MALAWI

Political and economic news

2018 Census slated for September

Government has disclosed that Malawi's National Population and Housing Census is slated for September, adding that discussions among officials from the Ministry of Finance, National Statistical Office and development partners have begun. Ministry of Finance Economic Planning and Development spokesperson, Davis Sado, stated that discussions are in progress to see how much the exercise will cost as well as how much would come from development partners. Sado hinted that, this time around, the process would be quick because enumerators will be provided with tablets and laptops, unlike in previous exercises when they used to collect data and go back to the office for compilation. One of the country's development economists, and former economist at Development Bank of South Africa, Du Mhango cautioned Malawi authorities against focusing much on population demographic during the census. (Source: The Daily Times)

LWB in MWK 75bn water project

Poor sanitation and intermittent water supply in Lilongwe and surrounding areas will be history within five years as the World Bank subsidiary; International Development Association will put in USD 100m (about MWK 73bn) to improve water and sanitation services. On 20 December 2017, the World Bank board approved the Lilongwe Water and Sanitation Project (LWSP) amounting to USD 102m, out of which USD 2m will be a Malawi Government contribution. Lilongwe Water Board (LWB) chief executive officer Alfonso Chikuni mentioned that the project will be implemented in four phases within five years. These will include water distribution network rehabilitation and expansion, priority sanitation improvement and institutional capacity strengthening. LWB will be the implementing entity while Lilongwe City Council will be the beneficiary of the project. The loan authorisation bill is expected to be tabled in parliament to authorise the Ministry of Finance Economic Planning and Development to proceed with the signing of the financing agreement. Upon completion, the project is expected to improve the systems hydraulic capacity and reduce losses by 10% to help 500,000 residents to have access to quality water and sanitary services. Chikuni indicated the project was one of the medium term investment plans under the LWSP to resolve some of the sanitary and water hiccups in the city and its surrounding areas. (Source: *The Nation*)

All Treasury Notes to be listed on MSE

The Reserve Bank of Malawi (RBM) has said all benchmark issuances of Malawi government treasury notes will be listed on the Malawi Stock Exchange (MSE). This was revealed on Monday when the government listed a MWK 5bn two-year treasury note on the market. RBM manager for market developments, Franklyn Khoza, stated that the government last year published an issuance calendar for domestic debt, which gives a schedule of when treasury bills and benchmark treasury notes will be issued, up to June 2018. He said this is part of the initiative to issue debt securities at frequent and predictable intervals. Khoza indicated that this will be normal practice going forward, whereby the calendar will be published at the beginning of the fiscal year to allow the investing public an opportunity to plan their asset allocation strategies. The two-year treasury note that has been listed is the first of the benchmark securities in the government's treasury note programme as outlined in the issuance calendar. The other maturities are three, five, seven and 10 years. Khoza also mentioned that the listed notes will benefit from the advantages of trading on a regulated secondary market, and provide alternative investment avenues to investors. He indicated that the visibility created by the exchange potentially increases liquidity of the instruments and will, in the end improve price discovery. By having the benchmark treasury notes listed, it is expected that the brokers or dealers on the exchange will market the securities just as they do for other listed securities. (Source: *The Daily Times*)

House passes MWK 1.3trn revised budget

Parliament passed the MWK 1.3trn revised budget which has seen a significant number of votes being slashed following poor performance of grants and revenue collection by the Malawi Revenue Authority (MRA), among others. The new budget is MWK 9.3bn less than the one which was passed in June last year. Some ministries, departments and agencies that have had their allocations slashed include the Anti-Corruption Bureau (ACB), the Law Commission, Office of the Ombudsman, the Administrator General's Department, the Ministry of Labour, Youth, Sports and Manpower Development and the Ministry of Justice. On the other hand, the Judiciary, the National Assembly, the Office of the President and Cabinet, the Malawi Defence Force and the Ministry of Local Government and Rural Development has had their allocations increased. In an interview Finance Minister Goodall Gondwe mentioned that he will bank on good weather and other natural phenomena so that the country does not experience a hunger crisis which may strain the budget. He further on stated that he is hoping that the MRA will make up for the deficit that was there previously in the collecting of revenue. Otherwise, the only big challenge now will be to get more money so that the estimates are met. Gondwe has said the reductions were due to a freeze on travels and recruitments among other reasons. (Source: The Daily Times)

Inflation now at 8.1%

Despite a process to rebase the Consumer Price Index (CPI), y/y inflation is still holding within single digits recorded at 8.1% in January, according to latest figures released by the National Statistical Office (NSO). Food inflation is at 7.6% while non-food inflation was recorded at 9.6%. The urban month on month inflation rate stands at 2.3%. Urban food inflation is at 6.2% and non-food inflation at 0.2%. Although the figure for January has slightly picked from the 7.1% inflation rate for December 2018, NSO mentioned that this should not be cause for alarm as the weights in the inflation basket for January 2018 are not the same as those used previously before the changes were effected. Statistician in the NSO Pricing Division, Imran Chiosa, said the new CPI weights are based on monetary expenditures relating to consumption for all households (both urban and rural) derived from the Fourth Integrated Household Survey conducted between 2016 and 2017. (Source: The Daily Times)

