Quarterly review

Economic Outlook

On the heels of the challenging international conjuncture and developments on the local front, real GDP growth in the domestic economy is, as per the latest issue of National Accounts by Statistics Mauritius, forecast to stand at 3.8% in 2019, when measured at market prices. This represents a 10 basis points downgrade when compared with the official estimates released in June.

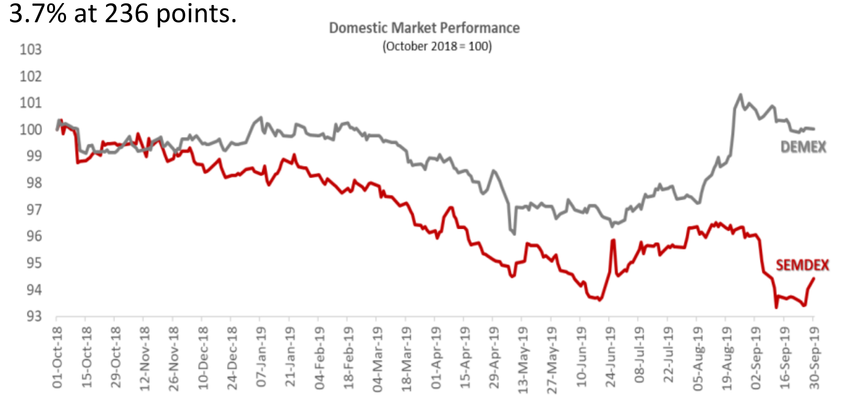
Basically, in spite of a noteworthy expansion in construction activities in line with the execution of large-scale infrastructure ventures, nationwide output growth is anticipated to be impacted by a restrained growth in the tourism sector amidst the soft economic conditions prevailing in key markets coupled with subdued outcomes regarding the domestic and export-oriented manufacturing industry. On a positive note, the ICT sector is set to uphold its fairly robust growth thrust, while a resilient performance is on the cards in financial and business services.

On another note, headline inflation has, in general, pursued a downward trajectory in recent times, to stand at 1.0% in August 2019. For its part, nationwide unemployment rate is anticipated to edge down to attain 6.8% this year as per Statistics Mauritius, compared to 6.9% in 2018.

On the external front, exports of goods should evolve at a tempered pace this year, while a notable hike is forecasted in the import bill, partly reflecting the infrastructure-linked investments. All in all, the trade deficit is likely to remain elevated, at around 25% of GDP in 2019, thus contributing to a widening in the current account deficit. The latter would impact the country's Balance of Payments, which would, nonetheless, remain in a surplus position this year, after factoring in sustained inflows on the capital and financial account, inclusive inter alia of the project-based disbursement of the tranches relating to the line of credit received from the Government of India.

Market Performance review

Over 3Q2019, the Official market index, SEMDEX, retreated 0.1% to 2,126 points, compounding to a down-performance of 4.2% on a YTD basis. The continued downtrend of the SEMDEX, means it is underperforming peers YTD despite, MSCI Emerging Markets Index and MSCI Frontier Markets Index, seeing a rougher quarter as they shed 5.7% (YTD: +8.3%) and 1.1% (YTD: +11.4%) respectively over 3Q2019, measured in MUR terms. The DEMEX, for its part, closed 3Q2019 up 3.7% at 236 points.



Source : SEM, MCB PBWM

Delving into the performance of the SEMDEX, the Official market witnessed a drops-to-gains ratio of 1.4x over 3Q2019, with variability of the index ranging from -0.8% to 0.6% on a daily trading basis. It was also observed that half of the trading sessions over the period under review registered gains in the SEMDEX.

