African Markets Outlook 2022

Tim Staermose, CEO, ST Funds Management

WHAT WAS THE HIGHLIGHT OF 2021?

I think the biggest highlight for African markets in 2021 was the strong bounce back in corporate earnings, which had not necessarily been forecast. Most listed companies had obviously seen a tough operating environment in 2020 due to the pandemic mitigation strategies imposed by most governments. Banks, in particular, took huge precautionary loan loss provisions in their 2020 accounts, as well as realizing losses as clients in hard-hit sectors of the economy, such as tourism and hospitality, simply could not pay back loans, and required debt relief and repayment holidays.

However, led by generally successful debt rescheduling, gradual opening up of many economies, and resultantly, much lower loan loss provisions in 2021, banks across Africa reported MUCH HIGHER net profits through 30 September, 2021. That, plus the continued migration to digital channels such, not just for banks but also some retailers, has helped curb the impact of the pandemic on reported earnings.

According to Hartland-Peel Africa Equity Research, for example, in the universe of African frontier stocks they monitor "earnings of the 64 companies that have reported for the nine months ended September 2021 amounted to $5.6bn, up 44% on the nine months to September 2020."

WHAT ARE YOUR EXPECTATIONS FOR 2022?

Making forecasts is always fraught with risk, but if I were to guess at what 2022 has in store, I think this is the year that the Covid pandemic, as a health challenge at least, potentially fades into the rear view mirror. Evidence is mounting in countries as diverse as South Africa and Denmark, that the Omicron variant is not causing nearly as many serious health complications. At the same time, it's so infectious it's almost impossible to control the spread. As a result, a majority of people will likely contract it. It is clearly outcompeting the prior, more deadly strains of the virus. While people getting sick is never good, in relative terms, this is good news. People will get sick, but, vaccinated or not, most will quickly shake off the disease, and develop a degree of immunity.

For those countries where governments acknowledge these new circumstances, and decide to get back to life as normal, I see a brighter economic future ahead. Hopefully, most African governments are in this camp. I note that Uganda has at last re-opened schools, for example, after nearly two years. These developments should see African economies and businesses return to pre-pandemic levels of activity and resume growing. The return of international tourists and business travellers will also be welcome.

WHAT INVESTMENT OPPORTUNITIES DO YOU SEE IN AFRICAN MARKETS/SECTORS?

I will restrict myself to talking about listed equities, as that's my focus. Though, no doubt there will be many compelling privately held investment opportunities as well. It's no secret I have been bullish on Tanzania, where I have also chosen to base myself, for the past few years. Among frontier market fund managers this was very much a contrarian view. But with the Tanzanian economy continuing on a growth trajectory even during the worst periods of the pandemic, a change to a more outwardly focussed and investment friendly administration, and an improving business climate, my views appear to be being vindicated.

Other investors have been slow to consider buying back into the Dar es Salaam market, but I note a slight uptick in buying interest, and less selling since the turn of the year. Tanzania's leading banks, CRDB and NMB, which is my preferred investment, are trading on low valuations by any objective measure, and with net profit growth of over 40%, clean loan books, and accelerating private sector credit growth, I think they merit a close look.

Infrastructure development continues unabated, too, and my contacts tell me the housing construction industry has also turned the corner, notwithstanding supply chain issues with imported materials. Cement is my chosen investment vehicle to ride this trend, and African Lions Fund has made a substantial investment in industry leader, Tanzania Portland (Twiga) Cement.

Across the continent, mobile money continues to grow apace. Safaricom keeps setting records. Its share price discounts a lot of that however, and my attention has been on companies such as MTN Ghana, and Sonatel, which are selling on much less demanding valuations. The recent listing of MTN Uganda was carried out on a multiple quite a bit higher than those applying to MTN Ghana and Sonatel, but it's also on my watch list as a good company to invest in should the share price dip further from the aggressive IPO price of UGS 200/- per share.

Cheryl Buss, CEO, Absa International

WHAT INVESTMENT OPPORTUNITIES DO YOU SEE IN AFRICAN MARKETS/ SECTORS?

There are a number of sectors we see as having key investment opportunities. One of the largest sectors for investment is power and energy, especially after COP26. Africa is still heavily invested in coal, but there is now a large focus on how to support Africa in the just transition from an Africa-centric perspective.

