

**Dar es salaam Stock
Exchange**
EQUITY RESEARCH REPORT

31st May 2021



HIGHLIGHTS

Recommendation	BUY
Closing Market Price on the 28th May 2021	1,200
Valuation	1,287
Upside potential	7%
Dividend Yield - 2019	4%
PE (Dec 2020)	4.47
P/BV (2020)	0.84
Shares outstanding	23,824,020
Net Profit (Dec 2020) - Unaudited	4,690,452,144
Year End	Dec
Market capitalization (TZS Billions)	29
Exchange rate: USD/TZS (Average)- BOT 30.5.2021	2,299

We update our coverage on DSE with a **BUY** recommendation in the **Medium Term**.

DSE is the third stock exchange in Africa to demutualize and self list after Johannesburg Stock Exchange and Nairobi Securities Exchange

Investment Positives:

- Deep Acceleration program is expected to generate IPO and listing candidates companies in the medium and long term.
- Government initiatives to stimulate economic activities in the country are expected to have positive effect in the private sector (and eventually) will drive demand for securities which in turn will increase trading volume at the exchange.
- Integration and harmonization of the Eastern Africa market is expected to increase the size of the market which will eventually increase the number of listings and trading volumes.

Risks

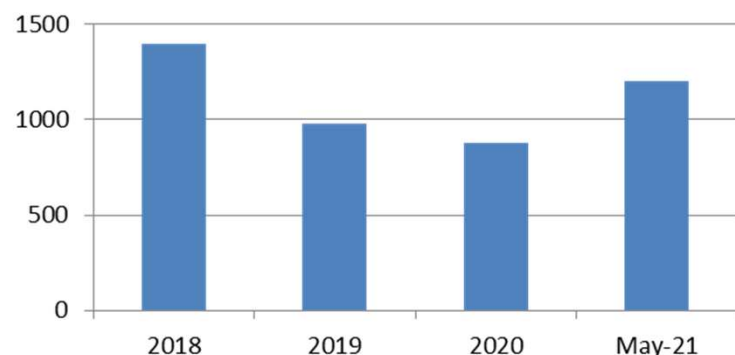
- The effects of Covid 19 are expected to continue to have negative effect on demand of the financial instruments at the exchange which eventually might affect its earnings.
- Exposure to macroeconomic shocks: The company's revenues are vulnerable to adverse macroeconomic shocks that may affect both equity and bonds listing and trading.

Valuation update and recommendation

Two methods have been used to value the company arriving at the value of Tshs 1,287 per share which is 7 % higher compared to the closing price on the 28th May 2021

Based on our analysis, review and valuation, our recommendation is **BUY** in the medium term.

Price per share



Economic overview

Projected Economic Indicators

%	2020 a	2021b	2022b	2023b	2024b	2025b
GDP	1.9	3.8	5.1	5.8	6.0	6.3
Private consumption	1.1	3.5	3.3	4.1	4.2	4.5
Government consumption	7.5	5.0	5.0	3.0	2.0	3.0
Gross fixed investment	(4.0)	5.9	7.5	8.5	8.6	8.6
Exports of goods & services	(3.0)	4.0	6.1	6.3	7.0	8.0
Imports of goods & services	(11.0)	8.5	7.0	6.3	6.0	7.0
Domestic demand	(0.5)	4.5	5.2	5.8	5.9	6.2
Agriculture	2.5	3.0	3.3	4.0	3.8	4.0
Industry	1.2	4.3	5.0	6.1	7.3	7.7
Services	(1.5)	2.7	4.6	5.9	6.6	6.6

Source: Global Insights)

Economic Overview

GDP

- ▶ We estimate that Tanzania will have avoided a recession in 2020, with full-year real GDP growth of 1.9%, but this still represents a historical low. Assuming that the coronavirus is brought under control globally in 2021, growth will rebound to 3.8%, before accelerating to an average of 5.6% a year in 2022-24 and to 6.3% in 2025.

