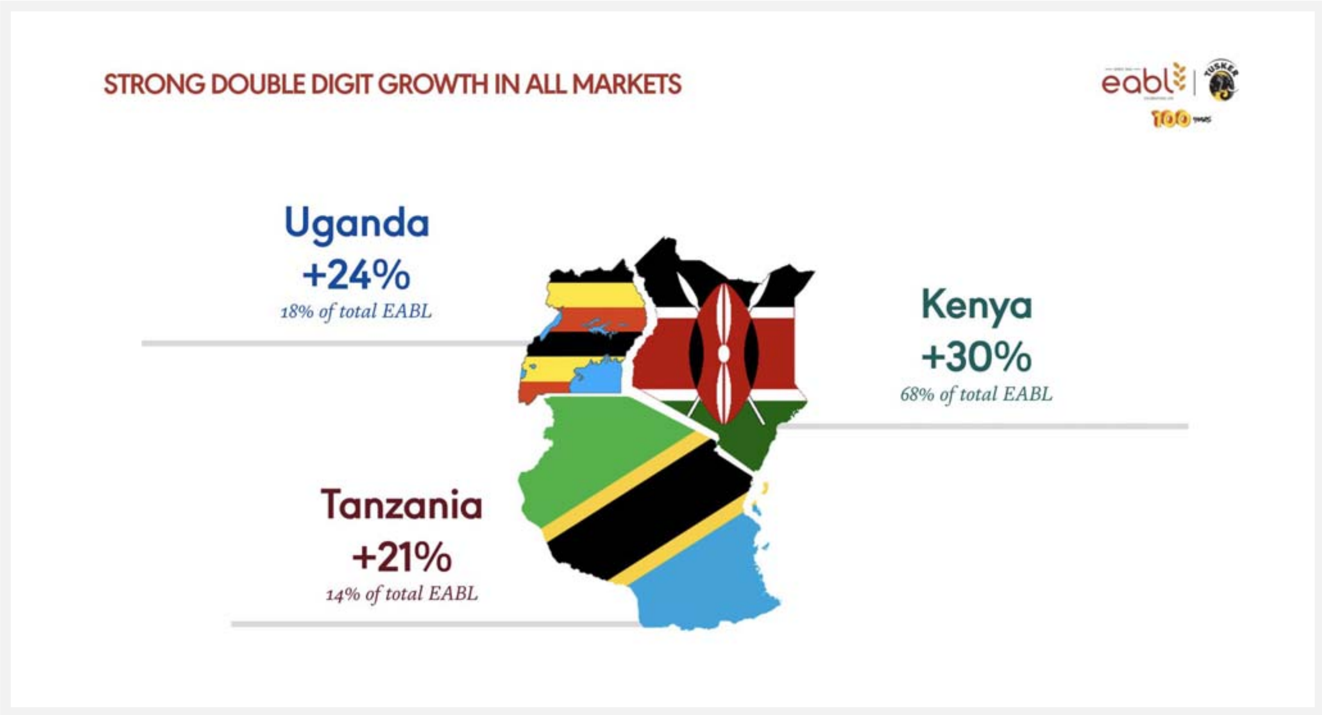
AFRICA FINTECH OVERVIEW

Take a look at what's bubbling in East Africa

One of our key assertions is that the African consumer market is buoyant and will remain robust, despite geo or macro political events. One could be forgiven for assuming that with what is happening globally, this might be called into question. However, as the graphic below demonstrates, this view would be at odds with the merry-makers and bar-goers who are customers of Diageo's East Africa Breweries (EABL). Underlying those strong revenue growth numbers, is volume growth of 22%. Stop and ponder that for a while, think about where else in the world is delivering that sort of beverage consumption growth, in this economic climate.



It is not at all surprising then that Diageo, EABL's parent, is trying to buy an additional 15% stake in the business for a substantial premium to the hopelessly low valuation of 7.3x and 4.2x forward PE and EV/EBITDA, that it trades at on the Nairobi Stock Exchange.

You might well say, what does any of this have to do with Fintech. There are two relevant points:

- As you will know from your own lives, more of this consumption is being transacted on Fintech platforms AND more often. **Additionally, low but rapidly increasing FINANCIAL INCLUSION, turbo charges this trend.**
- Diageo's move signal's confidence in Africa and confirms our thesis that African companies are materially undervalued by local capital markets. **African Fintech's are no exception.**

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ECONOMIC AND POLITICAL OVERVIEW

Nigeria

GDP for 3q22 was +2.3% (2q22: +3.5%), led by services up +7% y/y which constituted 52% of GDP (2q22: +6.7%). Within the service sector, transport and storage delivered strongly up +41.6% y/y; road expansion offsetting the decline in air traffic following significant increases in airfare. Finance and insurance grew +12.7% y/y, and information and communications expanded +10.5% y/y. Agricultural growth was muted at +1.3% y/y (2q22: +1.2%), on the back of severe flooding and ongoing food insecurity. Industries fell -8% y/y (2q22: -2.3%), dragged by the oil sector. Oil fell sharply, a decline of -22.7% y/y (2q22: -11.8%) due to a significant fall in oil production. Average output was 1.2mbpd, down from 1.43mbpd in 2q22.

