

# Investment Research

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**mmc**  
CAPITAL

( Members Of The Zimbabwe Stock Exchange )



The Market Making Corporation

Market Statistics		
	4-Apr	Weekly Change
Mkt Cap \$'m	4,560	0.2%
Mkt turnover \$'m	10.72	40.7%
<b>Indices</b>		
ZSE Industrial	176.36	0.2%
ZSE Mining	28.53	-3.3%
NSE 20	4,908.75	-1.3%
Nigeria All Share	38,712.76	1.0%
JSE All Share	48,347.75	0.9%
NIKKEI-225	15,063.77	2.5%
FTSE	6,649.30	0.5%
DJIA	16,412.71	0.5%

### In this week's review:

- Zimbabwe revenue performance remains shy of targets;
- Sluggish growth in short term (non-life) insurance sector;
- Positive U.S labor market data propel global capital markets and;
- Retail sector faring better on the ZSE.

Source: ZSE, Bloomberg

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### Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Market Performance						Valuations		
Name	Change	Sales c	Value US\$ 000kt	CapUS\$ m	Weight	PE	PBk	RoE
Delta	0.0%	115.00	4,261.7	1,426.6	31%	13.0	4.0	31%
Econet	2.5%	62.50	2,786.4	568.3	12%	7.02	1.08	25.2%
Innscor	0.0%	62.00	1,465.5	334.9	7%	8.69	2.34	33.5%
OK Zim	11.1%	20.00	224.7	230.9	5%	17.39	3.83	20.5%
BAT	0.0%	1,100.00	655.4	227.0	5%	55.00	18.28	30.4%
Seedco	1.3%	80.00	396.3	164.2	4%	13.14	2.05	15.4%
Natfoods	0.0%	215.00	68.1	147.1	3%	10.55	2.65	25.2%
Hippo	0.0%	70.00	9.9	135.1	3%	10.56	0.71	6.7%
TSL.zw	-4.1%	35.00	35.1	123.9	3%	23.87	2.22	11.7%
CBZ	-1.1%	16.00	109.6	109.5	2%	2.59	0.60	20.1%
<b>Sub Total</b>			<b>10,012</b>	<b>3,467</b>	<b>76%</b>			
<b>ZSE Total</b>			<b>10,719</b>	<b>4,560</b>	<b>100%</b>			

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

### Zimbabwe revenue performance remains shy of targets

The week under review saw the release of the state of the economy report by the Ministry of Finance for the month of February 2014. Sales of consumer goods waning; mineral output remaining depressed; deflation looming in Zimbabwe; stagnation in money supply growth and tighter revenue collections made the headlines. Considering that Zimbabwe is in need of expansionary policies to propel economic growth, the decline in revenue numbers is depressing. Revenue collections during the month of February 2014 amounted to \$248 million against a target of \$273.3 million, resulting in a negative variance of US\$25.3 million. Cumulatively, revenue collections to February 2014 amounted to \$499.6 million against a cumulative target of \$551.9 million, resulting in a negative variance of \$52.3 million (10.47%). Mirroring the weakness in economic activity in the country, revenue collections for the first two of months of 2014 (\$499.6m) came in lower compared to the same period last year (\$524.0m). The Zimbabwe Revenue Authority (ZIMRA) fingered the current liquidity constraints, low industrial capacity utilization, company closures among other factors as the impediments necessitating the shrinkage in the tax base. All the revenue heads – VAT, Excise duty, Corporate Tax and PAYE, are dependent on a flourishing economy.

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.... The majority of companies in Zimbabwe are facing dire financial challenges and statistics from the treasury indicates that a total of about 15 companies in the metals and engineering subsector were reported to have closed in the month....

.... Our view is that as the revenue base continues to shrink, it will be very difficult for the government to meet its financial obligations such as the payment of civil servants salaries and servicing of debts.....