Inflation

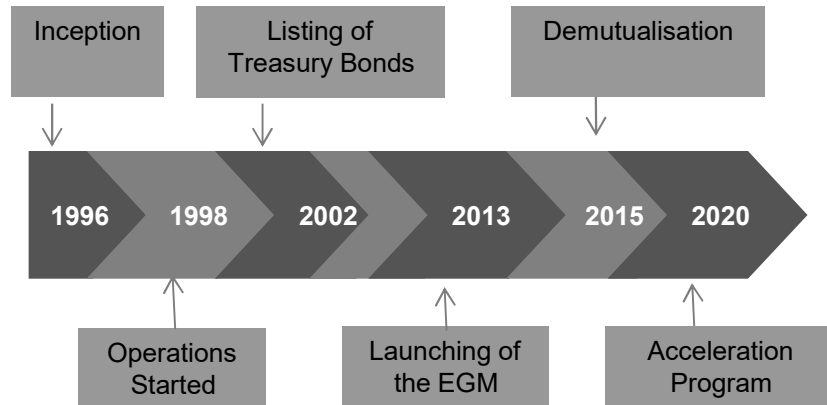
- ▶ After edging down marginally to an estimated 3.3% in 2020 as higher domestic prices for food and essential goods offset lower global oil prices, inflation will pick up in 2021-23. This will be driven by a recovery in demand and by higher global crude oil prices. Nonetheless, inflation will remain below the central bank's medium-term target of 5%, peaking at 4.7% in 2023. The rate will moderate in 2024-25, to an average of 4.2% a year, as oil prices fall.

Exchange rates (Tshs:USD)

- ▶ Following a modest pace of depreciation in 2020, facilitated in part by the BoT's intervention in the foreign-exchange market, particularly in recent months, we expect the shilling to weaken more sharply in 2021. Depreciation will continue in 2022-25 owing to Tanzania's persistent current-account deficit and the BoT's tolerance of greater exchange-rate flexibility. We expect the shilling to weaken from an estimated average of TSh2,294:US\$1 in 2020 to an average of TSh2,499:US\$1 in 2025.

Business overview

Key Milestones



Equity Market

- ▶ As of 28 May 2021 there were 28 listed in the stock exchange. Out of the 28 listed companies, 6 a cross listed from Nairobi Securities Exchange.

Bond Market

- ▶ As of 28 May 2021, there was 7 corporate bonds listed in the Dar es Salaam Stock Exchange.

Source: DSE & Optima Analysis

Background and history to the business

- ▶ The Dar es Salaam Stock Exchange (DSE) was incorporated in September 1996 as a private company limited by guarantee and having a share capital.
- ▶ The formation of the DSE followed the enactment of the CMSA Act (Cap 79) and the establishment of Capital Market and Securities Authority.

Principal Activities

- ▶ The principal activity of the DSE PLC is to provide a securities market to investors who intend to invest in a listed companies . It provides a platform that assist companies to raise capital through the issuance of equities and debt securities.
- ▶ DSE has core lines of business namely
 - Listing
 - Trading/Transaction
 - Clearing
 - Settlement
 - Other stock market products and services

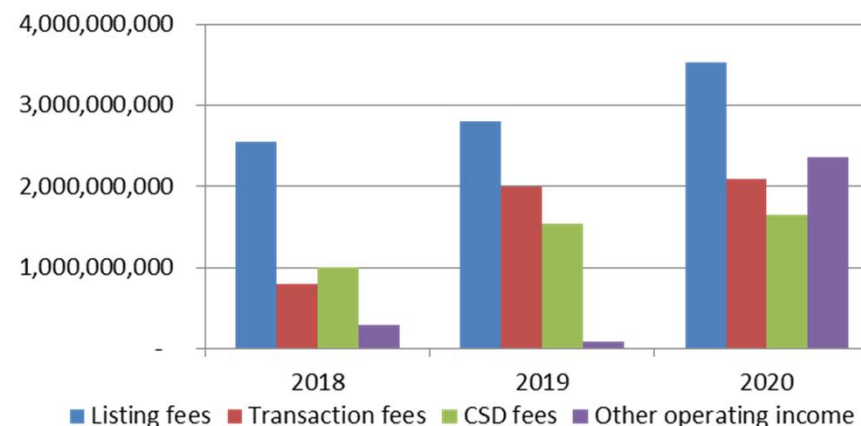
Shareholding

- ▶ The company is publicly owned company. The government of Tanzania owns 15% of the DSE shares.

