COVID-19 MARKET COMMENTARY EDITION 2

MARKET OVERVIEW

- Markets rallied last week as investors responded positively to suggestion that we are at or past the peak of the COVID-19 outbreak in a number of hard hit countries in Europe. The S&P500 is up 25% since its March lows. Global stocks continued to climb and credit markets rallied into the Easter long weekend, after the Fed announced new stimulus to prop up the US economy.

- There was an impact of swinging oil prices and unease in certain parts of the markets due to the US quarterly earnings season. However, overall, we are seeing market gains.

- Further jumps in the US, Asia and European stock market as investors looked past a historic contraction in China's economy, and acted on positive reports of Gilead's clinical trial that could ease the pandemic and open up the global economy.

- **In the UK,** news of Boris Johnson's hospitalisation in the first two weeks of April and the prospect of big deficits to fund millions of workers wagers and the economy did not scare off investors, a potential indication of robust investor confidence in the UK Government and related institutions. Last week, demand for UK Government bonds was the highest in nearly three years as the Debt Management Office sold GBP3.25bn worth of gilts, in their latest round of debt issuance. The FT's headline "National Debt: in Sunak we trust" continues to be the sentiment running through April.

- **In the US,** the Fed also announced an additional USD2.3 trillion in loans and support the market for high-yield corporate debt, which was received well. Investors were not unusually surprised with President Trump firing the independent watchdog tasked with overseeing emergency Coronavirus funds, Glenn Fine, and there was shock at President Trumps halting of US funding for the the World Health Organisation.

- **In Emerging Economies,** the impact of the pandemic and the limitations on freedom are also posing issues - particularly across Africa, where the effects of lockdown are exhausting social tolerance and fuelling civil unrest. Riots have broken out in Chad and Johannesburg over food shortages, and Lesotho's Prime Minister has deployed the army to restore order; as the virus claims over 1,000 lives across the continent, including Nigerian President Muhammadu Buhari's Chief of Staff. Additionally, in an unprecedented move, Indonesian President Joko Widodo banned civil servants, police, military and workers in Government owned enterprises from travelling home during Ramadan, as the death toll in the nation now ranks 2nd in Asia, behind China

- In a letter from 165 global leaders published in the 2nd week of April, developing countries have been urged to support emerging economies to fight both medical and economic challenges. In the note, a 'boomerang back' on richer nations is to be expected if there is no internationally coordinated action. The letter calls for USD8bn of emergency health spending, in addition to developing countries requiring USD150bn to fight the twin medical and economic challenges.

IMPACT ON M&A AND DEAL ACTIVITY

Overview

- Data released by Refinitiv at the end of March signalled a stark end of a multi-year boom in M&A activity, as the fallout from the virus continues to impact share prices, and redirect the focus of executives towards saving their own companies, instead of acquiring others.

- Xerox Holdings became one of the first major companies to kill off a blockbuster deal, when the US printer company abandoned its USD35bn hostile cash and stock bid for HP.

- Defences including activist defence and general corporate defence remain a pertinent theme that many corporate clients are shifting their focus to, given tumbling share prices amidst an environment of accelerated consolidation.

- According to Refinitiv, deal activity in the last week of March 2020 totalled just USD12.5bn, the lowest weekly total since the foot of the financial crisis in April 2009.

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- Companies are also putting M&A on hold in order to build a 'cash cushion', as priorities are being shifted away from M&A towards preserving cash, applying for credit and drawing on existing lines of credit. Those who can are turning to the bond market amid fears the pandemic could restrict access to capital markets. Refinitiv posted USD511.9bn worth of issuance in March, a 27% increase on March 2019. Among those raising hundreds of billions of dollars were Oracle (USD20bn), Exxon Mobil (USD8.5bn), AB InBev (USD5bn) and Airbus (USD2.7bn)

- However, deal making activity is likely to pick up when companies seek to sell non-core assets to bolster their cash positions. Buyout groups, which, according to Prequin, amassed USD1.5tn of dry powder at the end of 2019, would be the obvious buyers.

Deal Activity

- Despite many deals, from small to large cap, being put 'on ice' and valuations going in all directions, there was still significant deal activity in the first quarter of 2020 as corporates and Private Equity firms looked through volatility. Deals included:
  - Morgan Stanley's USD13bn all-stock takeover of brokerage ETrade
  - Thermo Fisher's USD11.5bn acquisition of Dutch diagnostics group Qiagen
  - Aon's USD30bn all-stock takeover of insurance broker Willis Towers Watson
  - Microsoft Corporations USD1.35bn acquisition of 5G software maker, Affirmed Networks

- **In Africa,** deal activity is continuing across M&A and Private Equity, with a number of deals announced and executed in March and April. Last week, AfricInvest acquired a minority shareholding in I&M Bank (Rwanda), Verod Capital Management submitted a binding offer to acquire all of the issued shares of Law & Rock Insurance Plc in Nigeria, FinnFund invested into East African e-commence platform, Kasha, Ingressive Capital invested into Nigerian fintech, Vesicash, Zebu Investment Partners invested into a Tanzanian bakery chain, GreenTec Capital invested into Coliba, Metier Private Equity partnered with Tembo Power Kenya, and Rocket Internet sold its stake in Africa e-commerce firm, Jumia.

