SOLOMON Stockbrokers

A Member of Dar es Salaam Stock Exchange & Authorized Dealer of Government Securities

# DSE EQUITY VALUATION REPORT

September, 2023

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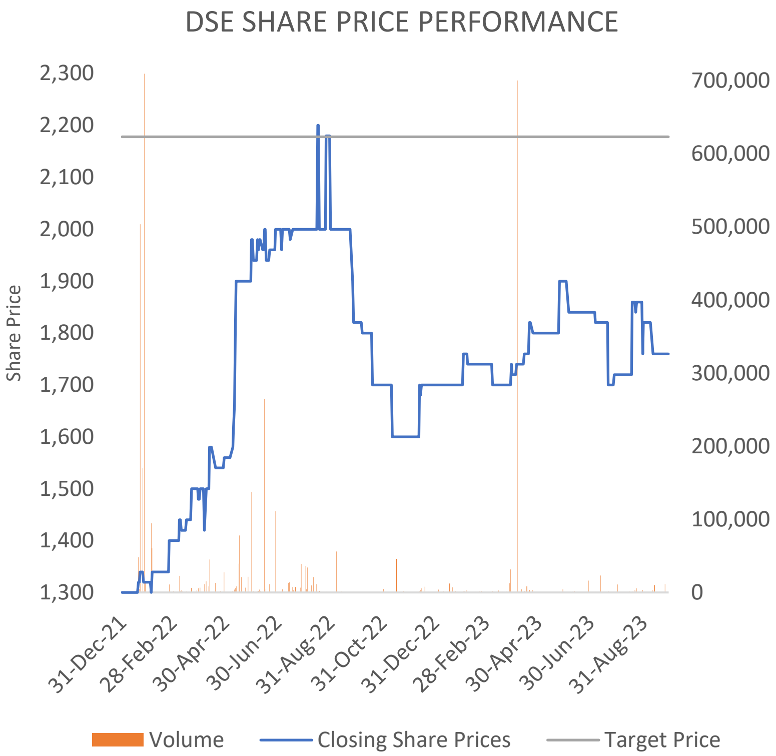
# CONTENT




| DSE HIGHLIGHTS | |
|---|---|
| Company Name | Dar-es-Salaam Stock Exchange |
| Ticker | DSE |
| Intrinsic Value per share | TZS 2,178.03 |
| Share price as of 29th Sept 2023 | TZS 1,760 |
| Upside | 23.75% |
| Recommendation | Buy |
| Earnings per Share (2022) | TZS 188.16 |
| Dividend per Share (2022) | TZS 116 |
| P/E ratio | 9.35x |
| Return on Equity (2022) | 15.93% |

# Investment Thesis

### 1. Increased issuance of Government Debt

The exchange's largest source of income is listing fees from issued government bonds, which we anticipate will continue to increase over the years; hence, the exchange is expected to benefit from the rise in listing fees from such bonds.

### 2. An Untapped Potential Local Market

The total number of investment accounts opened with the exchange stood at 584,492 as of 31st August 2023, with the turnover from local investors in equities and bond segments increasing year-on-year. One of the company's 2023 – 2027 Strategic objectives includes increasing local participation and liquidity. The implementation of these strategies should see the exchange's transaction fees increase on an annual basis.

### 3. Increased Income from investments

Based on the company's policy to invest over 70% of excess operational funds into fixed-income securities, this could continue to provide the company with a substantial investment income buffer, which can improve the company's profitability and provide an extra line of financing in case the exchange intends to increase operations or pay out dividends to shareholders.

## Analysts' Names & Contacts

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# COMPANY OVERVIEW

The Dar es Salaam Stock Exchange (DSE) is a marketplace where buyers and sellers of financial instruments such as shares and bonds meet. The Exchange is the secondary leg of Capital Markets that help avail long term and affordable capital to companies (productive users) from investors (idle holders/savers) with investment motives. The Stock Exchange is therefore part of the process through which companies looking for capital; issue financial instruments to investors from the public to raise capital and finance their businesses. The two main financial instruments issued by companies to raise capital are Equity (Shares) and Debt (Corporate Bonds).

## Incorporation

The DSE was incorporated in 1996 under the Tanzania Companies Act, 2002 and started operations in April 1998. DSE issued shares to the public and thereafter self-listed its shares on 12th July 2016.

## Principal Activity

The principal activity of the DSE is to provide securities market to investors who intend to invest in the listed companies. The Exchange provides a platform that assists companies to raise capital through the issuance of equities and debt securities which are then listed at the Exchange.

# MARKET SIZE AND STRUCTURE

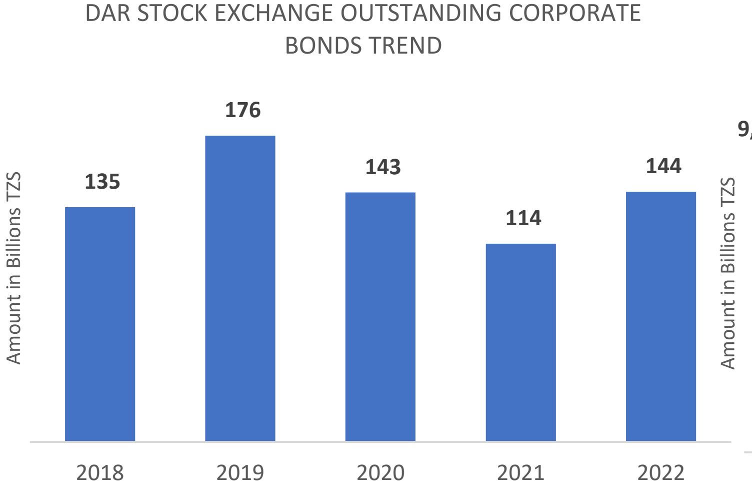
The DSE holds a dominant position within the national stock exchange industry, enjoying a de facto monopoly in this sector. As such, it operates without encountering direct competition, maintaining its unique and unrivaled status in the market. As of 30th December 2022, the total value of listed company's market capitalization stood at TZS 15.68 trillion. The market comprises of Locally listed companies valued at TZS 10.28 trillion with foreign cross-listed companies valued at TZS 5.40 trillion. Government Bonds listed in the company stood at TZS 16.94 trillion while corporate bonds were valued at TZS 143.75 billion during the close of 2022.

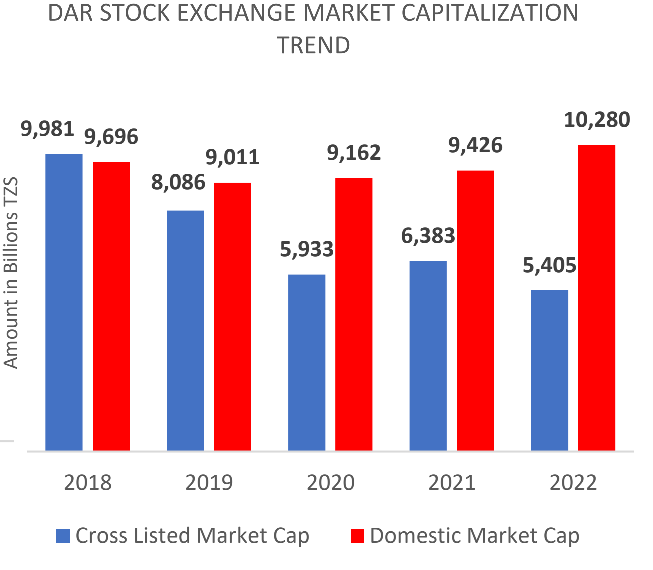
The Total Market Capitalization has experienced a 20.29% decline from TZS 19.67 trillion in December 2018 due to the delisting of a cross-listed mining company Acacia which was valued at TZS 2.276 trillion as of December 2018 and a 29.85% decline in cross-listed companies from the Nairobi Stock Exchange whose total market capitalization fell from TZS 7.7 trillion in December 2018 to TZS 5.40 trillion as of December 2022. The reason behind the drop is as a result of macro-economic challenges that face Kenya as of recent history such as the COVID-19 lockdown, higher depreciation of the Kenyan shilling, higher inflation than other East African Countries and rising interest rates from developed countries amid rising inflation due to increased consumer & business spending during the post pandemic era and higher commodity prices triggered by the Russo-Ukraine War. These events have seen massive sell-offs from foreign investors in the market with retail investors failing to fill the vacuum due to economic constraints.

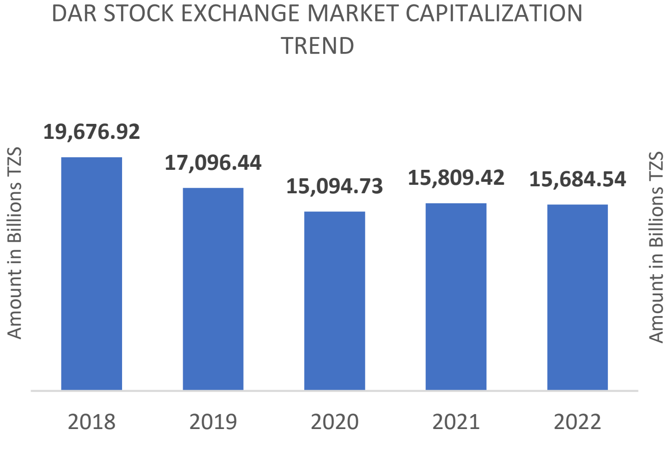
On a lighter note, the Local Market Capitalization alternatively saw a 6.02% increase from TZS 9.69 trillion in December 2018 to TZS 10.28 trillion in December 2022 due to an appreciation in the value of 9 companies whose market capitalization had appreciated from TZS 2.05 trillion as of December 2018 to TZS 3.38 trillion as of December 2022 representing a 64.45% increase. The counters saw their share in the total domestic market capitalization increase from 21.20% in December 2018 to 32.88% in December 2022. These 9 counters include CRDB Bank, the self-listed DSE, Maendeleo Bank, Mkombozi Bank, Mufundi Community Bank, National Investment Co Ltd, NMB Bank, Tanga Cement & Twiga Cement. The reason behind their increase was due to a combination of factors such as improving financial performances from companies such as CRDB, NMB, DSE, Twiga & NICOL which was reflected by growing dividend payments. Further offerings and rights issues from companies such as Mufindi and Mkombozi respectively and a pending corporate actions involving a Merger and Acquisition for Tanga Cement at a premium price to what the company is trading for in the market. Additionally, a company by the name of Jenga Afya Tokomeza Umaskini (JATU) went public with shares valued TZS 15 billion in 2021 and closed at a TZS 5.7 billion valuation as of 2022.

