MALAWI STOCK EXCHANGE 2020 FINANCIAL YEAR RESULTS OVERVIEW

CEDAR CAPITAL

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EXECUTIVE SUMMARY

The Malawi Stock Exchange performed admirably in 2020, with the MSE All Share Index returning 7.08%. This positive return was achieved in spite of a difficult business environment emanating from the Covid-19 pandemic and containment measures initiated thereafter. Arising from the pandemic was the expectation of poor results from banks as a result of a hike in NPL provisions and lower asset yields. Property and Tourism companies were also expected to come under severe pressure. On the other hand, telecom shares were expected to benefit from the pandemic in the form of higher demand for data, more transactions on mobile money platforms, and increased voice calls as subscribers conducted business on the mobile phone while working from home or remotely.

The financial outcome for 2020 was mixed, as banks bucked the trend with some strong performances. Standard Bank and National Bank recorded PAT growth rates of 50% and 31% respectively, while NBS's profitability rose by 58%. Regional banking group; FMBCH returned to profitability. FDH Bank's results were respectable, although there was some distortion arising from nonfunded income restatements in prior years and subsequent recognition in FY20.

Fortunes were mixed in the telecoms with Airtel Malawi proving the doubters wrong with a solid performance, as PAT rose 39%. On the contrary, TNM as a result of VAT provisions saw its PAT declining 41%. NICO, buoyed by the life assurance company and NBS Bank achieved a 25% growth in the bottom line.

Except for the two hospitality stocks; Sunbird Tourism and Blantyre Hotels, the rest of the MSE companies paid respectable dividends. However, dividend yields are still considerably lower than treasury bill yields.

AIRTEL MALAWI PLC

Price (MWK)	**32.76**
DPS (MWK)	**2.10**
P/E (x)	**16.31**
P/B (x)	**14.96**
DPS Yield (%)	**6.41**
Market Cap (MWK - mln)	**360 360**
Recommendation	**BUY**

MWK mlns	**Dec-20**	**Dec-19**	**YoY**
Voice Revenue	61,289	59,782	3%
Data Revenue	38,390	26,227	46%
Other Revenue	10,554	6,815	55%
Total Revenue	**110,233**	**92,824**	19%
Other Income	1,083	2,574	(58%)
Expenses	(59,308)	(54,264)	9%
EBITDA	**52,008**	**41,134**	**26%**
Depreciation	(14,622)	(11,300)	29%
Operating Profits	**37,386**	**29,834**	**25%**
Finance costs	(5,649)	(4,604)	23%
PBT	**31,737**	**25,230**	**26%**
Tax	(9,646)	(9,322)	3%
PAT	**22,091**	**15,908**	**39%**
Receivables	19,604	20,303	(3%)
Cash	17,418	5,675	207%
Current Assets	**47,183**	**32,223**	46%
Total Assets	**137,749**	**114,391**	20%
Payables	38,293	45,671	(16%)
Current liabilities	**89,781**	**84,128**	**7%**
Borrowings	30,959	29,683	(2%)
Capital/NAV	24,091	15,750	53%
Capex	19,307	29,148	(34%)

Technical Data		
Voice Subscribers	*5,043*	*4,030*
Data Subscribers	*1,616*	*1,299*
ARPU (MWK)	*2,074*	*2,104*
Capex/Revenue (%)	17.51	27.81
Profitability & Debt Ratios		
EBIDTA Margin (%)	47.18	44.31
PAT Margin (%)	20.04	17.14
Return on Equity (%)	110.90	202.00
Net Debt to Equity Ratio (%)	56.20	152.43
Interest Coverage (x)	6.62	6.48

Data driven earnings …

Airtel Malawi performed ahead of expectations, returning a 39% growth in PAT to MWK22.1bln on the back of a 46% and 55% increase in data and other revenues to MWK38.4bln and MWK10.6bln respectively, a lower 9% push in operating expenses and a reduction in the tax rate to 30% from 37%. The calculated return on equity (ROE) was 111% and a dividend of MWK2.10 per share was declared.

A good day at the crease ….

The growth in revenues was attributed to a 25% rise in the number of subscribers to 5.0mln, of which 1.6mln were active data customers. Voice revenues, which remain the mainstay for the group contributed MWK61.3bln of the MWK110.2bln turnover and registered a marginal 3% improvement, although ARPU was flat at US$2.77 per month. As expected, voice revenue growth has started to decline and is likely to be negative in the coming years. EBITDA margins improved 287bps to 47%, with the group's EBITDA advancing 26% to MWK52bln. After debiting finance costs of MWK5.6bln, comprising actual interest due of MWK2.1bln and MWK3.5bln in exchange losses, PBT was up 26% to MWK31.7bln

Improving balance sheet ratios…

The highlight on the balance sheet was the 3.07x hike in the cash balance to MWK17.4bln, benefiting from good cash generation from operations, reduced capex spending, and very little in terms of debt repayments. As such, the debt balance was static at MWK30.1bln but much less on a net basis. The interest cost was comfortably covered by operating profits at 6.62x.

Investing for the future …

In FY20, Airtel invested MWK19.3bln in the acquisition of additional spectrum and laying of 1 355km of fibre, as the company intends to solidify its market dominance in data. The capex intensity ratio at 18% is in line with international benchmarks.

A lot of headroom for Airtel …

Mobile telecom companies have evolved into communication and payments utilities. Airtel is trading at a P/E of 15.5x, which is cheap for a utility. **BUY**

BLANTYRE HOTELS PLC

Price (MWK)	**11**
DPS (MWK)	**0.00**
P/E (x)	**N/A**
P/B (x)	**1.37**
DPS Yield (%)	**0.00**
Market Cap (MWK - mln)	**9 237**
Recommendation	**NOT RATED***

	Sep-20	Sep-19	YoY
Revenues	***2,077***	***4,066***	**(49%)**
Cost of Sales	(1,153)	(1,740)	(34%)
Gross Profit	**924**	**2,326**	**(60%)**
Opex	(1,638)	(1,488)	10%
EBITDA	**(715)**	**839**	**(185%)**
Finance income	47	69	(34%)
PBT	**(668)**	**696**	**(196%)**
Tax	214	(230)	(193%)
PAT	**(454)**	**467**	**(197%)**

Cash & near	1,070	882	21%
Debtors	143	314	(54%)
Inventory	283	349	(19%)
Current Assets	1,579	1,557	1%
PPE	**12,253**	**8,998**	36%
Total Assets	**13,858**	**9,958**	39%
Payables	3,212	764	320%
Current Liabilities	5,154	1,590	224%
Borrowings	1,787	825	116%
Capital/NAV	6,744	6,493	4%

GP Margin	44%	57%
EBIDTA Margin	(34%)	21%
Yield on Cash	5%	10%
Cost of Debt	0%	0%
Capex/Revenue	47%	25%
Debtors Days	40.12	28.09

** ratings have been suspended as Cedar Capital is active in a proposed transaction in which BHL is one of the parties*

Revenues flattened by Covid-19….

