

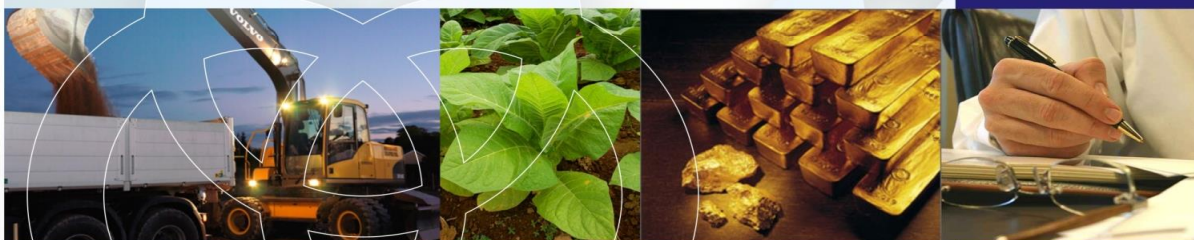
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mmc
CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	4-Jul	Weekly Change
Mkt Cap \$'m	4,886	-0.02%
Mkt turnover \$'m	5.22	56.3%
Indices		
ZSE Industrial	187.44	0.2%
ZSE Mining	54.56	-11.6%
NSE 20	4,885.71	1.1%
Nigeria All Share	43,031.83	2.0%
JSE All Share	52,060.03	2.8%
NIKKEI-225	15,437.13	2.3%
FTSE	6,866.05	1.6%
DJIA	17,068.26	1.3%

Source: ZSE, Bloomberg

In this week's review:

- **Endless Vicious Liquidity Spiral At Hand In Zimbabwe As NPLs Worsen;**
- **Strong U.S Jobs Report Buoy Global Capital Markets and;**
- **Agro-industrial sector shines on the ZSE.**

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Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Market Performance						Valuations		
Name	Change	Sales C	Value US\$ 000/kt	CapUS\$ ml	Weight	PE	PBk	RoE
Delta	0.8%	130.00	1,802.5	1,612.9	33%	14.7	4.9	33%
Econet	4.6%	70.00	2,002.4	636.5	13%	7.87	2.18	25.2%
Innscor	-8.6%	74.00	867.0	399.7	8%	11.40	2.46	30.3%
BAT	0.0%	1,300.00	50.7	268.2	5%	72.22	18.20	30.4%
OK Zim	-2.8%	17.50	1.6	203.9	4%	14.71	3.53	23.8%
Hippo	6.7%	80.00	8.5	154.4	3%	26.67	0.73	4.0%
Natfoods	0.0%	215.00	40.6	147.1	3%	11.17	2.33	20.8%
Seedco	0.0%	70.00	88.2	144.4	3%	15.66	1.76	11.3%
TSL	0.0%	28.00	153.8	96.4	2%	15.17	1.62	11.7%
CBZ	0.0%	14.50	0.7	88.9	2%	2.06	0.41	20.1%
Sub Total			5,016	3,753	77%			
ZSE Total			5,220	4,886	100%			

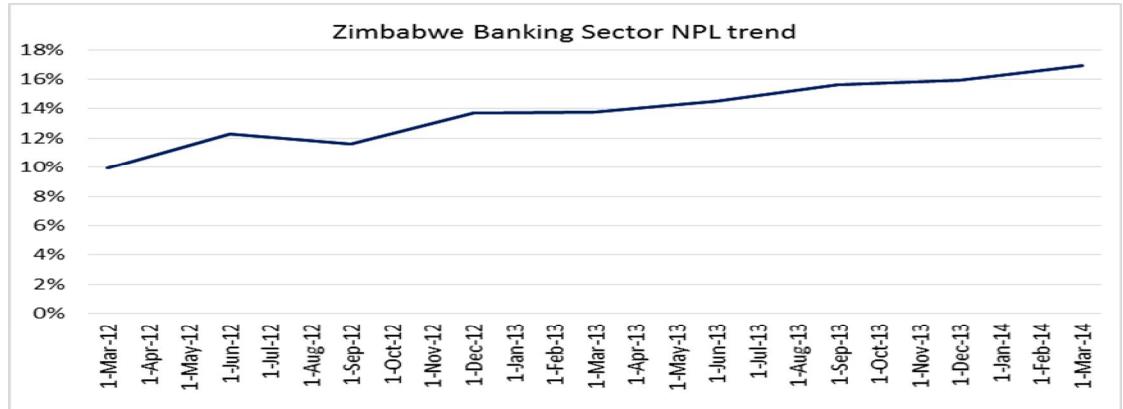
*Econet excludes Class A shares * The top ten excludes Old Mutual

