MALAWI

Political and economic news

Govt launches K5.5bn cooperative programme

Government has launched a K5.5bn ($7.4m) Cooperative Development Programme (CDP) to strengthen businesses in various sectors including governance, financial management and capitalisation targeting farmers. The five-year programme which is funded by USAid and implemented by Land O' Lakes Inc, will run in Malawi and Rwanda. USAid's office chief for economic growth Cullen Hughes said that USAid is funding the programme because its aspirations are aligned with Malawi government's policies on cooperatives. He said that agricultural cooperatives help farmers access markets and inputs, achieve economies of scale and gain market power. On his part Wiskes Nkombezi; director of cooperatives and registrar in the ministry of industry, trade and tourism, said the programme is likely to help improve the country's GDP which is expected to reach six per cent within the implementation period. *(Source: Nation)*

Company news

FMBCH performance affected by its Zimbabwe subsidiary

FMBCapital Holdings Plc (FMBCH) released its 1H19 results showing declining key metrics on the back of economic downturn in Zimbabwe where its recent acquisition; hitherto Barclays Zimbabwe is domiciled. Attributable earnings took a 59pc dip to $4.5m compared to a similar period last year as all key profitability metrics went south.

Interest income went down 23pc to $39.1m as USD value was eroded by fast falling exchange rate following the introduction of the "de-facto" Zimbabwean currency in form of RTGS and bond notes. Net interest income and non-funded income both took a tumble by 28pc and 45pc to $27.6m and $19.9m; respectively. The differences in the macro-economic environment over the two comparable periods are so dramatic that the Zimbabwean authorities have decided to shelve the publication of year-on-year inflation; opting for month-on-month numbers. Net interest income margins went down to 6.68c in the period compared to 7.56pc in December 2018 and 8.15pc in June 2018. Net interest margins were in part affected by falling interest rates in Malawi.

Loan loss provisions worsened 45pc to $4.2m against June 2018 - a slight increase over the six month period from $4.16m in December. Loan to deposit ratios show a rising trajectory from 40pc at December 2017 to 55pc by June 2019. The erosion of the currency has also contributed to the increase in this ratio as deposits shrunk 11pc to $641m from $720.8m in December 2018 while the loan book decelerated slower at 1.5pc to $353.5m over the same period.

The positive aspects of the Zimbabwe currency erosion has filtered through the expenses as they generally recorded positive variances on translation to reporting currency. Notably, staff training expenses recorded a 30.9% favourable variance to $16.7m and other expenses which registered a positive variance of 28.6pc to $9.2m. Overall total expenses sans impairment provisions were 26pc favourable at $35.5m despite infrastructure costs related to integration. However, cost to income ratio worsened to 82pc up from 72pc in December 2018 and 66.3pc in June 2018.

The Zimbabwe currency story

Effective 1 October 2018, the monetary authorities in Zimbabwe introduced the separation of Nostro and RTGS balances which meant customers with RTGS balances would not ordinarily be able to access foreign cash. This effectively made RTGS a new currency in an economy which hitherto, was ideally operating with one currency: the USD. However the Zimbabwe authorities refused to recognise RTGS as a currency until 22 February 2019 when a statutory instrument 33 commissioned the RTGS dollar and directed that all USD assets and liabilities before that date be valued at 1:1 with the RTGS dollar.

On the legally effective date of 22 February 2019, the RTGS exchange rate was set at 2.5 to the USD but it immediately spiralled out of control with the exchange rate reaching 6.7 to the USD by end of June and bringing with it rising inflation which was last recorded at 175pc y/y. In an attempt to stem the inflation tide, the authorities banned all local trading in foreign currencies at the end of June 2019. This effectively meant the RTGS and bond notes were the official currency of the country. However, the depreciation of the currency continues reaching 10 to 1 by August 2019 and 12 to 1 on the parallel market. In an exclusive interview on Tambarara.com with Zimbabwe's minister of finance; Professor Mthuli Ncube, analysts Jonathan Waters and Bongai Zamchiya correctly wonder where the liquidity is coming from that is driving the price of the "Zim dollar" so rapidly? The minister himself seems to believe that exchange rate parity should have been achieved around 1 to 5.

