

Africa Fintech Overview

Portfolio – YTD performance has been very strong, however September was a weak month as two key positions in Egypt, Fawry and MM Group, experienced sharp pullbacks, 13% and 14% respectively. After incredibly strong starts to the year, there was an element of profit taking, which was further exacerbated by local investors selling to participate in the part privatization and IPO of state owned E-Finance, a G2G Fintech in Egypt. We expect good Q3 results for Fawry and MM Group as well as improved share price performances as the IPO works its way through the system. Other positions, Safaricom, Equity Group and Network International, pulled back after strong rallies in August.

Operating Statistics - In terms of operating stats released, E-Payments in Nigeria increased 85% y/y in the eight months to August 2021. Cash managed by agents in Kenya increased 45% in the eight months to August 2021, while the number of agents in Kenya grew 21% to 305k. In Egypt, remittances from Egyptians abroad grew 13% for the fiscal year to June 2021 and now stand at USD 32bn. This is important, as remittances, for Egypt and the whole of Africa, is a huge potential market for Fintech to serve and disrupt.

Recent news and deal flow - Investments into the African tech ecosystem are at all-time highs. YTD, African tech start-ups have raised \$2.2bn across 452 deals, which is more than double what was raised in August 2020 YTD and already 31% higher than what was raised in all of 2020. Nigeria tops the list, with \$952mn raised across 107 transactions YTD, **while Fintech is the most active sector in Africa, attracting \$1.25bn YTD.**

- MNT-Halan, recently announced a \$120mn PE/VC-led raise. The company offers digital payments, business/consumer lending and logistics via an offline and online strategy. It is a classic super-app with strong hooks in lending and ride-hailing with significant scope to offer/accelerate other high growth digital services (including e-commerce) on its platforms as it scales across the region.
- Wave, a Francophone Africa-based mobile money provider, recently completed its Series A round, raising \$200mn at a \$1.7bn valuation. Led by Sequoia Heritage, Stripe, Founders Fund and Ribbit Capital, the round is the largest of its kind in Francophone Africa, and for a Series A round in Africa.

In addition to the massive vote of confidence in African Fintech these deals bring, they also build the pipeline of future IPO's, which is important for increasing our universe and deepening our markets.

Africa Economic and Political Overview

Nigeria – The Central Bank of Nigeria's (CBN) eNaira went live ahead of the official launch date, 1 October. It is a digitally-issued currency by the central bank denominated in naira which the government believes will offer better retail payment options. Customers will be able to transfer funds between bank accounts and eNaira wallets, check balances, and make in-store payments using QR codes.

4.68m citizens have been vaccinated. The government expects c.55m vaccine doses by April 2022, supported by USD 400m received from the World Bank for vaccines. Further, the World Bank announced that 40 countries may not return to

pre-COVID GDP levels by 2026, including Nigeria. The report states that Nigeria will likely experience <20% fall in government revenue per capita following the pandemic.

A new national broadband plan has been announced for 2020-2025, targeting 70% broadband penetration by 2025. As at end-July, broadband penetration was 40%. Additionally, 5G has been approved for deployment nationwide next year.

Macro releases included (August stats):

- Inflation slowed to 17.0% y/y (Jul: 17.4%).
- FX reserves grew to USD 34.02bn (Jul: USD 33.4bn), and continued trending upwards reaching USD 36.1bn on 24 September.
- PMI slowed to 52.2 (Jul: 55.4).
- M3 growth was 13.2% y/y (Jul: 8.1%).
- Private sector credit growth was 9.8% y/y (Jul: 8.8%).
- E-payment transaction value grew by +85.5% y/y to NGN 172trn (USD 418bn).
- AUM of the pension industry grew by +13.0% y/y to NGN 12.8trn (USD 31.1bn) at end-July.
- The National Bureau of Statistics published that >20% of the population lost their jobs in 2020.

Egypt – GDP grew +7.7% in 2q21 (2q20: -1.7%, 1q21: +2.9%), a positive surprise showing a stronger-than-expected recovery.

Egypt's vaccination figures confirm that 13m citizens have received at least one dose and 3m are fully vaccinated. This is expected to accelerate in the coming months as the government focuses on the education sector and institutes movement restrictions for the unvaccinated in the next 2m. 1,100 centres are being set up for university student vaccinations. Egypt is participating in 2 clinical trials of the COVID-19 drug Molnupiravir, an oral antiviral treatment.

