Weekly Market Report

Equity research | News & Analysis

MALAWI

Political and economic news

Government, World Bank agree on Mpatamanga power plant

The Malawi government and the World Bank signed a joint development agreement for a 258MW Mpatamanga Hydropower Plant to start next year. According to Saidi Jabu, spokesperson of the department of energy affairs, the agreement means that the developers of the project, government and World Bank's private sector financing arm; International Finance Corporation will jointly provide equity for the project and procure a private investor. He said the procurement of a private investor is expected to be completed by December 2019 thereafter the parties will solicit funds for the project estimated at $472m (K349bn). The government is said to have set aside $200m from the country's World Bank International Development Assistance window to be used as its equity contribution. *(Source: Nation)*

Company news

Positive performance from PCL despite a drop in earnings

Press Corporation Plc (PCL) released its FY18 results showing earnings recorded at K36.7bn ($49.3m) – 7.5 pc down on FY17 which was at K39.7bn. However, this is a positive result on recurring earnings as the previous year was an aberration as it included two once-off transactions. Profit on sale of 19.65 pc stake in Castel (formerly Carlsberg) of K14.2bn and a gain on sale of 60 pc of Open Connect Limited (OCL) – the telecommunications infrastructure company- at K6.2bn; were the outliers. When one excludes these transactions, the Group is said to have posted a 20 pc increase in earnings.

Consolidated revenue went up 6.9 pc to K214.4bn as hitherto loss-making companies in the group turned around their performances. The telecommunications segment is said to have more than doubled its combined earnings driven by results from TNM; which recorded a 27.1 pc increase in earnings to K16.7bn. OCL – the fibre optic business – which was successfully recapitalised after PCL concluded a deal with private equity investor; Harith General Partners, for a 60pc stake in the company, is reported to have registered 126 pc growth in its earnings. MTL; which has traditionally been the bane of the group, is said to have recorded a 121 pc growth in earnings –driven by a significant reduction in overheads. Directors are reported to be in discussions with a potential strategic investor to rekindle the business.

National Bank's contribution to the group remained significant although its earnings were 16.6 pc down to K15.9bn. NBM was affected by a drop in interest income coupled with reduced interest margins and a rise in operating expenses. Interest margins have been squeezed in the industry as a result of falling interest rates in the macro environment.

In the energy sector subsidiaries, Press Cane put in a strong performance with a 182 pc growth in profitability attributed to increased sales volumes and improved margins while Ethanol Company recorded a loss as a result of unfavourable variances in its sales of Extra Nuetral Alcohol line – which is food grade alcohol for making alcoholic drinks, among other products. Sales in this line were negatively affected by a prolonged temporary closure of major off takers by the authorities. Sales were also hit by lower margins on the export market and the impact of a write-off of prospecting costs capitalised over the years relating to a failed feed stock production line. The energy segment reported an overall decrease in earnings of 15 pc, as a result.

The retail chain subsidiary has undergone restructuring into four brands of Peoples Metro, Peoples Express, Spar and Food Lovers – with the Spar and Food Lovers franchise to reposition the company as an upmarket brand. A capital injection of K5.3bn for working capital, rebranding and computerisation is said to have been made during the year. These interventions, in addition to a change in management, have seen an improvement in the company's losses by 18 pc.

The fish farming subsidiary is yet to recover from posting losses however directors report that a capital injection of K1.1bn was approved to expand capacity for breeding ponds for brood stock and fingerling production. Production is said to have increased from 170MT to 712MT during the year – although we think a PCL subsidiary should be aiming much higher than that! The real estate subsidiary is said to have turned profitable as it benefited from a K1.9bn capital injection towards its capacity in commercial properties.

The group's share of profits from associates went up 3.1 pc to K5bn driven by Limbe Leaf and Macsteel results. Castel Malawi made a loss but is said to have completed rehabilitation of its production plants to reposition itself for more growth. Puma contribution is said to have been flat. The group acquired a 15 pc stake in Sunbird Tourism during the year- diversifying its interests further.

