



Equity Research Botswana February 2016 2015 Review and 2016 Outlook

The year 2015 was characterised by the Botswana economy slowing down, emanating from the decline in global mineral prices - particularly for diamonds which is the mainstay of the economy. Despite subdued activity in the mining sector, Botswana still attained moderate overall growth mainly driven by the non-mining sectors including trade and tourism, as well as financial and government services. Headline inflation decreased year-on-year mainly on the back of the drop in domestic fuel prices, closing the year at 3.1%, within the Central Bank's target objective range of 3% to 6%.

Real GDP increased by 4.3% in the first quarter of 2015 compared to 3.6% in the same quarter of 2014. The increase was largely due to all industries registering a positive growth of at least 1.0% over the period with the exception of the Water and Electricity and Agriculture sectors which recorded a decrease of 1.7% and 0.7%, respectively. The second quarter saw the GDP growth rate contract by 1.8 percentage points q-o-q, increasing by a modest 2.5% in the second quarter of 2015 compared to 3.4% realised in the same quarter in 2014. Decreased production in the mining sector in Q2 (diamonds: -5.7%, copper/nickel: -12.9%, soda ash-55.2%) weighed heavily on GDP with the mining value added decreasing by 8%. Real GDP fell by 3.5% in Q3, on the back of the Mining, Water & Electricity and Agriculture sectors receding by 40.6%, 114.9% and 0.75%, respectively.

As at November 2015, foreign exchange reserves stood at USD 8.0bn - a 5.03% decrease compared to the previous year's USD 8.4bn. Total deposits held from the public rose by a moderate 12.67% increasing liquidity, which therefore led to 8.0% year on year credit growth rate as at October 2015. The household sector's total share of credit increased to 58.8% (2014: 55.4%), while it accounted for 24.7% of total deposits vs. the business sector's 71.1%.

The inflation rate remained in the lower limit of the Bank of Botswana's medium term objective range of 3% - 6% throughout 2015, although it fell below 3% in February (2.8%), March (2.8%), September (2.9%) and November (2.9%). Average inflation for 2015 dropped to 3.1% year on year (2014: 4.4%) weighed down by a drop in the transport group index (2014: +1.2%; 2015: -5.1%) which has the second highest weighting on the CPI. The decline was underpinned by decreases in fuel prices.

Top 5 gainers and losers- 2015	Opening	Closing	% change	% change
Company	Price	Price	(LC)	(USD)
BSE-DCI	9501.60	10602.32	11.58%	-5.28%
CHOBE	4.27	6.80	59.25%	35.01%
WILDERNESS	3.15	4.90	55.56%	31.87%
SEFALANA	9.23	13.80	49.51%	26.75%
TURNSTAR	2.08	3.07	47.60%	25.13%
BIHL	11.51	15.20	32.06%	11.95%
AFINITAS	1.00	0.98	-2.00%	-16.92%
G4S	3.72	3.62	-2.69%	-17.50%
ENGEN	9.50	8.51	-10.42%	-24.06%
STANCHART	12.57	11.20	-10.90%	-24.46%
FURNMART	2.11	1.09	-48.34%	-56.21%

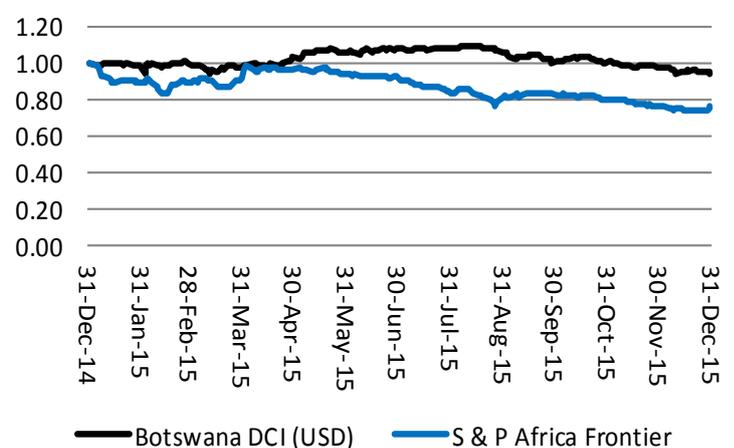
Source: IAS/BSE

Top 10 Shares by Market Cap.

