Databank

Leadership

Databank Research

Africa Quarterly Strategy Report

Review of First Quarter 2017 with Outlook for Second Quarter 2017

April-2017

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Economic Overview of Sub-Saharan Africa

Policy Uncertainty Blurs Investment Climate in Africa's Top Economies

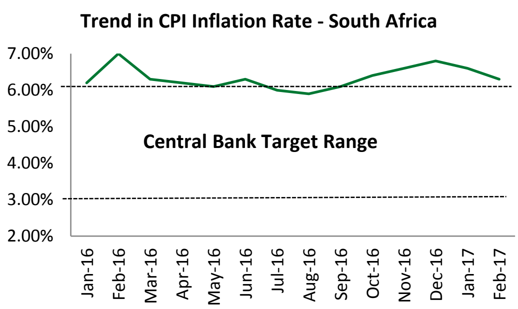
Investment climate in Africa's top economies such as Nigeria and South Africa is distorted by policy uncertainty, especially as regards the path of fiscal policy. Kenya's upcoming elections in Aug-2017 could also cloud the short term outlook for East Africa's top economy. We however perceive bright spots in Ghana, Côte d'Ivoire and Egypt as renewed commitment to fiscal sustainability and reforms spur investor confidence.

South Africa: Renewed Political Tension is a Threat to Economic Outlook and Investor Confidence

The shock dismissal of highly-rated Finance Minister Pravin Gordhan (and his deputy) by President Jacob Zuma in late Mar-2017 has deepened political tensions in the governing ANC.

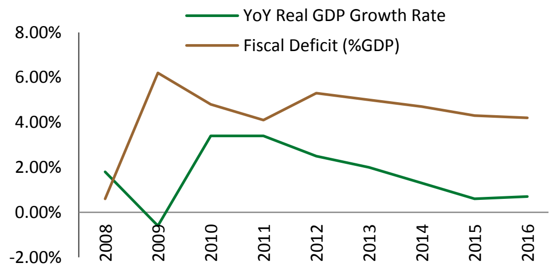
We view the prevailing division within the government as negative for fiscal policy and investor confidence over the next three quarters. In response to the heightened uncertainty about South Africa's fiscal policy path and economic direction, S&P global ratings agency has downgraded the country's credit rating to sub-investment grade. We perceive elevated near term risks to portfolio investments in South Africa as volatility in the country's financial market reflects investor uncertainty about policy direction.

Exhibit 1: South Africa's Inflation Dynamics



Source: Databank Research, South Africa Reserve Bank

Exhibit 2: Fiscal Deficit and Growth Dynamics



Source: Databank Research, Statistics South Africa

Kenya: Upcoming Elections Could Undermine Plans to Rein in Fiscal Deficit by 260bps to 6.3%

Investment decisions in a number of African countries could switch in favour of safe-haven assets between Q2-2017 and Q3-2017 as political risks heighten ahead of much anticipated elections. Countries such as Rwanda (4th Aug-2017), Angola (Aug-2017), Liberia (10th Oct-2017) and Kenya (8th Aug-2017) are all set to test their democratic credentials from Q3-2017.

Ghana: Complementary Fiscal and Monetary Policies Signal Favourable Economic Outlook

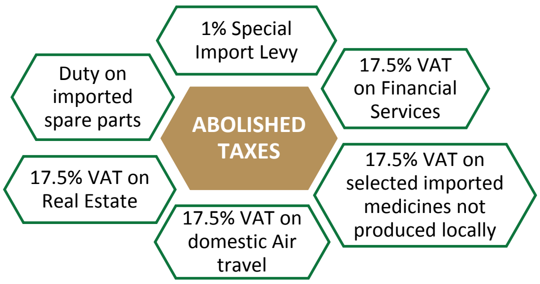
Fiscal Shocks and Exchange Rate Pressures Proved a Stumbling Block in Early 2017:

Ghana endured a difficult start to 2017 on account of unanticipated fiscal shocks which undermined investor confidence and also compounded the exchange rate pressures from late 2016. Political uncertainty ahead of the Dec-2016 elections triggered a relapse in the cedi's value in Nov-2016 which worsened in early 2017 following the discovery of unanticipated fiscal slippages in 2016. The announcement of a GH¢7 billion "undisclosed" expenditure deepened investor concerns about Ghana's commitment to the ongoing IMF program. The resultant speculative and safe-haven decisions by investors (predominantly offshores) coupled with the hike in US interest rates elevated the demand for the US dollar and suppressed the Ghana cedi.

Fiscal Anchor: Tax Incentives in the 2017 Budget Triggers Renewed Business and Consumer Confidence

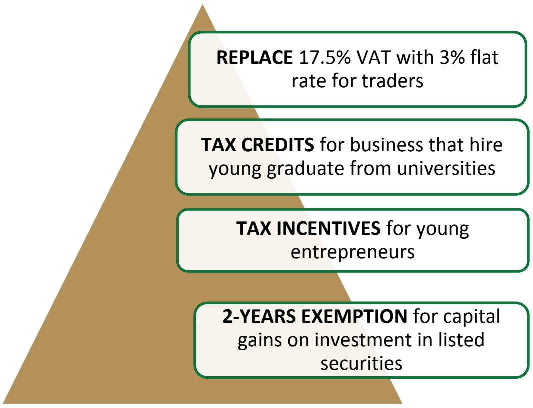
Ghana's 2017 budget indicates government's commitment to restore fiscal discipline despite easing the tax regime to stimulate production and consumption activities. The government announced a raft of tax incentives which included the removal as well as reduction in selected taxes which adversely impacted business operations. Our gauge of investors' perception of the government's pro-business stance points to improved investment prospects.

Exhibit 3: Taxes Abolished in the 2017 Budget



Source: Databank Research, Ministry of Finance

Exhibit 4: Other Tax Incentives in the 2017 Budget



Source: Databank Research, Ministry of Finance

Notwithstanding the tax reductions, the government remains confident of narrowing the budget deficit by 220bps YoY to 6.5% in 2017.

We broadly anticipate a decline in the budget deficit for 2017, underpinned by increased crude oil earnings. Crude oil production is expected to hit 120,000bpd (+32,000bpd YoY) in 2017 with a higher benchmark price of more than $50pb. We also expect improved efficiency in public financial management to contain the expenditure risks, narrowing the 2017 deficit as a percentage of GDP. In light of the 8.7% deficit recorded in 2016 (rather than the 9.0% earlier reported in the State of the nation address), we trim our projected 2017 budget deficit by 30bps to 7.0% ± 50bps. A better-than-expected management of public expenditure could however lower the deficit outturn below the 7.0% average while an unexpected adverse shock to the projected revenue poses an upside risk above the government's projected deficit.

Monetary Anchor: A 200bps Slash in the Monetary Policy Rate to 23.5% Would Ease the Credit Conditions but High NPLs Remain a Constraint to Credit Growth

We observe a significantly improved outlook for inflation and exchange rate, underpinned by the 6 consecutive months of decline in inflation rate (12.8% in Mar-2017) and considerable recovery of the Ghana cedi. The improved inflation and exchange rate outlook emphasizes our view that inflation could revert to the Bank of Ghana's medium term target range of 8% ± 2% by mid-2018.

