

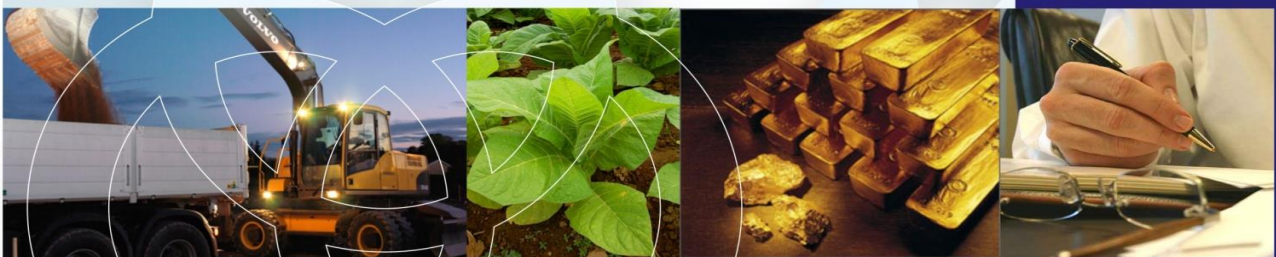
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mmc
CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	20-Jun	Weekly Change
Mkt Cap \$'m	4,890	4.0%
Mkt turnover \$'m	6.14	-57.1%
Indices		
ZSE Industrial	187.40	3.7%
ZSE Mining	59.00	30.6%
NSE 20	4,825.52	-0.2%
Nigeria All Share	41,129.29	-0.9%
JSE All Share	51,322.67	1.1%
NIKKEI-225	15,349.42	1.7%
FTSE	6,825.20	0.7%
DJIA	16,947.08	1.0%

Source: ZSE, Bloomberg

In this week's review:

- **At the mercy of the government – the Zimbabwe gold miners' story;**
- **Zimbabwe lacks comparative advantage in raw milk production;**
- **Global equity investors welcome steady course in U.S. monetary policy and;**
- **Banking sector index in losses on the ZSE.**

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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	6.0%	124.01	1,207.1	1,538.4	31%	14.1	4.7	33%
Econet	2.8%	74.00	2,619.7	672.9	14%	8.31	2.30	25.2%
Innsco	6.0%	80.01	181.3	432.1	9%	12.33	2.66	30.3%
BAT	2.9%	1,235.00	189.6	254.8	5%	68.61	17.29	30.4%
OK Zim	-1.1%	18.30	412.6	211.4	4%	15.38	3.69	23.8%
Natfoods	0.0%	215.00	-	147.1	3%	11.17	2.33	20.8%
Seedco	0.3%	71.21	74.6	146.9	3%	25.00	0.68	4.0%
Hippo	10.3%	75.00	57.2	144.8	3%	15.93	1.79	11.3%
TSL	0.0%	30.00	602.5	107.1	2%	16.85	1.80	11.7%
CBZ	-3.3%	14.50	12.3	99.2	2%	2.30	0.46	20.1%
Sub Total			5,357	3,755	77%			
ZSE Total			6,139	4,890	100%			

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

At the mercy of the government – the Zimbabwe gold miners’ story

... In the week under review, Falgold published its interim results for the six months ending 31 March 2014. The Company realized a net loss of \$1.7m relative to a net loss of \$2,6m in the prior period

... Our view is that global gold prices will surge in the short term, benefiting from the low-interest environment in the United States that has made alternative assets more attractive.....

.... The unwinding of China’s commodity will likely boost the price of gold as Chinese speculators sell their physical gold and at the same time buy back their hedges in the futures market.....

..... These high taxes and charges were sustainable in the elevated gold price regime of 2012 and early 2013, but not at the current gold price levels

..... Though the mining sector is bemoaning high tax fees, it is very difficult for the government to lower its fees considering the shrinking revenue base. We recommend for a win-win solution between the government and the mining sector, a move that will guarantee the viability of mining entities in Zimbabwe.....

