MALAWI

Political and economic news

RBM targets 5% inflation

The Reserve Bank of Malawi (RBM) says it targets an inflation rate of five percent in the medium term. The development comes when inflation inched up in January from 7.1% to 8.1% following a rebasing process by the National Statistical Office. In its sixth Monetary Policy Statement titled Sustaining Low Inflation Amidst New Risks released during the week, RBM says the monetary policy stance during the first half of 2018 will focus on entrenching disinflation and attaining the targeted five percent inflation in the medium term and maintaining a minimum of three months import cover of official foreign exchange reserves. The statement signed by RBM Governor, Dalitso Kabambe, said tight monetary policy will be kept in place by ensuring that the policy rate, currently at 16%, remains above inflation rate and by using liquidity operations to maintain positive interest rates in the interbank and Treasury bill markets. Headline inflation, according to the central bank, is projected to average 10.5% in 2018, and expected to close the year at around 9.5%. Therefore, monetary policy actions in 2018 will focus on ensuring that inflation is kept within a corridor of 9 to 10 percent. In addition, monetary policy will continue to aim at maintaining a stable and sustainable foreign exchange market that continues to foster a market determined par value of the Malawi currency. The RBM was quick to note that the inflation outlook is subject to potential upside risks, emanating from delayed fiscal adjustment in utility tariffs. RBM said monetary policy does not expect severe adverse shock to food prices in 2018. Nevertheless, the bank said the fall armyworms that attacked the current year crop and sporadic dry spells as well as a generally uneven rainfall distribution in the 2017/18 agriculture season may weigh negatively on the macroeconomic trajectory. (Source: The Daily Times)

Government accounts reconciliation to be done daily

Reconciliation of government's accounts will be done a daily basis as one way of protecting public resources from plunder by individuals and organisations. This was mentioned by President Peter Mutharika during the launch of the national security policy in Lilongwe. The system also compliments the implementation of the RBM 2018 strategic plan which also aims at curbing plunder of public funds. Mutharika stated that processing of all transactions will be in real time in all government departments everywhere. He stressed that the government is going to do away with cheque payments and move to electronic funds transfer adding payments will be fast and secure. All financial systems will be interfaced. The IFMIS will be talking to Human Resource Management Information System and the Reserve Bank. There shall be no more ghost workers in this country, he stated. During the launch of its strategic pan, RBM unveiled a High Value Alert System (HIVAS) for government transactions above MWK 50m. The system is designed to notify, finance minister, controlling officers of government ministries and the central treasury, of any government transaction through short message service (SMS) and emails. RBM Governor, Dalitso Kabambe, mentioned during the launch of the strategic plan that the move would counter theft of public resources where junior staff were able to complete transactions without the knowledge of controlling officers and other senior officials witnessed by the 2013 fraud called cashgate. (Source: *The Daily Times*)

Company news

Standard Bank FY17 earnings down 37%

Standard Bank's performance for 2017 was 37.4% down on the previous year courtesy of a significant impairment provision in the order of MWK 6.2bn. The bulk of this seems to emanate from a loan to Cotton Ginners African Limited – reported at USD 20m and syndicated by a few banks which turned out to be a potential fraud as discussed in our Weekly Report in previous weeks. Standard Bank was a major lender in the syndicate.

However taking this aside, the bank was not going to record stellar results either as net interest income went up 6% while non-interest income was flat at MWK 10bn. Expenses on the other hand, were largely unfavourable with staff expenses going up 24% to MWK 14.3bn and other operating expenses worsening 36% to MWK16.7bn. The board attributes the increase in expenses to fraud – whose quantum is not availed in the press release and expenses relating to implementation of a new core banking system. Resultantly cost to income ratio worsened to 59% from 47% in 2016. But the bank maintained its net interest margin of 81% over the two years – which we think might be unsustainable going forward.

The balance sheet grew 36% to MWK 428bn supported by a 62% increase in advances to banks to MWK 174.5bn while loans to customers increased 3% to MWK 94.2bn. On the liability side, deposits from banks grew 215% to MWK 60.6bn while customer deposits rose 26.9% to MWK 259bn.

On the face of it, the bank seems to have been beset by operational challenges which resulted in significant bad loans and fraudulent activity. This seems to have prompted caution in the bank's lending business which saw marginal growth in the lending book despite strides in deposits. This scenario led to excess liquidity which found itself on the interbank market whose returns have not been outstanding - hence the marginal revenue performance. There have been changes atop the management level during the year which we believe is an attempt by the board to address the operational challenges. Whether this is enough remains to be seen as such we rate the stock as a hold pending 2018 interim results. (Source: *Company filings and Cedar Capital*)

Standard Bank

FY 17 STANDARD MWK ("MILLION")	2017	2016	% CHG
Interest income	46,729	44,282	5.5%
Interest expense	8,806	8,458	4.1%
Net interest income	37,923	35,824	5.9%
Total operating income	57,254	54,131	6.3%
Impairment losses	6,224	576	-980.5%
Staff costs	14,306	11,499	24.4%
Other operating expenses	16,664	12,270	35.8%
Earnings before tax	17,461	28,167	38.0%
Attributable earnings	12,162	19,425	37.4%

Source: Company filings

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
Standard Bank	2017	Final	MWK 4.26	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.

- 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 7.2m shares from 10 of the 13 listed companies in 49 trades recording a market turnover of MWK 233.5m (USD 317.8K). This is to be compared to 9.2m shares worth MWK 88.8m (USD 120.8K) in 34 trades registered in the previous week.

This was a particularly busy week as it was a four-day working week as Monday, 5 March was a public holiday.

The dominant counters were TNM trading 5m shares worth MWK 88m representing 37% of total traded value, FMBCH traded MWK 58m (25%) followed by NICO (MWK 31m), NBM (MWK 22m) and Standard (MWK19m). Other active counters were Illovo, MPICO, NBS, NITL and Sunbird.

FMBCH led the risers during the week recording a 27.5% or MWK 19.45 spike to MWK 90.15, MPICO gained MWK0.03 or 1.9% to MWK 16.00, NBM rose MWK 4.92 or 1.8% to MWK 275 while Sunbird inched up MWK0.10 to MWK110.10 on paltry volumes.

NITL – the listed collective investment scheme – recorded a 8% drop or MWK5.06 to close at MWK 55.00.

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