



Sea Meadow House
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29 November 2022

Dear Investor,

The Fund was basically flat in October, with the Lead Series losing a modest -0.13%. Most other Series were down even less, as there were no performance fees accruing on them. Our hurdle index meanwhile returned -1.22%, meaning further outperformance for the Fund. We ended October with US\$18.1 million under management.

The Fund is 19.23% ahead of the hurdle index since inception

Here is how the fund has been doing on various time horizons.

Since inception	YTD (%)	1-Month	3-month	1-year
34.62%	2.22%	-0.13%	-2.41%	5.17%

As you'd be well aware, it's been tough for stocks all around the world in 2022. It has also been a tough year for nearly all currencies, except the US dollar.

This has proved a drag on our returns. The Ghanaian cedi in particular has hurt our performance, though MTN Ghana, our largest holding in Ghana, for its own part, continues to do fantastically well as a business. From January 1 to September 30, 2022, its **EPS grew 48.7%** vs last year's comparable 9-month period.

But it's far from the only company we own that has been reporting excellent earnings growth. NMB Bank, as I've previously highlighted, saw **53.3% year-on-year EPS growth for the first nine months** of the year. And, setting aside the distortionary effect of an abnormally low tax rate in the third quarter of 2021, which inflated the base-year comparison, Tanzania Breweries Limited also reported a solid 22.8% operating profit increase for the January 1 to September 30 period.

However, all these impressive earnings results are seemingly not being (fully) reflected in share prices here on Africa frontier markets. [Christopher Hartland-Peel](#), whom I occasionally commission to provide research reports for us, has done some interesting analytical work on this topic. Christopher is the go-to guy for this sort of analysis, as he has a database spanning more than 30 years of historical market analytics from Africa frontier markets.

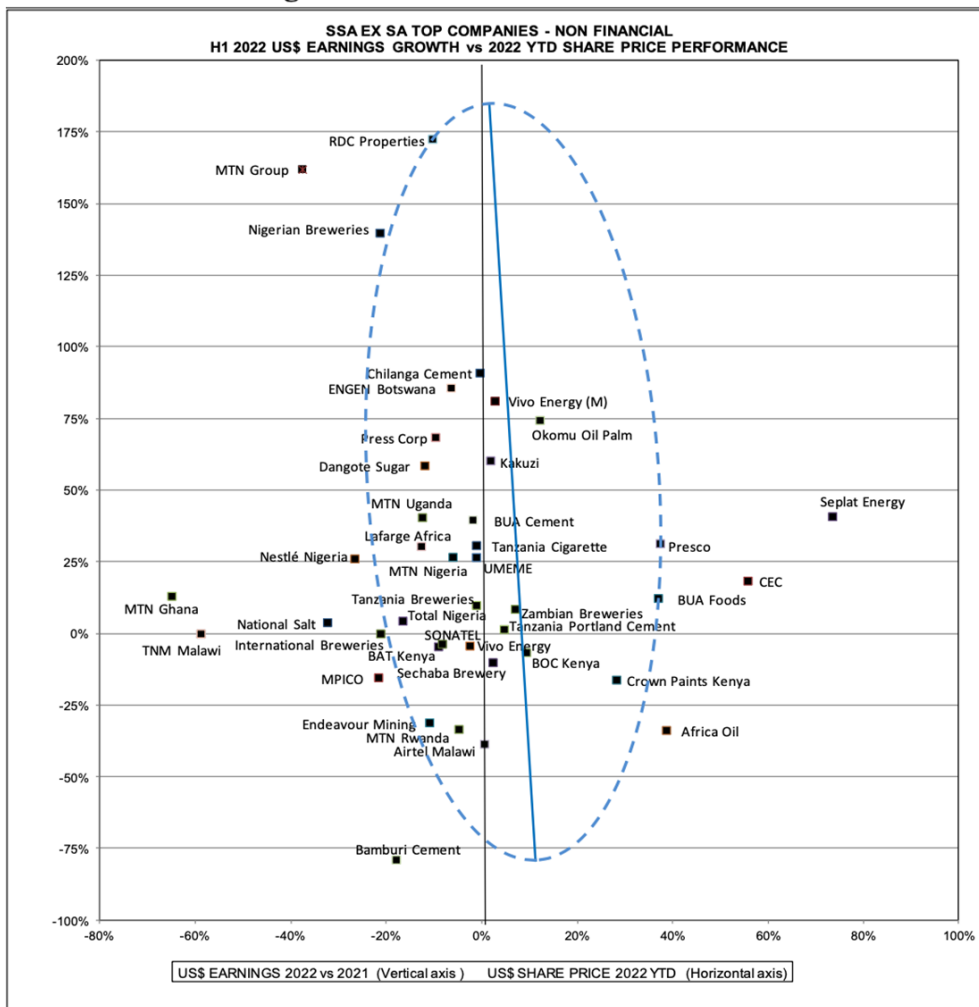


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Somewhat shockingly, for non-financial companies, Christopher's work demonstrates...

