motswedisecurities
Member of Botswana Stock Exchange

MS QUARTERLY ECONOMIC BULLETIN Q1 2021

Q1 2021 Economic Bulletin | Published: April 2021

motswedisecurities

Contents

Introduction…

The first quarter of 2021 has come to an end. The global economy has enveloped the changed operating environment, as many sectors around the world resumed activity. Global GDP growth for 2021 is now projected at 5.6% (from 2020's GDP contraction of 3.4%), according to the OECD. The ongoing vaccine rollouts, and additional fiscal support in some countries are expected to be the pillars that will drive the recovery. The vaccine rollout in the last few months, however, has been uneven as many countries remain embattled with pandemic restrictions while infection rates climb back up as variants of the virus emerge. Countries such as the United States and those in Europe, which are significantly ahead of the vaccine race, are likely to be the one of the main pillars of global growth in 2021. Sub Saharan Africa, on the other hand, is likely to drag the growth as it contends with procuring adequate vaccines. A rebound to pre-pandemic levels of the word output is anticipated by mid-2021.

Global growth and recovery is expected to be varied for many countries, more so the emerging market economies that have been quite slow in the deployment of the COVID-19 vaccinations as they combat a climb in infection rates, while resources limit any further policy support from Governments. A clean and clear example being our very Botswana. The country continues to wrangle with the outbreak of the coronavirus, as daily confirmed cases remain on the rise. The Government of Botswana extended the country's State of Emergency (SoE) for another six months. This SoE maintained a number of containment restrictions such as the movement restriction, now set from 10pm to 4am. These containment measures, though helpful in limiting the spread of the virus and preserving lives, have effectively reduced overall economic activity in the country, which will impact negatively on economic growth. The economy's heavy reliance on diamond exports and contact-intensive activities caused a steep contraction in GDP for 2020, one of the sharpest declines in Sub-Saharan Africa. Botswana's GDP contraction for 2020 is anticipated to be -9.6% by the IMF, while growth in 2021 is anticipated to recover by 8.7%

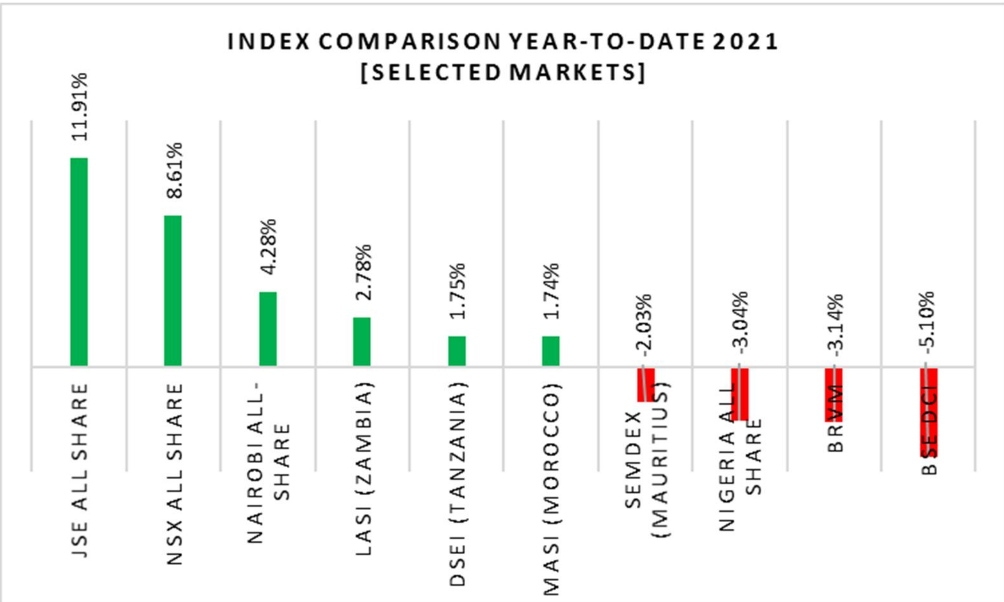
Inflation fell within the Central Bank's target range of 3% to 6%, sitting at 3.2% y/y in March 2021. This was an uptick from the February 2021 y/y inflation which was 2.4% and March 2020 which was at 2.2%. The increase in inflation is owing to the increase in fuel prices which were effected on the 1st March 2021. This was reflected in the rise in the Transport inflation from -1.4% in February 2021 to 1.4% in March 2021, as per Statistics Botswana numbers. There was also a general rise in some of the other categories as well which reflected an upward adjustment in prices of goods and services. Inflation is expected to further pick up over the coming months due to adjustment in the fuel levy which was effected on the 1st April 2021 as well as the increase in VAT from 12% to 14% beginning 1st April 2021.

