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

Oyster Bay
Dar es Salaam
Tanzania

31 August 2022

Dear Investor,

I have held off publishing this monthly letter until results from a number of our companies for the first half of 2022 came out, affording me the opportunity for some more in-depth analysis. More on that in a second.

As far as our performance goes, the Fund lost ground in July. Partly responsible was a sell-down in the shares of our second-biggest portfolio holding, **NMB Bank**, on the Dar es Salaam Stock Exchange. Shares traded down to TZS 2,680 per share on the last trading day of the month, on low volume. Since then, shares in NMB have already recovered to be trading at TZS 2,800, though even at that price — on an indicative P/E ratio of less than 3.5x, and indicative dividend yield of more than 10% — I believe the shares to be a steal.

Also hurting the performance booked in the month was a block trade of **Twiga Cement** that went through at TZS 3,800, again, on the last trading day of the month. With an indicative dividend of 390 per share, these also carry a 10%+ indicative yield. And, following a recent cement price hike, the company's second-half earnings performance should be strong. I estimate the shares trade on a forward P/E multiple of as little as 6.6 times.

For reasons such as this, I don't get too caught up in the month-to-month portfolio performance. Looking at the big picture, it is noteworthy that our Fund is still up 4.74% for 2022 through July 31st. Nearly every major stock market in the world is down by double-digits, and most Africa-focused funds are too.

However, when all the others are down by double-digits, on average, and we're up a modest 4.74%, I still feel we could be doing better. That, I'm afraid, is largely in the lap of the market gods in the short term, however. As you will see in the tables below, many P/E multiples for the investments we own have shrunk.

When it comes to the portfolio, my job is to pick the best businesses with the sort of management teams that I believe will work tirelessly in shareholders' interests. Thankfully, with the exception of one company, **Kenya Reinsurance** (which I now realise was a mistake to invest in), the managements

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of the companies we own are largely behaving as I expected they would, working diligently to maximize stakeholder value.

During August I had the opportunity to attend the **Tanzania Breweries Limited** (TBL) AGM, and also met with the CEO and CFO at the company's Dar es Salaam head office the following day. After that meeting, I also toured the Dar es Salaam brewery, one of four that the company owns and operates around the country. The others are in Mbeya, Moshi, and Mwanza.

These cities may not mean anything to someone who's never been to this part of the world, but they're important as they house the best breweries in the whole of Africa. Along with Dar es Salaam, ranked number 2, Mbeya, ranked number 1, Mwanza number 4 and Moshi number 5, **TBL is on top of its game having four of the top five breweries ranked for efficiency**.

It's testament to the high quality of this company's operations. From what management conveyed, they are confident that 2022 results should match or exceed their bullish forecasts. However, for 2023, raw materials prices, and transportation costs, based on contract negotiations and procurement contracts now being finalized, are going to put pressure on margins, unless the company elects to sacrifice some volume growth and raises prices. As the market leader, the company has that choice. But it's not an easy call to make. Bottom line, while we can expect 2022 numbers to be great, 2023 may prove more challenging, and be a year of consolidation.

At **Twiga Cement**, where I last met with Alfonso Velez, the CEO, just prior to leaving for my holiday in Indonesia in mid-July, 2022 has also been a good year so far. However, after the two massive years in 2020, and 2021, growth is expected to be more muted.

The dividend payout will likely shrink a bit, as the company retains more of its earnings to reinvest in capacity expansion, but the quantum of the dividend should stay the same at TZS 390 per share.

On the bright side, after a recent price hike for its entire product range, Twiga should be able to grow EPS at a faster pace in the second half than it did in 1H2022.

First-half results show our six biggest holdings enjoyed earnings growth of as much as 53.5%

As you see in the tables I have prepared below, for our six largest holdings, which together account for nearly two-thirds of the African Lions Fund portfolio (65%), **EPS growth has been healthy across the board for the first half of 2022**. One exception is Sonatel, where a large share of earnings went to minority interests this year, whereas none went to them in the same accounting period last year.

For NMB Bank and MTN Ghana, 1H2022 EPS growth both came in at a whopping 53.5%. Alas, in USD terms for MTN Ghana, the growth was negligible, as the Ghana Cedi has collapsed in value. But for

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our other stocks you can also see the USD EPS figures and USD share prices are holding up, even in the face of amazing US strength.

		1H2022	1H2021	1H2020
TBL	EPS	203	184	147
295,056,000	EPS growth y-o-y	10.5%	25.2%	-39.0%
	Share price	6,000	4,250	5,000
	Exchange rate	2,339	2,319	2,310
	USD share price	$ 2.57	$ 1.83	$ 2.16
	USD 1H2022 EPS	$ 0.087	$ 0.079	$ 0.064
	P/E (annualised)	14.8	11.5	17.0
NMB	EPS	416	271	192
500,000,000	EPS growth y-o-y	53.5%	41.1%	69.9%
	Share price	2,800	1,700	2,240
	Exchange rate	2,339	2,319	2,310
	USD share price	$ 1.20	$ 0.73	$ 0.97
	USD 1H2022 EPS	$ 0.178	$ 0.117	$ 0.083
	P/E (annualised)	3.4	3.1	5.8
Twiga Cement	EPS	261	256	195
179,923,100	EPS growth y-o-y	2.0%	31.3%	33.9%
	Share price	3,800	3,800	2,400
	Exchange rate	2,339	2,319	2,310
	USD share price	$ 1.62	$ 1.64	$ 1.04
	USD 1H2022 EPS	$ 0.112	$ 0.110	$ 0.084
	P/E (annualised)	7.3	7.4	6.2
BK Group	EPS (annualised)	69.1	57.4	42.6
904,547,400	EPS growth y-o-y	20.4%	34.7%	-4.9%
	Share price	272	240	235
	Exchange rate	1,034	1,011	966
	USD share price	$ 0.26	$ 0.24	$ 0.24
	USD EPS	$ 0.067	$ 0.057	$ 0.044
	P/E (annualised)	3.9	4.2	5.5

