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Securities

BOTSWANA TELECOMMUNICATIONS CORPORATION LIMITED.

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Botswana Telecommunications Corporation Limited (BTCL), is looking to enter the market through a public offer of up to 462m ordinary shares at a price of BWP 1.00 per share, all by way of an offer for sale from the Selling Shareholder of 212m shares and the subscription for 250m new shares issued by the company, leading to a subsequent listing of 1 050m shares on the Domestic Main Board of the Botswana Stock Exchange (BSE). BTCL is licensed as a public telecommunications operator and provides voice telephony- fixed and mobile, as well as national and international internet, data services, virtual private networks and customer equipment to residential, government and business customers. The company intends to raise a minimum of BWP 250m with the aim of providing working capital and to fund capital expenditure in relation to the growth of the company.

• Purpose

Following a successful listing on the Domestic Main Board of the BSE, BTCL looks to:

- achieve widespread citizen participation in the ownership of BTCL
- improve the efficiency and effectiveness of service delivery by BTCL
- raise equity capital for the company to provide funding in relation to its future growth
- raise the company's profile and create investor awareness of BTCL locally, and
- enable Government to privatise BTCL in line with the 'Privatisation Master Plan of 2005'.

Road to privatising BTC

BTC was established in 1980 as a body corporate in terms of the 'BTC Act' to provide, develop, operate and manage Botswana's national and international telecommunications services. Government, in 2000, adopted the Privatisation Policy of Botswana. The intention of the Policy was to implement a programme whose objectives, amongst others, are to improve the efficiency, productivity and competitiveness in the performance and delivery of services and infrastructure by the public sector.

BTC was identified in the Privatisation Master Plan of 2005 as a candidate for privatisation. To facilitate BTC's privatisation process, Parliament, in 2008, passed the Transition Act to enable Government to convert BTC from a statutory body to a limited liability company, BTCL, governed by the Companies Act. Government further adopted a privatisation model for BTCL in 2010.

RECOMMENDATION	BUY
Listing price (BWP)	1.00
Current price (US\$)	0.09
Target price (BWP)	1.26
Upside/ Downside	26%
12 month High/Low	n/a

Liquidity	
Market Cap (BWPm)	1050.0
Market Cap (USDm)	94.5
Shares (m)	1050
Free Float (%)	44%
Ave Monthly value traded (US\$)	n/a
Ave Monthly volume (m)	n/a

RATIOS		2015
ROE		7.63%
ROA		6.10%
Current ratio (x)		2.94
Debt/Equity		25.02%

VALUATION RATIOS	
PBV (x)	0.55
PER (x)	6.81
Dividend Yield (%)	-

Financials	2015	2016F	2017F
EPS (t)	14.68	-15.59	10.94
DPS (BWP)	-	-	-
NAV/share	1.83		
Gross Profit Margin (%)	62.41%	58.08%	59.51%

FINANCIAL SUMMARY (BWPm)	2015	2016F	2017F
Operating Profit	200.6	-192.4	131.3
Profit before tax	200.6	-164.0	147.3
Attributable Earnings	146.8	-128.0	114.9

IMPORTANT DATES	
Opening date	11.Jan.2016
Last Date for the application	04.Mar.2016
Expected closing date	04.Mar.2016
Expected listing date	08.Apr.2016

<p>STRENGTHS</p> <p>Lowest mobile tariffs Widest mobile footprint and coverage Leading fixed line business operations Strategic partnership with Vodafone</p>	<p>WEAKNESSES</p> <p>Only citizens are allowed to buy and sell BTCL shares, this may limit liquidity.</p>
<p>OPPORTUNITIES</p> <p>Local expansion Regional expansion Creation of long-term stakeholder value</p>	<p>THREATS</p> <p>Increased competition in the Botswana telecommunications sector</p>





