MALAWI

Political and economic news

RBM stress-tests local banks for resilience

A stress test by the Reserve Bank of Malawi (RBM) on the country's commercial banks has shown that they are vulnerable to credit, liquidity, interest rate and income risks. In its latest Financial Stability report, the central bank said that pre-shock positions for capital and liquidity, though fairly adequate, pose supervisory concerns. The report is based on an analysis on the macroeconomic and financial sector developments and risks for the period between January and June 2018. It shows that in the credit risk scenario, the industry revealed some resilience to minor sector shocks, with Tier One capital ratio –the ratio of a bank's core equity capital to its total risk weighted assets – falling to 11.1% but deteriorating to 9.1% and 6.3% after a moderate and major shock respectively. RBM said this was below the regulatory benchmark and was due to high shocks applied to agriculture, manufacturing and wholesale sectors, which constituted the largest proportion of loans industry-wide. The report notes that an assessment of the stress test for individual banks revealed that three out of the nine banks reported core capital ratios below the regulatory benchmark after a minor shock. Five banks succumbed to moderate shock stress testing while seven banks' core capital fell below the benchmark after applying major shock test. Only two banks remained resilient to all the shock testing levels as their Tier One capital held above the regulatory minimum. However, the report said the banking sector was resilient to sudden increase in existing NPLs as Tier One ratio at 13.1% remained above the regulatory minimum after a major shock, save for one bank with high NPLs which was adversely impacted by a minor shock which saw its Tier One capital falling to 8.4%.*(Source: The Nation)*

Tobacco earnings up 48% on last year so far

Earnings from tobacco, the country's main cash crop that contributes about 60% to foreign exchange earnings, have so far increased 48.5% above last year. Auction Holdings Group figures show that in 20 weeks of sales the country sold 184m kg earning $314m (K230.7bn) at an average price of $1,71 per kg. By contrast $212.5m was realised during a similar period last year from 106.6m kg of tobacco at an average price of $1.99 per kg. Thus the increase in earnings this year has been driven by volume while the average price has fallen. The 2018 tobacco trading season is in its final stages with Chinkhoma auction floor in Kasungu having closed on 23 August and Limbe floors closed on 28 August. Meanwhile, Lilongwe and Mzuzu floors are expected to wind up business on 31 August and 11 September 2018 respectively. *(Source: The Nation)*

Company news

Press Corporation 1H18 results soar 227% on one-off earnings

Press Corporation plc released its 1H18 results showing a 227% increase in earnings on 1H17 to K23.1bn ($31.4m) –way above the 50% increase advised in its cautionary statement. Earnings include profit on sale of 60% of Open Connect Limited (OCL) - the fibre optic business- to Harith General Partners. The profit on sale is recorded at K8.5bn ($11.5m) and there is a reference to sale of properties in the fixed telephony company whose numbers have not been disclosed. Otherwise the company's performance is still stellar after discounting for the sale of the OCL stake driven mostly by savings from previously loss making subsidiaries. As we noted in our commentary on FY17; George Partridge's focus seems to address the loss leaders and bring on board technical equity partners who should take the troubled companies on a growth path. We find nothing wrong with this strategy as we noted in our initiation of coverage report; "it is better to own

20% of an elephant than 50% of a rat". Attributable profit was recorded at K14bn compared to K821m in 1H17.

Consolidated revenue went up 5.5% to K96.5bn – effectively a drop in revenue sans profit on OCL sale. Decreases in revenue were recorded in NBM and MTL, among others. TNM is said to have registered a 45% increase in earnings maintaining its positive contribution to the PCL group. Ironically, PCL group released its half year results two days ahead of TNM Plc – one of its listed subsidiaries – which effectively pre-empted TNM's results in the market. As noted above, value has come from curtailing of losses in subsidiary companies which have put in improved performances this time around. Despite a 10% drop in NBM earnings, its contribution to the group is still significant. MTL, hitherto a perennial underachiever, is said to have reported a 235% increase in net earnings due to cost reductions of which we think finance cost is paramount and profit on sale of fixed assets. Peoples Trading retail chain is said to have reduced its losses by 43% as the new management team start to put the house in order. The ethanol companies turned around their losses to put in a 83% improvement in earnings; they however continue to be constrained by availability of raw materials as they operate at 50% capacity. Improvements were also noted in the property company whose contribution is said to be satisfactory while Maldeco seems to be work in progress with new management in place. Results from equity accounted businesses were negatively impacted by Castell breweries which had "operational challenges" while Macsteel had stellar results and PUMA and Limbe Leaf were satisfactory. Sunbird Tourism was only acquired in mid-May this year and its impact will be seen at FY18.