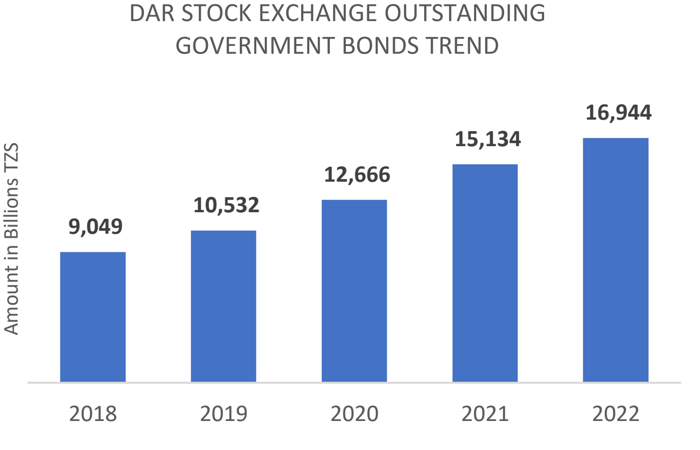
Outstanding Government Bonds have increased by 87.24% from TZS 9.05 Trillion as of December 2018 to TZS 16.94 Trillion as of December 2022 due to increased government borrowing especially from longer term bond tenures such as the 15, 20 & 25-Year Government Bonds which have for the past 5 years made up 59.15% of the total amount raised from successful bids, with that percentage at 74.33% representing TZS 2.04 Trillion out of TZS 2.75 Trillion collected as of 2022 a 234% increase from TZS 611.93 Billion collected in 2018. The reason behind such increased borrowings is to finance longer term development & infrastructure projects in the country and a continued implementation of the Government's Medium-Term Debt Strategies to utilize longer-term government bonds as part of the government's domestic debt funding mix.

Corporate Bonds Outstanding increased by 6.57% from TZS 134.88 billion as of June 30th 2018 to TZS 143.75 billion as of Dec 31st 2023 following maturities of Corporate Bonds from Stanbic, EXIM and older NMB & TMRC Medium Term tranches which were replaced by new tranches and issues from TMRC, NMB, NBC and KCB Sukuk Bonds.




**Outstanding Amount for 2018 is as of June 30th*

# GLOBAL & REGIONAL TRENDS

According to a 2021 African Markets Surveillance Report by PWC the value of Initial Public Offerings (IPOs) and Further Offerings (FOs) globally have increased at a Compound Annual Growth Rate (C.A.G.R) of 30.60% from USD 209 Billion in 2017 to USD 608 Billion as of 2021 with its corresponding number of deals increasing at a C.A.G.R of 15.20% from 1,523 deals to 2,682 deals. The value of further offerings increased at a C.A.G.R of 7.29% from USD 621 Billion as of 2017 to USD 823 Billion as of 2021 with the number of its corresponding deals increasing at a C.A.G.R of 2.97% from 3,571 in 2017 to 4,015 as of 2021. IPO proceeds in 2021 were the largest ever recorded globally on the backdrop of renewed global economic activities. A total of 2,682 IPOs was recorded globally, raising $608bn within the year.

In contrast to global trends African equity markets have seen the value of IPOs & FOs decreasing at a C.A.G.R of -26.07% and -30.67% respectively from USD 3.08 billion and 10.71 billion in 2017 to USD 0.92 Billion and USD 2.47 Billion in 2021 with the number of corresponding deals falling at a C.A.G.R of 28.14% and 20.47% from 30 and 95 deals for IPOs and FOs respectively in 2017 to 8 and 38 deals respectively in 2021. Which was due to low valuations and high costs related to corporate actions as well as an increasing number of delisting which discourage prospective companies from intending to IPO as has been the case particularly in the Johannesburg Stock Exchange.

Sovereign Debt has seen a 1.33% C.A.G.R increase from USD 19.60 Billion in 2017 to USD 20.67 Billion in 2021 with its corresponding number of deals increasing at a C.A.G.R of 4.89% from 19 deals to 23 deals from 2017 to 2021.

In Tanzania the value and number of deals raised via IPOs has remained inconsistent. Between 2017 and 2021. There has been 3 IPOs recorded with 2 of which happened in the year 2018 valued at USD 9.4 Million and the other one in 2021 valued at USD 6.52 Million.

Sovereign Treasury bonds however have seen a C.A.G.R of 13.48% from USD 816 Million in 2018 to USD 1.19 Billion in 2021.

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| **Value raised in Billions USD** | | | | | |
| ***World:*** | | | | | |
| Initial Public Offerings | 209 | 224 | 199 | 330 | 608 |
| Secondary Offerings | 621 | 463 | 458 | 734 | 823 |
| | | | | | |
| ***Africa:*** | | | | | |
| Initial Public Offerings | 3.08 | 2.24 | 1.25 | 0.64 | 0.92 |
| Secondary Offerings | 10.71 | 6.16 | 3.49 | 4.07 | 2.47 |
| | | | | | |
| **Number of Deals** | | | | | |
| ***World:*** | | | | | |
| Initial Public Offerings | 1,523 | 1,198 | 1,040 | 1,412 | 2,682 |
| Secondary Offerings | 3,571 | 2,839 | 2,783 | 3,689 | 4,015 |
| | | | | | |
| ***Africa:*** | | | | | |
| Initial Public Offerings | 30 | 17 | 9 | 7 | 8 |
| Secondary Offerings | 95 | 79 | 62 | 53 | 38 |

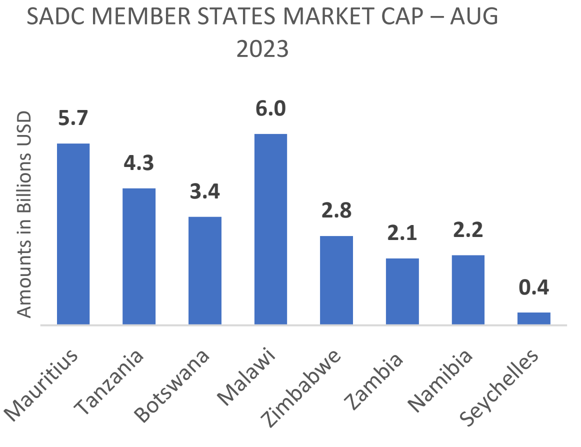
## The Dar-es-Salaam Stock Exchange v/s SADC Stock Exchanges

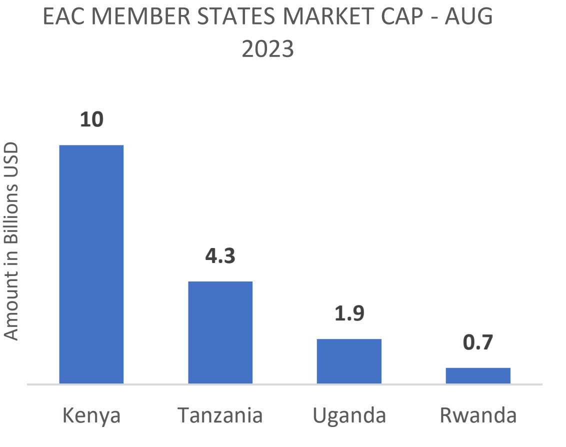
The Dar es Salaam Stock Exchange's total domestic market capitalization was the 4th largest, valued at USD 4.3 Billion as of August 2023, behind countries namely South Africa (USD 835.9 Bln), Malawi (USD 6.0 Bln) and Mauritius (5.7 Bln). Regarding capital gains returns from a dollar perspective from January 1st, 2023 to August 31st, 2023, Tanzania registered a -0.2% return which is lower than returns offered by Malawi (70.7%), Namibia (20.0%), Zambia (6.2%), Botswana (3.3%) and Seychelles (2.6%).

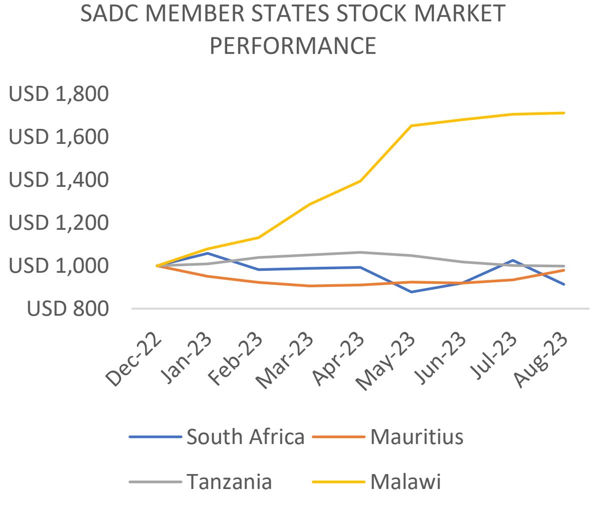
## The Dar-es-Salaam Stock Exchange v/s EAC Stock Exchanges.

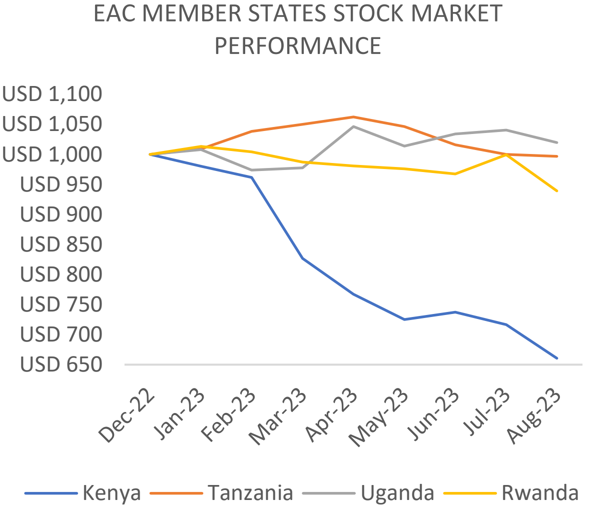
The Dar es Salaam Stock Exchange's total domestic market capitalization was the 2nd largest, behind Kenya, valued at USD 10 Billion as of August 2023. All exchanges from the East African Community registered negative USD returns except Uganda whose performance from January to August 2023 was at 2.3%

Source: African Financials, Website: https://africanfinancials.com/




*The Stock Market Performance graphs visualize the returns an investor would have received assuming that they invested USD 1,000 into the member states' indexes, which reflect the performance of their entire markets from Jan 1st to Aug 30th 2023.*

# COMPETITOR ANALYSIS

The Dar es Salaam Stock Exchange does not face any direct competition from any other stock exchange within Tanzania however, it does face indirect competition from other financial service providers whose principal activity involves converting savings into capital for investments. Such competitors include:

## 1. Banks

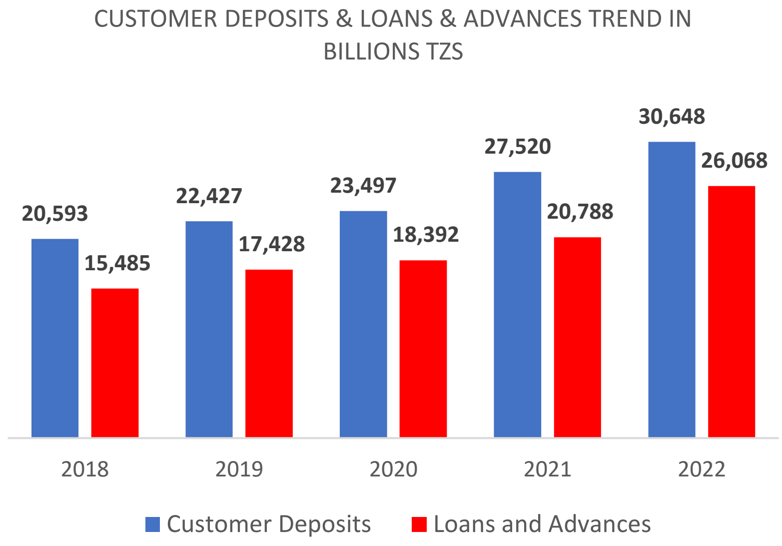
According to the Bank of Tanzania (BOT's) Annual Report 2021/2022, as at the end of June 2022, there were over 34 commercial banks, 2 development finance banks and 5 regional and community banks. Throughout 2022 these banks have been able to mobilize over TZS 30.65 trillion worth of savings and deposits from customers and convert them to TZS 26.07 trillion worth of debt financing in the form of loans and advances and TZS 8.08 trillion in the form of government debt & other debt securities. These banks have a customer base of over xxx Million individuals which is xxx times larger than the number of investors in the stock exchange.

