

## AFRICA FINTECH OVERVIEW

### FIRST QUARTER RESULTS SEASON GETS OFF TO A GOOD START

<b>MTN Group</b>	1q23 trading update saw revenues +15.1%, with key markets Nigeria +25.6% and Ghana +23.2%. The underlying operating metrics remain strong, with Data subscribers +11.9% to 140m and Fintech value of transactions +64.6% to USD 66bn.
<b>GT Bank</b>	1q23 revenues grew 29.1% and PAT grew 34.6%. Interestingly E-business grew by 62.1%.
<b>Network International</b>	1q23 trading update saw revenues +13.1%, with management guiding to a stronger second half as new contract wins kick in.

## ECONOMIC AND POLITICAL OVERVIEW

### NIGERIA

The Groupe Speciale Mobile Association (GSMA) issued a report highlighting the growth in mobile money accounts +22% y/y in 2022 (2021: +16%). This momentum accelerated in 2023; the Nigerian Interbank Settlement System recorded a significant upswing in the number of transactions +122% y/y to 789m and value increased +35% y/y in February. Value of mobile transactions grew +134% y/y to NGN 2.6trn (USD 5.7bn), and POS growth was +54% y/y to NGN 884bn (USD 1.9bn).

Nigeria received a loan of USD 800m from the World Bank to buffer the post-fuel subsidy environment; the first of several tranches aimed at assisting the most vulnerable. The fuel subsidy was extended to June 2023, as part of the government's bid to improve the fiscal status. The World Bank expects Nigeria's GDP to reach +2.8% in 2023, then expand to +3.0% in 2024. Inflation should slow down this year, but the oil sector is also anticipated to have lacklustre performance. The IMF forecasts GDP for 2023 at +3.2%, decelerating to 3.0% to 2024.

#### Macro releases (March stats):

- Inflation continued upward to 22.0% y/y (Feb: 21.9%).
- FX reserves slipped to USD 35.5bn (Feb: USD 36.7bn).
- PMI fell to 42.3 (Feb: 44.7).
- M3 growth was +19.6% y/y (Feb: +19.1%).
- Private sector credit growth was +18.1% y/y (Feb: +16.0%).
- Oil production slowed to 1.52mbpd (Feb: 1.55mbpd), due to a pipeline explosion, vandalism and shutdowns. The OPEC quota is currently 1.8mbpd.
- Voice subscribers grew +13.9% y/y in 4q22.
- Internet subscribers grew +9.1% y/y in 4q22. Broadband penetration is at 48.5% as of end-February.



### EGYPT

S&P revised Egypt's outlook to negative due to structural reform delays, and affirmed the rating at B. The Ratings Agency also highlighted increased risks with regards to accessing external funding. Notably, the IMF's 46m EFF arrangement approved in January targets Egypt's adoption of a flexible FX rate and privatisation prior to funding approval. The bailout review is dependent on this, as the IMF has highlighted these 2 pillars as key to macroeconomic stability for the country.

The IMF revised FY23 GDP for Egypt down to +3.7% (Prev: +4.0%) and to +5.0% for FY24 (Prev: +5.3%). While the World Bank sees growth reaching +4.0% (Prev: +4.8%).

Financial inclusion has improved, up by +147% from 2016 to 2022. The number of citizens with bank accounts has reached 42.3m; that is 40.6% of the total population and 64.8% of Egyptians above the age of 16. Mobile wallets have grown +54% to 46.5k per 100k people.

**Macro releases included (March stats):**

- Inflation accelerated to 32.7% y/y (Feb: 31.9%).
- FX reserves reached USD 34.5bn (Feb: USD 34.4bn).
- PMI was 46.7 (Feb: 46.9).
- M2 grew +26.8% y/y (Feb: +31.5%).
- Egypt has raised spending for the FY24 Social Protection program by 48% to EGP 529.7bn (USD 17.1bn).
- 4q22 current account surplus of USD 1.4bn.



**KENYA**

The Central Bank of Kenya (CBK) estimates GDP growth at +5.8% for FY23 (Prev: +6.2%) on account of the drought's impact on agricultural output. The IMF has upwardly revised Kenya's GDP forecast for 2023, expected to reach +5.3% (Prev: +5.1%). The World Bank expects 2023 GDP to reach +5.0%, and +5.2% in 2024.

Kenya is to receive USD 500m imminently through a syndicated loan, and the upcoming 5th IMF review for the EFF-ECF program in May could result in more funds available. President Ruto has borrowed more than his predecessor in the first 6m in office, reaching KES 452bn (USD 3.3bn) vs KES 434.6bn (USD 3.2bn). One of the reasons is the rise in spending, due to allocating resources to high-growth sectors to create jobs. Although the president has committed to improving tax collection, this has not resulted in debt reduction as yet. On the positive side, the dollar shortage has settled as the interbank market has been revived, with increased availability being noted this month.

