



African Intelligence Report

Edition	Monthly
Region	Africa
Date	May 2015
Issued by	Imara Asset Management Limited

Sub-Saharan Africa

The past month saw a mixed month for regional equity prices. Nigerian equities continued to recover post the elections - previously discussed in last month's report - Egyptian share prices, however, sold down on profit taking, declining by 5%. Among currencies, the US Dollar was weaker relative to a number of local currencies; notable gains were the Mauritian Rupee (+5.3%) and the Botswana Pula and Zambian Kwacha both of which gained 2%. The Nigerian Naira was stable but, interestingly, the Kenya Shilling - which has been firm against other African currencies, and the Euro, for over a year - depreciated by 2.5%. Import cover is under 4.5 months and falling. The MSCI Africa Ex SA Index rose by 2.2%, largely driven by Nigeria. Africa couldn't compete with the MSCI Emerging Market Index, which rose by a "whopping" 7.5%, driven by significant increases in Latin America, Eastern Europe and China. Only Nigeria and South Africa came close.

There has been very little discussion since the Nigerian elections as to what the new President will focus upon once he comes to power at the end of this month. It has been interesting that the Boko Haram "issue" has dropped from the headlines, indicating, on the one hand, that they may have been defeated militarily but the suspicion is that the terrorist attacks were politically motivated, which may also have some credence. Attacks by the Nigerian military on their stronghold have resulted in many women and children hostages being released. The bounce back in the oil price has been helpful to Nigeria but we believe that a 'cleaning up' of the National Oil Company by the new Government could add significantly to Government revenues and perhaps more so than the oil price!

We have had some Q.1 numbers reported in Nigeria, however we would not put too much emphasis on these given the run up to the elections, which were delayed from the end of January. Nigerian Breweries announced an 11% decline in Q.1 revenues on a like-for-like basis post their acquisition of Consolidated Breweries. In a webcast conference call (technology is changing investor relations across Africa!) the management updated investors, suggesting that the decline will be recoverable and was due to a lack of supply rather than demand and due to consolidation of the two companies post the acquisition. They therefore expect volumes to recover from Q.1 levels. Further cost cutting remains successful and ongoing given the synergies that are being extracted post the merger. Capex will remain below normal as they still have sufficient capacity on hand once demand recovers. Demand has remained the same since the election but, with the new Government in place from the end of this month and a re-opening of the Northern markets, especially the North East, post Boko Haram, we hope to

see this changing for the better. Interestingly, Guinness reported revenues up 17% on the back of a successful new product launch, currently being countered by Nigerian Breweries. Profits were also up 90% in the quarter year on year suggesting that Guinness may have at last turned the corner.

Nigeria

The MSCI Nigeria Index rose by 8.8% over the month while the Naira was stable at around N200/US\$1.00. The various stock market indices are now tracking changes in the crude oil price fairly closely.

The political scene has been surprisingly quiet since the Presidential and State elections. The military seem to be making progress in the fight against Boko Haram; the Senate passed a new version of the Budget for 2015, based on US\$50 per barrel of oil (down US\$2/barrel from the previous version) and Goodluck Jonathan released the PwC audit of the NNPC, Nigeria's oil company. This report called for the law surrounding the NNPC to be reviewed urgently, as the current structure allows the NNPC to spend money without limit or control. PwC also stated that it couldn't really audit the company based on the poor data available; but reports in the FT suggest that approximately half the proceeds of crude oil sales are spent before they reach the Treasury. Plugging these leaks will (needless to say) be the focus of President-elect Buhari; following the report Godwin Emefiele, the Central Bank Governor, suggested Nigeria should sell down its joint venture stakes in Nigeria's oil fields - which would raise roughly US\$75bn (but Nigeria would need to increase taxes to maintain revenues). This is a good idea but tough politically; the NNPC has been unable to fund its share of capex, which has delayed the development of Nigeria's oil patch significantly over the years; but it is also at the centre of the spider's web of corruption.

Mr Dangote has been in the news: firstly with an announcement that Dangote Cement (Market Cap: US\$15bn) will list in London next year, as governance issues are finally sorted (e.g. the composition of the board) and secondly to announce plans to fund two 550km sub-sea gas pipelines at a cost of US\$2.5bn in conjunction with various well-known private equity houses and the IFC. Most gas in Nigeria is "flared" because there is no infrastructure to move it to an end-user. The volume of gas used could rise by a factor of four to 4bn cuft/day, as 70% of Nigeria's power plants are gas fired. Nigeria's gas reserves - at 180tr cuft - are some of the largest and cheapest in the world.