The main conundrum is that no one can say how long and how far the currency instability will last - making it difficult to forecast with any reasonable degree of accuracy. For the time being, the cash balances in the Zimbabwe bank accounts remain academic for foreign investors as it is a near impossible task to externalise them.

The directors of FMBCH advise that $14m included in other assets represents a receivable from the Reserve Bank of Zimbabwe (RBZ) which the bank undertook to cover upon the change in the country's functional currency. It is possible that this is included at 1:1 in the Zimbabwe subsidiary on the basis of the RBZ undertaking which they would have made to most of corporate Zimbabwe. Depending on the "support framework" envisaged by the RBZ authorities, there might be an additional impact on earnings in the second half of the year.

FMBCH is trading at a rolling PER of 24.6x at the current price of K80; which we find demanding. We therefore rate the stock as a SELL.

FMBCapital Holdings Plc

HY 19 FMBCH (USD)	30-JUN-19	30-JUN-18	% CHG
Interest income	39,114,732	50,521,021	-22.5%
Interest expense	-11,457,161	-12,182,202	5.9%
Net interest income	27,657,571	38,338,818	-27.9%
Fees and commissions	13,662,831	22,790,923	-40.0%
Income from investments	225,513	1,431,799	-84.2%
Gain of forex transactions	6,334,722	11,802,635	-46.3%
Other operating income	-273,233	359,285	-76.0%
Total operating income	47,607,404	74,723,460	-36.3%
Staff and training costs	-16,736,010	-24,222,856	30.9%
Premises and equipment cost	-6,492,118	-6,740,882	3.7%
Depreciation expense	-3,052,558	-3,966,947	2.3%
Other expenses	-9,280,568	-12,897,224	28.0%

HY 19 FMBCH (USD)	30-JUN-19	30-JUN-18	% CHG
Impairment loss	-4,239,399	-2,591,850	-63.6%
Total expenses	-39,800,652	-50,419,760	21.1%
Profit before tax	7,806,752	24,303,700	-67.9%
Income tax expense	-2,727,105	-4,187,375	34.9%
Net profit after tax	5,079,647	20,116,325	-74.7%

Press Corporations earnings plummet 51.6pc

Conglomerate; Press Corporation Plc (PCL) released its half year results to 30 June 2019 showing a 51.6pc reduction in earnings to K11.1bn ($15m) on 1H18 thanks to a combination of factors which include one-off profit on sale of business stakes totalling K11.2bn in the previous period – making the previous comparable period an aberration. However, adjusting for this leaves the earnings 6.2pc down on the previous period.

Perhaps, the biggest impact of off-loading business stakes has been felt in the shift in earnings attributable to shareholders of the parent to minority interests. Attributable earnings dropped 77.9pc to K3.1bn compared to a similar period last year as the share of non-controlling interest rose from 39pc in June 2018 to 64pc. We have always argued that the restructuring of loss making companies would help the group save costs and turn the loss-makers into profitable companies over time.

Consolidated revenue rose 8.4pc to K104.7bn with the main drivers being NBM and TNM with a combined 78.3pc contribution to revenue. EBITDA fell 22.3pc to K30bn implying a rise in operating expenses which the directors partly attribute to cost of functional reviews in some of the Group companies amounting to K1.3bn. Both depreciation and interest paid were unfavourable by 21pc and 72.4pc to K9.2bn and 2.8bn; respectively. These were driven by increase in capex which necessitated a rise in borrowing.

NBM plc, a cash cow; is said to have registered a 7pc growth in earnings driven by a 26pc growth in its loan book and 8pc growth in customer deposits. TNM registered a 2% reduction in earnings due to an increase in depreciation following capital expenditure. The effect of the one-off sale of stake in MTL resulted in an overall 31pc drop in earnings in the ICT segment.

