ORBIT SECURITIES COMPANY LIMITED

2023 MARKET OUTLOOK

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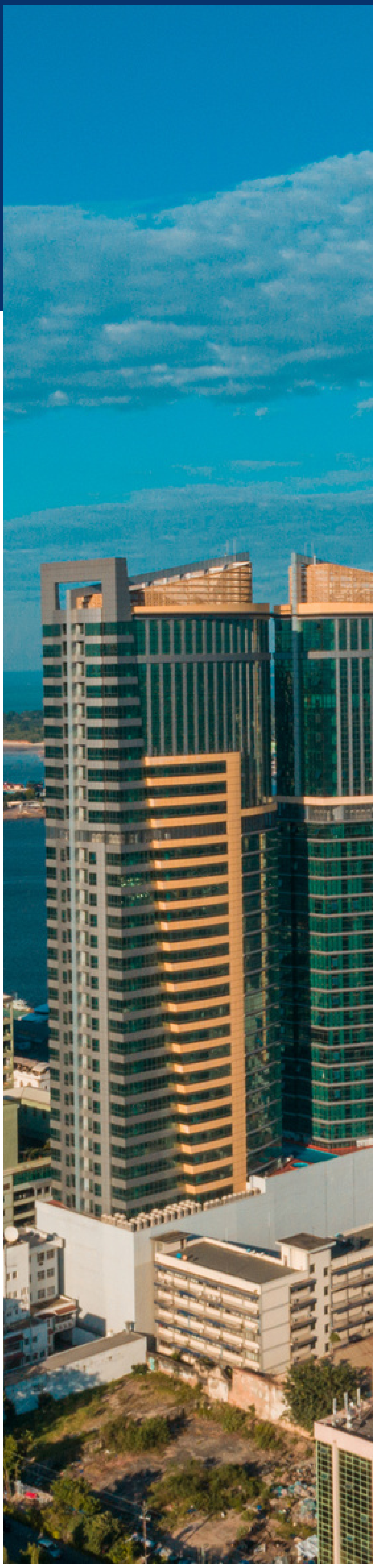
EXECUTIVE SUMMARY



The Tanzanian economy has remained stable, with a GDP growth of 5.2% in the first half of 2022, and projected growth of 4.7% for the full year. Inflation has remained within the targeted range set by the Central Bank at 5.4%, with a rise in the costs of food and non-alcoholic beverages being the primary contributor.

The Tanzania Share Index, which consists of only domestic stocks, closed up by 9% in 2022, primarily driven by the strong performance of the banking sector.

The All Share Index, which includes cross-listed stocks, closed in the negative territory with a decline of 0.82%, due to the weaker performance of cross-listed Kenyan stocks.

The Banking, Finance, and Investment Index performed exceptionally well in 2022, closing up by 41%, while Twiga Cement was the top performer in the manufacturing sector, closing up by 9%.

Key drivers of the Dar es Salaam Stock Exchange equity market include macroeconomic factors, political stability, sectoral performance, foreign investment, regulatory environment, and market sentiment.

In 2023, we expect to see more green bond issuances and continued growth in the banking and manufacturing sectors, with NMB and CRDB as strong performers. The potential for foreign investment is significant, and a buy and hold strategy in the current economic environment may be reasonable.

Overall, the Tanzanian economy and stock market have remained resilient, with significant growth potential in the years to come.

MACROECONOMIC OVERVIEW

1. ECONOMIC GROWTH AND OUTLOOK

The current economic situation in Tanzania has been relatively stable despite facing global macroeconomic shocks caused by geopolitical tensions, particularly the conflict between Russia and Ukraine affecting supply chain and global prices and availability of essential products.

The economy in Mainland Tanzania grew by 5.2% in the first half of 2022, and it is expected to achieve the projected full-year growth rate of 4.7%. Similarly, the economy in Zanzibar experienced growth of 5.8% in the first half of 2022, in line with the projection of 5.4% for the full year.

It is expected that the economy will continue to grow at a faster rate in 2023 as the negative impacts of global shocks, such as geopolitical tensions and rising fuel costs, begin to dissipate. Overall, the Tanzanian economy has remained stable and continues to show strong growth despite facing challenges from external factors.

Monetary Policy Statement released in February 2023 project the economy to grow at 5.2% (AfDB projection is at 5.6%) following improved performance in tourism and reopening of trade corridors.

MACROECONOMIC OVERVIEW

1. ECONOMIC GROWTH AND OUTLOOK

External factors will remain the main risk element putting pressure on the TZS's value versus USD as import bill of goods and services remain on the high side ($16bn) compared to export ($12bn) as per Bank of Tanzania report for the year ending October 2022. Public debt is reported by MPS at US$32,358bn putting a debt-to-gdp ratio of around 50%, it's sustainability will remain a point of concern given global economic developments and consequent monetary authorities policy reaction.

According to Bank of Tanzania December 2022 monthly economic bulletin, close to 70% of the country's external debt is denominated in US dollars, hence vulnerable to further interest rates increase and US currency appreciation.

2. INFLATION OUTLOOK

The inflation rate in Tanzania has seen a modest rise over the past year, rising from 4.1% in November 2021 to 4.9% in November 2022. As of January 2023, inflation stands at 4.9%. Despite this increase, the rate has remained within the targeted range set by the Central Bank at 5.4%.

The effects of these challenges have been further compounded by increasing interest rates in key global economies, such as the United States and Europe, which have put additional pressure on businesses and consumers.

