



Analyst comments related to COVID-19 in this file include:

Thursday, 25 June 2020

Mr Price – FY20 results in line, robust cash generation – POSITIVE - Funeka Maseko

AVI: disappointing trading statement impacted by COVID-19 - Robyn Collins

SSA banks – Nigerian banks restructure 33% of loans; CBK extends mobile fee suspension till year-end – Adesoji Solanke

Apple mobility data suggest American consumers aren't worried by virus surges in their states – Charles Robertson

Mr Price – FY20 results in line, robust cash generation – POSITIVE

Ticker: MRPJ.J

Rating: **BUY**

Target price: ZAR188.00

Current price: ZAR145.72

FY20 earnings largely in line, dividend withheld

- Retail sales growth of 1.4% for the group was a slight beat compared to our forecasts of -1.2% (and more in-line with Thomson Reuters consensus expectations).
- Gross profit margin declined by 190bpts which is slightly worse than our forecasts
- Operating profit growth of 0.7% and an operating margin of 18.7% was achieved
- **Diluted HEPS declined by 9.9% to ZAc1,029.4** which was in-line with both RenCap and Thomson Reuters consensus forecasts (of ZAc1,021.2 and ZAc1,040.3 respectively)
- Final dividend was withheld to preserve cash

FCF generation remains robust

- Net cash increased by ZAR1.6bn to ZAR4.7bn during the period ended March 2020.
- We estimate FCF conversion of 130%, which remains best-in class.
- Stock turns showed a slight improvement, and increased creditor days and a ZAR500m delayed provisional tax payment enhanced the cash generation to some extent.
- Mr Price reported a **decline in cash reserves of c.ZAR2.0bn during the five-week lockdown period**, however this has reversed to an extent following a robust cash performance since restrictions had been lifted.
- The group reported a sector-leading 30% RoE in FY20.

Post-lockdown trading

- Mr Price's FYE of March would not include the full impact of the lockdown which commenced on 27 March 2020.
- The initial lockdown month saw retail sales decline by 89.1% YoY during April 2020.
- Following the relaxation of lockdown restrictions, retail sales were up 12.0% YoY for the period 1 May – 20 June.
- This was led by Mr Price apparel +16.1%, Sheet Street +15.2% and Mr Price Sport +7.7%
- Consumers have continued to favour cash over credit purchases; evidenced by May and June cash sales growth of 16.7% compared to a decline in credit sales of 9.4%

The full results presentation will commence at **09:00 SAST** on [this link](#).

Overall we believe this was a solid result both on the operating metrics and cash generation. We have a **BUY** rating on Mr Price with a ZAR188.0 TP.

Figure 1: Income statement summary, ZARmn (unless otherwise stated)

