Anglo-Mauritius Stockbrokers

4th of April 2013

Summary

- *Developed countries still struggling to overcome the economic woes*
- *Locally export oriented sectors will continue to remain under the shadows of traditional markets. We expect GDP growth in 2013 to reach 3.4%*
- *Africa viewed as financial hub having immense opportunities for Mauritian companies*
- *Diversification in tourism market likely to pay off, but potential threat from regional competition*
- *Growth of 2% in manufacturing sector through market diversification and extension of AGOA*
- *Further contraction in construction sector following delays in implementation of road works and completion of key projects*
- *Lower sugar production and decline in international sugar prices likely to impact negatively on sugar industry*
- *Headline inflation to reach 4.8% by end of this year*
- *FDI anticipated to be lower in 2013 unless record exceptional*
- *Current account deficit for 2013 to stand at 10.5% of GDP and expectation of positive BOP figure*

World

After a marked slowdown noted in 2011 whereby world output was 3.9% compared to 5.2% in 2010, international activities weakened further in 2012 to reach 3.2% as per IMF's statistics. Lower and negative growths rate were recorded in most developed countries as they are still struggling to recuperate, four years after the outbreak of the global financial crisis. In the Euro zone area, the contraction in activities was somehow mitigated by expansion in Germany and France economies, whilst conditions in UK stayed sluggish and the US economy managed to post a growth of 2.3% due to improvements noted near the end of the year arising from subside US fiscal cliff. The spill over effects from the slowdown in developed countries was also felt at the emerging countries level with lower demands in their exports.

In view of further downside risks in the Euro zone, the US debt and fiscal issues, potential declining investment in China as well as disruption in global oil supplies, the World Bank is pessimistic for international progress in 2013 and has revised its forecast downwards to 2.4% from its June estimate of 3%.

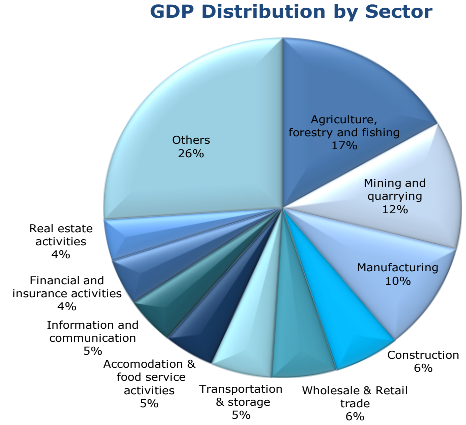
Whilst the IMF is more optimistic and expects the world economy to strengthen to 3.5% with the emerging and developing economies expected to be the main driver.

Selected Country Projections*	2011	2012	2013F	2014F
World Output	3.9	3.2	3.5	4.1
United States	1.8	2.3	2.0	3.0
Euro Area	1.4	−0.4	−0.2	1.0
Japan	−0.6	2.0	1.2	0.7
United Kingdom	0.9	−0.2	1.0	1.9
Central and Eastern Europe	5.3	1.8	2.4	3.1
Developing Asia	8.0	6.6	7.1	7.5
Sub-Saharan Africa	5.3	4.8	5.8	5.7

Mauritius

In the wake of the European crisis, the vulnerability and resilience of the Mauritian economy was more than tested. Under a dominant euro-centric business model (European countries accounted some 58% of the total local exports), the country experienced the full impact of a slowing Europe and a weak Euro especially on the manufacturing and tourism sectors. To note that although tourism receipts grew by 3.9% in 2012, tourist arrivals inched by a mere 0.1% while the contribution of that sector to GDP retracted over that period. For 2012, Central Statistical Office (CSO) reported an expansion of 3.3% in GDP compared to 3.5% in 2011 with the main contributors being the financial and insurance activities, wholesale & retail trade; repair of motor vehicles and motorcycles and information and communication. In the National Budget 2013, focus was put on the future development of the country by promoting the adoption of technology, improvement of human capital, pursuing the African strategy together with the modernization of public services.

GDP Distribution by Sector



The Government has also showed its ambition to develop an ocean economy through strategic partnerships as this will be highly capital intensive. The Indian Ocean has enormous potential and in order to tap the blue economy, Mauritius and Seychelles has signed treaties which now permit both countries to have a joint jurisdiction over an additional area of 396,000 square kilometers.

