# INTO AFRICA

A publication from Capital Markets in Africa

MARCH 2019

## VIEWS ON AFRICA ATTRACTIVENESS

ZAMBIA: UNCOVERING HIDDEN

TUNISIA'S EQUITY MARKETS

BRVM EQUITY MARKETS

MAURITIUS EQUITY MARKETS

NIGERIA EQUITIES MARKET

AFRICAN INVESTMENT IN YEAR 2019

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# Uncovering Hidden Value

Inkalamu (Lion Emerald): one of the single largest crystals ever mined was unearthed in Zambia by one of our clients, Gemfields, at their Kagem mine. Inkalamu weighed in at 1.1 kg (2.43 lbs) with an astounding 5,655 carats. This discovery is testament to the value that lays hidden within Zambia and the wider African continent.

With local knowledge and world-class expertise, Pangaea Securities is poised to help you discover hidden value and navigate the complex environments of emerging countries like Zambia. As a leading full-service investment advisory and brokerage firm, we have raised over US$3.0 billion across Sub-Saharan Africa for clients from real estate and mining, to FMCG and hospitality sectors.

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## CONTENTS


**FEATURED ARTICLES**

*Zambia: Uncovering Hidden Value*

*African Investment in year 2019: Fund Manager's Perspective*

*BRVM Equity Markets: Opportunities in 2019*

*Mauritius Equity Markets: Opportunities in 2019*

*Morocco: An Expected Trend Normalization for the Casablanca Stock Exchange*

*Nigeria Equities Market: Successful Elections to Herald Market Recovery*

*South Africa's Budget: Prospects and Implications for Bond Investors*

*Tunisia's Equity Markets: Where Do Opportunities Lie in 2019?*

*Zimbabwe Stock Exchange: Foreign Investment Market*

*Zimbabwe: Macroeconomic Fundamentals in 2019*

*Developing Africa through the Reset Button*

*Sub-Saharan Africa Credit Outlook: Stable, High Debt and Policy Uncertainties*

**EXCLUSIVE INTERVIEW**

*Africa's Long-Term Fundamentals Unshaking*

*Kenyan Equity Markets: Where Do Opportunities Lie in Year 2019?*

*On African Investment Atmospheres in Year 2019*

**SPECIAL FEATURE**

*In Year of Elections, Will African Countries Get the Investor Vote?*

*Now in Effect: Changes to Guidelines for Valuing Companies*

*Low Domestic Capital Raising Figures, but Overall IPO Activity Grew in Africa in 2018*

**ECONOMIC WATCH**

*What analysts are saying about Africa'S Economic Outlook and Financial Stability*

*Commodity prospects for 2019: Base and Precious metals*

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Welcome to the March 2019 edition of **INTO AFRICA**, a publication with fresh insight into Africa's emerging capital markets. The edition is titled: ***Views on Africa Attractiveness***.

Is Africa fundamental shaken or Africa story over-sold? These and other questions are articulately ventilated at the plethora of Africa Investment forums. We are of the view that neither is Africa fundamental shaken nor story over-sold. In fact, we believe that Africa is the next and last global frontier in investment and growth, on the move and on the rise with improved governance and deepening democracy. While most continents are tackling ageing and declining populations, Africa is urbanizing at a faster pace than anywhere else in the world with a young and growing workforce. Encouragingly, African governments are increasing their focus on attracting investment to help fuel large-scale infrastructure projects, which are essential for growth. So, we always implore investors looking at Africa to have a long-term view.

In 2018, performance has been most disappointing in African equities down by double digits (albeit with significant country variations). However, steady economic growth and less dollar strength may offer African equities some room to rebound in 2019 – most African exchanges started 2019 positively. Although, the recovery will be bumpy and African equity investors may wish to tilt towards quality in portfolios along with an emphasis on diversification and rebalancing given short-term uncertainties.

**INUTU BEGNOUGA** (Associate, Pangaea Securities Limited Zambia) and **NJAVWA MUSONDELA** (Associate, Pangaea Securities Limited Zambia) open the discourse with: "*Zambia: Uncovering Hidden Value*", where they expose and showcase investment opportunities in Zambia. Moving on, **SHARAT DUA** (Emerging Markets Fund Manager, Fiera Capital London) offers his view on the African investment prospects and risks for the year 2019 – he sees a positive story in Kenya, Egypt, Morocco and hope that Nigeria will finally give some grounds for optimism after the election.

**GHISLAIN KOBENAN** (Financial Analyst, Societe Generale Capital Securities West Africa), **BHAVIK DESAI** (Head of Research, AXYS Stockbroking Limited Mauritius) and **JERRY NNEBUE** (Investment Research Analyst, CardinalStone Partners Nigeria) offer insights on where opportunities lie in BRVM (West Africa Stock Exchange), Mauritius and Nigerian equity markets, respectively. In parallel, **LINDA KIRAITHE** (Research Analyst, Apex Africa Capital Limited Kenya) and **SARAH WANGA** (Head of Research, AIB Capital Limited Kenya) offer their views in a Q&A format on Kenyan equity markets. Still on equity outlook, **TUNISIE VALEURS** Tunisia and **BMCE Capital Research** Morocco debate the potentials and threats in Tunisia and Morocco equity markets, respectively.

Navigating to macroeconomic arena, **RHANDZO MUKANSI** (Portfolio Manager, Futuregrowth South Africa) examines South Africa's 2019 Budget and the prospects for the bond investors. **JERMAINE LEONARD** (Director, Sovereigns, Fitch Ratings) and **JAN FRIEDERICH** (Head of Middle East and Africa Sovereigns, Fitch Ratings) contribute "*Sub-Saharan Africa Outlook: Stable, High Debt and Policy Uncertainties*". And, **ALICK MUTANDIRO** (Manager Research and Development Zimbabwe Revenue Authority) identifies some of the key economic signs in Zimbabwe.

Still more, **LAURIE HAMMOND** (Partner, Hogan Lovells South Africa) and **THIBAUT HOLLANDERS** (Partner Liedekerke Africa) set eyes on the various national elections to be held in Africa in 2019. Furthermore, **BRENTON LALU** (Specialist: Africa, Public Investment Corporation South Africa) explores Africa attractiveness in "*Developing African Through Reset Button*". In addition, we bring you, Baker McKenzie's Cross Border IPO Index and a review of the latest International Private Equity and Venture Capital Valuation Guidelines by **HELEEN GOUSSARD** (Head of unlisted investment, RisCura).

And there's more … in this edition, we bring you an exclusive interview with **OLIVER BELL** (Portfolio Manager, T. Rowe Price Middle East and Africa Equity), **PAUL CLARK** (Fund Manager, Ashburton Investments) and **CAVAN OSBORNE** (Portfolio Manager, Old Mutual Investment Group). Oliver's investment case for Africa is built on improving politics and spurring better economic management.

As a usual, we provide you with a summary of what analysts are saying about Africa's economic outlook and credit quality as well as the prospects of the commodity markets for 2019.

*Tunde Akodu*

**Editor**

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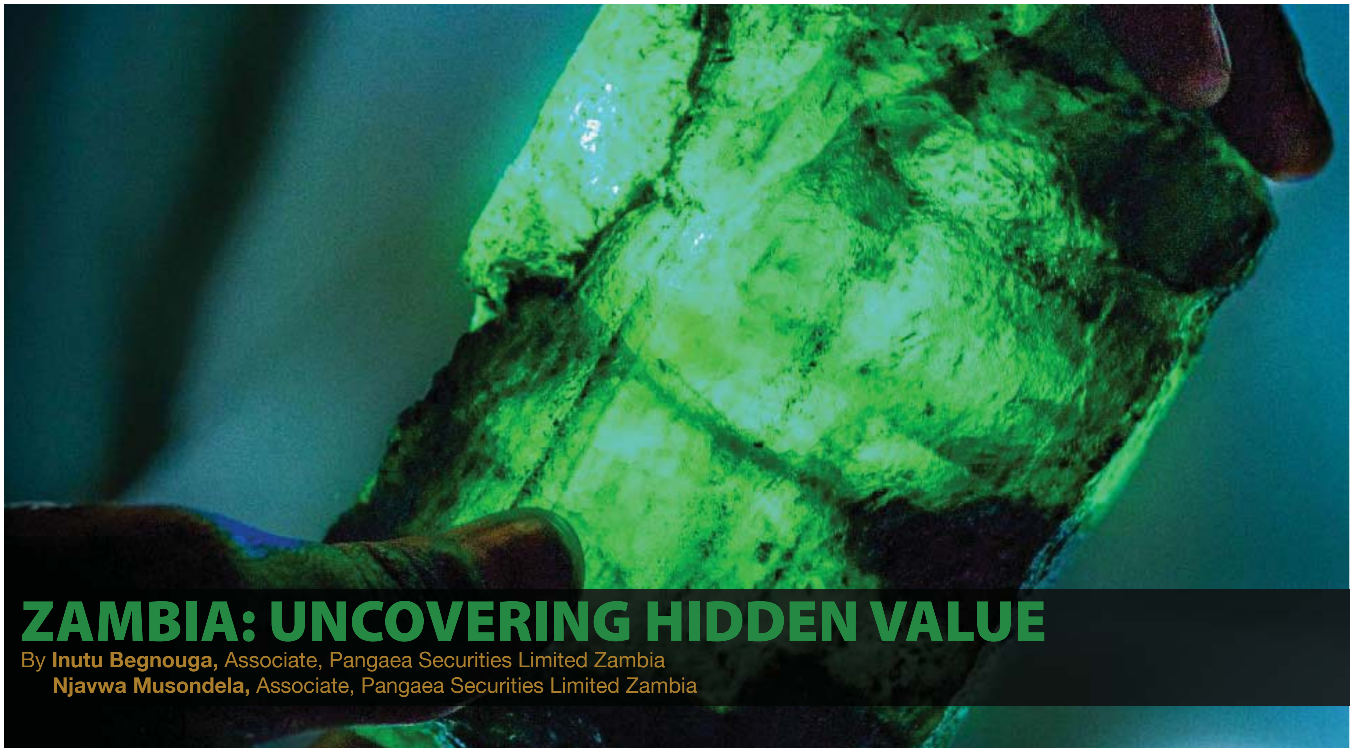


# ZAMBIA: UNCOVERING HIDDEN VALUE

By **Inutu Begnouga,** Associate, Pangaea Securities Limited Zambia
**Njavwa Musondela,** Associate, Pangaea Securities Limited Zambia

Zambia, one of the most central countries in Southern Africa, is landlocked and shares borders with 8 countries. It is integrated into regional markets through membership of Common Market for Eastern and Southern Africa (COMESA), one of the largest economic grouping in Africa with access to over 400 million people, and Southern African Development Community (SADC) free trade area, a regional market estimated to be worth $737 million. Zambia presents a strategic location for investors looking for a destination that has links to multiple countries through regional and physical connections.

**Key investment opportunities are in the following areas:**

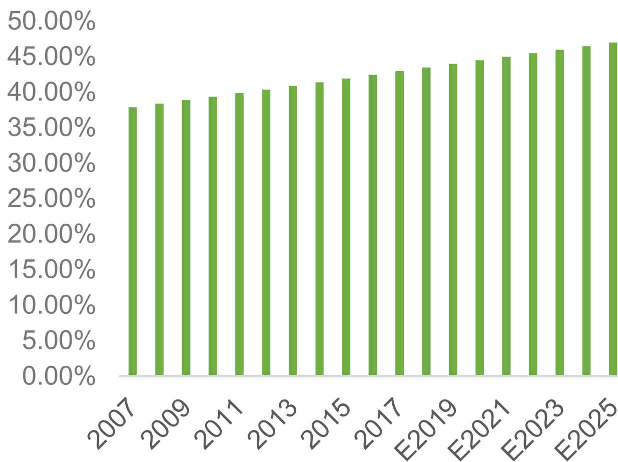
### Retail

Zambia has maintained constant retail growth. This has brought a modern retail boom, mostly South African retail chains: Pick N Pay, Shoprite, Food Lovers Market, Famous Brands, Mr. Price and Woolworths.

Over the last 20 years, retail in Zambia has evolved. In 2000, Manda Hill (the largest shopping mall in Zambia) opened its doors to the middle and high-income households of Zambia with a unique shopping experience. This led to the birth of multiple shopping malls in the capital and across the country. This was an evolution of the retail experience; from hopping in and out of shops to one-stop shopping – an experience Sam Walton introduced to Americans in 1962 through Walmart stores.

To date, however, the next big retail story has been overlooked. The growing middle class is targeted by mushrooming malls around the country, but the majority lower income households remain untargeted, an arena with very few market players and a gem hidden in the shacks of high-density areas. World Bank statistics show that Zambia's population has grown from 3,044,846 in 1960 to 17,094,130 in 2017. In 2018, Zambia's population rose to 17,609,178, and we project a 12% increase to 19,145,426 by 2025.

There has been rapid urbanization in Zambia in the last two decades, with a 43% urbanization rate in 2017. The rate is projected to rise from 43% to 47% by 2025. This will increase the population in high-density areas leading to increased consumption for low earning households. Today, Zambeef Products PLC, one of Africa's leading fully integrated agribusiness, is the only retailer building modern outlets to sell its food products in high - density areas. The products are retailed with a low pricing strategy focused on volumes and brand loyalty.



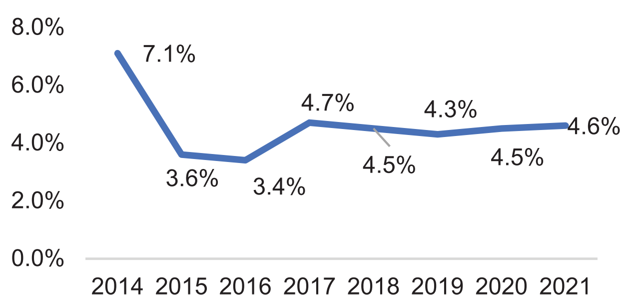

*Source: Pangaea Securities*

The last census in Zambia (2010) found that, 45.4% of the population was below the age of 15 years. This age group constituted 48.6% of the total population in rural areas and 40.5% of the total population in urban areas. The trend has always been that a portion of the rural youth will, at some point migrate to urban areas in search of jobs and better education. These will then contribute to the growing middle class or high-density area consumption.

This young Zambian population will be drivers of the country's continued growth. In 2010 the youth population, age group 15-24 years, made up 20.8% of the total population. This age group constituted 19.3% of the rural population and 23.2% of the urban population.

### Where will the next retail billionaires, Jack Ma or Jeff Bezos come from? Africa? Zambia?

There are several factors that will influence growth of the retail space in Zambia; with GDP projected to grow continuously at a rate of 4.5% per annum, coupled with a cultural shift. The young Zambian




*Source: Pangaea Securities*

born in a globalized and permeable world [exposed to a world of Armani, Starbucks, and Netflix] has experienced a major cultural shift characterized by western norms. The spending patterns have transcended, with young Zambians more likely to save for a dream brand, gadget, outing or shop online for convenience.

Approximately 8 million people have access to internet in Zambia and a small fraction actively trade online, i.e. via Facebook, Amazon, Alibaba, Ebay, and Dotcom Zambia etc. Online shopping is a retail space that is yet to be explored with much needed publicity and marketing.

Related to online shopping, there are opportunities in value added retail services. There are also opportunities in retail logistics coupled with online shopping or orders. Convenience is the selling point as customers get to order items from the comfort of their homes or places of work and deliveries are made with barcode verifications. This is a growing retail function that has yet to be entirely explored in Zambia.

