# Weekly Financial Markets Highlights


**Research**
**Garry Juma**
**Salome Makgatlhe**

**Sales**
**Tshenolo Motlhagodi**
**Moemedi Mosele**
**Refilwe Lesolle**


motswedisecurities

March 20, 2020


Plot 113, Unit 30,
Kgale Mews,
Gaborone

P/Bag 00223,
Gaborone
Botswana.

Tel: 267-3188627
Cell: (+267) 72108088
Fax: 267-3188629

Email: motswedi@motswedi.co.bw
Website: www.motswedi.co.bw

motswedisecurities (pty) ltd
A member of the Botswana Stock Exchange

## 1.0 FNBB breaks Letshego's w/w winning streak…

For the first time in three weeks, a counter other than Letshego led the weekly volumes. Of the 6.17mn shares that went through the local equities market in the week, FNBB claimed the largest chunk – of a little more than 1.82mn shares, all of which, went through the market at the stock's year high price of P2.95/share. The bank's stock currently has a year to date gain of 3.5% and is the third best performer on the domestic main board of the BSE. The increased activity in FNBB, came as a result of the stock going ex-dividend on the 13th March, with investors divesting after successfully qualifying for the dividend.

In a last reach attempt before the week elapsed, Sechaba traded the second largest volumes in the week, at 1.35mn shares. The stock also happened to be the only gainer for the day, climbing up 5 thebe to end at P22.10/per share in its first movement of the year. The stock joined seven others in the pool of gainers, now standing with a year to date gain of 0.2%. These trades occurred ahead of the release of the holding company's financial results for the year ended 31 December 2019. We are hoping for a positive trading statement coming from the Company, of course, not to the same tune as the last comparative results, but an increase in revenues as is in line with the annual product price increases as seen fit by the Company's two subsidiaries, and some breathing room from the alcohol levy reductions. The idea of improved results would also be based on the premise that the six month, interim financial results for the Company saw a significant improvement, and that the festive season is one for better gains in the alcohol sales.

The domestic company index (DCI) and domestic company total return index (DCTRI) alike, ended the week with a small gain of 0.01% in value. The yearly gains for the DCI and DCTRI are holding on at 1.47% and 2.14% respectively. The foreign company index (FCI), on the other hand, remained unchanged during the week, with the index's yearly losses staying at 0.24%.

| COUNTER | 20 Mar (t) | 13 Mar (t) | Change (%) | YTD (% ) |
|---|---|---|---|---|
| SECHABA ↑ | 2210 | 2205 | +0.2 | +0.2 |

*Source: Motswedi Securities, BSE*

### Market Summary – Week ending 20 March, 2020

| | |
|---|---|
| No. of Shares Trading | **6,165,941** |
| Turnover (BWP) | **50,064,685** |
| Turnover (USD)* | **4,225,459** |
| No. of stocks trading# | **14** |
| No. of stocks advancing# | **1** |
| No. of stocks declining# | **2** |
| No. of stocks unchanged# | **22** |

*Source: Motswedi Securities, BSE* **US$/BWP = 0.0844*
*# = Domestic Main Board*

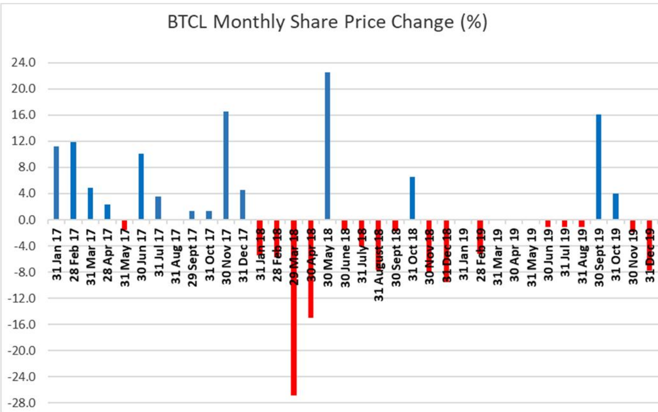
### BSE Indices – Week ending 20 March, 2020

| | |
|---|---|
| **DCI Close** | **7,605.00** |
| Weekly Change (%) | +0.01 |
| YTD Change (%) | +1.47 |
| **FCI Close** | **1,551.35** |
| Weekly Change (%) | 0.00 |
| YTD Change (%) | -0.71 |
| **DCTRI Close** | **1,764.48** |
| Weekly Change (%) | +0.01 |
| YTD Change (%) | +2.14 |