Income Statement	1H19	2H19	FY19	1H20	2H20	FY20	RenCap FY20e	Consensus FY20e
Retail sales	9,725.0	11,139.0	20,877.0	9,891.0	11,274.0	21,165.0	20,619.9	21,243.3
% growth	6.5%	2.6%	4.4%	1.7%	1.2%	1.4%	-1.2%	1.8%
Cost of sales	(5,740.0)	(6,561.0)	(12,317.0)	(6,152.0)	(6,738.0)	(12,890.0)	(12,475.0)	(12,862.8)
Gross profit	3,985.0	4,578.0	8,560.0	3,739.0	4,536.0	8,275.0	8,144.9	8,380.5
GP margin	41.0%	41.1%	41.0%	37.8%	40.2%	39.1%	39.5%	39.5%
GP margin Δ (y/y)	+21bpts	-207bpts	-107bpts	-317bpts	-86bpts	-190bpts	-150bpts	-155bpts
Other income	698.0	786.0	1,484.0	770.0	838.0	1,608.0	1,657.7	
Operating costs (incl. acquisition costs)	(2,987.0)	(3,119.0)	(6,106.0)	(2,823.0)	(3,094.0)	(5,917.0)	(5,926.1)	
Operating profit	1,696.0	2,245.0	3,938.0	1,686.0	2,280.0	3,966.0	3,876.6	3,900.6
% growth	11.1%	1.8%	5.5%	-0.6%	1.6%	0.7%	-1.6%	-0.9%
Operating margin	17.4%	20.2%	18.9%	17.0%	20.2%	18.7%	18.8%	18.4%
OP margin Δ (y/y)	+73bpts	-16bpts	+20bpts	-39bpts	+7bpts	-12bpts	-6bpts	-50bpts
PBT	1,794.0	2,364.0	4,158.0	1,598.0	2,168.0	3,766.0	3,702.0	3,839.7
Tax	(515.0)	(661.0)	(1,176.0)	(452.0)	(601.0)	(1,053.0)	(1,036.6)	(1,098.1)
Tax rate	-28.7%	-28.0%	-28.3%	-28.3%	-27.7%	-28.0%	-28.0%	-28.6%
PAT	1,279.0	1,703.0	2,982.0	1,146.0	1,567.0	2,713.0	2,665.4	2,741.6
Headline earnings	1,284.4	1,741.6	3,026.0	1,147.0	1,569.0	2,716.0	2,681.8	
% growth	12.4%	2.5%	6.5%	-10.7%	-9.9%	-10.2%	-11.4%	
Fully diluted shares in issue, mn	266.2	263.5	264.9	263.1	264.6	263.8	262.6	
HEPS, ZAc	482.4	660.9	1,142.4	435.9	593.1	1,029.4	1,021.2	1,040.3
% growth	11.1%	2.8%	6.2%	-9.6%	-10.3%	-9.9%	-10.6%	-8.9%
DPS, ZAc	311.4	424.8	736.2	311.4	-	311.4	740.0	552.5
Dividend cover	1.55	1.56	1.55	1.40			1.38	1.88

Source: Company data, Thomson Reuters, Renaissance Capital estimates

Figure 2: Free cash flow reconciliation and NWC breakdown, ZARmn (unless otherwise stated)

Equity shareholders' cash	1H19	2H19	FY19	1H20	2H20	FY20	FY20E
Net cash	2,562.0	3,275.0	3,139.0	4,153.0	4,726.0	4,726.0	4,566.7
Increase (decrease) in net cash	(194.0)	577.0	383.0	1,014.0	573.0	1,587.0	1,427.7
Add back: dividends paid and share buybacks	2.0	822.0	4.0	1,123.0	821.0	1,944.0	1,970.6
Equity shareholders' cash	(192.0)	1,399.0	387.0	1,767.0	1,394.0	3,531.0	3,398.3
FCF/share	(72.1)	530.9	146.1	671.5	526.9	1,338.3	1,294.1
FCF/HEPS	-14.9%	80.3%	12.8%	154.1%	88.8%	130.0%	126.7%
Days stock on hand	71	80	80	77	77	77	81
Debtors days	39	38	38	39	39	39	39
Creditors days	58	57	57	70	65	65	62
NWC cycle	52days	61days	61days	45days	51days	51days	58days

Source: Company data, Renaissance Capital estimates

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AVI: Disappointing trading statement impacted by COVID-19

Ticker: AVI

Rating: **BUY**

Target price: ZAR100.00

Current price: ZAR71.87

- AVI released a trading statement today (25 June) guiding for a decline in HEPS in FY20 of between 7% and 12% compared with our forecast of 2% growth and consensus of a 3% growth. While the update is disappointing on the face of it the impact of COVID-19 pandemic had a significant impact on the performance.
- At a group level the diversified portfolio partially cushioned the impacts of COVID-19. Entyce and Snackworks performed well enough to absorb the direct additional costs related to the COVID-19 pandemic and offset much of the lost contribution from the fashion businesses. However, I&J's COVID-19 impacted 4Q20 will result in lower 2H20 operating profit vs 2H19 and full year operating profit is expected to be 5% to 10% lower than FY19.
- Entyce and Snackworks benefited from increased demand during lockdown offset to some extent with a loss of revenue in the Ciro Beverage out of home division. Volume growth absorbed the increased costs associated with COVID-19.
- I&J was affected by a reduced number of employees available to work, resulting in reduced processing and fishing capacity in 4Q20. This impacted recoveries in both the fishing fleet and land based factories. In addition, congestion at the Cape Town port delayed export shipments while poor export demand in key markets impacted the abalone operation.
- Footwear and apparel was significantly impacted by the COVID-19 lock-downs, with retail stores closed from 27 March 2020 to 30 April 2020 and a phased reopening during May 2020. Trading post reopening has been subdued due to reduced shopper footfall at malls.
- Personal care was restricted to about 50% of normal revenue during level 5 lockdown while demand in certain categories has been poor following the lifting of sales restrictions.