Such banks have been able to attract more deposits from customers due to:

a) Their extensive branching network across the country uses banking agents and physical and mobile branches, making it easy for an individual to deposit and lend from the banks.

b) b. A less stringent process required to acquire loans as compared to raising capital through listings

c) c. Relatively more straightforward process for individuals and banks alike to open accounts, deposit, and lend from the bank.




*Customer Deposits & Loans and Advances have been growing at a C.A.G.R of 10.45% and 13.91% from TZS 20.59 Trillion and TZS 15.49 Trillion in 2018 to TZS 30.64 Trillion and TZS 26.07 Trillion in 2022 respectively.*

## 2. Private Placement firms

Venture Capital and Angel Investment Firms can act as an indirect form of competition to the stock market due to their ability to raise equity and or debt for businesses and corporate institutions which could alternatively fit the criteria for listing in the capital markets.

Such private placement firms offer the following advantages to businesses seeking capital over the capital markets:

a) Less stringent and regulatory conditions involved in raising money

b) Disclosure of the business's performance is only limited to fewer individuals

c) Lower costs involved in raising the capital required

# Competitive Advantages

### a) COST ADVANTAGES

The company is exempt from paying corporate taxes, except for its subsidiary, the CSDR, which is not the case for many capital-raising financial firms; this allows the company to earn higher net income and spend less, giving the company more room to use the extra income to either grow or pay out higher dividends to its shareholders.

### b) MONOPOLISTIC ADVANTAGES

Since there is only one stock exchange in the country, it gives the exchange an absolute advantage as the only platform where capital can be raised from the public, and individuals can trade financial securities for cash. This gives the exchange total leverage on its pricing mechanism and how listed companies should behave in the market.

# STRATEGIC ANALYSIS

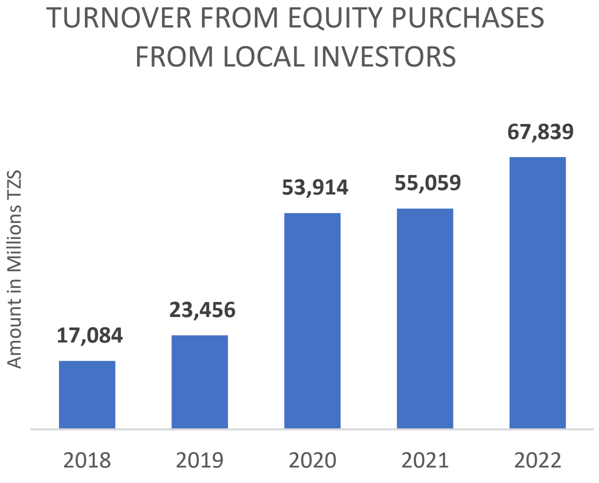
## STRENGTHS

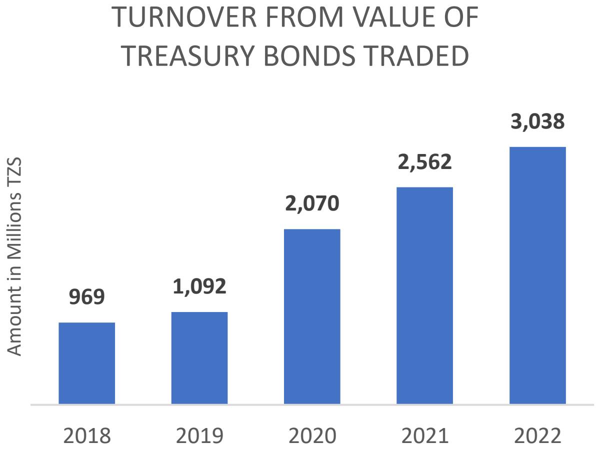
1) 100% market share over publicly listing financial assets and providing investors with a market to trade those respective financial assets in Tanzania.

2) Government incentives that encourage the growth in the utilization of capital markets. Such incentives include tax exemptions on the stock exchange's profits from main operations, a 5% reduction in corporate taxes listing in the exchange for the 1st three years, abolishing withholding taxes on corporate bonds, and lower withholding taxes on dividends from public companies.

3) Adaptation of technology into trading and clearing systems following the introduction of the Mobile Trading Platform by the exchange to allow online retail transaction of shares and the adaptation of an Automated Trading System to allow orders to be efficiently captured and traded within a shorter time

4) Increasing investment participation from local individuals. The value of Equity Transactions from local purchasing has increased by 41.16% C.A.G.R from TZS 17.08 billion in 2018 to TZS 67.84 billion in 2022, with government bond trades boosting at a C.A.G.R trend of 33.06% from TZS 969 billion in 2018 to TZS 3.03 trillion in 2022. Indicating that the company is beginning to capture more of the local market



## WEAKNESS

1) A lack of innovation for new financial products, such as Initial Public Offerings for equities, Exchange Traded Funds, and Real Estate Investment Trusts, resulting in stagnating listing and transaction fees

2) A low penetration on the number of individuals in the country who invest in the stock exchange (582,906 investors versus 61 million Tanzanians), which limits the exchange's capability to earn income.

3) A low distribution network that cannot reach out to more individuals who could potentially invest in the capital markets compared to banks and other capital mobilization firms, resulting in lower awareness and participation amongst locals

4) Lack of transparency in the exchange's price formation mechanism due to the emergence of a parallel market between trades in the standard counter and those in block trades. A case that is adamant for illiquid counters.

## OPPORTUNITIES

1) A large segment of DSE's market remains untapped, with the number of investors at 582,906 or 0.9% of the country's population compared to CMSA's target to ensure that 10% of the adult population is invested in the capital markets by 2028.

2) Room to introduce new financial products that can bring about more diversification options for the investor

3) Strengthening Small and medium Enterprises through its Accelerator Program, which could become future listings in the market.

4) Achieving Frontier Market Status in 2019 gave the company higher international exposure, which could attract more foreign investors to invest in the exchange and improve liquidity.

## THREATS

1) Tanzanian culture and negative sentiment towards listing companies in the equities and or bonds market due to the amount of disclosure required from the issuer and the perception of a loss in control over one’s business could affect the number of new listings from local enterprises.

2) Emerging alternative methods of financing, such as the use of Venture Capital financing, crowdfunding, and dominance maintained by banks as the de-facto method of raising finances from a majority of individuals

3) A large liquidity gap to be filled by local investors caused by foreign investors’ departure from the frontier and developing markets due to policies implemented by developed governments to slow down the inflation rate in their respective countries.

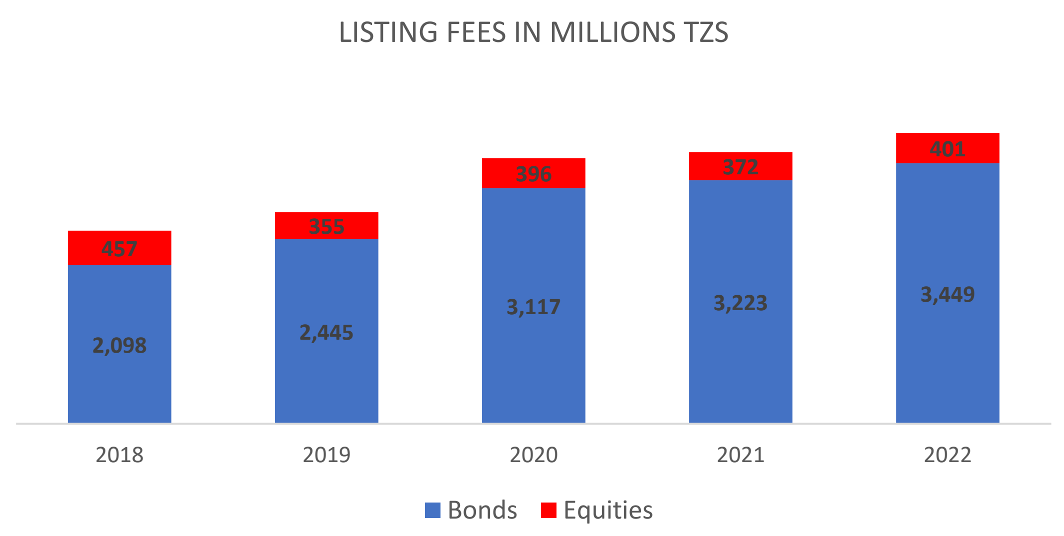
# INDUSTRIAL DYNAMICS

## 1. LISTING

Revenue from listing fees has grown at a Compound Annual Growth Rate of 10.80% from TZS 2.55 billion in 2018 to TZS 3.85 billion in 2022, with its share of the company's total operating revenue averaging at 53.34% during the five years. Listing Fees from government bonds has been the company's biggest earner, averaging 86.41% of the total listing fees earned during the five years. Government bond listing fees have grown at a C.A.G.R of 69.34%, amounting to TZS 3.38 billion in 2022. Reasons for such growth during this period were due to frequent auctions of government bonds happening every two weeks on average. As the economy continues to grow, we expect government spending to play a massive role in sustaining that growth. Part of that financing will be financed by domestic government borrowing from treasury bonds, especially the longer-term tenures. This will enable the company to continue to benefit from listing fees brought about by new government bond issues and those outstanding in the market.

Equity Listing Fees have seen a C.A.G.R growth of -3.22% from TZS 456.66 million in 2018 to TZS 400.58 million in 2022, with its share to the company's total operating revenue averaging at 6.65% during the five years. The reasons behind the declining trend during this period was due to the de-listing of Acacia Mining in 2018 and a 29.85% decline in cross-listed companies from the Nairobi Stock Exchange, amounting to TZS 5.40 trillion as of December 2022. In the future, we anticipate Equity listing fees to decline further following the potential de-listings of Yetu Microfinance, JATU, SWALA Oil, and Tanga Cement (On the condition that Heidelberg Materials acquire it). Additionally, we do not expect to see any further listings soon due to negative perceptions amongst business owners regarding listing in the equities market, mainly due to risks of diluting ownership and disclosure requirements, which is not the norm amongst corporate leaders in the country.

Corporate Bonds Listing Fees have grown at a C.A.G.R of 31.82%, amounting to TZS 67.48 million in 2022; most of the growth was experienced during 2022 due to the listing of several corporate bonds, including the 3-Year NMB Jasiri Bond and the 5-Year NBC Twiga Bond. We anticipate revenues from this segment to increase following additional listings and future tranches from KCB Bank, CRDB Bank, NMB Bank, and TMRC. Most listings are expected to come from commercial banks looking for long-term financing, which they can use to lend out to their customers as an alternative to Fixed Deposit instruments offered by these institutions.



## 2. TRANSACTIONS

DSE generates revenue for every equity and bond transaction its investors make from the stock exchange. These fees have grown at a C.A.G.R of 10.55% from TZS 791.97 million in 2018 to TZS 1.18 billion in 2023, with its share of the company's operating revenue averaging 21.45% during the five years.

