

## MALAWI

### Political and economic news

#### *IMF advocates reference rate formula review*

IMF has called for a review of reference rate formula – the rate banks use as a “base lending rate” which is fixed monthly based on a number of variables. The IMF argues that the reference rate is less transparent and raises banks’ intermediation costs. But Bankers association of Malawi has argued that the new measure is working well and has given opportunity to lenders to know the lending rate. In its Country Report for Malawi, the IMF has advised the Reserve Bank of Malawi to continue addressing structural barriers by reducing cost of borrowing, including developing a road map to improve access to finance. The fund further urges the RBM to raise repurchase agreements rates in order to more effectively mop up liquidity and keep the interbank rate aligned with the policy rate. In an effort to improve financial intermediation costs and access to finance, the RBM in May this year unveiled a new calculation formula for determining monthly reference rate. This means the RBM changed the composition of the reference rate, previously composed of only Lombard rate, to include three other rates, in arriving at the reference rate. Whereas the base lending rate was equal to the Lombard rate previously – which itself was 40bps above the policy rate – the new computation reduced its weight to 59% with the rest of the 41% coming from a combination of Interbank (30%), 91-day Treasury bill (10%), and savings (1%) rates. However, in a related development, the RBM bemoaned low access to credit from formal financial services. The RBM observed that only 3% of the population had access to credit in the formal financial sector. *(Source: Nation and Cedar Capital Research)*

#### *World Bank grants Malawi K92bn*

The World Bank has provided \$125m (K92bn) grant to Malawi for Social Support Resilient Livelihood Project. The project seeks to improve resilience among poor and vulnerable populations and strengthen the country’s national platform for safety nets. A letter from the World Bank addressed to Minister of finance, economic planning and development, Joseph Mwanamvekha confirms the development. World Bank executive director for Africa Anne Kabagambe, who signed the letter, said the bank’s board approved the grant on 10 December 2019. She disclosed in the letter that the grant will benefit from co-financing by the Global Risk Financing Facility which will grant \$17m. According to Kabagambe, the first component of the project focuses on increasing the effectiveness of core safety net programmes, building on social cash transfer programme as the main modality of the response. Additionally, the World Bank envisages that the second component will focus on strengthening core delivery systems related to social registry, information management and e-payments while the third component will focus on strengthening capacity and learning under the project. *(Source: Nation)*

### Company news

#### *Illovo FY19 earnings slump 38pc*

Illovo Sugar Malawi (Illovo) released its FY19 results to 31 August 2019 showing a 38.7pc slump in earnings to K10bn (\$13.4m) on FY18 - negatively impacted by worsening profit margins and compounded by a drop in turnover. Operating profit margins fell 27.4pc from 21.3pc in FY18 to 15.4pc. Reduction in world sugar prices might have contributed to low margins in export sales. The board highlights increased transport costs, among others, as another contributor to reduced margins. Turnover seems to have been hit by illegal sugar imports, post-election violence and competition. Power shortages and pests have also

been mentioned as having had a negative impact on production. As a result profit before tax fell 33.6pc to K20bn.

Finance costs improved 9pc to K5.3bn –although the market expected a bigger improvement in this line given that the board has been touting debt reduction as their main focus. At half year, the savings in net finance cost amounted to 38.2pc. While long-term liabilities seem to have drastically reduced from K3.9bn to K220m; current liabilities have increased 23.5pc to K67.7bn. In the absence of detailed numbers, we assume a repayment of Illovo Group Holdings loan of K3.6bn has been replaced by local short-term borrowings and overdrafts – hence leaving a small dent on net finance costs. The net cash flows used in financing activities is a positive K1.2bn rendering credence to our thinking.

Going forward the Board seems to bank on efficiencies expected to be achieved from improved irrigation systems, better availability of power and increased factory throughput due to some technical improvements to make the plants more efficient. The Board further highlights exchange rates, inflation and interest rate movements and debt levels as key threats to the business.

The question is whether the significant drop in earnings is reversible in the short to medium term? We think the main factors affecting the business in the local environment include power supply challenges, illegal importation of sugar, interest rates and exchange rates. These challenges will continue to exist in the short to medium term and local competition is likely to keep growing with Salima Sugar production said to be targeting production of at least 100,000MT in the short term – over a third of Illovo’s level. While the board and management are right to focus on improvements to efficiencies and cost control, we do not think these would bring back the glorious days of yore of 50pc operating profit margins. Unless world sugar prices make a turn, we do not see much improvement in the bottom line in the near future. That said, the absolute numbers are nothing to scoff at showing the company’s potential to be resilient in the face of adversity; therefore there might be a light at the end of a very long tunnel. The share price has tumbled 27pc in recent weeks to K153 putting the historical PE at 10.8x. We retain our rating of **LONG TERM HOLD** at current levels.

