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# MARKET INSIGHTS

## Botswana Equity

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# MARKET INSIGHTS: BOTSWANA EQUITY

- **Renewal of State of Public Emergency (SoPE) for yet another 6-month period has kicked the proverbial can down the road in terms of labour market reset that was anticipated to begin in April 2021.**
- **The transmission inefficiency of the Economic Recovery and Transformation Plan due to implementation drag may mean that we will only start to see the growth engine revving in 2022.**
- **The road to recovery remains uneven and forecast risk high. Balance sheet strength, market positioning and dividend flows remain key.**

Since the outbreak of COVID-19, the financial industry all around the world continues to feel the economic impact of the pandemic. In Botswana, the outbreak continues to be at the centre of conversation as we continue to keep an eye on the developments. Below, we take a greater look into the performance of our local markets in the first quarter of 2021 and the subsequent COVID-19 impact.

## MARKET REVIEW

The DCI was down 4.4% for the quarter on a total return basis. The largest losers for the quarter were Turnstar (-20.8%), Absa (-18.4%) and Sechaba (-15.7%) on a total return basis.

The negative financial impact of measures instituted under the State of Public Emergency is evident in banking sector earnings. Across the sector, impairments increased substantially while loan books contracted. FNBB interim earnings per share (EPS) came in at 12.8t, 23.1% lower than the comparable period. This is as a result of declining net interest income and a 15.7% increase in impairments. Absa full year EPS came in at 34.82t, 43.0% lower than the previous year, as impairments increased 7 fold. Stanchart full year EPS was 9.3% lower at 16.67t due to a once-off recovery and an asset write-off. Normalised profit before tax was 22.3% lower than the comparable period. BancABC full year EPS of 13.0t was 23.5% lower as savings on interest costs were not enough to compensate for the negative swing in impairments.

Letshego full year EPS declined 11.7% to 27.1t as lockdowns slowed transaction volumes and yields contracted. The loan book grew 12.0% and asset quality improved considerably during the year. BIHL full year EPS came in 22.2% higher at 193t. Core earnings grew 3.6% and share of associate profits increased 80.9% as a prior period impairment of their Letshego position did not reoccur.

On the property front, interim earnings per linked unit (EPLU) showed mixed performances. FAR interim EPLU was 8.3% higher than the previous period at 0.13t driven by lower finance costs as the Group reduced its debt exposure. RDCP EPLU was 77.5% lower at 7.6t for the year as the underperformance of their hospitality assets led to lower rental revenue and revaluation losses. LLR EPLU was 12.15t; 2.8% lower than the previous comparable period despite operating profit increasing 18.6% as the Company deployed cash from the sale of its hospitality assets. The earnings reduction was due to revaluation gains at 20.6% lower than the previous period. LLR also had several significant changes within its Board post the dismissal of the CEO; details around the events that led to this are still unclear.

