SECOND QUARTER ECONOMIC BULLETIN-JUNE 2015

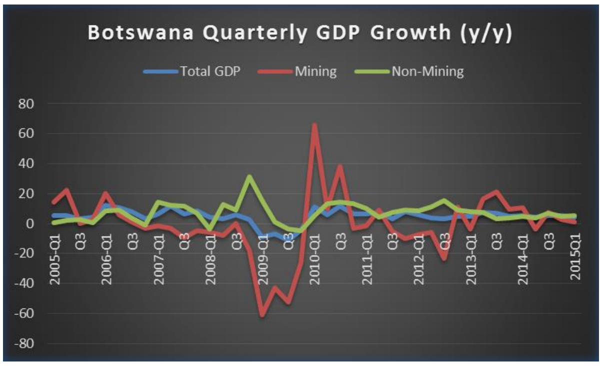
Research
Garry Juma
Tlotlo Ramalepa
Motswedi Securities (Pty) Ltd
Plot 113, Unit 30, Kgale Mews, Gaborone
P/Bag 00223, Gaborone, Botswana
Tel: +267 318 8627
Fax: +267 318 8629
Website: www.motswedi.co.bw

Sales
Boikhutso Maja
Thuto Segale
Moemedi Mosele

1.0. GDP growth slacked during q1...

Botswana GDP growth slowed to 4.3% y/y during the 1st quarter of the year 2015 as revealed by data from Statistics Botswana. The subdued growth was mainly led by the mining sector which slacked to 1.2% as compared to 2.5% during the last quarter of 2014 and the tourism sector which reduced to 6.1% (relative to 7.8% posted prior quarter). The Water and Electricity sector continue to drag economic growth as it posted negative growth for a 6th consecutive quarter, slowing by -1.7%, though this was better than -236% registered during q4 2014. However on a positive note, the Finance & Business sector grew by 5.4% higher than the 5% realized during the previous quarter.

Meanwhile real exports rose by 7.2% while imports advanced by 13.6% during the quarter under review.



Source: Statistics Botswana, Motswedi Securities

The mining sector which still contribute the largest portion to our economy (about 22%), contributed to the slowdown in GDP growth. This was mainly at the back of a decline in diamond production, while q/q Copper/Nickel production decreased by 15.3% following the closure of Discovery Metals Boseto copper mine. We are likely to experience this volatile trend in mining growth due to the bleak outlook of the global picture. Eurozone is currently at a critical state due to the Greece financial crisis. However, Greece took an initiative to come up with reforms in order to secure bailout package which will aid in rescuing it from its huge debts. In China, economic indicators have been pointing out to slow growth of the 2nd largest world economy, including PMI, trade balance among others. However, recent q2 2015 GDP numbers exceeded market expectations, showing Chinese economy grew by 7% y/y.

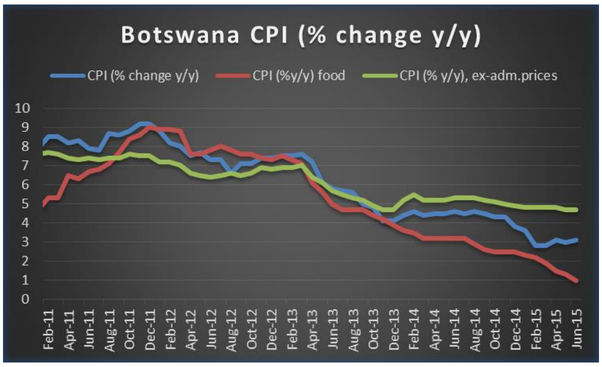
The IMF recently, again, downward revised global economic outlook for 2015 (from 3.5% to 3.3%), reiterating slowdown in emerging markets and developing economies at the back of lower commodity prices, structural bottlenecks, economic distress related to geopolitical factors among others. Despite the subdued growth projected, developed economies are expected to pick up gradually.

Coming back home, we expect GDP growth to be subdued, tracking volatile mining growth and fragile outlook of global growth which could hinder tourism space as well. Although the lower interest rate could provide impetus for the non-mining sector to grow, the fruits will only be realized in the mid to long term in our view.