Company news – **(this section is repeated but remains relevant)**

NBM declares second interim dividend

National Bank of Malawi (NBM) a subsidiary of PCL has declared a second interim dividend of MWK 1.5bn representing MWK3.36 per share. This follows a first interim dividend for FY17 which was paid in September of MWK 3.3bn. The second interim dividend will be paid to shareholders appearing in the company's share register as at the close of business on **2 March 2018**. The dividend will be paid on **24 March 2018**. NBM dividend policy is distribution of 50% of its net earnings. (Source: *Company filings and Cedar Capital*)

Company announcements and our commentary

- TNM – expects its FY17 results to be at least 60% higher than FY16. We think this is driven by strides in market share growth on the back of the company's previous investment in its backbone infrastructure and its investment in 4G and 4.5G LTE technology. TNM may also benefit from low interest rates which may have translated into lower finance charges on its debt securities.

- 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.

- PCL – expects its FY17 to be at least 90% higher than FY16. The beginning of the year saw changes at the top management level in the Group with George Partridge taking over from Matthews Chikaonda. George was formerly CEO of PCL's subsidiary and cash cow; NBM bank. His initial focus seems to be to address all bad apples within the Group and curtail their loss making status. In this regard MTL has been restructured by forming a fibre optic company while the cdma-based mobile telephony business line has been abandoned. Top management changes have been effected in PTC Group which seems to have revisited its strategy in order to survive competition from incoming supermarket chains who only target the main cities. We think the jump in profit might be attributed to TNM and a one-off profit from a sale of a stake in one of PCL's holdings which analysts will be well advised to discount going forward. But the cleaning house aspect alone should unlock the Group's performance going forward as loss making subsidiaries weighed down the Group by not less than MWK 10bn.

- SUNBIRD expects its FY17 to be at least 70% higher thanFY16

- NITL – expects its FY17 results to be at least 100% higher than FY16

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

- STANDARD expects is FY17 to be at least 30% lower than FY16. Press reports indicated that Standard Bank was a major lender in what appears to be a fraudulent transaction in which a reported USD 20m was lent to Cotton Ginners African Limited, syndicated by a few banks. The company (Cotton Ginners African Limited) applied for bankruptcy proceedings in the court of law after accessing the facility and its CEO was reported to have fled the country. Subsequently he was brought back into the country where he faces some charges relating to the scam. It does seem a one-off mishap and savvy investors may look to buy into weakness.

Source: Company filings and Cedar Capital

Market activity and colour

The market traded 9.2m shares from 8 of the 13 listed companies in 34 trades recording a market turnover of MWK 88.8m (USD 120.8K). This is to be compared to 233.9m shares worth MWK 7.5bn (USD 10.2m) registered in the previous week.

The volume and value dropped significantly compared to the previous week which was an aberration with two major trades in NBS and FMBCH.

The dominant counter was MPICO which recorded a total volume of 4.5m shares worth MWK 70.6m making up 79.5% of the total value for the week. Other active counters were ILLOVO, NBM, NBS, NICO, STANDARD, SUNBIRD and TNM.

Risers during the week were TNM – which rose 6.3% to MWK 20.00 per share and NICO added MWK 3.00 to close at MWK 45.00 per share. STANDARD shed MWK0.01 to close at MWK 609.99.

February roundup

Total trading activity for the month of February 2018 was recorded at 245m shares worth MWK 7.7bn (USD 10.5m) in 124 trades compared to 36.5m shares of value MWK 1.3bn (USD1.8m) in 107 trades recorded in the previous month. This represents a significant increase in market turnover of over 490% month on month. By a further comparison, February 2017 recorded turnover of MWK 179.6m (USD 247.6K) – resulting in a massive increase in February 2018 of over 4300% y/y. Traded volumes for a comparable period last year were at 12.9m shares.

The significant increases in February 2018 were largely contributed to by two major trades in NBS and FMBCH that went through the market with a combined value of MWK 7bn (USD9.6m)

The most active counters in both volume and value were obviously NBS and FMBCH courtesy of the two spikes in trading with a combined 91% of the monthly value. All counters with the exception of BHL were active during the month. BHL is beset by illiquidity problems as there are few shares in issue which are tightly held.

The index rose from 22223 at the beginning of the month to 23183 representing a 4.3 % increase. This is also to be compared to February 2017 index of 13635 giving a 70% rise y/y.

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NICO led the rally during the month recording a 32.3% or MWK 11.00 rise to MWK 45.00, TNM rose 16.5% or MWK 2.66 to MWK 18.81. TNM has risen further by week ending 2 March to close at MWK 20.00 per share. Other risers during the month were NBS up 2.3% to MWK 8.70; OML up 1.5% to MWK 1990.00 and FMBCH which rose by MWK 0.60 to close at K 70.70. STANDARD lost a marginal MWK 0.01 to close at MWK 609.99 – on a broker whim to beat the first-in, first-out trade ranking system.

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