Undeniably, hotels were the industries hardest hit by COVID-19. As a result of cancellations of flights, tours, events, hotel reservations, and a resultant decline in inbound travel, hotel occupancy rates, and average room rates dropped sharply causing unprecedented declines in profit margins. The problem was compounded by lockdowns and other social distancing protocols announced by governments in an attempt to 'flatten the curve'. The result was that the occupancy levels at Ryalls Hotel dropped to 30%, down from 61% in FY19.

Top line halves, bottom line slips into the red …

With occupancies sliding and RevPar concomitantly falling off the cliff, turnover halved to MWK2.1bln. Cost of sales also declined 34% to MWK1.2bln, reflecting the drop in volumes and accompanying cost rationalisation. Notwithstanding the efforts on costs, gross profits retreated 60% to MWK0.92mln. Fixed costs fell 4% to MWK1.6bln, as not all costs could be taken out. Included in the operating expenses is one-off MWK190mln of retrenchment costs. As expenses exceeded revenues in FY20, BHL recorded a loss before tax of MWK668mln.

Deteriorating working capital …

The difficult trading conditions of FY20 resulted in a deterioration of BHL's working capital position – with a steep decline in debtors and inventories - such that current liabilities of MWK5.2bln far exceeded the current assets of MWK1.6bln. The company to a certain extent had to rely on creditor funding resulting in balance sheet payables ballooning to MWK3.2bln from MWK0.76mln. As well, with operating expenses exceeding profits, additional funding had to be sought resulting in bank borrowings rising 116% to MWK1.8bln.

The outlook …

BHL is pressing ahead with the project to build a four-star hotel in Lilongwe and the land for the project situated in the Lilongwe Golf Course has already been acquired. Furthermore, the pandemic may turn out to be a blessing in disguise allowing BHL to configure the new hotel to the "new normal" before much work had been done on the "old normal" basis.

FDH BANK PLC

Price (MWK)	**16.41**
DPS (MWK)	**0.43**
P/E (x)	**8.10**
P/B (x)	**4.20**
DPS Yield (%)	**2.62**
Market Cap (MWK - mln)	**113 246**
Recommendation	**BUY**

	Dec-20	Dec-19	YoY
Interest Income	24,183	16,343	48%
Interest Expense	(8,992)	(7,767)	16%
Net Interest Income	15,191	8,576	77%
Loan loss Charge	(336)	(483)	(30%)
NII after credit losses	14,855	8,093	84%
Non-Funded Income	28,378	22,023	29%
Total Income	43,233	30,116	44%
Operating Expenses	(23,142)	(22,164)	4%
PBT	20,091	7,952	153%
Tax	(6,102)	(2,760)	121%
PAT	13,989	5,192	169%
Loans	79,319	56,814	40%
Bank Placements	34,370	31,751	8%
Investment Securities	73,469	46,986	56%
Earning Assets	199,478	143,335	39%
Total Assets	**234,973**	**180,419**	30%
Deposits	158,944	137,141	16%
Borrowings	41,459	18,669	122%
Capital/NAV	26,966	15,942	69%

	Dec-20	Dec-19
NIM	8.86%	6.35%
NPLs	1,031	455
NFI/Total Income	66%	73%
CIR	54%	74%
LDR	50%	41%
ROA	6.7%	3.2%
ROE	**65%**	**37%**
NPLs Ratio	1.30%	0.80%
Cost of Funding	5%	6%
Leverage (x)	8.71	11.32

Impressive growth rates in assets and liabilities…

Growth rates on the balance sheet were phenomenal:

- Loans up 40% to MWK79.3bln.
- Investment securities up 56% to MWK73.5bln.
- Deposits up 16% to MWK158.9bln.

Asset growth is the first leg of the business model with the second being the yields on those assets. Yields were also positive for FDH with the base lending rate static at 23% and the 91-treasury bill yield rising from 6.15% pa to close the year at 10% pa.

Manifests in the income statement ….

Net interest income rose 77% to MWK15.2bln, on account of the movement in the size of the asset book and a 251bps improvement in net interest margins to 8.86% pa. The cost of funding at 5% pa reflected the fact that cheap current account deposits were a small part of the deposit base.

Non-funded income (NFI) growth at 29% to MWK28.4bln benefitted from recognition of income in FY20 following restatement of FY18 and FY19 financials. Thus, NFI contributed 66% to total banking income.

Total income increased by 44% to MWK43.2bln while expenses rose marginally by 4% to MWK23.1bln, giving a cost to income ratio of 54%, down from 74% in FY19. After accounting for the tax charge, the bottom line rose 2.7x to MWK14bln.

Impact of the restatement …

The above-mentioned restatement of FY19 and FY18 commission and fees with a subsequent recognition of income in FY20 dramatically changed the picture. Without these accounting matters, NFI would have declined by 34% to MWK14.5bln and total income regressing 2% to MWK29.3bln. The normalised CIR was 79% and the PAT was approximately 16% lower to MWK4.4bln. We calculated a headline EPS of MWK0.63.

Valuation …

Based on a normalised 2-year exit price-to-book (P/B) multiple valuation, we get an intrinsic value of **MWK20.93,** a 27% potential uplift on current price. **BUY**

FMB CAPITAL HOLDINGS

Price (MWK)	**35.52**
DPS (MWK)	**0.64**
P/E (x)	**5.05**
P/B (x)	**1.34**
DPS Yield (%)	**1.89**
Market Cap (MWK - mln)	**87 317**
Recommendation	**BUY**

USD mlns	**Dec-20**	**Dec-19**	**YoY**
Interest Income	91	79	15%
Interest Expense	(25)	(23)	9%
Net Interest Income	**66**	**56**	**18%**
Loan loss Charge	(6)	(10)	(40%)
NII after credit losses	60	46	30%
Non-Funded Income	62	50	24%
Total Income	**122**	**96**	**27%**
Operating Expenses	(80)	(85)	(6%)
Other charges	(6)	(21)	
PBT	36	(11)	
Tax	(14)	(8)	75%
PAT	22	(19)	
Loans	410	397	3%
Bank Placements	57	67	(15%)
Investment Securities	187	218	(14%)
Earning Assets	963	931	3%
Total Assets	**1,079**	**1,052**	3%
Deposits	758	681	11%
Bank Placements	81	144	(44%)
Borrowings	45	54	(17%)
Capital/NAV	84	78	8%

	Dec-20	**Dec-19**
NIM	6.97%	0.10%
NFI/Total Income	51%	52%
CIR	66%	89%
LDR	54%	58%
ROA	2.0%	0.0%
ROE	**27%**	**0%**
Cost of Funding	3%	0%
Leverage (x)	12.85	13.49

Has Zimbabwe turned the corner…?

FY20 saw the regional banking group returning solid performances in Botswana, Mozambique, and Zambia, which was well complemented by a return to profitability of the Zimbabwean subsidiary. This saw FMB Capital Holdings (FMBCH) recording a profit after tax of US$22mln from a US$19mln loss in the prior year.

