Market Update
30 September 2020

Local Economy

In the wake of the ramifications of the COVID-19 outbreak, the confinement of the population, the closing of our borders and the challenging global conditions, real GDP growth in Mauritius is projected to contract by around 13% in 2020. However, the level of uncertainty around the growth outlook remains exceptionally high, with the actual outcome likely to hinge on the depth and breadth of the sanitary and economic crisis globally as well as the effectiveness of support and stimulus measures adopted by the authorities locally. Almost all economic sectors are likely to be affected by both the direct and multiplier effects of the pandemic and economic crisis, with a pronounced downturn also expected in SMEs.

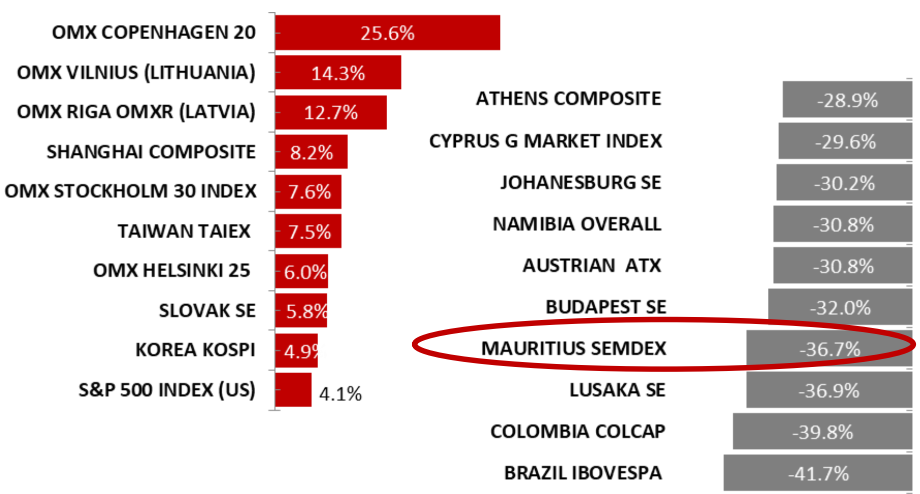
Against this backdrop, pressures would be exerted on nationwide investment levels and net employment creation, while fiscal metrics would be impacted by dampened revenue collection amidst the difficult context and higher expenditures linked to support measures. As for headline inflation, after remaining very low for quite some time, it pursued a gradual uptrend to stand at 1.8% in August 2020. On the external front, despite support measures announced in the Budget and the downward pressures on the value of the rupee, exports of goods are foreseen to fall by a notable margin this year against the backdrop of the significant economic slowdown in our export markets in the wake of the pandemic. Thus, in spite of some relief conveyed to the import bill by lower international oil prices and the reduction in business operations locally, the balance of trade deficit is forecast to deteriorate further. Overall, after making allowance for the significant decline in tourism earnings, the current account deficit is set to breach into double-digit territory this year. Capital and financial flows would also be lower, with the Balance of Payment, in all likelihood, moving in the negative territory for the first time in nearly 15 years.

