



MARKET UPDATE – AFRICA

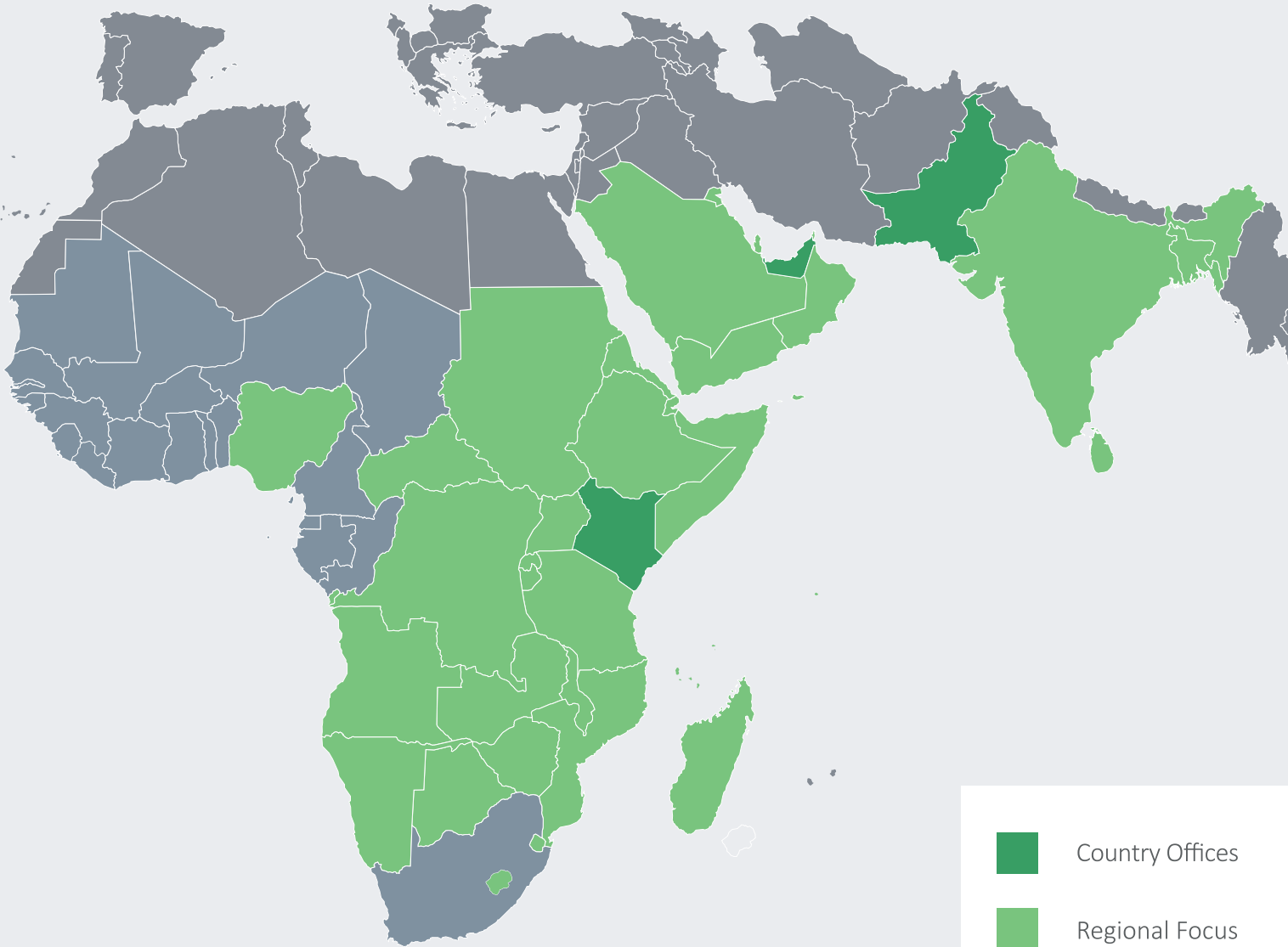
GHANA | ETHIOPIA

MAY 2021

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