Databank Leadership

Databank Research

Africa Quarterly Strategy Report

Nine Months Review and Outlook for Q4-2017

October-2017

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 24.

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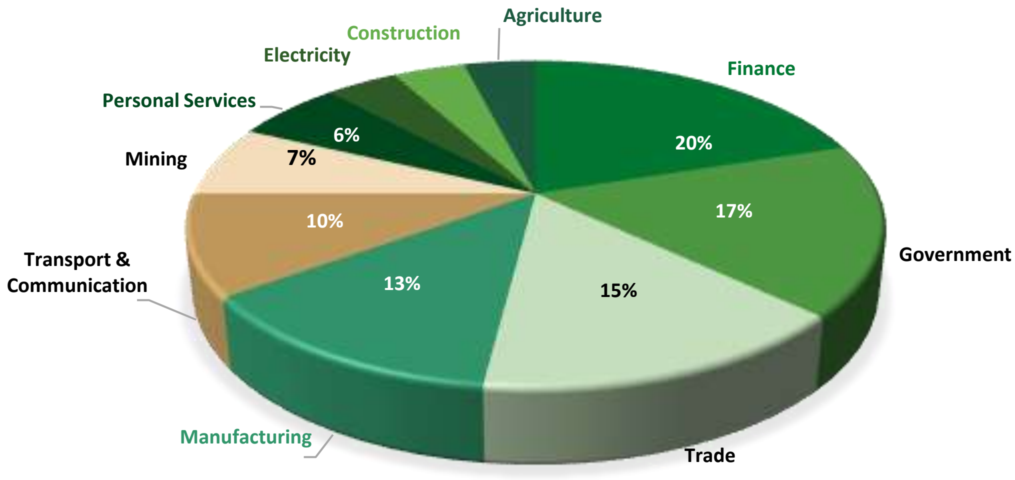
Economic Overview of Sub-Saharan Africa

The growth outlook improved moderately in Africa's key economies on account of a rebound in hydrocarbon and agriculture output but policy uncertainties continue to pose a downside risk. A gauge of real sector activities in Nigeria and South Africa points to a modest recovery from economic recession during the first nine months of 2017 while growth in Ghana is set to accelerate above 6% in 2017.

South Africa: *Improved agriculture yields to swing overall growth into positive territory but policy uncertainties remain a concern.*

Real GDP expanded in South Africa by 2.5% q/q and 1.1% YoY in Q2-2017, following improved rainfall pattern which boosted agriculture yield. Increased output in crops and horticultural products propelled agriculture growth to 33.6% q/q while mining sector also grew by 3.9% over the same period. This ensured a 10.3% growth in the primary sector for Q2-2017, making it a key sector to watch for South Africa's recovery in the short term.

Exhibit 1: Sectorial Contribution to Nominal GDP in Q2-2017



Source: Statistics South Africa

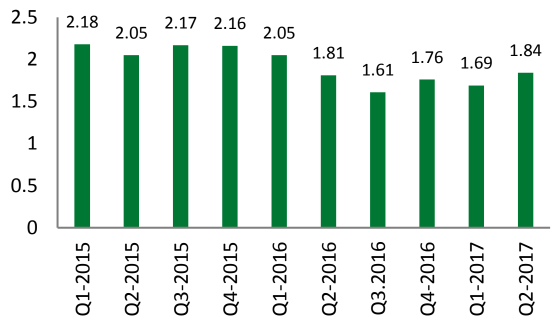
We however view the heightened political pressure on the South African Reserve Bank to change its inflation targeting mandate as a key risk to price stability and investor confidence. Risks to fiscal sustainability also heightened in Q1-2017 as the country recorded a $1 billion shortfall in tax revenue, raising the risk to the end-year (2017/2018) revenue target of $97 billion. We believe South Africa's policy option has been complicated by a weak growth outlook amidst the authorities' quest to sustain fiscal credibility following the unanticipated dismissal of former finance minister, Pravin Gordhan in March 2017.

Nigeria: ***Recovery in hydrocarbon output propels economic growth but end-2017 outturn could be lower-than expected.***

Nigeria's economy climbed out of recession in Q2-2017 on the back of a recovery in oil and gas production after enduring 5 consecutive quarters of economic contraction. Real GDP growth for Q2-2017 turned out 0.55% compared to a contraction of 1.49% in the same period 2016.

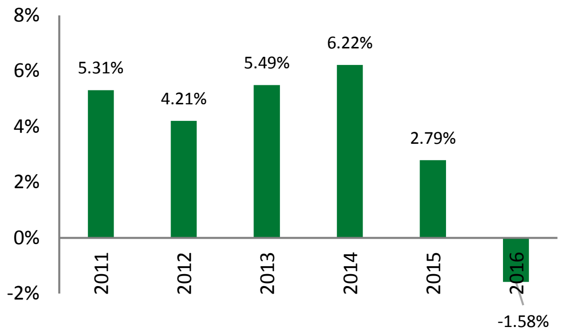
Average daily output for crude oil reached 1.84 million barrels per day in Q2-2017, reflecting a real growth of 1.64% YoY in the oil sector. The rebound in hydrocarbon production increased the oil sector contribution to GDP by 10bps YoY to 8.89% in Q2-2017. Growth in the non-oil sector (0.45%) was led by agriculture, as well as finance & insurance activities.

Exhibit 2: Nigeria Daily Crude Oil Output (mbpd)



Source: National Bureau of Statistics, Nigeria

Exhibit 3: Year-on-Year Real GDP Growth



Source: National Bureau of Statistics, Nigeria

Although the growth pulse would support a positive outturn for annual growth rate for 2017, we believe the recovery in oil & gas would be insufficient to match the authorities' 2017 growth target of 2.19%.

Ghana Economic Review and Outlook

Ghana's extension to the ongoing IMF program would consolidate macroeconomic stability as growth expectations firm amid declining inflation.

Although the broad outlook for macroeconomic stability has turned positive in 2017, Ghana's decision to extend the ongoing IMF program was inevitable on account of the elevated fiscal risks.

The IMF announced a one year extension to the fiscal adjustment program in August 2017, pushing the program end date to Apr-2019. We view the program extension as favourable for anchoring investor confidence as government explores strategies to restore fiscal and debt sustainability in the medium term.

Fiscal Performance: ***Expenditure containment is a necessary strategy to mitigate revenue shortfalls but would be unsustainable in the long run unless revenue improves.***

Ghana remains on track to achieve the end-2017 target for overall fiscal deficit of 6.3% despite the broad-based shortfalls in revenue outturn. The government showed its commitment to restoring fiscal sustainability by strictly linking expenditure to revenue performance, ensuring a better-than expected deficit outturn in the 1H-2017. Total expenditure (incl. arrears clearance and debt amortization) was 15.6% less than the limit of GH¢30.09 billion while total revenue (incl. grants) fell below the GH¢20.54 billion target by 14.9% for the 1H-2017. This translated into a better-than expected overall deficit of 2.7% compared to a target of 3.5% while the primary balance recorded a surplus of 0.6% compared to the expected deficit of 0.01%.

Fiscal Outlook: ***We forecast an end-2017 deficit of 6.5% ± 50bps, supported by expenditure cuts.***

We expect the budget deficit to narrow towards the government target of 6.3% by end-2017 although downside risks to revenue persist. We believe the Ghanaian authorities have shown sufficient commitment to expenditure rationalization as a means to containing the revenue risks in the short term.

Revenue enhancing measures launched in Q3-2017 bodes well for the medium term outlook.

The Government of Ghana launched two key measures in Q3-2017 with the aim of enhancing tax revenue performance and lower the fiscal risk. The **Tax Stamp Policy** was launched in Aug-2017 with the core objectives of reducing product counterfeiting and also boosting government tax revenue. While the tax stamp policy does not constitute an introduction of new taxes, it is expected to improve tax administration by plugging revenue leakages.