Local Equities

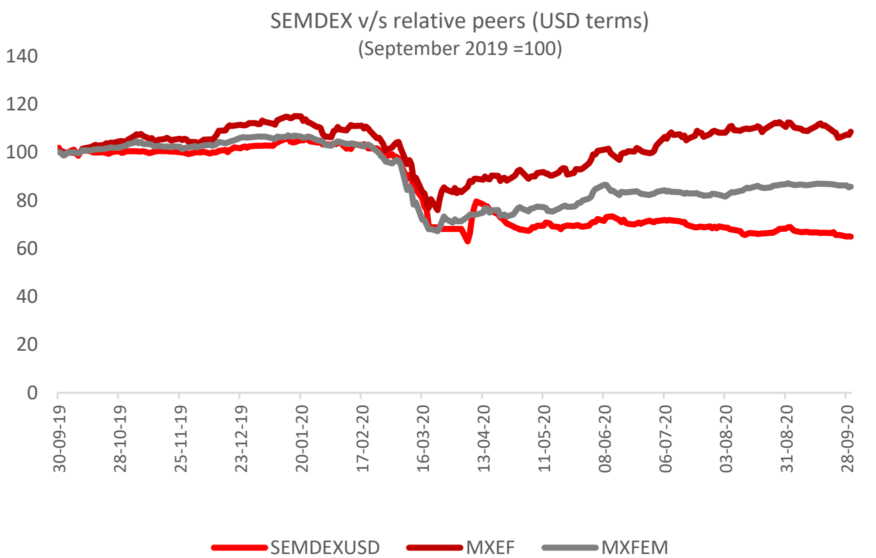
The negative economic impact and uncertainties linked to COVID-19 continued to weight on our local bourse in 3Q20. Indeed, after a mild rebound in 2Q20, the quarter under review saw the benchmark index SEMDEX slide 9.3% (YTD -30.7%) to settle at 1,507 points, a mere 3.6% from its trough of April 2020. SEM-10 dropped 10.9% (YTD -35%) as the larger cap, more liquid companies fare worse than smaller peers.

The SEMDEX underperformed peers in the quarter and YTD compared to broad indices MSCI Emerging Markets Index (+8.7% in 3Q20, YTD -2.9%) and MSCI Frontier Emerging Markets Index (+3.8% in 3Q20, YTD -19.6%) as SEMDEX in USD terms trended lower over 3Q20 (-8.6%; YTD -36.7%) despite MUR slight appreciation against the USD by 0.25% in the quarter (-9.6% YTD though). Overall YTD, the SEMDEX is one of the 5 worst performers among global equity indices in USD terms.

World Equity Indices – Best & Worst performing (YTD)



Local Equities



Looking ahead, 4Q20 and subsequent quarters will be challenging as Mauritius embark on a progressive opening of its borders and the world remain under the specter of a COVID-19 second wave. Mauritius officially entered the EU black list on 1 October 2020 with Government officials and industry leaders striving to meet the requirements which would allow Mauritius to be taken off the list in early/mid 2021.

Persistent divestment on the SEM by foreign investors amongst others will continue to weigh on local investor sentiment in the near term which should result in a muted performance of the equity market for the last quarter of 2020.

We therefore maintain our cautious stance for our local investments whilst screening for discounted opportunities.

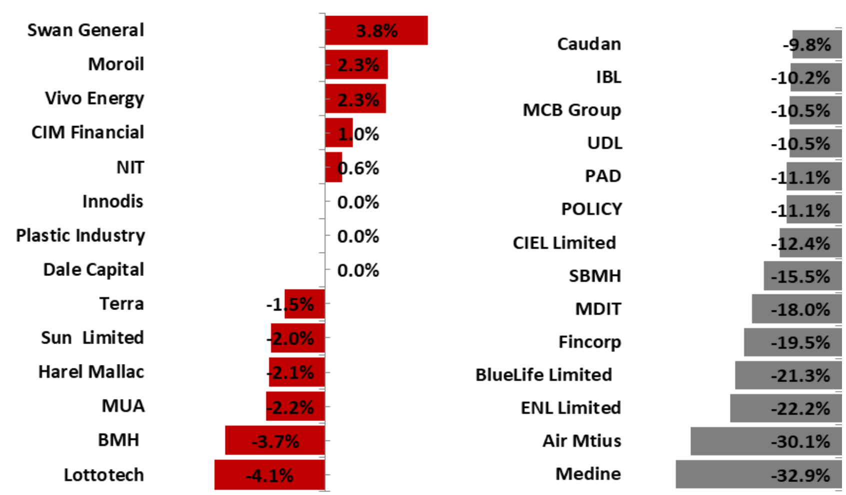
Local Equities

During the quarter, Net Foreign Investor (NFI) outflows on the market gained steam to reach MUR615m compounding downward pressure on the SEMDEX. On a YTD basis, NFI outflow reached MUR1.3bn, a 4-year high. NFI outflows on MCBG in the quarter more than doubled as compared to 2Q20 resulting in foreign investor shareholding dropping to 11.8% (from 24% in September 2014).

