



Equity Research Botswana February 2015 2014 Review and 2015 Outlook

2014 was a relatively stable year. The year was characterised by some positive macroeconomic developments. The recovery in the global economy assisted the Botswana diamond sector, which is the mainstay of the economy. The Parliamentary Elections held during the year were free and fair and did not result in much instability. Inflation remained well within the Central Bank's target objective range of 3% - 6% to end the year at a new record low.

The first quarter of 2014 saw Botswana's GDP grow by 5.9%, up from the 5.8% experienced in Q4 2013, largely attributable to the 14.2% growth realised in the mining sector while growth in the non-mining private sector marginally fell from 4.7% in 2013 to 4.6% during the year to March. Growth in the 2nd quarter of 2014 softened to 5.2% on the back of a slowdown in mining sector growth to 8.3%. The economy grew by 5.4% in Q3 14 after the tightly contested elections in October 2014. All sectors recorded positive growth except for Water and Electricity. The mining sector continued to be the fastest growing, followed by the services sector. The global diamond market experienced a positive performance during the year to September 2014, with production at Debswana increasing by 14.2% to 6.2m carats, over that period.

Botswana's foreign exchange reserves stood at BWP 78.8bn or USD 8.6bn as at the end of October 2014, up 13.9% in pula terms and 10.0% in USD, over 12 months. The y-o-y growth in credit was at 14.0% in October compared to 17.5% recorded over the same period in 2013. This may be reflective of the banking sectors reduced capacity to lend due to slow deposit growth and declining liquidity in the banking system. Households accounted for 55.40% of total credit against 57.4% at the same stage in 2013.

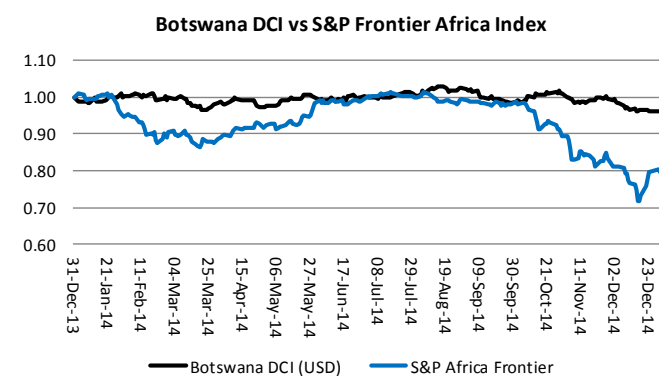
The Botswana inflation rate consistently remained within the Bank of Botswana's medium term objective range of 3% - 6% throughout 2014. Inflation commenced the year at 4.4% and was relatively stable for the remainder of the year, closing 2014 at a record low of 3.8%. The marginal decline was anchored by a drop in the transport group index which has the highest weighing on the CPI. However, despite the increase in administered prices such as the 5% increase in the Alcohol Levy in December 2014, we nevertheless expect inflation to remain within the central bank's target range, particularly given the reduction in fuel prices due to the falling price of oil. Average inflation for 2014 was 4.4%.

Top 5 gainers and losers- 2014				
Company	Opening Price (P)	Closing Price (P)	% change (LC)	% change (US)
BSE-DCI	9,053.36	9,501.60	4.95%	1.8%
Sechaba	19	28.11	47.95%	43.5%
ABCH	5.05	7.14	41.39%	37.2%
Chobe	3.05	4.27	40.00%	35.8%
Sefalana	6.75	9.23	36.74%	32.7%
A-Cap	0.4	0.54	35.00%	31.0%
FNBB	4.03	3.62	-10.17%	-12.8%
BOD	0.45	0.4	-11.11%	-13.7%
Barclays	5.49	3.45	-37.16%	-39.0%
African Copper	0.18	0.1	-44.44%	-46.0%
Discovery Metals	0.6	0.14	-76.67%	-77.3%