With enforcement of the policy expected to commence in Jan-2018, the government plans to absorb the full cost of the tax stamp during the first 6 months of implementation while 50% would be absorbed from July – December 2018. We reckon this gesture from the fiscal authorities would help stimulate business acceptance of the tax stamp policy.

The government also commenced the **"paperless"** system for clearance processes at Ghana's ports in Sep-2017. A key objective of this ports-digitization policy is to minimize the revenue leakages that tend to undermine government revenue targets.

We view these revenue enhancing measures as key structural reforms that would boost the efficiency of tax administration in the medium term. We also expect the re-launch of the national identification and the digitization of the address system in late-2017 to aid revenue mobilization by the Ghana Revenue Authority as it will broaden the tax base in the medium term.

Inflation Dynamics: ***Subdued inflation expectations and complementary fiscal policy aids disinflation in 2017.***

Inflation has sustained a generally downward path so far in 2017, helped by a tight monetary stance (despite a cautious easing cycle) which is supported by tax reliefs that are aimed at reducing the operating cost for businesses. Notwithstanding the disinflation process, we believe upside risks to inflation persists, as reflected in the 40bps uptick in Aug-2017 headline inflation (12.3%) as depicted in the graph below.

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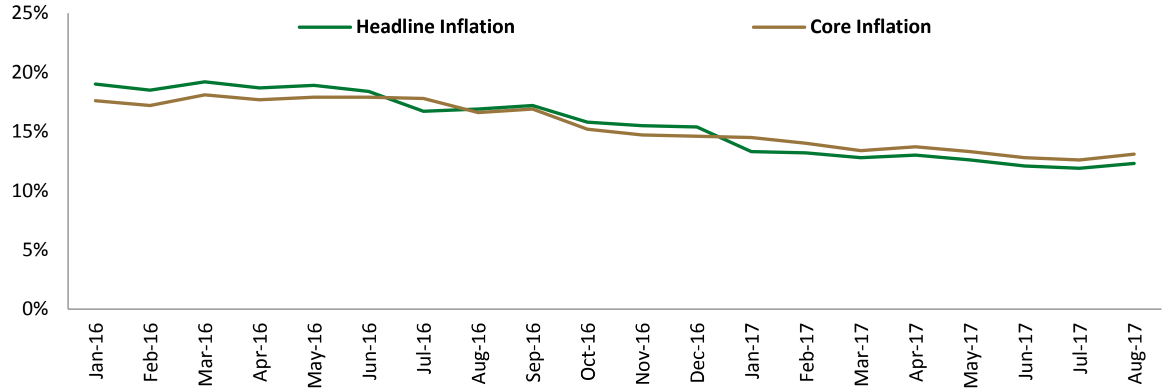
Exhibit 4: Ghana: Inflation Dynamics



Source: Bank of Ghana, Ghana Statistical Service

Despite the general downturn in both headline and core inflation, we believe there is still upside risks to inflation as core inflation remains above headline inflation thus far in 2017. The higher core inflation points to a potential upswing in headline inflation in the event of a sustained shock to energy and utility prices.

Inflation Outlook: ***Favourable base-drift effect and continued Cedi stability would mitigate risk of higher ex-pump prices in Q4-2017.***

Recent wave of adverse weather conditions in key production and refinery zones in the US have combined with a bullish demand-side forecast and geo-political tensions to propel Brent crude oil price above $50/bbl. since Aug-2017.

We however reckon that the inflation outlook can accommodate average crude oil price around the government's forecast of $56pb, minimizing the upside risks to inflation. We further expect a favourable base effect to pull CPI inflation lower in Q4-2017, sustaining the disinflation process towards 11.1% by end-2017.

Real GDP Growth: ***Oil & gas propels overall GDP growth to 9.0% despite mixed outturn in the services and agriculture sectors in Q2-2017.***

A robust growth in oil & gas (188% Y-o-Y) during Q2-2017 emphasizes our view that a recovery in crude oil production from existing fields, coupled with additional production from new oil fields points to a period of oil-led GDP growth.

Ghana's overall GDP growth pulse has picked up markedly since the start of 2017, reflecting a brighter prospect of economic recovery. We believe that the declining growth trend has bottomed out and is set for an upward trajectory.

We however note that non-oil growth remains broadly sluggish on account of mixed performances in the agriculture and the services sectors. Real growth in the services sector gathered pace in Q2-2017 to 5.6% (3.7% in Q1-2017), helped by expansion in ICT (15.6%), health & social work (18.3%), education (9.6%) and real estate & other services (7.6%). The agriculture sector however turned a disappointing performance with a 3.4% growth in Q2-2017 compared to the 7.6% achieved in Q1-2017. Despite a cocoa-led growth in the crops sub-sector (8.3%), the fishing sub-sector contracted by 17.6% in Q2-2017 compared with a 31.6% growth in Q1-2017. These two contrasting performances in the services and agriculture sectors constrained non-oil growth to 4.0% in Q2-2017, barely above the 3.9% outturn in Q1-2017.

Growth Outlook: *Overall growth in the next 2-years would be driven by oil & gas while non-oil growth is expected to firm up by 2019.*

Ghana's GDP growth is expected to be led by oil & gas growth for the next two years as short term constraints persist in the non-oil sector.

The favourable verdict by the International Tribunal for the Law of the Sea (ITLOS) further strengthens Ghana's growth outlook. Tullow expects to re-start drilling of additional 13 wells by end-2017 to propel average daily output on the TEN fields towards the 80,000bpd mark by 2H-2018 from the current 50,000bpd. In light of the expanding production base, we expect an increase in Ghana's average daily oil output to be between 168,000bpd and 178,000bpd in 2018. We believe this positive development could push Ghana's overall GDP growth to 8.4% in 2018, up from our projected 6.3%

SSA Fixed Income Review

Economic recovery across Sub-Saharan Africa pushes down nominal yields

Nominal yields declined broadly on treasury securities across Sub-Saharan Africa over 9M-2017 as growth pulse picked up and fiscal risks subsided. Relatively firmer commodity prices so far this year has supported most emerging market currencies while the generally low interest rates in the advanced economies aided a shift of investor interest to high yielding but credible African debts.

Exhibit 5: Yield Dynamics on SSA stock markets

Country	91 Day Bills			182 Day Bills		
	Year Open	Current Yield	Year to Q3-2017	Year Open	Current Yield	Year to Q3-2017
Egypt	19.04%	18.43%	-0.60%	19.39%	18.46%	-0.93%
Ghana	16.43%	13.24%	-3.19%	17.64%	14.06%	-3.58%
Kenya	8.56%	8.13%	-0.43%	10.49%	10.32%	-0.18%
Malawi	23.99%	15.00%	-8.98%	25.50%	15.24%	-10.26%
Namibia	8.61%	7.52%	-1.09%	9.10%	7.65%	-1.45%
Nigeria	14.00%	13.25%	-0.75%	17.50%	17.36%	-0.14%
Rwanda	8.94%	6.97%	-1.97%	9.15%	8.10%	-1.05%
South Africa	7.78%	7.07%	-0.71%	8.00%	6.95%	-1.05%
Tanzania	7.09%	4.10%	-2.99%	14.53%	8.66%	-5.87%
Uganda	14.00%	9.83%	-4.17%	15.14%	10.02%	-5.12%
Zambia	20.50%	9.02%	-11.48%	23.90%	9.16%	-14.74%

Source: Databank Research, Central Banks of the selected countries

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Nigeria: ***Improving growth outlook and exchange rate reforms stabilize nominal yields***

Inflation expectation in Nigeria appears to be fairly anchored by the tight monetary policy stance while the exchange rate and growth concerns have subsided considerably over 9M-2017. The economy recovered from a technical recession in Q2-2017, lifted by relatively firmer crude oil prices and recovery in oil production. Daily crude oil output recovered to an average of 1.84 mbbl in Q2-2017 from a trough of 1.61 mbbl in Q3-2016 while the benchmark Brent crude oil price averaged $52.3/bbl. over the period (+$9.54/bbl. y/y). The central bank also devised an intricate exchange rate regime that introduced an FX trading window for various segments of the FX market (including a window dedicated to off-shore investors).The exchange rate reforms eliminated arbitrage opportunities on the black market considerably and together with an improving growth outlook, spurred investor interest, underpinning the relative stability in nominal yields thus far.

