



# MARKET UPDATE – AFRICA

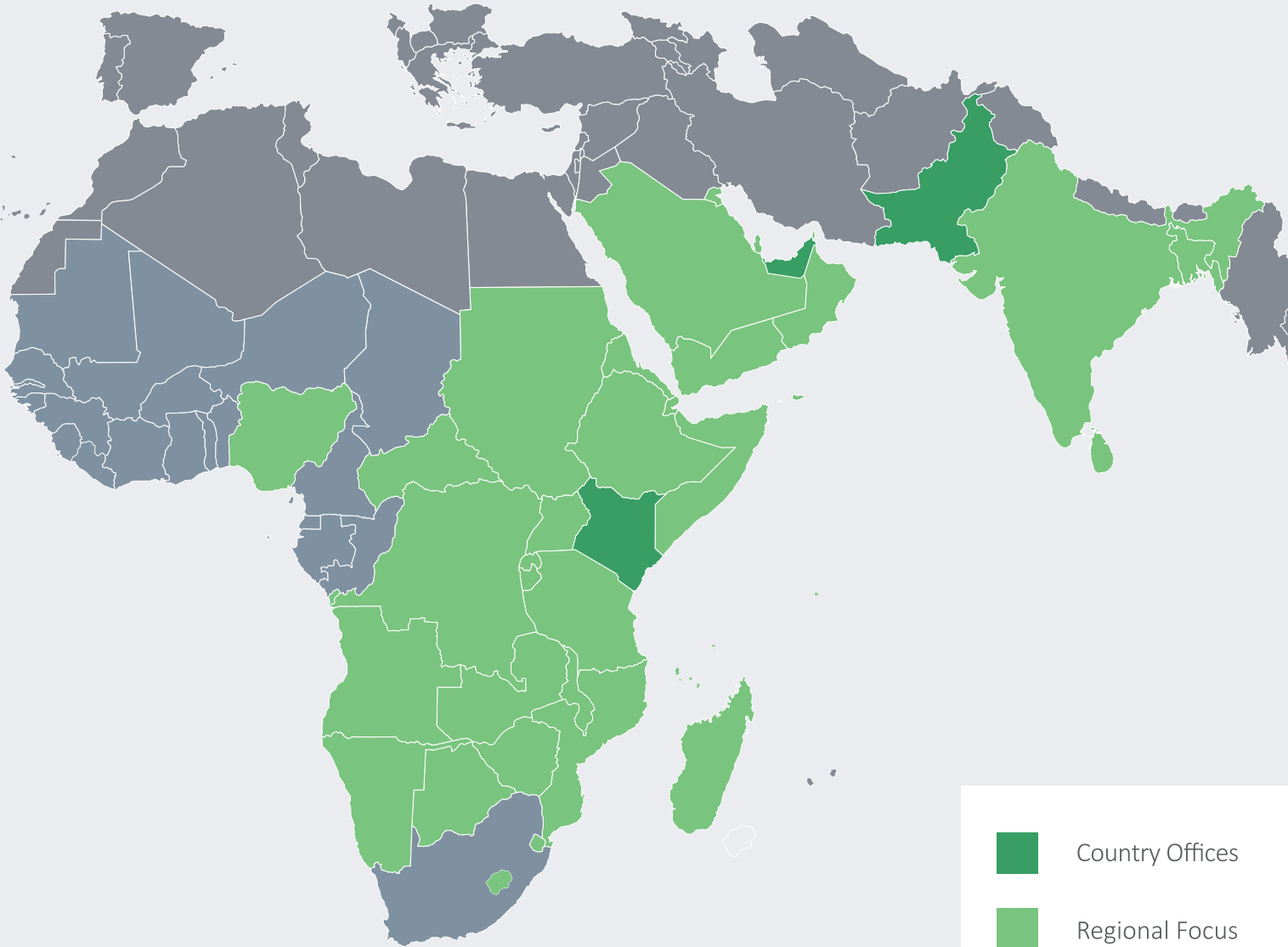
NIGERIA | ZAMBIA

JUNE 2021

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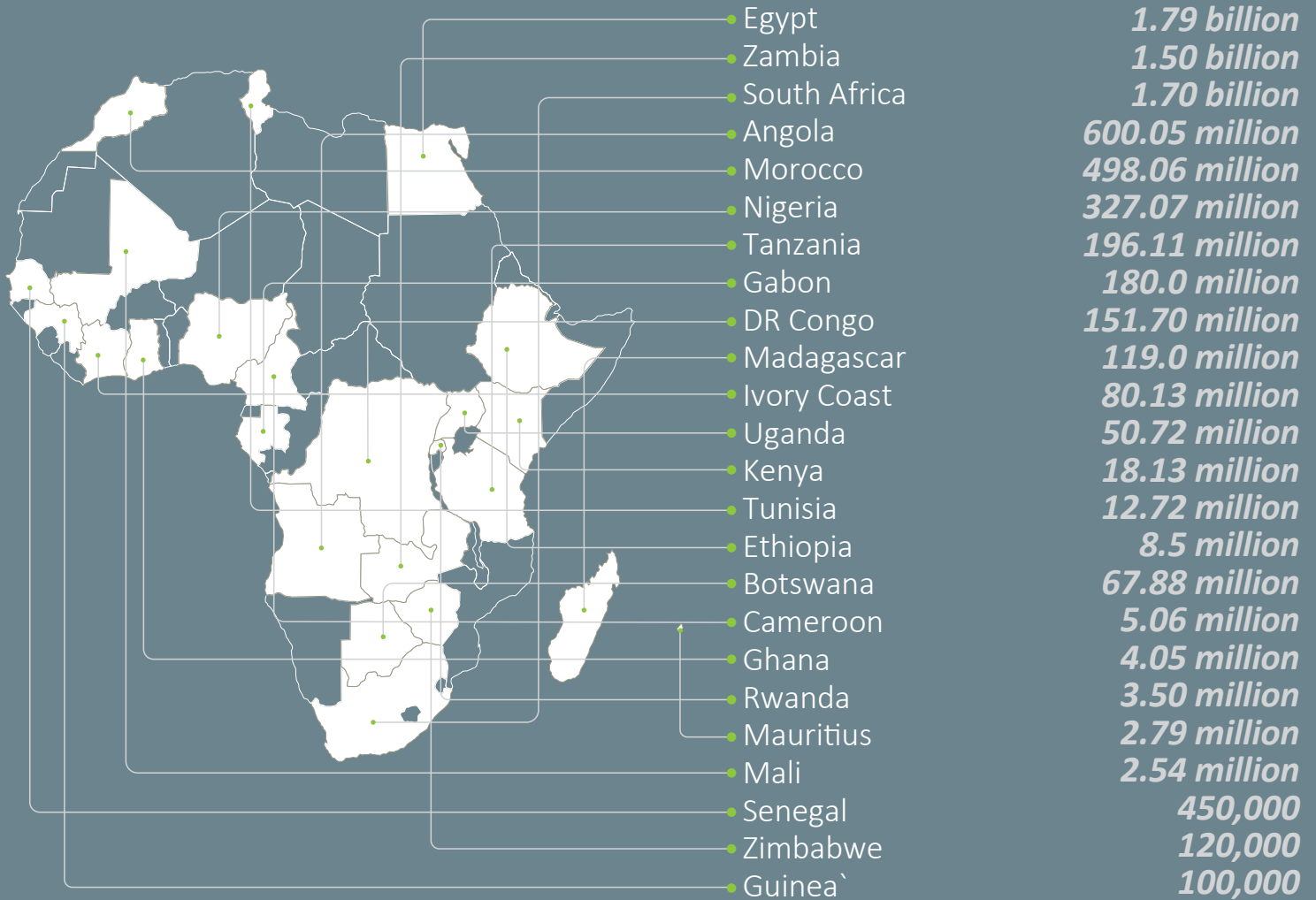
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# AFRICA DEALS LANDSCAPE

JANUARY 2021 – MAY 2021

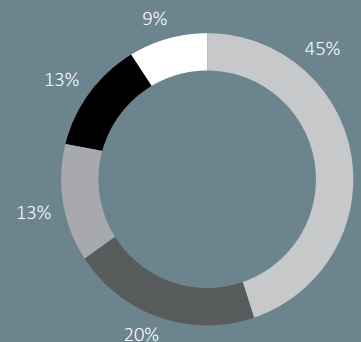
## VALUE OF DISCLOSED TRANSACTIONS IN AFRICA (USD)



