Understanding the Botswana Stock Exchange

Investing in shares with Stockbrokers Botswana

Introduction
Many people do not consider an investment in shares as an option for their medium or long-term investment plans. However, shares have proven to be a very sound and dependable asset to hold over the long term. This is an overview of what shares are and how individuals can benefit from investing in the stock exchange.

History
Stockbrokers Botswana began its operation in June 1989 and conducted the informal Botswana Share Market until the formal introduction of the Botswana Stock Exchange (BSE) in 1994. Stockbrokers Botswana is a member of the BSE in good standing and is governed by the rules and regulations of the Exchange.

What is a share?
Owning a share means you legally own a portion of that company and thus have certain rights. Specifically, you are entitled to dividends if and when declared by the company; elect directors of the company; and vote on certain transactions that the company wishes to undertake. You also take a proportional share of the company's net assets on liquidation. Shares are also known as stocks or equity.

What is the Stock Exchange?
A stock exchange is a forum for buyers and sellers of listed shares to come together, discover the price at which each is willing to trade, and ensure that the trade is executed efficiently. Sellers of shares "offer" their shares at a price and buyers "bid" for those shares at a price. Where the price is one at which a seller will sell and a buyer will buy, the shares change hands and the price and volume is recorded by the Stock Exchange. This is called “price discovery” and ensures that both buyer and seller achieve the best possible price prevailing at the time of the trade. It is worth noting though that only authorized dealers are allowed on the trading floor of the Exchange.

How do shares come to be listed on the Stock Exchange?
Companies become publicly owned when they offer a percentage of their shares for sale to the public. It is only at this initial issuance of shares that one can directly buy from the company concerned. To assist potential investors in deciding whether to buy shares or not in an initial issue, detailed information about companies going public is made available in a document known as a prospectus. The prospectus will give the public information on the relevant company, its activities, financial performance both historic and future, and other information required by the BSE regulations sufficient to fully disclose to a potential buyer all the information they require to make an informed investment decision.

After the initial issue, shares are traded between individuals who buy and sell shares that they personally hold. This trading takes place through the BSE and all trades on the BSE are
transacted by brokers who are members of the BSE and who act as agents for the buyers and sellers.

The stock exchange gives companies the opportunity to sell a part of their ownership (or business) to the public. The money they raise from this sale is used to expand their business or finance any major project that they may wish to undertake in an effort to make them more profitable. This form of financing is usually cheaper than borrowing from the bank. The stock exchange helps companies to grow and increase their operations, which in turn expands the country's economy and adds to both employment and general cash flow through out the economy. The stock exchange is good for small investors because it gives them the opportunity to buy into big companies and thereby share in their profits. An active and profitable stock exchange also attracts foreign investors who help boost the country's economy with their investment by bringing in their much-needed foreign exchange, and by also facilitating a movement in the share prices.

**Which companies are listed on the Botswana Stock Exchange**

Domestic Companies are those with their primary listing on the Botswana Stock Exchange. Certain companies are listed on more than one stock exchange, depending on where they have operations and whether they want to have secondary listings. The foreign stocks listed on the BSE are those with a primary listing outside of Botswana.

**Domestic Companies**

- **ABC Holdings Ltd** - a regional bank
- **Barclays Bank of Botswana Ltd** - a commercial bank
- **Botswana Insurance Holding Ltd** - a holding company whose subsidiaries are Botswana Life Insurance Ltd. and Botswana Insurance Fund Management
- **Chobe Holdings Ltd** - a Botswana tourism company
- **Choppies** – Retailer in Fast Moving Consumer Goods
- **Engen Botswana Ltd** - an oil company
- **First National Bank of Botswana** - a commercial bank
- **FSG Ltd** - a consortium of funeral services providers
- **Furniture Mart Ltd** - a furniture retail company
- **G4S** - a holding company in the security business
- **Imara** – an asset manager with stock broking and corporate advisory
- **Letlole** – a variable rate loan stock company
- **Letshego** - a micro-financing company
- **NAP** – Variable Rate Loan Stock Company
- **Olympia Capital Corporation Ltd** – an industrial holding company whose subsidiaries are Kalahari Floor Tiles and Botswana Fine Industrial Chemicals.
- **Primetime Property Holdings Limited** - a variable rate loan stock company
- **RDC Properties Ltd** - a variable rate loan property development company
- **RPC Data Ltd** - a value adding software distribution, development and maintenance company
- **Sechaba Brewery Holdings Ltd** - a holding company with the beverage divisions Kgalagadi Breweries Ltd and Botswana Breweries Ltd
• Sefalana Holdings Ltd - a holding company for investments in properties, wholesaling and SefCash.
• Standard Chartered Bank of Botswana Ltd - a commercial bank
• Turnstar Holdings Ltd - a variable rate loan stock property investment company

Foreign / Dual Listed Companies
• Anglo American plc - a global mining company
• A-Cap Resources – A uranium exploration company in Botswana, listed on the Venture Capital Board
• African Diamonds plc - a diamond exploration company in Africa, listed on the Venture Capital Board
• African Copper – a copper exploration company with projects in Botswana, listed on the venture capital board
• Aviva- a coal exploration company listed on the Venture capital board
• Blue Financial Services Botswana- a micro-financing company
• CIC Energy – a coal exploration company listed on Venture Capital Board
• DiamonEx - a diamond exploration company in Africa, listed on the Venture Capital Board
• Discovery Metals – a copper and nickel exploration company listed on the Venture Capital Board
• Investec Bank Ltd – an international commercial bank and asset manager.

