Local Economy

The Mauritian economy is expected to rebound by 4.8% this year after the sharp contraction of 14.9% witnessed in 2020. That said, downside risks subsist, with tourism being the discriminant factor. Looking ahead, economic activity is set to gather further steam in 2022, with real GDP growth at market prices anticipated to attain 6.5%, assuming: (i) a general recovery in economic conditions within our main export markets, (ii) the progressive upturn in the tourism sector, with positive spill-over effects in the economy, (iii) a prompt operationalization of articulated budgetary measures and (iv) a pickup in private sector investment.

Regarding inflation, it is foreseen to pursue an uptrend over the coming periods, reflecting the impact of prior increases in freight and commodities prices and the impact of budgetary announcements. Overall, as per our June forecasts, headline inflation would stand at 3.2% as at December 2021, peak at above 4% during the second quarter of 2022, before moderating in the latter months to stand at around 2.8% as at December of next year.

Besides, fiscal metrics would continue to warrant attention with budget deficits and public debt set to remain at elevated levels, thus highlighting the importance of balancing the economic recovery with appropriate medium-term fiscal consolidation plans in support of an orderly growth path as the pandemic subsides.

On the labour front, unemployment should remain close to last year's level at around 8.9% in 2021 before improving marginally to 7.8% in 2022, amidst the anticipated acceleration in the pace of economic activity and the impact of budgetary measures.

On the external front, while the current account deficit would remain elevated, the Balance of Payments deficit is set to narrow this year and return to surplus territory in 2022, underpinned by the projected recovery in capital and financial flows.

Domestic Market

The quarter under review (2Q2021) can be summarized into the following key events: (i) change in market sentiment following the announcement of the phased re-opening of our international borders, coupled with an array of budgetary measures, (ii) the resumption of dividend declaration and (iii) an improved vaccination drive amidst a more reliable sourcing of vaccines (Figure 2).

As at 11 June 2021 – the last session on Budget day – the SEMDEX was already on an uptrend, 9.1% up for the quarter (YTD: +5.6%). Post-Budget and the opening of borders announcement, boosted by gains in several sectors, the bourse gained traction and clocked in its best quarterly performance (+16.4%) in a decade to close at 1,863.22 points. Notwithstanding the current market recovery, the trend of foreign divestment from the domestic equities market remains a concern. The cumulative net foreign investment outflows since 1Q2015 has now reached MUR15.3bn, which in our view warrants closer scrutiny as the local equities market is failing to attract foreign investors' interest.

Broadly markets are geared towards the first phase of re-opening of international borders as from 15 July, which should give an insight on how local authorities and hoteliers cope with the situation after nearly 15 months of closure. With the sharp recovery in local equities and many companies are now trading at pre- 2020 lockdown prices.

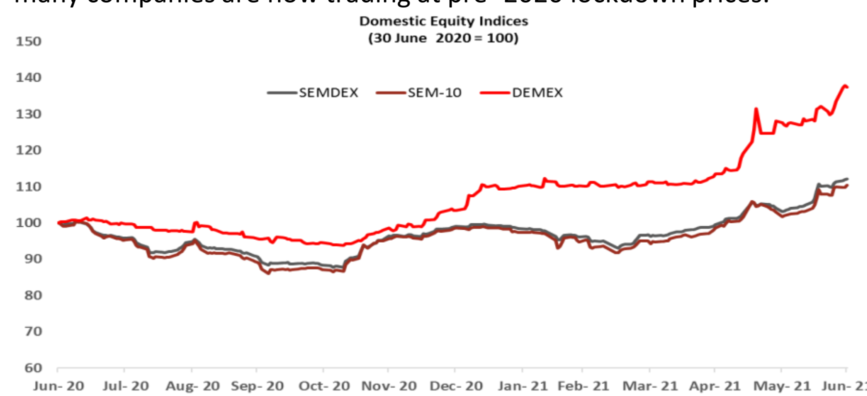

Figure 1: Domestic Equity Indices Source: SEM

Vaccination update

Despite the global race for vaccines, Mauritius has thankfully been lucky in securing sufficient doses from various producers. With the recent purchase of additional 500,000 Sinopharm doses, Mauritius will have a stock of more than 1.75m Covid-19 vaccine doses (Sputnik and Sinopharm), which in our opinion, would be sufficient to vaccinate the local population and incoming non-vaccinated tourists.