For 2013, CSO has recently revised its GDP forecast to 3.5% from its initial estimate of 3.7% in Dec 2012. At the start of the year the international body IMF predicted the local economy to grow by 3.7%. ***Our View***: On our side, we (Anglo-Mauritius Stockbrokers) expect growth to be around 3.4%.

The country continues to remain vulnerable to external factors putting more pressures on the local export sectors. On the positive side, operators are diversifying their market to reduce their reliance on the European market and Africa is being viewed as the land of opportunities. Sugar companies and banks have long before made the leap of faith in the dark continent growing their exposure there and currently consumer companies are also following suit.

Economic Indicators(%)	2010	2011	2012	2013F*
GDP growth rate (Calendar year)	4.2	3.5	3.3	3.4
Sugarcane	-6.4	3.5	-7.3	-3.0
Manufacturing	1.9	0.7	1.5	2.0
Tourism	6.0	3.5	0.0	3.0
Construction	4.3	-2.0	-3.0	-6.0
Financial Services	4.5	5.6	5.7	5.6
Inflation	2.9	6.5	3.9	4.8
Budget deficit as a % of GDP	3.2	3.2	1.8	2.2

* Source: Anglo-Mauritius Stockbrokers Ltd ***Forecasts***

Financial services

The financial and insurance activities were among the main contributors (+0.6%) to GDP growth last year. Based on CSO figures, this sector reported a growth of 5.7% in 2012 compared to 5.6% in 2011, attributable to good performances in insurance, reinsurance and pension (2012 +4.6% v/s 2011 +4.5%) as well as other activities (2012 +5.0% v/s 2011 3.7%). Whilst monetary intermediation and financial leasing and other credit granting held steady at 6.3% and 6.0% respectively. Last year, private sector credit grew by 12%.

The financial services industry keeps on innovating through the development of existing and new products which will help it to progress despite the challenging environment. With regards to the global business, although there is potential threat of a revision in the Double Taxation Avoidance Agreement with Mauritius and India, this sector is expected to perform well. Besides the implementation of the GAAR to April 2016 can be viewed as a positive sign and also activities will pick up following the initiatives taken to diversify the market making Africa as a financial hub for the domestic economy.

In this view, the Board of Investment launched the Africa Centre of Excellence for Business on 24th October 2012 which offers business perceptions on the latest developments in Africa. Moreover, the Government has a growing network of agreements with Africa (19 Investment Promotion and Protection Agreements as well as 17 DTAAS).

Our View: Overall, this industry is expected to grow by 5.6% in 2013.

Tourism

International

Latest World Tourism Organisation Barometer reported an increase of 4% in international tourist arrivals to reach 1.04bn in 2012 as opposed to 996m in 2011. This performance was attributable to the emerging markets (+4.1%), with the highest growth registered in the Asia and Pacific (+7%), which outpaced the advanced economies (+3.6%).

Local

On the local side, the industry represented 8.2% of GDP last year, lower than the 8.4% in 2011 and much lower than in 2008 which were 9.6%. The tourism industry continued to struggle due to the European debt crisis and the weakening of the EUR together with heavy discounting and mismatch between hotel capacity and air seats added pressures on the hotels' margins. Tourist arrivals in 2012 increased slightly by 0.1% (965,441 in 2012 v/s 964,642 in 2011), with the Emerging markets being the top performer notably Russia (+58.9%), U.A.E (+42.9%) and China (+38.0%). As expected, weaknesses in our main traditional markets were sustained last year, namely France (-13.2%) and Italy (-24.1%).

As announced in the National Budget 2013, improvements are being made to develop connectivity to emerging markets namely China and Russia, the Government in collaboration with Air Mauritius introduced two direct flights per week to Shanghai since the end of January 2013 which proved to be beneficial as arrivals from China posted a significant growth of 271.6% in the month of February, whereby total tourist arrivals increased by 2.3% whilst in January there a drop of 6%. Enhanced capacity from the new national airport may help to alleviate the air seats problem.