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SSA banks – Nigerian banks restructure 33% of loans; CBK extends mobile fee suspension till year-end

There have been some COVID-19 related updates across some of our key markets.

Nigerian banks restructure 33% of their loan book

According to the *CBN deputy governor*, "As at end-May 2020...17 banks submitted requests to restructure over 32k loans for individuals and businesses impacted by the pandemic, representing **32.94% of total industry loan portfolio, with the manufacturing and general commerce sectors constituting the bulk of the restructured facilities**. Results from ongoing impact assessment of COVID-19 effects on impairment by banks, indicate modest impact given regulatory policy measures already implemented. These, coupled with close monitoring by authorities and enhanced risk management practices by financial institutions, would help to mitigate the emerging risks and preserve financial system stability."

That the Nigerian banks have restructured a third of the loan book does not come as surprising particularly when we look at trends in other key SSA markets. Across our universe, Bank of Kigali has restructured the most, 40%, with the Nigerian banks second in line at 33%. The largest Kenyan banks have restructured 20-25% of their loan books. What all this tells us is that the cashflow shocks we anticipated post COVID-19 were real and the effects on credit quality and banks' liquidity levels will extend into 2021 and probably even longer as some businesses may not survive. Banks with high profit and liquidity buffers, as well as stronger quality credit exposures will be better placed to navigate this crisis.

For the Nigerian banks, we note that manufacturing and general commerce exposures tend to struggle when the economy goes through shocks of this nature. See *Nigerian banks: How low can you go*. Following the last crisis, some of these large loans were restructured. We suspect that another crisis coming again so soon after the previous one (i.e. following a period when the Nigerian consumer was still struggling to recover), puts even more pressure on these exposures. We are beginning to hear of some large loans that are struggling in the general commerce and manufacturing sector but too early to say how this is playing out across the banks.

We had to answer some questions on the restructurings across SSA earlier today (25 June) – our thoughts are below:

Do you expect it (restructuring) to get worse?

How bad things get depends on if we see a second wave of virus infections and how frank the banks have been in assessing their loan books in this forbearance window. Only time will tell. Reality is that SSA countries have much less room to reflate their economies compared with developed economies, even as some African countries have loaded up massively on debt which reduces their fiscal space to respond in a crisis. So its important for the banks to tread cautiously by conserving cash and liquidity in these hazy days.

Which market (country) are you expecting will be the most hit out of the regions you cover?

- Rwanda is in quite a precarious position because it's economy is built around tourism, hence why BK's restructurings are so high. This could also mean that it takes relatively longer for the economy and banking system there to work its way through this rough patch.
- Kenya already had a meaningful asset quality problem coming into this crisis (12-13% NPL ratio) and it will only get worse going into next year and then we have elections to think about very quickly. So relatively speaking, we are more bearish on the Kenyan banks' (vs Nigerians) near-to-medium term asset quality picture.

- For the Nigerian banks, it's mainly an oil and FX story. Oil prices are in a much better place today and as the world economy resumes functioning, oil demand should pick up so we're relatively less concerned. The FX situation is the wild card as well as how far the CBN will go to avoid a devaluation, so worth keeping an eye on.

Could it cause a banking crisis and will central banks be able to step in and help?

Liquidity can kill a bank much faster than an asset quality problem can. So far, we've seen central banks support their banking systems by easing liquidity conditions. The largest banks in Kenya are very liquid but the concern will be for the smaller banks that don't have the profit buffers to take NPL hits, meaning their equity could be at risk. The Nigerian central bank is sitting on almost 40% of local currency deposits in the CRR account, which means it has massive room to ease conditions should things deteriorate much further.

