

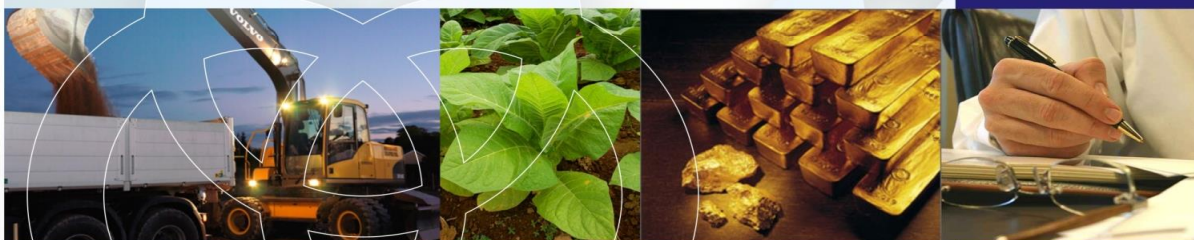
# Investment Research

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**mmc**  
CAPITAL

( Members Of The Zimbabwe Stock Exchange )



The Market Making Corporation

Market Statistics		
	19-Sep	Weekly Change
Mkt Cap \$'m	5,143	-2.47%
Mkt turnover \$'m	6.46	-46.5%
<b>Indices</b>		
ZSE Industrial	195.35	-2.3%
ZSE Mining	92.82	-10.3%
NSE 20	5,307.52	2.7%
Nigeria All Share	41,049.27	0.9%
JSE All Share	51,462.42	0.4%
NIKKEI-225	16,199.42	1.6%
FTSE	6,837.92	0.5%
DJIA	17,279.74	1.7%

Source: ZSE, Bloomberg

### In this week's review:

- Delay in culling to improve crocodile skin quality- Padenga's revenue to improve in the second half of 2014
- Global stocks return to record highs and;
- ZSE recording losses.

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### Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Market Performance						Valuations		
Name	Change	Sales ¢	Value US\$ 000/kt	CapUS\$ ml	Weight	PE	PBk	RoE
Delta	-3.0%	129.00	1,212.0	1,601.2	31%	15.1	4.3	29%
Econet	-7.2%	77.00	1,190.4	700.2	14%	10.58	2.32	21.9%
Innscor	-1.4%	71.99	670.3	388.8	8%	11.09	2.12	33.0%
BAT	-0.1%	1,350.00	121.4	278.6	5%	25.47	23.30	88.2%
Natfoods	12.7%	310.00	65.2	212.0	4%	16.10	3.16	25.0%
OK Zim	2.9%	18.00	58.4	210.5	4%	21.18	3.41	15.7%
Seedco	-2.1%	95.00	475.9	196.0	4%	16.13	2.11	12.8%
Hippo	-6.7%	70.00	92.4	135.1	3%	14.89	0.63	4.2%
Bindura	-10.9%	8.01	97.8	99.3	2%	4.22	6.40	152.7%
CBZ	0.0%	14.00	17.8	95.9	2%	2.99	0.46	16.0%
<b>Sub Total</b>			<b>4,002</b>	<b>3,918</b>	<b>76%</b>			
<b>ZSE Total</b>			<b>6,461</b>	<b>5,143</b>	<b>100%</b>			

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

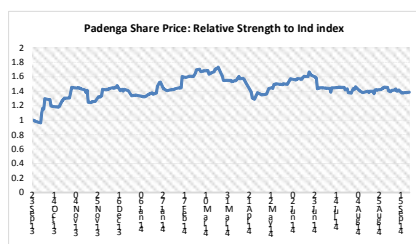
# FINANCIAL RESULTS REVIEW

Padenga: Half Year ended 30 June 2014

“Delay in culling to improve skin quality”

Rating	BUY
Date	23-Sep-14
Reuters code	PADENGA.ZI
Current Price US cent	8.0
Fair Price	15
Implied upside	91%
52 week range -US cent	5.7 - 9.5
Shares in issue 'm	541.59
Market Cap US\$m	43.33
Book Value US\$m	36.12
Price to book	1.2

	HY2014	HY2013
Revenue \$m	4.76	8.84
As percentage of sales		
EBITDA	-51%	24%
EBIT	59%	115%
Net profit	33%	84%
Market cap \$m	43	
Valuation		Sector
P/E (+1)	7.61	14.51



## Overview

The earnings reporting season is underway and the majority of companies continue to post disappointing numbers. Slowing down revenue growth rates and deteriorating profitability trends remain the major headlines. A greater proportion of companies which are solely dependent on the local consumer are feeling the pinch from the local impediments relative to their peers which have a foreign flair. Padenga is one such company which is in that space, through exports, hence our focus on the company this week.