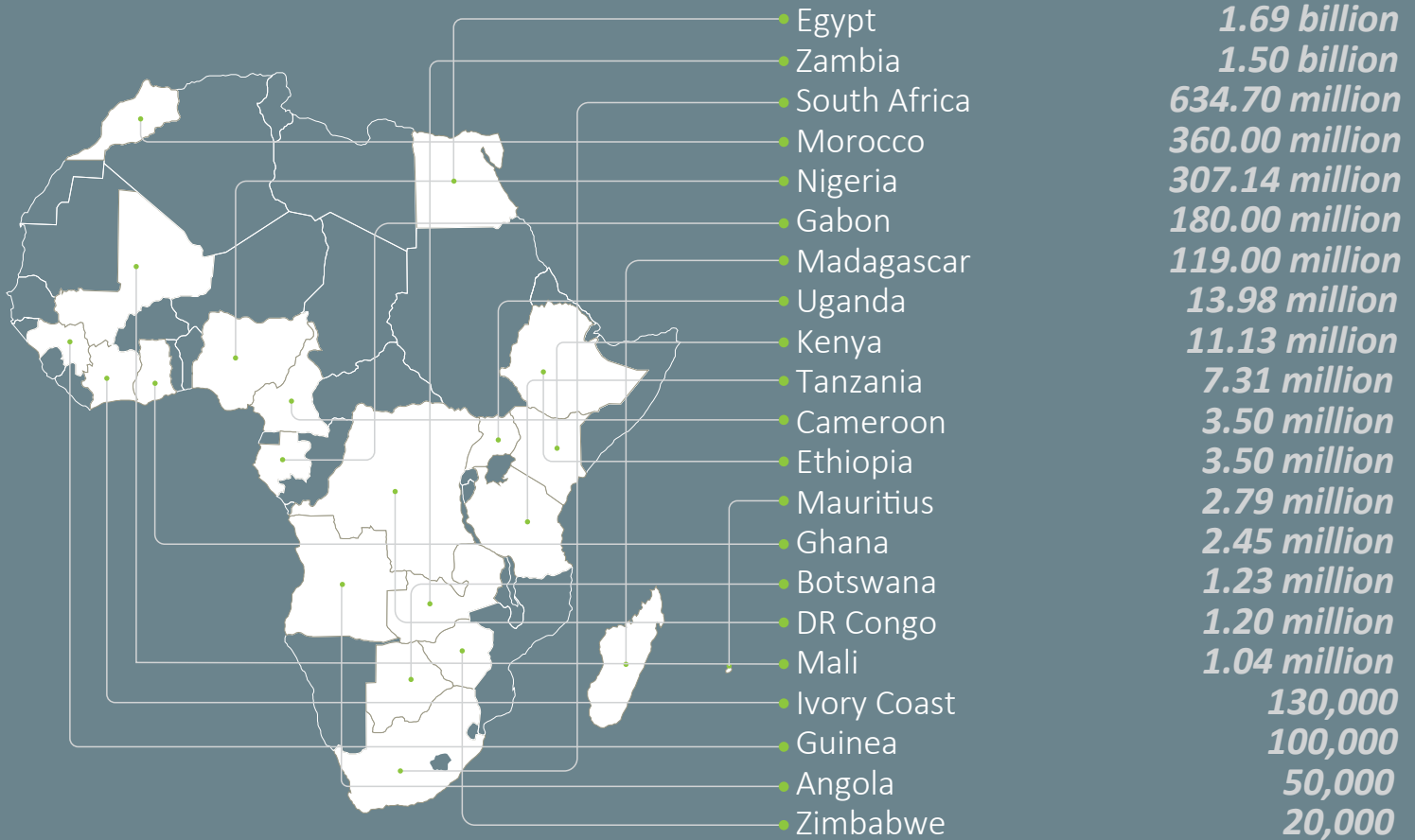
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AFRICA DEALS LANDSCAPE