2.0. Inflation expected to end the year around 4%...

Inflation ended the quarter at 3.1% y/y a 0.3 percentage point increase from the prior quarter. The slight rise was mainly due to increases from some of the major groups within the basket such as the Housing, Water, Electricity, Gas & Other Fuels and the Miscellaneous Goods & Services (which includes subgroups such as Insurance and Financial services). However the Food & Non Alcoholic

Beverages was on a downtrend reflecting the stronger pula to the rand.



Source: Statistics Botswana, Motswedi Securities

Going forward, we anticipate an uptrend in inflation with base effects likely to creep in and also upward pressures from the Housing, Water, Electricity, Gas & Other Fuels group though the largest component on the CPI basket (Food & Non-Alcoholic Beverages) could counteract this impact. Hence inflation might close the year around the 4% mark.

Interest rates outlook…

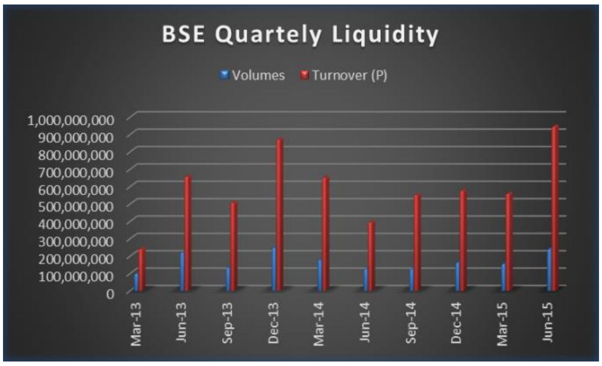
We are likely to see interest rates remaining flat until the end of the year though sluggish growth in the economy could present minimal scope for further reduction. Given the significance of the banking industry to our economic growth, we remain of the view that further rate cuts could have a negative impact on the industry (in terms of lower margins and ultimately profitability). Furthermore, the current liquidity crisis, which indicated a squeeze in banks deposits could also "favour, maintaining rates" as depositors are already less incentivized by the relatively lower bank rate which is at its all-time low (currently at 6.5%).

In SA, the rand has been on a downtrend, feeding on negative economic pointers such as recent SA GDP numbers, mining and manufacturing data. On the other hand, inflation has also been persistent on the top end of SA central bank's 3-6% target range (currently at 4.7%). With this current condition, we are likely to see SA Reserve Bank taking a "hawkish stance" by tightening monetary policy in order to curtail upward inflationary pressures and a weaker rand which has been losing ground to the greenback at the back of resurgent US labour market.

3.0. The domestic market cap exceed P50bn for the 1st time in history...

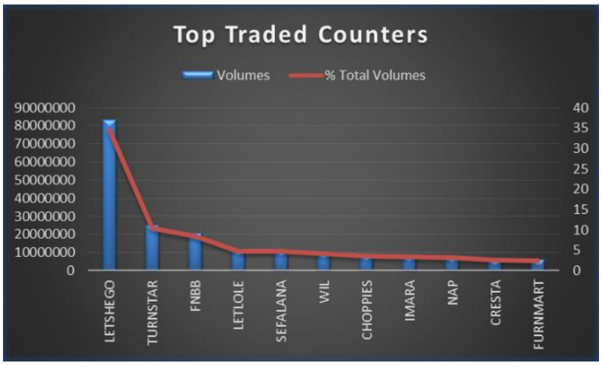
Q2 marked the highest turnover recorded in the history of the BSE on a quarterly basis and the 2nd highest in terms of volumes. What was also interesting to note was; almost 90% of the domestic counters ended the quarter on a positive footing, reflecting upbeat sentiments towards most of the counters, leading to a market average P/E of almost 15x, the highest in more than 2 years.

During the quarter, 241mn shares worth of P944.8mn exchanged hands, this was significantly higher than the trades in the prior quarter; a 57% increase in volumes and 69% surge in value traded. The highest volumes were registered during the month of May.



