

# Investment Research

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**mmc**  
CAPITAL

( Members Of The Zimbabwe Stock Exchange )



The Market Making Corporation

Market Statistics		
	11-Apr	Weekly Change
Mkt Cap \$'m	4,464	-2.1%
Mkt turnover \$'r	9.16	-14.5%
<b>Indices</b>		
ZSE Industrial	172.59	-2.1%
ZSE Mining	28.82	1.0%
NSE 20	4,905.45	-0.1%
Nigeria All Share	39,083.66	1.0%
JSE All Share	48,032.41	-0.7%
NIKKEI-225	13,960.05	-7.3%
FTSE	6,561.70	-2.0%
DJIA	16,026.75	-2.4%

Source: ZSE, Bloomberg

### In this week's review:

- Relief to government as Q1 2014 revenue surpasses target;
- Global capital markets in heavy loses and ;
- ZSE remains under pressure.

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### Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Market Performance						Valuations		
Name	Change	Sales c	Value US\$ 000	CapUS\$ m	Weight	PE	PBk	RoE
Delta	-4.3%	110.00	5,220.4	1,364.6	31%	12.5	4.1	33%
Econet	-1.6%	61.50	562.8	559.2	13%	6.91	1.92	25.2%
Innscor	0.3%	62.20	701.4	336.0	8%	9.58	2.07	30.3%
BAT	0.0%	1,100.00	55.0	227.0	5%	61.11	15.40	30.4%
OK Zim	-5.0%	19.00	161.0	219.4	5%	15.97	3.83	23.8%
Seedco	-3.8%	77.00	15.2	158.0	4%	17.23	1.93	11.3%
Natfoods	0.0%	215.00	5.4	147.1	3%	11.17	2.33	20.8%
Hippo	-7.1%	65.00	24.0	125.5	3%	21.67	0.59	4.0%
TSL	0.0%	35.00	130.0	123.9	3%	19.66	2.10	11.7%
CBZ	0.0%	16.00	398.7	109.5	2%	2.54	0.51	20.1%
<b>Sub Total</b>			<b>7,274</b>	<b>3,370</b>	<b>75%</b>			
<b>ZSE Total</b>			<b>9,162</b>	<b>4,464</b>	<b>100%</b>			

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

**Relief to government as Q1 2014 revenue surpasses target**

... Revenues at \$834.6 million were 2% higher relative to a target of \$817.9 million.....

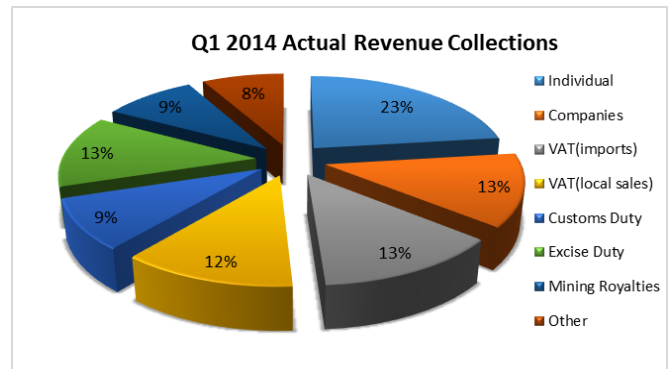
..., According to Zimra, surpassing the target was “miraculous” given the poor performance of the economy. Liquidity constraints and low industry capacity utilization, among other factors, continues to put pressure on the tax base....

.... According to the Confederations of Zimbabwe Industries (CZI), the manufacturing sector’s capacity utilization took a 5% dip in 2013 to close at 39.6% and will likely worsen this year ....

