

# Financial Market Update

| Week ending 26 February 2021



## Financial market highlights for the week ending 26 February 2021

The following highlights compare the week ending 26 February 2021 to the week ending 19 February 2021:



### Government securities (Source: RBM)

- A total of K11.84 billion was allotted during this week's Treasury Bill (TB) auctions.
- There were nil rejections in the TB auctions.
- The average all type TB yield maintained its position at 12.18% during the period under review.



### Equity market (Source: MSE)

- The stock market was bullish this week as the MASI increased to 33,009.75 points from 32,733.47 points in the previous week. This was due to share price gains in FDH Bank (to K16.60 from K14.44) and FMBCH (to K27.10 from K27.09) which offset share price losses in Airtel (to K27.98 from K27.99) and NICO (to K51.98 from K52.00).
- The return on MASI (year-to-date) was 1.90% compared to negative 3.60% during the same period in the previous year.
- Illovo plc expects Profit After Tax (PAT) for the half year ending 28 February 2021 to be higher than the previous corresponding period by at least 60%. Half year PAT was K2.05 billion in 2020 and it is expected to be at least K3.28 billion in 2021.



### Currency market (Source: RBM)

- Based on middle rates, the Kwacha marginally depreciated against the USD by 0.25% to K786.78 per USD from K784.79 per USD.
- Based on middle rates, the Kwacha also marginally depreciated against the GBP (to K1,160.09 per GBP from K1,145.41 per GBP), EUR (to K1,013.06 per EUR from 1,005.63 per EUR), and the ZAR (K57.59 per ZAR from K57.24).



### Financial market developments (Source: RBM)

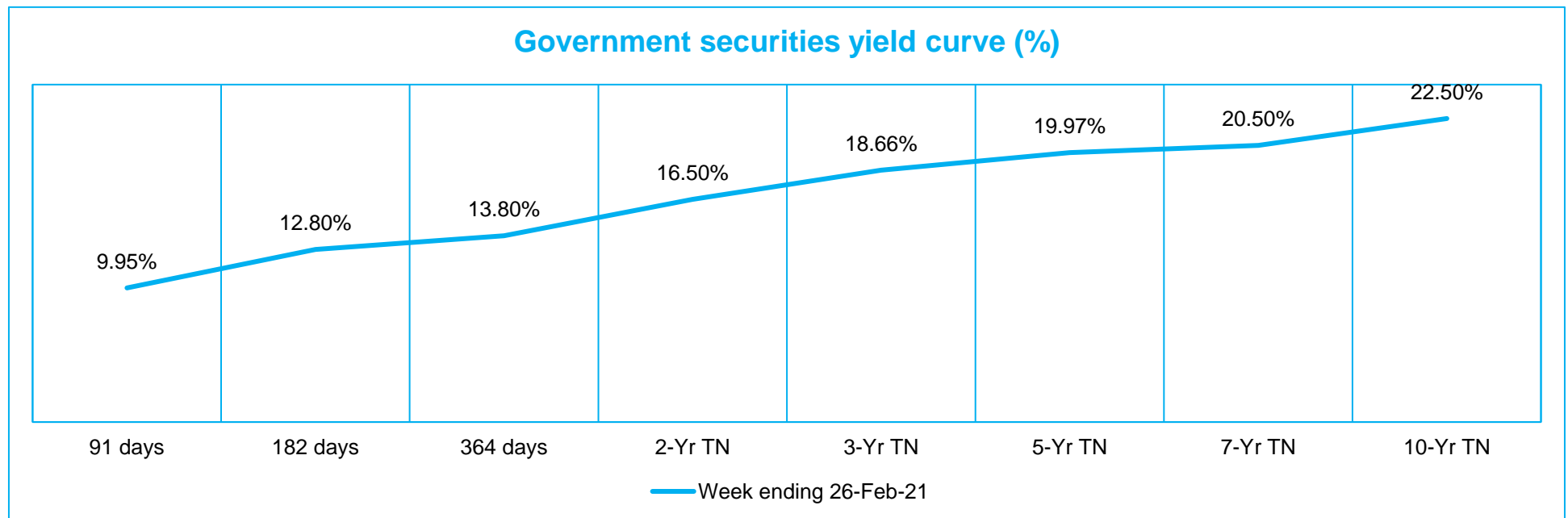
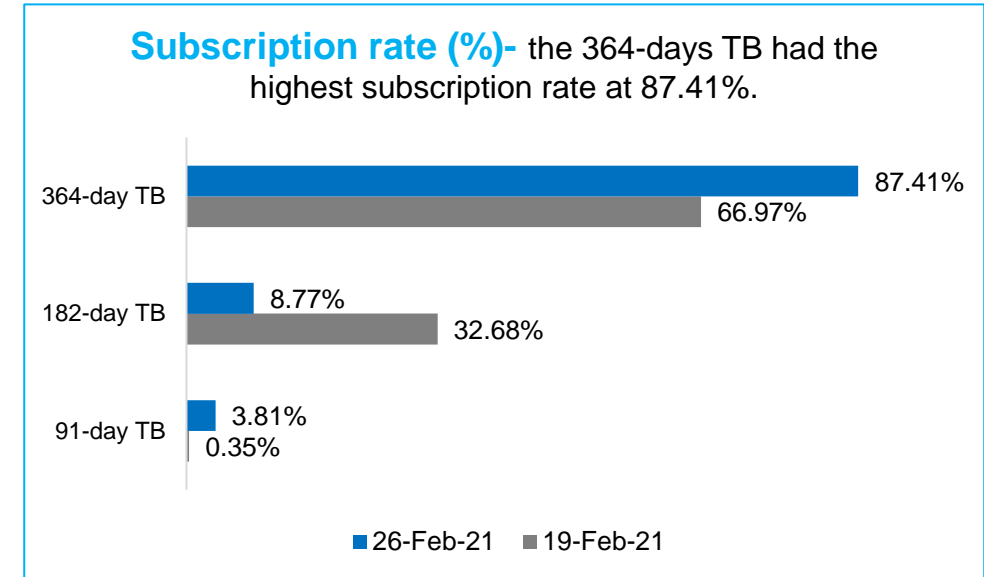
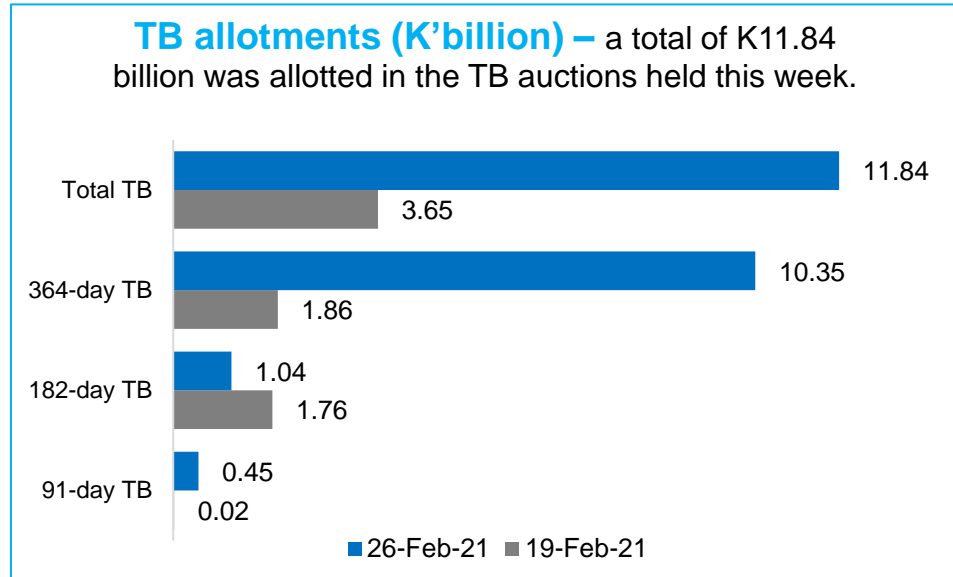
- The average overnight interbank rate increased to 11.06% from 10.57% in the previous week.
- The headline inflation rate for January 2021 was 7.7% compared to 7.6% recorded in December 2020. The national food and non-food inflation rate is 9.7% and 5.6%, respectively. The increase in headline inflation is on account of an increase in non-food inflation (transportation).
- The overall budget deficit during the first half of the year was K351.0 billion which is marginally higher than the planned first half deficit of K348.3 billion, due to more than expected disbursements of project loans.



A total of K11.84 billion was allotted during this week's Treasury Bill (TB) auctions.

The average All type TB yield maintained its position at 12.18% during the period under review.

