Weekly Market Report

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MALAWI

Political and economic news

Government revenue collection on decline

Government has for the second month running recorded a decline in total revenues with available statistics from the Reserve Bank of Malawi (RBM) indicating a 6.7 per cent slump in December 2017 to MWK 74.7bn. This follows another decrease of 1.9 per cent to MWK80.1bn recorded in the preceding month of November. Year on year December revenue dropped 9.8 per cent from MWK 82.8bn recorded in December 2016. According to the RBM December 2017 Economic Review report, the downturn was on account of a drop in in foreign receipts while domestic revenues recorded a marginal increase that slightly helped offset the decrease. Foreign inflows dropped significantly by MWK 5.6bn to MWK 5.1bn from an increase of MWK 7.8bn to MWK 10.7bn recorded in the preceding month. Year on year foreign receipts decreased by MWK 310.3m from MWK 5.4bn recorded in December 2016. The development is coming at a time the government is proposing to increase its borrowing limit from the current MWK 27.8bn to MWK 47.1bn. (Source: *The Nation*)

TCC gets tough on unscrupulous tobacco growers

The Tobacco Control Commission (TCC) has warned that it will deregister growers that add non-tobacco related materials in their bales. Some farmers put stones, bricks and other items in tobacco bales to increase weight of the bales so that they fetch more money at the markets. TCC CEO Kayisi Sadala warned that the tobacco regulating body will not tolerate cheating in tobacco sales this year. (Source: *The Nation*)

Tea earnings hit USD 14.5m in 2017

Malawi realised USD 14.5m from tea sales in 2017 according to a report from the Reserve Bank of Malawi (RBM). This is compared to USD 11.9m realised in 2016. Tea production surged by six per cent in 2017 to 45.6m kg, additionally the average price for 2017 was USD 1,83 per kg compared to USD1.55 for the prior year. Tea is Malawi's second major export after tobacco with sugar ranking third on the country's list of top export crops. Tea is largely grown by large commercial estates and small holder farmers in Mulanje and Thyolo in the southern region and Nkhatabay in the north. It is estimated that up to 18,000 ha is under tea production the bulk of which is in the southern region tea growing areas. Of the total area under tea, Nkhatabay accounts for about 650 ha. (Source: *The Daily Times*)

2017/20l8 Budget to be cut 2.3% during review

Finance, economic planning and development minister Goodall Gondwe mentioned that he is set to cut MWK 30bn from MWK 1.3trn 2017/18 National Budget amid falling revenue during the mid-year budget review currently under way. That chop is around 2.3% of the total budget and while not as steep, it goes to show pragmatism on the back of shrinking domestic revenue collection and a retreating donor community. The slashes are expected across a majority of government ministries, departments and agencies in areas considered non-essential such as travel, which a Treasury document said could be reduced by as much as 10%. Gondwe is expected to deliver his mid-year budget review statement in parliament on Friday 16 February 2018. (Source: *The Nation*)

IMF mission reaches a staff level agreement with Malawi

IMF team led by Pritha Mitra, Mission Chief for Malawi, visited Lilongwe from 31January to 14 February 2018 to conduct the 2018 Article IV Consultation and hold discussions with the Malawian authorities on a program supported by the IMF's Extended Credit Facility (ECF) arrangement. At the end of the mission, Ms. Mitra said the IMF team reached a staff-level agreement with the authorities on a three-year program that could be supported by an arrangement under the ECF and concluded the 2018 Article IV discussions. She observed that Malawi is recovering from two years of drought and projected economic growth in the range of 3-5 per cent in 2018, followed by a rise to 6-7 per cent over the medium term.

Growth will be supported by enhanced infrastructure investment and social services as well as an improved business environment, which will boost confidence and unlock the economy's potential for higher, more broad-based, and resilient growth and employment. She further said inflation at end-2018 is expected to reach 9 per cent before gradually converging to around 5 per cent over the medium term. The economic program would aim to entrench macroeconomic stability and foster higher, more inclusive, and resilient growth. On budget shortfalls she noted that while the authorities regained control over the budget during FY16/17, this proved challenging during FY 17/18. Revenue shortfalls and expenditure overruns, including the bailout of maize purchase loans by a parastatal exerted significant pressures on the budget. She among other things, recommended strong remedial measures to address widening budget deficit, tight monetory policy to contain inflation within single digits by end of 2018 while keep real interest rates positive. She observed that while Malawi's debt has risen but its risk of debt distress remains "moderate" – she therefore advocated prudent investment planning and prioritising projects based on cost benefit analysis. She concluded her statement by highlighting the government's commitment to continue to improve the business environment, including easing procedures to start a business and deal with construction permits among other reforms. The staff-level agreement and 2018 Article IV is not an official IMF position but could be considered by the IMF Executive Board in April 2018. (IMF website)

