



**MARKET STATUS REPORT FOR THE PERIOD 1 JANUARY TO 31  
DECEMBER 2018**

## **1.0 EXECUTIVE SUMMARY**

The year 2018 has been remarkable in the manner in which the BSEI evolved and with respect to the strategic accomplishments. In particular, the successful completion of demutualisation in record time opened a new chapter of development and created a launch pad for innovative strategic initiatives of the Exchange in the short term and going into the future as outlined in the five-year strategic plan. The gains from this transition are broad-based but the most critical one, being robust governance, will undoubtedly elevate the stature of the market, the business and also the attractiveness of the Exchange to a wider audience especially international investors. In several other fronts, the Exchange continued to register record-breaking achievements. However, when taking some of these achievements into account it is important to bear in mind the environment, characterised by mixed fortunes, in which the world economy, the domestic economy and the capital market were operating.

In the October 2018 World Economic Outlook (WEO) report, the International Monetary Fund (IMF) revised its global growth projections for 2018 down to 3.7%. The report highlighted mixed expansion across advanced economies having adversely affected emerging markets and frontier markets currencies, capital outflows and subdued financial markets prosperity around the world, including Sub-Saharan Africa. Domestically, real GDP contracted by 1.5% in the first quarter of 2018 and grew 2.4% in the second quarter. In the 2018 Budget Speech, the Ministry of Finance and Economic Development (MFED) had projected growth of 5.3% in 2018, slightly above IMF's projection of 4.6%. Notwithstanding, optimism in 2018 emanated mainly from Government's spending objectives as outlined in the 2018 Budget Speech. Against this background, Government has indeed been active in the bond market in order to fund the fiscal.

On the back of historically low levels of economic output listed companies continually emphasized in their annual reports the suppressed trading conditions and low consumption spending as some of the challenges in their trading environment. It was mainly due to these reasons that most entities recorded a decline in earnings that subsequently affected the overall equity market performance from a returns standpoint. With this in mind, the year 2018 indeed ushered significant strategic achievements for the Exchange although there were challenges in our environment some of which were generally systemic. This report provides details of the underlying drivers and the attribution of the performance across the various facets of the market.

## **2.0 MARKET STATISTICS**

Table 1 presents a snapshot of the overall market indicating the number of listed instruments across the three asset classes, the total market value of the

three asset classes and the trading activity in these asset classes in 2018 and 2017.

**Table 1: Market Statistics**

ASSET CLASS		LISTED INSTRUMENTS	MARKET CAP (P'Mn)	TURNOVER (P' Mn)
Equities	2018	36*	413,168.3	1,862.2
Bonds		49	15,038.1	2,222.7
ETFs		3	603.6	280.5
<b>TOTAL</b>		<b>87</b>	<b>428,810.0</b>	<b>4,365.4</b>
Equities	2017	35	418,143.8	2,476.7
Bonds		43	14,266.5	535.8
ETFs		4	629.2	144.7
<b>TOTAL</b>		<b>82</b>	<b>433,039.5</b>	<b>3,157.2</b>

Source: BSE

\*Takes into account BBS Limited, registered on the Serala OTC Board.

Seed Co International Limited (Seed Co) and Banc ABC Botswana listed on the domestic main board on 5<sup>th</sup> October 2018 and 13<sup>th</sup> December 2018 respectively. On the Serala OTC Board, BBS Limited became the first company to register on 3<sup>rd</sup> September 2018. On its day of listing, Seed Co became the 7<sup>th</sup> largest company on the domestic equity main board with a market capitalization of P2.0 Bn whereas Banc ABC was the 12<sup>th</sup> with a market capitalization of P1.5 Bn.

Seedco has a pan-African footprint and BancABC is a subsidiary of a pan-African entity who is also a member of a London Stock Exchange listed entity (Atlas Mara). Seed Co is secondary listed on the Zimbabwean Stock Exchange, whereas Banc ABC's parent company was listed on the BSE from June 2000 until January 2015, over which period it grew from a P145 Mn company to a P1.8 Bn company before it was acquired and delisted by Atlas Mara. Owing to the 3 new entrants, the delisting of African Energy and the unilateral termination of the listing of Blue Financial Services, the total number of companies stood at 36 compared to 35 at the end of 2017.

