%. Total imports rose 8.2% to MAD117bn, with equipment imports making up just over 25% of that number. Total exports grew 6.6% to MAD68.4bn. In our markets, it is common to see equipment import growth outpacing manufacturing exports or total exports, simply because the economy is growing and industrialising. We see Morocco as well as Egypt as key manufacturing export hubs in Africa and we are comfortable with these numbers. However, a worrying number was cement volumes which were down 6.9% to 3.3m tons, this is partly explained by heavier rains in March (volumes in March were down 15%) but with a low base in 1Q17, it is a disappointing number. We do not have exposure to the sector.

Zimbabwe – There were no major news items this month in Zimbabwe.

Market outlook

Nigeria – The results season, full year followed up by 1Q18 soon afterwards, confirm recovery and normalisation of the economy. Consumer companies are able to shift volume and we expect pricing to improve, especially later in 2018. We maintain a large allocation to banks and the top consumer names in the food and beverages sector. Our preferred banks are well positioned to make money from fees. Overall, banks will make less profit from yields as the curve drops in 2018, but higher NGN liquidity, strong growth in trade facilities (LCs) and mobile bank fees will still mean good growth in earnings. Consumer names we hold have traded through tough consumer conditions to gain more market share and we expect them to benefit in a lower competitive environment in 2018. Pre-election instability remain the biggest risk factor to a strong recovery.

Egypt – The economic recovery is continuing as expected and most management teams are positive and expect conditions to improve further. 1Q18 results during May should provide another opportunity to measure progress.

Kenya - We expect the removal of interest rate caps despite political noise around the issue. Kenyatta's strong political position, his majority in parliament and public utterances for the need to remove the caps supports it. Bank management teams are confident that rate caps will be removed before September. We believe current low Price-to-book valuations and a positive shift in money supply that rate cap removals will bring, provide a unique asymmetric opportunity. Bullish CAK data supports the mobile money theme we play through Safaricom and Equity Bank.

Zimbabwe – We reiterate our view presented last month, which is that we believe that stock selection is of paramount importance and although some businesses will struggle with the cash shortage, particularly corporates that do not have bargaining power with foreign suppliers and therefore are unable to extend credit payment terms. Zimbabwe has the highest chance of a positive outcome in its recent past and a lot depends on credible, free and fair elections. In terms of a bailout package, there will be some pain in the form of fiscal reforms and structural adjustments but in the long term this will be positive for the economy as it will reduce the role of government and free up pools of capital to lend and invest in the private sector. In the near term, the risk of mixed signals and policy risk is high heading into elections in July and August. Most political analysts are expecting an easy win for the incumbent, we believe it may be closer than anticipated, nonetheless, we believe by opening up the elections to the international community, the elections are indeed likely to be free and fair which will add legitimacy to the outcome.