



2014 FINANCIAL MARKETS REVIEW

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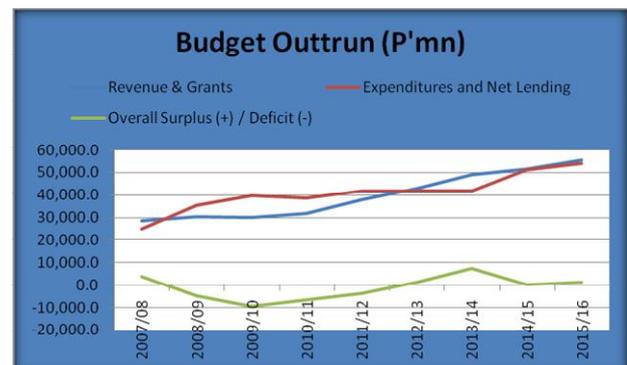


1.0. 2015/16 Budget Review

The Minister of Finance Kenneth Matambo presented a fairly 'neutral' Budget for the 2015/16 financial year. Total Revenues and grants are forecasted at P55.38bn, a 10% increase from the revised FY14: P50.18bn. Mineral revenue is forecast to contribute 34.4% of the total revenue, Customs & Excise, 29.5%; Non Mineral 17.5%. Mineral revenue continues to be the main contributor towards total revenue and this is a cause of concern as any negative developments on the global economic landscape may impact negatively on our mineral exports and hence reduce revenue. This brings to the fore the need to speed up the diversification of the country's economy. Total expenditure and net lending is projected at P54.1bn, a 6% increase from the revised FY14: P51.26bn. Accordingly, a budget surplus of P1.23bn (0.8% of GDP) is projected, an increase from the revised FY14: P280mn. The recurrent budget was allocated P36.7bn (68% of total expenditure), with the education ministry taking the biggest share of 33% (5% increase from 2014). The education ministry has been enjoying the largest share of the recurrent budget in recent years but we are of the view that more emphasis should be placed on improving the quality of the education system. The government should also prioritise the alignment of the education system especially at tertiary level so as to meet the changing and dynamic needs of the private sector.

The development budget stood at P12.93bn. (23% of total expenditure), with the Ministry of Minerals, Energy & Water taking the biggest share of 28% in line with our expectations. Major projects that will

be funded includes; the North-South Water Carrier ii (P500mn) and Morupule A refurbishment (P100mn). The North-South Water Carrier project will go a long way in the provision of adequate water supplies especially towards the southern parts of the country following the almost drying up of Gaborone dam. Water is one of the key resources needed by the business sector and its availability will go a long way in creating a conducive and enabling environment for the business sector. The allocation towards the refurbishment of Morupule A is also vital as it will ensure the provision of adequate energy supplies which is vital for the business sector and the growth of the economy.



Source: Ministry of Finance

One of the major highlight that came out of the budget is the extent to which some of the major projects are not properly implemented. Between 2011/12 – 2013/14, around 17.3% of the development budget was under spent. This is an area of concern as it compromises the growth of the economy. In some cases, the government has had to allocate more funds towards the refurbishment of some projects which becomes too costly to the economy, whereas the funds could have been used for other key projects. Going

forward it is our view that more attention should be given toward the implementation of the projects to ensure that the funds are utilised more effectively and efficiently. We are still to see how the newly established **implementation unit** will be effective in ensuring that projects are implemented and completed on time.

The Minister also announced the setting up of the Cluster and Value chain in selected sectors ie; **Diamonds, Tourism, Cattle, and Mining** comprising of coal and other minerals except diamonds. The idea is to encourage private sector participation in the growth of the economy while at the same time diversifying the economy. In China this concept has a long history and has been a huge success, with significant contribution towards its growth and economic transformation. It is estimated that these Clusters in China (including all types of industrial parks and zones) accounted for about 22% of national GDP, about 46% of FDI, and about 60% of exports and generated in excess of 30 million jobs in 2007.