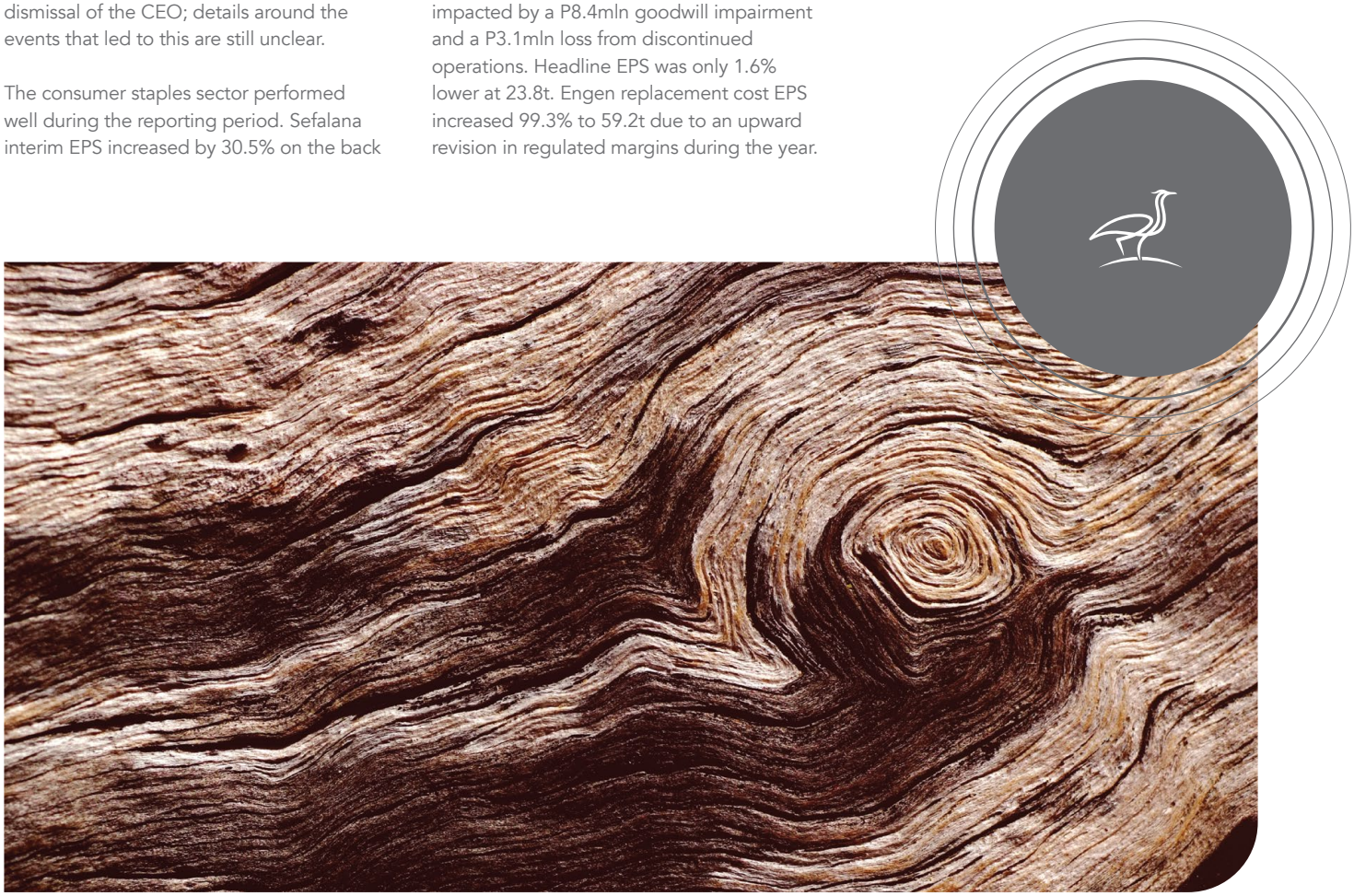
The consumer staples sector performed well during the reporting period. Sefalana interim EPS increased by 30.5% on the back of expanding margins. Choppies achieved an interim EPS of 3.37t from a loss per share of 9.47t in the previous comparable period; the shedding of loss-making operations has improved overall Group profitability. CA Sales reported full year EPS of 46.01t, an increase of 10.1% from the previous year despite logistical bottlenecks and higher working capital needs. The performance was primarily driven by new principal acquisitions. Sechaba full year EPS declined by 14.8% to 140.25t due to alcohol trading restrictions that resulted in a 29% decline in KBL volumes.

Minergy loss per share for the interim period amounted to 12.2t as the company continued in its transition into a fully fledged mining operation. The mining pit has achieved steady state operation and the plant is nearing completion. Minergy shareholders approved resolutions to allow the Company to raise additional capital via a sale of 195mln new ordinary shares and approval for a potential debt to equity conversion that would dilute ownership in the mine operating subsidiary.

G4S full year EPS of 13.81t was a 44.13% reduction from the previous year; negatively impacted by a P8.4mln goodwill impairment and a P3.1mln loss from discontinued operations. Headline EPS was only 1.6% lower at 23.8t. Engen replacement cost EPS increased 99.3% to 59.2t due to an upward revision in regulated margins during the year.

On the corporate actions front, Seedco International Limited (SCIL) shareholders granted the Company permission to acquire Seedco Limited (SCL) via a share swap consideration of 1 SCIL share for 0.98 SCL share. 95% of SCL shareholders took up the offer and the remaining shares were acquired via a mandatory offer.

Afinitas issued a circular requesting shareholder approval for a de-listing of the business on March 12th 2021. The Company offered an exit opportunity at a price of 1.49 US Cents per share (~P0.16) versus a price of P0.89 on the BSE when the offer was made.



# MARKET OUTLOOK

Renewal of State of Public Emergency (SoPE) for yet another 6-month period has kicked the proverbial can down the road in terms of labour market reset that was anticipated to begin in April. However, the high proportion of civil and parastatal employees to total formal employment; as well as the high market share of multi-nationals in the private sector has provided a support to employment figures and wage earnings.

The banking sector has seen a surge in Retail deposits in 2020 due to low household discretionary spending. High capital adequacy ratios, high impairments and historically low credit growth is evidence that the monetary policy relief is not enough to turn the economy around post the COVID-induced recession. We expect that the sector will see a recovery in earnings going forward as expected credit losses reduce and the cost of funding remains low due to retail liquidity. The big question-mark relates to when we will see credit growth come back in a meaningful way, especially corporate credit growth which is a leading indicator of domestic economic activity.

We expect real wage growth to turn negative in 2021 and capacity utilisation within the economy to remain subdued as the uncertainty around the lifting of the SoPE remains. The transmission inefficiency of the Economic Recovery and Transformation Plan due to implementation drag may mean that we will only start to see the growth engine revving in 2022. In the meantime, the return of mining activity and operating consistency in most sectors will be positive for growth.

The road to recovery remains uneven and forecast risk high. Balance sheet strength, market positioning and dividend flows remain key.

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