Source: Motswedi Securities, BSE

The huge quarterly volumes were mainly from Letshego; which has been topping the trades for a 6th straight quarter. The micro lender exchanged 35% of those volumes while property giant Turnstar and FNBB exchanged 10.4% and 8.5% respectively. Despite the obvious trend of having high liquidity from the large caps, we saw some of the small market capitalization stocks like Cresta and Imara being very active during the quarter under review.



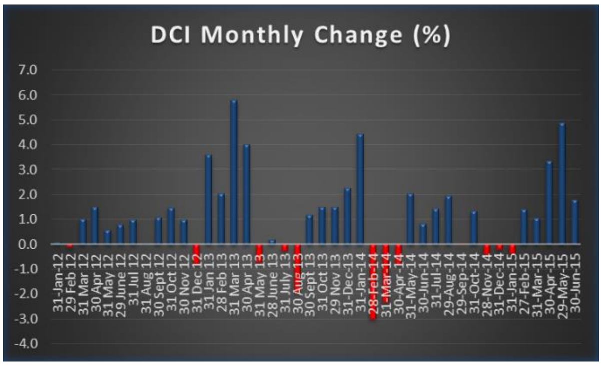
Source: Motswedi Securities, BSE

Letshego posted daily average of about 1.4mn shares while other counters recorded less than 500,000 of daily shares traded, reflecting the increased liquidity of Letshego relative to other stocks.

Counter	Volumes Traded	Daily Average volumes
LETSHEGO	83,311,810	1,365,767
TURNSTAR	25,074,639	411,060
FNBB	20,406,989	334,541
LETLOLE	11,609,202	190,315
SEFALANA	11,551,517	189,369
WIL	10,132,059	166,099
CHOPPIES	8,531,463	139,860
IMARA	8,324,389	136,465
NAP	7,731,304	126,743
CRESTA	6,207,013	101,754

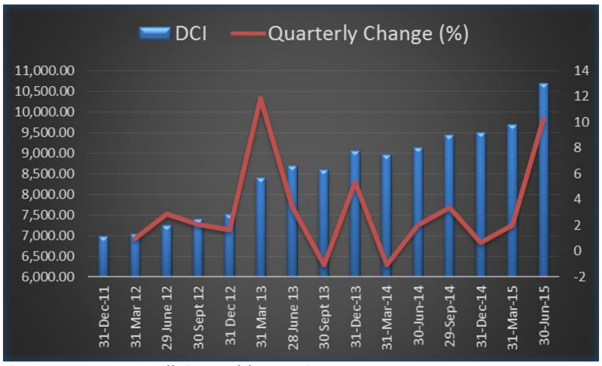
Source: Motswedi Securities, BSE

Reflected by the strong rallies within the main board, was the positive gains made by the DCI during the quarter under review. All the 3 months recorded modest gains relative to other months during the quarter, with the highest monthly gain of 5% in May. This was the only quarter where the DCI made positive m/m gains since the beginning of 2014.



Source: Motswedi Securities, BSE

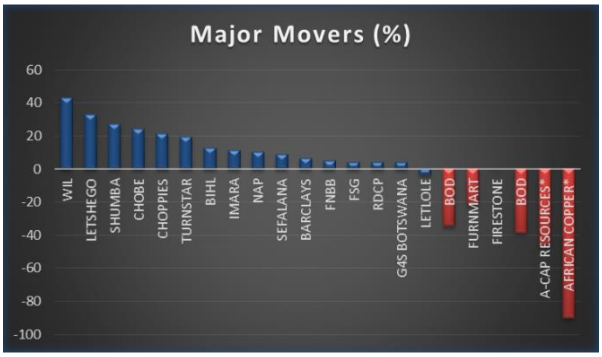
We have seen the uptrend of the DCI since the beginning of 2012 as it rose from 7,000 to end the quarter above the 10,500 points mark, portraying the vigorous growth achieved from most of the counters such as Sefalana, Sechaba and Chobe among others. On a q/q basis the DCI leaped up by 10.3% (the 2nd highest in more than 4 years) as compared to the prior quarter where only 2% growth was registered.