Equity transaction fees have declined at a C.A.G.R of 10.35% from TZS 583.35 Million in 2018 to TZS 376.87 Million in 2022. Between this period, the events that affected the listing fees were significant one-off transactions such as the sale of Vodacom shares from Mirambo Limited to Vodacom Group in 2019 as well as share transfers from major Shareholders in NMB Bank Rabobank of Netherlands to Arise B.V of Netherlands in 2020 and declining foreign investor participation in the equities market at a C.A.G.R of -23.42% and -19.22% in both the buying and selling sides respectively from 2018 – 2022. However, we anticipate Equity Transaction fees will grow in the foreseeable future, mainly driven by increased local investor participation in the equities market, as has been the case during the past 5-years, where local investor turnover has grown at a C.A.G.R of 41.16% and 4.20% from the buying and selling side of the equities market respectively. This optimistic review is due to continued efforts to increase awareness regarding investing amongst individuals who could become the market's new retail investors and measures to encourage local institutions to participate in the equities market.

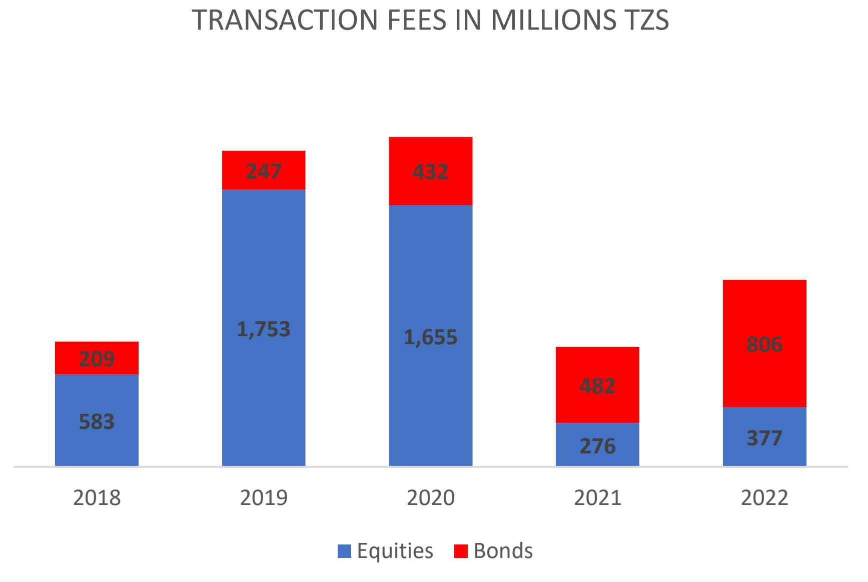
Bond Transaction Fees have been increasing at a C.A.G.R of 40.21% from TZS 208 million in 2018 to TZS 806.21 million in 2022. This was primarily driven by the increase in value of treasury bonds traded at a C.A.G.R of 33.06% from TZS 969 billion in 2018 to TZS 3.04 trillion in 2022. This increase primarily began in the year 2020, as the COVID-19 pandemic forced business activities to slow down, resulting in individuals and companies seeking alternative measures to grow their wealth while taking on less risk, resulting in a higher uptake for treasury-bond investments—particularly the longer-term 20 & 25-year treasury bonds due to their higher coupon rates and yields. In the future, we anticipate investor participation in debt instruments to continue to grow as we expect government spending to play a crucial role in economic development. Part of this will be financed by the longer-dated treasury bond as indicated by the government's Debt Management Strategy and investors' preference towards the bond.

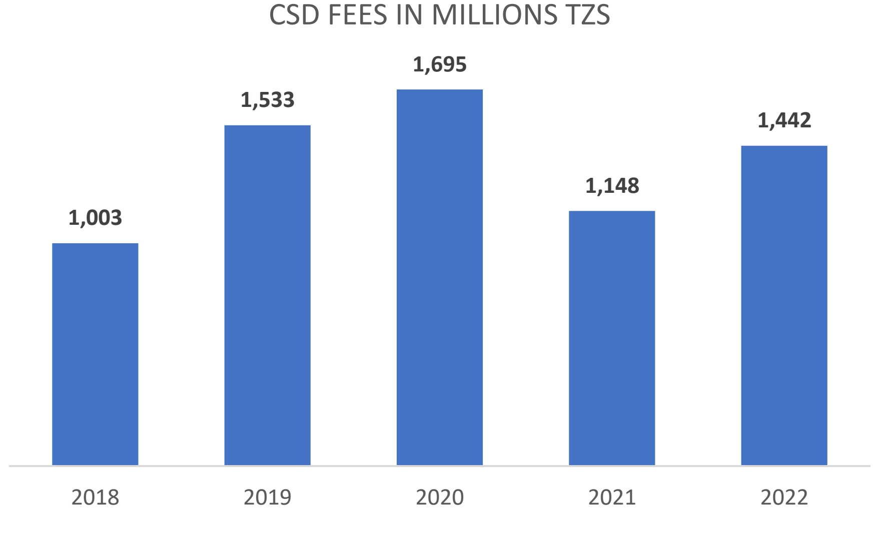
## 3. CENTRAL SECURITIES DEPOSITORY

DSE's revenue from its subsidiary, the Central Securities Depository & Registry (CSDR), has been increasing at a C.A.G.R of 9.49%, amounting to TZS 1.44 billion, with its contribution to operating income averaging at 22% during the five years between 2018 and 2022. Bond trading fees have primarily fuelled this growth for reasons mentioned in the transactions segment and management fees for annual general meetings. This is due to the company's efforts to assist in shareholder registries for companies outside the exchange. In the future, we anticipate these revenue segments to continue their contribution to the subsidiary and revenues from application and annual membership fees in anticipation that there will be more participants in the stock market and that equity transactions will continue to contribute to increasing income.

## 4. INTEREST INCOME

DSE'S revenue from its debt securities investments and fixed deposits has grown at a C.A.G.R of 23.26% from TZS 1.36 billion in 2018 to TZS 3.16 billion in 2022 with its average composition to total revenue standing at 25.93% during the five years. This growth is due to increased investments in government securities and fixed deposits at a C.A.G.R of 11.17%, from TZS 17.35 billion in 2018 to TZS 26.49 billion in 2022. Moving forward, we anticipate the company's interest income to continue growing towards becoming the highest, if not 2nd highest, revenue earner after listing fees from government bonds due to its investing policy of investing 70% of its excess funds from operational revenue and other revenue sources with interest rates and yields anticipated to remain high due to higher demand for deposits and borrowings from commercial banks and the government alike to continue to their expansion.



# GROWTH & RISK ANALYSIS

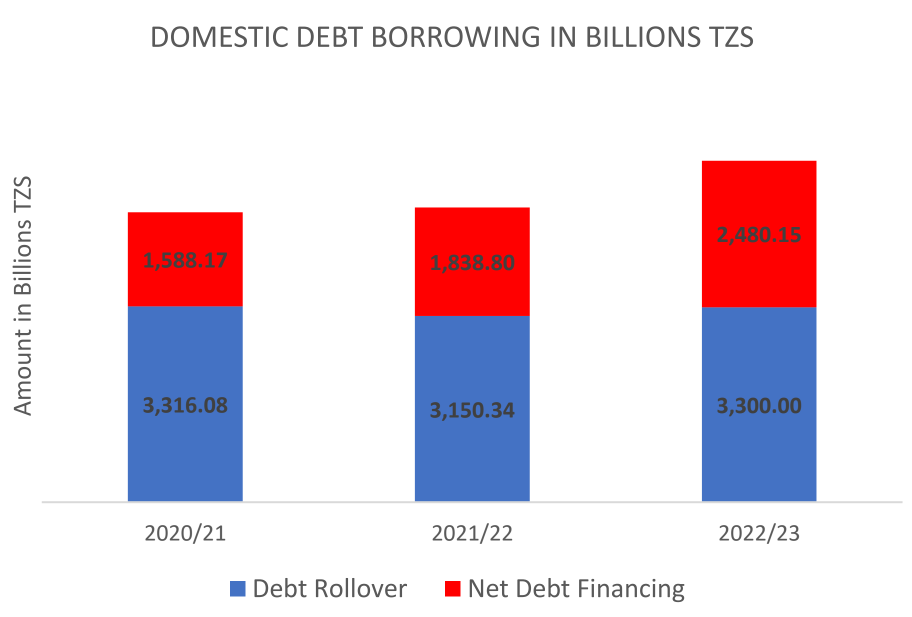
## Growth Outlook

### a) INCREASED GOVERNMENT AND CORPORATE BOND LISTING

We anticipate DSE to continue to grow its revenue line primarily due to increased treasury bond listings. Historically, the amount of money collected from government bond auctions that went on to be listed in the stock exchange has grown at a C.A.G.R of 10.20% from TZS 1.86 trillion in 2018 to TZS 2.75 trillion in 2022. Despite reports from the government's Medium-Term Debt Management Strategy and its 5-Year Development plan anticipating that the overall Debt to GDP ratio will decline from 2024 since many infrastructural projects are set to be completed by then. We expect the domestic debt-to-GDP ratio to grow steadily as most of the debt raised will be used to roll over previous outstanding debt. This is evident with the government financial year 2020/21 to 2022/23, where the amount of domestic borrowing estimated for rollovers was about 62.61% of the new domestic borrowing, with the 2023/24 budget estimating rollovers to account for 65.11% of the total amount raised from domestic debt borrowing.

Corporate Bonds Listing Fees are also set to grow following the recent Medium-Term Notes introduced by CRDB & NMB with a combined valuation of TZS 1.74 trillion set for the next ten years, in addition to already existing tranches from NBC & TMRC worth TZS 420 billion and other outstanding debt from KCB's Sukuk Bond worth TZS 11.04 billion & NMB's last Sustainable Bond tranche from its 1st Medium Term Note worth TZS 74.27 billion. Additionally, we anticipate that commercial banks are likely to use corporate bond listing as an alternative to the traditional fixed deposit method of raising long-term finances due to the advantage that the bank has more security over the borrowing raised throughout the borrowing period since the investor could liquidate their position from the secondary market rather than breaking a fixed deposit contract with the bank.

Such increased listings could also result in greater market diversification and liquidity, which could result in increasing transaction fees.



### b) INCREASING LOCAL INVESTOR PARTICIPATION

According to the CSDR, the current number of locally registered investment accounts is about 584,492, or about 0.95% of the population. However, we have reasons to believe that local investor participation is set to increase into the foreseeable future due to strategic plans put in place by the Dar es Salaam Stock Exchange to focus on improving its domestic buy-side and the Capital Markets Securities Authority’s (CMSA) target to increase the number of adults invested in the capital markets to about 10% of the total adult population by the end of 2028. Efforts currently underway include expanded awareness programs on aspects regarding the benefits involved in investing in the capital markets, such as the Scholars Investment Challenge done annually in secondary schools and universities, workshops and seminar sessions done during World Investors Week, as well as advertising and utilization of technological platforms such as the Mobile Trading Platform (MTP) as a tool which can be utilized to reach out to investors who are further away from the physical location of the exchange and its brokers.

These strategic plans, if implemented successfully, could see both equities and bonds turnovers continue to grow and yield the exchange more revenue in the form of transaction fees and help improve the market’s liquidity overall, something which could increase confidence and reduce risks related to investing in Tanzania’s equities and bonds market as mentioned before there are positive historical indicators that show local investor participation improving in both the equities and bonds markets such as the growth in local investors turnover for between 2018 and 2022 at a C.A.G.R of 41.16% and 4.20% from the buying and selling side of the equities market respectively and the increase in value of treasury bonds traded at a C.A.G.R of 33.06% from TZS 969 billion in 2018 to TZS 3.04 trillion in 2022 whose market is heavily dominated by local investors.

