

SWAN

Swan Securities Ltd

Budget Highlights 2019/20



Mauritian Economy And Key Figures



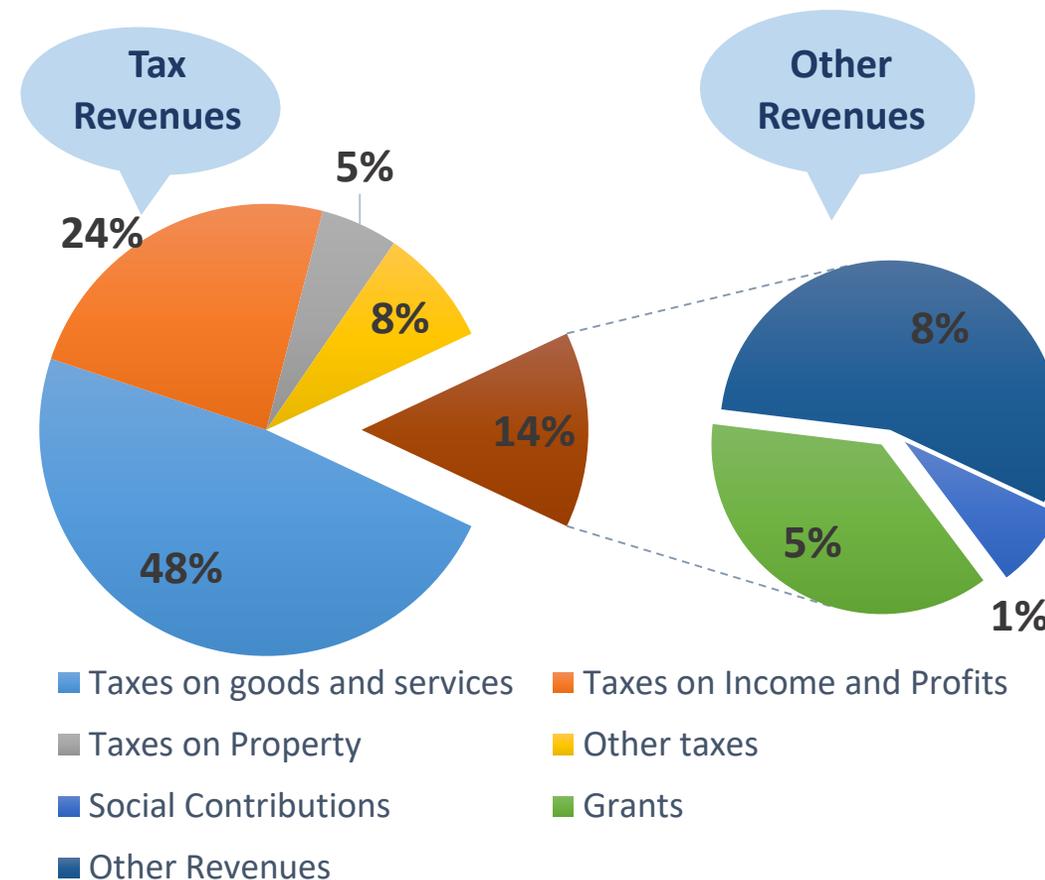
Mauritian Economy – Key Figures

Key Figures	2015	2016	2017	2018	2019F
GDP real growth rate (%)*	+3.6	+3.8	+3.8	+3.8	+4.0
Budget Deficit (% of GDP)	3.5	3.5	3.2	3.2	3.2
Net public sector debt (% GDP)	62.9	65.0	64.5	63.4	65%
Unemployment rate	7.9	7.3	7.1	6.9	6.9
Inflation rate (Headline)*	1.3	1.0	3.7	3.2	2.0
Total Revenue (Rs bn)	88.3	94.1	106.8	117.4	121.7
Total Expenditure (Rs bn)	106.2	110.6	122.3	133.8	138

Key Repo Rate currently at 3.5%, Mauritius historically lowest level

* Figures are for Calendar Year

Revenue for 2019/20 (Est.)



Objectives of Budget 2019/20

BUILDING STRONGER FOUNDATIONS FOR THE INFRASTRUCTURAL DEVELOPMENT OF RODRIGUES, AGALEGA AND OUTER ISLANDS

SECURING SOUND PUBLIC FINANCES AND SUSTAINABLE DEBT.

FACING THE CHALLENGE OF CLIMATE CHANGE AND FURTHER BUILDING THE RESILIENCE OF OUR ENVIRONMENT.

STRENGTHENING THE PILLARS OF ECONOMIC GROWTH

PROMOTING A SAFER AND MORE SECURE LIVING ENVIRONMENT.

CONSOLIDATING THE PRODUCTIVE SECTORS WHILE SHAPING A MORE DEMOCRATISED ECONOMY

REACHING A HIGHER SOCIAL DEVELOPMENT PATH WITH A FOCUS ON GENDER MAINSTREAMING AND IMPROVING QUALITY OF LIFE.

DEEPENING REGIONAL INTEGRATION AND EXPANDING OUR ECONOMIC SPACE WHILE ATION.

DEEPENING OUR NATIONAL REFORM AGENDA.

BUILDING THE INFRASTRUCTURE THAT MATCHES OUR DEVELOPMENT VISION.



Sweet, Sweeter & Sweetest

Last year's budget speech was entitled '*Pursuing Our Transformative Journey*' and the country was transformed into a major construction site with the advent of the Light railway or Metro Express and other major road decongestion programmes around the island.

