

MALAWI

Political and economic news

Maize outlook stable despite floods

Figures from second round of crop production estimates project that Malawi will have 355,000 MT maize surplus as floods, hitherto feared to have wiped out a projected bumper harvest, had less impact on crops. Ministry of Agriculture, Irrigation and Water Development principal secretary Grey Nyandule-Phiri said the second round estimates of crop production is pegged at 3.35m MT from 3.38MT during the first round before the floods. He indicated that the current estimate is 24.3 pc higher than 2.6m MT final round estimate for the previous season. He said that the floods did not have a significant impact on crop production as they happened when crops had reached maturity stage and some of them were merely submerged in water but not destroyed. *(Source: Nation)*

Company news

MPICO FY 18 earnings increase 33 pc

MPICO Plc released its FY18 results showing a 33.1 pc increase in net earnings to K6.7bn thanks to savings in finance costs. Rental income grew 13.1 pc as a result of lease escalations and increased occupancy at the Gateway Mall – MPICO's main commercial property; which comprises over 50 pc of the value of its investment properties and contributes over 30 pc of rental income.

Total income rose 3.6 pc to K13.4bn as a 25.6 pc drop in other income to K1.9bn countered the rental income gains. The drop in other income is good news cash flow-wise as this was mainly comprised of interest in rental arrears mainly from government which have now reduced considerably. Government is said to have reduced its arrears from K8bn in December 2017 to K2.3bn. – the effect on cash flows is evident in the healthy closing cash and cash equivalents balance of K2.3bn from an overdrawn position of K249.5K in the prior year.

Total expenses decreased 25.4 pc to K4.3bn due to lower finance costs mainly from reduced borrowings as the Group made loan repayments in the order of K7bn – thanks to the recoveries from government arrears. MPICO raised K9bn in a rights issue towards the end of 2016 as part of restructuring its balance sheet to reduce gearing levels.

The market witnessed the listing of another property company; Icon Properties Plc in January 2019, giving investors more opportunities in property assets. MPICO's investment properties are valued at K54.2bn which is comparable to Icon's K50bn as at listing.

MPICO is trading at 11.8 pc discount to NAV – which we find undemanding. The capital restructuring programme over the past three years has helped de-risk the balance sheet and free up cash flows – a decision which turned out to be a masterstroke. The ability by the directors and management to collect accumulated arrears from government has been the icing on the cake. BUY

MPICO Plc

FY 18 MPICO MWK ("MILLION")	2018	2017	% CHG
Rental Income	6,227	5,507	13.1%
Increase in fair value of invest pties	5,277	4,881	8.1%
Other income	1,885	2,534	-25.6%
Total income	13,390	12,922	3.6%
Total expenses	-4,322	-5,798	25.4%



FY 18 MPICO MWK ("MILLION")	2018	2017	% CHG
Net earnings	6,782	5,093	33.1%
Distributable earnings	2,018	1,808	11.6%
Attributable to members of the co	5,072	4,083	24.2%

Source: Company filings

NITL FY18 earnings decrease 39 pc

National Investment Trust Plc; a closed investment scheme comprised mainly of a listed equity portfolio, has reported a 38.9% decrease in FY18 earnings to K1.4bn (\$1.9m) on the previous year thanks to a drop in some of its listed equity holdings as the Malawi Stock Exchange Index slowed down from the 3Q18. Growth in its equity portfolio at 14.8 pc lagged behind the MSE All share index which rose 34.1 pc during the same period – indicating its asset mix had more laggards.

Dividend income reduced 6.7 pc to K269.5m – a reasonable outturn, regardless of the drop in the index, indicating that the fund managers preferred dividend-earning stock. Interest income dropped 44.5 pc to K21m – on account of falling interest rates and a drop in cash flows from operating activities.