*Source: Motswedi Securities, BSE*

## 2.0 BTCL's February Performance…

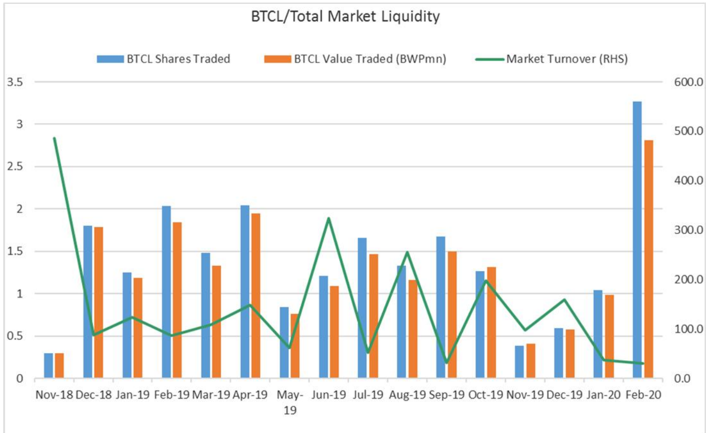
February was yet another month of losses for BTCL, as the stock's share price retracted 6.5% to end at 86 thebe in February 2020. This was the largest month-on-month loss in 2 months for BTCL. The selling pressure was particularly steep, so much so that the stock lost 6 thebe in the month under review. The pressure was so strong that the stock dropped to its historic low of 84 thebe per share – the last time it was at this price was back in August 2016 after BTCL posted its full year 2016 financial results that showed a loss of ~P(371mn).




*Source: Motswedi Securities calculations*

BTCL continues to trade with a year to date loss, which grew in the month from -3.2% at the end of January to -9.5% at the end of February. Despite the decline in BTCL share price, we believe the stock is still relatively attractive, at such cheap valuations and have a dividend yield that stands above the market's weighted average at 10%.

BTCL was relatively liquid in February 2020 with 3.27mn shares worth P2.81mn trading. This compares favourably to the previous month's 1.04mn shares worth P0.98mn which traded. The liquidity contribution was also at its highest in the month, since the company's listing back in 2016, at 9.3%. Although, this could be deemed an achievement of sorts, other factors have to be considered, such as the total market turnover in the said month. For instance, in this month, the market value of the total number of share traded was only P30.18mn – the lowest total market value in 18 months (i.e. August 2018).




*Source: Motswedi Securities calculations*

The number of shares trading were at a 21 month high in February – the highest being May 2018, when 8.3mn BTCL shares crossed through the domestic board. This showed the increased demand for the stock in the month, as the low price woke up the appetite in investors. By the end of the month, it appeared as though the market was well balanced, with the buyers and the sellers matching without too much difficulty.

Our biggest concern, remains the retail investor's behavior, i.e. the ordinary investing Motswana, especially their tendencies to sell unexpectedly when they need to free up some cash to fund other obligations. BTCL's shareholding structure allows for there to be volatility in the stock's share price, given that an approximate of 35% of its total shareholding in the hands of individual investors, more so that it is only available to the citizens of Botswana.

## 3.0 Company Announcements and Financial Results

**Standard Chartered Bank Botswana**'s full year 2019 financial results are due to be published before the end of March -- and in them, they divulged that they expect their profit before tax to be approximately 240% and 250% higher than the profit reported for the prior comparative period.

**Minergy** expects its net loss before tax for the 6 months ended 31 December to be between 345% and 365% higher than the previous comparative interim period. The Company advised that the expenditure for the period is different in nature to the previous interim period, which has a significant impact on the comparison.

**Primetime**, in a further announcement to shareholders, also advised shareholders that their fund raising exercise is still ongoing.

**Sefalana** published an update on their cautionary announcement, in which they divulged that they are still in ongoing negotiations with a third party outside of Botswana. The conclusion of which, may have an impact on the Company's share price.

**Choppies** also published an announcement, of which the purpose is to provide a business update to shareholders. Key highlights noted in the circular are as follows:

- that the current guaranteed portion of the Chief Executive Officer's remuneration has been reduced by 43% to facilitate the introduction of short-term incentives (as per Corporate Governance as encouraged by King IV Code) – effective the 1st March 2020;
- A Chief Finance Officer has been appointed by the Group – a South African Chartered Accountant with experience in a number of JSE listed companies. The appointment is subject to approval of a work permit and would be effected in the middle of April 2020;
- A Deputy Chief Executive Officer has been recruited by the Company (a good move on their part) – the commencement date will be mid-April 2020;
- Following a demand letter sent by CDC to Payless Supermarkets to pay capital monies amounting to P121 048 424.78, and failure of Payless to effect any part or whole to effect any payment, the CDC sought assistance from the High Court of the Republic of Botswana. The Court granted a provisional order for the winding up of Payless Supermarkets and the appointment of a provisional liquidator. The return day for consideration of a final order of winding up is 27 April 2020. The Supermarkets are expected to run throughout this liquidation process so as to get the best value from the assets, in order to pay off creditors. In the same breathe, CDC has ceded any proceeds recovered from Payless Supermarkets to the Lenders to the Company (as guaranteed to the Lenders by CDC) as security for the indebtedness to the Lenders.
- The Company has exited, what they deem loss making markets, which include Mozambique (operations closed in September 2019), Tanzania (operations closed in November 2019), and Kenya

(operations scaled down to 2 stores, with intentions to close once outstanding liabilities are cleared).

