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MARKET INSIGHTS

Botswana Equity

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MARKET INSIGHTS: BOTSWANA EQUITY

- **Tightening liquidity is great news for depositors.**
- **The road to recovery remains uneven and forecast risk high.**
- **We are keeping a keen eye on Core inflation, which has been ticking up at pace with Headline inflation.**

MARKET REVIEW

The DCI was up 4.0% for the quarter on a total return basis. The largest gainers for the quarter were Letshego (40.9%), StanChart (32.3%) and Seedco (22.7%) on a total return basis.

The hospitality sector continues to face significant headwinds as the sector remains virtually closed off to international tourists and events. Cresta recorded a loss of P63.0mn for the full year 2020 as a result of COVID-19 containment measures and the business utilised P47.7mn in cash reserves during the year. However, revenues did show some resilience, falling only 49.0%. With remaining cash reserves at P56.7mn, we estimate that the business can sustain itself for FY2021, after which whether it remains a going concern will be under review. Chobe recorded a full year loss of P67.7mn as revenues declined 92.6%. The business used up P59.4mn in cash reserves; it has P4.3mn in cash and drew down P11.6mn of their P25mn overdraft facility. Chobe's current cash position is more challenging compared to that of Cresta, however, the Group's assets are all unencumbered, allowing for significant room for gearing.

On the property front, NAP interim results showed a 21.2% reduction in earnings due to negative property revaluation adjustments. Operating profit was 3.1% lower than the previous period and total distributions to shareholders increased 11.1% to 13.38t. Turnstar's full year earnings were 30.1% lower because of P12.3mn in rental relief given to tenants, an impairment in Goodwill and negative revaluation adjustments. Distribution per linked unit doubled to 19.0t. Primetime

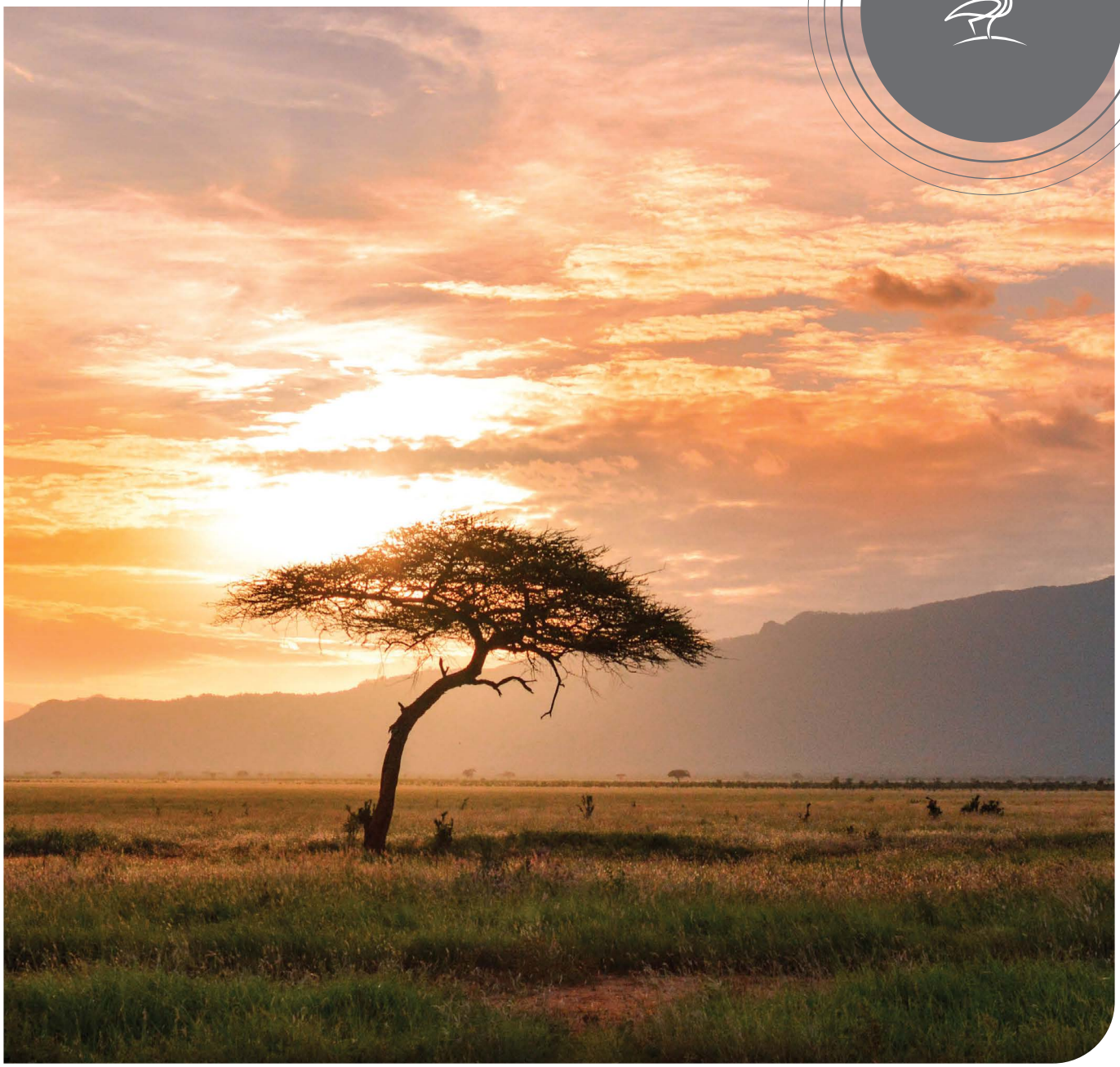
interim earnings showed a decline of 84.3% due to foreign exchange losses of P20.9mn. Distribution per linked unit declined by 16.8% to 5.26t.

