COVID-19 MARKET COMMENTARY EDITION 1

THIS WEEK'S MARKET OVERVIEW

- Global stocks have faltered following earlier gains and market rallies after investors broadly welcomed significant global monetary and fiscal stimulus programmes introduced all over the world in response to the COVID-19 pandemic.
- In the US, the Government announced an unprecedented USD2 trillion stimulus package deal, alongside removing the QE cap and launching new programs to stabilise the US economy. Wall Street opened 1% higher on Thursday in response to investors looking past newly released jobs data, to the stimulus ahead.
- In the UK, last week saw a fiscal package valued at GBP30 billion. The Bank of England has also kept interest rates at a record low.
- Bloomberg have also released four scenarios modelling the impact of the virus, with it's most extreme scenario forecasting recessions in the US, Europe, Japan, the slowest growth on record in China, and a total of USD2.7 trillion in lost output - the equivalent of the entire GDP of the UK.

IMPACT ON M&A AND DEAL ACTIVITY

- Whilst the full effect of COVID-19 on global M&A will not be known for some time, according to Dealogic, the global M&A market is set for its slowest yearly start since 2005.
- Global transaction volume dropped 26% to USD387.4 billion for 8465 deals (as of March 24, 2020), according to Refinitiv data. This data has been released against a backdrop that some weeks ago, had 2020 shaping up to be the fourth strongest year for M&A on record. KPMG predict a wave of distressed deals and the emergence of 'White Knights' in the coming weeks, as the economic crunch of the virus impacts share prices, puts pressure on companies to retain cash, and restricts cheap debt to prime deals and drive deal making.
- In Africa, one of our core markets, a modest increase in both M&A and capital markets transactions was expected, following new global and regional trade agreements, and signs of future economic improvement. According to Baker and McKenzie, COVID-19 is now likely to hamper this upturn, resulting in increased short term uncertainty when considering investment opportunities in Africa, and productivity and consumer demand across the continent. The TMT sector, for example, was expected to attract high value investments this year, with many TMT players looking to use M&A to expand their infrastructure and capture lucrative opportunities in the e-commerce sector. However, the implementation of the African Continental Free Trade Area in July 2020 is expected to encourage and facilitate investment into the continent, and will provide a boost to deal activity in Africa.
- Looking to Private Equity, Private Equity houses, in addition to focusing on their portfolios, are also sitting on a USD17.1 trillion cash pile in need of deployment. These firms are expected to be scanning the market for deal opportunities and trying to time their investments for the bottom of the cycle.
- Despite anecdotal evidence that transactions are being postponed or cancelled, deal making is continuing, with sell-side activity expected to hold up, and corporates set to use the time to prepare for non-core disposals.

Recent Deal Announcements

- Large cap deals that have recently been announced include:
  - KKR agreeing to buy a UK waste and recycling business called Viridor from Pennon in a GBP4.2 billion deal
  - A private equity consortium has acquired Thyssenkrupp AG's elevators division for EUR17.2 billion
  - Tesco has agreed to sell its Asian business to Thai billionaire Dhanin Chearavanot for USD10 billion

Valuations

- Once the volatility subsides, it is expected that many acquirers will pursue their 'dream deals' by seizing on targets with lower valuations. However, many negotiations are under threat with targets requiring that buyers value their shares closer to their 52 week highs.
- Using the US as a proxy for this projection, Refinitiv data highlighted a trend in 2019 that saw more than 60% of US companies (with valuations >100m) agreeing to deals with share prices above or at a discount of no more than 10% to their 52 week high.

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SPOTLIGHT ON EMERGING MARKETS

- Aggressive responses by Governments and Central Banks to the COVID-19 pandemic are not limited to developed nations, and this week there has been unprecedented moves by emerging economies in an attempt to mitigate the impact of the virus.

- In **Africa,** there are calls for African leaders and the global community to urgently agree to a USD100 billion financial stimulus for sub-Saharan Africa. This figure is in line with global average of stimulus to GDP of 5.1%, being worth 5.6% of the GDP of Sub-Saharan Africa.

  - In **Nigeria,** the Central Bank of Nigeria has announced measures including special loans and extensions of debt repayment terms in an effort to control the impact of the virus. In addition, the Central Bank has also mobilised local Nigerian billionaires to help with financial assistance. Access Bank Plc has already teamed up with Africa's richest man, Aliko Dangote, to provide treatment and isolation centres.

  - In **Ghana,** the Bank of Ghana was the first sub-Saharan African country to cut interest rates, reducing its benchmark to an 8-year low. The nation is also requesting support from the World Bank and the International Monetary Fund according to their Finance Minster, Ken Ofori-Atta.

- In **Indonesia,** Bank Indonesia has cut interest rates by 25% basis points, despite current account deficits and the Rupiah weakening this week, particularly in the run up to the decision.

- In **India,** with the Government yet to announce an economic package, the Prime Minister has recently dedicated a healthcare package worth Rs15000 crore (USD150 billion), and the Indian Finance Ministry has implemented extensions for document filings for income tax and GST.

EXPERT INSIGHT

Bolaji Sofoluwe is the Managing Director of ETK Consulting, a specialist market leading consulting firm that facilitates market entry and tradebetween Europe and Africa.

As Crasner Capital's Expert of the week, Ms. Sofoluwe provides her expert thoughts on the impact of the coronavirus across the African continent.

- We expect COVID-19 to impact all key sectors across the African continent, with supply chains facing major shocks.

- Commodities including agriculture and solid minerals, immediate manufactured services, finished manufactured goods, financial activity, tourism and hospitality will all take major hits.

- This is not only due to major travel restrictions and widespread lockdown policies, but also due to weak healthcare systems across the continent, as well as economic limitations on African governments, to offer financial relief similar to those offered to businesses and individuals by Central Banks in most developed countries.

- Full lockdown policies are difficult to implement in Africa as small and micro businesses depend on mobility to thrive. Economic relief will have to specifically target these groups, or it could lead to an unfortunate reversal in the gains experienced in recent years, in the fight against poverty in Africa.

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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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SOURCE LIST: Baker and McKenzie, Barrons, Bloomberg, CityAM, Fenwick, Financial Times, Harvard, Reuters.