Market Update
30 September 2024

Local Economy

Latest official readings indicate that the economic momentum on the domestic front is being sustained, in spite of the unsteady global landscape. Real GDP growth is projected by the authorities to attain 6.5% in 2024, driven by a strong expansion in construction activities on the back of the continued execution of large-scale public infrastructure projects, social housing units as well as private sector outlays, including the development of a BioTechnology Park, smart cities, land parceling projects amongst others. In parallel, tourism activity remains buoyant.

The total number of tourists visiting the country from January to mid-September 2024 reached close to 900,000, representing an increase of 6.4% of arrivals by air compared with the corresponding period of 2023. Economic activity is also being supported by the continued good performance in the financial and insurance sector and ICT industry. The textile sector, however, remains subject to the testing conditions in key export markets. For its part, headline inflation maintained its general downtrend in recent months and attained 4.0% in August 2024.

With inflation now within its target range, the Bank of Mauritius has cut its Key Rate by 50 basis points to 4.0% at its September 2024 meeting. Inflation is expected to close the year at around 4.0%, although upside risks linked to the potential escalation of geopolitical tensions and the resulting impact on commodity prices and freight costs linger. On the fiscal front, the gross public sector debt to GDP ratio has continued to trend downwards, standing at 77.6% in June 2024.

For its part, external imbalances continue to warrant attention. The country's import bill remains elevated mainly reflecting machinery and infrastructure requirements as well as currency pressures, leading to the widening of the balance of visible trade deficit, that is set to hover around 28% of GDP this year. However, improvements in tourism earnings and a surplus in the primary income account should contribute to a narrowing of the current account deficit to about 4% of GDP. As for the Balance of Payments, it should be supported by sustained capital and financial flows, as gauged by the sizeable surplus witnessed in the second quarter of the year, with gross international reserves remaining at a comfortable level.

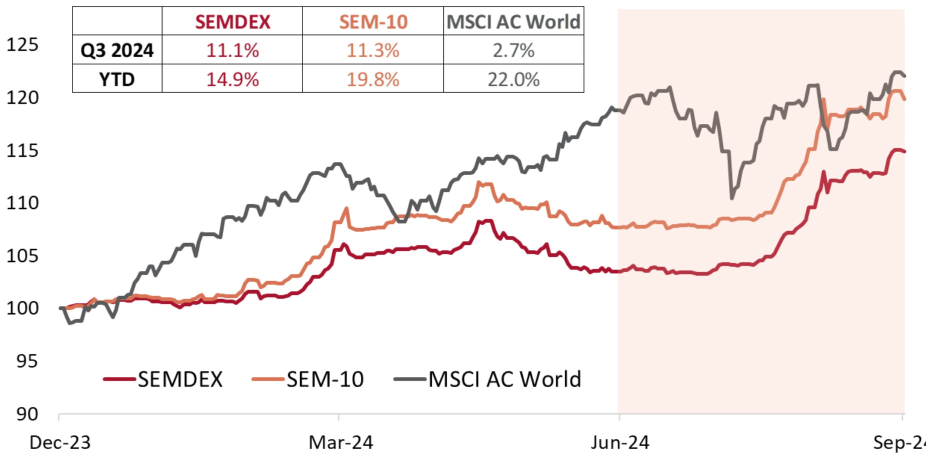
Market Overview

During the third quarter, the SEMDEX rallied 11.1%, breaking past its previous peak of 2,308.39 points set on 19 March 2018 to end the quarter on 2,342.17 points. Comparatively, the global equities index was up just 2.7% in MUR terms after accounting for the 3.3% depreciation of the USD against the MUR. Year-to-date gains for the SEMDEX stand at 14.9% (in MUR).

It was also encouraging to note the sustained net foreign investors inflows of MUR 104m during the quarter with significant investments directed toward not only MCBG but also SBMH, CIEL, and IBL.

Performance in MUR terms

	SEMDEX	SEM-10	MSCI AC World
Q3 2024	11.1%	11.3%	2.7%
YTD	14.9%	19.8%	22.0%



Source: MCB PWM, Bloomberg

On the fixed income front, the third quarter was relatively low key with yields remaining relatively stable despite the ongoing pressure from auctions being over-allocated by the government.