..... The week under review also saw the Dairy Services Department indicating that Zimbabwe raw milk production in the five months to May 2014 gained a marginal 49 basis points to 22.24m litres

..... Our view is that the local dairy industry will remain prone to foreign competition. Statistics form Dairibord Holdings show that the current raw milk price per litre is currently \$0.64 in Zimbabwe relative to regional average of c.\$0.40 per litre, highlighting that Zimbabwe currently lacks the comparative advantage in milk production.....

In the week under review, Falgold published its interim results for the six months ending 31 March 2014. The Company realized a net loss of \$1.7m relative to a net loss of \$2,6m in the prior period. According to management, the narrowing loss was due to strict cost containment measures and the curtailment of non-essential development programs. Dalny Mine was shut down on August 30, 2013. The care and maintenance costs at Dalny Mine for the six months amounted to \$0.77m. The Company produced 4,789 ounces of gold for the six months (average sale price \$1,274 per ounce on the sale of 4,982 ounces of gold), as compared to 8,285 ounces of gold for the six months ended 31 March 2013 (average sale price \$1,636 per ounce on the sale of 8,817 ounces of gold). The large drop in production in 2014 as compared to 2013 is attributable to the closure of Dalny Mine.

Falgold, in the week under review, hinted that the gold mining industry in Zimbabwe is reeling under intense pressure arising from the continued weak world price of gold, high tax rate regime, rigid labor laws and high power cost among other impediments. The gold price has fallen from a range of c.\$1,600 - \$1,650 per ounce last year (October 2012- March 2013), to a current range of c.\$1,250 - US\$1,300 per ounce (October 2013 – March 2013). Our view is that global gold prices will surge in the short term, benefiting from the low-interest environment in the United States that has made alternative assets more attractive. China is the world’s largest market for gold bars, in part because of successful development initiatives by the major Chinese banks. The unwinding of China’s commodity financing deals will likely boost the price of gold as Chinese speculators sell their physical gold and at the same time buy back their hedges in the futures market.

According to management, The Chamber of Mines of Zimbabwe had, in late 2013 and into early 2014 requested that the Government review the high direct and indirect taxes and other charges, together with the high power charges imposed on gold mining companies. These high taxes and charges were sustainable in the elevated gold price regime of 2012 and early 2013, but not at the current gold price levels. Due to lower gold prices, production is waning and the current tax regime is a heavy burden to most miners in Zimbabwe. On the back of the challenges besieging the mining sector, development and capital replacement programs have essentially ceased. Our view is that these development presents a murky outlook on the gold mining sector in the short to medium term. Though the mining sector is bemoaning high taxes, it is very difficult for the government to lower its fees considering the shrinking revenue base. We recommend for a win-win solution between the government and the mining sector, a move that will guarantee the viability of mining entities in Zimbabwe, hence beneficial to the fiscus in the long term.

Zimbabwe lacks comparative advantage in raw milk production

The week under review also saw the Dairy Services Department indicating that Zimbabwe raw milk production in the five months to May 2014 gained a marginal 49 basis points to 22.24m litres from 22.13m litres in the same period last year chiefly propelled by low production costs. Intake by milk processors also improved by 3.33% to 4.13m litres compared to 3.9 mln litres in 2013. On a month on month basis, production in May 2014 was 3.68% up at 4.60m litres from 4.4m litres in April 2014. Zimbabwe currently has approximately 28,000 dairy cows with just under 2,000 imported last year through various importation schemes.

The annual raw milk production is c.55m litres against an estimated demand of 100m litres. By virtue of the local supply failing to quench the local demand, our view is that the local dairy industry will remain prone to foreign competition. Statistics form Dairibord Holdings show that the current raw milk price per litre is currently \$0.64 in Zimbabwe relative to regional average of c.\$0.40 per litre, highlighting that Zimbabwe currently lacks the comparative advantage in milk production. As the milk import bill continues to surge, the local raw milk production sector’s the growth rate will likely slow down. Only a sustainable increase in the national herd coupled with reduced stock feed prices will result in the price of raw milk coming down.