Endless Vicious Liquidity Spiral At Hand In Zimbabwe As NPLs Worsen

... the deterioration in the quality of banks' loan portfolios continues to be the major concern driving banking system distress and economic crises in both developing and advanced economies

Taking a cue from the 2008 global financial crisis, the deterioration in the quality of banks' loan portfolios continues to be the major concern driving banking system distress and economic crises in both developing and advanced economies. Its shattering effects, as well as its initiation from a sharp increase in mortgage loan defaults in the United States of America necessitated the major monitoring of Non-Performing loans (NPL) by central banks around the world. Statistics from the Reserve Bank of Zimbabwe (RBZ), in the week under review, show that as at the 31st of March 2014, the local banking sector's NPL ratio stood at 16.96% relative to 15.92% as at 31 March 2013.

..... A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement, or payments are less than 90 days overdue



Source: RBZ, Q1 2014 Industry Report

..... The deteriorating economic fundamentals in Zimbabwe have been the chief contributor to the sector's worsening NPL ratio

The Bank of International Settlements (BIS) defines a loan as nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement. 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. We are of the view that banks will remain very cautious in their approach to lending thus reducing credit growth in the economy going forward. This situation will have a huge bearing on the economy as the reduced credit supply will lead to working capital challenges and in many instances businesses will fail to fund capital expenditure. The net result will be a decline of private gross fixed capital formation and private consumption which in turn will negatively impact economic growth.

..... The phenomenon that banks are reluctant to take new risks and commit new loans is described as the "credit crunch" problem.....

The phenomenon that banks are reluctant to take new risks and commit new loans is described as the "credit crunch" problem. A "credit crunch" is a disequilibrium phenomenon which manifests when banks are unwilling to lend. Credit crunch results in excess demand for credit and hence credit rationing. Non-performing loans constitute one of the most important factors causing reluctance for the banks to provide credit. In a high NPL environment, banks increasingly tend to carry out internal consolidation to improve the asset quality rather than distributing credit. Also, the high level of NPLs requires banks to raise provision for loan loss that decreases banks' income and reduces the funds for new lending. The cutback of loans constraints the corporate sector as they have difficulties in expanding their working capital, curtailing their chances of resuming normal operations or of growing. Unavailability of credit to finance firms' working capital requirements and investments might trigger the second round business failure which in turn exacerbates the quality of bank loans, resulting in the re-emergence of banking failure.

..... The worst case scenario for rising NPLs is that it triggers an endless vicious liquidity spiral. As a result of poor economic condition and the depressed economic growth, the level of NPLs increases leading to a weaker corporate sector, hence making banks less reluctant to provide additional credits.....

The worst case scenario for rising NPLs is that it triggers an endless vicious liquidity spiral. As a result of poor economic condition and the depressed economic growth, the level of NPLs increase, leading to a weaker corporate sector, thereby causing bank reluctance to provide additional credit. With insufficient capital, the production sector is further weakened, resulting in decreases in aggregate demand. Borrowers' financial conditions become worse off, leading to more NPLs- a vicious cycle indeed.

Table 1: Stock indices performance.