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The Bank of Ghana signaled a bullish outlook for restoring price stability by slashing the Monetary Policy Rate (MPR) by 200bps in Mar-2017 to 23.5%. We expect this policy easing to trigger a reduction in banks' cost of funds as the inter-bank interest rate saw an immediate drop from 25.2% to converge with the policy rate. While a lower cost of funds could trim the base rates of commercial banks, the persistently high Non-Performing Loans ratio (17.7% in Feb-2017) remains a key risk to growth of private sector credit. The high NPLs for Ghana's banking sector would continue to limit the expected decline in the risk premium charged by banks. This could further undermine any significant decline in the Annual Percentage Rate (APR), ultimately constraining credit growth.

We however expect a significant presence of the government on the longer-dated end of the market to mop-up the extra liquidity generated by the policy rate cut. The government's plan to finance the GH¢13.18 billion budget deficit solely from domestic sources would provide the demand for the resultant increase in GHS liquidity arising from the policy easing. We also expect this strategy of deficit financing from domestic sources to reduce the exposure of Ghana's debt portfolio to exchange rate shocks, thereby supporting efforts to gradually restore debt sustainability in the medium term.

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Fixed Income Markets in Sub-Saharan Africa

Exhibit 5: Summary of Ghana's Primary Fixed Income Market Activity in Q1-2017 and Outlook for Q2-2017

	Summary Activities (Q1-2017)					Outlook for Q2-2017		
Tenure	Target (GH¢'M)	Issuance (GH¢'M)	Maturity (GH¢'M)	Net Issuance (GH¢'M)	Avg. Yield At Issue	Target (GH¢'M)	Upcoming Maturities (GH¢'M)	Estimated Net Issuance (GH¢'M)
91-day	8,350	9,644.63	10,477.60	-832.97	16.30%	7,000	9644.63	-2,645
182-day	5,950	2,400.84	4,116.75	-1,715.91	17.18%	2,850	3054.88	-205
1-Yr	600	1,373.12	235.15	1,137.97	19.30%	1,000	377.99	622
2-Yr	1,200	1,555.23	556.67	998.56	21.18%	1,200	529.12	671
3-Yr	700	1,010.59	402.00	698.59	21.5%	800	579.69	220
5-Yr	600	369.47	-	369.47	18.75%	1,900	267.28	1,633
7-Yr	-	-	-		-	1,100	-	1,100
10-Yr	-	-	-		-	2,200	-	2,200
15-Yr	-	-	-		-	4,200	-	4,200
Total	17,400	16,353.88	15788.17	565.71	-	22,250	14,453.59	7,796

Source: Databank Research, Central Security Depository

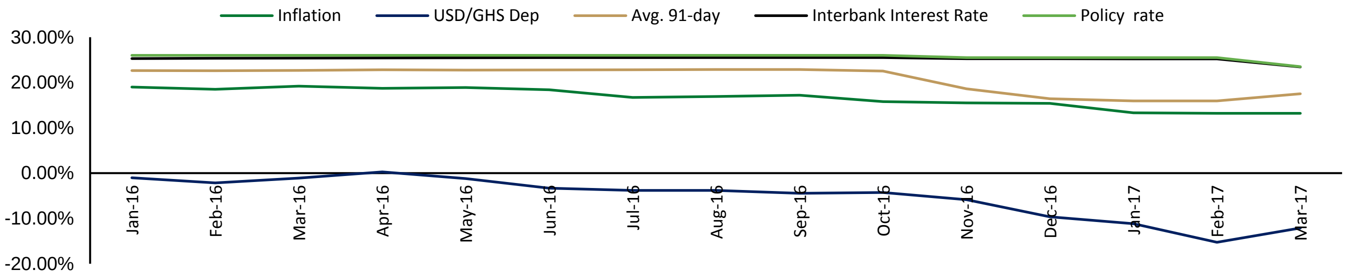
Ghana: Elevated Fiscal Risks Suppressed Demand for GoG Debts in Q1-2017

Enduring fiscal risks and misaligned monetary policy and interbank exchange rate on one hand and inflation rate on the other hand undermined the appeal of treasury securities particularly from off-shore investors for the most part of Q1-2017. While the interbank interest rate and policy rate remained high (suggesting persisting underlying inflation risks), the government continued to trim nominal yields sharply since Q4-2016 to mirror the sustained decline in headline inflation (-260bps to 12.80% in Mar-2017).

The faster decline in nominal yields (91-day: -49bps as of Feb-2017; Q1-2016: -24bps) virtually eroded the inflation risk premium on government debts to a level we believe was incommensurate with the prevailing market risks. As a result, domestic demand for treasury securities between Jan-Feb 2017 was lethargic with off-shore demand equally suppressed. Consequently, an elevated seasonal FX demand pressures originating from corporates, speculators, enduring fiscal risks and uncertainties about the fiscal policy stance of the new government underpinned the early year slump in the Cedi. The resultant sell-offs from portfolio investors resulting from the elevated fiscal risks re-emphasized the cedi's depreciation to ~8.8% as of 9th March 2017.

In addressing the misalignment between inflation and short term interest rates, the government propped up nominal yields cumulatively by 157bps on 91-day bills to 17.51% in March-2017 (q/q change: +108bps; Q1-2017: -24bps) to reflect the prevailing short term risks.

Exhibit 6: The Macro Economy and Nominal Yield Dynamics (Q1-2017)



Source: Databank Research, Bank of Ghana, Ghana statistical Service

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The 2017 Economic Policy Framework Revived Bullish Sentiments

The overall economic policy framework and debt management strategies as spelt out in Ghana's 2017 budget appear to have inspired hope for a brighter economic prospect in the medium-to-long term. This positive outlook stoked a renewed investor interest in GoG debts, culminating into successful issuance of ~GH¢10 billion ($2.25 billion) in a series of long term bonds at fairly favorable coupon rates.

Monetary Easing, Debt Re-Profiling and Stable Economy to Trigger Sustained Decline in Nominal Yields through Q2-2017

We expect a sustained cycle of monetary easing in support of the government's growth agenda for the rest of 2017 (possibly from July) as inflation drifts towards the 8±2% medium term target. The underlying Cost-side pressures to inflation have generally slowed down with the cedi expected to stabilize in the medium-to-long term despite the threat of a steady recovery in developed and emerging markets and expected interest rate hikes in the US. This positive outlook provides the impetus for government to re-profile the national debt stock away from the shorter end of the curve in a bid to reduce its interest expenditure. As a result, nominal yields are expected to decline sharply in Q2-2016, which could support growth in private sector credit in the medium term. We expect the clearing yields on fresh debt issues to range between 15% and 19% across the maturity spectrum in Q2-2017.

