



BOTSWANA STOCK EXCHANGE

**MARKET STATUS REPORT FOR PERIOD ENDED 30 SEPTEMBER
2017**

1.0 EQUITY MARKET PERFORMANCE

1.1 Analysis of Equity Indices

Generally, the annual reports published by listed companies have suggested that the economic environment in Botswana has been very challenging this year compared to the other years. The sentiment is also reflected in the Bank of Botswana's Business Expectations survey (March 2017) in which local businesses projected a subdued economic growth of 1.9% in 2017, despite the 4.2% growth anticipated in the 2017 Budget Speech. On their part, companies cited the reduced level of spending as a major contributor to the difficult business environment.

Similarly, the performance of the equity market on a year to date basis (1 January to 30 September), has reflected the slowdown in corporate earnings although on a comparative basis the Domestic Company Index (DCI) has performed better relative to the same period in 2016. In 2017, the DCI has depreciated by 5.0% in comparison to a depreciation of 7.6% during the same period in 2016.

The Foreign Company Index (FCI) has depreciated by 0.5% on a year to date basis relative to an appreciation of 1.8% over the same period in 2016.

A synopsis of the performance of equity indices is included in Figure 1.

Figure 1: Market Performance Statistics

| | Quarter 1 2017 | Quarter 2 2017 | Quarter 3 2017 | 1 Jan to 30 Sept 2017 |
|--|-------------------|-------------------|-------------------|--------------------------|
| Index Performance | | | | |
| DCI | 9,225.22 | 9,244.23 | 8,930.36 | 8,930.36 |
| % Change | (1.9) | 0.2 | (3.4) | (5.0) |
| FCI | 1,583.11 | 1,581.91 | 1,577.61 | 1,577.61 |
| % Change | (0.2) | (0.1) | (0.3) | (0.5) |
| Liquidity | | | | |
| Turnover (P' Mn) | 532.8 | 371.1 | 1,240.5 | 2,144.4 |
| Average Daily Turnover (P' Mn) | 8.5 | 6.1 | 20.0 | 11.5 |
| No. of Shares Traded (Mn) | 173.9 | 117.5 | 364.2 | 655.6 |
| Market Capitalization | | | | |
| Domestic Companies (P' Mn) | 45,619.24 | 46,255.18 | 44,741.47 | 44,741.47 |
| Foreign Companies (P' Mn) | 374,110.26 | 374,307.94 | 372,272.08 | 372,272.08 |
| Total (P' Mn) | 419,729.50 | 420,547.85 | 417,013.55 | 417,013.55 |
| Market Indicators <small>Note 1</small> | | | | |
| P/E Ratio (times) | 12.4 | 13.9 | 13.2 | 13.2 |
| Dividend Yield (%) | 4.6 | 4.5 | 5.0 | 5.0 |
| Price/Book Value (times) | 2.0 | 1.9 | 1.8 | 1.8 |

Note 1: Earnings, Dividends and Book Value based on the last audited financial statements
Source: BSE

1.2 Analysis of Equity Turnover

As can be noted from Figure 2, trading activity on the Exchange has been in line with levels recorded in 2016 over a similar period. However, there was a slight increase in 2017 with turnover amounting to P2,144.4 Mn compared to P2,138.7 Mn. On average, trading activity amounted to P11.5 Mn a day in both periods in 2017 and 2017. Trading volumes amounted 655.6 Mn shares and 653.1 Mn shares in 2017 and 2016 respectively.

