

MALAWI

Political and economic news

Mining revenue increases 25%

Treasury says it has raised MWK 500m (USD 680K) in mining revenue in nine months from July 2017 to April 2018 through royalties, licence processing and ground fees. This represents a 25% increase on a similar period last year when MWK 400m was realised, according to Malawi government annual economic report 2018. The report shows that exports of minerals in 2017/18 fiscal year was dominated by coal, ornamental /dimension stones and gemstones. Before 2014, mining used to contribute about 10% to GDP when the Paladin Africa Limited-owned Kayelekera uranium mine was operational. But since stopping of mining activity in February 2014 due to falling prices of uranium on the global market, the sector's contribution to GDP has dropped to below one percent. (Source: *The Nation*)

Interest rate cut fails to boost credit growth

Despite the monetary authority reducing the policy rate to 16%, the lowest in seven years, credit growth for the private sector remains subdued, the World Bank has said. The bank's senior country economist Patrick Hettinger observed that the central bank has maintained a tight monetary stance, continues to monitor and mop up excess liquidity to keep interbank rate close to the policy rate to ensure that inflation remains under control. He said that low level of access to finance through the banking sector remains a significant constraint to private sector performance. Among other challenges, he noted that financial institutions have limited trust in the efficiency and impartiality of local courts when dealing with commercial disputes. RMB last reduced the bank rate in March this year by two percent from 18% to 16% thanks to declining inflation. April inflation was recorded at 9.7% by the National Statistical Office. (Source: *The Nation*)

Company news

MPICO FY17 earnings increase by 156%

MPICO Plc – the listed property play released its FY17 results in which earnings rose 156% to MWK 5.1bn (USD 6.9m) on the previous year; thanks to significant savings in finance cost as per our expectations. Attributable earnings went up 108.5% after the company diluted its equity stake in the Gateway Mall Limited resulting in a significant increase in the minority share of earnings – minority stake in the group went up from 1.5% in FY16 to 19.8% in FY17.

The company raised MWK 9bn in a rights issue in November 2016 which was used to repay loans which in turn has contributed to a reduction in finance charges hence a positive impact on earnings. The rights issue saw the shares in issue double to 2.3bn. Rental income went up 45% thanks to increased occupancy levels at the Gateway Mall which is said to have gone up 28.3% to reach occupancy rate of 95%. Rental escalations have also contributed to the increase in this line. Other income; mainly comprised of interest income, remained flat at MWK 2.5bn. The bulk of this interest is derived from government rental arrears generally charged at 4% above prevailing bank rates. This is interesting as experience by other government creditors seems to suggest that government issues paper to cover its arrears without necessarily including compensation in form of an interest portion. MPICO's contract might be different, one hopes.

The company continues to grapple with rental arrears from its main tenant; Malawi government (comprising 57% of total rental income as of FY16) – whose outstanding rental bill went up to MWK 8bn by the end of FY17 – representing 145% of the company's annual rental income. Distributable eps based on weighted average number of shares was recorded at MWK 0.78 compared to –MWK 0.66 in the prior year.



MPICO seems to have turned the corner with the de-risking of its capital post rights issue as the company returns to positive distributable earnings. The stock is trading at price to book of 1.63x (attributable equity). The growing arrears from government are a worry as we know from experience that government does not pay any compensation in form of interest payments when they get round to settling bills. What is even more worrisome is that there is no indication as to when the debt will be settled. We have not seen a spot light shone on the outstanding debt in the summary audit report published in the papers – which may suggest that the auditors satisfied themselves as to the potential for recoverability. Taking into the account the positives and the risk posed by the arrears, we issue a NEUTRAL recommendation on the stock pending progress on the outstanding arrears.

