

ACTIVITY REPORT

MARKET PERFORMANCE

EQUITIES

Trading in the third quarter registered a tremendous increase with a turnover of UGX 7.2 bn compared to UGX 5.9bn registered in the second quarter 2021. The third quarter of 2021 accounted for a total turnover of approximately UGX 7.2bn, compared to a combined total of UGX 1.5bn that was traded between July & September 2020.

Quarterly turnover performance per counter

Turnover was realized on nine counters, which are summarized as follows; the UMEME counter took the first position, with a posting of UGX 4 billion, accounting for 56.11 percent of the total turnover. Stanbic in second position accounted for 39.70 percent while Uganda Clays Limited, Bank of Baroda Uganda, CIPLA, and DFCU scooped 3.78 percent, 0.17 percent, 0.09 percent and 0.08 percent, respectively. The rest of the counters represented by New Vision Limited, KCB and National Insurance Corporation had a combined turnover of UGX 4.7mn.

Volume traded per counter

During the quarter Stanbic dominated activity, with the counter having 107.8mn shares traded taking 66.83 percent of the volume, Uganda Clays Limited recorded 19.92 percent of the volume with 32.1mn shares, while UMEME, National Insurance Corporation, Bank of Baroda, and CIPLA posted 21.07mn shares, 125,100 shares, 102,463 shares and 67,667 shares accounting for 13.06 per cent, 0.08 per cent, 0.06 per cent and 0.04 per cent of the total volume respectively. DFCU, New Vision Limited and KCB recorded marginal positions.

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

Market Indicator	Jul 2020 - Sept 2020	Jul 2021 - Sept 2021	% Change
USE All Share Index	1,361.95	1,511.30	10.97
USE Local Index	338.51	341.60	0.92
Market Capitalization (UGX. bn)	18,986.07	21,002.78	10.63
Volume Traded	33,889,799	161,405,176	376.27
Turnover (UGX. bn)	1,597,996,923	7,227,746,035	352.30
Number of Deals	958	846	(11.70)
Trading Days	65	65	

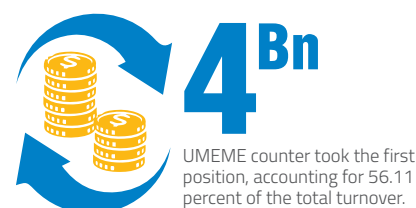
Source USE Product Markets Department

Trading Volumes and Activity on a Quarterly Basis:

	July 2021	August 2021	September 2021
Volume Traded	92,654,364	46,693,856	22,056,956
Turnover (Ushs)	2,389,546,779	3,942,698,472	895,500,784
Number of Deals	278	266	302
Trading Days	21	22	22
Daily Average Turnover (Ushs)	113,787,942	179,213,567	40,704,581
Daily Average number of trades	13	12	14
Market Capitalization (Ushs. bn)	21,401.35	21,870.08	21,002.78
USE All Share Index	1,539.12	1,574.73	1,511.30
LCI	341.70	342.68	341.60

Source USE Product Markets Department

Stanbic dominated activity, with the counter having **107.8mn** shares traded taking **66.83** percent of the volume

