

MALAWI

Political and economic news

Investors inject MWK 330bn for varsity hostels

Investors expected to construct hostels with a bed capacity of 24,980 in the country's public universities plan to invest USD 450m (MWK 330bn) for the project. The investors-Old Mutual Investment Group (OMIG) and M&M Developments and infrastructure have at least two and six years, respectively to complete construction of the hostels, which has been framed on a build operate and transfer (BOT) arrangement for 35yrs. OMIG, which is expected to build hostels at Lilongwe University of Agriculture and Natural Resources (Luanar), Bunda Campus and College of Medicine under the University of Malawi (Unima), is expected to invest USD 25m (MWK 18.3bn) for the hostels with a bed capacity of 4,700. M&M Developments and Infrastructure, on the other hand, plans to invest USD 425M (MWK 311.5bn) for the construction of 20,280-bed capacity hostels at The Polytechnic, Luanar-Natural Resources College (NRC) campus, Unima's Chancellor College in Zomba, Malawi University of Science and Technology (Must) in Thyolo and Mzuzu University (Mzuni). (Source: The Daily Times)

Monetary Policy Committee maintains bank rate at 16%

The Reserve Bank of Malawi (RBM) resolved to maintain the policy rate also known as the bank rate at 16% to consolidate possible build-up of inflation risks and ensure inflation rate remains in single digit. The central bank's Monetary Policy Committee (MPC) made the decision after a two-day macro- economic conditions review meeting in Mzuzu. This is the second time in a roll the central bank has maintained the policy rate at 16%. In MPC minutes, RBM Governor Dalitso Kabambe mentioned that a possible increase in utility tariffs and potentially unchanged fiscal policy stance pose upside risks to the inflation outlook. Briefing the media later in Mzuzu, Kabambe, who also chairs the MPC, said the committee has also agreed to maintain the Liquidity Reserve Requirement-a fraction of depositors money commercial banks maintain with the central bank without earning interest at 7.5%. (Source: *The Nation*)

Company news

Sunbird posts 82% increase in FY17 earnings

Sunbird Tourism Plc group posted a stellar 82% increase in FY17 earnings to MWK 2.4bn on the previous period thanks to growth in revenue and successful cost containment strategies. Revenue grew 21% on the previous year to MK 18.9bn while cost of sales increased by 10% to MWK 4.1bn- resulting in an improvement in gross profit margins from 76% in the prior year to 78%. Operating profit margins showed a similar trend; improving from 16.4% in FY16 to 21.9% following the group's good grip on operating and administration expenses which increased 13.2% to MWK 10.7bn. Net finance costs were favourable with a 13% reduction to MWK 592m which the board attributes to loan repayment and reduction in interest rates during the year. A net revaluation surplus of MWK 3.2bn was recorded as other comprehensive income.

The group achieved an average of 60% occupancy level which helped drive revenues. The board credits the corporate market segment as the main driver of revenues, accounting for 53% of total room nights followed by commercial market segment at 21%. The company also points out that the main contributor to the business performance has been the domestic market. The board looks to pursue strategies to preserve its niche market while also exploring other segments such as leisure and international in view of the varied products the hotel chain has on offer.

The board advises that the group completed a number of projects during the year such as refurbishment of bedrooms at Sunbird Lilongwe hotel, introduction of board rooms at Sunbird Capital and Sunbird Mount Soche hotels as well as refurbishment of a beach bar at Sunbird Nkopola, among others.

Looking ahead, the company intends to construct a 42-capacity beach resort at Sunbird Livingstonia beach and acquire water-based assets to cater for leisure tourists at its two lake-shore resorts. The group will continue to refurbish rooms at Nkopola and Livingstonia and is currently constructing a conference facility for its Blantyre-based Sunbird Mount Soche hotel. (Source: *Company filings and Cedar Capital*)

Sunbird Tourism Plc

FY 17 SUNBIRD ("MWK'000")	2017	2016	% CHG
Revenue	18,931,829	15,690,863	20.6%
Cost of sales	4,139,185	3,756,982	-10.2%
Gross Profit	14,792,644	11,933,881	23.9%
Operating profit	4,147,389	2,571,869	61.2%
Net finance cost	592,015	681,737	-13.2%
Profit for the year	2,433,867	1,336,457	82.2%
Other comprehensive income	3,252,172	-	
Net earnings	5,868,039	1,336,457	438%

Source: Company filings

TNM earnings grow 60% in FY17

Mobile phone operator; TNM reported a 59.7% growth in earnings for FY17 to MWK 13.1bn (USD 17.8m) on the back of improvements in revenue growth coupled with a significant reduction in finance costs. Revenue grew 21% to MWK 79.6bn on FY16 due to "strong performance in consumer and business enterprise products" according to the company's board of directors. The directors report a 13% growth in its subscriber base in FY16 which seems constant as a similar growth rate was reported in FY16.

Gross margins slightly improved to 53% from 52% previously while EBITDA margins for the year were 37% compared to 35% recorded in FY16. This was achieved through a comparatively slower rate of increase in indirect expenses which rose 18.9% to MWK 15.3bn. The improvements in both direct and indirect costs over the two-year period under comparison, contributed to a 28% growth in EBITDA during FY17 to MWK 29.5bn.

ARPU remained flat having been recorded in FY16 at MWK 1,634 while in FY17 was at MWK 1,626.

Finance costs decreased 33.9% to MWK 2.8bn with half the savings coming from improvements in exchange rate losses which plummeted to MWK 12m from MWK 815m in the previous year. These improvements were due to a relatively stable exchange rate throughout the year and reduction in interest rates following gains made in inflation at macro-economic levels. Resultantly, the company's earnings were bolstered by the 60% growth in line with the company's trading statement as released earlier.