JANUARY 2021 – APRIL 2021

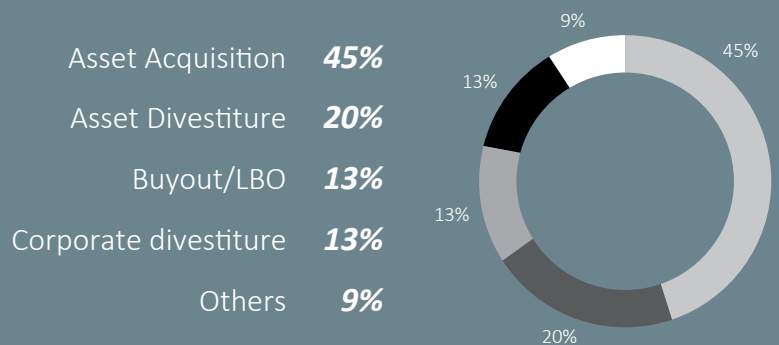
VALUE OF DISCLOSED TRANSACTIONS IN AFRICA (USD)



Transaction Activity by Sector



Transaction Activity by Deal Type



Snapshot of Transactions

- **Zambia:** Mopani Copper Mines was acquired by ZCCM Investment Holdings from Glencore and First Quantum Minerals for USD 1.5 billion on January 19th, 2021
- **Egypt:** Cairn Energy and Cheiron Petroleum reached a definitive agreement to acquire Western Desert Portfolio of Royal Dutch Shell for USD 926 million



GHANA MARKET UPDATE

| SUB-SAHARAN AFRICA'S DEBUT 'COVID-19 EUROBOND' ATTRACTS SIGNIFICANT APPETITE



POLITICAL OUTLOOK

Budget 2021 Proposals

The budget for FY2021 was tabled in Parliament on March 12th, 2021 and has a number of proposals which are worthy of mention:

- The government is proposing the introduction of a financial sector clean-up levy at 5.0% banks' pre-tax profit to help the government defray the costs incurred (reported to stand at USD 3.7 billion) by the government. This proposal, if approved, will pile pressure on banks which are now faced with more stringent prudential requirements following the hike in minimum capital requirements
- To mobilise more funds towards its COVID-19 response, the government is proposing introduction of a COVID-19 Health Levy through a 1.0% increase in the National Health Insurance Levy. This proposal is clearly designed to help wean the economy from reliance on foreign funding in financing its COVID-19 response. However, it is bound to increase the burden on the citizens who are already grappling with an adverse economic environment
- The government is proposing a 30.0% income tax rebate for companies operating in the hospitality, arts, education sectors in 2021. This offers the much needed relief sought by businesses which have been significantly impacted by the adverse effects of the COVID-19 pandemic
- In another welcome development, the government has proposed to suspend quarterly income tax instalment payments in 2021 for small businesses. This is crucial as the government looks to provide support for the small businesses category of the economy which is a major source of gainful employment for many Ghanaians

BUSINESS ENVIRONMENT

March 2021 USD 3.0 Billion Eurobond Issuance

In March 2021, Ghana raised USD 3.0 billion from the international market through issuance of a Eurobond, Africa's first in the wake of the COVID-19 pandemic. That the issuance registered an oversubscription with bids totalling USD 6.0 billion speaks to the appetite that still exists for frontier markets' debt even as economies such as Zambia bring to light the debt vulnerabilities which exist. A few issues are worth highlighting in this regard:

- As an economy which has weathered the twin shocks of the COVID-19 induced slowdown and the plunge in the price of oil in 2020, the appetite registered is a strong indicator of the confidence investors still have with regard to Ghana's macroeconomic environment
- The March 2021 issuance includes a USD 525.0 million zero coupon tranche which implies that all the interest attached will be paid upon maturity unlike the regular payments made in the typical issuance. This is pioneering with regard to Eurobond issuance by African economies
- The rebound in the price of oil presents a tailwind for Ghana's economy. With the OPEC average price standing at USD 63.1 in March 2021 against the USD 54.5 benchmark envisioned in Ghana's 2021 budget, the economy is at a favourable position
- The high appetite notwithstanding, we remain cautiously optimistic about Ghana's debt sustainability given the ramp up in the stock of public debt witnessed over the last one year when the debt-to-GDP ratio has surged from 66.8% in March 2020 to 76.1% in March 2021

