



Sea Meadow House
 PO Box 116
 Road Town, Tortola VG-1110
 British Virgin Islands

Masaki, Dar es Salaam
 Tanzania

20 August, 2021

Dear Investor,

As you will have seen from your holding statements, which Circle Partners circulated at the end of last week, the Fund gained modestly in July. For the Lead Series, net gains after all fees and expenses came to 0.7563%. That leaves the Fund up **26.89% since inception** last October.

For other Series, the net gains for July were slightly higher, reaching as much as 0.9859%. This came about due to previously accrued performance fees being scaled back slightly, after the fund underperformed the hurdle rate of return. The hurdle rate came to 2.31% for the month, based on the monthly gain in the S&P Africa Frontier BMI Total Return Index.

**Our smallest holding gained the most,
 while our biggest holding fell the most, in July**

Security	Ccy	Current price	Current date	Previous period price	Previous period date	% Movement
African Lions Fund Ltd.						
LETSHEGO HOLDINGS LTD	BWP	1.05	7/30/2021	.88	6/30/2021 (F,U,B,BG)	19.3182%
CALBANK PLC	GHS	.70	7/29/2021	.70	6/30/2021 (F,U,B,GN)	0.0000%
SCANCOM PLC	GHS	1.25	7/30/2021	1.20	6/30/2021 (F,U,B,GN)	4.1667%
BRITISH AMERICAN TOBACCO-KEN	KES	465.00	7/30/2021	450.00	6/30/2021 (F,U,B,KN)	3.3333%
EQUITY GROUP HOLDINGS PLC	KES	48.90	7/30/2021	44.75	6/30/2021 (F,U,B,KN)	9.2737%
KENYA REINSURANCE CORP LTD	KES	2.57	7/30/2021	2.47	6/30/2021 (F,U,B,KN)	4.0486%
MCB GROUP LTD	MUR	291.00	7/30/2021	273.00	6/30/2021 (F,U,B,MP)	6.5934%
DANGOTE SUGAR REFINERY PLC	NGN	18.50	7/30/2021	18.75	6/30/2021 (F,U,B,NL)	-1.3333%
BK GROUP PLC - RWF	RWF	235.00	7/30/2021	240.00	6/30/2021 (F,U,U)	-2.0833%
BRALIRWA SA	RWF	120.00	7/30/2021	114.00	6/30/2021 (F,U,B,RW)	5.2632%
DAR ES SALAAM STOCK EXCHANGE	TZS	1,180.00	7/30/2021	1,300.00	6/30/2021 (F,U,B,TZ)	-9.2308%
NMB BANK PLC	TZS	1,700.00	7/30/2021	1,700.00	6/30/2021 (F,U,U)	0.0000%
TANZANIA BREWERIES LTD	TZS	4,150.00	7/30/2021	4,600.00	6/30/2021 (F,U,U)	-9.7826%
TANZANIA PORTLAND CEMENT CO	TZS	3,900.00	7/30/2021	3,600.00	6/30/2021 (F,U,B,TZ)	8.3333%
STANBIC BANK UGANDA LTD	UGX	26.00	7/30/2021	26.50	6/30/2021 (F,U,U)	-1.8868%
FILATURE SA	XOF	1,950.00	7/30/2021	2,090.00	6/30/2021 (F,U,B,BC)	-6.6986%
SONATEL	XOF	14,280.00	7/30/2021	13,500.00	6/30/2021 (F,U,B,BC)	5.7778%

Above is a full table showing how our stocks moved in July. You'll note a 19.3% gain in



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Letshego, a microfinance company listed in Botswana. That was our biggest winner for the month. But unfortunately, it is also our smallest position, at just 1% of the Fund's NAV.

Other notable gains during the month came in **Equity Bank**, up over 9% and **MCBG**, which was up over 6%, as well as **Twiga Cement**, which rose by 8.3%.

Meanwhile, there were drops of over 9% in two of our largest positions. **Dar es Salaam Stock Exchange** dropped 9.2%, though most of that price drop is explained by the stock going ex-dividend (TZS 116.83 per share.) Finally, **Tanzania Breweries**, which is our **LARGEST** position now, with over 15% of the Fund's NAV invested in it was down 9.8%. However...