PAT (US$)	**Dec-20**	**Dec-19**	**Change**
Botswana	6,025,232	4,476,770	35%
Malawi	10,860,560	8,164,146	33%
Mauritius	(4,543,130)	(3,449,134)	32%
Mozambique	1,897,231	1,094,178	73%
Zambia	2,378,704	630,362	277%
Zimbabwe	4,657,454	(29,525,630)	
Total	**21,276,051**	**(18,609,308)**	

Malawi remained a steady performer growing its bottom line strongly and should remain the anchor to the group for the foreseeable future.

Success scored in resource mobilisation ….

Net interest income advanced by 18% to US$66mln, on the back of a 3% expansion in the credit book and a rise in the net interest margin to 6.97%pa from 0.10%pa. Fees and "other income" rose 24% to US$62mln, driven by forex trading income and transaction fees.

Adding the two revenue lines, total income grew 27% to US$122mln. On the other hand, expenses declined by 6% to US$80mln reflecting the impact of the currency devaluations on the cost base. Consequently, the cost to income ratio improved to 66% from 89% in prior period although the ratio is still above commercial banking benchmarks.

On the balance sheet, resource mobilisation was a success with the deposits growing 11% to US$758mln, enabling the group to reduce loans from other banks and borrowings by 44% and 17% to US$8mln and US$45mln respectively.

The future …

It is clear that without the distortions from Zimbabwe, FMBCH, is a strong banking group. Zambia and Mozambique continue to consolidate the turnarounds and it appears that the worst is over. At the current price of MWK34, we rate FMBCH as a **Speculative BUY**

ICON PROPERTIES

Price (MWK)	**12.13**
DPS (MWK)	**0.23**
P/E (x)	**9.42**
P/B (x)	**1.00**
DPS Yield (%)	**1.89**
Market Cap (MWK - mln)	**81 028**
Recommendation	**HOLD**

	Dec-20	Dec-19	YoY
Rental Income	4,912	5,099	(4%)
Expenses	(2,123)	(2,296)	(8%)
Net Rental Income	**2,789**	**2,803**	**0%**
FV Adjustments	5,279	4,071	30%
Other Income	384	339	13%
Investment Income	2,847	2,321	23%
PBT	**11,299**	**9,534**	**19%**
Tax	(2,505)	(2,121)	18%
Minorities	(189)	(165)	15%
PAT	8,605	7,248	19%
Investment Properties	64,145	57,900	11%
Treasury Notes	11,571	11,442	1%
Trade Receivables	1,826	1,469	24%
Cash Balances	8,293	7,947	4%
Total Assets	**86,335**	**79,378**	9%
Payables	644	1,268	(49%)
Borrowings			
Capital/NAV	81,009	73,874	10%
Net Operating Income	2,789	2,803	
Rental Income yield	8.05%	9.28%	
Receivables/Revenues	36.48%	49.70%	
Yield on cash balance	14.51%	7.28%	
Debt/Assets	0%	0%	
Rent Ratio	0.64%	0.73%	
Cap Rate	**4%**	**5%**	
Price to Rent (x)	**16.54**	**13.76**	
Break Even Ratio	43%	45%	
ROA	10.4%	9.5%	
ROE	**11%**	**10%**	
Leverage (x)	1.07	1.07	

In the eye of the Covid-19 storm…

Real estate companies were impacted in different ways by Covid-19, largely dependent on the asset class. ICON whose portfolio is skewed towards office buildings suffered a 4% decline in rental income to MWK4.9bln with the gross rental yield falling 120bps to 8.1%, on account of lower rentals amid higher property values. Occupancy levels across the portfolio averaged approximately 90% down from 95% in FY19.

Cost controls to the fore ….

Management instituted various cost-cutting measures which saw operating expenses decline by 8% to MWK2.1bln. Consequently, net rental income remained static at MWK2.8bln. The expense or break-even ratio closed the year at 43%, down 200bps.

Never waste a crisis ….

ICON undertook a number of targeted refurbishments resulting in a fair value gain of MWK5.2bln being booked in the P&L. Property value rose 11% to MWK64.1bln. On the listing in December 2018, the properties were valued at MWK50.0bln. However, to enhance the company's liquidity position and taking cognisance of the constrained business environment, some noncritical maintenance and refurbishment work was deferred.

The balance of the cash raised in the IPO of MWK11.6bln is invested in fixed income securities earning between 5.5% and 15.5%pa, resulting in MWK2.8bln inflows into the P&L. After accounting for the tax charge, PAT rose 19% to MWK8.6bln. The balance sheet remained pristine with no debt.

Comparison with peers …

Most of the metrics for MPICO and ICON are similar, including the property value of approximately MWK65bln. The main difference is on the price to rent multiple, with ICON trading at 16.4x; more than twice that of MPICO's 6.90x. *(see the table in the MPICO below).*

Fairly valued …

ICON is currently trading at a P/B of 1.0x, indicating that the company is fairly valued. **HOLD**

MPICO PLC

Price (MWK)	**16.00**
DPS (MWK)	**0.28**
P/E (x)	**8.69**
P/B (x)	**0.84**
DPS Yield (%)	**1.75**
Market Cap (MWK - mln)	**36 768**
Recommendation	**HOLD**

	Dec-20	Dec-19	YoY
Rental Income	6,329	6,636	(5%)
Expenses	(3,754)	(4,000)	(6%)
Net Rental Income	**2,575**	**2,636**	**(2%)**
FV Adjustments	5,049	5,699	(11%)
Other Income	1,537	1,005	53%
PBT	**9,161**	**9,340**	**(2%)**
Tax	(4,818)	(1,656)	191%
Minorities	(113)	(2,066)	(95%)
PAT	4,230	5,618	(25%)
Investment Properties	65,670	60,674	8%
Deferred Tax Asset	1,696	4,162	(59%)
Trade Receivables	11,582	8,197	41%
Cash Balances	194	160	21%
Total Assets	**79,792**	**73,828**	8%
Borrowings	1,379	585	136%
Capital/NAV	43,537	39,651	10%
Net Operating Income	2,575	2,636	(2%)
Rental Income yield	10.02%	11.48%	
Receivables/Revenues	178.67%	220.08%	
Debtors Days	667.95	450.86	
Yield on cash balance	0.00%	0.00%	
Debt/Assets	2%	1%	
Rent Ratio	0.80%	0.91%	
Cap Rate	**4%**	**4%**	
Price to Rent (x)	**6.90**	**6.76**	
Break Even Ratio	59%	60%	
ROA	5.5%	8.0%	
ROE	**10%**	**15%**	
Leverage (x)	1.83	1.86	

In the eye of the Covid-19 storm…

Property companies bore the brunt of the Covid-19 pandemic as rental collections were affected during the Q1/Q2 lockdown and occupancies suffered post lockdown as some tenants could not return. MPICO's rental yield retreated 150bps to 10%, as rental income regressed 5% to MWK6.3bln.

A surge in tax ….

The annual property valuation exercise saw MWK5.0bln gain being booked into the income statement, with the total value of the investment properties closing at MWK65.7bln.

