KGORI CAPITAL

INVEST WITH PRIDE

# MARKET INSIGHTS

## Botswana Equity

2021 | Botswana's leading citizen-owned and run Asset Management firm

INVEST WITH PRIDE

Est. 2012

KGORI CAPITAL

Tshegofatso Tlhong, CFA

Portfolio Manager, *Kgori Capital*

# MARKET INSIGHTS: BOTSWANA EQUITY

- **Performance was relatively concentrated with First National Bank Botswana (FNBB) and Letshego driving the gains for the period.**
- **We are keeping a keen eye on Core inflation as a gauge of underlying long-term inflation.**
- **The road to recovery remains uneven and forecast risk high.**

## MARKET REVIEW

### The Domestic Companies Index (DCI) was up 4.9% and 8.6% for the quarter on a price and total return basis, respectively.

The largest gainers for the quarter were FNBB (35.5%), Letshego (34.1%) and Letlole La Rona (LLR) (7.6%) on a total return basis.

On the banking front, FNBB full year earnings per share (EPS) showed a slight decline of 1.5% compared to the previous period. The loan book contracted 7.1%, mainly because of a decrease in retail sector exposure. FNBB declared a total dividend of 55t, 40t of which was a special dividend to unwind excess capital from its balance sheet. Even after this, the bank remains well capitalised with a capital adequacy ratio of 17.9%. BancABC interim EPS remained relatively stable at 12.09t as the recovery in non-interest income made up for the decline in net interest revenue. The Bank received shareholder approval to change its name to Access Bank Botswana Limited. Absa Bank Botswana interim EPS was up 134.9% to 24.99t as the bank took on less impairments than the previous comparable period, leading to a 74.4% decline in expected credit losses. Standard Chartered Botswana (StanChart) interim EPS was 34.8% lower than the previous period due to the non-recurrence of a P48mln write back in the previous comparable period. On a normalised basis, profit before tax was up 22.8%.

Letshego interim EPS registered a 25.2% increase to 13.4t. The performance was driven by a 14.2% increase in operating profits and a two percentage-point improvement in the effective tax rate to 42.3%. Botswana Insurance Holdings Limited (BIHL) interim EPS came in 23.4% lower at 72t despite a 28.3% increase in premium income due to losses on financial assets. Benefits and claims paid were 46.4% higher than the previous period at P1.1bln.

RDC Properties interim earnings increased by 19.0% compared to the previous period. A 4.2% growth in the investment property portfolio and a favourable ZAR exchange rate drove rental revenue up 16.6%. During the quarter, the Company opened a Rights Offer to its linked unit holders and it raised P677.1mln at an offer price of P2.14 per share towards funding its acquisition of Tower Property Fund. The Rights Offer shares will be allotted and listed by early December 2021. FAR Properties full year earnings per linked-unit (EPLU) was flat 0.23t on the back of a 35.7% decline in finance costs and a P12.8mln forex gain. LLR full year EPLU was 9.3% lower than the previous year despite a 36.7% increase in operating profit due to a 71.0% reduction in investment property fair value adjustments.