In terms of SEMDEX (3Q20 -9.3%) performance attribution over 3Q20, MCBG (3Q20 -10.5%), the largest capitalization stock contributed to 3.1% in the negative performance of the index, followed by IBL 1.8% (3Q20 -10.2%) which is the second largest capitalization. The latter stock dropped 19.6% on a YTD basis faring better than other conglomerates Ciel (3Q20 -12.4%, YTD -45.5%) and ENL (3Q20 -22.2%, YTD -46.2%).

Only 5 gainers were registered during the quarter: Swan (3.8%), Moroil (2.3%), Vivo (2.3%), Cim Financial (1.0%) and NIT (0.6%) against a plethora of losers with laggards being Medine (-32.9%), ENL (-22.2%), BlueLife (-21.3%), Fincorp (-19.6%) and MDIT (-18.0%).

Top gainers and laggards – 3Q20



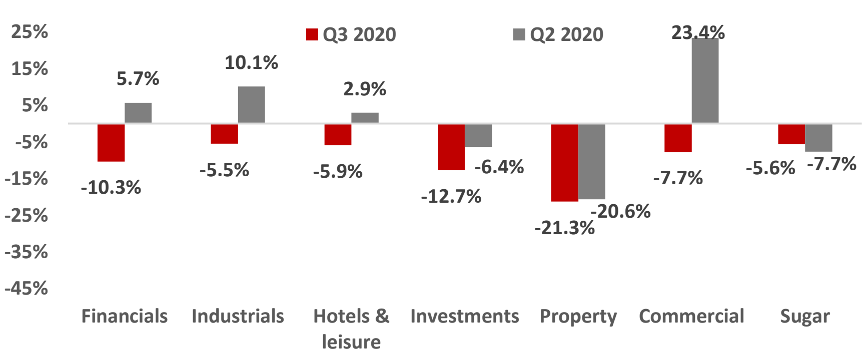
Local Equities – Sector Review

All sectors posted losses in the quarter. Financials dropped 10.3% predominantly because of MCBG (-10.5%) and SBMH (-15.5%) as IBL dragged Commercials -7.7%. Sugar related stocks plummeted further, led by Medine (3Q20 -32.9%, YTD -54.0%), ENL (3Q20 -22.2% YTD -46.2%), Ciel (3Q20 -12.4%, YTD -45.5%), Alteo (3Q20 -4.6%, YTD -13.4%) and Terra (3Q20 -1.5%, YTD -3.3%).

Hoteliers remained under pressure as the uncertainties linger on the timing, modality and tourist response of the re-opening of borders. NMH (3Q20 -8.9% YTD -63.4%) and SUN (3Q20 -2.0%, YTD -51.3%) continue their negotiations with the Mauritius Investment Corporation (MIC) for funding to ensure their short/medium term financial stability.

LUX (3Q20 -7.5%, YTD -47.3%) has agreed a rescue package with the MIC for up to MUR1.0bn in the form of redeemable convertible secured bonds with full terms yet to be disclosed. LUX has 9 years to pay back the bonds with the option to redeem at any time prior to maturity. Failing which, the bonds will be converted to shares at a conversion price of around MUR33.40. The funding will be used principally for working capital requirement of LUX in Mauritius and payment of interest to commercial banks. The bonds are secured by a floating charge over the assets of the company and rank after all existing charges.

Sector Performance



Portfolio activities - Equities

As foreign investors disinvest and local investors remain in a risk off mode, local equities prices have slumped YTD, and in our view, opening some pockets of value for long term investors especially in the current low yield environment. We maintain a cautious stance given the many headwinds, so we are building positions in small tranches.