Based on the current progress of the domestic vaccination drive, we find the “new soft” official vaccination targets – 40% and 60% of total population by July-end and September-end respectively– more realistic and in line with our own internal forecasts. To note, as at June-end, more than 568,000 people had already been inoculated one dose (45% of the population), of which some 250,000 people (20% of total population) had already received two doses.

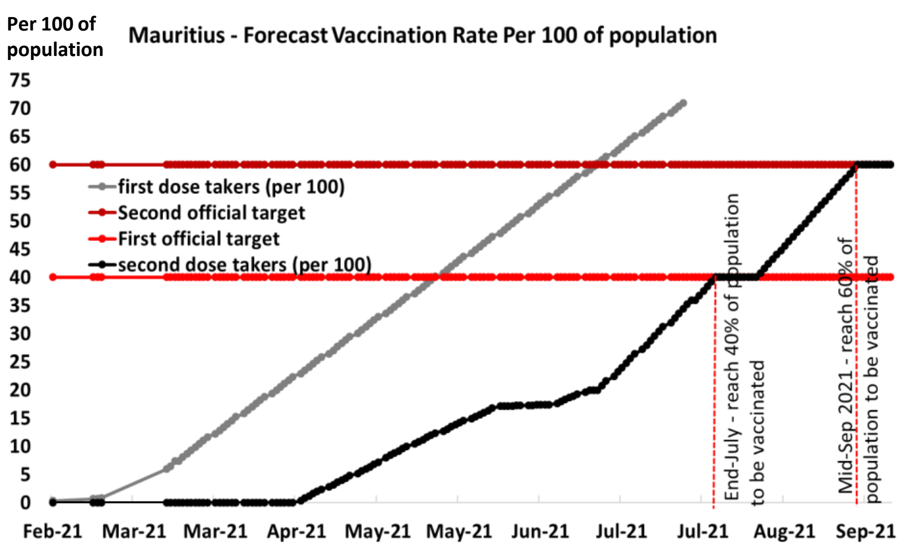

Figure 2: Vaccination update Source: GIS Mauritius, MCB PBWM

Vaccination update

Nevertheless, for now, it is unclear to us what would be the key determinant of the reopening of borders in October 2021, be it: (i) the local contamination rates, (ii) vaccination levels or (ii) the spread of the Covid-19 variants experienced by those countries that have lifted restrictions on international travels.

Dividend update

The period under review saw the return of dividend announcements by various listed companies, signaling improved confidence and visibility on the economic outlook. Below is the dividend analysis on the 10 largest companies by market capitalization:

	FY2021	FY2020	FY2019
MCBG	7.25**	-	13.00
IBL	0.44	0.61	0.77
SBMH*	-	-	-
GRIT	US$5.25ct**	US$5.25ct	US$12.20ct
CIEL	-	0.08	0.21
Vivo	1.08**	5.90	13.23
Alteo	0.72	0.54	0.67
ENL Limited	0.50	-	0.45
Rogers	0.60	**0.38**	1.02
MUA	0.80**	**2.82**	2.80

Figure 3: Dividend Update
Source: SEM

**Projected government revenue for fiscal year 2021/22 includes dividends from SBMH for approx. MUR0.27/share*

***Interim dividends for FY2021*

****Declared by amalgamated entity only*

MCBG resumed its dividends (interim of MUR7.25/share) but highlighted that its total dividend payout would be lower than the historical 30% ratio level, and that the payment of dividends for FY2021 would take into consideration the profits of FY2020 as well as forecast profits of FY2021.

