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A Member Of The Botswana Stock Exchange

Weekly Financial Markets Highlights

03 August 2018

Research

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1.0 BSE Equity Performance...

Chobe Holdings continued to lead the growth charts, pocketing 4 thebe in the week to reach a new 52 week high of P10.08 per share. Chobe is very tightly held by investors and rarely trades in high volumes, as can be seen by this week's 3,550 shares as well as last week's 2,008 shares. The demand on the stock is very aggressive which tends to lift the price whenever there is a trade. At this growth rate, the stock is likely to end the year as the top performer, as opposed to last year's third position.



Source: Motswedi Securities, BSE

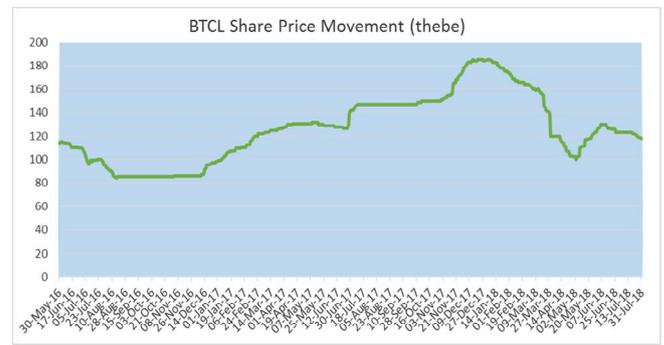
The other gainer for the week was Sefalana growing by 2 thebe as an immediate reaction to the full year financial results released on Monday. Meanwhile, the losers were led by StanChart, still going downhill, dropping 5 thebe after a single trade of 1,000 shares crossed the board.

Major Movers– Week ending 03 August, 2018

COUNTER	03 August (t)	27 July (t)	Change (%)	YTD (%)
CHOBE ↑	1004	1008	0.4	9.9
SEFALANA ↑	893	891	0.2	-8.4
ENGEN ↓	1047	1048	-0.1	-1.2
LETSHEGO ↓	183	184	-0.5	-2.7
BTCL ↓	115	119	-3.4	-37.5
STANCHART ↓	415	420	-1.2	-19.3

Source: Motswedi Securities, BSE

BTCL recorded the lowest volume since March 2018 after 1.1mn shares worth P1.4mn traded in July 2018. This is a 51% decline in terms of value traded from P2.9mn worth of BTCL shares that were traded in June 2018. It is important to note that the decline in BTCL liquidity is in sync with the decline overall market liquidity. For example only P58.3mn worth of shares exchanged hands in July 2018 from P115mn shares which traded in June 2018.



Source: Motswedi Securities, BSE

Since the LDR for the BTCL dividends (20th of July) there has been more sellers in the market for BTCL shares than buyers. Shortly after the BTCL financials were published, BTCL was relatively stable as sellers held off from selling hoping to benefit from the dividends. Looking ahead BTCL is expected to lose further ground in the coming weeks due to increased selling pressure from retail investors. This to some extent reflects the negative effects of restricting the ownership of the shares.

Market Summary – Week ending 03 August, 2018

No. of Shares Trading	3,297,342
Turnover (BWP)	10,337,295
Turnover (USD)*	996,515
No. of stocks trading#	15
No. of stocks advancing#	2
No. of stocks declining#	4
No. of stocks unchanged#	18

Source: Motswedi Securities, BSE *US\$/BWP = 0.0964
= Domestic Main Board

For the week, the market traded 3.3mn shares, led primarily by trades in Letshego, BTCL and Sefalana, who came out at the top of the liquidity chart, together moving 3mn shares, that is 92% of the market volume.

BSE Indices – Week ending 03 August, 2018

DCI Close	8,314.38
Weekly Change (%)	-0.17
YTD Change (%)	-6.16
FCI Close	1,570.00
Weekly Change (%)	0.03
YTD Change (%)	-0.31
DCTRI Close	1,769.74
Weekly Change (%)	-0.17
YTD Change (%)	-2.98

Source: Motswedi Securities, BSE

The DCI and DCTRI both lost some ground this week, increasing their losses by 0.17% each to close for the week at 8,314.38 and 1,769.74 respectively. The sentiment around the domestic equities is currently on the red side and appears determined to persist. The FCI, remained stagnant as no trades were recorded on the foreign equity board.

2.0 The Sefalana Group's FY2018 Results

The Sefalana Group have published positive financial results for the year ended 30 April 2018 with a profit before tax increase of 33.5% primarily lifted by increases in “investment income” (up 234%) and “other income and gains” (up by 364%). Sefalana has a footprint in 5 SADC countries, namely, Botswana with 51 stores, Lesotho with 2 stores, Namibia with 16 stores, a single property in Zambia and very recently the Group entered the South African market.

Surprise turnaround, were the Lesotho operations, now in its second year, reviving itself from a loss before tax of P5.5 million in 2017 to a profit before tax of P2.1 million despite the volatility of the political climate in the country. The Botswana operations, which contribute 54% to the Group's profit before tax, grew by a small 5.5% reflecting the difficult market conditions they experienced of reduced Government spending, and having to reduce their retail and wholesale prices to remain competitive. The Group has entered into the South African through a consortium which became effective on the 1st July 2017. By doing so, Sefalana put forth an investment of R250mn (≈P198mn) to purchase preference shares that have the option of being converted into 30% equity stake in the consortium. The investment guarantees an annual fixed return of R50mn, of which 10 months' worth was received and constituted 66% of the total investment income. The consortium has under its umbrella has **CSH** which brings in an annual revenue of R600-700mn, Price Chain with an annual revenue of R800, and 3 Star Cash and Carry.

