Local Economy

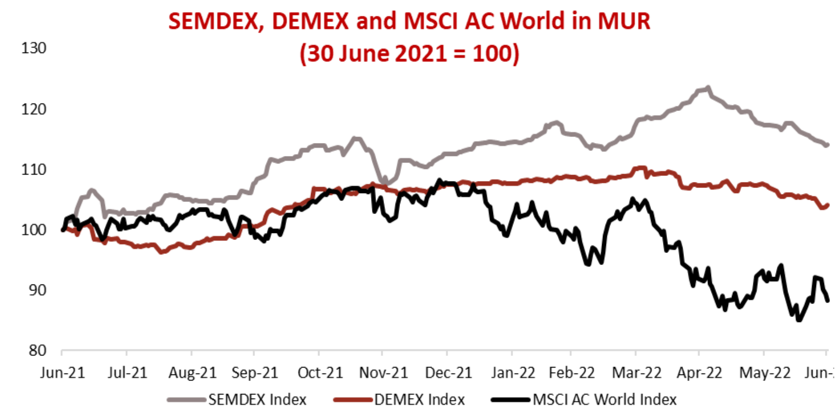
Real GDP growth at market prices is expected to attain 6.0% in 2022, representing a 20 basis points cut from April projections, as per the latest edition of MCB Focus. This reflects the deterioration in global economic conditions, notably across the country's key trading partners as well as the impact of rising input costs and prices in the wake of the Russia-Ukraine war. Despite persistent headwinds, activity levels should be driven by the continued recovery in the tourism sector and private sector investment in green energy ventures. With regards to 2023, economic expansion is projected at 5.5%, returning close to its pre-pandemic level in real terms by year-end.

Regarding inflation, despite the fall in vegetable prices lately and successive FX interventions by the Bank of Mauritius seeking to support the rupee, the Consumer Price Index has remained under pressure, with annual average headline inflation for the 12 months ending June 2022 sustaining its uptrend to stand at 8.0%. Looking ahead, annual average headline inflation is expected to rise further to attain 10.2% level as at December 2022, reflecting the impact of continued pressures on the rupee and the increase in prices of selected essential products following the review of subsidies. As for next year, inflation should, although remaining high for the most part of the year, embark on a downtrend, with upside risks remaining high on the agenda.

On the external front, whilst a moderate rebound is foreseen in exports of goods this year, the import bill is set to be markedly higher. This would, in spite of higher tourism receipts and a surplus in primary income lead to a worsening in the current account deficit. In 2023, the balance of visible trade deficit is projected to remain well above the historical average, albeit declining to around 28% of GDP mainly on the back of a narrowing in the country's import bill, while an upturn is also expected in merchandise exports. In turn, after factoring in higher tourism earnings and a further rise in primary income, the current account deficit is forecast to narrow to 8.9% of GDP; on the whole, when factoring in the projected capital and financial flows, the BOP surplus is set to improve in 2023.

Equity market overview

The Semdex started the second quarter strongly, consolidating its Q1 gains (+4.8%), to a peak of 2,304.13 points (+9.8%) in early May. However, after its early outperformance versus global equities markets, the local benchmark succumbed to the raft of negative global market signals and inflation worries locally, ending the quarter on a declining trend at 2,127.14 points (-3.2% in Q2, +1.4% YTD).



Source: Bloomberg

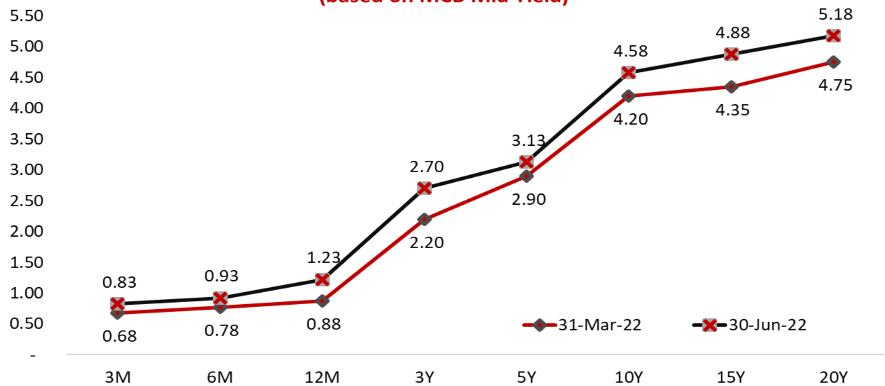
While we think domestic factors were supportive of the local market's strength, sell-offs in global equity markets weighed on the local stock market towards the end of the quarter. As such, foreign investors remained net sellers on the Official Market (Q2: -MUR285M; Q1: -MUR 261M), albeit to a lesser extent on MCBG shares; on the other hand, net selling increased on Afrexim (MUR79M), Ascencia (MUR 62M) and Alteo (MUR 14M).

