

SECTORIAL ANALYSIS

CONSTRUCTION

POSITIVE ON RESIDENTIAL & WAREHOUSING, COMMERCIAL (OFFICE) REMAINS IN A DOWNWARD SPIRAL

STRONG BUT BUMPY RECOVERY UNDER WAY

The construction industry typically generates 3.5% of Gross Value Added ('GVA') for Mauritius and accounts for roughly 5% of total credit extension in the banking industry. Its GVA was roughly Rs 21.7 billion in 2019, halving by almost 47.7% in 2020 to Rs 16.7 billion.

For the first semester of 2021 ('H121'), we note the construction sector seeing the strongest recovery so far this year (after being the most beaten down industry in 2020) with a year-on-year growth of +60% as previously delayed projects get completed.

We expect again double-digit numbers for 2022 as delayed projects break ground and on the back of a certain normalization in the growth rates (it is important to note that the construction industry's GVA has been flat since 2010, exclusive of the crisis related 2019 slump).

Considering the low interest rates environment and government announced budgetary impetus towards increased home ownership, this sector is likely to gather momentum in H221 and into 2022.

CONSTRUCTION IS HIGHLY CYCLICAL – NOT CONSTANT

The downcycle from 2011 to 2015 as the sector had overheated and peaked in 2008 (the global financial crisis).

The loosening of long-term interest rates has been positive for the entire industry from 2017-2019 and we expect a new cycle to be underway from 2021 onwards; fuelled by public and private sector led smart cities programs and public infrastructure spending.

However, this new construction cycle is also likely to face a bumpy recovery as inflationary pressures are likely to exacerbate into 2022 / 23. Already we note that the construction price index has ballooned by +8.6% since June 2019 (as of June

2021) while the GVA has slumped by roughly -16% over the corresponding period!

Since June 2020, year on year, the Construction price index has surged by +4.6%. Yes, the overall global commodity price increases coupled with higher freight charges and a materially weaker Rupee are all creating a perfect storm which may likely constrain the industry's growth. The counterfactor remains the ample liquidity and low interest rates environment (but as we increasingly share the view of the first rates tightening in 2022, we remain cautious on the sector) which could sustain the momentum in the cycle, but for how long?

RESIDENTIAL & WAREHOUSING POSITIVE

Within these increasingly complex dynamics, we remain positive on the Residential and warehousing segment of the construction industry. It goes without saying that banks have always (and rightly so), been fond of the increased 'home ownership' thematic, as the risk adjusted interest returns for them are highly attractive. To that you add the competitive nature of the local banking industry, budgetary and fiscal impetus for residential housing and a historically low interest rates environment and the residential segment is, shall we say, on a strong recovery path (after new building & addition permits shed -7.1% and -6.8% in 2019 and 2020 respectively).

Non-residential permits have been in sharp decline since 2018 (-27% decline) and the cycle deepens as our economy structurally stagnates.

Unless we see industry / employment / new industry creation (economic reinvention), we may just be at the beginning of a 'lost decade' for office construction (unless a reinvention of the model and / or a lot of move around – not helped by the advent of flexible work and work from home; especially hereon).

THE WAREHOUSING SEGMENT IS THE DARK HORSE

With the increased structural shift movement from brick-and-mortar retailing / client servicing to online retailing / client servicing, the need for warehouses has been growing exponentially over the past few years.

Following the pandemic, supply chains have been disrupted and this movement is even more relevant.

To a certain extent, we see this space as seeing tremendous investor support (especially those shifting and / or diversifying from office commercial).



Contribution by
ANEAU

SECTORAL ANALYSIS

THE HOT YEAR

ECONOMIC PERSPECTIVES FOR 2022



PRELUDE

"To create something exceptional, your mindset must be relentlessly focused on the smallest detail."

Giorgio Armani

Mauritius GDP is estimated to have grown by an encouraging +19.4% to Rs 99.9 billion in the Second quarter of 2021 (Q221) as opposed to Rs 83.7 billion in the second quarter of 2020. This compares favourably versus the corresponding Euro Area's + 14.3% Q221 (year on year) growth and the US' +12.2% (year on year) GDP growth registered in Q221. This clearly showcases that we are recovering our way out of the catastrophic Q220, and the 1st lockdown experienced

by our country. However, these numbers, while denoting a mathematical rebound from last year's very weak second quarter, remain relatively weak when contrasted against 2019 and hence we are far from out of the woods. We herein delve into 10 important sectors of our economy to understand our strengths, weaknesses and the underlying opportunities and perspectives for each sector in 2022. In conclusion, we remain positive on the economic recovery but remain mindful of the elephant in the room being cost push inflationary pressures and so an interest rate tightening – likely to be reactive rather than proactive; which may unsettle the local capital markets and derail economic recovery (massive money supply growth globally and locally, high oil & gasoline prices, weaker Rupee and depleted purchasing power and globally high commodity, labour (wages) & freight prices emanating from supply chain disruptions) and the eventual need for the Bank of Mauritius to start tightening interest rates in 2022).