Financial Highlights – Income Statement

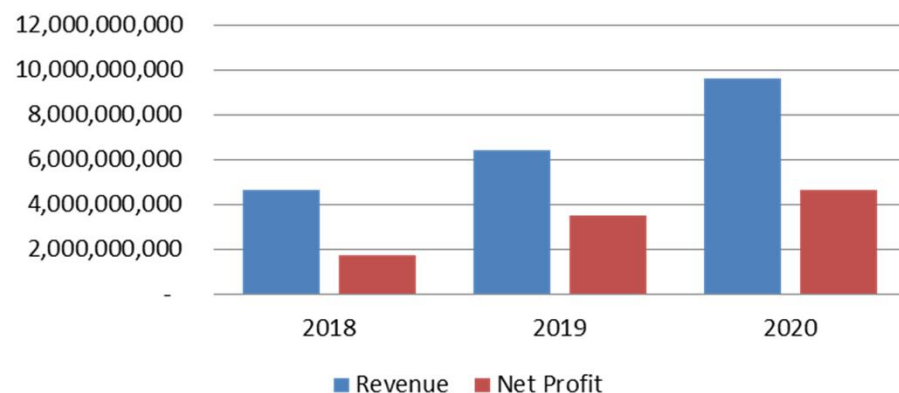
TZS	2018	2019	2020	CAGR%
Revenue	4,639,823,000	6,408,667,000	9,629,349,125	44%
Other revenue	416,345,000	344,236,000	666,644,354	27%
TOTAL REVENUE	5,056,168,000	6,752,903,000	10,295,993,479	43%
Staff Costs	2,255,124,000	2,628,436,000	3,033,756,547	16%
Administrative Expenses	577,140,000	659,249,000	626,821,383	4%
Operating costs	1,762,037,000	1,416,951,000	1,791,404,750	1%
TOTAL EXPENSES	4,594,301,000	4,704,636,000	5,451,982,680	9%
Operating Profit	461,867,000	2,048,267,000	4,844,010,799	224%
Finance Income	1,369,981,000	1,638,052,000	-	-100%
PROFIT BEFORE TAX	1,831,848,000	3,686,319,000	4,844,010,799	63%
Tax provision	(74,160,000)	(138,339,000)	(153,558,655)	44%
PROFIT AFTER TAX	1,757,688,000	3,547,980,000	4,690,452,144	63%

The company reported growth in revenue and profitability despite economic challenges caused by Covid 19 Pandemic



Source: DSE Audited Financials and 2020 Unaudited accounts

Annual Performance



Revenue growth in 2020 (compared to 2019) was driven by :

- Listing fee – 18% CAGR
- Other Income (mainly from investment Income)- 185% CAGR
- Transaction fees - 62%
- CSD – 28%

Historic financial information – Balance Sheet

TZS	2018	2019	Jun-20	CAGR
Non- Current Assets				
PPE	406,923,000	259,354,000	172,693,803	-35%
Non current prepayment	2,819,584,000	2,819,584,000	2,819,584,220	0%
Intangibile Assets	103,672,000	86,726,000	53,729,365	-28%
Leasehold land	463,957,000	331,000,000	190,021,238	-36%
Deferred Tax Asset	66,000	4,744,000	4,743,517	748%
	3,794,202,000	3,501,408,000	3,240,772,143	-8%
Current Assets				
Trade receivables	597,056,000	1,018,408,000	2,841,582,063	118%
Prepayments	116,070,000	162,167,000	1,569,793,832	268%
Cash & Bank	17,742,408,000	19,876,097,000	20,558,042,234	8%
	18,455,534,000	21,056,672,000	24,969,418,129	16%
TOTAL ASSETS	22,249,736,000	24,558,080,000	28,210,190,272	13%
EQUITY				
Equity	9,529,608,000	9,529,608,000	9,529,608,000	0%
Sharepremium	1,850,374,000	1,850,374,000	1,850,374,351	0%
Retained earnings	7,773,326,000	10,445,695,000	13,359,923,681	31%
Car loan Fund	35,000,000	35,000,000	35,000,000	0%
Revaluations reserves	331,195,000	198,753,000	151,655,000	-32%
TOTAL EQUITY	19,519,503,000	22,059,430,000	24,926,561,032	13%
Non Current Liabilities				
Capital Grants	1,337,308,000	1,102,316,000	1,047,590,757	-11%
	1,337,308,000	1,102,316,000	1,047,590,757	-11%
Current Liabilities				
Contract liabilities	566,033,000	682,942,000	916,234,379	27%
Borrowing	150,000,000	-	-	-100%
Current income tax	42,290,000	6,642,000	93,558,660	49%
Trade creditors	634,602,000	706,750,000	1,226,245,444	39%
	1,392,925,000	1,396,334,000	2,236,038,483	27%
TOTAL LIABILITIES	2,730,233,000	2,498,650,000	3,283,629,240	10%
TOTAL LIABILITIES	22,249,736,000	24,558,080,000	28,210,190,272	13%

Source: DSE Audited Financials and 12 months results (2020)- unaudited

Assets

- ▶ Overall the balance sheet grew by 13% CAGR from 2018 to 2020.
- ▶ Non current Assets shrunk by 8% CAGR from 2018 to 2020 mainly due to depreciation of assets
- ▶ Current assets was the main driver of the balance sheet. It grew by 16% from 2018 to 2020.

