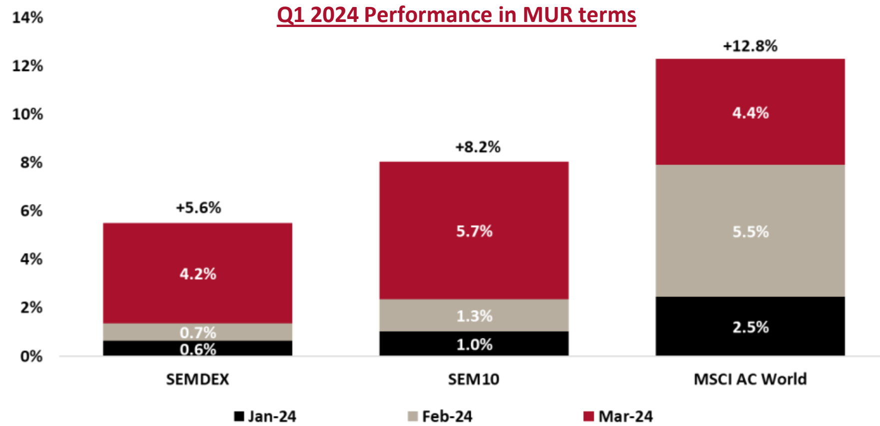
Local Economy

The Mauritian economy reached its pre-pandemic level in real terms in 2023, underpinned by the continued expansion in tourism and the good performances across the financial services and construction sectors. As per Statistics Mauritius, the Mauritian economy is projected to grow at 4.9% this year. Despite challenging conditions in our main markets, activity levels should continue to be driven by the tourism sector and the robust expansion in financial services, ICT and construction sectors. Nationwide investment would be supported by the ramping up of social housing and other major infrastructure undertakings, along with initiatives aimed at increasing the share of renewable energy. For its part, headline inflation which stood at 5.8% in March 2024, should continue its downtrend albeit at a slower pace and is projected to hover around 5.0% by December 2024, barring further major shocks, for instance, linked to international commodity prices, freight costs and currency dynamics.

On the external front, the external current account deficit continued to warrant attention, although an improvement was observed last year on the back of a surplus in the services and primary income accounts benefiting, respectively, from the dynamism in tourism and elevated global interest rates.

The country recorded a Balance of Payments deficit of MUR 31.3 billion in 2023, following the deficit of MUR 13.8 billion witnessed in 2022. Going forward, an improvement is expected for this year, on the back of capital and financial inflows, inter alia supported by the project-based loan facility granted by the Agence Française de Développement as well as the sustainable bonds issuance announced by the authorities.

Market Overview



Source: MCB PWM, Bloomberg

The SEMDEX kicked off 2024 on a strong note, concluding the first quarter with a gain of +5.6%. The majority of this positive momentum was in March, where the index surged by 4.2%, largely driven by the performance of Banking stocks, MCBG and SBMH. Meanwhile, global equities continued their positive momentum in 2024, closing the first quarter with a gain of 12.8% in MUR terms.

Overall foreign investors were net sellers of MUR 150m with net disinvestment of MUR 60m on Phoenix Beverages Ltd and MUR 51m in MCBG, although the latter bucked the trend as it saw net foreign purchases of MUR 92m in March.

On the fixed income side, in Q1, yields moved up for medium to longer maturities, notably from 3-Year to 10-Year tenors as more bonds were issued than was programmed on these auctions. On the other hand, for maturities below 1 year, yields declined slightly. Overall, this resulted in a slight steepening of the MUR yield curve. Additionally, on 3rd April 2024, the Monetary Policy Committee of the Bank of Mauritius kept the Key Rate unchanged at 4.50% for the fourth consecutive time, citing ongoing signs of inflation cooling down and the view that past rate hikes are still working through the economy.