As we noted in our mid-year commentary, the management of PCL embarked on a mission to curtail loss-making companies, even if it meant reducing the group's stake in those companies. PCL has over the years suffered from wanting to keep a big conglomerate image by maintaining control in otherwise leaking buckets. This might have made sense in the days of yore when competition was non-existent but certainly not in recent times with cut throat competition. In any case, it meant the problem children were given a ride by the cash cows in the group with a resultant outcome of reducing the group's growth. That is why we agree with the strategy being pursued to bring in expertise and strategic investors in struggling companies and consolidate the group's earnings for further growth.

PCL is trading at a PE of 7.8x on attributable earnings and our sum of parts valuation taking into account only its listed holdings and its Castel stake as valued by the strike price on the sale of its 19.6 pc stake gives an intrinsic value of K1,694.53 with a 41.2 pc potential for upside on the current market price of K1,200.00. **BUY**

Press Corporation Plc

FY 18 PCL MWK ("MILLION")	2018	2017	% CHG
Revenue	214,420	200,480	6.9%
EBITDA	65,606	70,107	-6.4%
Results from operations	50,443	56,526	-10.8%
Net interest paid	-2,995	-7,594	60.5%
Share of profit from associates	4,995	4,842	3.1%
Profit before tax	52,288	54,107	-3.4%
Profit for the year	36,713	39,673	-7.5%
Attributable profit	18,373	23,917	-23.2%

TNM earnings increase 27 pc

Mobile phone operator and ICT provider, TNM released its FY18 results with a 27.1 pc increase in earnings to K16.7bn ($22.4m) thanks to increases in service revenue, improved EBITDA margins and cost management. Revenue went up 14.5 pc to K91.2bn buoyed by a 14.9 pc growth in service revenue to K89bn.

EBITDA margins went up to 39.6 pc with a resultant growth in EBITDA by 22.4 pc to K36.1bn. Average Revenues Per User (ARPU) has grown 15 pc from K1,626 in FY17 to K1,870 ($2.52) which is well within the levels achievable in most low income countries and thus we think are sustainable.

Direct operating expenses went up 10.2 pc slightly above the average inflation level while selling and administration expenses went up 7 pc to K16.4bn. Finance expenses were 3.1 unfavourable partly affected by a $20m dual currency revolving credit facility with Standard Bank for financing capital expenditure.

TNM has been investing heavily in infrastructure with capital expenditure of K19.3bn (FY17: K19.0bn) mainly consisting of 4G mobile technology (LTE) expansion, network quality improvement, new coverage sites and replacement of mobile money platform. There has been a positive correlation between capital expenditure and growth in revenue and profits and we expect this trend to continue. TNM appointed a new CEO at the start of 2Q19; Michiel Buitelaar with strong credentials in telecommunications, ICT and media and having worked for some of the top telecom companies in the world such as AT & T, Deutsche Telekom and Orange. Combined with its consistent capital expenditure, this signals the company's strategy to dominate the ICT space and leverage on new technologies. The investment in the mobile money platform shows the directors' intention to take advantage of a fast growing revenue line whose penetration levels are still low.

We think TNM will continue on its growth trajectory given the low telecom penetration levels in the country and positive developments in the macro-economic environment. TNM is trading at a PE of 15.1x and EV/EBITDA of 7.5x – metrics we find undemanding especially when compared to its peers in the region outside of South Africa. **BUY**

TNM Plc

FY 18 TNM MWK ("MILLION")	2018	2017	% CHG
Service revenue	88,971	77,456	14.9%
Hardware and equipment revenue	2,207	2,134	3.4%
Total revenue	91,178	79,590	14.5%
Direct operational costs	-41,010	-37,220	-10.2%
Gross Profit	50,168	42,370	18.4%
Other income	2,406	2,511	-4.2%
Selling and admin expenses	-16,451	-15,379	-7.0%
EBITDA	36,123	29,502	22.4%
Finance expenses	-2,914	-2,810	-3.7%
Profit before tax	24,023	18,965	26.7%
Net earnings	16,666	13,108	27.1%

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
BHL	2018	Final	K0.08	TBA
MPICO	2018	Final	K0.135	TBA
STANDARD	2018	Final	K17.05	TBA
SUNBIRD	2018	Final	K0.50	TBA
NITL	2018	Final	K0.50	TBA
NBM	2018	Final	K7.50	TBA
NICO	2018	2nd interim	K0.80	03-May-19
NICO	2018	Final	K0.30	TBA
PCL	2018	Final	K20.00	23-Aug-2019
TNM	2018	Final	K0.25	TBA

(Source: Company filings)

Market activity and colour

The market traded 12.1m shares worth K1.5bn ($2m) in 64 trades compared to 3.1m shares worth K278.5m ($374K) in 50 trades during the previous week.

