

MALAWI

Political and economic news

Tobacco for production of jet fuel

As demand for tobacco smoking continues to decline, Malawi plans to start producing jet fuel and bio-diesel from a cross breed of tobacco varieties that do not contain nicotine known as solaris. The development brings hope to the declining industry due to global anti-smoking campaign. A company called DDN Energy Solutions has announced plans to set up multimillion dollar farms and factories for production of solaris and jet fuel following completion of agronomy studies on performance of the crop by the agriculture research and extension trust (Aret). The company's director Robert Mhango said they will roll out production at a high scale and are targeting 10,000ha in the 2019/20 season. He disclosed that the main processing and refining plant will be based in Lilongwe but other factories to begin the processing will be located in various tobacco growing areas. The company targets to start production in 2020 and is said to have a market in Europe. Aret chairperson, Reuben Maigwa confirmed that the trust has been growing solaris for research purposes since 2015 and have found that the crop follows regular tobacco husbandry processes and can be grown in any environment where tobacco is grown.

(Source: Daily Times)

New power firm to add 8.2MW to the grid soon

Mulanje Hydro Limited (MHL) plans to start producing 8.2MW of electricity in March at its Ruo-Ndiza power project in Mulanje district. The company has invested \$16m in setting up a hydro-electric power project on Ruo and Ndiza rivers. MHL is one of the energy investors registered in 2017 by the Malawi investment and trade centre with an estimated investment of \$25m into the power project. MHL managing director, Ian McKersie, confirmed that the first phase of the project will be commissioned in March 2019 while the second will be commissioned in August 2019. MHL will supply into the national grid based on a power purchase agreement they have signed with Escom. *(Source: Daily Times)*

Company news

Standard Bank FY18 earnings down 13pc

Standard Bank's performance for FY18 was 13pc down to K10.5bn (\$14.3m) on the previous year courtesy of a combination of a drop in interest revenue and worsening net interest margins – a result of falling interest rates in the macro-economic environment. Interest income reduced 10.8pc to K39bn as loans to customers rose 19.5pc to K112.6bn while loans to banks and other financial institutions; hitherto a major contributor to earnings, dropped 43.7pc to K76.4bn. Interest expense worsened 8.1pc to K4.2bn as customer deposits shrunk 11.6pc to K229.3bn. Net interest margins softened to 10.9pc from 11.9pc due to pressure of falling interest rates as interest spreads got squeezed.

Total expenses at K35bn were 5pc unfavourable compared to the previous year – this was below the average inflation of 9.2pc indicating some cost containment measures. However, cost to income ratios worsened to 63pc from 59pc in the prior year mainly as a result of contraction of the revenue base - this is all the more significant considering the bank enjoyed a cost to income ratio of 47pc in its hey days.

The past three years have seen a weakening in the earnings performance of the bank exacerbated by falling interest rates and squeezing of interest spreads. The monetary policy committee meeting of January 2019 reduced further interest rates through a cocktail of interventions comprising reduction of the policy rate by 150bps to 14.5pc; reduction of LRR on local deposits by 250bps to 5pc and a reduction of the Lombard rate margin from



200bps on policy rate to 40bps. Following these interventions, the RBM gave a guideline to the banks to adopt the Lombard rate of 14.9pc as their base lending rate. Thus we do not see an immediate improvement to the margins as interest rates have fallen further increasing the pressure on margins. The price of the stock has been sticky largely due to illiquidity and at K670 per share it is trading at a PE of 14.8x and P/B of 2.03. We find these levels demanding as the price is not reflecting the softening of the key metrics. REDUCE.

Standard Bank

FY 17 STANDARD MWK ("MILLION")	2018	2017 RESTATED	% CHG
Interest income	38,998	43,737	-10.8%
Interest expense	(4,258)	(3,938)	-8.1%
Net interest income	34,740	39,849	-12.8%
Net fee and commission income	12,105	9,371	28.2%
Net trading income	8,955	7,960	12.5%
Total operating income	55,986	57,254	-2.2%
Impairment losses	(4,904)	(6,224)	21.2%
Staff costs	(13,769)	(14,306)	3.7%
Other operating expenses	(17,904)	(16,664)	-7.4%
Total expenditure	(35,312)	(33,569)	-5.2%
Earnings before tax	15,772	17,461	-9.7%
Attributable earnings	10,582	12,162	-13.0%

Source: Company filings

Trading statements update

Increase in earnings

- NBS bank expects its FY18 earnings to be at least 13pc better than its loss of K1.1bn reported in FY17. This puts its expected earnings at a minimum of K1.4bn and forward PE of 20.5x.
- MPICO earnings expected to be at least 30pc higher than FY17. This puts its estimated FY18 earnings around K6.6bn
- TNM earnings to be at least 25pc higher than FY17 – earnings to be around K16.3bn with a forward PE of 15.4x at current levels.