Fitch downgraded Nigeria from B to B- with a stable outlook. This was explained by Nigeria's debt service deterioration and FX liquidity constraints despite high oil prices. The fuel subsidy also weighed in on the decision, as it is costly and consumes the fiscal benefits of oil prices.

The Central Bank of Nigeria (CBN)'s Monetary Policy Committee (MPC) raised rates by a material 100bps to 16.5%. The CBN's inflation target is 6-9% aimed at moderating inflation, currently significantly above that.

Macro Releases (October stats):

- Inflation inched upwards to 21.1% y/y (Sep: 20.8%).
- FX reserves slipped down to USD 37.4bn (Sep: USD 38.3bn).
- PMI was largely flat at 53.6 (Sep: 53.7).
- M3 growth was 21.9% y/y (Sep: 23.4%).
- Private sector credit growth slowed to 17.8% y/y (Sep: 19.4%).

21.1% y/y	US$ 37.4bn	53.6	21.9% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

Egypt

GDP grew +4.4% y/y in 1q23 (3q22 calendarised), which is a strong improvement from the previous quarter +3.3% y/y. Agriculture, Trade and Hospitality contributed a total of 40% to GDP. Unemployment increased slightly to 7.4% in 3q22 (2q22: 7.2%). The labour force participation rate declined from a year ago and flat q/q, reaching 42.7% (3q21: 43.7%).

Fitch Ratings Agency revised Egypt's long-term outlook from Stable to Negative, while maintaining the rating at B+. Reasons behind the decision include the country's FX liquidity issues, reduced bond market access over time and high current account deficits. The rating was affirmed due to strong economic growth and regional support from ally countries and multilaterals. Fitch sees Egypt's GDP for 2022 reaching 4.5%, with the current account deficit narrowing to -3.1% of GDP (2021: -3.5% of GDP).

The Central Bank of Egypt (CBE) has given a grace period of 1 year to comply with the directive requiring 25% of lending to micro-businesses and SMEs. The CBE issued additional regulations promoting sustainable finance for banks. The CBE has been pushing financial inclusion by various means, focusing on regulatory and fintech infrastructure to ensure a supportive environment for growth. Financial inclusion metrics have improved in Egypt, with 61% of adults with bank accounts as of June. 2018 figures indicated 33% and 2016 banking penetration was 27%.

Macro releases included (October stats):

- Inflation rose to 16.2% y/y (Sep: 15.0%).
- FX reserves reached USD 33.4bn (Sep: USD 33.2bn).
- PMI expanded slightly to 47.7 (Sep: 47.6).
- M2 growth accelerated to +27.1% y/y (Sep: +23.0%).

16.2% y/y	US$ 33.4bn	47.7	27.1% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

Kenya

The Central Bank of Kenya (CBK) raised the policy rate to 8.75%, an increase of 50bps. This is the 3rd hike this year to curb inflation, cumulatively 175bps. Food and Fuel inflation rose +15.8% y/y and 12.6% y/y respectively, the latter as subsidies were reduced.

Kenya is anticipating access to USD 433m from the IMF through the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) arrangement, subject to final approvals.

The programme's disbursement breakdown is as follows:

International Monetary Fund (IMF) EFF and ECF Financing Program		
Date	**Amount (USD m)**	**Amount (KES bn)**
Apr 2021	307.5	37.4
Jun 2021	407.0	49.5
Dec 2021	258.1	31.4
Jul 2022	235.6	28.7
Nov 2022	433.0	52.7
	1 641.2	**199.37**

Total disbursements will be USD 1.6bn, to support the country to overcome challenging headwinds. The IMF estimates 2022 growth at 5.3%, citing 1H22 performance as 'resilient,' and recognising the government's work towards fiscal consolidation and minimising debt vulnerabilities.

Macro Releases (October stats):

- Inflation continued upwards to 9.6% y/y (Sep: 9.2%).
- FX reserves inched down to USD 7.3bn (Sep: USD 7.4bn).
- PMI was 50.2 (Sep: 51.7).
- Current account deficit was -5.3% of GDP in September.
- Remittances were USD 332.6m (Sep: USD 318m), a slight decline of -1.4% y/y.
- The CBK is reintroducing charges for transactions between mobile wallets and bank account, waived since March 2020.
- The World Bank foresees 2023 and 2024 GDP averaging 5.0%.