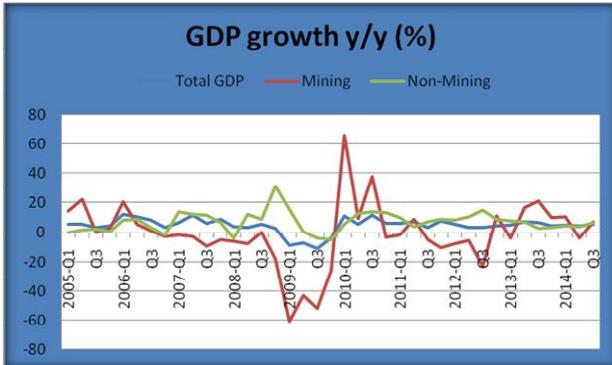
It is vital to note that the success of these Clusters is based in among others; availability of economies of scale, funding, supplies of inputs, ready market for finished products, good infrastructure, productivity advantages, presence of anchor firms etc. It is our firm believe that the 'Cluster' and Value Chain approach will go a long way in supporting the private sector contribution to the country's economy as well as create employment provided the concept is adequately financed and conducive. However, we note that the budget was silent on the budget allocation for this noble project.

Going forward, we are of the view that more focus should be channelled towards the agriculture sector given its importance in the economic diversification and the development of the rural economy and ultimately poverty eradication. Adequate resources are needed to mechanise the sector and provide adequate farmer training to increase productivity and hence food security. We can take a leaf from Israel, which is predominantly a desert country with more than half of the land area a desert while the climate and lack of water do not favour farming. Its agriculture sector is mechanised, highly developed and produce 95% of its own food requirements, while contributing 3.5% towards total exports. The agricultural sector is based almost entirely on Research & Development, while diversification and growth in types of plant crops and livestock breeding has increased over time. Methods of cultivation have also improved, and Israel continues to develop more efficient forms of irrigation, greenhouses, and mechanical equipment for processing and harvesting crops.

2.0. GDP grew by 5.4% y/y in q3...

Botswana GDP is estimated to have grown by 5.4% 2014, according to the 2015 Budget Review Statement. For 2015, GDP is projected to grow at a slower rate of 4.9%, while we project a slightly lower growth of 4.8% due to unfavourable developments especially from the Euro zone and Japan. The 2014 growth was mainly driven by non-mining sectors including Trade, hotels & restaurants, Finance and Banking, and Social & Personal Services. Upcoming projects such as establishment of a Steel Manufacturing plant in Selebi-Phikwe and horticulture Agro Processing

plant which will be commissioned later during the year or early 2016 are expected to support growth in 2015. In addition, the P12.9bn allocation towards the development budget will support the growth of the economy.



Source: Statistics Botswana, Motswedi Securities

The mining sector contribution to economic growth has been falling over the recent years, while non-mining sector contribution has been steadily improving reflecting the some diversification of the economy. However, our worry is that much of the non-mining sector growth is mainly dependant on government expenditure hence is prone to changes in government expenditure.

Real Value Added (Pmn)



Source: Statistics Botswana

We remain concerned about the negative growth of the Water & Electricity sector which has been a drag to our economy. We hope the P500mn allocation towards the North – South Water Carrier and the P100mn allocation towards the refurbishment of Morupule A power station will go a long way in improving the water and power situation in the country.

Developments on the global economic landscape are still a concern to us, particularly the recession in Japan, the slowdown of the Euro Zone and Chinas given these are some of our major trading partners and any slowdown of their economies will impact negatively on our exports. The IMF recently reduced its global growth projection from 3.8% to 3.5% in 2015. The downward revision was mainly due to the bleak prospects from China, Russia, the EU, Japan and other major oil producers. However the US was the only country whose outlook was raised as the economy has shown some resilience in GDP growth and the labour market.

3.0. Inflation closed the year at 3.8%...

Inflation has been on a downtrend during 2014; falling from 4.4% in January to close the year at 3.8%. This was underpinned by stable food prices, backed by a stronger Pula to the rand, and also the 6% reduction in fuel prices towards the end of the year. However the Housing, Water, Electricity, Gas & Other Fuels group has been generally on an uptrend as water and electricity supply has been challenge.