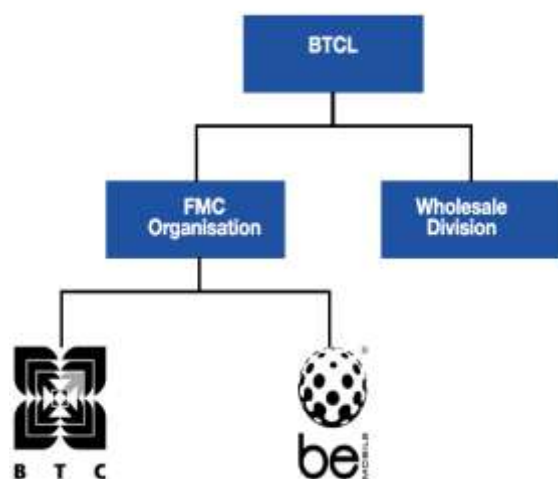
Nature of BTCL business

BTCL is a telecommunications provider in Botswana of voice telephony - fixed and mobile, as well as national and international internet, data services, virtual private networks and customer equipment to residential, government and business customers. For services other than customer equipment, the company operates in both wholesale and retail markets. The company operates under a *Public Telecommunications Operator (PTO)* Licence issued by the *Botswana Communications Regulatory Authority (BOCRA)* which allows it to offer services of any kind connected with public telecommunications systems, using any technology (technology neutral).

BTCL is the only PTO Licence holder operating both the traditional fixed and mobile networks. Because of this positioning, the company is able to offer services in the conventional fixed, mobile and convergent (FMC) domains, providing mobile, fixed and convergent products and services. BTCL offers its products and services through two operating business units namely:

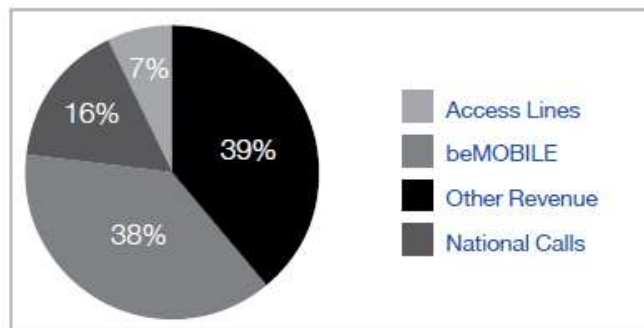
- *BTCL Wholesale* - the wholesale arm of BTCL's business; and
- *FMC Organisation* - which combines *beMOBILE*, Broadband and Fixed into a single business unit.

Figure 1.0: Structure of BTCL business units.



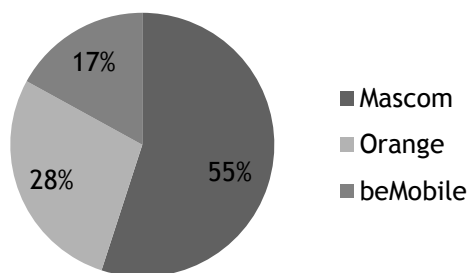
Source: Company Prospectus

Chart 1.0: Revenue Contribution



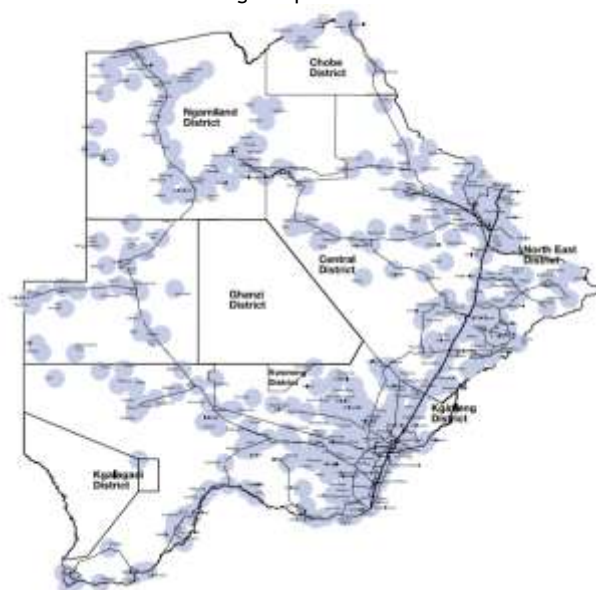
Source: Company Prospectus

Chart 1.1: Mobile Market Share



Source: Company Prospectus

Figure 1.1 be Mobile Coverage map



Source: Company Prospectus



Details of the Public Offer and Listing

The Offer

The BSE has granted BTCL a listing on the Domestic Main Board of the BSE, and a Public Offer will take place from 11 January 2015 to 04 March 2015. The offer comprises of 462m ordinary shares, of which 250m are new and are to be issued and allotted by the company and 212m shares are to be sold by the selling shareholder (Ministry of Transport and Communications of the Republic of Botswana).

