Weekly Market Report

CEDAR CAPITAL

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MALAWI

Political and economic news

Managing debt critical for next ECF - IMF

IMF has said it will maintain its focus on seeing the Malawi government putting a tight lid on its debt dynamics before an agreement on the next Extended Credit Facility (ECF) programme is reached. IMF resident representative Jack Ree said this will help avoid the danger of debt snowballing out of control. This comes at a time when Malawi's domestic debt levels have risen to MWK 912.9bn (USD 1.2bn) while foreign debt is at USD1.9bn. The IMF mission team is due to arrive in the country to engage various stakeholders on the next ECF programme after the conclusion of the previous USD 156.2m worth programme in June 2017. Although IMF's latest debt sustainability assessment continues to rate Malawi at moderate risk level – meaning that the current debt level is largely manageable – Ree insists that the debt needs to be monitored. He said this is particulary important now because Malawi's new growth and development strategy (MGDS III) calls for massive public investment, including in the energy sector. He argues that despite their merits, such investments can trigger unsustainable debt levels if ill-managed or poorly prioritised. (Source: The Daily Times)

MERA confirms power tariff hike

Malawi Energy Regulatory Authority (MERA) confirmed that the energy regulator has approved a request by Electricity Supply Commission of Malawi (ESCOM) to increase electricity tariffs by an average of 24.67%. MERA CEO Collins Magalasi said the commissioning of 55MW diesel-powered generators in Blantyre would put into effect the tariff rate proposal which was approved by the regulating body last year. He disclosed that the implementation of the new tariffs was conditional upon ESCOM switching on diesel generators which would complement the national electricity grid. President Peter Mutharika commissioned diesel generators in Blantyre which are expected to contribute 55MW to the grid. Currently ESCOM charges MWK 58.80 (8 US cents) per KWH and increase will take the average charge to almost 10 US cents. (Source: *The Nation*)

Company news

Standard Bank appoints new CEO

Standard Bank Malawi has appointed William le Roux as its new chief executive officer. Le Roux takes over from Andrew Mashanda who was appointed Standard bank group head of corporate and investment banking in Nigeria. Le Roux has held progressively senior leadership positions in a number of African countries within the Standard bank group. (Source: *The Daily Times*)

Sunbird plans to construct a new lakeshore hotel

Sunbird Tourism plc has disclosed plans to construct a 100-bedroom three-star hotel in the lakeshore district of Salima. The development will bring the number of Sunbird hotels in the district to two after Sunbird Livingstonia. Sunbird board chairman Philip Madinga said there has been high demand for quality hotel facilities driven by both leisure and business segments from the source market of Lilongwe as well as southern region. He said the new hotel will have a 300-seater conference hall, health club, spa, swimming pool and shops, among other facilities. Source: *The Daily Times*)

APR Energy, PCL set to generate 28MW power

Malawi is poised to become one of the first countries in the world to produce electricity using locally-produced ethanol within three to five months. US-based fast track power company APR Energy intends to partner Press Corporation plc (PCL) through one of its subsidiaries; Press Cane Limited which produces ethanol. The venture is yet to get approvals from the energy regulatory authority MERA. APR Energy regional sales director for sub-Saharan Africa Victor Mallet confirmed that the company's technology is unique in that APR's turbines can efficiently convert ethanol into electricity power. He said that APR Energy had installed over 4,200MW in power plants across the world. According to PCL, Malawi produces approximately 35m litres of ethanol per year derived entirely from molasses, a by-product of sugar production. (Source: *The Nation)*

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

The market traded 24,3m shares from 8 of the 13 listed companies in 26 trades recording a market turnover of MWK 685m (USD 932K) during the week. NICO traded the most in value and volume taking up 79% of traded the traded value while TNM came second with 19%.

There were no risers nor fallers during the week.

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

January roundup

Total trading activity for the month of January was recorded at MWK 1.3bn (USD1.8m) in 115 trades compared to MWK 300m (USD 413K) in 100 trades recorded in January 2017 – representing an increase of over 300% y/y. Traded volumes for the month were 36.7m as compared to 9.4m in January the previous year.

The most active counter in both volume and value was NICO which recorded traded value of MWK 759m (USD 1.03m) representing 57% of the total. Other notable ones were NBM (22%) and TNM (13%). All counters were active except BHL and Standard Bank which did not register any trade during the entire month. BHL is beset by illiquidity problems as there are few shares in issue which are tightly held while Standard Bank seems to have been affected by the expected drop in earnings as advised by the company (refer company announcements). Despite the negative news, investors still see value in the company going forward and seem to consider it a hold.

The index rose from 21598 at the beginning of the month to 22223 representing a 2.9 % increase. This is also to be compared to January 2017 index of 13127 a 69% spike in 12 months.
Risers during the month were Sunbird which gained 14.5% to MWK110.00 per share, TNM 11.4% to MWK16.15, FMBCH rose by MWK 3.10 to MK70.10 and MPICO increased slightly from MWK 15.61 to MWK15.70. There were no fallers during the month.

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