

Kyklos Capital

Outlook: In Frontier, the Check is Still In the Mail-- One Way to Play It

"Carpe per diem - seize the check." Robin Williams

Economists who focus on Frontier country economic drivers frequently highlight datapoints such as Foreign Direct Investment (FDI) or Official Development Assistance (ODA), which are big checks written to small countries by big organizations. These foreign payments are smaller overall, however, than remittances, which are sent home by individual workers abroad. In effect, a remittance is a payment for exported labor, rather than exported goods. The money goes directly into local economies, as it is received by families at the bottom of the economic ladder to cover day-to-day needs.

In the Covid period, well-founded fears of a sharp plunge in remittances due to spiking unemployment of immigrants in rich countries were rife, adding significantly to Frontier country stress and cuts in consumption. As of June the World Bank estimated that global remittances would fall a record 20% in 2020, and articles cited high double-digit falls in payments in March and April for some countries. In the cold light of September, as post-lockdown data begins to roll in, this critical economic support appears to be significantly better than those dire expectations. To cite a few examples from countries with high dependence on remittances, Egypt states that remittances for the nine months to July 2020 were +21%, Georgia's June figures were +15% year-on-year, and Pakistan's July figures were +7%. Sustainability is questionable-- workers are likely to be depleting savings to help the family out back home-- but the worst-case scenarios are clearly not materializing so far. The examples below show the sharp recovery, and although it's early days, we now think the good news will be widespread.

Remittances to Bangladesh...



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... Pakistan...



... and Egypt All Share a Surprisingly Positive Picture



One Way to Play: Kyklos added to its bets on a positive performance of remittances in September, as we added MTN Ghana to the portfolio. MTN is the top mobile telecom provider in Ghana, with some 18 million subscribers. Unlike most sector players, they do not suffer from an ever-shrinking fixed-line voice business line. Their core businesses are all growing, partly thanks to Ghana's population growth at over 2% annually, and the percentage of people using mobile data continues to rise from 80% as of 2017. The growth in mobile voice subscribers is likely to slow because mobile penetration is already 130% and most Ghanians have more than one cellphone. But MoMo, MTN's mobile money company, benefits directly from all those smartphones, by offering payment services to the 40% of the population without a bank account. The number of mobile money subscribers in Ghana multiplied by six times in the five years to 2017, and MTN's market share in that business is 80%. Remittances, which of course require a means to receive the money, are one of the biggest drivers for this business, and the disaster of Covid will only accelerate its growth.

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Risks to MTN Ghana include a highly competitive six-player mobile market, in which MTN is the strongest, and, especially, a market regulator who has threatened them with anti-trust measures. Our investment is in part a bet that regulatory action will be rational, that MTN's management has acted responsibly, and that any measures would not prevent MoMo's continued growth. Thanks to this regulatory action and to Covid, the stock trades cheaply in our opinion, at below one-half of the valuation multiples of global comparable companies and its own historical levels. Trading liquidity in its Ghana-listed shares is mainly via blocks, which is not everyone's cup of tea, but if our investment case pans out, revived trading would further narrow the valuation discount on the stock. Win, win?

Charlie Gushee
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