Offer price

The Public Offer price is BWP 1.00 per share.

Conditions -

The Offer and Listing is subject to achieving a free float and spread of shareholders acceptable to the BSE and the Offer is available only to:

- I. Natural persons who are citizens of Botswana; or
- II. Corporate entities registered or operating in Botswana which are wholly citizen owned; or
- III. Unincorporated associations, partnerships and investment funds (whether managed directly or by institutional investors registered in Botswana) which are wholly citizen owned; or
- IV. trusts whose ultimate beneficiaries are all Botswana citizens; or
- V. Local pension funds managed by institutional investors registered in Botswana; or
- VI. Any other entities operating in Botswana which are wholly citizen owned; or
- VII. Entities (whether or not falling into categories II, III or IV above) which are wholly citizen owned which manage investment funds for the benefit of citizens only.

Allotment and Allocation

The allotment or allocation of shares in the Public Offer will only be made in multiples of 100 shares with a minimum allotment or allocation size of 1 000 shares. Fractions of shares will not be issued. In the event of an over-subscription, the order of preference in terms of the allotment and allocation will be natural persons who are citizens of Botswana, then corporate entities registered or operating in Botswana which are wholly citizen owned, unincorporated associations, partnerships, pension and investment funds (whether managed directly or by institutional investors registered in Botswana) which are wholly citizen owned, trusts whose ultimate beneficiaries are all citizens, any other entities operating in Botswana which are wholly citizen owned and then local pension funds.

Listing of the shares on the BSE

The stated capital before the listing consists of 800m issued ordinary shares of no par value. The stated capital immediately after listing will consist of 1 050m issued ordinary shares of no par value.

Application has been approved by the BSE for the listing of the entire issued ordinary stated capital of BTCL on the Domestic Main Board of the BSE subject to:

- attainment of a spread of shareholders, acceptable to the BSE, constituting at least 300 public shareholders; and
- a minimum of 20% of the shares being held by the public, as defined by the Listings Requirements.

Upon fulfilment of the above BSE conditions, the listing is expected to be effective from the commencement of business on 08 April 2016.

Rights attaching to shares

The Sale Offer shares and the Subscription Offer shares are ordinary shares and are of the same class, and rank equally and *pari passu* in all respects with the shares in issue as at the listing date. Ordinary shares in the company are entitled to:

- participate equally in any dividend distributed;
- one vote on a show of hands; and
- one vote for each share held on a poll.

Shareholder Information	Number of shares	%
Shareholder*	(000's)	
Government of Botswana	800 000	100
Total	800 000	100
*pre-listing		
Shareholder**	(000's)	
Government of Botswana	535 500	51
Employee Share Trust	52 500	5
General Public	462 000	44
Total	1 050 000	100