Company	BWP (m)	USD (m)	% of Total
FNBB	9 793.33	872.59	19.37%
LETSHEGO	6 336.21	484.50	12.53%
CHOPPIES	5 437.76	380.66	10.76%
BIHL	4 272.27	355.55	8.45%
SECHABA	3 990.45	342.43	7.89%
BARCLAYS	3 843.25	300.92	7.60%
STANCHART	3 377.33	274.03	6.68%
SEFALANA	3 075.58	155.49	6.08%
TURNSTAR	1 745.07	141.63	3.45%
NAP	1 589.56	120.97	3.14%

Source: BSE

Botswana DCI vs S&P Frontier Africa Index



Source: IAS/BSE





Market Review for 2015

The year 2015 saw the DCI close in the green, up 11.58% in pula terms. However, the strengthening of the USD against the BWP resulted in the index weakening by 5.28% in USD terms compared to the previous year. The year was characterised by the DCI experiencing marginal increases in Q1 (+2.02%) and Q3 (+0.15%), while it peaked in Q2 (+9.45%) owing to Wilderness' 41.54% advancement and registered a marginal decline of BWP 0.22% in Q4.

15 counters recorded capital gains on their share prices, while 4 recorded losses. The weakening of the BWP against the USD bolstered strong demand in the tourism sector, resulting in bullish trading activity in the sub-sector. Chobe - the best performer, registered a 34.86% uptick which in turn strengthened the DCI's performance. The counter's EPS increased by 52.28% to 57.58t (FY 14: 37.81t) due to a significant rise in occupancy levels (+11% in FY 15). Other top performers were Wilderness (+31.73%), Sefalana (+26.61%), Turnstar (+24.99%) and BIHL (+11.83%). FurnMart was the biggest loser, shedding 56.25% underpinned by the company's receding performance. The company reported a 21.46% drop in PAT on the back of strong competition in the region and the weakening of the BWP which led to an increase in imported product expenses. Other notable losers were StanChart (-24.55%), Engen (-24.14%), G4S (-17.60%) and Afinitas (-17.01%).

On the other hand, the global weakening in mineral commodity prices adversely affected the mining sector, which in turn dampened the performance of the FCI, with the index closing 2015 in the red by 0.33% and 15.50% in pula and USD terms, respectively. Despite upticks recorded by Lucara (+20.20%) and Shumba (+19.27%), contractions in BOD (-67.50%), A-Cap (-50.00%) and Magnum (-33.33%) weighed down the index. African Energy traded flat year on year. The foreign board experienced 2 subtractions, following the delisting of African Copper on 28 August, and Discovery Metals effective from 1 December, due to illiquidity of the stocks.

Market activity across both the foreign and domestic boards closed higher year-on-year. Volumes edged up 35.32% which translated into a 39.08% increase in market turnover, with 796.3m shares worth BWP 3.0bn trading vs. 588.4m shares worth BWP 2.2bn that transacted in 2014. Large cap stocks dominated the market with Letshego maintaining its position as the most traded counter, accounting for 35.91% and 27.09% of volumes and market turnover, respectively, followed by Choppies with contributions of 16.18% and 20.06% to both respective measures.

Market activity peaked in the last quarter, with 255m shares trading generating a market turnover of BWP 824.0m (USD 71.0m), largely attributable to trades in Letshego - which accounted for the most (10.17%) of total volumes traded in that period. There were significant declines in average daily volumes and value traded y-o-y with an average of 2.2m shares worth BWP 8.3m (USD 0.7m) transacting daily vs. 2.4m shares worth BWP 8.9m (USD 0.9m) that changed hands the previous year.

10 Most active stocks by volume

	Vol	% of total
LETSHEGO	274 592 166	35.91%
CHOPPIES	123 744 231	16.18%
FNBB	80 709 066	10.56%
RDCP RIGHTS	72 864 479	9.53%
TURNSTAR	51 771 608	6.77%
SEFALANA	30 612 321	4.00%
IMARA	17 888 002	2.34%
LETLOLE	16 455 706	2.15%
NAP	12 400 080	1.62%
WILDERNESS	11 555 165	1.51%

Source: IAS/BSE

10 Most active stocks by value

	Val (BWP)	Val (USD)	% of total
LETSHEGO	791 063 602	78 236 190	27.09%
CHOPPIES	585 759 626	57 931 627	20.06%
SEFALANA	361 107 748	35 713 556	12.37%
FNBB	305 945 064	30 257 967	10.48%
SECHABA	210 298 445	20 798 516	7.20%
TURNSTAR	133 764 174	13 229 277	4.58%
BIHL	128 883 151	12 746 544	4.41%
STANCHART	93 081 958	9 205 806	3.19%
WILDERNESS	52 515 419	5 193 775	1.80%
IMARA	47 237 758	4 671 814	1.62%

Source: IAS/BSE

Market capitalisation for the domestic bourse reached BWP 50bn (USD 4.41bn) in the second quarter of 2015 - the highest in the history of the BSE. FNBB maintained its previous close as the largest cap stock on the domestic main board, although its weighting retracted by 0.71% to 19.37% (2014: 20.08%). Total equity market capitalisation closed the year at a solid BWP 421.4bn (USD 37.5bn) - a 0.77% upturn in pula terms on the previous year's BWP 418.2bn (USD 44.06bn).

