



# Weekly Financial Markets Highlights

**Research**  
Garry Juma  
Salome Makgatlhe

**Sales**  
Tshenolo Motlhagodi  
Moemedi Mosele  
Refilwe Lesolle

**motswedi**securities



**April 03, 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](mailto:motswedi@motswedi.co.bw)  
Website: [www.motswedi.co.bw](http://www.motswedi.co.bw)

## 1.0 Botswana Goes Under Lockdown...

A few days following the announcements of Botswana's first few Covid-19 cases, the President of Botswana declared a state of emergency, and announced a lockdown beginning at midnight of the 2<sup>nd</sup> of April. While this is a commendable move by the Leader of the country, this move is going to have a huge impact on the whole economy, more so the SME's in the nation.

To highlight a few effects, these businesses are going to experience a drastic drop in sales (as has already happened in the tourism and hospitality sectors as well as the informal sector), as well as supply chain issues (spanning across all industries). Some businesses have even resorted to letting their staff go, in an attempt to retain as much cash as possible to keep them afloat. With this in mind, the Government put together a COVID-19 Relief fund, the main purpose of which is to extend some provisions to those affected by the virus. This includes providing wage subsidies to citizen employees of those businesses which have been disrupted by Covid-19, stabilising cash flow in businesses by guaranteeing loans from commercial banks, providing access to credit lines so as to support ongoing operations, as well giving tax concessions to businesses in eligible sectors.

Such a move by the Government of Botswana will prove very costly to the fiscal budget, with the State already having put up an initial investment of P2bn, with requests from individuals and the private sector alike to contribute as well to this fund. On top of the fund injection, the Government has also advised on a number of other incentives to support the affected companies, which have been budgeted to up to

more than P2bn. This means the Government will be providing more than P4bn to aid the country.

This week on the exchange, was one for the losers, as the local equity market veered further into the negative space, marred (much like many other stock exchanges around the globe) by the Covid-19 pandemic. The DCI, for the better part of the first quarter, remained positive, only notching into the negative space two weeks ago. The index dropped 0.15% in the week, which left its year to date growth at -0.24%. The DCTRI, lost the same percentage value as the DCI of 0.15% -- the difference between the two in the week being that the total returns index (the DCTRI) still retains a positive year to date growth of 0.41%.

Three stocks in the domestic board lost value, the largest fall coming from StanChart, closing the week 5.4% lighter, in its first move of the year. The bank published reviewed financial statements in the week, posting an increase in net interest income of approx. 1.2%, leading to a net interest margin of around 5.6%. The cost to income ratio remains generally high at around 86%. ROE levels around 4.96%, a trailing PE at 19.8x and a dividend yield around 4.7%. Note, that the financials have not been provided with an audit opinion yet, of which will also provide an indication from the auditors of the impact of Covid-19 in the financials. The bank's share price closed off the week 9 thebe lighter at P1.58/share. Letshego, gave back another thebe this week, dropping to P0.84/share, reducing once more its lead of the gainers in the market. The yearly growth currently stands at 18.3%. The third loser in the week was BTCL, also shedding a single thebe, to end at P0.85/share. This loss further extended the stock's yearly loss to -105%.

COUNTER	03 Apr (t)	27 Mar (t)	Change (%)	YTD (%)
STANCHART ↓	158	167	-5.4	-5.4
BTCL ↓	85	86	-1.2	-10.5
LETSHEGO ↓	84	85	-1.2	18.3

Source: Motswedi Securities, BSE

#### Market Summary – Week ending 03 April, 2020

No. of Shares Trading	<b>1,054,082</b>
Turnover (BWP)	<b>2,681,065</b>
Turnover (USD)*	<b>220,115</b>
No. of stocks trading#	<b>14</b>
No. of stocks advancing#	<b>0</b>
No. of stocks declining#	<b>3</b>
No. of stocks unchanged#	<b>20</b>

Source: Motswedi Securities, BSE \*US\$/BWP = 0.0821  
# = Domestic Main Board

#### BSE Indices – Week ending 03 April, 2020

<b>DCI Close</b>	<b>7,476.27</b>
Weekly Change (%)	-0.15
YTD Change (%)	-0.24
<b>FCI Close</b>	<b>1,551.35</b>
Weekly Change (%)	0.00
YTD Change (%)	-0.71
<b>DCTRI Close</b>	<b>1,734</b>
Weekly Change (%)	-0.15
YTD Change (%)	+0.41

Source: Motswedi Securities, BSE

## 2.0 Company Announcements and Financial Results

**Absa** Bank Botswana published their first financial results under their new name. The bank had a relatively good year, more so considering the challenging economic environment the company operates in. Interest income climbed 10%, on the back of an increase of 13% in the bank's loan book.