Exchange Traded Funds (ETF’s)
• Betta Beta – An index tracking fund for the RSA Equally Weighted Top 40 Index
• New Gold – An index that tracks the price of gold bullion.

Advantages and disadvantages of Investing in shares
The main advantages of investing in shares are:
• realizing capital gains when selling the shares if the price on the selling date is higher that the price on the purchase date
• Earning dividends, generally twice per annum
• Some commercial banks regard shares as a form of security for loans.
• Shares are also a form of storing wealth.

The main disadvantage on investing in shares is that: the value of the shares may drop due to economic downturn, company specific factors, industrial action or simply when there are more sellers than there are buyers. If a person sells shares when the price is lower than that at which they bought them, they might make a loss. Note however that the investor might have earned numerous dividends before selling. If the investor is not in a hurry to sell, they may wait for the shares to gain value before selling and thus realizing a profit.

What does it cost to buy shares?
In addition to the cost of the shares, the associated dealing costs are made up of broker commissions and handling fees. Brokerage commissions are charged on the total value of the
purchase (or sale) and they are on a sliding scale: P0 - P50,000.00: 1.85%; P50,000.00 - P100,000.00: 1.5%; P100,000.00 - P500,000.00: 1.25%; P500,000.00 - P1,000,000.00: 0.85%; trades over P1,000,000.00 - 0.75% (negotiable). These commissions are inclusive of commission payable to the Botswana Stock Exchange (0.15%) and the CSD fees (0.1%). Stock exchange handling fees are P15 per purchase (not per share) and P10 per sale note. Botswana residents are levied 10% VAT on the commissions and handling fees.

**General advice to potential investors**

Shares are an investment, and offer you another way of saving - and possibly earning, like money in the bank, or owning cattle or property. But over time, shares have outperformed inflation as well as cash in the bank, owning cattle or owning property. The success of the shares depends on the economic performance of listed companies and the country as whole. With the rapid growth of Botswana's economy, most shares issued in Botswana have increased in value from their original issue price, and while no-one can guarantee that this will continue, it is a very good indication of the wisdom of investing in the Botswana Stock Exchange.

Before making any investment though, it is a very good idea to get advice from either your bank manager or your stockbroker. Once you have bought shares you should closely watch the performance of your company as quoted in the Weekly Sheet Share Information chart that is issued by Stockbrokers Botswana Ltd, the Botswana Stock Exchange and printed in the local newspapers. If the company you have invested in goes through hard times the value of your shares may fall, but if the company prospers, so will you.

**Understanding the Stockbrokers Botswana Price Sheet**

The best source of information on the securities listed on the Botswana Stock Exchange is a price sheet, such as the one compiled by Stockbrokers Botswana each week. A sheet similar to the one below is published every week in the business section of most newspapers showing all the prices as at the close of business the previous Friday. The very latest prices can be obtained at any point in time by phoning the offices of Stockbrokers Botswana.

Below is a sample of a weekly report by Stockbrokers Botswana. The sheet gives important information on the respective companies in addition to the prices. This information is published to assist existing and potential investors to understand the securities.

All prices are quoted in thebe (t).
## Stockbrokers Botswana

**Week ending:** 9-Jan-09

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### Terminologies:

- **Domestic sector totals and weighted averages:**
  - **130,088**
  - **4.0**
  - **8.6**
  - **11.7**
  - **27,202**
  - **2,316.6**

- **Foreign:**
  - **190,085**
  - **4.8**
  - **8.6**
  - **11.7**
  - **27,202**
  - **2,216.6**

- **All companies totals and weighted averages:**
  - **279,633**
  - **5.6**
  - **20.3**
  - **4.9**
  - **294,026**
  - **59,824.9**

*Denotes a Venture Capital Listing

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**Understanding the Botswana Stock Exchange**

Page 5
HIGH
The highest price the stock has achieved in the last twelve months

LOW
The lowest price the stock has achieved in the last twelve months.

BUY
The price at which a buyer is willing to pay for the share.

SELL
The price at which a seller is willing to sell shares for.