	2008	2009	2010	2011	2012
Tourist receipts (Rs m)	41,213	35,693	39,456	42,717	44,378
Tourist arrivals	930 456	871,356	934,827	964,642	965,441
Tourism contribution to GDP	8.60%	7.90%	8.30%	8.40%	8.20%
Number of hotels	102	102	112	109	117
Number of bed places	23,095	23,235	24,698	24,242	25,496
Number of rooms	11,488	11,456	12,075	11,925	12,527
Average room occupancy rate	68%	61%	65%	65%	62%

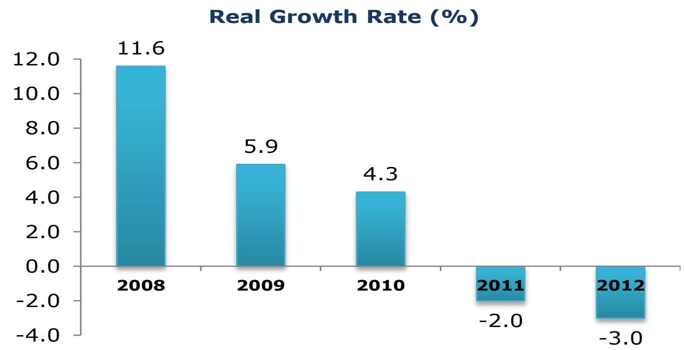
For 2013, World Tourism Organisation expects arrivals to grow by 3% to 4%, with Asia and the Pacific expected to be the main driver, followed by Africa. Increased competition is noted on the regional front namely Maldives, Sri Lanka and Seychelles where substantial growth in arrivals were recorded in 2012. Latest statistics released reported that tourist arrivals in Maldives grew by 25% in February 2013 over the same period in 2012 attributable to the 175% jump in arrivals from China but arrivals in January was declined by 7.6%, while Sri Lanka saw increase of 13.4% in arrivals for January 2013. Albeit difficult global context, the CSO expects arrivals to reach 1m in Mauritius supported by improved air access, diversification of markets and increased promotional campaigns. ***Our View:*** We expect the tourism sector to gain momentum and growth by 3.0% by the end of 2013.

Manufacturing

The manufacturing sector reported a growth of 1.5% last year, much higher than that of 0.7% in 2011. Sugar milling contracted by 6.3% due to lower production of sugar and refining of imported raw sugar. Textile activities faced difficulties with the global headwinds which led to a 0.9% contraction last year after recording a growth of 3.0% in 2011. On the other hand, the food processing improved registering an expansion of 6.6% compared to the decline of 1.4% in 2011, driven by higher fish processing. Export oriented enterprises posted a lower growth of 1.5% (2011:+6.1%). The prevailing economic situation and further potential downside risks could impact on the textile activities this year. However, incentives taken to diversify the market would in some way helped to lessen the adverse effect. In addition, the AGOA levy which is a tax on exports was abolished in the last budget and the extension of the AGOA would be beneficial for exports. ***Our View***: Overall a growth of 2.0% is expected in the manufacturing sector this year.

Construction

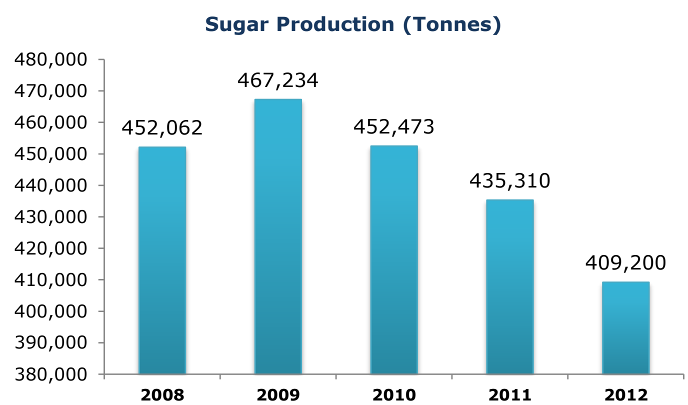
The construction industry posted yet another negative performance in 2012 where it contracted further by 3.0% as opposed to 2.0% in 2011. This deterioration resulted from the completion of some major construction projects such as hotels and commercial buildings. A recovery was noted on the public investment which grew by 2.7% compared to a contraction of 4.7% in 2011 on the back of road infrastructure, public buildings and airport extension. Private sector investment, on the other hand, was sluggish and is estimated to have declined by 2.5%. The Government intends to pursue its investments in the public sector as announced in the last year's budget. But major projects such as airport extension and prison were completed in 2012 and delays are expected in the implementation of road decongestion projects. But with the recent tragedy caused by severe flooding and in this respect construction works are anticipated to pick up. On the private sector side, investment is expected to decline further due to the difficult economic conditions and the completion of some key projects.