**I'm cautiously optimistic Tanzania Breweries Limited (TBL)
will report good 6-month results when numbers come out next month**

I recently had a good conversation with Yannick Bomans, TBL's Business Development Director, who also doubles as Finance Director here in Tanzania, some days after the company's AGM.

In short, while the business environment remains challenging, the company's sales so far in 2021 are comfortably ahead of where they were in 2020, and back ahead of 2019 levels in most areas of the country. This applies to both the "mass market" beer segment, which had been struggling badly, as well as the higher value "core," and "core-plus" brands, such as Kilimanjaro Premium Lager and Castle Lite, which is doing particularly well.

The spirits business, which is a lower margin business than beer, continues doing OK too, and it's only in the **tourism-dependent North East of the country** where overall sales numbers still remain well down on pre-Covid (2019) levels.

The reason for the drop in the share price from TZS 5,000 in recent months was aggressive selling by a fund that was closing. African Lions Fund picked up some shares at TZS 4,600 and TZS 4,500 from this seller at the end of June and beginning of July, but ultimately, they sold their last block even lower, at TZS 4,100, before bidders came in at TZS 4,150, which is the price we've based our July 30 Fund valuation on.

Subsequently there was a cross trade at TZS 5,000. But now I am aware of another large block for sale at TZS 4,500. I bid TZS 4,000 for part of that block. But the seller refused.

Let's see what happens. My view is that if one takes a longer-term view - as we do at African Lions Fund - these prices for TBL shares will look like a steal in the not-too-distant future.



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The upcoming 1H2021 results announcement may even be the catalyst that finally sees the stock rally off the canvas. It is worth noting that TBL's fellow blue chip, **Tanzania Cigarette Company Limited (TCC)** has just reported good sales for the first half of 2021, up by 11% gross (or 8.3% after netting out excise duty).

The reason I refer to the gross number is that this indicates the growth in the out of pocket spend by TCC's customers - many of whom are also TBL customers. Clearly, those who enjoy a smoke and a drink in Tanzania had more money to spend on their vices in the first half of 2021 than they spent in the same period in 2020.

There was another interesting bit of information this month related to TBL. The parent company of its closest competitor, **Serengeti Breweries (not listed)**, increased its stake in Serengeti. Though it is doing well, Serengeti remains a distant second in market share for beer, behind TBL. Serengeti, which has about 15% market share, saw its parent company, **East Africa Breweries of Kenya (EABL)**, which has about 13% of the Tanzanian beer market in its own right, increase its ownership stake in Serengeti.

EABL paid US\$74 million in cash and the assumption of debts to buy 30% of the company from one of Serengeti's minority shareholders and raised its economic interest from 74.5% to 85%. (A side-deal on debt forgiveness had meant EABL had a larger economic interest than its legally recorded shareholding).

This is interesting because it implies that EABL effectively paid US\$74 million for 10.5% of Serengeti, or approximately 1.575% of overall Tanzanian beer market share. (Namely, buying an additional 10.5% of Serengeti's 15% overall market share).

Given that TBL has approximately 72% of the market for beer, this part of its business alone, based on the valuation of the recent EABL/Serengeti transaction, is arguably worth as much as US\$3.38 billion, or TZS 11,450 per TBL share, in a change of control type transaction.

So, as you can see, buying TBL at 4,500, provides us with significant potential upside. What's more, as far and away the dominant player in the beer market, TBL should arguably be on a higher valuation multiple than Serengeti. Plus, in addition to its beer business, it has a huge spirits business as well.

What this means is that, in addition to excellent potential upside, we have bought our TBL shares with a great margin of safety. Therefore, I am comfortable with an aggressive portfolio weighting of 15% to 16% in the stock.

I am eagerly awaiting the final 1H2021 numbers, which the company indicates should be released to the market in the next 4 or 5 weeks.



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If TCC's results, which I referred to briefly above, are any indication of the overall health of the consumer economy in Tanzania, the worst should be behind TBL, and an earnings recovery well underway. I would thus expect the share price to follow. As always, should you have any questions about the Fund, please reach out. The easiest way to contact me is via email: tim@africanlionsfund.com.

I strive to provide an unusually high level of transparency for you in this fund. So, please make use of it if you wish.
Until next time...

Kind regards,

Tim Staermose
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P.S. If you have not yet joined our Telegram Channel, you can do so here: https://t.me/joinchat/AAAAAE6il5_GjwTQ0lyNwg