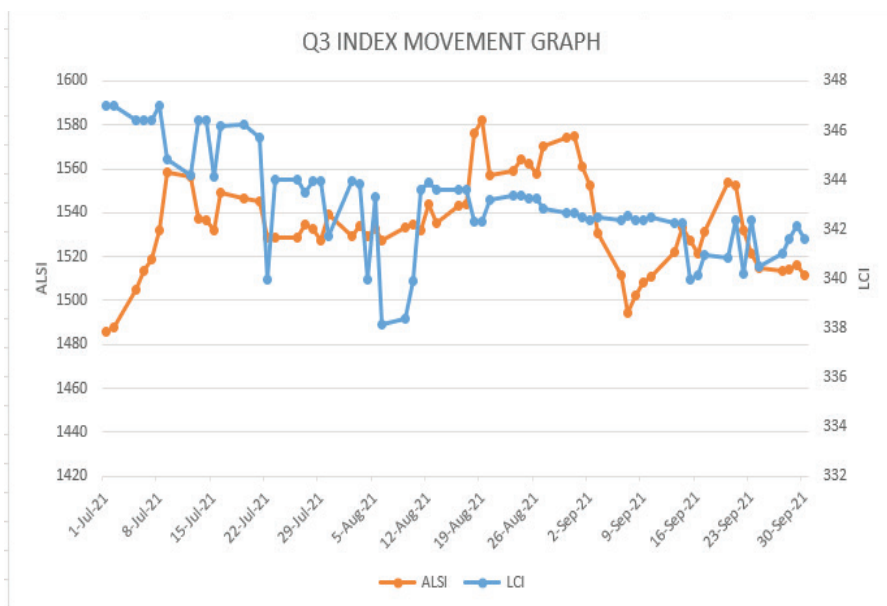


USE Index Performance

The All Share index opened at 1,539.12 increasing steadily to 1,574 in August and decreased gradually to close at 1,511.30. This trend was due to changes in different market prices and the exchange rate. The local share Index increased slightly from 341.70 to a high of 342.68 in August and decreased slightly to close at 341.60. Below is the graph depicting the ALSI/LCI movements.

BOND LISTINGS:

There were 5 treasury bonds re-opened in the quarter with a value of UGX 1300bn and one new bond with a value of 200bn 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 19.7Trillion.



Source: USE Product Markets Department

Government Bond Schedule as at 30th September 2021

INSTRUMENT CODE	IS IN	ISSUED SHARES	ISSUE DATE	RATE	MATURITY
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	1.862TN	2013/04/24	11.00	2023/04/13
FXD/1/2014/10YR	UG12J1801248	1.290TN	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/10/2019/5YR	UG12H2509240	250BN	2019/10/02	14.88	2024/09/25
FXD/1/2015/10YR	UG0000001517	300BN	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	1.220TN	2016/09/08	16.63	2026/08/27
FXD/5/2017/10YR	UG12J0605277	560BN	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/11/2020/10YR	UG12J1411303	187BN	2020/11/27	16.00	2030/11/14
FXD/4/2016/15YR	UG12K0304317	1.630TN	2016/04/20	17.00	2031/04/03
FXD/3/2017/15YR	UG12K0403325	620BN	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	2.259TN	2019/07/11	14.25	2034/06/22
FXD/11/2020/15YR	UG12K0811352	796.7BN	2020/11/27	16.25	2035/11/08
FXD/11/2020/20YR	UG12L0111405	1.339TN	2020/11/27	17.50	2040/11/01

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. AfricanDevelopment Bank Bond maturing on 01.02.2022
2. Kakira Sugar Limited Bond maturing on 07.12.2023

Alternative trading of Government securities July – September 2021

No.	Month	Security	Amount	
			Auction	Secondary
01	July -21	TBILLS	228,300,000	
02		TBOND	896,500,000	386,100,000
03	Aug -21	TBILLS	351,500,000	
04		TBOND	61,100,000	29,100,000
05	Sep -21	TBILL	336,000,000	
06		TBOND	260,700,000	166,800,000
	Total		2,134,100,000	582,000,000

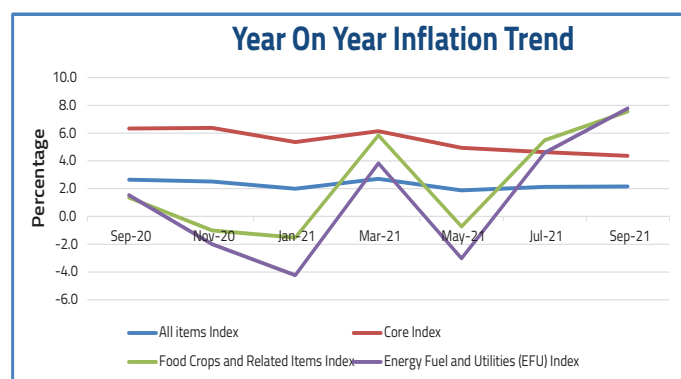
ECONOMIC & FINANCIAL DEVELOPMENTS: July -September 2021

INFLATION – OUTLOOK AND RISKS

Year on year headline inflation edged higher in the three months to September 2021 averaging 2% compared to 1.4% averaged in the three months between April and June 2021. This was largely driven by Annual Core Inflation which averaged 2.3% in Q3 2021 similar to 2.3% in Q2 2021.

Annual Food crops and related items inflation rose to 1.5% in the third quarter of 2021 compared to a deflation of 3.3% in the second quarter of the year signifying an increase in food prices during the period. Annual Electricity, Fuel and other Utilities inflation was higher by the end of the third quarter of 2021 at 0.2% compared to a deflation of 0.9% in July 2021 due to higher prices of petrol.