Business will continue to struggle in the current operating climate, and the increases in levies and taxes will likely squeeze profit margins as the value chain for goods and services become more expensive for both producers and consumers. Credit extension by local commercial banks continues to fall despite the low interest rate environment. This is either due to businesses and households not qualifying for the additional credit or the firms not willing to take in more credit. As a result we expect consumer spending to remain depressed, which is not good for the economy and will possibly result in market participants seeking other avenues to free up cash, such as divesting from investments to fund some of their daily obligations.

The Domestic Equity Market

The domestic equity market was swept with the concerns of a limping economy. The Domestic Company Index (DCI), which takes into account the changes in share price, was down 5.1% by the close of March 2021. Compared to the same period in 2020, the DCI performance was down negative 0.1%. It is important to note that the first quarter of 2020 was before the effects of the COVID-19 pandemic. The DCI's decline comes at a time when most of other exchanges in Sub Saharan Africa are enjoying positive returns owing to the global rally. In the first quarter of 2021, the DCI ranked as the worst performing market in selected African markets.

Graph 1

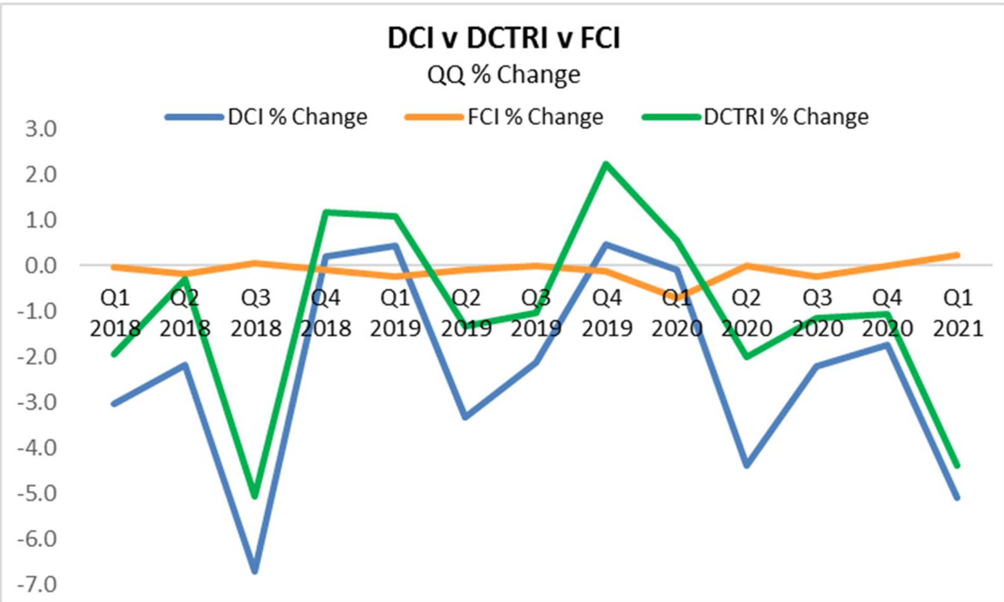


Source: african –markets.com

The Domestic Company Total Returns Index (DCTRI) which takes into account the changes in the total returns of stocks, i.e. price appreciation/depreciation plus dividends and interest, was down 4.4% by the end of March 2021, supported by a number of companies going ex-dividend in the month. In Q1 2020, the DCTRI recorded a growth of 0.6%. The Foreign Company Index recorded its best quarter in over 3 years. As at the close of March 2021, the FCI was up 0.3% supported by the share price growth in Tlou Energy and Lucara Diamonds. These are the only two movers in the market and posted growths of 51.5% and 37.0% for Tlou and Lucara respectively. Support for Tlou is likely a response to a recently published update on the company's bid for the 100MW tender to provide CBM fuelled power plants for the Botswana Government. So far, a pilot Power Purchase Agreement (PPA) has been signed between Tlou and the Botswana Power Corporation for the first 2MW of power, of which a grid connection agreement has also been signed by the two parties. This will enable the injection of power into the BPC grid, which is a valuable step for the company in making its first sale of power.

Graph 2 below highlights the movements of the BSE's DCI, DCTRI and FCI on a quarterly basis.

