Monthly Market Report

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Region:	**Africa ex South Africa**
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Market snapshot

Markets (MSCI indices in USD/currencies vs the USD) –

Aug Performance (%)	LCY	USD
Egypt	10.8	10.8
Tunisia	1.6	1.0
Morocco	0.8	0.5
Mauritius	0.1	0.4
Kenya	-0.5	0.2
Nigeria	-0.7	-0.9
MSCI World	-2.2	-2.2
BRVM	-2.7	-3.9
Zambia	-3.1	-4.1
MSCI EM	-5.1	-5.1
Botswana	-2.1	-5.6

August was an interesting month with hugely diverging performances. Egypt skipped into overdrive on the back of 1) funds from the Veon/GTH buyout being recycled back into the market 2) the Fawry IPO and 3) a 150bps rate cut by the CBE.

Economic and political overview

Nigeria – After a sluggish start, President Buhari has finally appointed his cabinet. The delay, as well as the creation of 7 new posts has dragged on market sentiment. On the positive side, the key ministries of Finance and Oil, have been maintained with the incumbents. Zainab Ahmed resumes her post as Finance Minister and, in a positive move, Buhari has placed budget and economic planning under her control. This should increase her effectiveness and influence. This is critical because in the absence of any meaningful monetary stimulus, some level of fiscal stimulus is required in Nigeria if the economy is going toward mid-single digit GDP growth. Improved execution of the budget (already passed and expansionary) is at least a start. Buhari himself resumes as Oil minister, which at a minimum ensures less corruption and leakage.

As part of its initiative to promote financial inclusion, as well as recognition of the effectiveness of mobile money in achieving this, the CBN has finally granted a Super Agent license to MTNN. The license allows MTNN to act as aggregator on its vast agent network for mobile money transfers, or as they call it CICO, which stands for “cash in cash out”. CICO is what we refer to colloquially as mobile money 101 or MPESA 1.0 and generates revenue by charging a commission on transfers.

We note that this does not allow MTNN to develop and offer a mobile wallet and payments system, for this they require a Payment Services Bank License (PSB), for which they have already lodged their application. MTNN will not be able to

"steal a march" on the banks as Safaricom has done, however with 65m customers and close to 100% population coverage, they will be an integral part, and a large beneficiary of, a substantial mobile money opportunity.
The MTN Group has significant mobile money expertise, with fully fledged MoMo businesses in Ghana, Uganda and Zambia.

Other macro releases:

- Nigeria's inflation rate crept down to 11.08% y/y in July from 11.22% y/y in June. This is the lowest rate since July 2018, amid a general price slowdown, particularly food.
- PMI came in at 54.6 in July from 54.8 in June. Despite the slight downturn, this points to solid growth in the private sector.
- Pension assets rose steadily by 13.3% y/y and 1.1% m/m in June to USD 30.4bn. This constitutes 7.3% of 2018 GDP, lagging comparable emerging markets.

Egypt – July printed a surprising and very encouraging inflation number of 8.7%, down from June of 9.4%, despite the implementation of the final round of subsidy cuts. This paved the way for a substantial rate cut of 150bps, bring the lending rate to 15.25% and bringing estimated annual savings on the state interest bill to EGP 15bn. We believe this is a really important step, as despite the various initiatives implemented since 2016 and the positive GDP numbers, the consumer and manufacturing sectors have not expanded. This has been evidenced by neutral and even negative PMI readings and banks have not seen much capex related lending, as the economy still has excess capacity in some sectors. This cut and a possible extra cut before year end, should go some way to resolving that.

Other macro releases included:

- The preliminary estimate for real GDP growth in 2Q19 showed a slight increase to 5.7%. This brings the estimate for 2018/19 fiscal year to 5.6%, the highest in 11 years.
- Unemployment fell to 7.5% in 2Q19, down from 9.9% in 2Q18 and 8.1% in 1Q19.
- PMI increased to 50.3 in July from 49.2 in June. This was the first growth in the non-oil private sector since April.
- FX Reserves continued inching upward, reaching USD 44.9bn in July from USD 44.4bn in June.

Kenya – Kenya exported its first shipment of oil, in excess of 200,000 barrels of crude in August. Full commercial oil production officially begins in 2024. We have not been able to fully assess the extent of full production nor whether Kenya intends to develop refineries, however with petroleum products making up a large share of imports, this should ultimately be a positive development.

Macro releases included:

- Inflation rose to 6.3% in July, up from 5.7% in June, despite a decrease in the cost of some food products. This was primarily driven by an increase in the prices of electricity, petrol and cigarettes.
- PMI decreased to 54.1 in July from 54.3 in June. There was a strong improvement in the health of the private sector, while the rate of job creation eased from the two-and-a-half year high recorded in June.

- Trade deficit with Africa stood at KES 156m, marking the first time Kenya has run a deficit with other African countries since the Central Bank of Kenya (CBK) started to publicly keep trade records in 1999. Kenya has struggled to sustainably expand exports to African countries due to import substitution and diminishing competitiveness.

