

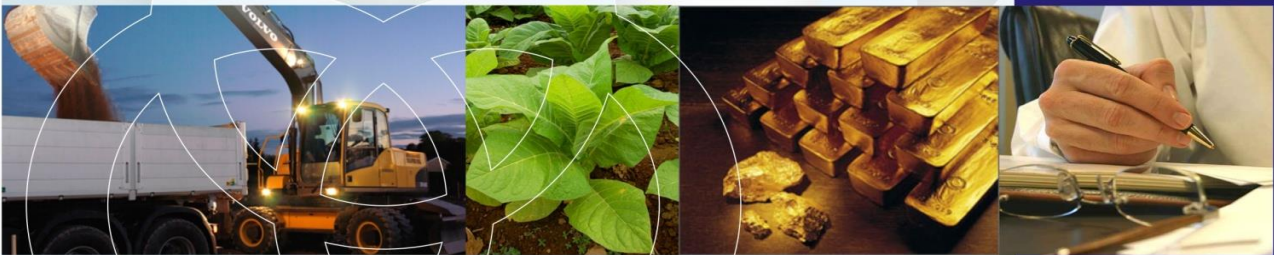
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mmc
CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	29-Aug	Weekly Change
Mkt Cap \$'m	5,187	-0.71%
Mkt turnover \$'m	5.00	-89.3%
Indices		
ZSE Industrial	196.43	-0.8%
ZSE Mining	104.80	3.0%
NSE 20	5,139.39	2.2%
Nigeria All Share	41,532.33	-0.1%
JSE All Share	50,959.02	-0.5%
NIKKEI-225	15,424.59	-0.7%
FTSE	6,819.75	0.7%
DJIA	17,098.45	0.6%

Source: ZSE, Bloomberg

In this week's review:

- RBZ steps in to restore confidence in the banking sector;
- Good U.S. economic reports propel capital markets and;
- Poor company results failing to revive the bulls on the ZSE.

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Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Name	Market Performance					Valuations		
	Change	Sales ¢	Value US\$ 000/kt	CapUS\$ ml	Weight	PE	PBk	RoE
Delta	-0.8%	135.00	760.1	1,675.2	32%	15.8	4.5	29%
Econet	1.3%	76.10	449.0	692.0	13%	10.45	2.29	21.9%
Innsco	-2.6%	76.00	567.8	410.5	8%	11.71	2.52	30.3%
BAT	0.0%	1,350.00	18.2	278.6	5%	75.00	22.44	30.4%
Seedco	0.0%	94.00	418.9	193.9	4%	15.96	2.09	12.8%
OK Zim	-8.1%	16.50	8.8	192.9	4%	19.41	3.13	15.7%
Natfoods	4.8%	220.00	2.4	150.5	3%	11.43	2.38	20.8%
Hippo	0.0%	75.00	0.4	144.8	3%	15.96	0.67	4.2%
Bindura	2.8%	9.25	195.6	114.7	2%	4.87	7.39	152.7%
Barclays	0.0%	4.50	21.3	96.9	2%	32.14	2.28	7.0%
Sub Total			2,443	3,950	76%			
ZSE Total			4,997	5,187	100%			

*Econet excludes Class A shares * The top ten excludes Old Mutual

RBZ steps in to restore confidence in the banking sector

..... the Reserve Bank of Zimbabwe (RBZ) announced new measures aimed at ensuring financial sector stability.....

..... the problem of high levels of NPLs in Zimbabwe which exceed the international benchmark of 5% poses a serious threat to financial stability and economic growth.....

..... A Sample of the 2014 half year results for banks attest to the fact that deterioration in economic activity in Zimbabwe is leading to worsening NPLs

.....total banking industry profitability for the half year of 2014 will likely be at least \$6m lower compared to last year ...

..... Other challenges currently besieging the banking sector include the continued downward pressure on interest rates and bank charges, the reduction of national disposable income ...

In the week under review, the Reserve Bank of Zimbabwe (RBZ) announced new measures aimed at ensuring financial sector stability. The introduction of the three- tier minimum capital requirements for banks, the establishment of the national special purpose vehicle to acquire the Non-Performing Loans (NPLs), and the \$100m guarantee by Afreximbank to give the interbank market a boost made the headlines. As at the 30th June 2014, total banking sector deposits stood at \$4.96bn, a 4.86% increase from the 31st of December 2013 deposit figure. Loans and Advances marginally increased from \$3.70 billion, as at the 31st of December 2013, to \$3.81 billion as at the 30th of June 2014. The central bank’s view, with which we concur, is that the problem of high levels of NPLs in Zimbabwe, which is above the international benchmark of 5%, poses a serious threat to financial stability and economic growth. The industry’s NPLs increased from 1.6% in 2009 to 18.5% as at the 30th of June 2014. The deteriorating economic fundamentals in Zimbabwe have been the chief contributor to the sector’s worsening NPL ratio as most borrowers are now failing to service their debts due to deteriorating macroeconomic fundamentals. Weak corporate governance practices and risk management systems in some banks in Zimbabwe is also fueling the rise in NPLs.