Monthly headline inflation increased during the three months ended September 2021 with increments averaging 0.6% driven by high food and non-alcoholic beverages prices especially.



Source: UBOS UGANDA CONSUMER PRICE INDEX: 2016/17= 100 SEPTEMBER 2021

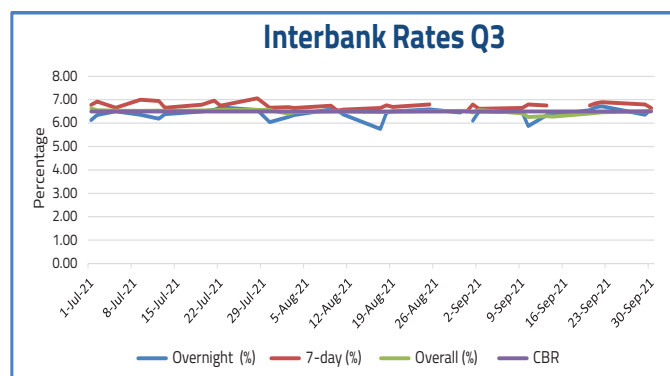
INTEREST AND LENDING RATES

Interbank Money Market Rates

Bank of Uganda (BOU) continued to implement monetary policy decisions through market-based financial instruments, in the process of aligning the interbank money markets with the monetary policy stance. In Q3 2021 overall rates averaged at 6.5% compared to 7.1% in Q2 2021. The overnight and 7-day rates averaged 6.4% and 6.8% in the three months to September 2021 from 6.9% and 7.4% in the three months to June 2021. The rates were well anchored around the Central

Bank Rate (CBR) which remained at a record low of 6.5% in the three months of the quarter. This expansionary monetary policy stance is aimed at supporting economic recovery following the partial lift of a second lock down that was implemented as a result of the rise in Covid-19 cases.

On the overall money market rates continued to trend in line with the bounds set by the Monetary Policy Committee as shown in the graph below.



Source: Bank of Uganda

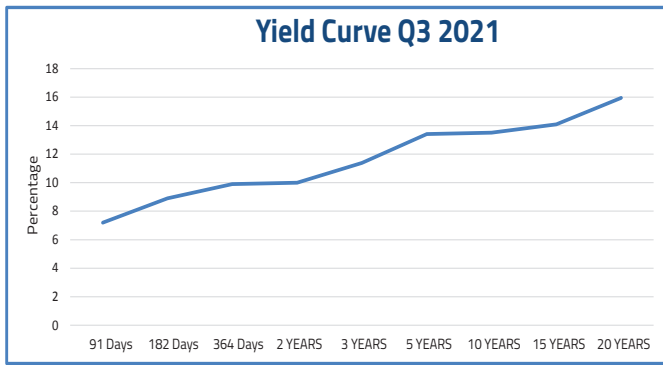
Yields on Government securities

The 91-Day and 182-Day averaged 7.2% and 8.9% respectively during the three months to September 2021.

Yields on the 3-year and 5-year government bonds were also lower at an average of 11.3% and 13.4% respectively. The longer end of the yield curve also declined with rates on the 10-year and 15-year averaging 13.5% and 14.1% respectively in the third quarter of 2021.

The lower interest rates on government securities were attributed to sustained demand for government papers across the yield curve, a stable local currency and the reduction in the Central Bank Rate in June 2021 that remained at 6.5% throughout the third quarter.

Interest Rates are expected to remain within current ranges due to slow recovery in Private Sector Credit which translates into high liquidity in the markets coupled with a stable Uganda Shilling.



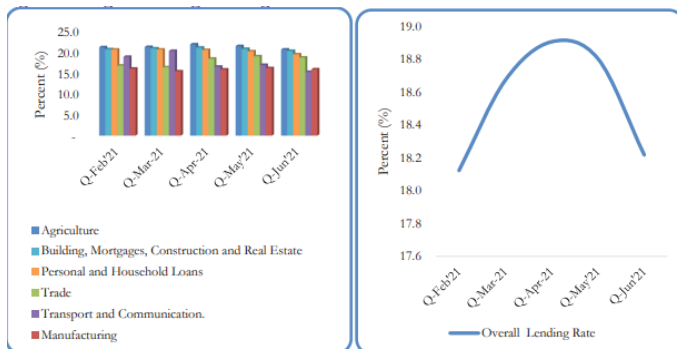
Source: Bank of Uganda

Lending rates

Lending rates on shilling denominated loans decreased to 18.3% in August 2021 compared to the start of this year characterized by slow economic recovery amidst a second wave of the Covid-19 pandemic. The lending rate as of August 2021 is lower compared to 19.8% in August 2020 and slightly higher compared to 17.4% recorded in January 2021.

