



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

BOTSWANA—DIAMONDS ARE NOT FOREVER!

AUGUST 2017

Oliver Bell

Portfolio Manager, Frontier Markets Equity Strategy, Middle East & Africa Equity Strategy

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.

The specific securities identified and described above do not necessarily represent securities purchased or sold by T. Rowe Price. This information is not intended to be a recommendation to take any particular investment action and is subject to change. No assumptions should be made that the securities identified and discussed above were or will be profitable.

Important Information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, and prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date noted on the material and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

Australia—Issued in Australia by T. Rowe Price International Ltd. (ABN 84 104 852 191), Level 50, Governor Phillip Tower, 1 Farrer Place, Suite 50B, Sydney, NSW 2000, Australia. T. Rowe Price International Ltd. is exempt from the requirement to hold an Australian financial services licence in respect of the financial services it provides in Australia. T. Rowe Price International Ltd. is authorised and regulated by the UK Financial Conduct Authority under UK laws, which differ from Australian laws. For Wholesale Clients only.

Canada—Issued in Canada by T. Rowe Price (Canada), Inc. T. Rowe Price (Canada), Inc.'s investment management services are only available to Accredited Investors as defined under National Instrument 45-106. T. Rowe Price (Canada), Inc. enters into written delegation agreements with affiliates to provide investment management services.

DIFC—Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd. This material is communicated on behalf of T. Rowe Price International Ltd. by its representative office which is regulated by the Dubai Financial Services Authority. For Professional Clients only.

EEA—Issued in the European Economic Area by T. Rowe Price International Ltd., 60 Queen Victoria Street, London EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

Hong Kong—Issued in Hong Kong by T. Rowe Price Hong Kong Limited, 21/F, Jardine House, 1 Connaught Place, Central, Hong Kong. T. Rowe Price Hong Kong Limited is licensed and regulated by the Securities & Futures Commission. For Professional Investors only.

Singapore—Issued in Singapore by T. Rowe Price Singapore Private Ltd., No. 501 Orchard Rd, #10-02 Wheelock Place, Singapore 238880. T. Rowe Price Singapore Private Ltd. is licensed and regulated by the Monetary Authority of Singapore. For Institutional and Accredited Investors only.

Switzerland—Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

USA—Issued in the USA by T. Rowe Price Associates, Inc., 100 East Pratt Street, Baltimore, MD, 21202, which is regulated by the U.S. Securities and Exchange Commission. For Institutional Investors only.

T. ROWE PRICE, INVEST WITH CONFIDENCE and the Bighorn Sheep design are, collectively and/or apart, trademarks or registered trademarks of T. Rowe Price Group, Inc.

201708-241964