While most of the above large caps have declared improved dividends for FY2021 relative to FY2020 (except IBL which slashed its total dividends by 28% for the period), they are still well below their FY2019 total dividends declared, to the exception of Alteo Limited.

Sector Review

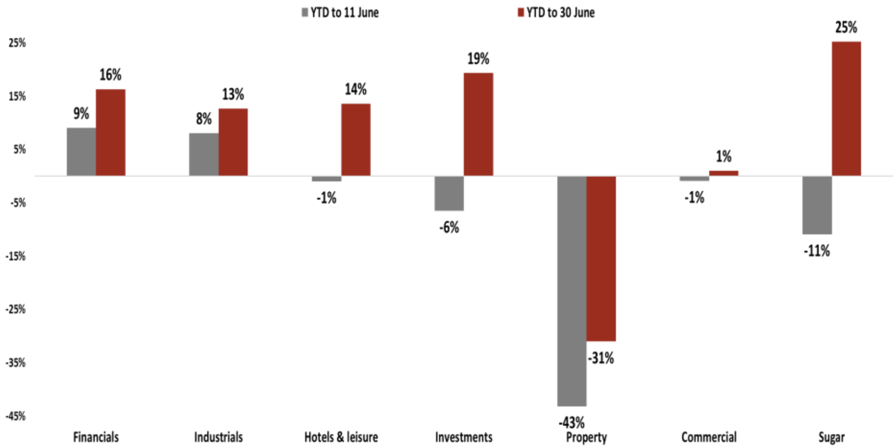

Figure 4: Sector Performances Source: SEM

'Financials' were leading the pack on a YTD basis as at 11 June, with most other sectors posting subdued performances. MCBG (YTD +14%) remained rampant for the period after declaring interim dividends. The sector also remained buoyant on account of stellar share price performances from MUA (YTD +26%), CIM Financial (YTD +16%) and SBMH (YTD +24%). The latter recently appointed a CEO for its banking cluster.

The outlook for the sector looks promising given its resilience during the pandemic and helped by an extension of the Bank of Mauritius Covid Support Programme. The mood was also boosted by news that Mauritius has reached the stage warranting official visits from FATF teams to assess visually the progress that the country has made with a view of exiting the 'grey list'. Nevertheless, a large overhang remains, notably with regards to the next country credit rating review exercise by Moody's which has Mauritius on negative outlook and has forewarned on several criteria – debt ratio, medium-term fiscal consolidation, monetary policy effectiveness and economic recovery.

Sector Review

The 6% (2Q2021) rise in industrial sector principally stemmed from construction stocks Gamma (+16% 2Q2021) and UBP (+13% 2Q2021) which rallied on the back of a favorable national budget speech for the construction sector.

Sugar/Agri related stocks which form part of the investment sector (20% 2Q2021) on the Official Market of the SEM helped propel this sector, led by Medine (+38%), ENL (+36%), Alteo (+25%), Terra (+19%) and Ciel (+13%). These stocks will directly benefit from measures taken by policy makers on biomass compensation, income from the Sugar Insurance Fund Board as 2020 crop has been declared an event year by the cabinet, the depreciation of the MUR and the rise in the price of sugar on international markets amongst others.

Even the most distressed sector, Hotels & Leisure, (+19% 2Q2021) saw revived investors' interest on the announcement of a reopening plan by the government. All hotel groups bounced from their lows - Sun (+26%), NMH (+23%) and Lux (+22%).