On this Monday 10th June 2019, the Honourable Prime Minister, Minister of Home Affairs, External Communications and National Development Unit, Minister of Finance & Economic Development, Pravind Kumar Jugnauth presented the government's 4th budget '*EMBRACING A BRIGHTER FUTURE TOGETHER AS A NATION*'. For nearly 2 hours, the Mauritian population was sweetened with a good dose of positive social measures leading to an increase in their disposable income:

- higher income exemption threshold;
- employees earning a monthly salary of up to Rs. 50,000 or an annual net income of up to Rs. 700,000 will be eligible to a tax credit of 5% to be offset against the 10% income tax liability;
- reduction of Mogas (petrol) from Rs. 47.00 to Rs. 44.00 and Diesel from Rs. 38.00 to Rs. 35.00;
- reduction in the price of 12Kg cylinder of cooking gas from Rs. 240 to Rs. 210
- elderly pension raised by Rs. 500 to Rs. 6,710;
- free medical insurance scheme for public sector employees earning up to Rs. 10,000 and for those earning more than Rs. 10,000 Government will subsidise by 50%
- Rs.1,000 in monthly allowance to all public sector employees as from 1st Jan 2020;
- issue of Silver Bonds for Mauritian elderly bearing an interest rate of 5.5% per annum payable quarterly

Sweet, Sweeter & Sweetest

Could it get any sweeter? Sugar, an ailing sector, with global sugar prices having nosedived to Rs. 9,000 per ton in the crop season of 2018 benefited from a series of measures to encourage small planters to continue production with a final sweet tooth: Government guaranteeing a price of Rs. 25,000 per ton for the first 60 tons of sugar accruing to all planters.

Tourism, the other faltering arm, was also given considerate attention with a significant budget of Rs. 535M to the Mauritius Tourism Promotion Authority (MTPA) to develop a new Tourism brand for the island, promote the country in traditional markets as well as in China, Saudi Arabia, Kenya, Scandinavian countries, Ireland and Eastern Europe. An additional dedicated budget of Rs. 116 M for the MTPA to reinvigorate the China and Kenyan routes. China tourists were on the receding trend and these strong signals should be well appreciated by the industry at large.

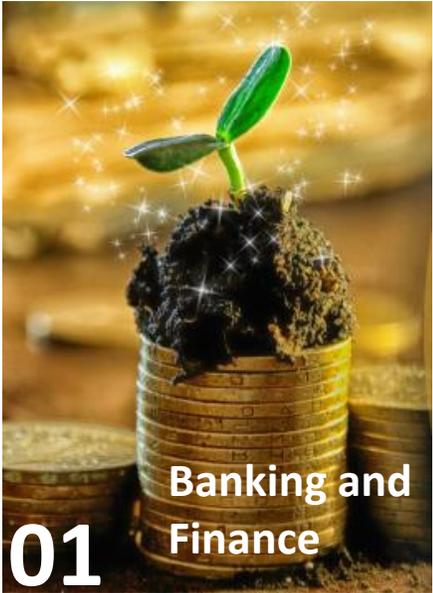
The SME sector got a fair share of the attention as Government continued to forage new ways of driving national growth & entrepreneurial spirit – increase in micro financing limit from Rs. 250K to Rs 500K; equipment leasing facilities reduced from 5.5% to 3.9%; suspension of trade fees for over 300,000 businesses and greater access to labour with eligible criteria for enrolment in the SME Employment Scheme being lowered from graduate to diploma level. Creation of a new class of enterprises, the Mid-Market Enterprises (MME) with annual turnover in the range of Rs. 50M to Rs. 250M will also benefit from privileged financing rates.

Sweet, Sweeter & Sweetest

Overall, GDP is expected to grow at 4.0% for 2019-2020 compared to 3.9% in 2018/2019. Unemployment fell to a record low level since the last 17 years to 6.9% in 2018 with inflation expected to drop to a low of 1% in 2018/2019 and forecasted to grow to 2% in 2019/2020. Budget Deficit for the fiscal year 2019/2020 would be contained at 3.2% of GDP with total revenue of Rs 121.7bn and total expenditure of Rs 138.6bn (an overall budget deficit of Rs.16.9M). From a debt perspective, Debt to GDP will reach 65% in 2019 and is projected to fall drastically to 61.6% in 2020 and below 60% in 2021. This feat will be achievable through an early repayment of Rs. 15.6 bn of Government external debt with funding coming from the capital reserves of the Bank of Mauritius. Ingenious creative accounting that Government can afford to do in a period where our import cover has peaked to 11.2 months in May 2019.

The Budget left us as individuals with a strong feel good factor, a good omen for the forthcoming elections. From a private sector perspective, there were a series of micro measures to improve business facilitation, e-commerce initiatives. The ailing sectors of our economy were given a booster but were still in the realm of micro measures for e.g small planters with sugar conglomerates left on the sideline. We were deceived that the textile industry was not amongst the core patients to be given an injection with the exodus of domestic manufacturers to other low cost jurisdictions. We welcome the setting up of a new trading platform on the Stock Exchange of Mauritius to accommodate a new category of companies that do not meet the requirements for an official market or DEM markets listing.

On a farewell note, the usual suspects were left unscathed with no increases in excise duties for tobacco and alcoholic beverages for the second consecutive year!