SPOTLIGHT ON EMERGING MARKETS

- **In Africa,** countries are asking for immediate debt relief from bilateral and private creditors, following a directive from the International Monetary Fund (IMF) to skip debt-service repayments to to use cash to fight the virus instead. Earlier this month, Ghana's Finance Minister, Mr. Ken Ofori-Atta, who is also Chairman of the Joint World Bank IMF Development Committee, chaired a meeting of African ministers calling for a USD100bn stimulus package, ahead of the World Bank and IMF Spring meeting on April 17.

- Across the continent, markets are moving to support African economies and businesses during the pandemic, with major initiatives including:
  - The launch of USD6bn of facilities by the African Development Bank and Afreximbank
  - **In Nigeria,** the release of forex to pharmaceutical investors
  - **In Ghana,** the waiver of interbank charges by the Ghana Interbank Payment and Settlement System
  - A spectrum boost for telco's in South Africa

- McKinsey & Company also published 'Tackling Coronavirus in Africa' last week, detailing four scenarios which predict a loss of between USD90billion and USD200billion in the African economy, depending on the scenario. The global pandemic could account for about one-third of the total loss, driven by supply-chain disruptions, a fall-off in demand for Africa's non-oil exports, and delay or cancellation of investments from Africa's FDI partners. Finally, oil-price effects could account for about 15 percent of the losses.

- **In Nigeria,** the Minister of Finance, Budget and National Planning has outlined stimulus measures, with plans to create a USD1.4bn fund to strengthen Nigeria's healthcare infrastructure. In addition, the nation is requesting a USD6.9bn cash injection from lenders including the IMF, the World Bank, and the African Development Bank to combat the impact of the pandemic (and also low oil prices – which fell by 50% in March 2020). In addition, the Nigerian Private Sector Coalition Against COVID-19, is in action, formed by the Central Bank of Nigeria in partnership with private-sector and philanthropic organizations including the Aliko Dangote Foundation and Access Bank.

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- **In Kenya,** tax cuts were announced to protect East Africa's richest economy against the coronavirus, applied to value-added-tax, corporations tax, and 100% tax relief for Kenyans earning a monthly income of c. USD200.

- **In Ghana,** the Finance Ministry earlier this month requested a rapid USD550m credit facility disbursement from the IMF and a deferral of interest payments on non-marketable bonds, to help continue their fight against the virus.

- **In India,** since our last update, the Reserve Bank has slashed its benchmark repo rate to 4.40%, and announced a USD22 billion stimulus plan providing direct cash transfers and food security measures.

- **In Indonesia,** since our last update, the Government announced an additional USD24.9bn spending on March 31, including a 3% cut in the corporate tax rate to 22%. Fitch Ratings also reported that the Indonesian Government has taken steps to expand its room for policy manoeuvre in the face of challenges posed by COVID-19.

EXPERT INSIGHT

Priyanka Fouda is an Investment Professional at Development Partners International ("DPI"). Starting her career in Investment Banking at Goldman Sachs in New York, Priyanka moved into Private Equity in 2018 and joined DPI - one of the most impactful and celebrated Private Equity firms investing into the African continent.

Founded in 2007, DPI invest in established, large African companies with strong projected growth rates and experienced management teams. With over USD1.5bn of assets under management, DPI have, to date, invested in 22 portfolio companies, across 29 countries, and 17 industries.

As Crasner Capital's Expert of the week, Ms. Fouda provides her thoughts on the impact of COVID-19 on Africa, the role of Private Equity Firms and the importance of cooperation between the public and private sectors.

- COVID-19 has highlighted the fragility of the bottom of the pyramid globally, but especially in Africa.

- Similar to wartime, pandemics require the tightknit cooperation of the private and public sector. Companies that are identified as providing key essential services can be wide ranging and prove more defensive during lockdown. Companies in the financial services, education or food sectors that placed an emphasis before COVID-19 on building out digital capabilities are better positioned now to continue operations. The duration and severity of the pandemic will also help determine if the habits of the African consumer change, i.e. a faster shift towards food delivery for the middle class.

- There is uncertainty on how COVID-19 will impact Africa over the long-term, however we already see differences between countries and regions.

- Private equity firms have a key role to play for their portfolio companies during crises by providing patient capital, strategy, providing technical assistance and securing financing.

- A pan-African and multi-sector fund strategy provides critical diversification benefit.

- The global slowdown (IMF projects global growth to fall to -3% in 2020), coupled with low oil prices has prompted African leaders and the private sector to request debt relief and other forms of intervention. It will be key to watch how these discussions with different key stakeholders including the private sector and rating agencies evolve as they will have an impact of the fiscal health of our economies going forward.

Crasner Capital is delighted to have Ms. Fouda's excellent market commentary.

DPI Development Partners International

ABOUT CRASNER CAPITAL

Crasner Capital is a pre-eminent force in Emerging Markets Investment Banking. Headquartered in London, Crasner Capital brings bulge bracket Investment Banking capability to mid-market M&A and Corporate Finance deals in Nigeria, Kenya, Indonesia and India. The Firm has been at the centre of a number of high profile deals and specialises in sell side mandates from Management Teams and Private Equity Funds active in the Financial Services and Consumer Sectors.

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