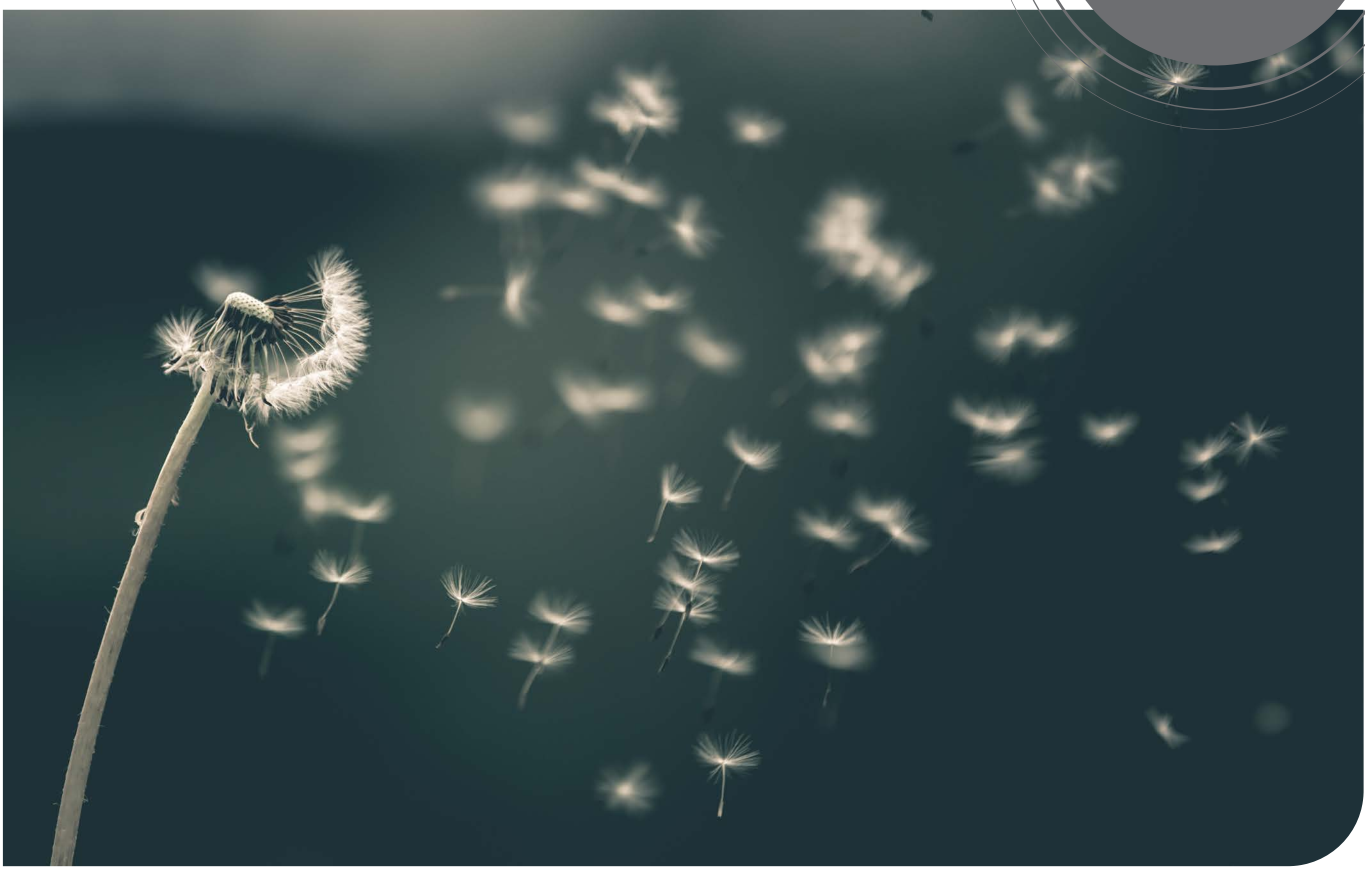
Sefalana full year EPS increased 9.2% to 86.23t as revenues increased 7.8% and gross margins expanded by 60bps. Choppies full year total operations EPS came in at 5.2t from a loss of 25.3t the previous year. Continuing operations EPS declined to 6.5t from 8.1t as revenues slowed and margins contracted. Sechaba interim EPS increased 111.8% to 67.59t as the share of associate profit after tax doubled.

Cresta interim loss per share remained relatively stable at 18.86t. The Company announced that it will be withdrawing from the operations of the Cresta Goldview Hotel in Lusaka, Zambia after a review of the viability of continuing with the lease of the hotel. Chobe released a business update noting that cash reserves were adequate and forward bookings for 2022/2023 were strong.

Botswana Telecommunications Corporation Limited (BTCL) full year EPS showed a 15.9% increase on the back of higher income as consumer uptake of broadband services accelerated. Cost reductions also led to margin expansion over the period. Engen interim replacement cost EPS increased 116.2% to 82.8t due to increased volumes and higher overall oil prices. The Company declared a total dividend of 58.7t, 40t of which is a special dividend. G4S interim EPS declined 57.2% due to declining revenues and contracting gross margins.

Minergy full year loss per share came in at 22.75t as the Company continued to operate below break-even during the financial year. The junior miner has negative equity and a very high debt burden due to funding challenges experienced as it transitioned into an operating company. Minergy is currently in the market looking to raise equity funding.

On the corporate actions front, SeedCo and FAR Properties both made an offer to shareholders to receive their dividend payments in the form of scrip in lieu of cash. 82% of the SeedCo dividend was settled as scrip, as per shareholder election, representing 3.1% of issued share capital.



# MARKET OUTLOOK

Our positioning has not changed from last quarter as the overarching theme still holds true within the constantly evolving landscape. The main conversation now centers on what the optimal exposure to local equities is, given the lifting of the SoPE. Earnings expectations are trending upwards in a market that is cheap relative to historic levels. However, the uneven nature of the recovery and the timing of fiscal support flow are constraints.

Inflation is also a key variable. We are keeping a keen eye on Core inflation as a gauge of underlying long-term inflation. In the month of September, we saw core inflation ticked up 30bps to 7.1%. Imported inflation also remains elevated at 13.6%.

The uptick in inflation, though negative for low-income households, is positive for the Property and Consumer Staples sectors. We expect the Consumer Staples margin expansion to continue, and inflation linked property rental escalations to be positive for the property sector.

Hospitality remains in the doldrums. We are hopeful that the lifting of the SoPE and roll-out of the vaccination programme 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 challenging positions.

We expect real wage growth to turn negative in 2021 and capacity utilisation within the economy to remain subdued as the private sector right-sizes post the lifting of the SoPE. 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.

KGORI CAPITAL

INVEST WITH PRIDE

## General Disclaimer



1st Floor Exponential,
Plot 54351, CBD, Gaborone

PO Box 1253 ABG,
Sebele, Gaborone

**T** +267 3915 990
**F** +267 3915 980
info@kgoricapital.com

**www.kgoricapital.com**

**Directors** KI Melamu, AM Ndzinge, S Noor, MS Sibanda
**Reg No** BW000009888897

Kgori Capital (Pty) Ltd is an authorised financial services provider.