Figure 2: Equity Turnover on the BSE

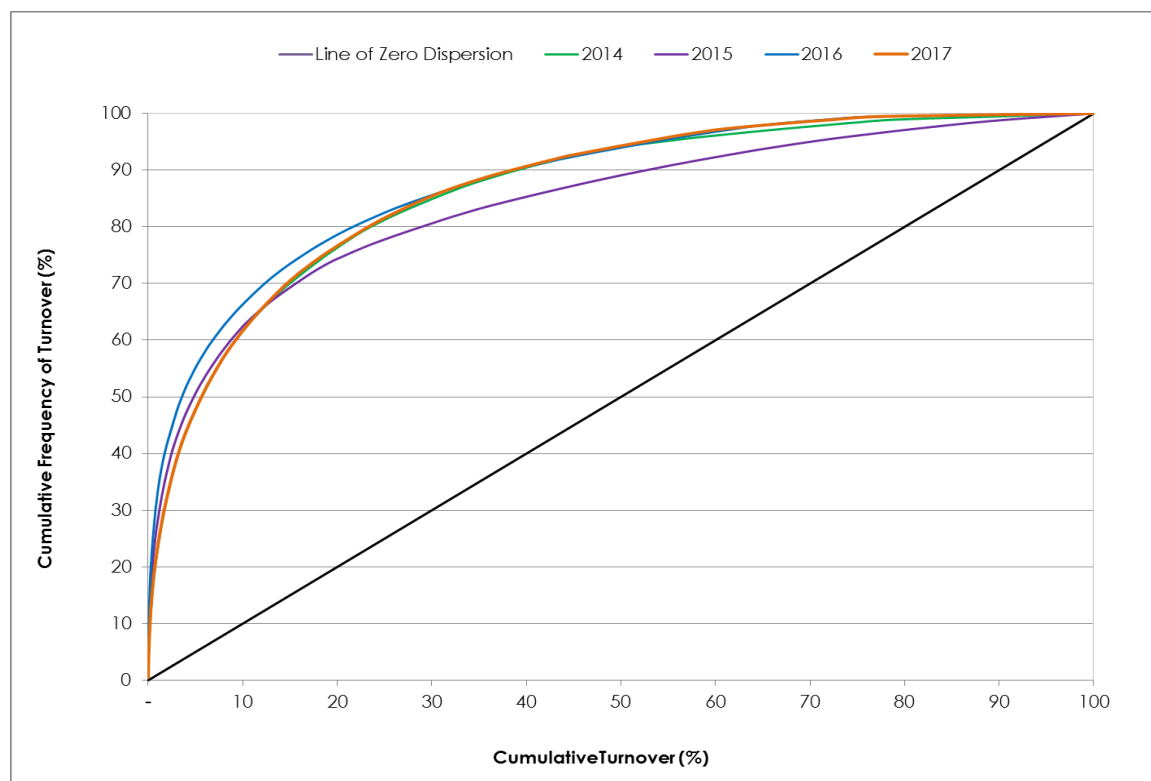
| Liquidity ^{Note} | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------------|---------|---------|---------|---------|---------|
| Turnover (P'Mn) | 1,445.3 | 1,597.3 | 2,209.6 | 2,138.7 | 2,144.4 |
| Average Daily Turnover | 7.8 | 8.6 | 11.9 | 11.5 | 11.5 |
| No. of Shares Traded (Mn) | 463.5 | 429.7 | 546.8 | 653.1 | 655.6 |

Note: Year to end of Quarter 3

Source: BSE

It can be noted from the Lorenz Curve in Figure 3 that the stability of turnover had improved in 2017 in comparison with 2016. Further, 2017 recorded a slightly lower coefficient of variation of turnover of 3.3 compared to the 3.4 recorded in 2016 and indication that turnover was broad based across various counters in 2017 compared to 2016.

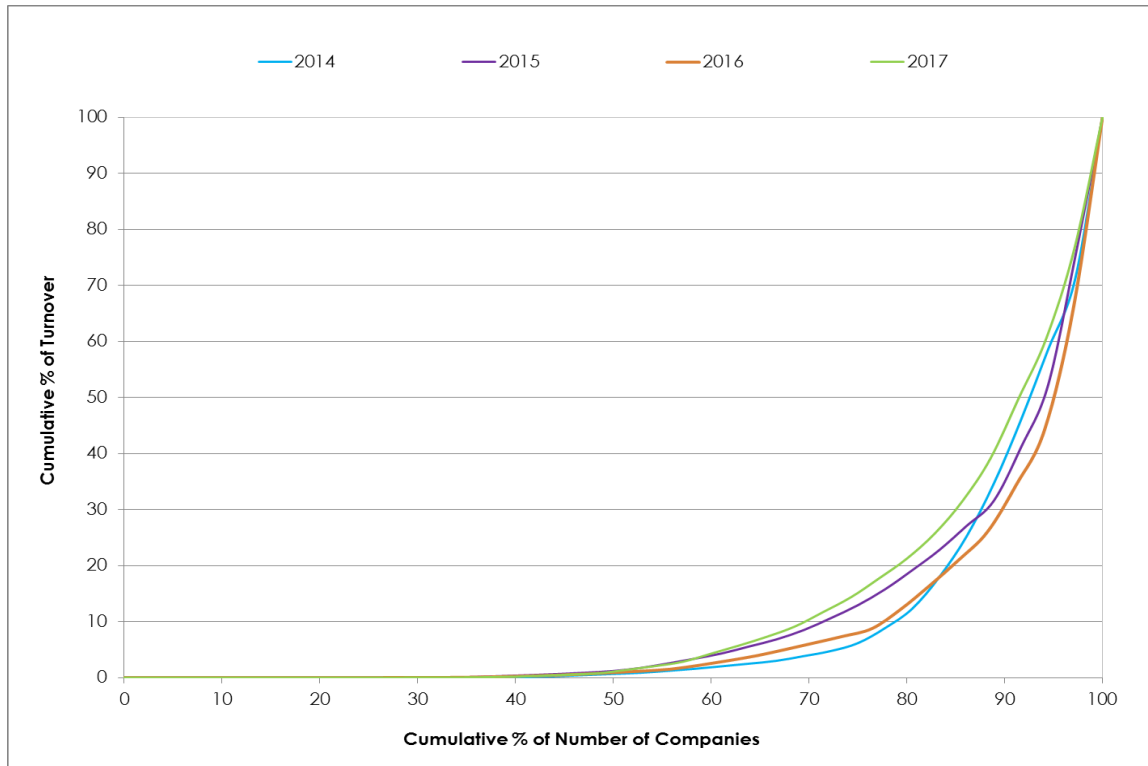
Figure 3: Stability of Equity Turnover (A): 1 January to 30 September of each year



