



Research Plan H1 - 2020

- January 2020 – Review of Press Corporation.
- February 2020 – Review of Old Mutual Plc
- April 2020 – Banking Compendium
- May 2020 – Malawi Real Estate review

STOCK	RECOMMENDATION
NBM	BUY
MPICO	BUY
NBS	BUY
PCL	UNDER REVIEW
ICON	NEUTRAL
NICO	HOLD
SBM	HOLD
NITL	NEUTRAL
BHL	NEUTRAL
OML	BUY
TNM	BUY
SUNBIRD	HOLD
ILLOVO	REDUCE
FMBCH	REDUCE

MALAWI

How the MSE staked out in 2019...?

After two years of stellar USD returns, 2019 will count as a tepid showing by the Malawi Stock Exchange (MSE). As a reminder, the MSE was the best performing stock exchange in Africa in 2018, returning 22.20% at a time when all the other markets were in the red. The prior year – 2017 - had also seen a mammoth 61.2% USD capital appreciation. However, 2019 turned out to be a pale shadow of the recent past, with a capital appreciation of just 4.39% in both the local and USD terms, on account of the fact that the Malawi Kwacha, notwithstanding some extreme volatility in year, closed flat to the USD at around MWK736.

Currency fluctuations have a multiplicative, rather than additive, effect on returns. This is because the currency volatility affects not only the initial amount invested, but also the subsequent local currency gains or losses. This means that if a currency has appreciated during the holding period, the currency adjusted return will be larger than if one added the two returns together, and smaller if the currency has depreciated. In this case, the relative stability of the Kwacha in the recent years has helped the returns profile of the MSE, when compared with other African markets.

Notwithstanding the single digit return in 2019, the MSE was able to retain its position in the top five performers as the table below shows;

Index	2017	2018	2019
Kenya - All Share	28,20%	(16,80%)	22,10%
Egypt - Top 30	26,77%	(13,80%)	16,60%
Uganda - All Share	32,36%	(17,80%)	12,42%
South Africa - JSE All Share	8,00%	(30,37%)	10,90%
Malawi - All Share	61,18%	22,20%	3,45%
Tanzania - All share	6,60%	(14,20%)	1,03%
Botswana	2,54%	(18,30%)	(3,10%)
Nigeria - All share	24,51%	(18,60%)	(6,82%)
Mauritius - SEMDEX	30,75%	(0,30%)	(7,31%)
BRVM - Composite	(5,16%)	(32,30%)	(12,21%)
Ghana - All share	43,96%	(16,90%)	(24,31%)
Zambia - All share	26,63%	(16,50%)	(30,19%)

The best performing stock market in Africa was the Nairobi Securities Exchange (NSE) of Kenya which benefited from the strong performance of banking stocks, on the back of the repeal of the “interest rate cap law” at the end of October. The NSE closed the year with a 22.10% return. Egypt



(16.6%); Uganda (12.4%); South Africa (10.9%) are all ahead of the MSE which is sitting in the fifth position.

We have deliberately omitted Zimbabwe which showed a negative 68% USD loss, mainly on account of the nearly 80% depreciation of the local unit. This currency depreciation will be strongly felt by FBMCH. Zimbabwe also has the additional problem that foreign investors have been having difficulties repatriating capital, dividends and profits out of the country. In that case, one has to apply a haircut to the returns.

Where money was made and lost

“A chick that will grow into a cock can be spotted the very day it hatches.” - African Proverb

While the above African proverb should ordinarily apply to stock picking on the MSE and other stock markets in general, it is easier said than done. For instance, not many an analyst could not have predicted that the top performers of 2019 will be headlined by two banks and property companies, especially given that interest rates have been softening.

	Dec-18	Dec-19	% Change
NBM	332,02	525,00	58,12%
MPICO	13,20	19,53	47,95%
NBS	10,00	13,50	35,00%
PCL	1 140,00	1 400,00	22,81%
ICON	8,75	10,50	20,00%

- **NBM** - on which Cedar Capital has a **BUY** recommendation takes the podium, with a fair amount of the share price rally driven by the cautionary statement about a possible regional acquisition that the bank published in the fourth quarter.
- **MPICO** – the property company, as a currency hedge rallied strongly during the quarter in which the Kwacha depreciated to as much as MWK780 to the USD. The counter did not retrace when the Kwacha clawed back all the losses to close almost flat for the year.
- **Press Corp** – the conglomerate, which is taken as a proxy for the Malawian economy rallied on renewed interest from a foreign fund.
- **NBS** – the bank’s share price appreciated 35% as its turnaround continued to gain momentum. Cedar Capital is bullish on the bank and has it as one of its top stock picks.
- **ICON** – the new kid on the block, which came onto the bourse early in the year, gained a fifth. Much of the gains were in sympathy with real estate peer; MPICO.