Corporate activity for the year was as follows:

- RDCP - a property management and development company, had a successful Rights Offer in which the company raised approximately BWP 229m (USD 19.7m).
- African Copper delisted from the Foreign Main Board of the BSE effective from 28 August 2015.



- Discovery Metals delisted from the Foreign Main Board of the BSE effective from 1 December 2015.
- FSG - a funeral services company, underwent a share buyback at an offer price of BWP 2.80 per share, and effectively delisted from the BSE on 24 December 2015.

Market Outlook for 2016

Following slower growth in 2015 due to the struggling diamond sector, drought and power shortages (which disrupted business operations and cast doubt on the ability of the state to supply basic services), we expect the economy to be more stable in 2016, as Botswana benefits from the sound macroeconomic buffers built up in past years along with political stability. The revised 2016/17 Budget Strategy Paper (BSP) from the MFDP projected a budget deficit of BWP 4.03bn from the previous budget surplus estimate of BWP 1.23bn for the 2015/16 fiscal year. Estimated GDP growth has been cut to 2.6% from 4.9%. The weakened diamond market and possible drop in Southern Africa Customs Union (SACU) revenues are the major contributors to the projected budget deficit. The Government intends to finance the budget deficit through the issuance of bonds and drawing from government reserves, which in turn will anchor economic stability. Furthermore the highly anticipated Economic Stimulus Package (ESP) which is to launch in 2016, will see the government drawing down from foreign reserves to boost the country's sluggish economy. The drawings are to be spent in tourism development, agricultural production, construction and manufacturing, all of which should support economic growth.

Despite an increase in administered prices such as the Alcohol Levy which was hiked by a further 10pp to 55% in December 2015, we expect inflation levels to be close to the lower bounds of the 3% - 6% medium-term objective range in 2016, due to the downward pressure resulting from weakening oil prices. The Bank of Botswana lowered its policy interest rates twice in 2015 (100bps in February to 6.5% and 50bps in August to 6%) and we are of the view that the central bank will maintain its prevailing monetary policy stance of softening rates in 2016 to support economic growth.

We believe that the new listing of Botswana Telecommunications Corporation Limited (BTCL) - currently a state owned body, will facilitate market growth. Assuming a successful IPO, the company will list on 8 April 2016. Counters such as Choppies, BIHL and Letshego are in stages of cross - border acquisitions and this pursuit of regional growth should see more investor interest in 2016.

Top Picks for 2016

Letshego - Letshego continues to grow operations in other countries, thus enhancing future earnings potential. After all regulatory approvals were obtained, Letshego became a 75% shareholder in Advans Bank Tanzania (ABT) effective from 10 November 2015, increasing its footprint in Tanzania where it had an existing company in the country, Faidika. The company is also to become the 100% shareholder of FBN Microfinance Bank Limited (FBN MFB), a deposit taking financial institution that specialises in micro finance (the transaction is substantially complete after preliminary regulatory approvals in Nigeria have been obtained). The counter is on a PER and PBV of 8.44x and 1.56x, respectively, which is generally lower than its deposit taking peers in Botswana. Generally, we buy the company's growth and diversification story. We see Letshego's acquisition of deposit taking entities as a positive development which should assist the company to reduce its cost of funding over time. Target Price: BWP 3.61.

Botswana Insurance Holdings Limited (BIHL) - The company has entered into agreements to acquire 25.1% of the issued ordinary shares of Nico Holdings Limited (Nico), a Malawian company which was founded in 1971 and operates its business through six segments, which are general insurance business, life insurance & pensions business, banking business, asset management, information technology and investment holding. Nico is listed on the Malawian Stock Exchange and operates in five countries being Malawi, Tanzania, Uganda, Zambia and Mozambique. It is our view that this transaction will allow BIHL to enhance its product offering and diversify its earnings base from Botswana, thus creating greater shareholder value. The counter is trading at a PER of 8.10x which is below its peer average in Africa. Using the relative valuation method we arrive at a target price of BWP 16.54, which represents a 6.64% upside.

