Weekly Market Report

Equity research | News & Analysis

MALAWI

Political and economic news

Public debt jumps 5.1%

Malawi's public debt stock rose by 5.1% during the fourth quarter of 2017 to hit MWK 2,470.9bn from MWK 2,352.0bn recorded in the third quarter, latest figures from the Reserve Bank of Malawi (RBM) have shown. According to RBM Financial and Economic Review for Fourth Quarter released, external debt stock rose by MWK 47.1bn while domestic debt stock increased by 7.9% to MWK 984.7bn at the end of the quarter. As a percentage of GDP, total public debt stock was 52.8% of GDP in the quarter under review from 50.3% in the third quarter of 2017. On the growth of domestic debt, RBM report says treasury notes held by RBM and those with foreign investors and 'Ways and Means' advances were the main contributors to the increase in debt stock in the fourth quarter. Precisely, treasury notes holdings by RBM increased 9.3% quarter on quarter from MWK 477.7bn to MWK 521.9bn in the quarter under review. Foreign sector holding of treasury notes increased by MWK 11.4bn to MWK 14.3bn while ways and means advances increased by MWK 29.4bn to MWK 43.7bn in the fourth quarter of 2017. Treasury bill holdings by RBM registered a decline of 55.9% due to maturity of instruments while treasury bill holdings by corporate sector increased to MWK 7.58bn from MWK 1.6bn recorded in the previous quarter due to new issuances. (Source: The Daily Times)

Egypt still keen on cigarette factory

Egyptian Ambassador Maher El Adawy stated that plans to set up a cigarette making factory in Malawi by Egypt's Eastern Tobacco Company are still on the cards. In 2015, Malawi Leaf Company partnered with Eastern Tobacco Company to set up a cigarette manufacturing factory at Kanengo in Lilongwe in 18 months, a MWK 9bn investment. However, three years down the line, the place where the factory was to be built remains desolate. Adawy observed that Egypt is a major buyer of Malawi burley tobacco and seven years ago she imported tobacco worth USD 70m. If the factory can be set up, both Egypt and Malawi will benefit since the two countries are members of the Common Market for the Eastern and Southern Africa (COMESA). The goal to have the factory set up in Malawi is still there but there is also bureaucracy; hence the delay, he lamented. Adawy further indicated that the factory once set up would help promote tobacco from being an agricultural crop to an industrial crop, creating more employment opportunities. (Source: *The Nation*)

Soaring Imports worsen trade deficit

Malawi's growing appetite for imported products continues to negatively affect trade performance, with recent figures from the Reserve Bank of Malawi (RBM) projecting a worsened trade deficit. In its fourth quarter financial and economic review, the central bank said a growth of 9.9% in its imports against an increase of 6.3% in exports is projected to worsen the country's trade deficit to USD 413.2m (about MWK 301.5bn) during the fourth quarter of 2017. This is an increase from a deficit of USD 368.3m projected in the preceding quarter. Earnings from the country's main export commodity, tobacco, dropped from USD 276m earned from 195K MT to USD 212m from 106K MT in 2017, according to the Tobacco Control Commission. Government, on the other hand, projects to narrow the trade balance, in the next five years with figures from the final draft of the Malawi Growth and Development Strategy (MGDS) III projecting trade balance to decline by 0.5 percentage points to two percent of GDP in 2022, from 2.5% in 2018. (Source: *The Nation*)

MGDS III implementation to cost MWK 8.6trn

Implementation of the third Malawi growth and development strategy (MGDSIII) is expected to cost about MWK 8.6trn (USD 11.7bn); including several flagship projects which the government and development partners expect to spur economic growth and reduce poverty. President Peter Mutharika launched the strategy at his official residence;

Kamuzu Palace in Lilongwe on 13 March 2018. This launch comes about 18 months after the expiry of its predecessor strategy, MGDS II which ran from 2011 to 2016 and ended short of its intended objectives. The new five-year strategy includes flagship projects estimated at about MWK 3.5trn to scale up public investments in the key areas of agriculture, water development and climate change management, education and skills development, energy, industry and tourism development, transport and ICT infrastructure and health and population. (Source: The Nation)

