Weekly Market Report

Equity research | News & Analysis

MALAWI

Political and economic news

RBM explains weak private sector credit

The Reserve Bank of Malawi (RBM) has attributed the softening private sector credit to a weak macro-economic environment and increased public sector financing requirements. In its March 2018 monetory policy report, the central bank noted that private sector credit is responding to the relatively less tight interest rate position following previous rate cuts, albeit with a lag. The report noted that wholesale and retail trade sectors represented the largest share of outstanding loan stock at 27% while agriculture, manufacturing and community services constituted 25.7%, 19.2% and 12.1% of the credit stock respectively. During the review period, total banking sector loans were MWK 453.9bn (USD 617.5m) at the end of February 2018 representing a paltry 30 bps growth compared to the previous month. (Source: *The Nation and Cedar Capital*)

Company news

PCL registers 159% growth in earnings, including profit on disposal of shares

Local conglomerate; Press Corporation Plc (PCL) released its FY17 results showing a growth in earnings of 159% to MWK 39.7bn (USD 54m) on FY16. Earnings include MWK 14bn profit on sale of 19.6% of PCL's shareholding in Castel Limited – formerly Carlsberg Breweries Malawi Limited with the resultant dilution of PCL's holding in Castel from 39.6% to 20%. Castel Group of France acquired a 59% stake in Carlsberg Malawi from Carlsberg Breweries AS of Copenhagen, Denmark in 2016. A further 19.6% acquisition from PCL during FY17 consolidates the Castel Group's ownership to enable the Group make further strategic investments in the Malawi company.

Discounting for the one-off profit on sale of shares, PCL's growth in earnings is still a significant 68% thanks to contributions from subsidiary cash cows; NBM Plc and TNM Plc. NBM grew 15% to MWK 19bn comprising over 73% of PCL earnings at consolidation while TNM shot up 60% to MWK13bn – over 50% of net consolidated profit.

The gross earnings from the two cash cows are well above the net consolidated group earnings suggesting there are dogs and problem children (as defined by the BCG Matrix) which are pulling down group performance. Making up this hall of shame includes technologically challenged; MTL – incumbent fixed line operator which has finally ditched the outdated CDMA-based wireless telephony (mobile phone pretender) and rightly concentrated on data through its newly formed fibre optic company; OCL. Fisheries subsidiary; Maldeco, consumer goods retail chain; Peoples and property company; Press Properties also merit a dishonourable mention as loss leaders. Surprise guests to this party include Ethanol and Press Cane – ethanol producing subsidiaries which ordinarily put in a positive contribution but for specific challenges faced in FY17. These are said to be affected by the weather – prolonged rainy season meant a delay in starting production. The raw material for ethanol; molasses – a by-product of sugar production is supplied by Illovo Sugar.

Equity accounted businesses supplied their fair share of trouble with tobacco processing Limbe Leaf leading the negative growth – again blame it on the rain! PUMA a fuel distribution associate and Macsteel - a steel processing company were indifferent in their performance due to "challenging operating environment". Castel, formerly bottling and brewery group (BBGL) is said to have shown huge promise to graduate to a star on the BCG matrix.

PCL's strategy seems to address all the problem children and either set them on a path to achieve efficiency and growth or let them go. There is a lot of potential in merely addressing the loss leaders as they are currently pulling down the group's performance.

As pointed out in our earlier reports, PCL appointed George Partridge (ex-NBM CEO) as group CEO at the beginning of 2017 and is seen as the new broom that may help sweep away the inefficiencies within the group.

We think the identification of the problems within the group and the measures being taken to address them is a positive step and will unlock value for the group going forward. We therefore recommend PCL as a BUY, (Source: *Company filings and Cedar Capital*)

Press Corporation Plc

FY 17 PCL ("MWK 'MILLION")	2017	2016	% CHG
Revenue	200,480	188,857	6.1%
EBITDA	70,107	50,496	38.8%
Net finance cost	7,261	9,670	24.9%
Share of profit of associates	4,842	5,543	-12.6%
Net earnings	39,673	15,319	159.0%
Net earnings adjusted for share sale	25,673	15,319	67.6%

Source: Company filings

BHL plans corporate actions to increase its shares in issue by a factor of 6.5

Blantyre Hotels Plc plans to request its shareholders at its forthcoming annual general meeting to pass a special resolution authorising the company to effectively increase total shares in issue 6.5 times its current 129.2m shares in a two-step capital restructuring transaction. The company proposes to make a "10-for-3" bonus issue as the first step; followed by a "1-for-5" share split. We discuss below these two corporate actions and their implications on the shares and investors.

What is a bonus issue? - a bonus issue also known as a capitalisation issue or scrip issue is when a company issues additional shares and **gifts** them to its existing shareholders in proportion to the number of shares they hold in the company. Shareholders get these additional shares without paying anything hence the term – "bonus". A company may give a bonus issue for various reasons which may include rewarding its shareholders (instead of paying a cash dividend from its retained earnings, it issues them additional shares). Other reasons may be to increase the liquidity of the share on the stock market and make the share price affordable. A bonus issue increases the number of shares in the hands of investors and reduces the price per share as the market value of the company ("market capitalisation") does not change. In the case of BHL, a 10-for-3 bonus issue means it will issue *three additional shares for every 10 shares* held by existing shareholders. Since this is like a form of "dividend" payment, BHL will adjust its retained reserves by transferring an amount equivalent to the additional shares to capital – hence capitalisation.