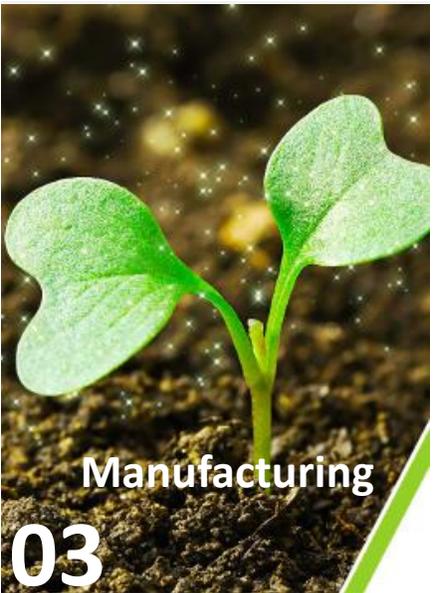
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**Banking and
Finance**



02

Tourism



03

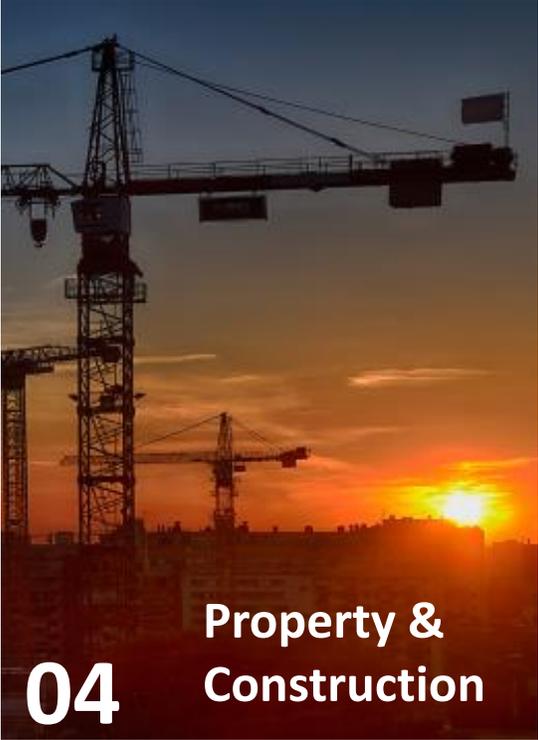
Manufacturing



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Blue Economy

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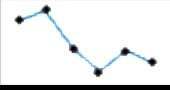
**Property &
Construction**



Banking and Fintech

Banking, Finance & Technology

Banking, Finance & Technology

Sector Review	Parameter	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019F	Trend
Financial & insurance activities	% contribution to GDP	+12.0	+12.1	+12.0	+11.1	+11.5	
	Sector Real Growth Rate (%)	+5.3	+5.7	+5.5	+5.4	+5.2	
ICT	Sector Real Growth Rate (%)	+7.1	+5.4	+4.4	+5.3	+4.8	

Banking, Finance & Technology

Theme: From an unprecedented scheme to alleviate public debt using undistributed excess cash at the Bank of Mauritius to the fine tuning of taxation of banks. However the strategic directions “ to maintain Mauritius as an International Financial Centre of repute” seems more centred towards consolidation of previous year`s aim to push the country into a new era of digitalisation.

The financial and insurance activities sector contributes around 10.5% to GDP and a growth rate of 5.5% is expected for the year.

Global Business Segment

As such, a `single-window system” will be implemented by FSC for submission of documents for global business applications for ease of process. Moreover we will see reforms to the tax regime of Global business companies to address shortages in our partial exemption regimes.

Measures:

- Define the detailed substance requirements that must be met in order for a taxpayer to enjoy the partial exemption benefit.
- Lay down conditions that must be satisfied where a company outsources its core income generating activities.

The global business sector is expected to expand at a higher rate of 4.7% in 2018

Fintech – Journey to establish as a referenced financial hub in the region

- Robotics and AI will be at the forefront to disrupt the financial sector.
- Introduce a new licence for Fintech Services provider.
- Create Crowd Funding as a new licensable activity.
- To encourage entrepreneurs, a 5-year tax holiday will be granted to Peer-to-Peer lending operator.
- Also interest income received by an individual from P to P lending will be subject to income tax of 3.0%

Banking, Finance & Technology

Banking Sector

Taxation of Banks

More details has been obtained as to the new tax regime for banks whereby currently there are no distinction on tax rates between Segment A and Segment B income. The Budget caters for a reduced tax rate of 5% is applicable on the chargeable income of a bank in the 15% tax bracket conditional to the bank granting at least 5% of its new banking facilities to:

- (i) SMEs in Mauritius
- (ii) Enterprises engaged in agriculture and renewable in Mauritius or operators in African and Asian countries

As for special levy on banks, the layout are as follows:

- (i) Income derived by banks from Global Business companies will be exempted from the Levy under VAT.
- (ii) Levy increased from 4% to 4.5% of operating income for banks having operating income exceeding Rs1.2bn in a year.
- (iii) A cap will apply on the increase in levy payable by a bank.
- (iv) Levy is not a deductible expense under corporate tax and no foreign tax credit will be allowed.

Silver Bonds

A thought for our elderly with the issuance of two silver bonds for Mauritian residents of 65 years and older paying a quarterly interest rate of 5.5% per annum. In addition, a retirement savings bond for Mauritian residents 60 years and below will be issued with maturity when holder turns 65 years with annual interest of 5.5%. The issuance of these bonds might induce a deposit flight from banks from retailers.

Overall we believe the impact on bank is quite mitigated.

Notes: The government is planning a Rs2bn injection through equity purchase in MauBank Holdings Ltd for year 2019/2020.

