MALAWI

Political and economic news

IMF praises Malawi's economic resilience

The IMF has said Malawi has performed well under the Extended Credit Facility (ECF) programme and has registered economic stability despite the impact of Cyclone Idai this year. IMF mission chief for Malawi Pritha Mitra said this at the end of the second and third reviews of the ECF programme and added that the fund expects growth of the Malawi economy next year. She pointed out the stability of inflation which has been kept in single digit for more than two years in the face of high food prices triggered by the cyclone as a major achievement. She disclosed that the IMF discussed the medium term plan for reducing debt to GDP ratio in order to maintain sustainability while being mindful of the need to preserve and boost growth by enhancing expenditure in key areas like infrastructure, healthcare, education and social assistance. She said Malawi should expect two disbursements under the ECF linked to the two reviews. Minister of finance and economic planning; Joseph Mwanamvekha pledged government's commitment to fulfil the milestones as agreed with IMF and disclosed that the programme is expected to contribute $112m of which $22m has been received so far *(Source: Daily Times)*

National budget spend proposed at K1.7trn

Minister of Finance and Economic Planning; Joseph Mwanamvekha presented the 2019/20 budget to parliament in which he proposes total spending of K1.7trn ($2.3bn) (up from K1.4trn in the previous year) – representing 27.6pc of GDP. Of the total proposed; K1.3trn is earmarked for recurrent expenditure while the balance of K437.9bn or 7pc of GDP is targeted for development expenditure. This is the highest proportion of development expenditure in recent years with the previous record of 5.7pc in the revised budget for the past fiscal year.

The resource envelope comprises total revenues and grants in the amount of K1.425trn or 22.7pc of GDP in domestic revenues while grants are projected at K150.1bn. The budget deficit is expected to be K155.9bn or 2.5pc of GDP – 51.3pc favourable on the previous year's deficit.

The budget theme is centred around exclusive growth and economic empowerment and has a target of reducing domestic borrowing from K264.6bn in the previous fiscal year to K45.9bn. This is part of an overall ambitious target of reducing total public debt from 62pc of GDP in December 2018 to 20pc of GDP by 2023. In terms of macro-economic indicators, the minister targets an average inflation of 8pc in 2019 from 9.2pc in 2018 and envisages a long-term target of 5pc. Gross official foreign reserves; recorded at 3.7 months of import cover in June 2019; is projected to reach 6 months by 2022. MWK/USD exchange rate is expected to stabilise around K750 per USD in the medium to long term and the policy rate to remain steady at 13.5pc. GDP is expected to grow 5pc in 2019 and hit 7pc by 2020 outperforming projected growth rates for both SSA and the World which are 3.6pc and below for both periods.

Major recurrent expenditure lines include wages and salaries at K443.4bn or 34.3pc of the total recurrent budget and 7.1pc of GDP. Interest payments are at K244bn or 18.9pc of the recurrent budget while K290.9bn is earmarked for goods and services.

In terms of sectoral allocations; the education sector takes the lion's share with K172.8bn, followed by agriculture at K167bn and health at K150bn. Standout votes with direct populist agenda include targeted farm input subsidy at K35.5bn; K600m for construction of houses for people with albinism and K400m for action plan for their protection from ritual attacks; K200m for indoor netball court and controversially; K1.6bn allocated to construct stadia for two popular private football clubs. This was a campaign promise probably made in the heat of the moment. *(Source: Budget speech and Cedar Capital Research)*

Company news

MPICO 1H19 results show steady progress

MPICO Plc; listed property management company, released its 1H19 results showing a 5.7pc dip in earnings to K3.5bn ($4.7m) compared to a similar period last year; thanks to a dip in interest income. Other income; whose major component was interest income went down 73.7pc to K463.9m. This is largely attributed to a drop in rental arrears from a major tenant; Malawi government which attracted a high interest charge pegged at prevailing commercial bank lending rates. Falling interest rates in the macro-economic environment also meant the interest earned from the improved cashflows was not as significant. However, all things considered, it is a good development that the company has recovered most of the arrears plus interest as cash is king!

Rental income grew 9.4pc to K3.1bn due to rental escalations and fair value of investment properties went up by 17pc or K2.98bn due to revaluations. Expenses were 5.1pc favourable at K1.9bn due to once-off costs in the comparable period last year associated with discounting government promissory notes which the company received in lieu of the outstanding rental debt.

MPICO is trading at a 12-month rolling PE of 8.5x and a P/BV of 1.2x at the current price of K19.50. We think the ability by the company to recover the long outstanding arrears over the past two years is a positive development which helps free cashflows and affords the company an opportunity to pursue growth strategies going forward. We therefore rate the stock as **BUY**.

