MALAWI

Political and economic news

MSE to introduce automated trading system

Malawi Stock Exchange (MSE) is expected to phase out the manual call-over trading system and switch to automated trading in May this year. The online trading system which will eliminate manual trading and matching is expected to enhance efficiency of the market. MSE CEO John Kamanga said the stock exchange has signed a contract with a supplier of the system and the start of implementation is slated for early February. The system is expected to go live in May. Kamanga explained that the system is a matching engine which removes the need for a call over session where exchange officials match the orders to make a trade. Brokers will access the system online from their offices and it will be interfaced with a central depository system in which records of dematerialised share certificates will be kept and managed. (Source: *The Daily Times and Cedar Capital)*

EU investment in mining sector

The EU has said the consolidation of critical geophysical data is important for increasing the country's knowledge of the mining sector. EU ambassador Marchel Gertmann said this during a project site visit in EU-funded Mining and Governance Support Project implemented by the geological survey department in Zomba. The project focuses on support towards mining skills and knowledge as well as consolidation of critical geophysical data among thematic areas. He stressed the importance of the review of the mines and minerals Act of 1981 as it will contribute to modernisation of the sector. Mineral sector contribution to the country's GDP has dropped from 10 per cent when Kayelekera uranium mine was operational to around one per cent. (Source: *The Nation*)

India, Malawi discuss a potential uranium deal

Malawi and India are engaged in negotiations for a uranium deal which could see the latter importing the yellow cake from Kayelekera uranium mine in Karonga. A breakthrough in the talks would give a new lease of life into the country's only uranium venture whose operations were suspended in 2015 due to a slump in global prices of uranium. The talks also come at a time the 15-year contract between Malawi Government and current majority shareholder in the mine, Australian-listed Paladin Energy Limited, is nearing the end. Indian high commissioner, Suresh Kumar Menon stressed that there is no development plan nor investment proposal at the moment but the Indian government has requested for a technical report on the mine to guide the next stage of the discussion. (Source: *The Nation*)

EU grants MWK 16bn for electricity project

The EU and Kfw – a German government-owned development bank, signed an agreement where the latter will provide a EUR 20m (MWK 16bn) grant to Malawi Government for the Malawi-Mozambique power interconnector project. Completion of the project will bring Malawi into the Southern African Power Pool where the country will be able to purchase electricity from the regional grid and sell its excess capacity in off-peak period. The project consists of the construction of a 218-km transmission line with a voltage of 400 KV from Mozambique's Tete province to Balaka in Malawi. The entire project is expected to cost USD 127m and Kfw will also provide funding to the Mozambican government to the tune of EUR 30m in support of the project. (Source: *The Daily Times)*

Company news

Outlook positive for sugar in 2018

The 2018 outlook for sugar looks positive following an assurance from the sugarcane growers association of Malawi (Sugam) of a healthy crop in Nchalo and Dwangwa and a secure domestic market. Sugar is Malawi's second major foreign exchange earner and despite the threat of fall army worms, which also attack sugar canes, Sugam has painted a bright future for the commodity. This is coming after Illovo, the country major sugar producer, also gave a commitment as to the availability of sufficient stock to meet the domestic demand. About 5,000 smallholder farmers under Sugam contribute around 20 per cent of the total sugarcane crop to Illovo Sugar Malawi plc. (Source: *The Daily Times*)

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.

- 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 telephonybusines 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 8,4m shares of 10 of the 13 listed companies in 34 trades recording a market turnover of MWK 440m (USD 595K) during the week. NBM and NICO combined to claim 96% of the traded value – NBM (48.9%) and NICO (46.8%).

Risers during the week were Sunbird- up 14.5% to MWK 110.00 on small volumes; TNM – up 4.4% to MWK 16.10 and OML which rose from MWK 1960 to 1965 on a paltry 262 shares. While Sunbird has issued a positive trading statement (refer corporate announcements), it is currently not liquid and remains on demand. OML is illiquid on MSE as most shares were transferred to JSE register in early years of its listing as investors took advantage of arbitrage in the price between the two stock exchanges. OML plc shares are fungible on the two stock exchanges – plus on LSE and ZSE. TNM is still sought after but we have seen major buyers begin to retreat after its rally in price. There were no fallers.

The market has demand for FMBCH, TNM and PCL. On the other hand, sellers are available in NICO, NBS, MPICO and ILLOVO. There is a block sell order of NICO for a volume of 14m at MWK 39.00 – which is 14.7% above the market price. It is likely that the broker might come in with a matching buy order, come next week.

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