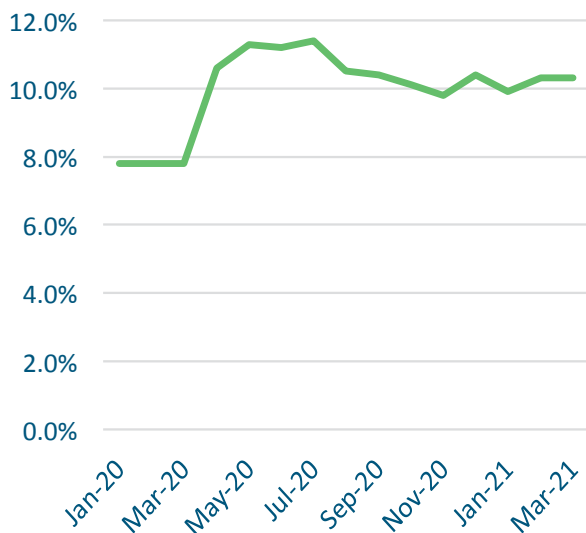


ECONOMIC OUTLOOK

Inflation Breaches Target Ceiling

To the relief of investors and consumers, headline inflation seems to have cooled off in March 2021 after breaching the double digit mark and evoking fears in the preceding month. It is worthwhile to note, however, that inflation still stands above the targeting ceiling by 30.0 bps. This makes the forthcoming monetary policy committee meeting, slated for May 19th – 21st, 2021, one anticipated with palpable expectation given that Bank of Ghana has been unwinding the benchmark rate, which now stands at 14.5%, since November 2018.

Headline Inflation

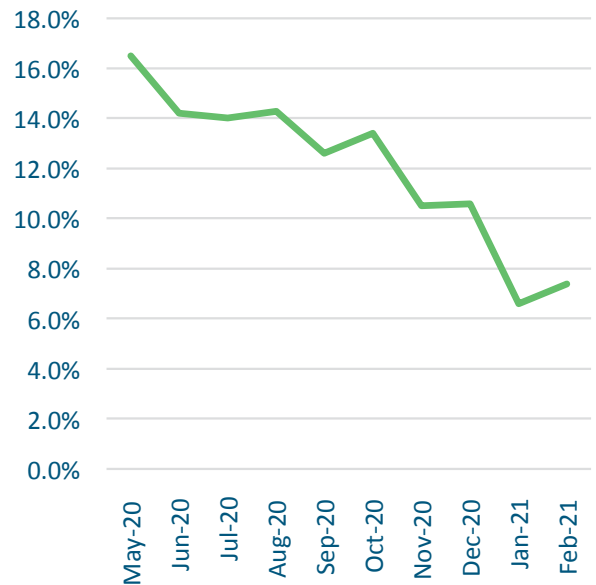


Source: Ghana Statistical Service, StratLink Africa

Despite the fact that demand side pressures remain broadly quiescent, we expect the Bank of Ghana to begin tightening the monetary policy rate within Q32021 as it looks to place a lid on inflation pressures in an environment where food prices and rising oil prices threaten to push the headline figure further above the bank's target ceiling.

We anticipate a 50.0 bps hike in the near term (before close of Q32021). With growth in private sector credit having fallen to single digits, the apex bank will be stepping gingerly to ensure it balances the need to support lending to the private sector and taming rising inflation pressures.