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The majority of companies in Zimbabwe are facing dire financial challenges and statistics from the treasury indicates that a total of about 15 companies in the metals and engineering subsector were reported to have closed in the month under review. Sales of consumer goods were reported to have declined by 25-30% in the month, reflecting the escalation of liquidity constraints in the economy. Foreign competition continues to sky rocket as finished goods such as sugar, cooking oil and laundry soap under the general import category continued to flood the market. Increased incidences of smuggling as well as the use of fake import licenses is exacerbating the imports according to the ministry of finance. Our view is that as long as the local companies remain incapacitated to revamp their operations in order to utilize excess capacity in a manner that will increase volumes produced at low production costs relative to regional peers, foreign competition will remain intense in the country leading to a further shrinkage in the tax base. Mining royalties which contributes c.4% to the revenue base remains under pressure as mineral output continues to be depressed. In the month of February 2014, gold and nickel registered significant declines. Gold output at 831.3 kgs in February 2014 was 10.3% lower compared to January 2014. This was mainly on the back of production slippages from large scale producers. Nickel output in the month slightly decreased to 1,557 tons from 1,559 tons produced in January 2014. Our view is that as the revenue base continues to shrink, it will be very difficult for the government to meet its financial obligations such as the payment of civil servants salaries and servicing of debts. The precarious position will likely push the government to implement very tough measures to collect every cent that is due (especially unremitted taxes), for example through garnishee orders over unpaid taxes. The recent Mbada Diamonds – Zimra case is a very good case study. The down side of measures like these, however, is that some companies will simply avoid banks leading to a decline in total bank deposits.

### Sluggish growth in short term (non-life) insurance sector

In the week under review, the Insurance and Pension Commission (IPEC) released its quarterly short term (non-life) insurance report for the period ended 31 December 2014. The annual growth rate in Gross Premiums Written (GPW) in the short term insurance came in at 8.16% to \$209.8m in 2013 compared to 22.04% in 2012, 35.51% in 2011, and 53.04% in 2010. IPEC cited the current economic woes as the main reason curtailing growth in the sector as some policyholders are failing to timeously pay their premiums. The growth in GPW in the period under review was mainly driven by motor, bonds or guarantees and fire insurance. The fastest growing classes in terms of GPW were hire purchase and bonds /guarantees which recorded increases in gross premium of 60.71% and 53.76% respectively. The least performing classes were marine and health insurance which recorded decreases of 15.54% and 12.50% respectively. Motor and fire insurance remained the dominant insurance classes accounting for 41.29% and 20.91% respectively of total gross premium written in the period under review. Our view is that the tighter economic challenges will likely result in some policy holders surrendering their policies and product uptake will also likely remain a challenge in the short to medium term.

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**Table 1: Stock indices performance.**

Index	4-Apr-14	Weekly	YTD
Industrial	176.36	0.24%	-12.74%
Mining	28.53	-3.32%	-37.69%

Source: ZSE, MMC Capital Research

**Table 2: Zfn-Sectoral Indices**

Sector indices	4-Apr-14	Weekly (%)	Ytd(%)	YoY(%)
All-Share index	119.15	+0.39	-12.06	-6.35
ZSE Top-10	126.25	+0.97	-10.92	-5.96
Agro-industrial	62.62	+1.59	-16.25	-16.44
Banking	70.7	-1.19	-16.36	+7.13
Conglomerates	58	-1.02	-18.06	-16.53
Dual-listed	190.97	-1.48	-1.72	+5.34
Insurance	89.74	-9.43	-14.06	-14.50
Manufacturing	214.75	-0.18	-16.13	-0.67
Mining	11.82		-35.50	-55.73
Property	89.24	-7.58	-24.30	-14.38
Retail	272.74	+13.21	-0.86	+6.04
Tourism	26.31		-13.89	+28.39

Source: Zfn, MMC Capital Research

**Table 3: Gainers**

Counter	Market		Cap(\$'m)	Value Traded(\$)
	4-Apr	Weekly		
COLCOM	24.00	20%	38.17	72,000
ZIMPAPERS	1.10	10%	6.34	2,602
OK ZIMBABWE	20.00	8%	227.77	224,692
ZBFH	9.00	6%	15.77	22,733
CFI	2.30	5%	2.43	2,526