### c) POTENTIAL FOR NEW EQUITY LISTINGS THROUGH ITS ENTERPRISE ACCELERATION PROGRAM

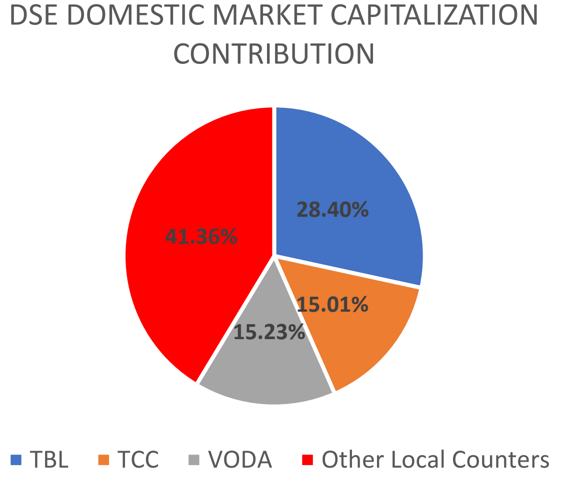
In 2020, the DSE introduced an Accelerator Program aiming at providing a platform for owners/managers of Small and medium-sized Size Enterprises (SMEs) with growth potentials to learn and implement the proper structure, management systems and processes that will support their businesses to operate sustainably, hence attract different types of investors and financiers such as Commercial & Development Banks, Private Equity Firms, Venture Capital Funds, Crowdfunding Platforms and Public Offerings (IPOs) through a stock exchange. With over 24 companies in the program as of September 2023, the business has the potential to get a company seeking to raise money through listing in either its Enterprise Growth Program or Main Markets, thus growing the market and improving the company’s listing and transaction fees.

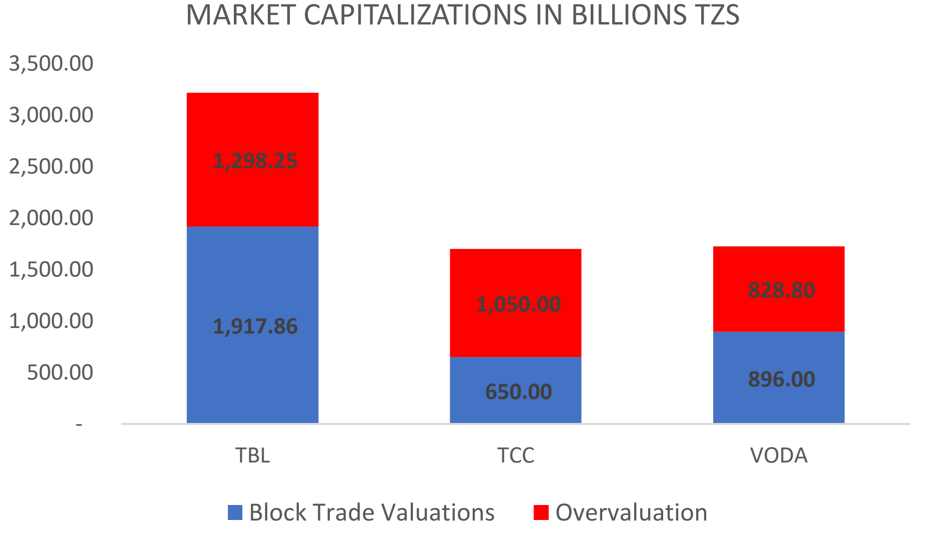
## a) RISKS

The presence of parallel markets and illiquid equity counters could hinder investor participation and liquidity.

Block Trade investments happening at steep discount prices to those of the stagnant market prices of equity counters could hinder investor participation for those respective counters due to the high capital barrier required to access block trades and trade the separate counters at discounted market prices. This could cause local and foreign investors to refrain from investing in these counters, thus hindering the company from fully benefitting from liquidity, higher equities turnover and its respective transaction income.

As of 30th September 2023, the total domestic capitalization stood at TZS 11.33 trillion, of which three equity counters, namely TBL, TCC, and Vodacom Tanzania, had a total market cap of TZS 6.64 trillion or 58.64% of the total domestic market capitalization of which if valued at their latest block trade prices their collective market caps would be worth TZS 3.46 trillion which is 52.16% of their reported market capitalization at closing prices. The ideal solution would be for the exchange to review and change its circuit breaker policies and rules towards the minimum number of a company's outstanding shares to trade for its respective share prices to move.



## b) NEGATIVE PERCEPTION ABOUT LISTING AMONGST CORPORATE LEADERS

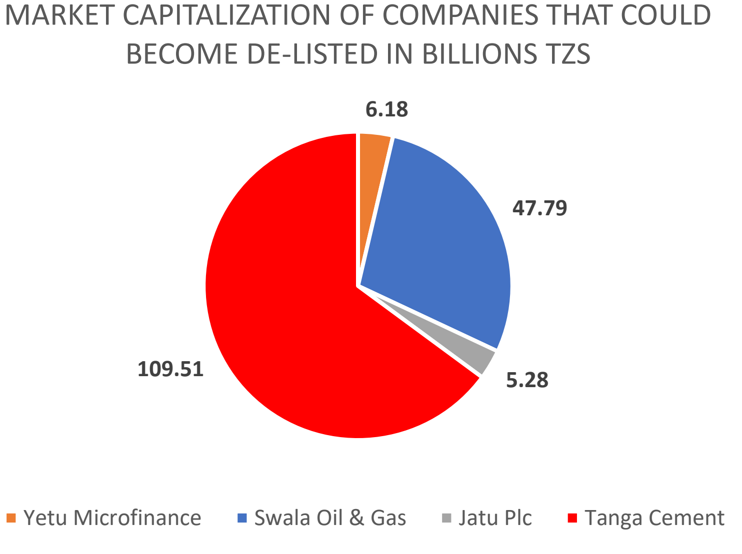
The negative perception amongst business and corporate leaders regarding the listing in the stock exchange is a factor that hinders the listing of stocks in the equity markets. Most of the locally listed companies (about 16 or so) were listed in the markets as a part of the government's privatization initiative, capital requirements by the Bank of Tanzania to some of the listed banks, and regulations forcing companies to detail in the market as was the case with Vodacom in 2017. A majority of business corporations are not willing to utilize the alternative of listing in the market due to the amount of disclosure required for a company to list, something which is contradictory to the norm of secrecy regarding business operations amongst the population and the fear of having to accommodate or lose control to outside investors. This greatly hinders the exchange's capability to grow and increase its Equities listing fees.

## c) DE-LISTINGS

The stock exchange risks losing about four equity counters with a combined management capitalization of TZS 168.76 billion as of September 30th, 2023. These counters are SWALA Oil & Gas, Yetu Microfinance, JATU, and Tanga Cement.

SWALA Oil and Gas could delist due to the actions taken by its creditors demanding that the company dissolve due to prolonged outstanding debt to those respective creditors. NMB Bank acquired Yetu Microfinance due to having a lower capital base than the Bank of Tanzania required. JATU Plc's management faced fraud charges, failed to perform its continuous obligations with the exchange, and lacked a proper management system and governance. And lastly, Tanga Cement is up for acquisition by Heidelberg Materials, the parent company of Twiga Cement. If this acquisition succeeds, Tanga Cement will be delisted from the market.

Without prospects of new IPOs, the exchange risks having its equity segment shrink and lose out on equities listing and transaction fees.



# MANAGEMENT & OWNERSHIP STRUCTURE

The company's Acting Chief Executive is Mary Mniwasa. She holds a Master of Laws (LLM) degree in Corporate Law and Banking Law and a Bachelor of Laws (LLB) from the University of Dar Es Salaam. She is registered and has practiced as an Advocate, Notary Public, and Commissioner for Oaths. She has over 26 years of experience in various fields, including the DSE as a Corporate Affairs Manager and Legal Counsel, from September 2007 to April 2022. A Legal Counsel at the Institute of Finance Management between (1998-2007) and at CMC Land Rover (Tanzania) Limited as a Company Secretary (1997-1998).

| Shareholder | Number of Shares | Shareholding |
|---|---:|---:|
| Office of the Treasury Registrar | 3,574,000 | 15.00% |
| Briarwood Chase Management LLC | 2,678,314 | 11.24% |
| The Miri Strategic Emerging Markets Fund LP | 2,385,931 | 10.01% |
| Zanzibar Social Security Fund | 2,000,000 | 8.39% |
| National Investments Company Limited | 1,285,831 | 5.40% |
| General Public | 11,899,944 | 49.95% |
| **Total** | **23,824,020** | **100.00%** |

# COMPANY'S EFFORTS TO COMMIT TO ESG PRACTICES

## Environmental

During 2022, DSE focused on creating an enabling environment for sustainable financing and investment by offering sustainability-related products such as the green and sustainable bonds listed by CRDB & NMB and providing ESG capacity-building engagements to stakeholders.

Additionally, The Capital Markets and Securities Authorities approved the DSE Rules 2022, which introduced sustainable products and made a mandatory requirement for Listed Companies to report on sustainability annually. This action will ensure that companies adopt and integrate sustainability and prioritization of environmental conservation into their practices.

## Social

The DSE has enhanced the growth and sustainable development of Small & Medium Enterprises (SMEs), which, according to the World Bank, contribute to at least 60% of the employment and 40% of national income (GDP) in emerging economies. Efforts placed by DSE include the establishment of the SMEs Acceleration Segment "ENDELEZA," a pre-IPO segment designed to enhance the visibility and profile of the SMEs to access specialized capital raising advisory services to build capacity of the SMEs, assist the SMEs in obtaining capital and further encourage their sustainable growth. Since the introduction of DEAP in 2020, 46 SMEs have been enrolled in the DEAP program, while 21 SMEs have been admitted to the ENDELEZA segment.

The Exchange promotes gender equality through supporting the listing of gender-focused products. In 2022, DSE listed NMB Bank Jasiri Bond. The Jasiri Bond was the first-ever bond targeting women's empowerment. It was also the first social bond an East Africa Financial Institution offered. The net proceeds from the Bond were targeted to finance micro and small medium enterprises owned or led by women and businesses whose products or services directly impact women.

## Governance

DSE has continued to place efforts in promoting gender diversity in its management. As of 2022, 36% of DSE staff are female, and 64% are male. At the Board level, 14% of Directors are female, and 86% are male. The DSE has set targets to ensure that these statistics are enhanced to achieve at least 40% representation of women by 2027.

All Board members, except the Chief Executive Officer (CEO), were Non-Executive Directors. The Directors are committed to the principles of good corporate governance and recognize the need to conduct the business by generally accepted best practices. Efforts in place to ensure efficient internal governance include providing training to ensure the board keeps abreast with current developments in the market.