Source: Motswedi Securities, BSE

Wilderness was the largest gainer surging by 43% as investors were taking in their FY results which were characterized by 57% rise in PAT while its topline posted a 12% y/y increase. However, the company released a cautionary statement, stating that the company has received a notice of intention to make an offer to acquire all the issued ordinary shares by Wine investments Limited though the cautionary was recently withdrawn.

Top movers



Source: Motswedi Securities, BSE

Letshego planned share buyback brought enthusiasm to the market, as it surged to reach its highest levels, since its share split, of 350thebe just before it receded to end the quarter at 320thebe. The micro lender also issued another cautionary recently, regarding a potential acquisition in Nigeria involving 100% shareholding in a deposit taking financial institution which specializes in micro finance.

Chobe was also another gainer during the quarter, with the market responding to their upbeat year-end results. The tourism outfit saw its bednights sold grow by 11% y/y, buoyed by a stronger dollar. Meanwhile, Choppies listing on the JSE was one of the major highlights not just for the quarter but also for the Botswana market at large, as the retail giant successfully listed on the JSE, pushing the share price to reach an all-time high since its listing of 495thebe. Other gainers for the quarter were Turnstar and BIHL as they gained 19% and 13% respectively.

QUARTERLY MOVERS

Counter	Price (t) 30 Jun 15	Price (t) 31 Mar 15	Q/Q Change (%)	YTD Return (%)
WIL	465	325	43.1	47.6
LETSHEGO	320	241	32.8	20.3
SHUMBA	140	110	27.3	28.4
CHOBE	568	458	24.0	33.0
CHOPPIES	481	397	21.2	18.5
TURNSTAR	260	218	19.3	25.0
BIHL	1,381	1,225	12.7	20.0
IMARA	275	247	11.3	31.0
NAP	239	217	10.1	10.1
SEFALANA	1,195	1,100	8.6	29.5
BARCLAYS	426	400	6.5	23.5
FNBB	393	375	4.8	8.6
FSG	255	245	4.1	7.6
RDCP	230	221	4.1	12.2
G4S BOTSWANA	350	337	3.9	-5.9

Source: Motswedi Securities, BSE

The negative territory was mainly dominated by the foreign counters, with African Copper taking the largest hit, plunging by 90%. On the main board, Furnmart shed 22% while Engen slid by 12% to end the quarter at 163thebe and 820thebe respectively.

QUARTERLY SHAKERS

Counter	Price (t) 30 Jun 15	Price (t) 31 Mar 15	Q/Q Change (%)	Ytd Change (%)
AFRICAN COPPER*	1	10	-90.0	-90.0
A-CAP RESOURCES*	27	50	-46.0	-50.0
BOD	16	26	-34.6	-57.5
FURNMART	163	208	-21.6	-22.7
ENGEN	820	934	-12.2	-13.7
LETLOLE	220	228	-3.5	2.3

Source: Motswedi Securities, BSE

The DCI looked set to maintain its upward momentum as it has surged by almost 13% during H1 2015. However, the FCI was almost flat, ending on a negative year to date, consequent to the subdued activity on the foreign board.

BSE INDICES

	30 Jun 15	31 Mar 15	Q/Q (%)	Ytd (%)
DCI↑	10,690.08	9,693.91	10.3	12.51
FCI↑	1,571.85	1,571.12	0.05	(0.37)

Source: Motswedi Securities, BSE

The domestic board market cap reached the P50bn mark this quarter; the highest thus far, in the history of the BSE. This was mainly led by the huge rallies among the counters such as BIHL and the tourism sector and also the secondary listing of Choppies on the Johannesburg Stock Exchange, as it issued additional shares. Relative to the prior quarter, the market cap edged up by 11% to P50.5bn; from P45.3bn by the end of the previous quarter.

Source: Motswedi Securities, BSE

Newgold was the only ETF that ended on a positive footing as it gained 0.2% while Bettabeta and Newplat respectively, gave up 4% and 6.2% trading at 4080thebe and 10550thebe a unit each.