The Central Bank of Egypt (CBE) has granted licenses to allow merchants to accept contactless payments from mobile phones. It is still unclear as to when the system will be running and how licenses will be distributed. As part of the drive for financial inclusion, Egypt has launched a pilot of a new e-receipt system for consumers at POS's. Further, a unified electronic tax portal was launched in Cairo this month, with Phase 2 nationwide rollout targeted for June 2022.

Macro releases (August stats):

- Inflation was 5.7% y/y (Jul: 5.5%).
- FX reserves were USD 40.68bn (Jul: USD 40.62bn).
- PMI was 49.8 (Jul: 49.1).
- Remittances grew 13.2% y/y to USD 31.4bn in FY20/21 at end-June. 2q21 remittances rose 29.6% y/y.
- Egypt has been removed from the red list which led to a holiday booking boom of 200% over the first 24 hours through primary booking agents.

Kenya – Kenya's GDP has been rebased with 2016 as the base year, showing a growth of +1.2% y/y in 4q20 (3q20: -1.1%). This brings 2020 GDP to -0.3%. 2021 growth is expected to be 4.4% according to the S&P, and 7.6% according to the IMF. The Kenya National Bureau of Statistics (KNBS) projects 6% growth for 2021 boosted by the manufacturing sector.

Economic recovery is ongoing, as cash managed by mobile money agents grew +44.7% in the first 8m of this year to KES 4.44trn (USD 40.2bn). The number of times of withdrawal and deposits grew by 20.8%. Overall active agents split between M-Pesa, Airtel and T-Kash have increased by +21% to 304,822 (August 2020: 252,703).

The first batch of Pfizer donations arrived this month to accelerate the vaccine rollout. Kenya is in partnership with pharmaceutical firms to begin manufacture of COVID-19 vaccines locally, with a fully-fledged local plant anticipated by 2024.

Macro releases included (August stats):

- Inflation grew to 6.6% y/y (Jul: 6.4%).
- FX reserves declined to USD 8.99bn (Jul: USD 9.34bn).
- PMI was 51.1 (Jul: 50.6).

Morocco – Morocco held its local, regional, and parliamentary elections simultaneously. The party 'Rassemblement National des Independents' (RNI) won, with the former leading Islamic party PJD only getting 12 of 395 seats (3%). Voter turnout was good at 50.2% (2016: 42.2%) and the result positive overall.

Morocco's GDP was +15.2% y/y in 2q21 (2q20: 14.2%). Agriculture grew strongly at +18.6% y/y growth, while the non-agricultural economy grew +14.8% y/y. The government expects 2021 growth to be +5.8%.

The banking industry grew 1.6% y/y in outstanding loans in August, as debtors and overdrafts grew +8% y/y. Real estate loans grew +3.6% y/y and mortgages were up +6.7% y/y while loans declined -10.9% y/y. NPLs grew +8.2% y/y.

Macro releases (August stats):

- 0% inflation, down from 2.2% in July.
- FX reserves were USD 34.1bn (Jul: USD 35.3bn).
- Tourism revenues increased +90.1% y/y in June and July, off a low base in 2020. Essentially this is a +15.2% y/y increase in June which is more comparable, vs a +144% y/y increase in July. Overnight stays were over 689,000 vs 49,000 last year.
- Morocco has begun a vaccine rollout for younger members of society, focused on 12-17 year olds.

Company updates

IDH (Egypt, Healthcare) 1H21 results update: This was a spectacular set of results on just about any measure, and despite base effect. Revenues were up 141%, EBITDA +227% and EPS +283%. Free cash flow was up 481%, with almost EGP 1bn in net cash as at June (EGP550m after July dividend payment). The first half of 2020 was extremely weak, so if I switch the base to the second half of 2020, then revenues still grew 34%. While a big chunk of the outperformance is PCR and other Covid related testing, conventional testing still grew 38%, as the company adapted quickly to house calls. Jordan, the largest subsidiary outside of Egypt (14% of revs), grew revenues by 176%. New ventures like Al Borg Scan (radiology) and Nigeria, grew strongly in the period. In terms of outlook, management get asked on every call and in every meeting, when Covid related testing will slow down. With a relatively low vaccination rate and tourism set to rebound over the next 12 months, they do not see an imminent slowdown. They also believe a lot of their customers have been delaying all but the absolutely necessary non-Covid tests, so this area should bounce back if Covid recedes.

