Weekly Market Report

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MALAWI

Political and economic news

Malawi signs MWK 190bn pact with World Bank

The government of Malawi and International Development Association of the World Bank have signed three financing agreements totalling USD 260.59m (MWK 191bn). The agreements comprise two concessional credits of USD 160m for the first phase of Shire valley transformation programme (SVTP) and USD 95m for agriculture commercialisation project and a grant of USD 5.6m from the Global Environment Facility. After signing the agreements, minister of finance Goodall Gondwe hailed the SVTP as having potential to be the country's bread basket and a source of livelihood for Malawians in the Shire valley. He said the STVP would help build resilience in the economy against climate shocks as experienced in the back-to-back flooding and drought of 2015 and 2016. Turning to the agriculture commercialisation project, he spoke of its expected increase to agricultural value chain for targeted commodities under the project. He said the project will be vital in increasing yield of selected commodities, linking them to markets and improving their gross sales value. World Bank country director Bella Bird echoed Gondwe's remarks and added that one of the SVTP's objectives is to promote agricultural diversification to crops, other than sugar which is dominant in the area. (Source: The Daily Times)

Study for Wovwe power upgrade begins March

Electricity Generation Company (Egenco) has signed a deal with German firm, Fitchner, to assess the feasibility of expanding the capacity of Wovwe power station in Karonga. Egenco plans to double the output of the 4.5MW hydropower plant commissioned in 1995 to improve electricity supply in Karonga and surrounding districts. According to Egenco public relations officer Moses Gwaza, the feasibility study is expected to take 18 months. Egenco expects the capacity of the power plant to be increased to 10 MW. (Source: *The Nation*)

Government plans to raise borrowing limit

Treasury plans to raise domestic borrowing limit to MWK 47.1bn from the current MWK 27.8bn. Government's intention is to offset poor performance of grants and domestic revenue in the current budget to June 2018. The targeted domestic revenue for the 2017/18 fiscal year was MWK 980bn but mid-year review shows an underperformance by nine per cent. Apart from the missed revenue targets, a MWK 55bn budget support from the EU is unlikely to materialise in time. The increase in domestic borrowing goes against the objective in the 2017/18 national budget to reduce domestic net borrowing from MWK63.6bn or 1.5 per cent of GDP to MWK27.5bn or 0.63 per cent of GDP. (Source: *The Nation*)

Tobacco output falls below demand

Malawi's tobacco production for this year is estimated at about 149m kg almost 12.8 per cent less than international demand - results of the first crop assessment have shown. Buyers are said to demand 171m kg for all types of tobacco in the 2018 season. This may be good news for tobacco growers as the leaf is likely to fetch higher prices as buyers scramble for it. Tobacco Control Commission has attributed the estimates to dry spells affecting some parts of the country but remains hopeful that the situation will improve with the advent of rainfall in some parts of the Southern region. (Source: *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 4.5m shares from 8 of the 13 listed companies in 30 trades recording a market turnover of MWK 79.6m (USD 108K) during the week. NICO traded the most in value and volume taking up 56% of the traded value while NBS came second with 29%.

Risers during the week were NICO which increased 5.9% to MWK 36.00; TNM went up 4.9% to MWK17.10 on small volumes; and FMBCH which edged MWK0.50 to close at MWK70.60.

The market has demand for FMBCH, TNM and PCL. On the other hand, sellers are available in NICO, NBS, MPICO and ILLOVO.

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