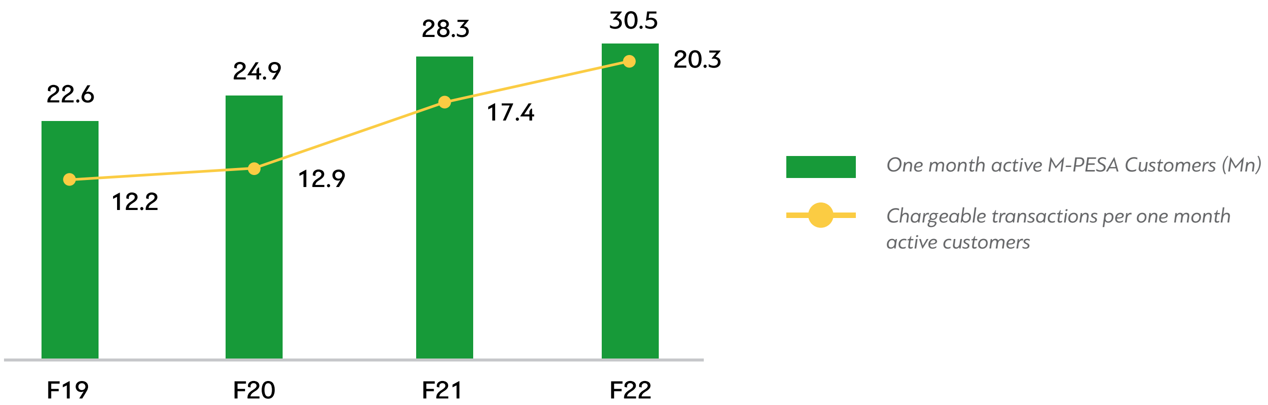
AFRICA FINTECH OVERVIEW

Strong growth looks like this

We often talk about the components of growth being length and width of runway. Few companies demonstrate this better than Safaricom's MPESA (Kenya, 7.4% of NAV). The chart below shows the number of customers in Kenya using this product (length), as well as the number of transactions they perform on the platform every month (width). In terms of length of runway, they have grown fast to get to 30.5m customers, but whats important is that not only are there more customers, but more customers are using it more often. These numbers don't land in your lap, you get there by having the best platform and the best suite of services.

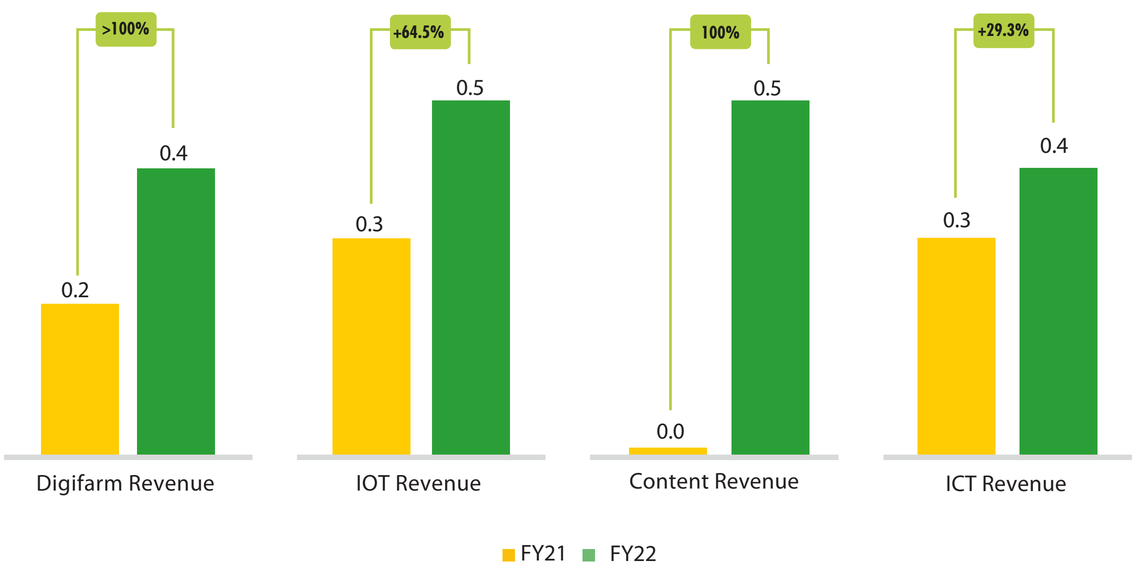
Sustained usage momentum with return to charging



In terms of new services and widening the runway, consider the growth rates in the chart below. Think of these as seedlings in whose shade you as investors will sit in the months and years to come.

New Growth Areas: Performance is Gaining Momentum
New Growth Areas Revenue (KShs Bn)

.



ECONOMIC AND POLITICAL OVERVIEW

Nigeria

The IMF published the Global Financial Stability Report this month, putting the global macroeconomic environment front and centre. Since the previous publication in April, risks have only increased, weakening the global financial system. The war in Ukraine has an ongoing ripple effect, while China experienced stop-starts due to COVID-19 containment measures. Many emerging and frontier markets face a repeat of the risk-off environment of the pandemic and potential sovereign default.

