Databank Leadership

Databank Africa Strategy Report

Review of HY-2016 & Outlook for 2HY-2016

Election Risks, Security Concerns and Policy Uncertainty to Drive Safe Haven Investment Decisions across Sub-Saharan Africa in 2HY-2016

July, 2016

Databank Research

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 17.

TABLE OF CONTENTS

Economic Overview: **Sub-Saharan Africa (SSA)**

From Ghana, through Angola to Zambia, Sub-Saharan Africa (SSA) is set for a period of political decision making in the 2HY-2016 as policy adjustments continue in the face of weak global growth prospects and low commodity prices.

Election risks in Sub-Saharan African countries generally emanate from the potential (and actual) fiscal slippages resulting from elevated government expenditure relative to approved budget limits. The pressure to satisfy labour union demands and hasten the completion of pipeline projects (mostly politically motivated) combine with a lack of costing for election expenditure, resulting in a broadly "open-ended" expenditure side to election year budgets.

The sharp decline in commodity prices (since mid-2014) on the international market has introduced unanticipated shocks to the revenue side of many SSA fiscal operations with effects crystalizing since 2015. The upturn in crude oil price in Q2-2016 (YTD gain: ~30%) was triggered by unexpected output contraction in Nigeria, Canada and Libya, indicating that an improved production environment would limit the upside potential of price gains. Gold price also remains susceptible to a shift in US monetary stance (despite short-term gains from the Brexit-induced increase in safe-haven demand since Jun-2016), hurting projected revenue from the mining sector for countries such as Ghana and South Africa.

The contrasting shocks to both revenue and anticipated expenditure in an election year for some African countries pose a risk to fiscal sustainability and macroeconomic stability. We believe that the uncertainty surrounding the fiscal outcome of upcoming elections across the sub-region could fuel safe haven positions within key investment zones such as Angola, Cote d'Ivoire, Ghana, South Africa and Zambia.

Heightened security concerns in Nigeria and surrounding countries (Boko Haram and Niger-Delta militants) as well as Kenya and neighbouring countries (Al-Shabaab militants) would also impose some constraints on economic activity as capital flows into safe haven positions. Sporadic attacks on oil wells on Nigeria's production sites have trimmed the country's daily output by ~36% to ~1.4 million barrels per day, a development that could hurt Q2-2016 GDP growth rate.

A potential contraction in Nigeria's real GDP growth rate in Q2-2016 would indicate a technical recession in Africa's largest economy (following a 0.36% contraction in Q1-2016) amidst prevailing exchange rate uncertainty. Beyond the near term risks, we perceive long term investment prospects in Ghana, Nigeria, Cote' d'Ivoire, Kenya and South Africa due to the policy adjustments currently underway to preserve economic fundamentals.

SSA: Elections Calendar for 2HY-2016

Election Date	Country	Election Type
July, 2016	Sao Tome & Principe	Presidential
August, 2016	Cape Verde	Presidential
August, 2016	South Africa	Local Government
August, 2016	Zambia	Legislative & Presidential
September, 2016	Cote d'Ivoire	Constitutional Referendum
October, 2016	Guinea	Municipal
October, 2016	Seychelles	Parliamentary
November, 2016	Ghana	Parliamentary & Presidential
November, 2016	Congo DR	Legislative & Presidential
December, 2016	The Gambia	Presidential
December, 2016	Cote d'Ivoire	Parliamentary

Source: Databank Research, National Democratic Institute

South Africa: **Economy Escapes Credit Downgrade but Faces Risk of Political Uncertainty**

South Africa avoided a wave of credit downgrades by international credit ratings agencies in Q2-2016 as Moody's, S&P and Fitch Ratings all affirmed the country's current investment grade status. South Africa's economic risks appear fairly balanced as weak GDP growth outlook and high twin deficits are offset by a deep domestic capital market.

Heightened political uncertainty ahead of the Aug-2016 local government elections however tilts the near term outlook in a negative direction. Persistent violent protests such as those by aggrieved supporters of the ruling ANC (in disapproval of a selected candidate for the upcoming elections) would trigger capital flight to safe-haven assets pending the election outcome in the 2HY-2016.

Ghana: Q1-2016 Real GDP Growth Signals a Slower-than-expected Pace of Economic Recovery in 2016

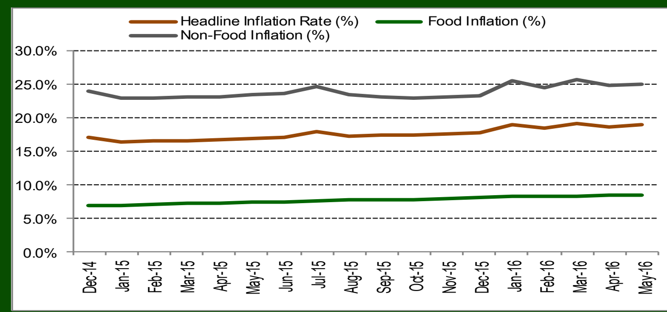
Ghana successfully navigated the 1HY-2016 with indications of a gradual return to the path of macroeconomic stability, anchored on policy changes under the current IMF program. Despite the volatility in cost-push inflation rate and the fragile business and consumer confidence about power supply reliability, sustaining the Cedi's relative stability and the BOG's zero-financing policy would consolidate the adjustment.

The Q1-2016 GDP data (published by the Ghana Statistical Service in Jun-2016) revealed a 4.9% y/y growth in real GDP, indicating a slower-than-expected pace of economic recovery. The sustained contractions in the mining & quarrying and fishing sub-sectors continue to undermine industrial and agricultural growth. The government of Ghana has consequently revised its FY-2016 overall GDP growth target to 4.1% (from the 5.4% stated in the 2016 budget) while non-oil GDP growth is expected at 4.6%. This largely reflects the downside risks to GDP growth from the faulty FPSO on Ghana's Jubilee oil field despite the anticipated start of crude oil production on the TEN oil fields (initial production estimated at 20,000bpd from Aug-2016).