Padenga is an agro processor which focuses on crocodile farming and operates three farms located on the shores of Lake Kariba in Zimbabwe. It produces premium quality skins and meat for export to Europe and Asia. Padenga is one of the largest Nile crocodile farming operations in Africa and currently supply approximately 33% of the world's demand for large, high-quality skins. The agro-processor also runs an alligator business in the United States.

The crocodiles are sourced from eggs collected from the wild and from its own breeding stock. The group have developed infrastructure, systems and animal husbandry techniques in a bid to produce a consistent quality and size of skin.

## Delay in culling to improve quality

The crocodile-farming concern recorded revenue of \$4.8m in the six months to June 2014 compared to \$8.8m in 2013. According to management, the change in year-end afforded the group the flexibility on when to cull the crocodiles. In the period under review, culling operations were delayed in the months of May and June 2014 and this resulted in lower turnover relative to last year. The delay in culling will likely improve

skin quality. Only 7,467 skins were sold this year compared to 15,026 last year.

## Revenue to improve in the second half

In the Zimbabwean crocodile operations, revenue decreased by 42% to \$4.1m. The decline in revenue was on the back of the delay in the culling process. Our enthusiasm on Padenga, is not tempered, however, as the revenue trend will reverse in the second half of the year. Skins graded and sold attained a first grade quality of 95%. The group continues to implement cost cutting measures, with the intention to enhance profitability. These strategies include the mechanization of some of its operations. Benefits of the voluntary staff reductions, improved ways of managing fuel and energy consumption are beginning to filter into the accounting numbers.

In the alligator business, the United States Alligator operation recorded revenue of \$646,550 from the sale of 1,832 alligator skins in the six months to June 2014 compared to \$40,695 last year. The revenue was, however, below budget because the group did not cull the full crop of 2,400 alligators as some had not reached the requisite size. These will be culled in the third quarter of the year.

## Outlook and recommendation

Zimbabwe exports c.80,000 crocodile skins annually and Padenga accounts for approximately 50% of the exports. The production processes at Padenga are of global standards, for instance, the mortality rate currently stands at 0.5%, against the in house target of 1.5%. The global benchmark is at 5%. Because of the quality production, most of its skins (above 90% are for the top market, attracting a 25% premium in pricing). The majority of Zimbabwean crocodile skin exporters are favouring Asia because of the lower quality. The crocodile skins market is run by cartels and Padenga is rightly placed because of its strong relationships. There are effectively eleven major tannery groups worldwide handling the majority of crocodile skins traded. Some of these are directly owned by luxury brand houses and others are

**Table 1: Stock indices performance.**

Index	19-Sep-14	Weekly	YTD
Industrial	195.35	-2.25%	-3.35%
Mining	92.82	-10.28%	102.71%

Source: ZSE, MMC Capital Research

**Table 2: Zfn-Sectoral Indices**

Sector indices	19-Sep-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	137.81	-2.83	+1.72	+8.82
ZSE Top -10	144.77	-3.06	+2.11	+10.71
Agro-industrial	68.18	-2.18	-8.82	-6.08
Banking	82.1	+0.55	-2.87	+9.04
Conglomerates	62.55	-2.60	-11.62	-11.56
Dual-listed	212.88		+9.56	+19.44
Insurance	78.15	-3.71	-22.16	-40.48
Manufacturing	250.65	-1.84	-2.11	+8.62
Mining	36.73	-10.13	+100.40	+88.53
Property	107.02	+3.03	-9.21	-5.95
Retail	246.18	+2.22	-10.52	-24.75
Tourism	24.97		-18.25	+4.19

Source: Zfn, MMC Capital Research

**Table 3: Gainers**

Counter	19-Sep	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
ARISTON	0.85	70%	11.72	272
PELHAMS	0.03	50%	0.30	5,514
ZPI	1.20	20%	20.60	129,396
CFI	2.80	17%	2.95	203
M & R	2.30	15%	4.93	243

Source: ZSE, MMC Capital Research

**Table 4: Losers**

Counter	19-Sep	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
AFARGE CEMEN	50.00	-25%	40.00	1,978
WILLDALE	0.15	-25%	2.67	17
ART ZDR	0.50	-17%	2.16	983
RIOZIM	20.00	-12%	10.67	121,159
STAR AFRICA	2.20	-12%	11.41	100,185