During the quarter, we accumulated **MCBG** (YTD -33.8%) at MUR210-Rs214 level in anticipation of dividend and on financial strength, its diversified income sources and strong capital base. Even though, MCBG did not declare any dividend following a late recommendation from the Bank of Mauritius (BoM), we remain confident on soundness of the investment over the medium term.

We also bought **CIM Financial** (YTD -15.8%) based on its growth potential and measured risks in the consumer credit space especially in this particular economic environment. At 60% discount to NAV, we built on our position in conglomerate **Ciel** (YTD -45.5%) at what we view as attractive entry prices after discounting distressed subsidiaries as a consequence of the pandemic such as SUN and Ciel textile.

Corporate News

For its FY ended 30 June 2020, **MCBG**, announced a profit attributable to equity holders of MUR7.9bn which was MUR1.6bn lower relative to FY19, as its net impairment of financial assets rose sharply by MUR3.5bn (+218% y-o-y) predominantly related to higher forward-looking credit risks engendered by the COVID-19 crisis. Notwithstanding this, operating profit before impairment rose by MUR1.4bn (+11.4% y-o-y), underpinned by an improved net interest income (+11.2% y-o-y). The Group also witnessed a drop in its cost-to-income ratio, from 37.1% to 35.5%. However, as opined by management, operating results are likely to be down in FY21 due to restrained business activities, dampened investor confidence as well as squeezed margins, although they expect the group's international businesses to remain resilient.

Corporate News

As at 30 June 2020, MCB Group continued to maintain comfortable capital buffers with its BIS and Tier 1 ratios standing at 18.6% and 17.2% respectively. In line with the Bank of Mauritius guideline, MCBG will not declare ordinary shares dividend till at least early 2021.

Alteo, for its part, reported a lower loss attributable to equity holders of MUR102.3m for FY20 (FY19: loss of MUR821.3m), notably due to one-off asset impairment charges in the sugar and energy clusters in the previous year. The sugar cluster reported marked improvement from Mauritian operations, as losses dropped from MUR744m to MUR341m year on year. However, its Kenyan operations saw losses after tax rising to MUR427.2m (+93.0% y-o-y), impacted mainly by lower production and sales volumes, coupled with lower average price.

With expected enhanced cane availability in FY21, management expect this will be beneficial for Kenyan operations overall. Tanzanian operations, for their part, are expected to see improvements over FY21 with early signs of a good crop with higher yields. The property segment, which was impacted by delays in the finalizations of sales deeds for serviced plots at Anahita, is expected to witness revenue generation from the reservations secured prior to lockdown, assuming that there will not be any further delay in sales finalization.

Commercial stock **Innodis** saw its profit attributable to equity holders shrink to MUR56.1m (-49.8% y-o-y), on the back of lower operating profit (-14.7% y-o-y) as well as higher net finance costs (+67.7% y-o-y). On the bright side, group revenue was nonetheless higher, albeit marginally, by MUR84.2m (+1.9% y-o-y), and operations in Mozambique saw a turnaround, with profits reaching MUR3.4m for the FY, against a loss of MUR21.2m in FY19. Group operations are expected to remain under stress given the disruptions arising from the Covid-19 pandemic, according to management.

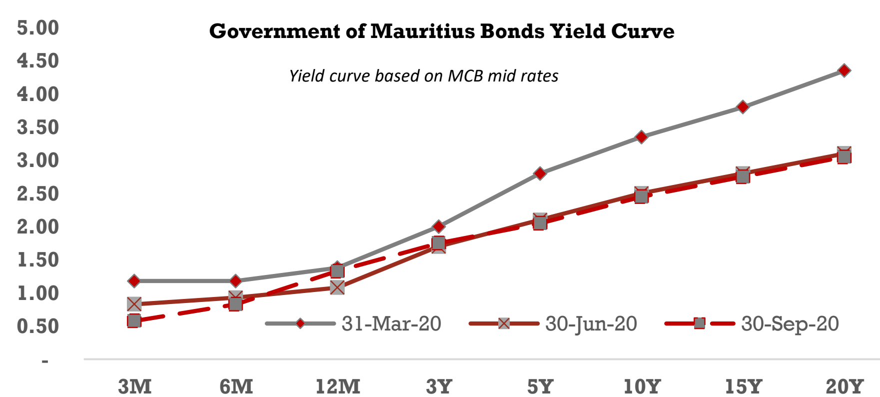
As a large number of companies have requested extension for the publication of their full year results to June 2020, the extent of the impact on earnings and dividend of the COVID-19 remains to be seen.