The erratic power supply experienced for much of 2015 appeared to have crept back since Q2-2016 despite a marked improvement in supply in Q1-2016. As noted in Databank Research's investor update on the President's State of the Nation Address in Feb-2016, the lack of sufficient reserve margin underpins persistent risks in Ghana's power supply. The consistent breakdown of the FPSO on the Jubilee oil field continues to undermine sufficient gas supply for the thermal plants in the Western region. Nigeria's gas supply cut since Jun-2016 (due to VRA's indebtedness to N-Gas) has resulted in rolling power cuts with more than 200MW being shed daily since May-2016.

We flag the persistent power supply deficit as a risk to recovery in the mining sub-sector with adverse implications for aggregate productivity in the industrial and services sectors of Ghana's economy. We therefore trim our FY-2016 growth forecast by 100bps to 4.0% ± 50bps, reflecting a relatively flat growth trajectory as structural constraints offset policy effectiveness.

Ghana: Key Macroeconomic Indicators Jan-2015 to Mar-2016



Source: Databank Research. Ghana Statistical Service

Fiscal Deficit: Election-induced Expenditure to Slow the Pace of Fiscal Adjustment

Notwithstanding the palpable indications of fiscal adjustment under the IMF program, Ghana's upcoming presidential and parliamentary elections (proposed for Nov-2016) could undermine the pace of reduction in the fiscal deficit.

The Government has given indications of a firm commitment to further narrow the fiscal gap in 2016 despite the anticipated risk of election-related shocks to planned expenditure for the fiscal year. The third IMF review in May-2016 revealed government's intentions to achieve a lower overall fiscal deficit in 2016 (4.8% compared to 5.3% in the 2016 budget) due to the better than expected reduction in 2015 (6.7%). The government has however tamed its expectations with a revised forecast of 5.0% for 2016 in its 2017-2019 budget preparation guidelines published in Jun-2016.

While we anticipate a further decline in Ghana's fiscal deficit in 2016, we perceive the upcoming elections amidst a restricted growth environment as a risk to the planned expenditure for 2016. The government earmarked ~GH¢822.90 million for expenditure relating to the upcoming elections, a good strategy for containing the election-induced overruns.

Ghana's Electoral Commission however requires ~GH¢1.2 billion to effectively execute the upcoming elections, reflecting a GH¢377.10 million potential funding gap. We therefore perceive the risk of a potential funding gap coupled with a slower-than-expected GDP growth to limit the pace of reduction in the fiscal deficit in 2016. We however believe that the new tax laws adopted in 2016 would provide the basis to achieve a further decline in the deficit from the 6.7% outturn in 2015. Given the interplay of upside and downside risks, we revise our projected fiscal deficit for 2016 to 5.3% ± 50bps, a 100bps below our initial forecast.

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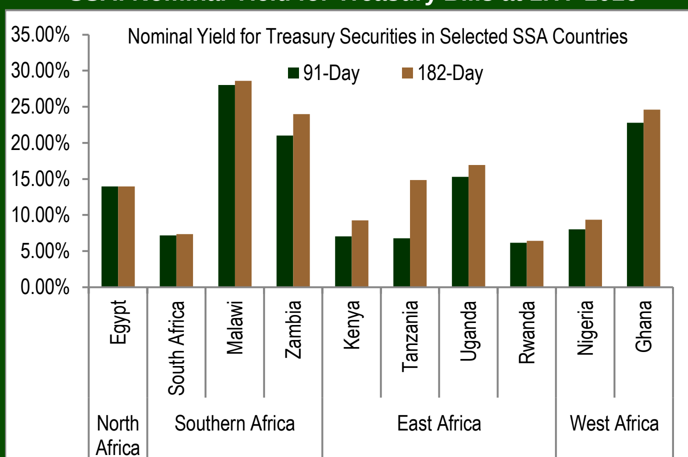
Quarterly Africa Strategy Report

Elevated Inflation: Tight Monetary Policy Stance to Persist in the 2HY-2016

The high and volatile inflation rate (Jun-2016:18.4%) points to a continued tight monetary regime in 2HY-2016 as external headwinds and upcoming elections threaten the outlook. We expect the tight monetary stance together with the relatively stable Ghana cedi to support a downturn in inflation from Q3-2016. We therefore maintain our initial forecast of 14% ± 100bps for FY-2016 (GOG: 10.1%)

SSA: Nominal Yield for Treasury Bills at 1HY-2016



Source: Databank Research, Bank of Zambia

Sub-Saharan Africa: Fixed Income Market Review

Investor risk perception of Sub-Saharan African economies reflected in the yields development on the African fixed income markets during the 1HY-2016. Notwithstanding the general perception of elevated risks associated with portfolio investments in SSA, investors' risk assessment however focused on peculiarities rather than generality in their decision making.

During the 1HY-2016, we observed a generally northward drift in nominal yields for treasury bills in our selected SSA countries categorized into North Africa, Southern Africa and West Africa. The East African countries however turned out to be the exception within our universe of SSA economies as nominal yields closed the 1HY-2016 lower.

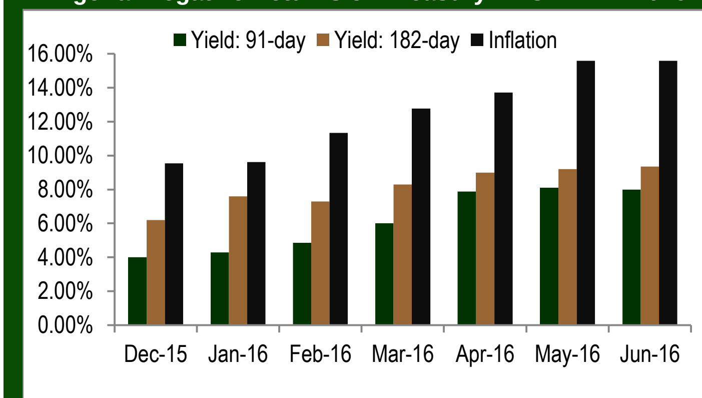
The 1HY-2016 outturn in yields for treasury securities reflects the contrasting changes to the economic fundamentals of the selected SSA countries with corresponding impact on their risk ratings and risk premium demanded by investor.

Nigeria: Fitch Downgrade Could Deepen Investor Concerns

Nigeria's decision to float the Naira turned out too late to avert a credit downgrade by Fitch ratings agency in Jun-2016 as the prolonged currency crisis weighed on economic activity and dented investor confidence.