# FINANCIAL STATEMENT ANALYSIS

| DSE FINANCIAL RATIOS | | | | | |
|---|---|---|---|---|---|
| | **FY 2018** | **FY 2019** | **FY 2020** | **FY 2021** | **FY 2022** |
| **12 Months Ending** | **31-Dec-18** | **31-Dec-19** | **31-Dec-20** | **31-Dec-21** | **31-Dec-22** |
| **Margins:** | | | | | |
| EBITDA Margin | 5.68% | 28.05% | 32.75% | 17.14% | 19.19% |
| Operating Profit Margin | 0.98% | 26.59% | 29.72% | 16.32% | 17.57% |
| Net Profit Margin | 37.88% | 55.36% | 62.15% | 70.66% | 66.75% |
| | | | | | |
| **Returns:** | | | | | |
| Return on Equity | 9.00% | 16.08% | 18.61% | 15.29% | 15.93% |
| Return on Assets | 7.90% | 14.45% | 16.32% | 13.71% | 14.22% |
| Return on Capital Employed | 8.43% | 15.32% | 17.72% | 14.62% | 15.31% |
| | | | | | |
| **Liquidity:** | | | | | |
| Current Ratio | 9.07 | 12.74 | 8.87 | 8.62 | 8.11 |
| Quick Ratio | 9.07 | 12.74 | 8.87 | 8.62 | 8.11 |
| Cash Ratio | 0.29 | 0.14 | 0.10 | 0.05 | 0.03 |
| | | | | | |
| **Leverage:** | | | | | |
| Debt to Assets Ratio | 12.27% | 10.17% | 12.31% | 10.37% | 10.76% |
| Debt to Equity Ratio | 13.99% | 11.33% | 14.04% | 11.57% | 12.05% |
| Borrowings to Equity Ratio | 0.77% | 0.00% | 0.00% | 0.00% | 0.00% |
| | | | | | |
| **Shareholders Ratios:** | | | | | |
| Dividend Yield | 3.30% | 5.32% | 11.92% | 11.55% | 8.92% |
| Dividend Payout | 50.15% | 50.00% | 59.99% | 60.60% | 61.65% |
| Sustainable Growth Rate | 4.49% | 8.04% | 7.45% | 6.03% | 6.11% |

## a) PROFITABILITY (MARGINS AND RETURNS)

EBITDA and Operating profit margins have been increasing up until 2020. This was due to a 152.50% increase in transaction fees amounting to TZS 1.99 Billion and a 52.83% increase in CSD Fees amounting to TZS 1.53 Billion in 2019. The growth from both revenue segments was driven by the rise in equity transaction fees following the sale of 588 Million Vodacom Tanzania shares, representing 26.25% of the total company's shares from Mirambo Limited to Vodacom Group Limited in South Africa valued at TZS 500 Billion as per DSE share prices of TZS 850 at the time.

In 2020, operating revenues grew a further 16.47%, amounting to TZS 7.46 Billion, due to a 25.46% increase in the company's listing fees, amounting to TZS 3.51 Billion. The growth was primarily driven by a 28.70% increase in government bonds listed amounting to TZS 3.1 Billion due to the government raising about 3.12 Trillion (the most significant amount it had grown in our 5-year analysis between 2018 and 2022) worth of bonds in 2020, a 51.52% increment in the amount of money raised compared to TZS 2.1 Trillion in 2019 and a 4.37% increase in Transaction fees amounting to TZS 2.09 Billion along with a 10.53% increase in CSD Fees amounting to TZS 1.7 Billion. The growth from both revenue segments was driven by the rise in bond trading fees, following the increase in the issuance of government bonds mentioned earlier, coupled with an increase in bond trades by institutions and retailers alike, tracking the negative impact of COVID-19 on business activities. As a result, bond investing was seen as a low-risk return alternative due to its relatively low-risk nature coupled with high coupon returns.

Another one-time equity transaction occurred in 2020 following the transfer of shares from major shareholders in NMB Bank Rabobank of Netherlands to Arise B.V of Netherlands. There were 174,500,000 shares transferred (34.90% of the total issued shares) whose market price was worth about TZS 408.33 Billion on the stock exchange.

2021 saw a decline in EBITDA and operating margins due to a 63.65% decrease in Transaction fees amounting to TZS 758.57 Billion and a 32.28% decline in CSD Fees amounting to TZS 1.14 Billion following a fall in transaction fees from equities collected from both the exchange and the CSD by 83.02% from TZS 2.36 Billion in 2020 to TZS 401.45 Million in the following year due to the absence of one-time equity events and with normalized trading activities continuing to take place.

2022 saw a recovery in EBITDA and operating margins as transaction fees from equities from both the exchange and the CSDR recovered after the total fees grew by 33.81%, amounting to TZS 537.18 Million. Bond fees continued and sustained a high growth momentum from both the CSDR and the Exchange after increasing by 59.10%, amounting to TZS 966.52 Billion. Listing fees also increased by 7.08%, amounting to TZS 3.85 Billion, following a TZS 2.75 Trillion raised from government bonds, TZS 124.22 Billion raised from corporate bonds, and a 9.06% increase in the domestic market capitalization amounting to TZS 10.28 Trillion.

Net Profit Margins have been significantly higher than the EBITDA and Operating Profit Margin due to higher interest income from the exchange's fixed deposit and government bond investments and a low tax ratio since the business is exempt from corporate taxes. In contrast, the corporate tax charged on its subsidiary, the CSDR, amounts to a lower tax expense due to the low profit it records compared to its parent company. The net profit margin has seen an increasing trend to 2021 due to the growth of the company's interest income at a C.A.G.R of 28.80%, amounting to TZS 2.3 Billion, which was fueled by increased investments in fixed deposits and government securities at a C.A.G.R of 11.81% amounting to TZS 26.49 Billion. For the most period, the interest income had grown at a higher pace than its income tax expense except in 2022, which was the reason behind the decline in the company's net profit margins as the company's taxes grew by 33.75%, amounting to TZS 53.28 Million while the company's finance income increased by 8.04% amounting to TZS 3.16 Billion.

The reasons above that affected the company's margins were the same as those that affected the company's return ratios and respective trends.

## B. LIQUIDITY

The Exchange's current and quick ratios remain unchanged since the company has no inventory. These ratios remain high since the company has substantial investments in short-term fixed deposits, which have, on average, made up about 55.84% of the total assets between 2018 and 2022, most financed by the company's equity.

It's worth noting, however, that the company's cash ratio has been showing a declining trend year-on-year because it has been paying out a higher dividend than the cash it has been generating from its operations. During the five years between 2018 – 2022, dividends paid to shareholders stood at an average of 115.45% of the company's cash from operations. Additionally, between 2018 and 2019, the exchange had been investing more in government bonds and financial securities than it had been earning in interest income, with the situation changing between 2020 and 2022. However, positive cash inflows from investing and financing activities were still insufficient to cover the company's dividend expenditures despite the change. This resulted in a net decrease in the company's cash and cash equivalent every year during the five years except for 2020.

However, it's worth noting that the nature of its current liabilities seems to pose a low risk to the company as most of the current liabilities are comprised of prepaid revenue from listing fees of upcoming government bonds provisions and non-interest-bearing payables, which the company claims to settle between 15 – 45days after date of invoice.

## C. LEVERAGE

The company's leverage ratios remained below 15% during the five years mainly because it primarily finances its assets via equity. The company's most significant assets are its investments in short-term deposits and government bonds, which have composed about 80.22% of the company's total assets for the past five years. These bonds are mainly financed by the company's operating profits and interest income.

## D. SHAREHOLDER'S RATIOS

The Company's initial dividend payout ratio was 50% of distributable earnings. However, from 2020, the company's payout ratio seems to have increased to 60%. This, coupled with the company's primary investments in low-risk financial assets, indicates that management has not seen the need to grow the company's operations further.

For this reason, the company has experienced a sustainable growth rate averaging 6.42% during the five years. Dividend Yields have averaged at 8.20% during the five years.

*The dividend yield was calculated by taking the dividend paid out in a financial year divided by that year's opening price.*

# FORECASTED PERFORMANCE

***Assumptions used:***

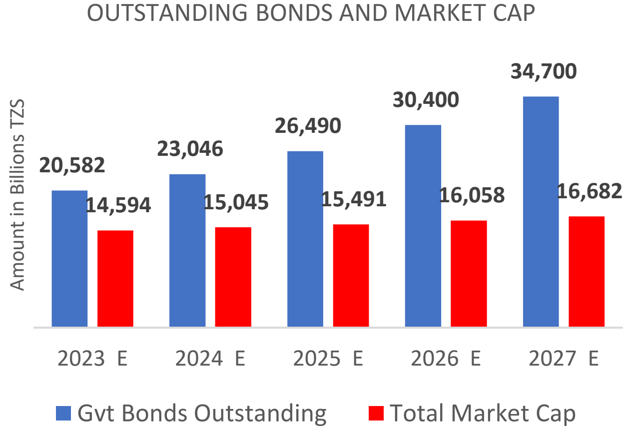
## a) LISTING FEES

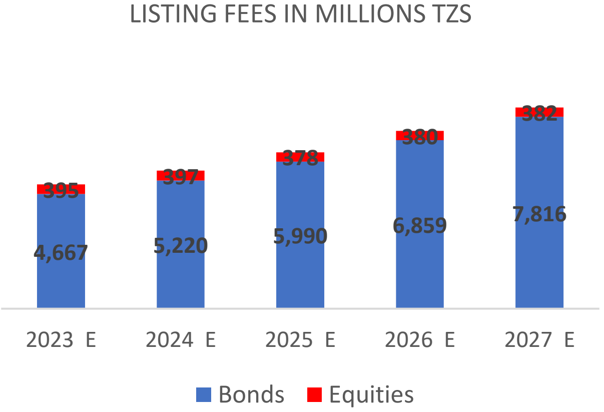
Equity Listing fees were projected based on market capitalization projections for individual companies. Market Capitalization for respective companies during the year 2023 had been projected to grow based on their annualized Year-to-date performance as of 30th Sept 2023. From 2024 – 2027, market capitalization for all individual companies whose share prices have seen movement during 2023 was projected to grow based on economic growth rate projections from the African Financial Development Bank and IMF, averaging 6.33%.

We also anticipated companies such as YETU to de-list in the year 2024 and JATU as SWALA to de-list in the year 2025; hence, based on our projections, Listing Fees from Equities are anticipated to decline at a C.A.G.R of 0.95%. Equity Fees were therefore derived from each counter based on the pricing structure of equities listed in the Enterprise Growth Markets and Main Investment Market disclosed in DSE's 2022 rule book.

Government bond listing fees were projected based on outstanding government bonds. We anticipated government bonds outstanding to reach 20.58 Trillion by Dec 2023 after estimating the amount of money the government is likely to raise from its remaining bond auctions for the year 2023. From 2024 – 2027, government bonds outstanding were estimated to average about 16.30% of Tanzania's GDP. This conclusion was reached after observing a correlation of 0.9923 between Outstanding Government bonds and GDP figures between 2018 – 2022 and anticipating that treasury bond debt to GDP ratio will grow steadily as most of the debt raised will be used to roll over previous outstanding debt. Government listing fees were estimated to amount to an average of 0.022% of the great government bonds projected, as was the case between 2018 and 2022. Due to this, government bond listing fees are anticipated to grow at a C.A.G.R of 17.96% between 2023 and 2027.

Corporate bond Listing fees were projected based on corporate bonds outstanding. In 2023, our projections took into account the listing fees derived from the issue of CRDB's 1st tranche Kijani bond, NMB's 1st Tranche of the Jamii Bond with their respective green-shoe options as well as the 2nd Tranche of NBC's Twiga Bond. From 2024 - 2027, outstanding corporate bonds were projected to consider future tranches disclosed by NBC and CRDB in their respective offer documents. All maturing corporate bonds were removed from the listings. Since NMB did not tell how much they expect to raise from their future tranches in their offer document, we assumed that the bank will issue TZS 100 Billion 3-year corporate bond tranches every year leading to 2027. The pricing system was based on that disclosed in DSE's 2022 rule book. Due to this, corporate bond listing fees are anticipated to grow at a C.A.G.R of 6.39% between 2023 - 2027.