In terms of the overall tradability and liquidity of listed instruments 2018 was a record year for the Exchange as could be noted from Table 1. A total turnover of P4.4 Bn was recorded in 2018 compared to P3.2 Bn in 2017. From inception the BSE has primarily been an equity market but since 2010 significant effort has been invested in promoting the awareness, liquidity and vibrancy of the bond market as well as diversifying the product offering by listing Exchange Traded Funds (ETFs).

Table 2 provides a glimpse of the extent of capital raising on the Exchange in 2018. A total of P3.2 Bn was raised locally in the bond market compared to P2.3 Bn in 2017, an improvement of 39.1%. On the equity market, P296.8 Mn was raised as BancABC was the only company that undertook a public offer

in 2018 compared to P575 Mn raised through public offers in 2017. Seed Co listed by introduction.

**Table 2: Capital Raising in 2018**

ASSET CLASS	SECURITY NAME	AMOUNT RAISED (P' MN)
Bonds	Government Bonds	2,513.0
	Corporate Bonds	687.53
		<b>3,200.53</b>
Equity	Seed Co Int. Ltd	-
	Banc ABC Botswana	296.8
		<b>296.8</b>
<b>TOTAL RAISED</b>		<b>3,497.33</b>

Source: BSE

### 3.0 EQUITY MARKET PERFORMANCE

#### 3.1 Equity Market Statistics

Majority of the listed companies recorded reduced earnings resulting in share price declines, but to the delight of the investors they maintained attractive dividend payouts (dividend yield of 5.5% versus 5.1% in 2017). In 2018, the Domestic Company Index (DCI) which shows the aggregate changes in market value on the basis of share prices declined by 11.4% compared to a decline of 5.8% in 2017. In 2018, 8 companies (compared to 12 in 2017) registered positive price changes, 14 (compared to 11 in 2017) registered negative price movements and 4 (compared to 1 in 2017) closed the year with share prices back to their 2017 levels.

Inarguably, the impact of Choppies Enterprise Limited, arising from its failure to submit audited financials on time, on the decline in the total domestic market capitalization and subsequently the DCI cannot be ignored. On 28<sup>th</sup> September 2018, Choppies lost 76.3% of its value when the share price plummeted from P1.69 to P0.40 in a single day. On that day, its market capitalization slumped from P2.2 Bn to P521.5 Mn. Due to this, Choppies contributed 41.2% to the decline in the DCI. In other words Choppies contributed negative 4.7 percentage points to the negative 11.4% decline in the DCI in 2018. The movement of the DCI is illustrated in Figure 1 along with the Domestic Companies Total Return Index (DCTRI) which takes into account the dividend payouts.