A Sample of the 2014 half year results for banks attest to the fact that the deterioration in economic activity in Zimbabwe is leading to worsening NPLs. Erosion of bank profits is one of the major result of the inflating NPLs. The majority of banks recorded significant growth rates in impairment charges for the half year period ended 30 June 2014 (Figure 1). According to the management of ZB Financial Holdings, the 958.4% increase in Loan impairment charge to \$1.7m was in recognition of the credit risk of the \$137m loan book. FBC Holdings Limited also increased its loan

Figure1: Zimbabwe Banks’ HY 14 Impairment Charges

Bank	Loan Impairment Charge/(recovered)- US\$			Total Loans (US\$) as at
	HY 14	HY 13	% Change	30-Jun-14
ZB	1,669,490	157,739	958.4%	137,172,238
FBC	2,303,398	623,964	269.2%	247,791,572
Ecobank	2,064,000	1,003,000	105.8%	93,019,000
Barclays	394,210	223,441	76.4%	111,213,246
Stanbic	2,410,000	1,515,000	59.1%	319,341,000
BancABC	7,306,000	5,026,000	45.4%	334,488,000
CABS	3,476,805	2,709,512	28.3%	352,063,012
CBZ	7,577,387	6,629,237	14.3%	1,043,970,670
MBCA	546,797	479,284	14.1%	100,385,209
POSB	1,550,326	1,360,114	14.0%	46,012,316
NMB	1,581,045	1,887,537	-16.2%	179,128,700
Stan Chart	(2,090,078)	1,358,887	-253.8%	187,380,511
Sample Total	28,789,380	22,973,715	25.3%	3,151,965,474

Source: Banks Financial Results Half Year 2014

impairment charge by 269.2% to \$2.3m. The 12 bank sample (Figure 1) gives a hint that total banking industry profitability for the half year of 2014 will likely be at least \$6m lower compared to last year. In 2013, the Industry’s after tax profit amounted to \$52.1m.

The decline in bank lending is also a result of increasing NPLs. The explanation to this concept is that banks with weaker asset quality (high levels of NPLs) will likely turn out to be more reluctant to take up new risks and commit new loans. As banks become more cautious, credit growth in the economy becomes limited. Reduced credit supply will lead to working capital challenges and in many instances businesses will fail to fund capital expenditure. Our view is that the establishment of a National Special Purpose Vehicle, Zimbabwe Asset Management Corporation (Pvt) Ltd (ZAMCO), to acquire NPLs from Banks in order to clean up and strengthen banks’ balance sheets will restore confidence in the banking sector in the medium to long term. This will be further assisted by the envisaged establishment of a credit referencing bureau.

Other challenges currently besieging the banking sector include the continued downward pressure on interest rates and bank charges, the reduction of national disposable income - resulting in reduced savings. National savings will likely remain under pressure in the short to medium term, hence limiting the pool of funds that banks can lend to the productive sectors of the economy.

Table 1: Stock indices performance.

Index	29-Aug-14	Weekly	YTD
Industrial	196.43	-0.81%	-2.82%
Mining	104.8	2.97%	128.87%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	29-Aug-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	138.68	-0.45	+2.36	+14.04
ZSE Top - 10	145.03	-0.39	+2.34	+17.25
Agro-industrial	67.66	-0.51	-9.51	-8.33
Banking	83.34	+1.24	-1.40	+10.62
Conglomerates	65.67	-2.07	-7.21	-10.29
Dual-listed	209.15	+0.19	+7.64	+14.59
Insurance	78.34	-2.11	-24.98	-33.80
Manufacturing	254.25	-0.52	-0.70	+17.09
Mining	41.41	+3.14	+125.90	+100.80
Property	101.24	-4.72	-14.12	-5.05
Retail	230.62	-6.76	-16.17	-19.39
Tourism	24.79	+4.07	-18.85	+2.30