Interest expense climbed 30%, with the management advising that the increase was due to an increase in the customer deposits accounts (mainly in the savings accounts). Net interest margin stood at 7.94%, the cost to income ratio at 56%, while ROA and ROE were around ~3% and ~24% respectively. The PE was not much changed at 9% and the dividend yield strong at 6.4%. The bank also wrote back an impairment loss experienced in one of the prior years, of which also played a part in the 15% increase in the profit before tax -- to around P677.6mn. The company declared a 25 thebe gross dividend to those clients registered in their books by the 12th May 2020.

**RDGP** published financial results for their full year financials in the week leading up to end of Q1. The property investment company noted a small 4% increase in their rental revenue. The increase was due to the Edge property having 12 months in company's books (versus the 10 months in prior year) and 12 months of the ICC apartments (vs none in prior year). The company managed to contain their costs in the year as well, while a number of other line items that allowed for a very marginal 1% increase in their income before fair value adjustments. The property valuations were valued 31% higher for the year, as compared to the prior year, which gave way to a PBT that stood at P162mn (a 15% increase from the previous year). In the year, their investment property portfolio climbed 5.9%, which makes sense given the addition of the new residential block (ICC). In light of the Covid-19 pandemic, RDGP has offered up a number of their hospitality properties to the Botswana Government at a discounted rate, as a way to mitigate lost revenue, as has been caused by the virus outbreak. The company has noted that those properties that will not be in use, during the outbreak will be

refurbished (a process that has apparently been on hold, due to the traffic on the properties). The company decided to put any non-income generating property acquisitions on hold, which includes the retirement home that is to be completed in the coming year. When looking at the ratios, the LTV stands at 20% net of cash, the interest coverage ratio is around 2.59x, and a trailing PE of 6.6%.

**Cresta** posted a 7% increase in revenue, with a 22% increase in their operating expenses, a huge rise in their finance expense (of which is warranted given the hotel properties purchased last year), to result in a decline in profit before tax of about 14.5% to P23.6mn.

**BIHL** published an announcement, noting a change in their ex-dividend date from the 10th to the 9th of April 2020. The dividend amount remains unchanged.

**Letshego** published a notice, to the tune of their audited financial results being delayed due to additional disclosures needed to be included in the audited financial statements around subsequent events and related notes specifically relating to Covid 19 by their auditors.

**Tlou Energy** has come to an agreement with the Botswana Power Corporation (BPC), of which granted the company an interim power purchase agreement (PPA) for a 2MW CBM Pilot. The company also noted that, at the request of BPC, the commercial terms of the PPA remain confidential.

**StanChart's** audited financial results for the year ended 31 December 2019 have been delayed a week, with the new expected publication date being on or before the 8<sup>th</sup> April 2020. The late publication

is as a result of the ongoing external audit, which is in its final phase. Their auditors, KPMG have informed that the delay is a result of extensively assessing the impact of the COVID-19 pandemic on the Bank's operations. In the meantime, the bank has released preliminary, unaudited financial results.

**G4S** missed its deadline to publish their financial results by the end of March 2020. The company, in an announcement released on Wednesday, noted that the Group's financial results for the year ended 31 December 2019, are delayed, they will be published no later than the 30th April 2020.

**BTCL** officially released their closed period announcement on Wednesday, signalling to its member of the Board, staff members and their immediate family members that they are prohibited from trading their BTCL shares, until the financial results of the company are published in 3 months.