Our View: For the current year, growth in this sector is expected to be negative around 6.0%.

Sugar

In 2012, sugar production contracted by 7.3% to reach 409,200 tonnes against an expansion of 3.5% in 2011. This can be explained by a reduction in the area harvested last year and lower average yield of sugar. However, on the upside, the sector benefited from the higher sugar prices.



According to the Mauritius Sugar Industry Research Institute survey on sugar cane crop, there was positive sign of cane development for the month of February 2013. Further to this, emphasis is being made on diversifying the sugar industry through the provision of value added by products. Moreover, the Government is seeking to ensure that the agreement on market access for refined sugar with regards to quotas applicable for sugar being exported to markets within European Union which is due to end in 2015, is extended to at least 2020. However, international sugar prices are forecasted to decline which will impact on local industry. In terms of energy, Omnicane has obtained approval to invest into ethanol production and the company will blend sugar cane ethanol with gasoline which will be used as fuel. The ethanol plant is under construction and will start operation in August 2013. ***Our View***: Overall, the sugar sector is expected to post contract further by 3.0%.

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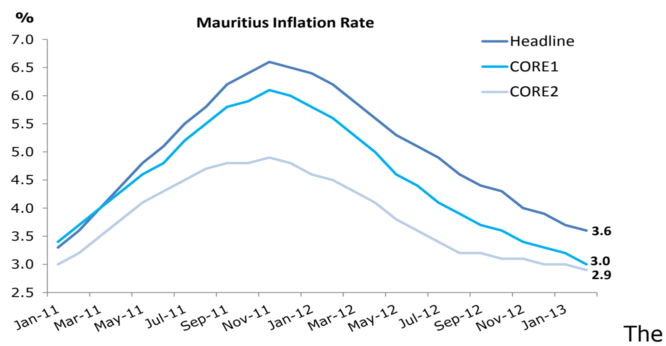
Inflation

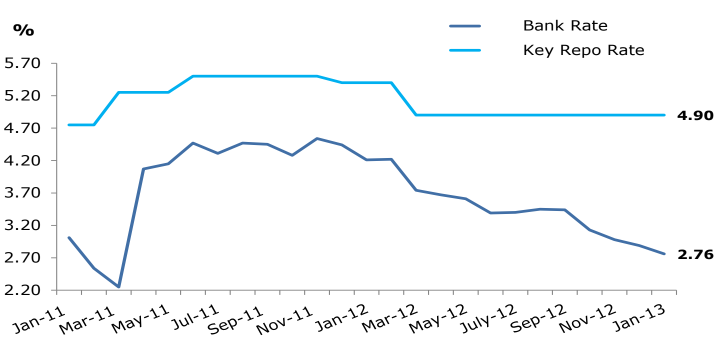
Headline inflation was 3.9% for the year 2012 compared to 6.5% in 2011, in line with the downward trend of the main export markets of Mauritius. The consumer price index which stood at 130.4 in December 2011 registered a net increase of 4.2% as at December 2012 to reach 134.6. The recent progression of commodity prices, notably dairy products and oil/fats since last quarter is beginning to impact us locally, as the y-o-y inflation in February 2013 rose by 3.6% against an increase of 2.9% in January 2013. The Food Price Index dropped by 7% in 2012 compared to 2011 and was impacted mostly by the fall in sugar prices (-17.1%), dairy products (-14.5%) and oils (-10.7%).



The Bank of Mauritius (BOM) expects headline inflation rate to reach 4.7-4.9% and y-o-y inflation within the range of 5.5-5.9% by the end of 2013. ***Our View***: On our side, we expect the headline inflation to reach 4.8% this year, based on the growth in local consumption due to elevated fuel cost, salary revisions, further increase in excise duties on alcohol and tobacco products and potential improvement in tourists' receipts following the recent uptrend in visitors from emerging markets.