Despite establishing that the retail market's future is bright, to succeed in Zambia requires more than just knowing. It requires in-depth planning, commitment and time – it also requires the right people and approach.

According to A.T Kearney, in the article "Retail in Africa: Still the Next Big Thing", their African Retail Development Index (ARDI) a guide on how to choose the right entry points and approach, Zambia is ranked 12th, falling under Stage I (Basic). This stage includes Angola, Cote d'Ivoire, Ethiopia, Gambia, Rwanda and Senegal. These markets focus on dry goods and price is a key factor. Other factors to consider as a new entrant are that: (i) very basic formats could thrive and offer opportunities for scaling and expanding; (ii) first movers are not always the winners; and (iii) understanding local customs, customer needs, and the peculiarities of local markets is crucial.

### Energy

Energy is vital for any developing country and as the continent develops and urbanizes the need for energy has become paramount. The Southern African region's energy sector is underdeveloped in aspects of energy access, installed capacity, and overall consumption. Rapid urbanization, expansion in mining activities and an overall

regional deficit in electricity, however, have spurred the need to exploit Zambia's vast potential to generate and supply electricity to the broader sub-regional market.

It is estimated that Zambia possesses 40% of the water resources in the SADC region with approximately 6,000 megawatts of unexploited hydro power potential. The region is on an expansion drive with Zambia and Congo DR looking to increase their generation and transmission capacities. The immediate opportunities lie in supply of electricity locally to industries and mines and to South Africa, Zimbabwe and Congo DR through construction of dams and other transmission and generation infrastructure or provision of expertise therein. Other opportunities exist for the supply of specialized equipment and parts for electricity generation and transmission.

According to the 2017 Southern Africa Power Pool (SAPP) Annual Report, approximately 62.05% of installed generation capacity in the region is powered by coal (thermal power). The Zambia Development Agency (ZDA) estimates proven coal deposits in Zambia's Southern Province to be 80 million tonnes, with the largest deposits currently mined for electricity generation by Maamba Colleries (600 MW).

Other probable coal reserves have been identified around the country and are estimated at approximately 700 million tonnes, however, the extent and quality of this coal is yet to be established. It has been reported that some senior coal analysts expect South Africa's coal production to drop drastically as a result of low investment in new coal mining capacity and older mines reaching the end of their lives. This presents an opportunity for alternate sources of coal for the South African market that has approximately 19 thermal power stations with a combined installed capacity in excess of 45,000 MW.

## Micro-Financing

Micro-financing firms in Zambia have seen relative success due to high collateral requirements demanded by commercial banks as well as difficult economic conditions resulting in the need for credit financing by smaller enterprises and individuals. This has led to the growing popularity of non-traditional sources of financing.

The best performing financial institution in 2018 was a micro-financing institution with the yearly profits comfortably beating larger commercial banks. Other micro-lending institutions have also seen gains with growth in assets and profits. The largest loan disbursements for 2018 were made to individuals with monthly incomes of ZMW 2,000 (US$ 167), representing 63% of total disbursements. This shows an appetite for credit at the lower ranges of the market. The bulk of total loans disbursed are unsecured loans with short tenures, typically up to 12 months. Generally, these loans are used to cover living expenses, business and education. Individuals and SMEs had the lowest non-performing loan rates in the credit market (6.19% and 13.56% respectively) and thus represent a relatively safer segment for credit financing. Potential for growth in the micro-finance segment is wider as the bulk of requirements that restrict participation in the financial system are diminished. Currently, few international brands are operating as micro-finance institutions.

*"Zambia presents a strategic location for investors looking for a destination that has links to multiple countries through regional and physical connections."*

**Contributors' Profiles:**

**Inutu Begnouga** is a associate at Pangaea Securities limited.

Inutu has extensive knowledge of property appraisals and research and has provided investment advice to various banks, pension funds and insurance firms. Inutu currently has a focus on financial institutions and property. Prior to joining the Firm, Inutu spent almost seven years in real estate.

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Njavwa has a passion for entrepreneurial ventures and has experience in Private Equity and Investment banking. His current focus is on Fintech, Telecoms and FMCG.

# AFRICAN INVESTMENT IN YEAR 2019: FUND MANAGER'S PERSPECTIVE

By **Sharat Dua,** Emerging Markets Fund Manager, Fiera Capital London

Our views on African investments in 2019 are in many ways similar to those we held in 2018, in that the positive stories and in turn performance that we expected from Egypt and South Africa never really materialised, largely due to the rapid increase in the oil price, and the general bearish sentiment towards emerging markets, seen most vividly in the currency crises in Turkey and Argentina. In 2019 we remain optimistic about Egypt and South Africa, although the latter must have a market friendly outcome to the Presidential election in May to have a chance of fulfilling its potential. Kenya looks to be in a better place now than it was a year ago, when it was in the midst of drought and post-election uncertainty. Morocco remains a stable story that has seen its relative attractiveness improve vis-a-vis other African countries, while we hope that Nigeria will finally provide some grounds for optimism after the election period is over.

We are overweight Egypt, where we have been happy with the consistency of the investment case following the 2016 devaluation of the Egyptian Pound, and the structural reforms that have followed. The government has made tough choices in relation to introducing VAT and reducing subsidies in energy and fuel, as it attempts to address long standing distortions in the economy and simultaneously bring its fiscal deficit under control. The country now runs a primary surplus, and the next catalyst is for interest rates to normalise.

After two 100bps rate cuts early in 2018, the momentum stalled due to the global environment, but the CBE surprised the market by resuming monetary easing last month, and as inflation comes down, we expect further rate cuts. This will reduce Egypt's huge interest bill, and it allow corporates to once again plan capital investments, as lower funding costs will support project economics. This will have a multiplier effect on jobs and growth. The stock market, where valuations are attractive, should receive a further boost from capital being recycled out of treasuries and CDs into equities, and this adds to our fundamental optimism on Egypt.

South Africa has plenty of potential to also benefit from a consistent, investor friendly policy framework, however it depends on this year's parliamentary elections. President Ramaphosa seeks a strong mandate to root out corruption from within the ANC and reform the failing state owned enterprises, and if he gets this we are likely to see a much more positive business environment, growing investment, and ultimately the job creation that is so desperately needed. However if Ramaphosa's margin of victory is slim (no-one seriously expects the ANC not to win a majority), he is likely to face increased challenges within the ANC, and it will be difficult to pass the reforms necessary, most likely leading to a continuation of the recent economic stagnation. South Africa continues to be the pivotal African market, given the breadth of investable options, the liquidity of the market, and the institutional framework.

Kenyan investment opportunities remain focussed on a small number of high quality companies in the banking, telecoms and consumer sectors. While growth has picked up and the political climate is much calmer, we remain concerned about the lack of progress with reforming the flawed interest rate caps, a populist policy that was brought in 2016 but has hurt the economy. Furthermore while the stability of the Kenyan Shilling has supported returns for foreign investors in recent years, but after significant weakness in many emerging market currencies in 2018, the Shilling stands out as perhaps due a correction.

We do not have high hopes for Nigeria, given 2019 is an election year. The Presidential election was postponed by a week in February, and at the time of writing it appears that President Buhari has won re-election, although the opposition will challenge this in the courts. It all points to a stagnant economy for the first half of the year, and more importantly the risk of more of the same in Buhari's second term. His first four years have been extremely disappointing, mired by indecision and a lack of a coherent economic policy, and frankly Nigeria, with its rapidly growing population, cannot afford more of this.

Morocco on the other hand appears to be in a good spot, with economic growth picking up, a stable currency, and strong corporate culture. The weakness in Morocco as usual relates to valuations and stock market liquidity, which consistently disappoints. Additionally should Europe fall into recession, Morocco is likely to see growth slow.

# BRVM EQUITY MARKETS: OPPORTUNITIES IN 2019

By **Ghislain Kobenan,** Financial Analyst, Societe Generale Capital Securities West Africa

The BRVM (Regional Stock Exchange) is the common financial market to the eight countries of the Economic and Monetary Union of West Africa (WAEMU): Benin, Senegal, Togo, Niger, Mali, Burkina Faso, Guinea Bissau and Cote d'Ivoire.

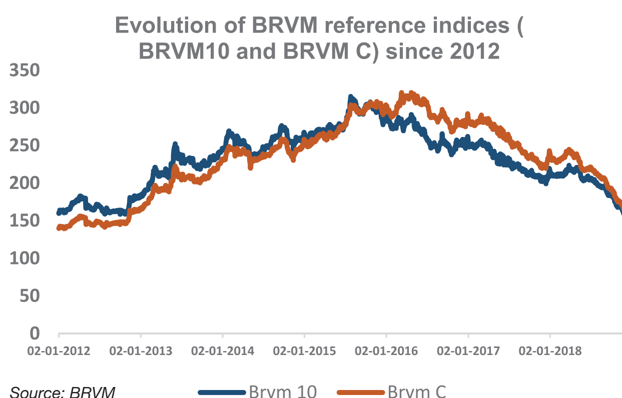
The BRVM has distinguished itself by its dynamism on the role of African stock exchanges being, over the period from 2012 to 2015, the first African stock exchange.

However, two years ago, the BRVM entered into a correction phase with the decrease of reference indices, the BRVM 10 (composed of the ten most liquid securities market) and the BRVM composite (composed of 44 securities market) decreased respectively by 46.67% and 43.5% since 2016.

**For the year 2018, the decline stood at -29.76%, mainly due to:**

- Slowing economic growth in Ivory Coast, which saw its GDP growth rate going from 8.84% in 2015 to 7.70% in 2017, a decline of -8%. To precise, Ivory Coast hosts 80% of companies listed on the BRVM;
- Declining world commodity prices. The WAEMU countries being heavily agricultural, the disappointing crop accentuated by the decline in cocoa prices (-46% between January 2016 and December 2017) had a negative impact on revenues of several investors.
- Loss of confidence of some investors, who attended for two years the continuous decline of the market.
- Unstable political climate and security in the sub-region that has been marked by elections in several countries, social movements and the terrorist threat;
- Low market culture of several investors.
- Renewed interest in the bond market

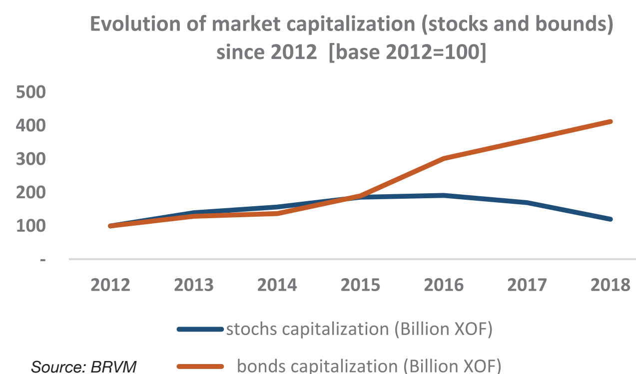
Despite this difficult context, the BRVM remains attractive for investors.




*Source: BRVM*

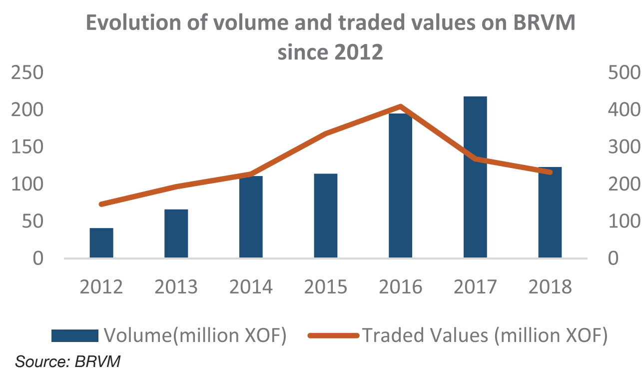
Indeed, over the last 6 years, the market capitalization of the stock market has experienced an average annual growth rate of 2.66% from 4031 billion in 2012 to 4845 billion in 2018.

Over the same period, the capitalization of the bond market went from 832 billion to 3430 billion, an average annual growth rate of 22.43%.




*Source: BRVM*

The trading volume on the stock market increased from 41 million in 2012 to 123 million in 2018, an average annual growth rate of 16.99%. Over the same period, the value traded grew at an average annual growth rate of 6.84%, going from 146 to 232 billion.




*Source: BRVM*

**The BRVM is still a source of opportunity for investors, due to:**

**1. WAEMU growth potential:** Cote d'Ivoire holding 80% of listed companies has bright prospects for 2019.

The economic outlook remains favorable, with real GDP growth estimated at around 7.0% in 2019 and 6.9% in 2020 (forecast ADB). A good performance in the agricultural sector will maintain inflation below the convergence threshold of 3% for the West African Economic and Monetary Union (WAEMU) .The current account deficit should stabilize at 2.8% in 2019 thanks to sustained imports of capital goods related to infrastructure projects.

However, the economy remains vulnerable to external shocks that may result from adverse changes in commodity prices (mainly cocoa and oil) and adverse weather conditions.

Also Senegal, holding 7% of listed companies (2nd after CI) also has good prospects for growth in 2019.

Strong growth since 2015 should continue in 2019 and 2020 thanks to continued public investment in the emerging Plan Senegal. The consolidation efforts could bring the budget deficit within 3% of GDP after 2020.

However, these projections are uncertain, partly because of rising oil prices.

However, Senegal could become an oil producer and gas by 2021. There are other risks as the accumulation of domestic arrears, slowing the construction industry activities, and increased current expenses result of social demands, characteristics of an election year.

**2. Companies with strong growth:** The performance of the companies remains generally good.

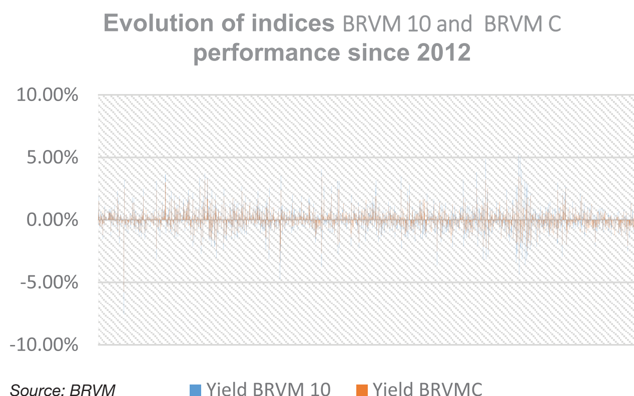
During the year 2017, the weighted average net income BRVM companies was up 5%. Several companies reported earnings growth compared to the previous year. This is the case of NSIA BANK CI (+ 24%), SERVAIR ABIDJAN (+ 24%), SONATEL SN (+ 7.5%) or of SGBCI (+ 12%).

**3. An attractive entry ticket for investors:** BRVM valuation multiples are now at historically low levels.

Indeed, the Price Earnings Ratio stood at 11.62 in 2018 against 17.29 in 2017 and 24.25 in 2016, and the dividend yield to 8.07%, making BRVM one of the least expensive African stock exchanges.

**4. A stock exchange with a low volatility:** BRVM is characterized by its low volatility. The graph below traces the evolution of the benchmark indices performance (BRVM 10 and Composite) since January 2012.

This low volatility is supported by market authorities who require that transactions be made within a range of plus or minus 7.5% of the reference price.




*Source: BRVM*

**5. Innovative products on the stock exchange:** For 2019, the BRVM intends to take certain actions to improve its attractiveness. Among these actions, we can mention:

- Digitizing the best services by promoting his FinTech laboratory
- Membership in the WFE (World Federation of exchanges) as a full member;
- Favouring the entry of SMEs in the third compartment of the stock exchange;
- Creation of a market for mineral resources

(Mining, oil and gas etc.)