MPICO Plc

HY 19 MPICO (MWK'000)	30-JUN-19	30-JUN-18	% CHG
Rental income	3,132,341	2,862,705	9.4%
Increase in fair value of invest prpties	2,988,535	2,554,420	17.0%
Other income	463,908	1,764,158	-73.7%
Total income	6,584,784	7.181,283	-8.3%
Expenses	-1,908,830	-2,011,978	5.1%
Profit before tax	4,675,954	5,169,305	-9.5%
Income tax expense	-1,094,326	-1,370,729	20.1%
Profit after tax	3,581,628	3,798,576	-5.7%
Minority interests	-723,756	-1,141,278	-36.6%
Attributable to s/holders of parent	2,857,872	2,657,298	7.5%

TNM 1H19 earnings down 3pc

Mobile phone operator and ICT provider, TNM released its 2019 half year results with earnings inching downwards 3.3pc on a similar period last year to K6.7bn ($9.07m); due to combined effects of increases in depreciation and amortisation coupled with a rise in finance costs.

Depreciation and amortisation costs shot up 38.6pc to K6.1bn as a result of capital expenditure investments made over the previous two-year period – put into perspective, total capex for the previous 30 month-period is K45.6bn. Finance costs on the other hand rose 68.3pc to K2.2bn due to effects of IFRS 16 – Leases application which has resulted in some operating expenses being reported under finance costs. IFRS 16 became effective on 1 January 2019 and in general, requires lessees to recognise all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.

Operationally however, TNM's results have been progressive with service revenue growing 8.1pc to K44.1bn and gross profit rising 9.4pc to K24.8bn – gross profit margins improved slightly to 55.1pc from 54.3pc in the comparable period. EBITDA grew 13pc to K17.8bn compared to 1H18. EBITDA margins improved to 39.7pc compared to 37.8pc in the comparable period. The margins have retained a consistent level over the six-month period as they were recorded at 39.6pc for FY18.

ARPU has grown 11pc to K1,814.00 ($2.45) compared to a similar period last year. ARPU levels, though beginning to plateau (from K1,870.00 in the previous six months) are still within acceptable levels for low-income countries and thus, we believe are sustainable.

TNM is operating in a duopoly tussling for market share with Airtel but has over the past few years taken the lead in investing in recent technologies such as 4G and U900. This positions the company for further growth as a full ICT operator. At K26.01 per share, TNM is trading at EV/EBITDA (rolling) of 7.2x and PE of 16.1x. We find these metrics undemanding compared to its peers in the region *sans* South Africa and we think the company continues to lay good foundations for further growth. **BUY**

TNM Plc

HY 19 TNM ("MK MILLION")	30-JUN-19	30-JUN-18	% CHG
Service revenue	44,064	40,764	8.1%
Hardware and equipment revenue	916	964	-4.9%
Direct operational costs	-20,192	-19,072	-5.9%
Gross profit	24,788	22,656	9.4%
Other income	1,601	1,248	28.2%
Selling and admin expenses	-8,533	-8,108	-5.2%
EBITDA	17,856	15,796	13.0%
Depreciation and amortisation	-6,075	-4,384	-38.6%
Results from operating activities	11,781	11,412	3.2%
Net finance expenses	-2,180	-1,295	-68.3%
Profit before tax	9,601	10,117	-5.1%
Taxation expense	-2,889	-3,175	9.0%
Profit after tax	6,712	6,942	-3.3%

Sunbird Tourism's 1H19 results flat on elections fever

Sunbird Tourism Plc (Sunbird) released its interim results to June 2019 with earnings inching up 2.1pc to K1.2bn ($1.6m) due to pre-election uncertainty and post-election violent demonstrations which continues to affect the entire hospitality sector.

The directors point to reduced trading activities by major customers and loss of some business contract in its 100pc subsidiary as contributors to 1,5pc drop in revenue to K9bn compared to 1H18. Cost of sales showed a favourable variance of 5.5pc to K1.7bn compared to a similar period last year reflecting some level of cost control in relation to direct costs. This is reflected in the slight improvement in gross profit margins which were recorded at 80.4pc compared to 79.6pc in the comparable period.

Cost containment measures saw indirect operating expenses reined in with 1.7pc increase to K5.6bn on 1H18 – way below the average inflation for the period. Cash flow improvements, loan repayments and reduction of interest rates during the period contributed to a 54pc favourable variance on finance cost to K103.2m compared to a similar period last year. However corporate bonds grew by K1.9bn or 53.5pc to K5.6bn over the previous six-month period from December 2018. This would suggest the timing of the new bond issuance has had little impact on the finance cost for the period to June 2019 and will be significant at FY19.

