



QUARTERLY BULLETIN

April – June 2020

ACTIVITY REPORT

MARKET PERFORMANCE

EQUITIES

Trading in the second quarter registered a tremendous decline as Uganda's equity markets continued to feel the impact of COVID-19 pandemic. While the ultimate growth outcome is still uncertain, and an even worse scenario is possible if it takes longer to bring the health crisis under control, the pandemic will result in output contractions across the vast financial markets. Although Uganda is gradually easing the lock down measures instituted to contain the spread of the pandemic, the adverse consequences of the global impact of the pandemic on financial markets could persist through the remaining part of 2020. (Source: Bank of Uganda June 2020 Monetary Policy Report) The second quarter of 2020 accounted for a total turnover of UGX 3.4 bn, compared to a combined total of UGX 25.6bn that was traded between April & June 2019.

QUARTERLY TURNOVER PERFORMANCE PER COUNTER:

Turnover was realized on eight counters, which are summarized as follows; the UMEME counter took the first position, with a posting of UGX 3.1bn, accounting for 91.70 percent of the total turnover. Stanbic in second position accounted for 4.49 percent while Bank of Baroda Uganda, CIPLA, Uganda Clays Limited and DFCU posted 2.77 percent, 0.81 percent, 0.10 percent and 0.08 percent of the quarterly turnover, respectively. The rest of the counters represented by National Insurance Corporation; and New Vision Limited had a combined turnover of UGX 1.7mn.

VOLUME TRADED PER COUNTER:

During the quarter UMEME dominated activity, with 13.1mn shares traded taking up 62.01 percent of the volume, Stanbic recorded 30.05 percent of the volume with 6.4mn shares, while Bank of Baroda Uganda, Uganda Clays Limited, CIPLA and National Insurance Corporation posted 824,205 shares, 396,100 shares, 277,759 shares and 185,321 shares accounting for 3.88 per cent, 1.86 per cent, 1.31 per cent and 0.87 per cent of the total volume respectively. DFCU and New Vision Limited recorded marginal positions.

Key Equity Market Indicators – Annual Comparisons (Year on Year)

Market Indicator	Apr 2019 - Jun 2019	Apr 2020 - Jun 2020	% Change
USE All Share Index	1,614.82	1,369.84	-15.2
USE Local Index	375.97	339.17	-9.8
Market Capitalization (UGX. bn)	22,656.49	19,089.5	-15.7
Volume Traded	480,653,617	21,241,269	-95.6
Turnover (UGX. bn)	25.6	3.4	-86.7
No. of Deals	1,359	411	-69.8
Trading Days	60	61	

Source USE Product Markets Department

Trading Volumes and Activity on a Quarterly Basis:

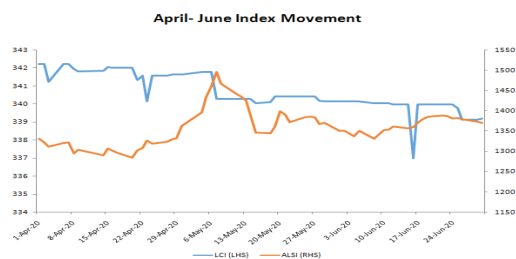
	April	May	June
Volume Traded	9,179,466	2,966,813	3,862,908
Turnover (Ushs)	1,408,709,632	497,238,699	279,839,205
No. of Deals	157	92	158
Trading Days	21	20	20
Daily Avg. Turnover (Ushs)	67,081,411	25,097,565	13,991,960
Daily Avg. No. of trades	8	5	8
Market Capitalization (Ushs. bn)	18,986.5	19,088.67	19,089.5
USE All Share Index	1362.06	1396.52	1369.84
LCI	341.63	340.14	339.17

Source USE Product Markets Department

USE INDEX PERFORMANCE

The All Share index opened at 1,305.84 rising steadily to a high of 1,396.52 in May but dropped gradually to close at 1,369.8. This trend was due to changes in different market prices and the exchange rate.

The local share Index fell steadily from 342.21 to 340.14 in May 2020 and plunged further to close at 339.17 in June 2020. Below is the graph depicting the ALSI/LCI movements.



Source: USE Product Markets Department

BOND LISTINGS:

There were 6 treasury bonds re-opened in the quarter with a value of UGX 940bn which were listed. Secondary market trading is over the counter (OTC) through primary dealers. The current total value of the Government Bonds listed on the bourse stands at UGX 12.6 Trillion.