Currency	30 Jun 15	31 Mar 15	Q/Q (%)	YTD (%)
BETTABETA ↑	4,080	4,250	(4.0)	0.5
NEWGOLD↑	11,150	11,130	0.2	4.5
NEWPLAT↑	10,550	11,245	(6.2)	(1.1)

Source: Motswedi Securities, BSE

4.0. Company News and Industry Overview…

Banking Industry under pressure…

The banking space has been very challenging; characterized by low interest rates, liquidity squeeze and increased competition among others. We have seen a declining trend of ROEs reflecting the competitive environment, while NIMs compressing across the board due to the lower interest rates. The industry's intermediation ratio rose to critical levels at around 88% towards the end of 2014, hence the central bank came at the banks rescue by reducing the reserve requirement ratio, which helped ease the ratio to about 76% recently. Given the significance of the interest income to the banking space revenues (about 65% on average), we expect profitability growth to be subdued as we do not anticipate any upward adjustment of interest rates, considering the current economic growth trends. The liquidity compression could also lead to increased interest expenses within the industry as some banks could attempt to attract more deposits (through relatively higher rates) which have also been under pressure, weighing down also on profitability. However, we believe growth can be achieved through non-interest income growth going forward, which will reflect banks innovative strategies at the back of this challenging environment.

Property space...

The emergence of new malls mainly in Gaborone has led to increased competition within the property space, constraining rental incomes growth within the industry. Most of the property counters are over 50% exposed to the retail sector as part of their property portfolio, though the vacancies in this space are relatively small. However, there has been a shift to the new CBD area in Gaborone, posing an upward pressure on vacancies within office space. The office sector tend to record the highest vacancies, though most of the counters are not participants in that space. Going forward we likely to see pressure on profitability during the FY'2016 as rental incomes growth could be stunted at the back of the increased competition. As diversification strategies, there has been a shift to the residential market, though the sector could be saturated in our view, as there has been signs of oversupply within Gaborone. However the property stocks have attractive returns in terms of dividends; with yields of average 6%, (exceeding other industries) which we expect to prevail in the long term.

Tourism & Leisure sector outperforms the domestic board...

The tourism companies have been mainly buoyed by a stronger dollar (making it relatively cheaper for US tourists), as the counters posted fantastic FY results during the year. However, global growth is expected to remain subdued during the year and vaguely increase in 2016 according to the IMF. Nevertheless, we expect this positive performance from the industry in 2016 as we anticipate the dollar to remain stronger to the local currency. Although the Greece financial crisis has not fully passed, we remain of the view that it would not significantly be detrimental to the Eurozone economy where the industry realize some of its turnover from. Furthermore, the ECB early during the year provided some monetary easing which will help ease deflationary concerns and ultimately its economy which could also filter through to our tourism sector.

Retail sector on an expansion mission…

The retail counters have been on a robust expansionary phase, extending their footprints outside the local market. We believe the key to success of the industry would emerge through branded products, which will add into their margins, though consumer preference would be a highly determining factor to that. Given the relatively lax entry barriers, competition will remain very intense going forward especially within the continent as there are other well established brands which have secured stable market shares in southern Africa. We anticipate revenue growth to also come under pressure at the back of upward inflationary trajectory by the end of the year. Also the drought season could also contribute to upside of inflation, deteriorating consumer buying power. During the financial year ahead, we are likely to see GP margins consolidating, experiencing slow or no growth, reflecting the competitive environment.

5.0. Foreign Exchange Market Developments

Our local currency was firmer against the dollar, rand and the yen during the quarter though it was weaker to the euro and the pound. For the 1st half of the year, the Pula has weakened by 4% to the greenback and almost 5% to the pound. Relative to the rand, it has remained stronger by 1.6%, easing imported inflationary pressures from SA.

Domestic (Pula Exchange rates)*

Currency	30 Jun 15	31 Mar 15	Q/Q (%)	YTD (%)
US$/BWP↑	0.1009	0.1004	0.50	(4.00)
ZAR/BWP↑	1.2365	1.2208	1.29	1.61
EURO/BWP↓	0.0903	0.0931	(3.01)	4.39
GBP/BWP↓	0.0642	0.0679	(5.45)	(4.89)
JPY/BWP↑	12.35	12.05	2.49	(1.83)

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.*

Worries about slower than expected growth within developed economies including China and Eurozone led to a sell off of the rand during the quarter. Optimism about SA economy revived earlier during the quarter following a rebound in mining and manufacturing data which led the the rand to reach quarterly highs of around R11.74/$. However, power supply constraints weighed on the unit as it weakened to breach its 13 year low trading at R12.61/$.