Table 1: Stock indices performance.

Index	20-Jun-14	Weekly	YTD
Industrial	187.4	3.68%	-7.28%
Mining	59	30.62%	28.85%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	20-Jun-14	Weekly (%)	Ytd(%)	YoY(%)
All-Share index	131.24	+3.79	-3.13	-10.43
ZSE Top - 10	138.57	+4.03	-2.23	-9.18
Agro-industrial	60.95	+4.38	-18.49	-24.98
Banking	79.49	-1.78	-5.95	-3.34
Conglomerates	68.18	+5.28	-3.66	-15.18
Dual-listed	196.89	+4.31	+1.33	+6.12
Insurance	78.24	+1.72	-25.08	-49.81
Manufacturing	234.44	+4.96	-8.44	-12.83
Mining	22.13	+25.31	+20.74	-22.46
Property	96.12	+4.41	-18.46	-19.04
Retail	250.56	+0.60	-8.93	-22.70
Tourism	25.58		-16.27	+7.11

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	20-Jun	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
TRUWORTHS	2.85	58%	10.74	1,355
TURNALL	3.00	43%	14.79	21,002
BINDURA	4.61	40%	55.79	308,046
COTTOCO	0.95	17%	5.07	101,004
MASIMBA	1.71	14%	3.66	2,032

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	20-Jun	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
GB HOLDINGS	0.04	-50%	0.21	143
ZBFH	3.00	-50%	5.26	9
MEDTECH	0.04	-43%	1.12	691
FALGOLD	1.50	-25%	1.67	120
N.M.B	3.50	-13%	9.82	18

Source: ZSE, MMC Capital Research

Stock Market Review

In the week under review, stocks surged in the U.S as investors welcomed reassuring news by the Federal Reserve that it would continue to trim its purchases of long-term Treasuries and agency mortgage-backed securities. Investors appeared to view the decision as a signal of policymakers' faith in the strength of the recovery despite its stumble earlier in the year. The Dow added 1 percentage point to close at 16,947.08 points. The FTSE 100 Index also gained 70 basis points in the week to 6,825.20 at the close in London. On the local front, the industrial index was up 3.68% to close at 187.4 points. The beverages giant, Delta, which launched a new yoghurt drink in the week, added 6% to close at 124.01 cents. The new drink consolidates Delta's expansion into non-alcoholic beverages portfolio. Econet gained 2.8% to close at 74 cents and Innscor advanced 6% to close at 80.01 cents. The mining index traded northwards in the week, gaining 30.62% on the back of a surge in the share price of Bindura (40%) to 4.61 cents. The total market capitalization closed the week at \$4.88 billion compared to \$4.70 billion last week.

Trading turnover on the local bourse declined to \$6.14m this week from \$14.31m last week and weekly volumes, also dropped to 44.89m shares from 87.12m shares last week. Foreign investors were net buyers of Econet and Delta in the week. The foreign purchases to total turnover ratio dipped to 25% from 37% last week. The foreign sales to total turnover ratio also declined to 10% from 49% last week. The overall foreign investor participation waned to 35% this week relative to 86% 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** reflect a firming market. The mining sector was the week's top performer, gathering 25.31% to 22.13 points as a result of gains in the share price of Bindura (39.70%) to 4.61 cents. The Banking sector was the worst performer for the second week running, dropping 1.78% to close at 79.49 points dragged down by losses in NMB (12.50%) to 3.5 cents. The ZSE Top-10 gained 4.03% in the week to close at 138.57 points with six of the largest market cap players posting gains in the week. (Table 2).

Truworths topped the gainers list after adding 58% to close at 28.5 cents. Turnall came in second, advancing 43% to close at 3 cents. Bindura and Cottco gathered 40% and 17% respectively (Table 3). GB Holdings and ZB were the worst performers for the week, losing 50% apiece to close at 0.04 cents and 3 cents respectively. Medtech and Falgold also lost 43% and 25% respectively to close at 0.04 cents and 1.5 cents respectively. (Table 4).