**Government securities (Source: RBM)**

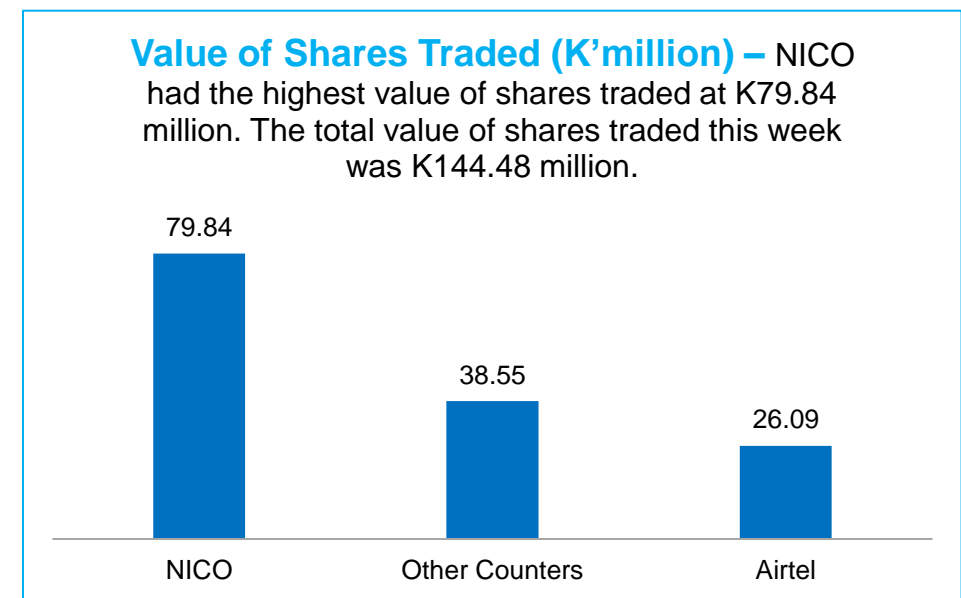
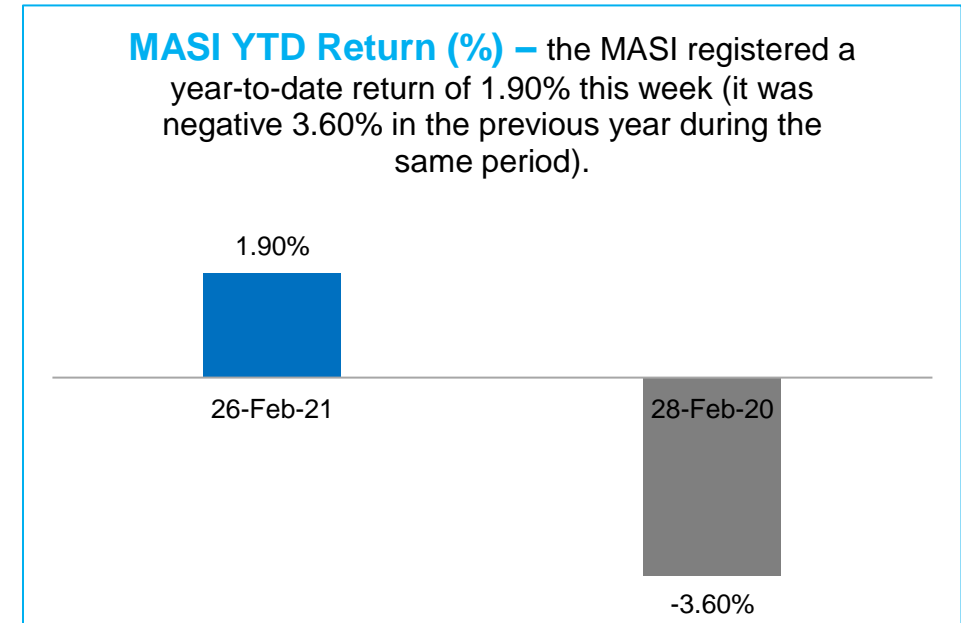
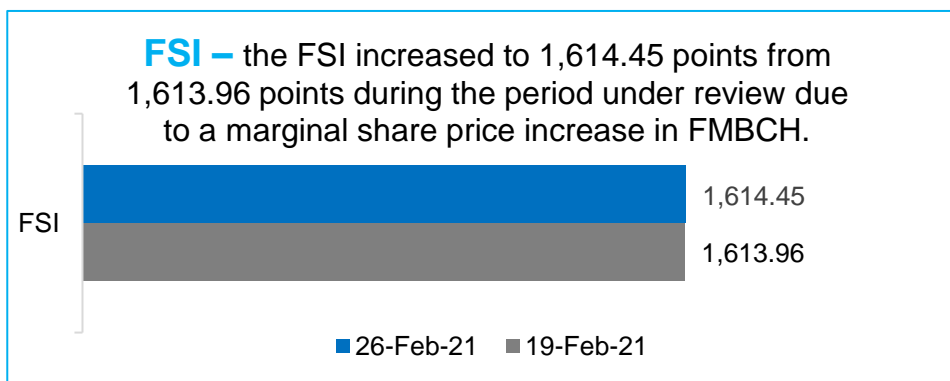
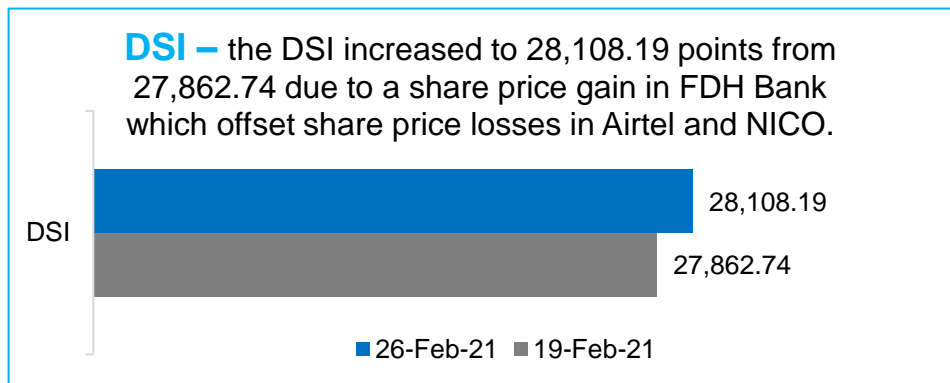
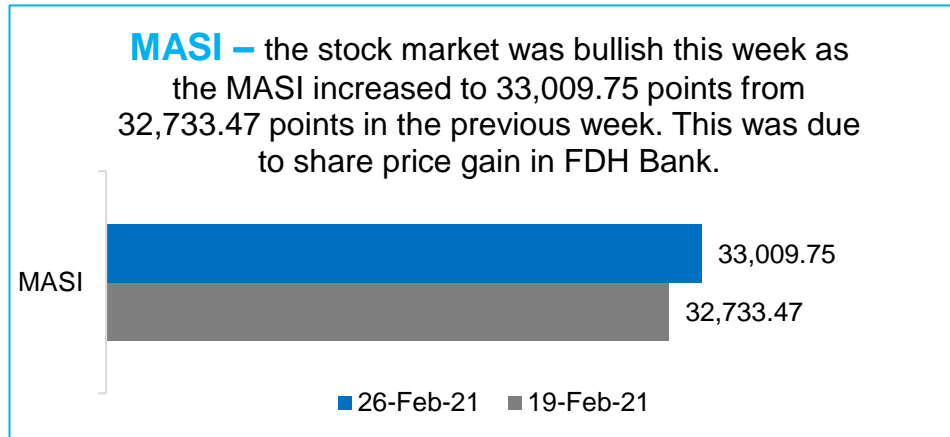


TB - Treasury Bill  
TN - Treasury Note



## Equity market (Source: MSE)

*The stock market was bullish this week as the MASI increased to 33,009.75 points from 32,733.47 points in the previous week. This was due to share price gains in FDH Bank and FMBCH which offset share price losses in Airtel and NICO. Year-to-date MASI increased by 1.90%.*

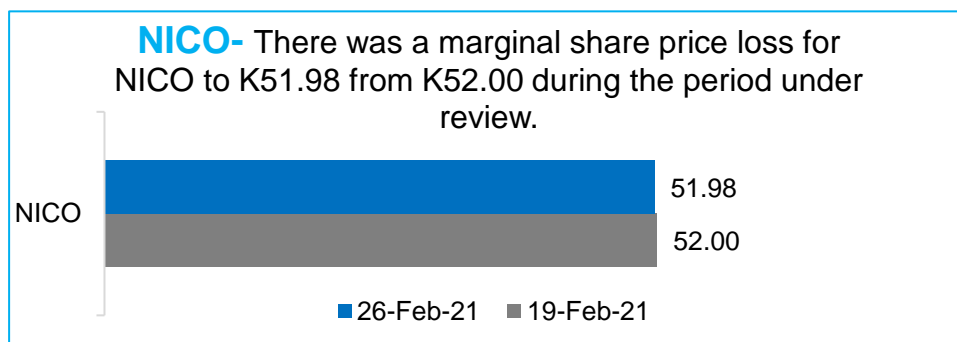
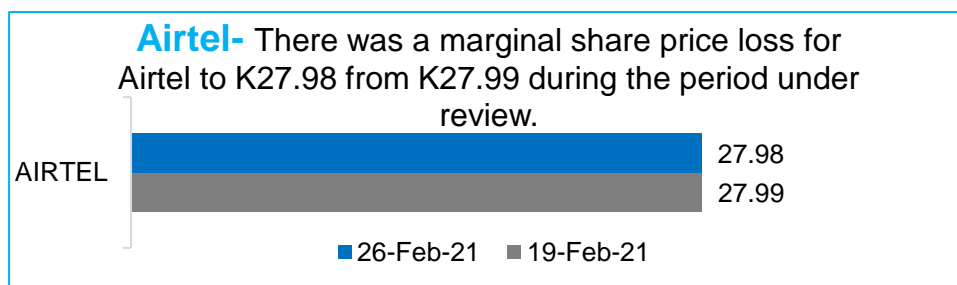
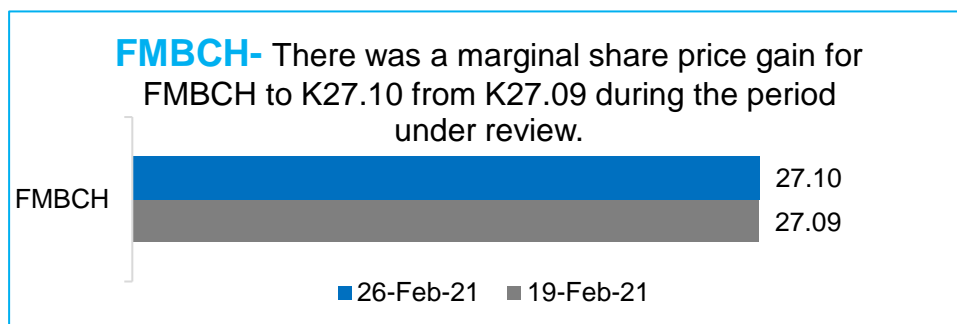
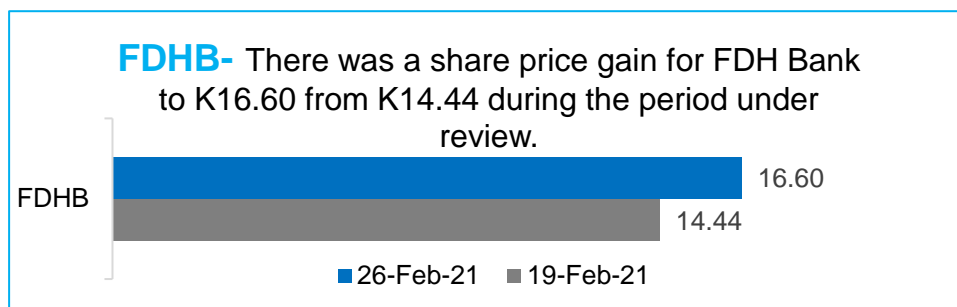


MASI: Malawi All Share Index  
DSI: Domestic share Index  
FSI: Foreign share Index



There were share price gains for FDH Bank (to K16.60 from K14.44 ) and FMBCH (to K27.10 from K27.09) during the period under review. There were share price losses Airtel (to K27.98 from K27.99) and NICO (to K51.98 from K52.00).