A number of corporates announced quarterly results during the month; Bank results were better than for Domestic Consumption stocks, which were generally poor, however, it is hard not to think that all the bad news is discounted and that any strong anti-corruption moves against the NNPC will be positively received by the stock market. Nigerian Breweries (NB), in their results conference call, effectively described a perfect storm for equities and earnings: a third year of slow growth; unequal income distribution; limited pricing power; a collapse of oil prices; high interest rates; devaluation; election anxiety; the delayed payment of wages to civil servants in many states; capital flight by foreign investors fearing higher US interest rates and a 33% market correction.

Zenith Bank reported better than expected results with PAT up 27%. Loan growth was +45% vs. deposits +17%, possibly reflecting the devaluation on US Dollar denominated loans to the oil sector. Importantly, in our view, fee income and commissions rose by 40% YOY and now represents 42.8% of income vs. 33% a year ago. GT Bank's results were (unsurprisingly) in line with expectations following only recent guidance; PAT rose by +32% YOY with fee income rising +26%. StanbicBTC reported PAT -38.9% as improvement in the retail bank stalled; guidance is for the net interest margin to narrow by 1% in 2015 and for ROE to fall by around 5% points to 20-23%. Guinness reported sales up +8.6% YOY for the nine months to March thanks to the success of "Orijin" in the value space; however its success does mean that it is now starting to attract competition - like Ace Roots from NB. EPS fell by 12%, which was better than expected, as the gross margin remained stable despite the devaluation, as 70% of raw materials are now sourced locally. The EV/EBITDA ratio for 2016 is 9.6x, which compares to NB's 8.8x. NB itself reported Q.1 sales up 1.4% and PAT up 0.4%. Volume fell in "high single digits" according to Heineken. Unilever reported sales up 7.8% but PAT down 21.3%; margins were up slightly but interest charges to finance working capital were higher. Nestlé's results were poor and sales fell 17.6% (after a sharp rise the quarter before) whilst PAT fell 51% YOY. Despite this, the share price rose by +11% during the month.

Zimbabwe

April saw a decline of 1.2% in the ZSE Industrial Index. The only blue chip share to put in a positive performance was Innscor, which gained 7%. Barclays, BAT and Delta were unchanged. BAT, however, paid a dividend in April equivalent to 4% of the share price which did not adjust on ex dividend date. Econet and Seed Co were down by 2% and 8% respectively. Volumes remain elusive in this environment with little domestic or foreign activity in the stock market outside of certain special bargains. The ZSE

Index is now down by 4% YTD, which compares favourably with other African stock markets: Egypt is down by 8%, Mauritius by 14%, Zambia by 16% and Nigeria by 8% all in US Dollar terms. Much of these US dollar declines are as a result of currency devaluation against the US Dollar which, of course, is no longer an issue for Zimbabwe.

There was little corporate news in April, with most results having been released by the end of the Q.1. The traditional long school Easter holidays, in addition, meant that many investors were away. On April 18th, Zimbabwe celebrated the 35th anniversary of its Independence from Britain, in torrential rain - which was somewhat unusual for this time of year. We noted President Mugabe's comments on the recent announcement by the Minister of Finance that civil servants' bonuses would be frozen for two years. This is clearly very necessary, as Government simply does not have sufficient funds to pay the civil service salaries each month, let alone a bonus; indeed, most Government revenues are swallowed up by civil service salaries, leaving very little for any other form of Government spending. Far from supporting his Minister however, he angrily reversed the proposed policy in his Independence speech suggesting that these measures had not been approved by Cabinet. Bonuses are not due until December so anything can happen before then, but the reality remains that the civil service wage bill has to be cut either by cutting salaries or reducing the civil service itself. Either that or Government revenues somehow need to rise which, in a stagnant economy seems unlikely.

Zimbabwe hosted the SADC Summit in Harare at the end of the month. We have to believe that SADC itself provided much-needed funds for many of the main highways to be resurfaced and street lights installed in recent weeks! The recently completed dual highway airport road is very smart with solar streetlights in place - with sunny skies and power cuts, solar lights are the future for Africa!

East Africa

The US Dollar rose on the back of positive US home sales data, lifting expectations that the US Federal Reserve may soon hike interest rates; the result of this was that all of the regional currencies - except for the Mauritian Rupee, which strengthened by 5.7% - weakened against the USD; the Kenya Shilling, Uganda Shilling and Rwandese Franc declined by 2.4%, 1.1% and 0.8% respectively.