9.6% y/y	US$ 7.3bn	50.2	-5.3% of GDP
Inflation Rate	FX Reserves	PMI	Account Deficit

Mauritius

Tourism income reached USD 932m by end-September; a promising start to peak season. From Jan-Oct Mauritius has had over 740k visitors, which is 31% below 2019. However, the government targets 1m visitors by year-end which would be rivalling pre-pandemic levels.

Tourist earnings grew materially, with Jan-Jul to MUR 30.4bn (USD 686m). Arrivals grew to 638,338 in Jan-Sep. Despite this, the sector's recovery is still at pre-pandemic levels, at c.50% capacity.

Macro Releases (October stats):

- Inflation was flat at 11.9% y/y.
- FX reserves declined to USD 6.5bn (Sep: USD 7.3bn).

11.9% y/y	US$ 6.5bn
Inflation Rate	FX Reserves

Morocco

The African Development Bank signed 2 loan agreements with the government. The first in aid of cereal production: MAD 2.2bn (USD 198m) to establish and implement reforms to improve cereal farming, thereby reducing reliance on grain imports. The second focused on social protection, MAD 944m (MAD 89m) to facilitate universal health coverage.

The USA is officially Morocco's largest foreign investor, taking over from France. 1H22 saw MAD 6.3bn (USD 578m) received as FDI from the USA, while France invested MAD 5.6bn (USD 514m). The industries sector, incorporating oil and gas, attracted the largest foreign investments at MAD 10bn (USD 917m). Real estate was next, attracting MAD 3.1bn (USD 284m). France has historically been Morocco's largest international associate; the EU being the biggest trade partner.

In this vein, Morocco signed an MoU with France, Germany, Portugal and Spain to integrate green electricity markets in Europe in response to COP27. This is a 2-year plan to remove barriers on cross-border trade on renewables, push technical cooperation and encourage adoption of clean energy. Morocco has a growing renewable energy pipeline, with infrastructure on board to meet the demands in other nations.

Macro releases included (October stats):

- Inflation slowed to 8.1% y/y (Sep: 8.3%).
- FX reserves grew to USD 32.7bn (Sep: USD 31.7bn).

8.1% y/y	US$ 32.7bn
Inflation Rate	FX Reserves

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)

HPS (Morocco, IT) – trading statement: Another good performance, with q3 22 revenues coming in +36%, within which, recurring revenues grew 41%. Payments, the largest division grew by 38% helped by upselling and Saas, while Switching grew 9% and Testing 2%. The results showed an interesting chart, illustrating the geographic spread of revenues, which now sta nd at Africa 47%, Europe 23%, Middle East 18% with Asia and the Americas each 6%. This is a substantial charge from just a few years ago, when Africa and particularly Morocco, dominated the chart.

Label Vie (Morocco, Consumer staples) – 3q 22 trading statement: The company announced a positive update, with 3q 22 revenues coming in +19%, 9% of which we estimate to be like-for-like store sales, based on the trend in their first half detailed numbers. The Group is accelerating its pace of development and is planning on opening 11 new stores in q4 22, three of which have already been opened in October. A special dividend of MAD 69 per share was declared, payable in December. The Group has also established a 100% owned REIT, Terramis, which will carry out a large part of the Group's land and construction capex going forward. The purpose of this is to separate the Group's real estate and retail operations, as well shielding the Group from capital gains taxes on future real estate disposals.

Mutandis (Morocco, Consumer staples) 3q22 results: A strong set of results, and confirmation that topline will likely beat management's guidance for the year. Revenue growth was a robust +51.6% y/y led by Seafood, which saw strong growth in volumes and prices. This segment (31% of revs) grew a significant +69% y/y for the quarter, up +44% y/y for 9m22. Canned seafood volumes grew +15% y/y despite a hike in export prices, and the segment benefitted from an increase in fish supply and by-products. Beverage bottles (15% of topline) rebounded +57% y/y as both prices and volumes grew; volumes were up +16% y/y as the country returned to normal post-pandemic. Fruit juices, the smallest segment at just 3% of topline, expanded a surprising +41% y/y due to volumes; segmentally led by own brands. Detergents (26% of revs) grew +7% y/y on account of prices. The main drivers of growth were machine powder and dishwashing liquid, while 3rd party brands declined. Season brand, incorporated since August 2021 is up +22% y/y to September, aligned with management's forecasts. 2022 has so far beaten guidance each quarter, and the group continues to raise Detergent prices while the remaining segment prices are on target for the year.

MCB (Mauritius, Financials) 3q22 Results: Net revenue growth increased +18% y/y driven by NFI +31% y/y. NFI was bolstered by net fees and commissions which constitute 66% of NFI, up +17% y/y. NII grew a muted +12% y/y; interest income increased +34% y/y on account of improved yields but interest expenses partially offset the gains. NIMs were flat at 2.6%, due to local interest increase in investment securities following central bank rate hikes. Provisions fell -14% y/y and operating costs grew +25% y/y. PBT grew +22% y/y and PAT +23% y/y. The outlook is mixed; while tourism has rebounded, the ongoing global macro issues and tight MP to combat inflation present challenges. Loans grew +14% y/y and deposits up +5% y/y.