## Equity market (Continued)



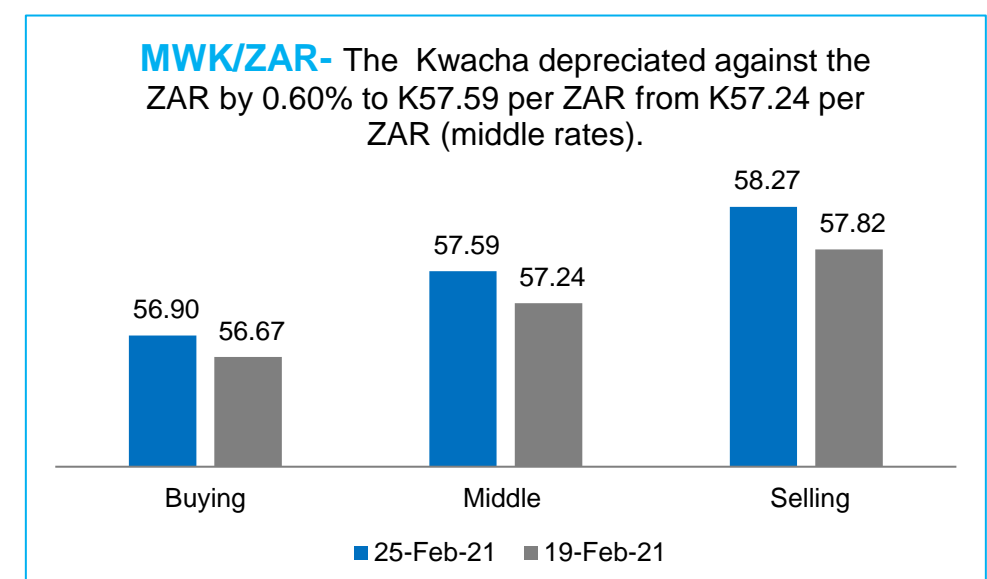
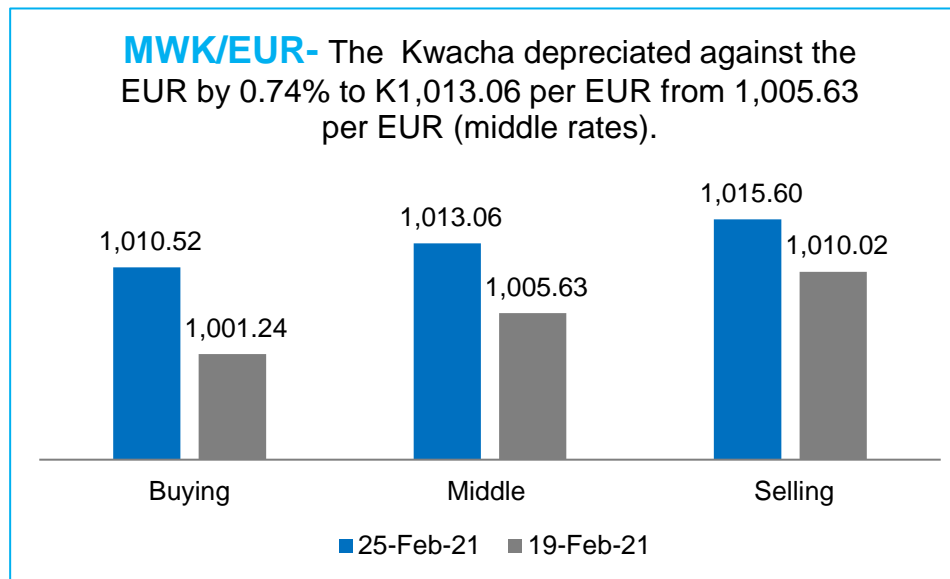
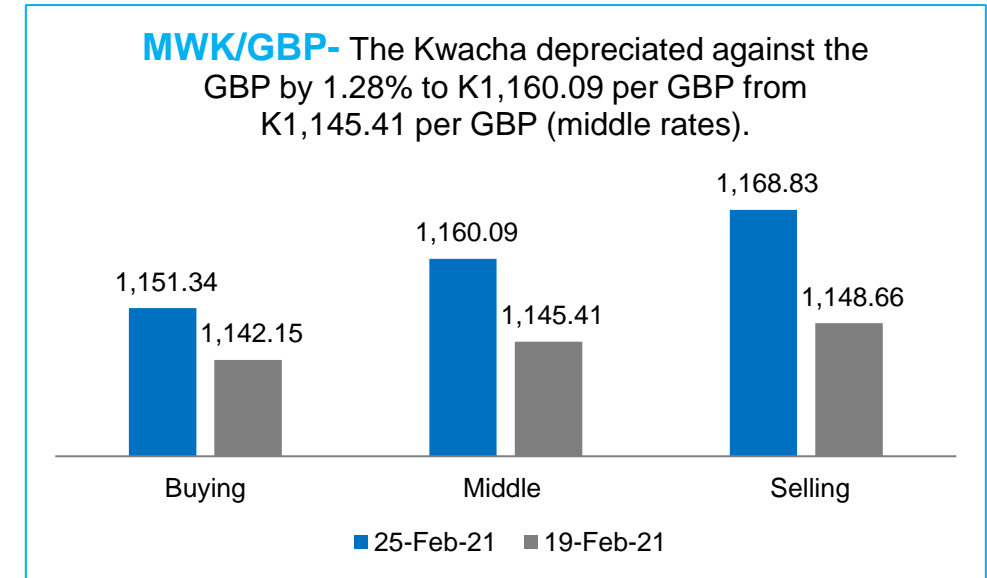
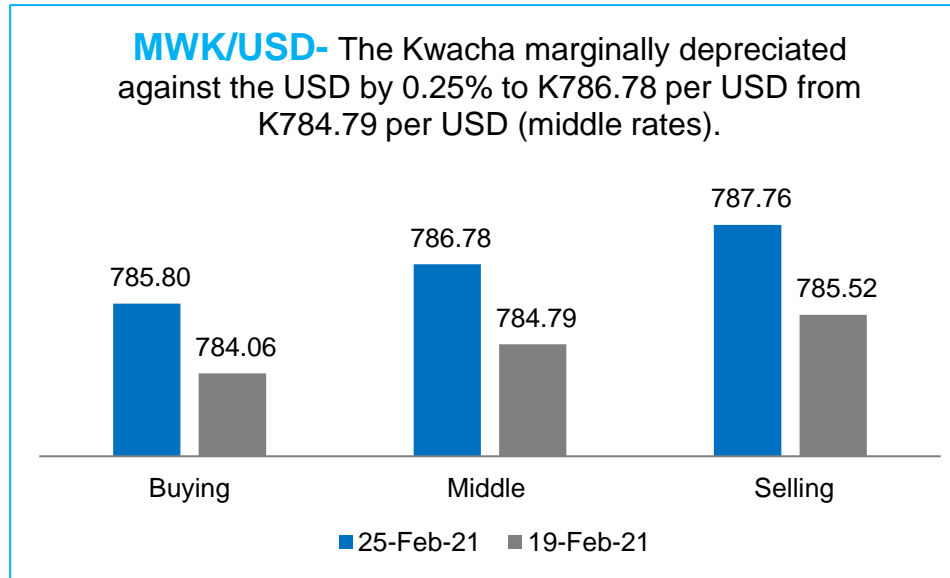
The other counters closed at the same prices as the previous week. Their closing prices are shown in the table below:

No.	MSE Code	Share Price (K)
		26-Feb-21
1	BHL	11.00
2	ICON	12.20
3	ILLOVO	80.47
4	MPICO	20.93
5	NBM	650.00
6	NBS	20.45
7	NITL	94.94
8	OMU	2,199.00
9	PCL	1,199.97
10	STANDARD	1,200.02
11	SUNBIRD	90.00
12	TNM	19.38



## Currency market (Source: RBM)

Based on middle rates, the Malawi Kwacha marginally depreciated against the USD by 0.25% to K786.78 per USD from K784.79 per USD.

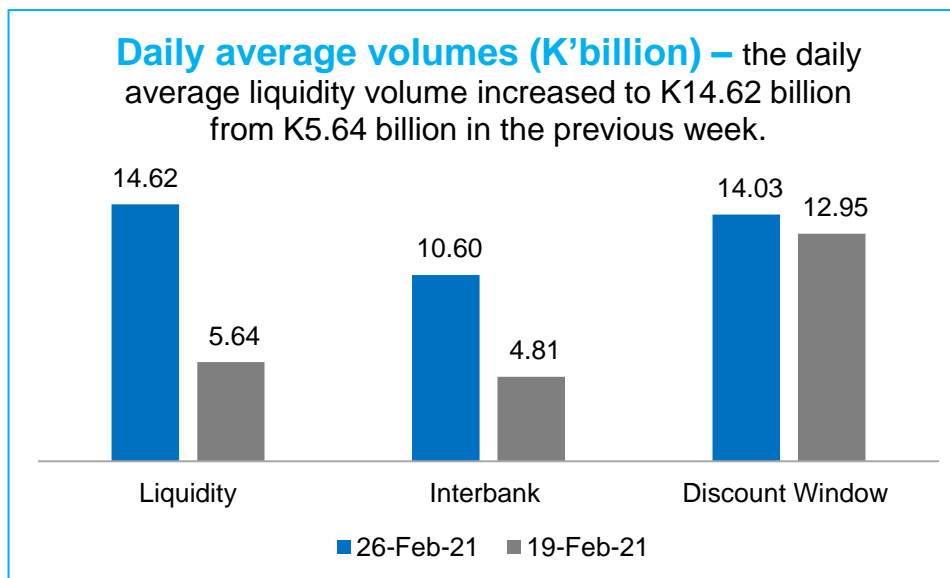
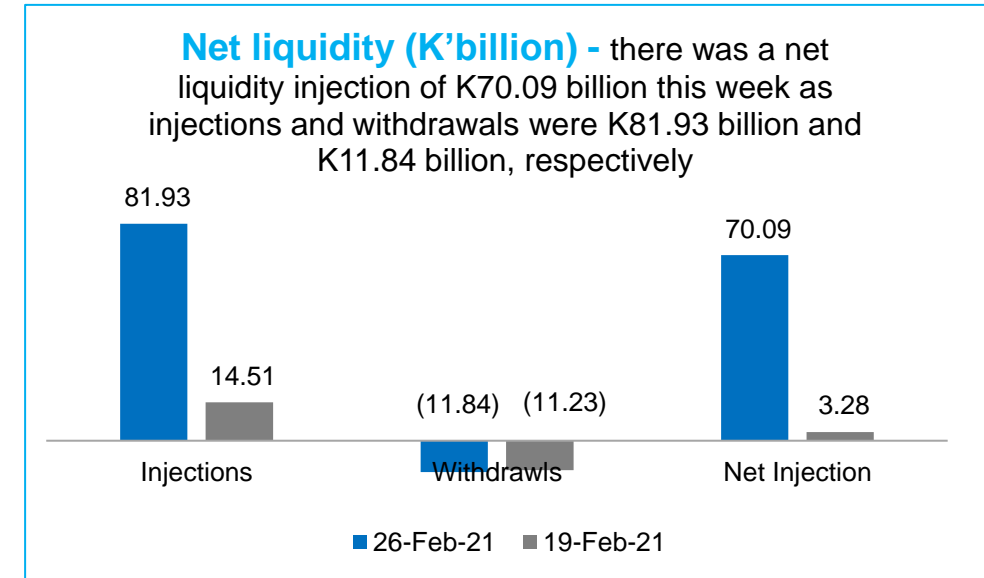
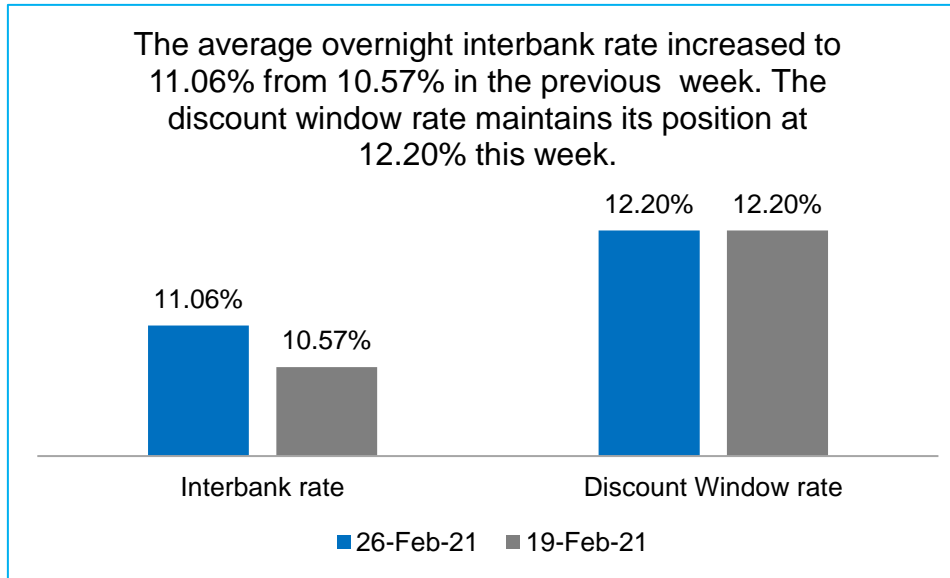


*NB: The reported closing rates are actual trade-weighted market average Telegraphic Transfer rates.*



## Other financial market developments (Source: RBM)

*The average overnight interbank rate marginally increased to 11.06% from 10.57% in the previous week.*