However, on the 20th September following an unexpected MPC meeting (announced on the eve), the BoM announced a 50 bps cut in the Key Rate. This sudden policy move arguably, caught most investors off-guard notably because of its timing and magnitude, leading the whole yield curve to be promptly repriced down by an average of 50 bps.

Market Outlook/Portfolio Positioning

As we enter the final quarter of 2024, our outlook for local equities remains generally positive with company valuation levels still looking attractive although the momentum in earnings growth appears to be slowing down.

Despite the recent uplift in their respective share prices, the Price-to-Earnings ratios of most companies are still lower than their pre-COVID levels of 2019 whilst the encouraging set of corporate results published in Q3 looks set to continue with many firms having strengthened their balance sheets by successfully reducing debt levels. Furthermore, with central banks now embarked on a path of easing rates, potentially lower financing costs could further boost profitability.

However, rising labor costs on the back of increased minimum wages and salary adjustments, as well as the introduction of a 2% Corporate Climate Responsibility levy could present significant potential headwinds ahead.

Sector	Company	Price Earnings Ratio 2019	2024	Comparison 2019 vs 2024
BANKS & INSURANCE	SBMH	12.9	3.5	↓
	MCBG	7.3	6.9	↓
COMMERCE	VIVO	15.0	17.9	↑
	IBL	101.9	9.0	↓
INDUSTRY	PBL	13.4	7.6	↓
	UBP	14.1	13.3	↓
INVESTMENTS	Medine	27.1	5.4	↓
	CIEL	N/A	5.1	↓
	ENL	19.1	3.9	↓
	Rogers	19.1	4.7	↓
LEISURE & HOTELS	NMH	187.7	3.7	↓
	SUN	N/A	6.0	↓
	LUX	10.3	7.1	↓
PROPERTY	Ascencia	11.1	8.6	↓

Source: MCB PWM, Bloomberg

Our existing fixed income holdings have largely benefitted from the recent 50 bps rate cut by the BoM and the general drop in yields, especially our positions on the longer dated bonds.

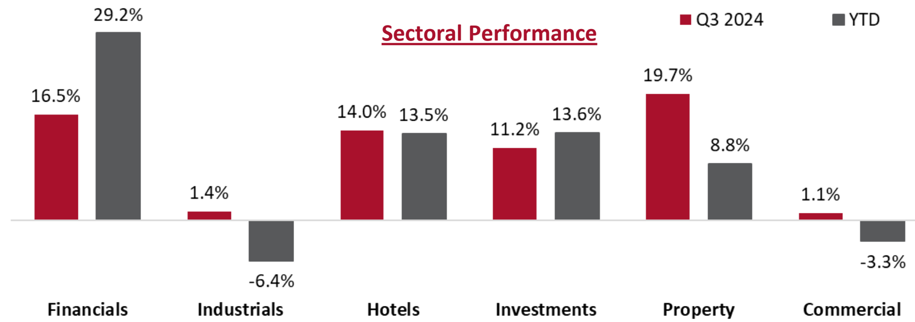
Going forward, with the release of the 2025 calendar for the issuance of government securities indicating an increase in auctions size and frequency on the longer term tenors, issuances on the 7YR segment in particular, could eventually provide interesting entry points for our portfolios.

However, significant challenges still lie ahead for fixed income investors, namely with the ongoing scarcity of corporate bonds on the market as well as the uncertainty over whether the BoM will continue to replicate further Fed rate cuts to create a lower rate environment domestically.

Also in the short-term, the upcoming general elections on 10 November 2024 could generate volatility on both equities and fixed income markets.

Equity Market Overview

The Q3 rally of the SEMDEX was notable for the strong performance seen across all major sectors, with Property, Financials and Hotels leading the way.



Source: MCB PWM

The Financial sector was bolstered by the rally of MCBG (+15.8%) and SBMH (+17.0%), which recorded net foreign inflows of MUR 48m and MUR 14m, respectively. However, with the global economy shifting into a phase of declining interest rates, local commercial banks could experience pressure on their net interest margins. MUA also recorded solid quarterly gains of 46.1%, to stage a strong recovery from its 41.1% drop in H1 2024 that was caused by the announcement of a review into the understatement of liabilities in MUA Kenya.