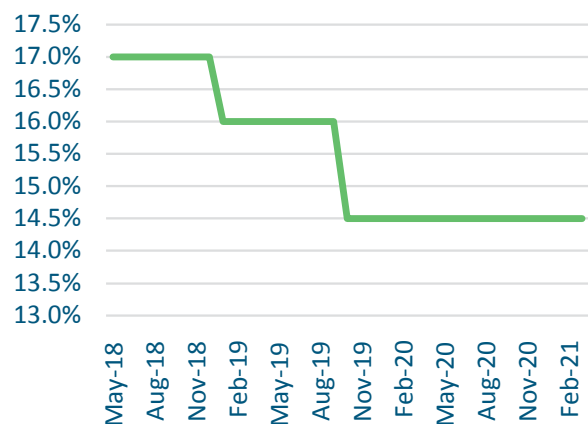
Growth in Private Sector Credit



Source: Bank of Ghana, StratLink Africa

The sustained decline in growth of credit to the private sector bespeaks the softness in the macroeconomic environment. Despite a compelling rebound in growth momentum in Q42020, registering 3.3% expansion compared to 3.2% contraction in the preceding quarter, the full year 2020 growth stood at a measly 0.4% posting the slowest momentum since the 2008/09 plunge in global oil prices. This points to slack in the economy even as the ongoing roll-out of COVID-19 vaccination buoys hopes that the economy is set for a resilient rebound in 2021.

Monetary Policy Rate



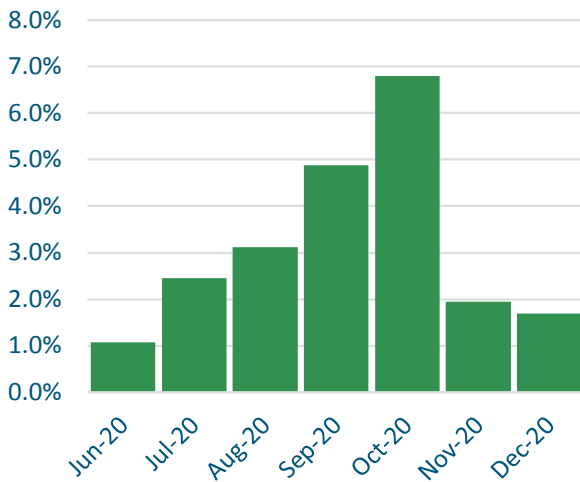
Source: Bank of Ghana, StratLink Africa

DEBT MARKET UPDATE

Public Debt Surges on COVID-19 Induced Appetite

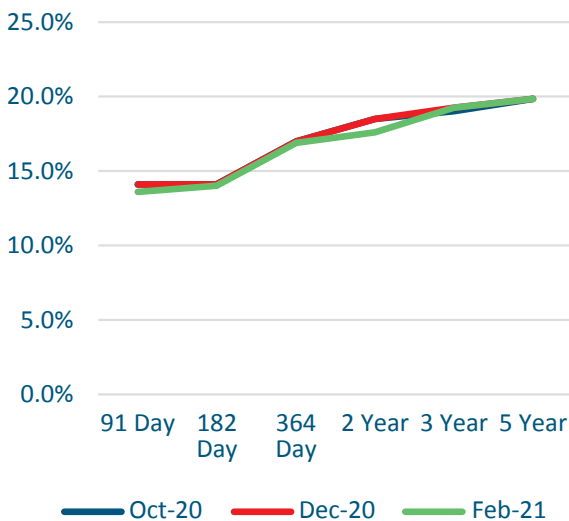
After a surge in the appetite for debt from the domestic market in Q22020 and Q32020, available data shows moderation in the last quarter of the year. This moderation has occasioned marginal changes in the sovereign yield curve in the period between October 2020 and February 2021.

Month-on-month Growth in Domestic Debt



Source: Bank of Ghana, StratLink Africa

Sovereign Yield Curve

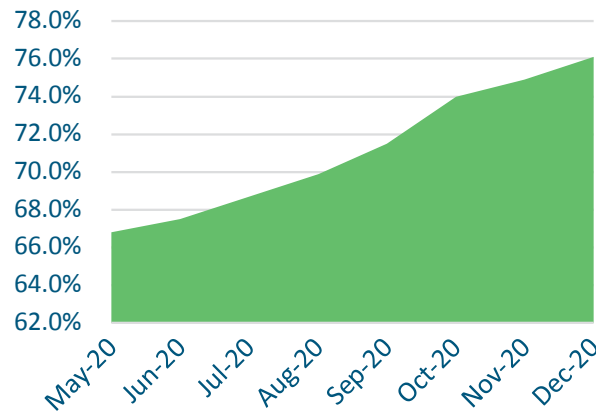


Source: Bank of Ghana, StratLink Africa

Still, we keep our eyes on the debt environment in Ghana as debt-to-GDP ratio continues its upward nudge inching towards the 80.0% mark.