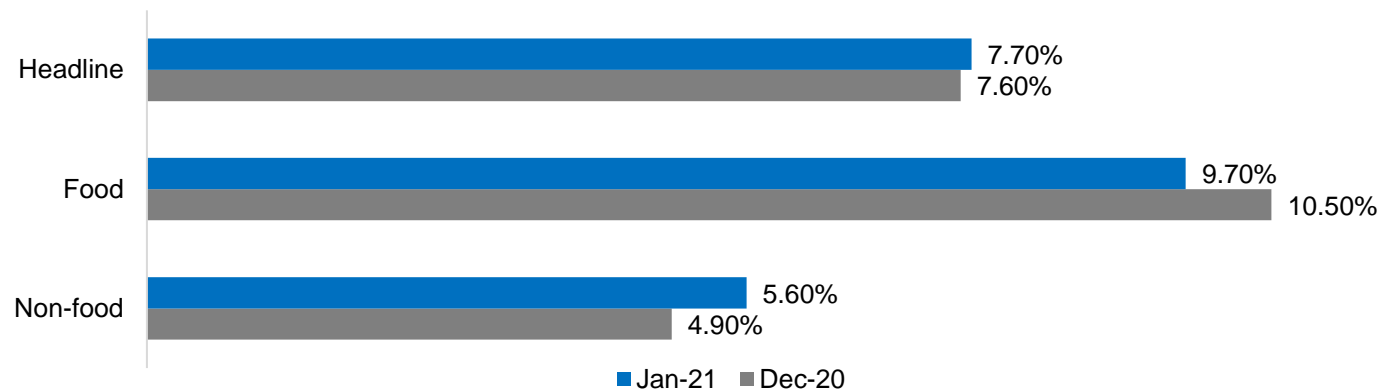




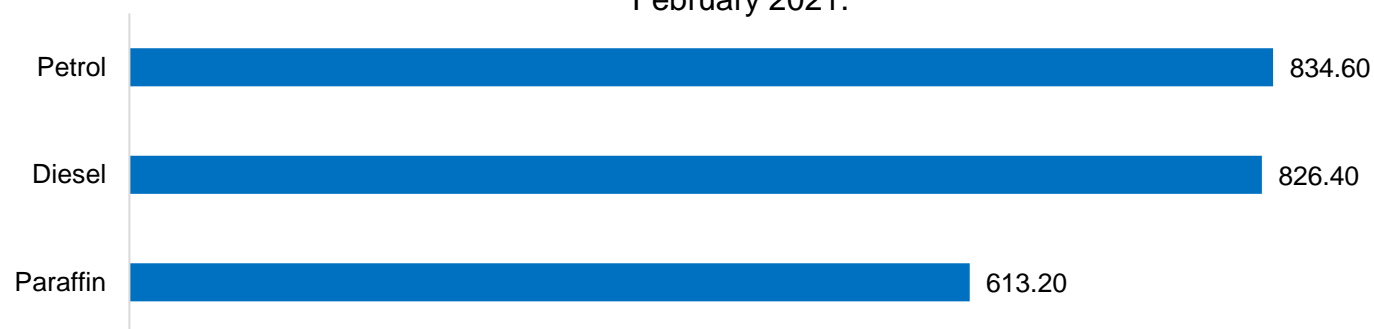
## Other financial market developments (Source: NSO & MERA)

*Headline inflation for January 2021 averaged to 7.7%. The headline inflation rate was 7.6% in December 2020 and 11.10% in January 2020.*

**Inflation January 2021 (%)**- Headline inflation for January 2021 was 7.7%. It was 7.6% in December 2020 and 11.10% in January 2020. The national food and non-food inflation rate was 9.7% and 5.6%, respectively. The increase in headline inflation is on account of an increase non-food inflation which was led by the following categories: Transportation, Miscellaneous and Alcoholic drinks and Tobacco at 9.3%, 7.1% and 6.4%, respectively.



**Fuel prices (Kwacha per litre)** - After considering the negative economic impact that the COVID-19 pandemic has had on consumers' spending power and that higher fuel prices may exacerbate the situation, the MERA Board has decided to maintain the fuel pump prices from their last revision following their review on 19 February 2021.







*The preliminary GDP growth rate for 2021 is forecasted at 3.5%. This is largely on account of the normal to above normal rains. Growth in 2021 will also be significantly bolstered by the expected increase in agriculture output due to the impact of Affordable Inputs Program (AIP).*

## Mid-year review budget statement 2020/21 (Source: Government of Malawi)

### Highlights from the 2020/2021 Budget Statement set in August 2020

Based on the 2020/2021 Budget Statement, government approved total expenditure and net lending of K2.190 trillion, while inflows of revenues and grants were approved at K1.435 trillion, giving a total financing requirement of K755.1 billion. Of this financing, K530.4 billion was planned as net domestic borrowing, while K224.8 billion was projected as net foreign financing. On 26 February 2021, the budget performance was reviewed and below we summarise some of the key areas.

### Assumptions of the Mid-year Budget review for 2020/21 fiscal year

The budget in the current fiscal year has been revised based on the following major assumptions:

- i. A projected GDP growth rate of 0.9% in 2020 and 3.5% in 2021;
- ii. An average inflation rate of 8.0% during the fiscal year; and
- iii. A Policy rate of 12.0%
- iv. Seasonal patterns of some activities such as the Affordable Inputs Program (AIP), slow start of new projects during the first half of the year as well as the need to balance revenue inflows against expenditure outlays were also considered.

### Economic developments in Malawi

- Economic growth in 2021 and beyond is dependent on how fast the second wave of the pandemic dissipates
- As the economy continues to suffer from the adverse effects of the coronavirus pandemic Malawi's international economic activities have been hampered by border closures in neighbouring countries as well as containment measures in major trading partners such as South Africa, Europe and China.
- The preliminary GDP growth rate for 2021 is forecasted at 3.5%. This is largely on account of the normal to above normal rains that this country has received so far, although localized dry spells are being experienced in some districts mostly in the southern and eastern regions of Malawi. Growth in 2021 will also be significantly bolstered by the expected increase in agriculture output due to the impact of AIP.
- The country's trade balance continues to worsen. As at end December 2020, trade deficit widened to US\$566.7 million from US\$352.8 million recorded during the same period in 2019. This is mainly on account of increased imports of items for Covid-19 management as well
- Annual average headline inflation for 2021 is projected at 7.4%, with a December 2021 inflation projection of around 7.0%.



*Government, through Ministry of Lands has commenced the construction of the promised 10,000 houses for security institutions. In the first half of the 2020/2021 fiscal year, K4.6 billion was released to Ministry of Lands to start construction of these houses.*

## Mid-year review budget statement 2020/21 (continued)

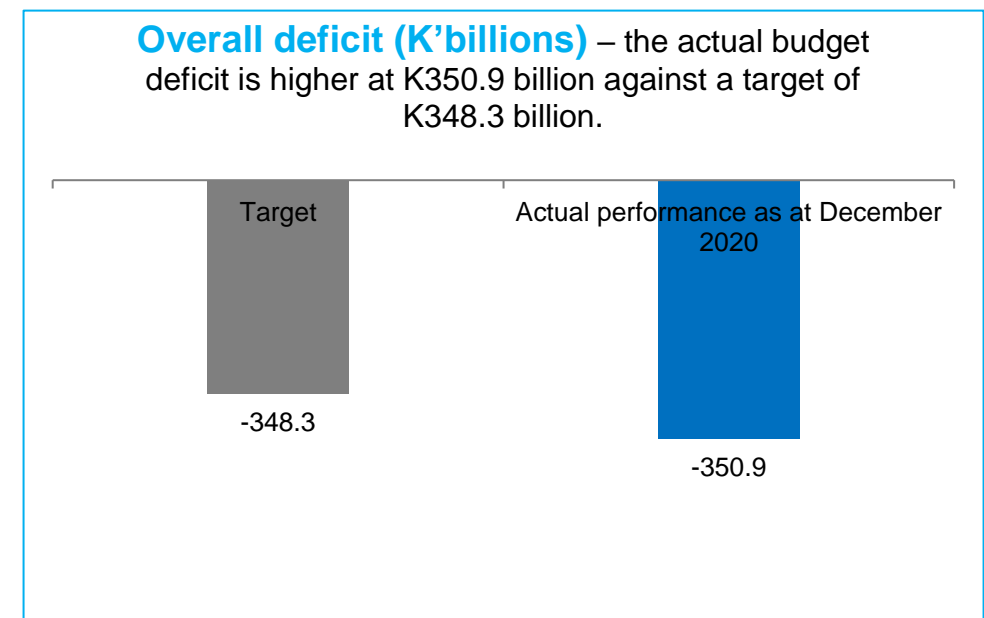
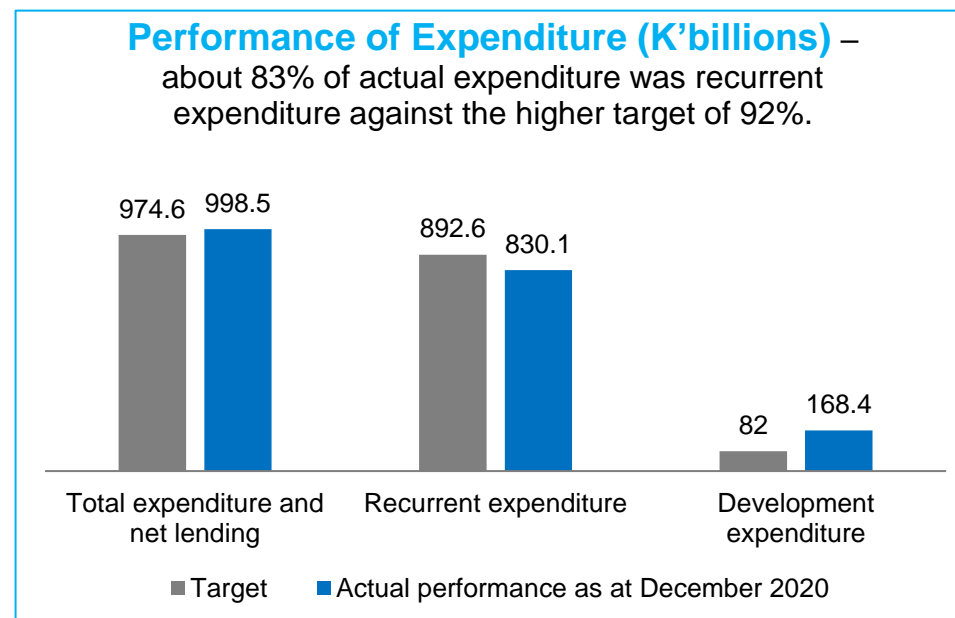
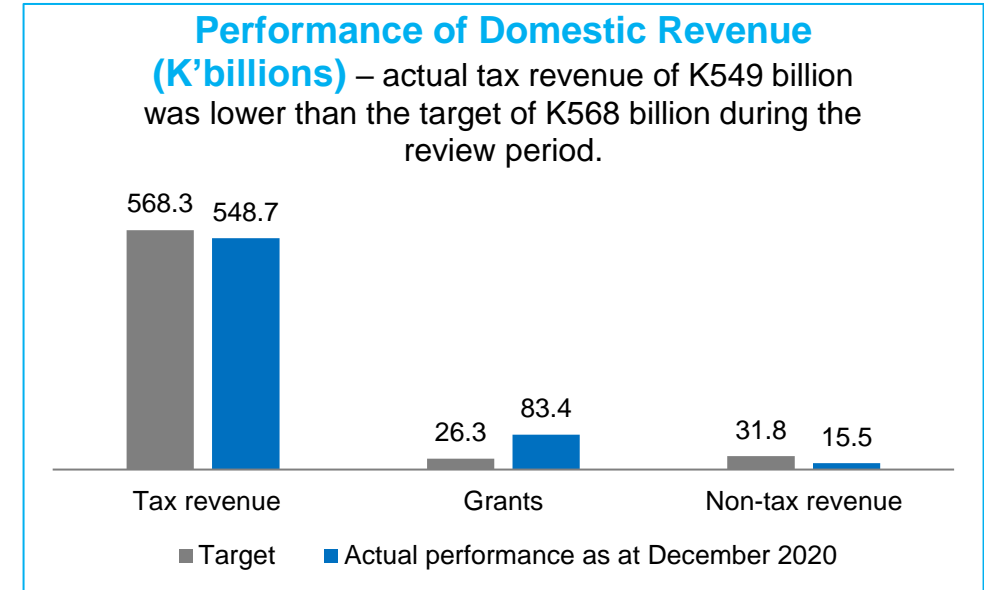
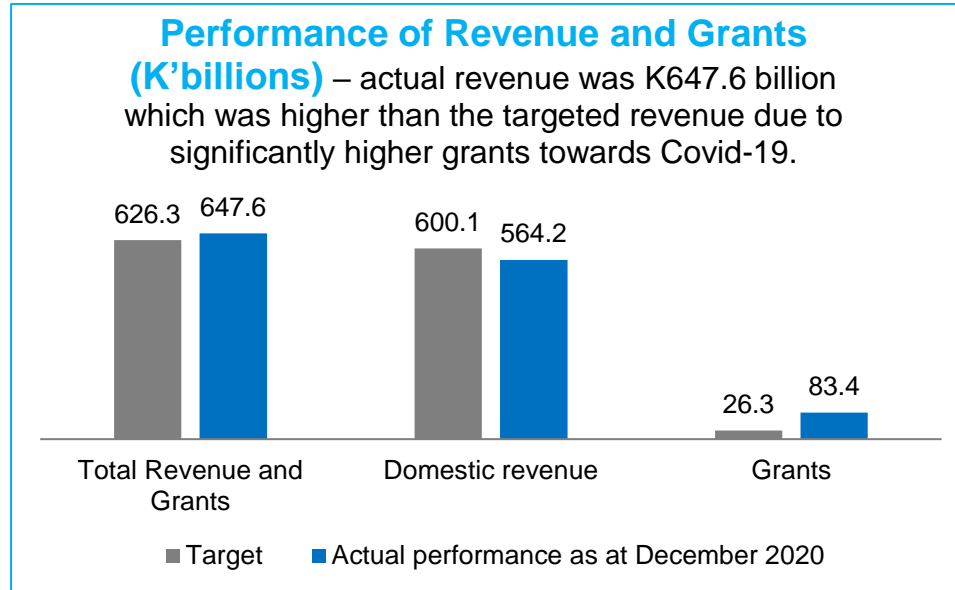
### General policy issues from the 2020/2021 mid year budget statement review

