

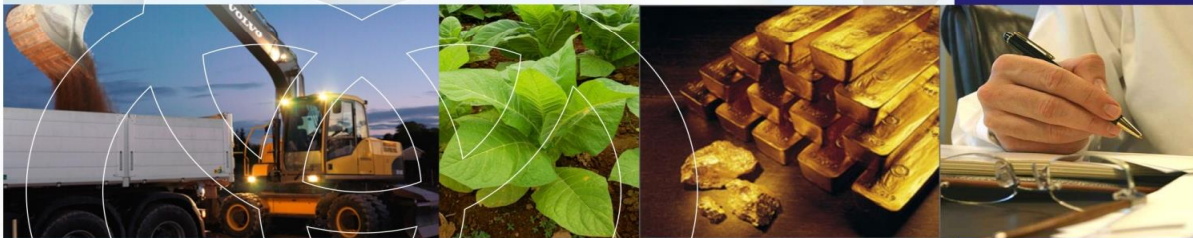
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CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Zimbabwe Equities Market Review

Weekly Review

19 August 2013



Market Moving Insights!

Market Statistics		
	16-Aug	Weekly Change
Mkt Cap \$'m	4,840.00	-4.3%
Mkt turnover \$'m	20.59	38.5%
Indices		
ZSE Industrial	187.97	-4.1%
ZSE Mining	48.05	-17.1%
NSE 20	4,842.59	1.0%
Nigeria All Share	36,986.94	-2.8%
JSE All Share	43,042.11	3.1%
NIKKEI-225	13,650.11	0.3%
FTSE	6,499.99	-1.3%
DJIA	15,081.47	-2.2%

In this week's review:

- The price of illiquidity – bank's on the firing line,
- Earnings under threat in the telecoms sector,
- Global markets a prisoner of volatility,
- Uncertainty haunting investors in Zim,
- The bears are dominating on the local bourse and
- Whither quantitative easing?

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Top 10 Market Capitalisation

Name	Market Performance					Valuations		
	Change	Sales C	Value US\$ 000	Mkt Cap US\$ mln	Weight	PE	PBk	RoE
DELTA	-3.4%	115.00	4,272.6	1,418.50	29%	13.5	4.6	34%
ECONET	-1.9%	53.00	4,905.5	481.94	10%	5.89	1.11	32.2%
INNISCOR	-0.2%	80.00	473.8	432.09	9%	13.70	3.11	33.6%
OK ZIM	-12.0%	22.00	74.8	250.55	5%	18.49	4.39	23.8%
BAT	-18.4%	1,200	29.5	247.60	5%	16.90	18.59	109.3%
HIPPO	0.0%	100.00	1.7	193.02	4%	14.08	0.95	6.7%
SEEDCO	-1.2%	80.00	265.2	155.71	3%	13.14	2.05	15.4%
NATFOODS	-14.3%	210.00	83.5	143.64	3%	12.01	2.69	22.4%
TSL	0.0%	30.00	-	104.28	2%	17.65	1.96	5.8%
CBZ	0.0%	15.00	9,065.1	102.62	2%	1.90	0.61	25.4%
ZSE Total			20,586	4,840				

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

The price of illiquidity – bank's on the firing line

... The banking public withdrew funds from the sector amounting to c.US\$800 million and it will take a bit of time for these funds to return to the banks ...

In the week under review the central bank governor emphasised the need to attract foreign direct investments (FDIs) as a way of arresting the liquidity challenges that are haunting the local economy. The economy has been languishing in a liquidity squeeze for a while now as uncertainty and economic slowdown got the better of both investors and the saving public. Fears of a return of the Zimbabwean dollar did not help the situation either resulting in the banking public withdrawing funds from the sector amounting to c.US\$800 million and it will take a bit of time for these funds to return to the banks.

... AfDB said Zimbabwe's economic growth is likely to remain depressed with its real GDP projected to be less than US\$7 billion despite the positive economic growth rates ...

The country's leading bank by both assets and deposits CBZ reported that it is now focusing on improving its liquidity position by re-allocating its assets to more liquid assets in a bid to arrest liquidity challenges. BancABC has resolved to be more cautious when it comes to business in Zimbabwe citing liquidity as the biggest challenge. The African Development Bank (AfDB) said Zimbabwe's economic growth is likely to remain depressed with its real GDP projected to be less than US\$7 billion despite the positive economic growth rates of above 5%. One common theme in the reports of most economic experts that are commenting on the Zim situation is the negative effects of the liquidity challenges.

