AFRICA FINTECH OVERVIEW

Companies still churning out exceptional numbers

HPS (Morocco, IT) – 1H22 results update: An excellent set of numbers with revenues up 22.6%, EBITDA +40.5% and EPS +83.8%, giving a preview of the strong operating leverage this business can deliver. From a divisional perspective, the largest and most important division, Payments, grew by 35.7%. Switching, which will recover with the recovery in tourism and the HORECA segment, only grew 9.3%. In terms of outlook, new business won during the period, saw the backlog grow 35% to MAD 779m, which represents 94% of annualised revenue. This is a significant development, as it typically only represents 50% of annual revenue. Additionally, 62% of the backlog is recurring revenue. The company is required to be discreet about the names of some of its clients, but it is worth noting that new business is coming from one of the largest banks in the world as well as another bank, which is one of the largest in Asia. The services and software HPS provide to its clients are business critical, so it speaks volumes about HPS that some of the largest banks globally are signing them up.

DPO (Pan African, owned by listed Network International NETW LN): 1H Total Processed Volume (TPV) grew 27% y/y to USD 2.1 billion, or 33% in constant FX; whilst revenue increased 23% y/y to USD 15.2 million, or 29% in constant FX. Trading volumes accelerated as we moved through the period, with Q2 revenue up 35% y/y in constant FX, compared with the Q1 up 22% y/y in constant FX. Take rates also increased in the latter half of the H1, following an improvement in the mix of services; and DPO demonstrated strong margin leverage, with H1 EBITDA growth of 65% y/y in constant FX. DPO secured several new key merchants including Dischem Baby City, Europcar and Pernod Ricard. The wins and improving trading performance were supported by marketing channel developments which have accelerated new merchant acquisitions and the introduction of real-time onboarding in 18 countries outside of South Africa. DPO also added new payment methods, rolling out Airtel money in a further three markets and enabling account-to-account payment for all DPO merchants in South Africa and Nigeria.

ECONOMIC AND POLITICAL OVERVIEW

NIGERIA

The Central Bank of Nigeria (CBN)'s Monetary Policy Committee (MPC) hiked rates by a material 150bps to 15.5%. This is a 400bp increase since the beginning of the year, following hikes in May and July in an attempt to curb inflation which continues to inch upwards m/m. This increases the likelihood of yet another increase at the next November meeting. The World Bank, however, has warned that continual rate hikes could trigger a recession.

Additionally, the MPC raised the cash reserve requirement for banks considerably, up 500bps to 32.5% as a means of mopping up liquidity.

Latest data from Nigeria's Inter-Bank Settlement system (NIBSS) shows robust growth in the overall value of e-transactions in August, up +50% y/y to NGN 33.5trn (c. USD 77.5bn). This growth correlates with the growing mobile penetration, particularly 4G broadband networks. All e-channels showed significant growth, and NIBSS typically represents 80-90% of e-payment transactions.

August's data includes:

- Mobile channels grew +156% y/y to NGN 1.8trn (USD 4.2bn)
- POS channels grew +41% y/y to NGN 711bn (USD 1.6bn)
- E-bills pay platform went up +36% y/y to NGN 263bn (USD 609m)
- Cheque payments were unsurprisingly flat as consumers opted for mobile channels

Notably, on a cumulative basis, Jan-Aug data shows growth of +42% y/y to NGN 238.7trn (USD 552bn) processed through the NIBSS Instant Payment platform.

+156% y/y	+41% y/y	+36% y/y
Mobile Channels	POS Channels	E-bills Pay Platform

Macro releases included (August stats):

- Inflation rose to 20.5% y/y (Jul: 19.6%).
- FX reserves were USD 39.0bn (Jul: USD 39.2bn).
- PMI slipped to 52.3 (Jul: 53.2) but rose to 53.7 in August.
- M3 growth was 20.5% y/y (Jul: 21.5%).
- Private sector credit growth was 20.2% y/y (Jul: 21.3%).
- POS transactions have increased +39% y/y to NGN 8.0trn (c.USD 19bn).
- Active mobile lines increased by 1.3% m/m to 209m at end-July, a mobile penetration rate of 105%.
- Internet connections improved +0.7% m/m to 152m as at end-July, an internet penetration rate of 76%.
- Broadband penetration rose to 44.5% in July, up from 39.8% in July 2021.
- Total public debt, including domestic and external debt of the Federal Government, reached 23.1% of GDP in 2q22 (1q22: 23.3%).
- Trade Balance surplus of NGN 1.97trn (USD 4.6bn) in 2q22, from NGN 327bn (USD 760m) in 2q21 due to higher oil prices and an increase in oil exports.