Fitch slashed Nigeria's sovereign rating for foreign-currency debts to B+ (4-notches below investment grade) as worsening fiscal outlook compounded inflation and growth concerns. We perceive an elevated risk of a technical recession in Nigeria following the 0.36% contraction in the economy in Q1-2016 as restricted access to FX and militant attacks on crude oil production undermine policy effectiveness.

Nigeria: Negative Returns on Treasury Bills in 1HY-2016



Source: Databank Research, CBN

While Fitch's downgrade could exert an upward pressure on short term yields, we believe the authorities would prevent a steep increase in order to avoid punitive costs of funds for capital investment. We however perceive low nominal yields as a fundamental disincentive to fixed income investment as rising inflation (16.5% in Jun-2016) and a sharp Naira depreciation (~30%) wipe out gains in the short term.

East Africa: Declining Inflation Risk Drives Treasury Yields Lower

We observed strong investor confidence in our selected group of East African countries as declining inflation, stable FX rate, continued public investment (in Kenya & Tanzania) and anti-graft measures (in Tanzania) raised the appeal of treasury securities. Notwithstanding the lower nominal yields (compared to other markets in SSA), the declining inflation rates ensured a competitively priced real return on treasury securities. We therefore maintain a positive opinion on portfolio investments in the East African region supported by the relatively stronger economic fundamentals.

Fixed Income Market Review
Ghana: Higher Net Borrowing by Government but Tilted towards Longer-dated Securities

Ghana's fixed income market remained relatively more attractive for portfolio investors in the 1HY-2016. The high and elevated nominal yields (with marginal upside tendencies) was the main attraction for investors as inflation uncertainty and the central bank's high policy rate (at 26%) prevented further decline in yields.

Treasury securities remained the dominant instruments traded by investors on the fixed income market as the government of Ghana's high refinancing needs and budget operations sustained the treasury's presence on the market. Total maturing securities across the short to medium term end of the debt market during the 1HY-2016 were valued at ~GH¢26.71 billion (~$6.8 billion), 10.3% higher than maturities for like period in 2015.

The high refinancing requirements, the restructuring strategies of the government and the 2016 budgetary operations underpinned a higher net borrowing during the first 6 months of 2016. The total issued amount (including rollovers) in the 1HY-2016 amounted to ~GH¢30.87 billion ($7.86 billion), exceeding the level for same period in 2015 by 19.2%. This resulted in a net domestic issuance of GH¢4.16 billion ($1.06 billion), representing 15.6% above expected maturities for the period and more than 2x the net borrowing for like period 2015.

Based on the financing mix anticipated in the 2016 budget (presented in Nov-2015), we note that the GH¢4.16 billion net borrowing remains within the GH¢5.5 billion targeted by the government as domestic borrowing in 2016. We however perceive an elevated risk of a higher-than-projected domestic borrowing for FY-2016 as there remains limited borrowing space to the GH¢5.5 billion target. In our opinion, the ongoing zero-financing policy by the BOG amidst lower crude oil and cocoa revenue as well as the tighter external borrowing conditions would sustain the higher domestic borrowing pressure.

During the 1HY-2016, nominal yields for short to medium term treasury securities were relatively stable within a range of 22.5% to 24.75% as inflation uncertainty undermined the government's attempts to suppress yields.

The inflation-adjusted returns for treasury securities (at the close of 1HY-2016) consequently ranged from 3.79% to 5.60%. Resident investors in Greater Accra and Ashanti regions however earned relatively lower real returns as inflation rate for the two regions exceeded the national average used in our computations. The relatively stable Ghana cedi during the 1HY-2016 (compared to like period in 2015) ensured that Ghana's fixed income market regained some appeal for offshore investors.

Ghana: Fixed Income Treasury Securities in 1HY-2016

	1HY-2016 MATURITIES GH¢ Million	1HY-2016 ISSUANCE GH¢ Million	1HY-2016 VOLUME TRADED GH¢ Million
91-DAY	17,884.64	17,604.39	400.45
182-DAY	7,022.22	8,821.61	331.75
1-YR NOTE	263.03	366.52	5.14
2-YR NOTE	233.11	719.70	783.99
3-YR NOTE	1,307.47	1,800.15	2,258.81
5-YR NOTE	-	1,557.48	2,110.39

Source: Databank Research, Bank of Ghana, Central Securities Depository

Ghana: Yields for Treasury Securities in 1HY-2016

	End-1HY-2016 Nominal Yield	End-1HY-2016 Inflation-Adjusted Yield	End-1HY-2016 US Dollar-Adjusted Yield
91-DAY	22.79%	3.79%	19.45%
182-DAY	24.60%	5.60%	21.26%
1-YR NOTE	23.00%	4.00%	19.66%
2-YR NOTE	24.25%	5.25%	20.91%
3-YR NOTE	24.34%	5.34%	21.00%
5-YR NOTE	24.47%	5.47%	21.13%

Source: Databank Research, Bank of Ghana, Central Securities Depository

Total offshore investor holdings for government of Ghana domestic debt increased by 29% in the 1HY-2016 to GH¢8.88 billion ($2.26 billion) in May-2016 compared to a 7% decline in like period 2015.

The USD-adjusted returns for offshore investors closed the 1HY-2016 above 20%p.a, comparing favourably with that for Malawi while Zambia's currency volatility during the period undermined yield expectations.

In 2HY-2016, we expect the government to remain active on Ghana's fixed income market with tendencies toward the longer-dated instruments. We estimate the total upcoming maturing securities with a 2-year to 5-yr maturity profile at GH¢511.87 million ($130.28 million) split between the 2-yr notes (GH¢206.53 million) and the Jul-2016 5-yr bond (GH¢305.34 million) (no expected maturing instruments for the 3-yr bonds). The government however expects to issue medium term securities worth GH¢3.6 billion ($916.26 million) during Q3-2016, significantly exceeding our estimated maturities for the same tenor in the whole of 2HY-2016. The overall planned issuance for Q3-2016 (across short to medium term securities) is expected to result in a GH¢1.92 billion worth of net issuance. This would combine with the total net issuance in 1HY-2016 to close Q3-2016 with a net domestic borrowing of GH¢6.08 billion, emphasizing our expectation of government's domestic borrowing exceeding the GH¢5.5 billion planned for 2016.