Source: ZSE, MMC Capital Research

are independent. Producers sell to these relatively few tanneries who in turn sell on to a huge variety of high, middle and low end manufacturers worldwide. The group is targeting annual production of around 50,000 skins. Management expects to maintain the quality of skins harvested in the Nile crocodile business for the remainder of the season. Growing the Breeder herd, with the intention of becoming self-sufficient in egg production within the next couple of years remain a priority. Developing the local market for crocodile meat also remains key in offsetting the reduced demand for the product in Asia and Europe. The yearlings will occur in September/ October 2014.

Our view is that the FY 14 revenue will come in at around \$17 million, given that more revenue will be generated in the second half of the year. Given the poor operating fundamentals engulfing Zimbabwe, exposure into different markets becomes key and our view is that Padenga is well placed in that space. Our valuation model, which is based on a forward P/E of 7.61x (on earnings of 1.5 cents per share) yields a fair value of 15 cents against a current market price of 8 cents. We therefore tag a **Buy** rating on the stock.

## MARKET COMMENTARY AND OUTLOOK

### Stock Market Review

The majority of global indices regained the previous week's losses and set record highs in the week under review as investors were encouraged that Federal Reserve policymakers made no substantive changes to their policy stance following their scheduled meeting on the 17<sup>th</sup> of September 2014. While some investors had anticipated that recent economic strength would encourage Fed officials to warn of an eventual increase in short-term interest rates, the Fed's post-meeting policy statement repeated that officials intended to leave rates near 0% "for a considerable time. The Dow Jones Industrial Average index gained 1.7% to close at 17,279.74 points and FTSE 100 advanced 0.5% to close at 6,837.92 points. Back home, in the week under review, the mainstream index lost 2.25% to close at 195.35 points, as selected large market cap players lost their ground. Delta, at 129 cents, eased 3.01% and Seedco, at 95 cents, slackened 2.06%. Hippo retreated 6 cents to close at 69 cents and Econet, at 77 cents, traded 8 cents lower. Innscor tumbled from 75.50 cents last week to 72 cents this week. BAT lost a marginal cent to close at 1,350 cents. The resources index also dropped 10.28%, following losses in Bindura (11.01%) to 8 cents and Rio Zim (12.28%) at 20 cents. Total market capitalization closed the week at \$5.14 billion compared to \$5.27 billion last week.

Total market turnover for the week declined to \$6.46m from \$12.08m last week. Weekly volumes, however, rose to 73.35m shares from 65.58m shares last week. Foreign investors were net buyers of Astra and Econet in the week. Foreign purchases to total turnover ratio rose to 30% from 16% last week. The foreign sales to total turnover ratio, however, declined to 17% from 38% last week. The overall foreign investor participation dipped to 47% this week from 55% last week.

As reflected by the **12-Zfn indices**, the property sector was the week's top performer, gathering 3.03% to 107.02 points as a result of gains in the share price of ZPI (20.00%) to 1.20 cents. Mining sector performed the worst in the week, dragged down by losses in Bindura as a result of profit taking. The All-Share index retreated by 2.83% to close at 137.81 points (**Table 2**).

On individual counters, Ariston was the major gainer for the week, collecting 70% to close at 0.85 cents. Pelhams and ZPI advancing 50% and 20% to close at 0.03 cents and 1.20 cents respectively. CFI and Masimba also landed in the gainers pack. (**Table 3**). On the losers' side, Lafarge and Willdale were the worst performers for the week, shedding 25% apiece to close at 50 cents and 0.15 cents respectively. (**Table 4**).

### Outlook

Global investors are worried about the slowdown in the European growth momentum, and together with the Chinese growth fears, global economy outlook appears to be gloomy. The Market Economics purchasing managers' index of manufacturing output in the euro area dropped to 50.5 points, the lowest since July 2013. Geopolitical risk is also on the rise with the U.S conducting its first airstrikes in Syria and Israel shooting down a fighter jet. These developments will likely weigh down on global capital markets this week.

Our view is that the market will likely trend northwards in the short to medium term. The shortage of shares relative to demand, particularly those that are dear to foreigners (Econet, Delta, Innscor and Natfoods) will likely result in positive trading. In order to entice those holding the shares to sell, buyers will have to offer a premium. Though there are poor operating fundamentals in Zimbabwe, we think that there will be no relationship between economic developments and what will be happening on the stock market.