Banking, Finance & Technology

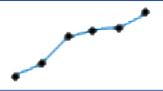
Listed Companies	Impact	Industry Comments
MCB Group		<ul style="list-style-type: none"> ➤ Banks will welcome the reduced tax rate of 5% on income in excess of chargeable income if they employ their facilities to help SMEs, enterprises in renewable energy in Mauritius or operators in African or Asian countries. ➤ Increased in rate of Levy from 4% to 4.5% for banks with operating income above Rs1.2n per year will negatively impact MCBG and SBMH specifically. ➤ Silver Bonds will drive retailers deposits away from banks moping away some excess liquidity from the banking system.
SBM Holdings		
ABC Banking		

Tourism Sector



Tourism

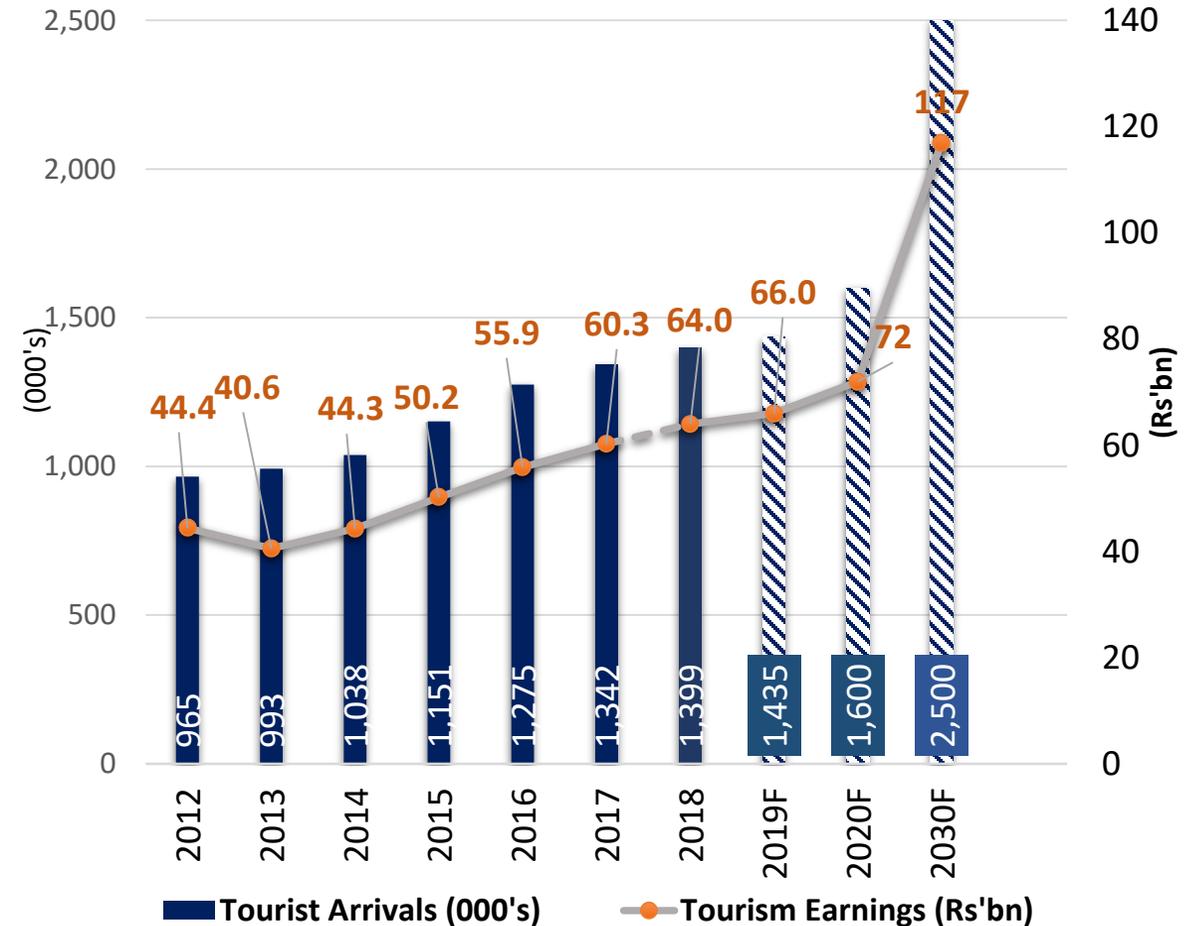
Tourism

Sector Review	Parameter	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019F	Trend
Tourism	% contribution to GDP	7.4	7.8	8.0	8.6	9.1	
	Sector Real Growth Rate	+7.2	+11.5	+5.2	+4.5	+3.8	

Tourism

Current situation and major issues

- The tourism sector, floret of the Mauritian economy, is currently sailing across some tumultuous seas since the beginning of the year with a drop in tourist arrivals for 1st quarter compared to last year of 1.2% and a decline in gross tourism earnings of 9.6% compared to the same period last year.
- Many reasons can be cited to explain the situation:
 1. Rise in attractiveness of other destinations compared to Mauritius, namely the Maldives and the northern African countries (Which lost their attractiveness after the Arab spring).
 2. The lack of direct flights with China, which is arguably one of the main reasons behind the decline in tourist arrivals
 3. A closed sky policy, which is a form of protectionism with the purpose of keeping the air ticket price high due to the lack of competition faced by Air Mauritius
 4. The Pollution of public places and rise in the number of attacks on tourists.
 5. The rise of Airbnb