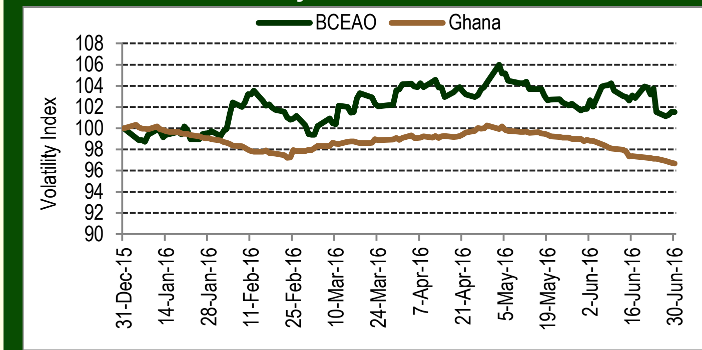
Sub-Saharan Africa: Currency Market Update

Currencies of Sub-Saharan Africa countries closed the 1HY-2016 with an improved performance against the global benchmark currency, the USD, compared to like period in 2015. Unlike 2015 (when only Malawi's Kwacha posted a HY appreciation against the USD), we observed a net appreciation for eight (8) out of the fifteen (15) SSA currencies regularly monitored by Databank Research in 1HY-2016.

Southern Africa countries such as Zambia (+10.60%), South Africa (+5.50%), Namibia (+4.40%) and Botswana (+2.70%) turned out the top four (4) most resilient currencies during the 1HY-2016. Zambia's Kwacha, South Africa's Rand and Namibia's dollar (pegged to the South African Rand) experienced wider volatility in Q2-2016 despite the resilience observed for the entire 1HY-2016. We perceive a worsening current account position and heightened election uncertainty (elections due in Aug-2016 in Zambia and South Africa) as major drivers of the currency volatility.

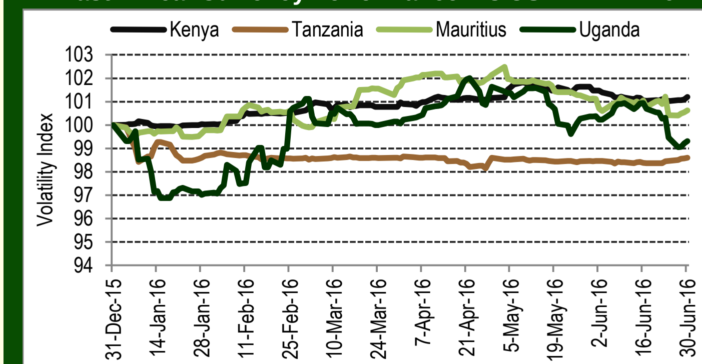
The observed volatility however occurred largely on the positive end of our currency performance chart, ensuring net gains against the USD by the close of 1HY-2016. Ahead in 2HY-2016, we flag the election uncertainty and a stagnating economy in South Africa as major risks to currency stability in Zambia, South Africa and Namibia.

West Africa: Currency Performance vrs USD in 1HY-16



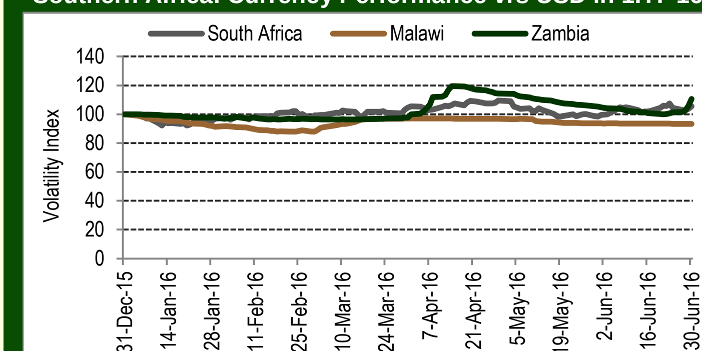
Source: Databank Research, Central Bank Websites N.B: Index >100 means appreciation

East Africa: Currency Performance vrs USD in 1HY-16



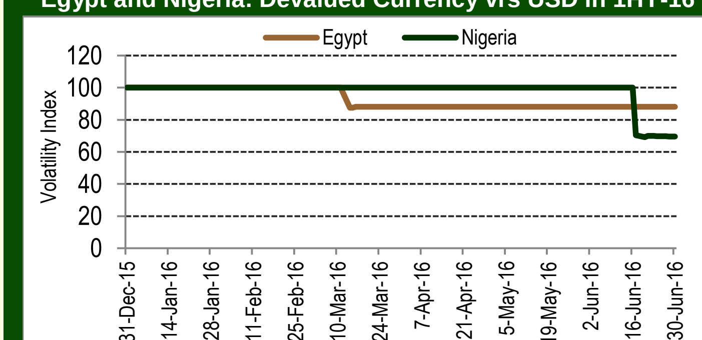
Source: Databank Research, Central Bank Websites

Southern Africa: Currency Performance vrs USD in 1HY-16



Source: Databank Research, Central Bank Websites

Egypt and Nigeria: Devalued Currency vrs USD in 1HY-16



Source: Databank Research, Central Bank Websites

Ghana's cedi also registered a better-than-expected performance in the 1HY-2016 with a 3.34% depreciation compared to a 26.2% decline in like period 2015, indicating an improved outlook for economic recovery. The cedi's improved performance in 1HY-2016 was underpinned by the tight monetary stance since Q4-2015 (MPR at 26%) supported by the implementation of the zero-financing policy for fiscal operations by the central bank. We have observed renewed depreciation pressure on the Ghana cedi since May-2016 as relentless FX demand outweighs the limited inflows from offshore and local FX sellers.

At the close of 1HY-2016, the Ghana cedi ranked as the 11th most resilient currency among our basket of fifteen (15) SSA currencies. Nigeria (-30.38%) and Egypt (-11.83%) closed at the bottom of the list due to the currency devaluation in the two countries.

We flag Ghana's upcoming elections (Nov-2016) with potential uncertainty around it as a major risk to FX supply and a possible force behind FX demand in Q3-2016. The sporadic shocks from Brexit-induced capital displacement could also spill-over into currency markets in SSA as the USD advances against global currencies. We however expect Ghana's tight monetary regime to anchor the demand-side while COCOBOD's anticipated $2 billion syndicated loan eases the supply-side constraints during the last quarter of 2016.