Source: BSE

The Lorenz Curve in Figure 4 demonstrates lesser turnover concentration in the market during 2017 compared to the same period in the previous three years, showing that a relatively higher number of companies accounted for the turnover recorded over this period.

Figure 4: Stability of Equity Turnover (B): 1 January to 30 September of each year



Source: BSE

To substantiate this deduction, the top 3 traded companies in terms of value, on a year to date basis were New African Properties (P500.9 Mn), Sechaba (P342.3 Mn) and Letshego (P232.6 Mn) and these accounted for 50.2% of total turnover during the period to 30 September 2017. During the same period in 2016, the top 3 traded companies accounted to 65.6% of turnover.

2.0 INVESTOR CONTRIBUTION TO EQUITY TURNOVER

In Quarter 3 of 2017, the contribution to turnover by local individuals increased to 4.5% from 4.2% in Quarter 3 of 2016. Conversely, the contribution to turnover of local companies decreased to 55.4% in Quarter 3 of 2017 relative to 63.7% in the same period in 2016.

During the period 1 January to 30 September 2017, local companies contributed 56.5% of total turnover compared to 4.8% in the contributed by local individuals. This is evidence that there is potential to increase retail investor participation in the market.

Figure 5: Quarterly Investor Contribution to Equity Turnover (%): 2016 and 2017

| Investor Category | 2016 | | | 2017 | | |
|---------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| | Quarter 1 | Quarter 2 | Quarter 3 | Quarter 1 | Quarter 2 | Quarter 3 |
| Foreign Companies | 43.9 | 40.4 | 29.8 | 30.5 | 35.1 | 39.6 |
| Foreign Individuals | 0.7 | 1.3 | 1.8 | 2.2 | 2.5 | 0.3 |
| Local Individuals | 3.6 | 3.6 | 4.2 | 4.8 | 7.4 | 4.5 |
| Local Companies | 51.6 | 54.5 | 63.7 | 62.2 | 54.6 | 55.4 |
| Brokers | 0.2 | 0.2 | 0.5 | 0.2 | 0.4 | 0.1 |
| TOTAL | 100.0 | 100.0 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: CSD Botswana

3.0 COMPARATIVE PERFORMANCE OF THE BSE WITH SELECTED MARKETS

Figure 6: Comparative Performance with other Indices: 1 January to 30 September 2017

| Index | Index Change (%) | |
|-----------------|---------------------|-----------------|
| | Domestic Currencies | US Dollar Terms |
| JSE ALSI | 9.7 | 10.8 |
| SEMDEX | 23.3 | 26.3 |
| DCI | (5.0) | (1.9) |

Source: BoB, Bloomberg, BSE

JSE ALSI: Johannesburg Stock Exchange All Share Index

SEMDEX: Stock Exchange of Mauritius Equity Index

In the year to date period, the Pula strengthened by 3.3% against the US Dollar and this transformed into the DCI's depreciation of 1.9% in US Dollar terms as can be seen in Figure 5. In Mauritius and South Africa, the SEMDEX and the JSE ALSI respectively benefited from the appreciation of the domestic currencies against the US Dollar as the Mauritian Rupee and the South African Rand both appreciated by 2.4% and 0.9%, respectively, against the US Dollar.

4.0 PERFORMANCE OF EXCHANGE TRADED FUNDS (ETFs)

During the period to 30 September 2017, the value traded on the ETF market was reduced compared to the same period in 2016. The volume of ETF units traded was 3,110,299 in 2017 while the turnover registered was P133.2 Mn. Over the same period in 2016, the number of units traded amounted to 1,261,432 yielding a turnover of P161.0 Mn.

The BSE has in recent years been consistently improving the awareness of ETFs since their introduction in 2010. Consequently, investors continue to recognise the importance of ETFs with respect to portfolio diversification especially in periods where the equities market is subdued. The increased levels of activity we are seeing now in ETFs are also important to attract issuers of ETFs. Following several engagements dating back to 2014, one pan-African issuer

of ETFs has demonstrated interest in listing their ETF on the BSE and the process is still in the early stage. Once listed, the ETF will be a good addition given the pan-African exposure it would give local investors.