- **Rebranding Malawi Enterprise Development Fund (MEDF)-** The Malawi Enterprise Development Fund (MEDF) was rebranded into the National Economic Empower Fund (NEEF) Limited in September, 2020. The total loan portfolio still stands at K40 billion and is expected to increase to K75 billion during the 2021/2022 financial year. The first phase involves disbursement of loans to groups of micro entrepreneurs. Disbursement of loans in 2021 has a target of not less than 20,000 Malawians and as at 19 February 2021, NEEF had disbursed just over K1.0 billion to about 590 loan groups across the country.
- **Financial Inclusion and Entrepreneurship Scaling Project-** Government will borrow from the World Bank, funds amounting to US\$86.0 million, or K63.6 billion for the Financial Inclusion and Entrepreneurship Scaling Project. The project's activities are structured in such a way that they aim at enhancing supply of financing liquidity and scaling up entrepreneurship skills in Malawi. The project is now effective, and the World Bank has disbursed USD15.0 million. Government, through the Reserve Bank of Malawi, is working with local banks on modalities through which Small and Medium Enterprises (SMEs) access financing. Disbursement will commence mid-March 2021.
- **Formalising the Informal Sector-** Government has made a commitment to empower informal sector entrepreneurs through cooperatives and associations to upgrade their skills and enable them produce quality products for the local and export market. In this regard, in December 2020 Government under the Public Procurement and Disposal of Public Assets Act enacted regulations to empower SMEs to participate in public procurement of goods, works, and services.
- **Malawi Sovereign Credit Rating-** Government to obtain a credit rating for Malawi as one way to facilitate the country's access to international finance. Government will proceed to obtain a private point-in-time rating which will set the ground for a public sovereign credit rating.
- **Creation of a Debt Retirement Fund-** One of the major concern in economic management of this country is the high and rising public debt stock. In order to start repaying this huge debt and reduce it to sustainable levels, Government is at an advanced stage in establishing the Debt Retirement Fund (DRF).
- **Long Term Development Bond-** Government has progressed with preparations to issue a 15-year development bond for some strategic and flagship projects. They have completed the selection of prioritized flagship projects that will be financed through the issuance of this long-term bond
- **Houses for Security Institutions-** Government, through Ministry of Lands has commenced the construction of the promised 10,000 houses for security institutions. In the first half of the 2020/2021 fiscal year, K4.6 billion was released to Ministry of Lands to start construction of these houses. Currently 231 houses are under construction in different sites across the country. Financing for this project is through a long-term development bond that was issued by Government and raised the initial required amount of K21.0 billion.
- **Free electricity and water connection-** Government is also working on a policy on free electricity and water connections. Implementation is expected to commence during the 2021/2022 fiscal year.
- **Payment of Government Arrears-** In order to support the business community during the Covid-19 pandemic period, Government has commenced payment of public sector arrears as one way of injecting the much-needed liquidity into the economy.



## Mid-year review budget statement 2020/21 (Source: Government of Malawi)

The overall budget deficit during the first half of the year was K351.0 billion which is marginally higher than the planned first half deficit of K348.3 billion due to more than expected disbursements of project loans. The deficit was financed by net domestic borrowing of K304.0 billion and a net foreign borrowing of K47.0 billion.

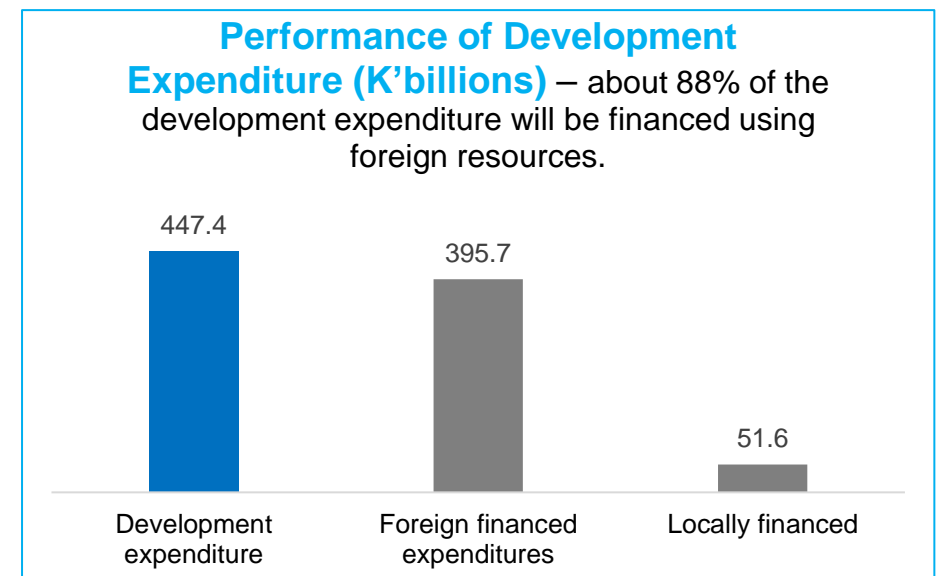
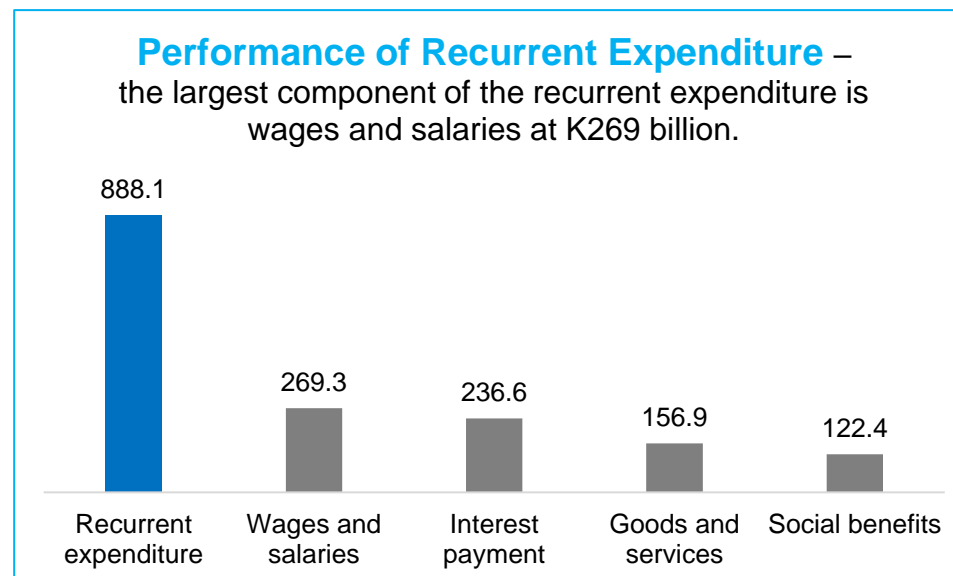
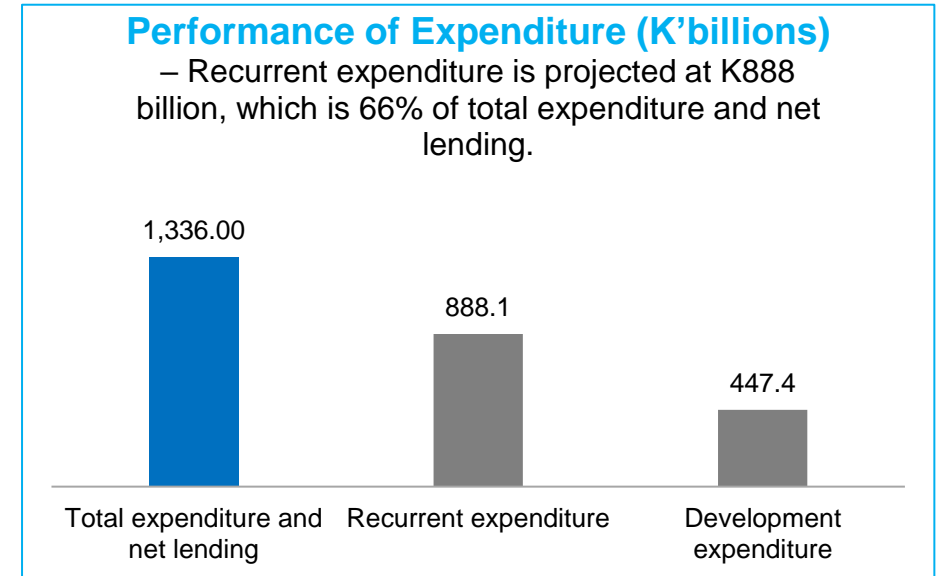
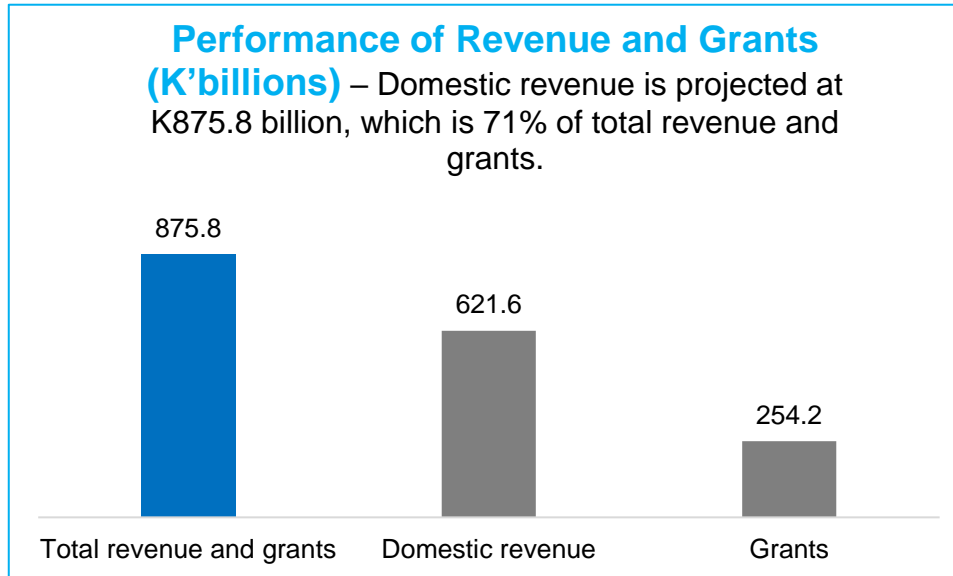