Source: ZSE, MMC Capital Research

**Table 4: Losers**

Counter	Market		Cap(\$'m)	Value traded(\$)
	4-Apr	Weekly		
N.M.B	3.00	-25%	8.42	3,378
MASH HLDS	2.10	-16%	39.04	16,913
FIRST MUTUAL	8.00	-16%	30.42	1,733
DAIRIBORD	9.00	-10%	32.20	57,248
ZPI	0.90	-10%	15.45	1,405

Source: ZSE, MMC Capital Research

## MARKET COMMENTARY AND OUTLOOK

### Stock Market Review

The majority of global capital markets recorded modest gains, bringing some of the major indexes to new highs during the week under review. Labor market data in the U.S propelled markets higher and investors were also encouraged by a Commerce Department report of increased durable goods orders in February 2014. The Dow and FTSE 100 added 50 basis points apiece to close at 16,412.71 points and 6,649.30 points respectively. Locally, the mainstream index reversed last week's losses to end the week in the positive territory after gaining 0.24 percentage points. The index, however, remains in the red on a year to date basis (-12.74%). The telecoms giant, Econet added 2.46% to close at 62.5 cents. Econet recently launched its mobile money loan service which enables its users of the mobile money platform to access urgent loans of up to \$500 using their cellphones. The food retailer, OK Zim advanced 8.11 % to close at 20 cents and the seed producer, Seedco collated 80 cents. Delta, BAT, Hippo and Natfoods traded flat in the week under review. The resources index was down 3.32% in the week despite the cash strapped mining counters trading flat in the week. The changes in the bids and offers necessitated the negative change. The total market capitalization closed the week at \$4.560 billion compared to \$4.550 billion last week.

ZSE's trading turnover rose to \$10.72m this week from \$7.62m last week and weekly volumes, however, dropped to 39.23m shares from 53.87m shares last week. Foreign investors were net buyers of Econet and BAT in the week. The foreign purchases to total turnover ratio retreated to 22% from 28% last week. The foreign sales to total turnover ratio rose to 21% from 19% last week. The overall foreign investor participation dropped to 43% this week relative to 47% last week of the total trades on the local bourse. 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** indicates that retail sector was the week's top performer, collecting 13.21% to 272.74 points as a result of gains in the share price of OK Zimbabwe (8.11%) to 20 cents. The insurance sector was the worst performer for the week, dropping 9.43% to close at 89.74 points dragged down by losses in First mutual (15.79%). The ZSE Top-10 added 0.97% in the week to close at 126.25 points with three of the largest market cap players posting gains in the week. **(Table 2).**

Colcom was the top performer for the week, accumulating 20% to close at 24 cents. Zimpapers collated 10% while OK Zim and ZB gathered 8% and 6% respectively. CFI also landed in the top movers pack after gaining 5% **(Table 3)**. NMB was the worst performers for the week, losing 25% to close at 25 cents. Mash and First Mutual lost 16% apiece to close at 2.1 cents and 8 cents respectively. **(Table 4).**

### Outlook

Global capital markets will likely record positive gains this week supported by the numbers which showed that the U.S. economy created 192,000 new jobs last month. The January and February jobs creation figures also were revised higher. The report lends some credence to the view that at least some of the weakness in economic growth in the recent months can be attributed to the weather, suggesting that economic growth in the second quarter should be stronger.

Our view on the local front is that the weak economic fundamentals will continue to be the major risk impacting negatively on the upside potential of the ZSE. On the positive side, however, the news that the European Union is eager to restore relations with Zimbabwe is a welcome development and the recent deal in BancABC of over \$200m is a signal that foreign investors still have an appetite to invest in Zimbabwe.