**6. Still attractive sectors:** The BRVM has 7 sectors: industry, public services, finance, transport, agriculture, distribution and other sectors.

- The public services sector represents the most Liquid sector of the market and holds the largest market capitalization.

  This area is the least volatile of the stock exchange. It is composed of monopoly companies or being leaders in their respective markets. They are quite mature and stable. For the year 2018, this area has two of these companies top 2 of the most traded market values.

  The economic performance of these sectors are strongly correlated with the macroeconomic situation of the WAEMU and more specifically Cote d'Ivoire. The dynamism of the region and economic growth prospects are positive for these sectors.

  Also, this sector holds the record for the largest ratio (PER 17.86).
- The financial sector represented by banks shown its dynamism on the stock exchange by appearing second among the most liquid market sectors and holding the second largest number of listed securities on the exchange (14).

Also, the sector recorded in 2018, the largest IPO market with a subscription amount of 56.9 billion CFA francs.

It has excellent growth margins in medium and long term because of the relatively low banking rate in the countries of the WAEMU.

**Board: Top 3 traded values 2018**

| Society | Traded values (XOF) |
|---|---|
| SONATEL SN | 60,394,236,695 |
| ONATEL BF | 39,457,873,120 |
| ECOANK COTE D'IVOIRE | 12,061,797,835 |

Source: BRVM

**Board : Ranking PER ratios in 2018**

| Sector | Average PER |
|---|---|
| Public services | 17.86 |
| Industry | 15.72 |
| Distribution | 15.68 |
| Agriculture | 8.57 |
| Transport | 8.28 |
| Finance | 7.42 |
| Other Sectors | 2.61 |

Source: BRVM

## CHEAP STOCKS MAY BOOST WEST AFRICAN BOURSE AFTER TERRIBLE 2018

Cheap valuations on West Africa's regional stock exchange are tipped to improve its attractiveness as strength in two of the continent's fastest-growing economies helps spur a rebound from a record slump last year.

Stocks traded on the Bourse Regionale des Valeurs Mobilieres — an exchange covering seven Francophone countries and Guinea-Bissau — could be among Africa's best performers in 2019, said Aly-Khan Satchu, chief executive officer of Nairobi-based Rich Management Group, an adviser to companies and wealthy individuals

The BRVM Composite Share Index of 45 companies has gained 3.8 percent this year after plummeting by almost a third in 2018, its worst 12 months to date. Gross domestic product of the bloc's two biggest economies, Ivory Coast and Senegal, is forecast to expand by more than 6 percent for a fifth straight year and support stronger company earnings in these markets, Satchu said by phone.

"The disconnect between the underlying GDP expansion and the performance of the stock market tells me that we've got to start narrowing that gap," he said. "It's fundamentally undervalued."

Wireless operator Sonatel SA, which accounts for 40 percent of the index's valuation, is the second-best performer in 2019, with gains of 25 percent. While the unit of Orange SA last week posted flat full-year earnings, it remains undervalued, said Kadi Fadika-Coulibaly, CEO of brokerage Hudson & Cie in Ivory Coast's commercial capital, Abidjan, which houses the bourse.

"Sonatel's stock is coping with the bearish trend in the market and should be regarded as a high-yield stock," said Fadika-Coulibaly, who has a buy rating on the company. Societe Ivoirenne de Cable, or Sicable, is the market's best-performing stock, up 50 percent this year. Publisher Nouvelles Editions Ivoiriennes has gained 18 percent as the third-best. Ten stocks are up, 16 down and 19 unchanged.

Banks, which account for a third of the benchmark, should benefit from improved sentiment now that the liquidation of Ivorian cocoa shipper Saf Cacao has been wrapped up, Abidjan-based ratings company Bloomfield said in a report last month. Among the biggest cocoa shippers in the world's No. 1 producer of the chocolate ingredient, Saf Cacao collapsed under the weight of 150 billion CFA francs ($260 million) of unpaid debt.

Societe Generale's Ivorian unit has gained 8 percent this year, compared with a 36 percent plunge in 2018.

# MAURITIUS EQUITY MARKETS: OPPORTUNITIES IN 2019

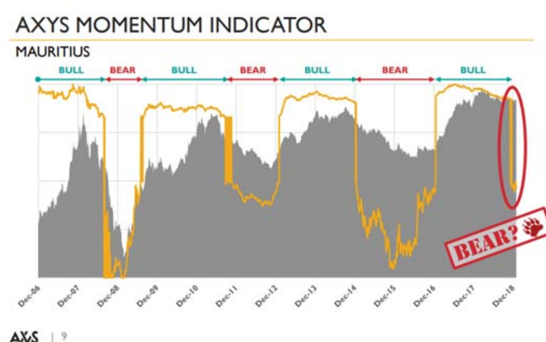
By **Bhavik Desai,** Head of Research, AXYS Stockbroking Limited Mauritius

When we take stock of the performance of the Mauritian Equity market (SEM) in 2018 we immediately note that 2018 was a sticky year with local indices closing either up {SEMDEX (+0.7%)} or down {ALEX 20 (-0.8%)} slightly. The drag induced by plummeting sugar conglomerates – in-line with a slump in world sugar prices – was offset by rallies triggered by corporate actions on a select group of large caps. These actions include the amalgamation of five entities of one of the largest Multi-Sector Conglomerates operating in Mauritius; Mandatory offers on select entities; as well as the Spin-Off of some businesses.

On the other hand, 2019 is of course expected to be different and somewhat special too because Government's 5Yr-Term expires in December 2019. General elections are therefore expected to take place either towards the end of this year or early next year. During the run-up to elections the economy typically transitions into a 'wait and see' mode with any major decisions postponed until after a new Government is sworn in. We therefore a expect a cyclical lull in the 2nd half of 2019 but not for consumption expenditure which typically receives a boost from the electoral campaigning process.

In anticipation of a pre-electoral domestic slow - down, one would expect export oriented enterprises to fare better; however, the way world its trading with each other is changing amid protectionist policies being increasingly championed by the USA and completely uncertain outcome with regards to the manner in which Brexit will happen and its aftermath. Thus making the right calls in 2019 could be significantly more rewarding than in recent previous years. With the Construction sector still on a high doped by major public infrastructure projects – several of which are transport related – as well as a plethora of "Smart Cities" being planned/developed, we believe construction material companies or contractors will have a good 2019. On the flip side, with Sugar prices still well below 2017 levels, Sugar farmers and millers will both continue to feel the pinch not only because of the lower income generated per tonne of sugar exported but also because of steady attrition, i.e. the area under Sugarcane cultivation continues to slide. 2018 was one of the best years for Hoteliers with an industry wide an Earnings Yield of 2%; however occupancy levels in Q4-18 were below 2017 levels seemingly impacted by Brexit and the Yellow-Vest protest movement in France. Although visibility for the 2nd half of 2019 is showing improvements, we believe the lost ground will not be made up in 2019 thus expecting a dip – not a significant drop but a dip – for industry wide Earnings Yield to under 2%.

From a technical perspective, a market momentum indicator we have developed suggests the local market is entering or has already entered into a bear spell. We have thus developed recommendations and strategies to adopt during such spells which is generally adopts a lower-risk approach to investing and stock-picking for 2019. Some of the simpler approaches involves rotating into high - yielding securities and into non-cyclical consumer driven businesses.




In summary then, 2019 will be a complicated year both because of domestic factors and exogenous macro events beyond our control. Nonetheless we believe value and returns can be derived on the Stock Exchange of Mauritius (SEM) in 2019 if done right; however, this will likely come from the non-typical names.

# MOROCCO | AN EXPECTED TREND NORMALIZATION FOR THE CASABLANCA STOCK EXCHANGE

By **BMCE** Capital Research Morocco

After two years of consecutive increases, the Casablanca Stock Exchange closed 2018 on a negative note, with counter-performances of -8.27% to 11.364,31 points for the MASI and -8.59% to 9,233 points for the MADEX.

Graph 1: The MASI's Evolution

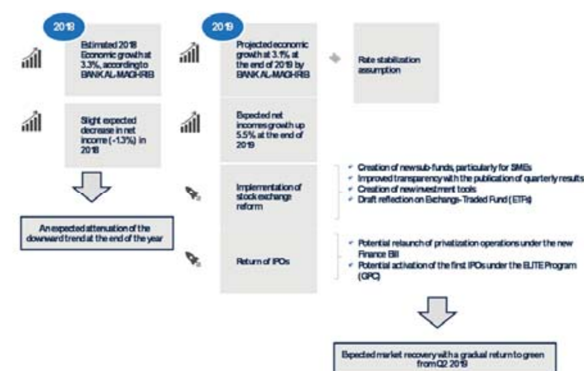
*Source BMCE Capital Research*

In fact and as a result of the environment's gloominess, fueled by operators' pessimism following the publication of listed companies' 2017 achievements, the equity market entered a bearish channel in early May after having reached a peak of performance of 7.23% on March 9th, and then went through a period of hesitation battered by the boycott campaign spread.

Deteriorated further by the announcement of the first profit warnings in late May and the publication of H1 listed companies financial statements in September, the downward trend persisted until the end of the year.

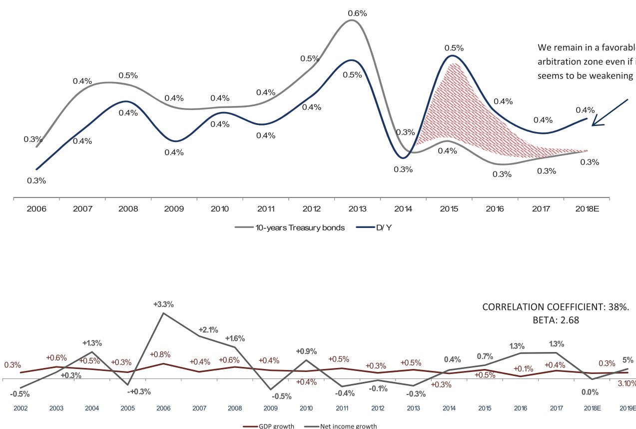
For 2019, market stabilization is expected, attributed to:

- The arbitrage still favorable to the equity market, particularly for local investors seeking higher yields than those expected from bonds, which should stabilize further in 2019;
- The effects of the financial market reform's implementation which should take the form of greater liquidity and the creation of partnerships with African financial centers;
- The intended privatization of certain companies, possibly by IPO's, within the framework of the 2019's Finance Bill;
- A projected slight decline 2018 net income* (-1.3% to MAD 30.5 billion) and a forecasted growth of 5.5% to MAD 32.2 billion in 2019....;
- ....In line with our nation economy's estimated growth rate of 3.3%, which remains weakly correlated at 38% with net incomes' growth (see graph 2).




*Adjusted downwards after the reintegration of LESIEUR, SAHAM, JET CONTRACTORS, COLORADO, PROMOPHARM and ADDOHA profit warnings impacts.

Graph 2: Evolution of DYs and 10-year Treasury Bonds and correlation analysis of net incomes and economic growth



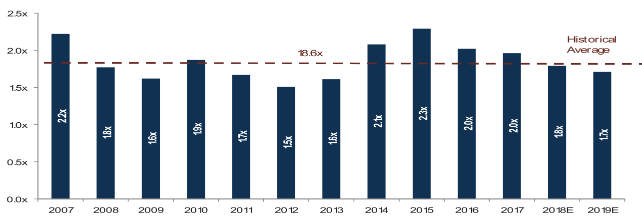

*Source : BMCE Capital Research*

Today and with a 2018E P/E of 17.6x, current market valuation levels remain higher than those of international peers, but are still more attractive than the 18.5x historical average.

The adopted approach for the composition of our new 2019 portfolio takes into account a Top Down approach based on both fundamental and quantitative analyses. Through a review of the current economic situation and the 2019 outlook, we first identified the main sectorial trends and growth drivers.

In this way, we determined high-potential sectors in our portfolio. Those include defensive sectors (financials, telecoms, transport, gas, electricity, agri-business and beverages), some semi-cyclical sectors (real estate and construction) and a cyclical sector (NICT).

**Graph 3**: P/E evolution since 2007




***Source :*** *BMCE Capital Research*

The selection of these sectors and their respective stocks is also based on our assessment of their economic (sales growth, market share, etc.) and stock market prospects (P/E, P/B, D/Y).

At the sectorial level, our different approaches result in the following strategic allocation:

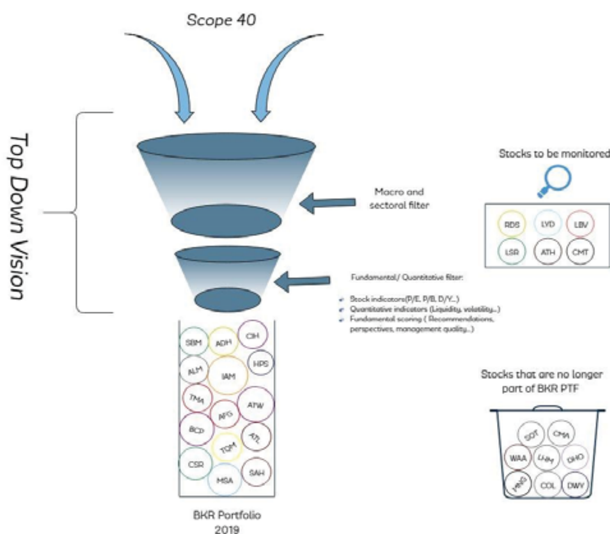
**Table 1:** BMCE Capital Research 2019's allocation strategy

| | 2018 Perf | P/E 2019E | P/E MASI | D/Y 2019E | D/Y MASI | Opinion |
|---|---|---|---|---|---|---|
| Cyclical sectors | | | | | | |
| IT | 0.0% | 17.9x | 1.0x | 3.4% | 0.9x | + |
| Semi-Cyclical sectors | | | | | | |
| REAL ESTATE | -0.1% | 7.1x | 0.4x | 4.3% | 1.1x | + |
| CONSTRUCTION, MATERIALS & INFRASTRUCTURES | -3.7% | 23.6x | 1.3x | 3.8% | 1.0x | = |
| Defensive sectors | | | | | | |
| TELECOMS | -0.1% | 21.0x | 1.2x | 4.6% | 1.2x | = |
| ELECTRICITY | -1.8% | 19.6x | 1.1x | 4.6% | 1.2x | + |
| AGRIBUSINESSES | 0.4% | 19.8x | 1.1x | 3.9% | 1.0x | = |
| GAS | 3.7% | 12.2x | 0.7x | 5.3% | 1.4x | + |
| BANKS | -0.2% | 16.5x | 0.9x | 3.1% | 0.8x | + |
| INSURANCE | -0.7% | 18.0x | 1.0x | 3.3% | 0.9x | = |
| TRANSPORT | 0.6% | 18.5x | 1.0x | 4.9% | 1.3x | + |

***Source :*** *BMCE Capital Research*

Following a final quantitative screening, the remaining 25 stocks were filtered according to their annual performance, volatility (standard deviation) and liquidity (Return-to-Volume Ratio).

Diagram 1: Portfolio construction process




***Source :*** *BMCE Capital Research*

A scoring of the stocks based on the prospects, the management quality and the recommendation made it possible to refine our selection to 15 stocks.

