MALAWI

Political and economic news

Mkango ramps up exploration works on rare earths

Mkango Resources Limited, a Canadian-based mineral and exploration company, says it has progressed on its exploration works on diamond drilling programme underway at the Songwe hill rare earths project in Phalombe. This year marks the eighth since the company started exploration works in the country and a total of 6,558 metres of drilling has been completed, comprising 53 drilling holes with a maximum depth of around 220 metres. The company's CEO William Dawes said the drilling programme is on track and is expected to total up to about 10,000 metres. He said multiple zones of carbonatite- the primary host rock for rare earth mineralisation at Songwe- have been intersected to date, adding that results from the first batch of samples from eight drill holes totalling 944 metres are expected to be announced by the end of August 2018. He further observed that Mkango is developing one of the few advanced stage rare earths projects globally and is well positioned to benefit from growing demand in neodymium and praseodymium used in permanent magnetic motors for electric vehicles. In its recent national budget, government amended the VAT Act to allow mining companies in exploration phase to claim input VAT. *(Source: The Nation)*

New energy policy to boost power sector

Cabinet has approved the much awaited National Energy Policy (NEP), which promises to increase access to affordable, reliable, sustainable, efficient and modern energy services. However stakeholders in the sector demand that the policy delivers on what it promises. Ministry of natural resources, energy and mining spokesperson Saidi Banda said the review of the 2003 National Energy policy was necessitated by the fact it had outlived its five-year lifespan and had several shortfalls. He noted that there was need to align the policy with the Malawi growth and development strategy (MGDS III), sustainable development goals and the UN's sustainable energy for all initiative and to factor in reforms in the sector. The policy, which succeeds the 2003 NEP, has identified electricity, bio-mass, petroleum fuels, bio-ethanol and bi-fuels, liquefied petroleum gas, biogas and natural gas, coal, nuclear energy and demand side management as priority areas for action. This comes at a time when the country is facing power supply challenges with diesel generators brought in to supplement hydro-electric energy whose capacity has reduced to 200MW. *(Source: The Nation)*

Company news

MPICO registers 18% increase in 1H18 attributable earnings

Listed property play; MPICO released is six month's results to June 2018 recording a 18.2% increase in attributable earnings to K2.6bn (USD 3.6m) thanks to a combination of increases in rental income and interest earned plus a saving in operating expenses brought about by gains on weakening ZAR and low finance charges. Rental income rose 20.1% to K2.8bn on account of increased occupancy levels at the Gateway Mall which is said to have moved from 86% to 95% over the period. Interest earned went up 39.8% to K1.7bn – which we think might come from increase in invested funds due to recoveries from government rental arrears. Operating expenses were 21.3% favourable due to exchange gains on ZAR loan as a result of the rand weakening and reduction in finance charges due to reduced borrowing.

Net earnings for the company shot up 37.6% to K3.8bn (slightly below the promised minimum of 40% as indicated in the management's trading statement) on account of a cocktail of favourable variances discussed above but only 18.2% trickled down to shareholders of the parent. This came about due to increased share of minority interests, especially in the Gateway Mall Limited – which overall seems to have increased from around 20% at FY17 to 30% by the end of 1H18 – a result of conversion of preference to ordinary shares in the subsidiary.

MPICO's rolling PE for the 12 months to 30 June is 7.31x (attributable 9.97x) while PBV is 0.94x – both of which we find undemanding. The company is said to have recovered the bulk of the rental arrears from government which had accumulated to K10.4bn by June 2018 and has returned to dividend payment. MPICO will have less pressure from finance costs going forward and we forecast FY18 eps of at least K2.00. **LONG-TERM BUY**

HY 18 MPICO ("MWK '000")	30 JUN 18	30 JUNE 17	% CHG
Rental Income	2,862,705	2,382,268	20.1%
Fair value adjust of properties	2,554,420	2,461,348	3.8%
Other income	1,764,158	1,262,114	39.8%
Total income	7,181,283	6,105,730	17.6%
Total expenses	2,011,978	2,559,025	21.4%
Net earnings	3,798,576	2,760,399	37.6%
Attributable earnings	2,657,298	2,247,244	18.2%

(Source: Company filings and Cedar Capital Research)