Kenya – CBK continues suspension of mobile fees till year end

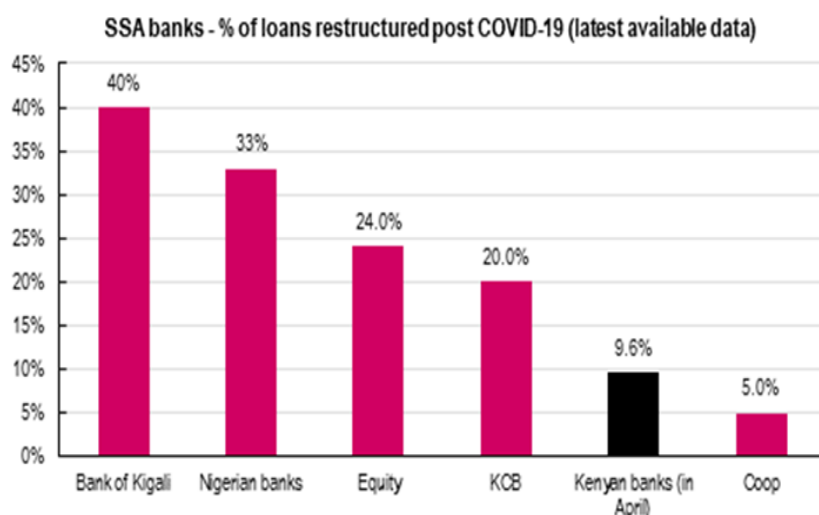
The CBK last night **announced** the extension till year end, of fees on certain mobile banking transactions. Its decision was premised on: 1) significant rise in the volume and value of mobile money transactions, particularly low-value transactions of KES1k or less (this band accounts for over 80% of mobile money transactions and charges were eliminated), 2) 1.6mn additional customers now use mobile money channels, 3) the increased wallet and transaction limits led to increased usage of higher amounts. These all imply that:

- There will be no charge for mobile money transactions of up to KES1k,
- The current tariff for transactions above KES70k will remain, and
- There will be no charge by Payment Service Providers (PSPs) and commercial banks for transfers between mobile money wallets and bank accounts

The CBK appears to be playing the long game. Further, considering how disapproving it was for the banks to raise lending rates quickly post cap removal, it would be fair to view the CBK as increasingly taking a populist/customer-centric posture over banking profitability – a position the governor has been **arguing** in favour of.

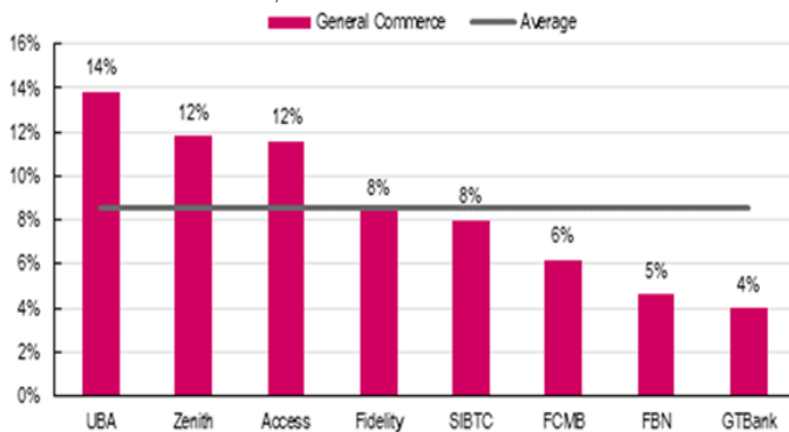
When we checked with the banks after the original announcement, we stated in this **note** that wallet-to-bank transfers were already zero-rated but bank-to-wallet transfers is what could get affected by this new arrangement, for one quarter.

- For **KCB**, at the time it estimated its impact at c. KES150mn i.e. 0.5% of FY19 NIR which probably rises to 1.5% following the extension by two quarters.
- **Equity** argued that mobile payment revenues were not a core aspect of its revenue model as it focused more on the cheap float the service generated.
- **Safaricom** estimated that around 70% of P2P revenue are from transactions below KES1,000 average ticket, and the average transaction value for P2P on M-Pesa is KES1,500. Thus, the direct negative impact on total M-PESA revenues could be about 20% or 7% of total SAFCOM revenue. The impact will surely be more severe following this extension. The offsetting impact, we hope, is that the increased adoption yields positive fruits over time.