We expect inflationary pressures to ease substantially in the near-term on the back of a favorable base effect and exchange rate stability. As a result, we expect nominal yields in Nigeria to remain fairly stable in Q4-2017.

Zambia: ***Improved Inflation outlook sparks decline in nominal yields***

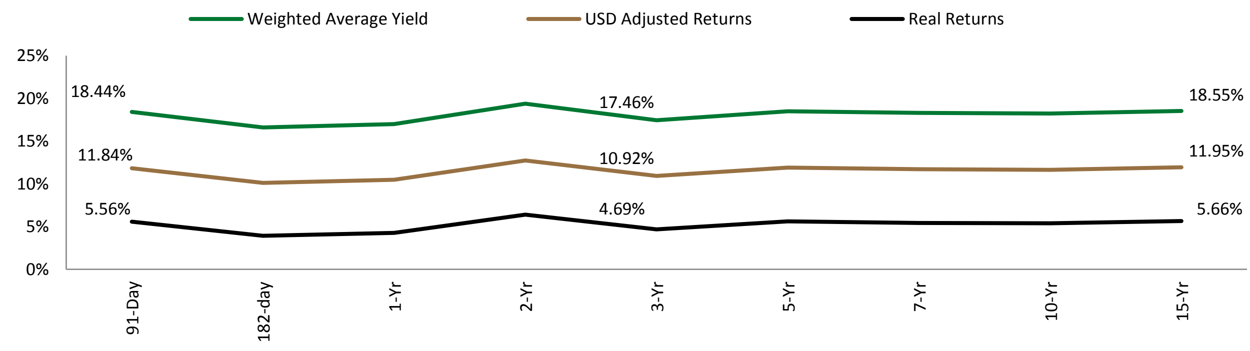
Nominal yields tumbled on Zambia's fixed income market over 9M-2017 as inflationary pressures from 2016 subsided while firmer copper prices supported the Kwacha to a healthy appreciation. The 91-day (end of Q3-2017: 9.02%) and 182-day (end of Q3-2017:9.16%) T-bill rates plummeted by 11.5% and 14.7% over 9M-2017 as a result. The ongoing fiscal consolidation in Zambia has stabilized the macro economy considerably while inflationary pressures have subsided. Higher rainfall recorded thus far following severe drought in 2015 and 2016 has boosted food production, thereby curtailing food inflation. The favorable rainfall patterns also improved water levels in the hydro dams, supporting stable power generation. The marked recovery in copper prices on global market also lent support to the Zambian Kwacha. We believe the subdued cost side pressures and the stronger Kwacha underpinned the 12.3% y/y decline in headline inflation to 6.6% in Sept-2017. As a result, nominal yields on Zambia's domestic debt instruments declined broadly over 9M-2017.

The proposed economic reforms associated with the $1.3 billion support program currently under consideration with the IMF is expected to complement government's efforts in mitigating the prevailing fiscal risks in Zambia. We expect this, together with the anticipated uptick in economic growth and firmer copper prices to anchor inflation within the target range (6-8%) and stabilize the Kwacha over the medium-term. Against this backdrop, we expect stable nominal yields in Q4-2016.

Ghana: ***Improving economic outlook, stable cedi and slowing inflation risks sustain yield decline***

Domestic risks to investing in Ghana has subsided considerably over 9M-2017 as subdued fiscal risks and an emerging economic stability sustains the declining path of inflation. Inflation eased by 320bps to 12.3% in Sept-2017 while the USD/GHS pair has been largely stable thus far, underpinning the decline in nominal yields across the maturity curve for treasury securities.

Exhibit 6: Yield dynamics on Ghana's fixed income market



Source: Databank research, Bank of Ghana

The improving fiscal outlook has been sustained by the return to the path of fiscal consolidation. Government responded to the persistent downside risks to revenue projections by rationalizing public expenditure in a bid to contain the emerging fiscal risks. The government trimmed its expenditure by ~9% in the year-to-July, 2017 to compensate for the 11.8% shortfall in total revenue, which kept fiscal deficit within target (Jul-2017: 4%; target: 4.1%). At the same time, Ghana's balance of trade and overall BoP swung into a surplus over 9M-2017, supporting the cedi's stability. The stable currency along with declining inflation risks ensured a healthy risk adjusted returns on fixed income investments in Ghana, underpinning the strong demand for treasury debts over 9M-2017. Nominal yields declined broadly as result, with the benchmark 91-day bill slowing by 319bps to 13.24% at the end of Q3-2017. We believe ongoing efforts to extend the maturity profile of Ghana's domestic debts has been pivotal in accelerating the pace of decline in nominal yields across the yield curve.

Thus far, net domestic borrowing is estimated at GH10.5 billion and a further GH¢2.68 billion is expected to be raised in Q4-2017 to meet the estimated budget deficit of GH¢13.18 billion. The government expects to raise a total of GH¢ 14.8 billion ($3.37billion) in Q4-2017 from domestic debt issuance (Q4-2017 auction calendar) to re-finance forecast maturities worth GH¢12.77 billion. While external headwinds remain, we maintain a bullish outlook for the economy. We estimate an end-of-year inflation at 11.1% and full year USD/GHS depreciation of 5.6%. Against this backdrop, we expect nominal interest rates to remain largely stable with possible downside potential.

African Currency Review

Exhibit 7: Snapshot of the performance of selected African currencies on the international market

Most Resilient SSA Currencies			Least Resilient SSA Currencies		
Country	USD Exchange Rate	App/Dep (Year-to Q3-2017)	Country	USD Exchange Rate	App/Dep (Year-to Q3-2017)
BCEAO	556.25	12.0%	Malawi	725.50	-0.1%
Morocco	9.41	8.1%	Nigeria	305.25	-0.2%
Mauritius	33.87	6.6%	Kenya	103.25	-0.7%
Egypt	17.65	3.5%	Tanzania	2237.77	-2.9%
Botswana	10.31	3.3%	Ghana	4.39	-4.4%
Zambia	9653.40	2.5%	Tunisia	2.48	-5.3%
S. Africa	13.49	1.0%			
Namibia	13.55	0.5%			
Uganda	3603.29	0.1%			

Source: Databank Research, Central Bank of the selected countries

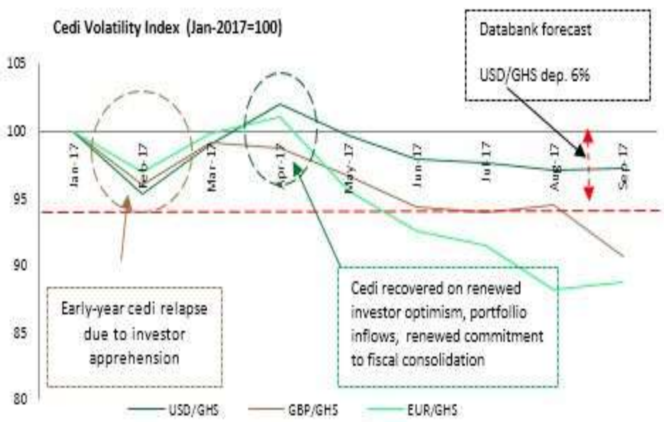
BCEAO: The West Africa CFA Franc posted the most gain against the USD in our basket of 15 African currencies over 9M-2017. The Euro-linked currency gained 12% vs. the USD over 9M-2017 largely driven by a recovery in economic activity in the Euro area. The European Central Bank's growth stimulus package is finally gaining traction, as reflected in the strong growth in employment, private spending and an expected build-up of inflationary pressures in the near-term. We believe the growth outturn in the Euro area is quite robust and broad-based with annual GDP growth expected to print 2.2% in 2017 and 1.8% in 2018. The boost in economic activity strengthened the common currency to an appreciation thus far, underpinning the sustained appreciation of the Euro-linked CFA. We expect the CFA to close 2017 as the most resilient currency in our currency basket as we envisage a stable Euro over an extended period on the back of a bullish economic growth and interest rate expectations in the Euro area.