Source: IAS/BSE

Top Ten Shares by Market Cap.			
Company	(BWP Mn)	(USD Mn)	% of Total
FNBB	9,280.59	975.39	20.08%
Letshego	5,789.43	608.47	12.53%
Choppies	4,767.28	501.04	10.32%
StanChart	3,750.27	394.15	8.12%
Sechaba	3,737.72	392.83	8.09%
BIHL	3,235.12	340.01	7.00%
Barclays	2,939.96	308.99	6.36%
Sefalana	2,057.07	216.20	4.45%
ABCH	1,844.44	193.85	3.99%
Engen	1,517.36	159.47	3.28%

Source: BSE



Source: IAS/S&P



Market Review for 2014

2014 was a modest year for the Botswana investor as reflected by a 4.95% gain in Pula terms for the DCI. However this modest gain was eroded by the Pula weakness against the USD, as the index fell by 3.83% in USD terms. The index had a fairly volatile year as the bull-run experienced in 2013 failed to filter into 2014. The first quarter of the year saw the index fall by 1.18% largely pulled back by weak investor sentiment in some banking large caps. Q3 14 was the best quarter of the year, up 3.35% while Q4 14 merely managed a 0.65% gain.

There were 17 gainers and 5 losers out of the 23 counters on the domestic board. Central to the performance of the DCI over the 12 months was the 47.95% capital gain in Sechaba's share price, emerging as the star performer for the year. The local brewery remains a solid defensive stock despite a tight regulatory environment threatening volumes. Other top performers on the domestic board included ABCH (+41.39%), Chobe (+40.00%) and Sefalana (+36.74%). Banking giants Barclays and FNBB were amongst the worst performers for the year, sinking 39.02% and 12.83% respectively, a sign that investors are responding to the low interest rate environment and moratorium freeze on non-interest charges threatening the sectors margins. Barclays continued its streak of disappointing results during the year, as its H1 14 results reflected a 34.6% decline in PAT.

It was a different year for the foreign board, as the index fell by 0.36% in pula terms and 8.70% in USD terms. Counters that weighed down on the index were Discovery Metals (-78.33%), African Copper (-44.44%) and BOD (-13.74%). The only gainers were A-Cap (+35.00%) and Lucara (+27.08%). There was only 1 listing and 1 delisting for the year. Firestone Diamonds exited the BSE after the completion of its share sale facility and delisting on 28 March, while Magnum Gas & Power listed on the foreign venture capital board on the 1st December.

Trading activity across both the foreign and domestic boards combined was 17.36% lower in volume terms and 11.01% lower in value terms compared to 2013, with 592.5m shares transacted at a turnover of BWP 2.2bn (USD 228.8m) vs. 716.91m shares worth BWP 2.4bn (USD 265.0m). Letshego closed as the top trader for the year accounting for 44.53% and 29% of the year's volumes and turnover, respectively.

—Average daily volume and value traded were 2.4m and BWP 8.9m (USD 0.9m) respectively, vs 2.9m and BWP 9.3m (USD 1.0m). Q1 recorded the highest activity for the year, transacting 177.9m shares worth BWP 649.6m (USD 68.3m) driven by high liquidity in Letshego largely on the back of a single record trade on the BSE in the counter worth BWP 164.1m (USD 24.63m).

Total equity market capitalisation closed at BWP 418.2bn (USD 44.0bn) compared to BWP 416.6bn (USD 53.3bn) in 2013 representing a 0.4% rise in pula terms mostly bolstered by price action. FNBB remained the largest constituent of the domestic index although its weighting on the domestic board decreased to 20.08% from 23.77% at BWP 9.3bn.

Corporate activity for the year was as follows

- ABCH sold 95.84% of its ordinary shares to Atlas Mara, and Atlas Mara made an offer to the rest of the minority shareholders at a price of BWP 7.49 per share (the BWP equivalent of USD0.82 as at 15 September 2014) in cash per ABCH share listed on the BSE.
- BIHL entered into negotiations with Botswana Insurance Company Limited (BIC) to sell off its general lines book to BIC. The sale was completed in mid-September 2014.