SALES
This is the price that was finally agreed on for the shares. Both the buyer and the seller get the same price which they both accept and at which the transactions take place - this is the current share price. It may be that in a particular week, no shares of the particular company traded, in which case this column will be blank. It may also be that the shares traded at different prices during the course of the week.

LAST
This indicates the price at which the shares were last traded.

VOL. SHARES (VOLUME OF SHARES)
This is the number of shares that have changed hands during the week.

NET.DIV (DIVIDENDS)
The payment per share made to shareholders out of a company’s annual profits (after the company has paid tax). This dividend is paid by the Company minus the withholding tax (of 15% of the gross dividend) to the shareholder. Dividends are generally paid twice a year to shareholders, after interim and final financial results have been published. We calculate the total dividends paid to shareholders for the last 12 months which, where the last published results were interim results, is known as a “rolling” dividend.

DIVIDEND YIELD
This is the return as a percentage of the current purchase price, and is worked out by dividing the annual dividend by the current “buy” price. Whereas the actual dividend paid will not vary from week to week, the yield may if the price changes. Dividends are a cash realization for the shareholders and thus the dividend yield is cash that holders of the shares have received from the Company over the past 12 months. Generally where the dividend yield is high it signifies that either the Company is generating and paying cash to its shareholders or that the share price is low, compared to historic dividends paid. Note that the historic dividend yield is not necessarily a good indicator of future dividends – past dividends may include a one-off special dividend or the profitability of the company may be worse, restricting its ability to pay dividends in the future.

EARNINGS YIELD
This is the earning of each share as a percentage of the current “buy” price. This is the inverse of the PE Ratio (explained below). As with the dividend yield, this yield will vary with the price of the
share, whereas the actual earnings will not change except when the Company publishes its financial results.

P/E RATIO (PRICE EARNINGS RATIO)
This gives an indication of the current performance of the share. It is essentially the number of years’ earnings required to equal the current share price and is worked out by dividing the current price of the share by its after tax earnings per share over the past year. The higher the ratio the more expensive the share appears to be, the lower the ratio the cheaper the share would appear. This is a very intuitive measure of relative value – where one share trades of a very different PER to a comparable share, investors should ask why.

MARKET CAP (Pm) (MARKET CAPITALISATION)
This is a way of measuring the total worth of a company. It is worked out by multiplying the total number of shares in issue by the “last” price of the share. The market capitalization is significant in the “weighted” ratios where the larger companies have a greater weighting attached to their performance for the index as a whole. It is expressed in millions of Pula.

EPS (EARNINGS PER SHARE)
This is after tax profit of a company divided by the number of shares issued. As with a dividend, this only changes when the Company publishes results and represents the profits available to the shareholders of the company from which dividends are paid and reinvestments into the operational business made.

PAT (PROFIT AFTER TAX)
This is the actual profit earned by the respective company over the past year, expressed in millions of Pula.

Having mastered some of the financial terminology, we answer some of the more common questions asked.

Is a share of 100t more expensive than a share of 60t?
No not necessarily. Whilst a share of 100t may cost more, it may pay higher dividends than the 60t share, have higher earnings per share or be on a lower Price Earnings ratio. This is why the valuation ratios of earnings and dividend yields and PER’s important in assessing the relative value of each listed stock.

How do I buy shares through Stockbrokers Botswana?
As an individual you can simply give Stockbrokers Botswana a call or visit our offices and speak to one of our brokers who will assist you in placing your order. We will need your personal details such as name, address, phone number etc.

Processing is done the same day provided the share of your choice is available on the market. A cash payment or cheque should be made to Stockbrokers Botswana Limited. The latter method is the most advisable method of payment for both security and convenience reasons. Upon the purchase of your shares, a contract note will be posted (or faxed) to you giving details of the number of shares bought and the total cost of the purchase.
How do I sell my shares through Stockbrokers Botswana?
You will have to bring in the original share certificate to our office, whereby you will then fill out a transfer form and instruct us to sell the shares. The shares must be valid and you must advise us of your details, proof of ownership and settlement instructions.

Upon the sale of your shares, a contract note will be posted (or faxed) to you giving details of the number of shares sold and the total amount due to you. Settlement takes 7 days from the date of sale and once the shares have been sold, you may collect a settlement cheque from our office or have it mailed out to you.

Is my investment guaranteed?
There are no guarantees of performance on the Stock Exchange. Share prices rise and fall depending on a number of factors. That is why we recommend that any investment into shares should be part of a carefully considered overall investment strategy with appropriate asset allocation. Shares should not be considered as a short-term investment (under 1 year) and particularly in an instance where there is a need for the capital in the near future.

Where Stockbrokers Botswana is and who do I contact?
Stockbrokers Botswana is located in offices on the Ground floor of Letshego Place, Plot 22 Khama Crescent, Gaborone.

Our postal address is Private Bag 00113, Gaborone.

Our telephone and fax numbers are (Tel) 3957900, (Cell) 72500150 (Fax) 3957901

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