

# Investment Research

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**mmc**  
CAPITAL

( Members Of The Zimbabwe Stock Exchange )



The Market Making Corporation

Market Statistics		
	13-Jun	Weekly Change
Mkt Cap \$'m	4,700	1.5%
Mkt turnover \$'m	14.31	295.2%
<b>Indices</b>		
ZSE Industrial	180.74	1.2%
ZSE Mining	45.17	16.7%
NSE 20	4,836.71	-0.2%
Nigeria All Share	41,517.11	-0.03%
JSE All Share	50,763.71	1.7%
NIKKEI-225	15,097.84	0.1%
FTSE	6,777.85	-1.2%
DJIA	16,775.74	-0.9%

Source: ZSE, Bloomberg

### In this week's review:

- **Wheels of economic recovery remain stuck – no tailwinds in sight;**
- **Turmoil in the middle east weighs on global capital markets and;**
- **Synchronization of investor policies to restore sanity on the local market.**

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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%	117.00	2,015.7	1,451.4	31%	13.3	4.4	33%
Econet	4.3%	72.00	3,777.4	654.7	14%	8.09	2.24	25.2%
Innscor	2.7%	75.51	99.5	407.8	9%	11.63	2.51	30.3%
BAT	7.1%	1,200.00	132.4	247.6	5%	66.67	16.80	30.4%
OK Zim	0.0%	18.51	2,007.1	213.8	5%	15.55	3.73	23.8%
Nat foods	2.4%	215.00	33.7	147.1	3%	11.17	2.33	20.8%
Seedco	-2.7%	71.00	71.5	146.5	3%	15.88	1.78	11.3%
Hippo	4.6%	68.00	39.4	131.3	3%	22.67	0.62	4.0%
TSL	0.0%	30.00	8.1	107.1	2%	16.85	1.80	11.7%
CBZ	0.0%	15.00	5,142.0	102.6	2%	2.38	0.48	20.1%
<b>Sub Total</b>			<b>13,327</b>	<b>3,610</b>	<b>77%</b>			
<b>ZSE Total</b>			<b>14,306</b>	<b>4,700</b>	<b>100%</b>			

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

Wheels of economic recovery remain stuck – no tailwinds in sight

... In the week under review, the World Bank revised downwards its global growth projections for 2014 from 3.2% in January 2014 to 2.8%, citing a bumpy start in 2014 buffeted by poor weather in the United States, financial market turbulence and the conflict in Ukraine. Medium-term growth prospects for Sub-Saharan Africa (SSA) remain favorable though, with regional growth projected to remain broadly stable at 4.7% in 2014, supported by investments in natural resources, infrastructure, improved agricultural output and firming external demand. Growth is expected to be particularly strong in East Africa, increasingly supported by FDI flows into offshore natural gas resources in Tanzania, and the onset of oil production in Uganda and Kenya. Tight monetary policy, combined with labor strikes and weak electricity supply, will keep growth subdued in South Africa. Growth in Angola is expected to pick up moderately after a slowdown in 2013, helped by a rebound in oil output and infrastructure investment. Growth in Nigeria will be led by further expansion of non-oil sectors. As economic headwinds continue to haunt the local economy, the 2014 growth projection for Zimbabwe was slashed to 2% from a prior projection of 3% in January 2014. The World Bank is however bullish relative to our projection of 1.5% in 2014.....

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Foreign Direct Investment (FDI) has become an important source of private external finance for developing countries as compared to portfolio investments. It is different from other major types of external private capital flows in that it is motivated largely by the investors' long-term prospects for making profits in production activities that they directly control. The majority of Governments in Africa continue to refine their policies in a bid to attract FDI. Robust investment in the resource sector and public infrastructure supports growth in Africa. According to the World Bank, capital inflows to the SSA region remained strong in 2013, at 5.8% of regional GDP, but were less than the 6.4% of regional GDP in 2012 due to a decrease in portfolio debt inflows to South Africa. After declining by 8.6 percent in 2012, net foreign direct investment inflows to the region grew by 10.7% to \$31.9 billion in 2013 (**Figure: 1**), boosted in part by new hydrocarbon discoveries in several countries including Mozambique and Tanzania. In addition to FDI flows, governments across the region continued to expand public infrastructure investment including in roads, energy and ports. Gross fixed capital formation expanded by an estimated 5.1 percent in 2013, reaching 23.5 percent of GDP.

Figure 1: SSA Foreign Direct Investment

SSA Foreign Direct Investments		
Year	SSA(US\$bn)	Share of Zim
2008	33.6	0.2%
2009	30.2	0.3%
2010	24	0.7%
2011	31.5	1.2%
2012	28.8	1.4%
2013	31.9	1.5%

Source: World Bank, Zimbabwe Investment Authority, MMC

... Though rising, the allocation to Zimbabwe of SSA foreign direct investment remains very low. Organic growth is proving to be mammoth task in Zimbabwe, considering the low rate savings. ....