Liabilities

- ▶ Contract liabilities and Tax were the factors behind the current liabilities growth which was 39% CAGR from 2018 to 2020

Ratios Analysis

Investment Ratios	2018	2019	2020
Price per share (End of the	1400	980	880
Dividend (Tshs per share)	58	36.9	74.46
EPS	74	149	197
P/E	18.98	6.58	4.47
P/BV	1.71	1.06	0.84
Dividend Yield	4%	4%	8%
Book Value per share	819	926	1,046

Value Drivers and Risks

Investment Positives:

- ▶ Deep Acceleration program is expected to generate IPO and listing candidates companies in the medium and long term. This is a six month program with the aim of enhancing the capacity of Start-ups, Small and Medium Enterprises (SMEs). The program aims at connecting companies to different sources businesses capital financiers i.e. Bank borrowing, Private Placements (Business Angels), Crowdfunding, Venture Capital Public Offerings, etc. It is expected that eventually the companies will use DSE as an exit route after the expire of the investment tenure.
- ▶ Government initiatives by the 6th regime are expected to have positive effect in the private sector and eventually) will drive demand for securities which in turn will increase trading volume at the exchange.
- ▶ The DSE as the only licensed and operating stock exchange in Tanzania has significant first mover advantage: As the only securities exchange in Tanzania, the Dar es Salaam stock Exchange is uniquely positioned to take advantage of the growth in the Tanzanian economy. Tanzanian companies looking to raise equity capital will do so on the DSE. As a result, the exchange will grow larger further encouraging even more companies to list on the bourse.
- ▶ The Integration and harmonization of the eastern Africa market championed the east African community secretariat under the capital market infrastructure project will increase the market size which will result in more listing and trade activities at the DES due to the increased investor base The DSE as the first licensed and operating stock exchange in Tanzania has significant advantage.

Risks

The effects of Covid 19 are expected to continue to have negative effect on demand of the financial instruments at the exchange which eventually might affect its earnings.

Exposure to macroeconomic shocks: The company's revenues are vulnerable to adverse macroeconomic shocks that may affect both equity and bonds listing and trading..

The Exchange faces financial risks such as credit risk, liquidity risk and market risk. Although the Board has set up policies which are implemented by the management, there are extreme circumstances that cannot be reasonably predicted.

The Exchange is exposed to operational risks that may arise from inadequate or failed internal processes, personnel, systems, technology and other unforeseen external events.

Legal and Regulatory Environment: The business and operations of the DSE are closely monitored and regulated by the Government through the Capital Markets and Securities Authority (CMSA). The regulatory framework within which the DSE operates may have adverse effects either through lag to implementation or through new laws and regulations

Valuation

Comparables - data from financial statements	Report type	Date	Currency	Total shares	Price per share	Market capitalisation	Net Assets	Profit After Tax	Basic EPS	Price to Book Value	PE	Localisation factor	Book Value	PE
Nairobi Securities Exchange	Annual Report	Dec 2020	Kshs	259,500,791,000	8	2,127,906,486,200	2,174,694,000,000	167,918,000,000	0.6	1.0	12.7	0.8	0.8	10.1
Johannesburg Stock Exchange	Annual Report	Dec 2020	Rand	83,098,632	11,700	972,253,994,400	4,116,702,000	778,389,000	9.4	236.2	1,249.1	0.6	141.7	749.4
				259,673,889,632	11,716	3,100,903,880,600	2,197,563,842,000	165,927,042,000	5.0	118.6	630.9	0.7	0.8	10.1
Source: NSE, JSE and Publicly Published Information														
Ref: Market Multiple 1 - Section MT - Market Multiples														

Method	(Tshs)	Share Price (Tshs)
Price to Book Value	19,512,222,280	819
PE	47,551,035,817	1,996
Net Assets	24,926,561,032	1,046
Average share price		1,287

Two methods have been used to arrive at the average price of Tshs 1,287 which is 7 % higher than the closing market price of Tshs 1,200 as on the 28th May 2021.

- ▶ Price to Book Value and Price Earning Ratios from listed Stock Exchanges in the region were used to arrive at the market multiple prices.
- ▶ Net Assets value was calculated from the balance sheet figures provided in the Q4 published accounts of DSE as of 31st December 2020.

Important Information

Analyst' stock ratings are defined as follows:

Outperform/Buy: The stock is of good value, is currently underpriced and have strong fundamentals

Neutral/Hold: The stock is correctly valued with little upside or downside pricing

Underperform/Sell: The stock is currently overpriced, its total return is expected to underperform; it has weak fundamentals and challenging operating environment

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