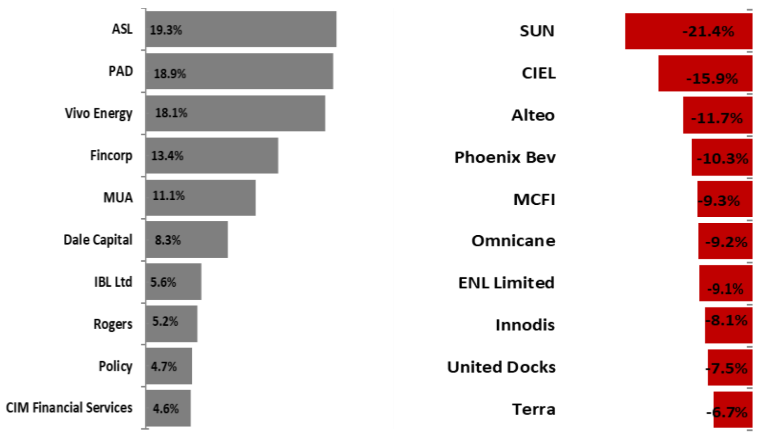
In terms of market activity, the total market turnover, measured on a quarterly basis, showed an improvement of 17% relative to 3Q2018 in part boosted by the continued foreign flow exodus from MCBG and SBMH during the period under review. In fact, over 3Q2019, the net foreign outflow amounted to MUR0.6bn (YTD: MUR1.6bn). Consequently, the foreign shareholding of both MCBG and SBMH was lower at 14.1% (Sep 2014: 24.0%) and 4.2% (Sep 2014: 18.1%) respectively, as at end of September 2019.

Market Overview

Despite the above morose facet of the market, 3Q2019 witnessed some strong individual share performances in the Official market. Measured in absolute performance terms, however, leisure stock Automatic Systems Limited (+19.3% q-o-q) was the top performer of 3Q2019 while Sun Limited (-21.4% q-o-q) was the principal laggard over the latter period.

The top 3 contributors to the SEMDEX over the latter quarter were MCBG (+0.8% pts), IBL (+0.7% pts) and Vivo Energy (+0.3% pts) while the bottom 3 contributors were Ciel Limited (-0.7% pts), Sun Limited (-0.6% pts) and ENL Limited (-0.4% pts).

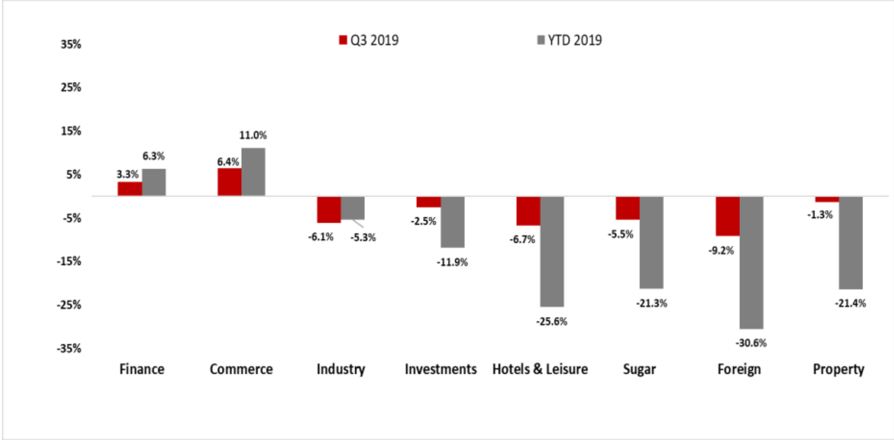
3Q2019 top 10 gainers and laggards (absolute performance)



Source : SEM, MCB PBWM

In terms of portfolio activity, we raised our allocation in MCBG to overweight in the expectation of strong FY2019 results, while picking up other monitored stocks on dips We also deployed, for some of our portfolios, the excess cash to short-term treasuries yielding over the savings rate as we remain vigilant over global economic uncertainties and changes in the local political landscape.

Sector Overview



Source : SEM, MCB PBWM

Deciphering the performance by sector across the Official market and as seen in Fig 2, 'Finance' and 'Commerce' stood out as strong performers, closing 3Q2019 in positive territory which compounded their YTD gains to 6.3% and 11.1% respectively.

Introspectively, the 'Finance' cluster's good performance (+3.3% in 3Q2019) was underpinned by MCB Group (+3.3% q-o-q), CIM Financial Services (+4.6% q-o-q) and Mauritius Union Assurance (+11.1% q-o-q).