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Since 2008, capital flows into the SSA region have been very volatile underpinned by the changes in the stability of financial markets especially in developed countries. Though rising, the allocation to Zimbabwe of SSA foreign direct investment remains very low (**Figure: 1**). Organic growth is proving to be mammoth task in Zimbabwe, considering the low rate savings. Our view is that there is an urgent need for policy makers to address investors' jitters relating to policy inconsistency and clarity in a bid to attract FDI. Treasury recently hinted that it is in the process of reviewing the regulative legislation such as the Securities Act, as well as synchronizing investor policies in a move to restore investor confidence in Zimbabwe. Not only can FDI add to investible resources and capital formation, but, perhaps more important, it is also a means of transferring production technology, skills, innovative capacity, organizational and managerial practices between locations, as well as of accessing international marketing networks.

Cognizant of the importance of FDI in economic growth, the majority of developing countries have, during the past decade, begun liberalizing their national policies to establish a hospitable regulatory framework for FDI by relaxing rules regarding market entry and foreign ownership, improving the standards of treatment accorded to foreign firms, and improving the functioning of markets, according to the International Monetary Fund (IMF). These policies are important because FDI will simply not take place where it is forbidden or strongly impeded.

Table 1: Stock indices performance.

Index	13-Jun-14	Weekly	YTD
Industrial	180.74	1.21%	-10.58%
Mining	45.17	16.75%	-1.35%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	13-Jun-14	Weekly (%)	Ytd(%)	YoY(%)
All-Share index	126.45	+1.84	-6.67	-14.58
ZSE Top-10	133.2	+2.03	-6.01	-14.75
Agro-industrial	58.39	+0.45	-21.92	-24.02
Banking	80.93	-0.64	-4.25	+5.57
Conglomerates	64.76	+2.60	-8.50	-19.52
Dual-listed	188.75	+0.77	-2.86	+0.37
Insurance	76.92	+2.55	-26.34	-49.74
Manufacturing	223.37	+1.01	-12.76	-18.81
Mining	17.66	+14.97	-3.62	-41.06
Property	92.06	+0.47	-21.91	-19.93
Retail	249.07		-9.47	-25.98
Tourism	25.58	+4.45	-16.27	+1.93

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	13-Jun	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
MASIMBA	1.50	36%	3.21	752
BINDURA	3.30	27%	39.94	14,353
ZIMRE	0.90	20%	6.91	625
R T G	1.10	10%	20.58	84
MEIKLES	20.00	8%	49.07	6,520

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	13-Jun	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
FALGOLD	2.00	-33%	2.22	106
WILLDALE	0.08	-20%	1.42	40
DAWN PROP	0.90	-5%	22.11	2,387
COLCOM	21.00	-5%	33.40	27
ABCH	70.00	-3%	50.21	3,282

Source: ZSE, MMC Capital Research

## MARKET COMMENTARY AND OUTLOOK

### Stock Market Review

Global capital markets traded mixed in the week under review with the Dow and FTSE 100 trimming 90 basis points and 120 basis points to close at 16,775.74 points and 6,777.85 points respectively. Some lackluster economic data released during the week weighed on investor sentiment. The World Bank also lowered its forecast for global economic growth for 2014 to 2.8% from 3.2%. Back home, the mainstream index advanced 1.21% in the week under review to close at 180.74 points. On a year to date basis, the index is still deep in the red (-10.58%). Econet, which hinted that it is intending to tap into diaspora remittances through Ecocash, gained 4.3% to close at 72 cents. Innscor also pushed up 2.7% to close at 75.51 cents. Delta and OK Zim traded flat in the week, closing at 117 cents and 18.51 cents respectively. The resources index closed 16.75% in the positive territory on the back of a surge in the share prices of Bindura (26.9%) to 3.3 cents and Rio (5.3%) to 20 cents. The upsurge in the price of Bindura follows a cautionary statement in the week highlighting that the group's taxed profit for the second half of the financial year ended 31 March 2014 is expected to be significantly higher than the first half's US\$3.3 million. In line with the gains in the indices, the total market capitalization closed the week at \$4.70 billion compared to \$4.63 billion last week.

ZSE's trading turnover improved to \$14.31m this week from \$3.62m last week and weekly volumes, also rose to 87.12m shares from 27.46m shares last week. Foreign investors were net sellers of CBZ, Delta and Innscor in the week. The foreign purchases to total turnover ratio rose to 37% from 20% last week. The foreign sales to total turnover ratio also increased to 49% from 24% last week. The overall foreign investor participation improved to 86% this week relative to 44% 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 77% this week.