Market Outlook/Portfolio Positioning

After the surge in banking stocks in March, and as we transition into Q2, we position our portfolio on stocks with significant growth potential that are trading at attractive valuations. Nevertheless, local stocks may encounter obstacles such as increasing labour costs, heightened competition in specific industries, and geopolitical uncertainties. In addition, financial impacts could arise from regulatory changes, such as the adoption of IFRS 17 for insurance companies and the need for banks to provision for the Deposit Insurance Scheme.

Going forward, we expect the shorter end of the yield curve to remain relatively flat as BoM continues to roll over maturities to moderate excess liquidity. Whereas, for the medium to long term segment, with only 7 auctions left before the fiscal year end, there is a potential for further yield increases especially if GoM continues to ramp up their planned issuances.

Government Bond	Auction date	Planned Issuance (MUR'm)
10-Year	17-Apr-24	2,300
3-Year	24-Apr-24	1,700
5-Year	8-May-24	1,700
3-Year	15-May-24	1,800
20-Year	28-May-24	2,500
3-Year	29-May-24	2,000
5-Year	19-Jun-24	1,600

Source: MCB PWM, BoM

At portfolio level, we are strategically tilting our positions towards the medium term bonds in order to capitalize on the improved yields. Should the longer-term yields prove to be particularly attractive in the upcoming auctions, we will look to increase the overall duration of our holdings.

Looking ahead, we will be closely monitoring significant developments such as the Budget FY24/25, new government bond auctions' calendar and the build up to the upcoming electoral campaigning.

Equity Market Overview

Sector	Stock	Rolling 4Q EPS Dec 2021	Rolling 4Q EPS Dec 2023	Rolling 4Q EPS Annualised change %	Share Price (at 31 March) 2022	Share Price (at 31 March) 2024	Share Price Annualised change %
BANKS & INSURANCE	MCBG	38.15	61.35	30%	319.50	375.00	9%
	SBMH	0.67	1.67	74%	4.95	5.20	3%
COMMERCE	IBL	0.98	4.74	192%	54.50	43.45	-10%
	VIVO	10.58	16.12	26%	250.00	350.25	20%
INDUSTRY	PBL	32.34	58.60	41%	602.00	499.00	-9%
	Gamma	2.26	2.84	13%	42.60	36.50	-7%
INVESTMENTS	CIEL	0.80	1.78	61%	6.92	7.22	2%
	ENL	0.02	5.10	> 100%	24.15	19.70	-9%
	Rogers	-1.01	7.73	> 100%	28.10	32.50	8%
LEISURE & HOTELS	NMH	-3.66	3.83	> 100%	8.40	10.90	15%
	SUN	-6.34	9.97	> 100%	22.00	39.95	41%
	LUX	-2.76	14.12	> 100%	54.00	51.00	-3%
PROPERTY	Ascencia	1.90	2.21	8%	30.95	18.00	-21%

Source: MCB PWM, Bloomberg

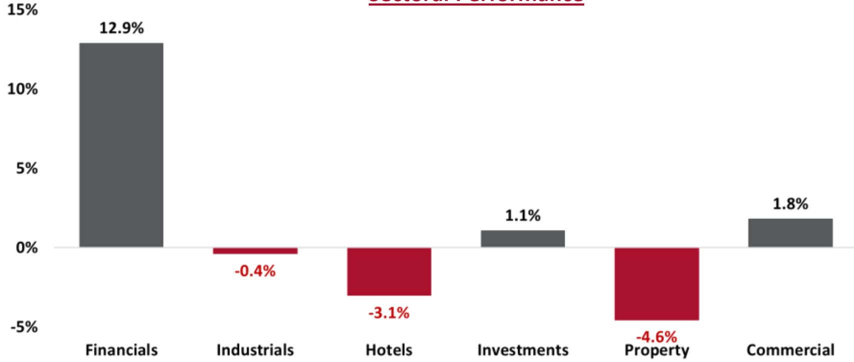
Over the past two years, most of the stocks listed on the SEMDEX have reported significantly improved earnings (albeit off a low COVID impacted base). In contrast, the SEMDEX fell 2.1% since 31 March 2022. With the enhancement in earnings, yet to be fully mirrored in share prices, the local market is trading at compelling valuations compared to previous years.