... Banks are set to focus more on holding more liquid assets to the detriment of credit supply to the economy ...

Our view is that the local banking sector will be the biggest casualty of the liquidity squeeze. Default risks are on the rise and this can be seen by the emphasis banks are putting on liquidity management enhancement. Provisions are now increasing and banks are set to focus more on holding more liquid assets to the detriment of credit supply to the economy. The result will be slower economic growth and a vicious cycle of credit contraction that will result in increased defaults and more bad loans for the banking sector. The decline in banking deposits is also likely to result in increased liquidity challenges for the economy and the banks as a whole further creating pressure on the banks.

Earnings under threat in the telecoms sector

... There is an economic blight that is simmering in the telecommunications sector as players' battle for market share ...

Amidst the darkness that is looming in the local economy and the downward revisions of economic growth by the treasury to 3.4% from 5% for 2013 it is not all gloom and doom. There is an economic blight that is simmering in the telecommunications sector as players battle for market share. There is a price war that has been sparked off by Telecel's second largest mobile operator's indirect tariff reduction through promotions. In the week under review Econet slashed its data and voice tariffs by 60% as a response to Telecel's promotions after the leading mobile operator had stopped offering interconnect services to Telecel's clients.

... The public will be the obvious beneficiary in the short to medium term as the mobile operators give up profitability for market share ...

The battle lines have now been drawn in the sector as price wars are set to increase. The public will be the obvious beneficiary in the short to medium term as the mobile operators give up profitability for market share. Cost of doing business is slowly rising to levels that will sooner rather than later restore sanity or risk forcing some players out of business. The mobile operators' selling general and marketing expenses are slowly creeping up and our view is that the industry's earnings are now under threat. Industry profitability is likely to tumble as intra-industry rivalry intensifies to the detriment of both operators and shareholders.

... It looks like Econet's US\$78.2 million cash pile is soon to be set ablaze as the battle to defend markets share intensifies ...

It looks like Econet's US\$78.2 million cash pile is soon to be set ablaze as the battle to defend markets share intensifies. The economy is also set to bear the brunt as the decline in industry profitability will result in a reduction in the industry's contribution to national revenues through reduced revenues. For an economy that is already stuck in recession as shown by the continued decline in inflation as displayed by the 62 bps decline in the July annual inflation figure to 1.25%. A reduction in national revenues will add fuel to the fire further weakening the economy.

Table 1: Stock indices performance.

Index	16-Aug-13	Weekly	YTD
Industrial	187.97	-4.11%	23.34%
Mining	48.05	-17.07%	-26.21%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	16-Aug-13	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	125.57	-4.65	+40.45	+40.25
ZSE Top - 10	128.37	-4.59	+52.58	+50.69
Agro-industrial	75.72	-2.57	-4.90	-9.17
Banking	76.74	+0.10	+5.41	+18.07
Conglomerates	70.76	-0.31	+55.85	+53.01
Dual-listed	181.67	-3.94	+31.44	+42.22
Insurance	123.28	+1.80	+19.29	+30.09
Manufacturing	226.08	-7.42	+86.35	+80.52
Mining	19.3	-25.71	-36.68	-45.22
Property	105.69	+0.38	+7.14	+18.27
Retail	286.16	-10.51	+80.60	+72.23
Tourism	27.57	+3.84	+9.75	+9.75

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	16-Aug	Weekly Gain	Market Cap(\$m)	Value traded(\$)
PHOENIX	0.73	46%	0.62	747
AFRICANSUN	1.86	13%	15.47	3,533
ZBFH	9.00	13%	15.77	206
ZPI	1.00	11%	17.17	3,270
ART	0.55	10%	2.37	203,324

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	16-Aug	Weekly Change	Market Cap (\$m)	Value traded(\$)
HWANGE	11.00	-38%	18.28	75,858
FALGOLD	6.00	-33%	6.67	100
ZIMFLOW	3.50	-30%	21.80	886
BINDURA	1.80	-27%	21.78	7,656
TA	6.00	-22%	9.89	900

Source: ZSE, MMC Capital Research

Stock Market Review

Global capital markets activity was a mixed bag in the week under review with FTSE 100 and the Dow retreating by 130 bps and 220bps to 6,499.99 points and 15,081.47 points respectively amidst an avalanche of economic data from leading world economies. Locally, the Zim market remained in negative territory as heavy weight counters traded predominantly southwards in the week. The mainstream index trimmed 4.11% ending the week at 187.97 points, further reversing the year to date gains from a high of 53% to just 23.34% in less than 17 days as investors wait for the announcement of the new cabinet by the President. The Minings Index continued its losing streak for the seventh week running, dropping 17.07% in the week as market capitalization retreated by 4.3% to US\$4.84 billion, mirroring the losses in the indices.

Trading activity, as reflected by weekly turnover improved by c.39% to US\$20.59 million propelled by a block trade worth US\$8.35 million in CBZ. Weekly volumes traded improved to 126.41 million shares from the 123.5 million shares traded last week. Foreign investors, during the week under review, were net buyers of CBZ and Econet as the ratio of foreign purchases to total turnover increased marginally by 1% to 36% from the prior week's 35%. Foreign sales to total turnover ratio retreated to 17% from last week's 37%. The overall foreign investor participation was 53%, a decline from last week's 73% of the total trades on the local bourse. The top ten counters on the bourse (excluding Old Mutual) constituted 73% of the total market cap in the week under review.

Sectoral performance as measured by the **12-Zfn indices** pointed to a weakening market as eight of the indices traded in the red during the week under review. On the upside, the Tourism sector was the best performing sector for the week, adding 3.84% to 27.57 points on the back of gains in African Sun (12.73%) to 1.86 cents ahead of the UNWTO General Assembly which will run from the 24th - 29th of August 2013 (**Table 2**). The Mining sector was the week's worst performer, shedding 25.71% after losses in the prices of Bindura (26.53%), Falgold (33.33%) and Hwange (37.5%) as the sector remains haunted by capital challenges. The top 10 also traded southwards, shedding 4.59 percentage points as seven counters traded in the red. Despite the week's losses, manufacturing and retail stocks continue to lead the pack on a year-on-year basis and year-to-date basis respectively.

Heavy industrial, mining and domestic products distributor, Phoenix, topped the gainers pack rising by 46% to close at 0.73 cents on thin volumes. Tourism giant, African sun, and bankers, ZBFH were also among the movers after adding 13% apiece (**Table 3**). The week's shakers pack was dominated by mining counters as Hwange and Falgold lost 38% and 33% to close at 11 cents and 6 cents respectively. Agro-industrial concern, Zimflow and investment management firm TA Holdings made the shakers pack after losing 30% and 22% respectively (**Table 4**).

Outlook

Volatility in the capital markets is likely to persist as investors come to grips with implications of a scaling back in the Fed stimulus with the VIX creeping higher as the September FOMC meeting approaches. On the local front we expect macro-economic policy uncertainty to grip investors in the short to medium. The new government's take on the economy is likely to determine how investors will allocate funds with room for a slowdown to the carnage that has hit the stock markets if the new government wins investor confidence. We maintain our overweight rating on agro-stocks in particular TSL, Seed Co and Hippo, whilst we are also bullish on Innscor, Delta and OK Zim in the consumer oriented and retail space. On the manufacturing space we have an overweight rating on Lafarge, PPC, Natfoods and BAT whilst Rio Zim is a possible turnaround story for the mining sector. We are bullish on FBCH and prudent Barclays in the banking space whilst on the Properties sector we favour Pearl because it has arguably the best property portfolio and also development focused ZPI.

Listed Company Statistics as at 26 July 2013

Counter	Sector	Weekly Change	Week's Price	Mkt Cap US\$m	Rolling PE	Fwd PE	Price/Book	EV/ EBITDA	Earnings Yield	ROE	ROA
AICO	Agro processing	0%	5.50	29.38	(4.37)		0.37	2.32	(0.23)	-2.67%	-0.70%
ARISTON	Agro processing	0%	1.20	16.54	30.00		1.22	(38.79)	0.03	12.81%	5.77%
BAT	Agro processing	-18%	1,200.00	208.58	16.90	15.38	18.59	11.98	0.06	109.28%	37.44%
BORDER	Agro processing	0%	20.00	8.59	2.95		0.08	2.29	0.34	2.76%	1.90%
COLCOM	Agro processing	-22%	25.00	39.76	12.56	10.73	1.56	7.54	0.08	13.08%	9.12%
HIPPO	Agro processing	0%	100.00	193.02	14.08	11.11	0.95	6.54	0.07	6.70%	3.90%
INTERFRESH	Agro processing	0%	1.80	0.88	(3.91)	(60.00)	0.08	(3.77)		1.31%	0.55%
PADENGA	Agro processing	7%	7.50	40.62	8.93	9.49	1.39	5.57	0.11	17.42%	13.05%
SEEDCO	Agro processing	-1%	80.00	154.41	13.14	14.55	2.05	12.55	0.08	15.38%	7.43%
ABCH	Banking	0%	55.00	39.45	4.74	4.46	0.25	1.32	0.21	16.59%	1.56%
BARCLAYS	Banking	-5%	4.00	86.12	33.33	28.57	2.09	(8.08)		6.07%	0.87%
CBZH	Banking	0%	15.00	102.62	1.90	1.71	0.61	(0.67)	0.53	25.43%	3.32%
FBCH	Banking	6%	9.50	43.77	3.93	2.73	0.71	1.16	0.25	21.19%	3.87%
NMB	Banking	0%	8.00	22.46	47.06	2.40	0.83	(3.12)	0.02	27.88%	3.84%
ZBFH	Banking	13%	9.00	15.77	2.25	2.21	0.33	(3.79)	0.44	16.26%	2.59%
CFI	Conglomerate	0%	6.00	6.33	(1.89)		0.14	(12.72)	(0.53)	-9.13%	-4.41%
INNSCOR	Conglomerate	0%	80.00	433.27	13.70	9.88	3.11	7.68	0.07	33.63%	15.08%
MEIKLES	Conglomerate	3%	28.99	71.13	23.96	18.95	0.52	13.46	0.04	3.95%	2.01%
RADAR	Conglomerate	0%	8.00	4.09	1.82		0.04	7.27	0.55	3.11%	2.08%
STAR AFRICA	Conglomerate	0%	1.00	5.18	(0.47)		1.12	(1.00)	(2.15)	-231.46%	-21.15%
TA HOLDINGS	Conglomerate	-22%	6.00	9.89	7.50	6.98	0.18	1.74	0.13	5.90%	2.21%
TSL	Conglomerate	0%	30.00	104.28	17.65	16.04	1.96	15.24	0.06	5.80%	4.10%
ECONET	ICT	-2%	53.00	481.94	5.89	5.58	1.11	2.00	0.17	32.19%	15.31%
ZIMPAPERS	ICT	0%	1.00	5.76	100.00		0.74	5.11	0.01	0.80%	0.23%
AFRE	Insurance	0%	12.00	26.05	2.71	2.65	2.81	2.36	0.37	144.91%	8.21%
FIDELITY	Insurance	0%	10.00	10.89	2.86	2.57	1.40	2.36	0.35	52.75%	10.01%
NICOZDMD	Insurance	-6%	1.60	8.95	3.72	3.56	0.68	3.00	0.27	18.34%	10.33%
ZHL	Insurance	0%	1.00	7.75	(6.67)		0.16	(6.40)	(0.15)	4.44%	1.84%
AFDIS	Manufacturing - Beverages	0%	30.00	28.50	31.91	23.62	5.06	11.03	0.03	15.88%	5.79%
DELTA	Manufacturing - Beverages	-3%	115.00	1,387.94	13.55	11.66	4.59	8.66	0.07	34.45%	20.24%
LAFARGE	Manufacturing - Construction	-19%	110.00	88.00	19.03	11.13	3.04	8.30	0.05	15.97%	8.73%
M&R	Manufacturing - Construction	6%	8.50	18.19	18.89	10.90	0.95	9.97	0.05	4.97%	2.72%
PGI	Manufacturing - Construction	0%	0.30	1.43	(0.18)		0.28	2.63	(5.53)	-155.12%	-20.86%
TURNALL	Manufacturing - Construction	0%	5.50	10.09	26.19	25.00	0.93	5.46	0.04	3.65%	1.61%
WILLDALE	Manufacturing - Construction	0%	0.30	5.33	(5.00)	(5.00)	0.51	(26.47)	(0.20)	-5.82%	-3.05%