## Mid-year review budget statement 2020/21 (Source: Government of Malawi)

*Recurrent expenditure for second half of the 2020/21 fiscal year is projected at K888 billion, which is 66% of total expenditure and net lending.*

### Projections for second half of the 2020/2021 fiscal year

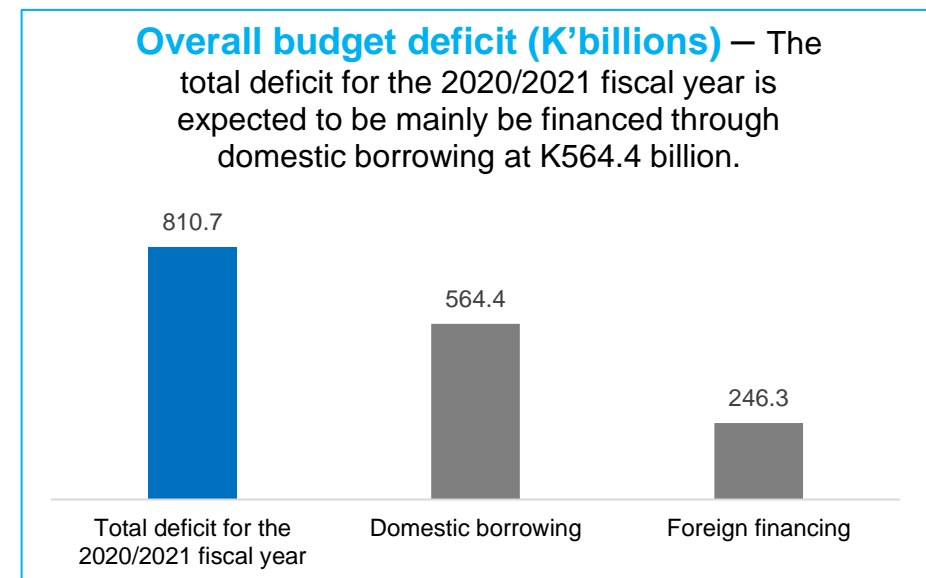
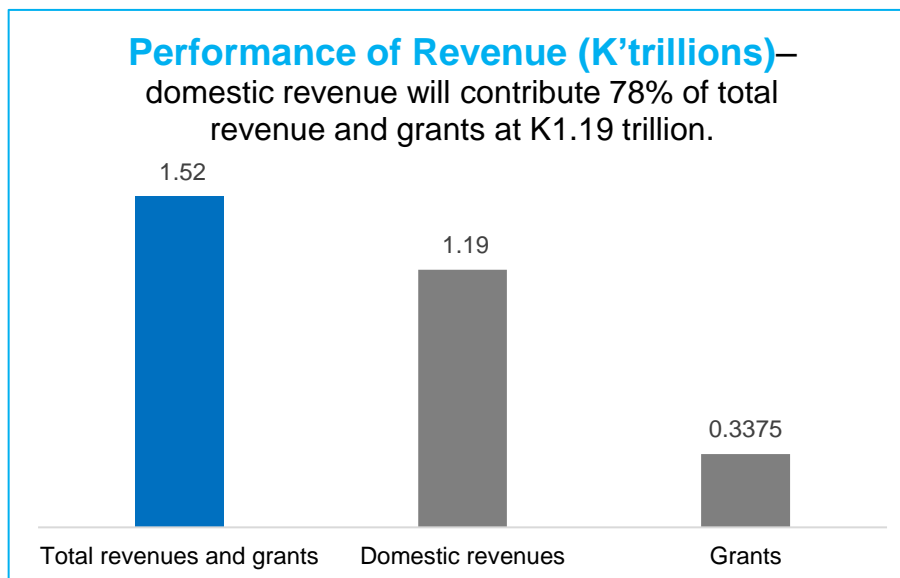
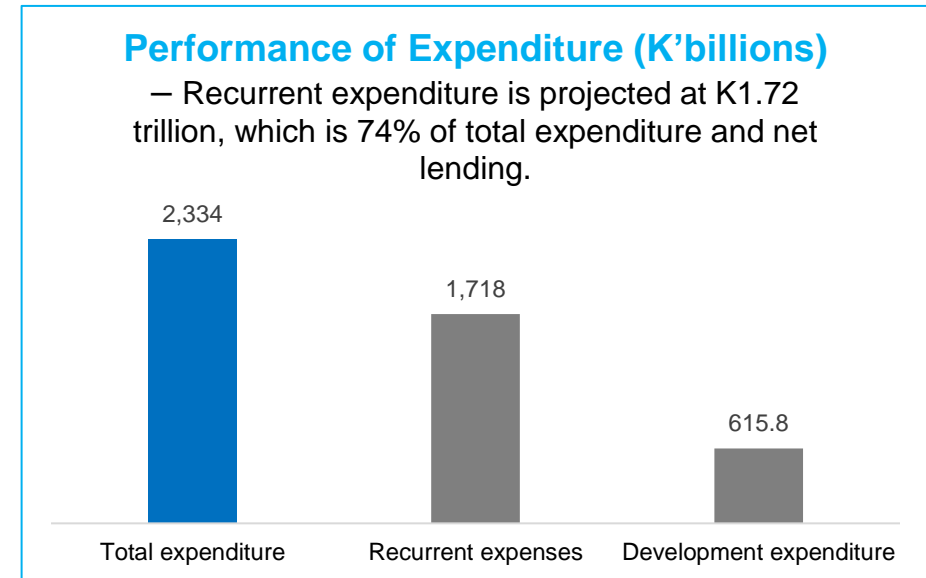
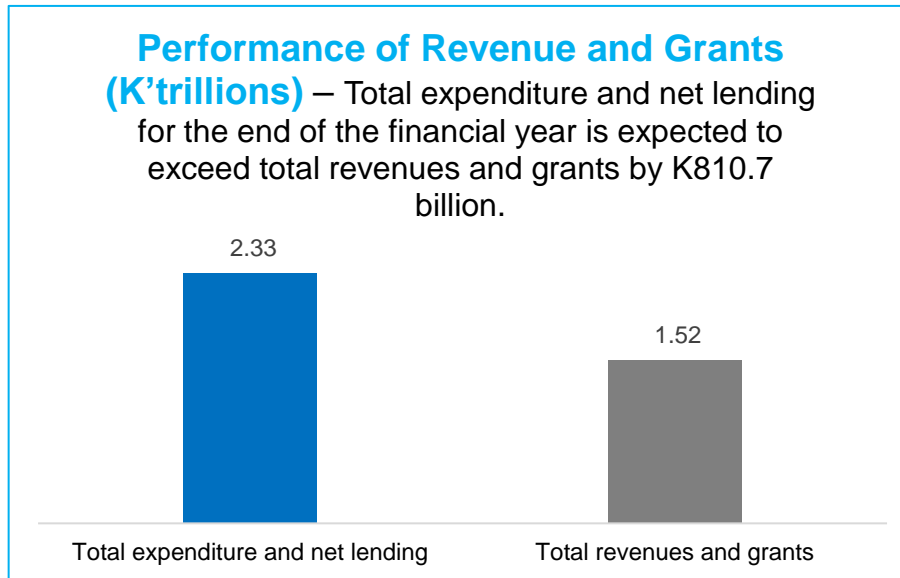




## Mid-year review budget statement 2020/21 (Source: Government of Malawi)

*The total deficit for the 2020/2021 fiscal year is expected to be K0.81 trillion. This is an upward revision from the previously projected fiscal deficit of K0.76 trillion. The deficit will mainly be financed through domestic borrowing of K0.56 trillion.*