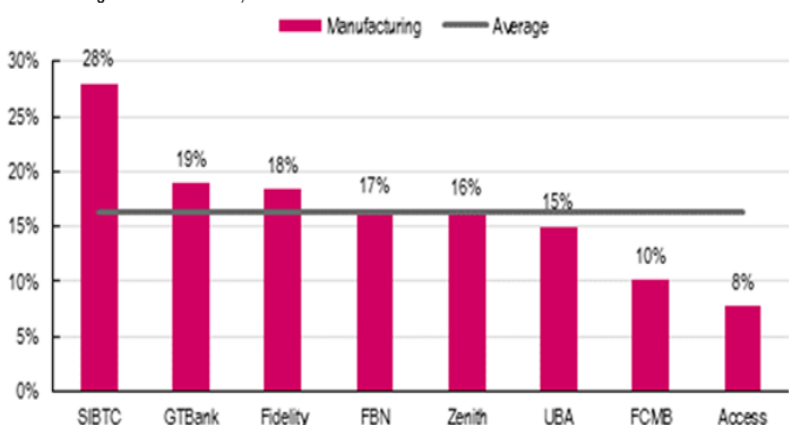
Source: Central banks, Company data, Renaissance Capital

General commerce as % of total loans, FY19



Source: Company data, Renaissance Capital

Manufacturing as % of total loans, FY19



Source: Company data, Renaissance Capital

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Apple mobility data suggest American consumers aren't worried by virus surges in their states

It's interesting to see markets using the first wave surge in the southern US states as an excuse to sell the market. It's something we flagged weeks ago, including [on 5th June](#). I used a similar graph to the one below [on 11 June](#) which I've updated today.

I was concerned a few weeks ago because a few US states (see the blue column) were showing as many as 10% of tests were coming back positive around the first week of June – and even above 13% in Arizona.

Of course it has got worse since then because the governors of these states don't want to re-impose lockdown like Azerbaijan. Even today Texas is not re-imposing lockdown it is only halting further opening.

The good news on the health front is that many of the new cases in Florida and Texas are young – so even though obesity might be an issue for them – mortality rates should not spike terribly in July.

More important for markets is still the lockdown issue (will they, won't they) – and whether consumers get fearful even if its not imposed again - and cut spending. I show some Apple Mobility graphs below.

Moving away from the US – the positive test ratios in our space still look really high in Qatar and Saudi (but better than they were), very high in south Asia and Nigeria, and picking up strongly in SA. High also in Senegal and rising in Ghana – but deaths are coming in very low in Ghana (I suspect their data is reasonably reliable). East Africa still looking much better but a month or two ago – these ratios were around 0-1% - so it is worsening. Egypt does not report the data, for fear that I'd see a discrepancy. Russia and Turkey are looking alright – at 3-4% positive test results. I am a little sceptical of the data coming out of Russia and Belarus, but what may be more important for the economy is that the numbers reassure the population that the virus is not out of control. Especially ahead of 1 July referendums and 9th August presidential elections.

The good news on the health (and economy) front is obviously Europe as well as east Asia – where the virus is as good as gone. Aside from Sweden obsvs

Latin America a health disaster. East Asia good. South Asia very worrying. Central Europe, Greece – great.

So V-shaped in Europe and east Asia. Possible W in southern US states and lower income countries if consumers get scared.

I really want some data now – on retail sales in June/July .. to be able to say something constructive about the economic outlook.