MTI (Egypt, Consumer discretionary) – 1h21 results update: The company is showing a nice recovery, with revenues +11.4%, EBITDA +17.8% and PAT +15.8%. Within this the consumer electronics division (64% of revs), saw 8.3% revenue growth, with mobile phone sales down 3% on no new launches from Huawei, but home appliances +52%. They are expecting a strong recovery in 4q in phone sales on a stronger consumer and new product launches. The second largest division, Auto, saw revenues up 36% (20% price and 16% volume), which also talks to a robust high end consumer in Egypt. In terms of the Payments subsidiary, Ebtikar, information is still very light, but they did confirm it is starting to contribute positively to profits.

HPS (Morocco, IT) – 1H21 trading update: HPS continues to see a recovery in its revenues with overall revenues growing by 7.9%, within which, recurring revenues were up 19.2%. The Processing division (Morocco switch and Saas), which makes up 25% of revenues, grew 26.5%. The Solutions division, which makes up 62% of revenues and where software is sold by license and requires a more hands-on involvement, saw revenues down 4.7%. The Services business, which is more general consulting and relies on France particularly, recovered slightly, but revenues were still down 7.7%. HPS is a business that has put on a brave face during Covid related restrictions, but is really not suited to this environment. Increased vaccinations and tourism should see a much stronger 2022. At 5.8x 2021 revenues, HPS remains attractively valued relative to its international peers, which range from 6-8x.

Label Vie (Morocco, Consumer staples) – 1H21 results update: Solid results, with very strong outlook. Revenues were down 1% vs 2020, which was expected due to the surge in March to May of last year. Compared to 2019, they were +14%. EBITDA was +2% and +19% vs 2019. Interestingly Gross Profit grew 5% as margins ticked up from 18.4% to 19.6%, due to platform mix. Atacadao (Hypercash), the wholesale cash n carry format, with high volumes but lower margins, suffered as both HORECA and the mom n pops were restricted under Covid. However, supermarkets (like 7/11 or mini mart format) fared better. EPS was down 6%, mostly as a result of lower dividends from Aradei, the now 43% owned listed REIT as well as higher interest costs from a re-ignited store roll out plan. Re-ignited is an understatement as management are not just making up for lost time in 2020, they have decided to accelerate their store roll out plan. 11 new stores were opened in the first half and they intend to open 18 new ones in the second half, which brings the 2021 total to a whopping 29, with 27 supermarkets, 1 Hypermarket and 1 Hypercash. 6 new stores have already been opened in July and August so far. This compares to 12 openings in 2019 and 5 in 2020. We view this acceleration and bold move by management as very positive. We trust management, the opportunity is there (formal retail now 18%), the business is well funded, 70% of adults are vaccinated, politics is positive and tourists will return. The fourth quarter of 2021 and full year of 2022 should be very strong and a return to offices will provide a boost from Aradei in both valuation and dividend income. Valuation is quite rich at 12x 2021 EBITDA, but this will unwind rapidly.

Stanbic IBTC (Nigeria, Financials) 1H21 results PBT declined by -53% y/y driven by the combination of lower yields and a 80% decline in trading income. The wealth management business is still growing strongly and should again grow between 15-20% for the full year and provides a counterpoint to the weak margins and trading book. We fundamentally like the business model and remain optimistic it can trade through short-term issues related to a weak operating environment.

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. Most importantly the free flow and float of the Naira. 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. While travel restrictions and lockdowns have hit Egypt hard, the exceptional progress made under the IMF program from 2017 to 2020 has by no means been derailed. 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 98% 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 formalization and increased government revenue through widening of the tax net. **Morocco** – Morocco’s key economic drivers are mining, agriculture and tourism. Strong commodity prices and a good rainy season should help to offset weakness from tourism. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail and fintech. **Kenya** – Kenya will miss its key tourist season of July-August, owing to travel restrictions. Some support will be provided by a good agriculture season and high soft commodity prices, where Kenya is a large exporter of tea, coffee, flowers and vegetables. Overall we are satisfied by the performance of our financial inclusion focus here and expect growth to be steady. **Mauritius** – Mauritius remains very dependent on the timing of large scale tourism recovery. Unless tourism comes back strongly in the peak December 2021 season, the macro and MCB will be under pressure. **Vaccine roll-out** – As a general comment, vaccine roll out will play an important role in the timing and pace of the recovery, particularly in sectors like tourism. With the exception of Morocco, this has been slow, however it has started to speed up in 2H21. **Bilateral funding, donor support** – Fortunately most countries have constructive relationships with the IMF/other, who are all continuing and even increasing their support and relief programs.