



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

Rufiji River Camp
Nyerere National Park
Tanzania

November 14, 2021

Dear Investor,

The Fund **gained a further 1.06%** in October and ended the month with slightly more than US\$12.5mn under management. Since inception last October, the Fund is **up 28%** after all fees and expenses.

We continue to lag the S&P Africa Frontier BMI (Total Return) Index against which we measure our returns to derive a hurdle rate for our performance fee calculation. At this stage, the only Series of shares for which we are ahead of the hurdle rate, and a small performance fee is thus accruing, is the February 2021 Series.

Bolder Investment Services, formerly Circle Partners, circulated your October Statement last week.

In my last letter, and then again on the quarterly investor call ([replay here](#) if you missed it), I discussed the “benchmark” index we compare our result to, pointing out there are some flaws with it, most glaringly the current lack of full currency convertibility on the Nigerian portion of the index, which accounts for the largest single portion, at approximately 40%.

However, having taken an active view that Nigeria is more likely than not to see a merging of the official and “parallel market” exchange rates at some point, the consensus among investors is to wait and see if I am right – in which case we will derive a measure of outperformance owing to that currency devaluation event.

Secondly, investors are generally comfortable with my **active decision to not own Safaricom**, in Kenya, as it doesn’t fit the second part of our mandate for the stocks we buy, which must:

1. Have the potential, in our estimation, to *at least* double sales and net profits on a 5- to 10-year view, and;
2. Be trading at a valuation multiple that we also consider can double on the same timeline.

Indeed, this month Safaricom has come in for some selling pressure, despite last week’s report reflecting a decent set of earnings numbers for the first half of its fiscal year. The reason is political uncertainty in Ethiopia, where it has acquired an operating license, and is planning significant investments over the coming years. The war in Tigray seems to be threatening to spill over into a broader civil war, and some investors evidently decided not to hang around to find out.



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October saw earnings releases from several of our portfolio companies, and I'm happy to report they were all in line with, or better than, expectations...

Dar es Salaam Stock Exchange (DSE) reported third-quarter net profits that were up 9% year on year. The way I think about this company is that it's a large portfolio of high-yielding bank deposits, and government bonds, which earn a blended yield of well over 10% per annum, with an active stock and bond exchange business attached.

There is absolutely no reason for a capital-light business such as this, whose main asset is the government-granted license to operate the only securities exchange in Tanzania, to be hoarding such a large amount of cash and investment securities. As such, I expect the company will continue to pay out handsome dividends that extend well into the double digits based on our TZS 841 average acquisition cost.

The other big earnings release in Tanzania was **NMB Bank (NMB)**. Compared to the first nine months of 2020, this year has seen net profits increase by a whopping 42.2%. The bank is on track to meet or better my 2021 EPS projection of TZS 575.

We can expect a likely dividend of between TZS 175 and 200 as well, making for at least a 10.4% yield, based on the Fund's TZS 1,677 average entry price.

In a way, NMB is a leveraged play on the Tanzanian government bond market. The bank takes in low-cost deposits on which it pays interest to customers in the low- to mid-single digits and turns around and invests a large portion of that in government securities at rates as high as 15%.

The bank also lends to public sector employees, giving them salary advances that are then paid back automatically as their pay is credited to their bank accounts. Corporate lending is NMB's other major activity but accounts for less of its business than it did last credit cycle. The bank has a non-performing loan ratio now of just 3.8%. Moreover, all bad loans are fully provisioned for.

Growth will likely slow as the credit cycle matures, but I struggle to think of anywhere else where we can buy a company growing profits at better than 40% for a multiple only slightly more than 3 times this year's likely earnings.

To put the numbers into a context that we as individuals can better relate to, NMB is like a business that will make at least \$124,000 in net profit this year but is currently offered for sale at \$405,000.

Would you buy the whole of that business, given the chance? I dare say your answer would be a resounding, "Yes!" Not only that, profits in 2022 might climb to as much as the equivalent of \$175,000 in our scaled down example, if the current 40%+ growth rate persists.

That's why we have allocated around 15% of the Fund's portfolio to NMB at this stage.