SEMDEX	Mar 2019	Mar 2022	Mar 2024
DY (%)	2.1%	3.0%	4.6%
P/NAV	1.1	0.7	0.7

Source: Bloomberg

In Q1 2024, the financial sector, particularly bolstered by banking stocks, significantly outperformed the other sectors. MCBG, with a surge of 15.7%, emerged as the primary driver and contributed 502bps out of the 557bps uptick in the SEMDEX. Towards the quarter end, SBMH, declared a twofold increase in dividend per share and lurched by 16.6% on the final trading day, ending the quarter up 14.3%.

Sectoral Performance



Source: MCB PWM

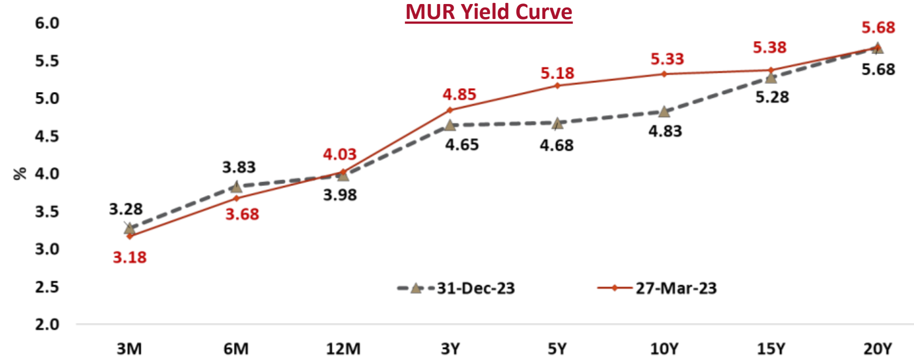
In their last earnings release, the two banking stocks, MCBG and SBMH, flagged the ongoing benefits from the high-interest rate environment alongside growth in non-interest income. With the expectations of prolonged elevated rates, the banks are expected to maintain robust net interest income growth, albeit with possibly a stabilization in net interest margin. As BoM pursues the setting up of the Deposit Insurance Scheme, banks will be required to contribute to the fund over the next decade.

Insurance companies, currently transitioning to the International Accounting Standard IFRS 17, experienced an increase in claims resulting from recent cyclones/flooding, which should impact their loss claim ratio and profitability. However, the upward adjustments to insurance premium implemented since last year are expected to contribute to financial performance in the coming quarters.

On hotels side, SUN gained 5.1% in Q1 while NMH (-1.8%) and LUX (-11.7%) fell, despite all reporting improved revenue and EBITDA for the quarter ended December 2023. The hotel groups all reported higher Average Daily Rate but saw a decline in occupancy in Q4 2023 compared to Q4 2022. Officials expect tourist arrivals to reach 1.4 million in 2024 (+8%) subject to availability of air connectivity. Nonetheless, the escalation of labour costs may affect margins in their domestic operations as ongoing concerns persist regarding conflicts in the Middle East and heightened competition in their international activities.