Exhibit 7: Africa Fixed Income Market Summary

	Avg. 91-day (Q1-2017)	Q/Q change	Avg. 182-day (Q1-2017)	Q/Q change
Egypt	18.98%	2.0%	19.48%	1.7%
Ghana	16.38%	-4.0%	17.18%	-4.5%
Kenya	8.66%	0.5%	10.51%	0.1%
Malawi	23.74%	-4.9%	25.13%	-3.4%
Namibia	8.79%	0.4%	9.36%	0.4%
Nigeria	13.93%	-0.1%	17.74%	0.4%
Rwanda	9.15%	1.0%	9.36%	1.0%
South Africa	7.38%	-0.2%	7.45%	-0.3%
Tanzania	7.13%	-0.2%	14.24%	-0.8%
Uganda	13.03%	-1.1%	13.73%	-1.3%
Zambia	17.38%	-3.4%	19.66%	-4.0%

Source: Databank Research

South Africa: Political Headwinds Undermines Investor Appetite in South Africa's Sovereign Debts

There is a growing uncertainty about the economic policy direction of South Africa following the surprised dismissal of Finance Minister Pravin Gordhan in the much anticipated ministerial reshuffle. The development could trigger a re-pricing of South Africa's sovereign debts to reflect perceived risks in Q2-2017. Gordhan's dismissal on March 30 sparked some uncertainty about the economy's medium-term prospects which prompted a widespread sell-off of investor holdings of the country's financial assets. The Rand has tumbled to a 15 week low with yields on longer dated treasury bonds soaring as a result. Rating agencies S&P and Fitch, in response to the bleak outlook for growth and fiscal deficit downgraded South Africa's sovereign credit risk rating to sub-investment grade (BB+).

The Economy avoided a credit downgrade in 2016 despite the persistence of rising budget deficit and economic stagnation, thanks to fiscal prudence and anti-graft measures championed by Gordhan. While fiscal and political risks were still prevalent, short term nominal yields generally declined in Q1-2017. The slowing yields across Rand denominated assets was therefore a testament

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of the market's faith in Gordhan to oversee the implementation of the ambitious economic reforms prescribed in the medium-term budget and economic policy.

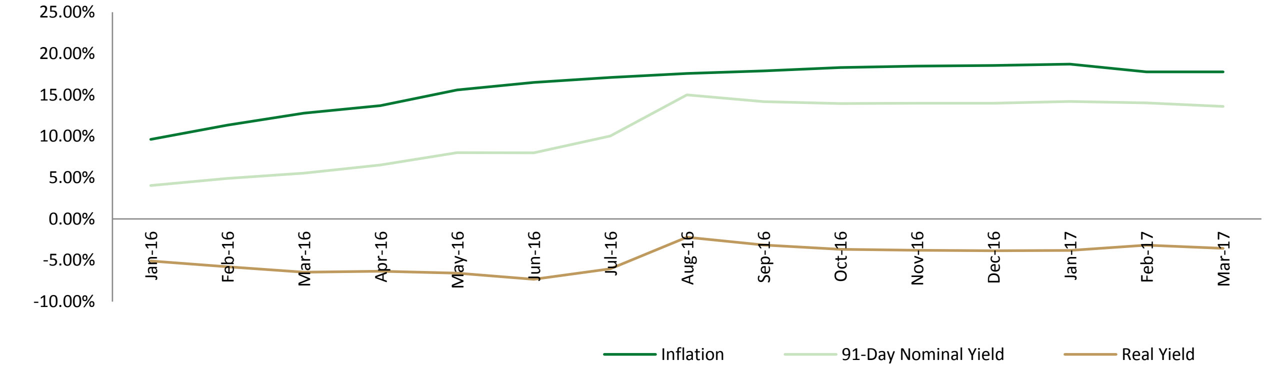
We therefore expect his surprise dismissal to trigger short term volatilities in the prices of fixed income securities as investors continually re-price their South Africa's debts to reflect the prevailing economic and political risks in Q2-2017.

Nigeria: Quantitative Controls in FX Trade and Inflation Persistence Undermines Fixed Income Market

Nigeria's path to recovery from economic recession could be long and winding following their insistence of maintaining quantitative controls in FX trade. The directive has created a thriving parallel market for currency trade, serving as a disincentive for portfolio investors due to the rigidities associated with the repatriation of investments.

The central bank's latest directives aimed at clamping down the flourishing black market has effectively created five (5) different exchange rates in Nigeria: the official interbank rate, the black market rate, the Bureau de Exchange rate and separate rates for Muslim pilgrims & retail customers. Sustaining the multiple rates requires regular intervention from the central bank in the FX market, a development that continues to dampen off-shore investor confidence in Naira assets.

Exhibit 8: Nigeria: Inflation and 91- Day Bills Yield Dynamics



Source: Databank Research, Bank of Ghana Inflation

Domestically, real returns on fixed income investments in Nigeria are negative due to the persistent rise in inflation. CPI inflation has risen steadily in the last 15 months, peaking at 18.7% in Q1-2017 before tapering-off to 17.8% (-0.94%) in February. The elevated cost-side pressures to inflation, together with the pass-through effect of currency depreciation to inflation has therefore re-emphasized inflation persistence, undermining investor interest in Nigeria's fixed income assets. This development has dampened the domestic demand for treasury securities in Nigeria, resulting in a surge of nominal yields. The average monthly yield on the 91-day bills rose by 807bps y/y to 13.6% in Mar-2017(q/q:-77bps) to reflect the prevailing domestic risks to investing in Naira denominated assets.

We consider a complete liberalization of the currency market in Nigeria a necessary preliminary step toward restoring a sound economic fundamental in the medium term. While a flexible exchange rate regime will elevate inflation pressure in the short term, it remains the surest approach to luring back off-shore investors to the economy. This will reduce speculative FX trade, improve FX liquidity and restore confidence and vibrancy into the Nigeria's fixed income market with the inflationary effect of the floatation expected to dissipate in the medium term.

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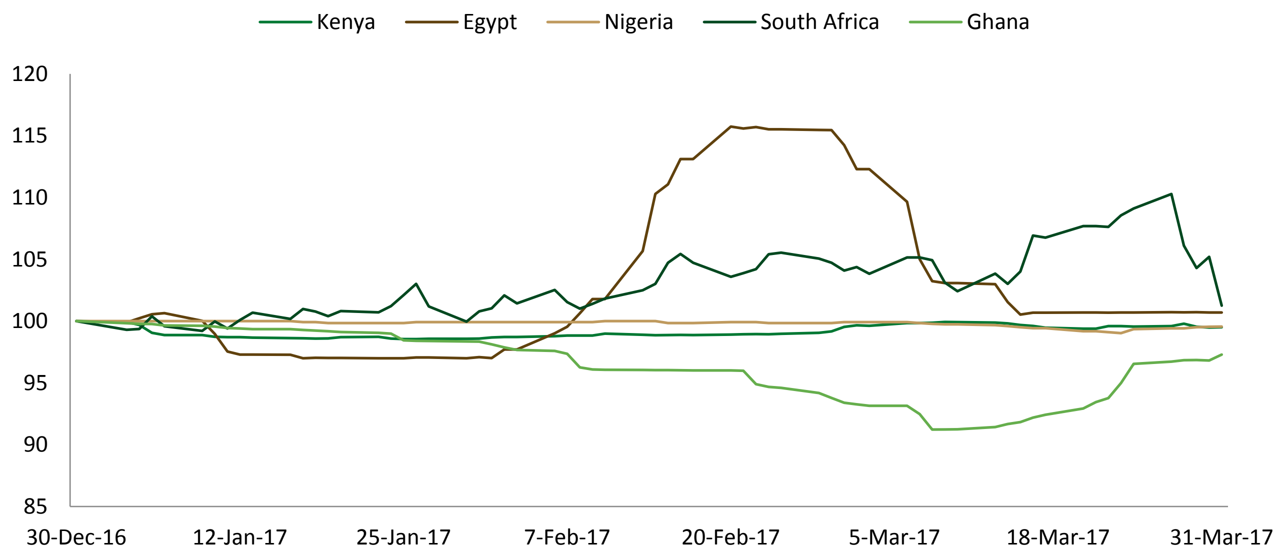
Sub-Saharan African Currencies