Company news

NBM declares second interim dividend

National Bank of Malawi (NBM) a subsidiary of PCL has declared a second interim dividend of MWK 1.5bn representing MWK3.36 per share. This follows a first interim dividend for FY17 which was paid in September of MWK 3.3bn. The second interim dividend will be paid to shareholders appearing in the company's share register as at the close of business on 2 March 2018. The dividend will be paid on 24 March 2018. NBM dividend policy is distribution of 50% of its net earnings. (Source: *Company filings and Cedar Capital*)

Company announcements and our commentary

- TNM – expects its FY17 results to be at least 60% higher than FY16. We think this is driven by strides in market share growth on the back of the company's previous investment in its backbone infrastructure and its investment in 4G and 4.5G LTE technology. TNM may also benefit from low interest rates which may have translated into lower finance charges on its debt securities.

- MPICO – expects its FY17 results to be at least 100% higher than FY16. Towards the end FY16, MPICO raised MWK 9bn in a renounceable rights issue which effectively converted its loans to equity. The effect of this transaction was a reduction in finance charges on loans which was reported at MWK4.1bn in FY16. We believe this is the main driver of earnings for FY17. On the other hand, we think the reduction in debt burden should help unlock value in rental income, especially from the Gate Way Mall whose occupancy rates were reported to be on the rise. We therefore forecast a minimum of 25% growth in 2018 barring any setbacks, especially on the long outstanding government debt.

- NICO – expects its FY17 to be at least 180% higher than FY16. NICO's 1H17 were 277% higher on the previous period. Our expectation was that the FY17 would track a similar trend barring any surprises. Its subsidiary, NBS Bank, has over the years, been bedevilled by NPLs which weighed down the Group's performance. Rabo bank was brought in as technical partners at the beginning of the year and there has been a management shakeup at NBS. We think NBS Bank hit rock bottom and expect that it will only be going up. NICO's life insurance business (NICO Life) seems to be the major contributor to the Group's performance and growth, we think it is likely to continue to anchor the Group into the future.

- PCL – expects its FY17 to be at least 90% higher than FY16. The beginning of the year saw changes at the top management level in the Group with George Partridge taking over from Matthews Chikaonda. George was formerly CEO of PCL's subsidiary and cash cow; NBM bank where his performance was quite decent. His initial focus seems to be to address all bad apples within the Group and curtail their loss making status. In this regard MTL has been restructured by forming a fibre optic company while the cdma-based mobile telephony business line has been abandoned. Top management changes have been effected in PTC Group which seems to have revisited its strategy in order to survive competition from incoming supermarket chains who only target the main cities. We think the jump in profit might be attributed to TNM and a one-off profit from a sale of a stake in one of PCL's holdings which analysts will be well advised to discount going forward. But the cleaning house aspect alone should unlock the Group's performance going forward as loss making subsidiaries weighed down the Group by not less than MWK 10bn.

- SUNBIRD expects its FY17 to be at least 70% higher thanFY16

- NITL – expects its FY17 results to be at least 100% higher than FY16

- NBS expects its FY17 results to be at least 70% higher than FY16 – *but will still report a loss.*

- STANDARD expects is FY17 to be at least 30% lower than FY16. Press reports indicated that Standard Bank was a major lender in what appears to be a fraudulent transaction in which a reported USD 20m was lent to Cotton Ginners African Limited, syndicated by a few banks. The company (Cotton Ginners African Limited) applied for bankruptcy proceedings in the court of law after accessing the facility and its CEO was reported to have fled the country. Subsequently he was brought back into the country where he faces some charges relating to the scam. It does seem a one-off mishap and savvy investors may look to buy into weakness.

Source: Company filings and Cedar Capital

Market activity and colour

In a less active week, the market traded 2.4m shares from 6 of the 13 listed companies in 26 trades recording a market turnover of MWK 34m (USD 46.5K) during the week; there was no single trade on Friday 16 Feb! By contrast, the market recorded 4.5m shares from 8 of the 13 listed companies in 30 trades with a market turnover of MWK 79.6m (USD 108K) in the previous week. NBS traded the most in value and volume taking up 40% of the traded value while TNM came second with 26%.

Risers during the week were TNM which increased 5.2% to MWK 18.00 trading a total of just over 500K shares while NBS edged MWK0.20 to close at MWK8.70 per share.

The market has demand for FMBCH, TNM and PCL. On the other hand, sellers are available in NICO, NBS, NITL, MPICO and ILLOVO.

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