Contribution by

ANEAU

TOURISM

THE RECOVERY IS NOT THAT STRAIGHT FORWARD

THE SHAPE OF THE RECOVERY.

While the world contracted by - 3.1% in 2020, our economy slumped by a mind boggling - 14.9% for reasons relating to the COVID-19 pandemic and much more.

One of the prominent reasons for such a slump and which has more than ever led to a material realization of the underlying importance but also the critical need to diversify our economy further therefrom, the tourism, accommodation, and food services sector.

This slumped by - 63.7% in 2020. From a Gross value added (GVA) of Rs 30.2 billion in 2019 to Rs 10.9 billion in 2020.

We estimate that the recovery may take a sharp tone for the end of year 2021 and start taking serious shape by mid-year 2022 with an even stronger 2023 (under reserve). From a low 2020 base, this recovery will be palpable but as opposed to 2018 (which for us should be the base year), then matters may get complicated. Short haul bookings numbers from IATA are looking more robust (as of October 2021, IATA reported that the domestic trends in passenger bookings was at about 80% of pre-crisis levels) in the short term rather than long haul travel (international passenger bookings were still at hardly 25% of pre-crisis levels - we expect the same to tilt slightly higher by late 2021).

2019 WAS ALREADY A WEAKER YEAR. LET THE NUMBERS TALK.

By any reasonable measures, our destination had been losing its uniqueness for some time now, for various reasons experts are aware of. While in 2018, 1,399,408 tourists had visited our paradise island (whatever that means and how is it marketed in today's high-tech world?), in 2019, the numbers were - 1.1% weaker at 1,383,488. Translated into tourism earnings, the 2019 earnings of Rs 64 billion had weakened by a slightly higher rate, - 1.5% to 63.1 billion.

As our borders locked down 'late' in 2019,

hardly 308,980 souls had visited our island last year which itself, represents a decline of -77.7% (while tourism earnings over the corresponding periods fell -72% to Rs 17.7 billion in 2020). Estimating the number of tourist arrivals for 2021 and 2022 is raw for even a base case.

As we again fell behind in the pace of herd vaccination and re-opening of our borders, by the 15th of October 2021, it is estimated that only 39,460 tourists had flown to Mauritius, and it is estimated that 82% of the 30,000 flown in October, were foreigners, i.e., 24,000 (and hardly 80% of those are tourists traditionally reside in hotels).

BASE CASE IS ALBEIT A BEGINNING.

Now, our borders have fully reopened on the 1st of October, and we understand from the grapevines that tourist arrivals and forward bookings are resuming healthily but with an international air access issue, the pricing of air tickets to Mauritius are overwhelmingly non-sensical (data from actual travellers).

At this juncture, and in alignment to the IATA's forward booking estimates contrasted to the pre-crisis levels, our base case is that we attract 136,884 tourists in Q421 (50% of the Q418 arrivals, which is itself, 20% higher

than current global average booking trend estimates) and so around 146,344 total number of tourists in 2021.

We believe that a surge is likely as countries open their borders and international travel resumes strongly in Q421, to a certain cyclical tepidness in Q121.

Our best case is that we hit at least 273,268 tourists in Q421, which shall bring the total for 2021 to roughly 273,228. The worst, well, the numbers could turn as low as hardly 70,807.

2022 SHALL LIKELY BE THE MOST IMPORTANT TEST AMIDST NUMEROUS REAL BOTTLENECKS

Our base case for 2022 is 968,442 tourist arrivals (growing to 1,175,965 in 2023), notwithstanding the following bottlenecks: Sub optimal air access; high crude oil prices (in excess of \$80 / pb) and high air ticket prices, inflationary pressures picking up globally with pressures on disposable income in developed countries, lack of destination innovation in an increasingly 'online' world and lack of clear brand image (all-inclusive has empirically been incoherent with the notion of a luxury destination!).