We like the implementation of the strategy by PCL group as they look to turnaround loss making subsidiaries by, among other interventions, bringing is technical experts with equity participation. We believe this is setting the platform for further growth and the cash consideration from partial disposal of those subsidiary companies will enable the group to invest in other interesting assets. We think the conglomerate discount is huge on account of the stock's illiquidity. PCL needs to explore ways to increase liquidity of its stock on the market and thus encourage more trading activity and hence price discovery. We revise our NEUTRAL recommendation to **LONG-TERM BUY** as we think the group is heading in the right direction.

PRESS CORPORATION PLC

1H18 PCL (K "MILLION"	HY 2018	HY 2017	% CHANGE
Revenue	96,618	91,556	5.5%
EBITDA	39,416	23,361	68.7%
Net finance cost	-1,632	-4,730	65.5%
Share of equity accounted business	1,372	1,950	-29.6%
Net earnings	23,075	7,063	226.7%
Comprehensive income	19,377	7,464	159.6%
Attributable earnings	11,901	1,220	875.5%

(Source: Company filings and Cedar Capital Research)

NBS Bank returns to profitability in 1H18

NBS Bank Plc has reported 1H18 earnings of K478.9m ($651.5K) compared to a loss of K1.1bn recorded in 1H17 thanks to increases in net interest margins and non-interest income. Interest income went up 25% to K5.8bn while interest expense shrunk 35% resulting in favourable net interest margins. The loan book decreased 24% to K19.3bn over the two comparable periods as management continues to be cautious on lending given the bank's legacy on impairments; we therefore think there is a shift in the bank's investments into the money markets. Customer deposits grew 18.9% to K83.8bn.

Non-interest income grew 61% to K5.1bn which the bank's management attributes to growth of transaction business. Operating expenses were 11% unfavourable which is not excessive but cost to income ratio, although improving is worrisome at 91.7%. As a result of the cautious approach on lending, impairment provision is minimal at 0.5% of the loan book. NBS bank seems to be slowly recovering from a death bed with measured progress which, in our view, will take a considerable amount of time. The bank may not be able to weather any major shocks given its balance sheet – hence management's cautious approach. However this can be a double-edged sword as the bank needs to generate substantial income in order to build a resilient balance sheet. We maintain our **SELL** recommendation at current levels.

NBS BANK PLC

1H18 NBS ("K '000")	30-JUN-18	30-JUN-17	% CHG
Interest income	5,877,864	4,693,096	25.2%
Interest expense	-1,500,890	-2,315,175	35.2%
Net interest income	4,376,974	2,377,921	84.1%
Non-interest income	5,098,497	3,167,725	61.0%
Total income	9,475,471	5,545,646	70.9%
Total expenses	-8,690,453	-7,827,961	-11.0%
Impairment provisions	-102,228	380,832	-126.8%
Net earnings	478,896	-1,136,484	142.1%

Source: Company filings

TNM H18 earnings rise 46%

Mobile phone operator; TNM Plc reported a 46.1% increase in 1H18 earnings to K6.9bn ($9.4m) on 1H17 thanks to improvements in revenue and EBITDA margins. Revenue went up 16.5% to K41.7bn driven by a 14% growth in subscriber base. Direct and indirect expenses showed an overall tepid increase of 8% - reflecting good cost control hence improved EBITDA margins by 32%. ARPU improved 4% to K1,638 – a progressive improvement on FY17 which was recorded at K1,626.

TNM was a first mover in 4G technology and its capital expenditure in the first half of 2018 was reported at K10.6bn compared to K12.3bn as at June 2017. This expenditure is said to have been made towards the 4G mobile technology, quality improvement sites, new coverage sites and new mobile money platform.