The IMF expects emerging markets to grow +3.7% in 2022. Sub-Saharan Africa is pegged weaker than previously for 2022 and 2023, at +3.6% and +3.7% respectively (Prev: +3.8%, 4.0%).

Mobile transactions in the country reached NGN 12.8m in value for the 9m to September, up +153% from 9m21. Volumes grew by +132% y/y over that period, hitting 438.3m transactions by mobile. POS transaction value totalled NGN 6.1trn (9m21: NGN 6.4trn).

Macro releases (September stats):

- Inflation rose to 20.8% y/y (Aug: 20.5%).
- FX reserves slid to USD 38.3bn (Aug: USD 39.0bn).
- PMI inched upwards to 53.7 (Aug: 52.3).
- M3 growth was 23.4% (Aug: 20.5%).
- Private sector credit growth was 19.4% y/y (Aug: 20.2%).
- AuM for the Pension Industry grew +11.8% y/y to NGN 14.4trn (USD 32.8bn) in August.

20.8% y/y	US$ 38.3bn	53.7	23.4% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

Egypt

The long-awaited deal with the IMF came through, following the Central Bank of Egypt's 200bp rate hike and adopting a flexible exchange rate. The deal consists of a staff-level agreement for the USD 3bn Extended Fund Facility (EFF) over 46 months. It is aimed at addressing debt sustainability and bolstering economic stability, while supporting broad-based growth and bolstering employment. As with all IMF-backed programs, there are conditions Egypt is required to adhere to. The IMF also raised its GDP forecast for Egypt to 6.6% in 2021/22. In addition, Egypt will get USD 5bn in support internationally and regionally to assist in bridging the external funding gap.
Macro releases included (September stats):

Macro releases (September stats):

- Inflation was 15.0% y/y (Aug: 14.6%).
- FX reserves were flat at USD 33.2bn.
- PMI was also flat at 47.6.
- M2 growth was 23.0% y/y (Aug: 24.0%).
- S&P maintained Egypt's credit rating, currently B with a stable outlook.

15.0% y/y	US$ 33.2bn	47.6	24.0% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

Kenya

Real GDP grew +5.2% y/y in 2q22 (1q22: +6.8%, 1q21: 11.0%). This incorporates the uncertain outlook ahead of elections, following an overall slowdown in growth. Agriculture contracted -2.1% y/y, and manufacturing fell -3.6% y/y. Strongest growth in restaurants and hospitality up +22% and finance and insurance grew +12%. Although there was growth in many sectors, there was a slowdown in momentum compared to the previous quarter. The Central Bank of Kenya forecasts GDP at 5.4% for 2022 and the IMF 5.3%.

Macro releases (September stats):

- Inflation accelerated to 9.2% y/y (Aug: 8.5%).
- FX reserves remained largely flat at USD 7.4bn.
- PMI expanded to 51.7 (Aug: 44.2).
- M3 grew 6.1% y/y (Aug: 5.5%).
- Remittances grew +2.7% y/y (Aug: -0.8%).

9.2% y/y	US$ 7.4bn	51.7	6.1% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

Mauritius

The Bank of Mauritius raised interest rates to 4.0%, an increase of 100bps. The reasons cited include maintaining inflation under 10% and to align more closely with the Fed's recent decisions, thereby reducing the inflation differential. The central bank forecasts 2022 GDP at 7%, with a fall to 5% in 2023.

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 (September stats):

- Inflation was 11.9% y/y (Aug: 11.5%).
- FX reserves rose to USD 7.3bn (Aug: USD 7.1bn) covering 15.5m of imports. Reserves fell to USD 6.5bn in October, down to 13.5m import cover.

11.9% y/y	US$ 7.3bn
Inflation Rate	FX Reserves

Morocco

Morocco is holding up well despite drought and a poor agricultural season. Morocco recorded more than 1.14 million tourist arrivals in June, showing a 5% and 235% growth compared to the same period in 2019 and 2021 respectively, according to the Ministry of Tourism. The ministry further noted that the expansion of airlines' passenger capacity, partnerships signed with tour operators to secure a significant number of arrivals, and the various measures undertaken to promote the attractiveness of the destination, will further contribute to the revival of tourism in Morocco. Among the measures the country introduced to revive the sector is the introduction of e-visas for foreigners coming from 49 countries. The e-visa is valid for a maximum of 180 days from the day it is issued and allows entry into Moroccan territories for up to 30 days. The government has, however, extended Morocco's state of emergency until end-November, citing a continued COVID-19 spread despite the decline in cases.