Sectoral performance as measured by the **12-Zfn indices** indicates that the mining sector was the week's top performer, collecting 14.97% to 17.66 points as a result of gains in the share price of Bindura (26.92%) to 3.3 cents. The Banking sector was the worst performer for the week, dropping 0.64% to close at 80.93 points dragged down by losses in ABC (2.78%) to 70 cents. The ZSE Top-10 gained 2.79% in the week to close at 133.2 points with five of the largest market cap players trading northwards in the week. (Table 2).

Masimba was the top performer for the week, accumulating 36% to close at 1.5 cents. Bindura collated 27% while Zimre and RTG gathered 20% and 10% respectively. Meikles also landed in the top movers pack after gaining 8% (Table 3). Falgold was the worst performer for the week, losing 33% to close at 2 cents. Willdale and Dawn lost 20% and 5% respectively to close at 0.08 cents and 0.9 cents respectively. ABC capped the top losers pack after losing 3% to close at 70 cents. (Table 4).

### Outlook

Global capital markets will likely record loses this week. The threat of renewed all-out civil war in Iraq threatens the nation's energy production and will likely result in a surge in oil prices. Investors are also worried that turmoil in the Middle East had entered a dangerous new phase as sectarian conflict threatened to spill across borders.

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. On the other hand, Government's commitment to review legislation as well as synchronizing investor policies in order to ensure clarity and consistency is a welcome development that would see sanity being restored on our markets in the medium to long term. The current environment presents a good opportunity for long term equity players as the majority of stocks are currently heavily discounted.