## Listed Company Statistics as at 04 April 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%	1.00	5.34	(1.16)	0.10	5.42	-86%	-3.29%	-83%	-0.58%
ARISTON	Agro processing	-9%	1.00	13.79	25.00	1.01	(34.67)	4%	12.81%	12%	5.77%
BAT	Agro processing	0%	1,100.00	191.20	61.11	15.40	15.57	2%	30.39%	-8%	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	20%	24.00	38.17	17.65	1.43	4.39	6%	9.89%	9%	6.80%
HIPPO	Agro processing	0%	70.00	135.11	23.33	0.64	6.74	4%	4.04%	-22%	2.19%
PADENGA	Agro processing	-1%	8.00	43.33	13.33	1.26	7.90	8%	11.78%	0%	8.33%
SEEDCO	Agro processing	1%	80.00	154.41	17.90	2.01	14.15	6%	11.32%	-11%	5.31%
ABCH	Banking	0%	43.00	107.22	4.57	0.69	0.43	22%	13.23%	-27%	1.17%
BARCLAYS	Banking	0%	3.40	73.19	24.29	1.72	(8.07)		6.96%	-23%	1.00%
CBZH	Banking	-1%	16.00	92.57	2.54	0.51	(0.88)	39%	20.06%	7%	2.64%
FBCH	Banking	-1%	12.50	73.98	5.43	0.92	1.05	18%	17.51%	-7%	3.30%
NMB	Banking	-25%	3.00	8.42	(3.00)	0.29	(6.90)	-33%	-11.34%	-54%	-1.37%
ZBFH	Banking	6%	9.00	15.77	45.00	0.28	(5.80)	2%	1.53%	-19%	0.26%
CFI	Conglomerate	5%	2.30	2.43	(0.62)	0.06	(19.17)	-160%	-10.98%	-36%	-5.11%
INNSCOR	Conglomerate	0%	62.00	335.79	9.55	2.06	5.96	10%	30.34%	-30%	11.48%
MEIKLES	Conglomerate	0%	17.00	41.71	1.07	0.27	13.00	93%	27.29%	-11%	14.34%
RADAR	Conglomerate	0%	8.00	4.09	(1.89)	0.10	14.69	-53%	-5.56%	0%	-2.18%
STAR AFRICA	Conglomerate	0%	0.90	4.67	(0.28)	(5.26)	(5.09)	-356%	1814.57%	-10%	-33.62%
TA HOLDINGS	Conglomerate	-6%	6.50	10.72	4.36	0.19	1.52	23%	8.91%	7%	3.17%
TSL	Conglomerate	-4%	35.00	121.66	19.66	2.10	15.74	5%	11.73%	-8%	7.89%
ECONET	ICT	2%	62.50	1,025.01	7.02	1.95	3.61	14%	25.16%	4%	12.32%
ZIMPAPERS	ICT	10%	1.10	6.34	12.22	0.56	(9.02)	8%	4.78%	38%	1.50%
AFRE	Insurance	-16%	8.00	30.42	18.60	1.68	6.02	5%	33.09%	0%	3.13%
FIDELITY	Insurance	0%	8.50	9.26	2.85	0.97	2.52	35%	37.32%	-35%	7.13%
NICOZDMD	Insurance	0%	1.30	7.27	2.65	0.49	1.27	38%	19.14%	-7%	10.53%
ZHL	Insurance	0%	1.00	7.75	4.17	0.16	(53.22)	24%	10.87%	-31%	4.28%
AFDIS	Manufacturing - Beverages	0%	30.00	28.50	26.32	4.23	12.86	4%	16.19%	0%	6.25%
DELTA	Manufacturing - Beverages	0%	115.00	1,417.38	13.04	4.32	8.40	8%	33.25%	-18%	20.06%
LAFARGE	Manufacturing - Construction	0%	85.00	68.00	21.25	1.90	7.05	5%	9.77%	-23%	5.59%
M&R	Manufacturing - Construction	0%	4.00	8.82	(133.33)	0.44	2.54	-1%	-0.30%	-38%	-0.16%
TURNALL	Manufacturing - Construction	0%	4.00	13.29	(8.00)	0.70	10.83	-13%	-9.07%	-20%	-3.74%
WILLDALE	Manufacturing - Construction	0%	0.07	1.24	(1.75)	0.12	66.36	-57%	-7.23%	-30%	-3.70%