Company news

BHL posts 22% increase in FY17 earnings

Blantyre Hotels Limited FY17 earnings went up 22% on FY16 on improved occupancy levels and average room rates – and helped, marginally by prior year accounting adjustments. Revenue grew 17% on the previous year while operating margins were maintained at 58%. Cost of sales increase was within reasonable limits; increasing 17% to MWK 1.4bn – with the board singling out backup power and maintenance costs as the main culprits. Notable savings were recorded in finance cost; 77% favourable at MWK 23m thanks to a reduction in interest rates and repayment of borrowings which are expected to be fully repaid within 2018.

A prior year error in the treatment of discount on revenues – erroneously grossed up in revenues and related trade receivables was adjusted for in line with IAS 18 which requires revenue to be recognised net of discounts. Another prior period adjustment concerned an inadvertent overstatement of deferred tax liability occasioned by failure to re-index the tax values for land. The effect of these adjustments resulted in a net reduction in brought forward earnings by MWK26m. Other comprehensive income consisted of movement in revaluation of land and buildings of MWK 1bn netted off against related deferred tax charge of MWK 340m.

Looking ahead, the company intends to construct a 180-capacity four-star hotel in Lilongwe and according to the directors, design concepts and discussions with land owners are at an advanced stage. This is a commendable development as being a one-hotel company does expose its earnings to some risk, especially during major refurbishments. The company will be looking to raise capital through a rights issue which should also help the market for the stock as it hardly trades due to illiquidity. (Source: *Company filings and Cedar Capital*)

Blantyre Hotels Plc

FY 17 BHL (“MWK’000”)	2017	2016	% CHG
Revenue	4,118,092	3,523,721	16.8%
Cost of sales	1,716,253	1,460,299	-17.5%
Gross Profit	2,401,839	2,063,422	16.4%
Operating profit	765.759	675,705	13.3%
Net finance cost	22,959	99,529	77.0%
Profit for the year	506,538	414,074	22.2%
Other comprehensive income	5,060	773,201	-99.3%
Net earnings	511,598	1,187,275	-56.9%

Source: Company filings

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
Standard Bank	2017	Final	MWK 4.26	TBA
BHL	2017	Final	MWK 0.15	TBA

Source: Company filings

Company announcements and our commentary – *(**this section is repeated**)*

- 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. ***The company has updated its trading statement and says to expect at least 300% increase.***

- 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. 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.*

Source: Company filings and Cedar Capital

Market activity and colour

The market traded 16.2m shares from 8 of the 13 counters in 35 trades recording a market turnover of MWK 291.9m (USD 397K). This is to be compared to 7.2m shares worth MWK 233.5m (USD 317.8K) in 49 trades registered in the previous week.

The dominant counter was MPICO trading 12.4m shares with turnover of MWK 209m or 71% of the entire market. FMBCH recorded turnover of MWK 34.5m representing 12% while NBS was third with 9% of the market. Other active counters were NBM, NICO, PCL, STANDARD and TNM.

NICO led the risers during the week recording a 6.7% or MWK 3.00 increase to MWK 48.00 – on additional company news adjusting its trading statement on FY17 results from 180% expected increase initially to at least 300%. FMBCH gained 5.3% to MWK 95.00 - without any fresh news whatsoever. FMBCH rally in the past weeks has seen it become the biggest company by market capitalisation valued at MWK 221.9bn (USD 302m) – representing 21% of the total market capitalisation sans OML. MPICO increased by MWK 0.40 to MWK 16.90. There were no fallers.

Cedar Capital Limited
4th Floor, Livingstone Towers
Sir Glyn Jones Road
P O Box 3340
Blantyre, Malawi
+265 1 831 995
Feedback: nzimar@cedarcapital.mw