South Africa: A multiplicity of factors including political unrest, policy uncertainties and weak economic growth underpinned the continuous volatility of the South African Rand over 9M-2017. The Rand traded within a wider spread thus far, driven by domestic and external risks to investing in South Africa. The economy entered a technical recession in Q1-2017, and together with prevailing uncertainties, triggered multiple credit risk downgrades. After President Jacob Zuma survived another vote of no confidence however, the political environment has stabilized somewhat, but growth concerns remain despite the recovery in Q2-2017. We expect the volatility of the Rand to continue in Q4-2017 on the back of the prevailing domestic uncertainties and bullish interest rate expectations in the US in the near-term.

Zambia: A slower growth in economic activity in recent years has significantly undermined aggregate demand in Zambia. Private investment in the real sector slowed down with domestic imports expenditure equally easing on weak aggregate demand. The Central Bank's tight monetary stance together with improved revenue from copper exports over HY-2017 and corporate FX sales boosted FX liquidity, supporting the Kwacha to a 12.2% appreciation vs. the USD by July 20, 2017. The Kwacha subsequently lost ground (-8.6%) against the USD to a YTD appreciation of 2.53% at the end of Q3-2017, as an uptick in manufacturing activity induced increased import demand (mainly inputs and capital goods). The continued delay in concluding the discussions on a $1.3billion aid deal with the IMF is driving investor uncertainty, reflecting Zambia's rising Eurobond yields. With the deal unlikely to be concluded in 2017, we expect the Kwacha to remain on the back foot in Q4-2017.

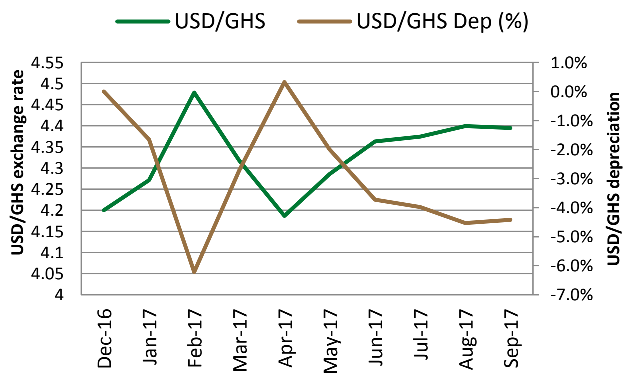
Ghana: The Ghana Cedi recovered strongly from a tenuous start to 2017, buoyed by a fragile improvement in Ghana's external position, improved FX inflows and an improving economic outlook. The cedi recovered against the USD, paring nearly a half of the 8.8% depreciation recorded late in Q1-2017 to a 4.42% depreciation at the end of Q3-2017 (9M-2016: -4.44%). The cedi was however weaker against the Euro (-11.9%) and the GBP (-14.6%) relative to 9M-2016 (-7.24% and +9.01% respectively).

Exhibit 8: Cedi Volatility Index (January 2017=100)



Source: Databank Research , Bank of Ghana

Exhibit 9: USD/GHS Performance (9M-2017)

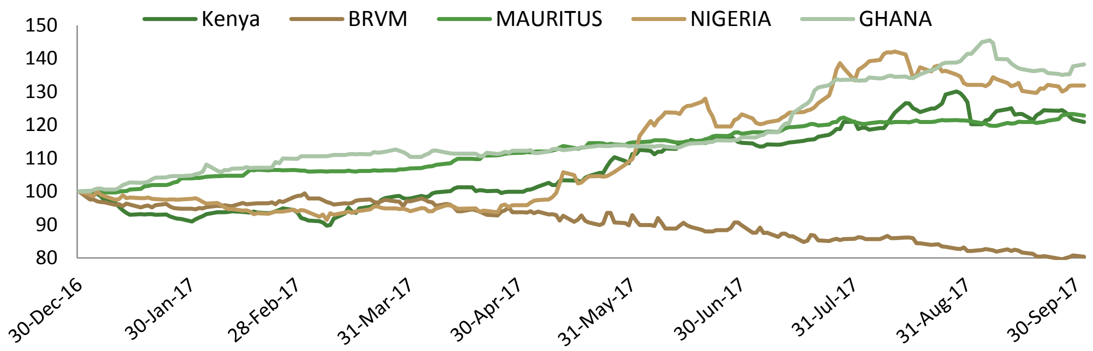


Source: Databank Research, Bank of Ghana

An Improving economic fundamental, reflected in the 164% y/y growth in trade surplus to $1.18 billion (about 2.5% of GDP) in Aug-2017 largely underpins the relative stability of the cedi vs the USD thus far. As a result, FX liquidity improved, Ghana's FX reserve position strengthened while arbitrage opportunities became extinct, thus sustaining the local unit's resilience through 9M-2017. We expect an FX liquidity boost from the $1.3billion cocoa syndicated loan and a series of treasury bonds earmarked for Q4-2017 (which will attract off-shore participants) to support the cedi to stability. While seasonal FX demand around the Yuletide season could fuel depreciation pressures later in Q4-2017, we expect a strong regulatory intervention to assuage the potential FX demand pressures. We therefore maintain our forecast for the USD/GHS pair at GH¢4.45±10p at FY-2017.

Equity Markets in Sub-Saharan Africa

9M-2017 Performance of Key SSA Equities Markets



Source: Databank Research, Bloomberg

Ghana: Positive Sentiments drive GSE-CI to an all-time high in Q3-2017

The Ghana Stock Exchange (GSE) recorded a stellar performance in Q3-2017 striking an all-time high of 2458.11 points (45.53% YTD) on 6th September 2017. The benchmark GSE Composite Index (GSE CI) gained 361.54 points q/q (+18%) to end Sept-2017 at a level of 2,326.09 points. The impressive Q3-2017 performance of the benchmark index pushed the 9M-2017 return of the GSE–CI to 37.7% (compared with -11.03% at 9M-2016).

Ghana Stock Exchange Key Market Statistics

	9M-2017	9M-2016
Market Cap (GHS'b)	58.38	52.99
Aggregate Volume Traded ('m)	285.363	109.403
Aggregate Turnover (GHS'm)	443.062	217.07
GSE-CI YTD Return	37.71%	-11.03%

Source: Databank Research

The exceptional rally of the GSE, after two consecutive years of negative returns, at the 9M benchmark was broadly driven by positive investor sentiments about the Ghanaian economy and the lower yields on GoG treasury securities. Ghana's improving economic fundamentals; lower inflation and the relative stability of the Ghana Cedi, in conjunction with, the extension of the IMF's fiscal stabilization program enhanced investor's confidence in Ghana and positively impacted the Stock Market.