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	29-Aug	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
HWANGE	8.00	31%	13.43	861
HUNYANI	5.00	25%	15.99	2,968
ARISTON	0.70	17%	9.65	700
AFRICAN SUN	2.30	10%	19.12	52,530
AFARGE CEMEN	65.00	8%	52.00	5,736

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	29-Aug	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
Masimba	2.50	-29%	5.36	336
GB HOLDINGS	0.03	-25%	0.16	274
TURNALL	3.00	-25%	14.79	2,550
CAFCA	27.00	-18%	2.23	4,911
RIOZIM	22.00	-15%	11.73	660

Source: ZSE, MMC Capital Research

Stock Market Review

Global capital markets traded mixed in the week under review. In the U.S., the Dow Jones Industrial Average index advanced 60 basis points to close at 17,098.45 points on enthusiasm about good economic data. Several economic indicators confirmed that the U.S. economy was strengthening at mid-year. The most notable figure was a 22.6% surge in durable goods orders in July. In Japan, the Nikkei 225 closed 70 basis points in the negative territory amid escalating tension in Ukraine and as investors weighed data from consumer prices to industrial output. Locally, the mainstream index, at 196.43 points, lost 81 basis points in the week under review as listed companies continue to post disappointing numbers. The largest company by market cap, Delta, lost 1% to close at 135 cents. Innscor and OK Zim also lost 3% and 8% to close at 76 cents and 16.5 cents respectively. The resources index, however, gathered 2.97% on the back of gains in Hwange (31%) to 8 cents and Bindura (3%) to 9.25 cents. Total market capitalization closed the week at \$5.19 billion compared to \$5.22 billion last week.

Total market turnover on the local bourse for the week declined to \$5.0m from \$46.72m last week. Last week's turnover was propelled by the block trade in ABC shares worth \$38.05 million. Weekly volumes also tumbled to 38.6m shares from 140.9m shares last week. Foreign investors were net buyers of ABC, Delta, Econet and Seedco in the week. Foreign purchases to total turnover ratio declined to 28% from 46% last week. The foreign sales to total turnover ratio, however, rose to 18% from 5% last week. The overall foreign investor participation retreated to 46% this week from 51% last week. The weight of the top ten counters (excluding Old Mutual) on the bourse (as a percentage of the total market cap) remained relatively flat at 76% this week.

Sectoral performance as measured by the **12-Zfn indices** reflect that the tourism sector was the week's top performer, gathering 4.07% to 24.79 points as a result of gains in the share price of African Sun (9.52%) to 2.3 cents. The Retail sector was the worst performer for the week, dropping 6.76% to close at 230.62 points, dragged down by losses in OK Zimbabwe. The All-Share index retreated by 45 basis points to close at 138.68 points. On a year to date basis (YTD), mining sector outperformed other sectors (+125.90%), thanks to the upsurge in share price of Bindura. Insurance sector, on the other hand, was the worst performer (**Table 2**).

On individual counters, Hwange was the major gainer for the week, collecting 31% to close at 8 cents. Hunyani came in second, advancing 25% to close at 5 cents. Ariston, African Sun and Lafarge also landed in the top movers after adding 17%, 10% and 8% respectively. (**Table 3**). On the losers' side, Masimba was the worst performer for the week, shedding 29% to close at 2.5 cents. GB and Turnall lost 25% apiece to close 0.03 cents and 3 cents respectively. Cafca and Rio Zim also 18% and 15% respectively to close at 27 cents and 22 cents respectively. (**Table 4**).

Outlook

The global capital markets will likely trade mixed this week. The European Central Bank delivered a speech last week calling for fiscal policy to play a role alongside monetary policy in boosting Eurozone economies. This will likely raise hopes among some investors as less budget cutting would result in better growth and healthier corporate profits. Some investor will likely remain jittery following the news that more Russian soldiers had crossed the border and opened a new front in the fighting in Ukraine. The action raises fear that the West will likely respond with further sanctions, which would harm European economies with strong economic ties to Russia.

Locally, the earnings reporting season is underway with company results aptly reflecting weakness in economic activity. On the political front, the current developments in the ruling party (Zanu PF) ahead of its national congress in December give a hint that policy makers will likely be concentrating more on electioneering at the expense of nurturing the economy, thus suppressing the bulls on the markets. Technically, however, the scenario of more buyers relative to sellers, chiefly in counters dear to foreign investors, will likely result in the market posting gains until the buy orders are filled up.