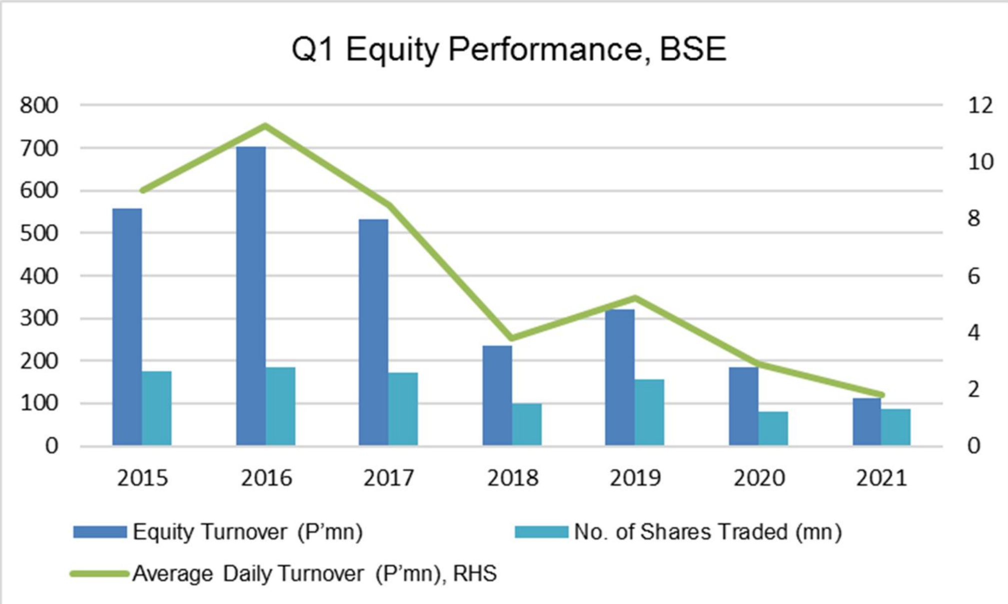
Graph 2



Source: Motswedi Securities calculations

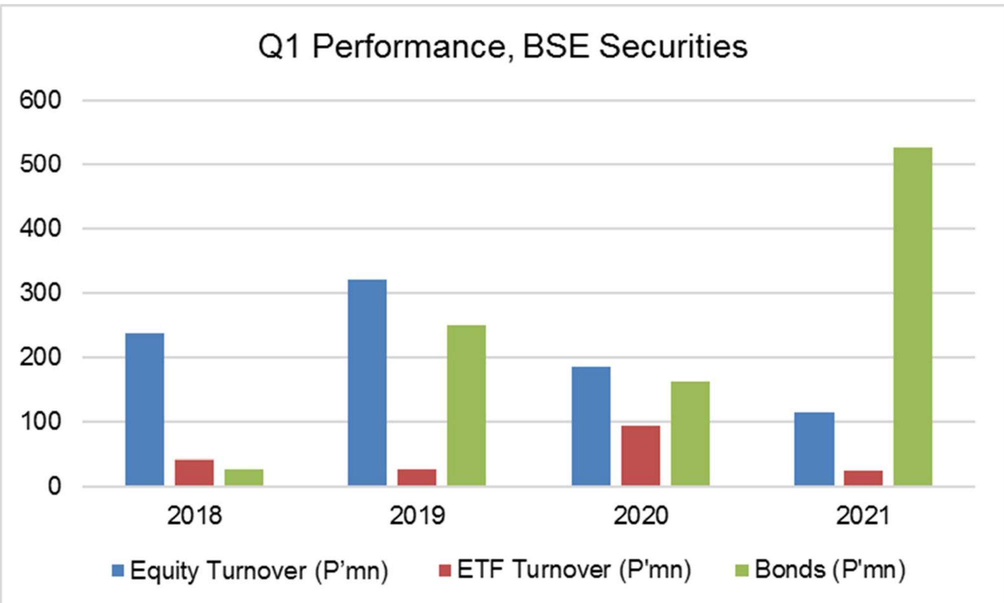
The liquidity trend on the BSE equity market continued in its downwards decline, as depicted in graph 3 overleaf. Volume and value traded in Q1 2021 was at 88mn shares and P114mn respectively. Compared to the corresponding period in 2020, volumes and value were at 82mn shares and P185mn respectively. The first quarter liquidity for 2021 was at its lowest in over 7 seven years. The closing gap between volume and value traded is indicative of a market that is shrinking in value as a result of a supply heavy market.

Graph 3



The depressed liquidity in the market was under-toned by the preference of safer investments that weather uncertainty better in an economy. Activity in the bond market was the highest of the securities traded on the BSE, driven mostly by investors seeking risk free returns thus favouring Government bonds over corporate bonds in the quarter. NewGold ETF and NewPlat ETF turnovers were down in the quarter, compared to the previous corresponding period. The ETFs were pressured by declining global prices for gold and platinum, as the US dollar strengthened.

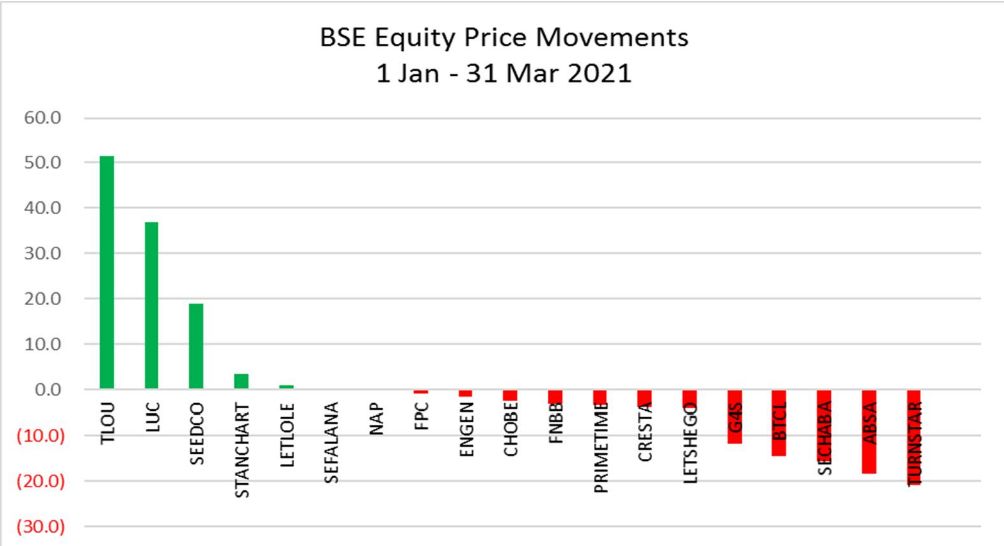
Graph 4



BSE Equity Market: Company Highlights

The market movers in the quarter were mostly in the red, as 12 of the listed securities pulled back in value, while only 7 posted gains. Property Company Turnstar posted the biggest percentage loss in the quarter, of 20.8% on worried over possible increases in vacancies from its properties as companies struggle to pay rentals. Absa was a close second, down 18.2% in response to the decline in the bank's profits. Sechaba's value decline in the year grew to 15.7%, as investor sentiment remained in the negative for the stock due to challenges in the sale of beer induced by the COVID-19 pandemic. Tlou Energy, Lucara and SeedCo, were the top performers in the year so far on the equity market, with gains at 51.5%, 37.0% and 18.9% respectively. The movers on the BSE in Q1 2021 are shown in Graph 5 below.

Graph 5



Source: Motswedi Securities calculations

Banking

Absa's share price declined to a six year low closing at P4.39/share. There has been some significant selling pressure for the stock, which is evident in the stock's year to date performance of negative 18.4% - comfortably the second largest loser on the equity market. The company posted a 46% decline in its profit before tax for the financial year ended 31 December 2020 – which attributed to a significant increase in the company's credit impairment line in the financials. However, the bank's balance sheet remains resilient supported by growing deposits. Despite this, the impairment concerns has disadvantaged sentiment for the company as reflected in the performance of the stock.

Banc ABC was trading at P1.98/share, unchanged for Q1 2021. The bank's performance was resilient in the year with operating profit remaining intact. The balance sheet was depressed in the year, as a result of a decreased loan book, which is concerning as credit impairments increased.

FNBB was down 3.2% by the close of Q1 2021 at P2.13/share. As credit growth, and subsequently credit quality, continues to shrink year on year, it has forced the bank to diversify its revenue streams. FNBB's performance for its half year to December 2020 was evidence of this as its net interest income shrank 16%, while non-interest income was only down a marginal 4% (supported by a significant increase in investments by the bank).

StanChart was the best performing financial institution in the quarter, posting gains of +3.4%. At P1.50/share, this is a 10 month high for the stock. Likely fuelling the banks growth are improved performance margins and moderated cost containment measures.