Decrease in earnings

- NITL expects its FY18 to be 25pc lower than FY17 – thus earnings are expected at K1.6bn mainly due to a reduction in share value gains.
- BHL expects its FY18 earnings to 30 September 2018 to be 30pc lower than FY2017. This puts its earnings around K358m and forward PE of 30.4x

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
NBM	2018	2 nd interim	MWK 3.21	8-Mar-19

(Source: Company filings)

Market activity and colour

The market clawed back some losses through a rise in PCL to K1,200 per share on paltry volumes. The index rose 0.9pc during the week to close at 27,946.78.

The market traded 173.1m shares worth K2.6bn (\$3.6m) in 54 trades compared to 154.8m shares worth K2.5bn (\$3.3m) in 71 trades during the previous week. In a repetition of the previous week's trade, NBS traded exact volumes – a possible re-allocation of the same trades. NICO traded 15m shares in a special bargain price of K36 against the market price of K41.99.

Trading Summary for the week

Trading Summary for 4 to 8 March 2019						
Symbol	Open	Close	Volume	Value	Trades Count	Market Capitalization
BHL	12.98	12.98	5,000	64,900.00	1	10,899,964,151
FMBCH	85.00	85.00	572	48,620.00	1	208,951,250,000
ICON	11.94	11.94	0	0.00	0	79,759,200,000
ILLOVO	200.00	200.00	1,997	399,400.00	1	142,688,878,200
MPICO	13.04	13.04	0	0.00	0	29,966,538,878
NBM	315.01	315.01	4,100	1,291,541.00	3	147,088,166,787
NBS	9.99	9.99	152,857,869	1,528,577,834.14	11	29,076,627,826
NICO	41.99	41.99	15,002,331	540,097,878.69	3	43,797,295,621
NITL	75.00	75.00	0	0.00	0	10,125,000,000
OMU	2,513.23	2,513.23	161,257	405,275,900.00	2	14,647,111,980
PCL	1,100.00	1,200.00	81	97,200.00	1	144,306,984,000
STANDARD	670.00	670.00	0	0.00	0	157,227,668,540
SUNBIRD	138.00	138.00	523,150	72,194,700.00	3	36,098,396,040
TNM	25.01	25.01	4,554,910	113,914,950.00	28	251,111,654,500
Totals			173,111,267	2,661,962,923.83	54	1,305,744,736,524

INDEX (week)	27,687.33	27,946.78	0.9% ↑
INDEX (month)	27,687.33	27,946.78	0.9% ↑
INDEX (year)	28,983.64	27,946.78	-3.6% ↓

(Source: MSE)

Trading Summary for the previous week

Trading Summary for 25 February to 1 March 2019						
Symbol	Open	Close	Volume	Value	Trades Count	Market Capitaliza
BHL	12.98	12.98	0	0.00	0	10,899,964,151
FMBCH	85.01	85.00	15,888	1,350,480.00	7	208,951,250,000
ICON	11.95	11.94	90,900	1,085,346.00	3	79,759,200,000
ILLOVO	200.00	200.00	0	0.00	0	142,688,878,200
MPICO	13.03	13.04	875,639	11,420,176.00	15	29,966,538,878
NBM	315.01	315.01	6,000	1,890,060.00	4	147,088,166,787
NBS	10.00	9.99	152,759,928	1,451,221,403.55	3	29,076,627,826
NICO	41.99	41.99	0	0.00	0	43,797,295,621
NITL	75.00	75.00	1,300	97,500.00	1	10,125,000,000
OMU	2,513.23	2,513.23	224,430	564,044,000.00	6	14,647,111,980
PCL	1,100.00	1,100.00	420,634	462,697,400.00	4	132,281,402,000
STANDARD	670.00	670.00	0	0.00	0	157,227,668,540
SUNBIRD	145.00	138.00	1,000	138,000.00	1	36,098,396,040
TNM	25.00	25.01	476,515	11,915,711.00	27	251,111,654,500
Totals			154,872,234	2,505,860,076.55	71	1,293,719,154,524

INDEX (week)	27,726.75	27,687.33	-0.1% ↓
INDEX (month)	27,687.33	27,687.33	0.0%
INDEX (year)	28,983.64	27,687.33	-4.5% ↓

(Source: MSE)

Cedar Capital Limited
4th Floor, Livingstone Towers
Sir Glyn Jones Road
P O Box 3340
Blantyre, Malawi
+265 1 831 995
Feedback: nzimar@cedarcapital.mw

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