Exhibit 9: Volatility Indices of Selected Currencies' Against USD in Q1-2017



Source: Databank Research, County's Central Bank

Ghana Cedi: Cedi Stability Expected Ahead After a Shaky Start to the Year

The Ghana cedi was quite volatile in Q1-2017 but closed the quarter with a marginal depreciation against the USD. The cedi recorded a sharp loss against the U.S Dollar, peaking at GHS4.60/$ on the interbank market on 8th March, reflecting a depreciation of 8.8%. However, the cedi clawed back some of the losses towards the end of the quarter to record a year-to-date depreciation of 2.71% as at the end of the first quarter. The cedi suffered a similar fate against the euro and the pound, recording a substantial depreciation early in the quarter before recovering to a YTD depreciation of 3.7% against the pound and 3.9% against the Euro. High levels of public debt and a wider-than-expected fiscal deficit weakened investor confidence in the Ghanaian economy and negatively affected foreign exchange inflows early in the quarter. Seasonal FX demand pressures from importers and repatriation of profits of multinationals also put downward pressure on the Ghana Cedi. Fiscal policy clarity provided in the 2017 budget however calmed investor nerves. This was reflected in the high levels of foreign participation in treasury bonds issued in March, which raised a total of USD2.25 billion. Interventions by the central bank in the form of periodic FX auctions totalling USD130 million coupled with the foreign exchange inflows shored up the value of the cedi in March. We expect the cedi to remain stable in the upcoming months as demand pressures have been subdued by forex inflows arising from the renewed confidence in the Ghanaian economy.

Kenyan: Shilling Shows Resilience against the Dollar in Q1-2017

The Kenyan shilling was fairly stable for the first quarter of 2017 recording a slight depreciation of 0.50% against the U.S dollar. The shilling however recorded a depreciation of 2.61% and 3.17% against the British pound and Euro respectively. Foreign exchange demand mainly from oil importers posed a downside risk to the shilling during the quarter. However, forex inflows from foreign investment, NGO's and exports supported the shilling against the downward pressure from forex demand. We expect some stability in the shilling against the U.S dollar in the upcoming months since Kenya has sufficient forex reserves to meet demand. The upcoming presidential elections may however pose a downside risk to the shilling's stability.

South Africa: Cabinet Reshuffle Poses Downside Risk for the Rand

The South African Rand was on a steady path of appreciation for most parts of Q1-2017 but recorded a steep depreciation at the end of the quarter. It closed the period with a marginal appreciation of 1.25% against the US dollar. Foreign exchange flows to emerging markets such as South Africa improved early in the quarter as fiscal clarity from the new U.S government was not forthcoming. The Rand therefore benefited from a globally weak dollar. A less hawkish monetary policy stance by the Federal Reserve also proved favourable to emerging markets as it contributed to the weakening of the dollar. This supported emerging market currencies including the Rand. At the tail end of the quarter, South African president Jacob Zuma dismissed finance minister Pravin Gordhan in a cabinet reshuffle, which affected investor confidence and led to a sharp depreciation of the rand.

Nigeria: CBN Continues Quantitative Control over Forex Market

The Nigerian interbank exchange rate was largely unchanged throughout the quarter, depreciating by a marginal 0.23% as the central bank maintained quantitative controls over FX trade. The Central Bank of Nigeria (CBN) devalued the naira for retail customers and sold FX directly to them at 20% above the interbank exchange rate. The CBN then sold $500 million in 60-day forward contracts to boost dollar liquidity, which supported the Naira against the U.S Dollar on the parallel market. Whilst this policy created some temporary relief for the Naira, we believe a complete devaluation by the CBN could serve as a long term solution to stabilising the Naira.

Egypt: Egyptian Central Bank Decisions Cause Volatility in the Egyptian Pound

The Egyptian pound experienced volatility against the U.S dollar in the first quarter of 2017. The pound recorded some depreciation initially in the quarter as it sought to find its true value following its devaluation and floatation in Q4-2016. A USD4 billion Eurobond issued by the Egyptian government in early February improved foreign exchange inflows. The pound consequently appreciated by 15.74% against the U.S dollar as Egypt improved its gross reserves and FX liquidity. After attaining a substantial level of appreciation by the pound, the Egyptian Central Bank allowed the repatriation of profits of multinational businesses, which were previously locked up. This resulted in the pound losing most of the value it gained and closing the quarter with a 0.7% appreciation.

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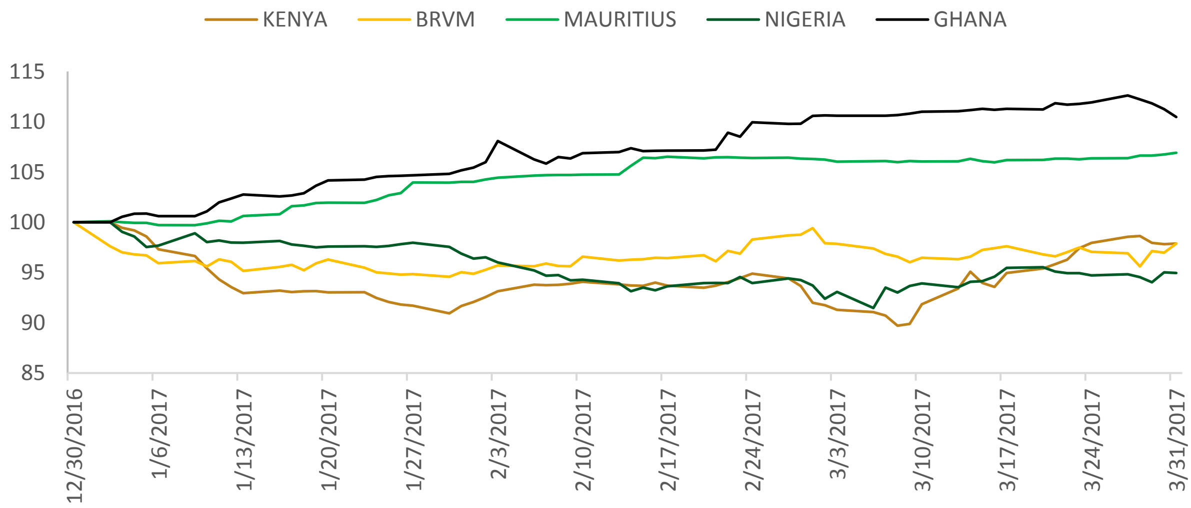
Equity Markets in Sub-Saharan Africa

Exhibit 10: Q1-2017 Performance of Key SSA Equities Markets



Source: Databank Research

Ghana: GSE Soars Backed by Positive Investor Sentiments

The Ghana Stock Exchange kicked off 2017 on a positive note. The benchmark Ghana Stock Exchange Composite Index (GSE CI) recorded a steady rise to end Q1-2017 at a level of 1865.01 (+10.2% return) after achieving a 12-month high of 1902.15 points on 27Th march 2017. The Databank Stock Index (DSI) similarly gained 2,100.88 points to settle at 24,433.76 points. The impressive performance of the GSE CI was spurred on by the growing positive investor sentiments. Investor's confidence in Ghana has been on an upward trajectory in the wake of the peaceful December 2016 presidential and parliamentary elections and the observed pro-business stance of the new government. This coupled with the falling fixed income yields made the equities market an attractive alternative for investments.

