

Investment Research

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CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	12-Sep	Weekly Change
Mkt Cap \$'m	5,273	-0.64%
Mkt turnover \$'m	12.08	51.9%
Indices		
ZSE Industrial	199.85	-0.7%
ZSE Mining	103.45	1.6%
NSE 20	5,169.50	0.2%
Nigeria All Share	40,672.94	-1.2%
JSE All Share	51,247.71	-1.0%
NIKKEI-225	15,948.29	1.8%
FTSE	6,806.96	-0.7%
DJIA	16,987.51	-0.9%

Source: ZSE, Bloomberg

In this week's review:

- New government revenue measures - Are these sustainable?
- Global stocks break winning streak and;
- ZSE under pressure.

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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	-3.6%	132.99	1,028.6	1,650.8	31%	15.6	4.4	29%
Econet	-1.2%	83.00	3,051.7	754.7	14%	11.40	2.50	21.9%
Innsco	-3.3%	73.00	815.2	394.3	7%	11.25	2.42	30.3%
BAT	0.0%	1,351.00	33.7	278.8	5%	25.49	23.32	88.2%
OK Zim	6.0%	17.50	33.1	204.6	4%	20.59	3.32	15.7%
Seedco	0.0%	97.00	104.7	200.1	4%	16.47	2.16	12.8%
Natfoods	19.6%	275.00	61.2	188.1	4%	14.29	2.97	20.8%
Hippo	-6.3%	75.00	53.2	144.8	3%	15.96	0.67	4.2%
Bindura	1.0%	8.99	39.8	111.4	2%	4.73	7.19	152.7%
TSL	3.7%	28.00	11.2	100.0	2%	15.73	1.72	11.7%
Sub Total			5,232	4,028	76%			
ZSE Total			12,075	5,273	100%			

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

New Government Revenue Measures - Are these sustainable?

..... The capacity to accumulate revenue is one of the key characteristic of an efficient government. Government revenue is an important tool of fiscal policy and is the opposite factor of government spending.....

The capacity to accumulate revenue is one of the key characteristic of an efficient government. Government revenue is an important tool of fiscal policy and is the opposite factor of government spending. Revenues earned are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations; non-taxable sources such as government-owned corporations' incomes; central bank revenue and capital receipts in the form of external loans and debts from international financial institutions. In the week under review, the Ministry of Finance presented the 2014 mid-term fiscal policy review. Constricted revenue collections, waning economic activity and worsening trade deficit, among others made the headlines. Cumulative revenue collections for the period January-June 2014 amounted to US\$1.735 billion, against a target of US\$1.847 billion, resulting in a shortfall of US\$112 million (6.1% of total projected revenue). Tax and non-tax revenue contributed US\$1.63 billion and US\$106 million, respectively. As a result the government revised downwards its revenue targets from US\$4.12 billion to US\$3.85 billion for 2014.

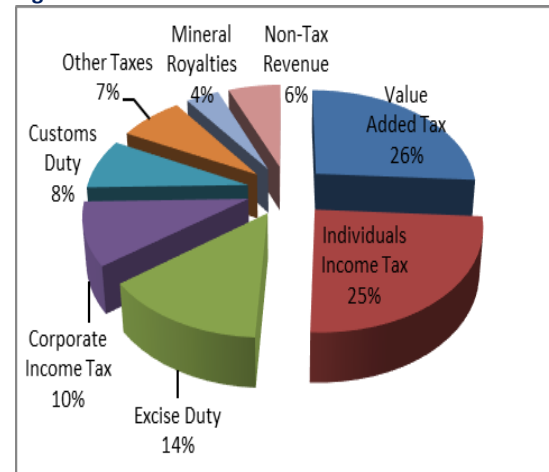
.....Constricted revenue collections, waning economic activity and worsening trade deficit, among others made the headlines.....

Table 1: Revised Macro-Economic Framework

	2014 Budget Projections	2014 Revised Projections
Nominal GDP US\$m	14,065	14,015
GDP Growth	6.1%	3.1%
Inflation	1.5%	0.02%
Government Revenues US\$m	4,120	3,850
Government Expenditures US\$m	4,120	4,120
Exports of Goods and Services US\$m	5,024	3,530
Imports of Goods and Services US\$m	8,321	6,526
Current Account Balance US\$m	-2,471	-3,506
Domestic Credit US\$m	4,243	4,156

Source: MoFED, RBZ and ZimStat

Figure 2: Contributions to total revenue



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In a bid to expand the revenue base, the government will soon implement various measures including the increase in excise duty on petrol, diesel, airtime, customs duty on mobile telephone handsets and the duty structure on selected products such as beverages and dairy produce. Excise duty on diesel and petrol will increase from 25 cents and 30 cents per litre to 30 cents and 35 cents respectively, effective 15 September 2014. Airtime for voice and data will also be levied 5% excise duty. Mobile handsets, with effect from 1 October 2014, will also be levied 25% customs duty.

.....Our view is that these statistics, from Treasury, paint a murky picture on Zimbabwe in the short to medium term ...

Our view is that the revenue measures, from Treasury, paint a murky picture on Zimbabwe in the short to medium term. The increase in excise duty on fuel will likely increase the cost burden for most companies. Companies, under normal circumstances, will have to pass that cost to consumers in a bid to maintain profitable margins. In Zimbabwe, however, consumers are already reeling under waning disposable incomes, hence presenting challenges for companies to increase their selling prices. In an environment where companies are already trimming their products' selling prices to encourage sales, the rise in fuel cost will result in a further squeeze in margins. We opine that a more sustainable model would be for the government to intensify its efforts in implementing investment friendly policies. These measures will be key in opening up the economy to capital and trade flows. As a potential source of funds, foreign investment can break the vicious cycle of low income, low domestic savings, and low investments. Foreign investment can occur in two ways. The first one is that foreign companies can invest directly in a domestic economy (foreign direct investments) by building or buying property, plant and equipment. The second one is that foreign companies and individuals can invest indirectly in a domestic economy by purchasing securities (equity and fixed income) issued by domestic companies. Both of these forms of foreign investment will potentially increase Zimbabwe's capital stock, leading to higher productivity, employment and wages, and perhaps even increased domestic savings. The recent deals with China and Russia are good starting points and a lot still need to be done to ensure they actually take off.