The bourse recorded a broadly positive market breadth q/q with 16 gainers, 6 laggards and 15 unchanged counters. The quarterly rally was largely led by positive sentiments on the heavily weighted counters, FML (Consumer FMCG, +67.5%), SCB (Banking, 15.67), ETI (Banking,

+38.46) and GOIL (Oil marketing, +26.20%). The financial sector was very active with 8 counters (out of 12) recording price appreciations. By the close of Q3-17, trades across 33 counters propelled the volume of shares traded to 34.51million shares (-26% y/y) valued at GH¢46.53 million. Consequently, the volume of shares traded for the nine month period surged to 285 million shares (+160% y/y) valued at GH¢443.06 million (+104% y/y).

9M- 2017			
TOP GAINERS	**RETURN (%)**	**WORST LAGGARDS**	**RETURN (%)**
Benso Oil Palm Plantation	178.85%	Mechanical Lloyd Co. Ltd	-40.00%
Ghana Oil Company Ltd	114.55%	Tullow Oil PLC	-34.00%
HFC Bank	85.33%	Produce Buying Company	-33.33%
Ecobank Transnational Inc.	80.00%	Access Bank Ghana PLC	-17.07%
Fan Milk	77.74%	Ayrton Drug Manufacturing	-16.67%

Source: Databank Research

The GSE reported a lot of corporate actions within the quarter. UT Bank was delisted in August 2017 after it was declared insolvent by the Central Bank. UT bank (and Capital Bank, an unlisted bank) had its license revoked by the Central Bank and its deposit liabilities and selected assets taken over by GCB Bank, under a purchase and assumption agreement. This transaction is estimated to push GCB Bank to become the largest bank by assets in Ghana. The GSE additionally suspended the listing status of 5 companies: African Champion Industries (ACI), Golden Web (GWEB), Pioneer Kitchenware (PKL), Transaction Solutions Ltd (TRANSOL), and Clydestone Ltd (CLYD) following their inability to meet their continued listing obligations. Their Infractions included the non-publication of financials, non-payment of annual listing fees and not holding AGMs. Following the rectification of these issues, the suspension of 3 companies: PKL, TRANSOL AND CLYD was lifted. The Exchange additionally suspended trading in Cocoa Processing Company (CPC) for similar reasons but the Exchange has given them up to by November 30th 2017 to address the anomalies.

Outlook: Macroeconomic stability to be a key catalyst for strong stock market performance in 2018

We anticipate that the market momentum will slow down in Q4-17 weighed down by profit taking activities. We thus maintain our FY 2017 projected return of 35% ±5%. The 2018 outlook for the GSE is very bright. We expect the rebound of Ghana's economy (2018 GDP growth of 8.4% ± 50bps) to act as a catalyst for market sentiment and a stronger performance of equities. Interest rates have declined markedly from a 2016 average of 22% p.a. for the 91 day bill and is forecast at 10% p.a. in 2018. The sustained low interest rate regime should spur investor's interest in equities and offer further impetus for the stock market. We also anticipated increased activity in the financial sector, characterized by corporate actions such as rights issues, bonus issues and IPO's, as banks rally to raise their minimum stated capital to the new requirement of GH¢400 million by December 2018. The consumer goods, oil marketing and banking sectors are tipped to be at the forefront of activity on the GSE in 2018.

Product innovation and improving consumer demand to Fuel growth of the FMCG sector

Our stock picks for the GSE include consumer goods companies FML and GGBL, and the oil marketing companies TOTAL Petroleum and GOIL. We anticipate the recent introduction of new products by Fan milk and GGBL will contribute to topline growth and drive earnings over the medium term. Fan Milk's strategy to expand its distribution network within the four main populous and economically viable regions as well as the continued capex investments in distribution depots are expected to drive volume and sales. GGBL's bottom-line has improved considerably in view of the shrinking debt burden post the 2016 rights issue which paid off part of its financing costs. We anticipate GGBL's current sales promotion [customers can win up to GH¢10,000 a week and win prizes worth GH¢4 million], product innovations, strong distribution network and reduced financing cost will boost sales and profitability in 2018.

Expansion and product innovation to spur growth in OMC sector

GOIL is tipped to record strong growth in the medium term on the back of its newly operational bunkering business, the bitumen & lubricant business and continued expansion of its wide distribution network. These new business lines will boost GOIL's revenue diversification, reduce risks and drive sales. Total Petroleum's financial performance has been negatively impacted by the refurbishment of its retail outlets in the last two years. The refurbishment is to give the service stations a new look with an enhanced customer experience. This will make TOTAL not only a transit point but a destination point with ultra-modern facilities such as lube bays, shops, car wash and eateries including Mugg & Bean, KFC drive- through and Pizza Hut outlets. With the imminent completion of the refurbishment exercise, we anticipate that TOTAL will see stronger sales growth and improved profitability, supported by the strong brand and consumer affinity for the global brand.

Banking sector set to soar higher driven by declining NPLs and economic growth

We are equally optimistic about the prospects of the banking sector stocks. Our optimism is based on our expectation of strong macroeconomic growth, a reduction in NPLs [on the back of the projected Q4-2017 issuance of the USD2.4b (GH¢10 billion) ESLA Bonds to settle the energy sector debts] and a strong expansion of the loan book. The Bank of Ghana increased the minimum stated capital of banks to GH¢400 million (effective Dec-2018). This is also tipped to enable banks undertake larger ticket transactions, drive further the loan book and boost profitability of the banking sector. We also anticipate increased corporate actions within the banking sector in the bid to meet the Dec-2018 deadline to raise the new minimum stated capital. Our analysis of the FY-2016 financials of the sector suggests that only one bank (GCB Bank) out of the 34 banks operating in Ghana can meet the new minimum capital requirement by capitalizing its retained earnings. This creates opportunities for both the banks and investors. Banks who cannot raise the required level of capital on their own may consider strategic mergers and acquisitions which will have the added benefit of inorganic growth. Investors on the other hand will be able to increase their exposure to the highly profitable banking sector through the capital raising activities.

Africa | Quarterly Report

October-2017

DATABANK BROKERAGE LTD BROKERS' REFERENCE SHEET										Last Update	29.09.17
										GHS/USD	4.3944
Company	Year End	Latest Results	Issued Shares	Capitalization		P/E	P/BV	ROE	Fair Value	± Potential	Rating
			'm	GH¢ 'm	USD 'm	x	x	%	GH¢	%	
Financial Sector											
CAL Bank	31-Dec	HY, June-17	548.26	548.26	124.76	31.5	0.9	3.0	1.16	16.00	ACCUMULATE
Ecobank Ghana	31-Dec	HY, June-17	293.23	2,360.49	537.16	9.1	2.7	29.8	8.16	1.37	HOLD
Enterprise Group	31-Dec	HY, June-16	133.10	543.05	123.58	7.7	1.6	20.7	3.48	-14.71	HOLD
GCB Bank	31-Dec	HY, June-17	265.00	1,060.00	241.22	4.5	1.0	22.2	4.97	24.25	ACCUMULATE
Société Générale Ghana	31-Dec	HY, June-17	429.06	330.38	75.18	3.7	0.9	24.1	1.02	32.47	BUY
Non- Financial Sector											
Fan Milk Ltd	31-Dec	HY, June-17	116.21	2,300.90	523.60	36.4	11.4	31.4	19.03	-3.89	HOLD
Ghana Oil Company	31-Dec	HY, June-17	391.86	924.80	210.45	12.7	2.6	20.8	2.28	-3.39	HOLD
Guinness Ghana Breweries	30-Jun	FY, June-17	307.59	467.54	106.40	67.7	1.7	2.6	2.55	67.76	STRONG BUY
Total Petroleum Ghana	31-Dec	HY, June-17	111.87	252.84	57.54	9.8	1.7	16.9	6.41	183.63	STRONG BUY

Companies are categorized into financial and non-financial sector ***Source: GSE, Databank, BOG***

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French West African Stock Market: Q3-2017 Performance of the Bourse Régionale des Valeurs Mobilières (BRVM)

The benchmark French West African Stock Market (Bourse Regionale De Valeurs Mobiliers, BRVM) extended its losing streak in Q3-2017 as dwindling investor interest increased selling pressures on the bourse. The BRVM Composite Index lost 23.07 points q/q to end Q3-2017 at 236.90 points. On a year-to-date basis, the bourse lost 19.20% compared to -6.19% recorded for like period in 2016. The bourse recorded significant sell-offs across all sectors as investors continued to take profit. Market capitalization consequently tumbled by ~62% y/y to $4.64 billion. Overall, the equities market ended Q3-2017 with 3 gainers and 39 laggards.