Exhibit 11: Ghana Stock Exchange Key Market Statistics

	FY-2017	FY-2016
Market Cap (GHS'b)	48.8	54.8
Aggregate Volume Traded ('m)	*212.3	36.9
Aggregate Turnover (GHS'm)	*290.93	51.3
Return	+10.42%	-4.16%

**Figure includes a negotiated trade in CAL Bank*
Source: Databank Research

Trading activity soared 688% (compared with Q1-2016) due to a negotiated off-the-market block trade involving 152 million shares (27%) of CAL Bank, valued at GHS 222m (GH¢1.46/share). In the absence of this significant trade, the trading volume for the quarter more than doubled (+124%) to ~60 million shares valued at GH¢69 million (+37%). Speculative trades in UT Bank (the counter has not published its financials since 9M-2015 and is currently trading at GHS0.05 down from its IPO price of GH¢0.30) and the attractively priced CAL Bank accounted for ~44% of volumes traded (after excluding the block trade in CAL Bank). The overall Q1-17 market breadth of the GSE was flat with 11 gainers and 11 decliners. CAL Bank the worst laggard for the quarter, shed 34.67% of its price after publishing a 90% y/y decline in bottom line. The rescheduling of the USD 800 million energy sector debts by the Government of Ghana reinforced confidence in the banking sector. Thus, the banking sector counters accounted for 55% of the gainers on the GSE. The defensive OMC stocks (Total Petroleum and Goil) and the consumer goods companies (BOPP, UNIL, and FML) accounted for the other positive movement, fueled by expectations of stronger macroeconomic growth in 2017 and its attendant positive impact on consumer demand.

Exhibit 12: Lead Gainers and Laggards on the Ghana Stock Exchange

Q1- 2017 TOP GAINERS	Q1 – 2017 RETURN (%)	Q1-2017 WORST LAGGARDS	Q1 – 2017 RETURN (%)
GCB Bank	46.07	Cal Bank	-34.67
Benso Oil Palm Plantation	39.42	Tullow Oil PLC	-22.10
UT Bank	33.33	Produce Buying Company	-16.67
Standard Chartered Bank	26.85	Ayrton Drug Manufacturing	-16.67
Société Générale Ghana Limited	22.58	AngloGold Ashanti Ghanaian Depository Shares	-13.46

Source: Databank Research

GSE Outlook: The Bulls Are Tipped To Maintain the Lead in Q2-2017

We anticipate trading activity will remain upbeat in Q2-2017. We expect the falling yields in the fixed income market will continue to provide impetus for the equities market. The benchmark 91-day bill currently has an interest rate of 16.4% p.a. compared with a return of ~21% p.a in 2016. Market activity is forecast to remain buoyant, fueled by the transactions of bargain hunters as most counters are currently trading at attractive prices which offer a good point of entry onto the Ghanaian bourse. As at the end of the first quarter, 23 companies were trading below their 2013 year-end prices. The dividend season as well as investor expectations of improved Q1-2017 earnings is tipped to further drive activity on the Ghana Stock Exchange.

Expected Relative stability of the Ghana Cedi and Tax incentives to Support OMC Revenues

We remain bullish on the OMC (Total Petroleum and Goil) and banking sector stocks. Our projections of a relatively stable Ghana Cedi (2017E 7.3%±2%), a sustained decline in inflation (2017E 10.1% ± 100bps) as well as the 2.5% reduction in the special petroleum tax to 15% are expected to limit the upside pressure on the prices of petroleum products. Additionally, a stronger GDP growth (2017E 6.3% ± 50bps) is expected to translate into increased demand for petroleum products and positively impact sales volumes of OMCs. We expect this to trickle down to solid earnings growth for the OMCs.

Anticipated Improvement in Consumer Demand and Product Innovation Poised to Foster Growth in FMCG Sector

We forecast the Fast Moving Consumer Goods Sector (FMCG) to record increased consumer demand fueled by the accelerated expansion of the macro economy in 2017. Sector favourites Guinness Ghana Breweries and Fan Milk are all tipped to record increased returns to shareholders on the back of increased revenues. GGBL has launched two new products, Orijin Zero and Tappers Palms, which we anticipate will widen the consumer base and drive sales volumes. GGBL's use of some local raw materials in the production of these new products is also tipped to reduce costs and drive growth. Fan Milk launched a new dairy based product, Fanyogo Mango Passion in Q4 2016. We project this new product which is already a sensation among customers, in conjunction with the upgrade in FML's factory (to increase production capacity by 30%) to support revenue growth.

Macroeconomic Gains to Bolster Banking Sector Performance

The FY-2016 performance of the banking sector though unimpressive, was in line with our projections of an industry wide decline in asset quality and a slow expansion of the loan book. Five (5) out of the eight listed banks who have published their FY 2016 financials, recorded a y/y decline in bottom line. We anticipate the restructuring of the USD800 million energy sector debts by the Government of Ghana will improve asset quality from 2017. Additionally, the projected macroeconomic growth is expected to result in a strong expansion of the loan portfolio which will ultimately drive interest income and boost ROE. Our sector picks remain GCB, CAL Bank and Ecobank Ghana. These stocks are currently trading closer to the lower band of their historical 2013-2016 Price to Book ratios.

Exhibit 13: P/B 2013-2016 Bands

	Current P/B Ratio	2013-2016 P/B Band
CAL Bank	0.71	0.92 - 1.56
Ecobank Ghana	2.22	2.1 - 2.6
GCB Bank	1.30	0.9 - 2.5

Source: Databank Research

Exhibit 14: Snap Shot of Databank Brokerage Ltd's Stock Picks

SNAP SHOT OF DATABANK BROKERAGE LTD'S STOCK PICKS										Last Update: 18.04.17 / GHS/USD: 4.2067
Company	Issued Shares	Capitalisation		Free Float	P/E	P/BV	ROE	Price	Price Target	Risks
	GH¢'m	GH ¢'m	USD' m	%	x	x	%	GH¢	GH¢	
Financial Sector										
CAL Bank	548.26	367.3	87.3	37.00	36.0	0.7	2.0	0.67	1.46	Slow economic growth, sustained decline in non-interest income , decline in asset quality, sustained contraction of the loan book, sharp decline in interest rates, sustained depression in commodity prices, scarcity of FX, sharp increase in cost of funds
Ecobank Ghana	293.23	2,143.5	509.1	12.00	6.7	2.2	33.3	7.31	8.16	
GCB Bank	265.00	1,378.0	327.3	47.00	4.7	1.3	27.7	5.20	4.97	
Non- Financial Sector										
Ghana Oil Company	391.86	509.4	121.0	30.00	8.9	1.6	18.4	1.30	2.28	Slow economic growth, Currency Volatility, Volatility in global crude oil prices
Total Petroleum Ghana	111.87	250.6	59.5	21.00	8.2	152.0	18.7	2.24	4.42	
Fan Milk Limited	116.20	1,314.3	312.2	42.00	19.9	7.5	37.9	11.31	15.67	Slow economic growth ,currency volatility, low consumer demand, influx of cheaper alternative imports, unavailability of FX
Guinness Ghana Breweries	307.59	461.4	106.9	17.00	66.1	1.8	2.7	1.50	3.75	
Unilever Ghana	62.50	562.5	133.6	28.00	14.4	7.4	51.7	9.00	11.22	
Companies are categorized into financial and non-financial sector										

Source: Databank Research

Nigeria: Q1-2107 Performance of the Nigeria Stock Exchange

The Nigerian equities market witnessed a negative performance in the first quarter of 2017, occasioned by losses in large capitalized stocks. The Nigeria Stock Exchange ALL Share Index shed 1,358.28 points to end Q1-2017 at 26,874.62 points, reflecting a year-to-date loss of -5.05%. The negative investor sentiment persisted as the macroeconomic headwinds besetting Nigeria continues to undermine the equities market. The unfavorable macroeconomic environment is characterized by: a depreciating naira, persistent inflationary pressures, reduced consumer spending and prevailing economic recession. The FY-2016 financial results of listed companies depicted a challenging 2016 as operating margins of businesses continue to shrink. Most companies in the fast moving consumer goods sector including Nestle (₦ 7.93 billion -67% y/y) and PZ Cussons (₦ 1.6 billion -2.8% y/y) recorded declines in profitability for the financial year 2016.