Tourism

Theme: Enhancing Visibility, Attractiveness, Accessibility and Sustainability

Measures Taken

- Allocation of a total budget of Rs 695m to the MTPA to redynamise the Kenyan and Shanghai routes, which should help resolve the everlasting concern of the decreasing number of arrivals from China.
- To answer the issue toward the loss of attractiveness of the destination, the MTPA will also have the duty to reposition Mauritius as a high end destination, in order to revive the 4 and 5 star hotels segments and gain back the high net worth customers favours, by creating a new tourism brand. In line with this measure, the government will launch a national campaign with the objective of cleaning the island and in order to increase the participation rate from hotels, the Gov. is proposing a deduction of 150% on all the costs associated with the embellishment works regarding their facilities from their taxable income.
- While arrivals by air witnessed a drop, the number of arrivals by sea has increased. The government is seeking to support the growth by building a passenger cruise terminal building, and by creating incentives for towards the development of marinas, as such one of the measures will consist of an 8 yr tax holiday for the newly set-up companies developing marina.
- One recurrent issue that the island is experiencing is the safety issue, with a number of tourists and foreign workers being victim of attacks. The key measure taken by the government is called “Safe city” with the installation of 4000 cameras in 2000 areas.
- Finally the Gov. is teaming up with the private sector to create a 200 km walkable and cycling trails over the island, in an attempt to bring the Islands attractions more accessible, over than beaches.

Tourism

Notable points

- Air Mauritius has benefited from the reopening of the trade routes toward Kenya and China, however no other measures has been taken in order to improve the Airline's situation.
- Another issue weighing on the tourism sector, is the rise in the number of facilities registered on Airbnb, which is promoting the cheap stays around the island and is somewhat “degrading” the image and reputation of Mauritius as a luxurious destination, and is now attracting tourists which are willing to spend less, reducing our gross tourism earnings. The major measure that should have been taken by the PM should have the tax on revenues derived Airbnb. However the lack of measures to counter the effects of the rise of Airbnb, will in one way or another work against the measures taken.



Tourism

Listed Companies	Impact	Industry Comments
NMH	☑	➤ Enhanced attractiveness through new tourism brand.
LUX	☑	➤ In the extension of the Cultural and Eco-tourism concept, an deduction of 150% on all the costs associated with the embellishment works regarding their facilities from their taxable income
SUN	☑	
CHSL	☑	➤ Market diversification by creating a 200 km walkable and cycling trails in order to increase the accessibility of other Mauritian attractions over than beaches should however help to attract another kind of tourist, called backpacker.
Morning Light	☑	
Southern Cross Tourist	☑	
Tropical Paradise	☑	
Air Mauritius	☑	➤ Revived routes should help boost arrivals.



Manufacturing Sector

Manufacturing

Manufacturing

Sector Review	Parameter	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019F	Trend
Manufacturing	% contribution to GDP	14.7	14.0	13.4	12.3	12.7	
	Sector Real Growth Rate	+0.1	+0.3	+1.5	+0.7	+1.3	
Textile	Sector Real Growth Rate	-2.8	-5.8	-0.7	-6.8	-0.5	
Sugar	Sector Real Growth Rate	-5.1	+5.2	-7.9	-9.1	+0.2	

Manufacturing

Theme: Manufacturing is one of the largest sectors in the Mauritian economy, accounting for 11.8 percent of GDP in 2017 and employing some 71,000 persons. The main sub-sectors are food processing, other manufacturing, textile and clothing and sugar milling.

The objective of the Government is to support the enterprises and help them grow the value chain:

- I. **Extending the contract of “Support for Trade Promotion & Marketing” scheme for another year** in order to conserve our export trend in Europe with an injected amount of Rs120million.
- II. **Preventing closure of companies due to lack of product demand or lack of succession planning by seeking investors and strategic partners**, this would help to re-capitalise and re-engineer the firms with the help of Economic Development Board.
- III. **Restructuring and conversion of Investment Support Programme Committee**
to a company known as ISP Ltd whose objectives will be:
 - associate with other public sector bodies to develop a new eco-system
 - Give a boost to companies to use modern technologies and
 - Organize financial support for these modernisation process.



Manufacturing

SMEs

SMEs offer a viable solution to unemployment, with their development offering significant opportunities for direct and indirect job creation. The SME sector accounted for around 55 percent of total employment creation in Mauritius in 2016.

However the main challenges that SMEs are facing are:

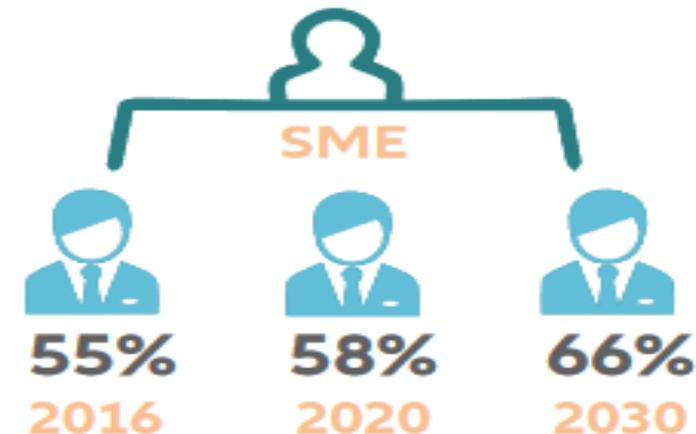
- shortage of technologies and labour
- limited innovative and quality products and services

Bold measures have been announced to support this sector of the economy such as:

- *SME Employment scheme*- will be also applicable to diploma holders
- *Ease access to finance*- DBM will grant a micro credit loan scheme from Rs250 000 to Rs500 000. Cherry on top, DBM will operate an Enterprise Modernisation Scheme aimed at providing finance
- *Government will also introduce a line of credit facility in USD and EURO* for export factoring services for the Mid Market Enterprises (MMEs) – companies with turnover in the range of Rs. 50M to Rs. 250M.



