OBAFRICATCHING UP – T1 2019

During the first half-year of 2019, your management team has travelled to Cairo, Dubai and Tunis and met with 48 company managements in total. It was the opportunity to update the operations of companies in which AFRICA PICKING FUND is invested as well as to identify new ones.

We come back convinced that the Egyptian and Tunisian markets still have a high potential.

The first one is starting to benefit from reforms supported by the International Monetary Fund and has seen a gradual uptake in corporate investment and decreasing inflation and interest rates. The second one benefits from increasing security and stability which allowed the tourism sector to return to the level seen before the revolution of 2011. Besides, the weak dinar keeps supporting agricultural and industrial exports.

By end March 2019, those two markets showed the attractive valuation multiples in Africa with PE ratio of 14x in Egypt and 12x in Tunisia. Both combined account for around a quarter of our assets under management – 14% for Egypt and 11% for Tunisia. Our exposure to both markets will grow marginally over the coming months.

Cairo – Reaping the benefits

During our first trip to Cairo in January 2017 – a few months after the implementation of the floating exchange rate regime, the company management we met with were obsessed with the "dollar shortage" and the difficulties in financing raw materials imports. At that time, analysts focused on determining whether companies would be able to increase prices to compensate for the increased raw materials costs. The top winners in early 2017 were exporting companies with costs in Egyptian pounds like ALEXANDRIA CONTAINERS or ORIENTAL WEAVERS.

A year later, everyone agrees that the worst is behind us. Companies no longer face difficulties in obtaining dollars, the Egyptian pound stabilised at around 17.5 EGP to the 1$, inflation is lower and interest rates decreased by two percentage points from 18.5% in late December 2018 to 16.5% by end March 2019. Further interest rate cuts ranging from one to two percentage points should be announced by year end if inflation remains low (at 8.9% in March. 2018 saw revenue drive by price increases, 2019 should see growth helped by volume growth and a gradual return of corporate investment on the back of lower interest rates. The IMF expects Egyptian GDP to reach 5.9% in 2019, vs 5.2% in 2018.

On the political level, Abdelfattah Al-Sissi's victory in March should grant stability and the continuation of the ongoing economic reforms. All in all, Egypt remains an investment destination of choice for AFRICA PICKING FUND with high-quality managements and attractive valuation.
258 companies are now listed on the Egyptian Stock Exchange - in sectors as diverse as banking, hotels, education or health – for a total capitalisation of $50Bn.

RAYA CONTACT CENTER (3,9% of AUM), MTI GROUP (3,4%) and CREDIT AGRICOLE EGYPT (2,4%) are among the strongest convictions of AFRICA PICKING FUND. At end-March, Egypt accounts for 14% of AUM and this level should grow marginally over the coming months.

Tunis: investing in the transition

We have travelled five times to Tunisia since AFRICA PICKING FUND was launched in November 2014 and met with close to half of Tunisian listed companies. Tunisia counts 84 listed companies with a total market capitalisation of $7Bn. The weak macroeconomic environment contrasts with the good operational performance of most of the listed companies. At the end of Q1 2019, inflation came in at 7%, unemployment at 15%, the trade deficit at -11.2% of GDP. The economic outlook is concerning due to the rising energy bill the public deficit with public payroll accounting for close to half of the budget. To curb inflation and meet IMF demands, the central bank has hiked interest rate by one point of percentage up to 7.75% during. In total, rates were raised by 3 points of since January 2017.

Despite this poor macro outlook, the uptake in tourism, the dynamism of the agricultural sector and increased investments should lead to Tunisia GDP growth of 2.7% in 2019 (vs 2.5% in 2018). In addition, government's fiscal reforms are starting to pay off (increases in VAT, dividend tax and stamp duties as well as a one-off contribution from financial institutions).

Listed companies are showing resilience in this challenging environment. In 2018, total profits increased by 17%. The main winners are those whose revenues are generated in foreign currencies (OTH, LAND'OR, ICF, UNIMED, SOTUVER) which benefited from the dinar depreciation (-15.5% vs the € in 2018 and -44% since the end of January 2011). Other companies also performed well: those who combine strong local demand and leadership positions and able to raise prices (SOTIPAPIER, SFBT, PGH, SAH).
Your management team continues to favour such type of companies. At end-March, Tunisia accounts for 11% of the AUM and this share should marginally increase over the coming months.