What is a share split? - a share split is when a company decides to divide an existing share into shares of lower face value – more like exchanging a 2000 kwacha note for four 500 kwacha notes. The total value you have does not change but you have more low-value notes which add up to MWK 2000! Companies do share splits typically to increase liquidity of the share and bring its price down to affordable levels as, like in bonus issue, market capitalisation does not change. Once liquidity increases, more buyers and sellers trade in the share which in turn helps discover its true value. In the case of BHL, a 1-for-5 share split means every existing share after the bonus issue will be split into five shares and the value divided by five to maintain the same market capitalisation before the split.

What does it mean to an investor in BHL? – the overall effect of the two corporate actions above means existing investors will have their shares in BHL multiplied by 6.5. So if one holds 1,000 shares they will end up with 6,500 shares. The other effect is that the opening price will be divided by 6.5 so as to maintain the same market capitalisation and value held by the shareholders. BHL's current share price is MWK 28.00; if this price holds until the actions described above, the opening price after the actions will be MK4.31 per share. The historical earnings per share will reduce as the denominator (number of shares) increases while the numerator (earnings or net profit) remains the same.

What is the difference between bonus issue and share split?- the main difference emanates from the change in retained earnings and share capital of the company. In a bonus issue retained earnings or reserves are reduced by the value of additional shares and transferred to share capital. In a stock split the share capital does not change. In both instances number of shares increases and price per share reduces.

Our view is that at historical price earnings ratio of 7.1x, BHL is undervalued due to its illiquidity, we expect that existing shareholders might make some shares available on the market after the corporate actions or the company may well consider a rights issue in which existing shareholders may dilute. Either way, we think investors should take advantage of availability of liquidity and BUY as we see potential for upside as the market discovers the true value of the stock. (Source: *Company filings and Cedar Capital*)

Blantyre Hotels Plc

BHL – CORPORATE ACTION	CURRENT	AFTER 10:3 BONUS ISSUE	AFTER 1:5 SHARES SPLIT
Authorised shares	140,000,000	1000,000,000	6,000,000,000
Issued shares	129,192,416	167,950,141	839,750,705
Market price/share (MWK)	28.00	21.54	4.31
Market capitalisation (MWK)	3,617,387,648	3,617,387,648	3,617,387,648
FY17 Earnings (MWK)	506,538,000	506,538,000	506,538,000
Earnings per share (MWK)	3.92	3.02	0.60

Source: Company filings

Company announcements and our commentary – *(this section is repeated)*

- MPICO – expects its FY17 results to be at least 100% higher than FY16. Towards the end FY16, MPICO raised MWK 9bn in a renounceable rights issue which effectively converted its loans to equity. The effect of this transaction was a reduction in finance charges on loans which was reported at MWK4.1bn in FY16. We believe this is the main driver of earnings for FY17. On the other hand, we think the reduction in debt burden should help unlock value in rental income, especially from the Gate Way Mall whose occupancy rates were reported to be on the rise. We therefore forecast a minimum of 25% growth in 2018 barring any setbacks, especially on the long outstanding government debt.

- NICO – expects its FY17 to be at least 180% higher than FY16. NICO's 1H17 were 277% higher on the previous period. Our expectation was that the FY17 would track a similar trend barring any surprises. Its subsidiary, NBS Bank, has over the years, been bedevilled by NPLs which weighed down the Group's performance. Rabo bank was brought in as technical partners at the beginning of the year and there has been a management shakeup at NBS. We think NBS Bank hit rock bottom and expect that it will only be going up. NICO's life insurance business (NICO Life) seems to be the major contributor to the Group's performance and growth, we think it is likely to continue to anchor the Group into the future. ***The company has updated its trading statement and says to expect at least 300% increase.***

- NBS expects its FY17 results to be at least 70% higher than FY16 – *but will still report a loss.*

  Source: Company filings and Cedar Capital

Market activity and colour

The market traded 36.3m shares on 9 of the 13 counters in 42 trades recording a market turnover of MWK 1.3bn (USD1.8m) during the week. This is to be compared to 28.7m shares worth MWK 1.5bn (USD 2.1m) in 27 trades registered in the previous week.

FMBCH traded the most value worth MWK 842m or 64.5% of the market from 8.4m shares. MPICO and TNM were also notable trades of 15m and 10.6m shares worth MWK 203m and MWK 191.8m respectively. Other active counters were ILLOVO, NICO, NBS, NBM, NITL and STANDARD.

The only riser was NBM up 1.5% to MWK 284.14 on better FY17 results as compared to its peers – with the highest traded price at MWK 285.00. NITL dropped from MWK 60.06 to MWK 56.98.

The market has demand for BHL, FMBCH, PCL, STANDARD, OML and NBM. Sellers are available in MPICO, NICO, NBS and ILLOVO. In TNM there are sellers at MWK 20.00 while buyers are at MWK 18.00.

We have issued a separate company update research report on OML Plc on their managed separation which highlights the unrepeatable opportunity the separation presents to investors. (Source: *MSE and Cedar Capital*)

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