### 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 19<sup>th</sup>, 2021
- **Egypt:** Cairn Energy and Cheiron Petroleum reached a definitive agreement to acquire Western Desert Portfolio of Royal Dutch Shell for USD 926 million





# NIGERIA MARKET UPDATE

| CENTRAL BANK OF NIGERIA DEVALUES THE NAIRA BY 7.6% AS EXTERNAL IMBALANCES RISE





## POLITICAL OUTLOOK

## Nigeria's Twitter Ban

The June 4th, 2021 "suspension" of social media website, Twitter, by the government following Twitter's temporary suspension of the President's account has elicited a lot of reaction both internally and externally. Whereas it is unclear how this suspension is being implemented, reports have indicated mobile telecommunication operators may have been asked to block the site within the country. The following issues are worthy of consideration in view of this development:

- In the recent past, Twitter and other social media platforms have provided a crucial avenue for the citizens of Nigeria to voice concerns and agitate for reforms. The #EndSARS protests in 2020 were aided to good extent by online activity on such platforms. This move by the government presents a threat to the opportunity citizens have had to leverage digital platforms for such undertakings where they exercise fundamental human rights
- In an era where there are an estimated 104.0 million active internet users and 33.0 million active social media platforms in Nigeria (2020 estimate by Datareportal), such a move by the government threatens citizens' right to information and claws back on the gains realized by Nigeria in widening freedom of speech and access to information
- Nigeria has a vast digital economy with many emerging entrepreneurs leveraging social media platforms for market access. The ban on Twitter not only disrupts such businesses but creates uncertainty as to what the future holds for businesses which rely primarily on such platforms
- Given that it remains unclear how the government intends to implement this ban, a lot of uncertainty hangs over what lies ahead for companies and institutions which will be deemed to have violated this ban. Telcos and media houses will be particularly under the spotlight

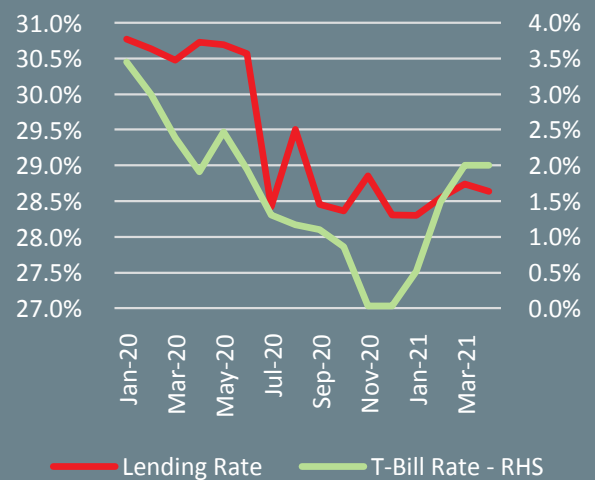
## BUSINESS ENVIRONMENT

## Credit Conditions to Tighten

We expect credit conditions to tighten further in the months ahead as a result of the rising yields in the fixed income market which are now beginning to re-angle commercial bank's appetite back to government paper. We expect the average lending rate to edge closer towards the 35.0% mark by the close of Q32021 anchored on two factors:

1. Investors will continue to demand a premium return owing to the run-away inflation which is now approaching the 20.0% mark. This demand for a premium is set to increase following the May 2021 devaluation of the Naira by 7.6%
2. The government's appetite for debt from the domestic market is bound to rise going forward as sources of revenue. The budget deficit for 2021 stands at USD 12.63 billion, 59.0% higher than the deficit for 2020

## Commercial Bank Lending Rate vs Average T-Bill Rate



Source: Central Bank of Nigeria, StratLink Africa

- Lenders will continue to exercise caution in extending credit to the private sector in light of the relatively weak asset quality brought about by the adverse operating environment