For the first time in a number of years, the fund managers made some bold realignment of the portfolio to the tune of K2.4bn of equities sold and replaced. The main culprit would have been Illovo which was one of the significant proportions of the portfolio. Illovo has not inspired much confidence in recent years as its historical dividend pay-out dried up since FY15 as cash flows were diverted to service its debt. The replacements are likely to be in the shape of cash cow; TNM and probably, FMBCH among others. In the grand scheme of things, the realignment may result in better cash flows going forward.

NITL is trading at PBV of 1.02 which is not too demanding, however the bear run witnessed in 1Q19 on the stock market means the metrics have worsened. NITL is attractive to investors due to its diversity in the portfolio it holds –thus it does hedge against huge falls in a bear market but also tends to lag behind the index. We are NUETRAL on the stock.

The National Investment Trust Plc

FY 18 NITL MWK ("000")	2018	2017	% CHG
Dividend Income	269,468	288,878	-6.7%
Interest Income	20,992	37,848	-44.5%
Total Income	290,460	326,726	-11.1%
Total expenses	-162,533	-119,033	-36.5%
Profit before fair value gains	127,927	207,693	-38.4%
Fair value gains on equities	1,204,856	2,282,568	-47.2%
Net profit after tax	1,422,113	2,326,350	-38.9%

NBM earnings decrease 16.6 pc

National Bank of Malawi Plc released its FY18 results showing earnings dropping 16.6 pc on FY17 to K15.9bn (\$21.6m) on account of a drop in interest income coupled with reduced interest margins and rising operating expenses.

Interest income decreased 8.9 pc to K47.1bn despite an increase in the loan book by 21.1 pc to K166.6bn. The directors advise that the loan book was subdued during the first half of the year, suggesting that the growth occurred so late in the year to have any meaningful

impact on income. However, overall growth in interest earning assets was 7.9 pc to K327.7bn as open market operations repos decreased 61.3 pc to K40.3bn – the maturities from OMO repos being pushed to treasury bills and notes as well as customer lending. Net interest margins on interest earning assets were at 12.9 pc down from 16.6 pc in FY17 reflecting the pressure on interest rate spread brought about by falling interest rates.

Customer deposits grew 5.7 pc to K294.5bn but interest expense was kept in check as it decreased 3.7 pc to K6.6bn reflecting the bank's stable cost of funding. Operating expenses worsened 14 pc to K38bn reversing a positive variance in other income of 11.2 pc to K22.2bn. The directors have not made any comment on the ballooning expenses which were above the average inflation of 9.3 pc. As a result of the expenses hike and a 3.2 pc reduction in net income, cost to income ratio worsened to 60.3 pc from 51.2 pc in the previous year.

Impairment losses decreased 53.4 pc to K1.9bn as prior year was blighted by a once-off impairment of an agricultural sector loan.

NBM is trading at a PE of 9.2x and PBV of 1.7x which, compared to the listed banking sector, are more palatable. The banking sector will continue to experience a squeeze on margins as the monetary authorities reduced interest rates further in January 2019 and the Reserve Bank directed banks to adopt 14.9 pc as their base lending rate in a bid to get the banks to pass on benefits of monetary policy decisions to their customers. NBM remains resilient as its capital base is solid and we believe the bank will eventually revive its growth. HOLD.

National Bank of Malawi Plc

FY 18 NBM PLC MWK ("MILLION")	2018	2017	% CHG
Interest income	47,079	51,681	-8.9%
Interest expense	-6,315	-6,558	3.7%
Net interest income	40,764	45,123	-9.7%
Other income	22,255	20,018	11.2%
Net income	63,019	65,141	-3.2%
Operating expenses	-38,033	-33,361	-14.0%
Profit before impairments	24,986	31,780	-21.4%
Net impairment losses	-1,970	-4,230	53.4%
Net earnings	15,965	19,147	-16.6%

Source: Company filings

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
BHL	2018	Final	K0.08	TBA
MPICO	2018	Final	K0.135	TBA
STANDARD	2018	Final	K17.05	TBA
SUNBIRD	2018	Final	K0.50	TBA
NITL	2018	Final	K0.50	TBA
NBM	2018	Final	K7.50	TBA

(Source: Company filings)

Market activity and colour

The market traded 6.3m shares worth K1.1bn (\$1.4m) in 62 trades compared to 16.9m shares worth K661.8m (\$894.3K) in 59 trades during the previous week. Illovo dominated trading activity with 5.1m shares changing hands at K200 per share.