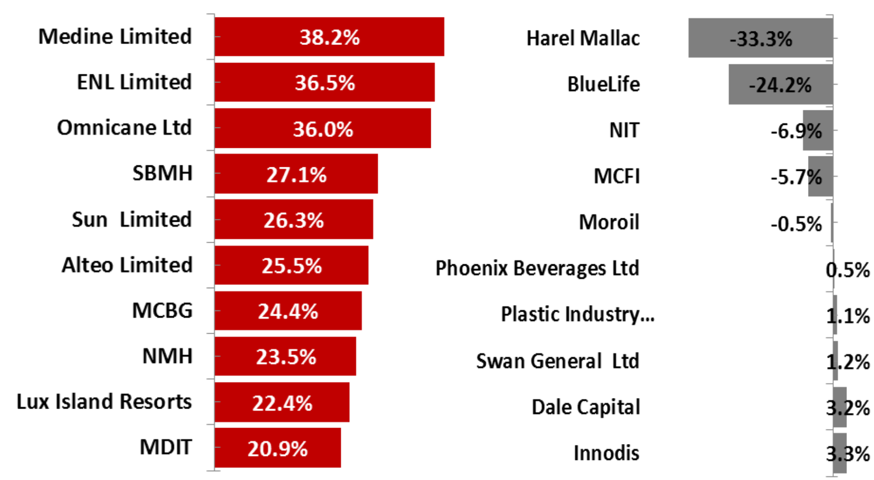

Figure 5: Gainers & Laggards (2Q2021) Source: SEM

Corporate News

Omnicane raised MUR4.5bn from MIC via the sale of all shares in Mon Tresor Smart City Ltd and plots of land in Britannia and Mon Tresor.

Ascencia shares will stop trading on the DEM as from 10 August 2021 and migrates onto the Official Market. Trading will start as from 16 August 2021. The company closed its FY-end with a market capitalization of MUR14.7bn which is equivalent to the 4th largest company on the Official Market by market capitalization.

Gamma raised a first tranche of MUR1bn out of its MUR3bn multicurrency note programme via private placement.

CIM Financial Services raised MUR2.5bn for a period of 2 years via private placement under its Rs2.5bn bond programme.

IBL Ltd issued MUR3bn of secured fixed and floating rate notes as part of MUR10bn multicurrency note programme. The Notes were raised for a blended tenor of 8.6 years at a blended rate of 4.03% p.a.

BlueLife Limited appointed as its CEO, Mr Hugues Lagesse; he has been acting as interim CEO since July 2020.

Medine Limited COO, Mr Dhiren Ponnusamy, was nominated CEO with effect from 1 July 2021.

SBM Holdings announced the appointment of Mr Raoul Gufflet as CEO of SBM Bank Holdings – the banking cluster of the group. Also, Mr Anoop Nilamber has recently joined SBM Bank Mauritius as CEO.

MCB Group raised MUR2bn as part of its MUR10bn multi-currency note programme at repo+0.85% (yield at issuance of 2.70%) and attracted a CARE credit rating of AAA with negative outlook The proceeds of the first tranche will be invested in the capital of MCB Ltd.

Portfolio Movements

During the quarter under review, we continued to favor financials and conglomerates, introduced hotels and reduced property stocks that rallied to new highs. On the equities sides, we deployed cash towards filling portfolios in CIM Financial Services and Ciel Limited predominantly. We also decided to add Sun Limited to our portfolios, pending pre-set entry prices, and looked to take some profits on Ascencia.

On the fixed income side, we realised gains on 10 year Government of Mauritius bonds and invested in 7-year MCB Floating Unsecured Notes for some portfolios. We also deployed some cash in 364-Day Treasury Bills, which are currently yielding higher than idle cash.

Going Forward

After more than a year of morose performances, the local market rebounded vigorously as a sigh of relief following the announcement of a plan for the reopening of borders, vaccination progress and supportive measures provided through the national budget which would directly benefit local listed companies.

Nevertheless, going forward, our optimism is marred by the number of Covid cases that are spreading locally, by unaddressed issues raised by the IMF, World Bank and Moody’s on structural bottlenecks, budget deficit, inflation, governance at major public institutions amongst others and further depreciation of the MUR.

Overall given the sharp rise in local equities, we see downside risks at current levels with a deteriorating local sanitary situation and the spread of Covid-19 variants in our key markets which could all impact the reopening of the borders. We maintain our cautious stance on our portfolios and look to take profits on certain names, though we stand ready to buy value stocks on dips.