**post-listing

Source: Company Prospectus



Financial & Operational Review



Income Statement

- Revenue increased by 1.75% year-on-year to BWP 1.5bn in the full year to March 2015 on the back of an increase in subscriptions for mobile telephony, reflected by a 15.38% rise in mobile revenue. Revenues are forecast to shrink by 2.46% in FY 16, mainly driven by an expected erosion of sales from data services - which currently account for 29.89% of revenues. Retail and wholesale leased line, mobile leased line, ATM, and frame relay tariffs have been reduced by 88%, 90%, 60% and 94%, respectively, since January 2015. Furthermore, wholesale and retail Metro Ethernet prices have also been reduced by 60% and 65%, respectively, since January 2015. These price reductions to below cost have been necessitated in response to pricing pressure caused by *Botswana Fibre Networks Limited's (BoFiNet)* introduction into the telecommunications sector, and are expected to have a negative effect on revenue inflows.
- BoFiNet - a 100% government owned infrastructure holding vehicle, was formed in October 2012 as part of the Government's privatisation programme of BTC, to house and operate Retained Assets on behalf of Government. The Retained Assets include the rights to international connectivity capacity through the *East African Submarine System ("EASSy")* and the *West African Cable System ("WACS")*; the *Dense Wave Division Multiplex ("DWDM")* and associated assets and sites; the Internet Point of Presence equipment in Gaborone and London; the backbone fibre network; and the access fibre network. BTCL wholesale customers were, for a fixed time, allowed to migrate to BoFiNet and end their contracts with BTCL without penalty. BofiNet poses a direct threat to BTCL's profitability with regard to wholesale sales - as at September 2015, BTCL had lost in excess of BWP 60m (a year's wholesale business) to BoFiNet, with a further BWP 10m expected to be lost after notice to migrate has been received.
- Operating profits for FY 15 stood at BWP 201m, representing an operating margin of 13.32% - a 13.11 percentage point increase from the prior period (FY 14: 0.21%). Operating profits were compressed in FY 14 to a mere BWP 3m due to a BWP 266m impairment on plant, property, and equipment but recovered in FY 15 to BWP 201m. During 2014, the company reduced its fixed line incumbent's assets base due to technology changes in line with global trends. The asset base of the company also significantly reduced by BWP 334m due to transfer of assets ordered by the Government of Botswana (the sole shareholder) to the newly formed 100% state owned BoFiNet. In determining the recoverable amount of BTCL's cash generating unit, the recoverable amount was lower than the carrying amount indicating that the assets were impaired, hence the aforementioned BWP 266m charge.

Income Statement (BWPm)	FY2014	FY2015	%change
Revenue	1,480	1,506	1.75%
Gross profit	662	940	42.00%
Expenses	711	779	9.53%
Operating profit	3	201	6541.36%
Net finance income/(loss)	-208	0	-100%
Profit before tax	3	201	6541.36%
Attributable earnings	0.14	147	104725%

Balance Sheet (BWPm)

Non current assets	1,342	1,583	17.98%
Current assets	788	821	4.17%
Total assets	2,130	2,404	12.87%
Total equity	1,588	1,923	21.07%
Non current liabilities	198	201	1.75%
Current liabilities	344	280	22.85%
Total equity and liabilities	2,129	2,404	12.87%

Cashflow Statement (BWPm)

Cash from operations	112	244	118.72%
Cash used in investing activities	170	238	40.50%
Cash from financing activities	0	2	n/a
Increase/ (decrease) in cash	-58 191	3164	105.44%
Cash at year end	353	366	3.54%

Gross profit margin	44.77%	62.41%	17.64%
Cost to income ratio	48.07%	51.73%	-3.66%
RoE	0.01%	7.63%	7.62%
RoA	0.01%	6.10%	6.09%
Debt/Equity	34.10%	25.02%	-9.10%

Source: BTCL Financial Statements



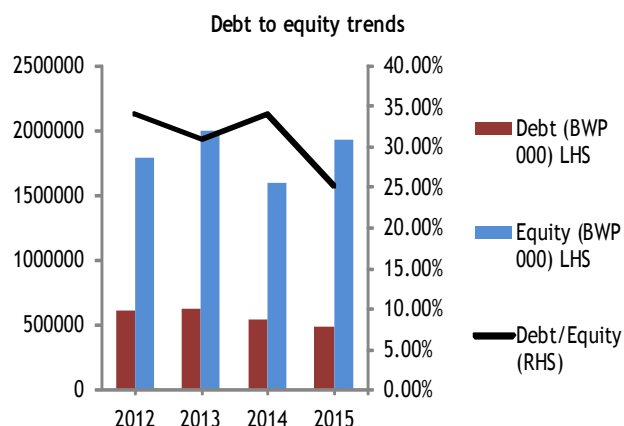
- EBITDA margins are expected to weaken, with a BWP 128m loss after tax forecast for FY 16 following a further BWP 305.8m impairment adjustment of PPE, which will come as a result of the valuation exercise undertaken by BTCL for the purposes of the IPO, which revealed a large differential between the net asset value and enterprise value. However, the impairment charge is a book entry to recognise the write down in value of the operating assets, and not a reflection of the underlying profitability of the company in 2016 or the going concern status of BTCL.