### Projections for the fiscal year (2020/21)



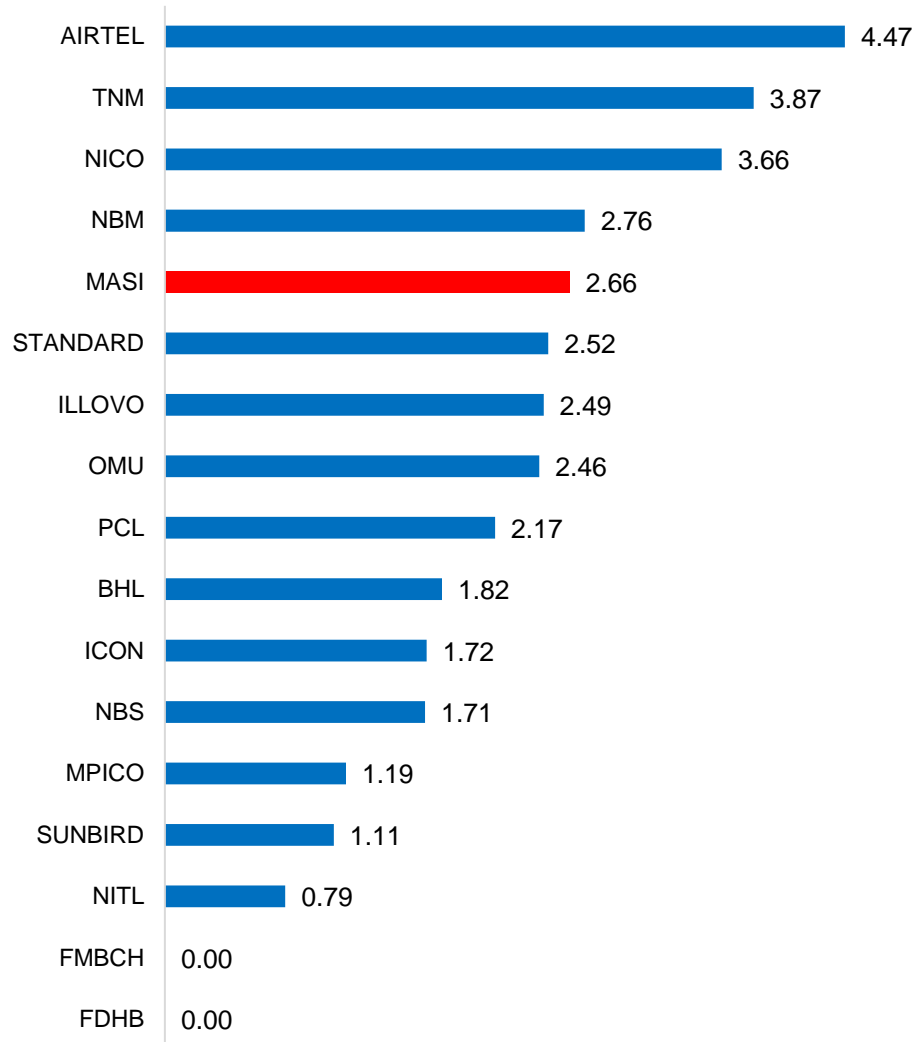
## Appendix



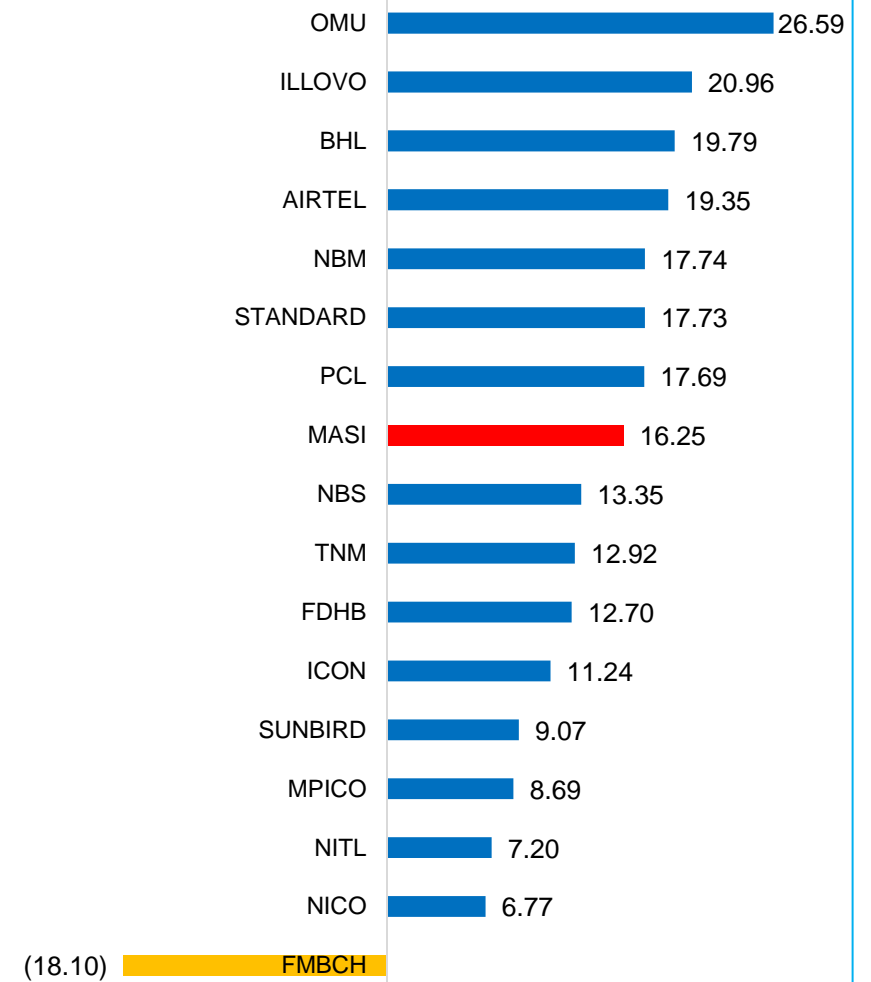
The weighted average dividend yield on the MSE is 2.66%. The MSE has a weighted average Price to Earnings ratio of 16.25.

## Appendix A - Equity market

**Dividend yield (%)** - the weighted average dividend yield on the MSE is 2.66%. The counter with the highest dividend yield is Airtel at 4.47%.



**P/E ratio** - the MSE has a weighted average Price to Earnings ratio of 16.25. FMBCH has the lowest at negative 18.10 while OMU has the highest at 26.59

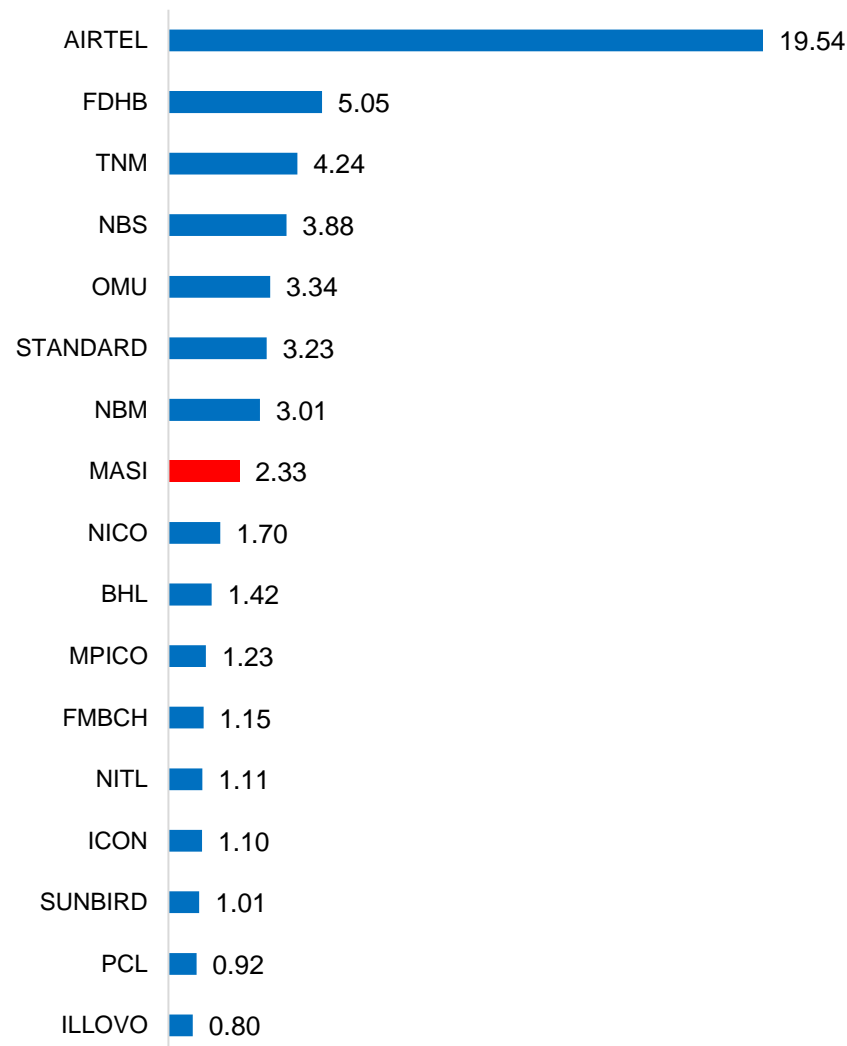




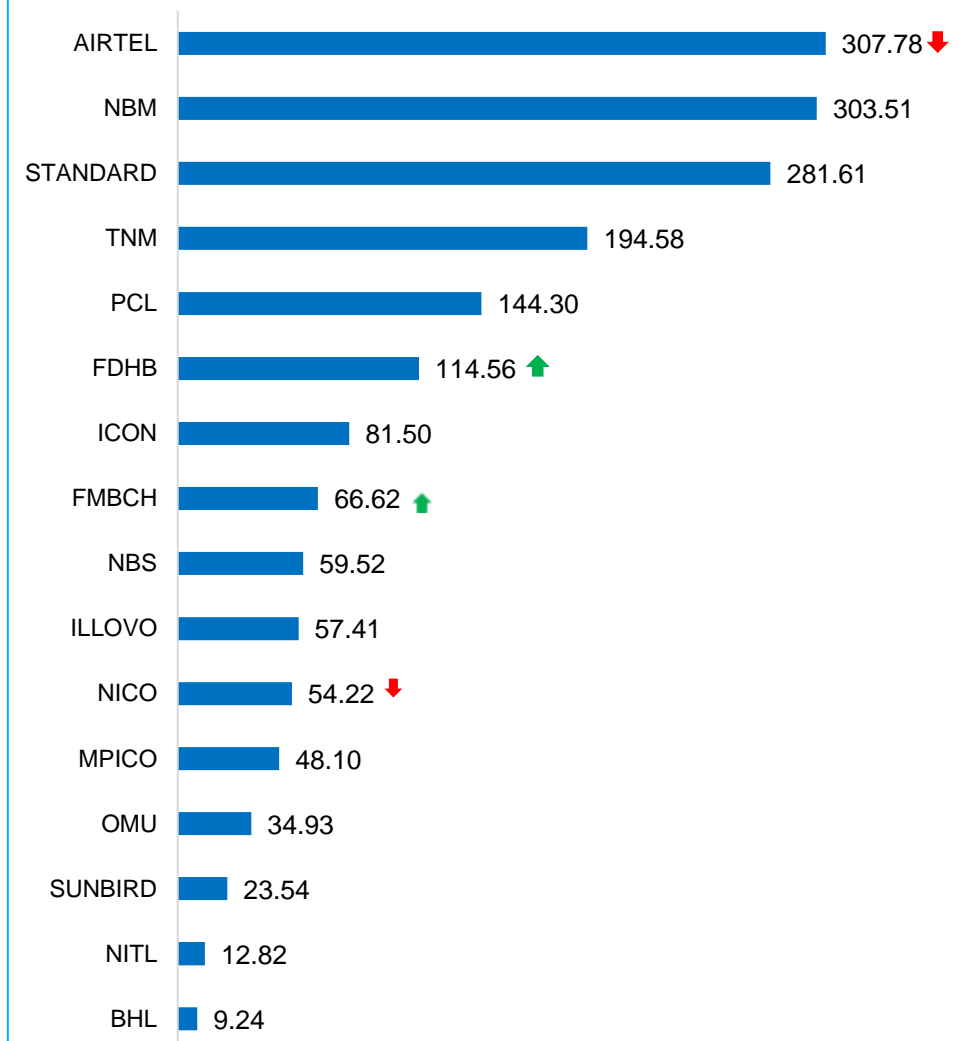
The weighted average Price to Book Value ratio on the MSE is 2.33. Airtel leads the MSE counters with a market capitalization of K307.78 billion. The total market capitalization is K1.79 trillion.

## Appendix A- Equity market (Continued)

**P/BV ratio** - the weighted average Price to Book Value ratio on the MSE is 2.33. Airtel has the highest ratio at 19.54 while Illovo has the lowest ratio at 0.80.



**Market Capitalization (K'billion)** - Airtel leads the MSE counters with a market capitalization of K307.78 billion. The total market capitalization is K1.79 trillion.