Equities Market in SSA

Nigeria

The Nigerian equities market bounced back in Q2-2016 recovering from the losses recorded in Q1- 2016 to end HY-2016 on a positive note. The Nigeria Stock Exchange's All Share Index gained ~4.091 points in Q2-2016 to end HY-2016 with a year to date return of 3.34%. Investor interest on the bourse was revived following the Central Bank of Nigeria's (CBN) announcement and implementation of a floating foreign exchange rate regime. The Nigerian economy has been battling with several challenges including: plunging crude oil prices, power shortages, worsening fiscal and current account positions, exacerbated by a weak GDP growth. This has hindered economic growth for the economy. The Nigerian economy contracted by 0.4% in Q1-2016 fuelled by a decline in the growth of major sectors including the non-oil sector (-4.4%y/y) and manufacturing sector (-7.0%y/y). This translated into a negative market breadth for HY-2016 as 49 counters registered capital gains, whilst 77 counters dipped in price. Prices for 53 counters however remained unchanged.

In an attempt to salvage the declining economy, the Central Bank of Nigeria gave up its grip on the fixed exchange rate regime to implement a flexible exchange rate towards the end of June (20th of June, 2016). The Nigerian Government plans to diversify from its core revenue earner- Brent crude oil- by promoting non-oil export produce. In view of this, the Nigerian Export Promotion Council has initiated a strategy dubbed "the zero oil plan". This strategy aims to boost non-oil export by investing in eleven (11) specific export produce including: palm oil, cocoa, soybeans and rubber. The Central Bank of Nigeria has also set up a credit scheme that can readily be accessible by non-oil exporters. We believe this will spur export financing and provide exporters with the opportunity to expand their production.

In the short to medium term we expect foreign investors to cautiously study the recovery of the Nigerian economy before actively taking positions in counters of interest. Market activity will however continue to be dominated by local investors who hold the opinion that the transition to a floating regime will steer up foreign interest in their equity market.

We foresee commissions and trade incomes of banks soaring up in the remaining half of this year following the introduction of a future market and a FX inter-bank market. This will also boost trade finance business in Nigeria. We reckon that remittance to Nigeria will be impaired due to the imminent decline in Britain's economic growth following the Brexit decision. We however remain optimistic of stocks in the financial services sector in the last half of 2016. We recommend Zenith Bank and Guaranty Bank due to their adoption of an operational efficiency strategy to support their profitability. Zenith Bank and Guaranty Bank are currently trading at P/Es of 5.0x and 6.1x respectively. These banks have shown resilience in growth in Nigeria's prolonged macro-economic headwinds by continuously delivering good returns to investors. We thus believe investor returns will double once the Nigeria economy revamps.

Nigeria

HY- 2016 TOP GAINERS	HY – 2016 RETURN	HY- 2016 WORST LAGGARDS	HY – 2016 RETURN
Tiger Branded Consumer Good	324%	Portland Paints & Products	-51%
E- Tranzact International Plc	97%	Forte Oil Plc	-42%
United Capital Plc	89%	Caverton Offshore Support	-41%
AG Leventis & Co.	64%	Union Homes Savings & Loans Plc	-39%
Seplat Petroleum.	62%	Ikeja Hotel Plc	-38%

Sources: Databank, ***Bloomberg***

French West African Stock Market: Bourse Regionale des Valeurs Mobilieres (BRVM)

The Benchmark of the French West African Stock Market (BRVM) lost ground in Q2-2016 to end HY-2016 with a return of 1.82% (HY-2015:7.89%). The BRVM Composite Index ended HY-2016 at 306.34 points. The interest on the bourse in Q2-2016 declined relative to that of Q1-2016 due to the disappointing financials released by large capitalization stocks.

Thus return for HY-2016 was weakened by: ETI (Net Income -34% to XOF48.30 billion), SGBCI (Net Income -17% to XOF7.36 billon) and TOTAL CI (Net Income -22.61% to XOF5.42 billion). These triggered sell offs in Q2-2016. Equity market capitalization for the BRVM settled at $12.8 billion at the end of the first half of 2016, representing ~89% y/y decline. Market breadth however sustained its positive stance with 23 counters advancing in price while 15 counters ended HY-2016 with a price decline. The share price of 1 counter however remained unchanged for HY-2016.

We forecast Cote d'Ivoire's economy to continue its recovery path with GDP growth estimated at ~ 8.5% for 2016 while inflation is expected to edge up to 2.1%. We believe volatility in the CFA Franc (XOF) is imminent given member countries strong trade ties with France and the uncertainty surrounding the Euro caused by the Brexit decision. We thus reckon that capital migration to frontier markets due to the Brexit decision will give BRVM a global visibility following its inclusion in the MSCI Frontier Market Index. We thus anticipate an increased level of market activity in the 2HY-2016 supported by growth in the agricultural and manufacturing sector given Cote d'Ivoire's comparative advantage in cocoa production. Based on our economic outlook for member countries, we perceive stocks in the agricultural and manufacturing sectors to offer attractive returns in the short term. We thus recommend SAPH, Societe Ivoirenne de Coco Rape and PALMCI to investors for the 2HY-2016.

BRVM

HY- 2016 Top Gainers	HY – 2016 Return	HY- 2016 Worst Laggards	HY – 2016 Return
Vivo Energy CI	193%	Ecobank Transnational Inc.	-36%
BOAM	173%	Societe Ivoirienne de Coco Rape	-34%
Société Multinationale De Bitumes	93%	SODECI	-14%
Servar Abidjan CI	82%	SICABLE	-13%
BOACI	62%	BOASN	-11%

Sources: Databank, Bloomberg.

Kenya

The Nairobi Stock Exchange was bearish during the first half of the year 2016. The Nairobi Stock Exchange All Share Index (NSEASI) ended the half year at 140.60 points, down by 5.1 points from the beginning of the year and made a negative return of 3.5%. Though the Nairobi Stock Exchange registered a positive return of ~1.19% in the first quarter, the bearish sentiments during the second quarter (-4.6% return) wiped all the gains, translating into a half year return of -3.5%. The market breadth was broadly negative with 46 out of the 67 listed equities recording share price declines. The share prices of thirteen stocks trended upwards while ten remained unchanged.

Standard Chartered Bank and I&M Holdings emerged amongst the top gainers for the 1HY-2016 on the back of the strong results published.