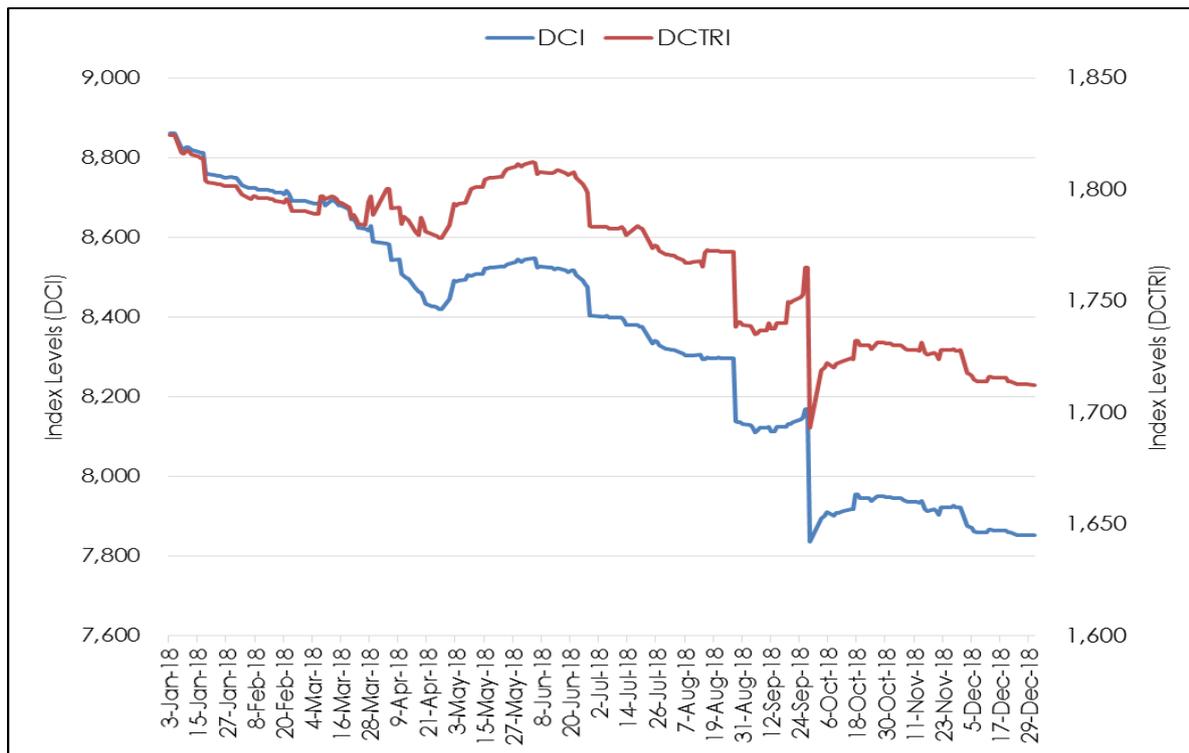
**Table 3: Equity Market Statistics**

	INDICES PERFORMANCE					
	2017	2018	Q1'18	Q2'18	Q3'18	Q4'18
DCI	<b>8,860.1</b>	<b>7,851.9</b>	8,589.6	8,402.7	7,837.8	7,851.9
% Change	<b>(5.8)</b>	<b>(11.4)</b>	(3.1)	(2.2)	(6.7)	0.2
FCI	<b>1,574.9</b>	<b>1,570.3</b>	1,574.2	1,571.1	1,572.0	1,570.3
% Change	<b>(0.7)</b>	<b>(0.3)</b>	0.0	(0.2)	0.1	(0.1)
	TRADING ACTIVITY (P'Mn)					
	2017	2018	Q1'18	Q2'18	Q3'18	Q4'18
Turnover	<b>2,476.7</b>	<b>1,862.2</b>	236.2	848.5	146.6	631.0
Volume	<b>775.0</b>	<b>582.5</b>	100.7	310.9	59.1	111.8
Avg. Daily Turnover	<b>10.0</b>	<b>7.5</b>	3.8	13.9	2.4	10.2
	MARKET CAPITALIZATION (P'Mn)					
	2017	2018	Q1'18	Q2'18	Q3'18	Q4'18
Domestic Companies	<b>44,408.1</b>	<b>42,421.0</b>	43,079.0	42,097.9	39,266.3	42,421.0
Foreign Companies	<b>373,736.7</b>	<b>370,747.3</b>	373,526.0	373,087.3	371,135.4	370,747.3
Total	<b>418,143.8</b>	<b>413,168.3</b>	416,605.1	415,185.3	410,401.7	413,168.3

As per Table 3, turnover levels dropped by 25% in 2018 relative to 2017. The Exchange attributes this experience mainly to 3 events that occurred in the year and also in the prior year. These are the introduction of the minimum brokerage commission of 60 basis points (0.60%) in April 2016, the reallocation of investment mandates in 2018 by some of the largest pension funds in the country following termination of investment management contracts at 2 of the largest local asset managers and lastly the decline in share prices.

Given the dominance of institutional investors (both local and international) in our market, the increase in transaction costs was definitely a sensitive issue particularly coinciding with a slowdown in corporate earnings as it effectively eroded their returns. Perhaps the suspension of Choppies could be an additional factor, given its liquidity in the market. Prior to its suspension from trading, Choppies was the 4<sup>th</sup> most traded company on the BSE.

