



**NOTES FROM THE ROAD—
TRAVELING THE FRONTIER MARKETS**
Botswana

BOTSWANA—DIAMONDS ARE NOT FOREVER!

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Botswana remains one of Africa's most politically stable countries. We only have a small position within the Frontier Markets Equity Strategy and the Middle East & Africa Equity Strategy, but there is potential within this market, and the team used the trip to visit a number of companies and industry experts.

KEY TAKEAWAYS

- Botswana's economy is not fully out of the woods yet, but there is definite improvement. The clear economic potential, combined with relative political stability, creates a supportive backdrop for investing in the near term. Longer term, it is clear that the economy needs a structural shift away from diamonds (due to run out by 2050).
- The government is projecting 4.1% GDP growth for 2017, although corporate expectations were coming in slightly under this—between 3.5% and 4%. Inflation is under control at around 3% (with a central bank target of between 3%–6%). A couple of companies we met with saw room for a small cut in interest rates this year to support growth given the steady inflationary backdrop.
- Some companies also mentioned that politics are becoming more competitive, and there is potential for the Botswana Democratic Party to be replaced for the first time following the 2019 or 2024 elections.
- In our meetings with retailers, there was a strong view that consumer purse strings remain relatively constrained given the tough economic backdrop.

A CLOSER LOOK

Botswana has had a tricky two years due to its heavy reliance on commodities and an extended drought. Encouragingly, there has been a definite improvement as the mining sector has recovered. Inflation appears under control for now at around 3%, but food prices will need to be monitored due to the drought.

In terms of the companies we visited, we met with Choppies (retail), Sefalana (retail), FNB Botswana (financials), Letshego (financials), Afena Capital (investment), and Turnstar (property) and with the chairmen of both Furnmart (retail) and New African Properties (property).

Both retail meetings offered up the view that consumer purse strings remain relatively constrained given the tougher economic backdrop. Competition in the sector is clearly intense, with Choppies being particularly aggressive on pricing, leading to a price war and a recent reduction in margins across the sector. Partly as a result of the competitive nature of the local market, both Choppies and Sefalana have looked to further markets

for growth. Choppies is now present in seven African countries. Choppies' more aggressive expansion model is notably damaging its bottom line in the near term, but the CFO expects that this will improve as additional stores are opened and the economies of scale come through.

In the financial space, FNB Botswana was a particularly interesting meeting. There appears to be strong potential upside from cheaper funding, driven by retail deposit growth in particular (currently retail deposits are only 19% of total deposits but grew 47% year over year last year). With a strong management team and decent strategic positioning, it seems like a potential long-term play and is one we intend to do more work on.

Letshego has been a successful provider of unsecured consumer loans to civil servants. To expand the business, it is now shifting to a deposit-taking model to reduce its cost of funding (which makes economic sense), and it is also trying to penetrate the SME microfinance sector. In our meeting, company management also discussed expanding further across the continent to capitalize on its first-mover advantage in an industry that is short on significant barriers to entry. All combined, we believe this will take a lot of effort and Letshego may be trying to achieve too much at once, but we will continue to closely monitor the situation.

The other meetings we had were helpful to offer broader macroeconomic color, but didn't uncover any particularly appealing opportunities. Overall, it was a meaningful trip, with both risks and rewards to consider.

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