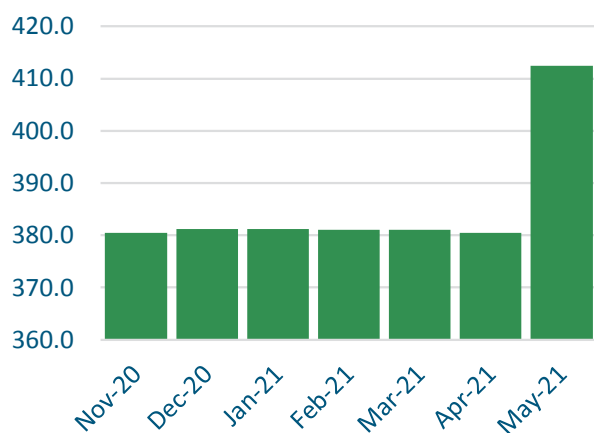


ECONOMIC OUTLOOK

Central Bank Devalues the Naira

We began 2021 with a projection that the Naira would be devalued within H12021 in a bid to prop the economy’s external position and ease the pass-through macroeconomic pressures. On May 25th, 2021, the Central Bank of Nigeria devalued the Naira by 7.6% against the greenback placing the official exchange rate at 408.0 units to the USD as at May 25th, 2021.

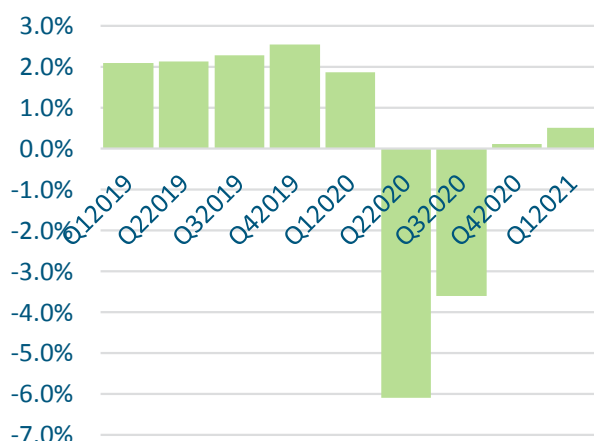
USD to Naira Exchange



Source: Central Bank of Nigeria, StratLink Africa

The devaluation is not surprising at all coming at a time when the latest available data indicates that the economy, though rebounding is doing so at a very sluggish pace. Q12021 growth stood at 0.51%, a paltry 40.0 bps higher than Q42020 growth pointing at a slowdown in the rebound when compared to the average 311.0 bps acceleration reported between Q22020 and Q42020.

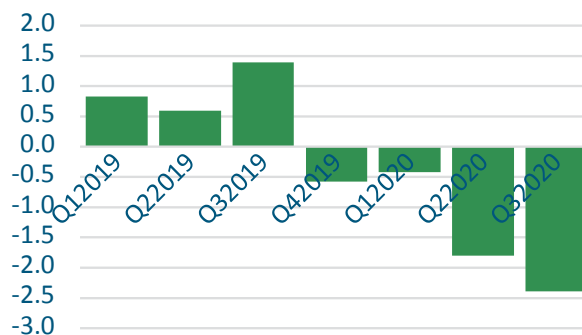
Real GDP Growth



Source: Central Bank of Nigeria, StratLink Africa

Additionally, the economy’s trade balance has been weak based on the latest available data which is bound to have prompted the Central Bank to step up efforts to address the widening imbalance.

Trade Balance (Naira Trillions)



Source: Nigeria Bureau of Statistics, StratLink Africa

What does this devaluation mean for the economy?

1. Inflation pressures, already presenting significant macroeconomic headwinds, are bound to deteriorate further. This will have an impact not only on further suppressing purchasing power but also necessitating re-positioning of investors in terms of yield expectation in the market. In April 2021, headline inflation stood at 18.1% after touching a four year high of 18.2% in the preceding month. We expect the devaluation of the Naira will nudge the pressure upward even further, presenting even bigger headwinds for the policy makers
2. Nigeria’s foreign debt service obligations for FY2021, initially budgeted at USD 2.29 billion, are bound to become more expensive given the impact of the devaluation. Coming at a time when a number of African economies have under external debt distress owing to the COVID-19 shock, how the devaluation impact debt service will be a closely watched matter
3. With the price of oil on a steady uptick in 2021, the devaluation presents an additional tailwind from an external balance standpoint