The mining and minerals sector is still an important investment opportunity, especially when it comes to minerals that would support renewable energy infrastructure, such as battery storage. However, many mines in Africa still have power and energy struggles, and have taken themselves off grid in order to adapt to the environmental risks. We could certainly see investment in the private sector industrial mining industry, especially as larger plants look to shift from diesel to other sources of energy supply, such as gas, solar or a hybrid approach.

Another area of investment is the logistical sector in Africa, from ports to rails to roads, infrastructure has downstream impact on all other sectors.

WHAT TRENDS ARE GETTING UNDERWAY THAT INVESTORS MAY NOT KNOW ABOUT, BUT WILL BE IMPORTANT?

One of the more upcoming trends that investors should be paying attention to is the development of true public-private partnerships, or PPPs. African governments tend to be highly leveraged and financially constricted, so there is a lot of scope for private investment alongside public investment in public projects, which would help get certain transactions and projects off the ground.

Especially with growing concerns over public sector debt, there is a gap in the market for private investors to partner with public investors to help Africa achieve its public investment goals. With global M&A market pickup increasing, there is an abundance of investment opportunities that would benefit from PPPs in Africa.

WHAT ARE YOUR EXPECTATIONS FOR 2022?

In 2022, I'm really hoping to see Africa continue to come together as it has in the past year – from the Africa Continental Free Trade Area to setting out specific African and developing country objectives at COP26 – to achieve continental goals. Africa has started to find its voice as a union, and is beginning to notice that it is more powerful when the continent's goals are aligned, rather than competing.

At the same time, Africa needs to continue championing specific regional demands to help its progress as a continent.

Sherifa Issifu, Index Investment Strategy Associate, S&P Dow Jones Indices

WHAT WAS THE HIGHLIGHT OF 2021?

With a thumping full-year total return of 160%, Zambia closed 2021 as the best performing stock market out of nearly 90 global markets covered by S&P DJI Indices (in U.S. dollar terms, as of December 31, 2021). 81 percentage points separated Zambia from runner-up Lebanon, which rose 79% last year. Zambia wasn't just a leader in equities, but also in bonds, with the S&P Zambia Sovereign Bond Index in U.S. dollars rising 110% in 2021. The large appreciation in equity and bond indices was driven in part by the strengthening of Zambian Kwacha (ZMW) versus the U.S. dollar (USD) in 2021.

WHAT SURPRISED YOU IN 2021?

It was interesting to see Communication Services as the best performing sector in South Africa instead of Energy (otherwise the leader in most regions). The 66% total return of the South African comms sector was driven in no small part by its largest constituent MTN Group, which rose 184% to contribute 64%. Consumer Discretionary was South Africa's sole sectoral decliner: its largest weight Naspers pulled to the rear amidst increased Chinese regulation on technology firms. The S&P South Africa BMI Consumer Discretionary shed 17% and pulled down the segment's returns across the region - excluding South Africa, African Discretionary stocks would have added 25%.

The S&P Pan Africa BMI Energy rose 47%, driven by rising commodity prices which also helped to push inflation to a nearly 40-year high in the U.S. (and in several other major economies). Although South African CPI YoY has also risen, November 2021's figure of 5.5%is still far below its post-1964 average of 9%. Commodities rebounded from the prior year's drawdowns by an impressive degree. 2021 was the third-best ever annual performance (following one of its worst) of the production-weighted S&P GSCI, and its best performance since 2000. According to our Global Head of Commodities and Real Assets, Fiona Boal, "the simultaneous supply and demand shocks caused by the pandemic in 2020 were followed by a perfect storm of delayed production increases, strong global demand, and supply bottlenecks in 2021 which helped elevate the index and its components."

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Federal Reserve decisions are being watched closely, and the outlook is changing fast. Short-term interest rates futures have moved sharply in recent weeks to now imply a much steeper lift-off U.S. rate by year-end, moved up to a roughly 1-in-3 probability of rates higher than 1.25% by the final FOMC meeting of 2022. (as of January 17). My colleague Benedek Vörös recently highlighted the difference in emerging market performances when the Federal Reserve last hiked rates and the potential implications of tapering this time, emphasizing that "low foreign exchange reserves as a percentage of their external debt, and high current account deficits as a percentage of their GDP" may make markets more vulnerable.