



MARKET UPDATE – AFRICA

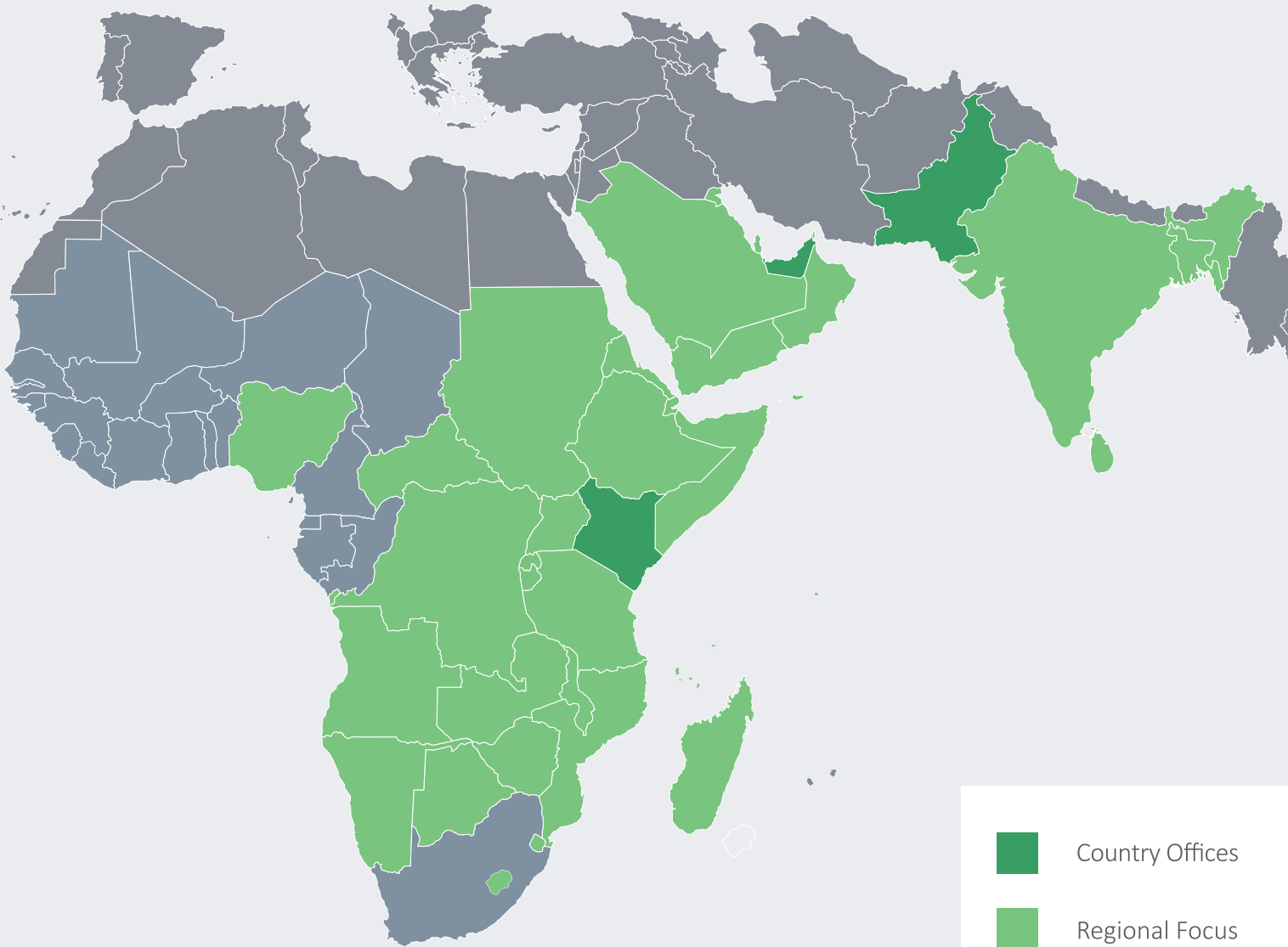
NIGERIA | ZAMBIA

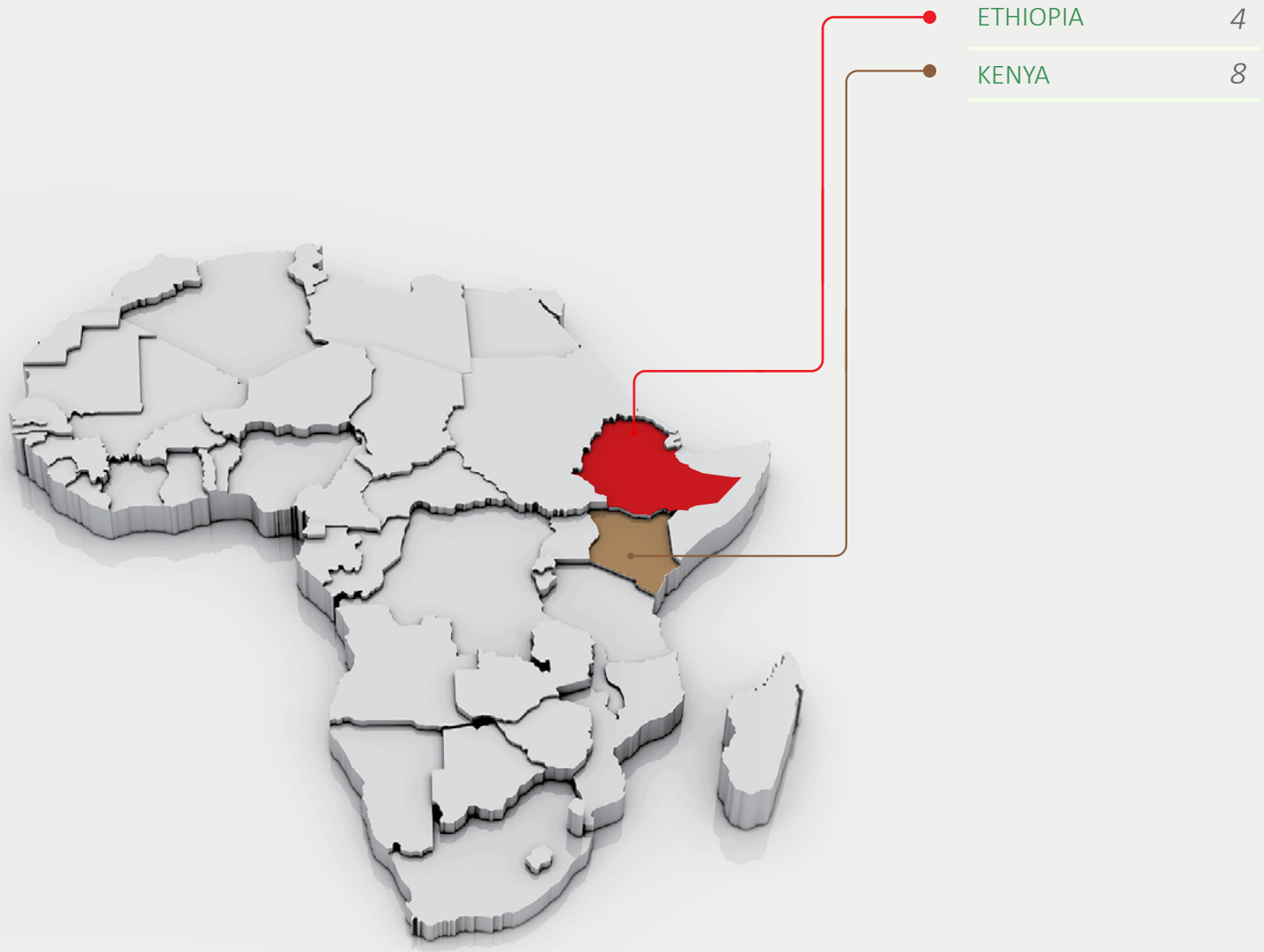
JULY 2021

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At a Glance

Ethiopia

- Premier Abiy Ahmed secures landslide victory in June 2021 poll
- IMF calls for speedy efforts towards credit committee

Kenya

- Kenya's fourth eurobond attracts significant appetite
- Corporate bond market bounces back

AFRICA DEALS LANDSCAPE

JANUARY 2021 – JUNE 2021

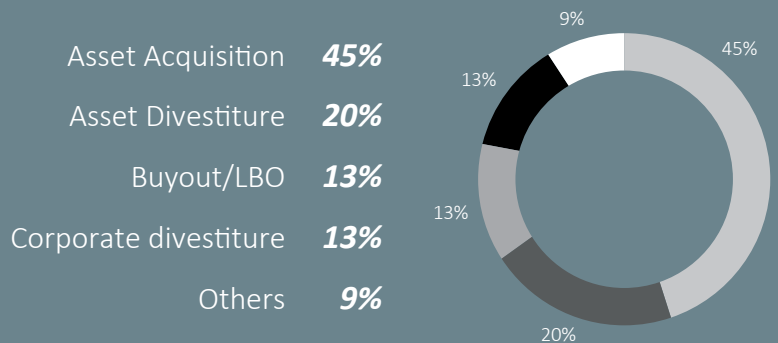
VALUE OF DISCLOSED TRANSACTIONS IN AFRICA (USD)