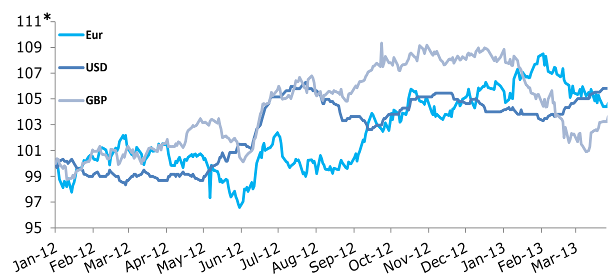
Interest Rate

At its last meeting dated 11th of March 2013, Monetary Policy Committee (MPC) left the key rate unchanged at 4.90%. This stance was adopted by the MPC due to the sluggishness in our key export markets, especially U.K and France which have both been downgraded in terms of credit risk last year and where the former has been showing signs of succumbing to a triple dip recession.



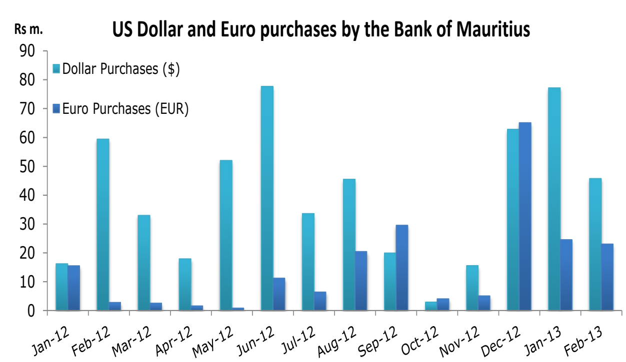
Moreover since the MPC meeting, the Cyprus bailout situation has taken center stage of current global affairs; a reminder that investors sentiment with regards to Europe is like to remain fragile this year as well. The Operation Reserves Reconstitution initiated by mid-2012 to build up foreign exchange reserves has resulted in a notable improvement in the Central Bank's reserve adequacy, whereby as at February 2013, its gross official international reserves stood at 3,088million US Dollars, representing 5.0 months of import cover. ***Our View***: We believe that anticipated inflationary pressures shall not impose a consequent rise in the repo rate in 2013. The possible prolongation of the EURO bearish trend since March 2013 is surely of concern for the country's export oriented businesses. Ongoing mitigating responses by the relevant regulatory bodies within the eurozone shall hopefully limit a potential flight from the EURO.

Foreign Exchange Rates



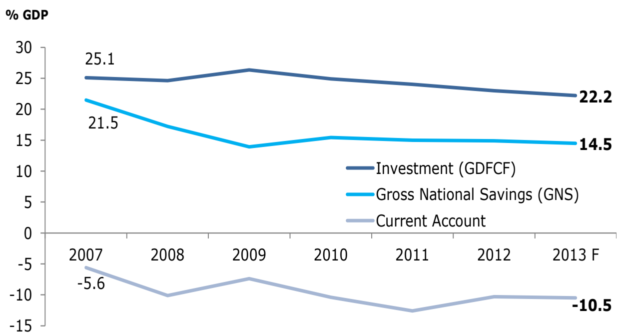
* rebased to 100 on January 2012

The end of quarter 2012 shall be remembered as the euro rally, accentuated by the Bank of Mauritius intervention on the Interbank foreign exchange market, whereby total of EUR65.1m was purchased during the month of December alone, accounting for 39% of the total EUR165.1m for the year 2012. Mid-Rate GBP lead the trio pack with more than 8% gain in 2012, followed by the EURO (+6%) and USD (+4%), where the latter was due to improved economic data and fiscal cliff avoidance. The EUR/MUR mid-rate shed off around -0.9% as at end of March 2013 since the start of the year. However, the european currency started its descent from February 2013, mainly triggered by the news of the eurozone economy -0.6% decline in Q4 2012. BOM purchased EUR23m for the month of February 2013.

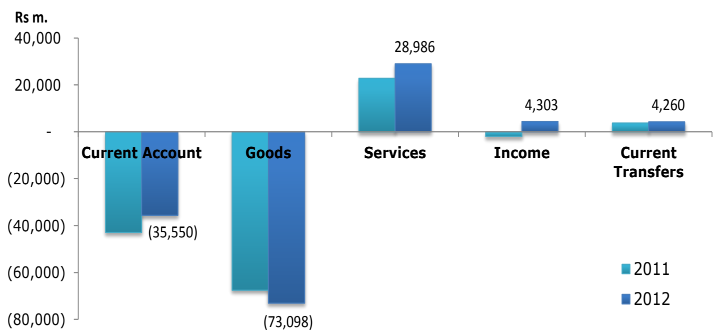


Balance of Payments

A relative improvement in the current account overall, notwithstanding a widening trade deficit and declining national savings.