Government Bond Schedule as at June 2020

INSTRUMENT CODE	ISIN	ISSUED SHARES	ISSUE DATE	RATE	MATURITY
FXD/6/2010/10YR	UG0000000782	80BN	2010/07/21	11.00	2020/07/09
FXD/08/2017/3YR	UG12G0608202	220BN	2017/08/10	13.25	2020/08/06
FXD/09/2015/5YR	UG12H0309205	100BN	2015/09/10	20.00	2020/09/03
FXD/2/2011/10YR	UG0000000865	710BN	2011/02/02	11.00	2021/01/21
FXD/02/2016/5YR	UG12H1802216	345BN	2016/02/24	18.38	2021/02/18
FXD/05/2016/5YR	UG12H1305210	100BN	2016/05/18	16.50	2021/05/13
FXD/09/2016/5YR	UG12H2109215	100BN	2016/09/27	16.50	2021/09/21
FXD/11/2016/5YR	UG12H2810218	200BN	2016/11/03	16.75	2021/10/28
FXD/12/2016/5YR	UG12H0312217	100BN	2016/12/09	17.00	2021/12/03
FXD/05/2017/5YR	UG12H1305228	156.3BN	2017/05/19	15.38	2022/05/13
FXD/7/2012/10YR	UG0000001079	1.615TN	2013/08/14	11.00	2022/06/09
FXD/07/2017/5YR	UG12H0707226	300BN	2017/07/13	14.13	2022/07/07
FXD/12/2017/5YR	UG12H2811224	156.3BN	2017/12/04	12.50	2022/11/28
FXD/6/2013/10YR	UG0000001244	905BN	2013/04/24	11.00	2023/04/13
FXD/1/2014/10YR	UG12J1801248	580BN	2014/01/30	14.00	2024/01/18
FXD/05/2019/5YR	UG12H1005240	153.7BN	2019/05/17	14.88	2024/05/10
FXD/8/2014/10YR	UG0000001467	1.070TN	2014/08/13	14.00	2024/08/01
FXD/1/2015/10YR	UG0000001517	100BN	2015/01/28	11.00	2025/01/16
FXD/12/2015/10YR	UG12J1812252	120BN	2015/12/30	19.50	2025/12/18
FXD/08/2016/10YR	UG12J2708269	300BN	2016/09/08	16.63	2026/08/27
FXD/5/2017/10YR	UG12J0605277	360BN	2017/05/18	16.00	2027/05/06
FXD/1/2018/10YR	UG12J1301280	220BN	2018/01/25	14.13	2028/01/13
FXD/12/2013/15YR	UG0000001376	220BN	2013/12/04	15.25	2028/11/16
FXD/2/2015/15YR	UG0000001533	1.865TN	2015/02/25	14.25	2029/08/23
FXD/5/2015/15YR	UG12K0205308	120BN	2015/05/21	17.50	2030/05/02
FXD/4/2016/15YR	UG12K0304317	300BN	2016/04/20	17.00	2031/04/03
FXD/3/2017/15YR	UG12K0403325	320BN	2017/03/23	16.38	2032/03/04
FXD/2/2018/15YR	UG12K0302337	750BN	2018/02/22	14.38	2033/02/03
FXD/7/2019/15YR	UG12K2206346	1.105TN	2019/07/11	14.25	2034/06/22

CORPORATE BOND SECONDARY MARKET ACTIVITY

The Corporate Bonds segment remained inactive throughout the period. Investors in this segment have continued to hold onto their investments and receive interest that is paid out semi-annually. Below are the corporate bonds currently listed on the USE.

1. African Development Bank Bond maturing on 01.02.2022
2. Kakira Sugar Limited Bond maturing on 07.12.2023

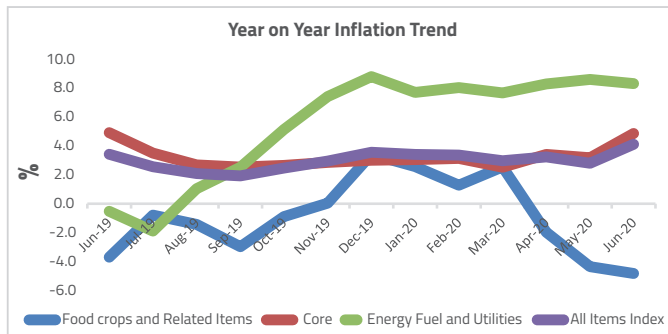
ECONOMIC & FINANCIAL DEVELOPMENTS: April – June 2020