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



ETHIOPIA MARKET UPDATE

| PROSPERITY PARTY WINS JUNE 2021 ELECTION WITH DAUNTING TASK OF NATION BUILDING





POLITICAL OUTLOOK

Beyond the June 2021 Election

On Sunday 10th July, 2021 the National Election Board of Ethiopia declared Premier Abiy Ahmed's Prosperity Party the winner in June 2021's general election. The party scooped 410 out of 436 seats in the Federal Parliament. The following are worth noting in view of the election:

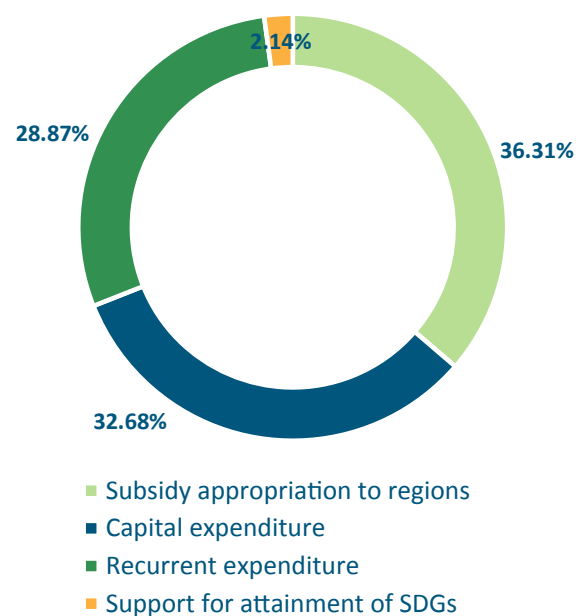
- Despite the declaration, some seats are bound to remain vacant (the Election Board reports that voting did not take place in three of Ethiopia's ten regions) owing to the unrest in parts of the country in the ongoing crisis. Despite the government having declared ceasefire on June 28th and withdrawing troops from Mekele, the situation in Tigray remains fragile. The United Nations High Commission for Refugees estimates that about 46,000 Ethiopians have fled to neighbouring Sudan owing to the violence. How to restore a semblance of normalcy will be one of the key tests for Premier Abiy Ahmed in his fresh term
- Beyond the strife in the northern region, the election was marred with opposition boycott. This presents another challenge for Premier Abiy Ahmed in his newly secured five year term as he seeks to drive the agenda of nation building. The run up to the election has presented a significant challenge to Ethiopia notably within the context of unrest and the COVID-19 pandemic. We expect the post-poll results declaration environment will be equally challenging for the new administration
- The dominance of the Prosperity Party in the legislature now raises question about the capacity for checks and balances that the government of the day will be subjected to. More than ever, this is a moment where the legislative and judicature arms of the government need to provide a check on the executive

ECONOMIC OUTLOOK

The 2021 National Budget

Ethiopia's USD 12.8 billion national budget tabled on July 6th, 2021 will have its lion's share, 36.3%, designated for subsidy appropriation for the regions and capital expenditure which will take up another 32.3% of the budget. It is delightful to note that the budget has a larger allocation for development spending than it does for recurrent, especially in view of the COVID-19 pandemic which has compelled a number of economies to cut back on development spending.

Ethiopia Budget 2021



Source: Ministry of Finance Ethiopia, StratLink Africa

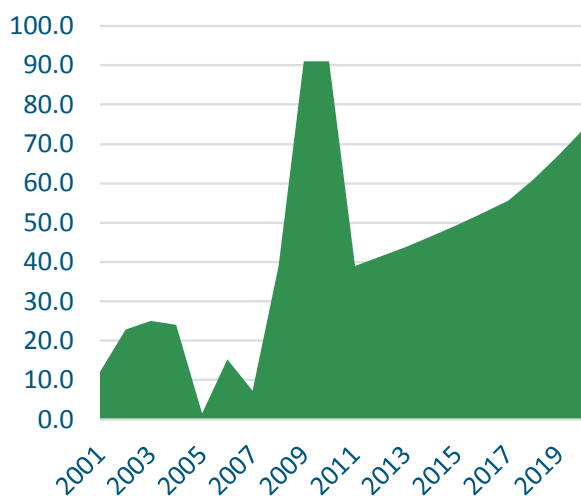
This budget comes against the backdrop of extremely daunting circumstances. Notably, on July 6th, 2021 the International Monetary Fund called for speedy formation of a creditor committee for Ethiopia to enable timely delivery of the debt operation the economy is requesting. Ethiopia is one of the economies which have benefitted from the Debt Service Suspension Initiative with World Bank estimated indicating the economy has potentially made 'savings' to the tune of USD 359.6 million through the initiative for the six months ended June 2021.