10 Most active stocks by volume		
	Vol(m)	% of total
Letshego	263,834,702	44.53%
Choppies	72,207,637	12.19%
FNBB	59,454,171	10.04%
Turnstar	52,960,323	8.94%
Letlole	26,944,049	4.55%
BIHL	14,397,519	2.43%
Sefalana	13,465,929	2.27%
Chobe	12,259,090	2.07%
Source: IAS/BSE	12,257,835	2.07%
Shumba	11,955,177	2.02%



10 Most active stocks by value			
	Val (BWP)	Val(USDm)	% of total
Letshego	627,421,312	65,941,980	29%
Choppies	295,824,054	31,091,108	14%
Sechaba	254,742,386	26,773,425	12%
FNBB	217,392,404	22,847,942	10%
BIHL	213,335,274	22,421,537	10%
Stanchart	137,301,723	14,430,411	6%
Sefalana	119,357,311	12,544,453	5%
Turnstar	104,581,834	10,991,551	5%
Letlole	51,445,482	5,406,920	2%
Chobe	27,832,563	2,925,202	1%

Source: IAS/BSE

Market Outlook for 2015

In the domestic economy, growth prospects are constrained by water usage restrictions, power supply interruptions and uncertainty regarding the strength of the global recovery. Short term prospects are robust mainly premised on downstream manufacturing due to De Beers' diamond sorting and sales activity moving from London to Gaborone, as well as the attraction of complementary activities. The Botswana governments Budget Strategy Paper for 2015/16, forecasts growth of 5.2% and 5% for 2014 and 2015, respectively, underpinned by the expected recovery in diamond production. This is in comparison to the World Bank's forecast growth rates of 4.5% and 4.6% for 2014 and 2015, respectively. Although inflation expectations for 2015 straddle the upper limit of the Bank of Botswana's medium-term objective range of 3% - 6%, there is broad support for the current monetary policy stance.

We are of the view that the market will perform relatively better than 2014 on the back of an improvement in the local economy. We continue to see value in the inherently riskier smaller stocks such as Chobe and Wilderness. We also see value in mid-tier stock Sefalana due to its high growth prospects. As for the more risk averse large caps we expect them to maintain their cyclical nature. Top-line growth should improve on the back of economic growth. New listings such as the highly anticipated listing of Botswana Telecommunications Limited (BTCL), are further expected to support market growth.

Top Picks for 2015

Sefalana - Sefelana successfully completed a 1 for 5 rights issue of 37,144,693 offer shares at BWP 6.95 per share aimed at raising BWP 255m (net of expenses). The proceeds were used to purchase 12 stores in Namibia owned by Metcash Namibia Limited, under the trade name "Metro Cash and Carry" as well as for working capital purposes within the Sefalana Group. The issue was 100% subscribed signifying the belief in the market that the issue is value adding. Besides Namibia, the company looks to focus its growth within the SACU region. The company is currently engaged in expansion talks with a third party within in the region. The recent cut in fuel prices should add some relief to both retailers and consumer. The counter is on a PER and PBV of 13.88x and 1.27x and we target a price of BWP 11.63 representing upside of 24.9%.

Botswana Insurance Holdings Limited (BIHL)- The Company is a diversified financial services group is in its 40th year of existence. Its core business is life insurance and asset management through its subsidiaries Botswana Life Insurance Limited (BLIL) and Botswana Insurance Fund Management (BIFM) which both dominate the respective markets that they serve. JSE listed Sanlam Limited is the majority shareholder of BIHL group increased its stake by 5.07% during 2014 to 58.29% as it believes that there is value to be derived from the group. The group released flat H1 14 results highlighted by 2% growth in earnings but still virtually doubled its interim DPS to 35t (H1 13: 20t) as a result of a decision to return excess capital to shareholders. BIHL's current price of BWP 11.70 puts the stock on a PE and PBV of 6.6x and 1.28x, below its peers and the BSE average, while it is also trading at a 12% discount its embedded value per share which further justifies a rerating on the price.