The rapid rise in debt was brought about by the adverse economic environment precipitated by COVID-19 which saw the 2020 tax revenue and grant target revised downward by 20.0% to USD 9.3 billion.

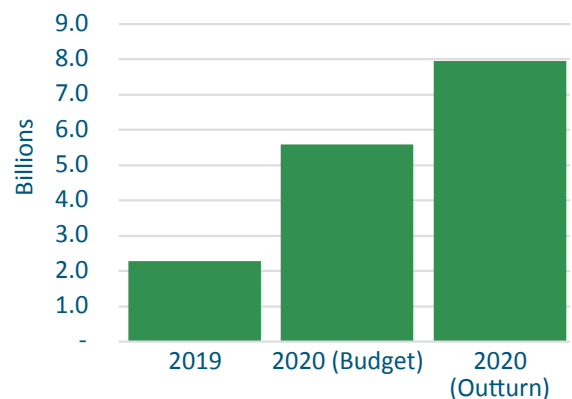
Public Debt to GDP Ratio



Source: Bank of Ghana, StratLink Africa

Available data from the Ministry of Finance shows that the domestic borrowing outturn overshoot the budgeted amount by 42.1% to stand at USD 7.9 billion. It is likely that the decline in month-on-month growth in domestic debt is a pointer to efforts by the government to reverse this appetite for debt in 2021 which has contributed significantly to minimal movement in the yield curve. Rising inflation, however, threatens to push yields upwards in the months ahead as investors demand a premium.

Domestic Borrowing (USD)



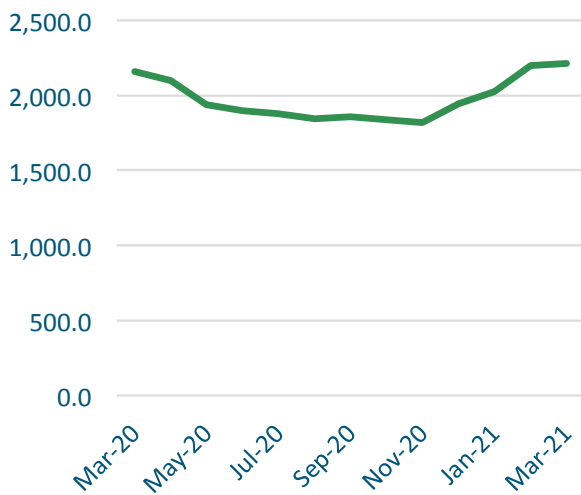
Source: Ministry of Finance Ghana, StratLink Africa

EQUITY MARKET UPDATE

Market Gains Ground

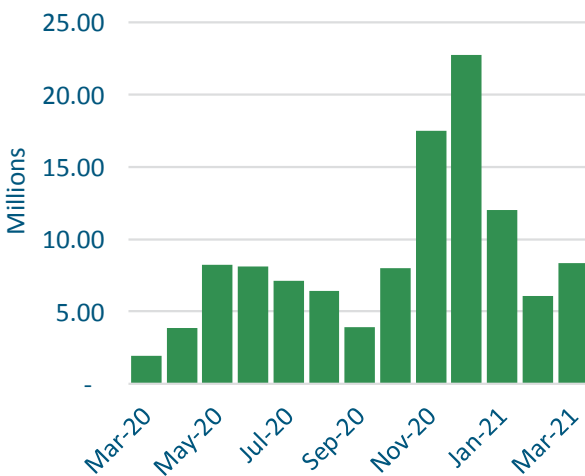
The Ghana Stock Exchange Composite Index indicates the market is clawing back ground after an adverse period in 2020. The index closed February 2021 13.3% higher than it closed 2020. The market is being buoyed by growing optimism around the rebound of the economy in 2021 given that full year 2020 growth defied widespread expectation of a recession.