Seedco full year earnings came in 52.7% higher due to higher seed demand as weather conditions were favourable. The Company abandoned its acquisition of Seedco Limited after exchange control approval from the Zimbabwean Exchange Control authorities could not be secured.

On the corporate actions front, RDCP announced that it is in negotiations to acquire JSE listed Tower Property Fund at a price of R4.00 per share. This represents a total potential consideration of P980mn funded via P730mn in equity and the balance in debt.

BancABC announced that Atlas Mara Limited had entered into a share purchase agreement with Access Bank PLC in which the latter would acquire 78.15% stake in BancABC Botswana. G4S announced that Allied Universal had successfully acquired G4S PLC and that the transaction would not lead to any structural or operational changes in the business.

BBS held its AGM under challenging circumstances and a number of changes to the Board took place. Five new Directors were appointed to the Board with Mr. Bernard Mzizi appointed as Board Chairman.



MARKET OUTLOOK

Given the monthly Government bond auctions, reduced business activity and government/council/parastatal funding, market liquidity has come under pressure. This is great news for depositors as deposit rates are increasing as banks pay up to attract/retain deposits. The banking sector is on the losing side of this equation due to margin compression on their existing loan books. We are slightly under-weight the sector, with a preference for select names as the drag from COVID-19 control measures take a toll on economic activity.

The uptick in Headline inflation, though negative for consumers already under stress, is positive for the Property and Consumer Staples sectors. We expect the Consumer Staples margin expansion we saw in the last year to continue. On the Property side, inflation linked rental escalations will be positive for an industry that has taken their fair share of negative rental revisions in the last year. Property sector fair value adjustments indicate that commercial properties are under the most pressure, while industrial and retail properties remained more resilient.

Hospitality remains in the doldrums. We are hopeful that the lifting of the State of Public Emergency (SoPE) and roll-out of the vaccination program will fast track the reopening of the sector. Until then, cash reserves are under pressure and another year of marginal occupancies will put players in very difficult positions.

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 (ERTP) 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. We are keeping a keen eye on Core inflation, which has been ticking up at pace with Headline inflation. Balance sheet strength, market positioning and dividend flows remain key.

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