DZHL	Manufacturing - Food	-10%	9.00	32.22	(18.00)	0.69	22.18	-6%	-3.74%	-40%	-2.48%
NATFOODS	Manufacturing - Food	0%	215.00	147.06	11.17	2.33	8.21	9%	20.82%	8%	10.79%
ART	Manufacturing - Nonfood	0%	0.40	1.87	3.64	0.17	4.37	28%	4.43%	100%	1.53%
ASTRA	Manufacturing - Nonfood	0%	3.50	4.90	3.21	0.33	1.73	31%	11.35%	-30%	13.52%
GBH	Manufacturing - Nonfood	0%	0.08	0.42	(19.12)	0.09	0.59	-5%	-48.15%	0%	-17.32%
HUNYANI	Manufacturing - NonFood	0%	1.00	3.20	1.54	0.13	0.14	65%	8.35%	-50%	5.19%
NTS	Manufacturing - Nonfood	0%	1.70	4.32	5.00	0.79	3.34	20%	16.08%	-32%	10.89%
PIONEER	Manufacturing - Nonfood	0%	5.00	27.49	(4.81)	5.05	(11.89)	-21%	-10.55%	67%	-2.16%
POWERSPEED	Manufacturing - Nonfood	0%	1.50	5.69	12.50	0.73	5.92	8%	5.97%	-17%	2.84%
ZECO	Manufacturing - Nonfood	0%	0.01	0.05	(0.01)	0.00	(0.25)	-10200%	-15.63%	0%	-10.18%
ZIMLOW	Manufacturing - Nonfood	0%	2.50	15.57	9.53	0.60	22.62	10%	6.31%	-29%	3.17%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.05	1.40	1.52	1.04	6.53	66%	35.21%	-29%	5.76%
CAFCA	Manufacturing -Cables	0%	21.00	6.85	4.84	0.72	3.72	21%	14.85%	-25%	10.35%
BINDURA	Mining	0%	1.30	1.64	(0.65)	(0.27)	(0.54)	-154%	216.66%	-35%	-25.33%
FALGOLD	Mining	0%	3.40	3.78	(3.09)	(1.14)	(37.69)	-32%	50.45%	-32%	-9.09%
HWANGE	Mining	0%	6.00	11.02	(0.35)	0.12	(1.01)	-283%	-33.83%	-33%	-12.24%
RIOZIM	Mining	0%	20.00	6.00	(2.34)	0.27	13.38	-43%	-21.36%	-39%	-3.91%
DAWN	Property	0%	0.75	18.43	18.29	0.22	7.66	5%	1.62%	-25%	1.56%
MASH	Property	-16%	2.10	39.04	3.62	0.39	2.88	28%	9.76%	-35%	9.22%
PEARL	Property	2%	2.64	32.69	3.33	0.27	7.75	30%	8.24%	2%	7.34%
ZPI	Property	-10%	0.90	15.45	8.18	0.29	8.50	12%	3.41%	-31%	3.19%
EDGARS	Retail	4%	12.50	35.34	8.17	3.61	6.04	12%	38.83%	3%	9.86%
OK ZIM	Retail	8%	20.00	209.30	16.81	4.03	8.90	6%	23.83%	0%	11.69%
PELHAMS	Retail	0%	0.01	0.10	(0.06)	0.03	(11.95)	-1800%	-49.20%	-90%	-13.45%
TRUWORTHS	Retail	0%	3.49	13.29	11.63	2.25	11.56	9%	18.78%	-17%	5.62%
AFRICAN SUN	Tourism	0%	2.50	20.60	(3.13)	1.05	5.98	-32%	-33.60%	-7%	-11.01%
RTG	Tourism	0%	1.30	24.32	20.00	1.73	10.14	5%	8.74%	-19%	2.5%

## Events Diary (no events)

COMPANY	EVENT	Time	Date	VENUE

### Disclosure appendix

#### Analyst Certification

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#### Additional disclosures

1 This report is dated as at 8 April 2014

2 All market data included in this report are dated as at close of 8 April 2014, unless otherwise indicated in the report.

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