As pointed out in our initiation of coverage report, we think TNM's growth trajectory remains intact with comparatively low telecoms penetration levels in Malawi combined with stable macro-economic conditions. Management has demonstrated its ability to bring about operational efficiencies through cost control and we think this strategy will be pursued going forward. Traditionally TNM has tended to give a strong second half performance and we do not expect this year to be any different. We therefore expect its forward eps for FY18 to be not less than K1.75. – **BUY.**

TNM PLC

1H18 TNM ("K 'MILLION")	30-JUN-18	30-JUN-17	% CHG
Revenue	41,728	35,811	16.5%
Direct operational costs	-19,072	-17,801	-7.1%
Gross profit	22,656	18,010	25.8%
Other income	1,248	1,303	-4.2%
Selling and admin expenses	-8,108	-7,365	-10.1%
EBITDA	15,796	11,948	32.2%
Net finance expense	-1,295	-1,497	13.5%

1H18 TNM ("K 'MILLION")	30-JUN-18	30-JUN-17	% CHG
Net earnings	6,942	4,750	46.1%

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
PCL	2018	Interim	K6.00	19-Oct-18
NBM	2018	Interim	K5.35	7-Sep-18
STANDARD	2018	Interim	K6.39	7-Sep-18
MPICO	2018	Interim	K0.09	14-Sep-18
TNM	2018	Interim	K0.25	14-Sep-18

(Source: Company filings)

Market activity and colour

The market traded 7.4m shares with a market turnover of K203.6m ($277k) in 33 trades. Top volume and value trader was TNM 7.3m shares worth K201m. Comparatively in the previous week, the market traded 11.2m shares with a market turnover of K494m ($672k) in 33 trades. TNM and BHL rose 12% and 0.6% to close at K28.01 and K8.05, respectively. Bids are sustained in TNM, NBM and PCL while offers are available in FMBCH, NICO and MPICO.

Week's Trading Summary

		MSE 27/08/2018			MAINBOARD 31/08/2018		
Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalizat
BHL	8.00	8.05	Δ 0.63%	66,855	538,182.75	5	6,759,993,175
FMBCH	159.99	159.99		0	0.00	0	373,776,637,500
ILLOVO	240.00	240.00		101	24,240.00	1	171,226,653,840
MPICO	19.45	19.45		32,570	633,486.50	1	44,697,023,097
NBM	310.02	310.02		0	0.00	0	144,758,177,415
NBS	8.66	8.66		0	0.00	0	25,205,565,263
NICO	54.00	54.00		26,500	1,431,000.00	1	56,324,219,184
NITL	75.00	75.00		0	0.00	0	10,125,000,000
OMU	1,580.22	1,580.22		0	0.00	0	9,209,526,901
PCL	772.00	772.00		0	0.00	0	92,837,493,040
STANDARD	670.00	670.00		0	0.00	0	157,227,668,540
SUNBIRD	145.00	145.00		0	0.00	0	37,929,474,100
TNM	25.02	28.01	Δ 11.95%	7,291,767	201,019,642.00	25	281,233,004,500
				7,417,793	**203,646,551.25**	**33**	**1,411,310,436,555**

(Source: MSE)

August Roundup

The month of August recorded trading activity for 43.7m shares with a total value of K3bn ($4.1m) in 173 trades. This compares to 13.7m shares worth K590.2m in 97 trades in the previous month – a huge improvement as more shares become dematerialised and are resident on the Central Securities Depository ready for trading via the Automated Trading System. Trading activity slowed down from June to July 2018 due to introduction of electronic trading and CSD systems in mid-June 2018 caused by slow conversion of share certificates to electronic form and teething problems associated with the rolling out of the new systems.

The index increased over the month from 31,263.14 to 31,956.43 representing 2.2% increase due to three risers and one faller. Risers were BHL,TNM and NBM. BHL rise has been largely sentimental after its bonus issue and share split brought the price down in absolute terms. NBM and TNM remain attractive at current levels.

August Trading Summary

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitlisation
BHL	7.00	8.05	↑ 15.00%	255,355	2,046,182.75	7	6,759,993,175
FMBCH	159.99	159.99		10,337,064	1,353,903,718.06	14	373,776,637,500
ILLOVO	240.00	240.00		101	24,240.00	1	171,226,653,840
MPICO	19.50	19.45	↓ -0.26%	11,311,237	220,007,353.05	22	44,697,023,097
NBM	310.00	310.02	↑ 0.01%	22,339	6,925,345.16	9	144,758,177,415
NBS	8.66	8.66		337,045	2,918,751.10	16	25,205,565,263
NICO	54.00	54.00		10,038,560	422,082,240.00	8	56,324,219,184
NITL	75.00	75.00		110,242	8,268,150.00	7	10,125,000,000
OMU	1,580.22	1,580.22		0	0.00	0	9,209,526,901
PCL	772.00	772.00		147,803	114,103,916.00	10	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	28.01	↑ 12.04%	10,251,812	275,031,804.00	71	281,233,004,500
				43,717,558	**3,009,181,700.12**	**173**	**1,411,310,436,555**

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