Local Fixed Income Market Overview

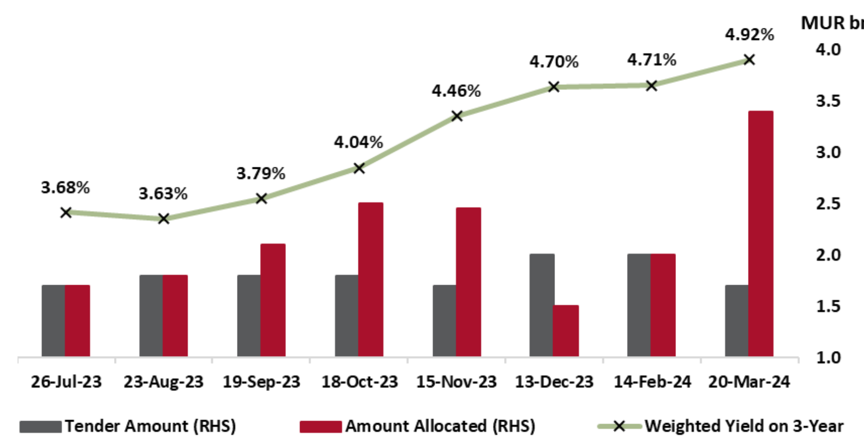
MUR Yield Curve



Source: MCB PWM

Q1 saw an upward shift in the medium to longer tenors (3-Yr to 10-Yr), while the lower end of the curve shifted downwards slightly. This was mainly due to successive over-allocation of GoM auctions at higher yields, especially medium tenors (3-Yr and 5-Yr). Over the quarter, GoM's total issuance amounted to MUR 30.1bn versus planned issuance of MUR 23.2bn indicating an increased funding requirement from the government.

Recent 3-Year evolution with over-allocation



Source: MCB PWM, BoM

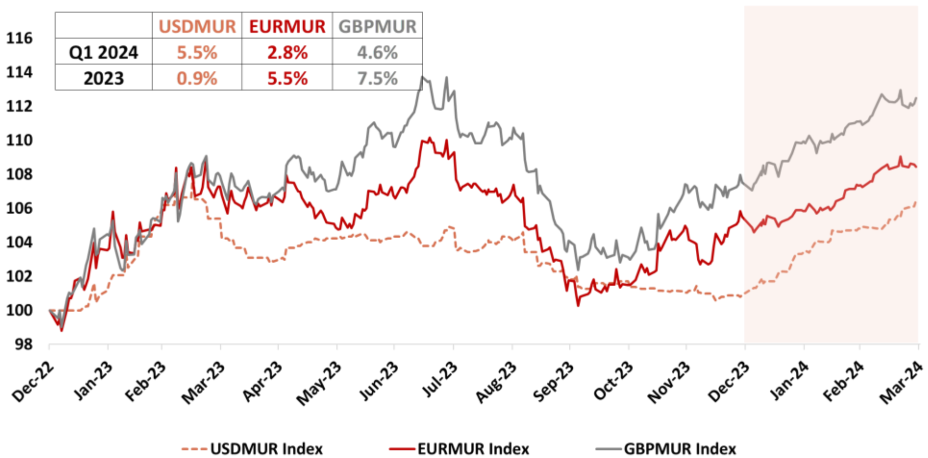
The momentum in yields was also reflected in the recent 3-Year Govt note auction at a weighted average yield of 4.92%, 21bps higher than the previous auction. This auction was over-allocated up to MUR 3.4bn (vs tendered amount of MUR 1.7bn), in the range of 4.80% - 5.01%.

As for the shorter end of the MUR yield curve, BoM has been rolling over maturities of bills at lower yields as it maintained excess liquidity on markets to around MUR 20bn.

On the corporate bond segment, issuances were sparse this quarter. ABC Banking Corporation concluded its public offer for the issuance of a 10-Year senior unsecured bond amounting to MUR 700m at fixed coupon of 5.80%.

Currency Market Overview

USD, EUR & GBP vs MUR (31 Dec 2022 = 100)



Source: MCB PWM, MCB Treasury

While the last three months of 2023 saw numerous interventions in the FX market by the BoM selling USD 200m, the trend was reversed in Q1 2024, as BoM intervened once purchasing USD 0.2m. With the regular interventions of the central bank, we saw a somewhat stable USDMUR in Q4 2023. In contrast Q1 2024 saw a rapid depreciation of the local currency. Notably, the USD rose by 5.5% against the rupee over the quarter to reach a mid-rate of MUR46.47/USD, its highest level since March 2023.

On 1 April, BoM sold USD 5m at MUR46.40/USD, which kick started a slight downward slide of the USDMUR in the first week of Q2.