### 3.0 S&P Global Downgrades Botswana's Sovereign Credit Rating...

Global credit rating agency, S&P, last week lowered Botswana's long term foreign and local currency sovereign credit rating from "A-" to "BBB+". On the other hand, the country's short-term foreign and local rating was unchanged at A-2 and the outlook remained stable. The agency also downgraded its transfer and convertibility of Botswana to "A" from "A+". The ratings agency's decision to downgrade the various ratings were on the back of an expectation by the agency of a prolonged weakening of the external market for diamonds, pressures on expenditure due to the increase in public sector wages and the resultant expected gradual decline of

the country's strong fiscal and external buffers in the near to medium term.

The outbreak of Covid-19 will definitely prove detrimental to the country's GDP, given that the biggest revenue sectors, that is diamond mining and hospitality, are hit the most by the virus. Diamonds, considered a luxury good, are at the bottom of the priority list in times of economic distress, more so the fact that China, Botswana's biggest diamond buyer was locked down for some time, and only just reopened. Even then, the buying will likely not resume anytime soon, while its economy recovers. As for the hospitality sector, the various country lockdown, together with Botswana's own lockdown, has proved to hurt the sector quite significantly, with some organisations even closing their doors, given the absence of sales. The containment of the coronavirus could take from a month, to six months, or even longer – as such the strain on both diamond and hospitality sales is expected to continue for an extended period of time. There is a very high likelihood that the financial and business services sector will carry GDP for the year, if only just a little.

#### Domestic Exchange rates

Currency	03 Apr	28 Mar	Change (%)	YTD (%)
US\$/BWP ↓ 	0.0821	0.085	-3.41	-12.75
ZAR/BWP ↑ 	1.5259	1.4744	3.49	14.77
EUR/BWP ↓ 	0.0758	0.0768	-1.30	-9.76
GBP/BWP ↓ 	0.0664	0.0693	-4.18	-7.52
JPY/BW ↓ 	8.87	9.22	-3.80	-13.29
CNH/BWP ↓ 	0.5833	0.6022	-3.14	-11.18

Source: Bank of Botswana

The local unit weakened quite significantly in the week, against all its trading partners, save for the rand. The pula gained 3.49% against the embattled rand owing to a number of reasons, including, the

downgrade by Moody's last week Friday to junk status. Moody's was the remaining of the three big credit rating agencies to drop South Africa's credit rating to below investment grade -- with the latest notch down, assigning the country's sovereign debt at Ba1, from Baa3, with the outlook remaining negative. This was a kick while down for the country, given that the country went into lockdown last month, which is bound to impact the economy negatively and now the downgrade.

#### 4.0 Oil Regained Some Lost Ground...

Oil bounced back from an 18 year low this week (i.e. levels last seen back in 2002), following pressure on the price as the coronavirus outbreak flared on. The increasing concern is that the shutdown currently encompassing majority of the globe, will last for longer than anticipated. If the shutdown stretches, it results in capped demand levels of oil and oil products, which in turn forces the supply of the commodity to mount. Taking it back to a few weeks ago, when oil prices crashed because the OPEC+ members, particularly Saudi Arabia and Russia, failed to agree on how much steeper production needs to be to support the price. The latest news, now have Russia, in discussions with the US, to try and find a way to stop the instability of the price. With this in mind, US Crude oil production levels dropped for the second consecutive month in January, as was reported by the US Energy Information Administration this week. The reported output levels for December were reported to be at 12.8mn bpd, while in January, the output levels dropped slightly to 12.74mn bpd.

**Disclaimer:**

The views expressed in this research note reflect the views of Motswedi Securities (Proprietary) Limited based on the information available at its disposal at the time of writing and may change without notice, and is provided for information purposes only. While Motswedi Securities (Proprietary) Limited has taken all reasonable steps in carefully preparing the document, it does not take any responsibility for any action that may be taken on the basis of the information contained herein. Each recipient of it is advised to undertake its own analysis and evaluation of the terms and contents hereof, and obtain independent advice as appropriate, before acting in any way upon the information contained herein. Accordingly, this document is not intended, and no part of this document should be read, as constituting, in any way, an offer or other solicitation for the purpose of the purchase or sale of any of the securities referred to herein. This document may not be reproduced, distributed or published by any recipient for any purposes without the authorization of Motswedi Securities (Proprietary) Limited.

The term closing and last price are often used interchangeably, except where specified in the report, with Motswedi preferring to use Last Traded Price as the best indicator of where the market will open, on the next trading session.