INFLATION – OUTLOOK AND RISKS

Inflation remained relatively subdued with annual headline and core inflation averaging 3.4% and 3.8% in the second quarter of 2020 compared to 3.3% and 2.9% in the first quarter of 2020, respectively. Year on year headline inflation rose to 4.1% driven by higher annual core inflation as a result of high transport costs following the relaxation of COVID-19 lock down measures. Annual food inflation dropped to a deflation of 3.7% in the three months to June 2020 compared to 2.7% posted in the first quarter of 2020 due to lower prices of food, particularly bananas. Year on year Energy, Fuel and Utilities inflation increased to 8.3% in June 2020 from 7.7% in March 2020.

Consistent with the slowdown of economic activity, inflation has remained subdued. The economic slowdown and a gradual recovery will keep inflation below the medium-term target of 5 percent in the near term (12 months ahead). Inflation however is forecast to return to the target in the medium term (2-3 years). Moreover, external sources of inflation are likely to remain weak in the near term amid the global economic downturn and food crop inflation is also expected to remain contained. Risks to inflation from shilling depreciation are expected to stay low as pass-through of exchange rate depreciation to inflation is expected to remain slow due to subdued demand. (Source: Bank of Uganda June 2020 Monetary Policy Report, Uganda Bureau of Statistics)

The Graph below shows the year on year inflation trend:



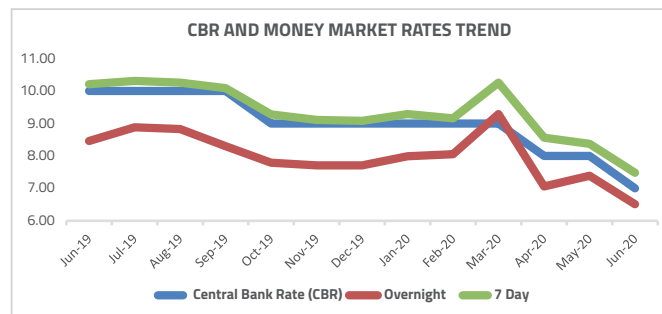
Bank of Uganda (June 2020 Monetary policy report)

INTEREST AND LENDING RATES

Interbank Money Market Rates

The average 7-day inter-bank money market rate dropped to 7.5 percent in June from 8.6 percent at the beginning of the quarter following the reduction of the Central Bank Rate. The Monetary Policy Committee reduced the Central Bank Rate to 7% in the meeting held in June 2020 from 8% in April 2020. This is the lowest the Central Bank Rate has been set since Bank of Uganda adapted the inflation targeting monetary policy framework in 2011. According to the June Monetary Policy statement, although the earlier measures taken by Bank of Uganda were yet to take full effect in mitigating the impact of the pandemic on the economy, it was still necessary to ease financial conditions further since inflation outlook remains benign.

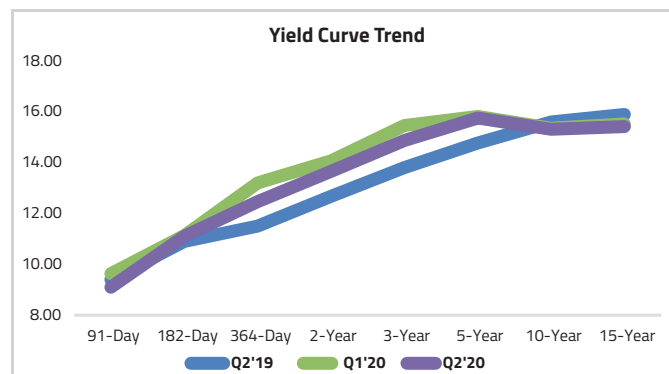
The 7-day Inter Bank Rate and Central Bank Rate