Ethanol Company is said to have put in stellar results with a 108pc growth in earnings driven by increased sales volumes and availability of carryover stocks. This is a marked improvement from FY18 which recorded a loss due to a slowing down in sales of Extra Neutral Alcohol line affected by temporary closures of major off-takers – hence the carryover stocks that may have contributed to the sales increase in 1H19. Press Cane earnings remained in positive territory thus contributing to overall bright picture of the energy segment.

The retail chain segment's losses worsened 44pc due to a combination of a 15pc decline in sales revenues and a 44pc increase in finance cost and re-organisation costs. Directors are said to be weighing up options for recapitalisation of the business to support its turnaround strategy. This is somewhat worrisome as a capital injection of K5.3bn was made into the segment and the losses, which gave a temporary promise in 2018, seem to have reared their ugly head again. This is one to watch carefully…

Of the equity accounted businesses, Castel seems to struggle "as a result of operational challenges". The segment's earnings dropped 53pc as a result. The brewery is open to competition in form of imported beers quite unlike the days of yore when the industry enjoyed protectionist policies. PUMA; the fuel distribution company's profit declined by

34pc on account of reductions in gross margins, as other recoveries were removed from the price build up on all fuels during the period. Fuel tends to have a cost-push effect on inflation and might be bad for politics around election period. Other companies in this segment seem to be on a positive growth path.

The fish farming business is said to be on a recovery path having reduced its losses by 23% after benefitting from K1.1bn capital injection in 2018. Maldeco has been a long story in the history of the group where money has been sunk in over time without tangible results…we hope this recovery will eventually translate into a positive return on investment. The real estate is said to have come into positive territory from a loss position after enjoying a K1.9bn capital injection in 2018.

At the current price of K1,400.00 per share, PCL is trading at a historic rolling PE of 22.5x which has come from dwindling proportion of earnings attributable to shareholders of the parent. While this seems demanding, it is not unexpected as the Group adopts the strategy of reducing holdings in problem children in favour of bringing in better technical partners. Our conservative sum of parts valuation puts the intrinsic value just over K1,800. Given the two contrasting scenarios above, we rate the stock as a HOLD.

Press Corporation Plc

HY 19 PCL ("MK MILLION")	30-JUN-19	30-JUN-18	% CHG
Revenue	104,757	96,618	8.4%
EBITDA	30,620	39,416	-22.3%
Depreciation and amortisation	-9,270	-7,661	-21.0%
Results from operating activities	21,350	31,755	-32.7%
Net interest paid	-2,860	-1,659	-72.4%
Exchange (loss)/gain	-209	27	-774.1%
Net finance cost	-3,069	-1,632	-88.1%
Share of profit of equity accounted inv	642	1,372	-53.2%
Profit before tax	18,923	31,495	-39.9%
Income tax expenses	-7,763	-8,420	7.8%
Net profit after tax	11,168	23,079	-51.6%
Share of non-controlling interest	-8,079	-9,082	n/a
Attributable earnings	4,477	11,901	-62.4%

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
NBM	2019	Interim	K5.35	06-Sep-19
STANDARD	2019	Interim	K8.95	06-Sep-19
TNM	2019	Interim	K0.25	13-Sep-19
SUNBIRD	2019	Final	K0.50	13-Sep-19

Market activity and colour

Trading activity report for the week ending 30 August 2019

During the week under review, the market registered trading activity in five of the 14 counters on the market. A total of 10.2m shares worth K117.5m ($158.8K) changed hands in 20 trades. The index went up 20bps to 29,197.17 on account price increases in NBM and NBS.