The Food group section which has the largest weight to our CPI basket has been a major

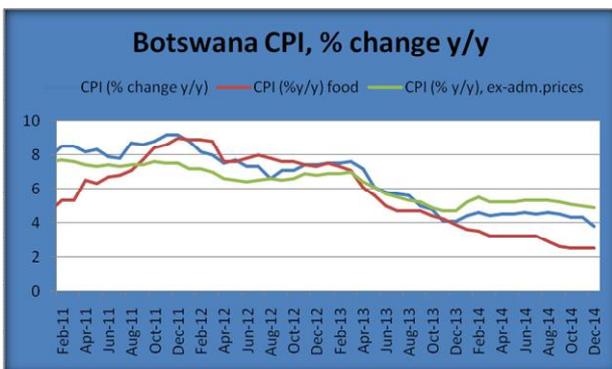
backbone to curbing inflation increase, due to the strength of the Pula to the rand throughout the year. SA inflation has also come down to 5.3% in December (within the central bank objective range), though at the top end. With the developments that took place in SA and globally during the year, (mining and engineering sectors stoppages, geopolitical tensions in Middle East countries) the economy has been fragile with recent GDP showing a sluggish 1.4% y/y. The SA central bank has adjusted the bank rate to 5.75%. It is our view that going forward, the central bank may maintain the bank rate at current levels in order to “attack” any upward inflationary pressures, though a rate cut cannot be ruled out as the economy has not come out of the woods. However despite the potential imported inflationary pressures from SA due to cost push inflation, we remain confident about the stronger Pula that it will deal with the pressures adequately. We also saw a fuel price cut during the year as brent crude prices has plummeted to more than its 5 year low at the back of worries of an oil flush in the market.

trim in the bank rate. During the year, we expect inflation to trend below 4%.

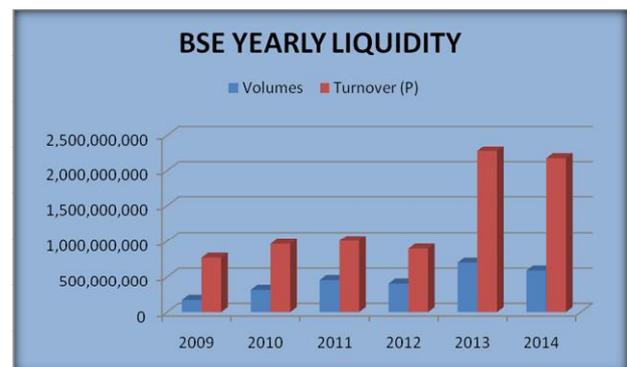
4.0. Botswana Equity Market – Sechaba a star performer despite operating challenges...

2014 was a quite an ebullient year as the volumes traded almost exceeded the record set during 2013. We saw numerous developments (Sefalana having a rights issue, Atlas Mara offer to ABCH, Letshego granted provisional banking license, Choppies setting a distribution centre in Zimbabwe,) the list is endless. What would be of substantial value to investors would be how all these evolutions would ultimately come down to aggrandizing earnings. Despite the hurdle the banks have been operating under, it is also intriguing to note that most of them posted decent financial results during the year.

There were 590.8mn shares worth of P2.17bn traded during the year slightly lower than the 669,5mn shares worth of P2.27bn exchanged during 2013, with most of the trades generated during q1 followed by the last quarter of the year.



Source: Statistics Botswana, Motswedi Securities

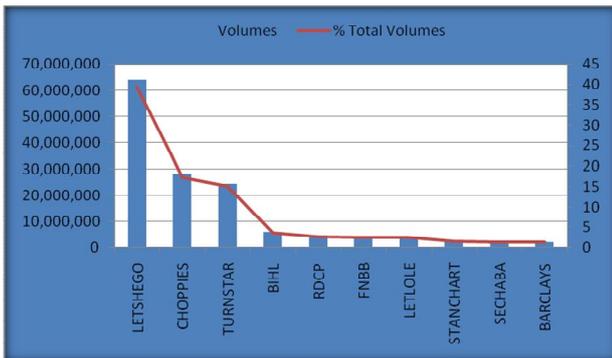


Source: Motswedi Securities, BSE

Going forward, we expect the central bank to focus on economic growth, thus the downward momentum of inflation presents scope for a further