An annual growth rate of at least 3 percent in the manufacturing sector over the next three years



Manufacturing

Sugar:

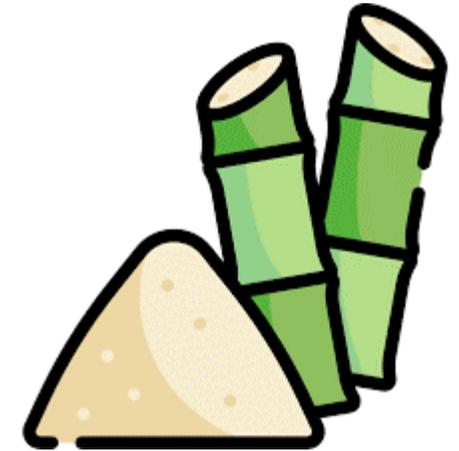
Sugar represents approx. 23% of the agro-industry in Mauritius. Mauritius produced 370K tonnes of sugar in FY 2018 and is forecasted to produce 400K tonnes in FY 2019.

Measures

- Rs 15 million will be injected to acquire equipment for small planters.
- Introduce schemes to encourage cultivation on abandoned lands.
- A guaranteed price of Rs 25,000 per tonne of sugar to all planters on the first 60 tonnes of sugar produced in 2019.
- Increase revenue from premium and certified sugars (through appropriate marketing strategies), bagasse-based and biomass-based energy and other co-products, to reduce over-dependence on sugar sold in EU markets.
- Diversify market destinations for sugar exports.
- Implement a medium term strategy to further reduce costs.
- National Biomass framework will be developed for the use of sugar cane biomass, including cane trash, for electricity generation.

Key challenges faced by the sugar industry

- Increased cost of production, reduction of output and lower revenue flow.
- Small planters abandoning their fields



Manufacturing

Our expectation

We expected the Government to have taken bolder measures on the Sugar sector such as:

- **Moving up the value chain** - Production of special sugar for the European and American markets as well as Indian and Chinese market.
- **Negotiation for new markets** such as COMESA and SADC for our sugar.
- **A better pricing for bagasse and waste of sugarcane** specially for the small sugar planters

Our Opinion

We believe that there was a major deception for the operators in the **Textile** industry. Though our textile industry is going through a tough phase, the government has provided a reduced tax rate to 3% on profits, which will only have a mitigated impact on the textile industry; if your revenue is being challenged getting bottomline alleviation will only be short term solutions. We need more developed strategies on top line improvement. We believe that the Textile sector need a drastic reform with all the accompanying facilities to help the industry achieve it.

Manufacturing

Listed Companies	Impact	Comments
ENL Limited	<input checked="" type="checkbox"/>	
Alteo	<input checked="" type="checkbox"/>	
Terra	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> ➤ Compensation of Rs. 25,000 up to 60T of sugar will be a minute benefit ➤ National Biomass Framework for use of biomass in electricity production
Omnicanne	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> ➤ Overall negligible short term impact for large sugar conglomerates
Medine	<input checked="" type="checkbox"/>	
PBL, Phoenix Investments, Medine (Distillery)	<input checked="" type="checkbox"/>	<p>No additional tax has been imposed on alcoholic drinks With the increase in disposable income, social drinker would highly welcome this initiative.</p>

A photograph of several construction cranes silhouetted against a sunset sky. The sun is low on the horizon, creating a warm orange and yellow glow. The cranes are tall and have long horizontal jibs. One crane in the foreground has a sign that says "DUMEZ". In the background, there are silhouettes of buildings and trees.

