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Dear Investor,

The Fund gained 0.53% in August, versus a 0.16% decline in our hurdle index. This leaves the **Fund up 5.3% year to date and up by 38.7% since inception** 23 months ago. Total assets under management have hit US\$18.1 million.

Closing in on our 2-year anniversary, it is pleasing we have outperformed our hurdle rate by a hefty margin of 16.3 percentage points.

Driving this has been my large allocation of capital to Tanzania, while eschewing any significant allocation to Nigeria.

It's been the correct call so far. But things are always in a state of flux. Nigeria's economy— currently plagued with foreign exchange market dysfunction, and rampant theft of its oil production—won't suffer forever.

So, two weeks ago I travelled to Lagos to check things out on the ground for myself.

I visited 11 different company managements to discuss the situation, how it is affecting their businesses, where they see things heading, and what the opportunities and challenges might be going forward.

I also met with representatives of the Nigerian Stock Exchange, our broker EFG Hermes, and a very well informed Nigerian pension fund manager.

The mood seems to be broadly one of helplessness when it comes to the macroeconomic challenges and foreign exchange rationing system that is currently operating. Further, the consensus was that **nothing is going to change until after the presidential election in February 2023**, following which, the current Central Bank governor will almost certainly be replaced.

But Nigerians are a stoic lot, and nearly everybody I met was actually quite cheerful and optimistic, believing that positive change is just over the horizon. Of the three candidates widely thought to have a realistic chance of winning the Presidency, none could possibly be as bad as the incumbent, was the message I kept hearing.



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Indeed, all the leading candidates are more free-market oriented. But they need to have an iron fist to stamp out the blatant corruption and theft that occurs in Nigeria on an industrial scale, which would simply not be possible if it weren't state-sanctioned.

So bad has it got, as much as 90% of the oil being loaded into pipeline facilities in the Niger delta fails to make it out the other end. And it's led to a huge decline in output. Shell, for example, recently decided that enough was enough and shut down all its Nigerian production, as I understand.

So, ironically, the high oil price has HARMED Nigeria, not benefited it, the way it should. Put simply, it led to even more rampant theft of oil by armed bandits (most reportedly linked with the country's security services) which they then sell on the illegal black market to ships waiting offshore. As a result, official oil sales and government revenue collection on them are way down from prior years.

It is a sorry state of affairs, but until someone in power puts a stop to it (rather than participate in it!), unfortunately it's hard to see the country's foreign exchange earnings pick up and a change of exchange rate regime being ushered in.

But, like most Nigerians seem to be, I'm going to remain optimistic that some positive change will come by the second or third quarter of 2023 following the February 25 elections.

I want to be ready to invest in Nigeria should that occur, because, in spite of the extremely challenging macroeconomic conditions, there are still some select Nigerian businesses that are doing incredibly well. We want to own some of them, once we have clarity that we can again move money freely out of the country, and not have to join a long queue at the Central Bank to repatriate our investments.

In the coming weeks and months, I'll be doing further research on some of the companies that impressed me on my visit, which are also trading at attractive valuations. Some of these names include Lafarge Cement Africa and Flour Mills of Nigeria.

After my six days in Lagos, I headed to Dubai. There I attended the EFG Hermes "One on One" Frontier Markets investment conference. And...

From what I observed in Dubai, Sub-Saharan Africa remains mostly out of favour and off the radar of big international investment managers

In 3 ½ days I met with the managements of 18 different sub-Saharan African companies in our investment universe. It is a very well-organized event, and I can highly recommend it to you, if you were to become a client of EFG Hermes. It is an "invitation-only" event.



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I can report that most of my meetings were attended by only very small numbers of other fund managers and analysts, and that the lack of interest in sub-Saharan Africa among global fund managers clearly remains. Not one of these meetings was in a “large group” format, where dozens of investors and analysts meet with management at once in a large ball room.

Those were common for companies from places such as Vietnam and the Middle East, which are clearly attracting far more interest.

I had a good meeting with **BK Group** from Rwanda, in which we own a large position. They intend to pay an interim dividend towards the end of 2022 and will maintain their payout ratio at an above normal 50% of earnings for the 2022 financial year.

Their balance sheet is strong. They are carrying excess capital after not paying dividends in 2020 and 2021 because of Covid. The management says they may well even be writing back some loan-loss provisions. The second half is always seasonally stronger for the bank than the first.

There is also talk of a possible sell-down by one or more institutional shareholders of BK Group, in order to improve liquidity. They also mentioned the possibility of a stock split.

The bank continues to do very well and remains focused on its core market in Rwanda. I expect we’ll earn a dividend well into double digits for this year. The stock could easily climb another 50%, too, and still not be expensive. That would take it to a multiple of about 6 times indicative earnings.

Sonatel, the dominant telecoms company in Francophone West Africa, another company we are shareholders in, is also doing well, despite some competitive headwinds in its mobile money business in Senegal, from the aggressive Silicon-valley funded start-up, Wave. But, with current events on world financial markets pushing interest rates higher across the board and draining liquidity from the entire system, funding for cash-burning start-ups, such as Wave, is almost sure to become scarce.