During the year TNM's new capital expenditure was recorded at MWK 19bn doubling the FY16 capital expenditure of MWK 9.2bn. TNM enjoyed the first mover advantage of improving its network to 4G LTE technology over its fierce rival Airtel – which has moved to counter by introducing a similar technology. TNM has of late launched 4.5G LTE

network as the company seeks to maintain its innovative leadership in the market. (Source: *Company filings and Cedar Capital*)

TNM Plc

FY 17 TNM ("MWK' MILLION")	2017	2016	% CHG
Revenue	79,590	65,553	21.4%
Direct operating costs	37,220	31,476	-18.2%
Gross Profit	42,370	34,077	24.3%
EBITDA	29,502	22,995	28.3%
Net finance cost	2,810	4,250	33.9%
Profit for the year	13,108	8,206	59.7%

Source: Company filings

NITL earnings revived to MWK 2bn from a loss

Listed closed investment fund; National Investment Trust Limited (NITL) saw a reversal of fortunes as it reported a profit of MWK 2.2bn in FY17 compared to a loss of MWK 1bn in FY16 – thanks, in large part, to the growth of fair value of its investments on the Malawi Stock Exchange. A good part of NITL's portfolio consists of listed equities and a 62% y/y growth in domestic index meant that the fund would benefit from the same.

Total distributable income grew 25% in FY17 to MWK 326.7m with dividend income increasing 26% to MWK 289m while interest income grew 17.9% to MWK 37.8m. The growth in interest income, despite falling interest rates in the macro-economic environment could imply a higher average cash liquidity kept in money market throughout the year. Looking at the cashflows, it would suggest the fund managers were slightly more adventurous during the year as they restructured the equities portfolio selling MWK 219m worth of shares while acquiring MWK 261.9m.

The company's equity portfolio is said to have grown 34.6% - lagging behind the MSE domestic index which would seem to suggest a conservative approach of holding equities for the long term. The drop in FY16 equity portfolio was attributed in a large part to a drop in the share price of Illovo which forms a significant portion of its listed equities portfolio. (Source: *Company filings and Cedar Capital*)

National Investment Trust Limited Plc

FY 17 NITL ("MWK' 000")	2017	2016	% CHG
Total Income	326,726	261,316	25.0%
Expenses	119,033	98,854	-20.4%
Profit before fair value movement	207,693	162,462	27.8%
Fair value movement on equities	2,132,568	-1,258,690	268%
Profit for the year	2,221,350	-1,071,021	306%

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
SUNBIRD	2017	Final	MWK 0.63	TBA
TNM	2017	Final	MWK0.25	TBA
NITL	2017	Final	MWK0.78	11-May-18

Source: Company filings

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

- 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.
- 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 5.8m shares on 11 of the 13 counters in 27 trades recording a market turnover of MWK 216m (USD293.9K) during the week. This is to be compared to 4.2m shares worth MWK 248.6m (USD338.2K) in 39 trades registered in the previous week.

MPICO traded 5m shares recording a turnover of MWK 91.5m or 42.3% of the entire market turnover. ILLOVO came second in trading with 33% of the market while FMBCH (11.6%) was third. Other active counters were STANDARD, NITL, NICO, TNM, SUNBIRD, OML, NBS and NBM.

FMBCH rose 5.2% to MWK 100.00 while MPICO rose 1.9% to MWK 18.60 both had no fresh news whatsoever - we think the market is heating up as growing pension funds look for a home. OML gained a further 2.6% to MWK 2,360.00 on small volumes following its release of results and an announced "managed separation" scheme which will see OML plc break up into four regional companies.

March roundup

Total trading activity for the month of March 2018 was recorded at 39m shares worth MWK 1.1bn (USD 1.5m) in 160 trades compared to 245m shares worth MWK 7.7bn (USD 10.5m) in 124 trades recorded in the previous month representing a 85.7% drop month on month – February was an aberration with two high value trades worth MWK 7bn (USD 9.6m).

The most active counter during the month in both volume and value was MPICO with over 20m shares recording a turnover of MWK 330m or 30% of the entire turnover for the month. TNM came second with MWK 200m or 18%; STANDARD recorded MWK 161m while FMBCH weighed in at MWK121.8m or 11% of the monthly turnover.

The index rose from 23183 at the beginning of the month to 25287 representing a 9.1 % increase thanks to share price movements in some counters. This is also to be compared to March 2017 index of 14578 giving a 73.4% rise y/y.

Risers during the month were:

1. FMBCH with 41.4% or MWK29.30 increase to MWK 100.00 per share
2. OML with 18.6% or MWK 370.00 increase to MWK 2,360.00 (results/illiquid stock)
3. MPICO with 16.6% or MWK 2.60 increase to MWK 18.30
4. NICO with 6.7% or MWK 3.00 increase to MWK 48.00 (revised statement)
5. TNM with 5.1% or MWK0.97 increase to MWK 20.00 (sentiment)
6. NBM increased by MWK 9.92 to MWK 280.00 (presumed bargain on relative valuation with Standard Bank after the latter's results)
7. PCL increased by MWK 2.00 to MWK 602.00 (demand/ low liquidity)
8. SUNBIRD increased by MWK 0.05 to MWK 110.05 (low liquidity)
9. STANDARD recovered by MWK 0.01 back to MWK 610.00 (low liquidity)

NITL was the only faller during the month shedding 8.4% or MWK 5.06 to close at MWK 55.00

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