**Figure 1: Performance of the DCI and DCTRI**



Source: BSE

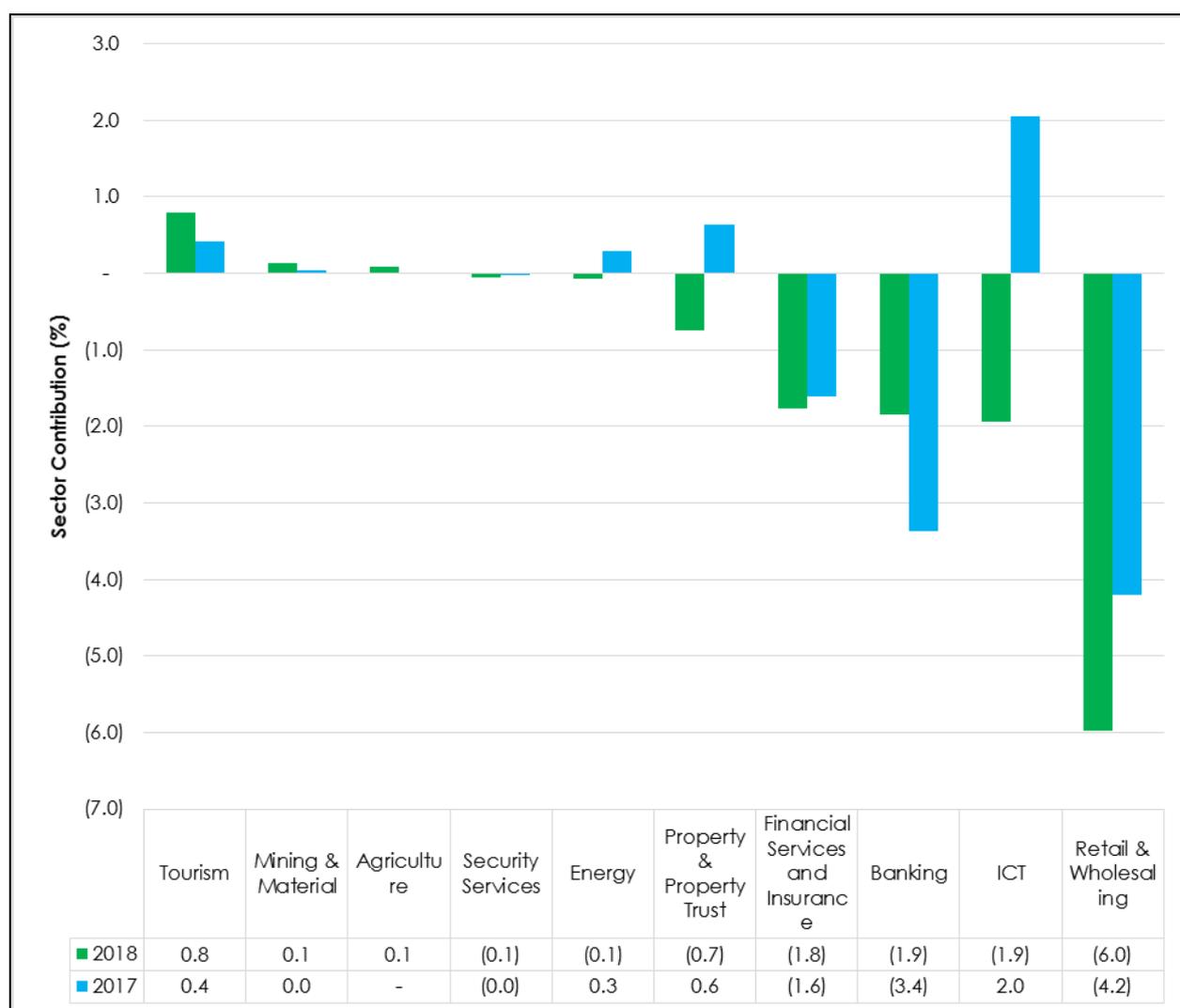
\*The circled portion shows the impact of Choppies on the DCI and DCTRI, as it slumped by 786.3% in one day. The DCTRI depreciated by 6.1% compared to the DCI's depreciation of 11.4%.

### 3.2 Sector Contributions to Performance of the DCI

In 2018, the Exchange added Agriculture a new sector with the entry of SeedCo, taking the number of sectors from 9 in 2017 to 10. This was a welcome development as it reinforces the diversity of the bourse in terms of the risk-return offerings and the exposure of local investors to opportunities emanating from Agriculture driven economies in Africa.

Our analysis in terms of the decline in the DCI by 11.4% points out that this was attributable to the negative performance of 7 of the 10 sectors represented in the DCI as shown in Figure 2. In aggregate, the 7 sectors contributed -12.4 percentage points to the depreciation of the DCI. The sectors that contributed positively to the DCI performance were the Tourism, Mining & Materials and Agriculture sectors with an aggregate contribution of +1.0 percentage point.