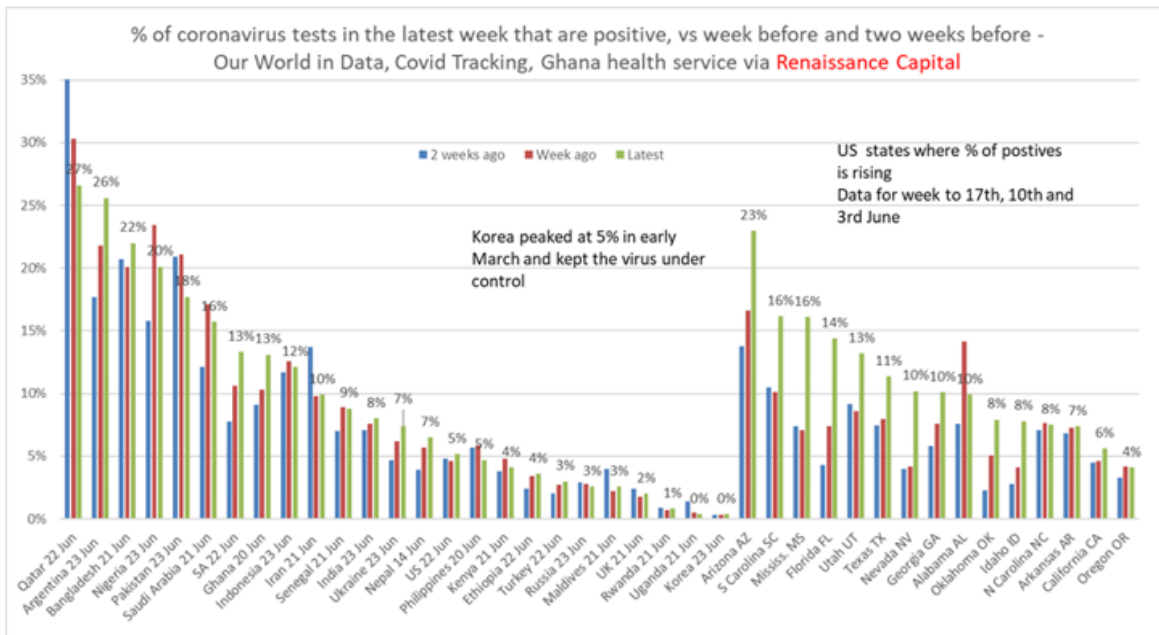
I don't want to rely on the minimal amount of "now" data that is available, and certainly not on one source, but... the graphs below are encouraging for the economy.

Apple mobility data suggests that in Arizona, the worst state, there has been no deterioration in the past month. Virus cases have jumped. Consumers don't seem to mind.

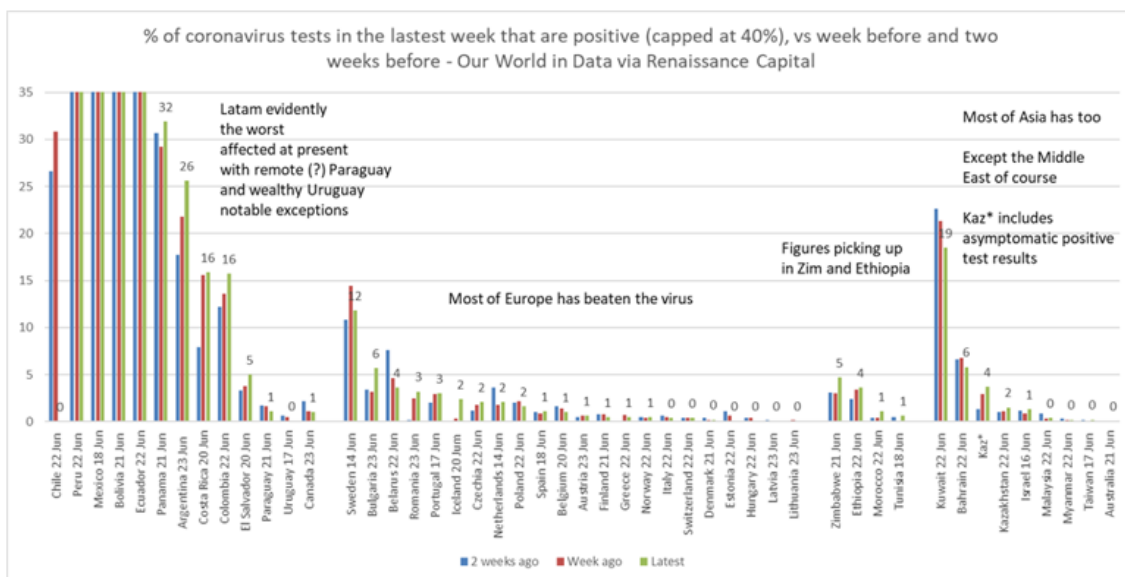
New York is still showing big falls in public transport and walking relative to January – but in Oklahoma (in the news recently because of Trump's rally in Tulsa) driving is still up a lot.