Standard Bank 2018 half year results drop 32%

Standard Bank plc released its 1H18 results to 30 June with a 32.2% slump in earnings on 1H17 to K5.5bn (USD 7.5m). The results were negatively impacted by lower net interest margins coupled with a reduction in the loan book despite a slight increase in customer deposits. Interest income went South 14.8% to K20.2bn on the comparable period while interest expense was 14.9% unfavourable at K4.9bn – squeezing margins. Net interest margins on average interest-earning assets were at 5% compared to 7.05% in 1H17. The loan book shed 2.2% to K98.2bn while customer deposits inched up 3.5% to K239.8bn (notably, this is a drop from K259.5bn at FY17). We think management is focusing on strengthening credit controls given the bank's experience with the Cotton Ginners Africa debacle. In situations like these, it is common for the bank to maintain its core loan book while being cautious on new lending. In this regard, the bank has scored with a 55.5% reduction in impairments to K1bn.The margins have also suffered from falling interest rates and increased competition for quality lending. Operating expense went up 23.5% to K17.6bn due to higher amortisation and exchange losses related to the bank's software. As a result cost to income ratios worsened from 50% to 66%.

Standard Bank is trading at a rolling PE of 16.5x – making it the most expensive bank apart from NBS Bank. Surprisingly, the market has continued to trade the stock at a premium despite the declining trend in earnings. In terms relative valuation, Standard Bank (eps K23.64) makes NBM (eps 18.16) look like a bargain given NBM's PE of 7.9x. We therefore rate Standard as a **SELL** at current levels on relative valuation.

STANDARD BANK PLC

1H18 STD ("MWK MILLION")	30-JUN-18	30-JUN-17	% CHG
Interest income	20,293	23,822	-14.8%
Interest expense	-4,878	-4,245	-14.9%
Net interest income	15,415	19,577	-21.2%
Non-interest income	11,328	9,017	25.6%
Total income	26,743	28,594	-6.5%
Total expenses	-17,635	-14,281	-23.4%
Impairment provisions	-996	-2,239	55.5%
Net earnings	5,532	8,163	-32.2%

(Source: Company filings and Cedar Capital Research)

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
PCL	2017	Final	K20.00	TBA
NBM	2018	Interim	K5.35	7-Sep-18
STANDARD	2018	Interim	K6.39	7-Sep-18
MPICO	2018	Interim	K0.09	14-Sep-18

(Source: Company filings)

Market activity and colour

The market traded 13.1m shares with a market turnover of K860.8m (USD 1.2m) in 57 trades. Top value trader was Standard Bank 900K shares worth K603m while volume top trader was Mpico with 10.5m shares worth K204.7m. Comparatively in the previous week, the market traded 10.8m shares with a market turnover of K1.3bn in 28 trades. MPICO lost 5t to close at K19.45 while TNM inched up 1t to K25.0.

Week's Trading Summary

	MSE			MAINBOARD		
Symbol	**Open**	**Close**	**Volume**	**Value**	**Trades Count**	**Market Capitalization**
BHL	8.00	8.00	0	0.00	0	4,517,858,793
FMBCH	159.99	159.99	3,899	623,792.27	3	373,823,362,500
ILLOVO	240.00	240.00	0	0.00	0	171,226,653,840
MPICO	19.50	19.45	10,524,196	204,695,655.50	8	45,271,534,962
NBM	310.01	310.01	10,452	3,240,225.00	4	140,079,521,400
NBS	8.66	8.66	248,260	2,149,873.00	8	25,321,988,197
NICO	54.00	54.00	9,240	498,960.00	3	49,784,351,512
NITL	75.00	75.00	10,000	750,000.00	1	9,855,000,000
OMU	1,580.22	1,580.22	0	0.00	0	9,209,526,901
PCL	772.00	772.00	12,803	9,883,916.00	1	92,837,493,040
STANDARD	670.00	670.00	900,000	603,000,000.00	7	157,227,668,540
SUNBIRD	145.00	145.00	6,000	870,000.00	1	37,929,474,100
TNM	25.00	25.01	1,403,261	35,091,585.00	21	217,877,765,000
			13,128,111	**860,804,006.77**	**57**	**1,334,962,198,785**

(Source: MSE)

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