Table 2: Stock selection of PTF of BMCE Capital Research 2019

| Selection | PTF BKR 2019 weighting | Global Capitalization Weighting | PTF BKR 2018 weighting | Potential extraordinary operations | Type | Upside /downside |
|---|---|---|---|---|---|---|
| AGRIBUSINESS | 13% | 7.2% | 8% | | | |
| BOISSONS DU MAROC | 5% | 1.2% | 5% | Completion of the tax audit | Defensive | +17,1% |
| COSUMAR | 8% | 2.8% | 3% | Completion of the tax audit | Defensive | +19,6% |
| INSURANCE | 10% | 4.2% | 8% | | | |
| ATLANTA | 5% | 0.6% | 2% | - | Defensive | +27,3% |
| SAHAM ASSURANCE | 5% | 1.0% | 4% | - | Defensive | +23,3% |
| BANKS | 25% | 34.8% | 17% | | | |
| ATTIJARIWAFA BANK | 10% | 15.9% | 8% | New acquisitions in Africa at the end of 2019 | Defensive | +15,7% |
| BCP | 10% | 9.0% | 9% | Takeover of BPCE's banking assets in Africa | Defensive | +4,9% |
| CIH BANK | 5% | 1.4% | na | - | Defensive | +10,1% |
| CONSTRUCTIONS | 5% | 11.5% | 17% | | | |
| ALUMINIUM DU MAROC | 5% | 0.1% | 3% | - | Semi-Cyclical | +8,6% |
| ELECTRICITY | 5% | 3.5% | 5% | | | |
| TAQA MOROCCO | 5% | 3.5% | 5% | - | Defensive | +7,1% |
| GAS | 10% | 3.5% | 10% | | | |
| AFRIQUIA GAZ | 5% | 1.8% | 2% | - | Defensive | +4,5% |
| TOTAL MAROC | 5% | 1.7% | 8% | - | Cyclical | +49,0% |
| REAL ESTATE | 5% | 1.6% | 8% | | | |
| ADDOHA | 5% | 0.8% | 5% | - | Semi-Cyclical | +2,7% |
| IT | 4% | 0.6% | 4% | | | |
| HPS | 4% | 0.6% | 2% | - | Cyclical | -7,1% |
| TELECOMS | 15% | 21.5% | 12% | | | |
| MAROC TELECOM | 15% | 21.5% | 12% | Margin recovery in Morocco thanks to data pontential | Defensive | +0,7% |
| TRANSPORTATION | 8% | 2.0% | 0.5% | | | |
| MARSA MAROC | 8% | 2.0% | 1% | Acceleration of the investment pace with respect to TangerMed | Defensive | +7,0% |
| Total | 100% | 64.1% | 68.5% | | | |

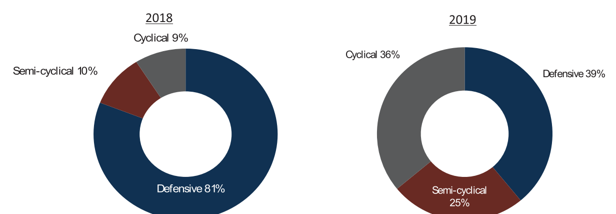
***Source :*** *BMCE Capital Research*

It should be noted that 6 non-portfolio stocks were deemed to have high potential, so it would be appropriate to place them in a surveillance zone in order to capture entry points and possibly integrate them into our portfolio during 2019.

The following 15 stocks have been integrated to the new portfolio:

- 12 defensive stocks, including BOISSONS DU MAROC, COSUMAR, ATLANTA, SAHAM ASSURANCE, ATTIJARIWAFA BANK, BCP, CIH BANK, TAQA MOROCCO, AFRIQUIA GAZ, MAROC TELECOM and MARSA MAROC and representing 81% of the 2019 portfolio (vs. 39% in 2018);
- 2 semi-cyclical stocks with a 10% weighting, namely ALUMINIUM DU MAROC and ADDOHA (vs. 25% in 2018);
- 2 cyclical stocks represented by HPS and TOTAL MAROC, representing 9% of the 2018 portfolio (vs. 36% in 2018)."

Graph 4: Structure BMCE Capital Research 2018 & 2019's Portfolio




***Source:*** *BMCE Capital Research*

# AFRICA'S LONG-TERM FUNDAMENTALS UNSHAKING

**Oliver Bell,** Portfolio Manager, T. Rowe Price Middle East and Africa Equity

**CAPMARKETSAFRICA:** *There has been a lot of talk about how African story had been over-sold and reason why investor need to have a long-term view. What is your take on this?*

**OLIVER BELL:** We have long been positive about the investment case for Africa. While most continents are tackling ageing and declining populations, Africa is urbanizing at a faster pace than anywhere else in the world with a young and growing workforce. However, it's vital to take a long-term view given that these are nascent economies where the politics and macro can change quickly and sometimes unexpectedly.

Our investment case for the region is built on improving politics, spurring better economic management and leading to strong, sustainable corporate earnings growth. Encouragingly, governments are increasing their focus on attracting investment to help fuel large scale infrastructure projects, which are essential for growth. We see examples of this across Kenya, Uganda, Tanzania, Mozambique and Egypt where there's been important hydrocarbon discoveries, though it can take years to put in place the necessary infrastructure to extract, refine and export this and other commodities. It's a similar story with the established oil economies of Algeria, Angola, Nigeria and Ghana where oil production has become more efficient over recent years, but processes are ongoing, and it will take time to feed into what should eventually be vast economic improvement.

**CAPMARKETSAFRICA:** *What are some of the fundamentals and challenges that you consider when looking at African equity markets?*

**OLIVER BELL:** There are certainly challenges to investing in Africa's equity markets, and issues surrounding currency, liquidity and changing regulation can temper our enthusiasm for individual stocks. Our investment process involves working closely with fixed income colleagues who are specialists in African sovereign assets and act as our 'currency weather forecasters' in addition to sharing their in-depth expertise of other macroeconomic issues.

Many African economies still operate with some form of USD peg, so currencies are often not free-floating. This can hamper liquidity, cause issue in times of sharp commodity corrections and set the scene for currency devaluations which as investors we want to avoid as much as possible. We are seeing progress on this front, a prime example being Nigeria's adoption of a more flexible exchange rate in 2016 which helped eradicate the system's multiple black-market rates.

Lack of liquidity can be a challenge and we've a dedicated team of in-house traders to help navigate and mitigate this issue so that it doesn't stop us buying stocks we like nor selling when we want. Low liquidity is also a byproduct of the high interest in Africa's attractive fixed income markets.

Politics and regulation are other factors we monitor. To help reign in a fiscal deficit and spending, governments may devise tax regulation aimed at penalizing the largest taxpayers. In Kenya we've seen the negative impact of interest rate caps which were intended to lower the cost of credit, but they've instead been a huge squeeze on SME lending and credit growth, the lifeblood of Kenya's economy.

**CAPMARKETSAFRICA:** *How do you see global politics affecting African equity investment?*

**OLIVER BELL:** The Chinese are taking a strong interest in Africa, evidenced by their recent $60 billion FDI pledge to help finance government-led infrastructure projects. While this is stirring Western governments, with a major concern being the impact on country debt levels, such investment is crucial to Africa's economic development and among other benefits should help stoke its export sector and manufacturing industries.

Our outlook on global commodity prices, especially crude oil, is muted given our view of supply dynamics, supported by innovation and fading resource constraints. Commodities and oil are important for some, though not all African economies, and this poses a potential challenge. In recent years African policymakers have been more proactive about adapting to the lower oil price reality and we are encouraged by attempts to cut subsidies to fuel, electricity and gas as part of fiscal consolidation

# NIGERIA EQUITIES MARKET: SUCCESSFUL ELECTIONS TO HERALD MARKET RECOVERY

By **Jerry Nnebue,** Investment Research Analyst, CardinalStone Partners Nigeria

**Political concerns to ease post elections**

The 2019 general elections have been the most dominant theme in the Nigerian politico-economic arena since the second half of 2018, with investors largely cautious as a result of the overhanging political uncertainty. For context, within the afore - mentioned period, the market lost 16%, with net foreign outflows from the equities market in 2018 amounting to c. N66 billion compared to a net inflow of c. N337 billion in 2017. The peaceful conclusion of the presidential elections, however, is expected to herald the return of normalcy in the market.

**Increase in foreign participation expected to bolster equities market**

2018 saw market activities negatively affected by contagion from emerging and frontier market weaknesses, US Fed monetary policy normalization and sustained political rhetoric that weakened market sentiments. As a result, over $1.8 billion left the equities market (compared to $1.2 billion in 2017), with a net foreign outflow of $184 million by the end of the year. However, we highlight growing improvement in emerging and frontier market economies and a moderation in the US Fed's hawkish tone. These have ignited favourable foreign investor sentiments towards emerging and frontier markets, with the International Institute of Finance (IIF) estimating that about $121 billion in foreign investments will flow to equities in emerging and frontier markets in 2019. At a P/E of 9.1x, the Nigerian equities market is currently trading at a discount to MEA peers (12.7x) and MSCI Frontier market peers (13.1x), which makes it appealing to foreign investors. Following the peaceful conduct of the 2019 general elections, we envisage an improvement in foreign participation compared to 2018 levels.

**Growth to steady post-election**

Post elections, we believe that a consolidation of growth and the strengthening of key economic structures will be the main priority of President Muhammadu Buhari, following his victory at the presidential polls. We note that the deterioration of global macroeconomic fundamentals, the US - China trade spat and concerns around oil prices could have an impact on the wherewithal of the Nigerian economy, and thus look forward to the ability of the incoming administration to navigate the tide. We expect a continuation of, or possibly an improvement on, ongoing economic policies. Ultimately, we believe that ensuring a stable economic environment will revive domestic confidence in the polity. All in, we project that the Nigerian economy will grow by 2.0% in 2019.

**Post-election policies to steer path for businesses**

Beyond markets, we believe that the direction of post-election policies at play will affect business outlook in 2019. While we expect banks to post decent FY'18 results on the back of lower impairment charges and revaluation gains, among others, we fear the impact of lower oil prices on asset quality for FY'19 given their continued exposure to the oil sector. We also note the potential impact of new capitalization regulation and increased competition in the retail space—following the issuance of licences to payment service banks to enhance financial inclusion—among others, on their numbers. Most consumer firms continue to reel from weak disposable income, growing competition and higher production costs. However, we are cautiously optimistic that the implementation of the new minimum wage could herald a gradual recovery in domestic consumption. The slow pace of budget implementation has limited the growth of the cement industry. The outlook, however, is still positive given Nigeria's huge infrastructure deficit. All in, we maintain a neutral view in our outlook for businesses in 2019. However, we expect a market rebound on the back of significantly depressed valuations.

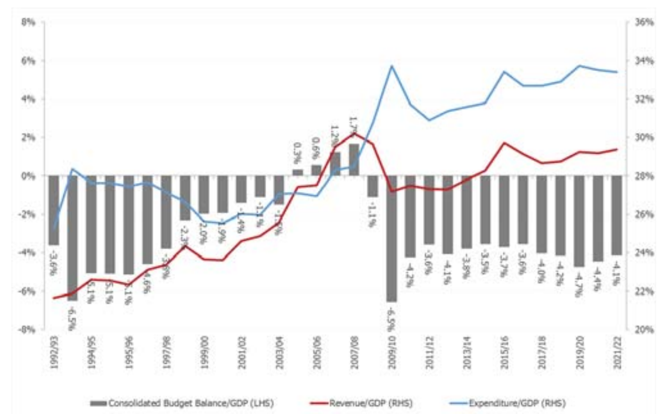
# SOUTH AFRICA'S BUDGET: PROSPECTS AND IMPLICATIONS FOR BOND INVESTORS

As has been the case for the past few years, the main theme heading into this year's National Budget tabling centred on National Treasury's commitment to fiscal consolidation, given the massive funding requirements of State Owned Enterprises (SOEs) and a still fragile domestic economic growth environment.

Real domestic economic growth has averaged 1.9% year on year since the turn of the decade, not dissimilar to South Africa's often quoted 2% potential growth rate. This pales in comparison to the prior decade, where year-on-year economic growth averaged 3.6% and peaked at a buoyant 7.1% in the last quarter of 2006. It's no coincidence that this boom period for the domestic economy, admittedly aided by China's super commodity cycle, coincided with the peak in fiscal revenue collection relative to gross domestic product (GDP) of 30% in the same year. Despite comparatively higher value-added tax (VAT), personal income tax and excise duty rates, fiscal revenue collection has lagged behind the acceleration in counter-cyclical fiscal expenditure effected to prop up the economy in the past decade.

South Africa is not alone in having engaged in aggressive counter-cyclical fiscal expansion in the

Fiscal revenue and expenditure trends: Deferred fiscal consolidation




years following the global financial crisis. However, a disproportionate share of this expenditure has gone towards current expenditure, at the expense of growth-enhancing capital formation. This has resulted in a stubbornly wide budget deficit, which has averaged -3.9% in the past decade and is forecast to average an even wider -4.2% over Treasury's medium-term expenditure framework. Naturally, the cumulative effect of consistently wide budget deficits has been the near doubling of South Africa's gross debt-to-GDP ratio in the past decade, to 56% at present and forecast to escalate

further to 60.3% in the next three years.

**Two key fiscal consolidation anchors**

Given this backdrop, two key anchors for fiscal probity in recent times, and certainly key to preserving South Africa's last remaining investment grade sovereign credit rating (from Moody's), have been Treasury's dogged determination to support ailing SOEs in a budget deficit-neutral manner, and to maintain the expenditure ceiling to ensure fiscal debt stabilisation over the medium term.

Contrary to the generally positive take on the budget by domestic financial market participants, we remain underwhelmed by the medium-term budget expectations. While fully appreciating the challenging fiscal environment and the progress made towards expenditure constraint in the 2019/20 budget, we remain disappointed by the loosening of the above- mentioned two key fiscal consolidation anchors – namely deficit neutral SOE financial support and the previously sacrosanct expenditure ceiling. This has again resulted in a forecast widening of the budget deficit over Treasury's medium-term expenditure framework and the postponement of the forecast peak in the gross-debt to GDP ratio to 2023/24.

The loosening of the previous deficit-neutral SOE financing was as a result of the extraordinary fiscal support provided to Eskom, with R69bn budgeted over the medium- term expenditure framework as a "provisional allocation" for reconfiguring Eskom – to be transferred as a cash injection of R23bn per year over a three year period.

**Our concerns**

Our reading of the budget would be kinder if we were convinced that the extraordinary support to Eskom would be enough to negate the economic risk the entity poses over the medium term. While overdelivering in its support of Eskom relative to prior market expectations, we're of the view that this support still falls short of what's required to adequately support the entity over the medium term.

Given the dependence of South Africa's sovereign credit quality on the health of government finances, the retention of South Africa's last remaining investment grade credit rating by Moody's remains tenuous over the medium term. South Africa is likely to be given a ratings reprieve when Moody's next issues its rating review on 29 March pending the country's presidential election on 8 May 2019. Of more immediate concern for domestic bond market participants will therefore be the preservation of a stable ratings outlook by the ratings agency when it issues its rating review, given the historically high probability of a soon to follow credit rating downgrade.

The domestic nominal bond yield curve slope, given by the difference between the generic 30-year and 10-year nominal bonds has steepened in the past decade, largely in line with the escalation of government debt relative to GDP. The heightened execution risk we attach to the fiscal targets set out in the 2019/20 budget suggest that yield curve slope should at best remain elevated over the medium term and at worst widen even further – in accordance with the continued widening of government debt in the medium term.

Government debt metrics maintain nominal yield

curve steepness

**In conclusion**

Without improved domestic growth, SA's debt burdening looks increasingly unsustainable – particularly in light of the abandonment of two critical fiscal consolidation anchors (expenditure ceiling and deficit neutral SOE funding). Rating downgrade risk therefore remains elevated over the medium term – with the preservation of South Africa's last remaining investment grade sovereign rating from Moody's looking increasingly tenuous.