Yields on Government securities

The Yield Curve dropped during the second quarter of 2020 compared to the first quarter of the year. This was in line with the accommodative monetary policy pursued by the Central Bank in June. The volatility was mainly registered on the shorter end of the yield curve due to high demand on these tenors as investors focus on low durations due to rising risks arising from the Covid-19 pandemic and coming General Election. The 91-Day and 364-Day averaged 9.1 percent and 12.5 percent in Q2 2020 compared to an average of 9.6 percent and 13.2 percent in Q1 2020, respectively. Yields on the 2-year, 3-year, 5-year, 10-year and 15-year averaged 13.7 percent, 14.9 percent, 15.8 percent, 15.3 percent and 15.4 percent in Q2'20, respectively. The medium portion of the yield curve has registered a rise year on year showing the higher risk in 2020 compared to 2019. The expansionary monetary policy stance coupled with a stable local currency witnessed over the past months has supported relative stability of the yield curve so far this year. Higher government borrowing ahead of the 2021 General Elections presents a risk of rise in yields over the short to medium term. The yield curve trend is shown in the Figure below:

Secondary Market Yields on T-bills and T-bonds



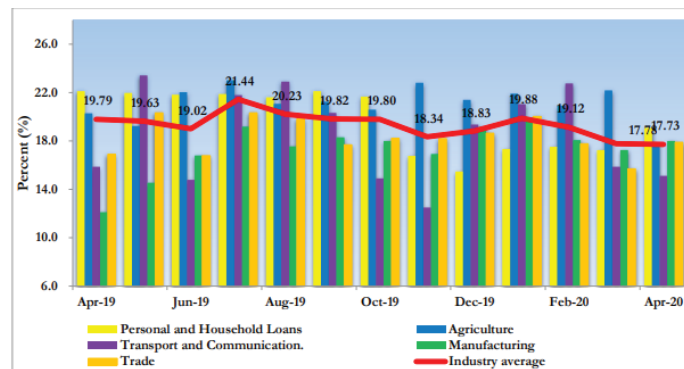
Bank of Uganda (June 2020 Monetary policy report)

Lending rates

Bank lending to households and businesses remains an important channel through which monetary policy affects the economy. Commercial bank lending interest rates continued to decline in line with the accommodative monetary policy stance. Lending rates on Shilling denominated loans rose to 18.8 percent in May 2020 from 17.8 percent in March 2020. On the other hand, lending rates on Foreign Currency denominated loans fell to 4.2 percent in May 2020 from 6.6 percent in March 2020. The sectoral decomposition of lending interest rates by sector is illustrated in the below.

Nonetheless, the measures taken by the BoU, including easing financing conditions in the banking sector and the credit relief measures extended to borrowers are yet to take full effect. BoU will continue to maintain an adequate supply of liquidity in domestic markets, to encourage lending by financial institutions to households and businesses.

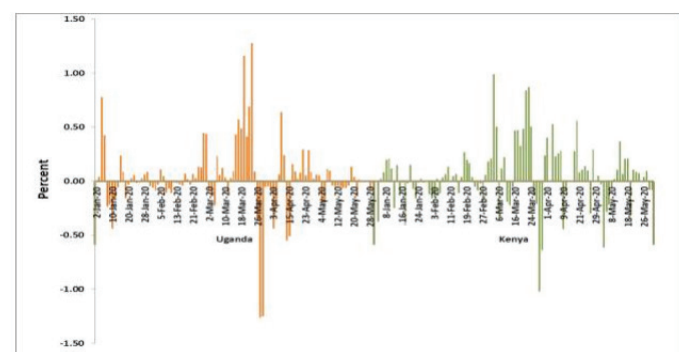
Lending Rates by Sector



Source: Bank of Uganda (June 2020 Monetary policy report)

FOREIGN EXCHANGE RATE DEVELOPMENT

The Uganda Shilling appreciated against the USD in the second quarter of 2020. The local currency gained 1.3 percent closing June at an average of 3,737.9 compared to 3,785.7 in April. The UGX depreciated by 2.5 percent in the first quarter of this year driven by increased demand from exiting offshore investors due to heightened uncertainty as a result of the Covid-19 pandemic. Demand for foreign exchange was lower in the period between April and June 2020 due to reduced import activity and overall slowdown in economic activity. The stock of reserves at the end of April 2020 was USD 3,163.6 Mln, equivalent to 4.6 months of import cover. The financial account surplus declined in the 12 months to April 2020 due to lower Foreign Direct Investments (FDI) coupled with portfolio outflows according to the June Monetary Policy Report. On the regional front, the Kenya Shilling and Uganda Shilling experienced some volatility during the three months to April 2020 before stabilizing in May 2020 as depicted in the Figure below.