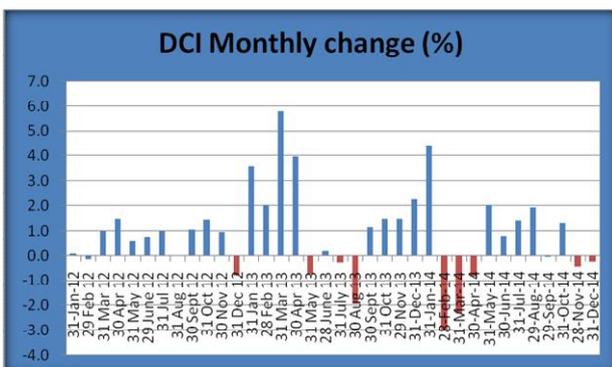
Letshego traded the largest volumes for a 4th consecutive quarter making it the most liquid stock

on the local bourse. During q4 the micro lender exchanged about 39% of the total trades followed by Choppies and Turnstar which traded 17% and 15% in that respective order. Other counters which traded significant volumes were FNBB, Letlole and BIHL among others.



Source: Motswedi Securities, BSE

The DCI throughout the year swung between monthly gains and losses with an average gain of 0.4%, reaching its more than 6 year high during q4. The DCI realized the most negative returns during the 1st quarter of 2014 while conversely q2 was rosier for the domestic board.

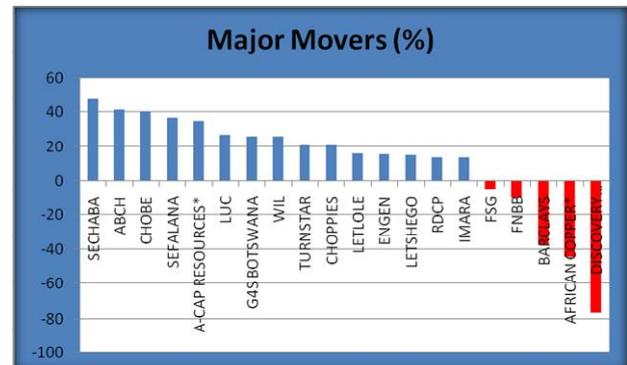


Source: Motswedi Securities, BSE

Almost 80% of the domestic counters closed in the black, reflecting how a good year it was for most of the stocks. Also, who would have thought Sechaba

would be the largest gainer, given the operating challenges it has had during the year! The banking space was the only industry that suffered during the year as the 2 largest banks by advances; FNBB and Barclays, ended the year in a red territory. Chobe was the second largest gainer following its upbeat results and also the resilience of the US economy which brought positive sentiments about the global outlook despite woes on other developed economies.

Top movers



Source: Motswedi Securities, BSE

ABCH was among the largest gainers following the mandatory offer made by Atlas Mara of which almost 100% was acquired. Sefalana made a right issue and acquired 12 stores in Namibia during the H2 of the year. Despite the high competition on the property space (especially on the retail and office sectors), the counters had a fantastic year, all closing on a positive territory with the exception of NAP (though it advanced by 2.4% during q4). Letlole, Turnstar Primetime and RDCP had a total return average of about 23%, buoyed by their relatively higher dividend yields. Letshego also had a bull run during the year following the

announcement that it was granted a provisional banking license in Namibia.

YEARLY MOVERS

Counter	Price (t) 31 Dec 14	Price (t) 31 Dec 13	Ytd Change (%)	*Total Return (%)
SECHABA	2,811	1,900	47.9	52.4
CHOBE	427	305	40.0	45.4
ABCH	714	505	41.4	43.8
SEFALANA	923	675	36.7	39.0
WIL	315	250	26.0	28.9
G4S	372	295	26.1	28.9
TURNSTAR	208	172	20.9	28.6
LETLOLE	215	185	16.2	24.4
CHOPPIES	406	336	20.8	21.9
ENGEN	950	820	15.9	19.7
LETSHEGO	266	231	15.2	19.2
PRIMETIME	260	230	13.0	18.6
RDCP	205	180	13.9	18.5
IMARA	210	185	13.5	15.7
BIHL	1,151	1,055	9.1	15.3

Source: Motswedi Securities, BSE

*Total return includes dividends

On a q/q basis Wilderness topped the upside as it soared by 8.6% on higher than expected HY results where PAT surged by 69% y/y. Other major gainers during the quarter were Primetime, Sefalana and Chobe among others.