GSE Composite Index



Source: Ghana Stock Exchange, StratLink Africa

Values Traded (USD)



Source: Ghana Stock Exchange, StratLink Africa



ETHIOPIA MARKET UPDATE

| EYES ON THE JUNE 2021 GENERAL ELECTION





POLITICAL OUTLOOK

The General Election 2021

The general election has been slated for June 5th, 2021 following postponement from August 29th, 2020.

- The election comes at a time when the country has been rocked by instability in the Tigray region and calls for cautious optimism given the lingering fragility of the political landscape. The conflict in the Tigray region which put the Federal Government against the Tigray People's Liberation Front has deepened tensions ahead of the June 2021 poll
- The election will be a test of how well Ethiopia manages a polling exercise in the COVID-19 environment. The poll was put off in 2020 due to pervasive concerns around what it would mean for the country's COVID-19 case load. Ethiopia's COVID-19 case load stands at 258,062¹ and 3,709 deaths. A total of 1,029,184 doses of COVID-19 vaccines have been administered in the country
- With the COVID-19 having occasioned a significantly unfavourable business environment, the state of the economy takes a special position as a key factor in the June 2021 election. The disruption caused by the pandemic has seen many lose their source of income and this is likely to be a key issue in the election as citizens scout for a robust plan on how to turn around the economy following the COVID-19 induced shock
- The coming election will be the first under the Prosperity Party which was formed following the disbandment of the Ethiopian People's Revolutionary Democratic Front (EPRDF) in December 2019. The disbandment of ERDF has been widely viewed as an attempt by Prime Minister, Abiy Ahmed, to re-invent the country's politics

¹ As at May 2nd, 2021

BUSINESS ENVIRONMENT

Environment Stable ahead of General Election

Ethiopia's business environment remains stable even as the country heads to the June 2021 general election. As indicated in the Political Outlook section, there are underlying fragilities which necessitate guarded optimism on the economy's near term outlook. Concerns over the Grand Renaissance Dam and what it means for diplomatic relations involving Egypt, Sudan and Ethiopia also lurk in the horizon of the country's risk profile.

Be that as it may, the ongoing gradual liberalisation presents significant opportunities for investors with a long-term position regarding the market. The country now awaits the outcome of the bidding for licenses by foreign players to operate mobile telephony services. Equally, Ethiopia is increasingly assuming a central role as an investment hub within the Eastern African region particularly from a cost of doing business standpoint. Ethiopia has emerged as one of Africa's top foreign direct investment destinations, attracting USD 2.5 billion in 2019, alongside South Africa, Egypt, Nigeria and DR Congo.

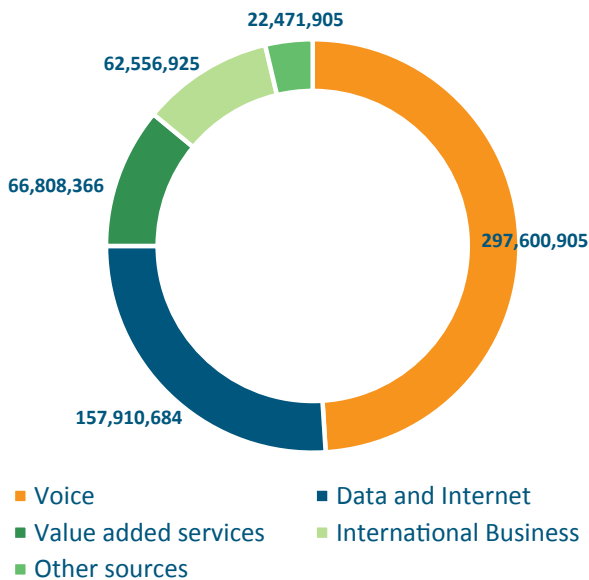
Ethiopia is expected to issue a Eurobond in the coming months to address the revenue challenges it is facing as the economy suffers the weight of the COVID-19 pandemic. Should the issuance materialise, the pricing and appetite will be of interest as a gauge as to how investors in the international market are assessing the risk environment. In March 2021, Ghana's USD 3.0 billion Eurobond issuance defied nay sayers to register high appetite.