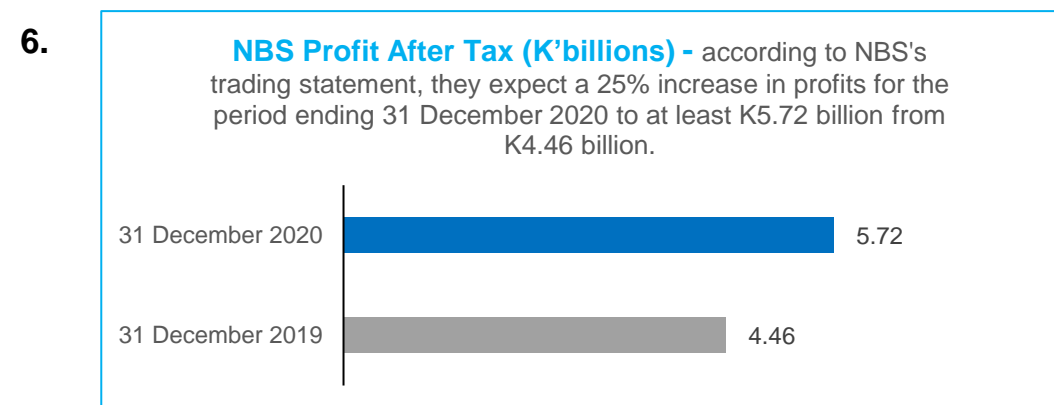
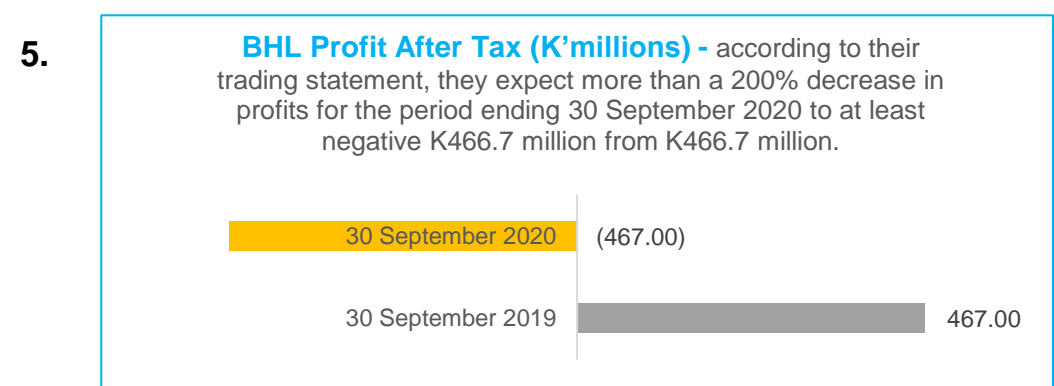
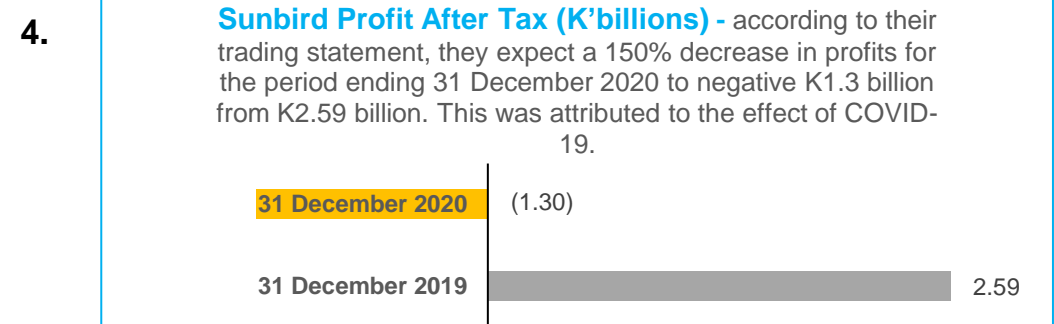
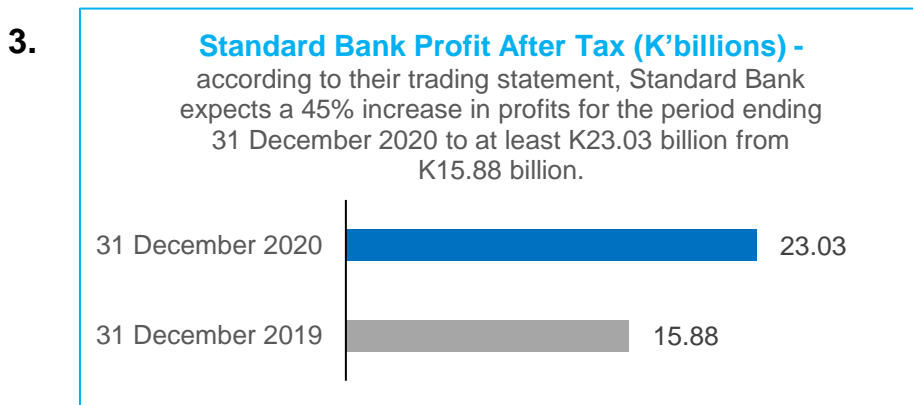
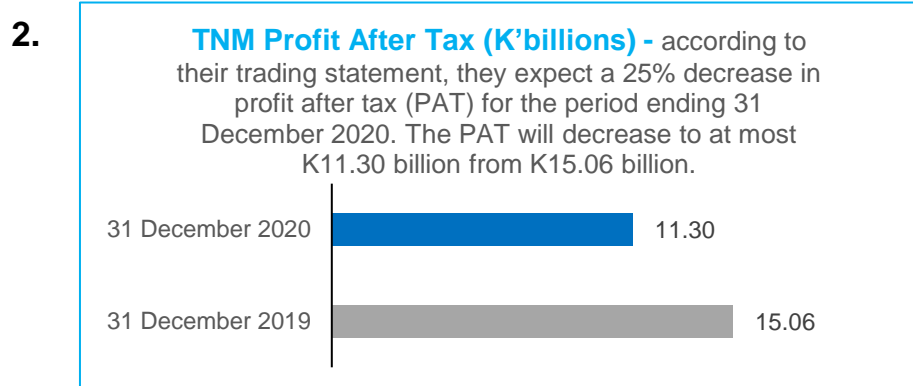
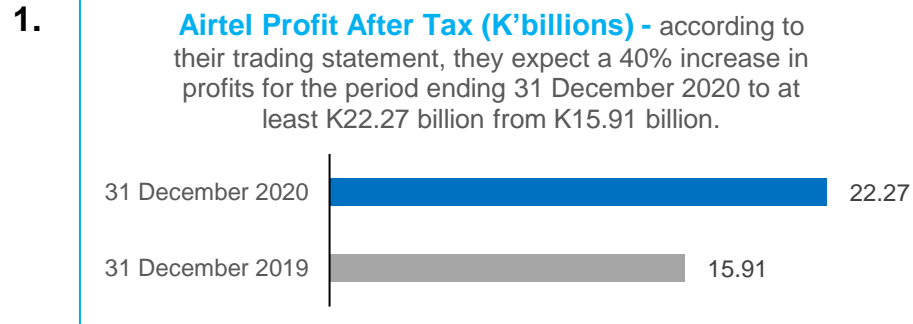




The tourism sector remains one of the hardest hit sectors by the COVID-19 pandemic. Sunbird expects a 150% decrease in profits for the period ending 31 December 2020. Likewise, BHL also anticipates its profits to decrease by 200% for the period ending 30 September 2020.

## Appendix A- Equity market (Continued)

### Corporate Announcements (Source: MSE)





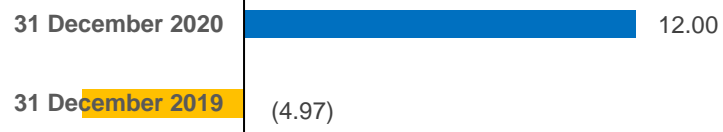
*Illovo plc expects PAT for the half year ending 28 February 2021 to be higher than the previous corresponding period by at least 60%. Half year PAT was K2.05 billion in 2020, it is expected to be K3.28 billion in 2021.*

## Appendix A- Equity market (Continued)

### Corporate Announcements (continued)

7.

**FMBCH Profit After Tax (USD'millions)** - according to their trading statement, they expect a 200% increase in profits for the period ending 31 December 2020 to at least USD12 million (K9.25 billion) from a loss of USD4.97 million (K3.83 billion).



8.

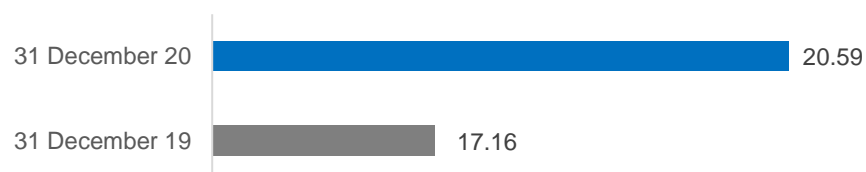
**Illovo Profit After Tax for the half year (K'billions) –**

Illovo plc expects PAT for the half year ending 28 February 2021 to be higher than the previous corresponding period by at least 60%. Half year PAT was K2.05 billion in 2020, it is expected to be K3.28 billion for 2021.



9.

**NBM Profit After Tax (K'billions)** - according to their trading statement, they expect 20% increase in profits for the year ending 31 December 2020 to at least K20.59 billion from K17.16 billion in 2019.



10.

**NITL Profit After Tax (K'billions)** - according to their trading statement, they expect a 40% decrease in profits for the period ending 31 December 2020 to at most K1.07 billion from K1.78 billion.



11.

Counters that did not release End of Year Trading Statements are listed below. The assumption is that these counters expect their PAT to be within 20% of the profit made in the previous period:

- 1 NICO
- 2 FDHB
- 3 PCL
- 4 ICON
- 5 MPICO



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*National Bank of Malawi (NBM) plc wishes to advise its shareholders that NBM has now completed the acquisition of a 51% controlling stake in Akiba Commercial Bank plc (ACB) in Tanzania for a consideration of USD 7.31 million through a share subscription. Shareholders are, however, advised that negotiations are continuing for an additional stake in ACB.*

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## Appendix A- Equity market (Continued)

### Corporate Announcements (continued)

#### 12. **FDH Bank Plc cautionary statement**

FDH Bank Plc wishes to inform its shareholders and the general public that members of its majority shareholder, FDH Financial Holdings Limited, are engaged in shareholding negotiations. The negotiations may result in changes in the shareholding structure of FDH Financial Holdings Limited.

Shareholders are therefore advised to exercise caution in dealing in their shares and consult professional advisors before dealing in their shares until such time as the result of the negotiations is known.

FDH Bank Plc is further informing the general public that all efforts will be made to communicate further developments as and when required.

#### 13. **OMU Trading Statement**

OMU wishes to advise shareholders that they expect HEPS and EPS for the year ended 31 December 2020 to be more than 20% lower than the reported HEPS and EPS for the comparable period (FY 2019 HEPS: 236.1 cents, FY 2019 EPS: 208.3 cents) due to the significant impact COVID-19 has had on our business operations and results.

A further trading statement will be published to provide more specific guidance once they have reasonable certainty regarding the extent of the decline and the related ranges of the expected decrease in HEPS and EPS.

#### 14. **National Bank of Malawi plc cautionary statement**

National Bank of Malawi (NBM) plc wishes to advise its shareholders that NBM has now completed the acquisition of a 51% controlling stake in Akiba Commercial Bank plc (ACB) in Tanzania for a consideration of USD 7.31 million through a share subscription. The acquisition is in line with NBM plc's current strategic plan which has regional expansion as one of its key thrusts. This acquisition is expected to bring about growth in business for both NBM Plc and ACB as it upscales the business of ACB to the standards of NBM plc.

NBM is listed on the Malawi Stock Exchange with a market capitalization of K304 billion. The investment in ACB is approximately 2% of the NBMs current market capitalization. ACB is a Tanzanian bank offering a range of banking and financial services. It was established in 1997 with 300 Tanzanian entrepreneurs as its initial shareholders. It has strong SME roots and operates 18 branches across Tanzania.

Shareholders are, however, advised that negotiations are continuing for an additional stake in ACB. They are therefore advised to continue to exercise caution in dealing in their shares in the Company and consult professional advisors before dealing in their shares until such time as the result of the negotiations are known. NBM plc is further informing the general public that all efforts will be made to communicate further developments as and when required.



*FDH Bank Plc wishes to inform its shareholders that following a meeting held on 8 February 2021, the Board of Directors of FDH Bank Plc passed a resolution approving payment of an interim dividend of K3 billion (representing K0.43 per share) in respect of 2020 profits.*

## Appendix A- Equity market (Continued)

### Corporate Announcements (continued)

#### 15. Dividends:

##### **NBM second interim dividends**

The Board of Directors of National Bank of Malawi plc, at its meeting on 28 January 2021 duly convened and held, resolved that a second interim dividend of K2.5 billion (representing K5.35 per share) be paid to the shareholders appearing in the register of the company as at close of business on 12th March 2021. A first interim dividend of K2.5 billion was paid in September 2020 in respect of 2020 profits. Payment date for the second interim dividend is 31st March 2021.

##### **Illovo dividends**

Illovo has declared a final dividend of K1.427 billion representing 200 tambala per share (K2.00) in respect of the financial year ended 31 August 2020 as recommended by its directors.

##### **FDH interim dividend payment**

FDH Bank Plc wishes to inform its shareholders that at a meeting duly called, constituted and held on 8 February 2021, the Board of Directors of FDH Bank Plc passed a resolution approving payment of an interim dividend of K3 billion (representing K0.43 per share) in respect of 2020 profits. The dividend will be paid to members appearing in the register of the company as at close of business on 12 March 2021. The date of payment for the interim dividend is 26 March 2021.

Company	Declared/Proposed	Type	Dividend (MK)	Last Day To Register	Payable
FDHB	Declared	Interim	0.43	12 March 2021	26 March 2021
NBM	Declared	Second interim	5.35	12 March 2021	31 March 2021
Illovo	Proposed	Final	2.00	12 March 2021	31 March 2021

## Disclaimer

*Although every effort was made to ensure the information in this report is authentic, the report should only be used for indicative purposes. Bridgepath Capital Limited accepts no responsibility or liability resulting from usage of information from this report. Every recipient using this report should make independent efforts to ascertain the accuracy of the information.*

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