Interest on overdue accounts was the only line item to move in the positive direction, up 53% to MWK1.5bln, resulting in the PBT declining a marginal 2% to MWK9.2bln. A 191% surge in the tax provision to MWK4.8bln, resulted in the PAT declining by 25% to MWK4.2bln. The hike in tax arose from a one-off deferred tax adjustment of MWK2.5bln following the de-recognition of an asset.

Receivables rose 41% to MWK11.6bln, of which MWK8.7bln was due from the Government of Malawi (GoM). GoM accounts for 50% of the annual rental income and the debt is now nearly 3x the rent that MPICO receives from GoM in a year.

Comparison with peers …

Most of the metrics are similar. The main difference is on the price to rent multiple, with ICON trading at 16.4x against MPICO's 6.90x.

	MPICO	ICON
Market Cap (bln)	36 768	81,028
P/E (x)	8.69	9.42
P/B (x)	0.84	1.00
Rental Yield	**10%**	**8%**
Price to rent	**6.90**	**16.54**
Expense ratio	59%	43%
ROE	10%	11%
Property Value	**65,670**	**64,145**

Fairly valued …

MPICO is currently trading at a P/B of 1.0x, indicating that the company is fairly valued. **HOLD**

NATIONAL BANK OF MALAWI

Price (MWK)	**650.00**
DPS (MWK)	**27.84**
P/E (x)	**13.55**
P/B (x)	**2.58**
DPS Yield (%)	**4.28**
Market Cap (MWK - mln)	**303 506**
Recommendation	**BUY**

	Dec-20	Dec-19	YoY
Interest Income	55,253	50,904	9%
Interest Expense	(5,314)	(5,207)	2%
Net Interest Income	49,939	45,697	9%
Loan loss Charge	(2,444)	(4,412)	(45%)
NII after credit losses	47,495	41,285	15%
Non-Funded Income	28,610	24,546	17%
Total Income	76,105	65,831	16%
Operating Expenses	(43,297)	(40,480)	7%
PBT	32,808	25,351	29%
Tax	(10,359)	(8,196)	26%
Minority	(43)	(49)	(12%)
PAT	22,406	17,106	31%
Loans	200,170	188,324	6%
Bank Placements	44,231	17,826	148%
Investment Securities	223,383	166,275	34%
Earning Assets	498,765	394,872	26%
Total Assets	**572,693**	**459,156**	25%
Deposits	403,703	318,470	27%
Borrowings	13,713	16,335	(16%)
Capital/NAV	117,805	100,762	17%

NIM	11.18%	12.16%
NPLs	24,592	22,571
NFI/Total Income	38%	37%
CIR	57%	61%
LDR	50%	59%
ROA	4.3%	3.9%
ROE	**21%**	**18%**
NPLs Ratio	11.69%	11.00%
Cost of Funding	1%	2%
Leverage (x)	4.86	4.56

Non-funded income comes to the fore….

Non-funded income (NFI) registered the most growth of 17% to MWK28.6bln, significantly augmenting the 9% rise in net interest income to MWK49.9bln. However, the net interest margin of 11% pa was 100bps lower than in FY19. Adding up the two revenue lines, total income increased by 16% to MWK76.1bln.

Stringent cost controls ….

Expenses were restricted to a 7% growth to MWK43.3bln resulting in an improvement in the cost to income ratio of 400bps to 57%, one of the lowest in the sector. As a result, PBT expanded by 29% to MWK32.8bln and PAT advanced by 31% to MWK22.4bln. The ROE improved 300bps to 21%.

Interest earning asset structure ….

Given the difficult economic conditions, loan growth was understandably muted at 6% to MWK200bln while investment in securities grew 34% to MWK223.4bln, underscoring the adoption of a prudent asset strategy. The loan book had an unchanged base yield of 12.3% pa whereas, the fixed income securities book experienced a 397bps rise in yields to 12% pa.

Funding the credit book was MWK403.7bln worth of deposits, up 27% on the prior year. Cost of funds improved 100bps to 1% pa. With the deposit base growing faster than the loan book, the loan to deposit ratio decreased to 50% from 59%.

Solid capital base …

Total capital base was MWK117.8bln and the leverage ratio was 4.86x. As such, the lender has adequate capital enabling it to (a) underwrite highly profitable big-ticket loans; (b) fund acquisitions, and (c) pay enhanced dividends. However, the recently announced US$7mln acquisition of 51% of Akiba Commercial Bank in Tanzania is not expected to move the needle in the medium term.

NBM remains a bell weather stock…

Using our 2-year exit price-to-book (P/B) multiple method, we get an intrinsic value of **MWK800** per share, implying a potential upside of 23% on the current price. **BUY**

NBS BANK

Price (MWK)	**23.00**
DPS (MWK)	**1.15**
P/E (x)	**9.50**
P/B (x)	**3.49**
DPS Yield (%)	**5.00**
Market Cap (MWK - mln)	**66 943**
Recommendation	**BUY**

	Dec-20	Dec-19	YoY
Interest Income	36,571	25,416	44%
Interest Expense	(9,987)	(5,600)	78%
Net Interest Income	**26,584**	**19,816**	**34%**
Loan loss Charge	(1,983)	810	-345%
NII after credit losses	24,601	20,626	19%
Non-Funded Income	**10,571**	**9,026**	**17%**
Total Income	**35,172**	**29,652**	**19%**
Operating Expenses	(25,198)	(22,784)	11%
PBT	9,974	6,868	45%
Tax	(2,925)	(2,411)	21%
PAT	7,049	4,457	58%
Loans	59,035	38,562	53%
Bank Placements	11,818	8,035	47%
Investment Securities	104,695	82,267	27%
Earning Assets	199,640	143,595	39%
Total Assets	**218,331**	**159,270**	37%
Deposits	153,861	120,739	27%
Borrowings	6,808	7,863	-13%
Capital/NAV	19,166	14,582	31%

NIM	15.49%	15.22%
NPLs	3,081	5,814
NFI/Total Income	30%	30%
CIR	72%	77%
LDR	38%	32%
ROA	3.7%	3.2%
ROE	**42%**	**35%**
NPLs Ratio	5.22%	15.08%
Cost of Funding	7%	5%
Leverage (x)	11.39	10.92

Consolidating the turnaround….

NBS released a solid set of results headlined by a 58% rise in PAT to MWK7bln. ROE at 42%, was up 700bps on FY19 and is one of the highest in the sector. The total capital ratio of 18.5% was sufficiently above the regulatory minimum of 15%, giving the Board room to recommend a MWK1.15/share dividend. NPL ratio also improved to 5% from 15% in FY19, on prudent underwriting and the aggressive growth in the loan book. Despite the good innings, some ratios like leverage at 11.39x, suggest overtrading and the cost to income ratio at approximately 70% is not yet at optimum levels.

Good deposit growth and asset creation….