Investors' sentiment was unlikely to remain unscathed by a prolonged war in Ukraine, persisting global inflationary pressures and tightening financial conditions in major economies. Indeed, while operating and finance costs are rising locally, exacerbated by a weakening of the MUR against the USD, investors are starting to look past the earnings recovery expected in 2022 and anticipate possible challenging outcomes over the next twelve months.

Fixed Income market overview

In 2Q22, the Mauritian Treasury yield curve shifted upwards, as in an effort to curb rising inflation, the BOM raised its repo rate for the second time this year, from 2.00% to 2.25%. Just after the rate hike, the short end of the yield curve mirrored the move, with the 3-month T-bill rising 23bps to a weighted average yield of 0.98% in the primary market. We note that the latter remains slightly below the bottom end of the central bank's interest rate corridor which is repo +/- 1.25%, so equivalent to 1.0% to 3.5%.

Mauritius Yield curve (based on MCB Mid Yield)



Source: MCB Treasury

In the weeks following the rate hike, Treasury bill yields remained sticky despite weekly oversubscription at T-bill auctions. As the central bank's plans to reduce MUR excess liquidity unfold, market could expect yields on short- to medium-term bonds to rise gradually.

In the quarter, longer end maturities saw a relatively higher uptick in yields as investors sought higher compensation in the face of a rising interest rate environment and sustained high inflation.

Corporate bond issuance were rather dry this quarter, with merely private placements by Medine and United Docks. Medine announced the early redemption of its 5-year fixed-rate bond due 2023 for MUR1.4 billion

Treasury Notes & Bonds' Auctions in 2Q 22

	Date of latest auction	Accepted Range (%)	Bid Cover Ratio	Weighted Average Yield (%)	Previous Weighted Average Yield (%)
Mauritius 3YR Note	09-Jun-22	2.52 - 2.64	2.60	2.81	2.59
Mauritius 5YR Bond	01-Jun-22	3.00 - 3.15	2.16	3.22	3.10
Mauritius 10YR Bond	06-Apr-22	4.29 - 4.50	2.66	4.39	4.36
Mauritius 15YR Bond	18-May-22	4.82 - 5.00	2.65	4.96	4.45
Mauritius 20YR Bond	22-Jun-22	5.25 - 5.35	2.66	5.31	4.61

Source: BOM, MCB PBWM

and to partially fund this redemption, the company raised MUR1 billion from a new bond issue. For its part, United Docks announced the issuance of bonds worth MUR 750 million in a private placement to finance the construction of two additional towers.

Southern Cross Hotels postponed the maturity of its 4-year floating rate EUR notes to July 31, 2022, as the company awaits bondholder approval to proceed with its plans to repay a portion of the principal in each tranche and extend the maturity of its notes by two years, with higher coupon rates as compensation.

MCB Group declared a dividend of MUR0.235 for its MCB Preference shares. MCB Preference shares holders were also given the option to convert part or all their preference shares at a conversion reference price of MUR307.79. Following the announcement, the MCB Preference shares dropped from MUR10.50 to close the quarter at MUR10.20.

Portfolio Activity

At the beginning of the quarter, we consolidated our preferred equity exposures in anticipation of a strong earnings growth of exporting, financial services and property-related companies, with a preference for diversified names. Later in the quarter, we moved to a more conservative stance, leading to rising liquidity levels in higher risk portfolios.

On the fixed income side, given the rising interest rate environment, we reduced our exposure to long-term bonds (i.e. years to maturity > 5 years) as we moved to reduce duration risk in portfolios.

Going Forward

Should negative investors sentiment and downward pressure persist on foreign markets, we expect the correlation between local and foreign markets to rise and volatility to heighten. While growth recovery should continue to drive earnings upwards in key export sectors and offset rising operating and finance costs in 2022, market focus is gradually shifting towards the 2023 outlook. And as that looks pretty uncertain, we maintain a conservative stance for the months ahead.

On the fixed income side, the government has yet to publish its issuance calendar for the coming fiscal year. Around MUR63.2 billion of maturities are due in the coming quarter, and we note that in its 2023-2025 financing plan, the government expects to reduce the issuance of Treasury bills over the coming 12 months and cover most of its borrowing needs through medium- and long-term bonds. It also plans to expand the range of instruments through the issue of new 7-year bonds.