Contribution by
ANEAU



SECTORAL ANALYSIS

FINANCIAL SERVICES SUSTAINED MOMENTUM FOR 2022 ON FATF EXIT

FATF GREY LIST EXIT

Mauritius exited the Financial Action Task Force ('FATF') grey list in October 2021, after the February 2020 listing which led to a 20-month long enhancement of our country's AML / CFT framework(s) and the industry facing increased scrutiny offshore and in certain cases, a halt / suspension.

Such a delisting shall be extremely positive for Mauritius and its financial services sector. In addition, such delisting now ensures that individuals and Banks / Custody banks can now enjoy 'normal' relationships with their international counterparts and process transactions 'normally', going forward.

THE NUMBERS ARE LIKELY HEADING HIGHER FOR THE GBC SECTOR

Effectively, this should compel both the Reserve Bank of India ('RBI') and other jurisdictional instances to ease their curbs on our financial jurisdiction.

First, it could pave the way for RBI lifting the curbs on ownership and control by entities in Mauritius investing in Indian non-banking finance companies ('NBFCs') and other payment service operators; second, there would be lesser scrutiny on the 'beneficial ownership' ('BO') of Mauritius vehicles coming in as foreign portfolio investor ('FPI') and foreign direct investor ('FDI') and so a regain in Assets under administration ('AUA') for the local GBC sector.

The behemoth financial sector is estimated to represent roughly 12% of GDP with an estimated Gross value added ('GVA') of Rs 49.3 billion in 2020, - 5.0 % weaker than the Rs 51.8 billion

registered in 2019. The sector had weakened by roughly -1.7% during the first half of 2020 versus H119. For the first semester of 2021, the segment's GVA had grown + 1.6% year on year but still flat as contrasted against 2019's Rs 25. 7 billion GVA.

The GBC sector represented 5.8% contribution to GDP in 2019, growing to 6.0% in 2020 and is now estimated to represented roughly 6.2% of GDP in 2021 (growing at roughly +4.8% in 2021). We expect growth to pick up in 2022, in alignment with global Assets under management ('AUMs'). The key underlying driver for the domestic GBC AUA to exceed USD 800 billion is likely to be increased alternative investment funds and foreign direct investments from Asia / Europe / US into Africa: being domiciled in Mauritius.

Supporting such perspectives, shall also be the way we handle geopolitical tension(s) and ongoing bilateral external affairs, especially with the main financial centers of the world but also our executive's sustained commitment in ensuring that formulated AML/CFT framework(s) are being efficiently implemented and supervised.

THE INSURANCE SEGMENT TO REMAIN STABLE

The insurance sector typically generates about 20% of the financial services GVA, Rs 10.5 billion in 2020, as opposed to Rs 10.9 billion in 2019. Sure, 2020 was weaker in general and the -3.2% year on year decline can be understood but what is more important is that already, the first semester of 2021 is showcasing an interesting + 2.6% growth, which remains weaker than headline inflation now sitting at 3.2% (year on year inflation at +5.2%). This can be further explained by the fact that this segment has been matured for a couple of years now.

Both the number of short-term general insurers and long-term insurers have remained stable since 2015, showcasing a certain stagnation in this industry. It is important to note that despite representing roughly 80% of the industry's total Rs 102 billion of assets, the long-term insurance business has been growing at a slightly higher pace than general insurance. This trend is likely to be maintained as we expect

higher claims payout(s) in the general insurance sector, resulting from the COVID-19 pandemic. Also, this pandemic is likely to cause various insurance and re-insurance companies to review and adjust premiums; especially relating to natural catastrophes.

In conclusion, we expect the financial services industry to remain robust and gather momentum in 2022; with GVA numbers likely to surpass 2019's.



SECTORAL ANALYSIS



BANKING

INCREASED NET MARGINS AS INTEREST RATES LIKELY TO TIGHTEN IN 2022

MIC RISK STERILIZATION

The announcement of the creation of the Mauritius Investment Corporation ('MIC') had, to a certain and material degree, sterilized corporate default risks in the banking system; especially relating to the hotel, travel, and tourism industry. In addition, the various measures implemented by the government, including the Wage Assistance Schemes ('WAS') have alleviated massive layoffs, higher unemployment and eventual retail default risks in the domestic economy. Now that Mauritius has also exited the FATF Grey list, the banking industry seems to have emerged much stronger from the crisis.

With inflationary pressures proving persistently sticky domestically and with interest rate at an all-time low (and so the negative real interest rates environment), we expect a tightening of interest rates in 2022; which considering the high rupee liquidity environment coupled with reasonably cheap cost of funding; is very likely to impact the banking industry's net interest margins positively going forward.