Fixed Income

Mauritian Treasury yields experienced a sharp upward shift during the quarter, taking the market by surprise as many expected rates to remain low for a while. The shift, which saw the 20-year bond yield rise faster than shorter maturities led to a steepening of the yield curve. As such in the secondary dealer market, the 20-year yield peaked at 5.15%* before settling 10 bps lower at 5.05% on 30th June, up a notable 200 bps, compared to the 364-day yield, which closed the quarter at 1.43% (+100 bps).

The yield curve steepening followed accelerated issuance of medium to long-term bonds by the Government starting in May, as the Government was looking to finance its budget deficit at the end of the fiscal year to June 2021. During May and June 2021, the government issued Rs16bn worth of 5 to 20 year bonds compared to roughly the same amount for the four preceding months.

We note, as laid out in the budget financing plan 2022-2024 and highlighted in the June 2021 IMF country report, that the government's policy is to extend the maturity profile of its domestic debt, in line with the trend seen in the past two months.

As yields have rebounded from their lows, in our view, there are two main catalysts which will support a generally higher yield environment locally. Firstly, a ballooning gross public debt to GDP ratio which is expected to remain above 90% over the medium term and secondly, inflationary pressures, will remain a cause of concern for investors warranting higher compensation to hold Mauritius Government paper. In addition, investors will have to contend with the looming spectre of a further sovereign credit rating downgrade.

** MCB Treasury – Mid rate*

Fixed Income

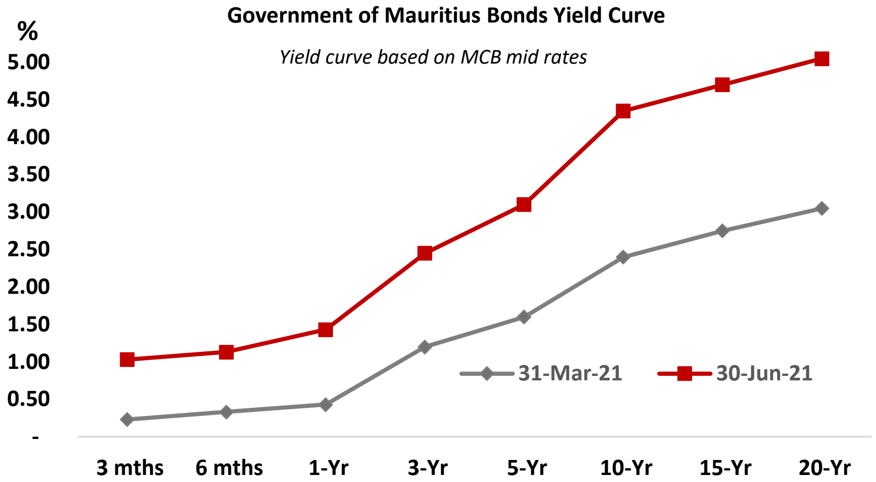

Figure 6: Government of Mauritius yield curve Source: MCB Treasury

During the quarter, excess Rupee liquidity held by banks pursued a downtrend; as per latest reading on 3 June, it stood at Rs24bn, about half the level of June 2020.

That said, the government's issuance calendar for the coming six to twelve months is still awaited following the budget speech held on 11 June and a raft of maturities, for around Rs50bn, will occur in the third quarter. Coupled with a slower pace and smaller size of issuances at the start of July, we see a slight downward pressure on yields in the short term.

With the local economic recovery at stake, and despite growing concerns of higher than forecasted inflation, our view is that for now, short term yields will be more influenced by accommodative monetary policy actions.

Market Update
30 June 2021

Fixed Income

The corporate bond market was rather lively this quarter, with new issuances and announcements. However most were issued via private placements and were not listed. Indeed, we note that activity on the secondary bond market remains muted locally.

Among the new bonds issued through private placement were, IBL for Rs3bn, Gamma Civic for Rs1bn, and Max City Property Fund for Rs0.8bn. We also note the forthcoming issuance of Officea Limited bonds for Rs2.3bn. It is also worth noting that all issues attracted investment grade rating from CARE Ratings, while IBL did not rate its bond.