Indeed, MCBG registered enthralling FY2019 results, whereby its profit attributable to shareholders increased by Rs2.3bn to Rs9.5bn (+31.3% y-o-y). The Group posted double-digit growth in its top lines but also benefited from fair value gains in equity instruments held in its banking segment and improved contribution from MCB Real Assets which registered increased rental income coupled with fair value gains on its investment property. Management declared a final dividend of MUR7.60/share, hence a total dividend of MUR13.00/share (+30% y-o-y) for FY2019. These announcements led to the MCBG price rocketing to a record high of MUR310 intraday before rattling to MUR298.50 on profit taking in the final session of the quarter.

Sector Overview

Notably, in July 2019, Moody's upgraded the credit rating of MCB Ltd, with the long-term deposit rating improving from Baa3 to Baa2, and the outlook changing from stable to positive. The ratings agency quoted MCB Ltd's "improving asset quality" as the primary driver of the rating action.

As regards SBMH, its latest set of results showed progress year on year, with its 2Q to June 2019 profit attributable to equity holders swinging by MUR1.2bn to MUR617.1m, with sparse improvement in its top lines while its impairment losses remained contained, as the Group implements its remediation plan. The Group appears on track to pay an annual dividend of MUR0.40/share (MUR0.30 for FY18), and management opines that a "significantly improved performance" is on the cards for FY19 from the low base of FY18. On a YTD basis, SBMH's share price is down 4.3% (+2.5% q-o-q).

CIM Financial Services (CFSL), for its part, posted encouraging 3Q to June 2019 results in its 'Finance' segment, underpinned by a progress of 6.4% in its PAT, though blemished by loss after tax in its 'Investments' segment on lower foreign exchange gains, compared to 2Q2018. CFSL announced that CIM Finance Ltd and MELCO surrendered their deposit-taking licence and, with the view of improving operational efficiency, it has received board approval to proceed with the 'in principal' amalgamation of several entities with and into CFSL. Though it gained 4.6% during 3Q2019, the stock is down 5.6% on a YTD basis.

Mauritius Union Assurance, the top gainer in the cluster (+11.1% over 3Q19), recorded strong results, epitomized by a growth of 18.4% in its 2Q19 to June 2019 results. It recorded improvements in both its 'Life' and 'General' segments.

Sector Overview

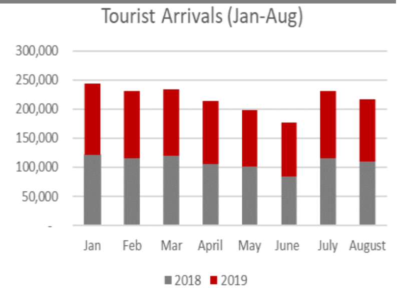
Screening through the 'Commerce' sector, IBL (+5.6% q-o-q) and Vivo Energy Mauritius (+18.1% q-o-q) drove the cluster performance over the quarter. Whilst trading in the range of MUR54.50 and MUR58.50 over 3Q2019, IBL closed the quarter at MUR57.00, that is, at 2.3 times its net asset value per share. Looking at its latest FY19 results, IBL faced headwinds in its top revenue-generating cluster – Commercial – whereby its supermarket chain, Winner's, faced significant restructuring costs, stock overhaul and business development costs, which halved the cluster's operating profit year on year. The Group, nonetheless, witnessed strong results from its 'Manufacturing and Processing' segment (Operating profit: MUR1.03bn (+19.7% y-o-y)) on the back of greater share of profits from its associates Phoenix Beverages and Princes Tuna Mauritius, with the latter returning to profitability after two years. The 'Property' cluster was boosted by Bloomage, which expanded its gross letting area over the FY19.

Vivo Energy, one of the top performers of 3Q19, posted strong results for the half year to June 2019, whereby its PAT of MUR206.0m grew by 51.9% year on year on improved margins, especially in its international business segment. The stock remained appealing to investors given its dividend policy of paying out up to 100% of its earnings per share.