Fixed Income

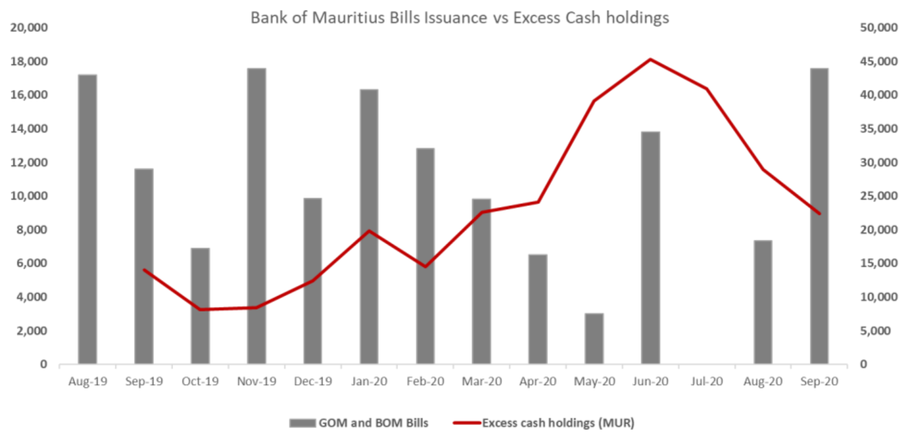
On the fixed income front, in 3Q20 the Bank of Mauritius (BoM) proceeded with several issuances on short and medium term papers in its dual attempt to lower the level of excess cash holdings in the banking system and raising funds for its one-off grant of MUR60bn to the government for economic stabilization. Indeed, the level of MUR-denominated excess cash holdings in the banking system came down sharply from MUR45.3bn as at 18 June 2020 to MUR22.4bn as at 24 September 2020, reaching pre-lockdown levels for the first time.

Indeed over 3Q20, the BoM proceeded with gross issuances of MUR48.2bn, notably MUR24.9bn in bills and MUR23.3bn in medium-term notes. The increased number of issuances in the short-term bracket and the decreasing level of excess cash holdings helped push yields on 364-Day bills higher, relative to 2Q20, and around 5bps shy of those offered in 1Q20. Moreover, a mild uptrend in yields was noted for the 3yr maturities, but the long-end of the curve was more or less sticky as there was no auction in this maturity bracket.

The Monetary Policy Committee of the BoM unanimously decided to keep the key repo rate unchanged at 1.85% p.a when it last met on 23 September 2020, citing that the current monetary policy stance is appropriate.



Fixed Income



Corporate Bonds

During the 3Q20, CIM Financial raised a total of MUR3bn in a private placement as part of its second Note Programme, and offered notes in the 1 to 10 year maturity range, with proposed coupons ranging from 2.5% to 4.85% p.a. The initial tranche proposed to raise MUR2bn, but since it was largely oversubscribed, management decided to raise the maximum aggregate amount of MUR3bn as per the note programme. To note, we mostly subscribed to the 1-yr tranche for cash management purposes.

Ascencia received the approval of its shareholders on 16 September as regards its Note Programme of MUR1.5bn. The proceeds of the Note Programme would be used to finance the Bagatelle Extension and Decathlon projects. The first issue would be for a maximum nominal amount of MUR1bn and will not be listed on the SEM.

Bank of Mauritius 2020 Savings Bonds

Announced as part of the Covid-19 support measures taken by the BoM, the subscription to the 2.5% 2020 Bank of Mauritius Savings Bonds has been further extended from 23 September to 31 December 2020. As per the latest report from the BoM, the amount of subscriptions stood at MUR1.4bn as at 25 September 2020, short of its target of MUR5bn.