ECONOMIC OUTLOOK

Liberalising the Telecommunications Market

On Monday 26th April, 2021, the government of Ethiopia finally closed the window for submission of bids for licenses for operation by mobile telephony operators. Two submissions have sailed through the preliminary process i.e. the bid by the consortium comprising Safaricom, Vodafone, Vodacom, Sumimoto and CDC Group on one hand and MTN International on the other hand. It is a major leap forward towards the liberalisation of the mobile telephony market and the economy at large.

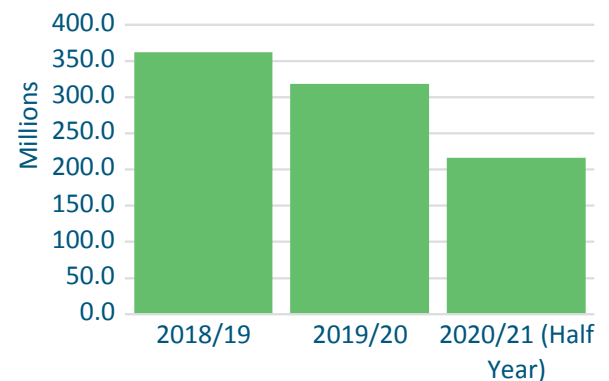
Ethiotelecom Revenue, USD (July 2020 - December 2020)

Source: Ethiotelecom, StratLink Africa

The following issues stand out regarding the liberalisation of mobile telephony operation in Ethiopia:

- The bidding process was snubbed by a number of major players in global telecommunications including Saudi Telecom, Etisalat and Telkom SA who decried opacity by the state in the liberalisation exercise. This calls for wait and see guarded optimism as to how much the government will allow private enterprise to operate freely in the Ethiopian market

- Whereas the Ethiopian Council of Ministers has adopted regulation amending the scope of Ethiotelecom to include mobile money, it is not immediately clear that the new entrants, following the bidding exercise, will be allowed to operate mobile money services. This suggests that despite the liberalisation, Ethiotelecom is still likely to retain significant control in the market. The monopoly is expected to launch a mobile money service in the near term
- With the likelihood that Ethiotelecom will still retain strong control of the market, it is unsettling that the company is saddled with enormous debt. In the period between July and December 2020, the company paid USD 216.1 million in dollar denominated finance costs, gobbling up 35.6% of its revenues. The market therefore risks still having to grapple with below optimal service from the main player

Ethiotelecom's Finance Costs (USD)

Source: Ethiotelecom, StratLink Africa

- There is no indication that the state is considering opening up the banking sector for participation by private investors. This would be a major step for the economy which has been pursuing accelerated liberalisation in the recent past. Penetration of formal financial services is low in Ethiopia and creates an enormous opportunity for players in the banking sector should it be opened up

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Where we are based

StratLink Advisory Group's head office is located in Dubai. The company has its Africa headquarters in Nairobi, Kenya, and its Asia headquarters in Karachi, Pakistan.

STRATLINK ADVISORY GROUP - TEAM

Konstantin Makarov - Managing Partner
konstantin.makarov@stratLinkglobal.com

Dina Farfel - Partner
dfarfel@stratLinkglobal.com

Julio De Souza - Vice President Venture Capital and Impact Finance
julio.desouza@stratLinkglobal.com

Kyle Drexler - Vice President, Transaction Advisory Services
kyle.drexler@stratLinkglobal.com

James Shiganga - Director
james.shiganga@stratlinkglobal.com

Jibek Baihodjoeva - Vice President New Markets
jibek.baihodjoeva@stratlinkglobal.com

Benson Njeri - Senior Analyst
benson.njeri@stratLinkglobal.com

Anthony Amimo - Director, Graphic Design
anthony.amimo@stratLinkglobal.com

Sandra Kayaki - Administration Specialist
sandra.kayaki@StratLinkglobal.com

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Contact Details

STRATLINK ADVISORY GROUP

StratLink Advisory Group Limited.

Delta Riverside, Block 4,

4th Floor, Riverside Drive,

Nairobi, Kenya

nairobi@stratlinkglobal.com

www.stratlinkglobal.com

+254202572792