# ATRIA AFRICA

## Monthly Commentary

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ATRIA AFRICA

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# MACRO COMMENTARY

## GLOBAL ANALYSIS

In September, further strong economic data led the US Federal Reserve to increase rates by 0.25%, as had been widely expected. The committee also amended its forward guidance, dropping its long-standing description of monetary policy as "accommodative", and reiterated its outlook for gradual hikes in 2019.

US economic data released in September showed wages to be growing at the fastest rate for almost ten years, while additions to non-farm payrolls above 185,000 on a three-month average, with little impact yet apparent from America's trade wars with China. The trade pressure heightened during September as a 10% tariff was implemented on a further US$200 billion of Chinese goods, with an additional increase of 25% in January 2019.

Following the US announcement of a preliminary agreement with Mexico to modernize NAFTA, negotiations continued with Canada. It looked as though the two sides were too far apart, but an agreement was reached late on 30 September to replace NAFTA with the United States, Mexico and Canada (USMCA) Agreement.

The sharp declines seen in August for eurozone banks amid concerns over their exposure to emerging markets as well as worries over the Italian budget eased somewhat in September. However, on the last trading day of the month the Italian Government proposed a deficit of 2.4% over the next 3 years. This was within the EU's 3% threshold but higher than was anticipated and led to a sell-off in Italian equities. Italian bond yields increased 19-30bps across the curve in response.

In Europe as a whole, the flash Eurozone Composite Purchasing Managers' Index for September fell to a four-month low of 54.2. Eurozone inflation was estimated at 2.1% for September, up from 2.0% in August. There was no change in policy from the European Central Bank who reiterated that interest rates would remain on hold "at least through the summer of 2019".

In Japan, investors' concerns over the possibility of higher US tariffs on autos dampened sentiment across the entire auto supply chain but, near the end of September, the US agreed to defer any decision until after the current trade negotiations with Japan.

Also in Japan, by the end of the month it became clear that Shinzo Abe would easily succeed in his bid to be re-elected as leader of the Liberal Democratic Party and therefore retain his position as prime minister. The improved visibility on policy for the next three years was positively received, especially by foreign investors.

Chinese equities were hit by the escalation in trade tensions with the US towards the end of the September, with the Shanghai Composite Index falling from 2830 to 2760 over the last two trading days of the month. The US moved ahead with several rounds of new tariffs and China retaliated in kind. The authorities announced a range of targeted economic support measures to help offset the impact of US tariffs, including a shift to fiscal stimulus and credit easing. The central bank also re-introduced macro prudential measures to stabilise the renminbi.

## AFRICAN ANALYSIS

On the 26th of September, a court case against Itay's ENI and Royal Dutch Shell (two global oil companies) commenced in Milan, Italy. The charge is paying over $1 billion worth of bribes to **Nigerian** officials to secure one of Africa's largest oilfields, OPL245. Two middlemen, Emeka Obi from Nigeria and the Italian Gianluca Di Nardo, have been convicted and sentenced to 4 years in prison for international corruption that channelled millions of dollars as bribes on the OPL245 deal. This judgement sent out a strong message not only in the oil industry but the rest of Africa's business landscape. Similar corruption-related issues are surfacing in Nigeria ahead of next year's national elections in February.

Further down in **Angola**, José Filomeno dos Santos, the son of former President José Eduardo dos Santos was in detention over a $1.5 billion corruption case when he managed around $5 billion of the state's funds as an asset manager.

The continent is fast coming to the realisation of the need for improved accountability, transparency and governance. With previous bailouts on the continent under the Heavily Indebted Poor Countries (HIPC), countries such as **Chad, Gabon, Equatorial Guinea, Mozambique** and **Zambia** are back to experiencing high levels of debt pointing to major crises. After receiving billions of dollars from International Financial Institutions (IFIs) including the World Bank, International Monetary Fund (IMF) and increasingly from China, it is evident that the deep-seated corruption and lack of fiscal discipline must be addressed if Africa is to break the cycle of debt crises.

As countries such as **Zimbabwe** are emerging from deep political and economic crisis, the pressures exist to exhibit excellent governance to gain access to funding including credit lines. President Mnangagwa has since chosen to appoint the maximum number of technocrats in some of the most strategic ministerial positions in his Cabinet. The Minister of Finance and Economic development is the Cambridge educated economist, Mthuli Ncube with his Permanent Secretary being the seasoned banker, George Guvamatanga. The Minister of mines is Winston Chitando who left the position of Chief Executive Officer of Mimosa, one of Southern Africa's leading platinum mining companies, to join government in November 2017.