**Figure 2: Sector Contributions to Performance of the DCI**



Source: BSE

### 3.3 Sector Contributions to Liquidity

Table 4 presents the liquidity metrics across the various sectors on the BSE. Notably domestic counters continue to be the most traded relative to foreign counters, having contributed 89.5% to the total equity turnover on the Exchange in 2018. On the domestic board, the Retail & Wholesaling sector was the most traded followed by the Financial Services sector with contributions of 1.30% and 1.15% respectively in 2018.

The Foreign Mining Sector is the biggest in value, but it is also very illiquid. In this sector is Anglo American Plc, which is listed on the Johannesburg Stock Exchange (JSE) and the London Stock Exchange (LSE). Anglo accounted for 92.9% of the foreign equity market capitalization and for 83.3% of the total equity market capitalization. However, Anglo hardly trades on the BSE and this is mainly because the company listed by introduction in 2001 and did not appoint a local Transfer Secretary and therefore has never issued shares or

maintained a share registry in Botswana. This has made trading in Anglo shares highly inefficient. One of the achievements of 2018 was that the CSDB successfully courted Anglo and subsequently Anglo appointed the CSDB as the Transfer Secretary for its shares in Botswana. This will enable easy movement of shares between the Botswana, London and South African share registries for one to trade the stock in any of these jurisdictions. Anglo is liquid on the JSE and LSE and should it reach similar trading levels locally, it could be a significant boost to the BSE's trading revenue.

**Table 4: Sector Contributions to Liquidity: 2017 and 2018**

Sector	2017		2018	
	Turnover/Avg Market Cap (%) <sup>Note 1</sup>	Shares Traded/Avg Shares Listed (%) <sup>Note 2</sup>	Turnover/Avg Market Cap (%) <sup>Note 1</sup>	Shares Traded/Avg Shares Listed (%) <sup>Note 2</sup>
<b>DOMESTIC BOARD</b>				
Retail & Wholesaling	1.33	4.63	1.30	3.33
Financial Services	1.14	7.63	1.15	8.96
Property	1.58	11.08	0.84	4.90
Banking	0.76	3.44	0.27	1.02
Tourism	0.10	1.46	0.07	3.14
ICT	0.14	4.76	0.07	2.53
Energy	0.08	2.40	0.03	0.72
Agriculture	-	-	0.11	2.21
Security Services	0.01	1.36	0.00	0.03
Mining	0.00	0.05	0.00	0.48
<b>FOREIGN BOARD</b>				
Financial Services	0.000	0.00	0.000	0.00
Mining	0.003	0.10	0.000	0.01
Retail	0.008	2.12	0.052	12.07

Source: BSE

Note 1: Computed separately for the domestic & foreign board.