A considerable risk factor that lurks over Ethiopia's outlook going forward is two-folds:

- Spill overs from the unrest in the Northern region threaten to dampen economic activity for a country which is already burdened, like many others, by the COVID-19 pandemic. In particular, a likely slowdown in inflow of Foreign Direct Investment looms large over Ethiopia

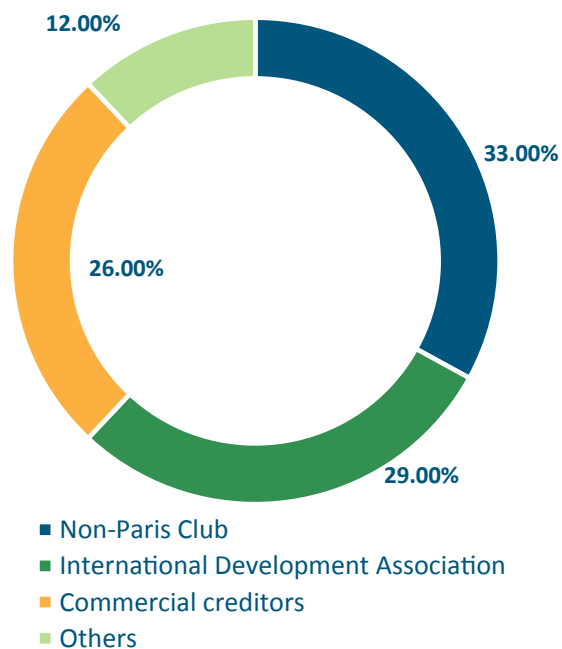
FDI Inflow into Ethiopia (USD Mln)



Source: UNCTAD data, StratLink Africa

- Development partners may be compelled to impose sanctions, or tighten in the case of USA, on the Ethiopian government should the situation deteriorate and this could adversely affect the business and economic environment in the country