The banking sector has suffered from a rise in NPL levels due to a sharp deterioration in asset quality as well as regulatory changes. The manufacturing sector also took a hit as access to FX for the importation of raw material and capital equipment was constrained. The Q1-2017 saw 44 stocks make gains, 69 experienced declines while 58 stocks remained unchanged.

Nigeria's outlook remains unclear as lower oil prices and a still fragile economy continue to pose significant challenges. We expect the economic woes to continue to derail stock market returns until the Nigerian Government implements the necessary fiscal and monetary policies to cure the country's weak fundamentals and attract foreign investors. We reckon FX scarcity will continue to weigh down on businesses especially the manufacturing and the service sectors, squeezing profit margins. UBA has been resilient amidst the challenging macro-economic environment. The bank has sustained its assets quality with an NPL ratio of 3.9%, one of the lowest in the industry. The bank has a capital adequacy ratio of 20% above the regulatory requirement of 16%. UBA Bank delivered an impressive financial result for 2016 with a 22% increase in net profit to ₦383.6 billion. We, thus, recommend UBA to investors in Q2-2017 as the bank has continued to reward investors with good earning each successive year.

Exhibit 15: Lead Gainers and Laggards on the Nigeria Stock Exchange

Q1- 2017 TOP GAINERS	Q1 – 2017 RETURN (%)	Q1-2017 WORST LAGGARDS	Q1 – 2017 RETURN (%)
Beta Glass	44.28	Forte Oil	-43.39
Airservi	42.40	UACN property Development	-37.79
UBA	36.41	7 Up Bottling Co.	-35.66
Okomuoi Oil Pall	24.47	Nigeria Aviation Handling co	-33.54
United Capital Plc.	20.68	Livestock Feeds	-29.76

Source: Databank Research, Bloomberg

French West African Stock Market: Q1-2017 Performance of the Bourse Régionale des Valeurs Mobilières (BRVM)

The benchmark French West African Stock Market (Bourse Regionale De Valeurs Mobiliers, BRVM) experienced a bearish trend in Q1-2017. The benchmark Composite Index began 2017 at 292.17 points and declined steadily to end Q1-2017 at 285.92 points, reflecting a decline of -2.14%. The negative return on the bourse can largely be attributed to selling pressures in large capitalization stocks including: Ecobank Transnational Inc., BOLLORE A.L.CI, Total CI, and VIVO Energy. A total of 26 stocks lost value, 14 stocks appreciated in price while one stock however remained unchanged throughout Q1-2017. All listed companies under the banking and finance sector with the exception of Ecobank Transnational Inc. and Societe Ivoirienne De Banque (SIB) delivered strong capital gains to investors in the first quarter. There was an upsurge in investor interest in financial stocks as banks reported impressive FY- 2016 financial results. BOAM (PAT +31.95% y/y, XOF 9.40 billion), BOASN (PAT +95% y/y, XOF4.05 billion), BOACI (PAT+23%, XOF10.15 billion) and BOABF (PAT +3.45%, XOF12.44 billion) were among the few listed companies who delivered good earnings numbers. Tractafric Motors Cooperation however, emerged the worst laggard after losing 44% of its value by end of Q1- 2017. In the telecommunication space, Sonatel and Onatel trimmed their net profit by -2.36% y/y to XOF215.88 billion and -5% y/y to XOF24.04 billion respectively. The decline in net profit of Onatel was attributable to a XOF5 billion penalty imposed by the national regulatory authority (Regulation Authority for Electronic Communications and Posts) for lack of respect for contractual obligations during the period of social crisis. The company is however contesting this decision in court.

Cote d'Ivoire is tipped to sustain its growth path, bolstered by strong private investment in agriculture, mining and the service sectors. We expect profit margins of companies involved in the processing of raw materials to increase this year as the government has offered incentives to companies involved in these activities. We remain optimistic about fortunes of banking stocks given the impressive financial results released. We expect BOASN and BOABF to continue to deliver impressive earnings to investors in Q2-2017. BOASN aims to maintain its second position in terms of branch network by opening 7 branches in 2017. The bank intends to increase its branch network to drive deposit growth and expand its loan portfolio. In the long term, the bank seeks to increase its branches to 60 by 2020 from the 42 branches recorded in 2016. We thus expect BOASN net income margin to increase further in the coming year. The bank projects to deliver a net income of XOF6 billion in 2017.

Exhibit 16: Lead Gainers and Laggards on the BRVM

Q1- 2017 TOP GAINERS	Q1 – 2017 RETURN (%)	Q1-2017 WORST LAGGARDS	Q1 – 2017 RETURN (%)
Bank Of Africa Senegal	58.40	Tractafric Motors CI	-43.53
Bank Of Africa Burkina Faso	46.95	Servair Abidjan CI	-38.60
Bank Of Africa Mali	32.50	Nei Ceda	-38.30
CORIS BANK International	32.40	Air Liquide CI	-36.45
Bank Of Africa Benin	30.96	VIVO Energy	-33.33

Source: Databank Research, Bloomberg

Kenya: Q1-2107 Performance of the Kenya Stock Exchange

The Nairobi Stock Exchange All Share Index continued on a downward spiral ending the first quarter of 2017 down -2.12% to 130.51 points. Twenty four (24) stocks gained in value, 34 went down and 7 remained unchanged on the Nairobi Stock Exchange.

The tea and coffee processing company, Sasini Tea emerged as the best performer in the first quarter of the year with the share price going up by 36.27% to KES26. Sasini Tea recently sold over 500 acres in Nyeri and is seeking to diversify its revenue stream in the Macadamia business. Sasini has committed $4million to the cultivation of macadamia plants simultaneously on its 912 hectares of coffee plantations. Sasini anticipates to generate $3000 per hectare from the macadamia venture. Total Petroleum Kenya, a subsidiary of global integrated oil and gas company Total S.A, share price rallied 20.59% in Q1 2017 to KES20.50 on the back of improved bottom-line for 2016. The company recently concluded a 76% acquisition in Gulf Africa Petroleum's assets in Kenya, Uganda and Tanzania. The oil marketing company posted an impressive 38% y/y increase in profit for the 2016 financial year to KES2.2billion. The Kenyan retail and corporate banking group, KCB Group, saw its share price climb 20.87% on the Nairobi Stock Exchange to settle at KES34.75. In a surprise move, KCB increased dividends by 50% amidst the challenges in the banking sector. The banking sector took a hit following the capping of interests rates by the government in the last quarter of 2016. Going forward, KCB's earnings will be driven by diversification of revenue sources, adoption of financial technology to boost efficiency and cutting down cost. In the company's new plan, financial technology will drive 40% of business in terms of payments, lending, credit scoring for customers and transaction processing.