QUARTERLY MOVERS

Counter	Price (t) 31 Dec 14	Price (t) 27 Sep 13	Q/Q Change (%)	Ytd Change (%)
WIL	315	290	8.6	26.0
PRIMETIME	260	240	8.3	13.0
SEFALANA	923	853	8.2	36.7
CHOBE	427	407	4.9	40.0
STANCHART	1,257	1,200	4.8	7.4
SECHABA	2,811	2,701	4.1	47.9
TURNSTAR	208	201	3.5	20.9
NAP	217	212	2.4	-1.4
BIHL	1,151	1,137	1.2	9.1
RDCP	205	203	1.0	13.9
LETLOLE	215	213	0.9	16.2
FSG	237	235	0.9	-5.2
FNBB	362	360	0.6	-10.2

Source: Motswedi Securities, BSE

On the negative territory, Discovery Metals was the biggest loser during the quarter losing over 50%. Meanwhile Lucara also had an incredible year but lost 22% as profit takers took risk off the table. The diamond miner discovered more stones larger than 100 carats and carried out exceptional stone tenders from its Karowe mines, boosting its revenues for the year. Lucara towards the end of the year announced its intentions to divest of its Monthae assets in Lesotho.

Barclays lower than expected FY'13 results, and its interims by mid-year hit hard on the stock as it plummeted by almost 40%, reaching a 12 month low of 340thebe (though there has been some recovery during q4). With the downtrend of our inflation rate, creating room for another potential rate cut on the bank rate, we could see NIMs coming under more pressure on the banking space.

Probably the only thing we could do is; wait and see. Choppies have been quite this year, as markets weighed the growth prospects and its relatively higher P/E. The retail giant has managed to set up 28 stores and 2 distribution stores in SA as well as 13 stores in Zimbabwe and 1 distribution centre. Due to the lower crude prices, we could see a boost in consumer confidence, which will ultimately benefit the retail industry.

QUARTERLY SHAKERS

Counter	Price (t) 31 Dec 14	Price (t) 29 Sep 14	Q/Q Change (%)	Ytd Change (%)
DISCOVERY METALS*	14	30	-53.3	-76.7
LUC	1,525	1,965	-22.4	27.1
BARCLAYS	345	392	-12.0	-37.2
BOD	40	45	-11.1	-11.1
FURNMART	211	231	-8.7	1.0
ENGEN	950	1,000	-5.0	15.9
CHOPPIES	406	410	-1.0	20.8
ABCH	714	720	-0.8	41.4
G4S	372	375	-0.8	26.1

Source: Motswedi Securities, BSE

The DCI gained 0.65%; significantly lower than the 3.4% posted during q3. The foreign board, however, was on a losing streak shedding 0.23% and 0.4% for the year.

BSE INDICES

	31 Dec 14	29 Sep 14	Q/Q (%)	Ytd (%)
DCI ↑	9,501.60	9,439.95	0.65	4.95
FCI ↑	1,577.61	1,581.28	(0.23)	(0.37)

Source: Motswedi Securities, BSE

The mixed movements of the large caps kept the domestic board market cap around the P46bn mark during the quarter, ending the year at P46.2bn. In 2013, the market cap closed at P43.4bn. However on a q/q basis, there was a 0.6% increase as compared to q3 mainly on the rallies of some of the large caps such as Sechaba.



Source: Motswedi Securities, BSE

Sechaba was the biggest gainer for the year, pocketing almost 50% followed by ABCH and Chobe which soared 41% and 40% respectively. Other major gainers were Wilderness, Turnstar and Choppies among others. Discovery Metals became the major loser for the year plummeting by over 70%.

Top movers



Source: Motswedi Securities, BSE

The ETFs were relatively volatile during the quarter, with Newgold being the only one that ended in the green territory, while Bettabeta and Newplat (which was listed during q3) shed 8.5% and 10.1% respectively.

Currency	31 Dec 14	29 Sept 13	Q/Q (%)	YTD (%)
BETTABETA ↓	3,855	4,215	(8.5)	(5.0)
NEWGOLD ↑	10,810	10,670	1.3	1.3
NEWPLAT ↓	11,120	12,370	(10.1)	4.2

Source: Motswedi Securities, BSE

5.0. COMPANY NEWS

Letshego granted provisional banking license in Namibia...