On a year to date basis, Société Africaine de Plantations d'Hévéas (SAPH), Societe des Caoutchoucs de Grand-Bereby (SOGB) and Coria Bank International are the only stocks that recorded price appreciations as these companies published impressive earnings report. SAPH reported a 208% y/y growth in earnings to XOF6.92 billion for 1HY-2017. SAPH's impressive earnings growth resulted from a strong topline as the company expanded its rubber production from 160,000 tons to 180,000 tons in 2016 to support volume growth. This boosted sales growth culminated in the strong earnings growth. Coria Bank International's expansion of its branch network coupled with effective market strategies boosted growth of customer deposit. Coria Bank International thus posted an impressive 39% increase in net income to XOF22.7 million in its 1HY-2017 financials.

The bourse also witnessed a few corporate actions in Q3-2017. Notable among them is the recent IPO in Ecobank Ivory Coast. Ecobank Ivory Coast IPO was fully oversubscribed as the company raised 100 billion CFA francs ($175 million) in a single day instead of an amount of 45 billion CFA francs ($79 million) required. The oversubscription of Ecobank Ivory Coast IPO stems from the perceived high growth potential of the company by Investors.

We forecast market activity to be relatively high in the last quarter as companies are showing improved earnings for Q3 results. We expect the improved financial results to restore some confidence in the equities market going forward. In particular, we expect the agro-processing sector to continue to record good earnings in Q4-2017. We tip SAPH, a dominant player in the rubber sector with a market share of ~39%, to continue to record strong earnings growth for FY-2017 as a result of a recovery in global prices of rubber coupled with favourable foreign exchange gains.

Exhibit 10: Lead Gainers and Laggards on the BRVM

Q3- 2017 TOP GAINERS	Q3 – 2017 RETURN (%)	Q3-2017 WORST LAGGARDS	Q3– 2017 RETURN (%)
SOGB	15.15%	Bollore Al. CI	-98.82%
Coris Bank International	14.29%	Nestle CL	-94.58%
SAPH	13.59%	Sucrivorie	-70.71%
		BOACI	-69.79%
		Vivo Energy	-66.67%

Source: Databank Research

Mauritius: 9M - 2017 Performance of the Mauritius Stock Exchange Index

The Stock Exchange of Mauritius Index (SEMDEX) posted an impressive nine month result gaining 23.18% to 2,229.79 points at the end of Q3 2017. The SEMDEX saw 35 stocks gaining, 4 experiencing decline and 2 remaining unchanged for the third quarter of 2017. The banks and insurance sector outperformed all other sectors on the SEMDEX climbing 14.0% for 9M 2017. Commerce and Industry sectors went up 11.6% and 9.5% respectively. The leisure & hotel sector advanced by 8.9% q/q for Q3 2017. The sugar industry however was the worst performing sector as it receded by 9% at the end of 9M 2017.

We expect the leisure and hotel sector to pick up momentum as we enter the peak season for hotels and resorts in Mauritius. Tourist arrivals went up by 6.1% to 934,679 in 9M 2017 compared to the same period in 2016. Most tourists originated from Europe (+5.6%q/q to 522,079). Tourist arrivals were boosted by additional weekly flights from Lufthansa and Air Mauritius. Tourist arrivals from South Africa increased by 8.1% to 76,446. Tourist arrivals from Asia notched up 4.6%.

The Mauritian bourse had an impressive run by the end of Q3 with a few stocks reaching new all-time highs. The heavily weighted finance group, MCB Group saw Net Interest Income grow by 5.9% to Rs9.4bn for the quarter resulting in a 5.5% advancement in its market price. Operating profits for MCB Group surged 7.6% to Rs15.5bn, however, net profit rose marginally by 1.2%. The financial services group, SBM Holdings (+9.18%) saw net impairments of assets rise to Rs131.4m from Rs22.3m, adversely impacting net profit (-15.6% y/y) to Rs728.5m.The fall in profits was however offset by the regional expansion strategy as SBM is currently in negotiations with Kenyan Central Bank for the purchase of Chase Bank. Hotel Operator, Sun Ltd (+9.6%q/q) saw its revenues go up 19.7% to Rs6.0bn.

A number of corporate actions occurred on the SEMDEX bourse during the quarter under review. Notable among them was, Mara Delta's change of name to GRIT Real Estate Income Group. GRIT and Sun were subsequently included in the SE-10 index. Again, Sun embarked on a Rights Issue and successfully raised Rs1.87billion.

Outlook for Q4 remains positive. We believe the MCB Group will drive the market as it plans to start a property fund in a bid to fetch higher returns in the face of the lower interest rate environment in the banking sector. We expect the tourism sector to pick up momentum as the peak season for hotels in Mauritius approaches. Airlines, hotels and resorts are well poised to leverage on the projected increase in tourist arrivals. New Mauritius Hotel Ltd, Sun Ltd and Lux Island Resorts Ltd are all undergoing various refurbishments, expansion and renovations as the holiday season approaches. We however anticipate companies operating in the sugar value chain to experience a decline as the price of sugar on the global market falls.

Q3- 2017 TOP GAINERS	Q3 – 2017 RETURN (%)	Q3-2017 WORST LAGGARDS	Q3– 2017 RETURN (%)
United Docks Ltd.	55.34	Omnican Ltd.	-0.12
Promotion & Development Ltd.	43.54	Terra Mauricia Ltd.	-1.67
Fincorp Investment Ltd.	35.68	Dale Capital Group Ltd.	-7.09
MCB Group Ltd.	35.62	BlueLife Ltd.	-10.43
Lottotech Ltd.	33.80		

Source: Databank Research

Nigeria: 9M- 2017 Performance of the Nigeria Stock Exchange All Share Index

The Nigerian Stock Exchange's All Share Index (NGSE-ASI), recorded a positive performance in Quarter 3 as the economy continued to strengthen after coming out of a recession at the end of the 2nd quarter. For the 9 months ended September 29th 2017, the NGSE-ASI closed the quarter with returns of 33.15%, higher than its Half-Year returns of 24.99%. The increase in the NGSE-ASI was driven by gains in densely weighted Dangote Cement PLC (Industrials, +35.74 %), Guaranty Trust Bank PLC (Finance, +83.2 %) and Zenith Bank PLC (Finance, +96.48%).

The NGSE-ASI picked up where it left off in the second quarter, advancing ~3030 points during the third quarter to close at 35,439.98 points. This represents a 9.3% growth q/q in Nigeria's equity markets after declining 4.1% in the first quarter of the year. Despite the growth in the third quarter, the NGSE-ASI grew slower than in the second quarter where the index surged by 31.6%. Out of 171 counters on the bourse, 74 of them recorded gains for the quarter, 64 remained unchanged, while 33 closed lower for the quarter.

C&I Leasing PLC (Industrials, +248%), the top gainer for the 9 months ended September 2017, secured financing from two banks during the quarter to acquire an 80-tonne vessel to facilitate its participation in the oil and gas industry. During the quarter, C&I Leasing extended its lines of business to include marine, fleet management and outsourcing businesses which places the firm well to grow its top line significantly. Dangote Cement PLC (Industrials, +35.74%) had a strong quarter after posting a pre-tax profit gain of 24.6% y/y in its 2nd quarter earnings report. In an attempt to reach the Nigeria's free float requirement of 20%, the founder of the company sold 2.3% of his stake in the firm. This allowed investors to share in the profits of Africa's largest cement producing company during the quarter.

Outlook for Nigeria's equity markets in Quarter 4 remain positive; all sectoral indices closed higher except oil and gas which fell by 13.10%. Nigeria has room for expanding oil output and with stable prices, we expect the sector to bounce back in the 4th quarter. We anticipate strong demand for C&I Leasing's shares in Quarter 4, as the firm continues to grow its revenues and profits exponentially. The firm is leveraging on technology to effectively manage costs as profits shot up by 298.9%y/y although topline increased by 32.3% y/y for the HY 2017. Through its diversification of its portfolio of businesses, C&I Leasing is well placed to continue to generate returns for investors. Finally, Dangote Cement is poised to expand its Africa footprint through a proposed acquisition of South African cement manufacturer, PPC Ltd., and a plan to double the firm's size by the year 2020 and this could positively impact their stock in the medium to long term.

Q3- 2017 TOP GAINERS	Q3 – 2017 RETURN (%)	Q3-2017 WORST LAGGARDS	Q3– 2017 RETURN (%)
C&I Leasing PLC	248.00	Morison Industries PLC	-60.00
MAY & Baker Nigeria PLC	214.89	Forte Oil PLC	-41.96
Newrest Asl Nigeria PLC	211.74	AG Leventis & Co PLC	-40.63
Stanbic IBTC Holdings PLC	179.31	11 PLC	-39.07
Fidson Healthcare PLC	178.50	University Press PLC	-37.14

Source: Databank Research

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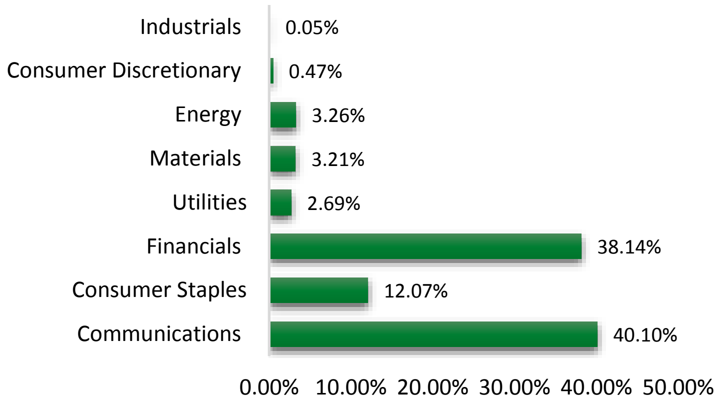
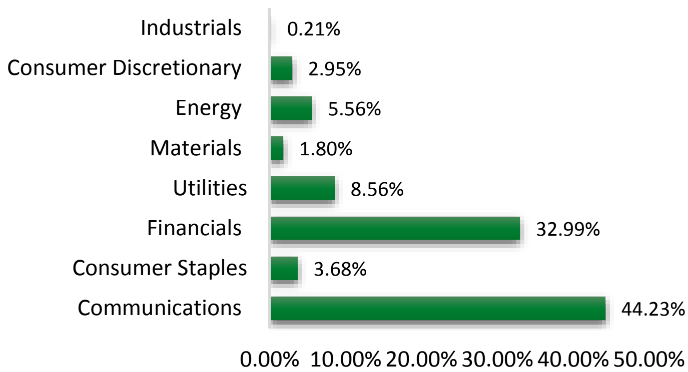
Kenya: 9M-2017 Performance of the Nairobi Stock Exchange

The Nairobi Securities Exchange (NSE) marked a positive performance at the end of Q3-2017 largely driven heavily weighted Safaricom Ltd. and KCB Group. The bourse was characterized by 42 advancers, 19 laggards and 4 remained unchanged. The NSE ALL Share Index (NSEASI) advanced by 9.29 points q/q to 162.21 points, translating to a YTD return of 21.65% as compared to -6.14% for same period in 2016. Inflow of local funds onto the market caused the volumes and values of shares traded in the period to surge. The value of shares traded appreciated by ~66% q/q from KES81 million to KES134 million. The financial sector and the communication sector accounted for ~78% of value traded. The total volume of shares traded increased by ~53% q/q from 3.75 million to 5.76 million.

Standard Group Ltd, - a media company with operations in printing, publishing and television - maintained its lead on the gainers chart for the quarter with a YTD (as at 29/09/2017) return of 133%. The stock however declined by 1.91% to KGS38.50 from a closing price of KES39.25 at the end of 1H-2017. Kenya's biggest bank by asset, KCB Group increased (+9% q/q) to settle at KES41.00 driven by positive investor sentiment. Investors are taking a position in the bank ahead of the imminent removal of the interest rate cap. It is noteworthy that Kenya still faces a marked slowdown in credit growth to the private sector due to the interest rates cap. The NSE blue chip stock, Safaricom increased by 8.79% q/q to KES24.75 (YTD: 34.41%) impelled by positive investor sentiments from its strong growth prospects.



*Value traded by sector 9M2017



*Volume traded by sector 9M2017

Outlook for q4-17 remains positive despite the political uncertainty surrounding the Kenyan elections. We expect the growth potential of heavily weighted Safaricom and KCB Group to reflect stronger stock price performances. Safaricom is planning to roll out Masoko (E-commerce platform) by the end of 2017 and plans to expand the service to other African countries within the next 4-5 years. The ecommerce platform is projected to significantly boost Safaricom's revenue. KCB continues to benefit from a pool of cheaper deposits as a trust account holder of Safaricom's mobile money service (M-Pesa).

Year to Q3- 2017 TOP GAINERS	Year to Q3 – 2017 RETURN (%)	Year to Q3-2017 WORST LAGGARDS	Year to Q3– 2017 RETURN (%)
Standard Group Ltd	133.33	Nairobi Business Ventures	-68.35
Crown Paints Kenya Ltd	82.81	ARM Cement Ltd	-45.10
Co-operative Bank of Kenya Ltd	62.43	Deacons East Africa PLC	-33.06
KCB Group Ltd	60.16	HF Group Ltd	-21.49
Diamond Trust Bank Kenya Ltd	59.75	Car & General Kenya Ltd	-20.37

Source: Databank Research

Commodity Market Performance

Q3-2017 Review

The global commodities market exhibited bearish sentiments as six (6) out of the eleven (11) commodities tracked by Databank Research posted Year-To-Date price declines, recording a negative trend. The prices of Metal commodities collectively posted YTD gains, continuing their rally for the third consecutive quarter in Q3-2017 (Gold – 11.25%; Aluminium – 26.92%; Copper – 18.87%). Corn (+0.57%) was the only gainer amongst the Agricultural commodities bundle. Likewise, Brent Crude oil was the only gainer in the Energy commodities bundle during the year to Q3-2017. On a quarter-on-quarter basis, Brent Crude oil led the gainers list with an appreciation of ~20.3% to trade around $57.50/bbl. at the close of Q3-2017. Corn was the only laggard on a q/q basis, losing ~5.60% to trade at $3.51/bu. Price for Natural Gas remained unchanged as it continues to trade at $3.02/mmbtu.