Financial Services

BIHL's price remained at P17.50 per share, as it has been somewhat since September 2018. The stock does continue to oscillate +/- 5 thebe range, but is more or less stuck at its current market price. BIHL's financial results for the year end 2020 were improved from the prior year and is one of the only companies on the exchange posting increased profit, despite the COVID era. This was owing primarily to an improved performance of the Group's associates. The Group also declared a 65 thebe final dividend – making the stock more attractive.

Letshego was the emolument of liquidity in the quarter, easily retaining its lead. The stock ended the quarter a few Thebes shy below its year opening price, at P0.69/share. The stock has a very wide reaching and diverse shareholding, which has translated into it being one of the most liquid stocks on the Exchange. Selling pressure plagued the stock performance in these first three months, spilling over from the prior year. On a year to date basis for Q1, Letshego's year to date stands at negative 4.2%. The microlender's performance was commendable for the year 2020, reporting a growth in its balance sheet, which was supported by a significant increase in deposits.

Telecommunications

BTCL low valuation price has attracted some level of demand especially from ordinary individual investors. The demand levels however, are well below the current market supply levels. This excess in supply has resulted in BTCL's year to date closing Q1 of 2021 down 14.6% as the fourth largest loser on the BSE equity market. The company is now on closed period as it prepares it FY2021 financial results.

Tourism

Chobe was down 2.4% in the first quarter of 2021 to P9.20/share. It seems shareholders in the name are willing to let go of their positions in the stock at any price they can get. Chobe is in a sector that has been gravely affected by the outbreak of the coronavirus, and we have seen in the last couple of months these effects trickling down into their respective share prices

Cresta's performance on the Exchange was hampered quite significantly by the various measures taken by the Botswana Government to curb the outbreak of COVID-19. The Company's decision to purchase their hotels from Letlole and BDC, significantly weighed on the company expenses, which together with the declined profit margins resulted in the company posting gains for its December 2020 year end. With the anticipation of this loss, shareholders were ready to divest at a discount. The stock lost 3.8% in Q1 2021, priced at P1.25/share.