FY19 ILLOVO MWK (“MILLION”)	2019	2018	% CHG
Revenue	129,676	141,760	-8.5%
Operating profit	20,047	30,197	-33.6%
Net finance cost	-5,367	-5,901	9.0%
Profit before tax	14,682	24,327	-39.6%
Taxation charge	-4,599	-7,878	41.6%
Net earnings	10,083	16,449	-38.7%

## Airtel Malawi to list on Malawi Stock Exchange

Airtel Malawi announced its intention to list on the Malawi Stock Exchange (MSE) subject to fulfilling MSE listings’ requirements. The Press release says the listing is aligned to the Communications Act of 2016 regulations for telecommunications and broadcasting licensing. This implies that Airtel has been called upon to fulfil the requirement for the company to have at least 20% local shareholding in the company in line with the Communications Act. It further means the Communications regulatory authority might have accepted a listing on the local exchange as meeting this requirement. Airtel has taken the campaign further to its mobile phone users through broadcasts via texts.  
(Source: Airtel Press Release and Cedar Capital Research)

## National Bank to expand into the region

National Bank of Malawi (NBM) has issued a cautionary statement advising that it is in talks to acquire a controlling interest in a financial institution outside Malawi. NBM, the oldest bank in the land, has for some time, been looking for opportunities to expand into the region. *(Source: Company filing)*

## Corporate action

### Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
ILLOVO	2019	Final	K0.50	13-Mar-20

## Market activity and colour

### Trading activity report for fortnight ending 13 December 2019

During the period under review the market registered trading activity in 12 of the 14 listed counters on the market – except ILLOVO and FMBCH. A total of 18.5m shares worth K694.7m (\$926.3K) traded in 76 transactions. By comparison, the final week of November traded 289m shares worth K5.9bn (\$7.9m) in 134 transactions. Most funds get involved in last ditch trading at the end of November as the closed period for transacting certain stocks for most of them starts at the beginning of December.

The index gained 1.1pc w/w to 29,534.73 driven mostly by a 9pc increase in Standard Bank to K730.00.

#### Trading Summary for the period 2 to 13 December 2019

Symbol	Open	Close	Volume	Value	Trades	Market	
					Count	Capitalization	
BHL	12.95	12.94	-0.1% ↓	410	5,305.40	1	10,866,374,123
FMBCH	75.00	75.00		0	0.00	0	184,368,750,000
ICON	10.50	10.50		104,044	1,091,462.00	3	70,140,000,000
ILLOVO	153.00	153.00		0	0.00	0	109,156,991,823
MPICO	19.50	19.50		2,713,286	52,909,077.50	9	44,811,925,470
NBM	460.03	460.03		4,768	2,193,423.00	6	214,802,607,432
NBS	12.50	12.52	0.2% ↑	9,173,730	114,697,793.00	29	36,440,378,417
NICO	48.50	48.50		60,000	2,910,000.00	1	50,587,493,156
NITL	75.00	80.00	6.7% ↑	2,805,000	224,400,000.00	3	10,800,000,000
OMU	2,499.99	2,499.99		100,000	170,000,000.00	1	31,803,162,787
PCL	1,400.00	1,400.00		705	987,000.00	2	168,358,148,000
STANDARD	670.00	730.00	9.0% ↑	1,126	817,540.00	3	171,307,758,260
SUNBIRD	118.00	118.00		343,500	40,533,000.00	5	30,866,744,440
TNM	26.00	26.00		3,239,020	84,214,520.00	13	261,051,700,000
<b>Totals</b>				<b>18,545,589</b>	<b>694,759,120.90</b>	<b>76</b>	<b>1,395,362,033,908</b>
<b>INDEX (week)</b>	<b>29,215.33</b>	<b>29,534.73</b>	<b>1.1% ↑</b>				
<b>INDEX (month)</b>	<b>29,215.33</b>	<b>29,534.73</b>	<b>1.1% ↑</b>				
<b>INDEX (year to date)</b>	<b>28,983.64</b>	<b>29,534.73</b>	<b>1.9% ↑</b>				

# Weekly Market Report



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## Trading Summary for week 25 to 29 November

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.95	12.95		0	0.00	0	10,874,771,630
FMBCH	75.00	75.00		0	0.00	0	184,368,750,000
ICON	10.49	10.50	0.1% ↑	5,020,100	52,689,247.50	11	70,140,000,000
ILLOVO	180.00	153.00	-15.0% ↓	1,000	153,000.00	1	109,156,991,823
MPICO	19.50	19.50		214,830	4,189,185.00	8	44,811,925,470
NBM	460.02	460.03	0.0% ↑	3,000,189	1,380,176,943.78	5	214,802,607,432
NBS	12.50	12.50		213,682,128	2,534,272,700.00	40	36,382,166,950
NICO	48.50	48.50		9,026,428	386,591,464.50	8	50,587,493,156
NITL	75.00	75.00		10,200	765,000.00	2	10,125,000,000
OMU	2,499.99	2,499.99		0	0.00	0	31,803,162,787
PCL	1,400.00	1,400.00		60,000	84,000,000.00	1	168,358,148,000
STANDARD	670.00	670.00		9,700	6,499,000.00	2	157,227,668,540
SUNBIRD	118.00	118.00		1,307	154,226.00	1	30,866,744,440
TNM	26.00	26.00		58,002,836	1,508,063,416.00	55	261,051,700,000
<b>Totals</b>				<b>289,028,718</b>	<b>5,957,554,182.78</b>	<b>134</b>	<b>1,380,557,130,228</b>
<b>INDEX (week)</b>	<b>29,456.27</b>	<b>29,215.33</b>	<b>-0.8% ↓</b>				
<b>INDEX (month)</b>	<b>30,344.49</b>	<b>29,215.33</b>	<b>-3.7% ↓</b>				
<b>INDEX (year to date)</b>	<b>28,983.64</b>	<b>29,215.33</b>	<b>0.8% ↑</b>				

(Source: MSE)

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