***Assumptions used:***

## b) TRANSACTION FEES

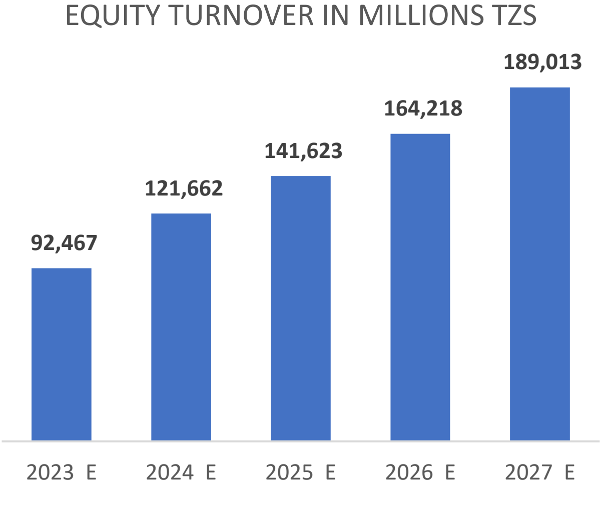
Equity Transaction fees were projected based on the turnover projected for the next 5-years. In 2023, turnover from equity is expected to amount to TZS 92.46 Billion, which was derived from anticipating the amount of turnover from Jan 2nd, 2022, to 30th Sept 2022, divided by total annual turnover. The weight was then applied to the turnover achieved from 2nd Jan – 30th Sept 2023 TZS 79.71 Billion to find the annual turnover.

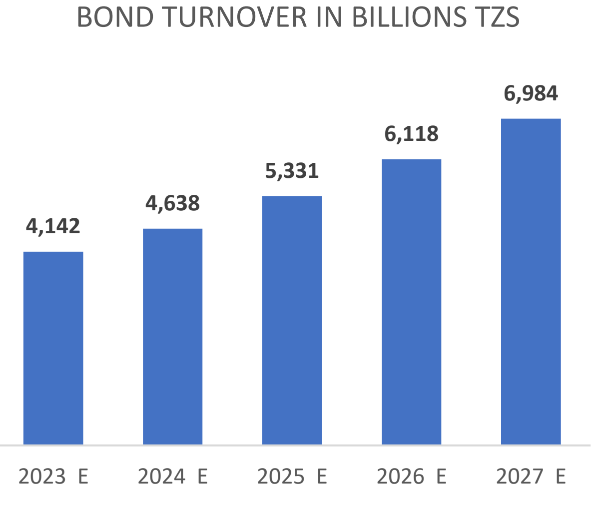
From 2024 - 2027, Equity Turnover was observed from the turnover purchased from locals and foreigners. Local investors' equity purchases were extrapolated based on projected GDP amounts from 2024 – 2027 after seeing a strong correlation of 0.9523 between historical local equity purchases and GDP figures.

Foreign Investor Purchases from 2024 were projected to increase under the assumption that global interest rates are likely to fall in response to disinflation in developed markets, causing foreign investors to increase their participation in emerging markets, resulting in a recovery in purchases from foreign investors. From 2025 – 2027, foreign investor purchases were grown using the World Bank's projected global GDP growth rates. Hence, Equity transaction fees were projected to grow at a C.A.G.R of 6.84% between 2023 – 2027.

Bond transaction fees were projected based on the amount of turnover from Treasury bonds. In 2023, turnover from bonds is expected to amount to TZS 4.14 Trillion, which was derived from anticipating the amount of turnover from Jan 2nd, 2022, to 30th Sept 2022, divided by total annual turnover. The weight was then applied to the turnover achieved from 2nd Jan – 30th Sept 2023 worth TZS 3.34 Trillion.

From 2024 - 2027, Bond turnover was expected to average at around 17.28% of the treasury bonds outstanding under the assumption that the more outstanding bonds available, particularly the longer-term ones, the more transaction activity is expected to occur since longer-term Treasury Bonds continue to remain as the most significant contributor to financial asset portfolios of pension funds, mutual funds, insurance companies, and banks. Bond transaction fees were thus expected to amount to an average of 0.027% of the treasury bonds traded, as has been the case in 2022, and were projected to grow at a C.A.G.R of 18.11% between 2023 - 2027. (Corporate bonds were ignored during transaction fee calculations since the turnover from these bonds seems immaterial and is expected to remain immaterial to the exchange's transaction fee income.)



***Assumptions used:***

## c) CSD FEES

CSD Fees are anticipated to grow at a C.A.G.R of 7.65% towards 2027, fueled by an increase in bond and equity transaction fees due to reasons explained earlier, AGM Management fees as the company continues to expand its registry services to other companies, and Annual membership fees in anticipation that the number of participants in the stock market is likely to increase.

## d) FINANCE INCOME

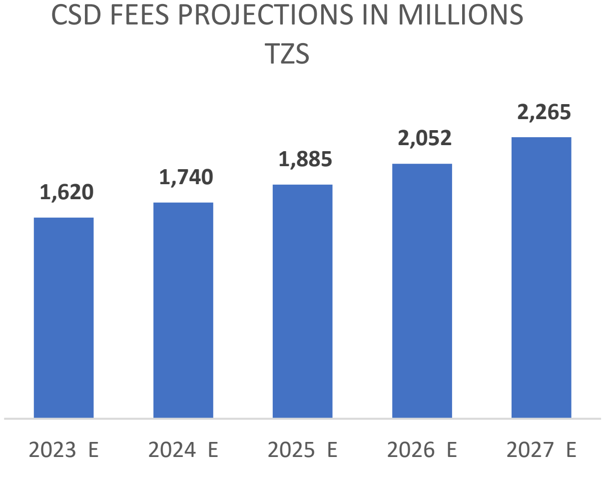
Interest income is projected to grow by 4.67%, assuming that the company will continue to exercise its investment policy of investing at least 70% of its excess funds from operational revenue. We also assume that the investments should yield an overall return of 12% due to historical average returns ranging at about the same figure and the assumption that the exchange can bargain with commercial banks for better-fixed deposit rates provided that it puts in a substantial amount of money with the banks over the agreed period.

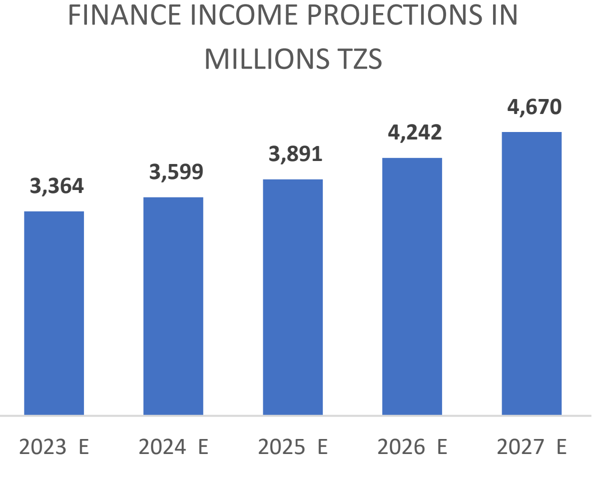
e) Depreciation and Amortization were forecasted using historical percentages of the opening balances for accumulated depreciation.

f) Salaries and Expenses were projected to grow by inflation, with other additional benefits grown based on their percentage of operating revenue, labor regulations, and historical growth rates.

g) The tax ratio is estimated to average 1.09% of the company's EBIT, which was derived from the average tax ratio between 2021 - 2022

h) Expenditures on Intangible Assets were estimated at 0.5% of operating revenue in 2023 and 1% from 2024 to 2027 due to management's aim to spend more on improving its IT infrastructure and software systems as part of the company's 2023 – 2027 strategic objectives. At the same time, CapEx on PP&E is estimated to be about 1.46% of operating revenues, as has been the case in 2022.



# VALUATION

## Methodology used

A Dividend Discount Model (DDM) and Free Cash Flow to Equity (FCFE) Model were used to approximate the intrinsic share price of the Dar es Salaam Stock Exchange. The inherent value result from the DDM Model was assigned a 70% weight, with the remaining 30% weight given to the FCFE Model. A higher weight was given to the DDM Model, assuming that the audience reading this report is likely a retail investor who would gauge their returns based on the amount of dividends paid out.

## Discount Rate

DSE's discount rate was 21.04%, derived from the Capital Asset Pricing Model (C.A.P.M). To arrive at this figure, the 5-year bond yield of 10.0922% from the primary market auction held on 2nd August was used, and the Equity risk premium of 13.35% along with a 0.82 average levered beta was used, sourced from Damodaran.

| COST OF CAPITAL | |
|---|---|
| Latest 5-Year Bond Yield | 10.09% |
| Beta | 0.82 |
| Equity Risk Premium | 13.35% |
| **Capital Asset Pricing Model** | **21.04%** |

## Sustainable Growth Rate

The sustainable growth rate used when calculating for the Terminal Value was 6.33%, derived from the average projected growth rates for Tanzania's economy between 2023 and 2027.

# The Dividend Discounted Model

| Discounted Dividend Model (In Thousands TZS): | 2023 E | 2024 E | 2025 E | 2026 E | 2027 E |
|---|---|---|---|---|---|
| Dividends to shareholders | 3,419,653 | 3,909,837 | 4,497,982 | 5,136,404 | 5,942,643 |
| Present Value | 2,825,244 | 3,230,224 | 3,716,137 | 4,243,588 | 4,909,685 |

| Details | Amount in TZS 000 |
|---|---|
| Present Value of 2027 Projected Dividend | 4,909,685 |
| Discount Rate | 21.04% |
| Sustainable Growth Rate | 6.33% |
| **Terminal Value** | **33,373,790** |

| Details | Amount in TZS 000 except per share value |
|---|---|
| Sum of Present Value | 18,924,878 |
| Terminal Value | 33,373,790 |
| **Total Intrinsic Value** | **52,298,667** |
| Shares Outstanding | 23,824 |
| **Intrinsic Value per share** | **2,195.21** |

# Free Cash Flow to Equity Model

| Free Cash Flow to Equity Model (In Thousands TZS): | 2023 E | 2024 E | 2025 E | 2026 E | 2027 E |
|---|---|---|---|---|---|
| Free Cash Flow to Equity | 3,303,538 | 4,346,434 | 4,806,832 | 5,032,766 | 5,663,474 |
| Present Value | 2,729,312 | 3,590,931 | 3,971,301 | 4,157,964 | 4,679,041 |

| Details | Amount in TZS 000 |
|---|---|
| Present Value of 2027 Projected Free Cash flows to Equity | 4,679,041 |
| Discount Rate | 21.04% |
| Sustainable Growth Rate | 6.33% |
| **Terminal Value** | **31,805,977** |

| Details | Amount in TZS 000 except per share amount |
|---|---|
| Sum of Present Value | 19,128,549 |
| Terminal Value | 31,805,977 |
| **Total Intrinsic Value** | **50,934,526** |
| Shares Outstanding in “000’’ | 23,824 |
| **Intrinsic Value per share** | **2,137.95** |

# The Intrinsic Value per share

| Methodology | Intrinsic Value per share | Weight | Weighted Value |
|---|---|---|---|
| Discounted Dividend Model | 2,195.21 | 70% | 1,536.65 |
| Free Cash Flow to Equity | 2,137.95 | 30% | 641.38 |
| Intrinsic Value per share | | | 2,178.03 |