MIND THE INFLATIONARY PRESSURES

On the international front, certain inherent factors are cause for concern. Let us be empirical. The money supply in the United States has surged more than 5X; which is tremendous. Money has been 'dropped' directly in the hands of consumers, which are very likely to spend and drive-up prices. Labour market and supply chain disruptions globally have been pushing prices higher. Oil prices are already past USD 80 / pb while gasoline prices are ticking way higher than where they should technically be at this time of the year. Finally, commodity prices across the board, as indexed by global commodity & freight prices (see Baltic dry index at multi-year highs) indices, are way higher, especially coming out of a pandemic.

Hence while imported cost push inflation is likely to be a cause for concern, domestically, we note the much weaker rupee and rising prices everywhere in the real and parallel economies. Prices and wages (the worst possible timing for the PRB wage adjustments) increases often equates to playing with the cost push inflationary pressures, which in a recovering economy, can cause major headaches for our Central Bankers at some point of time.

For now, they seem tranquil and buying in rather easily the 'transitory' inflation story from the world's developed economies.

We humbly do not see a year-on-year inflation of +5.4% and headline of 3.2% (as of October 2021) as 'contained' with the Key Repo Rate ('KRR') at 1.85% but rather as persistent and this is worrying.

Developed economies have very different dynamics, and these economies are very different from emerging ones; and ours to that extent.

We have been facing a negative interest rates environment for a long time now and this is for us, a huge cause for concern as the depletion of our nation's wealth and spending power for a sustained period can be socio-economically dangerous, destabilizingly dangerous.

TIGHTER INTEREST RATES AND HEALTHY CREDIT GROWTH ENVIRONMENT

Hence at this point, we remain reasonably confident that by latest mid-2022, the Bank of Mauritius ('BOM') shall likely be forced to start tightening interest rates.

To ensure financial stability, the tightening process better be disciplined and proactive rather than unorderly and reactive (in which case the local stock market shall likely express its discontent, within a very rapid timeframe – as rapid increases in interest rates shall likely pressure cash-strapped companies; especially in the hotel, travel, and tourism industry).

Notwithstanding which, higher interest rates for our banks means higher revenues. With cost of funds likely to be contained in an environment of both Rupee and hard currency (including GBC deposits) excess liquidity, interest margins are likely to tilt higher, especially from H222 onwards.

Already the domestic stock market seems to be pricing in such an environment, with banking earnings ticking higher ahead into 2022 / 23. This is further supported by the +3.9% year on year credit growth in the country (as of August 2021) but remains nominally weaker as real year on year inflation during the corresponding period has increased by + 4.3%.

Contribution by
ANEAU

AUTO

LOW INTEREST RATES & PRICE INCREASES ON RUPEE DEPRECIATION TAG OF WAR

POSITIVE IN GENERAL

This sector has been reasonably buoyant over the past few years; despite high excise duties on imported vehicles.

The sector, as most others, is estimated to have experienced early twenties percentage points decline in sales in 2020. We note that new registered vehicles fell from 24,628 in 2019 to 19,424 in 2020 (and therefore representing an important -21.1% decrease).

So far since the beginning of the year in 2021 (H121), it is estimated that 10,605 vehicles were newly registered. Typically, we can assume that most of the purchases typically take place at the beginning of each semester and so it is unlikely that the total sales for the year 2021 match the 2019 levels of 24,628 new registrations.

At reporting date (June 2021), the total number of registered vehicles of our roads stood at 600,658 as opposed to 600,053 as at December 2020 and thus a half yearly growth of +1.8%; well in deficit of an inflation rate of +5% during the corresponding period.

INTEREST RATES ARE SUPPORTIVE, OR ARE THEY?

A +1.8% year to date growth is unfortunately nothing to be excited about,



unfortunately as adjusted for inflation, we are looking at a Net contraction of - 3.2% for the first 6 months of 2021. We need to bear in mind that leasing rates and costs of funding (for importers and retailers) sit at an all-time low and that the government has in addition, provided a number of subsidies on excise duties for certain types of vehicles.

As we head into 2022, we reiterate the fact that the Bank of Mauritius may have to intervene rapidly and risks raising interest rates in an unorderly manner, at a rapid pace. The increase in interest rates shall then be negative for new / second-hand vehicles finance leasing.

The depreciated currency and higher freights exacerbate the fundamentals of vehicles sales.