In the week under review, the Zimbabwe Revenue Authority (Zimra) published its revenue performance report for the first quarter of 2014. Revenues at \$834.6 million were 2% higher relative to a target of \$817.9 million. According to the Zimra Commissioner General, surpassing the target was “miraculous” given the poor performance of the economy. Liquidity constraints and low industry capacity utilization, among other factors, continues to put pressure on the tax base. Individual tax (PAYE) revenue head contributed the bulk of the revenues in the quarter, throwing down 23% relative to 21% in 2013. Collections under PAYE surpassed the target of \$168 million by 15%. The positive performance was necessitated by the improvement in compliance by companies on the back of follow-ups and audits. The majority of companies in Zimbabwe are in dire straits on the back of capital constraints. Recovery prospects for many companies remain clipped leaving many companies with no option but to either close down or scale down their operations. According to the Confederations of Zimbabwe Industries (CZI), the manufacturing sector’s capacity utilization took a 5% dip in 2013 to close at 39.6% and will likely worsen this year. On the contrary, however, company tax revenue’s contribution to total revenues improved to 13% in 2014 from 10% in 2013. Collections under company tax amounted to \$104.7 million against a target of \$88.0 million, resulting in a positive variance of 19%. Our view is that that this revenue head will contribute less this year (FY 2014) as more companies will likely scale down their operations or ultimately

close. In the period under review, Value Added Tax (VAT) on local sales revenue head contributed 49% to the total VAT revenue. The net collections on local sales amounted to \$103.8 million compared to a target of \$169 million resulting in a negative variance of 39%. VAT on local sales continues to be hammered by the incapability of the local industry to utilize excess capacity. Zimra’s opinion, with which we concur is that this revenue head will remain depressed until such a time when capacity utilization improves. VAT on imports, which historically weighed less

Figure 1: Contribution by Revenue Head



Source: Zimra Q1 2014 Revenue report

... The escalating import bill relative to exports, is however, very disheartening as this situation is worsening the liquidity constraints in the country as more funds are moved out than coming in...

than half of the VAT total revenue chipped in 51% to total VAT revenue. Collections amounted to \$107.8 million against a target of \$95 million. The positive performance was propelled by a surge in the value of VAT paying goods on importations as local production is failing to quench the local demand. The escalating import bill relative to exports, is however, very disheartening as this situation is worsening the liquidity constraints in the country as more funds are moved out than coming in. Customs duty contributed \$71.2 million (9% of the total collections) against a target of \$96.5 million. This resulted in a negative variance of 26%. According to Zimra, reduction in import volumes, on the back of the obtaining liquidity squeeze and the lack of sufficient funds to import, impacted negatively on this revenue head.

... Improving the investment rate is proving to be a challenge in Zimbabwe through organic growth because of low levels of disposable incomes which is making it difficult to generate significant savings ...

Our view is that though the first quarter revenues were above budget, the outlook remains murky. There is an urgent need for Zimbabwe to accumulate capital for the growth of the economy. Capital is accumulated through private and public sector (for example infrastructure) investments. Improving the investment rate is proving to be a challenge in Zimbabwe through organic growth because of low levels of disposable incomes which is making it difficult to generate significant savings. The low savings rate contributes to a vicious cycle of poverty – low savings leads to low investment, which leads to slow GDP growth, hence low revenue collections for the country. To break the cycle of low savings, the government needs to fine tune its policies so as to attract foreign investments as postulated by the literature on economic growth.

**Table 1: Stock indices performance.**

Index	11-Apr-14	Weekly	YTD
Industrial	172.59	-2.14%	-14.61%
Mining	28.82	1.02%	-37.06%

Source: ZSE, MMC Capital Research

**Table 2: Zfn-Sectoral Indices**

Sector indices	11-Apr-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	116.42	-2.29	-14.07	-9.51
ZSE Top - 10	122.73	-2.79	-13.40	-9.69
Agro-industrial	59.99	-4.20	-19.78	-19.17
Banking	71.31	+0.86	-15.64	+2.94
Conglomerates	58.44	+0.76	-17.43	-14.60
Dual-listed	183.03	-4.16	-5.80	+1.69
Insurance	87.95	-1.99	-15.77	-25.10
Manufacturing	207.04	-3.59	-19.14	-8.60
Mining	11.56	-2.20	-36.91	-55.74
Property	92.69	+3.87	-21.37	-12.30
Retail	261.51	-4.12	-4.94	+0.07
Tourism	26.31		-13.89	+28.08

Source: Zfn, MMC Capital Research

**Table 3: Gainers**

Counter	Market			
	11-Apr	Weekly	Cap(\$'m)	Value Traded(\$)
MEDTECH	0.06	20%	1.68	11,563
AFDIS	35.00	17%	33.32	111,937
ASTRA	4.00	14%	5.59	1,796
MASH HLDS	2.30	10%	42.76	21,014
MEIKLES	18.01	6%	44.19	7,423