Outlook

Global capital markets will likely trade northwards this week. In the U.S., strong manufacturing sector data that was released in the week is expected to propel stock markets. Unemployment claims for the week fell to their lowest level since October 2007. While better-than-forecast Chinese manufacturing data spurred early gains in stocks this week, the advance will likely be wiped out amid investor speculation that falling property prices and tighter liquidity in the banking system will weigh on economic growth.

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 and ripe for a recovery.

Listed Company Statistics as at 20 June 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	17%	0.95	5.07	(1.10)	0.09	5.41	-91%	-3.29%	-84%	-0.58%
ARISTON	Agro processing	-11%	0.80	11.03	20.00	0.81	(30.55)	5%	12.81%	-10%	5.77%
BAT	Agro processing	3%	1,235.00	214.66	68.61	17.29	17.55	1%	30.39%	3%	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%	21.00	33.40	15.44	1.25	3.74	6%	9.89%	-5%	6.80%
HIPPO	Agro processing	10%	75.00	144.77	25.00	0.68	7.08	4%	4.04%	-17%	2.19%
PADENGA	Agro processing	5%	9.00	48.74	15.00	1.41	8.84	7%	11.78%	13%	8.33%
SEEDCO	Agro processing	0%	71.21	137.44	15.93	1.79	13.33	6%	11.32%	-21%	5.31%
ABCH	Banking	0%	70.00	174.54	7.45	1.12	1.08	13%	13.23%	19%	1.17%
BARCLAYS	Banking	3%	3.71	79.86	26.50	1.88	(7.13)		6.96%	-16%	1.00%
CBZH	Banking	-3%	14.50	83.89	2.30	0.46	(1.01)	43%	20.06%	-3%	2.64%
FBCH	Banking	0%	11.50	68.06	5.00	0.85	0.76	20%	17.51%	-15%	3.30%
NMB	Banking	-13%	3.50	9.82	(3.50)	0.34	(6.65)	-29%	-11.34%	-46%	-1.37%
ZBFH	Banking	-50%	3.00	5.26	15.00	0.09	(7.35)	7%	1.53%	-73%	0.26%
CFI	Conglomerate	1%	2.25	2.37	(0.61)	0.06	(19.11)	-164%	-10.98%	-38%	-5.11%
INNSCOR	Conglomerate	6%	80.01	433.33	12.33	2.66	7.17	8%	30.34%	-9%	11.48%
MEIKLES	Conglomerate	10%	22.00	53.98	1.39	0.35	14.34	72%	27.29%	16%	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	14%	6.26	10.32	4.20	0.18	1.48	24%	8.91%	3%	3.17%
TSL	Conglomerate	0%	30.00	104.28	16.85	1.80	13.79	6%	11.73%	-21%	7.89%
ECONET	ICT	3%	74.00	1,213.62	8.31	2.30	4.20	12%	25.16%	23%	12.32%
ZIMPAPERS	ICT	0%	0.80	4.61	8.89	0.41	(8.09)	11%	4.78%	0%	1.50%
AFRE	Insurance	0%	6.50	24.71	15.12	1.37	5.50	7%	33.09%	-19%	3.13%
FIDELITY	Insurance	6%	8.00	8.71	2.68	0.91	2.42	37%	37.32%	-39%	7.13%
NICOZDMD	Insurance	4%	1.30	7.27	2.65	0.49	1.27	38%	19.14%	-7%	10.53%
ZHL	Insurance	0%	0.90	6.97	3.75	0.15	(53.22)	27%	10.87%	-38%	4.28%
AFDIS	Manufacturing - Beverages	1%	32.50	30.88	28.51	4.58	13.82	4%	16.19%	8%	6.25%
DELTA	Manufacturing - Beverages	6%	124.01	1,528.42	14.06	4.65	9.06	7%	33.25%	-11%	20.06%
LAFARGE	Manufacturing - Construction	0%	65.00	52.00	16.25	1.45	5.38	6%	9.77%	-41%	5.59%