Letshego released their HY results towards the end of q3 where the bottom line was almost flat up by 3% y/y. The increased competition in Botswana (which is its major market) has led to a compression of net interest margins. However the micro lender realized a 23% y/y increase in interest income while interest expenses rose by a huge 216% at the back of a rise in forex losses. Impairments ticked up by 9% y/y to about P41mn with over 50% realized from the Eastern African region, albeit its impairment ratio remained below 2%. PAT was almost flat growing by a marginal 3%. Loan book was well expanded as it soared by 31% to strike the P5.01bn mark. Letshego increased its borrowings to about P1.5bn while its debt to equity ratio increased to 39%, reflecting its aggressive gearing strategy. The micro lender also increased its payout ratio to 50% from 25%.

Going forward, we are likely to see management taking cautious steps in lending to the Eastern African region, given the relatively higher impairments in those markets and also the absence of its credit insurance policy in some of those countries of operations. It is also our view that the strategy to hunt for deposit taking license will provide more access to cheaper funding and ultimately yields better interest margins. Although Botswana seems to be a presumably saturated market, Letshego has managed to post healthy growth within the Namibian, Tanzanian and Mozambique markets.

Chobe HY results upbeat on higher capacity...

Chobe came in with their interim results during q4 achieving a 24% increase in revenues. This was mainly buoyed by increased capacity due to the acquisition of Moremi Safaris during 2013 and a relatively weaker Pula to the dollar. The group also managed to increase its bednights sold from 25,994 to 30,390; a 16.9% rise. Operating costs grew by 23% leading to a 25% increase in operating profit. PAT was firmer by 17.6% while EPS where at 39.14thebe. The recent uptrend of the stock has led to its P/E to rise though this was offset by the increase in EPS, as it ended the year at a multiple of 9.8; significantly lower than the market average.

The tourism space has shown some resilience, with recent GDP numbers showing a 7.8% growth of the Trade, Hotels & Restaurants sector during q3. Globally, IMF has recently downward revised its global outlook as some of developed markets like China and Japan economic growth remain fragile. We are of the view that the growth from the tourism

space would be modest as global growth remains a concern.

6.0. Foreign Exchange Market Developments

The Pula lost ground against the dollar and the pound by 8% and 3% respectively, reflecting the firmer of the dollar against most major currencies. The local unit however, gained traction against the rand (2%), the euro (4%) and the yen 4% during the year under review.

Domestic (Pula Exchange rates)*

Currency	31 Dec 14	29 Sept 14	Q/Q (%)	YTD (%)
US\$/BWP↓	0.1147	0.1172	-2.69	-8.37
ZAR/BWP↓	1.1963	1.1697	-0.02	1.72
EURO/BWP↑	0.0869	0.0869	1.53	3.97
GBP/BWP↑	0.0696	0.0728	1.35	-3.02
JPY/BWP↑	12.04	11.57	6.25	4.49

Source: Bank of Botswana

*= The rates as produced by the Bank of Botswana are for information purposes only and do not represent the rate that may be offered for any foreign exchange transactions.

Meanwhile, on the 27th of January, the Bank of Botswana reviewed the pula's basket weights to 50% to the rand and the balance to SDR. The central bank also adjusted the pula's rate of crawl from 0.16% to 0%. Prior to the announcement, the pula's exchange rate was fixed to a basket of currencies, which consisted of a 55% weight to the South African rand and 45% weight attributed to the International Monetary Fund's (IMF) Special Drawing Rights (SDR) currency, which in turn is made up of the US dollar, the euro, the British pound, and the Japanese yen.

It is our view that the adjustments reflect the change in trade dynamics and point to the central bank wanting a stronger Botswana currency in 2015, particularly in relation to the South African rand. In addition, the downward adjustment of the rate of crawl signify that monetary authorities expect Botswana's inflation rate to remain lower against most major trading partners hence the need to ensure that the country's real effective exchange rate is maintained to promote the country's competitiveness.

Meanwhile, the rand came under huge selling pressure during q4 as the SA economy dragged due to stoppages and recently power cuts due to a station failure. Mining and manufacturing (which are some of the major contributors to SA GDP) data came out downbeat as mining strikes weighed on the numbers. US nonfarm payrolls indicated a clear trend of recovery within the labour market of the US economy pushing the rand to depreciate against the dollar. The rand managed to reach year highs in 2014 when sentiments towards emerging markets enhanced following the easing of tensions in Ukraine. Russia during q2 invaded and took over Crimea in Ukraine, raising worries about a potential war. Towards the end of the year we saw the rand almost breaching the R12/\$ mark at the back of a sell-off of the Russian rouble posing a selling pressure on emerging markets currencies. The Russian central bank hiked its bank rate significantly in order to protect its currency which sold off as investors were worried about the Russian economy due to sanctions imposed by Western powers on Russia.