Balance sheet

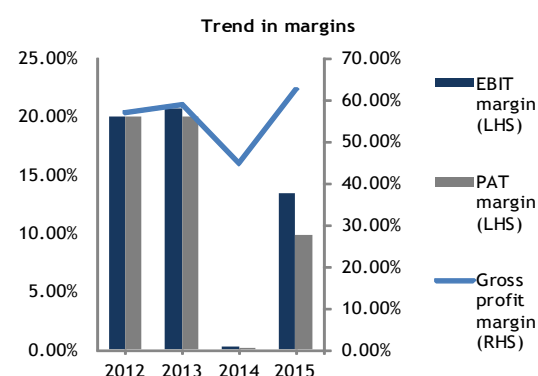
- BTCL has a relatively strong balance sheet. Total assets grew by 12.87% to BWP 2.4bn (FY 14: BWP 2.1bn). The company relies on debt for asset formation to a lower extent, with a 20.01% debt to asset ratio which therefore makes it a less risky company, as excessive debt can lead to a very heavy interest and principal burden. Total debt actually decreased by 11.25% in FY 15, underpinned by a 22.85% reduction in current liabilities.

Cash flow statement

- Net cash flow generated from operations increased by a solid 118.72% to BWP 244m. The increase was mainly due to the fact that no dividend was paid in FY 15, as opposed to BWP 121.2m dividend that had been paid in the prior year. The dividend had been declared against the value of assets transferred to BoFiNet. BTCL currently has an operating cash flow ratio of 0.87, indicating that current cash flows from operations will be able to meet 87% of all short term financial obligations. Given its strong cash generation, BTCL will be able to fund most of its capex requirements from internal resources, which will be further bolstered by the IPO proceeds.



Source: BTCL Financial statements



Source: BTCL Financial Statements

Peer Comparison

Company	Profitability			Financial strength		Management effectiveness		
	Gross Margin	EBITD Margin	Net profit Margin	Current ratio (x)	Debt/Equity	Return on Assets	Return on Equity	Monthly Mobile ARPU (USD)
Econet Wireless Zimbabwe	67.05%	37.07%	9.41%	0.80	39.94%	5.78%	11.15%	8.10
Maroc Telecom	82.85%	52.33%	20.71%	0.39	135.52%	12.66%	43.83%	6.56
Onatel SA	42.00%	-	17.29%	-	-	-	-	-
Safaricom	68.10%	48.67%	19.44%	0.57	8.35%	21.30%	38.34%	5.73
Telecom Egypt	40.00%	23.00%	26.40%	2.03	1.49%	7.32%	6.72%	-
Telekom Networks Malawi	56.00%	35.00%	12.94%	-	-	-	-	1.96
Telkom SA	80.24%	24.59%	7.19%	0.79	19.76%	5.61%	9.48%	3.56
Mobinil	77.00%	30.00%	-0.26%	0.56	-	-0.20%	-2.17%	3.54
Vodacom	57.48%	35.69%	15.87%	1.01	121.93%	18.32%	58.13%	6.93
MEAN	63.41%	35.79%	14.33%	0.88	54.50%	10.11%	23.64%	5.20
BTCL*	62.41%	38.02%	9.74%	2.94	25.02%	6.10%	7.63%	5.56

*BTCL figures as at 31 March 2015





Outlook

The telecommunications industry in Botswana is an efficient sector as a whole, with a phenomenal growth of more than 100% in mobile telephone subscriptions since 2009. In March 2014, there were 3.2m mobile subscriptions - a great representation, considering Botswana's population stands at 2.2m. BTCL has leveraged from this with mobile revenue inflows of BWP 423m (28.56% of sales income), compared to the BWP 250.1m total revenues generated in 2009. However, in our view the Botswana telephony market has reached saturation point, with national penetration at over 154% - this provides very limited room for growth with regard to the expansion of BTCL's subscriber base. We thus expect to see a modest increase in *beMobile* subscribers beyond FY 16.

Although mobile saturation is already well above 100% for voice, the use of smartphones has led to an increased number of people with access to the internet especially among the youth. There is room for growth in relation to national mobile internet penetration, which is currently at approximately 49%. Given globally declining revenues from text messages (SMS) and other traditional mobile usages, going forward, the key for BTCL will be to deliver data faster and with quality to a sophisticated and demanding end user. The company has identified this potential growth area and has made significant investments in growing its mobile and broadband (both fixed and mobile) business. Indeed, the company is to commit a further BWP 110m in the years FY 15/ 16 to the existing BWP 110m invested in *beMobile* during FY 14/ 15. In our view, we expect the increased mobile broadband penetration to translate into an increase in volumes of mobile internet subscriptions, which therefore should support revenue growth beyond FY 16.