Owing to slower growth in the Agriculture, Manufacturing and Wholesale & Retail Trade sectors, Kenya's GDP growth in 2014 slowed down to 5.3%, from 5.7% in 2013. Unfavourable weather conditions accounted for the reduced growth in the Agriculture sector. Tourism was severely affected by security concerns, negative travel

advisories and the Ebola scare, with international arrivals contracting by 11.1%, while tourism earnings dropped by 7.3%. There was accelerated growth in the Building & Construction sector, up by 13.1% in 2014 from 5.8% in 2013, due to higher budgetary allocations to construction of roads & railways and rehabilitation of the existing road network. Pointedly, cement consumption increased by 21.8% in 2014 to 5.2 million tonnes. Meanwhile, petroleum import volumes increased by 12.5%, to 4.5 million tonnes, resulting in a 5.6% increase in the import bill.

Kenya's economy remains heavily reliant on the rain-fed Agriculture sector, implying vulnerability to unfavourable weather conditions, as reflected by current inflationary trends. Annual headline inflation increased for the third consecutive month to 7.08%, mainly due to a rise in food prices; the Central Bank's Monetary Policy Committee (MPC), meanwhile, retained the policy rate at 8.5%, signalling its priority to maintain interest rates at current levels and downplaying concerns about rising inflation and the depreciating Shilling.

At the Nairobi Securities Exchange (NSE), profit-taking and foreign investor portfolio outflows, likely targeting the Nigerian market, saw the FTSE NSE 15 and FTSE NSE 25 indices drop by 3.6% and 3.7% respectively, both in USD terms. Corporate earnings continued to reflect the robustness of companies in a highly dynamic business environment. Safaricom reported strong FY.14 results, with growth in total revenue (+13%), EBITDA (+17%), Net Income (+38%) and Free Cash Flow (+21%). The company successfully completed migration of the M-Pesa mobile money platform from Germany to Kenya, while simultaneously upgrading the systems to facilitate more transactions at higher speeds, improved stability and added functionality. More products and services are expected to be available on the platform, with faster resolution of system outages due to local technical support. In the Banking sector, Q1.15 EPS numbers were: Co-op Bank (+29%) backed by 21% growth in net interest income; KCB (+12%) driven by increased interest and transaction-based income; Equity Bank (+11%) supported by increased lending and higher transactional income and NIC (+5.4%).

Headline inflation in Uganda increased in April for the third consecutive month, to 3.6% compared to 1.9% in March, driven by a 4.6% increase in core inflation. Earlier in the month, the Bank of Uganda (BoU) raised its policy rate to 12% from 11%, on account of economic risks from a higher inflation rate and persistent depreciation of the Uganda Shilling. The BoU reported that the balance of payments was a source of weakness for the economy, which had resulted in pressure on the currency in the previous three months. The current deficit remains large and is likely to be in the region of 8.5% of the GDP in FY14/15, despite

savings on the import bill owing to low oil prices, whereas financial account inflows have weakened. The BoU forecasts that core inflation should rise to around 5% by midyear and - in the absence of adjustments to the monetary policy stance - to 7-9% by June 2016.

The Bank of Mauritius revoked the licence of Bramer Banking Corporation Ltd (BBCL) and appointed PwC as liquidators. This action - according to the country's Prime Minister, Sir Anerood Jugnauth - followed allegations that the bank was running a US\$693mn Ponzi scheme. Earlier in the year, the regulator had conducted an onsite audit that uncovered several deficiencies. The bank had been experiencing a "run", which placed it in a precarious liquidity situation, worsened by difficulties faced in raising funds on the interbank market. In the light of the systemic risk posed by the revocation of BBCL's licence, the Financial Services Commission appointed PwC as conservator for insurer BAI Co. (Mtius) Ltd, to safeguard the interests of policy-holders. The scandal caused ripples in Kenya due to the relationship between some of the BBCL directors and the NSE-listed British-American Investments Co (Kenya) Ltd (Britam). One of Britam's largest shareholders, British-American (Kenya) Holdings (with a 23.34% stake) was related to BAI, with common directorships between Britam, BAI and Bramer Bank, all of which have subsequently been terminated. Britam later clarified that it had no financial exposure to the crisis in Mauritius, emphasising regulatory restrictions on offshore investments.