Construction Sector

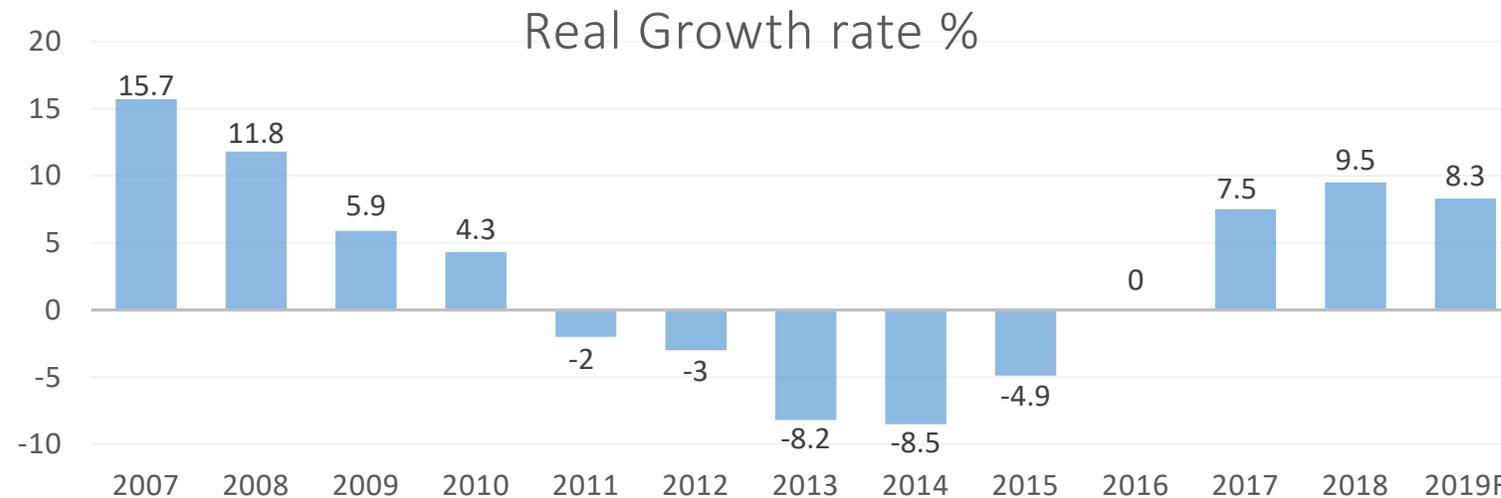
Construction

Construction

Sector Review	Parameter	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019F	Trend
Construction	% contribution to GDP	4.4	4.2	4.3	4.4	4.9	
	Sector Real Growth Rate	-4.9	-0.0	+7.5	+9.5	+8.6	

Construction

Theme: The sector is one of the fastest growing sectors of the economy, positively contributing to the economy. Following a few years of lingering recession, the industry saw a growth rate of 7.5% in 2017, 9.5% in 2018 and is expected to keep its upside momentum for the year to come with a growth rate of 8.6%. There will be a continuation of previous years projects such as metro express and Road decongestion programme as well health and sports facilities across the island.



Main Infrastructure projects :

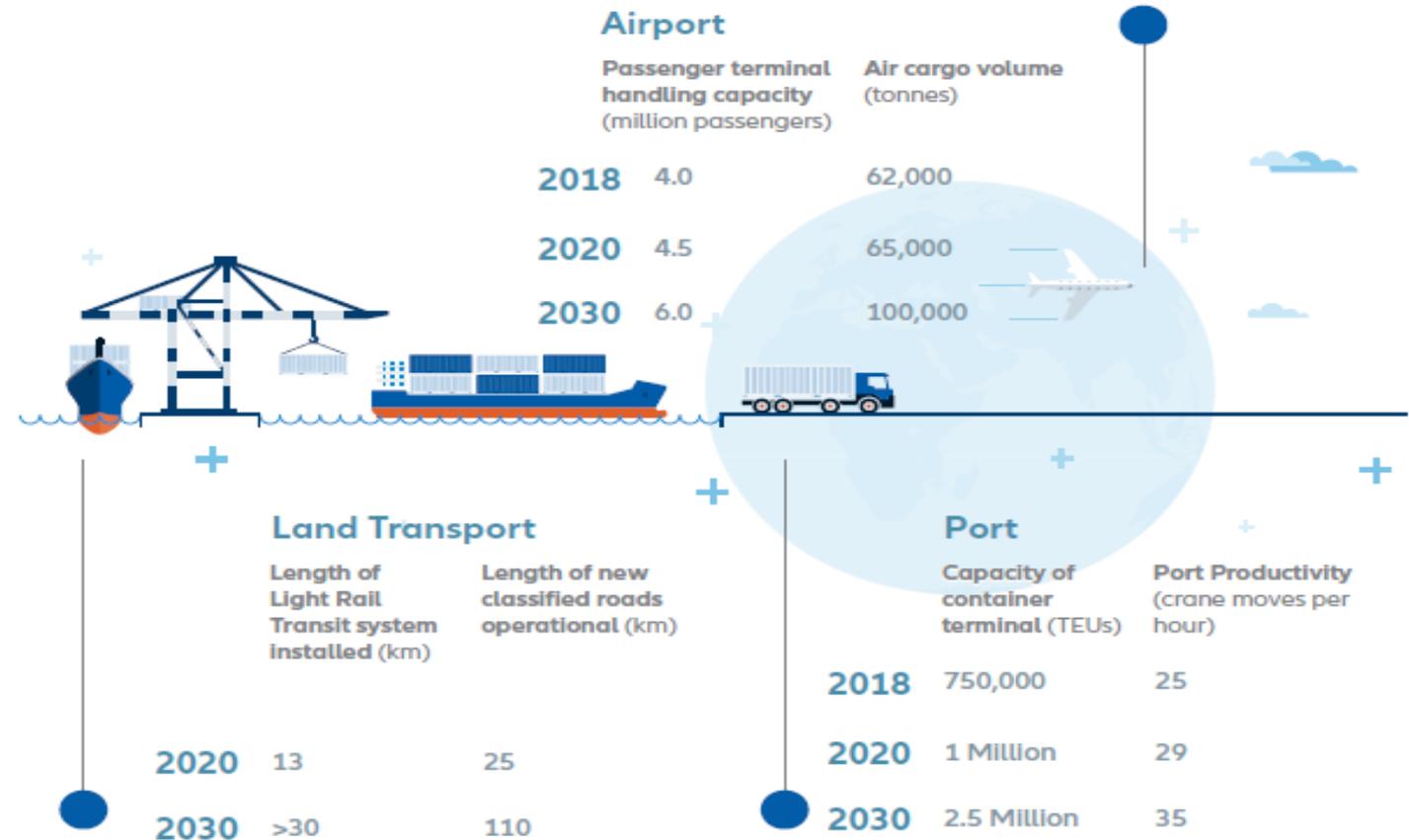
- Additional Rs1.5bn to continue works on following projects namely Jumbo Phoenix roundabout and the A1M1 Bridge, A1-A3 link road, new link road at la croisette etc..
- Over Rs3bn will be invested in new projects over the next 3 years notably the Hillcrest fly-over, upgrading of Ebene fly-over etc..