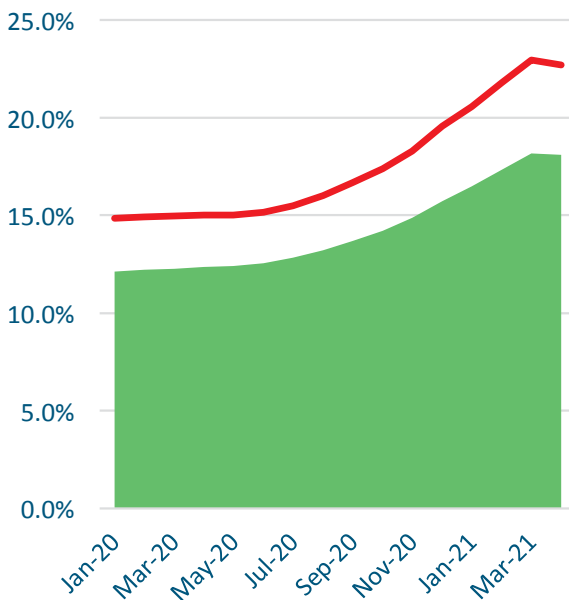
DEBT MARKET UPDATE

**Fixed Income Yields Surge**

Yields in the fixed income market continue to trend upward on pressure from investors’ guarded stance as far as inflation expectations are concerned. We expect this trend to continue based on the following:

1. This is bound to continue once the pass-through effects of the May 2021 devaluation of the Naira feed into the economy through inflation
2. Nineteen consecutive months of an uptick in inflation also undermine any confidence that intervention by the Central Bank of Nigeria could substantively reverse the uptick. Notably, food inflation has gathered considerable momentum, principally brought about by supply side shocks which have been exacerbated by the restriction of movement designed to curb the spread of COVID-19

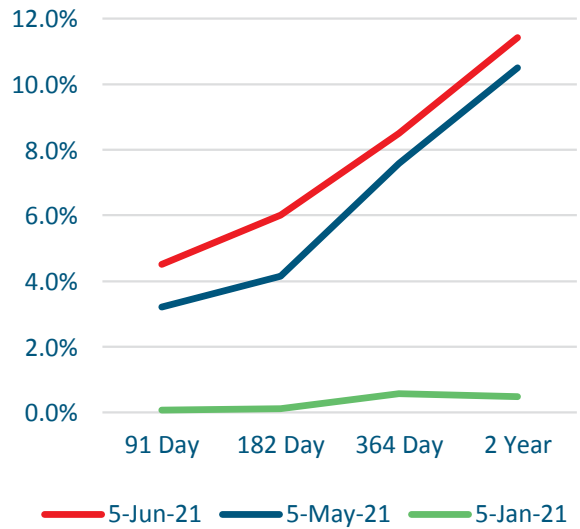
**Headline and Food Inflation**



Source: Nigeria Bureau of Statistics, StratLink Africa

3. Headline inflation in Nigeria has been breach of the 6.0% - 9.0% target band since 2015. It is no longer clear as to whether the band still guides policy formulation as far as inflation is concerned

**Sovereign Yield Curve**



Source: Central Bank of Nigeria, StratLink Africa

**Monetary Policy Outlook**

Whereas the prevailing inflation pressure would ideally prod the Central Bank to tighten the benchmark rate, we expect the market regulator will maintain a neutral stance through Q32021. The following factors underpin our assessment:

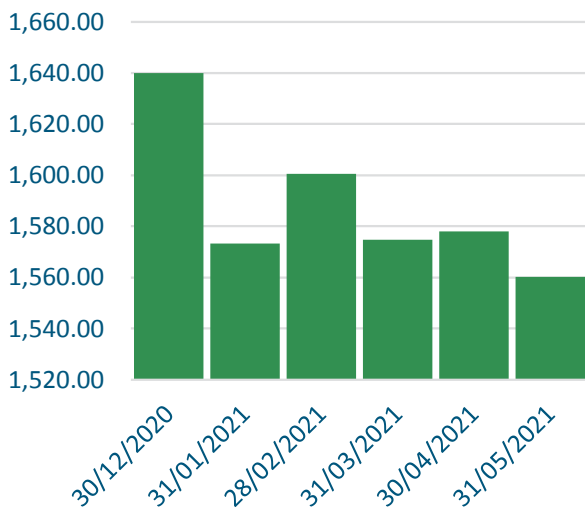
1. GDP growth data indicates that momentum is considerably soft and may need prolonging the accommodative monetary policy stance to provide a buffer. The explains why despite the sustained uptick in headline inflation towards the 20.0% mark, the Central Bank has stood pat on all key indicators
2. Growth in credit to the private sector is still weak pointing at slack following the shakeout from the adverse environment precipitated by the COVID-19 pandemic. As such, there is need for the Central Bank to continue supporting lending to the private sector
3. Having devalued the currency, we expect the Central Bank to take time to monitor the impact this has on the economy before adopting a policy stance which may occasion distortion as far as the desired impact of the devaluation is concerned

EQUITY MARKET UPDATE

**Market Cedes Ground**

The equities market remains subdued with the 30 Index closing May 2021 at 1,561.78, placing it 4.78% down on a year-to-date basis as at May 31st, 2021. The pressure on the equities market is being amplified by the capital flight to the fixed income market which has witnessed a steady rise in yields in 2021.