We visited Nairobi and were impressed with the level of infrastructure development. While traffic is still a major frustration of the daily commute, the amount of new roads and upgrading efforts are noticeable. The view often aired is that new infrastructure in roads, power and retail (we visited several new malls) provides a base for higher and more diversified GDP growth. At the same it is also noticeable that the consumer is not buoyant and in some areas struggling. The FX view is for stable and the majority of those we met do not see it above 106. Lower credit growth fuels slower consumption and imports while reserves and remittances are strong. Moral suasion of CBK also points to a stable rate. We asked everyone about the removal of the old KES 1,000 note (total stock estimate of USD 200m) by 1 October. It may lead to some parallel market premiums ahead but impact expected to be muted. Rate cap silver linings - it pushed the move to digital loans. There are now 63 mobile money players from telco, fintech and banks, with approximately KES 10bn (USD 100m) credit and growing fast. Safaricom and its bank partners are roughly 60% of this market. But it is not enough. While it has provided an outlet for efficient consumption at the micro USD 5 - 30 level, higher amounts are 2-3x the cost of traditional bank SME lending. We conclude that the slack and weakness in the economy lies with the consumer / SME not getting access to reasonable cost credit.

Morocco – Inflation reached 0.3% y/y in July, up from 0.2% y/y in June. Underlying inflation, which excludes volatile products, went down by 0.2% from June 2019, and up by 1.3% y/y. This is encouraging for our position in Label Vie, as it indicates that the bulk of its revenue growth of 14% in Q2 19 came from volume growth and not pricing. This is important, as the Company receives volume rebates from suppliers, which enhance margins. It also means that inflation is not eating into consumer disposable income.

Morocco's unemployment rate eased to 8.5% at the end of June from 9.1% in June 2018. Job losses in rural areas were offset by gains in urban centres. Cities created 132,000 jobs, while rural areas shed 125,000 due to lower agricultural activity.

Company updates

GTB (Nigeria, Financials) 1H19 PBT +6% y/y, a good set of results. The main positives were fee growth +13% y/y driven by transactional volumes (mobile, trade fin and credit fees) and very low provisions (0.17% of loans) which offset lower bond yields. NIM is 1.1% lower vs. 1H18 as management noted yields have come off by about 2-2.5% in that time period. Management is still positive that it can meet its 10% loan growth target for 2019 despite being at only 1.1% YTD. There are opportunities in manufacturing and retail. Confirmed that they are close to meeting CBN requirements for Loans/Deposits ratio of 60% and should comply within 2019 financial year. Outside the clear value and high profitability, the MD Segun Agbaje's response on a possible share buyback was quite telling about their ESG and stakeholder perspectives. The MD noted GTB has a strong retail following, a free float which probably includes a 40-50% retail investor base who have been loyal investors and rely on GTB as a dividend payer. They are cognisant of being a good corporate citizen and their social impact. It is not always about the numbers but being a loved brand.

Stanbic IBTC (Nigeria, Financials) 1H19 results: 1H19 PBT -12% y/y which is expected due to high base of 1H18 provisions writebacks. Adjusting for provisions, PBT performance was flat. It reflects lower NIMs in corporate banking and lower fee margins for pensions business. The read through from GTB management meeting is slightly higher margin in 2H19 and continued low provisions. Valuation at 1.5x FY19 book is at historic low levels versus is range which averages at 2.5x.

Attijariwafa (Morocco, Financials, 2.5%) 2Q19 press release: 1H19 results will be released after Board meeting on audited numbers. IR did communicate that 2Q19 net income +3%, deposits +10% and loans +5% y/y.

Market outlook

Nigeria – Results confirm a slow recovery and a path to normalisation of the economy. For the most part, consumer companies are able to shift volume and we expect pricing to improve on the back of consumer income recovery, with the new minimum wage adjustments, we should see this happen in 2H19. We maintain a large allocation to banks and the top consumer names in the food and beverages sector. Valuations are deeply discounted and attractive. Our preferred banks are well positioned to make money from fees. Overall, banks will make less profit from yields as the curve drops, but higher NGN liquidity, strong growth in trade facilities (LCs) and mobile bank fees will still mean good growth in earnings. Since we are past the election hump we hope to see more expansionary monetary policy and credit creation to stimulate growth and spur the economy out of this early recovery phase.

Egypt – The economic recovery is continuing as expected and most management teams are positive and expect conditions to improve further. We see volumes recover as wages catch-up to inflation and this is further supported by corporates restocking as demand picks up. Upside risk to inflation from subsidy removal and rising oil prices, but there is enough positive momentum to maintain the growth trajectory. The earlier than expected 1Q19 cut in rates should further support growth for 2019.

Kenya – The political decision not to remove interest rate caps removes the opportunity for an asymmetric trade on the banking shares and reduces economic momentum. However, low inflation and a multi-year investment in infrastructure have created a platform for strong real GDP growth. On a bottom up basis, we remain very optimistic on the payments and fintech growth theme which we play through telco and banking.

Mauritius – Our investment in Mauritius, MCB, is doing extremely well, with very strong momentum in trade finance. MCB continues to grow earnings above GDP and expand NIMs, increasing the ROE further above the cost of capital and creating scope for further rerating.

Morocco – We continue to search for attractively priced growth investment opportunities with our existing investments showing moderate growth and attractive dividend yields. We recently added Label Vie (supermarket, hypermarket, cash n carry), which we believe is well positioned to benefit from low formalized retail penetration in the country.

Zimbabwe – We have always taken a long term view to Zimbabwe, preferring to look through the political noise and focusing on identifying corporate champions that can generate shareholder wealth no matter the environment. OMIR allows us to get both liquidity and a reasonable valuation as we wait. Key to Zimbabwe's economic recovery is a fresh capital injection and debt forgiveness/restructuring, we believe that announcements signalling progress in this regard will be catalytic for our investments in the country.