Kenya

1HY 2016 Leaders	End Price (Ksh)	% Change
Longhorn Kenya Ltd.	5.70	29.51%
Standard Chartered Bank of Kenya	195	11.11%
I&M Holdings Limited	110	10.00%
Britam Holdings Kenya	14.2	9.23%
Safaricom Limited	17.75	8.90%
Laggards	**End Price (Ksh)**	**% Change**
Uchumi Supermarket	2.90	-73.52%
Home Afrika Ltd.	1.30	-50.00%
East African Cables Ltd	6.30	-40.57%
National Bank of Kenya	9.60	-39.43%
Pan Africa Insurance Holdings Ltd	37	-38.33%

Sources: Databank, Bloomberg, Nairobi Stock Exchange

Standard Chartered Bank's Net interest income went up by ~10% to Ksh 4.88 billion in Q1 2016. I&M PAT also grew by 8%from Ksh 1.6 billion in Q1 2015 to Ksh 1.8 billion. Notwithstanding the gains, the weight of the laggards ensured an entrenched loss return position for the half year.

Uchumi Supermarket, the worst laggard for the period, plummeted by 73% from a price of Ksh 10.95 to Ksh 2.90. This was the result of investors' strong reaction to the FY 2015 loss of Ksh 3.4 billion. The Government of Kenya had to intervene to persuade investors from seeking the company's liquidation over its KSH 3.6 billion debt.

Kenya's economy is projected to be one of the best growing economies in East Africa. Tea, the major export commodity of the country recorded a 71.1% y/y growth in Q1 2016 due to the favourable weather conditions. We expect a sustained production in 2HY-2016 to aid in the country's GDP growth target. The country's improved electricity generation (7.5 y/y growth to 2.4 billion Kwh) is also expected to boost the industrial and manufacturing sectors. The political instability characterized by riots and the widening fiscal deficit may lead to investors being cautious and consequently result in lackluster performance in 2HY 2016.

We foresee an upside potential in the share price of Longhorn Publishers. The Ksh 533 million funds it acquired in its successful rights issue should aid the company to expand into other markets as well as diversify its products. Plans are also in motion to acquire a majority stake in Law Africa Publishing, a private legal content publisher, subject to shareholder and other regulatory approvals. We expect these developments to increase market share and consequently push turnover up.

Mauritius

The performance of the Stock Exchange of Mauritius, measured by the SEMDEX ended the first half of the year 2016 at 1,752.41 points with a return of -3.24%, a slight improvement over the -4.48% return at 1HY 2015. The market breadth for the period was negative as 13 shares appreciated in value compared to 25 shares that lost value. Out of the 42 shares on the exchange only 4 remained unchanged.

Mauritius

1HY-2016 Advancers	End Price (MUR)	% Change
Automatic Leaders Systems	60	75.44%
IBL Limited	125	17.92%
Lottotech Limited	4.10	16.48%
New Mauritius Hotels	20.00	16.09%
Air Mauritius Limited	12.25	11.36%
1HY -2016 Laggards	**End Price (MUR)**	**% Change**
Blue Life of Mauritius	2.10	-43.09%
CMPL	8.50	-38.85%
Go Life international	0.02	-33.33%
Swan General	303	-25.74%
ENL Commercial Limited	14.30	-22.07%

Source: Databank Research, Bloomberg, Stock Exchange of Mauritius

Trade volumes also plummeted by 65% y/y from 2.760 billion shares to 963 million shares. The low volumes can be attributed to low investor patronage due to the bearish sentiments and corresponding low company earnings posted within the period.

The uninspiring results posted by some listed companies such as: Blue Life of Mauritius, CMPL and ENL Commercial Limited contributed to the bearish sentiments. Blue Life of Mauritius, the worst laggard for the half year deepened their losses from RS 19.68 million in Q1 2015 to Rs 26.754 in 2016 quarter 1, CMPL despite lessening their losses by 20% in Q1 2016 still recorded a loss of Rs 931 thousand. ENL Commercial Limited similarly deepened their losses to ~ Rs 8.8 million in Q1 2016 from a loss of Rs 8.2 million in the same period last year. The company attributes the uninspiring result to the contracting automotive and suffering construction industry.

The tourism sector failed to turn the tide for the Mauritius Stock Exchange though it continues to be in the mainstay for the country. The hotels counter led by New Mauritius Hotels sustained its positive performance on the back of increased tourist arrivals (9.8 % increase y/y) into the country. The sustained interest in the country's tourism is on the back of the positive affirmations (Best Travel Destination by the 2014 Consumer Choice Awards.) and the extensive campaigns the country has undertaken, positioning the country as an all year round destination.

Mauritius is gradually becoming a medical tourism hub in Africa having made major investments in the health and wellness industry. Thus, the sector remains our top pick in Mauritius.

We also expect the interesting corporate actions during the 1HY 2016 such as the acquisition of Edena SA by Phoenix Beverages Limited and the amalgamation of Ireland Blyth Limited (IBL) with GML Group (both companies ranked amongst the top 5 conglomerates in the country) to translate into better earnings and subsequent capital gains for their shares.

Mauritius remains the top destination for doing business in Sub Saharan Africa according to the African Development Bank. We therefore expect sustained confidence in the economy to boost market activity on the exchange in 2HY 2016.

Ghana: High Yields on Fixed Income Securities Continue To Weigh Down the Ghana Stock Exchange

The Ghana Stock Exchange (GSE) ended Q2-2016 in red with the benchmark GSE Composite Index (GSE CI) shedding 124.52 points (q/q) to settle at 1787.50 points. The bearish Q2-2016 trend of the benchmark index reinforced the poor performance of the broad market in Q1-2016 and deepened the -4.16% return recorded in Q1-2016 to -10.40% at HY-2016 (HY 2015 return: +4.03%). The benchmark index's poor Q2-2016 performance was underscored by the overall bearish sentiments of investors on the broad market. The market breadth was negative (q/q) with 3 gainers recorded against 18 decliners. Fourteen counters remained unchanged. Investors continued to cut their losses in the Ghanaian equities market spurred on by the relative stability of the Ghana Cedi in 2016 (following the very volatile exchange rates in 2015), while the allure of high interest rates in the fixed income market ensured investor interest remained fixated in the debt market as opposed to the equities market.