The Rupee has depreciated in excess of - 12% versus the Japanese Yen ('JPY'), - 17% versus the USD and in excess of - 22% versus the Euro. Considering the fact that the bulk of vehicles are today imported from Japan, but also from Europe and so respectively in Japanese Yens and Euros are materially more expensive today, in an uncertain economic environment. Hence, the historically low interest rates are unlikely to give a material boost to increased vehicles import as we end 2021 and into 2022.

To the depleted local currency, we top up the higher freight prices issue, itself on the back of supply chain disruptions (including higher labour wages being observed globally) and higher commodity prices (. i.e., higher costs of inputs for the vehicles manufacturing business -obviously these tend to be passed on to buyers) and the sector's outlook for 2020 is increasingly complex.

THE RUPEE BEARS MAY BE IN FOR A SURPRISE

At Anneau, we have started to turn neutral to positive on the Mauritian Rupee, based on robust currency and macroeconomic fundamentals. Bar the deteriorating fiscal position of the government and pending sovereign credit rating downgrade, we do not expect a material Rupee weakening further in the very short term. On the contrary, we are more likely to see a stronger Rupee as we head into 2022 (bar any other catastrophes obviously).

An appreciation of our Rupee is therefore very likely to be supportive of higher vehicles sales in 2022 but as highlighted earlier, the equation is far from being that simple, considering hawkish looking interest rates and real inflation pressures.

Contribution by
ANNEAU



SECTORIAL ANALYSIS



AGRICULTURE. SUMMER HOT CHILLIES

THE TOURISM PENT UP DEMAND

The agricultural sector, despite in modern days representing hardly 3.6% of GDP is the most important one, by far.

As a wise soul described it beautifully: "You may need a white collar professional, a lawyer, a dentist, etc. a couple of times in your life but you need a farmer at least 3 times a day".

As our borders have reopened and the tourism, food & accommodation industry surges ahead, this is likely to support pent up demand; especially for crops and animals produce.

THE RECOVERY IS ONE OF THE STRONGEST

The sector has experienced the highest pre crisis (H121 versus H119) growth rates in the first semester of 2021; +15.3% and had hardly seen a dent in 2020 (+0.5% from H119 to H120): This is how resilient our agricultural sector has been! Year on year, the agricultural sector has in 2021 (first semester) grown by +14.8% (third highest growth rate behind the wholesale & retail sector and the leading and recovering manufacturing sector).

Sugarcane is now hardly 0.4% of GVA but consumes almost 65% of the entire industry's credit allocation!

It is of no surprise that sugarcane represents hardly between 13% - 18% of the entire agricultural Gross Value added ('GVA') of roughly Rs 14.7 billion rupees

and has been falling in importance over the past decades.

Sugarcane is now hardly 0.4% of GVA but consumes almost 65% of the entire industry's credit allocation!

Any sensible analyst shall find this rather peculiar.

Yes, we understand that this is easily collateralized, amongst other factors. However, it is nonsensical that the declining industry represents 65% of the total industry credit allocation when in GVA terms, it contributes hardly 15% to the industry! Credit allocation in the banking system should increasingly be focused on other Crops, animal production, hunting & related service activities but also fishing and aquaculture. This is where we think that proper policies and capital support from the executive shall be needed, such that sustainable growth is effectively supported over the coming years.

The new world (and its consumption behaviour and mindset) is moving away from Sugar and its woes. It is not about the 'landscape' and 'environment'; this rhetoric tends to be lame but rather about the 21st century Mauritius and our future generations.

Hence yes, to a certain extent, the local market(as) and the high-end sugar market (that too shall come to an end over the long term!) may make sense in the medium-term, or does it?

And does it mandate 65% of the total credit allocation of the entire industry for

a declining industry where the returns just simply do not make any commercial sense anymore?

Very unlikely some would conclude!

FOOD CROPS, ANIMALS, AND THE FUTURE.

This is where we applaud the conversion of sugarcane fields, increasingly into higher yielding crop fields. The export potential into Africa is ginormous and such should be the new game.

We further applaud the agricultural industry's (via its ministry, the chamber of agriculture, etc.) move towards more mechanization, improved yield & production optimization, and support to small farmers.

Yes, consolidation and upsizing can be a way (as the entire industry is highly segregated) but most importantly, the more concerted and coordinated production, storage, and distribution (including export) of our quality production of vegetables and fruits. Demand and supply often dictate pricing and the price discovery element can be enhanced by more real time information (and so the technological advancements should be fully utilized). The use of warehousing receipts ('WR') and their effective collateralization for credit extension should further be encouraged for small planters.