The Nairobi Stock Exchange All Share Index was dominated by laggards with the supermarket chain operator, Uchumi Supermarkets at the forefront. Uchumi shares tumbled 40.51% in the first quarter to settle at KES2.35 per share. In a bid to salvage their dwindling fortunes, Uchumi plans to roll out 200 express outlets and 1000 mini stores in all 47 counties over the next 3 years. Again, Uchumi is seeking strategic investors to propel a re-entry into the Ugandan and Tanzanian markets. Mumias Sugar Company also took a big hit in Q1 2017 with stocks falling 26.92% to KES0.95 per share. The announcement to close down factories for repairs and maintenance for 3 months accounted for the fall in share prices. The temporary closure of factories will negatively impact earnings of Mumias in the short term. The price of sugar on the international market, which dropped by 22% in Q1 2017, also led to the lackluster earnings of the sugar company.

Outlook for the rest of 2017 remains bleak on the Nairobi Stock Exchange. Investors will be more hesitant to take long term positions as the Kenyan general elections slated for August 2017 looms. Pressure is slowly mounting on the Kenyan government to review the law capping interest rates in the country. The Act was intended to help small and businesses access affordable credit seems to have backfired. An unintended consequence has been the slowdown in lending to the kind of businesses the law was otherwise trying to protect. This development has been a blow to the financial services sector as interest margin has fallen since the passing of the law.

Exhibit 17: Lead Gainers and Laggards on the Nairobi Stock Exchange

Q1- 2017 TOP GAINERS	Q1 – 2017 RETURN (%)	Q1-2017 WORST LAGGARDS	Q1 – 2017 RETURN (%)
Sasini	36.27	Uchumi Supermarkets	-40.51
Umeme	25.56	Car & General Kenya	-33.33
KCB Group	20.87	Deacons East Africa	-30.58
Total Kenya	20.59	HF Group	-30.36
Standard Group	18.18	Mumias Sugar	-26.92

Source: Databank Research, Bloomberg

Mauritius: Q1-2107 Performance of the Stock Exchange of Mauritius

The Stock Exchange of Mauritius Index (SEMDEX) had a good start to the year gaining 6.9% to 1,933.37 points at the end of Q1 2017. The index performance is the best Q1 performance in the last 3 years. The SEMDEX saw 28 stocks gaining, 5 experiencing decline and 5 remaining unchanged for the first quarter of 2017. The commerce sector outperformed all other sectors on the SEMDEX climbing 23.9% for the quarter. Leisure and Hotel sector inched up 6.0% with the banking and insurance sector following suit at 5.0%. The industrial sector declined 2.8%.

IBL Limited had a buoyant start to the year with the share price gaining 28.7% to end the first quarter at Rs39.65. The investment firm with diverse holdings reached a new all-time high of Rs41.05 during the quarter. IBL revenues grew by ~Rs17,212m (+6.6% y/y) and posted operating profits of ~Rs1,617m (+15.0%) for year ended 2016. The holding company's impressive performance was facilitated by their Building & Engineering, Hospitality and Manufacturing businesses. The various business holdings of IBL is expected to benefit from new government infrastructural projects and the increasing tourist arrivals to the country. Sun Ltd, operator of leisure resorts, stocks surged 13.8% in Q1 to Rs40.0. Operating profits were up by an astounding 47.0% y/y to Rs439m. The entire resort portfolio of Sun Ltd were operational helping the group attain a remarkable Q1 performance. A hike in their hotel room prices also boosted top line growth of the company. Cim Financial Services Ltd edged up 13.6% to close the quarter at Rs8.14 per share

Tourism will continue to be a driving force on the SEMDEX in 2017. Total tourist arrivals for Q1 2017 rose by 3.6%q/q to 339,682. Most tourists originated from Europe (+4.7%q/q to 208,876 tourists). Tourist arrivals from Germany and United Kingdom were up 11.7% and 3.8% respectively. Tourists from Asia were also up by 4.8%. However, tourists' arrivals from Africa fell by 2.9%.
Air Mauritius is tipped to perform well in the quarters ahead following a move to increase both its fleet and frequency of flights to selected destinations. Air Mauritius also declared dividends for the current financial year after 2 years of holding up dividend payment. The resort operator, Sun Ltd is well positioned to leverage on the increased tourist arrivals as all hotels are currently operating at full capacity.

Mauritius can potentially benefit from the recent downgrade of South Africa credit ratings to non-investment grade. Local banks in Mauritius, with stronger fundamentals and outlook are likely to attract foreign investors who would rather put their funds earmarked for Africa in South Africa.

Exhibit 18: Lead Gainers and Laggards on the Stock Exchange of Mauritius

Q1- 2017 TOP GAINERS	Q1 – 2017 RETURN (%)	Q1-2017 WORST LAGGARDS	Q1 – 2017 RETURN (%)
IBL Ltd	28.70	Cie Magasins Populaire	-5.78
Sun Resorts Ltd	13.80	Lux Island Resorts	-3.78
National Investment Trust	13.74	Harel Mallac & Co	-3.70
CIM Financial Services	13.57	Mauritius Chemical & Fertilise	-3.31
Vivo Energy Mauritius	13.21	INNODIS	-0.58

Source: Databank Research, Bloomberg

Commodity Performance

The global commodities market commenced 2017 riding on the remnants of the overall positive rally at year end 2016. The market then reversed some trends to end Q1-2017 with mixed results. Six (6) out of the (11) commodities tracked by Databank Research posted positive year-to-date (YTD) returns, led collectively by the metals sector and weighed down by the energy sector. Aluminium registered a YTD price gain of 17.5% to top the gainers chart, while natural gas on the other hand was the worst performer this quarter, settling 15.7% below its 2017 opening price. Gains across the various sectors were fueled by a mixture of weather or human induced supply constraints and elevated levels of uncertainty, while the US shale boom undermined price performance in the energy sector. Below is a recap of key commodity performances in Q1-2017 and our outlook for Q2-2017.

Exhibit 19: Return Analysis Table for Key Commodities as at FY-2016

	Commodity	Unit	Price ($)	YTD Ab Chang	%YTD Chg
Metals	Gold	$/t oz.	1,244.80	84.30	7.3%
	Aluminium	$/MT	1,972.00	293.0	17.5%
	Copper	$/lb	2.67	0.17	6.9%
Energy	Crude Oil WT	$/bbl	50.31	-3.69	-6.8%
	Brent Crude Oil	$/bbl	52.87	-4.26	-7.5%
	Natural Gas	$/mmbt	3.22	-0.60	-15.7%
Agriculture	Cocoa	$/mt	2,096.00	-69.0	-3.2%
	Coffee	$/lb	139.30	3.85	2.8%
	Sugar	$/lb	0.17	-0.03	-14.2%
	Corn	$/bu	3.58	0.09	2.6%
	Cotton	$/lb	76.46	5.45	7.7%

Source: Databank Research/Bloomberg

Gold: Heightened Global Uncertainty and Dovish Stance of US FED Supports Gold Price in Q1-2017

Gold price trended upwards this quarter, amidst some intra-week volatility, backed by uncertainty over global economic and political conditions that boosted its safe-haven appeal. Gold price began the year at US$1,154/oz and rallied to a peak of US$1,260.90/oz on 27 March. Positive economic data from the US then halted bullion's rally, to close Q1-2017 up 7.3% YTD at $1,244.80/oz.