Listed Company Statistics as at 13 June 2014

Sector	Weekly Change	Latest Price	Mkt Cap US\$m	Rolling PE	Price/ Book	EV/ EBITDA	Earnings Yield	ROE	YTD	ROA
Agro processing	0%	0.81	4.33	(0.94)	0.08	5.39	-106%	-3.29%	-87%	-0.58%
Agro processing	0%	0.90	12.41	22.50	0.91	(32.61)	4%	12.81%	1%	5.77%
Agro processing	7%	1,200.00	208.58	66.67	16.80	17.04	2%	30.39%	0%	11.76%
Agro processing	0%	20.00	8.59	2.95	0.08	(10.19)	34%	-2.83%	0%	-1.89%
Agro processing	-5%	21.00	33.40	15.44	1.25	3.74	6%	9.89%	-5%	6.80%
Agro processing	5%	68.00	131.25	22.67	0.62	6.60	4%	4.04%	-24%	2.19%
Agro processing	4%	8.60	46.58	14.33	1.35	8.46	7%	11.78%	8%	8.33%
Agro processing	-3%	71.00	137.04	15.88	1.78	13.31	6%	11.32%	-21%	5.31%
Banking	-3%	70.00	174.54	7.45	1.12	1.08	13%	13.23%	19%	1.17%
Banking	3%	3.60	77.49	25.71	1.83	(7.46)		6.96%	-18%	1.00%
Banking	0%	15.00	86.78	2.38	0.48	(0.97)	42%	20.06%	0%	2.64%
Banking	0%	11.50	68.06	5.00	0.85	0.76	20%	17.51%	-15%	3.30%
Banking	0%	4.00	11.23	(4.00)	0.38	(6.40)	-25%	-11.34%	-38%	-1.37%
Banking	0%	6.00	10.51	30.00	0.18	(6.58)	3%	1.53%	-46%	0.26%
Conglomerate	0%	2.22	2.34	(0.60)	0.06	(19.08)	-166%	-10.98%	-38%	-5.11%
Conglomerate	3%	75.51	408.96	11.63	2.51	6.87	9%	30.34%	-14%	11.48%
Conglomerate	8%	20.00	49.07	1.26	0.32	13.81	79%	27.29%	5%	14.34%
Conglomerate	0%	8.00	4.09	(1.89)	0.10	14.69	-53%	-5.56%	0%	-2.18%
Conglomerate	1%	0.80	4.15	(0.25)	(4.67)	(5.01)	-400%	1814.57%	-20%	-33.62%
Conglomerate	0%	5.50	9.07	3.69	0.16	1.36	27%	8.91%	-10%	3.17%
Conglomerate	0%	30.00	104.28	16.85	1.80	13.79	6%	11.73%	-21%	7.89%
ICT	4%	72.00	1,180.82	8.09	2.24	4.10	12%	25.16%	20%	12.32%
ICT	0%	0.80	4.61	8.89	0.41	(8.09)	11%	4.78%	0%	1.50%
Insurance	0%	6.50	24.71	15.12	1.37	5.50	7%	33.09%	-19%	3.13%
Insurance	0%	7.52	8.19	2.52	0.86	2.33	40%	37.32%	-42%	7.13%
Insurance	0%	1.25	6.99	2.55	0.48	1.14	39%	19.14%	-11%	10.53%
Insurance	20%	0.90	6.97	3.75	0.15	(53.22)	27%	10.87%	-38%	4.28%
Manufacturing - Beverages	0%	32.10	30.50	28.16	4.52	13.67	4%	16.19%	7%	6.25%
Manufacturing - Beverages	0%	117.00	1,442.03	13.27	4.39	8.55	8%	33.25%	-16%	20.06%
Manufacturing - Construction	0%	65.00	52.00	16.25	1.45	5.38	6%	9.77%	-41%	5.59%
Manufacturing - Construction	36%	1.50	3.31	(50.00)	0.17	1.14	-2%	-0.30%	-77%	-0.16%
Manufacturing - Construction	0%	2.10	6.86	(4.20)	0.37	7.39	-24%	-9.07%	-58%	-3.74%
Manufacturing - Construction	-20%	0.08	1.42	(2.00)	0.14	69.32	-50%	-7.23%	-20%	-3.70%
Manufacturing - Food	0%	8.20	29.36	(16.40)	0.63	20.48	-6%	-3.74%	-45%	-2.48%
Manufacturing - Food	2%	215.00	147.06	11.17	2.33	8.21	9%	20.82%	8%	10.79%
Manufacturing - Nonfood	0%	0.30	1.40	2.73	0.13	4.16	37%	4.43%	50%	1.53%
Manufacturing - Nonfood	0%	4.50	6.29	4.13	0.42	2.17	24%	11.35%	-10%	13.52%
Manufacturing - Nonfood	0%	0.08	0.42	(19.12)	0.09	0.59	-5%	-48.15%	0%	-17.32%
Manufacturing - NonFood	0%	2.10	6.71	3.23	0.27	1.44	31%	8.35%	5%	5.19%
Manufacturing - Nonfood	0%	2.70	6.85	7.94	1.26	5.57	13%	16.08%	8%	10.89%
Manufacturing - Nonfood	0%	7.00	38.48	(6.73)	7.07	(15.31)	-15%	-10.55%	133%	-2.16%
Manufacturing - Nonfood	-1%	1.50	5.69	12.50	0.73	5.92	8%	5.97%	-17%	2.84%
Manufacturing - Nonfood	0%	0.01	0.05	(0.01)	0.00	(0.25)	-10200%	-15.63%	0%	-10.18%
Manufacturing - Nonfood	0%	10.00	62.27	38.12	2.41	61.82	3%	6.31%	186%	3.17%
Manufacturing - Pharmaceutical	0%	0.07	1.96	2.12	1.46	7.74	47%	35.21%	0%	5.76%
Manufacturing -Cables	0%	25.00	8.15	5.76	0.85	4.29	17%	14.85%	-11%	10.35%
Mining	27%	3.30	4.16	(1.65)	(0.70)	(0.74)	-61%	216.66%	65%	-25.33%
Mining	-33%	2.00	2.22	(1.82)	(0.67)	(33.53)	-55%	50.45%	-60%	-9.09%
Mining	0%	4.51	8.29	(0.27)	0.09	(0.92)	-377%	-33.83%	-50%	-12.24%
Mining	5%	20.00	6.00	(2.34)	0.27	13.38	-43%	-21.36%	-39%	-3.91%
Property	-5%	0.90	22.11	21.95	0.26	9.16	5%	1.62%	-10%	1.56%
Property	0%	2.20	40.90	3.79	0.40	3.04	26%	9.76%	-32%	9.22%
Property	6%	2.60	32.19	3.28	0.27	7.63	31%	8.24%	0%	7.34%
Property	0%	0.80	13.73	7.27	0.26	7.62	14%	3.41%	-38%	3.19%
Retail	0%	12.20	34.49	7.97	3.53	5.95	13%	38.83%	1%	9.86%
Retail	0%	18.51	193.70	15.55	3.73	8.21	6%	23.83%	-7%	11.69%
Retail	0%	0.02	0.20	(0.11)	0.06	(12.22)	-900%	-49.20%	-80%	-13.45%
Retail	0%	1.80	6.86	6.00	1.16	7.81	17%	18.78%	-57%	5.62%
Tourism	0%	2.80	23.07	(3.50)	1.18	6.36	-29%	-33.60%	4%	-11.01%
Tourism	10%	1.10	20.58	16.92	1.47	9.26	6%	8.74%	-31%	2.5%



## Events Diary

COMPANY	EVENT	Time	Date	VENUE
ZPI	AGM	12:00PM	18-Jun-14	206 Samora Machel

### 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 17 June 2014

2 All market data included in this report are dated as at close of 17 June 2014, unless otherwise indicated in the report.

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