Listed Company Statistics as at 29 August 2014

Counter	Sector	Weekly Change	Latest Price	Mkt Cap US\$m	Rolling PE	Price/ Book	EV/ EBITDA	Earnings Yield	ROE	YTD	ROA
COTTO	Agro processing	0%	0.80	8.76	1.51	0.17	(3.68)	66%	28.33%	-87%	7.97%
ARISTON	Agro processing	17%	0.70	9.65	7.78	0.51	3.79	13%	6.92%	-21%	3.07%
BAT	Agro processing	0%	1,350.00	278.55	75.00	22.44	22.96	1%	30.39%	13%	11.76%
BORDER	Agro processing	0%	20.00	8.59	2.95	0.08	(10.19)	34%	-2.83%	0%	-1.89%
COLCOM	Agro processing	-12%	23.00	36.58	16.91	1.37	4.18	6%	9.89%	5%	6.80%
HIPPO	Agro processing	0%	75.00	144.77	15.96	0.67	5.88	6%	4.19%	-17%	2.42%
PADENGA	Agro processing	2%	8.50	46.04	14.17	1.33	8.37	7%	11.78%	6%	8.33%
SEEDCO	Agro processing	0%	94.00	193.92	15.96	2.09	11.41	6%	12.76%	4%	7.15%
ABCH	Banking	3%	72.00	51.68	7.66	0.33	(0.10)	13%	13.23%	22%	1.17%
BARCLAYS	Banking	0%	4.50	96.89	32.14	2.28	(4.73)	3%	6.96%	2%	1.00%
CBZH	Banking	1%	12.10	82.86	1.92	0.45	(1.03)	52%	20.06%	-19%	2.64%
FBCH	Banking	0%	12.00	80.63	5.22	1.00	1.38	19%	17.51%	-11%	3.30%
NMB	Banking	-9%	4.20	16.15	(4.20)	0.55	(5.53)	-24%	-11.34%	-35%	-1.37%
ZBFH	Banking	0%	8.00	14.02	40.00	0.25	(6.06)	3%	1.53%	-28%	0.26%
CFI	Conglomerate	4%	2.40	2.53	(0.25)	0.04	(2.88)	-408%	-17.56%	-33%	-9.61%
INNSCOR	Conglomerate	-3%	76.00	410.49	11.71	2.52	6.89	9%	30.34%	-14%	11.48%
MEIKLES	Conglomerate	-4%	17.30	42.45	1.14	0.27	17.91	88%	24.04%	-9%	26.96%
RADAR	Conglomerate	0%	5.00	2.55	(1.18)	0.07	12.59	-85%	-5.56%	-38%	-2.18%
STAR AFRICA	Conglomerate	0%	2.50	12.96	(0.78)	(14.60)	(6.37)	-128%	1814.57%	150%	-33.62%
TA HOLDINGS	Conglomerate	0%	14.00	23.09	(2.97)	0.44	2.61	-34%	-10.86%	130%	-3.67%
TSL	Conglomerate	0%	27.00	96.42	15.17	1.66	12.91	7%	11.73%	-29%	7.89%
ECONET	ICT	1%	76.10	1,248.06	10.45	2.29	3.96	10%	21.92%	27%	10.91%
ZIMPAPERS	ICT	0%	0.70	4.03	7.78	0.36	(7.78)	13%	4.78%	-13%	1.50%
FIRST MUTUAL	Insurance	0%	6.00	22.81	13.95	1.26	5.33	7%	33.09%	-25%	3.13%
FIDELITY	Insurance	-6%	8.50	9.26	4.31	0.86	2.91	23%	23.49%	-35%	4.75%
NICOZDMD	Insurance	3%	1.55	8.78	3.88	0.57	1.66	26%	15.06%	11%	8.44%
ZHL	Insurance	-10%	0.90	6.97	(6.00)	0.14	11.01	-17%	3.02%	-38%	1.06%
AFDIS	Manufacturing - Beverages	-3%	32.00	35.63	28.07	5.28	15.76	4%	16.19%	7%	6.25%
DELTA	Manufacturing - Beverages	-1%	135.00	1,675.20	15.79	4.49	10.10	6%	28.72%	-4%	18.14%
LAFARGE	Manufacturing - Construction	8%	65.00	52.00	16.25	1.45	5.38	6%	9.77%	-41%	5.59%
MASIMBA	Manufacturing - Construction	-29%	2.50	5.36	(83.33)	0.27	1.66	-1%	-0.30%	-62%	-0.16%
TURNALL	Manufacturing - Construction	-25%	3.00	10.17	(6.00)	0.52	9.02	-17%	-9.07%	-40%	-3.74%
WILLDALE	Manufacturing - Construction	0%	0.25	4.45	(6.25)	0.43	119.63	-16%	-7.23%	150%	-3.70%
DZHL	Manufacturing - Food	-8%	12.00	42.96	(24.00)	0.92	28.55	-4%	-3.74%	-20%	-2.48%