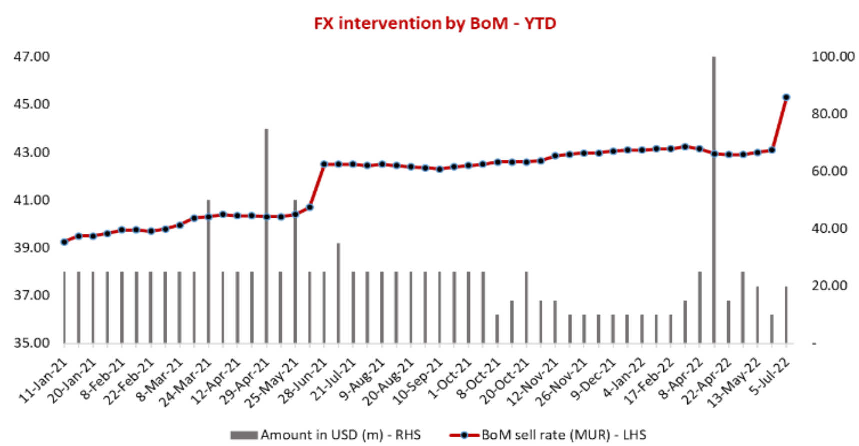
In addition, it was announced in the budget speech that a 5-year Emerald Jubilee Bond would be issued at an annual interest rate of 4% to mark the 55th anniversary of the Bank of Mauritius (BOM).

With the spectre of heightened inflation locally and rising interest rates from central banks around the world, further rate hikes should be expected locally by the end of the year. The next monetary policy committee meeting is scheduled for September and a following one is expected in December 2022.

Foreign Exchange

In 2Q22, the MUR remained under pressure against the USD, depreciating by 2.4%. The Bank of Mauritius intervened six times during the quarter, selling a total of USD 295 million in a rather tight range of MUR42.90-43.15/USD (Q1 2022: total sales of USD 45 million in the range of MUR43.10-43.25/USD).

Following a record USD200 million sell intervention by the BOM at MUR42.95/USD on 13 April 2022, the USDMUR hovered between MUR42.90/USD and MUR43.10/USD. However, towards the end of May 2022, the USDMUR reversed trend and ended the quarter at MUR44.15/USD*, reflecting excess demand and the absence of central bank intervention. To note that on 5 July 2022, BOM sold USD15m at MUR45.30/USD, thus reaffirming the recent MUR weakness seen in the secondary market. Conversely, the MUR appreciated against the

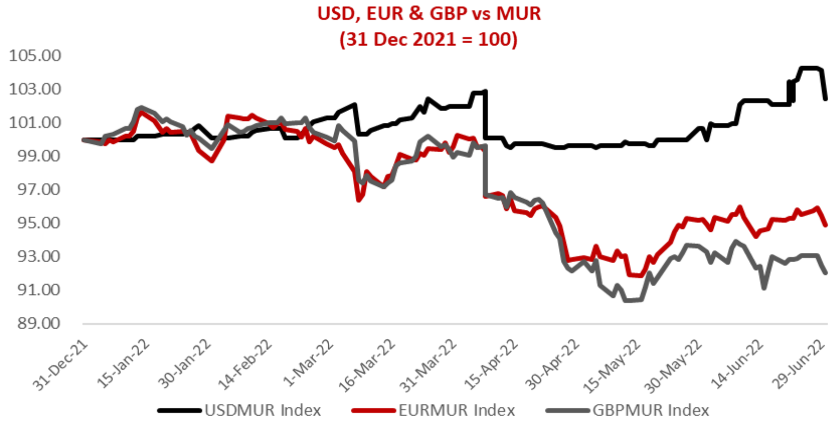


Source: BOM, MCB PBWM

* MCB mid-rate

Foreign Exchange

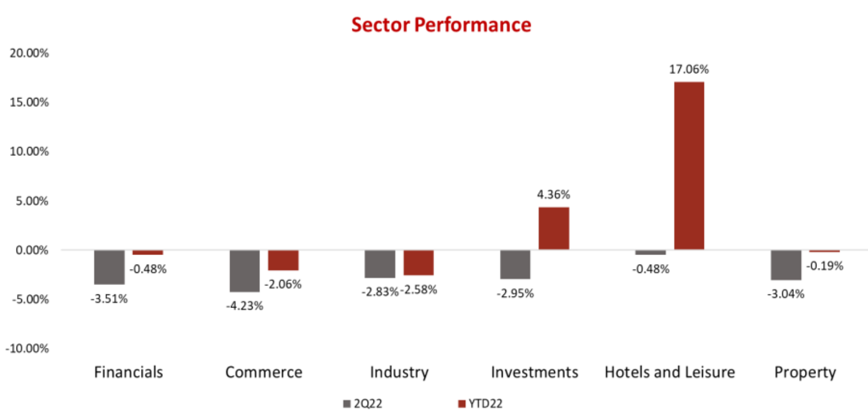
EUR and GBP by 5.1% and 8.0%, respectively, during the period under review.