Note 2: Computed separately for each sector

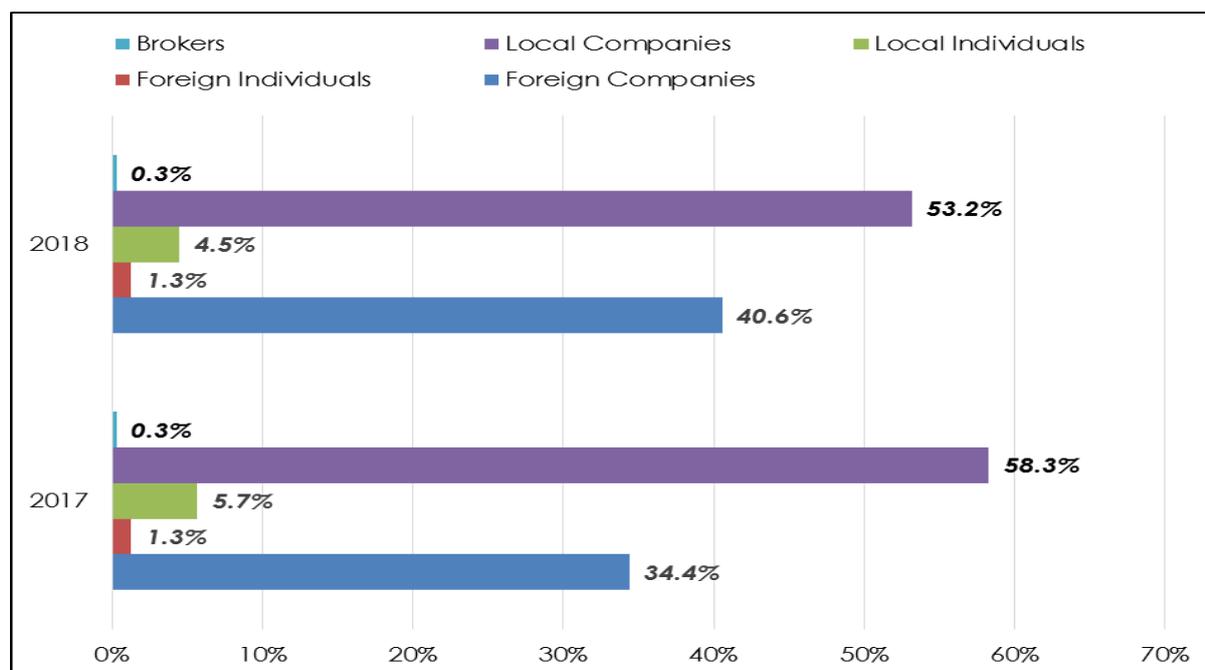
### 3.4 Investor Contribution to Equity Turnover

As presented in Figure 3, local institutional investors (local companies) dominated trading activity in 2018 and accounted for 53.2% of the total equity turnover whereas foreign companies accounted for 40.6% of the total equity turnover in 2018. Further, local companies were the only net buyers of equities in 2018 whereas the rest of the investor categories were net sellers.

Local individuals registered a decrease from 5.7% to 4.5% between 2017 and 2018. In monetary terms, local individuals' trades in 2018 amounted to P83.8 Mn compared to P141.2 Mn in 2017. In a period where household bank credit continued to expand signalling increased pressure on household income and consumption, this is a commendable participation level by local households

as it exceeds the 5-year average of 4.1%. On the back of heightened outreach initiatives, the Exchange closed the year with 91,311 investor accounts from 80,551 investors in the prior year. This improvement demonstrates increased awareness of the stock market by Botswana which is essential for promoting citizen economic empowerment.

**Figure 3: Investor Contribution to Turnover: 2017 and 2018**



Source: BSE

## 4.0 BOND MARKET PERFORMANCE

### 4.1 Bond Market Returns

The BSE Bond Index Series (BBIS) is a series of 4 bond indices; Composite Bond Index (BBI), Government Bond Index (GovI), Corporate Bond Index (Corpl) and Composite Fixed Rate Bond Index (BBIFixed). The indices aggregate the performance of the bond market in terms of the daily returns arising from price movements and interest accrued. The first 3 indices in the series were launched in 2013 whereas the BBIFixed was introduced in April 2018. Also in April 2018, the calculation methodology of the indices was changed from equally weighted to nominal-amount-in-issue weighted. These developments were on account of the overall demand for a more representative methodology and a more diversified menu of indices following consultations with market participants early in the year.

In 2018, the BBI appreciated by 3.2% whereas the GovI and Corpl registered returns of 3.5% and 3.3% respectively. The BBIFixed returned 2.6% since its introduction in April 2018. Inflation averaged 3.2% in 2018, meaning that listed bonds provided purchasing power protection, save for the fixed rate bonds.

Inflation in the year predominantly remained within the objective range of 3%-6% whereas interest rates were held constant throughout the year.

## 4.2 Bond Market Turnover

As illustrated in Table 5, activity in the bond market increased exponentially in 2018. The value of bonds traded increased over four times from P535.6 Mn in 2017 to P2,222.7 Mn in 2018. Government bonds continued to dominate liquidity of the market accounting for 97.9% of total turnover. The BSE registered a record number of new bond listings as 10 new bonds came on board compared to 8 in 2017. This cushioned the impact of the 4 bond delistings in the year.

Even though Government bonds accounted for the majority of trading activity corporate bonds dominated in terms of the quantity of bonds listed, a phenomenon that in most African markets is the reverse. At sector level, the profile of the bond market at the end of 2018 was such that Government bonds accounted for 63.8% of market capitalization, Quasi-Government (1.3%), Parastatals (7.9%), Corporates (25.3%) and Supranational (1.7%).