Foreign currency denominated lending rates also rose to 5.8% in August 2021 from 5.4% in July 2021.

According to the August 2021 Monetary Policy Report, All the sectors except transport and communication witnessed declines in lending rates in June 2021 relative to May 2021, but there are noticeable divergences on a quarterly basis. Below is the Weighted average lending rates



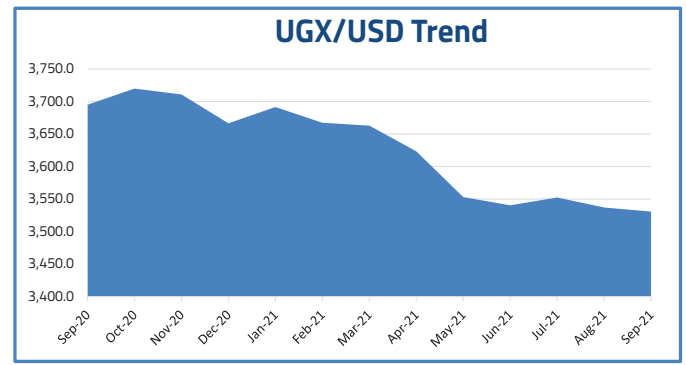
Source: Bank of Uganda

FOREIGN EXCHANGE RATE DEVELOPMENT

The Uganda Shilling gained 0.4% against the USD in the third quarter of 2021 to close September 2021 at 3,543 from 3,557 at the end of June 2021. This was attributed to the low demand for foreign currency from importers and corporate companies because of minimal recovery in economic activity.

The Uganda Shilling remained relatively stable against the dollar supported by, relatively high portfolio inflows from offshore players targeting treasury securities, increased export earnings especially of coffee and fish, subdued private sector demand and global weakening of the US dollar.

In the near term, the shilling is expected to remain relatively stable, in part, due to low domestic demand. However, in the medium-term, the exchange rate is expected to depreciate on account of a pick-up in both private sector and government demand for imports, possible slowdown in portfolio inflows and unwinding of coffee export receipts amidst strengthening US dollar.



Source: Bank of Uganda

EDUCATIONAL COLUMN

UNDERSTANDING RIGHTS ISSUES



How a Shareholder may Approach Equity Rights Issues

A Rights Issue is fast becoming a usual terminology in the capital markets of Uganda. Both individual and institutional investors have had a taste of Rights Issues when Uganda Clays became the first listed company to offer Rights to existing shareholders. Today we explore how a shareholder should approach an offer of rights and the possible implications of their actions.

An appropriate starting point is defining a Rights Issue so we can take off from the same platform. A Rights Issue is an issue of new shares for cash to existing shareholders in proportion to their existing holdings at a discounted price (Usually 20-30% of the market price). It is therefore, a way of raising new cash from shareholders - an important source of new equity funding for publicly quoted companies. It is important to note that it is an offer of new shares for cash and this offer is only made to existing shareholders. There are other offers for new shares that may be offered to existing shareholders, but not for cash; these do not form part of today's discussion and are defined differently. What is the implication of this?

The first important implication to a shareholder is that one will need to pay cash in order to acquire the new shares being offered. As a shareholder you have to be able to pay for these shares and thus you need to have money for this. The amount of money that one pays depends on the number of shares one is entitled to. The entitlement is calculated based on ones' level of shareholding at the cutoff date.

RIGHT ISSUE OF SHARES

RIGHT SHARES mean the shares where the existing shareholders have the first right to subscribe the shares. These are usually issued at the discount as compared to prevailing share price.

FEATURES

- ❖ Gives preferential treatment to existing shareholders.
- ❖ Existing shareholders can trade the rights
- ❖ Amount of right issue is in proportion to existing holding.
- ❖ Shareholders can choose to ignore the right issue.

WHY RIGHT

- ❖ Raising large amount of capital having longer gestation period.
- ❖ Suitable in projects where debt/loan fund is not available.
- ❖ Company can improve debt to equity ratio
- ❖ To payoff the debt to ease the financial strength.

Post right issue market price may depend upon factors such as the reason for the issue of rights share by the company, the future prospects for the growth of the company, the industry outlook, the general market trend etc.