Figure 7 summarises the comparable ETF performance for 2016 and 2017 on a year to date basis. The NewFunds Inflation-Linked Bond ETF, which tracks Inflation-Linked Bonds of South African Government, has not recorded any trades in the period under review in both years as investors continue to approach South African sovereign credit with caution.

Figure 7: Performance of ETFs on the BSE

| | 1 Jan – 30 September 2016 | | | 1 Jan – 30 September 2017 | | |
|------------------|------------------------------|---------|------------|------------------------------|---------|------------|
| Indicator | NewGold | NewPlat | CoreShares | NewGold | NewPlat | CoreShares |
| Turnover (P' Mn) | 128,991 | 31,508 | 0,508 | 7,663 | 4,010 | 121,487 |
| Units Traded | 954,630 | 293,428 | 13,374 | 62,109 | 42,018 | 3,110,299 |
| Price Change | 14.2% | 9.5% | 2.3% | 7.1% | (6.8%) | 4.3% |

Source: BSE

5.0 BOND MARKET PERFORMANCE

As illustrated in Figure 8, activity in the bond market has improved compared to the same period in 2016. The value of bonds traded during the year-to-date period was P273.0 Mn in comparison to P240.6 Mn traded during the same period in 2016.

Bank of Botswana (BoB), on behalf of Government, held three bond auctions during the period under review. In the bond auction on 3 March, 2017 additional tranches of the BW005 (P100 Mn allotted), BW007 (P42 Mn allotted), BW008 (P150 Mn allotted) and BW012 (P100 Mn allotted) bonds and a Treasury Bill of P770 Mn were offered.

At the 2 June, 2017 Government bond auction, during which P901 Mn was raised, four bonds were re-opened and a P500 Mn Treasury Bill was issued. The bonds that re-opened were BW005 (P50 Mn allotted), BW007 (P26 Mn allotted), BW008 (P183 Mn allotted) and BW012 (P142 Mn allotted).

On 1 September 2017, yet another T-Bill was issued along with additional tranches of five Government bonds. The T-Bill offered amounted to P500 Mn and it was fully allotted. The reopening of the five Government bonds BW005 (P50 Mn), BW007 (P100 Mn), BW008 (P100 Mn), BW011 (P150 Mn) and BW012 (P100 Mn). All of the re-opened bonds were oversubscribed and subsequently fully allotted.

On the corporate bonds side, there were five new corporate bonds issued so far in 2017. These were GetBuck's GBL001 (P50 Mn) and GBL002 (P21.8 Mn), SBBL066 (P140 Mn) and SBBL067 (P60 Mn) issued by Stanbic Bank Botswana Limited and Botswana Development Corporation Limited's BDCL002 (P131.5 Mn).

On the back of the Government bond auctions and new issuances of the corporate bonds, the market capitalization of listed bonds increased to P12.9 Bn compared to P11.6 Bn in same period in 2016.

At present there are 43 bonds listed on the BSE, 5 of which are Government bonds. The limited number of Government bonds is a great concern with respect to maintaining a robust risk free curve and the viability of the existing 3 BSE bond indices. 3 of the listed Government bonds are fairly medium to long term dated bonds and the other 2 are maturing in 2018 and 2020. These wide gaps in the yield curve negatively impact the pricing of assets such as corporate bonds that ordinarily reference risk free assets and this brings distortions in pricing and compromises the liquidity and the appetite for debt instruments. It is in the best interest of the capital market at large for Government to maintain presence across various maturity profiles on a consistent basis.

Figure 8: Analysis of the Bond Market Performance

| | 1 Jan – 30 September 2016 | 1 Jan – 30 September 2017 |
|---------------------------------------|------------------------------|------------------------------|
| Value Traded (P'Mn) | | |
| Government Bonds | 203.6 | 268.4 |
| Corporate Bonds | 36.9 | 4.5 |
| TOTAL | 240.6 | 273.0 |
| Market Capitalisation (P' Bn) | | |
| Government Bonds | 7.8 | 8.8 |
| Corporate Bonds | 3.8 | 4.1 |
| TOTAL | 11.6 | 12.9 |
| Number of Bonds Listed | | |
| Government Bonds | 6 | 5 |
| Corporate Bonds | 33 | 38 |
| TOTAL | 39 | 43 |

Source: BSE

The BoB's Monetary Policy Committee (MPC) sat three times so far in the year: on 28 February 2017, 20 June 2017 and 22 August 2017. On all occasions the MPC left the Bank rate unchanged at 5.5% in view of the positive outlook for price stability. Inflation rose steadily from 3.0% in December 2016 to 3.4% in August 2017, which is still within the Bank's 3.0–6.0% objective range. A low

inflationary environment helps the bond coupons maintain purchasing power.