**Nigeria Stock Exchange 30 Index**



Source: Nigeria Stock Exchange, StratLink Africa





# ZAMBIA MARKET UPDATE

| BANK OF ZAMBIA EASES FOREIGN EXCHANGE RESTRICTIONS AS COPPER EARNINGS SURGE





## POLITICAL OUTLOOK

### Eyes on the August 2021 Election

The political environment is stable ahead of the August 2021 general election. The following issues are worth bearing in mind ahead of the August poll:

- Run-away inflation is adding to the significance commanded by the state of the economy as an issue in the forthcoming poll. The COVID-19 pandemic and the economic shakeout that occurred due to its adverse effects had already place the economy at the centre of the issues shaping discourse ahead of the election
- Unemployment has risen in Zambia standing at 11.4%, with youth unemployment at 16.0%, as of the latest reporting by the National Bureau of Statistics. This is poised to be a major issue in the build up to the election. Unfortunately, the rise in unemployment could also create a fragile environment in which disenfranchised persons could be easily misused to stir violence and instability
- Institutional preparedness remains an important issue ahead of the August 2021 general election. Notably, the state of the electoral commission and the judiciary's preparedness for an eventuality of a contested outcome will be particularly crucial for the stability of the country in the months ahead
- Zambia has been allocated 8.7 million doses of the COVID-19 vaccine under the Africa COVID-19 Vaccine Acquisition Task Effort and there are indication that this could be scaled up to 25.0 million doses by the close of 2021. A successful rollout of the vaccine bodes well for the country whose case load, as of March 1st, 2021, stood at 79,002 with total deaths reported standing at 1,098

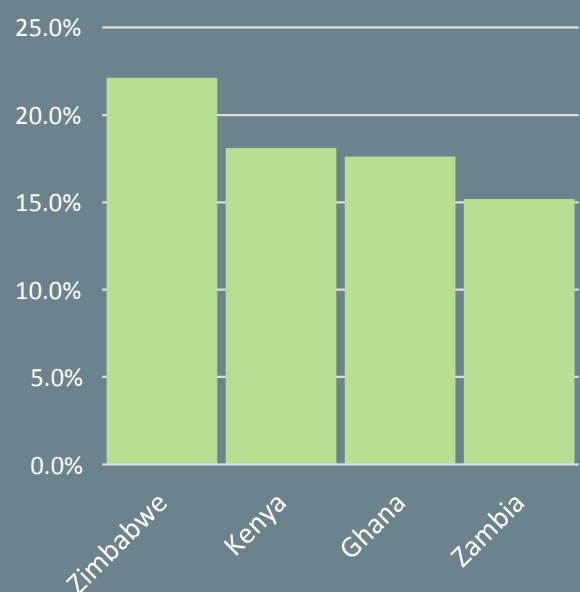
## BUSINESS ENVIRONMENT

### Pursuing Support from the IMF

The Ministry of Finance has indicated that it hopes to secure support from the International Monetary Fund before the August 2021 general election. This will be a daunting task for Zambia given the following issues:

- The plunge in revenues and below target receipts from grants mean the country's fiscal position is expected to deteriorate further in 2021, widening to 11.7% of GDP compared to the target 5.5%. This means Zambia's efforts towards fiscal consolidation will come under pressure in 2021. Relief measures being extended by the government in light of COVID-19 are poised to come under focus as they have in other economies such as Kenya
- Zambia's tax revenue-to-GDP ratio, at 15.2%, suggests that the economy is punching below its weight as far as domestic revenue mobilization is concerned and it is likely that pressure will be on the government to reform its tax administration system particularly with a view to seal revenue leakages