The increase in mobile subscriptions has however led to a subdued demand for fixed telephony with only 174,992 subscriptions at FY 14 (although it was still an 8% year-on-year growth). Although the market for fixed telephony is declining, BTCL has approximately 163,000 lines, representing a tele-density of 8.5%. In this segment, market penetration is low at approximately 8%, but growing at 40% per annum. It is therefore our view that some prospects for growth in the sector do exist, considering that BTCL is the sole fixed line operator in the country.

BTCL's copper access network means that BTCL is the only operator with the capacity and capability to offer Asymmetric Digital Subscriber Line (ADSL) services - a broadband internet product offered through the use of landlines. Although uptake of ADSL remains low due to the relatively low number of fixed telephone lines sites - subscriptions stand at a modest 20,164, we believe that the low penetration affords BTCL an opportunity for growth, if they can package the offering attractively. Following the recent fixed line and mobile investment, it is envisaged that there will be an added, in the short term, 50 Ethernet over Copper (EoC) and 20 (ADSL) sites. This will improve broadband internet speeds over its copper network of up to 20 Mbit/Sec. 10 and 20 Meg WDSL services.

We believe that this will edge up demand in this segment, which will translate into higher penetration rates. However, fixed lines are generally in decline unless the move is to fibre, so having a fixed line component for voice is not the future and may actually dilute margin given the infrastructure cost to subscriber ratio. Therefore even though we see higher penetration rates of ADSL lines, we believe that the uptake for copper based lines will be relatively small in comparison to mobile internet penetration rates.

Risks

- **BTCL is a high volume business with profitability that is very sensitive to variation in margins.**
The backbone provider, BoFiNet, determines the margins available to network/telecoms operators. BTCL may not always be able to pass on to the retailer or customer any margin compression enforced by the backbone provider. Therefore, an increase in pricing of certain products supplied by the backbone provider may reduce BTCL's margins and threaten BTCL's profitability.
- **Increased competition in the Botswana telecommunication sector.**
Botswana has adopted a new Unified Licensing Framework, potentially enabling new entrants to the market with lower barriers to entry and therefore lower fixed costs than BTCL. Such new market entrants may have an impact on BTCL's pricing.
- **Competition risks**
Wholesale customers migrating to BoFiNet.
- **Regulatory price controls**
Significant price controls by the regulator that may put pressure on BTCL market share, competitive position and future profitability.
- **Share price volatility**
Shares could be volatile and subject to significant fluctuations due to a variety of factors, some of which do not relate to BTCL's financial performance. These include changes in general market conditions i.e. the general performance of the BSE.
- **Dividend policy is unclear**
The company has not stated any solid dividend policy for the future, and therefore besides potential price gains, returns on investment for shareholders may be limited.



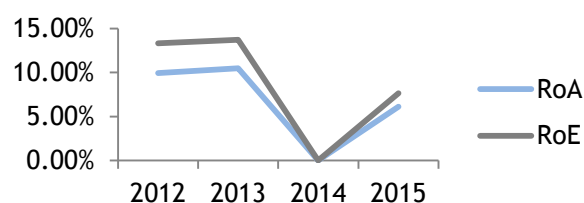
Valuation & Recommendation

BTCL is the only operator with a copper network that reaches all cities, towns and major villages in Botswana. The company has several other competitive advantages; such as a leading fixed line business operation and a strategic partnership with *Vodafone*. This partnership is expected to allow BTCL to benefit from access to new products at globally competitive prices and accelerate the implementation of the FMC strategy. It will also allow BTCL to access Vodafone's knowledge bank as well as permit use of Vodafone's international carrier network which will result in *beMOBILE*, the mobile business division of BTCL, giving its customers better quality and a more seamless customer experience. Furthermore BTCL is the only operator in the country with the scale to offer FMC ICT solutions in Botswana, and it has the lowest mobile tariffs. Moreover, the company has a unique market position as the only fixed and mobile network in Botswana. Government still maintaining its position as major shareholder also minimises the risk, albeit small, of liquidation.

