MALAWI

Political and economic news

Green light on IMF Programme

The IMF has indicated that discussions of a possible new extended credit facility programme with Malawi will be top on the agenda during the fund's executive board meeting to be held in Washington DC towards the end of this month according to the fund's resident representative, Jack Ree. This follows a visit by the IMF mission team in February, which was meant to review the impact of the last programme and engage authorities on priorities for the next programme. IMF has since advised the government to enhance transparency in the budget process, strengthen the medium-term budgetary framework and cash management. Minister of finance, economic planning and development, Goodall Gondwe, recently expressed optimism that the IMF board will approve the programme. He cited positives such as lowering of inflation as indicators of government's commitment to develop the economy. Both IMF and Malawi authorities say the pillar for the next extended credit facility programme is expected to be microeconomic stability so as to enhance growth of the country's economy. The programme, if approved, will seek to build on economic gains such as improvements in the exchange rate, low inflation and interest rates. In an earlier announcement both IMF and government said the country should expect a new programme in the second quarter of 2018. (Source: *The Daily Times*)

Company news

NBM posts 15% increase in earnings

National Bank of Malawi Plc posted a 15% increase in FY17 earnings to MWK 19.1bn (USD 26m) courtesy of a "double-edged sword" performance in non-interest income on one hand, and impairment losses on the other. Non-interest income rose 18% to MWK 22.9bn which we assume emanates largely from foreign exchange transactions. Impairment losses worsened over 400% to MWK 4.2bn – local media reports indicated that NBM participated in a loan syndicate to Cotton Ginners Africa which turned out to be a potential fraud with the case being pursued in courts. However, the level of such involvement was said to be minimal which means NBM had its own fair share of non-performing loans during the year.

Interest income inched up 5.6% to MWK 48.8bn reflecting the conservative growth in the net loan book which rose 3% to MWK 137.5bn while customer deposits grew 20% y/y to MWK 237bn. The excess liquidity thus generated found its way into money market investments which shot up 76% to MWK 104bn- this had relatively low yields as falling inflation rates resulted in interest rates trending downwards at macro levels. Net interest margins were maintained at high levels of 86% signifying a consistent level of cheap core deposits over the two-year period. Cost to income ratio improved to 50% from 55% in FY16 as operating costs for the two periods were exactly the same – which in itself is an extraordinary occurrence!

Based on a quick comparative valuation with Standard Bank, NBM seems to be more attractively priced at current levels with its historical price earnings ratio of 6.9x (Standard: 11.8x and domestic average of 11.6x). We therefore think there is upside potential in the price of NBM and recommend it as a BUY. (Source: *Company filings and Cedar Capital*)

National Bank of Malawi Plc

FY 17 NBM ("MWK 'MILLION")	2017	2016	% CHG
Interest income	48,804	46,211	5.6%
Interest expense	6,558	6,148	-6.7%

FY 17 NBM ("MWK 'MILLION")	2017	2016	% CHG
Net interest income	42,246	40,063	5.4%
Other income	22,895	19,329	18.4%
Net income	65,141	59,392	9.7%
Operating expenses	33,361	33,362	-
Net impairment losses	4,230	783	-440%
Net earnings	19,147	16,606	15.3%

Source: Company filings

BHL plans corporate actions to increase its shares in issue by a factor of 6.5

Blantyre Hotels Plc plans to request its shareholders at its forthcoming annual general meeting to pass a special resolution authorising the company to effectively increase total shares in issue 6.5 times its current 129.2m shares in a two-step capital restructuring transaction. The company proposes to make a "10-for-3" bonus issue as the first step; followed by a "1-for-5" share split. We discuss below these two corporate actions and their implications on the shares and investors.

What is a bonus issue? - a bonus issue also known as a capitalisation issue or scrip issue is when a company issues additional shares and **gifts** them to its existing shareholders in proportion to the number of shares they hold in the company. Shareholders get these additional shares without paying anything hence the term – "bonus". A company may give a bonus issue for various reasons which may include rewarding its shareholders (instead of paying a cash dividend from its retained earnings, it issues them additional shares). Other reasons may be to increase the liquidity of the share on the stock market and make the share price affordable. A bonus issue increases the number of shares in the hands of investors and reduces the price per share as the market value of the company ("market capitalisation") does not change. In the case of BHL, a 10-for-3 bonus issue means it will issue *three additional shares for every 10 shares* held by existing shareholders. Since this is like a form of "dividend" payment, BHL will adjust its retained reserves by transferring an amount equivalent to the additional shares to capital – hence capitalisation.