The HY-2016 performance of the GSE CI was nonetheless not all gloomy. After the GSE CI sunk to a 2016 nadir of 1,747.74 points (-12.39% return) on 7th June 2016, the benchmark index began a labored recovery, largely on the back of improving investor sentiments in Ecobank Transnational, Ecobank Ghana and Fan Milk Limited (these stocks jointly accounted for 33% of the entire positive movement in the index from 8th June 2016 to the end of June 2016). The improved sentiments for the above stocks were based on dividend announcement and consistent robust performance. ETI declared a dividend after a 2 year hiatus & announced the consolidation of every 20 old shares into one new share to reduce liquidity and manage erratic price movements. The dividend payments which sends a positive signal of an expected return to growth in bottom line also translated into an increased interest in Ecobank Ghana (a subsidiary of ETI) which was trading at attractive multiples (7/06/16) of 1.9X P/B and 6.2X P/E on the GSE. Consistent growth (y/y) across three consecutive quarters, despite the challenging operating environment (characterized by higher energy costs, erratic power supply and reduced disposable income) for consumer sector businesses, had investors looking at shares of Fan Milk Limited.

Total volumes traded for Q2-2016 declined on the back of the waning investor interest in the equities market to ~26m shares (down from ~36m shares traded for Q2-2015). Aggregate volumes traded for HY-2016 was thus markedly lower at ~half (63m shares) of the 124m shares traded in HY-2015. Market turnover for the GSE however recorded growth q/q (to ~GH¢85.4m from GH¢54.9m in Q2-2015) on the back of the dominance of high priced Fan Milk during the period. Trades in Fan Milk limited, the most active counter (with a HY-2016 average price of GH¢7.43) accounted for ~50% of value traded in Q2-2016 and boosted the HY-2016 outturn to GH¢137m from GH¢123m for similar period in 2015 when trades in the lower priced Aluworks Limited and Enterprise Group Limited dominated market activity (HY-2015 average price of Gp 4 and GH¢1.67 respectively.

Outlook: GSE Stocks Trading At Significant Discount after Price Correction

We remain optimistic of the medium term prospects of the Ghana Stock Exchange. There are evident positive indications of improving economic fundamentals per the IMF program reviews. The 2015 fiscal deficit narrowed to 6.7% (better than the GoG's 2015 target of 7.3%) from 10.6% in 2014, while the Ghana Cedi recorded relative stability for the first half of the year with a 3.34% depreciation compared to 26.2% depreciation by HY-2015. Our expectation of an economic turnaround is expected to result in an improved operating environment for businesses in the medium term, where firms can reliably forecast & provision for operating expenses, access funds at reasonable cost and forecast consumer demand with the ultimate goal of enhancing bottom line.

We however anticipate short term investor interests will be undermined by the reduction in the GoG's 2016 GDP projections to 4.1% [as quoted in the 2017-2019 budget preparation guidelines by the GoG] from 5.4% as this signals an expected delay in the economic turnaround & the anticipated rebound of consumer demand, dampening the growth projections of companies. Another factor expected to mute investor activity on the GSE during 2H- 2016 is the impending 2016 presidential and parliamentary elections and the attendant wait and see posture adopted by investors on the GSE during election seasons. Safe haven flows to the dollar in the light of uncertainty on how the BREXIT decision will be executed and its implications for the Eurozone is also expected to adversely affect the currency of emerging markets (such as Ghana) further dampening activity on the GSE in the short term. We thus project the GSE CI to end 2016 firmly in the high single digit negative territory and approaching the lower teens.

Our stock picks for the GSE include banking sector stocks: GCB Bank, Ecobank Ghana & CAL Bank due to their current low prices resulting from profit taking activities spanning a year and a half. In our estimation these stocks offer a significant upside potential of 61%, 24% and 80% respectively. We are equally bullish on Consumer Stocks: Unilever Ghana and Fan Milk. The improving macro-economic fundamentals coupled with improving consumer confidence are setting the stage for the recovery of the sector. We are particularly positive about Unilever which is currently trading below its fair value and offers an attractive entry price of GHS8.48 (from a high of GHS18.31 on 23rd Dec 2013).

Ghana Key Market Statistics

	HY-2016	HY-2015
Market Cap (GHS'b)	54.79	64.62
Aggregate Volume Traded ('m)	26.13	35.66
Aggregate Turnover (GHS'm)	85.40	54.94
Return	-6.51%	+5.83%
	Q2-2016	**Q2-2015**
Aggregate Volume Traded ('m)	26.13	35.66
Aggregate Turnover (GHS'm)	85.40	54.94
Return	-6.51%	+5.83%