Ethiopia's Publicly Guaranteed External Debt

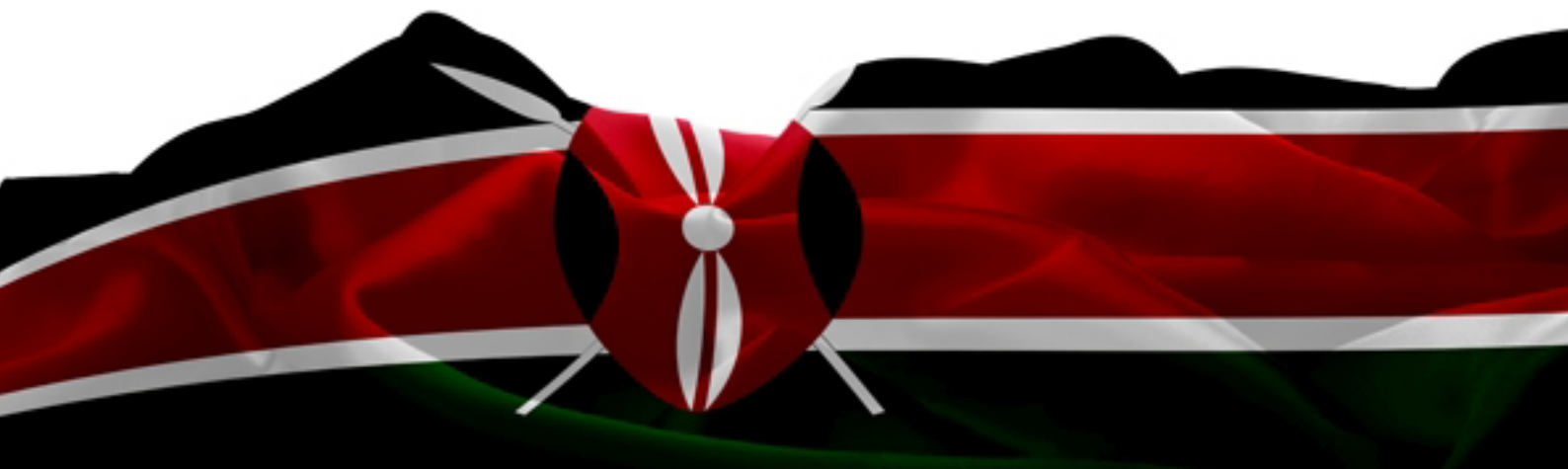


Source: Ministry of Finance Ethiopia, StratLink Africa



KENYA MARKET UPDATE

| KENYA'S FOURTH EUROBOND REGISTERS OVERSUBSCRIPTION AS INVESTORS CHASE HIGH YIELD



POLITICAL OUTLOOK

Which way with the Building Bridges Initiative?

Kenya's political risk environment continues to be broadly stable with emerging pressure points given the anticipated general election slated for 2022. A few issues are worth highlighting at this point:

- The Building Bridges Initiative, born out of the March 2018 handshake between President Uhuru Kenyatta and former Prime Minister Raila Odinga, was deemed by the High Court to be unconstitutional in mid-May 2021. This decision is subject to an appeal. The outcome of the appeal will be crucial in determining the landscape in Kenya's political environment in the months ahead. The rapprochement between President Uhuru Kenyatta and former Prime Minister, Raila Odinga, has been pivotal in anchoring stability and calm in the country ever since the 2017 general election
- COVID-19 and containment efforts by the government remain a matter of significant interest. With the Kenya Medical Research Institute's forecasts showing a possible fourth wave within July 2021, many Kenyans will be keen to see whether the government will tighten restriction of movement measures and the spill over that this will have on the economy and socio-economic wellbeing of citizens. In the period between March and June 2020 official statistics show that about 800,000 jobs were lost in Kenya in the wake of COVID-19 and restriction of movement measures
- Kenya has been aggressive on the regional front where the government has been making efforts to strengthen bilateral ties. Kenya hosted Tanzania's President, Samia Suluhu, in May on her first state visit ever since assuming office. President Uhuru Kenyatta also visited the Democratic Republic of Congo in April 2021 as he looked to strengthen Kenya-DRC ties

BUSINESS ENVIRONMENT

IMF concludes first review

The International Monetary Fund concluded the first review of Kenya, following the March 2021 USD 2.34 billion loan, on June 23rd, 2021. The fund issued a broadly favourable report lauding Kenya for exhibiting commitment to the reform agenda. Of interest, however, are the following:

- Kenya has requested the International Monetary Fund for modification of the tax indicative targets. This is an indication that the government anticipates challenges in mobilising tax revenue in the near term as it grapples with the effects of the COVID-19 pandemic. The Kenya Revenue Authority, however, reported a surplus in FY2020/21 collecting USD 15.5 billion against the targeted USD 15.3 billion. This bodes well for the economy and is an indication that the raft of changes adopted from a tax administration standpoint are yielding favourable results and could place Kenya favourably as far as complying with the conditions is concerned
- The government also asked the International Monetary Fund to modify the target set for the adoption of a common payroll across the public sector. This measure is aimed at sealing revenue leakage through the wage bill and failure to realise the goal set presents a significant drawback for Kenya. Already there have been efforts from the Salaries and Remuneration Commission to tame public sector allowances and benefits in what we view as a favourable step towards fiscal consolidation in view of the constraints brought about by the COVID-19 pandemic



ECONOMIC OUTLOOK

Kenya's Fourth Eurobond is oversubscribed

Kenya went to the international markets in June 2021 and raised USD 1.0 billion commercially in a 12-year issuance which attracted bids worth USD 5.4 billion. A few issues are worth considering in this issuance.

On the positive note:

- To take up USD 1.0 billion against bids worth USD 5.4 billion is a signal that even as Kenya goes into to the commercial market, it is wary of the lurking challenges in the present environment particularly as far as commercial debt is concerned
- It anchors our assessment that there is still significant appetite for high risk frontier market debt given attractive pricing even in the face of mounting debt vulnerabilities amongst some economies
- It indicates that despite Zambia's default in 2020, investors are assessing risk profiles on a case by case basis given the appetite that issuances by economies such as Kenya and Ghana have attracted
- The structuring of Kenya's fourth Eurobond, with large payments in 2033 and 2034, create breathing space for the economy given the fact that the 10 year tranche issued in June 2014 matures in 2024