A turnaround was witnessed in the Income which generated a surplus of Rs4,303m in 2012 compared to a deficit of Rs1,845m in 2011, as well as additional growth in the services sector, primarily on the back of higher net travel receipts in 2012. However the trade deficit expanded from Rs67,585 to Rs73,098m, on the back of higher expenditure in machinery and equipment and also due to relatively elevated food prices.

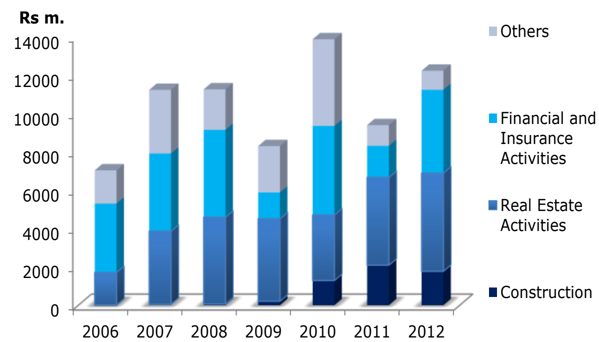


The negative balance on the current account continues to be financed predominantly by foreign direct investments which consist of GBC1s cross border transactions, as higher net outflows were seen from the portfolio and other investment segments. Consequently, the Balance of Payments (BOP) for 2012 grew its surplus to Rs6,041m against Rs5.247m in 2011. Merchandise Account imbalance shall increase in 2013, mainly on the back of widening trade deficit resulting from increase in consumer demand as well as import of equipments related to infrastructure projects to some extent, with a new fish processing plant in the pipeline, but road works have now been delayed and airport construction is nearing completion. ***Our View***: We expect Current Account Deficit to stand at -10.5% of GDP and BOP for 2013 is expected to be yet again positive, although this would depend on the size of direct investments.

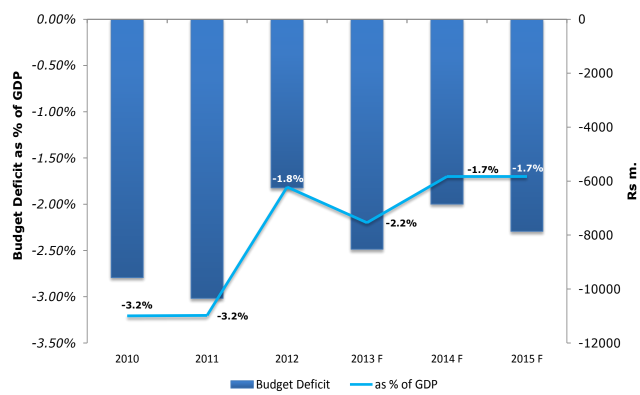
Foreign Direct Investment

Foreign Direct Investments in 2012 amounted to Rs12.7bn, an improvement of 34% over 2011, but however lagging behind the Rs13.9bn FDI achieved in 2010. For the year 2012, Rs5.1bn of FDI was skewed towards real estate activities and Rs4.3bn were investment within the financial services activities. Investment in construction was lower in 2012 at Rs1.8bn against Rs2.1bn in 2011.

Our View: Given the expected subdued growth within the financial & insurance activities (as 2012 figures seem to pertain to an exceptional investment), coupled with relatively slow dynamism in the high-end real estate segment overall (demand has shifted from IRS to less costly RES projects) and further decline anticipated with regards to the construction sector, we expect FDI to be inferior to the previous year.



Budget Deficit



The Government revenue is expected to increase by 12.5% and expenditure by 13.7%, yielding a budget deficit of 2.2% by end of 2013, and over the next 2 years to be maintained at 1.7%. Government expenditure is expected to increase from Rs85bn to Rs99bn in 2013, mainly on the back of higher salary compensations. On the revenue side, a notable income of Rs1.8bn in terms of dividend is expected to be received from the Mauritius Telecom and as per the last Budget presented in November 2012; Rs1.2bn would be transferred from the National Resilience Fund. Tax Revenue is expected to grow by 10% and Public Sector debt is projected to account for 53.7% of GDP (54.2% in 2012).

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