Omnicane announced the early redemption of its 7-year bond due in 2023 for Rs440bn and paid back its 2021 tranche at maturity in June.

An interesting development in the bond market is the launch of BOM's guide on sustainable bonds in Mauritius in June, which encompass any legal entity and the whole spectrum of such bonds, namely green, blue, climate and social bonds.

FX

With limited supply of foreign currency from the private sector, during the quarter, the Central Bank continued its intervention on the foreign exchange market, providing an inflow of foreign currency at its set rate. After more than 14 months of intervention within a tight range, towards the end of June, the Central Bank abruptly weakened the Rupee: the currency lost 5.2% versus the USD, and 6.4% versus the EUR and GBP respectively over the quarter.

Coincidentally, on the same day that an IMF report mentioned that the Rupee was highly overvalued, the BOM intervened to sell USD25m at Rs42.50, 4.42% higher than its previous intervention, in a move that represented the largest daily decline since the onset of the Covid-19 crisis in March 2020.

FX

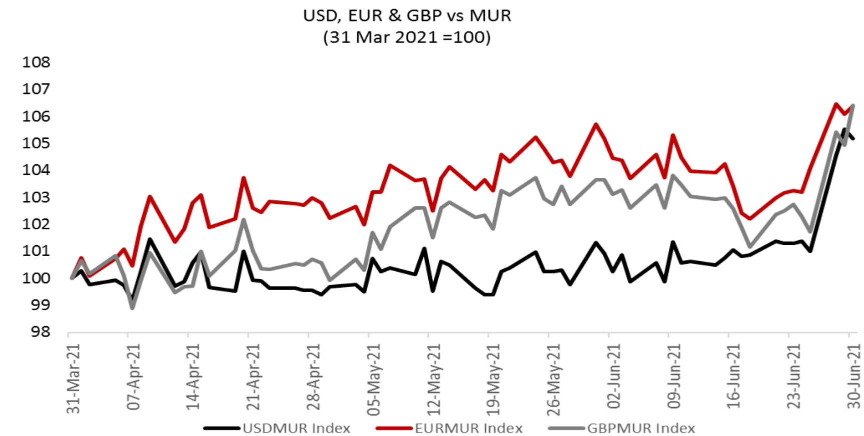

Figure 6: MUR versus main trading currencies Source: MCB

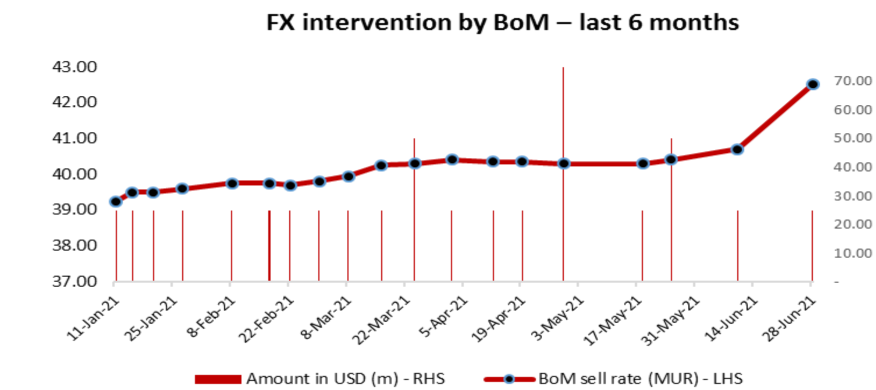

Figure 7: FX intervention by Bank of Mauritius Source: Bank of Mauritius

We expect the Bank of Mauritius to maintain its interventions in the forex market over the coming months at least until the inflow of foreign currency improves. As the IMF highlighted, the official reserves were within an adequate range, and the foreign exchange environment should naturally improve as the economy gradually reopens.

In fixed income, we see current government yields as attractive and a good buying opportunity, especially in the long end although liquidity on the market remains rather low.