- As of 19 September 2019 loans of an aggregate of approximately BWP680million were outstanding to the Lenders. Following the agreement by the Lenders to hold off making demand for immediate payment, the Company agreed to a reduction of the capital of loans in the sum of BWP150million, the first BWP100mn of which should have been paid by the 10th of October 2019, and the remaining BWP50mn by the 30th of November 2019, with the founding shareholders pledging to guarantee the payment. As of the 10th of October 2019, the payments had not been paid, as such the founding shareholders effected the payment. This payment will be considered a loan to the Company which would be subordinate to claims of the Lenders and trade creditors;
- The Company expects to publish their financial statements for the year ended 30th June 2019, by the 30th June 2020.

  *[The full circular is attached herewith]*

### 4.0 SARB Cuts Interest Rates by 1%…

The coronavirus is taking its toll on the rand, as increasing concerns of the economic damage that the pandemic is to cause, affects appetite for the unit. South Africa is currently in a technical recession following the second consecutive quarter posting retracting GDP growth. With this in mind, the South African Reserve Bank (SARB) on Thursday, cut interest rates by a 100 basis points, which happened to be double of what was expected by speculators. This, however, did not do much to win the rand some support, given that the unit is being driven primarily at the moment by global events and outlooks. The fears really stem in the fact that COVID-19 is bringing the world to a standstill.

More so, the emerging market currencies in essence, have been feeling some pressure, as investors prefer putting their money in the safe haven dollar. Speaking of, the dollar rallied in the week following an emergency interest rate cut by the US Federal Reserve on Sunday. The Fed, joined other central banks around the globe, in a bid to alleviate the various pressures coming from the outbreak of Novel COVID-19. The Fed has cut its rate to a target range of 0% - 0.25%, which translated to a 100 basis points cut, double the basis points that it cut the rate two weeks ago on the 3rd of March.

**Domestic Exchange rates**

| Currency | 20 Mar | 13 Mar | Change (%) | YTD (%) |
|---|---|---|---|---|
| US$/BWP ↓ | 0.0844 | 0.0875 | -3.54 | -10.31 |
| ZAR/BWP ↑ | 1.4637 | 1.441 | 1.58 | 10.09 |
| EUR/BWP ↑ | 0.0784 | 0.0782 | 0.26 | -6.67 |
| GBP/BWP ↑ | 0.0723 | 0.0697 | 3.73 | 0.70 |
| JPY/BW ↑ | 9.28 | 9.24 | 0.43 | -9.29 |
| CNH/BWP ↓ | 0.5987 | 0.6119 | -2.16 | -8.83 |

*Source: Bank of Botswana*

The pula, on the hand, as can be seen in the table above, weakened quite significantly against the dollar and yuan, while strengthening against all of its other trading partners for the week.

### 5.0 Both Precious and Base Metals Lost Further Appeal in the Week…

The coronavirus is taking its toll on majority of the markets, even gold has lost its appeal to investors, trading around 1.81% lower at the time of writing. The metals all round, the base metals together with the precious metals, were all tracking losses for the week. As the coronavirus pandemic grows, the metals' futures contracts lost their appeal, with investors moving investments from them to those in agriculture, of which are in quite high demand. Examples of such contracts would be those for materials used to make medicinal supplies (i.e. cotton and ethanol) as well as those for foods (i.e. orange juice and most grains).

The pressure on oil prices continued to grow as well, as the commodity got caught between the ongoing onslaught caused by the coronavirus and the price war ignited by OPEC de facto leader, Saudi Arabia, last week on Russia (both countries are preparing to increase their output in April). Of course then, this would suggest that the oil market is in for a prolonged suffering on that regard, given that global demand is expected to reduce by almost half by the beginning of April. The effect of both suppressants is the increased supply of oil in the market, which in turn allows for the price to drop. In the week, the commodity reached an 18 year low, at around US$24.52/bbl. The commodity at the time writing was trading around US$29.21/bbl. In the last two months alone, oil prices have fell 55%, which now puts the commodity's year to date at -56%.