The laggards, were anchored by the **FBMCH**, down 23.5%, having experienced a massive downward share price correction, initially as investors shed the “irrational exuberance” following the Barclays Bank Zimbabwe acquisition as it soon became apparent that Zimbabwe would in the short term negatively affect the overall financial performance of the group and later realised that the share price had been overbought. The banking group, in December published a trading update indicating that 2019 financial results would be 70% lower than the prior year. The culprit is obviously the Zimbabwean subsidiary, which is operating in an economy which experienced a massive depreciation of its currency in 2019. For what it is worth, the Zimbabwean situation is a macro issue and there is very little that FMBCH management can do but strive to defend/preserve value.

	Dec-18	Dec-19	% Change
TNM	28,00	26,00	(7,14%)
SUNBIRD	145,00	118,00	(18,62%)
ILLOVO	200,00	153,00	(23,50%)
FMBCH	100,00	75,00	(25,00%)

Lately **Illovo's** financial performance has not been sweet, with PAT declining 41% in the 12 months to 31 August 2019. The company's operational and financial performance has been weak in the past three years and the share price has responded accordingly.

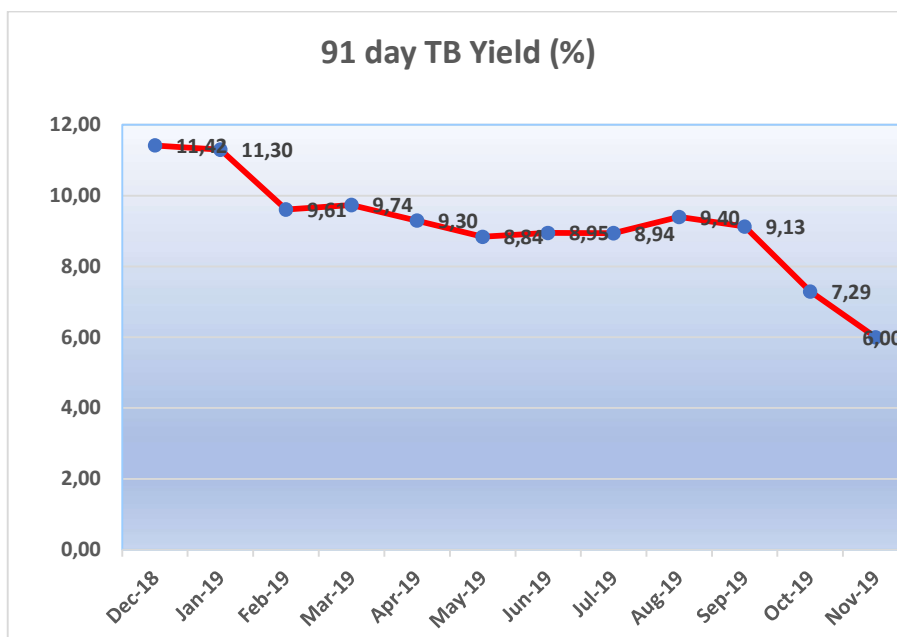
TNM, on which Cedar Capital is very bullish, saw its share price slide 7.14% following a 3% year-on-year decline in PAT at half year. The fall in earnings was attributed to a higher than normal depreciation charge.

Sunbird Malawi's HY19 financials succumbed to pre-election uncertainty and the post-election violent protests which impacted negatively on the whole hospitality sector. PAT was only up 2% year-on-year.

The African proverb caption we started with is a question that we are also applying to Airtel Malawi Plc and other IPOs we are anticipating in 2020.

