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British Virgin Islands

Masaki  
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14 January, 2021

Dear Investor,

The Fund saw **net gains of 2.94%** in December. Since inception in October, the Fund is **up 13.39%**.

Despite these impressive gains, we are slightly behind the 15.85% gains achieved by our benchmark, the **S&P Africa Frontier BMI USD Total Return Index**. As I've written before, the gains in that index have been driven by an exceptionally strong performance in Nigeria, which accounts for the biggest weight in the index at 45.5%. Kenya comes in second with a 24.5% weighting.

Due to macro risk concerns and capital account irregularities, we have NOT invested in Nigeria at all thus far. I believe the Nigerian currency stands a high chance of being devalued. Gains in Naira terms are all very well, but in USD terms they can evaporate just as fast as they were accrued if the Naira devalues.

For reference, the current "parallel market" exchange rate is 474. That compares to an official rate of 393. So, were the two rates to converge at the parallel market rate, which is based on a more accurate reflection of current supply and demand in the market, there would be an instant decline of 21.3% in US dollar terms in Nigerian stocks across the board. This would be reflected in our benchmark index, too.

All else equal, given Nigeria's 45.5% weighting, a 21.3% drop in the Naira would see 9.7% wiped off the index in one fell swoop. But, with zero Nigeria exposure, we would not be affected, and our relative performance would shoot up.

I don't know if that will happen. But given the not insubstantial odds, and given that there are foreign currency shortages in Nigeria at present, I am happy to stay out of the market for the time being. Right now, those selling Nigerian stocks and wanting to repatriate the money in US dollars must join a queue, and it can take several months to get your money out.

At a micro level, however, there are many great businesses in Nigeria with exceptional returns on invested capital. There are at least two on my current shopping list, should the macro clouds clear. I am watching the market closely, but for now we are staying on the sidelines.



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Going back to our Fund's performance ...

**Gains in December came primarily  
from exposure to West African Economic Union stocks**

We have acquired shares in Senegal's top telecom provider, Sonatel, and one of Cote d'Ivoire's leading packaging companies, Filtisac.

Elections in Cote d'Ivoire were controversial, but the incumbent, former IMF and Central Bank of West African Region Economist, Alassane Outtra, has been sworn in for a third term. If nothing else, this should provide continuity and stability in economic policies, just as in the other big economy in the region, Senegal, where Macky Sall has been President since 2012 and serving in government since 2004.

I like Sonatel as an investment for several reasons:

1. It is a high-quality company majority owned by Orange of France, with strong corporate governance and an excellent management team. The return on average equity is over 27%.
2. With lower mobile data penetration rates, and considerably lower "mobile money" penetration rates, than those enjoyed by Safaricom in Kenya, I believe there is a long runway for future growth. That is, future growth over and above that which is already baked into the pie automatically from the expansion in the addressable market for mobile phone and mobile money services, as the working age population in the West African Economic Union market expands.
3. The valuation is inexpensive for a dominant blue chip company, on a price-to-earnings ratio of 8.3x, enterprise value-to-earnings before interest, taxes, depreciation and amortization (EV/EBITDA) multiple of 3.3x, price-to-book value of 2.1x, and a dividend yield of 10.9%.

This attractive price has been driven to an extent by the presence of a large, forced seller, which has been offloading a sizable position in Sonatel in order to meet redemptions from its fund. We purchased our two blocks of shares from this seller, as I understand it. Our average entry cost is XOF 11,514. The stock last traded at XOF 12,495. It was as high as XOF 13,700 in mid-December. I think it's going back there, and even higher, this year.

Elsewhere in the portfolio, **Tanzania Breweries Limited (TBL)** paid an interim dividend of TZS 160 per share on 17 December. I believe we've seen the bottom in TBL at TZS 5,000 per share. Happily, we picked up a decent block at that low price and have added two more blocks at TZS 5,500, where it is currently being crossed in pre-arranged block trades. Our average cost is TZS 5,218.



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Stanbic Uganda will go ex a UGS 2.15 per share dividend on 18 January, which represents a yield on our purchase price of 8.9%. Interestingly, however, this is the dividend that relates to the 2019 financial year, which was forcibly delayed by Ugandan Central Bank regulations in the wake of the coronavirus pandemic erupting.

All being well, Stanbic will pay us a second dividend sometime in May 2021, pertaining to the 2020 financial year. So, we are looking at an **extremely healthy yield** on this position for the current year.

### **Fully invested with \$5mn under management now**

We have already deployed substantially all of our capital (nearly US\$5 million now), in the same 11 companies we held at the end of last month.

Since I last wrote to you, I have added to our positions in Tanzania Portland Cement Company (Twiga Cement - TPCC), Tanzania Breweries Limited (TBL), Dar es Salaam (DSE), and MCB Group (MCBG) in Mauritius.

My meetings in Kenya during December yielded four more companies to put on our watchlist. The only Kenyan company we own so far is Equity Group Holdings in the banking sector.

Circle Partners earlier today sent you your Holding Statement showing the change in valuation of your shares for the period 1 December - 31 December.

If you invested on the 4 January dealing date, Circle has also sent you a Contract Note indicating your initial investment in the African Lions Fund Class B Participating Shares January 2021 Series.

As previously indicated, I will host a quarterly Zoom call for all investors this month. I am still trying to decide on the most suitable time. I will circulate a link to you in the coming days.

This is part of my commitment to leveraging technology to provide a more open and transparent service to you than most small funds such as ours do.

In the same vein, if you have not yet joined the African Lions Fund Telegram Channel, I urge you do so. Via this channel, I share regular firsthand observations and commentary from on the ground here in Africa. Specific stocks are also discussed.

You can join here: [https://t.me/joinchat/AAAAAE6iI5\\_GjwTQ0lyNwg](https://t.me/joinchat/AAAAAE6iI5_GjwTQ0lyNwg)



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Should you have any questions, please reach out. The easiest way to contact me is via email: [tim@africanlionsfund.com](mailto:tim@africanlionsfund.com).

Until our Zoom call next week...

Kind regards,

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