#### Listed companies as at 19 September 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	6%	0.85	9.31	1.60	0.18	(3.71)	62%	28.33%	-86%	7.97%
ARISTON	Agro processing	70%	0.85	11.72	9.44	0.62	4.12	11%	6.92%	-4%	3.07%
BAT	Agro processing	0%	1,350.00	278.55	25.47	23.30	16.60	4%	88.17%	13%	34.98%
BORDER	Agro processing	0%	20.00	8.59	2.95	0.08	(10.19)	34%	-2.83%	0%	-1.89%
COLCOM	Agro processing	0%	30.00	47.71	22.06	1.72	4.86	5%	16.51%	36%	11.46%
HIPPO	Agro processing	-7%	70.00	135.11	14.89	0.63	5.56	7%	4.19%	-22%	2.42%
PADENGA	Agro processing	-4%	8.00	43.33	(26.67)	1.20	46.71	-4%	-4.40%	0%	-2.79%
SEEDCO	Agro processing	-2%	95.00	195.98	16.13	2.11	11.50	6%	12.76%	6%	7.15%
ABCH	Banking	1%	73.00	52.40	7.77	0.34	(0.10)	13%	13.23%	24%	1.17%
BARCLAYS	Banking	0%	3.51	75.58	25.07	1.78	(7.73)	4%	6.96%	-20%	1.00%
CBZH	Banking	0%	14.00	96.12	2.99	0.46	(0.41)	33%	15.97%	-7%	2.07%
FBCH	Banking	0%	12.00	79.76	5.50	0.82	2.14	18%	15.48%	-11%	3.16%
NMB	Banking	0%	4.50	0.74	26.47	0.03	(14.05)	4%	2.60%	-31%	0.28%
ZBFH	Banking	0%	8.00	12.88	(444.44)	0.23	(10.84)	0%	-7.11%	-28%	-1.17%
CFI	Conglomerate	17%	2.80	2.95	(0.29)	0.05	(2.94)	-350%	-17.56%	-22%	-9.61%
INNSCOR	Conglomerate	-1%	71.99	388.83	11.09	2.12	6.51	9%	33.04%	-18%	13.48%
MEIKLES	Conglomerate	-3%	16.00	39.26	1.06	0.25	17.50	95%	24.04%	-16%	26.96%
RADAR	Conglomerate	0%	5.00	2.55	8.06	0.20	5.44	12%	2.12%	-38%	1.26%
STAR AFRICA	Conglomerate	-12%	2.20	11.41	(0.93)	(0.65)	(8.86)	-108%	69.67%	120%	-31.73%
TA HOLDINGS	Conglomerate	0%	15.00	24.73	(7.43)	0.50	2.33	-13%	-7.78%	146%	-2.22%
TSL	Conglomerate	-7%	26.00	92.85	13.83	1.43	9.84	7%	11.16%	-32%	7.23%
ECONET	ICT	-7%	77.00	1,262.82	10.58	2.32	4.00	9%	21.92%	28%	10.91%
ZIMPAPERS	ICT	0%	0.65	3.74	7.22	0.33	(7.62)	14%	4.78%	-19%	1.50%
AFRE	Insurance	-8%	6.01	22.85	4.73	1.32	13.83	21%	-3.23%	-25%	-0.27%
FIDELITY	Insurance	10%	9.50	10.35	6.83	0.77	1.31	15%	12.90%	-27%	2.74%
NICOZDMD	Insurance	-7%	1.40	7.93	4.12	0.48	1.61	24%	13.99%	0%	7.50%
ZHL	Insurance	-6%	0.85	6.59	(5.67)	0.13	13.64	-18%	3.02%	-41%	1.06%
AFDIS	Manufacturing - Beverages	2%	33.50	37.19	17.09	3.91	11.83	6%	21.85%	12%	12.43%
DELTA	Manufacturing - Beverages	-3%	129.00	1,600.75	15.09	4.29	9.64	7%	28.72%	-8%	18.14%
LAFARGE	Manufacturing - Construction	-25%	50.00	40.00	(50.00)	1.09	9.00	-2%	-1.30%	-55%	-0.69%
MASIMBA	Manufacturing - Construction	15%	2.30	7.72	(16.43)	0.39	2.64	-6%	-1.53%	-65%	-0.81%
TURNALL	Manufacturing - Construction	5%	2.10	10.74	(2.06)	0.40	(20.02)	-49%	-19.85%	-58%	-7.74%