The rand could remain fragile in the mid-term as growth in emerging markets remains bleak. SA

GDP for q3 grew by 1.4%, hurt by the sluggish growth on the mining and engineering sectors. We could see slower growth in q4 as recent power cuts has been affecting productivity which would absolutely affect the economy and ultimately posing selling pressures on the rand. US Fed also terminated its quantitative easing programme by during q4 (due to the resilience of the US economy), paving a way for a potential rate hike early this year, which could also impact negatively on the rand.



Source: South African Reserve Bank

7.0. International Commodity Markets- US Fed terminates QE...

Brent crude oil

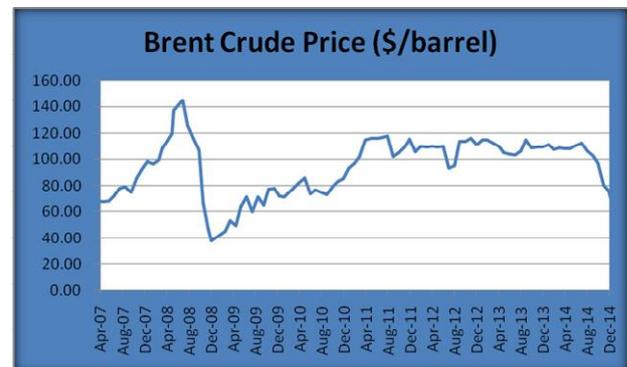
Brent north sea crude oil was on a declining trend this year and mainly during q4, led by expectations of an oversupplied market. The European benchmark reached highest levels for the year of about \$114/barrel at the back of turbulence in Iraq which raised jitters in the market about a potential crude supply shortfall due to the crisis where Jihadists militants where in a mission to occupy Iraqi territories. However, the gains were short lived as the crisis never sprung to the south where about 75% of Iraqi crude is produced. During q4, Saudi

Arabia; the world's largest crude producer, trimmed its exports prices to the US causing a tumble in prices. The International Energy Agency also came on board, slashing its crude demand forecast for 2015 pushing brent crude prices to breach 5 year lows. The major hit on crude prices for the quarter was OPEC's decision to maintain its output in order to retain market share, leading to a decline to below \$60 a barrel.

Should we expect further decline?

Besides the US, the global picture remains bleak as China's growth remain sluggish while the Euro zone fragile, raising concern about future crude demand. However, the US economy has been significantly resilient as we saw GDP numbers for q3 upbeat and US crude inventories on a downtrend indicating resurgent crude demand in the US.

Going forward, we expect crude prices to remain under selling pressure due to the global outlook and the mission of larger oil exporters to maintain their market share, though political tensions within major crude producers could put a floor on the losses.



Source: Bloomberg

Gold

Gold was volatile during the year as US nonfarm payrolls, the Fed's stimulus program weighed on the metal though geopolitical tensions uplifted its safe haven appeal. Gold reached its highest levels for the year earlier when Russia annexed Crimea in Ukraine, raising jitters in the market about a potential war. However, US economic data pointed out to a recovery hence we saw the Fed ultimately winding down its bond purchasing programme completely, towards the end of the year. This had a negative impact on gold prices as it plummeted to 4 year lows of \$1144 an ounce. Towards the end of the year the Russian rouble came under massive selling pressure as investors were perturbed about the Russian economy following sanctions imposed by western powers on Russia and the tumble in oil prices, raising expectations that the Russian central bank would quicken to dispose its gold reserves in order to curb a vigorous depreciation of its currency, leading to a sell-off of gold in the market.

The Fed on its last meeting for the year, highlighted that it would be patient on increasing rates, going forward we expect gold to be on the downside as traders would opt for interest bearing assets such as equities dampening the yellow metal. It is our view as well that a US Fed rate hike could be under way given the significant improvement of the US economy, putting more selling pressure on gold.

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