



Sea Meadow House
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Masaki, Dar es Salaam

20 April 2023

Dear Investor,

You may have noticed I skipped a couple of these letters. Per the [Information Memorandum \(IM\)](#), the original intention was for these letters to be quarterly. Now that the Fund is well established and there are usually no material changes from month to month, I'm inclined to revert to the original plan.

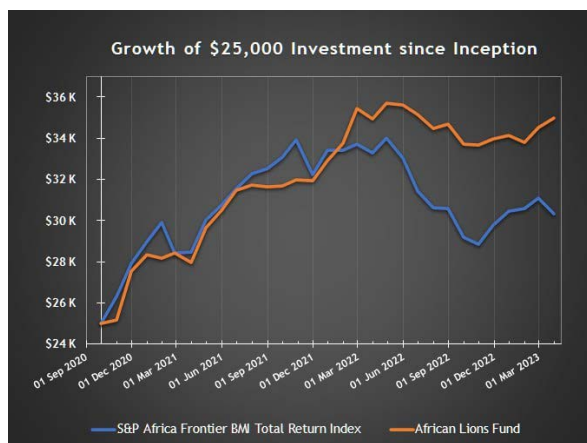
I have not heard from anyone that they missed the monthly letters, except one investor, whom I was in touch with on another matter. When I solicited his opinion, he indicated that he naturally preferred a monthly letter.

At any rate, this letter will focus on our performance for the whole of the first quarter of 2023. Send me your feedback as to whether you think a quarterly letter is enough, or you prefer to be kept abreast of developments monthly. Note, you will continue to get monthly statements from Bolder Group to track the value of your African Lions Fund investment, regardless of how frequent my investor commentary is. We will also continue to update the Fund's monthly Summary Sheet, which you can access directly, after logging in to the African Lions Fund website.

The Fund gained 2.45% in 1Q2023 vs a -0.49% decline in our hurdle index

The fund was down 0.75% in January, up 2.1% in February and up 1.3% in March, for a net result of +2.45% since the beginning of the year.

Our hurdle index has lost ground year to date. It fell by nearly half a percent for the quarter, driven partly by a savage sell-off in Kenyan market leaders, such as Safaricom and Kenya Commercial Bank (KCB). Consequently, as you see in the chart, the Fund's performance is opening up a nice gap.





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As such, performance fees have been accruing to the manager on all but those Series of shares that still remain below last year's high-water marks, on which no performance fees have been paid, nor accrued as yet. As you can see, the high-water mark for the fund as a whole was last May.

I expect that barring any unforeseen major negative events, we will again surpass those levels in the next couple of months, as our dividends for the 2022 financial year begin rolling in during May and June.

Our portfolio is on an estimated 7.8% dividend yield based on current portfolio value, and 8.8% based on our historical cost

The *net* current yield, after deduction of withholding taxes is 7.1%. Approximately US\$1.4 million of annual dividends accrue on the portfolio at present. Most of these dividends, including the three biggest that we stand to collect, from NMB Bank, Twiga Cement, and BAT Kenya, will be paid in May and June.

These high dividends come on the back of **excellent 2022 results for our portfolio companies**.

Our largest positions by far are NMB Bank PLC, Tanzania Breweries, and Twiga Cement. NMB's audited results came out last week. They show earnings per share of 863, **up 47.8%** from 2022. Tanzania Breweries reported EPS of 472, up from 437. That's a **7.8% increase**. Operating profit growth at TBL was actually much higher, but an abnormally large tax bill slowed net profit growth. Twiga Cement, meanwhile, saw **10% net profits growth** in 2022, on a 10% rise in revenue, and 5% rise in volumes of cement sold.

Elsewhere, BAT Kenya reported EPS **growth of 6.3%**. Bralirwa, the leading Rwandan beer and softdrinks company saw net **profits soar 28.7%**, and BK Group, Rwanda's biggest bank, reported a **14.7% increase** in EPS.

Our only significant holding in Francophone West Africa, Sonatel, saw 2022 **net profits climb 10.5%**. MTN Ghana recorded **EPS growth of 43.8%** for the year and Nestle Nigeria's **earnings grew by 22.3%**.

Despite all these positive profit results, share prices are not rising much

In general, the share prices of our largest positions remain very low despite excellent fundamentals.

It baffles me that investors are not more sanguine about these companies' prospects. Growth rates of 6.3% to 47.8% are hardly pedestrian. And yet, most continue to trade on low- to mid-single digit price to earnings multiples. A good number of them also boast double-digit dividend yields.

One contributing factor is general macro headwinds. Bank failures and bank runs in the USA and Europe, after markets suddenly woke up to the carnage in banks' bond portfolios following the rapid



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rise in central bank policy interest rates, have been the latest macro concern on global markets. This follows Covid-19, the Ukraine-Russia War, inflation concerns, and rising interest rates themselves.

I guess there is always something to fret about. But my approach is to ignore that macro noise and buy good businesses whenever I identify them. And that's what I will continue to do.