Source: ZSE, MMC Capital Research

**Table 4: Losers**

Counter	Market			
	11-Apr	Weekly	Cap(\$'m)	Value Traded(\$)
M & R	3.00	-25%	6.43	1,964
AFARGE CEMENT	65.00	-24%	52.00	2,961
FIDELITY	7.50	-12%	8.17	410
HWANGE	5.50	-8%	9.14	55
HIPPO	65.00	-7%	125.46	23,981

Source: ZSE, MMC Capital Research

**Stock Market Review**

The majority of global capital markets suffered their largest weekly decline since January as investors sold companies with especially high valuations and braced themselves for a disappointing corporate earnings season. Investors continued to sell fast-growing, high-valuation "momentum" stocks in favor of defensive stocks with attractive dividends. The Federal Reserve provided a small cushion for the week's declines in the form of minutes from its last policy meeting. The minutes indicated that officials remained convinced that labor markets still needed time to heal. The Dow and FTSE 100 lost 2.4 percentage points and 2 percentage points to close at 16,026.75 points and 6,561.70 points respectively. Back home, the industrial index, at 172.59 points, closed 2.14 percentage points lower in the week as the bull continues to search for a new lease of life. On a month to date and year to date basis, industrials are down 2.12% and 14.61% respectively. Beverages giant, Delta lost 4.35% to close at 110 cents. Delta published its FY14 trading update in the week under which showed flat total volumes growth on the back of waning consumer demand. The telecoms giant, Econet lost 1.6% to close at 61.5 cents. The food retailer, OK Zim traded 5% in the negative to close at 19 cents. BAT and Natfoods traded flat in the week under review. The resources index, however, gained 1.02% in the week to close at 28.82 points. The total market capitalization closed the week at \$4.464 billion compared to \$4.560 billion last week.

ZSE's trading turnover declined to \$9.16m this week from \$10.72m last week and weekly volumes, however, rose to 230.3m shares from 39.23m shares last week. Foreign investors were net buyers of Delta and Econet in the week. The foreign purchases to total turnover ratio rose to 30% from 22% last week. The foreign sales to total turnover ratio rose to 33% from 21% last week. The overall foreign investor participation increased to 63% this week relative to 43% 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 75% this week.

Sectoral performance as measured by the **12-Zfn indices** indicates that the property sector was the week's top performer, collecting 3.87% to 92.69 points as a result of gains in the share price of Mash (9.52%) to 2.30 cents. The Agro-industrial sector was the worst performer for the week, dropping 4.20% to close at 59.99 points dragged down by losses in Seedco (3.75%) to 77 cents. The ZSE Top-10 lost 2.79% in the week to close at 122.73 points with five of the largest market cap players trading southwards in the week. (Table 2).

Medtech was the top performer for the week, accumulating 20% to close at 0.06 cents. Afdis collated 17% while Astra and Mash gathered 14% and 10% respectively. Meikles also landed in the top movers pack after gaining 6% (Table 3). Masimba was the worst performer for the week, losing 25% to close at 3 cents. Lafarge and Fidelity lost 24% and 12% respectively to close at 65 cents and 7.5 cents respectively. Hippo capped the top losers pack after losing 7% to close at 65 cents. (Table 4).

**Outlook**

Global capital markets will likely remain under pressure this week after the latest Chinese report showed that new credit fell, underscoring risks of a deepening slowdown in the world's second-biggest economy. Pressure on emerging-market stocks will also likely persist this week on news that the European Union is weighing expanding sanctions against Russia amid mounting tension in Ukraine. The bloc will likely impose a third round of sanctions on Russia, including economic measures, as armed separatists in eastern Ukraine ignored a deadline to free official buildings they have occupied. Locally, the economy is experiencing a slowdown in the sales of consumer goods; depressed mineral output; stagnation in money supply growth and tighter revenue collections among other impediments. Our view is that the weak economic fundamentals in Zimbabwe will continue to be the major risk impacting negatively on the upside potential of the local bourse. 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 down side of measures like these, however, is that some companies will simply avoid banks leading to a decline in total bank deposits.