Money market review

Yields in the money markets softened considerably during the year, in response to central bank efforts to reduce the cost of borrowing. The Reserve Bank of Malawi cut its Policy Rate by 250bps to 13.5% in May 2019. In sympathy, yields on 91 day, 182- and 364-day treasury bills also softened. The benchmark, 91-day TB yield moved from 16%pa in December 2018 to 6%pa in November 2019, which is a significant fall. The chart below traces the softening of 3 months TB yields;

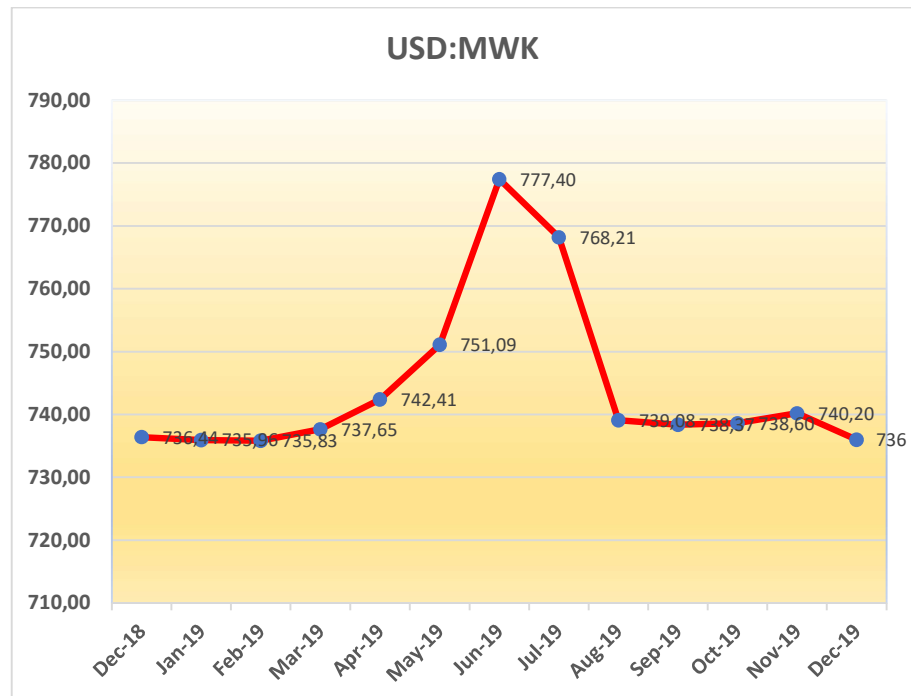


If the yield profile remains the same in 2020, where real returns are now negative, then bank earnings will start to be negatively impacted.

Foreign currency market

Although the purchase and holding of USD as an investment is not popular with Malawian individual and institutional investors, we nonetheless highlight that it was a roller coaster year for the Kwacha. It started the year at MWK736 to the dollar and depreciated to nearly MKW780, before strengthening to close the year flat. At its peak, the return would have been 6% and for the year, the return is flat.

This exchange rate movements also mean that companies which had booked exchange losses in June, when the rate was MKW777, should be able to reverse some of these by year end. The other impact would be on “stock losses” for those inventories purchased when the rate was at its peak. So, company results will to a certain extent reflect these fluctuations.



Conclusion and outlook for the MSE

While at this time of the year, it is difficult to point out which chicks will be cocks, as Cedar Capital, we have our list of top stock picks, see page 1. Outside the political and natural disaster risks, the outlook for the Malawian stock market is positively buttressed by;

- **Low interest rates** – as can be discerned from the money market section above, interest rates have been softening and are likely to remain low. Not only are real interest rates now negative, but the inverse relationship between interest rates and the stock market should kick, impacting positively on the MSE in 2020.
- **More initial public offerings** – it is anticipated that investors will have more stocks/companies to invest in as a few companies are expected to debut on the bourse this year. The year has already kicked off with an IPO of Airtel Malawi Plc. The new listings could negatively affect the MSE though, as some investors may be forced to liquidate some positions in order to raise capital for the IPOs.
- **Solid earnings** – a number of companies are expected to publish really impressive results. The banking sector, in spite of the low interest rates, is showing signs of having recovered from the cotton ginners loan scandal, and the impact of IFRS9 has washed through.



- **Stable exchange rate** – the Malawian Kwacha, has been one of the most performing currencies in Africa trading between MKW730 and MKW745. As such the stability of the currency should count as a positive for the MSE.

We are bullish about the MSE in 2020, on account of lower money market returns, a promising agriculture season and the excitement driven by new listings.

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