### Tax Revenue to GDP Ratio



Source: World Bank, StratLink Africa

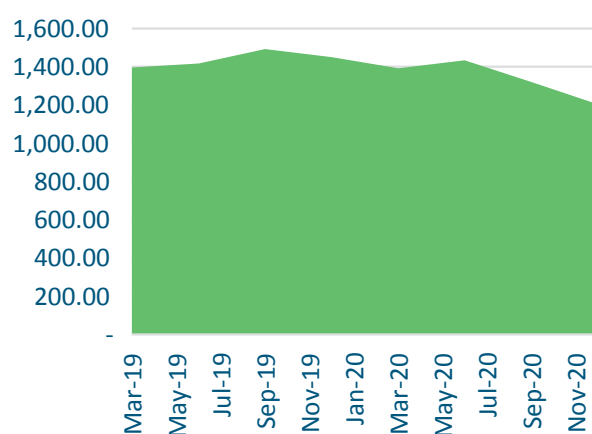


## ECONOMIC OUTLOOK

**Copper's Price Rally buoys External Balance**

On May 27th, 2021 the Bank of Zambia revised the foreign exchange transaction limits raising the over the counter limit for forex bureaus from USD 1,000 to USD 5,000. For commercial banks this has been revised upwards from USD 5,000 to USD 10,000.

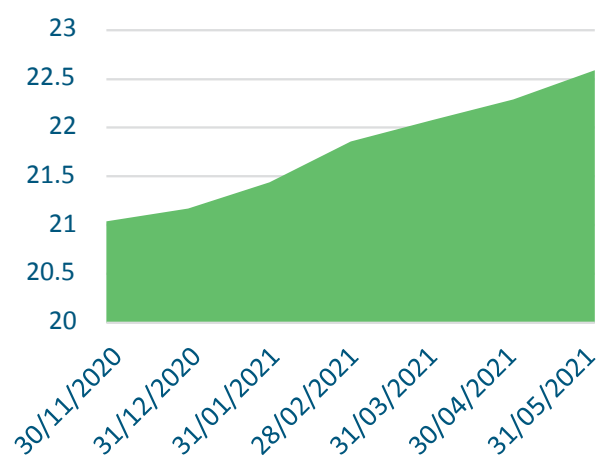
We view this as a signal that the hard currency crunch that had hit the economy in 2020 and at the start of 2021 is beginning to ease. Available data shows that as at the close of 2020, foreign exchange reserves were on a downward trend closing the year at 2.4 months of import cover.

**Gross FX Reserves (USD Millions)**

Source: Bank of Zambia, StratLink Africa

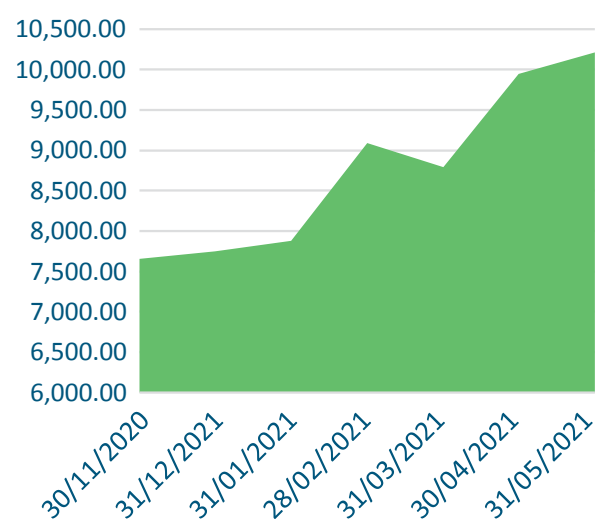
The Zambian Kwacha is down 6.71% year-to-date against the USD as at the close of May 2021. Two factors have helped to inject relative resilience into the Kwacha against major currencies:

1. The rally by the price of copper in the international market, 31.8% year-to-date as at 31st, 2021, has provided a significant buffer for the currency. This upswing in the price of copper is in line with the general rise in commodity prices which has been brought about by the recovery of the global economy and the reopening of economies as the COVID-19 vaccine rollout gives more confidence

**USD to Kwacha Exchange**

Source: Bank of Zambia, StratLink Africa

2. There have been indications that Zambia may finally be in a position to seal a financing deal with the International Monetary Fund before the August 2021 general election. This deal, if secured, will be a critical win for Zambia's economy in a COVID-19 environment, particularly coming months after Zambia's default on external debt servicing obligations. A credit line from the IMF will strengthen the country's fiscal position and de-risk further access to credit from the international market