Deposits grew 27% to MWK154bln, although the bank continues to have a relatively high cost of funding of 7% pa, a 200bps deterioration from 5% in FY19. NBS is yet to shed its building society roots in terms of the funding structure. On the asset side, credit expanded 53% to MWK59bln and fixed income securities rose 27% to MWK105bln. The preponderance of money market securities meant that NBS had a loan to deposit ratio of 38%. This is a legacy asset structure arising from the time when the regulator had imposed lending restrictions.

Consequently, net interest income increased 34% to MWK27bln, with an unchanged net interest margin of 15% pa. Non-funded income (NFI) of MWK11bln, up 17% on the prior year, helped propel total income by 19% to MWK35bln, post the loan loss provisions of MWK2bln. The contribution of NFI at 30% was too low for a transaction based bank. A 11% hike in operating expenses to MWK25bln was in line with inflation resulting in a cost to income ratio of 72%, having improved by 500bps from prior period. NBS barely covers operating expenses with net interest income, which is not sustainable. In FY20, NBS advanced MWK12bln to a group of companies involved in the electrical energy sector. This facility, at 60% of core capital, exceeds the prudential exposure limit guideline to one client of 25%.

Still has some runway…

We value banks based on a 2-year exit price-to-book (P/B) multiple using the average ROE. Using this approach, we get an intrinsic value of **MWK26** per share, implying a potential upside of 13% on the current price. **BUY.**

NICO HOLDINGS

Price (MWK)	**55.00**
DPS (MWK)	**2.30**
P/E (x)	**5.73**
P/B (x)	**1.43**
DPS Yield (%)	**4.18**
Market Cap (MWK - mln)	**57 367**
Recommendation	**BUY**

	Dec-20	Dec-19	YoY
Net available premium	**84,714**	**75,959**	12%
Net Commissions	6,396	4,946	29%
Claims and benefits	(52,186)	(48,543)	8%
Admin Expenses	(106,272)	(87,503)	21%
Total Expenses	**(158,458)**	**(136,046)**	16%
Underwriting Income	**(67,348)**	**(55,141)**	22%
Investment Income	**47,614**	**41,402**	15%
Net Banking Income	**47,041**	**34,377**	37%
Other net income	(838)	853	
PBT	**26,469**	**21,491**	23%
Taxation	(7,872)	(6,761)	16%
Minority	(8,592)	(6,719)	28%
PAT	**10,005**	**8,011**	25%
Cash	76,656	50,331	52%
Loans	130,971	115,717	13%
MM Securities	143,146	105,796	35%
Equities Portfolio	163,956	141,081	16%
Earning Assets	**518,189**	**416,273**	24%
Total Assets	**701,345**	**539,645**	30%
Deposits	153,146	106,886	43%
Policyholders Liabilities	327,956	275,771	19%
Borrowings	10,223	10,613	(4%)
Total Liabilities	**629,426**	**481,157**	31%
Capital/NAV	**39,978**	**31,845**	26%

	Dec-20	Dec-19
ROA	1.6%	1.5%
ROE	**28%**	**25%**
Loss Ratio	62%	64%
Expense Ratio	125%	115%
Combined Ratio	187%	179%
Premium/Surplus Ratio	1.18	1.30
Operating Ratio	131%	125%
Solvency ratio	212%	239%
Return on Revenues	12%	11%

Solid performance from the bigger segments…

NICO Holdings' FY20 results were impressive with the PAT growing by a quarter to MWK10bln, following impressive earnings from Life Assurance (up 30% to MWK8.8bln) NBS Bank (up 58% to MWK7.1bln), and asset management (up 55% to MWK2.1bln). The general insurance division was affected by the 43% depreciation of the Zambian Kwacha and an increase in costs and claims resulting in a 49% decline in the bottom line to MWK1.1bln.

Suboptimal operating ratios ….

Net written premiums rose 12% to MWK84.7bln driven by the life assurance company. Claims paid rose 8% to MWK52.2bln, giving a claims ratio of 62%, down slightly from 64% in FY19. Operating expenses spiked 21% to MWK106.3bln, implying an expense ratio of 125%. The two ratios sum up to a combined ratio of 187% and a net operating ratio of 131%, implying an underwriting loss. Therefore, NICO was unable to meet operating expenses from net premiums without recourse to investment income. The ratios also suggest that none of the premiums collected in FY20 were available for investment.

The 16% growth in the equity's portfolio to MWK164bln which was ahead of the 7% recorded by the MSE but lower than the 24% rise in the market capitalisation of the MSE, was mostly capital gains. The money market book rose 35% to MWK143bln and the consolidated investment portfolio expanded 25% to MWK518bln. On the liabilities side, policyholder funds were up 19% to MWK328bln.

NICO recorded an insurance surplus of MWK71.9bln and has a healthy solvency ratio of 212% (benchmark is 150%). Both assets and liabilities grew 30% to MWK701bln and MWK629bln respectively, meaning that capital grew at the same pace as the bottom line to MWK40bln. The ROE for FY20 was 28%.

Conglomerate discount…

NBS Bank (54% owned) accounts for 67% of Nico's total market cap. NICO Life (51% owned) which is a larger contributor to assets and profits, should be valued at approximately MWK36.1bln (P/E of 8x). Hence, NICO is trading at a discount to breakup value, before adding the smaller but profitable businesses. The P/E at 5.47x is the lowest in recent times. **BUY**

THE NATIONAL INVESTMENT TRUST LTD (NITL)

Price (MWK)	**94.94**
DPS (MWK)	**1.30**
P/E (x)	**8.67**
P/B (x)	**0.99**
DPS Yield (%)	**1.37**
Market Cap (MWK mln)	**12 817**
Recommendation	**HOLD**

	Dec-20	**Dec-19**	**YoY**
Dividend Income	*342*	*259*	*32%*
Interest Income	*21*	*47*	*(55%)*
Total Income	**363**	**306**	*19%*
Opex	(173)	(151)	15%
EBIT	**190**	**155**	**23%**
Portfolio FV Gain	1,427	1,691	(16%)
PBT	**1,617**	**1,846**	**(12%)**
Tax	(138)	(66)	109%
PAT	**1,479**	**1,780**	**(17%)**
Cash & near	277	82	238%
Other assets	65	9	622%
Equity Portfolio	12,865	11,614	11%
Total Assets	**13,207**	**11,705**	13%
Capital/NAV	12,960	11,583	12%
Payout Ratio	12%	6%	
Expense Ratio	51%	58%	
Taxation Rate	9%	4%	
ROE	12%	17%	
EPS	10.96	13.19	
NAV	96.00	85.80	
DPS	1.30	0.75	
Share Price	94.94	80.00	
P/E (x)	8.67	6.07	
P/B (x)	0.99	0.93	
DPS Yield	1%	1%	

Outperforming the MSE….

The NITL portfolio grew 11% to MWK12.9bln, outperforming the MSE which rose 7.08% in 2020. The portfolio which is 100% invested in MSE listed equities, with cash resources amounting to just MWK277mln had a fair value (FV) gain of MWK1.4bln, compared with MWK1.7bln in the prior year. This ultimately affected the PAT growth rate.