**Macro releases (March stats):**

- Inflation was stable at 9.2% y/y.
- FX reserves slid down to USD 6.4bn (Feb: USD 6.6bn).
- PMI rose to 49.2 (Feb: 46.6).
- Remittances slid -1.8% y/y to USD 357.0m (Feb: -3.8%).

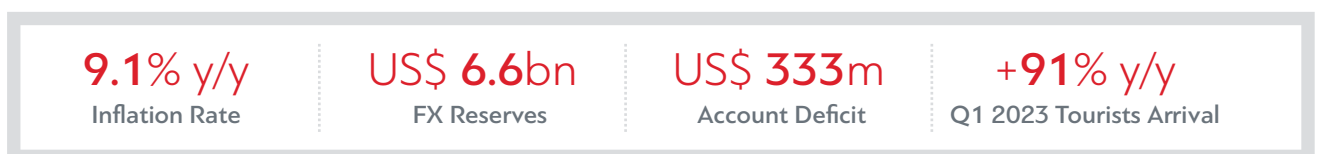


**MAURITIUS**

4q22 GDP came in at +7.7% y/y, a brisk recovery aligned with the previous quarter (3q22: +7.4%). Growth for the quarter was led by agriculture, manufacturing, wholesale & retail and public administration sectors. This brings GDP for 2022 to +8.7% y/y (FY21: +3.4%). Growth for the year was strong despite higher interest rates. The year's growth was led by the accommodation & food services sector, up +200.8% y/y off a weak base. Notably even as tourist arrivals normalise this year, growth may appear weaker given last year's strong rebound and consequently high base.

**Macro releases (March stats):**

- Inflation decelerated to 9.1% y/y (Feb: 11.0%).
- FX reserves were stable at USD 6.6bn.
- 4q22 current account deficit reached USD 333m.
- 1q23 tourists grew +91% y/y to 305 000 visitors; this momentum is expected to continue in 2q23.



**MOROCCO**

Morocco has access to a 2-year Flexible Credit Line from the IMF for USD 5bn. This is seen by Morocco as a precautionary measure to enhance FX reserves and insure against potential shocks to the economy. The IMF anticipates GDP for 2023 to be c.3%, and marginally up to +3.1% in 2024. This is mainly due to the multiple global shocks, resulting in consumer price pressure which is expected to subside this year. S&P affirmed its BB+/B Credit Rating for Morocco with a stable outlook this month.

The World Bank approved a USD 450m loan to boost financial inclusion, incorporating access to a greater breadth of financial and digital services and working with the government’s drive to improve women’s economic empowerment. Financial inclusion statistics are encouraging: 44% of Moroccan citizens have a bank account (2017: 29%), and digital payments up to 30% of the population (2017: 17%). The World Bank forecasts GDP of +3.1% for 2023 and +3.4% for 2024.

**Macro releases included (March stats):**

- Inflation slowed to 8.2% y/y (Feb: 10.1%). VAT on fresh produce has been cancelled to assist in reducing prices.
- FX reserves went up to USD 35.3bn (Feb: USD 32.0bn).
- FDI increased +19.8% y/y in Jan-Feb 2023, reaching MAD 5bn (USD 493m) at end-February.
- Remittances grew +28.6% y/y to MAD 17.3bn.
- Fishing landings reached 210 000 tonnes during 1q23, up +9% y/y. Morocco ranks first in fish production in Africa for 2022.
- 1q23 has seen a boost in air traffic, and 6m passengers managed at Moroccan airports. Marrakech airport (25% of Moroccan airline passengers) highlighted a post-COVID recovery rate with a significant growth in numbers +113% since 1q19.



**COMPANY UPDATES**

**KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)**



**Fawry (Egypt, IT) FY22 Results update and Outlook:** A strong pick up in FY22 and especially 4q22 to get you dreaming again. Revenues for the year came in +38%, with ADP +10%, Banking Services +85%, Microfinance +83% and Supply Chain Solutions +31%. EBITDA came in +38% and EPS +70%. To give an indication of the strength of 4q22, EBITDA grew 79% and EPS +240%. In terms of Outlook, 2023 could really see growth accelerate, as ADP is now down to 45% of revenues and the increased portfolio weighting of the high growth items, should see overall growth higher. EPS should also grow more as ADP is lower margin and the Company is also coming to the end of an investment and hiring period. Fawry trades on the extremely unchallenging multiple of 6x 2023 revenues.