ICON decreased 9.1 pc to K10.00 taking the index down 50 bps w/w to 27,019.12 despite a 1.4 pc rise in MPICO to K17.50.

Trading Summary for the week

Trading summary for 23 to 26 March 2019

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.95	12.95		449,683	5,823,395.00	5	10,874,771,630
FMBCH	85.00	85.00		38,358	3,260,430.00	3	208,951,250,000
ICON	11.00	10.00	-9.1% ↓	530,000	5,300,000.00	6	66,800,000,000
ILLOVO	200.00	200.00		409,754	81,950,800.00	1	142,688,878,200
MPICO	17.25	17.50	1.4% ↑	206,942	3,605,922.50	6	40,215,830,550
NBM	320.00	320.00		400	128,000.00	1	149,418,156,160
NBS	9.00	9.00		36,866	331,794.00	1	26,195,160,204
NICO	42.50	42.00		3,791,850	159,270,200.00	14	43,807,726,032
NITL	75.00	75.00		501,853	37,638,975.00	2	10,125,000,000
OMU	2,513.23	2,513.23		0	0.00	0	27,884,374,813
PCL	1,200.00	1,200.00		402,900	483,480,000.00	3	144,306,984,000
STANDARD	499.02	499.02		0	0.00	0	117,104,106,201
SUNBIRD	138.00	138.00		5,229,837	709,945,000.00	6	36,098,396,040
TNM	25.05	25.05		463,344	11,606,768.00	16	251,513,272,500
Totals				**12,061,787**	**1,502,341,284.50**	**64**	**1,275,983,906,330**

INDEX (week)	**27,162.10**	**27,019.12**	**-0.5% ↓**
INDEX (month)	**27,445.85**	**27,019.12**	**-1.6% ↓**
INDEX (year)	**28,983.64**	**27,019.12**	**-6.8% ↓**

(Source: MSE)

Trading Summary for the previous week

Trading Summary for
15 to 18 April 2019

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.96	12.95	-0.1% ↓	1,510,000	19,554,500.00	3	10,874,771,630
FMBCH	85.00	85.00		37,362	3,175,770.00	5	208,951,250,000
ICON	11.00	11.00		0	0.00	0	73,480,000,000
ILLOVO	200.00	200.00		0	0.00	0	142,688,878,200
MPICO	15.02	17.25	14.8% ↑	207,323	3,132,843.50	6	39,641,318,685
NBM	320.00	320.00		708,800	226,816,000.00	5	149,418,156,160
NBS	9.00	9.00		83,928	755,352.00	6	26,195,160,204
NICO	41.97	42.50	1.3% ↑	230,256	9,767,168.00	2	44,329,246,580
NITL	75.00	75.00		3,903	292,725.00	3	10,125,000,000
OMU	2,513.23	2,513.23		0	0.00	0	18,775,102,308
PCL	1,200.00	1,200.00		3,695	4,434,000.00	4	144,306,984,000
STANDARD	499.99	499.02	-0.2% ↓	6,101	3,044,500.00	2	117,104,106,201
SUNBIRD	138.00	138.00		4,143	571,734.00	3	36,098,396,040
TNM	25.05	25.05		277,895	6,962,472.20	11	251,513,272,500
Totals				**3,073,406**	**278,507,064.70**	**50**	**1,273,501,642,508**

INDEX (week)	**27,044.70**	**27,162.10**	**0.4% ↓**
INDEX (month)	**27,445.85**	**27,162.10**	**-1.0% ↓**
INDEX (year)	**28,983.64**	**27,162.10**	**-6.3% ↓**

(Source: MSE)

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