P & L performance …

Dividend income was up 32% to MWK342mln, translating to a dividend yield of 3% while interest and other inflows were down 55% to MWK21mln. In FY19, NITL had non-recurring 'other income' of MWK40mln hence the distortion. Total portfolio income was up 19% to MWK363mln.

Operating expenses rose 15% to MWK173mln comprising in the main of management fees, which are a function of the portfolio size. NITL's expense ratio improved 700bps to 51%, mainly due to the increase in income. The lower FV gain alluded to above resulted in a 12% decline in the PBT to MWK1.7bln, which worsened to 17% at PAT level to MWK1.5bln.

Time for change of focus …

NITL's principal objective is to "*provide a vehicle to facilitate broad public participation in a diverse portfolio of investments.*

With 100% investment in MSE shares, there is no diversity of investments. Furthermore, NITL does not have board representation on any of its investee companies, and so is unable to influence decisions and policies. Hence, there is limited participation of the public. Retail investors hold less than a third of NITL shares, meaning that the original goal was never met.

On the other hand, NITL's investments in well-established and mature companies have no impact on the development of Malawi. After nearly 20 years of existence, it is time for a special entity like NITL to change its focus towards a more developmental role, supporting IPOs and other capital raisings. NITL has the capacity to play this role by unlocking value – US$16mln - from its current investments, raising fresh capital and becoming an anchor investor for growing businesses. Its portfolio should comprise mainly of unlisted medium sized companies.

Neither here nor there …

NITL is not a standard Exchange Tradeable Fund (ETF) and holds the same MSE shares that investors can purchase directly. Hence, with the exception of differences in weights, - with NITL having almost 30% of the portfolio in NBM – *buying, holding or selling NITL and reinvesting directly on the MSE* - is neither here nor there. **HOLD**

OLD MUTUAL LIMITED

Price (MWK)	**2 190**
DPS (MWK)	**25.00**
P/E (x)	**N/A**
P/B (x)	**0.81**
DPS Yield (%)	**0.82%**
Market Cap (MWK- mln)	**34 781**
Recommendation	**SELL**

In ZAR mlns	**Dec-20**	**Dec-19**	**YoY**
Gross Premium	**81,571**	**80,758**	1%
Reinsurance	(9,109)	(7,998)	14%
Retained Premiums	**72,462**	**72,760**	(0%)
Investment Returns	30,063	56,940	(47%)
Income from Banking	4,022	2,108	91%
Fees & Commissions	2,253	686	228%
Total Income	**108,800**	**132,494**	(18%)
Net Claims & Benefits	(81,981)	(87,330)	(6%)
Operating Income	**26,819**	**45,164**	(41%)
Operating Expenses	(25,049)	(23,407)	
Finance Cost	(484)	(737)	(34%)
3rd party charges	3,479	(8,499)	(141%)
Associates	(8,037)	1,379	
PBT	**(3,272)**	**13,900**	(124%)
Tax	(2,076)	(4,245)	(51%)
Minorities	251	(269)	(193%)
Attr Earnings	**(5,097)**	**9,386**	(154%)
Cash & near	33,560	30,474	10%
Invest Property	33,606	34,992	(4%)
Invest Securities	772,037	744,965	4%
Loans	17,798	21,007	(15%)
Total Assets	**940,682**	**910,902**	3%
Insurance Liabilities	682,964	653,710	4%
Payables	60,213	52,520	15%
Borrowings	**17,335**	**18,989**	(9%)
Bank Deposits	5,044	4,908	3%
Capital/NAV	**66,995**	**74,763**	(10%)
Embeded Value	**65,916**	**72,297**	(9%)
Equity Value	**98,500**	**116,500**	

The double impact of Covid-19….

The silent and oft forgotten victim of Covid -19 is the life assurance industry as revealed by the FY20 results from Old Mutual Limited (OML). The hit from the pandemic for OML was R6.1bln due to an increase in pandemic reserves, business interruption and rescue claims, and mark-to-market losses in the credit and private equity portfolios. Earnings from Nedbank were also lower as a consequence of the pandemic.

What did it mean …?

Retained premiums were flat at R72.5bln as disposable incomes shrunk and companies/employment levels were affected by the pandemic. A severe blow was also felt when it came to investment income/returns which declined 47% to R30bln. Other ancillary inflows were positive but not enough to stop the reduction in total income, which dropped 18% to R108.8bln. Net claims and benefits paid at R82.0bln were 6% lower on the FY19 payout mainly on account of higher reinsurance recoveries. Pandemic related death claims amounted to R13bln in the period. Operating expenses rose 7% - in line with SA inflation - to R25.0bln, resulting in a PBT decline of 124% to a R3.3bln loss, which worsened to R5.1bln after tax. OML's expense ratio, thus, deteriorated 900bps to 75%.

On the balance sheet, the major asset was the investment portfolio which comprised R772bln in securities and R33.6bln of investment properties. The yield on the portfolio weakened 300bps to 4%, showing the impact of tepid capital market returns. Conversely, the main liability on the balance sheet was the insurance or policyholder liability of R683bln which was adequately covered by the assets. At the end of FY20, OML's embedded value was 9% lower at R65.9bln. Notwithstanding the FY20 losses, OML was able to comfortably surpass all the required solvency ratios.

Overvalued on the MSE …

On the MSE, OML is currently trading at 3.0x its Embedded Value (EV) which is way above the 0.82x EV on the JSE. This is because the OML price on the MSE has not adjusted for the 2017/18 managed separation and the 40% share price decline in FY20 on the JSE. The MSE price declined only 12%. On an implied exchange rate arbitrage basis, the current MSE price implies a USD1:MWK2 614 exchange rate, suggesting that OML is 3.3x overvalued on the MSE. **SELL.**

PRESS CORPORATION

Price (MWK)	**1 199.94**
DPS (MWK)	**31.00**
P/E (x)	**40.19**
P/B (x)	**0.91**
DPS Yield (%)	**2.58**
Market Cap (MWK - mln)	**144 300**
Recommendation	**SELL**

	Dec-20	**Dec-19**	**YoY**
Turnover	**219,508**	**220,066**	(0%)
EBITDA	**65,210**	**63,955**	2%
Depreciation	(19,977)	(19,799)	1%
Operating Income	**45,233**	**44,156**	2%
Associates	349	3,415	(90%)
Finance Cost	(7,365)	(7,263)	1%
PBT	**38,217**	**40,308**	(5%)
Tax	(18,350)	(17,510)	5%
Discontinued Ops	28	71	(61%)
Minorities	(16,305)	(15,492)	5%
Attributable Earnings	**3,590**	**7,377**	(51%)
Cash & near	92,196	58,594	57%
Debtors	32,241	27,895	16%
Other investments	137,590	127,574	8%
Other current assets	58,470	94,412	(38%)
Current Assets	**320,497**	**308,475**	4%
Non-Current Assets	492,466	378,930	30%
Total Assets	**812,963**	**687,405**	18%
Payables	489,527	378,920	29%
Current Liabilities	514,195	406,374	25%
Borrowings	74,499	71,576	4%
Capital/NAV	157,942	155,668	1%

Revenues (mlns)	**Dec-20**	**Dec-19**	**Change**
Financial Services (NBM)	81,672	73,035	12%
Telecoms	99,232	106,321	(7%)
Energy	23,042	19,459	18%
Consumer Goods	16,613	22,859	(27%)
Other Segments	3,687	3,505	5%
Total	**224,246**	**225,179**	**(0%)**
PAT (mlns)	**Dec-20**	**Dec-19**	
Financial Services (NBM)	22,508	17,096	32%
Telecoms	5,364	9,913	(46%)
Energy	4,639	2,144	116%
Consumer Goods	(5,887)	(3,967)	48%
Other Segments	3,284	4,651	(29%)
Total	**29,908**	**29,837**	**0%**

FY20, a year to forget…

FY20 was a tough year for the conglomerate, with earnings attributable to shareholders declining 51% to MWK3.6bln. Dragging down the group were the perennial loss-maker; the People's Trading Centres (PTC) and the telecoms segment which hit a speed bump in FY20. NBM and the energy division performed strongly.

Lacklustre showing ….

Turnover was flat at MWK219.5bln on the back of 12% and 18% increases to MWK81.2bln and MWK23.0bln respectively from NBM and the energy divisions. The supermarkets recorded a 27% decline to MWK16.6bln. A turnaround seems elusive in the supermarkets, with management blaming lack of working capital and not necessarily depressed consumer demand.

Operating profits were up 2% to MWK45.2bln. However, the contribution from associates declined 90% to MWK349mln due to a MWK6.4bln exchange loss incurred by Castel Malawi.

On a segment basis, profits declined 46% in telecoms to MWK5.4bln, and "other divisions" also fell 29% to MWK3.3bln.

Reconfiguring the group …?

During the year, PCL decided to dispose of the remaining 20% in Castel Malawi for US$12mln. When the first disposal of a 19% stake in Castel Malawi was done in 2018, the balance 20% was worth US$17.5mln. At the same time, the group subscribed for a 49.5% stake in a greenfield project: *LifeCo Holdings Limited,* a life insurance, pension administration, and asset management business. With PTC struggling for capital, one would have thought that if there was a business case for it not to be closed then it would be allocated capital rather than the establishment of a greenfield financial services company to compete with Old Mutual and NICO.

Better options out there …

PCL is trading at a P/E of 40.19x and a P/B of 0.91x which suggests that valuations are stretched. We are of the opinion that investors are better served through direct exposure to NBM, and TNM at cheaper P/E multiples. **SELL**

STANDARD BANK

Price (MWK)	**1 200**
DPS (MWK)	**44.74**
P/E (x)	**11.86**
P/B (x)	**2.66**
DPS Yield (%)	**3.73**
Market Cap (MWK - mlns)	**281 634**
Recommendation	**BUY**

	Dec-20	**Dec-19**	**YoY**
Interest Income	46,309	43,171	7%
Interest Expense	(5,096)	(4,294)	19%
Net Interest Income	**41,213**	**38,877**	**6%**
Loan loss Charge	(1,622)	(1,872)	-13%
NII after credit losses	**39,591**	**37,005**	**7%**
Non-Funded Income	28,489	21,979	30%
Loan Recoveries	7,105		
Total Income	**75,185**	**58,984**	**27%**
Operating Expenses	(39,393)	(35,612)	11%
PBT	**35,792**	**23,372**	**53%**
Tax	(12,049)	(7,493)	61%
PAT	**23,743**	**15,879**	**50%**
Loans	**165,445**	**148,490**	**11%**
Bank Placements	82,507	59,930	38%
Investment Securities	155,460	100,631	54%
Earning Assets	433,479	333,244	30%
Total Assets	**479,560**	**375,116**	28%
Deposits	**314,756**	**242,082**	**30%**
Borrowings			
Capital/NAV	**105,721**	**87,239**	21%

	Dec-20	**Dec-19**
NIM	10.75%	11.97%
NFI/Total Income	38%	37%
CIR	52%	60%
LDR	53%	61%
ROA	5.6%	4.3%
ROE	**25%**	**19%**
NPLs Ratio	1.36%	3.14%
Yield on Book	11%	12%
Cost of Funding	2%	2%
Leverage (x)	4.54	4.30

Solid deposit mobilisation – flight to quality….

Headlining the bank's FY20 solid performance was a 30% growth in deposits to MWK315bln. The growth in customer balances exceeded the 21% registered by the entire banking sector, which closed FY20 at MWK1.4trn. The cost of these deposits for SBM was 2% pa, unchanged from the prior year resulting in interest expenses of MWK5bln.

Prudent asset creation & investment …

The deposits were deployed into; (a) loans which grew 11% to MWK165bln; (b) fixed income securities which expanded 42% to MWK143bln, and (c) placements with other banks which were up 38% to MWK83bln. Interest-earning assets yielded MWK46.3bln in interest income, equivalent to a 11% pa return, down from 12% pa in FY19.

The loan to deposit ratio (LDR) closed at 53%, down 10 percentage points from 63% in FY19. The banking sector LDR was 51%, down from 54% last year. Credit quality was superb as evidenced by the NPL ratio of 1.36%, against 6% for the overall sector and the 13% decline in the provisioning charge to MWK1.6bln.

Income and Expense outcome…

Net interest income rose 6% to MWK41bln, with the net interest margin at 10.75% pa, down 122bps on FY19. Non-funded income grew 30% to MWK28bln driven by fees on forex transactions as the MWK depreciated. Non funded income contributed 38% to total income which, in turn, grew by 27% to MWK75bln, enhanced by a MWK7 bln loan recovery. Excluding the loan recovery, non-funded income grew by 15.0%. Operating costs grew slightly ahead of inflation at 11% to MWK39bln. With income growing twice the pace of expenses, the cost to income ratio (CIR) improved to 52% from 60%. Basic PAT was up 50% to MWK24bln, or up 22% on a headline basis to approximately MWK20bln. ROE rose to 25% from 19%.

Better value going forward…

We value banks based on a 2-year exit price-to-book (P/B) multiple using the average ROE. Using this approach, we get an intrinsic value of **MWK1 454.36** per share, implying a potential upside of 20% on the current price. **BUY**.