One thing that does concern me right now, however, is the lack of US dollar liquidity in African markets. I've written extensively in past letters about the parallel exchange rate problem in Nigeria, as the Central Bank doesn't have enough dollars, and rations out dollars to favoured parties, making it impossible to get hold of dollars to repatriate money from the country after selling shares in listed companies.

The same is now the case in Ghana. You sell your shares for cedis, and there are no dollars provided by the central bank to take your money out. I expect that to remain the case until the country concludes a restructuring agreement with its creditors. We have about 7% of the portfolio tied up in Ghana (2% in cash waiting to repatriate), and longer term I believe the problem resolves itself. But right now, the situation isn't great.

In Kenya, too, it is difficult to get hold of dollars. You need to pay well above the official exchange rate. The buy/sell spread on Kenyan shillings hit 10% at one point in the first quarter, though the situation has now improved. In Tanzania, too, I had to wait a couple of days recently to get hold of approximately US\$250,000 that we needed to take out, to pay the aforementioned redemption.

To help mitigate this dollar liquidity risk, the four companies highest on my list of potential new investments right now all trade outside Africa – two in London, and two in Paris.

Another possible reason for the lack of love shown to listed African companies in recent years, as in developed markets, might be that more investors preferred to take a punt on striking it rich in start-ups.

In recent years, the African start-up eco-system, especially in Lagos, and Nairobi, has been quite vibrant. But that is also now changing, much as it is in Silicon Valley and elsewhere, due to the rising interest rate environment. In short, money is no longer virtually free, and the venture capital party may be over.

According to African startup analysis company, Weetracker, "Africa's tech landscape—an attractive spot for investment from global funders keen to bet on untapped markets in recent years—had proved somewhat resilient in the face of the downturn observed in tech globally over the past year; [raising USD 3.6 B](#) in 2022, per WT Data Labs, to keep pace with previous years. However ... funding data drawn from WT Data Labs show a significant dip in investments in the first quarter of the year as African start-ups raised ~USD 767 M; a 53 percent drop from Q1 2022, which recorded USD 1.63 B."



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You can read more here:

<https://weetracker.com/2023/04/14/african-startup-funding-dips/>

In short, monetary conditions have tightened worldwide, Africa being no exception. So, investors are less keen to put new money to work.

**It has also been a hard slog for African Lions Fund to raise new capital recently.
In April, for the first time ever, we had NET REDEMPTIONS**

Inflows this month amounted to US\$90,000 from one new investor and one investor who added to his investment. On the other hand, we had to pay a redemption of just over US\$290,000. At the end of March, net assets under management were US\$19.99 million. But this will have shrunk after the net redemptions, to approximately US\$19.8 million (all else equal).

Many people ask me what the ideal size for the fund is, given the severe liquidity constraints in African Frontier markets. Others ask what my “goal” is for the amount of money I want to manage. I don’t have a definitive answer. But I am hopeful that:

- a) Nigeria’s new administration makes the currency freely convertible again; and
- b) Africa Frontier stock markets catch a bid again from global investors.

Neither is certain, of course. But if either, or both, of these things come to pass, then we should comfortably be able to manage between US\$30 million and US\$50 million, longer term, and perhaps even more.

If you are considering adding to your investment, or have a friend, colleague or family member who is interested, it’s a great time to invest. As I mentioned, the stocks we hold are still at bargain prices, plus the bulk of the annual dividends flowing into the fund over May and June will almost certainly deliver near-term gains.

Housekeeping

It was good to catch up with a number of investors in Hong Kong and Dubai during the first quarter. The EFG Hermes One on One conference also proved useful and, as mentioned, I am following up on some possible new investment ideas to have come out of that event.

In late March and early April, I visited Zambia, taking in Lusaka, for a visit to Zambeef, and the Zambia Breweries AGM, as well Ndola and Kitwe, in the Copper Belt. I also stopped at Zambeef’s Huntley Farm, on the way to Ndola. I’ll write more about this at Global Value Hunter, soon.

In May, two of the Fund’s investors are visiting Africa. After 6 days in Tanzania, we will head to



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Nairobi for 5 days, Ivory Coast for a broker sponsored event for 4 days, and then to Namibia for 6 days.

My proposed trip to Nigeria has been postponed to the second half of the year. The post-election uncertainty continues there, after the election of Bola Tinubu was challenged in court by both Peter Obi, who finished third, and Atiku Abubakar who came second.

I also plan to be in Cyprus in September and London in October. So, let me know if you are available and keen to meet up if you're in the area.

The Telegram channel is as active as ever: https://t.me/joinchat/AAAAAE6il5_GjwTQ0lyNwg and you can also follow me for updates on Twitter where my handle is @globalvaluehunt.

As always, questions and feedback are welcome at tim@africanlionsfund.com

I will be in touch again soon about the quarterly Zoom call for investors, which we can do the week of May 1. We typically have an attendance of under 15 out of 100+ investors. I take it as a positive that investors who are not able to make it are quite happy and have no concerns. But, if it fits your schedule, I encourage you to attend the upcoming Zoom call for an interaction with me and fellow investors. Alternatively, you can email your questions before the meeting so I can also address them on the call.

Until next time...

Good investing!

Tim Staermose
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