MTI Group, a huge potential in electronic payments

Established in 1992, MTI is one of the largest non-food retailers in Egypt with 40,000 point of sales. Most of its portfolio consists of Electronics (2/3 of revenues with brands such as SAMSUNG, HUAWEI or FREETEL). Other segments are Telecommunications with VODAFONE voice & data airtime revenue, and Automotive via the exclusive dealership of luxury brands such as LAND ROVER, BENTLEY, JAGUAR and as well as few agricultural vehicles.

MTI was IPOed on the Egyptian stock exchange in mid-June 2017 at 6EGP / share and the share price tripled in less than a year. We took advantage of the recent share price correction following the difficulties faced by SAMSUNG in 2018, to become a shareholder of this retailer with strong growth potential.

The exclusive distribution of BOSCH products in Egypt will be one of the group's strong growth drivers. These products are duty free which makes them very price competitive vs Chinese products which face an import tax rate of 16%.

Most of the group's growth lies in electronic payments. MTI holds 55% of EBTIKAR FOR FINANCIAL INVESTMENT (the rest is held by B INVESTMENTS, a local PE firm) which controls a leading electronic payments provider, Microfinance businesses, as well as leasing, factoring and debt collection services. In numbers, EBITKAR is EGP16Bn of revenues in 2018 for an average of 2.2m transactions per day. It could generate a net profit of EGP500m within 3 years vs 100m today.

When profits reach that target, MTI GROUP plans to take EBTIKAR public at a valuation of 20/25x earnings, which implies an equity value of 10 to EGP15Bn. MTI's stake would be worth 5 to EGP7Bn in such a scenario, vs the group's current market capitalisation of EGP5.8 Bn.

All in all, MTI Group is a smart growth play with a lot of hidden value in the balance sheet and a very attractive valuation at 0.5x 2020e sales and 12.5x earnings. The CEO was the first employee of the group and certainly knows the business inside out.

At end-March, MTI accounts for 3,5% of our AUM and is one of the strongest convictions of AFRICA PICKING FUND.

SOTIPAPIER, Printing paper money

Founded in 1981 and listed in 2014, SOTIPAPIER (Société Industrielle du Papier et du Carton) is a Tunisian company specialised in wrapping paper production: Kraft (cardboard made from new fibre), Testliner (made from recycled fiber) and Cannelure (made from half chemicalsand half new fibre).

At the beginning, the company was entirely held by its founders. In 2012, they decided to open the capital and sold 70% to the investment bank SWICORP. They latter appointed M. Philippe Lacoste as CEO, whose priorities were increasing productivity and reducing energy costs helped by his 25 years' experience in the business. Under his leadership, the group invested TND40m between 2014 and 2018 to update production lines, cogeneration and even used paper collection. Over that period, SOTIPAPIER increased its revenues from TND63m to TND106m, and its net profit from TND3,7m to TND13m.

This strong momentum should be sustained as the Tunisian and African wrapping papers market are structurally underserved. The continent offers significant development potential for the group which plans to leverage the TND depreciation and the integration of Tunisia to ECOWAS, to export its products to Western Africa countries.

The group's goal is to generate 20% of revenues in exports. A way to diversify the client base, but also and specially to hedge against TND depreciation against USD and EUR. These two currencies accounts for 80% and 20% respectively of paper pulp imports.

In a mid to long term horizon, SOTIPAPIER has the means to become an integrated regional player and may come under the radar of bigger names in the industry: MONDI, SMURFIT KAPPA or even DS SMITH. In this industry, M&A transactions are priced at around 11x EBITDA while SOTIPAPIER was trading 6,5x as of end march.

In addition, investments over the last 4 years period lead to significant improvements in governance, social impact and energy consumption.

So many reasons that make SOTIPAPIER a strong conviction of AFRICA Picking Fund, at 3,5% of the AUM.