Cytonn Annual Markets Review - 2017

Sub Saharan Africa Region Review

Sub-Saharan Africa economic growth remained relatively strong in 2017 with the region's average GDP growth for the first three quarters of 2017 coming in at 2.4%, mainly driven by improvements in commodity exporting countries, which benefitted from recovery in global commodity prices and stronger global growth that resulted into increased commodity demand. According to the International Monetary Fund (IMF) October's World Economic Outlook Update for 2017, Sub-Saharan Africa (SSA) is expected to grow at a rate of 2.6% in 2017, from a two-decade low of 1.4% in 2016. This is primarily due to recovery of Nigeria, brought about by a recovery in oil production, recovery of oil prices and growth in the agricultural sector. South Africa continues to drag down growth with 2017 GDP growth being downgraded to 0.7% from 1.0% previously by the IMF, citing the political uncertainty that has led to decreased investor confidence in the country. East Africa is still expected to be the fastest growing region, with an expected GDP growth rate of 5.4% in 2017, owing to growth of 6.5%, 5.2%, 5.0% and 4.4%, in Tanzania, Rwanda, Kenya and Uganda, respectively. In Western Africa, Ghana is expected to grow by 7.9% (Bank of Ghana estimate), while Nigeria's 2017 GDP growth expectation is at 0.8%.

Currency Performance

Regional currencies registered mixed performance in 2017, with the South African Rand emerging the top gainer at 10.3% against the US dollar as the currency rallied towards the end of the year when Cyril Ramaphosa took the leadership position of the country's ruling party, African National Congress (ANC). ANC has been the ruling party in South Africa for the last 23 years, and it is likely that the party's leader will be elected as the president in their 2019 elections. Ramaphosa's win is considered positive as his policies are more business friendly and pro-economic growth. The Nigerian Naira was the worst performer, shedding 14.2% as depreciation continued after the 2016 devaluation. Despite the political uncertainty witnessed in Kenya due to the long election period, the shilling remained stable, only losing 0.7 % as foreign inflows and the Central Bank's activity supported the currency.

Below is a table showing the performance of select African currencies, ranked by 2017 y/y change.

Select Sub Saharan Africa Currency Performance vs USD					
Currency	**Dec-15**	**Dec-16**	**Dec-17**	**2016 y/y change (%)**	**2017 y/y change (%)**
South African Rand	15.5	13.7	12.3	11.2%	10.3%
Botswana Pula	11.2	10.7	9.8	4.8%	8.1%
Mauritius Rupee	35.9	36.0	33.6	(0.3%)	6.7%
Malawian Kwacha	667.8	727.5	725.7	(8.9%)	0.2%
Zambian Kwacha	11.0	9.9	10.0	9.7%	(0%)
Kenyan Shilling	102.3	102.5	103.2	(0.2%)	(0.7%)
Ugandan Shilling	3372.0	3596.5	3641.2	(6.7%)	(1.2%)
Tanzanian Shilling	2160.0	2181.0	2234.6	(1.0%)	(2.5%)
Ghanaian Cedi	3.8	4.2	4.5	(11.3%)	(6.6%)
Nigerian Naira	199.3	315.3	360.0	(58.2%)	(14.2%)

A negative change in the currency indicates a depreciation in the currency against the dollar while a positive change indicates a gain in the currency against the dollar

African Eurobonds

Yields on African Eurobonds continued to decline, shedding 2.3% points on average in 2017, highlighting the improved investor sentiment due to improving macro-economic conditions and a relatively stable political landscape. Zambia, Ghana and Kenya yields for their 10-year Eurobonds declined to close at 6.4%, 5.7% and 5.6% from 8.8%, 8.1% and 7.7% respectively at the beginning of the year.

During the year, there was high appetite for frontier market government securities in Sub Saharan Africa as risk adjusted returns remained higher compared to those in developed economies. Eurobond issued during the year included:

1. Nigeria issued a 15-year Eurobond in February to raise USD 1.0 bn and two Eurobonds of 10 years and 30 years in mid-November to raise USD 3.0 bn for budgetary support. The bonds were oversubscribed, with subscription rates of more than 7.0x and more than 4.0x for the February and November issues, respectively. The yield on the February issue came in at 7.9% while for the 10-year and 30-year November issues came in at 6.5% and 7.6%, respectively,
2. Senegal issued its fourth Eurobond, a new 16-year Eurobond, recording a subscription rate of more than 8.0x and a yield of 6.3% as investors relied on stability in the political scene and economic growth of the country.

Equities Market Performance

Most of the SSA stock markets recorded positive returns in 2017 attributed to improved corporate earnings following resurgent economic growth in commodity exporting countries and an increase in long-term investor interest following cheap valuations on most stocks in these countries. The Malawian market recorded the highest gains of 62.5% and the only market that lost was the West African regional stock exchange BRVM, which lost 4.4%. Malawi closed the year as the cheapest market by P/E, at 11.4x with Tanzania a close second at 11.8x. Ghana was the most expensive market at 31.1x P/E. Below is a summary of the performance of key exchanges:

Equities Market Performance (Dollarized*) & Price to Earnings (P/E)						
Country	**Current Price to Earnings (P/E)**	**Dec-15**	**Dec-16**	**Dec-17**	**2016 y/y change (%)**	**2017 y/y change (%)**
Malawi	11.4x	21.8	18.3	29.8	(16.0%)	62.5%
Ghana	31.1x	523.6	395.6	570.1	(24.5%)	44.1%
Uganda	-	0.5	0.4	0.5	(21.8%)	34.3%
South Africa	20.3x	3273.4	3688.1	4817.2	12.7%	30.6%
Kenya	13.5x	1.4	1.3	1.7	(8.5%)	27.6%
Zambia	13.4x	521.3	421.7	534.8	(19.1%)	26.8%
Nigeria	12.8x	143.7	85.3	106.2	(40.6%)	24.5%
Tanzania	11.8x	1.1	1.0	1.1	(6.7%)	6.6%
Rwanda	-	0.2	0.2	0.2	(12.0%)	2.6%
BRVM	28.5x	0.5	0.5	0.4	(6.7%)	(4.4%)
***The index values are dollarized for ease of comparison**						

The Sub-Saharan Africa region is expected to perform well supported by increased public spending on infrastructural development supported by the high demand for basic needs. Key risks remain reliance on commodity prices and political tension in some countries. Stock markets valuations remain attractive for long-term investors. The improved regional economic growth prospects remain key towards enhancing investor sentiment and attracting investment inflows into the region.