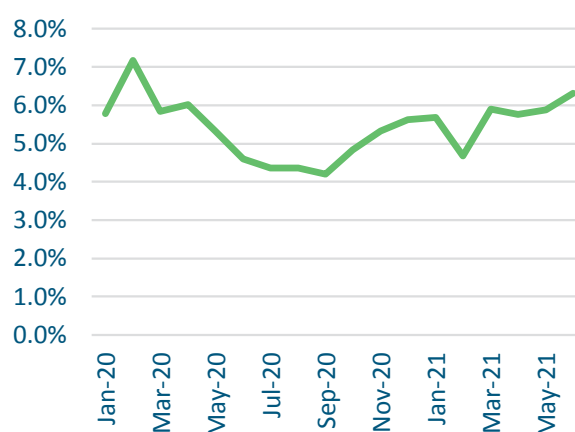
On the less favourable note:

- Kenya 12 year issuance was priced at 6.3% whilst Ivory Coast's 11 year, issued in February 2021, was priced at 4.3%. This indicates that from a pricing standpoint, Kenya was not well placed and this could be a functioning of the timing at which the sovereign went to the market as well as simmering debate about the economy's debt sustainability
- Having benefited from both the International Monetary Fund (USD 2.34 billion in March 2021) and the World Bank (USD 750.0 million in June 2021) credit lines, our view is that Kenya could have tapped into concessional financing more and cut back on the commercial borrowing in 2021

DEBT MARKET UPDATE

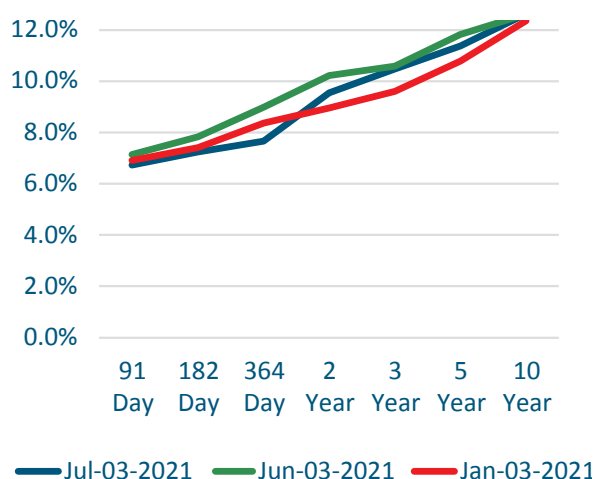
Fixed Income Yields defy Inflation

Headline inflation raced to its highest point, and the first time to breach the 6.0% mark since April 2020, in seventeen months in June 2021 when it stood at 6.32%. This necessitates a new look at the inflation environment particularly in view of the likely upward nudge which will be occasioned by the new taxes in the Finance Act 2021. We expect headline inflation to breach the 7.0% mark in August 2021.

Headline Inflation

Source: Central Bank of Kenya, StratLink Africa

The sovereign yield curve registered marginal movement between June and July 2021 even as the long-term end began ticking upwards. This is a likely pointer to growing concerns around inflation, particularly with the Finance Act 2021.

Yield Curve

Source: Bloomberg



EQUITY MARKET UPDATE

Equities maintain Uptick

Two major developments have shaped the Nairobi Securities Exchange lately:

- The first equity repurchase programme took place with the Nairobi Securities Exchange kicking off an undertaking which should see it buy back up to 10.0 per cent of its issued shares by September 24th, 2021. This exercise sets a significant precedent for the capital markets in East and Central Africa particularly for companies which have been trading at a discount for protracted periods. Already, Jubilee Holdings shareholders have approved an amendment which should allow the board to initiate a share buyback programme
- Mid-tier lender, Family Bank, issued a USD 27.8 million bond which registered 147.3% in performance rate by way of subscriptions. This is a major development for Kenya's corporate debt market which has been dormant for a prolonged period following dissipation of investor confidence after two banks collapsed having issued debt instruments.

STRATLINK ADVISORY GROUP - WHO WE ARE

StratLink is an emerging markets focused financial advisory company with Capital Raising Advisory, Corporate Advisory and Market Research as our core business lines. We believe in the growth potential of emerging markets and partner with our clients to execute their vision by providing quality services and access to capital. We recognize opportunities in the region and connect the fastest growing middle market companies with leading global investment banks, private equity firms and family offices. We value the importance of making informed decisions and leverage our regional knowledge to the advantage of our clients.

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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