On the industrial front, most constituents were down on a YTD basis, which pulled down the overall cluster performance (3Q19: -6.1%; YTD: -5.3%). Gamma Civic (3Q2019: -4.1% and YTD: -2.7%), which faced headwinds on the market over 3Q19 (-4.1%), nonetheless posted commendable results, on the back of its 'Building materials' and 'Lottery' segments predominantly. The former saw its operating profits grow by 27.6% year on year supported by the strong growth in the construction sector. This is equally evidenced by United Basalt Product's (UBP) strong operating profit growth (+79.4% y-o-y) in its 'Building materials' cluster for FY to June 2019 results. UBP gained 1.7% and 6.0% over 3Q19 and YTD respectively.

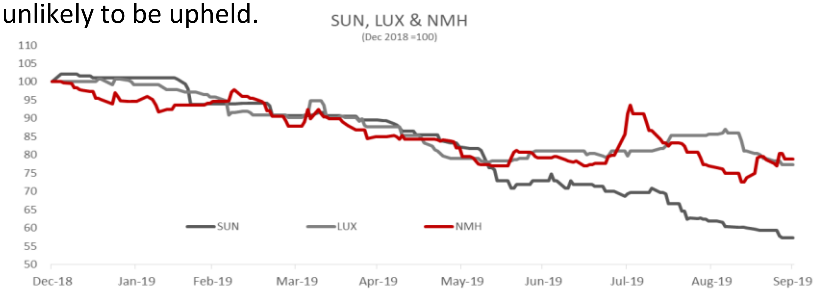
Sector Overview

The hotel and leisure sector, for its part, receded 6.7% and 25.6% over 3Q19 and YTD respectively. The hotels bore the brunt of the slowdown in the tourist industry with tourist arrivals flattish for the January-August 2019, while tourist earnings fell 4.9% year on year for the Jan-July period.



Source : Statistics Mauritius

The recent collapse of Thomas Cook has cast doubts on the potential impact on tourist arrivals and earnings, with the representative body of hotels and restaurants, AHRIM, evaluating the potential loss at MUR300m as well as bookings from Thomas Cook for the peak seasons unlikely to be upheld.



Source : SEM, MCB PBWM

Sun Limited, the worst performer of the lot (3Q2019: -21.4%, YTD: -42.7%) declared a final dividend of MUR0.75/share (+50% y-o-y), undershooting the minimum of MUR1.95/share dividend target which management had set back in 2017.

In addition to its dividend miss and its strategic re-orientation with its new CEO, Sun Limited recognised a non-cash impairment charge of MUR1.9bn on the goodwill and plant and equipment of Kanuhura in its FY19 results. This resulted in a net loss of MUR1.9bn and a normalised PAT dropped to MUR166.2m (FY2018: MUR194.1m).

Sector Overview

Lux Island Resorts (LIR), for its part, produced solid FY2019 results with its profit from continuing operations attributable to the group rising 27.8% year on year, improvement in profits in both Mauritius and Maldives, while Reunion lagged behind its prior year results. However, LIR was not spared by the gloom around the domestic hotel industry, and its share price shed 22.7% YTD, despite a final dividend of MUR1.35/share (+8% y-o-y).

The challenge for LIR, going forward, would be to maintain operating results while keeping in check its target gearing of 45% as it undertakes the transformation of Merville Beach Hotel at a cost of MUR2.6bn. Management plans to finance the project with a combination of proceeds from the sale of villas under Invest Hotel Scheme (IHS) and debt.

Moreover, New Mauritius Hotels (NMH), whose share price tumbled 21.1% YTD, was the subject of several corporate developments over 3Q2019. In fact, management proposed the separation of its property development arm and its hotel activities which will remain under NMH. As the former is transferred to Semaris Ltd, which will be listed and traded on the DEM from 11 October 2019 at an indicative price of MUR4.25.

However, in the wake of this decision, it is evident to investors that Semaris Ltd is a long-term play as it would take time to develop the land base carved out from NMH. In addition, delays with respect to the 'Les Salines Hotel & Resorts' project as well as the pending update on the financing and renovation work at Sainte Anne Resort in Seychelles weighed on the share price.

