

MALAWI

Political and economic news

October inflation rate rises to 9.7%

For four months in a row Malawi's y/y inflation rate has been on the upward spiral with National Statistical Office (NSO) figures showing the rate increased by 200bps from 9.5 percent to 9.7 percent. The increase, caused by rising food and non-food inflation, has raised fears that the Monetary Policy Committee could increase the policy rate at its next sitting in December. According to the Famine Early Warning System Network, maize prices are 11 percent above the five-year average and are likely to increase by early 2019. Maize, the main staple commodity, has a significant bearing on food inflation – which constitutes 45.2 percent of the inflation basket. On the non-food inflation, the Malawi Energy Regulatory Authority raised the price of fuel by an average of five percent and approved an electricity tariff hike of 20% effective 1 October 2018. Electricity, housing, water and transport contribute 31.5% to the CPI. *(Source: The Nation)*

RBM says import cover healthy as IMF approves \$15.4m

The Reserve Bank of Malawi (RBM) says despite the country being “deep in lean period” in foreign exchange availability, the import cover is still healthy to sustain critical imports. RBM spokesperson Mbane Ngwira said this year's foreign exchange reserves at \$1.09bn (K804bn) representing five months of import cover, compare favourably with 2017 and are far much better than 2016 when Malawi had about 2.6 months of import cover while maintaining a stable currency. He said the country is expecting the IMF and World Bank reviews to be favourable and could result in an injection of further foreign exchange. In a related development, the IMF completed its first review of Malawi ECF arrangement enabling the country to draw the equivalent of SDR11.15m (\$15.4m). This brings the total disbursements under the arrangement to \$30.9m. The three-year ECF arrangement was approved in April 2018 for \$108.2m, equivalent of 56.25 percent of Malawi's quota in the IMF, to support the country's economic and financial reforms. The ECF programme aims to entrench macro-economic stability and to foster higher, more inclusive, and resilient growth. *(Source: The Nation and IMF statement)*

Company news

Illovo FY18 earnings at K16.4bn

Illovo Sugar (Malawi) Plc (“Illovo”) released its FY2018 results – the first full year results since converting to 31 August year end from previously 31 March. The comparatives are five months results for April to August 2017 and we have annualised the variances to get a better comparative picture. While sales seem to have grown, operating profit remained flat while both profit before tax and net earnings weakened. The bane of the group has been the increasing interest burden on the debt owed to the holding company. The debt started with a balance of K4.2bn in FY15, before ballooning to K38.5bn in FY16. By the end of FY17 the balance was K24.3bn. Net finance cost for FY18 was K5.9bn; constraining bottom line growth. The company had promised that the debt would be fully repaid by August 2018 but the directors' comment in the FY18 press release indicates that a “significant portion of the foreign debt” has been repaid during the year.

However, there are indications of a beginning of a turnaround as operating profit margins recovered somewhat from 15.08% in the 12 months period to March 2017 to 21.3% in FY18 – but still below the 51.4% high of FY13 and better than 12.96% - the lowest recorded in FY16. Interest cover of 5.1x is an improvement on 2.4x recorded in FY17; but stands to improve further with the completion of repayment of the group loan. PBT margin of 17.1% is double that of FY16, ROA at 11.8% is better than FY17 but nowhere near the

exciting levels of FY13 (32.7%). ROE was recorded at 27% despite the K5.9bn finance cost compared to 19.3% in FY17 – this is set to improve with a significant drop in finance costs.

Illovo has shed 16.7% in its price to K200 since our last opinion on the counter. It is currently trading on a PE of 8.7x with potential to post better earnings without the loan going forward. Although it has not been exciting for dividend targeting investors, we think patient investors should look to HOLD.