The Gross Profit margin fell slightly to 6% from 7% due to an increase in the cost of sale which climbed up by 13% as opposed to an increase of 12% in revenue. EBITA remained flat at 4% because of an increase in other gains offsetting increased expenses. EPS grew by 32% to 70.14 thebe. A dividend of 23 thebe was declared to shareholders registered in the company's books by the 17th August 2018, and is payable on the 31st of August 2018.

Outlook

The changes in the economic environment, more so in Botswana, which persisted in the period under review, may continue for some time, most likely up until the elections come to pass in 2019. It will be a tough journey for the FMCG focused company but their model has proven to work for them and is likely to continue to do so in the next few months. Sefalana still has a lot growth potential to uncover, and is venturing into new countries with a strong model that survived through the difficult trading environment.

3.0 Company Announcements

3.1 Letshego Group MD steps down...

Letshego has announced that Chris Low, the Group Managing Director, will be leaving the role after five years of leading the company, to pursue other opportunities. The news may prompt the share price to dip slightly, as this will be a big loss for the company. However, confidence should not be lost as the Group Chief Financial Officer will be leading the transition, while a suitable replacement is sought by the firm.

3.2 FNBB releases positive trading statement

FNBB released on Thursday a trading statement announcing to shareholders that they expect their profits for their year ended 30 June 2018 to be higher than those reported for the corresponding previous period. The audited results are expected to be published on the 7th of September 2018.

3.3 Cresta Cautionary

A Cresta cautionary was released on Monday alerting shareholders that the company expects their results for the six month ended 30 June 2018 will be lower than those reported in the corresponding six months ended 30 June 2017.

3.4 RDC Properties Trading Update

RDCP on Friday released a trading statement announcing to its linked unitholders that the Company expects their profit before tax to be significantly higher for the six months ended 30 June 2018 as compared to the corresponding six months ended June 2017. The increase in the profit is recognized from stability in the Company's local portfolio as well as investments carried out by the company in South Africa. The unaudited results are expected to be released by mid-August.

4.0 Foreign Exchange...

The US dollar has closed the week on a strong note, boosted by the cheerful news that the Federal Reserve would keep its interest rates unchanged and that they would stick to their plan of gradually increasing their interest rates for the rest of the year. We expect at least 2 more rate hikes to happen before the year concludes.

An increase in interest rates in US tends to make dollar investments all the more appealing to investors, while consequently pulling them away

from emerging market assets. This is seen by the rand, taking a knock from the kickback, trading at R13.45/\$ by Friday noon and the pula stepping back over 1% throughout the week.

Giving further support to the dollar, were trade war fears between the US and China coming to the forefront as the US President Trump threatening to increase import tariffs to 25% on \$200 billion worth of Chinese goods. This prompted China to promise a retaliation should President Trump ever act on his threat.

The local unit, gained only on the South African Rand, while losing to the other major currencies.

Domestic Exchange rates

Currency	03 August	27 July	Change (%)	YTD (%)
US\$/BWP 	0.0964	0.0974	-1.03	-4.84
ZAR/BWP 	1.3013	1.2896	0.91	3.58
EUR/BWP 	0.0832	0.0837	-0.60	-1.89
GBP/BWP 	0.0741	0.0744	-0.40	-0.58
JPY/BW 	10.76	10.83	-0.65	-5.78
CNH/BWP 	0.6643	0.6647	-0.06	0.58

Source: Bank of Botswana

5.0 Commodities Markets...

The Precious Metals

Gold lost its shine, as the strong dollar continued to put pressure on the metal. The yellow metal was able to reach levels, last seen in July 2017, of \$1,204.91 per troy ounce on Thursday, before rebounding slightly to \$1,205.80 per ounce by Friday morning. At the rate the dollar appears to be rallying, gold is likely to break through the \$1,200/oz in the next few coming days. Silver is on the decline as well, posting losses for the eighth

consecutive week with 0.52% being added to its yearly loss of 9%. Platinum on the other hand, was unchanged for the week at \$823/oz.

The Base Metals

Taking a toll from the ongoing trade dispute between the two largest economies in the world, China and the US, the base metals have tumbled the most with copper and nickel losing 3.07% and 2.58% during the course of the week.

Oil

Brent was trading 1.56% weaker than the previous week, at \$73.20 per barrel on Friday morning. Weighing heavy on the commodity are concerns of oversupply. Russia increased their output by 150,000 barrels in July, which is more than what they had agreed to when they attended the OPEC meeting in June. Other OPEC members who have increased their output are Saudi Arabia, Kuwait, the United Arab Emirates, Nigeria and Iraq, while a few like Iran (100,000 bpd), Libya and Venezuela. A new entry to the OPEC cartel also added to the oversupply woes, with the Congo Republic producing an additional 250,000 barrels per day.

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The part that follows has nothing to do with legal indemnity or avoiding any suits. The market is seeing more red than you would expect in a slaughter house, I have seen a cat fall into a bucket of red paint and it still wouldn't compare. Its value town out there, valuations are scraping the floor harder than the knee caps of your favorite adult performer on all fours. Buy the dip, they say, and this doesn't only apply when you are prepping to watch your favorite team with the boys, but the market as well.