SUNBIRD TOURISM LTD

Price (MWK)	**90**
DPS (MWK)	**0.00**
P/E (x)	**N/A**
P/B (x)	**0.87**
DPS Yield (%)	
Market Cap (MWK mln)	**23 542**
Recommendation	**SELL**

MWK mlns	**Dec-20**	**Dec-19**	**YoY**
Revenues	***13,510***	***19,370***	**(30%)**
Cost of Sales	(2,931)	(3,831)	(23%)
Gross Profit	**10,579**	**15,539**	**(32%)**
other	255	205	
Opex	(10,982)	(11,523)	(5%)
EBIT	**(148)**	**4,221**	**(104%)**
Finance Cost	(826)	(229)	261%
PBT	**(974)**	**3,992**	**(124%)**
Tax	(206)	(1,398)	(85%)
PAT	**(1,180)**	**2,594**	**(145%)**
Cash & near	1,109	676	64%
Debtors	1,724	2,731	(37%)
Inventory	2,858	2,167	32%
Current Assets	7,342	8,034	(9%)
PPE	**42,907**	**33,687**	27%
Total Assets	**50,386**	**41,862**	20%
Payables	2,124	2,183	(3%)
Current Liabilities	2,880	3,141	(8%)
Borrowings	10,467	7,894	33%
Capital/NAV	27,018	23,346	16%
Capex	2,485	6,345	

Debtors/Revenues	13%	14%
GP Margin	78%	80%
EBIDTA Margin	(1%)	22%
Cost of Debt	9%	4%
Capex/Revenue	18%	33%
Days working capital	126.37	75.34
Debtors Days	**60.18**	**43.83**
Net Debt/Equity	**34.64%**	**30.92%**
Debt/Assets	**20.77%**	**18.86%**

Suffering from Covid-19 related complications….

Sunbird Tourism (Sunbird) as a hospitality group suffered the most in 2020, as MICE (meetings, incentives, conferences, and exhibitions) ground to a halt due to the Covid -19 pandemic. These activities which involve large gatherings have traditionally been major revenue sources for hotels; second to but also driving demand for rooms. The result was that the occupancy levels for Sunbird averaged 32%, down from 52% in FY19.

Topline down nearly a third, EBIT slips into the red …

With occupancies sliding, turnover tumbled 30% to MWK13.5bln. Cost of sales, being variable declined 23% to MWK2.9bln, reflecting the drop in volumes and the impact of cost-cutting measures. Consequently, gross profits retreated 32% to MWK10.6bln. Fixed costs are sticky by nature, hence in FY20, Sunbird managed to eke out a marginal 5% decrease in operating costs to MWK11.0bln. As expenses exceeded revenues, Sunbird recorded a loss at EBIT level of MWK148mln and a MWK1.2bln loss at PAT.

Funding the business and projects…

The difficult trading conditions of FY20 resulted in a deterioration in cash generation, with operations generating only MWK392mln compared with MWK2.5bln in FY19. Hence, Sunbird had to increase borrowings by 33% to MWK10.5bln. As such, the net gearing worsened 400bps to 35%, although fairly decent. In the P&L, finance costs spiked to MWK826mln as a result.

Projects update …

In FY21, Sunbird expects to complete the 42-room Sunbird Waterfront Hotel at the Livingstonia Beach and the refurbishments of Sunbird Ku Chawe and Sunbird Mzuzu.

The outlook …

Management is implementing strategies and spending capital on making the hotel operations, services and conference facilities, and general management style ready for the "post Covid-19" new normal. The light touches are already being implemented while those requiring heavy capex will be embarked in phases.

However, the share price is down nearly 40% from the FY18 peak of MWK145 implying that the weakness pre-dated the pandemic. **SELL**

TNM PLC

Price (MWK)	**16.00**
DPS (MWK)	**0.40**
P/E (x)	**20.79**
P/B (x)	**3.66**
DPS Yield (%)	**2.50**
Market Cap (MWK - mln)	**160 647**
Recommendation	**NOT RATED**

MWK mlns	**Dec-20**	**Dec-19**	**YoY**
Voice Revenue	58,125	69,053	(16%)
Data Revenue	19,833	16,896	17%
Mobile Money	9,346	7,325	28%
Total Revenue	**87,304**	**93,274**	(6%)
Cost of Sales	(20,453)	(23,422)	(13%)
Gross Profit	**66,851**	**69,852**	(4%)
Other Income	3,594	3,617	(1%)
Expenses	(53,245)	(49,427)	8%
Operating Profits	**17,200**	**24,042**	(28%)
Finance costs	(4,264)	(4,128)	3%
PBT	**12,936**	**19,914**	(35%)
Tax	(5,208)	(6,740)	(23%)
PAT	**7,728**	**13,174**	(41%)
Inventories	2,442	2,432	0%
Receivables	14,046	14,070	(0%)
Cash	14,677	13,085	12%
Current Assets	**32,223**	**30,435**	6%
PPE	67,355	59,413	13%
Total Assets	**120,526**	**103,159**	17%
Payables	27,407	16,582	65%
Current liabilities	**52,682**	**52,014**	1%
Borrowings	30,862	22,739	36%
Capital/NAV	43,906	41,699	5%
Capex	20,287	16,414	24%

Profitability Ratios		
Operating Profit Margin (%)	19.70	25.78
PBT Margin (%)	14.82	21.35
PAT Margin (%)	8.85	14.12
Return on Assets (%)	6.91	14.41
Return on Equity (%)	18.06	32.91
Net Debt to Equity Ratio (%)	52.44	42.46
Debt to Equity Ratio (%)	70.29	54.53
Interest Coverage (x)	4.03	5.82
Cost of borrowing (%)	15.91	19.38
Dividend Pay-out ratio	52%	57%
Tax rate	40%	34%

Disappointing revenue performance…

Notwithstanding a robust 28% increase in mobile money revenues and a 17% rise in data turnover, total group sales declined by 6% to MWK87.3bln, suggesting a heavy 15% decline in voice revenues.

To defend margins, management instituted a battery of cost cutting measures, which saw the cost of sales declining by 13% to MWK20.5bln. Gross profits thus fell at a slower pace of 4% to MWK66.9bln. The corresponding margin was up 200bps to 77%.

Increased tax provisions hit to profits ….

Operating profits decreased by 28% to MWK17.2bln, as expenses surged ahead by 8%. Included in the costs is a provision for a VAT dispute of MWK2.3bln. The depreciation charge also increased due to increased capex spend which reached MWK31.5bln.

Consequently, operating margins deteriorated 607bps to 19.7%, the lowest level in the last 5 years. Financing costs were relatively unchanged at MWK4.3bln, but the tax charge provision jumped 23% to MWK5.2bln, implying a taxation rate of 40%. Summing it all, negative growth in revenues (not fully explained), a surge in operating expenses, and tax provisions saw the PAT falling 41% to MWK7.7bln.

The balance sheet remains strong …

The balance sheet remained strong, with cash balances of MWK32.2bln (1/3 of total assets) and PPE of MWK67.4bln, whilst debtors were largely unchanged. On the liabilities side, the reduced revenue inflows which occurred in the middle of an increase in capex, saw borrowings rise 36% to MWK30.9bln. This resulted in the net debt to equity ratio worsening to 52% from 42%.

Comparison with peer …

The results are in stark contrast to Airtel which recorded a 19% growth in revenues to MWK110.2bln following a 25% rise in subscribers. Airtel managed to achieve a 39% increase in the PAT to MWK22.1bln. TNM is trading at a P/E of 21.24x *(Airtel – 15.41x)* which suggests that valuations are stretched. However, we note that the TNM numbers were affected by the tax provisions, which could be one-offs. We have suspended ratings on TNM while awaiting more clarity on the tax provisions.