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A Member Of The Botswana Stock Exchange

Weekly Financial Markets Highlights 14th October 2016

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1. Equity Trading: The Curve Ball, BCL to liquidate

The market appeared to ignore the shocking news which we woke up to over the past weekend concerning the unexpected placing of BCL mine on provisional liquidation. The closure of the mine will send ripple effects not only in the mining town of Selibi Phikwe and surrounding areas but the whole economy of Botswana. The negative multiplier effects will be severe and will have long lasting effects on the whole economy at large. It will no longer be business as usual.

The market reaction to the decline in Choppies has been slow and dragging. The company announced late August, in a cautionary announcement, that earnings will be lower by at least 32% for the financial year ended June 2016. The next day the stock traded down by 5.5% to P3.59 a share from P3.80. On release date the actual results showed that earnings were down by nearly half compared to the last year. Market reaction has been slow, however this week the stock fell a further 11.6% to bring its price to P3.05, a 52 week low, after trading 21.1 million shares cumulatively. At the current level the stock is trading at a slight discount locally than on the JSE where it's dually listed, across the border the price closed at R4.09 (P3.08).

Far Property, founded by the Farouk Ismail and Ramachandran Ottaphatu, was the biggest gainer for the week bagging 7 thebe to lift it from its lowest price since listing in May, back to its listing price of P2.57 a share. The company which was initially established to meet the property needs of Choppies soon attracted other clientele and grew to a point of listing.

Letshego traded 2.7 million shares this week, a fairly small volume considering that the share buyback is still ongoing. However the company announced that the buying discretion remains with them and will not rush to mop up shares, as they are cautious not to break any of the BSE rules, one of which limits the premium the company can buy at, on the open market and prohibits a sale by any investor with a material holding of 5% or more. The stock gained 3 thebe to close at P2.40 reducing its yearly gains deficit to 17.2%, having hit rock bottom in August, when it traded at P1.80 nearly 40% lower YTD.

Major Movers– Week ending 14th October 2016

COUNTER	14 Oct (t)	07 Oct (t)	Change (%)	YTD (%)
Far Property ↑	257	250	2.8	0.00
Letshego ↑	240	237	1.3	-17.2
BIHL ↑	1731	1730	+0.5	+13.9
CHOBE ↑	756	755	+0.5	11.2
CHOPPIES ↓	305	345	-11.6	-21.6
AFR ↓	53	58	-8.6	-8.6

Source: Motswedi Securities, BSE

The three bulls; Barclays, BIHL and Chobe have been on a strong performers since the beginning of the year. Barclays continues to outperform in a period where other banks profitability is in sharp decline, the company's turnaround strategy headed by Renette van de Merwe has yielded great results. If the half year results are anything to go by this year's earnings will be through the roof.

BIHL moved up 1 thebe over the course of the week extending its year to date earnings to 13.9%, as it closed a thebe lower than its 12 month high of P17.32, the stock remains in high demand which will continue to drive the price up. Chobe Safaris extended its year to date gains to 11.25 after gaining a thebe also to close P7.56 a share. Liquidity and a small free float continue to be a challenge for

investors seeking to add the lucrative stock to their portfolios, creating a seemingly endless demand for the stock.

The Domestic Company Index dropped by 0.84% to end the week at 9,710.83 while the FCI barely moved trading down to 1,601.31. The market traded 24.5 million shares with Letshego and Choppies accounting for over 95% of the trades, both stocks are heavily capitalized and their offsetting movement help reduce the impact on the DCI.

BSE Indices – Week Ending 14th October 2016

DCI Close	9,790.02
Weekly Change (%) ↓	-0.07
YTD Change (%) ↓	-7.66
FCI Close	1,601.44
Weekly Change (%) ↑	+0.00
YTD Change (%) ↑	+1.84

Source: BSE; Motswedi Securities

Market Summary – Week ending 14th October 2016

No. of Shares Trading	24,487,181
Turnover (BWP)	72,979,276
Turnover (USD)*	6,772,477
No. of stocks trading	18
No. of stocks advancing	3
No. of stocks declining	2
No. of stocks unchanged	29

Source: Motswedi Securities, BSE *US\$/BWP = 0.0928

2. Foreign Exchange: Chinese Yuan joins the SDR

The IMF has finally implemented the addition of the Chinese Yuan to the Special Drawing Rights (SDR) effective since the 1st of October 2016. The pula, which is crawling pegged against a basket of currencies comprising and weighted 50% in favour of the Rand and 50% SDR will now reflect some exposure to yuan movements. Analysis by RMB however suggests that the impact will be negligible sighting the fairly low weighting of the yuan within the

SDR, and as predicted there has been no notable change in the pula attributable to the regime change.