Indeed, Sonatel appears to have headed them off at the pass in Mali, their next biggest market after Senegal. But management has certainly learned the lesson to not be complacent and take their market dominance for granted.

Voice, mobile data, and fixed broadband revenue all continue to grow nicely across the group, and I also expect Sonatel to reward us with another big dividend payment in 2023. The dividend yield may climb as high as the low teens.

Another company I met with in Dubai, whose stock looks compelling value, is the Ugandan electricity distributor, **Umeme**. The yield on that one is well into the 20% range, and it sells at a fraction of book value.

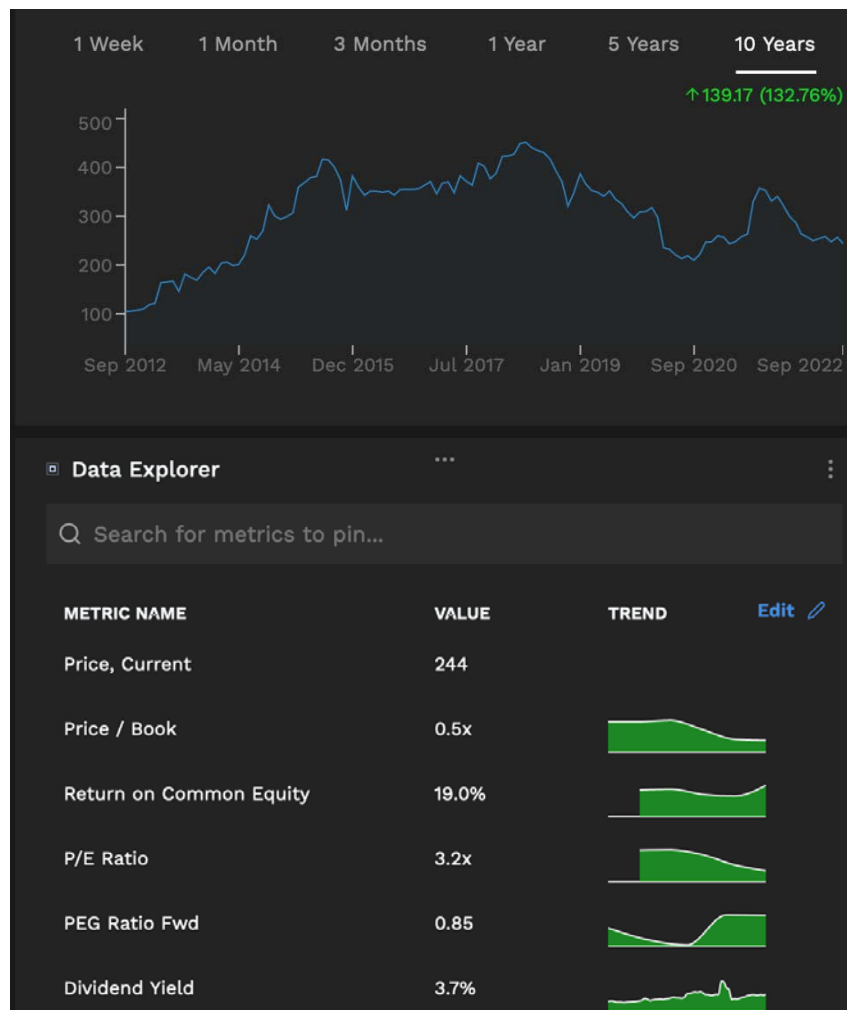


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However, it is a “special situation” stock, with some regulatory uncertainty as to whether the Ugandan government will extend its concession or elect to invoke a buy-out clause. Even if that were to happen, the amount the government must pay shareholders to buy back the concession is several times the current market value of the company. So, it appears a “no-brainer” as an investment.

We have not yet invested in it though, and the stock is not very liquid. So, we’ll have to be patient if we decide to try and buy some. It may also be difficult to build a meaningful position.

Moving on to the next stock, though I did not meet with them in Dubai, in Kenya I have been buying **Jubilee Holdings**, the Aga-Khan Foundation for Economic Development-backed regional insurance company in East Africa. At half book value and on a P/E of 3.2x with a return on equity of 19%, it’s ludicrously cheap.





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I'll run you through more of our individual investments soon, in our quarterly Zoom call. Plan on that being during the week of October 10. I'll share an exact time and date soon.

Housekeeping Notes

Thank you if you recently joined the Fund for the first time or have added to your existing investment. It is an opportune time to be adding to our positions while share prices have failed to keep pace with the impressive earnings growth that many of our companies have exhibited over the past two years.

Our Fund is in very good shape, in spite of the turmoil on global financial markets.

People ask me if we've also seen a sharp decline and now is a good time to get in. My answer is that I have no idea what markets will do around the world, but we're up 5.3% for the year, up 0.53% last month, and that **the valuations of our companies are still lower than when we started out**, for the most part, because their earnings have grown by (far) more than their share prices have appreciated.

Is it a good time to get in? I think you know my answer!

Until next time...

Good investing!

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