Index	4-Jul-14	Weekly	YTD
Industrial	187.44	0.19%	-7.26%
Mining	54.56	-11.59%	19.15%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	4-Jul-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	130.48	+0.08	-3.70	-9.00
ZSE Top - 10	137.73	+0.51	-2.82	-6.80
Agro-industrial	61.33	+3.01	-17.98	-25.74
Banking	79.73	-1.10	-5.68	-1.24
Conglomerates	62.75	-7.37	-11.34	-22.08
Dual-listed	193.84	-1.90	-0.24	+14.16
Insurance	74.11	-2.95	-29.03	-45.70
Manufacturing	244.33	+0.50	-4.58	-7.13
Mining	21.49	-11.75	+17.29	-23.65
Property	100.15	+1.87	-15.04	-12.76
Retail	241.58	-2.38	-12.19	-23.35
Tourism	25.58	-4.09	-16.27	-0.23

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	4-Jul	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
FALGOLD	2.00	33%	2.22	4
COTTO	1.00	25%	5.34	10,821
POWERSPEED	1.70	13%	6.69	28,918
TA HLDS	9.00	13%	14.84	19
N.M.B	5.00	11%	14.04	100

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	4-Jul	Weekly	market	
			Cap(\$'m)	value traded(\$)
HWANGE	4.80	-36%	7.98	144
AFDIS	25.00	-23%	23.80	162
ZIMPLW	8.00	-20%	49.82	22,923
BINDURA	4.30	-10%	52.04	52,474
CBZ	13.00	-10%	88.94	736

Source: ZSE, MMC Capital Research

MARKET COMMENTARY AND OUTLOOK

Stock Market Review

In the week under review, global capital markets predominantly posted gains in the week under review. The Dow gained 1.3 percentage points to close at 17,068.84 points. The FTSE 100 Index also advanced 1.6 percentage points in the week to 6,866.05 points at the close. A surprisingly strong June 2014 jobs report added to growing evidence that the U.S. economy is strongly rebounding. U.S. employers added 288,000 jobs in June and the unemployment rate sank to 6.1%, its lowest level in nearly six years. On the local front, the industrial index added 19 basis points to close the week at 187.44 points buoyed by the share price increases in Delta and Econet. Econet gained 5% to close at 70 cents and Delta advanced 1% to close at 130 cents. Partially offsetting the gains were losses in Innscor and OK Zim. Innscor lost 9% to close at 74 cents and OK Zim dipped 3% to close at 17.5 cents. Seedco and BAT, at 70 cents and 1,300 cents respectively, traded flat in the week under review. Losses in Hwange (-36%) to 4.8 cents and Bindura (-10%) to 4.3 cents resulted in the mining index posting losses in the week under review. The total market capitalization closed the week at \$4.887 billion compared to \$4.886 billion last week.

Trading turnover on the ZSE rose to \$5.22m this week from \$3.34m last week and weekly volumes marginally improved to 16.99m shares from 16.63m shares last week. Foreign investors were net buyers of Econet and Delta and Innscor in the week. The foreign purchases to total turnover ratio rose to 35% from 22% last week. The foreign sales to total turnover ratio also rose to 13% from 3% last week. The overall foreign investor participation improved to 47% this week relative to 25% 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 77% this week.

Sectoral performance as measured by the **12-Zfn indices** show that the agro-industrial sector was the week's top performer, gathering 3.01% to 61.33 points as a result of gains in the share price of Cottco (25%) to 1 cent. The mining sector was the worst performer for the week, dropping 11.75% to close at 21.49 points dragged down by losses in Hwange (36.00%) to 4.8 cents and Bindura (10.42%) to 4.3 cents. The ZSE Top-10 gained 0.51% in the week to close at 137.73 points with three of the largest market cap players posting gains in the week. (**Table 2**).

Falgold topped the top movers pack after adding 33% to close at 2 cents. Cottco came in second, advancing 25% to close at 1 cent. Powerspeed and TA gathered 13% apiece to close at 1.7 cents and 9 cents respectively (**Table 3**). Hwange was the worst performer for the week, losing 36% to close at 4.8 cents. Afdis and Zimplow also lost 23% and 20% respectively to close at 25 cents and 8 cents respectively. (**Table 4**).

Outlook

Positive news from Europe and China will likely buoy confidence in the global capital markets this week. The European Central Bank (ECB) left interest rates unchanged, a month after it enacted another round of stimulus measures to rekindle growth in the Eurozone. Investors still drew comfort from ECB's pledge to keep rates low for an extended period of time. Two separate gauges of manufacturing in China showed that factory output rose in June, indicating that the targeted stimulus measures that China recently implemented have stabilized the economy, easing worries about a slowdown that rattled markets early this year (2014).