Positive dots on Morocco's mosaic

A number of press releases have emerged from Morocco over the last few months that, individually might not justify significant attention, but together point to positive developments and outcomes. Four of Morocco's universities were ranked among the top universities globally. Their central banker, Abdellatif Jouahri, who received a grade of A- in a Global Finance report, is among the top bankers making recognizable and good performances at the helm of their respective countries' central banks, says the report. Published annually since 1994, the report gives grades to central bank governors, taking into account success in areas including inflation control, economic growth goals, currency stability, as well as interest rate management.

It is no wonder that global corporations are setting up factories requiring and providing highly skilled workers. A good example would be STMicroelectronics recently inaugurating its new USD 300m plant in Morocco, designed to produce 25m integrated circuits per day and employ 2,500 people. Another example would be that 140 companies manufacture finished aircraft, do maintenance, and build aircraft infrastructure in the country. During COVID-19, globally the aerospace industry declined by -50%, while Morocco's airline industry contracted by -29%. Additionally, the industry only reported 10% of layoffs, compared to over 40% worldwide.

Fitch has affirmed the long-term credit rating at BB+ with a stable outlook. The ratings agency has the view that Morocco will be able to meet its future financial obligations without much strain, having provided a stable macro throughout the crises.

Macro releases included (September stats):

- Inflation inched up to 8.3% y/y (Aug: 8.0%).
- FX reserves slid to USD 31.7bn (Aug: USD 33.7bn).
- The government expanded the 2022 Budget by USD 1.1bn.
- The World Bank projects Morocco's Economic growth at a stable +1.2% in 2022.

8.3% y/y	US$ 31.7bn	US$ +1.1bn	+1.2%
Inflation Rate	FX Reserves	2022 Budget	Economic Growth

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)

CIB (Egypt, Financials) 3q22 Results: Strong net revenue growth +31% y/y. NFI was up a solid +37% y/y, driven by trading income and fees and commissions. Interest income grew +26% y/y as yields rose. Cost of funds increased, so interest expenses grew +26% y/y. NII rose +25% y/y. NIMs expanded by 30 bps from 3q21 to 6.0%. Opex costs grew strongly +85% y/y. Management booked more impairments than the previous two quarters following the increased risks surrounding repayments and expected credit losses. PBT grew +19% y/y. In terms of the Balance Sheet, loan growth significantly lagged deposit growth. Deposits grew 2x from 3q21, and 16% q/q. While loans declined -3% y/y and were +4% q/q. CIB raised capital by issuing new shares in September. Management have highlighted the uncertain outlook following the rates increases coupled with the flexible exchange rate regime. The funding base is almost entirely customer-driven (95%) as opposed to wholesale in alignment with management's current risk appetite. CIB is trading at 5.3x P/E, 1.2x P/BV and a dividend yield of 4.7% for 2022.

Nestlé (Nigeria, Consumer staples) 3q22 Results: Overall weak results. Revenue growth +23.2% y/y, just above avg inflation at 20%, driven by prices. Segmentally, topline was driven by food (60% of revs) up +30% y/y, then beverages up +24% y/y. The gains were offset by inflation hitting COGS, up +33% y/y. GP margin was squeezed by 527bps to 33.4%. Negative operating leverage led to PBT decline of -19.6% y/y. Bottom line was boosted by lower effective tax, so PAT grew +4.6% y/y. The balance sheet is still strong, in a net cash position with positive FCF. Management declared an interim dividend of NGN 0.25. Nestlé is trading at 20x P/E, 10x EV/EBITDA and a dividend yield of 5.1% for 2022.

GTB (Nigeria, Financials) 3q22 Results: Muted performance, in alignment with their annual 3rd quarter dip. Net revenue growth +12.8% y/y, driven by NII. Interest income went up +23.7% y/y as yields rose. An increase in funding costs led to interest expense growth of +26% y/y. Despite this, NII up +23% y/y. NFI fell a disappointing -2.2% y/y on account of -59% y/y loss in Other Income. Trading income was strong +63% y/y, and net fees and commissions +22% y/y. Bottom line was helped by a significant reduction in impairments -86% y/y, while opex grew below inflation. PBT was up +13% y/y and PAT +10% y/y. Loans and deposits grew +6% and +9% respectively y/y. Both loans and deposits were flat q/q. GTB is trading at 2.5x P/E, 0.6x P/BV and a dividend yield of 19.8% for 2022.

Stanbic IBTC (Nigeria, Financials) 3q22 Results: Net revenue growth a solid +36.6% y/y, driven by NII and NFI. NII +38.8% y/y growth was on the back of higher yields. NFI grew +34.7% y/y, driven by +77% growth in net fees and commissions, and trading revenue up +27% y/y. Impairments significantly increased, and opex went up +24.0% y/y. PBT grew +40.6% y/y, and PAT +40.8% y/y. Loans grew a significant +37.0% y/y and deposits were up +7.3% y/y. Overall positive results. Stanbic IBTC is trading at 2.8x P/E, 0.6x P/BV and a dividend yield of 14% for 2022.

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. Moving from gas importer to exporter helped cushion the blow from lost tourism revenues and the CBE's sound monetary policies have kept the bond carry trade alive. 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.