The dollar has been on a rally for the week, fuelled on Wednesday by the release of September FOMC meeting minutes. The hawkish endeavour by some of the voting members calling for a hike sooner rather than later which, being the major highlight of the minutes. The dollar ended the week 1.59% higher than the pula, with USD/BWP at 0.0928.

The pula however was pulled higher by the stronger dollar against the rand, while little transpired in light of the Gordhan summons by the national prosecutor, the currency has been trading under pressure from the associated political risk. The summons could not have come at a worse time as the second sovereign debt ratings are looming and could spell disaster for the BRICS member. If you have been planning a holiday shopping spree across the border, christmas has come early as the rand is trading at a discount.

The yuan rallied on its first week under our review, stacking the most gains against the pula following the release of better than forecasted CPI and PPI figures. The currency rose by 1.7% to end the week trading at 0.6252 to the pula.

Domestic Exchange rates

Currency	14 Oct	07 Oct	Change (%)	YTD (%)
US\$/BWP ↓	0.0928	0.0943	(1.59)	4.27
ZAR/BWP ↑	1.326	1.3109	1.15	(4.12)
EURO/BWP ↓	0.0842	0.0848	(0.71)	3.44
GBP/BWP ↑	0.0761	0.0757	0.53	26.83
JPY/BWP ↑	9.66	9.8	(1.43)	(9.89)
CNH/BWP* ↓	0.6252	0.635	(1.70)	(1.70)

Source: Bank of Botswana, RMB. *added on 10th October 2016

3. Commodity Markets:

Brent Crude Oil, expect a lot of swings in oil prices till the end of the year. A lot of talk and negotiations will be the cause of the variance, as oil producers struggle to find a unanimous vote on how to handle both the growing oversupply and the week prices. Everyone agrees that there has to be some level of intervention, just not how to implement.

The stable and economies wish to reduce supply to prop up prices and find equilibrium, que in Saudi Arabia and Russia. These two oil giants are most likely to agree in policy, if they act agree alone oil will face a secondary problem that could easily whip out there efforts. A band of recovery nations that have faced production problems due to civil and political unrest or embargoes; think Nigeria, Venezuela, Libya, Iran, all of whom have pumping more oil by the barrel day in day out will see the price movement as motive to increase production. Oil peaked at a 3 month high on Monday with 3 month futures trading at \$53.78 a barrel but slowly declined by \$2.12 during the week to close at \$51.66/bbl.

Precious Metals were in consolidation mode for the weak fluctuating up and down as the mark seeks new direction. The stronger dollar and the likelihood of a fed rate hike given the divided decision in the last FOMC and the rather hawkish minutes that were released this week will continue to place precious metals under pressure. Gold was last at \$1256.15 little changed from last week, while platinum fell by 1.34% at \$934/oz.

Base metals on the other hand traded higher for the week piggy backing on better than expected Chinese data and the crack down on nickel mines in the Philippines.

Market News Snippet

Cresta released a cautionary, announcing the suspension of the hotel operator's MD Tawanda Makaya, together with the CFO Valentine Mganga on unspecified reasons. Cresta board chairperson is however, quoted by the local media saying that the suspension is with regards to the missing P2.3mn from the company.

Sechaba released a gloomy trading update advising shareholders that its interim results for the period ended 30 September will be lower than expected due to the difficult regulatory environment.

Chobe in contrast released an exciting trading update in which it expects its interim results for the half year ended 31 August to be significantly higher than those achieved in the corresponding period last year.

Barclays was also on the podium reassuring investors that the banks advances to the troubled BCL mine which is now under provisional liquidation is safe as the facilities are government secured. Our worry is the likely impairments that the bank will incur from employees and other third parties that have been doing business with the mine. We expect banks at large to feel the heat from the closure of the mine in the form of high impairments especially from unsecured facilities extended to the mine employees and other related companies exposed to BCL.

Sefalana announced its intentions to raise P351mn through a rights issue of 27.8mn shares at a price of P12.60 per every 1:8 shares held by existing investors. The 12.5% dilutive effect could bring price levels to around P12.25 from P14.00.

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