In conclusion, we expect the agricultural sector to maintain its strong growth momentum and 2022 is likely to be chilli hot.

SECTORIAL ANALYSIS

ICT. AI CHATBOTTING IS THE NEW SWORN ENEMY OF BPOs

AN INDUSTRY IN DESPERATE NEED OF REVIVAL?

The ICT sector consists of manufacturing and services industries whose products capture, transmit or display data and information electronically.

It includes related activities of "Manufacturing", "Wholesale and retail trade", "Communications", "Business services (such as call centres, software development, website development and hosting, multimedia and IT consulting and disaster recovery)".

The Information & Communication Technology ('ICT') sector today represents roughly 5.2% of the economy with a Gross Value Added ('GVA') of roughly Rs 19.6 billion (the bulk of which being telecommunications and internet services) and the industry accounts for roughly 5.2% of total employment. The sector has grown +5.2% so far this year and +8.6% since H119, in excess of inflationary growth and so has been robust; especially during the pandemic.

TIME ZONE, BIOLINGUISTICS
& PARADISE ISLAND NO MORE
COMPETITIVE ADVANTAGE(S) FOR
BPOS

For years, the aforementioned competitive advantages above, coupled with competitive pricing model, has been the backbone of our BPO sector. With the technological and disruptive advancements in chatbots, many BPO services are being sterilized and shall continue to be so. In addition, increasingly prohibitive General Data Protection Regulation ('GDPR') in Europe are likely to render the industry even more complex.



This can be further supported by observing the underlying trends in the exports of ICT goods and services from the peak of Rs 16.6 billion in 2015 to the trough of Rs 5.6 billion in 2020 (a -66% decline! That is not a non-recurring event but rather a worrying trend – especially considering the fact that the number of ICT establishments have declined from 130 in 2015 to 121 in 2020). While these exports represented 8.4% of our total exports in 2015, they now represent 4.4% thereof (a silver lining remains that from a trough of 2.9% of exports in 2017, thereon the trend has been positive).

CREDIT GROWTH TO THE ICT SECTOR HAS SLUMPED!

The entire sector, despite its 5.2% contribution to the GVA of Mauritius today hardly attracts 0.6% of the entire credit extension in the economy (a decline from 1% thereof as at H1 2019), when it is albeit, a capital intensive but 'reasonably' decent margin sector.

From a credit allocation of Rs 24.7 billion for the period Jan 2019 – August 2019, the credit extension has slumped - 28% by August 2021 (for the corresponding period) and this is material, significantly material. It is difficult to understand the reasoning behind as it can be both demand / supply driven and may also be cyclical (periods of high capital investments – investments in marine cables, high cost infrastructures, etc. tend to cyclically tick the credit extension higher and vice-versa).

We have set up the infrastructure and optimized access and pricing. Hereon, it

shall be all about value creation.

Mauritius is one of the countries with the highest mobile and internet penetration in Africa; yet with the least important (and not a single Unicorn high tech startup!) high tech (let alone fintech) ecosystems!

We strongly believe that there is a significant resource – talent – results mismatch here.

We cannot be having the latest technologies, cost effective infrastructures, ICT access (from basic elementary schools that too!) but yet not a single unicorn has erupted from our tiny economy. Yes, we understand the issue of size, but does not it imply that our ICT sector, especially the startup ecosystem us over localized and not enough regionalized (forget globalized for now).

OUR HUMBLE 2 PRONG SOLUTION

Why cannot our people be the founders of the next Facebook, Amazon, etc.? This is where the focus of policy making should be:

1/ Computer coding and an additional African language should be made compulsory from elementary schooling (a socio-cultural change is also needed); and

2/ Local ICT startups should be focused on rendering their technological services at least regional (African); thereafter global

Contribution by
ANEAU

REAL ESTATE

LOW INTEREST RATES ENVIRONMENT REMAINS SUPPORTIVE

INTEREST RATES & PUBLIC POLICIES AS DETERMINANTS

The real estate sector now represents roughly 5.5% of our country's Gross Value Added ('GVA') but residential real estate (housing), an eye popping 24% of total credit allocation in our economy (it has grown from 64.7% for the period Jan - Aug 2019 to 66.5% of total household credit extension for the corresponding period in 2021).

In the trough of the crisis (in a year where our economy tanked by -15%), the year-on-year credit extension to housing had grown + 6.7%! As of August 2021, the credit extension had progressed by another +6.7% year on year.