I&M Bank Rwanda plans to have an Initial Public Offering (IPO) in 2015, which follows the Rwandese Government's commitment to sell its 19.8% stake through the IPO as part of developing the capital markets. Post-IPO, I&M Bank Rwanda will become Rwanda's 4th listed bank and the only publicly traded subsidiary of the holding company listed on the NSE. I&M Holding Company plans to maintain its 55.0% stake in the subsidiary. It remains unclear whether the other shareholders - including Proparco and DEG (each holding a 12.5% stake) - will also be selling their stake.

Resources

The MSCI World Commodity Index rose by 8.4% over the past month, boosted by the positive news on jobs data from the US, which eased concerns of a Fed hike in interest rates, led to some US Dollar weakness, saw a 6% rally in the oil price and witnessed bargain hunters returning to the market, believing that resource stocks are oversold.

But... back to reality, another month has come and gone and China still holds centre stage as regards commodities. By the end of April, the 33 listed Chinese steelmakers had

reported their 2014 annual results. Fourteen reported higher net profits with the balance reporting a fall in profits. Analyst commentary out of China indicates that many steelmakers are simply high cost and do not have an adequate range of competitive steel products. Our sense is that the overriding issue is debt: according to Mysteel the aggregate debt of the 33 listed companies is Y1.02tn, which compares to total assets of Y1.55tn - a debt: asset ratio of 66%. Put into perspective, the net annual finance cost for these 33 companies was Y25.2bn versus net profits of only Y7.8bn. Just maybe the world is asking too much of the Chinese steelmakers!

Also worth noting: the resource based Australian economy is showing strain. Slowing economic growth, unemployment above 6 per cent, benign inflation, collapsing iron ore and coking coal prices saw the RBA lower the benchmark cash rate by 25 basis points to a record-low 2 per cent. This rate change is effective from 6 May 2015.

Coal players around the world are also struggling. In Mozambique the Benga Mine is bleeding US\$7.5m / month, net of VAT, due to high logistical costs and only being able sell the coking coal portion (35%) of its total production. In the US, Wood Mackenzie estimates that 17% of coal output is at risk of closure this year as costs exceed current coal prices.

Corporate news of note included the following:

Tiger Resources has announced that it has appointed Standard Bank and RMB to restructure its debt and to arrange project finance to double the planned capacity of the SXEW plant to 50ktpa of copper. This should greatly alleviate the markets concern about the existing debt repayment terms. A further positive is that Tiger is now classified as a Mining Producer by the ASX.

Zimplats increased tonnes milled and PGMs in concentrate by 9% and 8% respectively, in the March quarter. The increased production came from a new open pit and the re-development of the Bimha Mine following a massive fall of ground last year. This resulted in a turnaround from an operating loss of US\$20.5m last quarter to a profit after royalties of US\$6.8m. Further progress is expected over the coming months. On the tax front, the High Court ruled favourably that the lower royalty of 2.5% applies to the operating mines. In the Additional Tax Profits (APT) dispute, the Special Court ruled that assessed losses brought forward are not deductible in calculating ATP. Both of these judgements cover the period 2004 - 2014. Management has not indicated what the net effect of these two contra-judgements will be. The company reports that it continues to engage with the authorities on the Indigenisation Implementation Plan.

Ahead of its March quarter results, Moroccan based Maya Gold & Silver reports that it produced 35,912 ounces of silver from 4,370t with an average grade of 308g/t in the month of March. This represents a record since the Zgounder Silver Mine was reopened under Maya management. The successful build up in production and recoveries achieved have prompted management to raise US\$1.2m to specifically explore the lateral extensions of the deposit to the north and east of the current workings.

Kumba Iron Ore reported a 4% fall in iron ore produced to 8.9mt at its Sishen Mine over the previous quarter. The Sishen Mine remains on track to produce 36mt in 2015. At the newer Kolamela Mine, 3mt of iron ore was produced, which means that the 2015 capacity target of 11mtpa will probably be exceeded. Export sales fell 2% to 11.5mt on the last quarter and total finished product stockpile increased to 6.1mt. Management reports that the significant weakness in iron prices has necessitated a review of the business: as usual capital expenditure will be reduced and additional measures to reduce costs will be implemented. In the past quarter waste removal increased by 27% to 49mt relative to Q1.2014. It is of some concern to us that the 'extended waste removal programme' to expose adequate levels of ore initiated three years ago is not yet complete.