Retail & Wholesale

Choppies was unmoved in Q1 2021, at P0.60/share. The Group posted its first profit figures since 2016. This is based on the Company's first half performance, which encompasses periods wherein consumer spending inherently increases, i.e. festive season and the independence holidays. The company still posted negative equity in the period, as retained loss from the current and previous periods were carried over, further pressured by the continued currency weaknesses in Zambia and in Zimbabwe. The company's Governance structures are improving in line with the norm and we expect the company performance to improve in the coming months.

Sefalana was one of the best gainers in Q1 2021. Priced at P9.36/share, the stock has ample support from investors with a growth of 0.3%. The company's metrics remain intact with ample liquidity levels and low debt margins. Expansion plans are measured and are aligned with the Company's steady growth. These are outcomes of a good business model.

Sechaba posted its fourth consecutive quarter of losses in Q1 2021. The stock's price was down 15.7%, ending the quarter valued at P17.40 per share. The share price remains haunted by the restriction in the sale of alcohol that was recently lifted. With cases of the coronavirus remaining high in the Botswana, there is much speculation that the Government might at any time impose another restriction on the sale of alcohol. There is also some concern around the sugar tax that is to be imposed on sweetened beverages. This is expected to impact the non-alcoholic beverages side of the business, i.e. Coca Cola Beverages Botswana. The company's financial results for the 2020 financial year were better than expected. Of note was the sharp decline in combined volumes for both associates, KBL and CCBB, at 19% with a larger portion of the drop attributed to KBL. On a positive note for Sechaba's shareholders, the company declared a final dividend of 25 thebe, about a quarter of the previous year's declaration. This is likely a result of only CCBB declaring a dividend. Given KBL's performance in the year, and in consideration of the operating environment, the company chose to not to declare, opting for cash preservation. As such, Sechaba only passed through the dividend from CCBB.

Property Sector

FAR was down 0.8% in Q1 2021, the smallest loser on the equity market. Acting as a buffer for the stock's performance were resilient metrics and a decent yield per linked unit.

Letlole posted its first quarterly gain in Q1 2021 since Q1 2020. The stock closed the quarter up 2 thebe at P2.31/linked-unit. The company leveraged off of their cash reserves and added 6 acquisitions to their portfolio, with investment properties now at P0.96bn. The Company's investments, climbed to P1.03bn. The Company's overall performance for the period was hampered by the ongoing pandemic, but was resilient nonetheless as it trickled down to its share price growth for the quarter at 0.9%.

NAP was the other property stock to post gains in Q1 2021, albeit, the gains were extensively marginal to say the least at 0.3%. The Company's near non-existent debt levels and a stable tenant mix, continues to support the Groups performance.

Primetime's performance on the BSE was caught up in the wave of concern around rental income and possible increased vacancies in the company's properties. However, the Group has a decent portfolio with a solid tenant mix and a low vacancy rate (as at August 2020 of 4%). Courtesy of the pandemic, the Company's investment properties were subjected to a fair value adjustment that impacted its income statement and ultimately weighing on its year end metrics. Primetime was down 3.3%, closing the quarter valued at P2.66/linked-unit.

RDC Properties's 2020 year end numbers were impacted by the pandemic just like any other companies in the property sector. The company's performance was resilient nonetheless, despite the dip in the Groups hospitality properties' occupancy rates as a result of movement restrictions. The metrics remain intact, noting a slight increase in its gearing ratio and net yield remaining positive. Its share price performance was a reflection of this resilience as can be seen with the share price remaining unchanged at P2.15/linked unit.

Turnstar was the bearer of the brunt when concerns flared of pressured rental income as a result of increased vacancy levels. The stock was down 20.8% and was the largest loser on the Exchange by the close of the first quarter of 2021. The company's metrics are moderate, and may support the stock's performance in the recovering global economy.