# Margin of Safety

| | |
|---|---|
| Intrinsic Value | TZS 2,178.03 |
| Market Price | TZS 1,760 |
| Upside | 23.75% |

# Sensitivity Analysis Table

| | | ***Cost of Capital*** | | | | |
|---|---|---|---|---|---|---|
| | ***2,178.03*** | **19.04%** | **20.04%** | **21.04%** | **22.04%** | **23.04%** |
| ***Sustainable Growth Rate*** | **4.33%** | 2,214.62 | 2,107.54 | 2,012.74 | 1,928.16 | 1,852.18 |
| | **5.33%** | 2,317.04 | 2,196.17 | 2,090.12 | 1,996.25 | 1,912.49 |
| | **6.33%** | 2,435.58 | 2,297.74 | 2,178.03 | 2,073.00 | 1,980.02 |
| | **7.33%** | 2,574.36 | 2,415.29 | 2,278.76 | 2,160.18 | 2,056.15 |
| | **8.33%** | 2,739.05 | 2,552.91 | 2,395.33 | 2,260.09 | 2,142.63 |

# FINANCIAL STATEMENTS

| AMOUNTS IN TZS "000" except per share basis & ratios | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **YEARS** | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 E | 2024 E | 2025 E | 2026 E | 2027 E |
| **INCOME STATEMENT** | | | | | | | | | | |
| **Revenue from Operations:** | | | | | | | | | | |
| Listing Fees | 2,554,404 | 2,800,066 | 3,512,983 | 3,595,375 | 3,849,913 | 5,061,420 | 5,617,287 | 6,367,980 | 7,239,067 | 8,198,050 |
| Transaction Fees | 791,967 | 1,999,704 | 2,087,001 | 758,566 | 1,183,079 | 1,355,954 | 1,567,907 | 1,806,144 | 2,076,178 | 2,377,884 |
| Central Depository Securities Fees (CSD) | 1,003,285 | 1,533,317 | 1,694,839 | 1,147,750 | 1,442,111 | 1,619,088 | 1,738,713 | 1,883,546 | 2,050,816 | 2,263,367 |
| Other Operating Income | 290,167 | 75,580 | 169,535 | 155,136 | 240,455 | 268,410 | 313,115 | 335,253 | 355,138 | 366,682 |
| **Total Operating Revenues** | **4,639,823** | **6,408,667** | **7,464,358** | **5,656,827** | **6,715,558** | **8,304,872** | **9,237,021** | **10,392,922** | **11,721,200** | **13,205,983** |
| Information & Technology Costs | -286,625 | -636,207 | -599,642 | -280,506 | -399,070 | -524,164 | -529,981 | -623,283 | -705,081 | -781,362 |
| General & Administrative Expenses | -1,767,079 | -1,174,413 | -1,397,237 | -1,170,598 | -1,233,872 | -1,533,938 | -1,677,066 | -1,895,898 | -2,129,547 | -2,402,107 |
| Staff Costs | -2,255,124 | -2,628,436 | -2,984,246 | -3,145,874 | -3,755,079 | -3,905,522 | -4,073,323 | -4,234,096 | -4,411,716 | -4,614,709 |
| Depreciation & Amortization | -279,729 | -226,191 | -240,666 | -149,978 | -120,571 | -126,846 | -137,306 | -142,165 | -280,759 | -291,898 |
| Expected Credit Losses | -5,744 | -39,389 | -23,913 | 13,332 | -27,008 | -8,123 | -28,396 | -19,112 | -13,048 | -27,284 |
| **Total Operating Expenses** | **-4,594,301** | **-4,704,636** | **-5,245,704** | **-4,733,624** | **-5,535,600** | **-6,098,593** | **-6,446,071** | **-6,914,554** | **-7,540,151** | **-8,117,361** |
| **Operating Profits** | **45,522** | **1,704,031** | **2,218,654** | **923,203** | **1,179,958** | **2,206,278** | **2,790,950** | **3,478,369** | **4,181,049** | **5,088,622** |
| Finance Income | 1,369,981 | 1,638,052 | 2,416,186 | 2,927,344 | 3,162,583 | 3,386,836 | 3,637,964 | 3,945,560 | 4,322,331 | 4,776,231 |
| Other non-operating income | 416,345 | 344,236 | 172,221 | 186,484 | 193,392 | 168,891 | 159,036 | 155,027 | 151,296 | 148,309 |
| **Profits before income tax** | **1,831,848** | **3,686,319** | **4,807,061** | **4,037,031** | **4,535,933** | **5,762,005** | **6,587,950** | **7,578,956** | **8,654,676** | **10,013,163** |
| Income Tax Expense | -74,160 | -138,339 | -168,016 | -39,835 | -53,280 | -62,584 | -71,555 | -82,318 | -94,002 | -108,757 |
| **Profit After Tax** | **1,757,688** | **3,547,980** | **4,639,045** | **3,997,196** | **4,482,653** | **5,699,422** | **6,516,395** | **7,496,637** | **8,560,674** | **9,904,406** |
| **Earnings Per Share** | **73.78** | **148.92** | **194.72** | **167.78** | **188.16** | **239.23** | **273.52** | **314.67** | **359.33** | **415.73** |
| **Dividend Per Share** | **37** | **74.46** | **116.82** | **101.67** | **116** | **143.54** | **164.11** | **188.80** | **215.60** | **249.44** |

| STATEMENT OF FINANCIAL POSITION | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS:** | | | | | | | | | | |
| **Non-Current Assets:** | TRUE | TRUE | TRUE | TRUE | TRUE | TRUE | TRUE | TRUE | TRUE | TRUE |
| Property and equipment | 406,923 | 259,354 | 86,060 | 58,183 | 110,704 | 179,185 | 257,910 | 5,049,069 | 5,026,864 | 5,021,579 |
| Non-current prepayment | 2,819,584 | 2,819,584 | 2,819,584 | 2,819,584 | 2,819,584 | 2,819,584 | 2,819,584 | - | - | - |
| Intangible asset | 103,672 | 86,726 | 263,367 | 177,345 | 120,476 | 89,393 | 102,020 | 125,045 | 156,150 | 195,655 |
| Leasehold land and building | 463,957 | 331,000 | 326,986 | 322,973 | 234,267 | 232,430 | 230,592 | 228,755 | 226,918 | 225,080 |
| Government securities | 5,816,599 | 3,264,952 | 4,895,956 | 9,875,146 | 9,878,294 | 9,878,294 | 9,878,294 | 9,878,294 | 9,878,294 | 9,878,294 |
| Loan to DSE SACCOS | - | - | 143,190 | 199,815 | 153,843 | 103,843 | 53,843 | 10,653 | 0.00 | 0.00 |
| Deferred tax asset | 66 | 4,744 | 8,207 | 7,233 | 17,751 | - | - | - | - | - |
| Total Non-Current Assets | 9,610,801 | 6,766,360 | 8,543,350 | 13,460,279 | 13,334,919 | 13,302,729 | 13,342,243 | 15,291,816 | 15,288,225 | 15,320,609 |
| **Current Assets:** | | | | | | | | | | |
| Trade & other receivables | 713,126 | 1,180,575 | 3,004,450 | 1,198,271 | 1,432,246 | 1,822,088 | 2,016,893 | 2,306,276 | 2,630,201 | 2,986,353 |
| Income Tax Receivables | - | - | - | 37,513 | 90,240 | - | - | - | - | - |
| Short term deposits- Amortized cost | 11,528,774 | 16,422,335 | 16,645,949 | 14,371,700 | 16,613,943 | 18,345,341 | 20,438,076 | 23,001,370 | 26,141,134 | 29,923,633 |
| Cash and cash equivalents | 388,828 | 183,214 | 216,094 | 81,355 | 56,363 | 596,314 | 1,523,095 | 2,420,089 | 2,954,873 | 3,481,942 |
| Restricted bank balance | 8,207 | 5,596 | 14,236 | 15,005 | 958 | 958 | 958 | 958 | 958 | 958 |
| Total Current Assets | 12,638,935 | 17,791,720 | 19,880,729 | 15,703,844 | 18,193,750 | 20,764,701 | 23,979,021 | 27,728,694 | 31,727,166 | 36,392,886 |
| **TOTAL ASSETS** | **22,249,736** | **24,558,080** | **28,424,079** | **29,164,123** | **31,528,669** | **34,067,430** | **37,321,264** | **43,020,510** | **47,015,391** | **51,713,494** |
| **EQUITY & LIABILITIES** | | | | | | | | | | |
| **Equity:** | | | | | | | | | | |
| Share capital | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 | 9,529,608 |
| Share premium | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 | 1,850,374 |
| Retained earnings | 7,773,326 | 10,439,229 | 13,310,328 | 14,527,663 | 16,614,327 | 19,550,162 | 22,646,905 | 26,233,705 | 30,296,397 | 35,064,398 |
| Revaluation surplus | 331,195 | 205,219 | 200,169 | 196,935 | 108,229 | 108,229 | 108,229 | 108,229 | 108,229 | 108,229 |
| Car loan fund | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 |
| **TOTAL EQUITY** | **19,519,503** | **22,059,430** | **24,925,479** | **26,139,580** | **28,137,538** | **31,073,373** | **34,170,116** | **37,756,916** | **41,819,608** | **46,587,609** |
| **Non Current Liability:** | | | | | | | | | | |
| Grants | 1,337,308 | 1,102,316 | 1,257,229 | 1,202,541 | 1,147,853 | 1,095,319 | 1,046,124 | 998,645 | 953,350 | 910,241 |
| Deferred tax Liability | - | - | - | - | - | - | - | - | - | - |
| Total Non-Current Liabilities | 1,337,308 | 1,102,316 | 1,257,229 | 1,202,541 | 1,147,853 | 1,095,319 | 1,046,124 | 998,645 | 953,350 | 910,241 |
| **Current Liability:** | | | | | | | | | | |
| Borrowing | 150,000 | - | - | - | - | - | - | - | - | - |
| Revenue grant | - | 31,514 | 110,789 | 56,864 | 22,985 | 11,151 | 5,833 | 2,808 | 1,330 | 653 |
| Contract liabilities | 566,033 | 682,942 | 766,032 | 909,845 | 909,266 | 1,204,995 | 1,339,984 | 1,528,205 | 1,773,939 | 2,001,735 |
| Trade and other payables | 634,602 | 675,236 | 1,259,581 | 855,293 | 1,311,027 | 682,592 | 759,207 | 2,733,935 | 2,467,164 | 2,213,257 |
| Current income tax | 42,290 | 6,642 | 104,969 | - | - | - | - | - | - | - |
| Total Current Liabilities | 1,392,925 | 1,396,334 | 2,241,371 | 1,822,002 | 2,243,278 | 1,898,738 | 2,105,025 | 4,264,949 | 4,242,433 | 4,215,644 |
| **TOTAL LIABILITIES** | **2,730,233** | **2,498,650** | **3,498,600** | **3,024,543** | **3,391,131** | **2,994,057** | **3,151,149** | **5,263,594** | **5,195,784** | **5,125,886** |
| **TOTAL EQUITY & LIABILITIES** | **22,249,736** | **24,558,080** | **28,424,079** | **29,164,123** | **31,528,669** | **34,067,430** | **37,321,264** | **43,020,510** | **47,015,391** | **51,713,494** |

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