The Hotel sector had a good quarter with gains of 14.0% bringing their YTD gains to 13.5% as all 3 groups reported increased revenue on the back of higher Average Daily Rates despite lower occupancy rates in FY 2024. SUN, currently undergoing a corporate restructuring that would split its operations into 2 publicly listed companies in Q4 2024, was up 13.6% in Q3. NMH, which had initially projected revenue of MUR 15bn and EBITDA exceeding MUR 4.5bn for its FY 2024, beat both targets and was up 24.8% in Q3. LUX, now featuring 2 hotels (LUX Grand Bay and LUX Belle Mare) in the five-star luxury segment in Mauritius, also saw a 11.3% increase in its share price. Overall, forward bookings appear promising; however, rising staff costs may ultimately negatively affect future results.

The share price of IBL, Mauritius' largest conglomerate, posted modest gains of 2.5% in Q3, despite achieving record-breaking revenue of MUR 102bn for 2024 (vs MUR 52bn in 2023). This growth was mainly achieved by the recent overseas acquisitions of Naivas, Harley and Run Market.

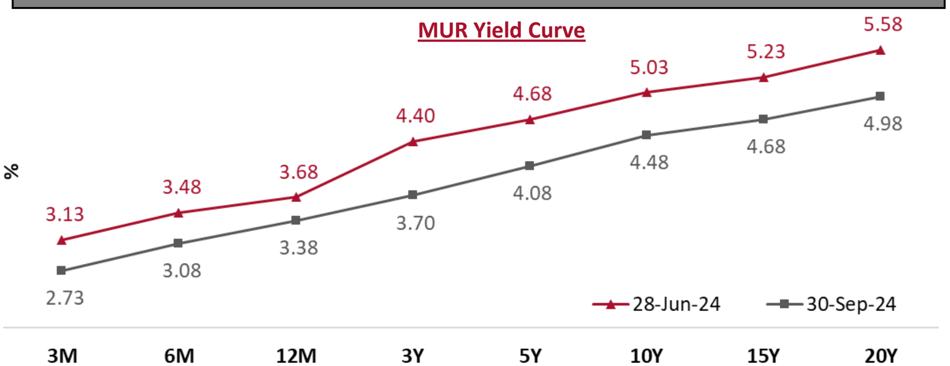
Of note, was the solid performance of the sugar clusters in many conglomerates, as a result of the record-high sugar prices. However, expectations for the upcoming financial year may have to be tempered down with sugar prices projected to fall.

Other notable corporate actions during the quarter was Emtel making its debut as the fifth largest stock on SEMDEX with an IPO price of MUR 23.00. Throughout the quarter, the share price was subject to significant volatility, dropping as low as MUR 18.35 to recover to MUR 22.15 by quarter end.

Also on 5 September, PAD and Caudan announced their decision to move forward with a restructuring plan, under which, shares held by Caudan's non-controlling shareholders would be exchanged for shares in PAD. Following the announcement, Caudan's share price soared by 72.5% over the next four trading sessions, making it the best-performing stock of Q3 with 66.7% gains.

Fixed Income Market Overview

MUR Yield Curve

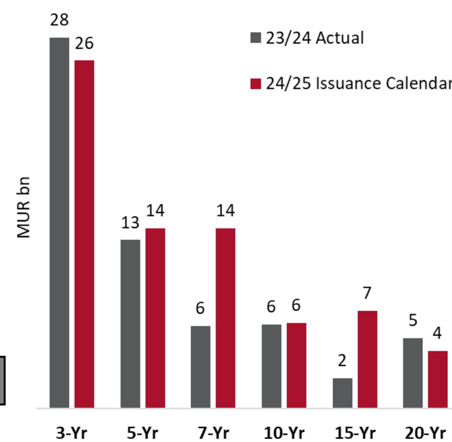


Source: MCB Treasury, MCB PWM

During the quarter, the government yield curve was generally stable with the first MPC meeting held on 11 July maintaining the Key Rate at 4.5% on the back of headline inflation running at 4.5% for June 2024. With August inflation figures further easing to 4.0%, a surprise MPC meeting was held on 20 September delivering a 50 bps cut, 2 days after the Fed had performed a similar move. As a result, the yield curve promptly shifted downwards by an average of 50 bps. The shorter-end segment (1YR and lower) saw just 30 to 40 bps of decrease whilst the tenors of 3YR and above registered a drop of between 55 -70 bps.