Source: MCB Treasury, MCB PBWM

Equity market – Sector review

In stark contrast to Q1, 2Q22 was marked by decline across all SEMDEX sectors, although to a lesser extent for hotels stocks which



Source: SEM, MCB PBWM

continued to benefit from the industry's turnaround; the sector only dipped by 0.48% in the quarter, albeit after a major gain 17.6% for Q1. The Commerce sector led the decline (-4.23%) and Financials also slightly underperformed, with a drop of 3.51%.

The dividend season remained buoyant with Ciel Group resuming payment of a final dividend of MUR 0.16/share after two years. Others increased dividend payment namely Vivo, IBL, Ascencia, CIM, and PBL. MCB Group pursued its scrip dividend policy at a scrip price of MUR308.80 which resulted in 17% of dividends being paid in shares.

Major M&A announcements by IBL and its member companies, namely PBL (acquisition in the UK) and UBP (overseas acquisition) will keep investors alert for value contribution of these transactions over time. MUA also announced (subject to shareholders approval) the entry to the tune of 7% of Proparco in its share capital, at a price of MUR107 while the shares traded at a 3-month VWAP of MUR140.55.

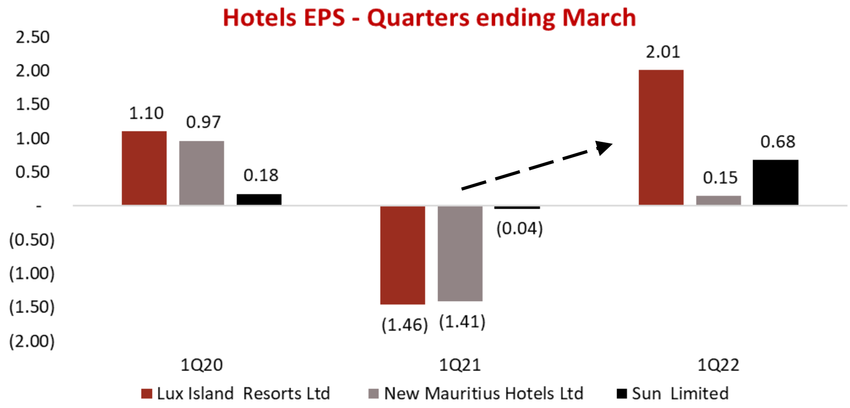
Among hotel counters, Sun shares were highly volatile gaining 17% in the quarter (peaking at MUR32.25 in May then dropping to MUR 26 by end-June), while New Mauritius Hotels and LUX Island Resorts fell by 1.90% and 5.09% respectively. To note that on 2 July, LUX Belle Mare hotel was closed following a major fire which caused considerable damage.

In early June's 2022-23 budget, the government restated its ambitious target of reaching one million tourists in 2022 while industry players and observers generally table around 800,000 arrivals for the year. At industry level, 313,548 tourists visited Mauritius in the first five months of 2022 (44% below pre-COVID level) while tourism earnings amounted to MUR12.5bn in 1Q22, 24% below pre-COVID earnings in 1Q19.

1Q22 corporate earnings confirmed the rebound as hotel groups posted their first quarterly profit in two years with occupancy levels reaching

Equity market – Sector review

61%, 47% and 60% for LUX, NMH and Sun respectively. Earnings per share for the rolling 12-month to March 2022 were up 116%, 47% and 67% respectively versus the previous year.



Source: MCB PBWM

After gaining for four consecutive quarters, Banking and Financial Services sector stocks experienced a drop of 3.5% on average in 2Q22. MCB Group closed the quarter at MUR307.50, down 3.8% and SBM receded 3.0% to MUR4.80. Both commercial banks reported a rise in earnings for quarter ended March; MCB EPS rose 1.3% to MUR9.66 while for SBM it rose by 71% to MUR0.28 on lower impairment provision.

The Commerce sector fell 4.2% in 2Q22 as all counters declined. IBL shares dropped 4.6%. In its latest quarterly report, IBL outlined the potential increase in the cost of doing business due to the high inflation environment and supply chain disruptions.

Since the start of 2022, the Investment sector has a positive return of 4.36%, despite the fall of 2.95% in 2Q22. Terra fell by 19.7% in 2Q22, dragged by news in April of the suspension of Terra's energy operations which had become unsustainable due to rising costs. On the other hand, ENL was the best performing Investment stock since the start of the year with a YTD return of 25.6%, comprising a growth of 11.8% in 2Q22.