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The other good news about NMB this month is that the shares are now trading actively again on the Dar es Salaam Stock Exchange, with demand and supply finally meeting consistently in the TZS 1,800-1,900 range.

Over in West Africa, October saw Sonatel report results up almost 35% vs. year ago levels

Sonatel (SNTS), a 42%-owned subsidiary of Orange Telecom in France, dominates the market for mobile telephony, internet access via mobile data plans, and mobile money services in the West African Economic Union countries of Senegal, Mali, Guinea, Sierra Leone, and Guinea Bissau.

For the nine months ended September 30, sales grew 10% versus the same period a year ago, on a 9.5% increase in the number of customers, but net profit grew even faster, rising by 34.7%, thanks to impressive cost control, and lower depreciation charges. Free cash flow expanded 13.9%.

We remain happy to add to our position on pull-backs and have about 6% of the Fund invested in the company. Total customer numbers come to 37.6 million in the mobile phone division and 600,000 in the fixed broadband division.

Data penetration and mobile money penetration remains relatively low, with 14.7 million and 12.1 million customers respectively. So, there is a good runway for growth ahead.

**During October, our biggest share price gainer was NMB
and biggest loser was Filtisac**

Given it began trading actively on-market again, we valued NMB at the end of month offer price, which was TZS 1,940, or about over 14.1% higher than last month, when the valuation was still based on the most recent off-market block sale price at TZS 1,700. That made NMB our biggest gainer in October.

The biggest decline for the month was in **Filtisac (FTSAC)**, the Ivory Coast packaging company, with a 14.3% drop. There was nothing in particular which would explain this fall in the share price, and the shares have in fact recovered much of the lost ground so far in November. We remain satisfied owners.

We ended the month with 18 open positions. The one new addition from last month was **Tanga Cement (TCCL)**, in Tanzania. This is an event-driven, special situation trade, after **Twiga Cement's (TPCC)** parent company, Scancem, a fully owned subsidiary of Heidelberg Cement, launched a bid to buy out Tanga's 68.33% majority holder, Afrisam Cement. Should that deal successfully close, Scancem will make an offer on the same terms to the Tanga minority shareholders.

We've now joined them, after another seller for some reason decided to sell at the same price they had been offering in the market, even after the bid was announced in the newspapers on October 26.



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The final consideration payable by Scancem remains uncertain, as it is subject to closing cost adjustments related to debt, working capital, and other items. However, the indicative price mentioned in the public announcement was TZS 3,157 per share. We paid just TZS 400 per share for a block of 525,000 Tanga Cement shares.

However, the deal is still anything from a certainty, as regulatory approvals are also pending. My view is that Heidelberg would have done a lot of work behind the scenes to make sure that they are likely to get the deal approved, before announcing it. So, I am confident it will get approved.

I am also of the view that Tanga Cement's debt will be restructured in a deal separate from the takeover deal, and that the bulk of the TZS 3,157 offer price will end up with us, even after the said closing cost adjustments. But there can be no certainty of any of that.

We'll have to wait and see. Opinions in the market are divided on these things.

These sorts of deep value, event-driven trades, or purchases of loss-making companies that have the potential for an earnings turnaround, are not part of our core strategy at African Lions Fund. But this was too good a risk/reward opportunity to pass up.

It's a small trade. But we did deploy all the cash we had on hand to it, however.

In fact, I've pondered the possibility of launching a second fund, tentatively to be called **The Pumba Fund**. "Pumba" is the Kiswahili word for warthog.

The idea for this fund would be to buy lower-quality businesses "warts and all," when they are selling at very deep discounts. A number of potential candidates to invest in have turned up on my radar, and it sometimes feels like we are missing out on some good opportunities.

The alternative, of course, would be to expand our mandate at African Lions Fund, but I feel it's a different sort of risk we'd be taking on, and I'm not sure it's right to mix up investment strategies. That said, I have a wealth of experience, not always good, investing in deep value situations and turnarounds. It can be very lucrative. But it's a lot of work.

Until next time...

Kind regards,

Tim Staermose
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