This marked the first change in the policy rate since December 2022 and its first cut since March 2020. In its accompanying statement, BOM mentioned that economic growth remained robust with its medium-term inflation target of 3.5% achievable.

Issuance of government notes and bonds



Source: BOM, MCB PWM

Also of note, was the release of the financial year 2025 issuance calendar for government securities which confirmed the government intention to increase its debt maturity profile with additional auctions scheduled on the longer-term tenors. Notably, the 7YR segment will see a doubling in both its issuance amount (from MUR 6bn to MUR 14bn) as well as the auction frequency (from 3 to 6).

For the fiscal year 2025, a total of about MUR 71.0bn (vs MUR 60.4bn in FY 2024) are to be issued for the tenors ranging between 3YR to 20YR.

On corporate issuances, there were no major bond issue this quarter but certain issuers have provided updates on their existing products namely :

1. CIM Financial Services will be issuing MUR 2bn of green bonds with maturity of 13 months and 2 years
2. CM Structured Products (1) announced a top-up of MUR 700m to its existing ENL-credit linked notes
3. CM Structured Products (2) will be issuing EUR 6.6m of additional COVIFRA notes.

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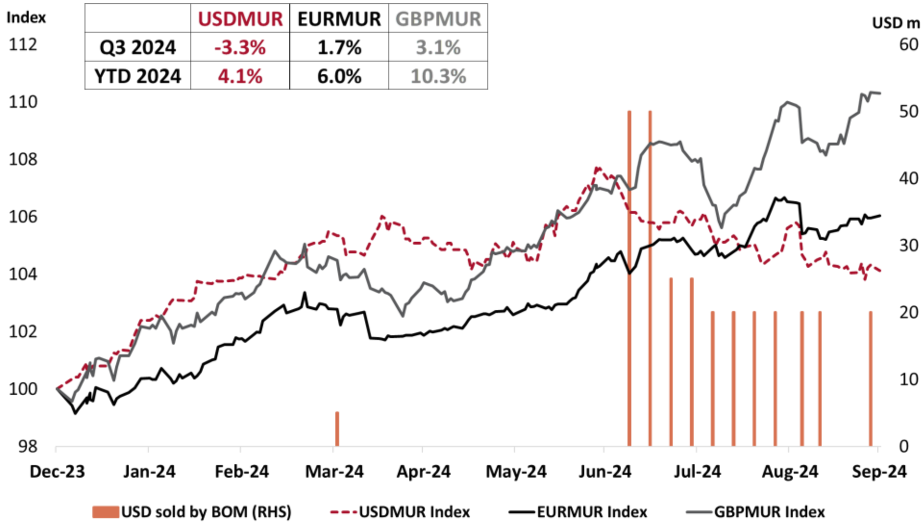
30 September 2024

Currency Market Overview

USD, EUR & GBP vs MUR (31 Dec 2023 = 100)

	USDMUR	EURMUR	GBPMUR
Q3 2024	-3.3%	1.7%	3.1%
YTD 2024	4.1%	6.0%	10.3%



Source: MCB PWM, MCB Treasury

On 8 July, the BoM resumed its regular FX interventions with a first sale of USD 50m. For most of the quarter, the BoM sold dollars to the market on a weekly basis but slowed down, both in pace and in its quantum, last selling USD 20m on 27 September.

These interventions, totaling USD 290m for the quarter provided support for the MUR to reverse course against the USD after having trended downwards since the start of the year. In Q3, the MUR has appreciated 3.3% against the USD but was still down 4.4% year-to-date. However, EUR and GBP were up 1.7% and 3.1% which were more reflective of their strengths on international markets.

Also to note that on 4 September, a Bilateral Currency Swap Agreement of RMB 2bn/MUR 13bn was signed between the BOM and the People's Bank of China. The arrangement is designed to promote bilateral trade and investment with China and is for an effective period of three years.