MASIMBA	Manufacturing - Construction	14%	1.71	3.77	(57.00)	0.19	1.25	-2%	-0.30%	-74%	-0.16%
TURNALL	Manufacturing - Construction	43%	3.00	10.86	(6.00)	0.52	9.02	-17%	-9.07%	-40%	-3.74%
WILLDALE	Manufacturing - Construction	0%	0.08	1.42	(2.00)	0.14	69.32	-50%	-7.23%	-20%	-3.70%
DZHL	Manufacturing - Food	12%	9.20	32.94	(18.40)	0.70	22.60	-5%	-3.74%	-39%	-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%	4.50	6.29	4.13	0.42	2.17	24%	11.35%	-10%	13.52%
GBH	Manufacturing - Nonfood	-50%	0.04	0.21	(9.56)	0.05	0.52	-10%	-48.15%	-50%	-17.32%
HUNYANI	Manufacturing - NonFood	-5%	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	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%	10.00	62.27	38.12	2.41	61.82	3%	6.31%	186%	3.17%
MEDTECH	Manufacturing - Pharmaceutical	-43%	0.04	1.12	1.21	0.83	5.93	83%	35.21%	-43%	5.76%
CAFCA	Manufacturing - Cables	0%	25.00	8.15	5.76	0.85	4.29	17%	14.85%	-11%	10.35%
BINDURA	Mining	40%	4.61	5.81	(2.31)	(0.97)	(0.86)	-43%	216.66%	131%	-25.33%
FALGOLD	Mining	-25%	1.50	1.67	(1.36)	(0.50)	(32.04)	-73%	50.45%	-70%	-9.09%
HWANGE	Mining	0%	4.51	8.29	(0.27)	0.09	(0.92)	-377%	-33.83%	-50%	-12.24%
RIOZIM	Mining	0%	20.00	6.00	(2.34)	0.27	13.38	-43%	-21.36%	-39%	-3.91%
DAWN	Property	6%	0.95	23.34	23.17	0.28	9.67	4%	1.62%	-5%	1.56%
MASH	Property	5%	2.30	42.76	3.97	0.42	3.20	25%	9.76%	-29%	9.22%
PEARL	Property	0%	2.60	32.19	3.28	0.27	7.63	31%	8.24%	0%	7.34%
ZPI	Property	13%	0.90	15.45	8.18	0.29	8.50	12%	3.41%	-31%	3.19%
EDGARS	Retail	0%	12.20	34.49	7.97	3.53	5.95	13%	38.83%	1%	9.86%
OK ZIM	Retail	-1%	18.30	191.51	15.38	3.69	8.11	7%	23.83%	-9%	11.69%
PELHAMS	Retail	0%	0.02	0.20	(0.11)	0.06	(12.22)	-900%	-49.20%	-80%	-13.45%
TRUWORTHS	Retail	58%	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%	-11.01%
RTG	Tourism	0%	1.10	20.58	16.92	1.47	9.26	6%	8.74%	-31%	2.5%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
PIONEER	AGM	10:00AM	26-Jun-14	Boardroom, Southernton
FBC	AGM	12:00PM	26-Jun-14	Royal Harare
FIDELITY LIFE	AGM	12:00PM	26-Jun-14	Boardroom, Fidelity House
MASIMBA	AGM	12:00PM	26-Jun-14	Head office, Willowvale
TSL	Briefing	3:00PM	26-Jun-14	Head office, Southernton
SEEDCO	Briefing	3:30PM	26-Jun-14	Royal Harare
GB HOLDINGS	AGM	11:30AM	27-Jun-14	Boardroom, Willowvale
ZIMPAPERS	AGM	12:00PM	27-Jun-14	Boardroom, Herald House

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: **Kudzana Samudzi**.

Important disclosures

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Additional disclosures

1 This report is dated as at 24 June 2014

2 All market data included in this report are dated as at close of 24 June 2014, unless otherwise indicated in the report.

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