Our base case for 2023 envisions headline inflation not rising beyond the Bank of Tanzania's target of 5.4%.

MACROECONOMIC OVERVIEW

3. INTEREST RATES

In the third quarter of 2022, the central Bank of Tanzania adopted a tightening monetary policy to address rising inflationary pressures. The overnight interest rate increased from 1.5% in March to 4% in December 2022.

Despite this, credit to the private sector grew at a rate of 21.9% in the year to December 2022, above the policy target of 10.7%, and lending rates remained just above 16%. The banking sector is well capitalized for further growth, with a core capital adequacy ratio of 18% and an improved non-performing loan ratio of 5.8%.

Authorities remain vigilant about potential inflationary pressures.

4. POLITICAL REVIEW

Since the passing of President John Pombe Magufuli in 2021, Tanzania has experienced a smooth transition of power under President Samia Suluhu. Her administration has taken a more welcoming approach towards foreign investors, leading to strengthened economic ties and increased business opportunities.

Several strategic projects initiated under the previous administration are set to become operational in the second half of 2023, which is expected to contribute to economic growth and development in Tanzania.

The political environment in Tanzania remains stable and peaceful. This stability benefits the economy, allowing businesses and individuals to operate and invest confidently.

MARKET PERFOMANCE IN 2022 AND OUTLOOK FOR 2023

The Tanzanian Financial Market has undergone significant changes in 2022, with one of the key developments being the liberalization of the capital account by the Bank of Tanzania. This move has enabled member states of both the East African Community (EAC) and the Southern African Development Community (SADC) to invest in the Tanzania financial markets and vice versa.

This significant shift in the financial market landscape has the potential to attract foreign investment, boost economic growth, and promote cross-border trade and investment.

The corporate bond market in Tanzania has witnessed a series of new products, and one notable example is the launch of the first-ever "gender" bond in the region by NMB. This bond is a unique financing instrument that seeks to promote gender equality and empower women-led businesses.

Another remarkable development is the issuance of the first Sukuk by KCB (T) in the Dar es Salaam stock exchange. This type of Islamic bond, which is structured to comply with Shariah law, has the potential to attract a new set of investors, particularly from the Middle East and Southeast Asia.

As environmental concerns continue to gain prominence worldwide, we expect to see an increase in green bond issuances in 2023. Many corporations are recognizing the importance of embedding environmental considerations in their strategic, investing, and funding programs.

Green bonds are an innovative financing instrument that enables investors to support environmentally friendly projects while generating financial returns. With Tanzania's abundant natural resources and biodiversity, the potential for green bonds in the country is significant. The growth of the green bond market can also contribute to the achievement of the United Nations' Sustainable Development Goals, particularly Goal 13 on Climate Action.

INVESTMENT STRATEGY FOR 2023

As we move towards 2023, it may be a good strategy to consider investing in strong, sectoral players within the Tanzanian economy. Some options to consider could include NMB and CRDB in the banking sector, Twiga Cement in the manufacturing sector, and DSE, which has a strong moat (a competitive advantage that makes it difficult for competitors to enter the market). A buy and hold strategy may be a reasonable approach in this economic environment.

During the second half of 2022, foreign investment in the Dar es Salaam Stock Exchange (DSE) decreased due to rising interest rates and concerns about a potential recession in major economies. As a result, the market has become heavily reliant on local investors, who may not have the same financial resources as foreign investors. The sell-off of stocks by foreign investors has created opportunities for other investors to purchase high-performing stocks at a discounted price.

We expect that when global risk aversion decreases and fears of recession ease, foreign investors may have a strong appetite for buying stocks that have consistently performed well and have solid fundamentals, such as those in the banking and manufacturing sectors in Tanzania. By holding onto these stocks over the long term, you may be able to capitalize on this increased demand and potentially see significant returns on your investment.

EQUITY MARKET IMPLICATION FOR THE NEAR FUTURE

The Dar es Salaam Stock Exchange (DSE) has faced several challenges in its equity market, largely due to inefficient trading rules. This year, the bourse made the bold decision to remove its CEO and appoint an acting CEO. We anticipate that a new CEO will be appointed in the first or second quarter of 2023 and that this change will lead to significant reforms at the DSE.

These reforms may help to improve liquidity for counters that have struggled due to DSE rules, allowing them to trade at their fair value and bringing activity back to levels seen in the 2015s. Some of the counters that could potentially benefit from these reforms include TBL, TCC, and VODACOM, which may see increased daily trading activity and become active counters once again.

In addition to potential reforms at the DSE, the launch of mobile trading platforms may also contribute to increased liquidity in the equity market by attracting more market participants. 2022 has already seen a rise in the number of local investors at the bourse, and with many major stocks continuing to achieve strong results, this trend is likely to continue.
Overall, we remain optimistic about the prospects of the equity market in the medium to long term, with the possibility of having more products increasing market depth and liquidity.

Achieving the anticipated economic growth, where infrastructure investment starts to bear fruits in terms of increased economic activities, expanding middle income will have beneficial impact on the revenue generation potential of some listed equities.

STOCKS TO WATCH 2023

COMPANY	Current Price (TZS)	% Change YTD	Market Cap (TZS Billion)	PE Ratio	PB Ratio	Dividend Yield
NMB	3,500	+75%	1,750	4.01x	1.02	6.39%
CRDB	440	+57%	1,149.21	3.09x	0.73	9.35%
DSE	1,740	+34%	41.45	9.1x	1.5	5.9%
TPCC	3,920	+15%	705.30	7.5x	2.4	10.5%

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