**Contributor's Profile**

**Rhandzo Mukansi** is a Portfolio Manager for the Yield Enhanced STeFI+ product suite and segregated core bond portfolios. In addition, he is responsible for fixed income research and analysis. Rhandzo completed his commerce studies in 2012 and joined Futuregrowth as part of Old Mutual's Graduate Accelerated Programme at the beginning of 2013.

# KENYAN EQUITY MARKETS: WHERE DO OPPORTUNITIES LIE IN YEAR 2019?

**LINDA KIRAITHE** joined Apex in Jan 2018 as a Research Analyst having previously worked as a Financial Advisor. She holds a BSc in Actuarial Science from Dedan Kimathi University. She is currently working toward the Chartered Financial Analyst (CFA) designation. Linda oversees banking, energy and manufacturing sectors. She also handles macro-economic research.

**SARAH WANGA** joined AIB Capital in October 2018. She previously worked in the research department of ICEA LION Asset Management. She has over 6 years' experience in equity, fixed income, property, and macroeconomic research. She has a bachelor and master's degree in Economics from the University of Nairobi and is a member of the CFA *Institute.*

**CAPMARKETSAFRICA:** *Do you think Kenyan equities is over-valued or under-valued, please?*

**LINDA KIRAITHE:** The recent buyout offers of KenolKobil and Unga have been at a premium justifying our hypothesis that the Kenyan market is highly undervalued.

The stock market is viewed as an indicator of the economy, with activity reflecting investor's expectations on the health of the economy. However, the mismatch between Kenya's economic growth (6.0% in 2018) and the fall in market indices (NSE-20 shedding 31.0% y/y and NASI losing 21.9% y/y in 2018) suggests untapped potential for the equities market performance to match economic growth.

The recently witnessed bear run saw large cap counters trade at all-time lows. Despite prices looking up since the start of the year, the potential for larger gains still lies untapped. The current indices (NSE-20 3022.93 points and NASI 156.20 points) have recorded gains in the year. They however are still a far cry from the recently observed highs of 4,027.12 in NSE-20 (August 2017) and 192.17 in NASI (March 2018). Going forward, an up-tick in market activity coupled with a potential price rally (on the back of heightened foreign demand) may see the indices book significant gains.

**SARAH WANGA:** The Kenyan equity market is generally undervalued. Market P/E currently stands at 12X which is lower than a historical highs of 26X in 2007 and a more recent high of 16X in 2015.

There was a general market sell-off last year as foreign investors exited the market while local investors stayed away from the equity market as they preferred to pack their money in the fixed income market where yields were attractive. Meanwhile, a number of companies reported an increase in earnings as economic activity picked up. Consequently, valuations are currently attractive. Going forward, corporate earnings are expected to increase on the back of improved economic activity. Most counters are currently trading below their historical averages. At the current prices, a number of stocks are undervalued.

**CAPMARKETSAFRICA:** *Where do you see opportunities in the Kenyan equity markets (in term of sector and companies), please?*

**SARAH WANGA:** Banking sector-The banking sector has previously faced some headwinds: Interest rate caps reduced the banks' net interest margins (NIMs) while the adoption of IFRS 9 decreased the banks' capital. Tier 1 and 2 banks are still profitable with capital adequacy ratios above the minimum guidelines. Going forward earnings are likely to be driven by increased NIMs (the floor on deposits was removed in September last year; this gives banks room to increase margins), an increase to credit to the private sector, growth of non-interest income, and increased efficiencies due to increased usage of technology and other alternative banking channels. Key risks are the bank's asset quality. The NPLs in the banking sector are currently at 12%.

***Bamburi Cement:*** 2018 wasn't a good year for Bamburi as it issued a profit warning. In 2019, Bamburi's earnings growth is likely to be driven by increased demand for cement as economic activity picks up. Key risks remain the high production costs which could affect margins.

***Safaricom:*** The Telco's key strength lies in M-Pesa. The introduction of new products in the platform is likely to drive growth. The company recently launched a new product, 'Fuliza', which has been well received in the market.

**LINDA KIRAITHE:** Following the continuing economic rebound (GDP projection of 6.1% in 2019), on the back of sustained output from the agricultural sector supported by favorable weather conditions, we anticipate solid performance by agricultural stocks. We thus see underlying potential of capital gains by these counters coupled with attractive dividend yields. This may however be curtailed by declining commodity prices due to oversupply.

On the back of a robust economy fueling manufacturing activities, we expect increased energy demand and thus recommend KenGen and Kenya Power. We recommend EABL on the back of expected improved performance in FY19 and a burgeoning topline due to increased sales; an effect of robust economic activities.

Safaricom remains king with heightened demand by foreign investors. Safaricom controls over three quarters of mobile money transactions which stood at close to half of GDP in 2018. Launch of consumer centric products such as Fuliza is expected to raise Mpesa revenues going forward. We cannot ignore investor interest in banks. We remain optimistic that banks will post good FY18 figures but expect that this will be due to a slash in loan loss provisions. We do not expect growth in numbers to pushed by heightened lending activities given the prevailing rate cap. We expect the current dividend payouts to be maintained and therefore recommend KCB, Equity StanChart and Barclays to dividend seeking investors.

## EQUITY FUND MANAGER OPINIONS | On African Investment Atmospheres in Year 2019

**PAUL CLARK (FUND MANAGER, ASHBURTON INVESTMENTS):** If we use the MSCI index for Africa excluding South Africa to represent Africa from June 2002 to current (the longest period, we have) and compare the returns and volatility of this index to a range of other global indices we can justify adding it to a multi asset portfolio. These African equity markets have outperformed developed, emerging, frontier markets and the S&P 500 index over this period and with a volatility similar to that of the S&P 500 index or the MSCI World index. Arguably this period has also contained some stressed periods too, like the global financial crisis in 2008. Looking forward, the continent is expected to grow strongly (excluding oil exporters and South Africa) and should average close to 6% real GDP growth for the next five years and beyond. At the very least, over the long term, a portfolio with Africa excluding South Africa included in it will have similar returns to one without Africa, but lower volatility because of Africa's diversification from global markets. At the same time though you get access to growth significantly above the global average or developed market economies.

African markets are generally offering quite good value and some of the larger economies like Egypt are recovering, stabilizing and growing strongly. There isn't a shortage of large, liquid, low risk and value investments across the continent now.

African economies are typically growing due to domestic transformation and, outside of a global crisis, should continue to do this and largely independent from global politics. The biggest effect on African equity investments will most likely be general global risk perceptions, which could affect flows into Frontier and African markets.

**CAVAN OSBORNE (PORTFOLIO MANAGER, OLD MUTUAL INVESTMENT GROUP):** The African story was about the continent playing catch up given that it was coming off a low base relative to other countries and regions. UP until around 2012, the African story was playing out nicely. Since then the story seems to have stalled and, in some instances, gone backwards. But, it's nearly impossible to change demographic trends. Africa has the fastest growing population amongst the continents and has low urbanisation. Therefore, Africa can show strong growth in the long term.

However, the biggest challenge is getting currency movements right. Exchange rates not only impact the translation of local performance numbers, but also impact the revenue and costs of the local businesses. If we are concerned that a currency may weaken, then we consider exiting a country or look to invest in companies that are will benefit such as a mining company or another exporter. In term of the upsides in Africa, the underlying demand for commodities can influence economies, and this can have a knock-on effect for commodity producers in Africa. The recovery in the oil price is generally good for the continent.

# TUNISIA'S EQUITY MARKETS

## WHERE DO OPPORTUNITIES LIE IN 2019?

By **TUNISIE VALEURS TUNISIA**

The year 2018 was a good year for the Tunisian Stock Exchange. The market has kept a decent growth pace (the index was up 15.8%) despite the turmoil at the end of the year deriving from the steep fall in financial stocks. The primary market was also calm (only one IPO reported by Tunisie Valeurs, not a single rights issue reported). On the volumes side, trading was increasing even if we do not cater for the transactions in the bloc trade market.

The lack of visibility in 2019 makes it difficult for us to draw a clear trend. As interest rates keep rising and the business climate is still fragile, we think that the two main factors to look at from an investor standpoint are: 1) earnings' growth forecasts 2) investors revulsion to the real estate market would bring money to the listed stocks.

At the start of the year, we still have an attractive valuation for the market with an average P/E at 12.4x trailing and 11.6x forward (2018 and 2019 expected earnings respectively). When we look at fundamentals, we have good reason to believe that the upside potential for many stocks will most probably push the market this year for another positive performance.

### The Year 2019 and Outlook

We have just closed the first month of the year, investors are still nervous and the reference index lost 0.1% amid a thin transaction volume (average daily trading at TND 5m, excluding block trades). Economically, socially and politically, Tunisia is still sending mixed signals, which pushes investors for more caution.

The main question is whether the Tunisian market place is capable to do the same performance as in year 2018. Not so sure, given the looming risks, but the opportunities in 2019 still exist.

**The opportunities** will be driven by the strong earnings' growth expected in 2019 and the fact that the Tunisian investors will be more prone to give up the real estate market in favour of stocks. We expect the entire profits of the listed companies to grow 19% in average (2018-2019).

Notwithstanding the slowdown in the banking sector (driven by a more acute liquidity crunch), we believe that banks' earnings are still positive as we forecast an average earnings growth at 5% for the sector (2018-2019).

Historically, investments in listed stocks have always suffered from the flight to real estate. Tunisians like to invest in rocks as they say. However, things have completely changed following the long-standing crisis in the real estate market driven by the high prices, high difficulties to get mortgages from the bankers, high taxation and waning demand. For example, the government has recently introduced a new Value Added Tax on real estate acquisition (new homes/offices) at 13% (Financial Law for the fiscal year 2018). These weaknesses in the real estate market will most probably benefit to stocks. Therefore, we expect investors to make a flight back to listed stocks.

**The looming risks** will be closely related to interest rates. We are concerned that the base rate in Tunisia keeps rising month after month to make monetary instruments increasingly attractive for the stock market investors. As a result, we think, in this environment, that the high dividend yield stocks will suffer in the first place. Eventually, there is the rising uncertainty on the macro picture. The more the macro-economy suffers the more the decision makers will be tempted to take tough measures in the monetary policy. The last quarter of 2019 will see the general elections campaign take the last turn amid an extremely tense debate that would not encourage investors to take risks.

### We stick to stock picking

If we look at the fundamentals, we think that the Tunisian market is still reasonably valued. The Tunisian Stock Exchange (TSE) trades at an average P/E 2018e of 12.4x and P/B 2018e of 1.8x. We compare the Tunisian market to its Moroccan neighbour and get more comfort in putting a Buy rating on Tunisia. The Casablanca Stock Exchange, which attracts more foreign investors compare to TSE and trades at an average P/E 2018e of 18x and a P/B 2018e of 2.5x.
Despite the attractive multiples, we do not think

that the exposure on the overall Tunindex is a good approach. We recommend a more selective and cherry pick stocks among those companies with a low financial leverage, a strong positioning on the core business, a recurrent earnings growth and a comfortable profit margin that covers the cost of debt and the rising cost of raw material imports.

### Play Safe

Amid the many uncertainties, we like particularly the defensive stocks: SFBT and SAH LILAS in the consumer list then UNIMED among the Pharmaceutical stocks. The three stocks have among other virtues their resilience in the current turmoil: strong market positioning and a robust balance sheet. Although the three stocks trade at a premium to the market, we think that their upside potential is still big.

Despite its small size by market cap, CEREALIS has confirmed its status as a defensive stock: the rising sales in sweet snacks (cup-cakes) and the company's capacity to generate durable cash flows comfort us in our recommendation to buy the stock at the current market price, which is way below its fair value.

### Bet on the industrials when they are "cheap"

Some of the industrial stocks have recovered their growth dynamic which we think is a sustainable dynamic for the coming years: we like the rising export volumes and the way they optimize costs to save their margin and we also like their competitiveness vis-à-vis the imported products.

We specifically like these industrial names: One Tech Holding, Telnet Holding, TPR and SOTUVER all of them have a decent export capacity and a good visibility both on their domestic market and exports. Their revenues in foreign currencies constitute a good hedge against the falling Tunisian Dinar and a good security for margins. Other names are also interesting by the same token are: MPBS, ASSAD and SAM, three of them have interesting multiples and resist efficiently to the current turmoil.

### Invest in some banking stocks, against the tide

The banking sector has been a real catalyst of good performance in the stock exchange since 2014. Until September 2018, most of the banking stocks have been the high-flyers before a new regulation by the central bank caused them to correct sharply in the market. The tough measures on the liquidity ratio to comply with Basel III pushed investors to sell off their banking stocks; they were selling good banks and bad banks alike.

Moreover, the prevailing liquidity crunch and even tougher measures from the central bank will have different impacts on good and bad banks. The lending activity is most likely to slow down but earnings' growth will not be the same on good and bad banks.

The liquid banks are better off. Their cost of resources is low so they will keep a good interest margin. Those with a highly diversifies revenues sources and a strict risk management policy will survive the tough measures of the central bank. We like specifically BIAT, Attijari Bank and UIB Bank. We recommend these stocks specifically for their status of Blue chips and their interesting valuation. We think the likelihood of a strong recovery in the share price in 2019 for all these banks is high.

These banks will most probably survive the new central bank measures and they will get closer from the international standards. They will be the first to reap the benefits of their upgrading. They will keep the same resilience to shocks and attract more buyers that are international. The forthcoming financial publications will shed more light on where the banks are heading and the good ones will restore investor confidence.

*"The year 2018 was a good year for the Tunisian Stock Exchange. The market has kept a decent growth pace (the index was up 15.8%) despite the turmoil at the end of the year deriving from the steep fall in financial stocks."*

| | 2016 | 2017 | 2018 |
|---|---|---|---|
| Market Cap (Billions of Tnd) | 19.3 | 21.9 | 24.4 |
| %GDP | 21% | 23% | 23% |
| Number of listed companies | 79 | 81 | 82 |
| Foreign ownership | 24.45% | 23.31% | 24.90% |

# ZIMBABWE STOCK EXCHANGE: FOREIGN INVESTMENT MARKET

By **Enock Rukarwa,** Research & Investment Analyst, FBC Securities Zimbabwe

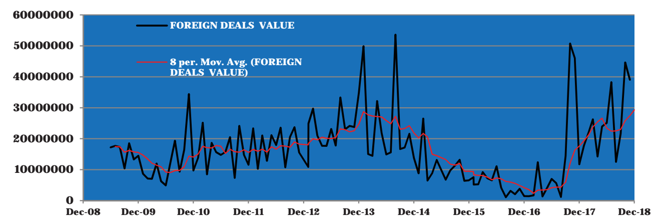
The 2019 Monetary Policy brought the much needed clarity with regards to the foreign investment market. The Apex Bank agreed that foreign investors who invested before 20 February 2019 can repatriate their capital investments at 1:1 with the RTGs dollars. Capital accumulation over and above the capital investment can be repatriated through the interbank market at an average exchange rate of 2.5:1 between USD and the RTGs dollar.

Authorized dealers were also advised that new portfolio investment inflows received after 20 February 2019 should be liquidated at the prevailing market exchange rate to enable purchase of shares on ZSE in RTGs dollars. Thereafter proceeds from sale of such shares will be sourced from the interbank market at the prevailing exchange rate.

For a number of years, ZSE was the only exchange in the region that was working in hard currency. During the period after the shift to U.S. dollars, and for a number of years after, the ZSE enjoyed a great deal of foreign participation clearly attracted by the lack of exchange rate risks. However, in the latter years of dollarization, it saw a downturn where the market began softening considerably in 2013 and only began to firm up again in 2017 when a number of structural issues were identified and clarified.