**Price of Copper (USD per Ton)**

Source: Central Bank of Nigeria, StratLink Africa

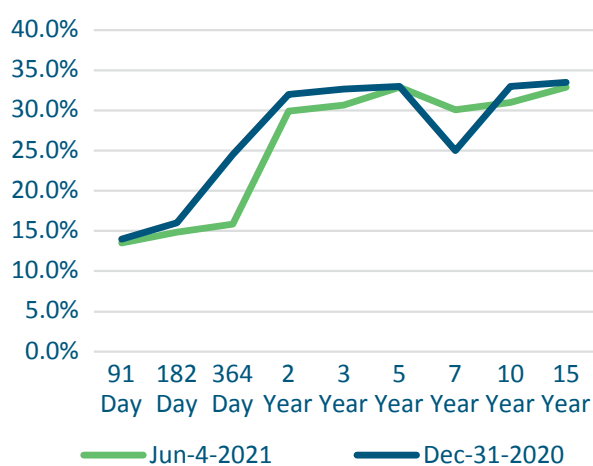




## DEBT MARKET UPDATE

**Fixed Income Yields defy Inflation**

Considering the sustained rise in headline inflation (closing May 2021 at 23.2% compared to 19.2% in December 2020), the yield curve has exhibited minimal movement to suggest inflation expectations point to growing worries by investors. The May 2021 Monetary Policy Statement from Bank of Zambia indicates that there is renewed appetite for government securities being witnessed.

**Sovereign Yield Curve**

Source: Bank of Zambia, StratLink Africa

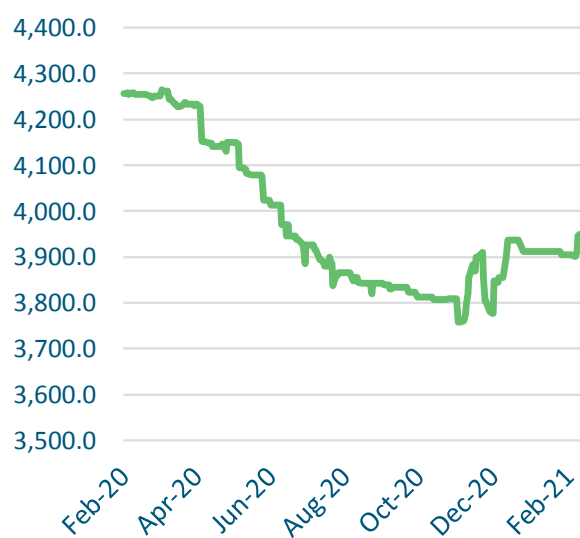
We assess that this could help explain how yields have remained largely subdued in an environment where returns are being ravaged by inflation. The rising appetite for fixed income securities could be driven by the erosion of attractive investible opportunities in other asset classes.

The February 2021 Bank of Zambia assessment of credit conditions indicated that the private sector continues to be an unattractive avenue for formal financial services to deploy capita, a factor which augments our view that the high appetite for debt securities being reported is feeding off the capital flight from other less safe assets in the economy.

## EQUITY MARKET UPDATE

**Equities maintain Uptick**

The equities market has gathered momentum in the period under review with the All Share Index gaining 6.2% year-to-date as at the close of May 2021. The emerging buoyancy is, however, bound to be moderated by the pervasive bearish sentiments around the macroeconomic environment.

**Lusaka Stock Exchange Index**

Source: Lusaka Stock Exchange, StratLink Africa

# 6.21%

Margin by which the Lusaka Stock Exchange All Share Index has gained year-to-date as at May 31<sup>st</sup>, 2021

## STRATLINK ADVISORY GROUP - WHO WE ARE

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### Our guarantee: Competent team, reliable data

Our research is anchored in a competent and versatile team traversing the fields of economics and finance with qualifications from globally recognized institutions. The team is backed by subscription to reliable databases such as Business Monitor International, Bloomberg, Thomson One Research, World Economics and The World Today. As such, our guarantee is reliable and up to date data in an increasingly dynamic region. Further, we reach out to relevant bodies in concerned markets including Central Banks, ministries and state departments.

### 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.

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