What is a share split? - a share split is when a company decides to divide an existing share into shares of lower face value – more like exchanging a 2000 kwacha note for four 500 kwacha notes. The total value you have does not change but you have more low-value notes which add up to MWK 2000! Companies do share splits typically to increase liquidity of the share and bring its price down to affordable levels as, like in bonus issue, market capitalisation does not change. Once liquidity increases, more buyers and sellers trade in the share which in turn helps discover its true value. In the case of BHL, a 1-for-5 share split means every existing share after the bonus issue will be split into five shares and the value divided by five to maintain the same market capitalisation before the split.

What does it mean to an investor in BHL? – the overall effect of the two corporate actions above means existing investors will have their shares in BHL multiplied by 6.5. So if one holds 1,000 shares they will end up with 6,500 shares. The other effect is that the opening price will be divided by 6.5 so as to maintain the same market capitalisation and value held by the shareholders. BHL's current share price is MWK 28.00; if this price holds until the actions described above, the opening price after the actions will be MK4.31 per share. The historical earnings per share will reduce as the denominator (number of shares) increases while the numerator (earnings or net profit) remains the same.

What is the difference between bonus issue and share split?- the main difference emanates from the change in retained earnings and share capital of the company. In a bonus issue retained earnings or reserves are reduced by the value of additional shares and transferred to share capital. In a stock split the share capital does not change. In both instances number of shares increases and price per share reduces.

Our view is that at historical price earnings ratio of 7.1x, BHL is undervalued due to its illiquidity, we expect that existing shareholders might make some shares available on the market after the corporate actions or the company may well consider a rights issue in which existing shareholders may dilute. Either way, we think investors should take advantage of availability of liquidity and BUY as we see potential for upside as the market discovers the true value of the stock. (Source: *Company filings and Cedar Capital*)

Blantyre Hotels Plc

BHL – CORPORATE ACTION	CURRENT	AFTER 10:3 BONUS ISSUE	AFTER 1:5 SHARES SPLIT
Authorised shares	140,000,000	1000,000,000	6,000,000,000
Issued shares	129,192,416	167,950,141	839,750,705
Market price/share (MWK)	28.00	21.54	4.31
Market capitalisation (MWK)	3,617,387,648	3,617,387,648	3,617,387,648
FY17 Earnings (MWK)	506,538,000	506,538,000	506,538,000
Earnings per share (MWK)	3.92	3.02	0.60

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 28.7m shares on 7 of the 13 counters in 27 trades recording a market turnover of MWK 1.5bn (USD 2.1m) during the week. This is to be compared to 5.8m shares worth MWK 216m (USD293.9K) in 27 trades registered in the previous week.

Sunbird was the major trading counter with 13.1m shares worth MWK 1.2bn – in a special bargain trade executed at MWK 96.00. MPICO traded 13.6m making 17% of the market. Other active counters were NBS, NICO, TNM, STANDARD and NITL.

Risers were Sunbird up 14.9% to MWK 125.00; NITL up 5.1% back to MWK 60.06 and MPICO up 0.7% to MWK 19.70 with the highest traded price at MWK 20.00. TNM shed 10% or MWK 2.00 to close at MWK 18.00 after release of its results last week.

The market has demand for BHL, FMBCH, PCL, STANDARD, OML and NBM. Sellers are available in MPICO, NICO, NBS and ILLOVO. In TNM there are sellers at MWK 20.00 while buyers are at MWK 18.00.

In its quarterly market report, MSE observes that the Malawi All Share Index (MASI) rose 17.1% in 1Q18 to 25287 compared to a rise of 9.4% recorded in 1Q17. The MASI also recorded a 73.4% increase y/y. (Source: *MSE and Cedar Capital*)

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