The "learn to live with the virus" approach seems to be OK for the economy so far. Not justifying a double dip in the US market.

CONCLUSION: I don't have data to suggest that a surging first wave is going to cause a double dip in consumer spending in the US – nor is there strong political will to re-impose lockdown. Virus surge data does not look too concerning then for the economy. That's a lot of negatives, which reflects my uncertainty. Basically, just saying don't sell the market.



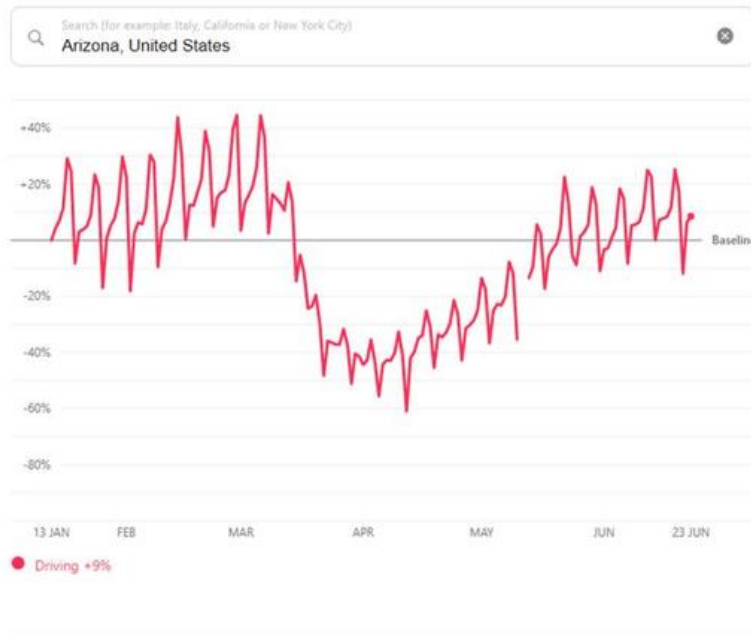
Source: Our World in Data, Apple



Source: Our World in Data, Apple

Mobility Trends

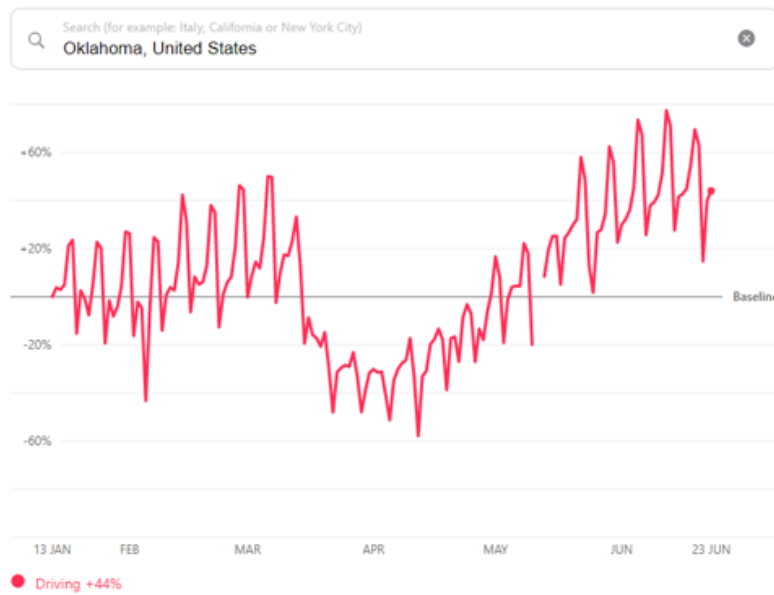
Change in routing requests since 13 January 2020



Source: Our World in Data, Apple

Mobility Trends

Change in routing requests since 13 January 2020



Source: Our World in Data, Apple

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