Macro Pharma (Egypt, Healthcare) 3q22 Results: Revenues grew +17% y/y, driven by prices. Skincare (40% of revs) was up +10% y/y, Female Care (14% of revs) grew +82% y/y and Oral Care (12% of revs) increased +80% y/y. It is not a cyclical business, so this is weakened performance after the +47% surge of 2q22. 9m22 Revenues grew +24.7% y/y. COGS suffered from the current macroeconomic headwinds, up +43% y/y. GP margin was squeezed by 407bps to 77%. Negative jaws following major hits on opex. Marketing costs grew +31% y/y, and admin costs 4x. PBT down -15% y/y, and PAT -12% y/y. For the 9m, both PBT and PAT grew +19% y/y bolstered by 2q. The Balance sheet still looks healthy, cash grew 3x from 3q21 and net debt/equity is at 17% despite a significant increase in borrowings. FCF positive. The group is still finalising the acquisition of Zimmer, a nutraceutical company, noted in 1H22's commentary.

Zenith (Nigeria, Financials) 3q22 Results: A sluggish 3q as expected, with net revenue growth trailing inflation +14% y/y. Growth was driven by NII +31% y/y. NIMs expanded by 19bps to 4.4% even as yields rose due to a significant increase in cost of funds. Interest expenses grew +69% y/y, partially offsetting interest income +42% y/y. NFI fell -5% y/y, due to significant losses in the trading book down -80% y/y. Net fees and commissions grew +16% y/y and other income had 4x growth. Impairments increased +33% y/y, while opex showed only marginal growth of +11% y/y. PBT and PAT both +16% y/y. For 9m22, NII was consistently the primary growth driver, up +20.5% y/y and NFI grew 10% y/y. Balance sheet strong with loan growth +19% y/y and deposits up +33% y/y. We see some positive upside to the share which is trading significantly below FV.
Equity Bank (Kenya, Financials) 3q22 Results: Net revenue growth +27% y/y, driven by NFI's solid growth of +46% y/y. FX trading income (24% of NFI) doubled, other fees and commissions (47% of NFI) grew +41% y/y and other income (16% of NFI) was up +34% y/y. Interest income +20% y/y was boosted by rising yields. NII +16% y/y, cost of funds increased resulting in interest expenses up +32% y/y. NIMs were flat at 6.5%. Provisions doubled, as cost of risk rose to 1.1% from 0.5% in 3q21. Opex grew materially at +29% y/y. PBT +5% y/y and PAT +6% y/y. Loans and deposits grew 21% y/y and 15% y/y respectively. Management has not declared No interim dividend has been declared.

Safaricom (Kenya, Communications Services) – 1h23 results update and outlook: Product pricing in Kenya and Ethiopia creating soft patch that belies strong underlying operating metrics. Group revenue came in +4.6%, EBITDA -4.3% and PAT -10.0%. Kenya only, came in with EBITDA +3% and PAT +1% on a higher income tax rate. The traditional voice business in Kenya is coming under pressure with Voice down 4% and Incoming Revenue (termination) down 12% on MTR cuts. Data and MPESA continue to grow, but at lower rates of +11% and 9% respectively, with the only high growth product being Fiber at +23% as strong uptake of FTTH and FTTB continues. In general, it seems usage and user numbers are growing in Kenya, but the Macro is weighing on pricing, while new products like IoT and DigiFarm, while growing in triple digits, are just too small to make a contribution.

Ethiopia, while dragging on profits and cash flow, is coming along at a cracking pace, with the 1m customer mark passed in November. It is not fantastical to project that this could be a 50-60m customer market (2x Kenya) for Safaricom, with the full suite of services on offer now that MPESA has received approval. Management has upped their guidance for Ethiopia for the 2023 year end. Unfortunately, the Safaricom story does require some patience, which markets are clearly not in the mood to give right now. Soft numbers also don't provide much valuation support when looking at current multiples, with the Group trading at a 2022 PE of 13.5x and EV/EBITDA of 6.6x.

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 2022 has been evidenced in more robust FX reserves, consistently good and continuous economic policy as well as additional funding from the IMF. 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. 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 better rainy season 2022/23 should help to offset weakness from the drought in 2021/22 as well as the hit from higher soft commodity prices. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail, manufacturing and fintech.

Kenya – Peaceful elections and a new, business friendly President bode well for the country in the foreseeable future. Continued recovery in tourism and lower soft commodity import prices, should provide tailwinds too. 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.