

MALAWI

Political and economic news

Maize prices push up March inflation

Rising maize prices have pushed up March 2018 inflation by 201 bps to 9.9% y/y figures from the National Statistical Office (NSO) published have shown. During the review period, food inflation rose by 330 bps to 10.6% while non-food inflation registered 30 bps increase. Maize makes up more than 45.2% of the CPI (Source: *The Nation*)

Company news

NICO Holdings general insurance unit releases FY17 results – a window to the plc?

NICO General Insurance Company Limited (NICO General) earnings for FY17 were 17.5% up to MWK 2.2bn on FY16, according to its published results. NICO General is a 51% subsidiary of the listed entity; NICO Holdings Plc – one of the two short-term insurance companies in which the listed group has retained control. NICO Insurance Zambia Limited is the other subsidiary. Traditionally NICO General has tended to contribute 25% towards the group's revenues and around 40% towards its earnings. Using this assumption it would put the group's earnings at around MWK 6bn – falling short of at least MWK 8.1bn being the minimum expected earnings after NICO Holdings plc's earlier announcement in a trading statement to expect at least 300% increase in FY17 earnings. This backs our assertion that earnings growth for the group would be driven by NICO Life Insurance Company – another 51% subsidiary in life insurance and pensions business – this is also supported by the performance of the Malawi All Share Index which registered a 62% growth y/y.

NICO GENERAL INSURANCE COMPANY

FY 17 PCL ("MWK MILLION")	2017	2016	% CHG
Gross written premium	15,017	12,517	20.0%
Reinsurance premium	5,481	4,568	-20.0%
Net insurance benefits	5,260	4,444	18.4%
Total expenses	4,062	3,478	-16.8%
Net earnings	2,190	1,864	17.5%

Source: Company filings

RBM, MSE moves to automate the equities market

Reserve Bank of Malawi (RBM) and Malawi Stock Exchange (MSE) have announced a project that will culminate into automating the trading of shares listed on the MSE, remove and replace physical share certificates with electronic ones and improve settlement by automation of settlement through a Central Securities Depository (CSD). While we have included the press announcement in our weekly circulation, we have also explained the process and the implication on investors below:

Automating trading of shares – this affects stock brokers otherwise known as registered members of the stock exchange who, by virtue of their membership and licence, are allowed to buy and sell shares of listed companies on behalf of various investors; including the general public. Currently brokers visit the stock exchange to trade shares with the MSE acting as the market and regulator for trading the shares. With automation, brokers will trade via the computer without necessarily physically going to the stock exchange. The MSE will continue to act as the market and regulator of trading activity mostly through electronic means. This will make trading more transparent as brokers will enter orders from each client separately on the trading system.

Dematerialisation of share certificates – this means the conversion of paper (physical) share certificates to electronic format (represented by an account number in the central

depository). Much in the same way the good old savings passbook was replaced by just a unique account number! Your money in the bank is no longer showing in your passbook but appears as a credit on the bank statement much in the same way your shares will appear on the “demat” account.

Why is it necessary to dematerialise share certificates?- physical share certificate are prone to various risks; they can be stolen or forged and sold by fraudsters, they can be lost or destroyed. This may delay trading of the shares when one wants to sell and cash in their investment as trading cannot happen without the physical certificate being presented. Converting of shares to electronic form also enables the market participants especially transfer secretaries to handle increased number of transactions while reducing the possibility of human error. Imagine in markets where over 1,000 shareholders transact every day! The transfer secretaries would be overwhelmed with work to transfer shares from one shareholder (who has sold) to the other (who has bought). This is done automatically in the depository based on instructions from the investors.

What should investors do? – investors in listed shares currently hold share certificates in physical form. These investors are now required to contact their broker/custodian in order to convert their paper certificates to electronic account form. The investor will be required to complete and sign a form consenting and authorising the depository to convert their shares to electronic form. The form will contain details of share certificates being converted and it should be counter-signed by the broker or custodian. The investor will surrender the share certificates to the broker/custodian **in return for a signed and stamped copy of the form**. This is important as this remains the only evidence of the investors shareholding while waiting for the demat account to be effected in the depository. The broker/custodian will submit the form and the share certificates to the depository which, after due processes, will issue a letter to the investors confirming their account number and shareholdings they have in their demat account. The broker/custodian will then deliver the letter with the account details to the investor. This process starts on 30 April 2018 and will end on 30 September 2018.

What happens regarding trading the shares? – once automated trading starts only electronic (or dematerialised) share certificates will be traded. So if one has not converted to electronic form, they will have to convert the share certificates first before selling their shares. This is why it is important to do the conversion now rather than later. This also applies to new companies that will list on the stock exchange in future as their share certificates will be all in electronic form. Those intending to buy shares for the first time after ATS has started will need to open a demat account in the depository through their stock broker or custodian.

How about settlement? – settlement refers to a seller of shares getting their money and the buyer of shares getting their share certificate after trading. In this case the Central Depository will transfer shares sold from the seller’s account to the buyer’s – based on the trade as captured in the automated trading system (ATS) by the brokers. This is in electronic form- so the buyer’s account will be credited with the shares bought and the seller’s account debited with the shares sold. The CSD will also transfer money from the buying broker to the selling broker bank accounts on settlement day. The selling broker will then effect payment to the investor selling the shares.

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 8m shares in 11 of the 13 counters in 50 trades recording a market turnover of MWK 362.8m (USD 493.6K) during the week. This is to be compared to 36.3m shares worth MWK 1.3bn (USD 1.8m) in 42 trades registered in the previous week.

NICO traded the most value worth MWK 231.5m or 63.8% of the market with a total of 4.8m shares.

FMBCH went up 30% to MWK 130.00 per share without any fresh news in the market. Sunbird increased by MWK 9.16 to close at MWK 134.16..

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. (Source: *MSE and Cedar Capital*)

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