**Table 5: Analysis of Bond Market Performance**

Category	2017	2018
	<b>LIQUIDITY (P'MN)</b>	
Government Bonds	484.9	2,176.8
Corporate Bonds <sup>Note 1</sup>	50.8	45.9
<b>TOTAL</b>	<b>535.6</b>	<b>2,222.7</b>
	<b>MARKET CAPITALIZATION ( P' BN)</b>	
Government Bonds	9.1	9.6
Corporate Bonds	5.2	5.5
<b>TOTAL</b>	<b>14.3</b>	<b>15.0</b>
	<b>NUMBER OF BONDS LISTED</b>	
Government Bonds	5	7
Corporate Bonds	38	42
<b>TOTAL</b>	<b>43</b>	<b>49</b>

Source: BSE

Note 1: Comprises of Quasi-Government, Parastatals, Corporate and Supranational bonds

## 4. THE EXCHANGE TRADED FUND (ETF) MARKET

The 4 ETFs listed on the Exchange showed varying trends in performance in the year under review. Commodity ETFs being the NewGold and the NewPlat ETFs pulled the biggest surprises given the unfavourable performance of their physical bullions in global markets due to a stronger US dollar in 2018. Turnover in the NewGold ETF increased 3 times whereas the NewPlat ETF traded a record amount, surpassing the historic levels it has ever traded in any given year on the BSE.

On 21 August 2018, Coreshares Equally Weighted Top 40 (EWT40) ETF was delisted voluntarily from the BSE citing reduced participation by key institutional investors. In our analysis, this reduced participation ensued after the investment manager, Coreshares, delayed to fulfil a redemption in one instance in 2017 which we believe sent a negative message about their financial strength and competency as market-makers. ETFs are always liquid and the market-maker must be in a position to fulfil any redemption or purchase at any point in time. This explains the continually low levels of trades in the Coreshares ETF in 2018.

**Table 6: Trading Activity of the NewGold ETF: 2017 and 2018**<sup>Note 1</sup>

Indicator	NEWGOLD		CORESHARES		NEWPLAT	
	2017	2018	2017	2018	2017	2018
Turnover (P'Mn)	10.0	33.7	121.6	0.420	13.2	246.4
Units Traded	80,300	275,340	3,112,021	10,889	137,018	2,751,911
Unit Price (Pula)	119.50	126.40	41.00	32.99	93.10	86.90
Market Cap (P'Mn)	352.53	372.88	29.80	23.98	242.06	225.94

Source: BSE

Note 1: NewFunds ILBI ETF remained untraded in both years

## 5.0 COMPARISON WITH SELECTED MARKETS

The year 2018 was a challenging year for emerging and frontier markets. At the 2018 African Securities Exchanges Association (ASEA) annual conference, majority of African exchanges highlighted reduced turnover levels, a general decline in market returns and difficulty in attracting companies to list. The positive economic developments in the US have also contributed to capital outflows from the continent, particularly by international investors, in search of better yields in the US and this spurred volatility in currencies. Political instability, credit downgrades, volatile commodity prices and the negative economic outlooks continued to exert pressure on Sub-Saharan economies and financial markets. Table 7 presents the performance of selected stock exchanges in Africa.

**Table 7: Comparative Performance with Other Stock Exchanges**

Stock Exchange	Index Change (%)		Turnover (\$'Mn)		FX Changes (%)
	2017	2018	2017	2018	2017 - 2018
Botswana Stock Exchange	(5.8)	(11.4)	250.9	169.3	(8.0)
Johannesburg Stock Exchange	17.5	(11.4)	413,920.0	399,838.3	(15.5)
Stock Exchange of Mauritius	21.8	0.7	447.1	428.8	(2.1)
Nairobi Stock Exchange	28.4%	(18.0)	1,663.5	1,723.9	1.7
The Nigerian Stock Exchange	46.5	(19.6)	3,785.4	3,174.1	(1.3)
Malawi Stock Exchange	62.1%	34.2%	18.9	66.9	(5.0)

Source: BSE, BoB, WFE, Bloomberg, Respective Stock Exchanges, [www.poundsterlinglive.com](http://www.poundsterlinglive.com)