	Commodity	Unit	Price ($)	YTD Abs Change	Quarter % Chg	%YTD Chg
Metals	Gold	$/t oz.	1,291.10	130.6	3.82%	11.25%
	Aluminium	$/MT	2,131.00	452	11.28%	26.92%
	Copper	$/lb	2.97	0.47	9.61%	18.87%
Energy	Crude Oil WTI	$/bbl	51.64	-2.36	14.15%	-4.37%
	Brent Crude Oil	$/bbl	57.5	0.37	20.29%	0.65%
	Natural Gas	$/mmbtu	3.02	-0.8	0.00%	-20.94%
Agriculture	Cocoa	$/mt	1,980.00	-185	6.39%	-8.55%
	Coffee	$/lb	128.6	-6.85	1.78%	-5.06%
	Sugar	$/lb	0.14	-0.05	1.89%	-28.17%
	Corn	$/bu	3.51	0.02	-5.58%	0.57%
	Cotton	$/bu	69.1	-1.91	2.61%	-2.69%

Source: Databank Research, Bloomberg

GOLD: Geo-Political tensions continue to drive up the price of the safe-haven commodity.

Gold prices witnessed a 3.82% rise in Q3-2017, boosting its gains for the year to 11.25%. The metal reached a year-high of ~$1,359/oz. in early September before declining steadily to trade at ~$1,291/oz. at the end of Q3-2017. The gains were on the back of geo-political tensions between North Korea and the US which heightened global security concerns, driving demand for gold. The precious metal consequently provided a safe-haven for risk-averse investors amidst fixed-income and equity markets swings.

Prices however receded in September after hawkish comments from the U.S Federal Reserve raised expectations of an interest rate hike December 2017.

As geo-political tensions continue to linger, the outlook for gold is tilted slightly towards the positive as the Kurdistan referendum and the Catalonia crisis could create some uncertainty and build market for the yellow metal. We expect the bullion to trade between $1,300 and $1,320/oz. by end-2017.

COCOA: Ghana Maintains Producer Prices amidst Low World Prices

Cocoa rebounded in late Q3-2017 from the previous quarter's low to gain 6.39% q/q, thus reducing its loss from -11.20% in Q2-2017 to -8.55% as at the end of Q3-2017. Ghana maintained its cocoa producer price at $1,720/MT despite low global cocoa prices while the authorities ruled out a possibility of a price reduction, at least for the ongoing 2017/2018 season. Ivory Coast however cut its producer price to $1,290/MT to reflect current world prices. The difference in producer prices between Ghana and Ivory Coast ($430) heightened the consideration for price stabilization measures by the two major producers. We however do not expect the price support measures (including construction of warehousing facilities) to yield immediate benefits.

Ghana's cocoa regulator, Cocoa Board (COCOBOD) signed a $1.3 billion syndicated loan with various international banks to fund cocoa purchases from farmers in the 2017/2018 season which officially commenced in October 2017. The loan facility was secured at an interest rate of Libor plus 0.65%, with repayment period spanning February through August 2018. Ghana closed its 2016/17 crop year on 14th September with output estimated at 950,000 tonnes, the highest since a record 1 million tonnes in 2010/11.

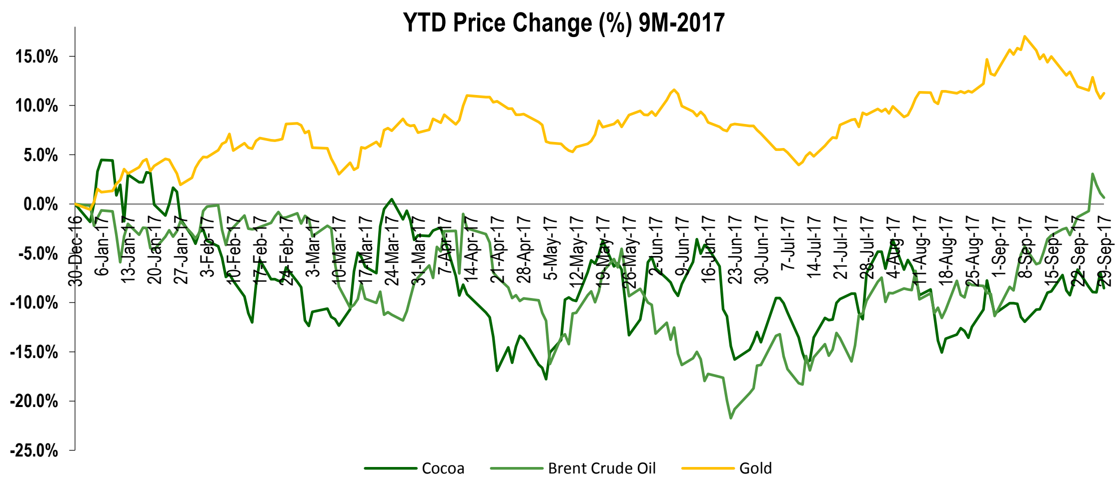
Nigeria also expects a bumper cocoa harvest in the 2017/2018 season as late rains have helped to boost its pod production. The world's fourth largest producer of cocoa expects cocoa output to hit between 300,000 and 320,000 tonnes, a steep rise from the 2016/2017 season's output levels which was wrecked by poor weather. We reckon that the global cocoa market would remain over-supplied in the 2017/2018 season on account of the bullish outlook for yields in major producer countries. We therefore expect cocoa price to remain vulnerable to downside risk in Q4-2017.

CRUDE OIL: Hurricanes Influence World Prices

Crude oil price surged in Q3-2017 on the back of adverse weather in the US along with Turkey's threat to cut global supply from Iraqi pipelines. Brent price gained ~20.30% q/q and 0.65% in the nine months of 2017 to trade at $57.50, recovering from the YTD losses in Q2-2017. The West Texas Intermediate (WTI) price also gained 14.15% q/q but lost 4.37% in the year to end Sep-2017 trading around $51.64. The Q3-2017 average for Brent and WTI was $52.00/bbl. and $50.18/bbl. respectively.

Demand for Brent crude oil increased considerably after the twin Hurricanes (Harvey and Irma) caused refineries along the US Gulf Coast to shut down. The hurricanes forced a shutdown of refineries across the US Gulf Coast, adversely impacting nearly 3.3 million barrels per day of refining capacity as per the Energy Information Administration (EIA) data. The short term impact of the hurricanes on WTI price was negative as it triggered lower demand for crude oil from US refineries. The surge in demand for Brent crude oil therefore created a wider gap between Brent and WTI prices.

Oil prices are expected to climb in the coming months as there are signs of discipline and compliance in the oil markets. The Organization of Petroleum Exporting Countries (OPEC) is putting in place measures to control glut on the market. OPEC aims to clear global oversupply of crude oil by the end of third quarter 2018. We expect crude prices to surge given that compliance levels hold.



Source: Databank Research, Bloomberg

STRONG BUY	Greatly undervalued stock with strong fundamentals, and a potential return in excess of 50% is expected to be realized between the current market price and analysts' target price
BUY	Undervalued stock with strong fundamentals and potential return in excess of or equal to 25% expected to be realized between the current market price and analysts' target price.
ACCUMULATE	Undervalued stock with good fundamentals and potential return ranging between 15% and 25% expected to be realized between the current market price and analysts' target price.
HOLD	Fairly valued stock with little upside or downside potential. Potential return ranges between 0% and 15%.
REDUCE	Overvalued stock with good or weakening fundamentals and potential return ranging between -15% and -25% is expected to be realized between current market price and analysts' target price.
SELL	Greatly overvalued stock with weak fundamentals and potential return in excess of or equal to -25% is expected to be realized between current market price and analysts' target price.

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