ILLOVO SUGAR (MALAWI) PLC

1H18 NBM ("MWK MILLION")	12 MTHS ENDED 31-AUG-18	5 MTHS ENDED 31-AUG-17	% CHANGE (ANNUALISED)
Revenue	141,760	49,099	20.3%
Operating profit	30,197	12,696	-0.88%
Net finance cost	-5,901	-1,733	-41.9%
Profit before tax	24,327	10,964	-7.5%
Net earnings	16,449	7,735	-11.4%

Source: Company filings

Market activity and colour

The market traded 11.5m shares worth K1.1bn (\$1.4m) in 67 trades during the week. This compares to 3.9m shares worth K830m in 81 trades in the previous week. The index softened further on account of share price decreases in TNM and MPICO whose combined effect countered a 4.5% increase in PCL to K1,150.00. PCL traded the most recording 65% of total traded value for the week.

Week's Trading Summary

Trading Summary 19 to 23 November 2018							
Symbol	Open	Close	Volume		Value	Trades Count	Market Capitalization
BHL	13.00	13.00	131,000		1,703,000.00	2	10,916,759,165
FMBCB	70.00	70.00	42,500		2,975,000.00	2	163,537,500,000
ILLOVO	200.00	200.00	4,000		798,500.00	3	142,688,878,200
MPICO	13.20	13.20	5,069,937		66,911,522.50	6	30,334,226,472
NBM	332.00	332.00	0		0.00	0	155,021,337,016
NBS	10.50	10.50	2,333,588		24,502,675.00	10	30,561,020,238
NICO	50.97	49.98	103,745	-1.9% ↓	5,185,485.00	6	52,131,193,978
NITL	86.00	86.00	20,000		1,720,000.00	3	11,610,000,000
OMU	2,513.25	2,513.25	71,965		180,866,080.00	9	14,647,228,540
PCL	1,100.00	1,150.00	603,550	4.5% ↑	694,082,500.00	10	138,294,193,000
STANDARD	670.00	670.00	0		0.00	0	157,227,668,540
SUNBIRD	145.00	145.00	40,000		5,800,000.00	6	37,929,474,100
TNM	25.80	22.31	3,141,135	-13.5% ↓	76,917,519.50	10	224,002,439,500
Totals			11,561,420		1,061,462,282.00	67	1,168,901,918,749
INDEX (week)	26,757.27	26,370.35		-1.4% ↓			
INDEX (month)	30,622.36	26,370.35		-13.9% ↓			
INDEX (year)	21,598.00	26,370.35		22.1% ↑			

(Source: MSE)

Previous Week's Trading Summary

Trading summary
12 to 16 November 2018

Symbol	Open	Close	Volume		Value	Trades Count	Market Capitaliza
BHL	12.99	13.00	46,100	0.1%	599,300.00	3	10,916,759,165
FMBCH	101.00	70.00	446,974	-30.7% ↓	31,705,388.00	19	163,537,500,000
ILLOVO	204.84	200.00	13,000	-2.4% ↓	2,600,000.00	3	142,688,878,200
MPICO	15.50	13.20	39,655	-14.8% ↓	523,446.00	4	30,334,226,472
NBM	332.00	332.00	53,537		17,774,284.00	6	155,021,337,016
NBS	10.01	10.50	556,112	4.9%	5,823,300.00	9	30,561,020,238
NICO	50.97	50.97	0		0.00	0	53,163,804,663
NITL	86.00	86.00	0		0.00	0	11,610,000,000
OMU	2,513.25	2,513.25	0		0.00	0	14,647,228,540
PCL	1,149.01	1,100.00	647,657	-4.3% ↓	712,446,450.00	5	132,281,402,000
STANDARD	670.00	670.00	0		0.00	0	157,227,668,540
SUNBIRD	145.00	145.00	30,000		4,350,000.00	1	37,929,474,100
TNM	24.50	25.80	2,115,515	5.3%	54,293,122.50	31	259,043,610,000
Totals			3,948,550		830,115,290.50	81	1,198,962,908,934
INDEX (week)	28,668.33	26,757.27		-6.7% ↓			
INDEX (month)	30,622.36	26,757.27		-12.6% ↓			
INDEX (year)	21,598.00	26,757.27		23.9% ↑			

Source: MSE

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