Bank of Uganda (June 2020 Monetary report)

Selected Indicators

	Apr-20	May-20	Jun-20
Prices			
Consumer Price indices (CPI)			
Headline: (Base: 2005/06 = 100)			
Core: (Base: 2005/06 = 100)			

Headline: (Base: 2009/10 = 100)	182.6	182.5	184.6
Core: (Base: 2009/10 = 100)	178.4	178.1	181.8
Inflation, (%)			
Headline: (Base: 2005/06 = 100)			
Core: (Base: 2005/06 = 100)			
Headline: (Base: 2009/10 = 100)	3.2	2.8	4.1
Core: (Base: 2009/10 = 100)	3.4	3.2	4.9
Exchange Rate (UGX/US\$)			
End of Period	3,807.0	3,784.8	3,730.1
Period Average	3,785.7	3,791.5	3,737.9
Annual appreciation/ depreciation rate	1.3	0.7	0.2
Real Effective Exchange Rate 7/	99.9	100.2	
Interest Rates(%)			
Central Bank Rate	8.0	8.0	7.0
Rediscount Rate	12.0	12.0	11.0
Lending Rate	17.7	18.8	
91-day Treasury Bill Yield	9.6	9.0	8.7
364-day Treasury Bill Yield	12.9	12.4	12.1
Time deposit rate	9.8	10.2	

MARKET DEVELOPMENTS: April – June 2020

USE LAUNCHES THE EASY PORTAL ONLINE ACCOUNT OPENING PLATFORM

The Uganda Securities Exchange (USE) launched an online account opening platform that will enable Ugandan investors to seamlessly open up Securities Central Depository (SCD) accounts. This is an upgrade to the USE Easy Portal which is an online platform that initially enabled investors to view their security holdings and monitor their stock transaction activities. The platform offers an easy, fast and convenient experience to local investors despite the impediments on physical interactions as a result of the COVID-19 pandemic.

Operations at the USE were largely manual at its inception in 1997. In 2010, the USE started operating a securities depository, which ushered in a paperless clearing and settlement regime. To further enhance efficiency, the Exchange invested in an Automated Trading System in 2015 which meant that Brokers were able to execute trades from various locations over the internet. These technological advancements have seen a shift from formerly issued paper certificates to electronically issued securities. Currently, 98 percent of all shares traded on the Exchange are in electronic form and only 2 percent are in paper form. The Exchange started work on a platform that would enable the tracking of investments online at the end of 2019.

The Online Account Opening module will enable investors to open accounts at the Uganda Securities Exchange, view their portfolio(s) and access market information online using their smart phones and computers. Previously, investors had to fill out forms from the Brokers' physical locations to open trading investment accounts. The USE Easy Portal ensures the collection of vital KYC details for an investor (Including, a front and back copy of one's National ID and a photo) and allows for the Information submitted by the investor to be passed on to the selected Stock Broker's back office for further verification and thereafter this information is sent to the Securities Central Depository for approval. The process should take between 24 to 48 hours. In the interim the platform is available to Ugandan nationals with National IDs which can be verified. The system will be further enhanced to cover verification of East African Region IDs and passports in order to increase the reach to various investors. There are currently about 37,000 investors in the depository of which 4,000 are institutional investors. We believe this will go to great lengths in increasing the number of investors at the Exchange and simplify access to the Stock market since all Ugandans with a National ID are able to open accounts from any location. The USE has a Memorandum of Understanding with National Identification and Registration Authority (NIRA) which ensures the verification of the information provided over the platform. The platform will further be augmented with addition of a Mobile Application to enable clients place orders directly on the market while also funding their transactions from mobile wallets and other alternative e-payment methods.

The Exchange has invested in ensuring the security of the system. A dedicated team has been put in place to deal with complaints and inquiries encountered by investors while using the platform. In using the module, existing investors are persons who already have an SCD account in the Depository. These will link their Accounts in order to access the additional functionalities available on the enhanced platform. New investors will have to create an account online by following Ten (10) clear simple steps. The service will have a 24-hour access. The Easy Portal makes investing easier, faster and more convenient for the current and future investors on the depository. We believe that with the support of the Stock Brokerage community, Capital Markets Authority, Ministry of Finance and all other key stakeholders in the stock market, the platform positions us for enhanced growth in secondary market activity and access to the market.

Paul Bwiso
Chief Executive Officer – Uganda Securities Exchange (USE)

EDUCATIONAL COLUMN

UNDERSTANDING BONUS ISSUE

What is a Bonus Issue?