Bullion's initial price rally was triggered by ambiguity surrounding the US Federal Reserve's strategy for future interest rate hikes. The decision to leave rates unchanged in February prompted a sell-off of the US dollar. This trimmed gold's price relative to other currencies, thereby bidding up its demand and price. In subsequent weeks this rally was sustained by uncertainty surrounding the newly elected US President's fiscal policies, a series of European presidential elections and the 'hard Brexit' decision which boosted gold's safe haven appeal. Downward price pressures this quarter stemmed from stronger US economic data. Consistent reports of increasing employment and a vibrant US stock exchange instigated capital flight away from bullion and into interest bearing securities.

In the quarter ahead, we expect gold to extend its gaining streak, supported by heightened political tensions between Syria, the US, Russia and North Korea, pending elections in France and Britain's departure from the EU. The downside price risks for the precious metal includes the pending interest rate hike. Gold price is thus projected to range between $1,150/oz and $1,300/oz in the quarter ahead.

Brent Crude: Oil Market Struggles to Hold on to OPEC Deal Gains

Brent crude oil pared price gains from Q4-2016 to close Q1-2017 down 7.5% at $52.87/bbl. Although brent crude had a positive YTD price change of 5.9% over the same period last year, it averaged $55.83/bbl this quarter, compared to $35.03/bbl in Q1-2016.

Volatility in crude oil prices this quarter reflected the impact of opposing supply-side determinants. Growing complaince rates to the OPEC deal, to about 95% by members and 64% by non-member participants by March, provided some upward price support. Conversely, US energy output data, signifying a rapid growth in US oil production and inventories, steered brent price down. The sharp decline in mid march to a 3-month low of $53.75/bbl, was prompted by the 9th consecutive report of an increase in US crude stock piles. Contrary to analysts expectations of a 1.97 million barrel build up, US crude stock piles spiked 8.21 million barrels. The higher inventories buildup fuels perceptions of a worsening oil supply glut, hence the downward pressure on oil price. Further supressing crude price this quarter was demand slowdowns in major consumption pillars including Japan, Germany, Korea and India. As a result, the International Energy Agency projects oil demand to drop to 1.4 mb/d in 2017, down 200,000 barrels from 2016, despite growing demand for road transportation services.

Against this backdrop of slowing global oil demand and higher than expected production from non OPEC deal participating countries, we maintain a bearish outlook for brent prices. Slowdowns seen in major demand engines limits the potential for any substantive increases in oil demand to absorb the growing output from the US and Australia. We thus forecast a downward trend in the quarter ahead, largely driven by supply side factors. A post June extension of the current OPEC deal and strong adherence particularly amoung non-member participants would be required to counter the growing glut. Given these market fundamentals, our brent price outlook has been revised down to between $50/bbl and $55/bbl in Q2-2017.

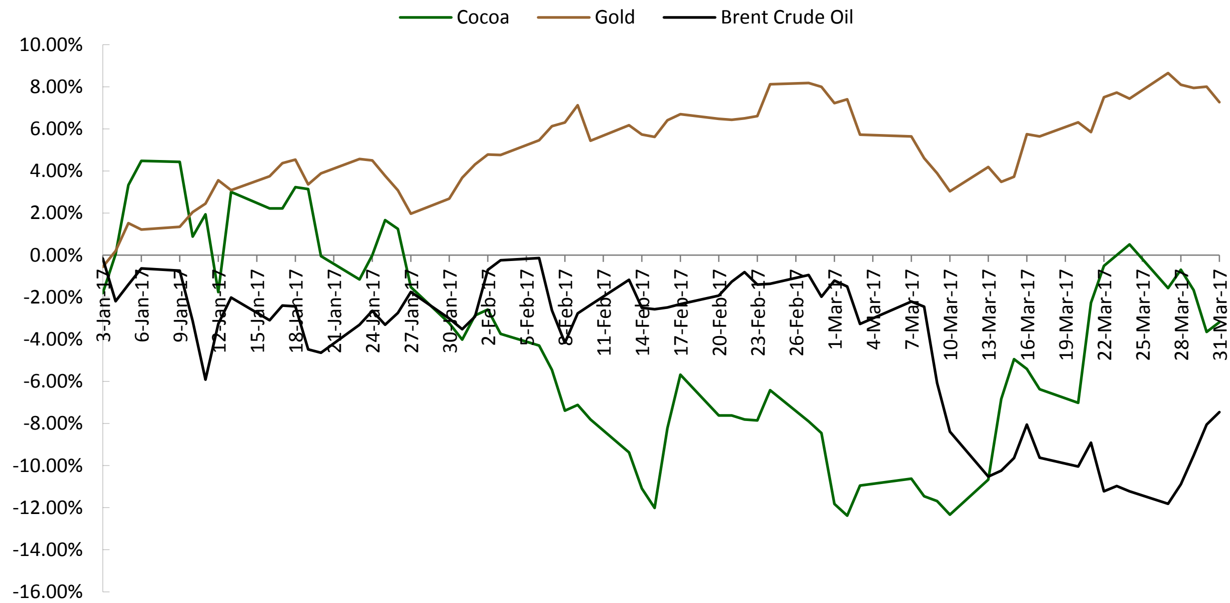
Cocoa: Oversupplied Global Market Extends Price Slump

The global market remained bearish on cocoa in Q1-2017, on the back of slowing global demand and excess supply. These factors weighed down heavily on cocoa’s price until it bottomed out at an 8-year low of $1,897/MT. Cocoa prices averaged $2,076.16/MT this quarter, reflecting a 17% decline compared to Q4-2016.

Supply-side conditions particularly across the West African sub-region underpinned cocoa’s downward spiral at the beginning of this quarter. Short-lived harmattan winds and the onset of adequate rain and sunshine across the region bodes well for the mid-crop harvest. Favourable weather feeds expectations of a bumper harvest, thereby suppressing prices. As at March 31st, cocoa arrivals at ports in the top grower; Ivory Coast, amounted to 1.4 million tons, up 15% over the same period last season. Similarly, cocoa purchases in the 2nd top grower; Ghana, totaled 691,149 tons by March 23, representing a 4% improvement over last season’s production. Recurring supply-side risks, particularly prevalent over the latter part of this quarter, however curtailed the magnitude of the downward price spiral. Poor bean quality, military unrest, disruptions in port activities and producer protests in Ivory Coast momentarily dimmed the global cocoa oversupply outlook, culminating in an extended price recovery period.

With the cocoa market well-supplied, we expect renewed downward price pressures in Q2-2017 as supply side conditions dominate demand side conditions. On condition that persistent favourable weather conditions persist in the West African sub-region, we forecast continued increases in global cocoa supply, above comparative levels last season. Port activity disruptions in Ivory Coast and barging hunters seeking to capitalize on the record low prices could however instigate marginal upward price movements. We thus project volatility in cocoa prices confined within a $2,100/MT and $1,800/MT range in Q2-2017.

Exhibit 20: Q1-2017 Price Performance of Key Commodities



Source: Databank Research, Bloomberg