**IDH (Egypt, Healthcare) - FY22 results update and Outlook:** Wow! That was a hard year. From a headline results perspective, just about everything went wrong. In addition to the evaporation of Covid tests, there were two one-off expense hits to income. Namely costs associated with the Pakistan deal and the securing of the dividend. The EGP deval also started to bite and the Board took a decision to share the burden of the increased cost of test kits with their patients i.e. by not taking fully compensatory price increases. Headline numbers saw revenues fall 31% and EPS 62%. More fair comparisons would be versus 2019, which saw revenues rise 62% or looking at Conventional Tests only, where revenues rose 18% (9% vols and 9% price) compared to 2021.

In terms of Outlook, 1q23 comparisons will still look tough, but by 2q23 Covid test revenues will be mostly out of the base. After that, management is comfortable with 20%+ revenue growth, however EBITDA margins will likely be in the lower 30’s

(previously 40's) as the deval gets digested. Nevertheless, 2023 should be substantially better than 2022 and 2024 IDH should be back to the 20-25% growth, at 40% margins that we became accustomed to pre Covid and deval.



**Stanbic IBTC (Nigeria, Financials) 1q23 Results:** Impressive results, with robust earnings growth. Net revenue up a robust +45.2% y/y. Yields up by over 150bps, leading to significant interest income increase +52.8% y/y. Cost of funds expanded, and interest expenses grew +46.8% y/y. Despite this offset, NII grew strongly +55.3% y/y. NFI was up +37.9% y/y and driven by trading revenue (44% of NFI) which grew +89% y/y. Fees and commissions (58% of NFI) grew +13% y/y and was led by asset management (36% of NFI) +16% y/y. NIMs expanded materially by 172bps to 5.7%. Impairments significantly increased as the group took precautions for the next 12m but the

absolute figure had a marginal effect on bottomline. Opex trailed behind inflation up +16% y/y. PBT +85% y/y and PAT +96% y/y. Loans grew +22% y/y and deposits up 8% y/y.



**GTB (Nigeria, Financials) FY22 Results:** Disappointing results; bottom line hit by impairments. Net revenue grew +17% y/y, driven by both NFI +16.4% y/y and NII +17.5% y/y. Interest income went up +21.9% y/y as the yield curve shifted upward. This was offset by interest expenses +42.8% y/y due to an increase in costly time deposits. NFI was driven by FX trading and fixed income (20% of NFI) +36% y/y, portfolio gains (32% of NFI) +43% y/y and net fees and commissions (39% of NFI) +18% y/y. NIMs expanded marginally by 14bps to 5.0%. Impairments reached NGN 47.9bn, up

over 5x from NGN 9.2bn a year before, largely due to exposure to the Ghanaian government's Eurobond default. Reported NPLs reached 5.2%. Cost of risk increased slightly by 15bps to 0.62% (FY21: 4.7). Opex grew +22% y/y. PBT and PAT declined -3% y/y. Tier 1 CAR fell slightly to 21%. Deposits grew +12% y/y and loans +5% y/y. The group announced a FY dividend of NGN 3.10 per share.



**Zenith (Nigeria, Financials) 1q23 Results:** Net revenue growth just above inflation +22.7% y/y, driven by both NII and NFI. Yields rose, and interest income grew a robust +51.6% y/y. However, this was offset as cost of funds grew materially, resulting in interest expense growth +174% y/y. NII grew +20.1% y/y and NIMs were squeezed by 19bps from 1q22 to 4.7%. NFI, at 38% of operating income from 51% at year-end, grew +27.1% y/y and was driven by credit-related fees declined +24% y/y, account maintenance +10% y/y and bond trading income up 7x. Provisions and opex

growth were +14% y/y and +20% y/y respectively, resulting in PBT +27.4% y/y. Tax doubled from 1q22, so PAT growth was +13.4% y/y. Deposits grew strongly +26% y/y, while loan growth lagged +13% y/y.



**Nestlé (Nigeria, Consumer staples) 1q23 Results:** Revenue growth was muted +16.1% y/y driven by the food segment. Food (63% of topline) grew +22.7% y/y while beverages lagged +6.1% y/y. Both segments were led by prices and less so by volumes – with Maggi and Milo contributing the most to topline. Maggi still drives food growth, with market share expanding over the quarter, while Milo has had a decline in market share and overall contribution. COGS was relatively muted given the macro environment +13.9% y/y. GP margin expanded by 113bps to 40%. Opex grew

significantly +36.6% y/y boosted by marketing expenses +35.9% y/y. EBITDA margin fell -147bps to 24.5%. Borrowing costs increased, so PBT declined -10.6% y/y and PAT -9.8% y/y. Net debt has grown significantly, up +61% q/q. Negative FCF on account of payables settlements and higher capex.



**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.