We believe that the trend is maintained as long as interest rates remain accommodative, and that unemployment does not shoot higher (as the WAS gets eliminated – unsure if it is sensible to keep the same despite the reopening of our borders and especially in an environment of much needed fiscal discipline) over the next few months into 2022.

However, we reiterate the risks of interest rates tightening on the back of persistent inflationary pressures going forward.

This, in our view, shall be the major constraint (notwithstanding the fact that construction price increases are likely to start playing the lid on this segment's impressive growth observed over the past few years).

RESIDENTIAL PROPERTY PRICE INDEX HAS STAGNATED

Since the second quarter of 2017, the RPII has been growing (and so Residential prices). We note a certain stagnation occurring from Q4 2018 until now (data available up till Q2 2019 – when economic activity came to a halt).

With residential prices starting to stagnate, a repeat of the Q2 2016 –



Q2 2017 sustained sharp decrease (re-adjustment) in home prices cannot be fully discounted. Higher input and construction prices are likely to support a bottoming of residential property prices, but an oversupply and a real negative rental yield may also deter new buildings and new real estate developments.

HENCE 2022 FROM OUR SEAT, DESPITE POSITIVE, SEEMS TRICKY.

2023 and the perspectives obfuscate further. One should not forget that it is estimated that more than 85% of Mauritians are now first-time homeowners.

At the lower income bracket, the housing deficit is palpable and the government's efforts to furnish low-cost 12,000 housing should be seen as positive for this income bracket. The higher bracket is now increasingly moving towards the buy-for-rent model, but again this brings us back to the commercial viability of this strategy in the evolving inflationary and interest rates environment leading to negative real rental yields (implies that the purchases increasingly being met not by positive rental yields on the mortgaged second property but rather from the owner's own pockets! Unsure if this remains sensible over time, especially in an environment wherein both expatriates are increasingly thinner and more lower-bracket constructions get under way, fuelled by

low interest rates and fiscal rebates / incentives).

AVOID OFFICE REAL ESTATE

From our discussions with several commercial office space developers, bankers, and real estate agents, we understand that this segment is facing challenging times.

The pandemic has led to a structural shift wherein the 'work from home' ('WFH') model is increasingly being envisaged by several large companies and this is worrying as a new norm is established. In addition, the 'wework' style shared office model is also gaining traction (hence the plausibility of reconversions).

True that certain collaborative and client facing roles shall continue to support office spacing but overall, we are turning increasingly bearish on this segment of real estate. In addition, in a stagnating real economy wherein innovation is low, investments even lower and job creation is meagre, it is quite difficult to see any turnaround soon.

The turnaround is likely to occur first in prime office rental prices (adjusted for inflation). This is where we think the bucks are likely to reside, and which we remain supportive thereof.

PORTS

ECONOMIC PERSPECTIVES FOR 2022

THE HEART OF OUR ECONOMY

Ports have a critical function in a sea locked economy and ours, since the beginning of modern ages, has been an economic activity pillar. Across board, the pandemic impacted the activities at the port (details from Mauritius Ports Authority ('MPA') as per hereunder:

MPA PERFORMANCE REPORT SUMMARY

Quoted from the Mauritius Ports Authority's 2020 Performance report:

"The total cargo traffic tumbled to 7.4 million tonnes in 2020 as compared to 8.5 million tonnes recorded in CY2019, representing a drop 13.0%.

Similarly, total container traffic registered a 6.6% decline during the CY2020 with 438,078 TEUs as compared to 469,011 TEUs in CY2019. For the period under review, both captive and transshipment container traffic posted a contraction of 11.0% and 0.3% respectively.

Likewise, the port witnessed a decline of 21.5% in the total vessels calls, from 3,536 in CY2019 to 2,776 recorded in CY2020.

Total Imports Traffic dropped by 15.8% from 5,399,842 tonnes in CY2019 to reach 4,547,151 tonnes in CY2020 as there were decreases recorded in all segments, namely solid bulk (-11.2%), liquid bulk (20.2%), containerised cargo imports (- 14.3%), fish (- 32.3%) and general cargo (37.4%)

Total exports have contracted by 8.7% and stood at 1,291,720 tonnes in CY2020 as compared to 1,414,134 tonnes in CY2019.

It should be noted that there were reductions recorded in all segments, namely; containerised (-8.8%), liquid bulk (-6.8%), dry bulk cargo (-66.1%), general cargo (- 32.0%) and fish (-93.3%) for the calendar year under review.

Total Containerised Transshipment Inwards traffic has plummeted to 1,582,893 tonnes in CY2020 as compared to 1,703,369 tonnes in CY2019, a decrease of 7.1% equivalent to 120,476 tonnes.