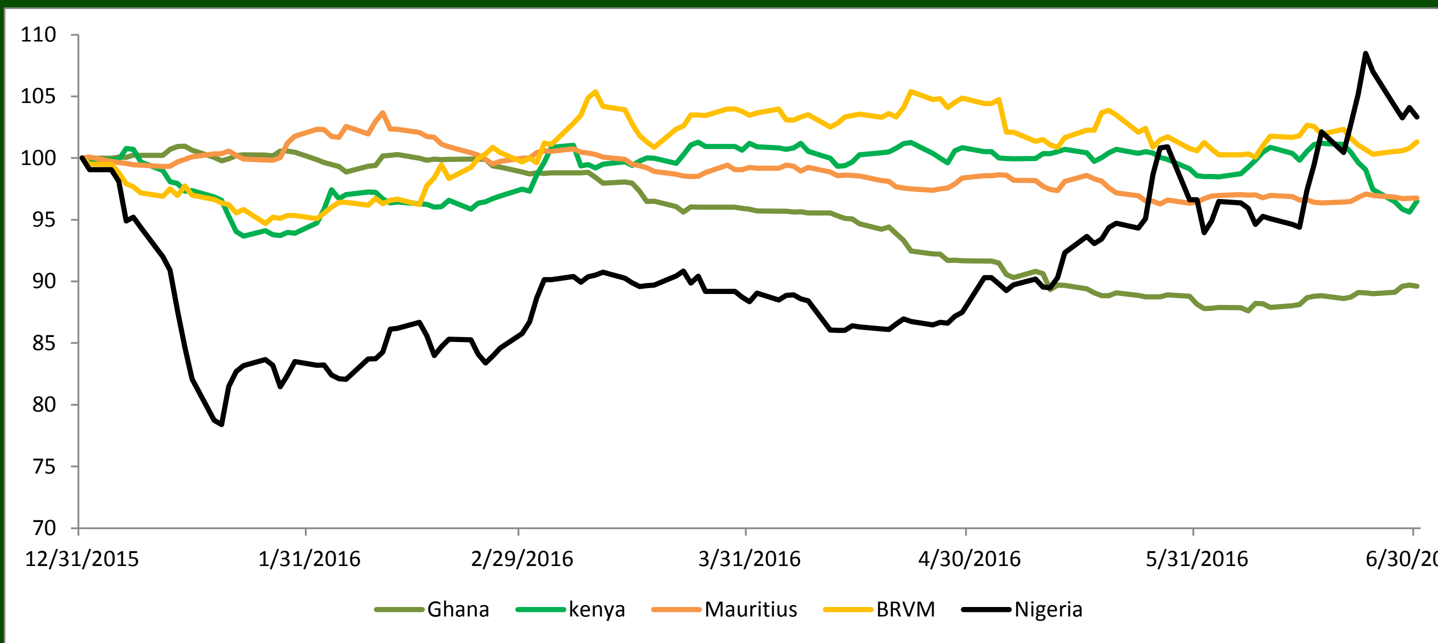
Source: Databank Research

Ghana

HY-2016 Top Advancers	End Price (GH¢)	% Change
Benso Oil Palm Plantation	2.90	16.00
Fan Milk	8.50	15.65
SIC Insurance	0.15	7.14
Ghana Oil Company	1.36	3.10
Enterprise Group	2.42	0.83
HY-2016 Laggards	**End Price (GH¢)**	**% Change**
PBC.	0.06	-40
Aluworks	0.09	-35.71
Starwin Products	0.02	-33.33
Ecobank Transnational	0.19	-29.63
PZ Cussons	0.24	-27.27

Source: Databank Research, GSE

HY-2016 Stock Market Performance



Sources: Databank, ***Bloomberg***

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The Global Commodities Market in 1HY-2016

Price movements on the global commodities markets in the 1HY-2016 reflect a potential for near term recovery in key commodity prices. The half year outturn revealed YTD gains for ten (10) out of the eleven (11) commodities tracked by Databank Research. Gains across the various commodities markets were largely propelled by receding expectations of US interest rate hikes, unanticipated cuts in global crude oil output and prolonged weather-induced concerns in the agricultural sector.

The half year returns for energy prices (Brent: +36.4%, WTI: 34.4% & Natural gas: +23.7%), sugar (+38.7%) and gold (+24.1%) exerted a significant upward momentum on the market to neutralize cocoa's half year loss (-6.0%). Despite the 1H-2016 gains, we note that the current price levels for key commodities such as Brent, WTI and cocoa remain lower than the levels observed in the corresponding period for 2015.

Crude Oil

The outlook for price recovery in the crude oil market was enhanced in the first half of 2016 as sustained cuts in supply combined with declining inventory in the US, fueling expectations of lower global supply.

Sustained disruptions in key production regions such as Nigeria, Canada, Kuwait, Venezuela and the US exerted an offsetting effect on growth in Iran's output after major producers (OPEC & non-OPEC) failed to freeze output. The steady recovery in Brent price reached a 2016 peak of $52pb in mid-June before retreating below $50 under pressure from the Brexit-induced shocks since 23rd June, 2016. We expect the downside risks from Brexit shocks to prevent a sustained recovery above $50pb in 2HY-2016.

Gold

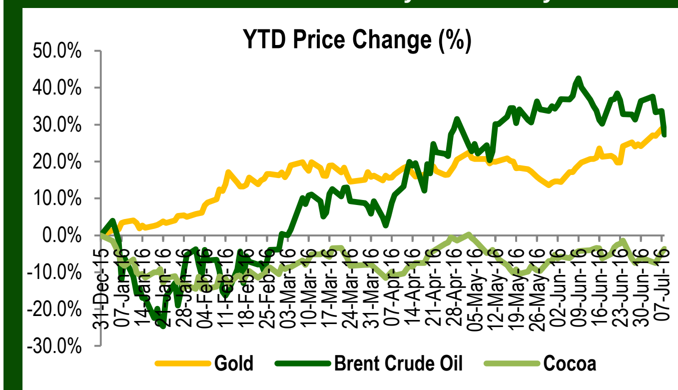
Gold price surged above $1,300/oz. in late-June, 2016 after Brexit decisions stoked jitters in the global financial markets, fueling capital flight into the precious metal. Gold price recorded an upward trend in 1H-2016 as investors slashed the chances of US interest rate hike.

We believe the recent financial turmoil with uncertainty in the UK property market would sustain the safe-haven appeal of gold although a potential hike in US interest rate in Q4-2016 would trim gains from gold.

Cocoa

Cocoa price struggled to hold above $3,000/MT in the 1HY-2016 despite weather and security concerns in key growing regions as profit-taking continued to undermine a price advance significantly above the $3,000 mark. Despite the downside risk from profit-taking, we expect weather-related concerns to dampen the outlook for global supply in the upcoming 2016/2017 season, supporting average price for 2016 to $3,050 ± 5% in 2HY-2016.

Half Year Performance of Key Commodity Prices



Source: Databank Research, Bloomberg

Return Analysis Table for Key Commodities as at 1HY-2016

Commodity	Unit	Price ($)	Abs YTD Chg.	%YTD Chg.
Gold	$/t oz.	1,317.69	256.29	24.1%
Aluminium	$/MT	1,635.50	107.50	7.0%
Copper	$/lb.	2.18	0.04	2.0%
Crude Oil WTI	$/bp	49.38	12.64	34.4%
Brent Crude Oil	$/pb	50.06	13.35	36.4%
Natural Gas	$/mbtu	2.87	0.55	23.7%
Cocoa	$/mt	3,034.00	-195.00	-6.0%
Coffee	$/lb	146.00	22.35	18.1%
Sugar	$/lb	0.21	0.06	38.7%
Corn	$/bu	3.82	0.23	6.3%
Cotton	$/bu	66.35	2.52	3.9%

Abs Chg: Absolute change, YTD: year to date ***Sources:*** *Bloomberg, Databank*

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