After years of economic stagnation, the Zimbabwean economy started growing at an average of 10% GDP growth rate annually when GNU was put in place. The GNU came into force after the economic meltdown when capacity utilisation was under 10%, savings and pensions were all wiped out due to inflation. The inclusive government adopted a government works programmes through which it sought to turn around the fortunes of the country. A raft of measures were implemented during its tenure spanning from 2009 to 2013, that saw the economy stabilising and inflation being maintained below 5% from the highs of 231 million percent in 2008.

The ZSE is a barometer of economic performance in Zimbabwe according to various Industrial organizations like Confederation of Zimbabwe Industries, Zimbabwe National Chamber of Commerce Zimbabwe Investment Authority etc. A country's economic growth is usually associated with growth in its capital markets and its ability to attract capital from abroad.




Following the set-up of GNU, ZSE turnovers started increasing from an average of $36.6 mil per month in the period 2009 to 2011 to an average of $38.9/ month between 2012 -2013. On average the 5 yr period that is during the GNU tenor (2009-2013) turnover was around $37.6 million per month. Significant from the increased activity on ZSE turnovers during the GNU period was foreign investor appetite for Zim's stocks. Foreign participation averaged $14.5million per month during the (2009-2011) period accounting for 40% of the total trades.

During the (2012-2013) period, average foreign participation increased to $20.2million/month implying a 53.3% contribution to total trades.

Post 2013, foreign participation on ZSE started declining to an average of $14mln per month. The decline in foreign participation on the bourse was as a result of a number of factors, which include government's introduction of bond notes, a weak economy and delays in settling cross-border transactions by local banks. More so other factors include inflation, easy of doing business, political risk etc. Government policy initiatives should be centred on reducing institutional factors like corruption, weak governance and perceived political risk. Equity investment is usually for a long term, issues of uncertainty, country risk, policy inconsistencies and credibility must also be considered in policy formulation.

Recently the Zimbabwean government scraped the 51 % ownership for locals in the mining sector, going forward a foreign investor can own 100% of any mining investment. In terms of budget deficit the government has been enjoying a supply for the last four months that is November 2018, December, January and February 2019. Zimbabwe's trade deficit narrowed 78% month on month to reach $44.2mln in January 2019 compared to $198mln recorded in December 2019.

# ZIMBABWE: MACROECONOMIC FUNDAMENTALS FOR 2019

By **Alick M Mutandiro,** Manager Research and Development Zimbabwe Revenue Authority

## The Will from the Top

Following the change in government in November 2017, Zimbabwe is now referred to as the Second Republic, a term used to refer to a nation that focuses on systematic structural departures from the style of its preceding political dispensation. For Zimbabwe, the First Republic is defined by the era marked by the inauguration of independent Zimbabwe's first chief executive in 1980 to the end of his rule in November 2017, which ushered in the new dispensation.

In his acceptance speech on 24 November 2017[1], Zimbabwe's President Mnangagwa said, "Our economic policy will be predicated on our agriculture which is the mainstay, and on creating conditions for an investment-led economic recovery that puts premium on job-creation. Key choices will have to be made to attract FDI to tackle high levels of unemployment while transforming our economy towards the tertiary."

This rhymes with three macroeconomic fundamentals that are key to economic development the world over, i.e. **economic output** or **GDP, unemployment** and **investment**. Two other macroeconomic fundamentals, **inflation** and **savings**, cannot escape mentioning as they are also key to economic development and recovery.

This article provides brief insight into the threats to economic development faced by Zimbabwe, with reference to five key economic fundamentals.

## Macroeconomics

Macroeconomics is the study of aggregated economic indicators and seeks to enable an understanding of the interrelations amongst different sectors of the economy. This informs sound policy formulation, modelled around the relationship among key economic factors namely **national income, production, consumption, unemployment, inflation, savings, investment, international trade** and **international finance**[2].

Zimbabwe's 2019 economic policy framework was developed in late 2018 as the country prepared its 2019 budget. It remains focused on key economic developmental fundamentals.

## I. Five Important Macroeconomic Fundamentals

### 1. Macroeconomic Variables

#### 1.1. Gross Domestic Product

Zimbabwe's GDP stood at **US$18 billion** in 2018. Following the Finance Minister's assessment that Zimbabwean economy was much larger than indicated and after rebasing economic data, the GDP was reviewed upwards to **US$25.8 billion**[3]. In January 2018, the World Bank[4] projected that in 2019, Zimbabwe's GDP would grow by **3.7%**, a downward review of the **3.8%** projected in June 2018. Zimbabwe maintained its 2019 GDP forecast at **3.8%**.

Threats to this growth include a high budget deficit, high national debt, limited access to international financial capital, high government expenditure and weak social service delivery.

#### 1.2. Unemployment

Unemployment stood at **5.16%** in 2017[5]. While this may seem low, the Zimbabwean economy is characterised by high informal economic activities, most of them falling outside government regulatory control. Some researchers disregard the informal sector and cast unemployment in Zimbabwe around **90%**.

Major resultant threats include poverty, high crime, the possibility of social unrest and low production. Unemployment is also responsible for high informalization of economic activities, which has a knock on effect to effective regulation. This has a negative effect on government tax and non-tax revenue inflows, which in turn affects government's

1. The Herald, Zimbabwe 25 November 2017
2. Investopedia, July 2018
3. 2019 (Zimbabwe) National Budget Statement
4. pubdocs.worldbank.org/en/750841492188177908/mpo-zwe.pdf
5. Zimbabwe National Statistical Agency (ZIMZTAT) 2018

capacity to effectively fund public expenditure. The challenges and threats have a cyclical effect on each other.

**1.3. Inflation**

The rate of inflation stood at **42.09%** as at 31 December 2018, up from **3.52%** in January 2018.

Inflation in Zimbabwe has reduced consumer buying power. As a result, the current trend of a very high rate of inflation has negative impact on economic growth.

### 2. Investments

Both local and foreign direct investments have remained subdued. According to UNCTAD, annual FDI inflows to Zimbabwe declined between 2014 and 2017 to reach **USD289 million**. Total FDI stock of **USD4.6 billion** in 2017 accounted for less than **30.3%** of the GDP[6].

Government has however made remarkable effort to engage investors in the local and foreign economies. Numerous investment deals have been brokered and investment opportunities look bright. Zimbabwe has actively pursued international re-engagement in its quest to court foreign direct investment. This has seen the country being represented at high levels in both the 2018 and 2019 Davos (Switzerland) World Economic Fora and several other international economic platforms.

Threats faced in this area include low investor confidence, foreign currency shortages and infrastructure deficiency particularly in the energy sector. The current resultant low production capacity and low exports have reduced the availability of investment and re-investment capital for most local firms.

### 3. Savings

A persistent high budget deficit coupled with an unsustainable high budget and current account as well as high interest rates have prevented the economy from maintaining any savings. Gross National Savings as a percentage of GDP were **-2.51%** and **-1.38%** in 2017 and 2018 respectively[7].

This area faces the threats created by fiscal indiscipline, poor governance and corruption in both the public and private sectors. These have a negative effect on the efforts of an economy to promote responsible expenditure to enable national savings. Zimbabwe has had its fair share of corporate governance challenges in both sectors but has maintained a hard pro-austerity and anti-corruption stance. Frugality is a term that has begun to catch on in economic recovery measures across all sectors.

## II. Macroeconomic Policies

Zimbabwe's economic policy framework is pro-full economic recovery, aiming for middle income status by 2030. This is meant to sustain the economy by managing the national business cycle through price stabilisation, employment creation and economic growth.

The two macroeconomic tools, i.e. the Monetary Policy and Fiscal Policy, are augmented by measures in the 2019 Budget Statement. A wider horizon focus for long term positive economic management is also provided in the Transitional Stabilization Programme. The four policies are briefly explained below.

### 1. Monetary Policy (2018)[8]

At the time of writing, the Reserve Bank of Zimbabwe had not yet issued the 2019 Monetary Policy Statement. The economy is currently running under the measures announced in October 2018.

Drafted under the theme "Strengthening the Multi - Currency System for Value Preservation & Price Stability", the policy provides a reflection of the previous achievements. It also provides the basis for adjustments of the financial system to enable the Central Bank to maintain price and financial stability as an anchor to economic development.

### 2. Fiscal Policy (2018)[9]

This policy, issued by the Ministry of Finance and Economic Development in October 2018, provides measures to reverse "**fiscal dis-equilibriums**".

Key measures address financing of the budget deficit, provision of infrastructure bonds to enable the private sector to participate in infrastructure development, reforming state owned enterprises, addressing external debt arrears, stabilising the

6. UNCTAD 2018 World Investment Report
7. www.economywatch.com
8. www.veritaszim.net
9. www.rbz.co.zw
10. www.zimtreasury.gov.zw/index.php/resources/2019-budget

fuel market and increasing effectiveness and efficiency in revenue collection. This policy announcement was also instrumental in shaping the 2019 National Budget Framework.

### 3. 2019 Budget Statement[10]

Crafted under the theme "Austerity for Prosperity", the thrust focused primarily on the control of government expenditure, with measures targeted at reducing the public expenditure bill in respect of both human capital and material resources in the civil service. Austerity measures included review of the payment of bonuses, rationalising foreign missions, retiring employees providing non - essential services, management of the civil service employment numbers which saw the implementation of biometric payroll administration to weed out "ghost workers" and management of government's fleet of vehicles.

Other measures will complement the measures announced by the Central Bank in the 2018 Monetary Policy Statement. The following list includes some of the areas of focus;

- Fiscal indiscipline, good governance and fighting corruption
- Price & policy distortions
- Foreign currency earnings and International re-engagement
- Employment and productivity
- Public service delivery

### 4. Transitional Stabilization Programme (2018)[11]

This broad visionary policy was developed under the theme "Towards a Prosperous & Empowered Upper Middle Income Society by 2030" (Vision 2030) to provide a short-term reforms agenda covering October 2018 to December 2020.

**VISION 2030** aspirations are premised on the following 5 strategic clusters;

- Governance
- Macro-economic Stability and Re-engagement
- Inclusive Growth
- Infrastructure and Utilities
- Social Development

These clusters are meant to achieve the following economic objectives besides some socio-political objectives;

- Improved Governance and the Rule of Law
- Attainment of Responsive Public Institutions
- Broad based Citizenry Participation in national/socio-economic development programmes
- Political and Economic International Re-engagement
- Creation of a Competitive/Friendly Business Environment
- Enhanced domestic/foreign investment
- An aggressive fight against all forms of Corruption.

## Conclusion

Zimbabwe is geared to address the key macroeconomic fundamentals discussed in this article against the identified threats in the 2019 economic landscape. The short-term, medium-term and long-term measures in place are meant to confront the threats that have contributed to the economic decline in the past 10-15 years.

Zimbabwe's macroeconomic policy framework will focus on these fundamentals for sustainable development. In deed Africa can draw lessons from the struggles of this southern economic resilient country in her quest for the restoration of its vibrancy as the Bread Basket of Africa.

**Contributor's Profile:**

**Alick M Mutandiro** is an economic researcher in the public sector in Zimbabwe, whose duties include the gathering of micro- and macroeconomic data for analysis, development of revenue/economic performance reports and presentations to inform executive decision making and government policy formulation. Alick has close to 30 year's experience combining customs and taxes administration in Zimbabwe including economic research. He has a great passion for strategic and knowledge management with a bias towards management information systems.

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11. veritaszim.net/node/3269

# IN YEAR OF ELECTIONS, WILL AFRICAN COUNTRIES GET THE INVESTOR VOTE?

By **Laurie Hammond**, Partner, Hogan Lovells South Africa
**Thibaut Hollanders**, Partner Liedekerke Africa

The world, including investors, will keep a close eye on the various national elections to be held in Africa this year. The lead up and aftermath of national polls usually comes with uncertainty, something which investors tend to avoid if possible.

National elections have recently been completed in the Democratic Republic of the Congo (DRC) and there are upcoming elections in South Africa (May) and Nigeria (16 February). Other African nations heading for national elections include Senegal (24 February), Malawi (May), while citizens of Botswana, Mozambique and Namibia will head to the polls in October.

For investors who have been active in the mining sector in many of these countries, after the elections it will be a matter of assured continuity and stability, both from a political and legal perspective, for them to keep investing.

In a number of African countries, the mining sector has been hampered by significant challenges and change and uncertainty has been prevalent, as seen in new regulatory requirements and policies in countries such as the DRC and South Africa. Commodity price volatility has added to these challenges.

As a result, corporates and investors have increasingly looked to alternative funding solutions to plug the liquidity gap and provide an attractive yield.

In the DRC, alternative funding options, such as credit facilities from debt funds, and private placements (such as issuance of bonds by a limited number of investors or issuance of high yield bonds) are already frequently used across the mining sector.

In Rwanda, because of the economic situation, mining companies will inevitably be looking for alternative financing and the government is encouraging nationals to invest in the mining sector.
In the DRC a new Mining Code was promulgated on 9 March 2018 and provides for material amendments, including reinforcement of local content requirements and an increase in the royalty rate due to the state when selling minerals. There is also a reduction of the tax regime attractiveness with the introduction of two new taxes: the "50% super profit tax" and the "capital gains tax", which is due when shares are transferred.

Existing mining projects will directly and immediately be subject to the new provisions. In this respect, major mining companies have threatened to bring proceedings over the New Mining Code before the International Centre for Settlement of Investment Disputes.

In DRC, the new president, although from the former "hard opposition", will have very limited actions, as the parliament remains within the control of the former president amidst widespread allegations of electoral fraud. Should the situation remain as such, the mining environment should not be fundamentally different over the next years.

Rwanda is interesting as the mining sector is one of the top priorities of the Government. The new Rwandan Law of 13 August 2018 on mining and quarry operations has the objective of stabilising the mining sector and attracting more investors.

In addition, the mineral reserves have been underestimated. Mining in Rwanda is the second largest exporter and was last year one of the main contributors of the country's gross domestic product (GDP). It is expected that it will at least remain the same for this year.

Rwanda has liberalised its economy, allowing the private sector to be the engine of growth and wealth creation.

In South Africa political and regulatory uncertainty will continue in the lead-up to local elections and will impact on long term investment decisions in the mining industry. The land debate will also continue and create a level of policy uncertainty, as it impacts significantly on the mines.

However, the finalisation and gazetting of Mining Charter 3 and the withdrawal of the Minerals and Petroleum Resources Development Act Amendment Bill have had a positive impact on market sentiment and have provided a level of stability for the industry. The publishing of the Charter took longer than was promised, but the outcome was positive, as there were proper consultations and consideration of the comments received.

Investing in mining projects in Africa requires a deep understanding of both the regulatory and political climate in that country and the potential impact of the global economy on that industry and country.

At a country level, investors are looking for stability, certainty and how elections may impact this and their ability to exit. At a global level, investors looks at how financial market volatility, trade tensions and geopolitical factors could affect any investment.

Investment opportunities lie not only in mining itself but in the related infrastructure, energy and technology needs of this sector in each country and investors are increasingly looking at investing for impact.

Governments, corporates and investors working together with a long term, holistic view could open up investment opportunities that have far-reaching positive impacts across the continent.

## AFRICA'S POLITICAL RISK OVERVIEW SO FAR IN 2019

ALGERIA: President Abdelaziz Bouteflika announced that he will run for a fifth term in the April 2019 presidential elections, despite his poor health condition. The ruling National Liberation Front party declared its support for the President. Bouteflika's announcement triggered a wave of protests across the country and in France. In addition, authorities barred opposition figure and potential presidential candidate Rachid Nekkaz from holding a rally for his supporters in Khenchela city, which triggered further protests. Several leaders from opposition parties failed to agree on a joint candidate to face Bouteflika in the elections.