Energy

Engen was down 1.5% by the end of March 2021, priced at P10.13/share. As a petroleum company, restrictions on both local and international movements, and declined crude oil prices took a knock on the company's performance in the year. The company liquidity measures and overall company performance remained capable as also indicated by its declaration of both a final and special dividend.

Minergy's share price was stuck at P0.80/share for the entirety of Q1 2021. Minergy is operating in a challenging environment, contending with national lockdowns, movement restrictions, a depressed international market, and environmental contingencies such as rains impacting the accessibility of mines. The upside for the company is that they are now receiving revenue for their mining efforts, which is promising for the company's future prospects.

Tlou Energy gained some support in the quarter, after successfully securing a pilot Power Purchase Agreement (PPA) with Botswana Power Corporation for the first 2MW of power, of which a grid connection agreement has also been signed by the two parties. This will enable the injection of power into the BPC grid, which is a valuable step for the company in making its first sale of power. The company is also in line to be the first carbon neutral baseload power project in Botswana, which in itself appeases the element of ESG investing. The company was up 51.5% by the close of Q1, staking claim to the top performer in the quarter.

Lucara Diamonds was up 37% at P7.00/share by Q1's end. This gain was likely supported by the anticipation of a recovery in the diamond market in the medium term. Adding to its appeal is the continued discovery of large gem diamonds in the Company's Karowe mine. In Q1, the Company recovered two gem diamonds both larger than 300 carat. 378-carat diamond in its Karowe mine in Botswana, adding to a growing list of significant gems in the region. While in 2020, the Karowe mine produced 31 diamonds greater than 100 carats including 10 diamonds greater than 200 carats.

Agrobusiness

SeedCo shares were in high demand in Q1 2021, and continue to be even after the fact. The agribusiness gained 18.9% by the end of March 2021 at P2.20/share. The abundance of rain in the last few months, is expected to play a supportive role in the company's sales. In terms of business structure, SeedCo International is currently in the process of acquiring the shares of its subsidiary, i.e. SeedCo Limited, from the invested shareholders on the Zimbabwe Stock Exchange (ZSE). SeedCo International, is reported to have already received acceptances from investors that gives the company a total shareholding of about 85%. This process is part of a restructuring venture that is expected to result in the Company listing on the Victoria Falls Stock Exchange (VFEX) under the SeedCo International name, and delisting the subsidiary from the ZSE.

Conclusion

Swift responses by several Central Banks across Sub-Saharan Africa, and the globe at large, have played a significant supporting role in the recovery and opening up of economies. Although the SSA region is anticipated to be better than expected for 2020, with a contraction of -1.9% according to the IMF, the COVID19 pandemic is proving to be a long trek. The pace of the vaccination rollouts will work to further assist economic recovery, however this has proven a choppy process, which may slow the growth of the economy in the short to medium term.

Growth in Botswana is anticipated at 8.7% for 2021, according to the IMF's REO. This recovery is expected to be driven by a strong rebound in mining activity to pre-pandemic levels, the easing of movement restrictions, and the increase in economic activity as evidenced by the rising inflation levels. The risks and uncertainty still persist as the pandemic adapts to its various environments and a globally depressed diamond market.

The recovery of the local equity market will depend on how the local and global economy recovers going into the year. Worries of a third wave or forth wave of infections will continue to linger on, making it difficult to predict how the market will perform. However, the increase in the administration of vaccines especially in developed markets is encouraging. Our view is although some of the stocks on the local market have overheated, there remain pockets of opportunity where counters are trading below their intrinsic values and this is where investors can take advantage of.

Research

Garry Juma

Salome Makgatlhe

Sales

Tshepo Setlhare

Keyshia Tebogo

Plot 113, Unit 30, Kgale Mews Gaborone

P/Bag 00223, Gaborone, Botswana

Phone: +267 318 8627

Fax: +267 318 8629

Website: www@motswedi.co.bw

Email: motswedi@motswedi.co.bw