Construction

Other Projects:

- Rs500 million allocated for the construction and upgrading of secondary roads across the island.
- Development of Cote D`or Industrial park.
- Second phase of Port Louis Waterfront renovation
- Rs1.2bn in public health and wellness projects such as new gymnasiums, football field and health tracks.
- Major construction projects are still going on across the island. Moreover, the new projects proposed are more in line with the feel good factors the budget was developed about.

FIGURE 28: PUBLIC INFRASTRUCTURE TARGETS



Construction

Listed Companies	Impact	Industry Comments
Gamma Civic	☑	Many projects were identified for the next three years among which infrastructure and transport projects got the lion's share. Other projects include social housing, sports, education and healthcare. Companies involved in building, material and engineering are well poised to take advantage of these on-going projects.
UBP	☑	
KOLOS	☑	
IBL	☑	

Blue Economy

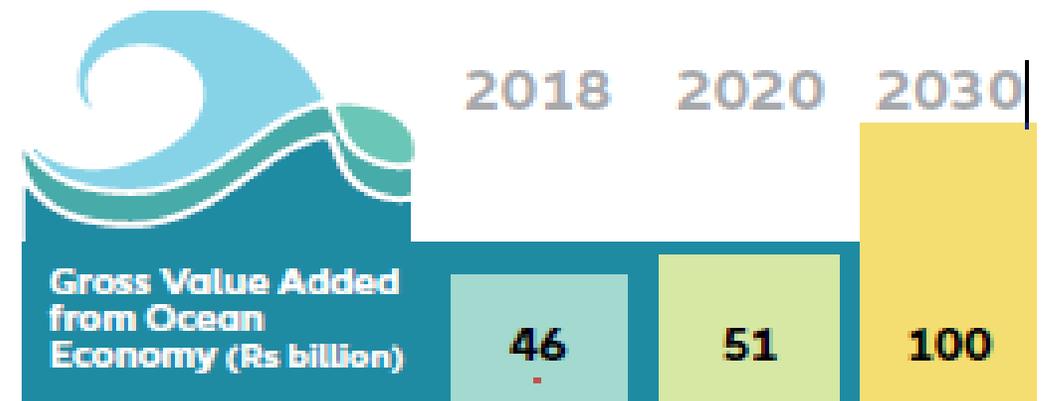


Ocean Economy

Theme: Mauritius has a total maritime zone of 2.6 million km square, of which 2.3 million km square represents the Exclusive Economic Zone. An additional expanse of 396,000 km square is co-managed with the republic of Seychelles. The government will use ocean economy for its import substitution strategy and for export growth in the medium to long term. This can be further increased with the inclusion of the Chagos Island in the near future.

Measures to enhance productive capacity in the Ocean Economy:

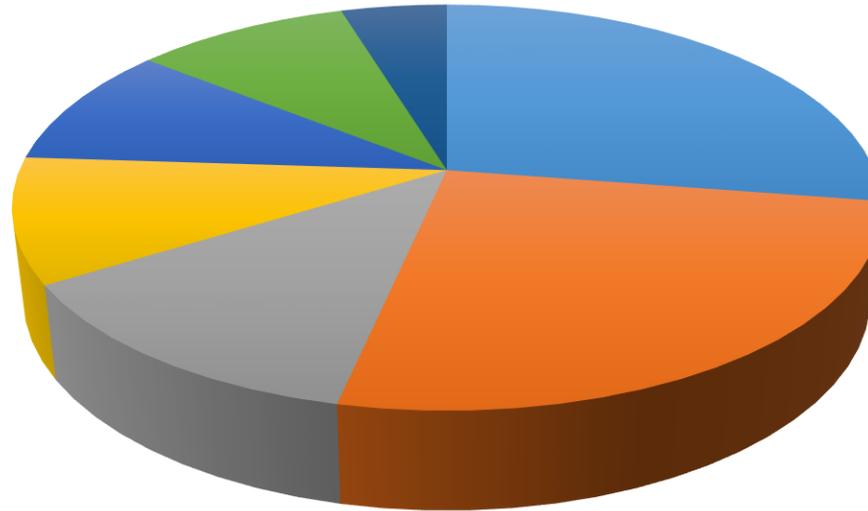
- Measures taken to fully tap the economic possibilities are the setting up of an online and physical fish auction market in order to increase the visibility between local fisherman and fishing companies, both local and international.
- To strengthen the ocean economy, an increase in the budget allocation to acquire new vessels, also to improve management of protected species, a stock assessment will be conducted
- The Government, is also seeking to increase the promotion of the bunkering sector, which has experienced exponential growth in the past few years, by implement a series of 3 measures, namely a 4 year tax holiday on income derived from bunkering, refurbishment of existing facilities and ability to practice ship-to-ship bunkering.



Annexure

- SOCIAL PROTECTION
- GENERAL PUBLIC SERVICES
- RECREATION, CULTURE AND RELIGION
- HEALTH
- ECONOMIC AFFAIRS
- PUBLIC ORDER AND SAFETY
- Other

Expenditure by Ministries for 2019/20 (Est.)



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