Trading Summary for week ending 30-Aug-19

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.95	12.95		0	0.00	0	10,874,771,630
FMBCH	80.00	80.00		0	0.00	0	196,660,000,000
ICON	10.00	10.00		56,047	560,470.00	3	66,800,000,000
ILLOVO	210.00	210.00		0	0.00	0	149,823,322,110
MPICO	19.50	19.50		0	0.00	0	44,811,925,470
NBM	370.03	370.05	0.00 ↑	7,546	2,792,397.10	5	172,788,089,647
NBS	10.50	11.20	0.07 ↑	10,113,045	113,231,060.00	7	32,598,421,587
NICO	48.50	48.50		0	0.00	0	50,587,493,156
NITL	75.01	75.01		0	0.00	0	10,126,350,000
OMU	2,500.00	2,500.00		0	0.00	0	29,477,887,500
PCL	1,400.00	1,400.00		0	0.00	0	168,358,148,000
STANDARD	630.01	630.01		223	140,492.23	1	147,843,288,742
SUNBIRD	138.00	138.00		0	0.00	0	36,098,396,040
TNM	26.01	26.01		31,807	834,789.42	4	261,152,104,500
Totals				**10,208,668**	**117,559,208.75**	**20**	**1,378,000,198,381**

INDEX (week)	**29,153.01**	**29,197.17**	**0.2% ↑**
INDEX (month)	**29,413.02**	**29,197.17**	**-0.7% ↓**
INDEX (year)	**28,983.64**	**29,197.17**	**0.7% ↑**

(Source: MSE)

August 2019 market round up

During the month of August 2019, the market traded in all 14 counters a volume of 27.6m shares worth K798.6m ($1.1m) in 271 trades. This compares to 27m shares worth K2.2bn ($2.9m) in 204 trades traded in the previous month of July 2019. While the volume of shares is comparable to the previous month; the value traded has halved.

Comparing to August 2018, the market recorded trading activity for 43.7m shares with a total value of K3bn ($4.1m) in 173 trades. The market is subdued this year as valuations are out of sync with reality due to sticky prices.

The index retreated 70bps during the month from an opening position of 29,413.02 to 29,197.17 on account of price drops of heavyweights; TNM and FMBCH. However, index recorded a gain of 70bps year-to-date.

The index fell 8.9pc y/y as banking stock prices corrected during the past 12 months.

Trading Summary for the month of August 2019

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.95	12.95		3,770	48,821.50	1	10,874,771,630
FMBCH	85.00	80.00	-5.9% ↓	18,985	1,586,699.00	3	196,660,000,000
ICON	10.00	10.00		4,420,231	44,202,010.00	27	66,800,000,000
ILLOVO	210.00	210.00		17,359	3,645,330.00	3	149,823,322,110
MPICO	19.50	19.50		1,178,135	22,973,632.00	23	44,811,925,470
NBM	370.01	370.05	0.00 ↑	52,170	19,304,187.68	20	172,788,089,647
NBS	9.01	11.20	0.24 ↑	16,905,026	174,913,401.30	59	32,598,421,587
NICO	48.50	48.50		625,945	30,357,608.50	18	50,587,493,156
NITL	75.01	75.01		129,000	9,676,180.00	9	10,126,350,000
OMU	2,500.00	2,500.00		14,558	36,395,000.00	3	29,477,887,500
PCL	1,400.00	1,400.00		264,782	330,694,800.00	8	168,358,148,000
STANDARD	630.00	630.01	0.00 ↑	19,727	12,428,134.23	5	147,843,288,742
SUNBIRD	138.00	138.00		76,398	10,542,924.00	8	36,098,396,040
TNM	26.48	26.01	-1.8% ↓	3,918,151	101,890,897.25	84	261,152,104,500
Totals				**27,644,237**	**798,659,625.46**	**271**	**1,378,000,198,381**

INDEX (month)	**29,413.02**	**29,197.17**	**-0.7% ↓**
INDEX (year to date)	**28,983.64**	**29,197.17**	**0.7% ↑**
INDEX (Y/Y)	**31,956.43**	**29,197.17**	**-8.6% ↓**

(Source: MSE)

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