Source: South African Reserve Bank

The rand continue to remain weaker at the back of global economic uncertainty and also a stronger greenback buoyed by resilience in the labour market. Within the local economy, domestic indicators such as mining activity has shown some slight rebound, though coming from lower bases due to the stoppages within those sectors which depressed productivity. The slower growth in the SA economy was reflected by the GDP numbers for q1 2015, which came in at 2.1% y/y while on a q/q basis it grew by 1.3%, mirroring the slower growth from the manufacturing sector which realized a -2.4% growth during the quarter under review.

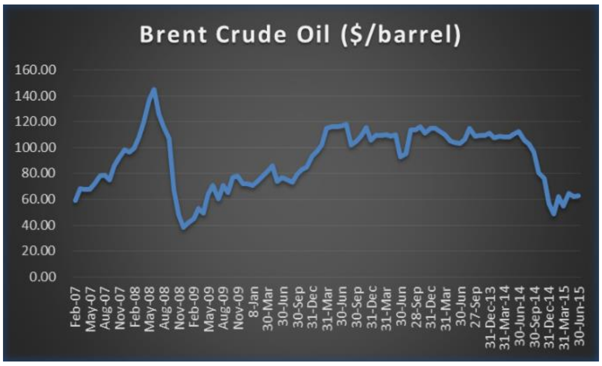
Going forward, we are likely to see the rand trading weaker to its major peers as power supply remain a concern and also stoppages within the mining sector. SA inflation has also been stubborn, refusing to fall away from the 5% band, limiting the central bank scope to bring quantitative easing and spurring growth.

6.0. International Commodity Markets- Brent crude weaker on oversupply woes...

Brent crude oil

Brent crude oil was on a vague recovery mode during the quarter as bids were mainly propelled by worries of tensions in Yemen and Libya though there was some cap at the back of supply glut, pending Tehran nuclear program verdict. OPEC's decision of maintaining output, towards the end of 2014, still weighed on oil prices as traders were sceptical about supply outstripping demand, leading oil to start the quarter on a weaker footing, reaching lows of $55/barrel. However we saw a rebound in oil prices, reaching highs for the quarter of $68/barrel at the back of turbulence within the Middle East were Saudi Arabia was launching a series of attacks on Yemen. Although Yemen is not considered a significant oil producer, its location is such that it's closer to the Bab al-Mandab; a route which source about 3.8mn barrels of crude oil per day. US weekly stockpiles data reflected a pile-up in US crude reserves indicating static crude demand, curbing the uptrend in crude prices.

Iran recently struck a deal with the western powers over the Tehran Nuclear program, and also, OPEC output has outpaced its monthly targets as shown by recent data. Given the signs of an oversupplied market, we expect crude prices to remain weaker in the short to mid-term, a positive development to oil importing countries like Botswana.



Source: Bloomberg

Gold

Gold hovered around the $1,180-1,200 band mainly at the back of the Greece financial saga and US economic state. The yellow metal reached highs by mid quarter on looming potential Greece default as investors weighed its upcoming debt repayment deadline to the IMF, raising demand for a haven. Greece was expected to come up with reforms of which by then, no solid progress had been made. US Fed minutes also pointed out to a delay in hiking rates, giving the metals further boost. Despite mixed US economic data, US nonfarm payrolls revealed a rebound in the US labour market, leading to bids coming under huge pressure. Meanwhile, Fed officials also hinted that the bank could be heading towards increasing rates before the end of the year, reducing appetite for the metal as it reached lows of $1173/oz for the quarter.

With the Greece turmoil still pending (no solid plan) and given that it missed its debt repayment deadline to the IMF, we could see some safe haven bids arising though US labor market traction would absolutely curb gains. Currently US unemployment has reduced to 5.3%; it's more than 7 year low, raising more prospects of a potential US Fed rate hike.

Disclaimer: