

Investment Research

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mmc
CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	21-Mar	Weekly Change
Mkt Cap \$'m	4,687	-2.7%
Mkt turnover \$'m	6.53	-15.3%
Indices		
ZSE Industrial	181.10	-2.7%
ZSE Mining	32.54	-1.9%
NSE 20	4,971.74	-0.2%
Nigeria All Share	37,790.12	-1.0%
JSE All Share	46,508.27	0.2%
NIKKEI-225	14,224.23	-0.7%
FTSE	6,557.17	0.4%
DJIA	16,302.77	1.5%

In this week's review:

- Manufacturing sector feels the pinch;
- Pressure mounting on the property sector as rentals remain subdued;
- Global capital markets in mixed trading;
- ZSE trading southwards.

Source: ZSE, Bloomberg

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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	-3.3%	117.99	1,475.6	1,463.7	31%	13.4	4.1	31%
Econet	-4.6%	62.00	321.8	563.8	12%	6.97	1.07	25.2%
Innscor	-12.8%	68.00	287.0	367.3	8%	9.46	2.54	33.5%
BAT	-7.7%	1,200.00	88.0	247.6	5%	60.00	19.94	30.4%
OK Zim	0.0%	17.00	223.8	196.3	4%	14.78	3.26	20.5%
Seedco	0.0%	89.89	40.5	182.6	4%	14.76	2.30	15.4%
Natfoods	7.5%	215.00	7.3	147.1	3%	10.55	2.65	25.2%
Hippo	0.0%	75.00	31.9	144.8	3%	10.56	0.71	6.7%
TSL	0.0%	37.00	68.7	131.0	3%	23.87	2.22	11.7%
CBZ	-2.9%	16.02	46.7	109.6	2%	2.59	0.60	20.1%
Sub Total			2,591	3,554	76%			
ZSE Total			6,534	4,687	100%			

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

Manufacturing sector feels the pinch.

In the week under review, the Confederation of Zimbabwe Industries (CZI) held an emergency meeting in a bid to come up with ways to counter the deterioration in the local economy. The industry grouping underscored the need to assess the performance and status of its 300 members amidst the economic woes. Despite the robust recovery that was witnessed between 2009 and 2011, the economy is running out of steam as funding remains an albatross around the economy's neck. To revive the hopes of economic growth, CZI opines that the government should craft policies that improve competitiveness of local manufacturers including the provision of affordable and reliable power and water supplies, reduction of VAT on locally produced products, increasing incentives for exporters, flexible labour laws and creation of a policy environment that attracts capital inflows. With the government failing to fund key productive sectors with internally generated resources, striking a balance between indigenisation regulations and the country's requirements for capital inflows is critical. Retrenchments, scaling down of operations and company closures, among many other economic setbacks are leading to the shrinkage of the revenue base. In the week under review, treasury moved the March 2014 pay date for the civil service from March 25 to March 27, a move which might confirm that the government is under fiscal pressure and heavily burdened by the huge wage bill.

Economists who have studied economic growth have found that the engine of sustainable economic progress must ride on the same four wheels (Human resources, Natural resources, Capital formation and Technology), no matter how rich or poor the country is. Despite boasting of abundant natural resources and skilled resource base, Zimbabwe still falls short of adequate capital and technology critical for sustainable economic growth. The issue of resource-poor economies outperforming resource rich countries, for instance, has been a constant keynote of economic history. This indicates that abundance of resources alone will not help in improving the fortunes of the country unless the other three wheels are incorporated. Capital formation, which includes production in factories, is an issue in Zimbabwe as the local industry remains haunted by the lack of working capital.

Our view is that the turnaround ability of the local manufacturing sector will remain clipped on the back of structural challenges emanating from factors such as inadequate infrastructure, foreign competition, power outages and limited raw materials. Treasury projects a 3.2% growth rate in 2014 for the manufacturing sector from 1.5% in 2013. The positive growth is premised on consistent availability of electricity and water; access to capital equipment for re-tooling, among others. Given the tough operating environment with companies still struggling to access cheaper long term capital to sustain their operations, the growth rate for the manufacturing sector in 2014 will likely be negative.

Pressure mounting on the property sector as rentals remain subdued

In the week under review, Zimre Property Investments (ZPI) hinted that property rentals in Zimbabwe will likely remain subdued due to high tenant default levels. Presenting its FY13 results, ZPI alluded to the failure by tenants to pay rentals as the main impediment curtailing rental revenue growth. Rental arrears and voids are on the rise in the property sector hence the increase in the provisions for doubtful debts. Portfolio voids for ZPI rose to 14% in 2013 relative to 10.9% in 2012. Provision for doubtful debts at \$1.156m rose from \$0.556m in 2012. The weakening of the economy has continued to exert pressure on occupancy levels, resulting in a 2% marginal rental growth to \$3.87m. Rental collections are becoming difficult and tenant defaults are on the rise as general income levels remain constrained.

Our view is that pressure will continue mounting on the local property sector for as long as funding in the economy remains an issue. Access to cheaper long term debt finance will continue presenting challenges to the property sector with most of the available lines of credit having too short repayment periods and prohibitively high interest rates for long term property developments. This will likely result in subdued property price growth and with no close indication of an improvement in incomes growth for the tenants either, the prospects for improved rental yields in the short term remains bleak. As the pressure on occupancies mount, the rentals trajectory is expected to be stagnant to downward

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Table 1: Stock indices performance.

Index	21-Mar-14	Weekly	YTD
Industrial	181.1	-2.75%	-10.40%
Mining	32.54	-1.87%	-28.94%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	21-Mar-14	Weekly (%)	Ytd(%)	YoY(%)
All-Share index	122.43	-2.61	-9.64	-3.96
ZSE Top-10	129.09	-2.80	-8.91	-4.15
Agro-industrial	67.38	-0.06	-9.89	-7.83
Banking	74.01	-3.37	-12.44	+16.59
Conglomerates	62.36	-4.12	-11.89	-5.82
Dual-listed	200.05	+1.54	+2.96	+6.20
Insurance	103.08	-5.71	-1.28	+7.48
Manufacturing	221.5	-2.47	-13.49	-1.03
Mining	13.61	+0.52	-25.75	-47.63
Property	95.21	+0.66	-19.23	-7.36
Retail	240.92		-12.43	-8.71
Tourism	26.31		-13.89	+29.34

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	21-Mar	Weekly	Market	
			Cap(\$'m)	Value Traded(\$)
WILLDALE	0.07	17%	1.24	239
NATFOODS	215.00	8%	147.06	7,310
STAR AFRICA	1.00	5%	5.18	43,108
LAFARGE	85.00	5%	68.00	51,448
DAWN PROP	0.75	4%	18.43	5,238

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	21-Mar	Weekly	Market	
			Cap(\$'m)	Value traded(\$)
DAIRIBORD	10.00	-23%	35.78	34,358
NICOZ	1.30	-13%	7.37	548
ASTRA	3.50	-13%	4.89	3,025
ZIMRE	1.00	-9%	7.67	6,156
MEIKLES	16.00	-6%	39.26	10,139

Source: ZSE, MMC Capital Research

Stock Market Review

Global capital markets traded mixed in the week under review with the Dow and FTSE 100 recording solid gains and wiped away much of the previous week's declines as investors welcomed positive economic signals and appeared to grow less worried about the situation in Ukraine. The Dow added 1.5 percentage points to close at 16,302.77 points and FTSE 100 index advanced 40 basis points to close at 6,534.18 points. In Japan, the Nikkei 225 stock average slid 0.70 percent in the week. Data which was released in the week showed that Japan's trade deficit exceeded estimates in February. Locally, the mainstream index retreated 2.75 percentage points in the week to close at 181.1 points with Delta, Econet and Innscor recording losses in the week. Delta at 117.99 cents lost 3.3% and Econet trimmed 4.6% to close at 62 cents. Innscor pared 5.6% to close at 68 cents. The resources index also softened 1.87% in the week to close at 32.54 points. This was a result of losses in the price of Hwange (4.0%) to 5.1 cents. The price increase in Bindura (3.7%) to 1.4 cents partially offset the index losses. The total market capitalization closed the week at \$4.69 billion compared to \$4.82 billion last week.

Trading turnover on the ZSE declined to \$6.5m this week from \$7.7m last week and weekly volumes also dropped to 40.4m shares from 42.74m last week. Foreign investors were net sellers of Delta Econet and Seedco in the week. The foreign purchases to total turnover ratio retreated to 18% from 31% last week. The foreign sales to total turnover ratio rose to 23% from 36% last week. The overall foreign investor participation dropped to 41% this week relative to 67% 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 76% this week.

Sectoral performance as measured by the 12-Zfn indices reflects a softening market, with seven of the indices trading in the red. The dual-listed sector was the week's top performer, gathering 1.54% to 200.05 points as a result of gains in the share price of Old Mutual (2.00%) to 255 cents. The insurance sector was the worst performer for the week, dropping 5.71% to close at 103.08 points dragged down by losses in First mutual (4.76%). The ZSE Top-10 lost 2.80% in the week to close at 129.09 points with five of the largest market cap players posting losses in the week. (Table 2).

Willdale was the top performer for the week, accumulating 17% to close at 0.07 cents. Natfoods collated 8% while Star Africa and Lafarge gathered 5% respectively. Dawn also landed in the top movers pack after gaining 4% (Table 3). Dairibord was the worst performers for the week, losing 23% to close at 10 cents. The Group posted revenue of \$100.1 million for the FY13 compared to \$106.9 million in the previous year. Nicoz Diamond and Astra lost 13% apiece to close at 1.3 cents and 3.50 cents respectively. (Table 4).

Outlook

Global capital markets will likely trade mixed again this week with some investors appearing to have put aside worst-case scenarios for the situation in Ukraine. The Crimean referendum on secession went ahead as expected over the weekend but without any major violence. Data from Markit which showed that China's factory activity weakened a fifth straight month and slowing U.S factory activity will likely put a damper on the upside potential of the markets.

Locally, weak economic fundamentals will likely continue to weigh down activity on the market as funding remains the missing piece on the puzzle. The operating environment which is characterized by liquidity constraint, worsening balance of payment position, company closures and waning aggregate demand remains challenging for the majority of companies. Fiscal pressure continues to mount amidst a shrinkage in the tax base.

Listed Company Statistics as at 21 March 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	-2%	1.10	5.88	(0.87)	0.07	5.09	-115%	-2.67%	-82%	-0.70%
ARISTON	Agro processing	0%	1.10	15.16	27.50	1.12	(36.73)	4%	12.81%	10%	5.77%
BAT	Agro processing	0%	1,200.00	247.60	60.00	19.94	20.43	2%	30.39%	0%	11.76%
BORDER	Agro processing	0%	20.00	8.59	2.95	0.08	2.29	34%	2.76%	0%	1.90%
COLCOM	Agro processing	0%	20.00	31.81	22.99	1.24	6.09	4%	6.36%	-9%	4.46%
HIPPO	Agro processing	0%	75.00	144.77	10.56	0.71	5.18	9%	6.70%	-17%	3.90%
PADENGA	Agro processing	0%	9.00	48.74	10.71	1.67	6.57	9%	17.42%	13%	13.05%
SEEDCO	Agro processing	0%	89.89	173.50	14.76	2.30	13.42	7%	15.38%	0%	7.43%
ABCH	Banking	-4%	45.00	32.28	3.88	0.26	(0.50)	26%	20.66%	-24%	1.72%
BARCLAYS	Banking	0%	4.00	86.12	28.57	2.03	(6.23)		6.96%	-9%	1.00%
CBZH	Banking	-3%	16.02	109.60	2.59	0.60	(0.63)	39%	20.06%	7%	2.64%
FBCH	Banking	-4%	12.50	57.59	4.68	0.74	0.09	21%	18.50%	-7%	3.41%
NMB	Banking	0%	4.00	11.23	1.46	0.28	(4.13)	69%	19.47%	-38%	3.13%
ZBFH	Banking	-6%	8.50	14.89	2.13	0.28	(3.25)	47%	17.83%	-23%	2.78%
CFI	Conglomerate	0%	2.20	2.32	(0.60)	0.06	(19.06)	-168%	-10.98%	-39%	-5.11%
INNSCOR	Conglomerate	-6%	68.00	368.28	9.46	2.54	6.45	11%	33.53%	-15%	15.30%
MEIKLES	Conglomerate	-6%	16.00	39.26	13.22	0.29	10.27	8%	3.95%	-16%	2.01%
RADAR	Conglomerate	0%	8.00	4.09	(1.79)	0.11	6.00	-56%	-5.91%	0%	-2.33%
STAR AFRICA	Conglomerate	5%	1.00	5.18	(0.31)	(5.84)	(5.17)	-320%	1814.57%	0%	-33.62%
TA HOLDINGS	Conglomerate	0%	7.50	12.37	5.03	0.22	1.69	20%	8.91%	23%	3.17%
TSL	Conglomerate	0%	37.00	128.61	23.87	2.22	13.23	4%	11.73%	-4%	7.89%
ECONET	ICT	-5%	62.00	563.78	6.97	1.07	2.16	14%	25.16%	3%	12.32%
ZIMPAPERS	ICT	0%	1.00	5.76	3.45	0.72	3.17	29%	21.51%	25%	5.71%
AFRE	Insurance	-5%	10.00	21.71	2.98	1.24	2.06	34%	68.49%	25%	6.51%
FIDELITY	Insurance	0%	9.00	9.80	3.02	1.02	2.62	33%	37.32%	-31%	7.13%
NICOZDMD	Insurance	-13%	1.30	7.27	2.65	0.49	1.27	38%	19.14%	-7%	10.53%
ZHL	Insurance	-9%	1.00	7.75	4.17	0.16	(53.22)	24%	10.87%	-31%	4.28%
AFDIS	Manufacturing - Beverages	-3%	32.00	30.40	37.65	5.53	17.25	3%	14.70%	7%	6.32%
DELTA	Manufacturing - Beverages	-3%	117.99	1,452.90	13.38	4.13	8.62	7%	31.05%	-16%	19.09%
LAFARGE	Manufacturing - Construction	5%	85.00	68.00	14.71	1.93	6.29	7%	12.78%	-23%	7.44%
M&R	Manufacturing - Construction	0%	4.00	8.59	17.39	0.44	3.41	6%	2.57%	-38%	1.34%
TURNALL	Manufacturing - Construction	0%	4.00	14.94	400.00	0.67	5.23	0%	0.25%	-20%	0.11%
WILLDALE	Manufacturing - Construction	17%	0.07	1.24	(1.17)	0.17	(6.81)	-86%	-14.31%	-30%	-7.08%
DZHL	Manufacturing - Food	-23%	10.00	35.80	66.67	0.77	8.65	2%	1.36%	-33%	0.87%
NATFOODS	Manufacturing - Food	8%	215.00	147.06	10.55	2.65	8.03	9%	25.15%	8%	13.76%
ART	Manufacturing - Nonfood	0%	0.40	1.87	3.64	0.17	4.37	28%	4.43%	100%	1.53%
ASTRA	Manufacturing - Nonfood	-13%	3.50	4.89	3.98	0.38	2.22	25%	9.55%	-30%	6.37%
GBH	Manufacturing - Nonfood	0%	0.08	0.42	(19.12)	0.09	0.59	-5%	-48.15%	0%	-17.32%
HUNYANI	Manufacturing - NonFood	0%	1.00	3.20	3.23	0.15	2.09	31%	3.91%	-50%	2.25%
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	(3.03)	5.80	853.25	-33%	-11.85%	67%	-2.98%
POWERSPEED	Manufacturing - Nonfood	0%	1.50	5.69	10.71	0.73	4.33	9%	6.80%	-17%	2.93%
ZECO	Manufacturing - Nonfood	0%	0.01	0.05	(0.02)	0.00	(0.02)	-6600%	-9.35%	0%	-6.49%
ZIMFLOW	Manufacturing - Nonfood	0%	2.30	11.56	7.19	0.44	6.52	14%	2.39%	-34%	1.21%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.05	1.40	1.52	1.04	6.53	66%	35.21%	-29%	5.76%
CAFCA	Manufacturing - Cables	0%	22.00	7.17	5.37	1.01	3.62	19%	18.44%	-21%	10.93%
BINDURA	Mining	4%	1.40	1.76	(0.70)	(0.30)	(0.55)	-143%	216.66%	-30%	-25.33%
FALGOLD	Mining	0%	7.00	7.78	(6.36)	(2.35)	(14.39)	-16%	50.45%	-42%	-9.09%
HWANGE	Mining	-4%	5.10	9.37	(8.50)	0.09	2.42	-12%	-0.50%	-43%	-0.22%
RIOZIM	Mining	0%	25.00	7.50	(10.59)	0.34	7.03	-9%	-13.20%	-24%	-2.45%
DAWN	Property	4%	0.75	18.43	12.50	0.22	10.30	8%	1.86%	-25%	1.79%
MASH	Property	0%	2.50	46.48	2.48	0.48	7.95	40%	17.87%	-23%	16.89%
PEARL	Property	0%	2.61	32.32	3.44	0.29	5.55	29%	8.41%	0%	7.61%
ZPI	Property	0%	0.90	15.45	2.31	0.29	7.30	43%	12.23%	-31%	11.51%
EDGARS	Retail	0%	12.50	35.34	7.86	3.23	6.18	13%	36.18%	3%	11.18%
OK ZIM	Retail	0%	17.00	196.18	14.78	3.26	7.90	7%	20.51%	-15%	10.36%
PELHAMS	Retail	0%	0.01	0.10	(0.06)	0.03	(11.95)	-1800%	-49.20%	-90%	-13.45%
TRUWORTHS	Retail	0%	4.00	14.94	12.50	3.04	11.51	8%	24.08%	-5%	6.67%
AFRICAN SUN	Tourism	0%	2.50	20.60	8.06	0.91	4.99	12%	11.34%	-7%	4.46%
RTG	Tourism	0%	1.30	21.39	(18.57)	1.45	18.96	-5%	-6.97%	-19%	-2.1%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
MASIMBA	Briefing	12:00 PM	26-Mar-14	Boardroom, Willowvale
ABC	Briefing	3:00 PM	26-Mar-14	BancABC House, Mt Pleasant
CFI	AGM	11:00 AM	28-Mar-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 25 March 2014

2 All market data included in this report are dated as at close of 25 March 2014, unless otherwise indicated in the report.

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