BTCL's products and services span through a diversified portfolio comprising voice, data services, unified communications, broadband and hosted services among others. The company has not exhausted its growth in the market, and harbours significant growth potential in its broadband and mobile financial services segment, more particularly in the latter. As at March 2014, BTCL's market share in terms of Mobile Money market share stood at a mere 1%, while Orange and Mascom's market share stood at 60% and 39%, respectively.

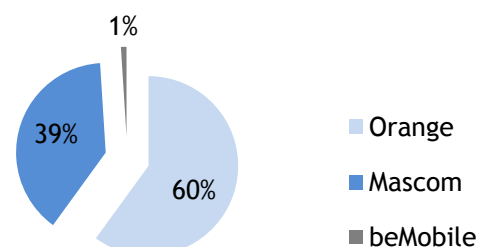
On the backdrop of a 100% uptake of the offer, the company's market capitalisation will stand at BWP 1.05bn. Using equally weighted valuation techniques, we arrive at a target price of **BWP 1.26** per share, a representation of a 26% upside of the offer price. In comparison to its peers, at IPO price the BTCL share is trading at a discount, as its enterprise value multiple per share, relative to certain returns is lower than that of its peers, and its price multiples are also lower than that of its peers. We therefore recommend the counter as a **BUY**.

RoA vs RoE



Source: BTCL Financial Statements

Mobile Money Market Share as at March 2014



Source: BOCRA

Peer Comparison

Company	TEV/EBITDA	TEV/Total	P/Tang	P/Diluted
	Revenues	Revenues	BV	EPS
Econet Wireless	1.27	0.5	0.35	4.41
Maroc Telecom	3.90	2.1	0.95	-
Onatel	-	3.5	-	-
Safaricom Limited	9.70	4.2	6.27	16.00
Telecom Egypt	4.20	1.0	0.36	5.52
Telekom Networks	4.70	1.6	8.20	11.50
Telkom SA SOC	4.30	1.1	1.60	13.10
Mobinil	5.00	1.5	-	-
Vodacom	8.60	2.9	13.90	17.20
MEAN	5.21	2.05	4.52	11.29
BTCL	2.12	0.80	0.55	6.82





Financial Summary

31-Mar						
Income Statement (BWP m)	2013	2014	2015	2016F	2017F	2018F
Revenue	1,375	1,480	1,506	1,469	1,520	1,599
Gross profit	809	662	940	853	905	983
Operating profit	284	3	201	-192	131	133
Profit before tax	284	3	201	-164	147	145
Profit after tax	274	0.14	147	128	115	113
Ratios						
EPS (t)	-	14.68	0.01	-15.59	10.94	10.8
Dividend payout ratio	-	-	-	-	-	-
Gross margin	58.79%	44.77%	62.41%	58.08%	59.51%	61.49%
Operating margin	20.66%	0.21%	13.32%	-13.10%	8.64%	8.36%
PBT margin	20.64%	0.20%	13.32%	-11.17%	9.69%	9.09%
NI margin	19.90%	0.01%	9.74%	-8.71%	7.50%	7.09%
Growth Ratios						
Sales growth	15.58%	7.19%	1.75%	-2.50%	3.95%	5.22%
Gross profit growth	19.78%	-18.08%	41.91%	-9.26%	6.06%	5.15%
Operating profit growth	19.85%	-98.87%	6113.41%	-4.48%	168.25%	1.82%
PBT growth	19.87%	-98.94%	6541.36%	-18.40%	189.79%	-1.29%
PAT growth	15.53%	-99.95%	104725.00%	-12.81%	189.79%	-1.29%
Margins						
Gross margin	58.79%	44.77%	62.41%	58.08%	59.51%	61.49%
Operating margin	20.66%	0.21%	13.32%	-13.10%	8.64%	8.36%
PBT margin	20.64%	0.20%	13.32%	-11.17%	9.69%	9.09%
PAT margin	19.90%	0.01%	9.74%	-8.71%	7.50%	7.09%

Source: BTCL Financial Statements

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