Portfolio Activities – Fixed Income

As yields remained relatively low on treasuries and in the absence of regular issuances across medium and long-term treasury bonds, we invested in few listed corporate bonds from strong issuers – MCBG, SBMH and IBL – all with less than 4 years remaining to maturity.
In addition, we have introduced MCB Preference Shares in balanced portfolios as they attracted a yield of 4.0% - 4.2% dividend yield at prevailing prices.

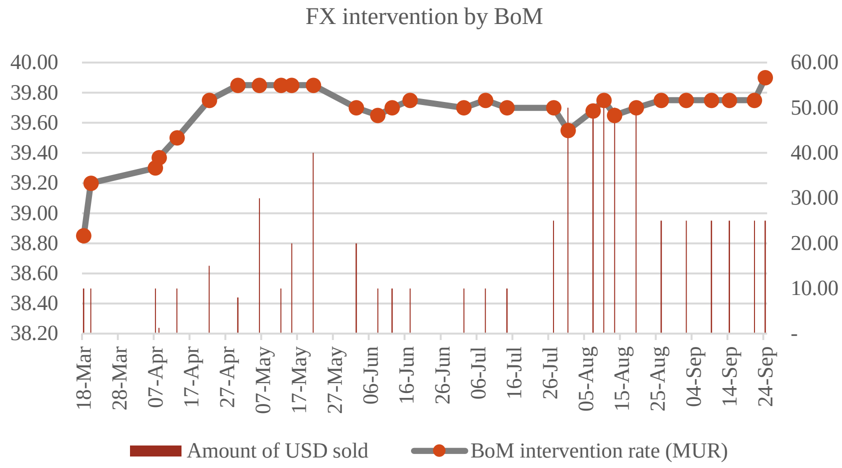
Fixed Income & FX

Relative to 2Q20, both EUR and GBP have appreciated vis a vis the MUR by 4.1%. This takes the tally for the appreciation of EUR and GBP to 15.0% and 7.1% respectively since the start of the year.

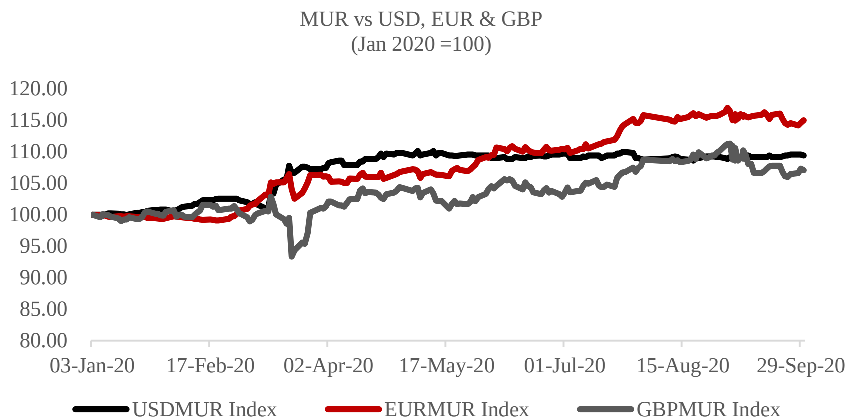
Notwithstanding this trend of MUR versus its major trading currencies, it was rather resilient against the USD and in fact appreciated by 25bps against the USD over 3Q20 (YTD -9.6%). This resulted predominantly from regular interventions in USD by the BoM on the domestic foreign exchange market, whereby it sold a total of USD455m in the quarter under review. More so, the range of the USDMUR intervention rate was between MUR39.55/USD to MUR39.90/USD over 3Q20, with the modal intervention rate being at MUR39.75/USD.

Fixed Income & FX

Bank of Mauritius intervention in domestic forex market



Performance of MUR against major trading currencies



**An increase in the index implies a depreciation in MUR vs the pairing currency*