The index shed 60bps as a result of a drop in the price of NBS to K9.69.

Trading Summary for the week

Trading Summary for 1 to 5 April 2019							
Symbol	Open	Close	Volume	Value	Trades Count	Market Capitalization	
BHL	12.96	12.96	0	0.00	0	10,883,169,137	
FMBCH	85.00	85.00	7,008	595,680.00	4	208,951,250,000	
ICON	11.00	11.00	7,878	86,658.00	3	73,480,000,000	
ILLOVO	200.00	200.00	5,170,978	1,034,196,000.00	20	142,688,878,200	
MPICO	13.07	13.08	0.1% ↑	12,500	163,500.00	1	30,058,460,777
NBM	315.01	315.01	1,792	564,497.92	4	147,088,166,787	
NBS	9.90	9.69	-2.1% ↓	514,780	4,992,920.00	10	28,203,455,820
NICO	41.97	41.97	151,226	6,346,380.22	4	43,776,434,799	
NITL	75.00	75.00	200	15,000.00	1	10,125,000,000	
OMU	2,513.23	2,513.23	0	0.00	0	14,647,111,980	
PCL	1,200.00	1,200.00	1,151	1,381,200.00	3	144,306,984,000	
STANDARD	569.00	569.00	0	0.00	0	133,526,184,178	
SUNBIRD	138.00	138.00	0	0.00	0	36,098,396,040	
TNM	25.05	25.05	425,979	10,669,772.25	12	251,513,272,500	
Totals			6,293,492	1,059,011,608.39	62	1,275,346,764,217	

INDEX (week)	27,445.85	27,290.96	-0.6% ↓
INDEX (month)	27,445.85	27,290.96	-0.6% ↓
INDEX (year)	28,983.64	27,290.96	-5.8% ↓

(Source: MSE)

Trading Summary for the previous week

Trading Summary for 25 to 29 March 2019							
Symbol	Open	Close	Volume	Value	Trades Count	Market Capitalization	
BHL	12.96	12.96	350,000	4,536,000.00	3	10,883,169,137	
FMBCH	85.00	85.00	300,866	25,573,610.00	8	208,951,250,000	
ICON	11.95	11.00	-7.9% ↓	2,660	29,260.00	1	73,480,000,000
ILLOVO	200.00	200.00	254,499	50,899,800.00	1	142,688,878,200	
MPICO	13.07	13.07	11,329	148,070.03	1	30,035,480,302	
NBM	315.01	315.01	10,373	3,267,599.00	2	147,088,166,787	
NBS	9.90	9.90	91,300	903,870.00	3	28,814,676,224	
NICO	41.98	41.97	0.0% ↓	15,292,661	553,978,657.42	12	43,776,434,799
NITL	75.00	75.00	115,000	8,625,000.00	1	10,125,000,000	
OMU	2,513.23	2,513.23	0	0.00	0	14,647,111,980	
PCL	1,200.00	1,200.00	0	0.00	0	144,306,984,000	
STANDARD	570.00	569.00	-0.2% ↓	5,000	2,845,000.00	1	133,526,184,178
SUNBIRD	138.00	138.00	11,540	1,592,520.00	7	36,098,396,040	
TNM	25.05	25.05	374,356	9,377,617.75	19	251,513,272,500	
Totals			16,819,584	661,777,004.20	59	1,275,935,004,148	

INDEX (week)	27,445.85	27,303.65	-0.5% ↓
INDEX (month)	27,687.33	27,303.65	-1.4% ↓
INDEX (year)	28,983.64	27,303.65	-5.8% ↓

(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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