Weekly Market Report

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MALAWI

Political and economic news

US firm to supply dredging equipment for Kapichira

Hydro power efficiencies are expected to improve following the awarding of a contract to a United States (US) firm by the Malawi Challenge Account-Malawi (MCA-M) to supply dredging equipment at Kapichira Hydropower plant. The MCA-M which is implementing a USD 350.7m (MWK 257bn) energy compact announced that it awarded Elliott Dredges LLC a USD 7m (MWK 5bn) contract to support efforts in strengthening the country's power sector. The US-based firm will supply dredging equipment to the Kapichira Hydropower Plant to help improve its generation by reducing the sediment in the reservoir and therefore, increasing the amount of reservoir water volume and hydropower efficiencies. According to a statement from the US Embassy, the procurement of the dredging machines will come a long way in the improvement of generation capacity. Nearly 95% of Malawi's power is generated by hydropower on the Shire River. Weeds and sediment lower the water levels of the river, and accumulation in reservoirs reduces the amount of water that can be held, resulting in reduced power generation. The dredging equipment procured from Ellicott Dredges LLC will remove the weeds and sediment and help to improve generation capacity at the Kapichira Hydropower Plant. (Source: The Nation)

Judges risk punishment over delayed cases

Judges risk discipline for failing to deliver judgements on outstanding cases on time some of which have kept litigants waiting for justice for more than a decade. Registrar of the High Court and Malawi Supreme Court of Appeal said the development follows a concern Chief Justice Andrew Nyirenda raised on delayed delivery of judgements during a two-day judges meeting in Mangochi. She further on said the Chief Justice took the concerns raised by the court users over overdue rulings seriously and directed all judges to finalise their outstanding judgements by September this year failing which action would be taken on them. Over the years court users have been complaining of lengthy period the courts take to have their matters resolved due to various factors such as procedures and undue delays by judges to deliver judgements. During the meeting, the Judiciary also agreed to deal with members of staff who engage in corruption such as getting paid by some errant lawyers to misplace or trash certain court files to thwart case proceedings. (Source: *The Nation*)

Foreign exchange reserves pick up

Malawi's gross foreign exchange reserves a combination of official and private sector reserves increased marginally from 3.39 months of import cover two weeks ago to 3.42 months recently, latest figures from the Reserve Bank of Malawi (RBM) have shown. Recent RBM Daily Financial Market Development report for 16 February indicates that as of the previous week, total official reserves increased to USD 715.02m from USD 709.17m two weeks ago. The marginal increase comes as the country is going towards the end of its lean period, usually between November and February, when demand for forex surges due to demand for fertiliser and farm inputs. The increase also comes as the local currency; the Malawi Kwacha, has marginally weakened against the British Pound and the South African Rand over the past two months despite being steady against the US Dollar. (Source: *The Daily Times*)

Company news

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 where his performance was quite decent. 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 233.9m shares from 8 of the 13 listed companies in 33 trades recording a market turnover of MWK 7.5bn (USD 10.2m). This is to be compared to 4.5m shares worth MWK 79.6m (USD 108K) registered in the previous week.

The spike in volume and value during the week was influenced by a block trade of 88.3m FMBCH shares worth MWK 6.2bn making up 83% of total market turnover. A block trade is where a buyer and/or seller places an order to fill his entire volume on the order at once - otherwise known as “all or nothing”. NBS Bank was the next contributing factor with 137.8m shares traded in a special bargain price of MWK6.50 per share (market price MWK 8.70). This parcel was valued at MWK 856.6m (USD1.2m) making up 11% of total traded value. Special bargain trades are those agreed between buyer and seller, at a price outside the scope of the market and of such volume level that the market is unable to challenge it either on the sell or buy side. Such trades do not affect the ruling market price.

Apart from the two majors trades discussed above, Illovo traded 338K shares at the market price of MWK 240.00 per share and other trades were recorded in NICO, MPICO, NBM, TNM and OML.

Risers during the week were NICO which increased 7.7% to MWK 42.00 – the counter continues its week-to-week rally having opened the month of February at MWK 34.00. Likewise TNM continued its upward trajectory rising 4.5% during the week to MWK 18.81 while FMBCH rose 10t to close at MWK 70.60. It is worth pointing out that the MSE uses **volume weighted average price** as closing market price in a day’s trading session. This means some counters may have recorded higher **last traded prices** but the market price was “weighed” downwards by a significant volume traded below the last trade on the same day. A case in point this week is FMBCH and TNM whose last traded prices were MWK80.05 and MWK18.90 respectively on a day where there were other trades on the counters at lower prices – hence their market prices closed at MWK 70.70 and MWK 18.81.

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