Going forward, we expect more exposés and a growing sense of responsibility and discipline in protecting and adding value to financial capital across the continent. This will pave way for better business ethics that will drive forward Africa's economy.

## MARKETS ANALYSIS

Amidst the headlines, one little noticed impact of Donald Trump's Presidency is a renewed focus and attention on Africa. As the developed world engages in tariff wars with the US it is increasingly becoming evident that Europe and Asia must start looking for alternative markets to the US in the developing world. The US/China trade war is unlikely to end soon and soy bean producers in Africa, for example, must gear up to use their competitive advantage in agricultural land to exploit the opportunity presented by the trade war fallout.

In June, America hosted the Africa Trade and Investment Global Summit in Washington D.C. In the past month Japan hosted the Seventh Tokyo International Conference on African Development (TICAD), themed "Pre-TICAD7". This month China hosted the Forum on China-Africa Cooperation (FOCAC) in Beijing. When the top three economies in the world hold business and investment conferences on Africa as opposed to aid summits, the emergence of Sub-Saharan Africa (SSA) as a promising frontier and emerging market is clearly making investors take notice.

The common theme across these conferences points to development and partnership with Africa in a manner like that experienced during the rapid growth of South East Asia and China in the 1990s. In Washington DC, investment in infrastructure was the core theme. In Tokyo, the focus was narrowed to energy infrastructure that will not only light up Africa but also power African industries. The Action Plan from FOCAC in Beijing emphasized the implementation of eight major initiatives, namely industrial promotion, infrastructure connectivity, trade facilitation, green development, capacity building, health care, people-to-people exchanges and peace and security. These initiatives will be backed by US$60 billion of financing in the form of Chinese government assistance and investment, combined with financing from financial institutions and corporates. This includes a special fund for financing imports from Africa to China.

While China is increasingly becoming a dominant investor on the continent, African countries must pay attention to the quality of deals they sign. An Economist report on Zambia's Chinese debt is a case in point. What Africa needs is to be able to cut smart deals with China, like most of the developed world, that empower its citizenry whilst providing a good return to Chinese or any other foreign and domestic investors.

In a world of escalating rhetoric on trade, a strong US economy and a strong US dollar, Africa must provide compelling returns in a stable economic climate to compete with global capital that is naturally attracted by the buoyant economic environment prevailing in the US.

## AFRICAN MARKETS ANALYSIS

The MSCI FM Africa receded further in the month of September shedding -2.43%. This brings its year to date performance to -12.15%. Stock markets across Africa demonstrated similar weakness with only five out of the sixteen markets in our universe receding by an average of -4.10%. Kenya, Egypt and Nigeria were amongst the tail end retreating -10.1%, -8.9% and-6.0% respectively. The Ghana and Namibia markets led the gainers, up 3.1% and 3.5% respectively.

Having endured another disappointing month of returns from African equities, we find ourselves buffing our lens again where a thin fog of mist has advanced over recent months. African markets have a structurally volatile disposition and are notorious for this hazing, which can often obscure the horizon and impact the accuracy of any decisions being made within its markets. This horizon is not by any means our investment utopia, however it does help focus our investment decisions beyond the daily noise of economic and political activity. In recent months, we have seen markets affected by regulatory issues as in Kenya several banks were fined for their involvement in the National Youth Services scandal, whilst similar circumstances were experienced in Nigeria as several banks were entangled in the MTN saga and fined for violation of extant laws and regulations. We have seen political instability in Kenya, Zimbabwe and Ethiopia to mention a few. More glaringly the emerging market rout that has affected most frontier markets.

Whilst a rich understanding of the terrain is imperative to guide our investments, long-time readers of our monthly notes will be familiar with our strong preference towards a bottom up strategy that invests behind businesses with robust management teams that can comfortably and profitably navigate through this fog by implementing sustainable strategies which deliver value. Our preference to invest in such businesses continues to be validated by the resilience in our investee companies where no single business has shown any signs of depleted value on their balance sheet. In Zimbabwe, consumers and the middle class at large went from being marginalised with aggregate demand shrinking in 2016 to a contrasting environment in 2018, where consumers are facing an inflationary environment challenged with currency shortages and deteriorating purchasing power. Throughout the two-year contrasting operational environment, Delta Beverages has continued to show resilience. Whilst a fall in profits would have been expected in 2016, the business continued to make profit introducing a variety of low entry point products that supported revenue. In 2018 faced with currency shortages to purchase raw material, a surge in consumer demand and a challenging economic environment, Delta's management continue to adapt to their environment effectively managing their balance sheet and ensuring production continues to support demand whilst protecting its balance sheet. This is evidenced by their second quarter trading update which saw lager beer volumes grow 52% over prior year surpassing their historic 2012 volumes. Sparkling beverages volume declined by 14% compared to prior year for the quarter and grew by 3% for the first six months of the FY19. The sparking beverages category was adversely affected by the challenges in securing imported raw materials, leading to extended periods of production stoppages and out of stock situations.