Another important implication is that Rights are offered to existing shareholders only. Does this mean those who do not own shares in that particular company cannot participate at all? This is because existing shareholders have the "right of first refusal" (otherwise known as a "preemption right") on the new shares. By taking these preemption rights up, existing shareholders can maintain their existing percentage holding in the company. However, shareholders can, and often do, waive these rights, by selling them to others.

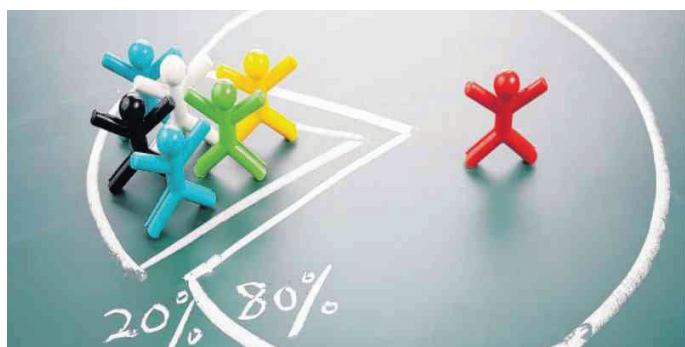
Shareholders can also vote to rescind their preemption rights. Existing shareholders, who are entitled to exercise their rights, may exercise their rights in one of two ways. They may choose to buy their rights at the offer price or renounce their rights and sell them to the market. It is when these existing shareholders sell to the market that anyone can buy these shares. However, it is important to note that these shares will be sold at a market determined price and not the rights offer price.

When a Rights Issue is announced dates are set to inform existing and prospective shareholders. These dates and terms are described in more detail below:

Book closure date: This is the date when the shareholder register is closed. This means that the rights offer/issue will only be applicable for shareholders who are recorded in the register as at the closure date.

Offer period: This is the period within which rights are offered to the existing shareholders.

Offer ratio: Shares are normally issued in ratios, that is to say,



for example 3 shares for every 5 shares held. This would mean that for someone who holds 500 shares, they would benefit 300 additional shares.

Example:

X buys 5 shares trading at UGX 3000 and the rights are being offered at a 30% discount. The ratio is 3 new shares for every 5 held:

5 existing shares at a market price of UGX 3000 = UGX 15,000

3 new shares for cash at UGX 2,100 = UGX 6,300

Total for 8 shares = UGX 21,300

Value of 1 share post rights issue = UGX 21,300 / 8

Effective cost per share = UGX 2,662.50

The difference between the market price per share of UGX 3,000 and the effective cost per share of UGX2, 662.50 is your profit. The post rights issue price cannot be determined as situations differ but the principle holds true. It is therefore advisable to follow your rights and take advantage of the fact that the shares are being offered below the market price but it is not mandatory.

At this point I find it relevant to explore the possible direction of a share price post a Rights Issue and the reasons thereof. The share price is usually expected to fall after the Rights Issue. This is not necessary the case although it is very common. The share price may fall not because the market's views about the company have changed but merely because the market is absorbing the new shares just issued. Since the number of shares will have increased in some instances by a huge percentage, the price would need to be adjusted to match the new number of shares. However, in some cases the post rights issue price has actually gone up. This could be as a result of many reasons.

Whichever direction the post Rights Issue takes it is important for investors to pay attention to the fundamental features of any stock. One has to be satisfied that the company's growth potential is significant, the cash flows are healthy and that the business will continue to be profitable and deliver value to shareholders. Investment advisors and stockbrokers can be useful in explaining these issues and assist would be investors. It is very important to avoid being carried away by following what others are doing. Fundamental analysis is very important and should be an important consideration before making any investment in shares.

In conclusion however, investors should treat any rights issue as a fresh equity issue, as they would be increasing their exposure to a company. Therefore, all the necessary precautions of a fresh investment should be taken.

SOURCE;

<https://www.investopedia.com/investing/understanding-rights-issues/>

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
DYER & BLAIR (UGANDA) LTD Rwenzori House Ground Floor P.O.Box: 36620 Kampala Tel: +256-414-233050 Fax: +256 -414 231813 Email: Uganda@dyerandblair.com	Ms. Esther Kakiza
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
SBG SECURITIES LIMITED 4 th Floor Crested Towers (Short Towers) P. O. Box 7131, Kampala Tel: +256 0312 224 600 Email: sbgs_uganda@stanbic.com	Mr. Ongura Joram



**Uganda
Securities Exchange**

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