DZHL	Manufacturing - Food	-10%	19.00	67.96	9.60	9.50	1.46	6.11	0.10	15.20%	10.23%
NATFOODS	Manufacturing - Food	-14%	210.00	143.64	12.01	11.07	2.69	8.60	0.08	22.41%	11.59%
APEX	Manufacturing - Nonfood	0%	0.01	0.05	(0.02)	(0.03)	0.01	0.11	(46.62)	-51.23%	-15.26%
ART	Manufacturing - Nonfood	10%	0.55	2.57	5.00	6.11	0.24	4.67	0.20	4.43%	1.53%
GBH	Manufacturing - Nonfood	-11%	0.08	0.42	(0.20)		0.08	0.28	(4.97)	-39.57%	-16.59%
HUNYANI	Manufacturing - NonFood	0%	3.20	10.23	12.31	12.31	0.48	3.52	0.08	3.91%	2.25%
NTS	Manufacturing - Nonfood	0%	3.50	8.89	11.82	8.75	1.78	12.68	0.08	15.19%	9.56%
PHOENIX	Manufacturing - Nonfood	46%	0.73	0.64	(0.57)		0.13	(11.07)	(1.74)	-28.83%	-13.22%
PIONEER	Manufacturing - Nonfood	-20%	7.00	38.48	(4.24)	(4.12)	8.12	1,150.42	(0.24)	-11.85%	-2.98%
POWERSPEED	Manufacturing - Nonfood	-16%	1.80	6.82	12.86	12.00	0.90	5.92	0.08	7.04%	3.22%
ZECO	Manufacturing - Nonfood	0%	0.09	0.42	(0.17)		0.01	(0.43)	(5.89)	-7.30%	-5.13%
ZIMFLOW	Manufacturing - Nonfood	-30%	3.50	17.59	(17.50)	35.00	0.73	12.75	(0.06)	-4.18%	-2.88%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.07	1.96	59.02		1.29	14.18	0.02	2.18%	0.42%
CAFCA	Manufacturing - Cables	0%	30.00	9.78	7.32	7.50	1.38	4.87	0.14	18.44%	10.93%
BINDURA	Mining	-27%	1.80	2.27	(0.90)		(0.38)	(1.25)	(1.11)	216.66%	-25.33%
FALGOLD	Mining	-33%	6.00	6.67	(545.45)		(2.01)	(9.69)	(0.00)	78.57%	-14.17%
HWANGE	Mining	-38%	11.00	20.21	6.47	6.01	0.19	2.54	0.15	2.99%	1.33%
RIOZIM	Mining	0%	35.00	10.49	(14.83)		0.48	8.70	(0.07)	-13.41%	-2.45%
DAWN	Property	3%	0.93	22.85	93.00		0.27	11.67	0.01	0.30%	0.29%
MASH	Property	2%	2.91	54.10	2.88	4.16	0.56	9.41	0.35	17.87%	16.89%
PEARL	Property	-9%	2.50	30.95	3.43	3.33	0.28	6.04	0.29	8.18%	7.36%
ZPI	Property	11%	1.00	17.17	2.63	2.38	0.35	8.41	0.38	13.04%	12.27%
EDGARS	Retail	0%	10.00	28.27	6.54	5.62	2.89	5.22	0.15	38.83%	9.86%
OK ZIM	Retail	-12%	22.00	228.07	18.49	15.71	4.39	9.76	0.05	23.83%	11.69%
PELHAMS	Retail	0%	0.10	1.00		1.00	0.24	1.85	1.00	23.46%	7.12%
TRUWORTHS	Retail	0.0%	2.70	10.09		10.80	2.07	8.35	0.10	20.7%	5.8%
AFRICAN SUN	Tourism	12.7%	1.86	15.33	6.00		0.63	4.69	0.17	10.6%	4.2%
RTG	Tourism	0%	1.70	27.97	(8.10)		1.98	80.64	(0.12)	-24.2%	-6.8%

Events Diary (No events except ELECTIONS)

COMPANY	EVENT	Time	Date	VENUE
Meikles	AGM	8.30am	20-Aug-13	Mirabelle, Meikles Hotel
NTS	AGM	12pm	22-Aug-13	Boardroom, Graniteside

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: Tawanda Mazorodze and Kudzanai Samudzi.

Important disclosures

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Additional disclosures

1 This report is dated as at 19 August 2013

2 All market data included in this report are dated as at close of 19 August 2013, unless otherwise indicated in the report.

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