

## MALAWI

### Political and economic news

#### *May CPI eases to 8.9 pc*

Malawi's headline inflation softened 80bps to 8.9 pc in May as food prices remain subdued. In its inflation update the National Statistical Office (NSO) said food inflation stood at 9.5 pc while non-food inflation was recorded at 8.4 pc. Traditionally food prices are weak in Malawi from April on the onset of the crop harvesting period and they tend to pick up between January and March. A snap survey of produce markets in the southern region of the country showed that maize was trading at an average of MWK 100/kg or MWK 5,000 (USD6.80) for a 50kg bag. NSO further said that the national month-to-month inflation rate for May 2018 was – 60 bps compared to -379 bps recorded in the previous month. In its 2Q18 report, the Economic Intelligence Unit projected 2018 inflation to rise to an average of 12.8 pc driven by a 25 pc electricity tariff hike, higher oil prices and a tightening of local food supplies as a result of a sharp decline in maize output. In contrast the RBM expects inflation to remain in single digit throughout 2018. *(Source: Daily Times)*

#### *Malawi records USD 98.9m BoP deficit in 1Q18*

Malawi recorded a balance of payments (BoP) deficit of USD 98.9m (MWK 71.7bn) in the first quarter of 2018 according to statistics from the Reserve Bank of Malawi. This is compared to a BoP surplus of USD 18.1m the country recorded in 4Q17. The deficit is 84 pc worse off compared to a deficit recorded in 1Q17. The BoP of a country is the record of all economic transactions between the residents of a country and the rest of the world measured in a particular period of time. It represents a summary of monetary transactions made by individuals, firms and government bodies between a country and the rest of the world. In its Financial and Economic Review report for 1Q18, the RBM says gross official reserves declined to USD 663.2m at the end of the quarter from USD 758.3m in the previous quarter but were higher than USD 550m recorded in 1Q17. The decline in reserves was explained by relatively higher outflows than inflows, as foreign expenses increased against a seasonal drop in purchases from the market. This led to a slight drop in import cover from 3.4 to 3.2 months against the preceding quarter, however RBM expects the reserves to pick up in 2Q18 on the back an increase in seasonal agriculture marketing inflows. *(Source: The Daily Times)*

#### *IMF says economy affected by lack of budget support*

IMF's country representative Jack Ree says the absence of direct budgetary support for the past four years has inflicted pain on the country's economy. This situation has forced treasury to resort to domestic borrowing which tends to crowd out the private sector. Ree was however, upbeat that things may turn the corner as he saw potential for the country to come out stronger without direct budget support. He noted that experience in the region proves that countries can become financially independent only when they are able to raise financing from the financial market. This would require, among other things, strong and prudent fiscal and monetary policies and a track record of robust economic performance which leads to confidence building. Ree pointed out that the challenge of revenue under-collection is expected to persist for some time. Malawi Revenue Authority has attributed subdued revenue performance to power outages which in turn has negatively affected companies' production. Ree points to the new three-year extended credit facility programme Malawi has signed with the IMF as a starting point for the country to be financially independent and anchor fiscal deficit targets. Domestic debt is projected to rise significantly as government plans to borrow MWK 176.1bn to finance the budget deficit compared to MWK 30.7bn in the previous fiscal year. *(Source: The Nation)*

#### *RBM maintains policy rate at 16 pc*

The Monetary Policy Committee (MPC) of the Reserve Bank of Malawi (RBM) on Wednesday 4 July resolved to maintain the policy rate – the rate at which commercial banks borrow from the central bank – at 16 pc to counter inflationary risks. The rate has

been maintained at this level since December 2017 when it was revised downwards from 18 pc largely due to declining inflation rate – currently recorded at 8.9 pc as of May 2018. RBM governor Dalitso Kabambe said MPC reviewed recent global and domestic economic developments and decided to maintain the policy rate at the current level. He said that the committee observed that despite the reduction in CPI in May 2018, inflation risks still persist. He noted that economic indicators have generally been stable over a period of time and projected a stable macro-economic environment barring any unforeseeable occurrences. The MPC maintained the Liquidity Reserve Requirement for banks at 7.5 pc and the Lombard rate – the rate at which stressed banks access credit facility from RBM at 200 bps above the policy rate. *(Source: The Nation)*

## Company news

*NICO Holdings plc 1H18 results to be at least 24% better*

NICO Holdings has issued a trading statement in which it advises that its half year results to June 2018 will be at least 24% higher than 1H17. We attribute the anticipated increase in earnings to the announcement by NBS Bank that it will return to profitability in 1H18 as its losses were weighing down the group. Traditionally NICO Holdings has tended to report strong 2H results and one hopes this is an indication of better news to come. HOLD.