A bonus issue, also known as a scrip issue or a capitalization issue, is an offer of free additional shares to existing shareholders (is a stock dividend, allotted by the company to reward the shareholders). A company may decide to distribute further shares as an alternative to increasing the dividend payout. For example, a company may give one bonus share for every five shares held. Bonus issues are given to shareholders when companies are short of cash

and shareholders expect a regular income. Shareholders may sell the bonus shares and meet their liquidity needs. Bonus shares may also be issued to restructure company reserves. Issuing bonus shares does not involve cash flow. It increases the company's share capital but not its net assets. The bonus shares are issued out of the reserves shares of the company. Bonus shares are issued according to each shareholder's stake in the company. For example, a three-for-two bonus issue entitles each shareholder three shares for every two they hold before the issue. A shareholder with 1,000 shares receives 1,500 bonus shares ($1000 \times 3 / 2 = 1500$). At the bourse there are several listed companies that have issued bonus shares to their shareholders namely Stanbic, Bank of Baroda Uganda, National Insurance Corporation and DFCU. Bonus shares are not taxable. But the stockholder may have to pay capital gains tax if they sell them.

KEY TAKEAWAYS

A bonus issue of shares is stock issued by a company in lieu of cash dividends. Shareholders can sell the shares to meet their liquidity needs. Bonus shares increase a company's share capital but not its net assets.

Advantages and Disadvantages of Issuing Bonus Shares

Companies low on cash may issue bonus shares rather than cash dividends as a method of providing income to shareholders. Because issuing bonus shares increases the issued share capital of the company, the company is perceived as being bigger than it really is, making it more attractive to investors. In addition, increasing the number of outstanding shares decreases the stock price, making the stock more affordable for retail investors. Bonus shares give a positive sign to the market that the company is committed towards a long-term growth story. Bonus shares increase the outstanding shares which in turn enhances the liquidity of the stock. The perception of the company's size increases with the increase in the issued share capital. However, issuing bonus shares takes more money from the cash reserve than issuing dividends does. Also, because issuing bonus shares does not generate cash for the company, it could result in a decline in the dividends per share in the future, which shareholders may not view favorably. In addition, shareholders selling bonus shares to meet liquidity needs lowers shareholders' percentage stake in the company, giving them less control over how the company is managed.

Stock Splits and Bonus Shares

Stock splits and bonus shares have many similarities and differences. A stock split is where a company divides the existing shares into multiple shares. Companies typically declare a stock split as a method of infusing additional liquidity into shares, increasing the number of shares trading and making shares more affordable to retail investors. A stock split increases the number of shares an investor holds but the value of the investment remains the same. Both Bonus Issues and Stock Splits result in an increase in the number of shares outstanding for a company. When a stock is split, there is no increase or decrease in the company's cash reserves. In contrast, when a company issues bonus shares, the shares are paid for out of the cash reserves. Bonus shares are only available to existing shareholders while Stock Splits benefit both existing and potential investors.

[Source: Investopedia, Investarindia]

Appendix I: USE Member Firms

The following USE Member Firms are licensed to act as both broker/dealers and Market Advisors:

Market Advisor	Contact Person:
BARODA CAPITAL MARKETS (U) LTD. P. O. Box: 7197 Kampala Tel: +256 414 232 783. Fax: +256 414 230 781 Email: bcm.ug@bankofbaroda.com Website: www.barodacapital.webs.com	Mr. Mohan Prashantam
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EQUITY STOCK BROKERS (U) LTD. Orient Plaza Plot 6/6A Kampala Road P. O. Box: 3072 Kampala Tel: +256-414 7719133/44 Email: equity@orient-bank.com	Ms. Nkundizana Christine
CRESTED STOCKS AND SECURITIES LIMITED Head Office - Impala House 6th Floor Plot 13-15, Kimathi Avenue P. O. Box 31736, Kampala, Uganda Tel: +256 312 230900/ +256 414 230 900 Email: info@crestedcapital.com Website: www.crestedcapital.com	Mr. Robert H. Baldwin
UAP OLD MUTUAL FINANCIAL SERVICES LTD 2 nd floor, Block A, Nakawa business park P. O. Box 20079, Kampala Tel: +256 414 332 825 Email: brokerageufs@uap-group.com	Mr. Mwebaze Simon
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