Locally, we maintain our view that the weak economic fundamentals in Zimbabwe will continue to be the major risk impacting negatively on the upside potential of the local bourse. The economy is experiencing a slowdown in consumer spending; depressed mineral output; stagnation in money supply growth and tighter revenue collections among other impediments. The current environment, however, presents a good opportunity for long term equity players as the majority of stocks are currently heavily discounted.

Listed Company Statistics as at 04 July 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	25%	1.00	5.34	(1.16)	0.10	5.42	-86%	-3.29%	-83%	-0.58%
ARISTON	Agro processing	0%	0.70	9.65	17.50	0.71	(28.48)	6%	12.81%	-21%	5.77%
BAT	Agro processing	0%	1,300.00	225.96	72.22	18.20	18.51	1%	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	0%	22.00	34.99	16.18	1.31	3.96	6%	9.89%	0%	6.80%
HIPPO	Agro processing	7%	80.00	154.42	26.67	0.73	7.42	4%	4.04%	-11%	2.19%
PADENGA	Agro processing	0%	8.00	43.33	13.33	1.26	7.90	8%	11.78%	0%	8.33%
SEEDCO	Agro processing	0%	70.00	135.11	15.66	1.76	13.21	6%	11.32%	-22%	5.31%
ABCH	Banking	0%	70.00	50.21	7.45	1.12	1.08	13%	13.23%	19%	1.17%
BARCLAYS	Banking	4%	3.90	83.95	27.86	1.98	(6.55)		6.96%	-11%	1.00%
CBZH	Banking	-10%	13.00	75.21	2.06	0.41	(1.14)	48%	20.06%	-13%	2.64%
FBCH	Banking	0%	11.50	68.06	5.00	0.85	0.76	20%	17.51%	-15%	3.30%
NMB	Banking	11%	5.00	14.04	(5.00)	0.48	(5.91)	-20%	-11.34%	-23%	-1.37%
ZBFH	Banking	0%	4.00	7.01	20.00	0.12	(7.10)	5%	1.53%	-64%	0.26%
CFI	Conglomerate	0%	2.25	2.37	(0.61)	0.06	(19.11)	-164%	-10.98%	-38%	-5.11%
INNSCOR	Conglomerate	-9%	74.00	400.78	11.40	2.46	6.77	9%	30.34%	-16%	11.48%
MEIKLES	Conglomerate	-10%	18.00	44.17	1.14	0.28	13.27	88%	27.29%	-5%	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%	0.80	4.15	(0.25)	(4.67)	(5.01)	-400%	1814.57%	-20%	-33.62%
TA HOLDINGS	Conglomerate	13%	9.00	14.84	6.04	0.26	1.94	17%	8.91%	48%	3.17%
TSL	Conglomerate	-4%	27.00	93.85	15.17	1.62	12.62	7%	11.73%	-29%	7.89%
ECONET	ICT	5%	70.00	1,148.02	7.87	2.18	4.00	13%	25.16%	17%	12.32%
ZIMPAPERS	ICT	0%	0.80	4.61	8.89	0.41	(8.09)	11%	4.78%	0%	1.50%
FML	Insurance	0%	5.70	21.67	13.26	1.20	5.22	8%	33.09%	-29%	3.13%
FIDELITY	Insurance	-10%	9.00	9.80	3.02	1.02	2.62	33%	37.32%	-31%	7.13%
NICOZDMD	Insurance	-4%	1.20	6.71	2.45	0.46	1.01	41%	19.14%	-14%	10.53%
ZHL	Insurance	0%	0.90	6.97	3.75	0.15	(53.22)	27%	10.87%	-38%	4.28%
AFDIS	Manufacturing - Beverages	-23%	25.00	23.75	21.93	3.52	10.92	5%	16.19%	-17%	6.25%
DELTA	Manufacturing - Beverages	1%	130.00	1,602.25	14.74	4.88	9.50	7%	33.25%	-7%	20.06%
LAFARGE	Manufacturing - Construction	0%	63.00	50.40	15.75	1.41	5.21	6%	9.77%	-43%	5.59%