The laden transshipment inwards container traffic has gone down owing to the disruption in the global supply chain following the outbreak of the Covid-19 pandemic."

THE BALTIC DRY INDEX IS ON THE RETREAT

What we at Anneau tend to focus on when it comes to international port movements (spot and forwards) is the Baltic Dry Index, which depicts the average prices paid for the transport of dry bulk materials across more than 20 international routes. The BDI is often viewed as a leading indicator of economic activity because changes in the index reflect supply and demand for important materials used in manufacturing.

After effectively rebounding strongly in 2020 and peaking in December 2020, it has peaked again, denoting the inflationary freight prices, primarily on the back of supply chain disruptions. Higher prices, however, have long been supportive of increased supply and we expect this momentum to be sustained, albeit with a certain tapering of prices as supply chains are re equilibrated from 2022 onwards.



SECTORIAL ANALYSIS



EXTERNAL TRADE

TEPID REBOUND IN ACTIVITY IN 2022

ON WEAKER CURRENCY

A REBOUND IN ACTIVITY

As expected, economic activity has been on the correct trajectory since the beginning of the year.

While our total exports had contracted by -20.1% in the second semester of 2020 (as opposed to the corresponding period in 2019), as the currency tanked and supply chains got disrupted and countries closed down, our imports on the other hand fell -24.8%, resulting in the balance of visible trade easing to - Rs 47 billion (from - Rs 65 billion as of the first semester of 2019 - H119).

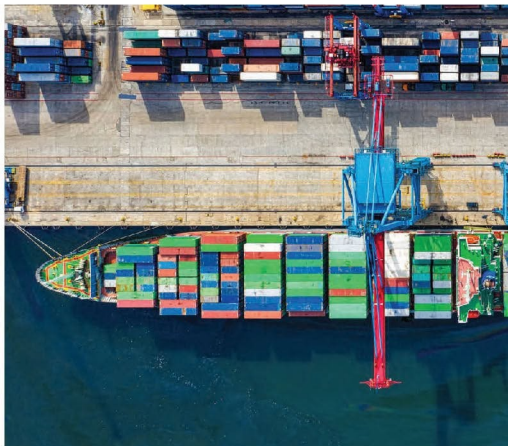
Fast forward to the first semester of 2021 and the total imports picked up by roughly +17.9% to Rs 36.8 billion (from Rs 31.2 billion in 2020). Coincidentally enough, our imports are also 'provisionally' (we do not understand why these are still provisions as of the end of October 2021) higher by the same +17.9% (from Rs 78.2 billion to Rs 92.2 billion); thereby resulting in a corresponding +17.9% (Yes, same quantum) worsening balance of visible trade to the tune of Rs 55.4 billion (from Rs 47 billion as of H120).

2019 AS THE BASE YEAR

To critically understand where our import and export numbers are from 2019's levels (pre-crisis levels) is critically important in order to depict net nominal growth from 2019.

Considering this fact, exports for the first semester of 2021 sat at Rs 36.8 billion (as opposed to Rs 39 billion in 2019 and so still a -5.8% drawdown!). Adjusted for solely the rupee's depreciation (versus the USD and the EUR), we are still way Circa -24% weaker in nominal / fx adjusted terms on our exports in nominal terms versus the first semester of 2019.

On the same basis, imports on the other hand for the first semester of 2021 amounted to Rs 92,187 (as opposed to



imports of Rs 103,970, and so a deficit of 11.3% versus 2019 and on a currency adjusted basis, roughly -30% weaker than in 2019). Notwithstanding the fact that imports would have included some non-recurring elements of public infrastructure works therein to 2019, our imports are way pricier and have been nominally affected and are yet to recover to the 2019 levels. Unless we have other major public infrastructure imports in 2021 / 22, we are unlikely to achieve higher import numbers, which in our view aligns the policy of more self-reliance (especially in the context of higher input prices globally and domestically).

A rebound in economic activity is expected in 2022, albeit inflationary pressures today represent palpable risks which should be taken into consideration. Hence, Mauritius is likely to maintain both its current ac-

count and budgetary deficits in the short to medium term and the underlying risks of another sovereign credit downgrade is real.

However, there always exists intelligent means and ways of calming the fire. Either through higher revenues and / or more disciplined spending.

ANNEAU

Anneau est une société de services financiers agréée et réglementée par la Financial Services Commission ('FSC') à Maurice.

Téléphone: 2141717
Site Web: www.anneau.co