**A NEGATIVE correlation between
 fundamental performance and share prices so far in 2022**

**SSA EX SA - JUNE 2022 HALF YEAR RESULTS:
 MANUFACTURING, COMMERCIAL, OIL & MINING
 US\$ Earnings Growth vs US\$ Share Price Performance**



Sources: Country stock exchanges and company releases.

The key points from the above graph are:

1. Of 60 manufacturing, commercial and mining companies in SSA ex SA most have reported increased H1 2022 earnings in US\$ terms but share prices have fallen.
2. Negative correlation between earnings growth and share price performance. This raises the question as to whether brokers and investors are analysing companies.
3. Also it appears that most companies are not getting their message through to investors.



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This is totally against what you'd expect. So, what is going on? Are Africa frontier equity markets broken? Does price discovery not occur? Is value investing dead?

I don't know the answers, but here are some observations:

1. Most local investors in Africa Frontier markets seem to be long-term, buy and hold investors. They don't trade much.
2. When prices do get temporarily out of whack, there does not seem to be a contingent of local investors who step in and take advantage.
3. At the margin, foreign investor activity sets share prices.
4. Most listed African businesses are too small for foreign institutional investors to even look at.
5. **Local investors seem to value equities largely on the basis of dividend yield.** If they can get 14% on a long-dated government bond, they are not too excited about an investment in equities that might yield 11% or 12%, even where the dividend stream of a stock might be showing good compound growth, versus bond coupons that are fixed.
6. Locals seem to pay less attention to other valuation metrics, such as P/E ratios or P/B ratios.

Does that mean we are kidding ourselves that the companies we buy today at "cheap" P/E and P/B valuations will ever re-rate to valuations that are more reflective of business fundamentals? Perhaps. Especially in the short term.

That said, while they may seem "stuck" in price now, stocks such as Twiga Cement, which has rallied from 1,900 to 3,700 since 2020, and NMB Bank, which has rallied from 1,700 to 2,900 since 2021, have seen very good appreciation in the longer run.

Even in the absence of a more active local investor scene that leads to more trading and aids short-term price discovery, I think we can still do very well from our Africa frontier stocks for two main reasons:

- 1) The sheer weight of money companies are making, and the compound growth in EPS, will be impossible to ignore. Look at NMB Bank. Its earnings have will have more than doubled since 2020.
- 2) It is my thesis that, in the long run, interest rates on government bonds will come down, as more capital flows to Africa. The problem now is capital is so expensive because it is in short supply. Thus, governments pay high rates of interest on bonds to attract the capital they need. As African capital markets open up further, and as more money from wealthy markets seeks a better rate of return, bond yields must come down... just as they did in developed markets for four decades (1982 to 2022).

Very simply, as value investors, we are trying to buy stocks on valuation multiples that we believe have the potential to rise as the market better understands the fundamentals of the companies concerned, and / or the macro investing environment and sentiment improves. I think we are at a



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low ebb on both the market's understanding, and for macro conditions here in frontier Africa. As far as I am concerned, the only way is up. But if I am wrong, we'll just have to be satisfied collecting fat dividend payouts.

TBL pays a TZS 290 per share dividend on December 20
(a 5.7% yield based on our average acquisition cost)

After reporting its third quarter earnings, a couple of weeks later, TBL announced a dividend. The company matched last year's payment of TZS 290 per share. Given our average acquisition cost of just over TZS 5,000 we're pocketing a 5.7% gross yield. While that is more than double the S&P 500's sub-2% yield, I think the company could have paid more. It has a net cash balance sheet (cash on hand exceeds liabilities), and I predict earnings per share will be well over TZS 550 for 2022. So, the payout ratio is modest. I have let the CFO know my thoughts. I hope to meet with him again face to face in early December.

The next likely dividend for the Fund will come from BK Group, Rwanda's biggest bank. We are expecting its 9-month results announcement any day. When I met with BK Group's management at the EFG One on One Conference in Dubai in September, all indications were that an interim dividend was highly probable. We await the earnings announcement with anticipation.

What's next?

The year is drawing to a close. I'm hoping to finish strongly. We'll rule off our accounts December 31. While we are unlikely to finish ahead by much for the calendar year, we should finish well ahead of the hurdle index.

Longer term, there's really not a lot to do but wait patiently for the market to recognize the performance of the companies we own. All our big holdings, Twiga Cement, NMB Bank, Tanzania Breweries, Sonatel, BAT Kenya, and so on, are continuing to post excellent earnings growth.

All will pay handsome dividends. While TBL is paying soon, most of the rest pay in May and June. There is a pig in the python effect for our portfolio performance at that time.

Currently, as we are still trying to scale-up the Fund so that we spread the fixed costs of our operations over a larger base of assets under management, we retain and reinvest these dividends. In the future there may, however, come a time when we pay out these dividends.

We have several new investors this month. Welcome. If you are not yet connected to it, please be aware that, as usual, I continue to post updates in our Telegram channel, accessible here: https://t.me/joinchat/AAAAAE6il5_GjwQ0lyNwg and via Twitter (@globalvaluehunt).

Until next time...



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Good investing!

A handwritten signature in black ink, appearing to read "Tim Staermose".

Tim Staermose
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