MASIMBA	Manufacturing - Construction	1%	1.72	3.79	(57.33)	0.19	1.26	-2%	-0.30%	-74%	-0.16%
TURNALL	Manufacturing - Construction	-1%	3.00	10.86	(6.00)	0.52	9.02	-17%	-9.07%	-40%	-3.74%
WILLDALE	Manufacturing - Construction	0%	0.10	1.78	(2.50)	0.17	75.24	-40%	-7.23%	0%	-3.70%
DZHL	Manufacturing - Food	7%	11.00	39.38	(22.00)	0.84	26.42	-5%	-3.74%	-27%	-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%	0.30	1.40	2.73	0.13	4.16	37%	4.43%	50%	1.53%
ASTRA	Manufacturing - Nonfood	0%	4.00	5.60	3.67	0.38	1.95	27%	11.35%	-20%	13.52%
GBH	Manufacturing - Nonfood	0%	0.05	0.27	(11.95)	0.06	0.53	-8%	-48.15%	-38%	-17.32%
HUNYANI	Manufacturing - NonFood	0%	2.00	6.39	3.08	0.26	1.32	33%	8.35%	0%	5.19%
NTS	Manufacturing - Nonfood	0%	2.70	6.85	7.94	1.26	5.57	13%	16.08%	8%	10.89%
PIONEER	Manufacturing - Nonfood	0%	7.00	38.48	(6.73)	7.07	(15.31)	-15%	-10.55%	133%	-2.16%
POWERSPEED	Manufacturing - Nonfood	13%	1.70	6.45	14.17	0.83	6.41	7%	5.97%	-6%	2.84%
ZECO	Manufacturing - Nonfood	0%	0.01	0.05	(0.01)	0.00	(0.25)	-10200%	-15.63%	0%	-10.18%
ZIMPLOW	Manufacturing - Nonfood	-20%	8.00	49.82	30.50	1.93	51.37	3%	6.31%	129%	3.17%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.04	1.12	1.21	0.83	5.93	83%	35.21%	-43%	5.76%
CAFCA	Manufacturing -Cables	0%	30.00	9.78	6.91	1.03	5.00	14%	14.85%	7%	10.35%
BINDURA	Mining	-10%	4.30	5.42	(2.15)	(0.91)	(0.83)	-47%	216.66%	115%	-25.33%
FALGOLD	Mining	33%	2.00	2.22	(1.82)	(0.67)	(33.53)	-55%	50.45%	-60%	-9.09%
HWANGE	Mining	-36%	4.80	8.82	(0.28)	0.10	(0.93)	-354%	-33.83%	-47%	-12.24%
RIOZIM	Mining	5%	21.00	6.30	(2.46)	0.29	13.45	-41%	-21.36%	-36%	-3.91%
DAWN	Property	0%	1.00	24.57	24.39	0.29	10.17	4%	1.62%	0%	1.56%
MASH	Property	3%	2.50	46.48	4.31	0.46	3.51	23%	9.76%	-23%	9.22%
PEARL	Property	0%	2.60	32.19	3.28	0.27	7.63	31%	8.24%	0%	7.34%
ZPI	Property	5%	0.89	15.28	8.09	0.29	8.41	12%	3.41%	-32%	3.19%
EDGARS	Retail	-1%	12.20	34.49	7.97	3.53	5.95	13%	38.83%	1%	9.86%
OK ZIM	Retail	-3%	17.50	183.13	14.71	3.53	7.74	7%	23.83%	-13%	11.69%
PELHAMS	Retail	0%	0.02	0.20	(0.11)	0.06	(12.22)	-900%	-49.20%	-80%	-13.45%
TRUWORTHS	Retail	0%	2.85	10.86	9.50	1.84	10.14	11%	18.78%	-32%	5.62%
AFRICAN SUN	Tourism	0%	2.80	23.07	(3.50)	1.18	6.36	-29%	-33.60%	4%	-11.0%
RTG	Tourism	-8%	1.10	20.58	16.92	1.47	9.26	6%	8.74%	-31%	2.5%

Events Diary



COMPANY	EVENT	Time	Date	VENUE

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.

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Additional disclosures

1 This report is dated as at 8 July 2014

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

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