NATFOODS	Manufacturing - Food	5%	220.00	150.48	11.43	2.38	8.38	9%	20.82%	10%	10.79%
ART	Manufacturing - Nonfood	0%	0.60	2.59	(3.00)	0.24	6.56	-33%	-9.18%	200%	-3.23%
ASTRA	Manufacturing - Nonfood	-13%	3.50	4.91	3.21	0.33	1.73	31%	11.35%	-30%	13.52%
GBH	Manufacturing - Nonfood	-25%	0.03	0.16	(5.35)	0.06	(0.42)	-19%	-108.72%	-63%	-26.15%
HUNYANI	Manufacturing - NonFood	25%	5.00	15.99	11.11	0.55	7.78	9%	5.02%	150%	3.35%
NTS	Manufacturing - Nonfood	0%	1.70	4.32	5.00	0.79	3.34	20%	16.08%	-32%	10.89%
PIONEER	Manufacturing - Nonfood	0%	4.00	4.26	(3.85)	0.78	(4.66)	-26%	-10.55%	33%	-2.16%
POWERSPEED	Manufacturing - Nonfood	6%	1.70	6.52	10.00	0.80	6.10	10%	7.94%	-6%	3.54%
ZECO	Manufacturing - Nonfood	0%	0.01	0.05	(0.01)	0.00	(0.25)	-10200%	-15.63%	0%	-10.18%
ZIMFLOW	Manufacturing - Nonfood	0%	8.00	12.45	30.50	0.48	20.00	3%	6.31%	129%	3.17%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.05	1.40	50.00	0.78	12.29	2%	5.51%	-29%	1.22%
CAFCA	Manufacturing - Cables	-18%	27.00	2.23	6.22	0.23	1.70	16%	14.85%	-4%	10.35%
BINDURA	Mining	3%	9.25	114.67	4.87	7.39	6.38	21%	152.65%	363%	35.50%
FALGOLD	Mining	0%	4.01	4.46	(3.65)	(1.35)	(39.50)	-27%	50.45%	-20%	-9.09%
HWANGE	Mining	31%	8.00	13.43	(0.47)	0.15	(1.09)	-213%	-33.83%	-11%	-12.24%
RIOZIM	Mining	-15%	22.00	11.73	(2.57)	0.54	14.82	-39%	-21.36%	-33%	-3.91%
DAWN	Property	0%	0.80	19.66	20.00	0.23	8.93	5%	2.54%	-20%	2.45%
MASIMBA	Property	-4%	2.50	46.48	4.63	0.44	3.87	22%	8.72%	-23%	8.24%
PEARL	Property	-6%	2.81	34.79	3.54	0.29	8.25	28%	8.24%	8%	7.34%
ZPI	Property	-8%	1.10	18.88	10.00	0.35	10.25	10%	3.41%	-15%	3.19%
EDGARS	Retail	0%	12.50	36.57	8.17	3.74	6.19	12%	38.83%	3%	9.86%
OK ZIM	Retail	-8%	16.50	192.86	19.41	3.13	9.66	5%	15.71%	-18%	8.30%
PELHAMS	Retail	0%	0.02	0.20	(0.11)	0.06	(12.22)	-900%	-49.20%	-80%	-13.45%
TRUWORTHS	Retail	-4%	2.70	10.17	9.00	1.72	9.74	11%	18.78%	-36%	5.6%
AFRICAN SUN	Tourism	10%	2.30	19.12	(2.30)	1.01	7.14	-43%	-43.46%	-15%	-14.4%
RTG	Tourism	0%	1.25	23.38	19.23	1.67	9.92	5%	8.74%	-22%	2.5%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
ABC	Briefing	3:30pm	3-Sep-14	Mt Pleasant Business Park

Disclosure appendix

Analyst Certification

The following analyst(s) who is(are) primarily responsible for this report, certifies(y) that the opinion(s) on the subject security(ies) or issuer(s) and/or any other views or forecasts expressed herein accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: **Kudzanai Samudzi**.

Important disclosures

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Additional disclosures

1 This report is dated as at 2 September 2014

2 All market data included in this report are dated as at close of 2 September 2014, unless otherwise indicated in the report.

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