20.5% y/y	US$ 39.0bn	52.3	20.5% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

EGYPT

In a positive move, the Ministry of Trade and Industry is finally permitting the export of several staple food items following a 6m ban. Wheat, flour, lentils, oils, pasta and fava beans had been banned for export since March in response to the Ukraine crisis. Additionally, the government is looking to increase exports, which grew +58% y/y in 9m22 – targeting USD 100bn in exports by 2025. The country is currently facing import issues and production shortages, exacerbated by global supply chain pressures.

Macro releases (August stats):

- Inflation climbed to 14.6% y/y (Jul: 13.6%).
- FX reserves were flat at USD 33.2bn.
- PMI was 47.6 (Jul: 46.4).
- M2 grew +24.0% y/y (Jul: 23.7%).
- The Central Bank of Egypt (CBE) maintained policy rates, keeping the lending rate at 12.25%.
- Tourist arrivals reached 4.9m in 1H22, up +85% y/y off a soft base.

14.6% y/y	US$ 33.2bn	47.6	24.0% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

KENYA

The new President is making his mark. He has held several publicised discussions and met with the Central Bank of Kenya (CBK), Safaricom and banks about loans, charges and transfer limits. He also announced his new cabinet this month with Mr. Ndung'u, former CBK Governor, as the new Secretary of the National Treasury and Planning. While Ndung'u was credited for pushing financial inclusion and expanding the financial sector, there are concerns about his ability to push Ruto's agenda while dealing with the country's debt sustainability.

President Ruto has permitted the removal of fuel subsidies to align with the IMF's recommendation to eliminate subsidies by October. This is in direct opposition to Kenyatta's administration which accommodated fuel subsidies, reacting to public outcry. In September alone, the cost of diesel increased by +18%, kerosene by +16% and gas by +13%. This effectively means subsidies remain for diesel and kerosene only, likely to be removed in the next month. Consumers using 100kWh are charged KES 25.3 per kWh. To put this in perspective, where KES 1000 (c.USD 10) used to buy 45.7units of power, it now covers a mere 39.5 units incorporating increased pass-through costs.

The National Treasury published a draft Budget Review for 2022 for comment. In it, 2022 GDP is forecast at 5.5%. This is expected to be in alignment with the third phase of the economic stimulus programme. Fiscal debt is forecast to reach -3.2% of GDP by FY25/26, down from -6.2% of GDP in FY21/22. We see risks of slippage, as historically guidance has been ambitious and fiscal consolidation slower than anticipated.

Macro releases included (August stats):

- Inflation was 8.5% y/y (Jul: 8.3%) and rose to 9.2% y/y in September.
- FX reserves were USD 7.4bn (Jul: USD 7.7bn).
- PMI was 44.2 (Jul: 46.3).
- Remittance inflows were USD 310.5m, -0.8% y/y.
- Tourists were up +91.4% y/y to 924 812, with a forecast of 1.5m people by year-end. This estimation undershoots pre-pandemic tourism numbers.
- Current account deficit reached -5.1% of GDP in July (May: -5.3% of GDP), aided by remittances and recovering tourism.
- CBK raised rates by 75bps to 8.25%.
- The World Bank has reduced Kenya's 2022 growth outlook to 5% (Prev: 5.5%).

8.5% y/y	US$ 7.4bn	44.2	-0.8% y/y
Inflation Rate	FX Reserves	PMI	Remittance Inflows

MOROCCO

The Central Ban k of Morocco, Bank Al-Maghrib, followed its African peers and hiked rates by 50bps to 2.0%. This came as a surprise to the market, after keeping rates stable for so long – the last adjustment was a 75bp trim to cope with the pandemic in 1H20. The bank highlighted materially higher inflation in 2022, with some moderation expected in 2023. Furthermore, a slowing down of the overall economy is expected at 0.8% as declines are forecasted for both agricultural and non-agricultural activities.

Macro releases (August stats):

- Inflation reached 8.0% y/y (Jul: 7.7%).
- FX reserves were USD 32.4 (Jul: USD 33.0bn), 4.8m import cover.
- Tourism revenues are almost at pre-pandemic levels, standing at MAD 36.7bn end-July.
- Remittances grew +11.3% y/y to MAD 71.4bn (USD 6.5bn).
- Trade deficit expanded +56% y/y to MAD 215bn.

8.0% y/y	US$ 32.4bn	+11.3% y/y	+56% y/y
Inflation Rate	FX Reserves	Remittances	Trade Deficit

COMPANY UPDATES

Key to brackets: (country, industry, weighting)

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Label Vie (Morocco, Consumer staples) – 1H22 results update: A strong set of results with revenues up 16%, EBITDA +20% and EPS + 37%. Growth was assisted by six new store openings in the first half, with like-for-like revenue growth of 9% being achieved. In terms of outlook, the group intends to add an additional 12 stores in the second half of the year. The strong performance in EPS over and above EBITDA operating leverage, was the recovery in associate earnings from its investment in the listed REIT, Aradei Capital. We expect a strong second half, driven by a tourism driven recovery in the HORECA segment.

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.