



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

Dubai
United Arab Emirates

15 April, 2021

Dear Investor,

The Fund saw a 1.68% drawdown in March from the record highs reached at the end of February. That compared with a modest 0.23% gain for the month in our benchmark, the S&P BMI Africa Frontier (Total Return) Index.

Since inception, the Fund is up 11.8%. That's slightly behind the benchmark, which is up 13.9% in the same period.

Last month's decline for the Fund can largely be attributed to a 14.7% markdown in the value of our significant holding in NMB Bank (NMB on the Dar es Salaam Stock Exchange) in Tanzania, to TZS 1,450 per share. There was a foreign fund desperate to exit its position, as it was shutting its doors, and they accepted this low price to get out. The buyer was a local fund.

We unfortunately did not have any spare cash at the time the deal was agreed, or I'd have bought some NMB in the same cross-trade if I could have. If you recall, we were successful buyers of NMB in January at TZS 1,700.

This pattern of forced sellers, due to funds liquidating, or mandates changing, has been repeated often lately. For example, I was on an earnings results conference call for CAL Bank, Ghana, Wednesday, which I had bought for the Fund the day before on about a 17% dividend yield, and around 0.4x book value.

CAL Bank generated an ROE in excess of 20% last year, and has a strong balance sheet with a capital adequacy ratio of more than 23%, which is double the statutory requirement set by the Ghanaian regulator.

The investor relations officer at CAL Bank told all those on the call matter-of-factly that there had been a significant recent sale of shares by a fund that was exiting, to "allocate more capital to the USA." I'll gladly keep buying from price insensitive sellers such as this. Indeed, having paid 0.64 for stock the other day, I just saw an email from my broker's trading desk that they crossed another block today at 0.69. So, we're already up.

We'll collect better than a 14% dividend yield on Twiga Cement

Alas, there doesn't appear to be a chance of any more bargains in Twiga Cement (TPCC on the Dar es Salaam Stock Exchange), which just announced blockbuster earnings results for 2020.



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For 2020, Twiga's net profit grew 26.7%. EPS rose from TZS 332 in 2019 to TZS 421 in 2020. On the back of this excellent performance, management has hiked the proposed dividend from TZS 290 to TZS 390. That represents a **dividend yield of more than 14%**, based on the small volumes of shares that have recently traded at a price of TZS 2,740.

Not surprisingly, there are no sellers of this stock around!

Unfortunately, since the last trade in big enough volume to see the price on the DSE adjust was at TZS 2,500, the lack of adequate price discovery in Twiga shares is also holding the fund's valuation down, as our position is still booked at TZS 2,500 per share.

The reason for these price discrepancies, as I have previously explained, is that the DSE has rules that a certain volume of a company's shares must trade at a certain price in regular market trading, and not via a pre-arranged block trade, before they adjust the recorded closing price to that new level.

Many of the Fund's other holdings have also reported annual results for 2020. All but two have been in line, or above my expectations

The two laggards, **Equity Group Holdings (EQTY on the Nairobi Stock Exchange)** in Kenya, and **MCB Group (MCBG in Mauritius)**, are banks that have made very cautious loan loss provisions for 2020, because of the effect of Covid-19 lock-downs and restrictions on the businesses of their borrowers.

Other banks we own, such as **BK Group (BKG in Rwanda)**, and **Stanbic Uganda Holdings (SBU on the Uganda Securities Exchange)**, reported results that were actually very strong, despite the impact of Covid.

BK Group, in particular, has been a standout performer. It is the top performing stock in our portfolio with gains of 107% in under 6 months. Stanbic Uganda, meanwhile, was our best performer in March, with a gain of 7.3% for the month. It also paid a (delayed) dividend of UGS 2.15 per share for the 2019 financial year during the month. We were thus sitting on total gains of 21.9% in SBU at the end of March. The stock is up further since.

During March, we added to our position in **Tanzania Breweries Limited (TBL in Dar es Salaam)** at TZS 5,000 per share. The company has finalized its 2020 results and sent them to the regulator in Tanzania for sign-off. They should be published soon.

I expect these results to be a far cry from those of Twiga Cement, and fairly pedestrian. But that low expectation should already be in the TBL share price. Time will tell, but TZS 5,000 may mark the bottom in this dominant blue-chip company's shares, setting us up for handsome gains going forward.



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At the top of the last market boom, TBL traded as high as TZS 15,440 per share. The business has grown since then, and there is absolutely no reason it cannot trade at, and above, that level again in the years to come.

We also added a new position in MTN Ghana (MTN on the Ghana Stock Exchange), the leading telecom company in that West African nation. The stock had already rallied strongly off the pandemic lows. The results reported for 2020 were excellent, and I decided to pay up for some shares. Alas, I only got a small position at 0.84 Ghana cedi, before the stock took off on another run higher. It recently hit 0.93.

In all, March saw six of our 13 positions gain in value, with gains ranging from 0.13% to 7.29%. Four of our positions lost ground (-2.0% to -14.7%), and three positions were unchanged.

We were all but fully invested at the end of March, but with significant capital flowing into the fund for the April 1st dealing date, we are currently about 13% in cash. As mentioned, I have bought some new positions this month. But two of them (CAL Bank, as well as a second one I won't mention as I am still interested in buying it at current levels) are small.

I am also still in the market to buy more of the third, larger position, where lower, not higher prices are in the offing, potentially. So, I won't mention that one just yet either.

Housekeeping updates

Once again, I want to wish a warm welcome to all our new investors. Again, this month, several existing investors also added to their investments. Thank you all.

At the end of March, we got our first institutional investment, from a publicly-listed investment company in Australia. It is our biggest investor so far, and at the April 1 dealing date, added approximately 20% to the size of the fund, which now tops US\$8 million of assets under management (AUM).

At March end, we owned 13 investments spread across seven different markets. Already in April we have added three new positions. So, as things stand now, we have investments in 16 companies across eight different markets.

I will again host a quarterly Zoom presentation in the coming weeks. Exact details to follow. This time I will try and make the timing friendly to our USA-based investors.

If you have not yet joined our Telegram Channel, I encourage you do so here:

https://t.me/joinchat/AAAAAE6iI5_GjwTQ0IyNwg



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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.

Until next time...

Kind regards,

Tim Staermose
Founder, African Lions Fund Ltd
tim@africanlionsfund.com