WILLDALE	Manufacturing - Construction	-25%	0.15	2.67	(3.75)	0.26	90.03	-27%	-7.23%	50%	-3.70%
DZHL	Manufacturing - Food	-4%	11.50	41.17	(12.11)	0.91	(27.23)	-8%	-4.13%	-15%	-2.73%
NATFOODS	Manufacturing - Food	13%	310.00	212.04	16.10	3.16	9.00	6%	24.99%	55%	14.33%
ART	Manufacturing - Nonfood	-17%	0.50	2.16	(2.50)	0.20	6.28	-40%	-9.18%	150%	-3.23%
ASTRA	Manufacturing - Nonfood	-3%	6.21	8.70	5.22	0.53	10.22	19%	10.22%	24%	6.93%
GBH	Manufacturing - Nonfood	0%	0.03	0.16	(5.35)	0.06	(0.42)	-19%	-108.72%	-63%	-26.15%
HUNYANI	Manufacturing - NonFood	-4%	4.80	15.35	10.67	0.53	7.44	9%	5.02%	140%	3.35%
NTS	Manufacturing - Nonfood	0%	2.00	5.08	5.88	0.93	4.01	17%	16.08%	-20%	10.89%
PIONEER	Manufacturing - Nonfood	0%	4.00	4.26	(3.85)	0.78	(4.66)	-26%	-10.55%	33%	-2.16%
POWERSPEED	Manufacturing - Nonfood	0%	1.80	6.91	10.59	0.85	6.32	9%	7.94%	0%	3.54%
ZECO	Manufacturing - Nonfood	0%	0.01	0.05	(0.01)	0.00	(0.25)	-10200%	-15.63%	0%	-10.18%
ZIMFLOW	Manufacturing - Nonfood	0%	6.01	9.36	(601.00)	0.35	(46.57)	0%	-8.13%	72%	-4.37%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.04	1.12	40.00	0.62	11.32	3%	5.51%	-43%	1.22%
CAFCA	Manufacturing -Cables	-2%	25.00	2.06	5.76	0.22	1.63	17%	14.85%	-11%	10.35%
BINDURA	Mining	-11%	8.01	99.30	4.22	6.40	5.56	24%	152.65%	301%	35.50%
FALGOLD	Mining	0%	4.00	4.45	(3.64)	(1.34)	(39.47)	-28%	50.45%	-20%	-9.09%
HWANGE	Mining	-6%	8.00	13.43	(0.47)	0.15	(1.09)	-213%	-33.83%	-11%	-12.24%
RIOZIM	Mining	-12%	20.00	10.83	2.13	0.67	(35.47)	47%	-60.32%	-39%	-8.07%
DAWN	Property	6%	0.90	22.11	22.50	0.26	10.02	4%	2.54%	-10%	2.45%
MASH	Property	-2%	2.65	49.27	4.91	0.46	4.12	20%	8.72%	-18%	8.24%
PEARL	Property	0%	2.80	34.67	1.93	0.28	8.69	52%	7.46%	8%	6.49%
ZPI	Property	20%	1.20	20.60	17.14	0.38	15.74	6%	2.76%	-8%	2.56%
EDGARS	Retail	-2%	11.80	34.52	7.71	2.34	5.89	13%	25.40%	-3%	8.50%
OK ZIM	Retail	3%	18.00	210.40	21.18	3.41	10.58	5%	15.71%	-10%	8.30%
PELHAMS	Retail	50%	0.03	0.30	(0.17)	0.08	(12.48)	-600%	-49.20%	-70%	-13.45%
TRUWORTHS	Retail	2%	2.85	10.74	9.50	1.82	10.07	11%	18.78%	-32%	5.6%
AFRICAN SUN	Tourism	0%	2.00	16.63	(2.00)	0.88	6.62	-50%	-43.46%	-26%	-14.4%
RTG	Tourism	0%	1.40	26.19	21.54	1.87	10.58	5%	8.74%	-13%	2.5%

## Events Diary

COMPANY	EVENT	Time	Date	VENUE
RTG	Briefing	12:00 PM	24-Sep-14	Rainbow Towers
FBC	EGM	12:30 PM	26-Sep-14	Royal Harare

### 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 23 September 2014

2 All market data included in this report are dated as at close of 23 September 2014, unless otherwise indicated in the report.

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