FY 17 MPICO ("MWK '000")	2017	2016	% CHG
Rental Income	5,507,380	3,782,253	45.6%
Fair value adjust of investment pptyes	4,880,635	5,087,099	-4.1%
Other income	2,499,987	2,497,351	0.1%
Total income	12,888,002	11,366,703	13.4%
Total expenses	5,764,667	8,291,451	30.5%
Net earnings	5,092,868	1,988,639	156.1%
Attributable earnings	4,082,949	1,958,156	105.3%
Distributable earnings	1,808,364	-884,676	-

(Source: Company filings and Cedar Capital Research)

Standard Bank IH18 results to be 40% below 1H17

Standard Bank has released a trading statement advising that its 1H18 results are expected to be at least 40% below the comparable period last year. This is a rule of the stock exchange whereby listed companies are required to put out a statement when it becomes apparent that their forthcoming results will be significantly different from the comparable previous period. Significance is pegged at 20% in this case. Put into perspective, Standard Bank earnings for the six months period to June 2018 are expected to be around MWK 5.7bn. We issued a HOLD (pending 2018 interims) recommendation on the stock based on its FY17 results which were 37% down on FY16. The stock has since gained 9.8% to MWK 670.00. We revise our recommendation to SELL at current levels. (Source: Company filings and Cedar Capital Research)

TNM 1H18 results to be 40% better than 1H17

TNM plc has issued a trading statement advising investors in the stock to expect the company's half year results to be approximately 40% higher than the previous comparable period. Put into perspective, TNM expects its earnings for the first six months to June 2018 to be at least MWK 6.6bn. We maintain our strong BUY recommendation on the stock. (Source: Company filings and Cedar Capital Research)

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
SUNBIRD	2017	Final	MWK 0.63	TBA
TNM	2017	Final	MWK 0.25	TBA
NBM	2017	Final	MWK 8.33	TBA

PCL	2017	Final	MWK 20.00	TBA
NICO	2017	Final	MWK 1.00	TBA

Source: Company filings

Market activity and colour

In a week the stock exchange rolled out an electronic trading platform, the market was somewhat subdued compared to recent weeks. The market traded 3.7m shares in 11 of the 13 counters recording a market turnover of MWK 154.8m (USD 210.6K) in 41 trades. This is to be compared to 61.4m shares worth MWK 1.5bn (USD 2m) in 52 trades registered in the previous week. We think the slow pace in trading may be attributed to the onset of closing period on 1 June for most companies and the uncertainty surrounding tradeability of physical share certificates under the new trading platform.

TNM remained a top trading counter for a third week streak with 2.6m shares worth MWK 59m.

The market has demand for BHL, TNM, PCL, OML and NBM. Sellers are available in MPICO, NICO, FMBCH, NBS, and ILLOVO. (Source: *MSE and Cedar Capital*)

MSE Market Summary

Top gainer(s)	% chg	Price	Top loser(s)	% chg	Price
TNM	9.5%	23.00	None		
PCL	0.3%	770.00			
Top traders	MWK	USD	Total Traded	MWK	USD
TNM	59.1m	80.0K	3.7m shares	154.8m	210.6K
STANDARD			Traded prev week		
FMBCH	19.2m	26.2K	61.4m shares	1.5bn	2.0m

Source: MSE and Cedar Capital Research

Cedar Capital Limited
4th Floor, Livingstone Towers
Sir Glyn Jones Road
P O Box 3340
Blantyre, Malawi
+265 1 831 995
Feedback: nzimar@cedarcapital.mw

This document is confidential and issued for the information of internal and external clients of Cedar Capital Limited registration 8700. It is subject to copyright and may not be reproduced in whole or in part without written permission. The information, opinions and recommendations contained herein are and must be construed solely as statements of opinion and not statements of fact. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such recommendation or information is given or made by Cedar Capital in any form or manner whatsoever. Each recommendation or opinion must be weighed solely as one factor in any investment or other decision made by or on behalf of any user of the information contained herein and such user must accordingly make its own study and evaluation of each strategy/ security that it may consider purchasing, holding or selling and should appoint its own investment or financial or other advisors to assist the user in reaching any decision. Cedar Capital will accept no responsibility of whatsoever nature in respect of any statement, opinion, recommendation or information contained in this document.