MALAWI

Political and economic news

CPI eases to 7.8% in February

Consumer prices slowed down to 7.8% y/y in February 2018, from 8.1% y/y recorded in the previous month, thanks to the continued improvement in food availability, the National Statistical Office (NSO) stated. Inflation had picked up in January 2018 from 7.1% in December 2017 in the wake of a rebasing process NSO conducted to ensure that the composition of the basket used to calculate inflation be more reflective of the situation on the ground. According to NSO, food inflation continued to soften in the month under review standing at 7.3% down from 7.6% in January. A reduction was also recorded in non-food inflation which stood at 9.4%, down from 9.6% in the previous month. (Source: The Daily Times)

Economic growth revised down to 4.5%

The ministry of finance, economic planning and development has revised downwards 2017 and 2018 growth projections to an average of 4% and 4.5% respectively. Initially, Treasury had projected 2017 growth at 6.4% while initial projections for 2018 were pegged at 6%. However, treasury secretary Ben Botolo said that 2017 GDP is expected to close at 4% while that of 2018 is projected to be between 4% and 4.5%. He observed that in order for the economy to sustain the low levels of inflation being recorded, the government's fiscal policy should be aligned with the monetary policy to avoid counter-acting what the central bank is doing. This is not the first time that government has revised downwards its economic growth projections. Last year, the projections were also revised downwards to 2.9% from 5%. And in 2016, the economic growth rate was also revised downwards from 6% to 3.1% largely due to adverse weather conditions that reduced crop yield by over 30% as country's economy is agro-based. This year's downward revision has come about due to combined effects of dry weather spells and extensive attack on crops by fall army worms; the most affected crop being the country's staple; maize. The current drought is estimated to cut maize production by 40% or 210,740MT while army worms could reduce output by 10%. (Source: *The Nation*)

Government, World Bank sign water project agreement

The government and the World Bank have signed a financing agreement of the Lilongwe water and sanitation project expected to commence soon. World Bank is financing the project to the tune of USD 100m. The project will, among other things, maintain and upgrade the 142km existing distribution network by about 186km to areas of the city not currently served with piped water. The funds will also go towards improving sanitation in the city through the rehabilitation and expansion of a sewage network of 107km and the Kauma sewage treatment plant. World Bank country manager; Greg Toulmin said the bank has been a long-standing and valued partner in the Malawi water sector for more than 20 years and assured the government of its continued commitment to the cause.. Minister of finance, economic planning and development, Goodall Gondwe, asked chief executive officers of the Lilongwe Water Board and the Lilongwe city council to take maintenance as a top priority. Lilongwe Water Board Chief Executive Officer, Alfonso Chikuni promised that the board will look at developing and enhancing its capability to maintain and plan for the future to avert the recurrence of the current state of affairs in water supply in the city. (Source: *The Daily Times*)

Company news

BHL posts 22% increase in FY17 earnings

Blantyre Hotels Limited FY17 earnings went up 22% on FY16 on improved occupancy levels and average room rates – and helped, marginally by prior year accounting adjustments. Revenue grew 17% on the previous year while operating margins were maintained at 58%. Cost of sales increase was within reasonable limits; increasing 17% to MWK 1.4bn – with the board singling out backup power and maintenance costs as the main culprits. Notable savings were recorded in finance cost; 77% favourable at MWK 23m thanks to a reduction in interest rates and repayment of borrowings which are expected to be fully repaid within 2018.

A prior year error in the treatment of discount on revenues – erroneously grossed up in revenues and related trade receivables was adjusted for in line with IAS 18 which requires revenue to be recognised net of discounts. Another prior period adjustment concerned an inadvertent overstatement of deferred tax liability occasioned by failure to re-index the tax values for land. The effect of these adjustments resulted in a net reduction in brought forward earnings by MWK26m. Other comprehensive income in FY16 consisted of movement in revaluation of land and buildings of MWK 1bn netted off against related deferred tax charge of MWK 340m.

Looking ahead, the company intends to construct a 180-capacity four-star hotel in Lilongwe and according to the directors, design concepts and discussions with land owners are at an advanced stage. This is a commendable development as being a one-hotel company does expose its earnings to some risk, especially during major refurbishments. The company will be looking to raise capital through a rights issue which should also help the market for the stock as it hardly trades due to illiquidity. (Source: *Company filings and Cedar Capital*)

Blantyre Hotels Plc

FY 17 BHL (“MWK’000”)	2017	2016	% CHG
Revenue	4,118,092	3,523,721	16.8%
Cost of sales	1,716,253	1,460,299	-17.5%
Gross Profit	2,401,839	2,063,422	16.4%
Operating profit	765.759	675,705	13.3%
Net finance cost	22,959	99,529	77.0%
Profit for the year	506,538	414,074	22.2%
Other comprehensive income	5,060	773,201	-99.3%
Net earnings	511,598	1,187,275	-56.9%

Source: Company filings

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
Standard Bank	2017	Final	MWK 4.26	TBA
BHL	2017	Final	MWK 0.15	TBA

Source: Company filings

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

- 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. ***The company has updated its trading statement and says to expect at least 300% increase.***

- 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.*

Source: Company filings and Cedar Capital

Market activity and colour

The market traded 4.2m shares on 10 of the 13 listed counters in 39 trades recording a market turnover of MWK 248.6m (USD338.2K). This is to be compared to 16.2m shares worth MWK 291.9m (USD 397K) in 35 trades registered in the previous week.

Standard Bank traded 200,000 shares recording a turnover of MWK 122m or 49% of the entire market turnover. NBM came second in trading with 23% of the market while MPICO (7.8%) was third. Other active counters were NICO, TNM, NITL, FMBCH, OML, NBS and PCL.

OML led the risers during the week recording a 15.6% or MWK 310.00 increase to MWK 2,300.00 – on the release of its FY17 financials. MPICO went up MWK0.55 to the last traded price of MWK 17.95 on resurgent demand. NBM gained MWK 5.00 to MWK 280.00 and PCL gained MWK 2.00 to MWK 602.00 on a small volume. There were no fallers.

There is demand for PCL, FMBCH, OML, NITL and BHL. While sellers are available in NBS, TNM and ILLOVO at market price.

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