Quarterly review

Sector Overview

Sugar-related groups were further impacted over 3Q19 as the low-trending sugar price on the world market affected the groups' cluster performance. Alteo (-11.7%), ENL Limited (-9.1%), Omnicane (-9.2%) and Terra (-6.7%) all raised the alarm as regards the much-needed reforms in the Mauritian sugar industry, pending the Working Paper by the World Bank. Relative to their net asset value, these stocks are trading at significant discounts but investors remain wary of the issues facing the sugar sector and the pitfalls of property development projects.

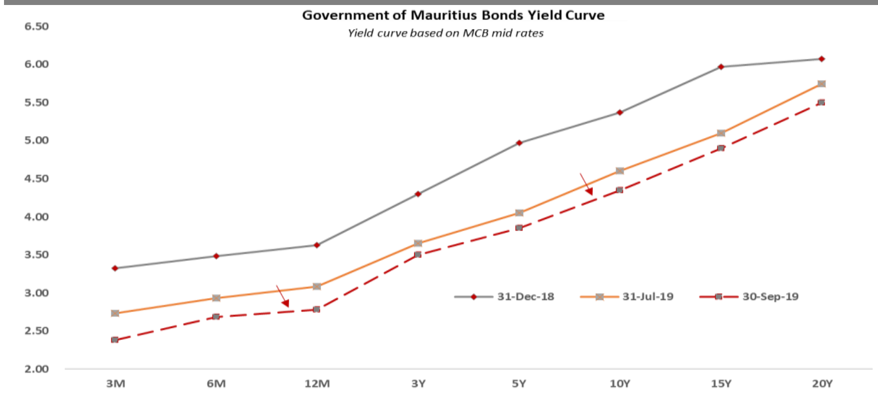
In the face of a lingering issue in the industry, Alteo re-assessed its sugar operations and booked asset impairment charges of MUR1.5bn relating to its milling and refining operations. Its property cluster, with strong sales recorded for its serviced plots and off-plan villas, helped compensate partly for the losses of the sugar cluster.
ENL Limited, for its part, registered excellent results for its FY to June 2019, with PAT increasing 5% year on year, contributed by the strong performance of its 'Real Estate' cluster with strong sales in Moka Smart City as well as by the outperformance of its commercial arm, as 'Axess' increased its market share in the new vehicles market. The stock nonetheless shed 32.9% YTD on the back of historical shareholders unlocking liquidity.

Fixed Income

The Monetary Policy Committee of the Bank of Mauritius cut the Key Repo Rate (KRR) by 15bps to 3.35% on the back of weakening global economic conditions and their possible repercussions on the domestic economy. The MPC also highlighted that it sought to send the right signal to the market that softer economic conditions abroad could eventually influence the domestic environment. The next MPC meeting is scheduled for 20 November 2019.

Given the rate cut and the persisting excess liquidity situation (MUR14bn as at 26 Sep 2019), the short end of the treasury yield curve reacted sharply, edging lower by 35bps, while there was nearly a parallel shift downwards on the longer end of the curve following the

Fixed Income



Source : MCB Treasury

rate cut decision on 9 August 2019.

On the corporate side, several conglomerates announced their note programme. CIM informed that it sought to raise a minimum of MUR1.2bn from its MUR2bn unsecured medium term note programme to "optimize and diversify" its funding costs. Similarly, Rogers announced the implementation of its note programme of MUR2bn with a first issue of MUR1bn, which would not be listed on the market. Also, Ciel Limited highlighted that as part of its multi-currency note programme, it would issue fixed-rate notes for a nominal amount of MUR130m for a period of 10 years by way of private placement.

MCB Group added the final touch by announcing, together with its FY19 results, that it would give the option to existing noteholders of its 'Floating Rate Subordinated Notes Due 2023' (issued 12 June 2015) to subscribe for an equivalent nominal amount of redeemable preference shares to be issued and listed by the company. The redeemable preference shares would carry a fixed non-cumulative preference dividend of 4.7% p.a, payable twice yearly. The shareholders would also be given the option to convert their preference shares to ordinary shares of MCB Group two years following the issue date of the preference shares.