Whilst we would expect both contrasting operational environments to influence profitability and operations, the business continues to grow and make investment decisions which trickle through to the incremental value of the businesses. This value is rarely reflected in the volatile stock market and will likely, over time, provide the impetus for returns in the future that may be markedly different from those experienced in the recent past.

# Atria Africa Group

## Executive Summary

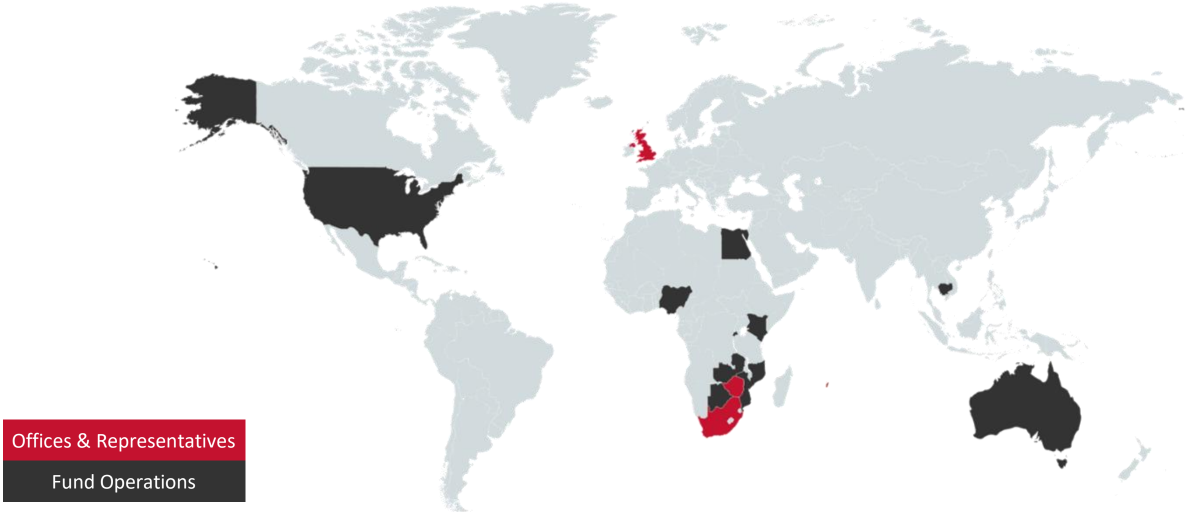
Atria Africa is an emerging market fund management and investment advisory Group, specialising in Africa. We have a highly experienced team with a proven, long-term track record of success in managing listed equity, debt and alternative investments.

We aim to achieve sustainable investment returns on an actual and relative basis, targeting investment strategies that reflect our clients' risk profiles. We do this through investing in businesses that have specific advantages versus their peers, are run by exceptional management teams and which meet our strict investment criteria.

Our team is based on the ground and comprises individuals who live and were brought up in Africa. Having gained experience in the traditional global financial centres, we now leverage our local perspective to identify investment opportunities from our unique network of contacts across a broad spectrum of organisations in the region where we are represented.

## Global Footprint

We operate in eleven countries globally, with offices in Mauritius and Zimbabwe and representatives in South Africa and London.




## Investment Philosophy

Our Fund Management and Advisory teams are guided by the following principles which constitute our investment philosophy:

### Tailored

Portfolios that are as unique as our clients, incorporating risk, returns and assets into portfolio building and constant communication to ensure their objectives are met.

### Diverse

Diversification of portfolios spread risk across asset classes providing peace of mind and stability to your portfolio.

### Disciplined

Stringent risk and research parameters are applied, with strict processes followed, ensuring that every investment has been comprehensively assessed to maximise investor returns whilst protecting against potential risks.

### Ethical

Active integration of ESG criteria into the investment process and ESG focused investments. We believe that responsible investing is a key component to the development of Africa.

## Experience and Approach

The Atria team has been at the forefront of capital markets development throughout Southern Africa (ex-South Africa) over the last fifteen years. Working for a number of firms in different areas of the Financial Services spectrum, members of the Atria team have built up expertise across the assets classes and investment strategies that the firm now focuses on.

This experience has resulted in the development of the firm's fundamental analysis approach with an overlay of macro/top-down analysis of a wide range of economies across African frontier markets. As a result of this process, we achieve an in-depth understanding of African businesses and substantial knowledge of "doing business in Africa" through multiple business cycles.

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## More Information

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