..... We opine that a more sustainable model would be for the government to intensify its efforts in implementing investment friendly policies

Table 1: Stock indices performance.

Index	12-Sep-14	Weekly	YTD
Industrial	199.85	-0.71%	-1.12%
Mining	103.45	1.58%	125.92%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	12-Sep-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	141.83	-0.71	+4.68	+11.45
ZSE Top - 10	149.34	-1.18	+5.37	+12.99
Agro-industrial	69.7	-0.04	-6.79	-5.85
Banking	81.65	+0.68	-3.40	+9.12
Conglomerates	64.22	-1.71	-9.26	-8.00
Dual-listed	212.88	+0.04	+9.56	+20.67
Insurance	81.16	-0.36	-22.27	-38.22
Manufacturing	255.34	-1.49	-0.27	+9.48
Mining	40.87	+1.54	+123.00	+115.60
Property	103.87	+0.77	-11.89	-9.55
Retail	240.83	+4.85	-12.46	-19.82
Tourism	24.97	+0.73	-18.25	-4.19

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	12-Sep	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
COLCOM	30.00	36%	47.71	11,793
NATFOODS	275.00	20%	188.10	61,175
NTS	2.00	18%	5.08	1,165
CBZ	14.00	17%	95.87	4,822,191
RTG	1.40	12%	25.92	26

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	12-Sep	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
TURNALL	2.00	-33%	9.86	2,265
ARISTON	0.50	-29%	6.89	2
WILLDALE	0.20	-20%	3.56	1,349
AFRICAN SUN	2.00	-13%	16.63	12,282
BARCLAYS	3.51	-12%	75.58	59,939

Source: ZSE, MMC Capital Research

Stock Market Review

Economic strength in the U.S., while ultimately good for corporate profits, raised investor worries that the Federal Reserve might act sooner rather than later to raise short-term interest rates. The possibility that the Fed might signal a change in policy at its upcoming meeting weighed on sentiment. Resultantly, the majority of global capital gave back some of their recent gains. The Dow Jones Industrial Average index lost 90 basis points to close at 16,987.51 points and FTSE 100 closed 70 basis points in the negative territory. Locally, the mainstream index cooled 71 basis points in the week under review to close at 199.85 points, mainly weighed down by losses in the top three large market cap players. The beverages giant, Delta, lost 3.63% to close at 132.99 cents. The telecoms giant, Econet, was down 1.20% to close at 83 cents and conglomerate, Innscor, also traded 3.31% in the negative to close at 73 cents. The mining index, however, gained 1.58% on the back of share price increases in Hwange (6.25%) to 8.5 cents and Rio Zim (1.33%) to close at 22.8 cents. Total market capitalization closed the week at \$5.27 billion compared to \$5.31 billion last week.

Total market turnover on the local bourse for the week rose to \$12.08m from \$7.95m last week. Weekly volumes also rose to 65.58m shares from 48.35m shares last week. Foreign investors were net sellers of CBZ, Delta and Econet in the week. Foreign purchases to total turnover ratio declined to 16% from 29% last week. The foreign sales to total turnover ratio, however, rose to 38% from 16% last week. The overall foreign investor participation improved to 55% this week from 46% 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.

As reflected by the **12-Zfn indices**, the retail sector was the week's top performer, collating 4.85% to 24.79 points as a result of gains in the share price of OK Zim (6.00%) to 17.5 cents. Conglomerate sector performed the worst in the week, dragged down by losses in Innscor. The All-Share index retreated by 71 basis points to close at 141.83 points. On a year to date basis (YTD), mining sector outperformed other sectors (+123.00%). Insurance sector (-22.27%), on the other hand, was the worst performer (**Table 2**).

On individual counters, Colcom was the major gainer for the week, collecting 36% to close at 30 cents. Natfoods came in second, advancing 20% to close at 275 cents. NTS, CBZ and RTG also landed in the top movers after adding 18%, 17% and 12% respectively. (**Table 3**). On the losers' side, Turnall was the worst performer for the week, shedding 33% to close at 2.00 cents. Ariston and Willdale lost 29% and 20% respectively. (**Table 4**).

Outlook

The majority of global investors appear to be concerned by a rise in the U.S. dollar, which reached its highest level against the Japanese yen in six years. The relative strength of the U.S. economy has been one factor in the dollar's gains. Polls released last week showing that Scottish voters might vote for independence from Great Britain weighed on the pound sterling relative to the greenback. A stronger dollar makes U.S. goods less competitive in export markets, while also diminishing the value of U.S. corporate profits earned overseas. Global stock markets will likely trade lower until Thursday this week as jittery investors are playing it safe ahead of a potentially pivotal Federal Reserve meeting and the referendum on Scotland's independence on Thursday.

Locally, our view is that the recent revenue measures from Treasury will further put a damper on the upside potential of the market. Trading, however, will continue to be heavily tilted towards companies with robust business models to whether the storms. On the back of the besieging liquidity constraints in the country, local participation will likely remain subdued and foreigners will remain key participants on the local bourse.

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**.

Important disclosures

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Additional disclosures

1 This report is dated as at 16 September 2014

2 All market data included in this report are dated as at close of 16 September 2014, unless otherwise indicated in the report.

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