The directors expect the ongoing political impasse to continue to affect the business in the short term. However, they paint a brighter picture in the medium to long term banking on stability of macro-economic variables which should translate to improvements in the hospitality sector. The positioning of the Sunbird brand as a market leader and its resilience allows it to capitalise on such economic developments.

Sunbird's main revenue drivers are Corporate segments which accounted for 66pc of total room nights (up from 61pc at FY18) and conference segment which recorded 22pc of total room nights (up from 19pc at FY18). These will continue to dominate but improvements in economic well-being of the people and a better image for the country should see improvements in leisure and international segments.

Sunbird has a diverse offering in city hotels and holiday resorts and thus is in a unique position to ride busts and take advantage of booms in the economic cycle. The directors highlight the completion of room refurbishments at Nkopola and Livingstonia Beach hotels and good progress on the ongoing construction of a conference facility at Mount Soche hotel and a new 42-room resort hotel. Sunbird is trading at a rolling PE of 13.9x at the current price of K138.00. Given the prevailing tepid tourism and hospitality sector, we think Sunbird is managing to hold its own with potential to grow revenues as the environment improves. **HOLD**

SUNBIRD TOURISM Plc

HY 19 SUNBIRD ("MK MILLION")	30-JUN-19	30-JUN-18	% CHG
Revenue	9,038,144	9,179,841	-1.5%
Cost of sales	-1,765,703	-1,868,159	5.5%
Gross profit	7,272,441	7,311,682	-0.5%
Net other income	172,370	146,342	17.8%
Administration and other expenses	-5,630,884	-5,539,307	-1.7%
Results from operating activities	1,813,927	1,918,717	-5.5%
Finance costs	-103,222	-224,386	54.0%
Profit before tax	1,710,705	1,694,331	0.9%
Income tax expense	-513,212	-522,159	21.1%
Net profit after tax	1,197,493	1,172,172	2.1%

Corporate action

Dividends

COMPANY	YEAR	TYPE	AMOUNT	LAST CUM DATE
NBM	2019	Interim	K5.35	06-Sep-19
STANDARD	2019	Interim	K8.95	06-Sep-19
TNM	2019	Interim	K0.25	13-Sep-19
SUNBIRD	2019	Final	K0.50	13-Sep-19

Market activity and colour

Trading activity report for the fortnight ending 13 September 2019
During the period under review the market registered trading activity in 10 of the 14 listed counters on the market. A total of 20.6m shares worth K 458.4m ($619.5K) traded in 107 transactions. The index went up 50bps to 29,348.68 on account of 7.1pc increase in the price increase NBS to K12.00. The index recorded a 1.3pc rise on year-to-date.

Trading Summary for the period
3 to 13 September 2019

Symbol	Open	Close		Volume	Value	Trades Count	Market Capitalization
BHL	12.95	12.95		253,165	3,278,486.75	8	10,874,771,630
FMBCH	80.00	80.00		0	0.00	0	196,660,000,000
ICON	10.00	10.00		755,015	7,549,544.27	10	66,800,000,000
ILLOVO	210.00	210.00		0	0.00	0	149,823,322,110
MPICO	19.50	19.50		397,358	7,748,481.00	11	44,811,925,470
NBM	370.06	370.06		32,093	11,876,331.98	3	172,792,758,964
NBS	11.20	12.00	7.1% ↑	5,639,095	63,583,253.00	13	34,926,880,272
NICO	48.50	48.50		30,809	1,494,175.54	5	50,587,493,156
NITL	75.01	75.00	0.0% ↓	1,035	77,625.00	1	10,125,000,000
OMU	2,500.00	2,500.00		0	0.00	0	29,736,300,000
PCL	1,400.00	1,400.00		3,832	5,364,800.00	4	168,358,148,000
STANDARD	650.00	650.00		8,034	5,222,100.00	6	152,534,305,300
SUNBIRD	138.00	138.00		17,783	2,454,054.00	4	36,098,396,040
TNM	26.01	26.01		13,448,798	349,803,193.00	42	261,152,104,500
Totals				**20,587,017**	**458,452,044.54**	**107**	**1,385,281,405,442**

INDEX (week)	**29,197.17**	**29,348.68**	**0.5% ↑**
INDEX (month)	**29,197.17**	**29,348.68**	**0.5% ↑**
INDEX (year)	**28,983.64**	**29,348.68**	**1.3% ↑**

(Source: MSE)

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