DEM REP CONGO: Security conditions slightly improved following the presidential elections. New President Felix Tshisekedi started to fill key positions in the presidential office, while he has yet to replace the current Cabinet. Former President Joseph Kabila's alliance maintained its majority in Parliament. President Tshisekedi attended the 32nd African Union Heads of State and Government Summit and requested that the head of the EU delegation to the DRC re- turns to Kinshasa. Opposition leader Martin Fayulu, who was the runner-up in the presidential poll, continued to reject the vote, asked the international community not to recognize the results and called for peaceful demonstrations across the country.

LIBYA: The Libyan National Army (LNA) continued to expand its control over the south of the country. The LNA clashed with local Tebu non-Arab armed groups near the oasis towns of Ghadduwah and Murzuq. The LNA announced that it took over the al-Feel oil field near Murzuq, as well as the Sharara oil field west of Sebha. The LNA also claimed victory against armed militias known as the Derna Protection Force in the port city of Derna. In response to the advances made by the LNA, the Tripoli-based Government of National Accord (GNA) appointed several military personnel. The GNA also indicated that it conducted, along with U.S. forces, airstrikes on an al-Qaeda camp in the country's southwest, killing four militants.

NIGERIA: President Muhammadu Buhari was re-elected on February 23, 2019 and received 56% of the votes. However, his main competitor and runner-up in the elections, Atiku Abubakar, rejected the results and vowed to go to court to contest them. Violence intensified ahead of the general elections, leading to 40 deaths, which increased risks of further violence ahead of the gubernatorial elections in March 2019. In addition, ethnic violence erupted in the northwestern Kaduna state between Fulani herders and Adara farmers, killing about 160 people

SUDAN: President Omar al-Bashir declared a nationwide state of emergency, following sustained protests that began in December 2018. He also extended the power of government security forces, raising the risk of a more violent crackdown against protesters. The President dissolved the Cabinet and replaced all provincial governors with senior army and intelligence officials. This contradicted the previous announcement of intelligence chief Salah Gosh that the President would step down as the head of the ruling party and would end attempts to modify the constitution in order to run in the 2020 presidential elections. The Special Assistant to the U.S. President stated that the U.S. could propose a resolution to defer President al-Bashir's case at the International Criminal Court, in case he agrees to step down.

# DEVELOPING AFRICA THROUGH THE RESET BUTTON

By **Brenton Lalu,** Specialist: Africa, Public Investment Corporation South Africa

In 2019, the African developmental agenda sees political aspirations meeting economic reality. The continents development agenda is hinged on stable governance that allows economies to thrive. This year, there are over twenty elections (local and national) taking place throughout the continent. However, Africa's development agenda is extensive, and cannot be halted during an election year. The continent had made solid economic progress in the last few years, though there are still many areas that require urgent developmental attention, and momentum needs to remain on the front foot. The continent has historically benefited from the commodity super cycle, though this had made its dependency on mineral export revenue grow. The result is an economy that is volatile and susceptible to external global shocks. Africa has since built up a good measure of resilience to these shocks, predominately through well diversified, non - resource dependent economies, with a strong focus on domestic resource mobilization. Whilst the continent has made strides, developmental gains (improved education, better quality healthcare and increased equality), have arguably been inefficient to meet the growing demand on employment and inclusivity. Investors, have a crucial role in the delivery of Africa's development. However, navigating it through an electoral period, coupled with differentiated growth patterns and currency volatility can be a challenging feat. Africa's weighted average risk premiums are amongst the highest in the world. This is reflective of weak fundamentals, poor credit quality, volatile growth, weak fiscal positioning and political uncertainty. The question remains, how do investors attain there returns under the current economic climate, whilst harmoniously investing to meet developmental agenda goals?

### Private Equity in Africa

Investment into Private Equity (PE) on the continent has risen immensely over the last decade. According to African Venture Capital Association (AVCA), consumer driven sectors (Staples and Discretionary) have peaked interest of PE investors, driven by the rise in the middle class and the demographic dividend. Similarly, further data from AVCA, RisCura and Capital IQ have seen attractiveness also rise greatly for Information Technology, Financials and Industrial sectors; that assist in pushing the continent forward. Moreover, investors like Development Finance Institutions (DFI's), have focused on accompanying sectors to drive impact and alleviate poverty. Sectors like Agriculture (to tackle Food Security), Energy (to Power Africa), Industrialization (to develop Manufacturing) and Infrastructure (to open up markets and bottlenecks) have been there key focus areas. Aside each other, investors (private and public), have made strides to develop Africa. Though, in recent history, the investment market has been under pressure, predominately driven by macroeconomic strains. Though the private equity market has remained resilient. After a short blip in activity, investment interest has started to recover. Capital IQ data shows that there is a trend towards a convergence of listed and unlisted EV/ EBITDA multiples to 8x. PE multiples have risen rapidly, and activity seems to be more diverse. Further PE investments are able to weather investor sell-offs and downturns in cycles, typical due to economic and political uncertainty. The listed multiples have been on a downward trend after peaking at 9x in 2015, signaling investor caution on the continent.

Albeit, investors have started to implement dual mandates. Accompanying their financial returns; are social returns, with a core focus on development, job creation and inclusivity. PE firms on the continent has already made great strides with this objective. An analysis from AVCA of 231 companies from 2009 to 2016 has seen PE investments create over twenty thousand jobs (+17% growth), with substantial growth in the Financial, Energy and Healthcare sectors, where female employment grew by over 50%, albeit from a low base.

However, there are still substantial developmental needs that investors can assist on to meet various

Nations Sustainable Development Goals and the African Union's Agenda 2063. Certain themes have emerged that are attractive on a financial base as well as an impact bases. Arguably, the most essential prerequisites are Infrastructure Development (Economic and Social), Industrialization, Intra-Regional trade, Financial Inclusion and Food Security.

### Attracting and Financing Africa

Appetite may be rising on the continent, though financing these themes remain a challenge. Red tape and poor regulatory frameworks stalls progress. Policy makers may have to carefully think about how to attract more public and private investors (local or foreign), whilst enabling a mutually beneficial relationship. Possible policy reforms may include special economic zones, reduced tariffs, tax breaks and clear frameworks to conduct business and open up markets. Moreover, one of the most prominent investor barriers in Africa is the level of risk (i.e. the risk/return profile). To tackle this, government may need to create safeguards for investors, i.e. guarantees. Similarly, a clear and transparent governance process is crucial to entice investors to the continent. Likewise, African countries have enhanced its integration in the last couple of years, most notably through several trade agreements (Continental Free Trade Area and the Tripartite Free Trade Area), where the continent has made strides to reduce its silo's, breakdown the barriers and encourage cross border transactions. Further, there is a clear opportunity to promote public private partnerships (PPP), which is still at an infancy stages in comparison to the rest of the world. The techniques mentioned above would allow African countries to collaborate with each other, improve its operating and political climate to develop the continent at a quicker pace. In terms of mechanism to finance development in Africa. Investors could employ various funding models like project bonds, greens bonds, debt funds, infrastructure bank; and or mezzanine finance structures and many more others.

### The Reset Button

There are several more challenges facing investors while investing on the continent, these are, but not limited to liquidity constraints, embracing cultural diversity, inadequate supply of infrastructure and poor regulation. Though, possibly the strongest challenge is mitigating political risk. This year, there are over twenty elections throughout the continent, some notable countries include, Nigeria, South Africa, Senegal, Tunisia and Malawi. Investors are likely to be glued to the outcomes of these. Political stability and stable governance are key to attain investor activity.

While elections provide for an opportunity for change, there is an inherent risk of election violence, either when the baton is passed or retained. Historically trends in Africa show that, elections can be a complete reset button; on policy, economic growth and overall stability of a country. It also has the potential to enhance underpinning tensions that are present (religious, ethnic, political etc.). Investors favour a cautious approach (wait and see) when investing during this time. This may have a dire effect on investment activity, especially, in a year with a heavy electoral calendar.

Nonetheless, development still needs to take place, and elections may provide a good opportunity for those willing to take on the added risk premium. Many investors will look for investment protections, co-investing opportunities, fund structures and partnering with a local firm to mitigate these risks. Similarly, some may opt for hedging positions, especially on the forex market. Another option that has gain increasingly popular is taking out political insurance to safeguard their assets. A few of options may erode margins, however, investor mandates are increasingly seeking developmental impact that could provide a thesis for investing, whilst elections are taking place. Nonetheless, at the crux of the decision is the level of risk and reward an investor is willing to take. Investor that get in early may have the benefit of a massive upswing. Contrary, unfavourable election results may lead to poor performing investments (financially and socially).

### Conclusion

Investors (public and private) have a vital role to play in the development of the continent. They do face immense challenges that may derail there investment objectives. However, there are several investment themes that allow investors to entrench themselves into the African growth story. Flexible and innovative asset allocation, strategy and financing mechanisms that can adapt to market conditions may need to be implemented, whilst acknowledging the risks involved. Investors whom can steer themselves through the reset button may reap the rewards waiting on the other side of a developing Africa.

Disclaimer: The views expressed in the article are the author's and not those of the Public Investment Corporation and, or its clients.

# SUB-SAHARAN AFRICA CREDIT OUTLOOK: STABLE, HIGH DEBT AND POLICY UNCERTAINTIES

By **Jermaine Leonard,** Director, Sovereigns, Fitch Ratings
**Jan Friederich,** Head of Middle East and Africa Sovereigns, Fitch Ratings

Fitch Ratings has a Stable Outlook for Sub - Saharan African (SSA) sovereigns in 2019, following three years of Negative Outlooks for the region. The improved credit outlook for African economies is supported by improving growth prospects, easing external pressures, and ongoing policy adjustments in several of the region's countries. The change also reflects the revision of the Outlooks for Angola, Gabon and Nigeria to Stable from Negative in 2018. Of the 19 rated SSA sovereigns, only Lesotho and Zambia are currently on Negative Outlook. None are on Positive Outlook.

SSA sovereign ratings are dominated by the 'B' category, partly reflecting the region's weak performance on development and governance indicators. Weak public finances and high levels of public sector debt have also been a constraint to positive rating actions in the region and will remain so during 2019. SSA's two other former investment - grade sovereigns, South Africa and Namibia, were downgraded to 'BB+' in 2017 and have remained at Stable since.

### Slow Growth Recovery to Continue

Aggregate growth in SSA will continue recovering in 2019 from its 2016 nadir but will remain below the high growth experienced in the years before 2015. This is true particularly among the region's oil exporters. In Angola, Nigeria and some of the smaller oil-exporting countries, the windfall from 2018 oil prices has helped to clear FX backlogs and will continue contributing to higher foreign - currency liquidity in 2019, which will support recovery in the non-oil sector as well. Fitch forecasts annual average crude oil prices to decline to USD62.5 per barrel in 2020, from USD71.1 in 2018. A sharper sustained drop in oil prices would have substantial implications for creditworthiness.

Many SSA oil exporters also face downside risks from stagnating oil production levels, which stem from a lack of investment in maintenance and new exploration in recent years. Fitch expects Nigeria to increase total production by approximately 300,000 barrels per day by 2020, but renewed insurgency in the Niger Delta around the 2019 general elections poses a risk to production levels. In Angola, ongoing reforms, including those within Sonangol, may eventually lead to increased production, but Fitch expects oil production to increase only slightly in 2019.

South Africa went through a technical recession in 1H18 and growth will remain subdued in the coming years, reflecting substantial structural constraints. Reforms envisaged by the government are unlikely to be sufficient to significantly raise the growth trajectory. Many of the region's other sovereigns, including Cote d'Ivoire, Ethiopia, Ghana and Kenya, will see strong growth rates, supported by high public investment, economic reform programmes, strong population growth and increasing global integration.

Inflation is expected to ease in several countries where inflation has been high, reflecting tighter macroeconomic policies and base effects. FX devaluations, easy monetary policy, reduced agricultural output, and administrative fuel price hikes had contributed to increased inflation, notably in Angola, Nigeria and Ethiopia.

### Politics and Policy are Ratings Sensitivities

There are a number of region-wide risk factors, but individual policy responses remain a key focus of Fitch's analysis. IMF programmes in a number of African countries, including most recently Angola, will continue to provide a policy anchor. However, Fitch believes that what some analysts have called the "IMF put" is overstated. The presence of a programme is generally a positive to the credit profile, but programme implementation risks are high in several countries. IMF programmes provide policy anchors for five SSA countries at end-2018, with the Republic of Congo, Mozambique and

Zambia in various stages of negotiation with the Fund. IMF programmes in Ghana, Kenya and Uganda are coming, or have come to an end, which will test their respective governments' commitment to lowering high debt levels.

Political risks are mixed, but muted in most Fitch - rated African sovereigns. Nigerian elections will come with disruption risks and a change in government would likely come with a lag in the implementation of new economic policies. General elections in 2019 in South Africa, Namibia and Mozambique are not expected to lead to significant disruptions, and their outcomes are likely to have a minimal impact on the direction of policy.

### External Risks from a Challenging Global Environment

Volatility on international financial markets poses a more significant risk to SSA sovereigns than in previous global monetary cycles. Among SSA sovereigns, South Africa relies most heavily on external flows to roll domestic debt, and none of the SSA countries rated by Fitch have significant vulnerabilities resulting from corporate external issuance. Apart from South Africa, SSA currencies experienced only limited depreciation/volatility during the surge in risk aversion in 2018. However, many SSA governments have increased their reliance on Eurobond issuances and other sources of commercial borrowing to replace expensive domestic issuance.

Rising global trade tensions and a possible slide in commodity prices also pose some risk, but domestic trade and investment conditions will dominate current account dynamics in oil-importing countries. Stagnating export levels along with steady imports of capital goods will contribute to persistent current account deficits, even as service receipts increase in some countries. In East Africa, Kenya's improving business environment and Ethiopia's expanding industrial capacities may eventually contribute to higher export levels.

Along with persistent current account deficits, low external buffers characterise the region. Eurobond issuance in Angola, Ghana and Nigeria has provided external liquidity, and Ethiopia has made use of deposits from Gulf Cooperation Council countries to bolster low reserves. However, reserves in Zambia are still worryingly low. An IMF programme would provide Zambia balance-of - payments support, but discussions between the government and the Fund have stalled.

The CEMAC region has achieved progress with reducing its twin deficits but the adjustment remains incomplete and the risks of policy slippages are high. The stabilisation of external buffers since mid-2017 underscores our assumption that there will be no break-up of the CEMAC monetary arrangement and no devaluation of the CFA franc against the euro.

### Public Finances Remain a Key Weakness in the Region

After several years of rapidly increasing debt levels, accumulation of new debt has slowed, as many SSA countries have pursued fiscal consolidation. Persistent fiscal deficits have begun or will begin to narrow across the region. However, high debt servicing costs and high wage bills in many countries will limit the flexibility of fiscal frameworks. In many countries, governments have been forced to cut capital expenditure in the face of underperforming revenue, which has limited the effectiveness of fiscal policy in stimulating growth.

Low domestic revenue brings an additional risk to debt sustainability. The SSA region has the highest median debt levels as a percentage of revenue, and the median revenue/GDP ratio has remained below 20% since 2016. Almost all covered SSA sovereigns are undertaking efforts to increase domestic revenue mobilisation by improving tax administration, coverage and compliance, but the effect so far has been limited. Fitch believes that revenue will remain low over the forecast period. Also, poor data availability on SOE balance sheets and other contingent liabilities bring further risks to debt sustainability.