*NITL expects its 1H18 earnings to rise 35%*

NITL has released a trading statement advising shareholders to expect at least a 35% increase in 1H18 against 1H17. We expect the increase to be driven by price increases in its listed holdings, especially NBM and its realignment of the portfolio to bring in more TNM and FMBCH. Overall we find NITL valuation not demanding and recommend it as a BUY.

## 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	MWK 0.25	TBA
NBM	2017	Final	MWK 8.33	TBA
PCL	2017	Final	MWK 20.00	TBA
NICO	2017	Final	MWK 1.00	TBA

*(Source: Company filings)*

## Market activity and colour

The market traded 383K shares worth MWK 7.5m (USD 10K) in 12 trades during the week. In the previous week the market traded 257K shares worth MWK 2.6m in 6 trades. Only four counters were active with small volumes: MPICO, NBS, NICO and FMBCH. The market continues to be affected by slow conversion of physical certificates to electronic form in the CSD.

### June Roundup

Trading activity in the month of June was extremely hampered by the introduction of automated trading system on the MSE which is connected to a central securities

depository system (CSD) at the RBM which manages electronic share certificates and effects settlements of transactions in shares. The CSD has its teething problems exacerbated by slow and erratic conversion of physical share certificate to electronic mode. The automated trading system can only complete trades for dematerialised share certificates – which are available in CSD. The market has buyers and sellers of shares but these cannot be performed without such investors appearing in CSD.

Consequently, the market traded 6.4m shares worth MWK 212.4m (USD 289K) in 88 trades during the month. This is in sharp contrast with 265.7m shares worth MWK 10.6bn (USD 14.4m) in 160 trades recorded in the previous month – put into perspective, market value traded for June was 2 pc of May 2018. There were 12 active counters during the month except OML plc which delisted and was replaced by Old Mutual Limited on 26 June 2018. Leading trading counters were TNM (38%); Standard (28.6%) and FMBCH (10.2%).

The MSE index closed at 30736.95 from 30043.03 recorded at the beginning of the month representing a 2.3% increase; the index has risen from 21598.07 since 1 January 2017 – representing a 42.3% rise year to date. While it has increased 94.9% y/y from 15772.51 recorded on 30 June 2017. We give below the share price movements.

SHARE PRICES (MWK)	30JUN17	31DEC17	30JUN18	Y/Y%	YTD%
BHL	20.25	28.00	45.50	124.7%↑	62.5%↑
ILLOVO	216.15	240.00	240.00	11.0%↑	0%↔
MPICO	8.00	15.61	19.49	143.6%↑	24.8%↑
NBM	262.00	270.08	300.00	14.5%↑	11.1%↑
NBS	6.00	8.50	8.66	44.3%↑	1.9%↑
NICO	12.08	34.00	46.00	280.8%↑	35.3%↑
NITL	36.50	60.06	73.00	100.0%↑	21.5%↑
PCL	570.00	600.00	772.00	35.4%↑	28.7%↑
STANDARD	570.01	610.00	670.00	17.5%↑	9.8%↑
SUNBIRD	64.00	96.00	145.00	126.5%↑	51.0%↑
TNM	9.33	14.50	24.00	157.2%↑	65.5%↑
FMBCH	18.51	67.00	160.00	764.4%↑	138.8%↑
OML	1,850.00	1,960.00	2,980.00	61.1%↑	52.0%↑
OMU			1,580.22	-	

(Source: MSE and Cedar Capital Research)

Cedar Capital Limited  
4<sup>th</sup> Floor, Livingstone Towers  
Sir Glyn Jones Road  
P O Box 3340  
Blantyre, Malawi  
+265 1 831 995  
Feedback: [nzimar@cedarcapital.mw](mailto:nzimar@cedarcapital.mw)

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