Listed Company Statistics as at 11 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	0%	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	0%	24.00	38.17	17.65	1.43	4.39	6%	9.89%	9%	6.80%
HIPPO	Agro processing	-7%	65.00	125.46	21.67	0.59	6.39	5%	4.04%	-28%	2.19%
PADENGA	Agro processing	-4%	7.70	41.70	12.83	1.21	7.62	8%	11.78%	-4%	8.33%
SEEDCO	Agro processing	-4%	77.00	148.62	17.23	1.93	13.87	6%	11.32%	-14%	5.31%
ABCH	Banking	0%	43.00	107.22	4.57	0.69	0.43	22%	13.23%	-27%	1.17%
BARCLAYS	Banking	3%	3.50	75.34	25.00	1.78	(7.77)		6.96%	-20%	1.00%
CBZH	Banking	0%	16.00	92.57	2.54	0.51	(0.88)	39%	20.06%	7%	2.64%
FBCH	Banking	2%	12.70	75.16	5.52	0.93	1.11	18%	17.51%	-6%	3.30%
NMB	Banking	0%	3.00	8.42	(3.00)	0.29	(6.90)	-33%	-11.34%	-54%	-1.37%
ZBFH	Banking	0%	9.00	15.77	45.00	0.28	(5.80)	2%	1.53%	-19%	0.26%
CFI	Conglomerate	-3%	2.22	2.34	(0.60)	0.06	(19.08)	-166%	-10.98%	-38%	-5.11%
INNSCOR	Conglomerate	0%	62.20	336.87	9.58	2.07	5.98	10%	30.34%	-29%	11.48%
MEIKLES	Conglomerate	6%	18.01	44.19	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%	0.90	4.67	(0.28)	(5.26)	(5.09)	-356%	1814.57%	-10%	-33.62%
TA HOLDINGS	Conglomerate	4%	6.75	11.13	4.53	0.20	1.56	22%	8.91%	11%	3.17%
TSL	Conglomerate	0%	35.00	121.66	19.66	2.10	15.74	5%	11.73%	-8%	7.89%
ECONET	ICT	-2%	61.50	1,008.61	6.91	1.92	3.56	14%	25.16%	2%	12.32%
ZIMPAPERS	ICT	0%	1.10	6.34	12.22	0.56	(9.02)	8%	4.78%	38%	1.50%
AFRE	Insurance	0%	8.00	30.42	18.60	1.68	6.02	5%	33.09%	0%	3.13%
FIDELITY	Insurance	-12%	7.50	8.17	2.52	0.85	2.32	40%	37.32%	-42%	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	17%	35.00	33.25	30.70	4.93	14.79	3%	16.19%	17%	6.25%
DELTA	Manufacturing - Beverages	-4%	110.00	1,355.75	12.47	4.13	8.04	8%	33.25%	-21%	20.06%
LAFARGE	Manufacturing - Construction	-24%	65.00	52.00	16.25	1.45	5.38	6%	9.77%	-41%	5.59%
M&R	Manufacturing - Construction	-25%	3.00	6.62	(100.00)	0.33	1.98	-1%	-0.30%	-54%	-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	0%	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	14%	4.00	5.60	3.67	0.38	1.95	27%	11.35%	-20%	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	2%	1.02	3.26	1.57	0.13	0.17	64%	8.35%	-49%	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%
ZIMFLOW	Manufacturing - Nonfood	0%	2.50	15.57	9.53	0.60	22.62	10%	6.31%	-29%	3.17%
MEDTECH	Manufacturing - Pharmaceutical	20%	0.06	1.68	1.82	1.25	7.14	55%	35.21%	-14%	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	-8%	5.50	10.10	(0.32)	0.11	(0.98)	-309%	-33.83%	-39%	-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	10%	2.30	42.76	3.97	0.42	3.20	25%	9.76%	-29%	9.22%
PEARL	Property	-2%	2.60	32.19	3.28	0.27	7.63	31%	8.24%	0%	7.34%
ZPI	Property	6%	0.95	16.31	8.64	0.31	8.93	12%	3.41%	-27%	3.19%
EDGARS	Retail	0%	12.50	35.34	8.17	3.61	6.04	12%	38.83%	3%	9.86%
OK ZIM	Retail	-5%	19.00	198.83	15.97	3.83	8.44	6%	23.83%	-5%	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

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 15 April 2014

2 All market data included in this report are dated as at close of 15 April 2014, unless otherwise indicated in the report.

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