*"The improved credit outlook for African economies is supported by improving growth prospects, easing external pressures, and ongoing policy adjustments in several of the region's countries."*

# NOW IN EFFECT

## CHANGES TO GUIDELINES FOR VALUING COMPANIES

By **Heleen Goussard,** Head of unlisted investment, RisCura

Despite being released only in December, the International Private Equity and Venture Capital Valuation Guidelines are already in effect, and feature some significant changes, says Heleen Goussard, head of unlisted investment at investment firm, RisCura.

"The changes are the latest in a long series of changes to standards and legislation that aim to make fair value reporting more transparent and consistent. The volatile economic environment and a need for better risk-management drive the demand for this type of reporting. The nature of unlisted investments, however, make it extremely difficult to produce this type of reporting and the benefit obtained from ever-increasing regulation may not be as extensive," Goussard says.

The most significant change, she says, is that Price of Recent Investment (PORI) has been removed as a valuation method. This is a substantial deviation from the prior standard. The second change is the additional guidance on the active market concept. An active market is defined as a market that trades often and with enough volumes to provide pricing information on an ongoing basis. All quoted instruments on an active market are valued using the market price.

She says this guidance still allows for consistent application of judgement by valuers, but it now also includes the following "For example, if a Fund holds an investment in a traded security where the public float represents a small percentage of the total outstanding shares and trading activity is dominated by only a few holders, the Valuer may consider this level of activity not to reflect an active market that would provide reliable pricing information".

"Although this increased guidance is helpful, there are some practical problems with its application. The percentage free-float is readily available from data providers for most exchanges, but understanding the number of unique counter-parties is an entirely different issue."

Further guidance has also been given, that, "Even if the market is not considered to be active, observable transactions would still provide an indication of value, and would need to be considered in the Fair Value estimate". This requirement may prove difficult to implement as the movements in price in non - active markets are often difficult to understand from the outside and are unrelated to the fair value movements of the company. Calibrating the transaction price to the listed market price on transaction date, may provide a way to "consider the observable transactions in the Fair Value estimate."

The need to consider observable transactions is particularly relevant in the debt markets and the guidance includes a new section addressing the quality of information obtained from brokers' quotes and pricing services. According to the guidelines the valuer should be aware of how the price quoted by a broker or pricing services is obtained. It also outlines individual factors for pricing services and brokers quotes.

"In many ways, with more emphasis on private debt investments and a drive towards a higher level of transparency and governance in the valuation process, the updated guidelines reflect the changes in the industry. This is a positive step for investors who need consistent and transparent valuations," Goussard says.

On the subject of Discounted Cash Flow (DCF) methodology, the standard setters removed the following paragraph: "However, because of its inherent reliance on substantial subjective judgements, and because of general availability of market-based techniques, the Valuer should be cautious of using this valuation technique (DCF) as the only basis of estimating fair value for investments that include an equity element." Elsewhere in the document it still emphasises that market - based techniques such as multiples are preferred but removed the cautionary wording above.

"We think this is a sensible change as the lack of high-quality market inputs (such as highly comparable companies) we experience in the developing world, weakens the value of market-based techniques and on occasion the reliability of a DCF may exceed that of a weak market-based valuation."

The guidelines also for the first explicitly state what they encourage as best practice in process when applying them. They emphasise the need for calibration and back-testing, a written valuation policy, proper documentation of the valuation

# WILDU DU PLESIS

Head of Capital Markets, Baker McKenzie

# LOW DOMESTIC CAPITAL RAISING FIGURES, BUT OVERALL IPO ACTIVITY GREW IN AFRICA IN 2018

Baker McKenzie's Cross Border IPO Index, using data supplied by Refinitiv (formerly Thomson Reuters) shows that, overall, capital raised by African issuers declined by 44% to $1.1 billion in 2018, down from $1.9 billion in 2017. Although 2017 and 2018 both produced nine African Initial Public Offerings (IPOs), the previous year had one megadeal - Steinhoff Africa Retail Ltd, which raised $1.2 billion in Johannesburg - while 2018's largest deal, Libstar Holdings Ltd, raised $280 million in its May debut in Johannesburg.

### Cross border capital

The amount of cross-border capital raised in stock exchanges in Africa, however, grew by 647% year-on-year to $1.3 billion in 2018, up from $70 million in 2017. The Index shows that the number of cross-border listings in the region increased from one to three IPOs - two of which were by issuers domiciled in the United Kingdom (UK) (Vivo Energy and Quilter), while the other one was a Mauritius-based company (Grit Real Estate). All three cross-border IPOs were dual listed in London and Johannesburg. Due to these cross-border listings in the region, the overall IPO activity in Africa grew.

Wildu du Plessis, the Head of Capital Markets for Baker McKenzie in Johannesburg, says, "It's good to see that, overall, capital raising on African exchanges picked up a bit in 2018. However, this increase in IPO values can also be attributed to Africa coming off a low base in terms of the cross-border capital raised in 2017.

"Despite the overall increase, capital raising on African exchanges is simply not where it could be if there was more economic and political certainty on the continent," du Plessis says.

### Domestic capital raised by African issuers

Domestic capital raising dropped by $1.7 billion in 2017 to $897 million in 2018, mostly because 2017 figures were artificially inflated by Steinhoff Africa Retail $1.2 billion listing on the Johannesburg Stock Exchange that year.

In 2018, in addition to Libstar, the top domestic IPOs in Africa in 2018 included MTN Ghana's listing on the Ghana Stock Exchange which raised $243 million and Mauritius-based Grit Real Estate Income Group's listing in London, Johannesburg and Mauritius, which raised $132 million.

"Domestic capital raising has declined due to political and economic instability in the region. IPOs are driven by investor sentiment and simply do not happen when markets are unstable," du Plessis says.

### Cross-border proceeds - African issuers

Cross-border proceeds by African issuers also decreased by 5% year-on-year - from $209 million in 2017 to $198 million in 2018. However, the number of African issuers listing outside their home jurisdictions grew from two issuers in 2017 to three in 2018.

"Cross-border capital raising is seen as a good way for issuers to raise money as it allows them to hedge their bets if their domestic markets are unstable, so we should see an increase in African issuers listing outside their home jurisdictions," says du Plessis.

Top listings by African issuers in 2018 include Grit Real Estate's listing in London, Johannesburg and Mauritius, Malta-based Raketech Group Holding plc's listing on the First North Stock Exchange, which raised $53 million and the dual listing of South African company Kore Potash on the London AIM and Johannesburg Stock Exchange, valued at $13 million.

### Sectors

IPOs by African issuers were mostly from the high technology, materials and real estate sectors in 2018. In terms of capital raised by African Exchanges, the energy and power, financials and real estate sectors dominated IPO activity in 2018. Du Plessis notes that, "Technology is dominating all the sectors at present, as many of the other sectors reply on investments in technology to move ahead – financial services, retail, energy, are all becoming heavily reliant on technology for their future growth. Africa also has very little technology infrastructure and legacy systems, which creates a positive environment for innovation and new investment.

"A growing middle class in Africa is also leading to an exponential increase in demand for housing, energy and technology, leading to increased investor interest in these sectors," he adds.

# WHAT ANALYSTS ARE SAYING
## ABOUT
## AFRICA'S ECONOMIC OUTLOOK AND FINANCIAL STABILITY

**Africa: Sovereign borrowing from commercial sources projected at $55bn in 2019.** S&P Global Ratings projected the aggregate long-term sovereign borrowing from commercial sources by the 18 countries that it rates in Sub-Saharan Africa (SSA) at $55bn in 2019, which would constitute a decline of 15.5% from $65bn in 2018. South Africa is forecast to account for 30% of commercial long- term borrowing in 2019, followed by Angola (20.8%), Nigeria (16.9%), Kenya (11.3%), Ghana (4.9%) and Senegal (4.4%). S&P said that $26bn, or about 47.3% of total sovereign borrowing, would be used to refinance maturing long-term debt, which would result in net commercial borrowing requirements of $29bn in 2019. In parallel, it expected the total sovereign commercial debt stock of the 18 countries to increase from $420bn at end-2018 to $446bn at the end of 2019, and to consist of $56bn in short-term debt and of $390bn in medium and long-term debt.

**Angola: Prevailing macroeconomic imbalances to constrain fast economic recovery.** BNP Paribas indicated that the Angolan government has implemented significant reforms since late 2017 to improve the country's financial sector transparency, enhance the efficiency of state-owned entities (SOEs), liberalize the foreign exchange regime and improve the business climate. It added that the government's agenda focuses on anti-corruption and economic reforms to attract new investments and boost potential growth. Also, it said that the IMF financing package will help implement structural reforms to diversify the economy by fostering private sector development and will ease the pressure on foreign currency liquidity in the near term. However, it noted that Angola still faces several challenges despite the government's positive shift in economic policy, such as currency depreciation, sustained pressure on foreign currency liquidity, a rising government debt level, the erosion of household purchasing power, as well as the difficulties facing the banking sector.

**Algeria: Lack of structural reforms limits growth prospects.** The Institute of International Finance estimated Algeria's real GDP growth to have accelerated from 1.4% in 2017 to 2.8% in 2018, supported by increased government spending. Its projected growth at 2.7% in 2019, as public spending will remain high ahead of the upcoming national elections in April 2019. It anticipated non -hydrocarbon growth to decline from 3.5% in 2018 to 2.7% in 2019, while it forecast hydrocarbon output to expand by 2.8%, following a contraction of 0.3% in 2018, due to higher gas production. Still, it said that delays in bringing new gas capacity online, underinvestment in mature fields and uncertainty about reforming the hydrocarbon law, are constraining hydrocarbon output and, in turn, overall economic growth.

**Ghana: Strong economic growth despite external pressure.** The International Monetary Fund indicated that Ghana's recent economic performance has been favorable despite a less supportive external environment for frontier economies. It noted that real GDP growth reached 6.7% in the first nine months of 2018 and projected it to remain strong in the medium term, supported by recent oil discoveries. However, it said that the economy experienced some pressure during the second half of 2018, due to the rebalancing of foreign investors' portfolios amid a stronger US dollar, rising U.S. interest rates and volatility in emerging markets, which led to a decline in Ghana's external buffers. Further, the Fund commended the authorities for their progress in implementing the Extended Credit Facility program, which will expire on April 3, 2019, as well as for their success in implementing structural reforms. It added that Ghanaian authorities and the Fund agreed on economic policies aimed at safeguarding macroeconomic stability, improving the monitoring of fiscal risks, strengthening external buffers and enhancing the resilience of the financial sector.

**Tunisia: Increase in public-sector wages could jeopardize IMF-related funding.** Bank of America Merrill Lynch (BofAML) considered that the Tunisian government's agreement with the labor union on public-sector wages may jeopardize IMF-related external donor funding, which, in turn, could widen the government's financing gap and weaken its creditworthiness. It also anticipated progress on reforms to be constrained by the 2019 parliamentary and presidential elections. It pointed out that authorities estimated the total budget cost of the wage settlement at $0.4bn, or 1% of GDP, of which $0.2bn, or 0.6% of GDP, will affect the 2019 budget. it said that the IMF is likely to express concerns about the sustainability of the government's fiscal adjustment. Also, it noted that the conditionality of the IMF program requires authorities to avoid any wage in- crease in 2018 and to maintain the freeze on the nominal wage bill in 2019. As such, it anticipated the conclusion of the fifth re- view of the IMF program to be delayed. Still, it expected the IMF and the authorities to eventually reach an agreement in coming months on measures that would address fiscal imbalances, given Tunisia's tight external financing conditions.

# COMMODITY PROSPECTS FOR 2019
## BASE AND PRECIOUS METALS

**Nickel prices up 28% to six-month high amid recovering demand and tight supply.**The LME cash price of nickel reached $13,574 per metric ton on March 5, 2019, its highest level in six months, constituting an in- crease of 28% from $10,605 per ton at the end of 2018. The rise in prices was mainly driven by expectations of a fourth consecutive year of supply deficit in the nickel market. In fact, nickel de- mand has been recovering, notably demand from stainless steel mills in China amid tight supply conditions. LME-registered nickel inventories have declined from about 330,000 tons a year ago to less than 197,000 tons currently, while global exchange inventories of the metal decreased by about 47% year-on-year. The supply deficit in the nickel market is projected at 33,000 tons in 2019 relative to 127,000 tons in 2018. In addition, nickel prices were supported by China's announcement of a stimulus package that included a 3% cut in the value-added tax for the manufacturing sector. Also, prices increased due to easing U.S.-China trade tensions amid the delay in the increase of U.S. tariffs on Chinese imports. However, the surge in prices was partly offset by a stronger U.S. dollar and rising growth concerns following China's lowering of its 2019 growth target from 6.6% last year to between 6% and 6.5% this year.

**Copper prices reach eight-month high amid ease in trade tensions and falling inventories.** LME copper three-month future prices reached $6,507 per metric ton on February 27, 2019, constituting an increase of 9.1% from $5,965 per ton at end-2018, and reaching their highest level since July 2018. The surge in prices was driven by expectations that the U.S. and China are close to reaching a trade agreement after U.S. President Donald Trump announced that he will delay the scheduled increase in tariffs on Chinese imports. In addition, prices were supported by expectations of higher demand from China, the world's top copper consumer, a weaker US dollar and signs of falling supply, as copper stocks at LME warehouses reached their lowest level since mid - 2005. In parallel, the latest available figures show that global demand for refined copper rose by 2.2% annually to 22.1 million tons in the first 11 months of 2018, as Chinese demand grew by 5.5%, while demand in the rest of the world regressed by 1%. On the supply side, global refined copper production increased by 1.5% annually to 21.7 million tons in the covered period.

**Production surplus in platinum market to slightly widen in 2019.** The platinum market's production surplus is projected to slightly widen from 645,000 ounces in 2018 to 680,000 ounces in 2019 due to an increase in the metal's supply, which would be partly offset by a rise in platinum demand. On the consumption side, global platinum demand is projected to increase by 5% to 7.7 million ounces in 2019 due to a significant rise in investments in platinum exchange-traded funds, which would more than offset the decline in demand in the automotive and industrial sectors, as well as for jewelry and bar & coin. In this context, demand in the automotive sector is forecast to decrease by 3% in 2019, which is smaller than the 7% decline in 2018, due to a more moderate contraction of the market share of diesel cars in Western Europe. Also, demand for platinum jewelry and the usage of the metal in the industrial sector are anticipated to decrease by 1% each in 2019. On the production side, global platinum supply is expected at 8.4 million ounces in 2019, up by 5% from 2018.

**Palladium prices at record high on rising automotive demand and supply concerns** Palladium prices continued to rise and reached a record-high of $1,558 per troy ounce on February 27, 2019, which constitutes an increase of 23.4% from $1,263 an ounce at the end of 2018 and of about 50% from $1,041 per ounce at end-February 2018. The rise in the metal's price is mainly due to higher automotive demand, especially in Europe and China, from the increased usage of catalytic converters, and as automotive markets move away from diesel - powered vehicles. It also reflects concerns of supply shortages, especially in the South African palladium market. In fact, news that labor strikes will be held at 15 mining firms in South Africa, one of the largest palladium - producing countries, further aggravated supply concerns amid an already tight global palladium market. Also, Norilsk Nickel, the world's largest palladium producer, anticipated that tighter emissions regulations in major automotive markets worldwide, along with supply short- ages, are expected to widen the production deficit in the palladium market in 2019. As a result, palladium prices are projected to hit a new record-high of $1,600 per ounce in 2019.

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