AFRICAN LIONS FUND

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Sonatel	EPS	1,092	1,189	899
100,000,000	EPS growth y-o-y	-8.2%	32.3%	12.4%
	Share price	14,785	12,489	10,245
	Exchange rate	655.7	556.0	550.4
	USD share price	$ 22.55	$ 22.46	$ 18.62
	USD 1H2022 EPS	$ 1.67	$ 2.14	$ 1.63
	P/E (annualised)	6.8	5.3	5.7
MTN Ghana	EPS	0.109	0.071	0.056
12,278,400,000	EPS growth y-o-y	53.5%	26.8%	51.4%
	Share price	0.91	1.10	0.49
	Exchange rate	10.03	6.03	5.78
	USD share price	$ 0.09	$ 0.18	$ 0.08
	USD EPS	0.0109	0.0118	0.0097
	P/E (annualised)	4.17	7.75	4.38

I have annualized the numbers for simplicity in most cases, but you can also see that **there has been little valuation multiple expansion**. Most stocks are cheaper now on a P/E multiple basis than when we first began to invest in the fourth quarter of 2020. Only Sonatel and Twiga Cement have seen slight multiple expansions.

NMB, in particular, stands out. EPS has grown from 192 for the first six months of 2020 to 416 for the first half of 2022. And, I expect the bank will end up making 850-900 for the full year 2022. As such, the P/E multiple which was 5.8 in 2020 is just 3.4x now. That's why I called it a "steal" above.

Bottom line: **nearly all of our portfolio's appreciation thus far has been driven by earnings growth** and not by valuations becoming more expensive. Hopefully we have the effect of valuation multiple expansion and the resultant price kicker still to come.

August so far: New capital has been hard to come by; so, I've done what I can to reshuffle some investments and put more cash to work for us all, regardless

Try as I might, it's been tough to convince anyone to add meaningful amounts of capital to their positions in the Fund, or to attract new investors into the fund, for the past two months.

Investor psychology is such that people seem to get defensive and adopt a wait-and-see attitude if markets generally look shaky and vulnerable to the downside. That's certainly been the case for the bulk of this year, but a buyers' strike only became noticeable from July onwards.

Be that as it may, **let me again reassure you that the companies that we have the largest amounts of our capital invested in are doing fantastically well**, and will almost certainly be doing even better over the months to come.

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I'm not expecting any, but if there were to be significant dips in the share prices of companies we own, far from worrying about having invested at higher levels, and not timing the exact bottom, I'll be gleefully taking advantage of such dips to buy more shares — that is, should anyone step into the breach and send me new capital to invest.

For now, I've had to reallocate capital from one of our more fully valued investments in Mauritius, in order to put it to work in even better opportunities. For the benefit of all Fund owners, I've also invested the accrued performance fees that are likely to crystalize and be owing to me at year end, now, rather than keep these aside in cash until January.

Most likely I will leave this money in the Fund anyway, so I may as well invest it now at attractive prices. It is a modest amount in the big scheme of things (just over 1% of the entire Fund), but when one can buy shares in the likes of **Tanzania Cigarette Company** on a multiple of 8 times indicative earnings, and a dividend yield of 16%, it behooves one to take the opportunity presented.

For whatever reason, this was an opportunity that came up during August, and I duly pounced on it. In fact, we did some trading for the first time ever. Given our cash constraints I made a call to engage in this activity, and bought TCC at 5,000, sold some at 6,000 and then repurchased it again at 5,000 thanks to the good relationship I have with our local broker.

Housekeeping Notes

The Fund **remains up 4.74% for the first seven months of 2022**. That's 18.09% better than the S&P 500, and 12.98% ahead of our own hurdle index, which is DOWN by 8.24% in the same period.

I am adding to positions in Tanzania and Kenya at present, including in one new company in Kenya.

There are some modest dividend payments coming from BAT Kenya and Safaricom, and I will be looking to reinvest these in the Kenyan market as well.

However, with little new capital being contributed, as well as a couple of small redemptions (one unfortunately due to the investor passing away), it is, somewhat frustratingly, not possible to take all the opportunities I am being presented with right now.

Given the offers of blocks of shares for sale in the market, I could easily put several million dollars more to work quite quickly in excellent businesses that we already own.

On September 11, I am off to Nigeria for a week of company meetings and a general familiarization trip. The following week, I'll be in Dubai for the EFG Hermes One on One Conference.

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As usual I will post updates in our Telegram channel, which is accessible here: https://t.me/joinchat/AAAAAE6iI5_GjwtQ0IyNwg and via Twitter (@globalvaluehunt).

Until next time…

Good investing!

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