

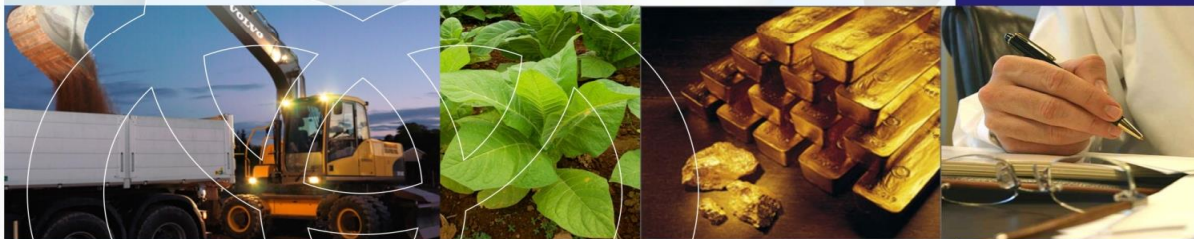
Investment Research

22 Arundel Road
Alexandra Park Harare
Tel: +263 4 783 069-71
research@mmccapital.co.zw
www.mmccapitalzim.com



mmc CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics			
	1-Nov	Weekly Change	USD Return
Mkt Cap \$'m	5,407.00	0.1%	0.1%
Mkt turnover \$'m	6.45	-19.9%	-19.9%
Indices			
ZSE Industrial	209.86	0.1%	0.1%
ZSE Mining	50.29	5.9%	5.9%
NSE 20	4,989.97	1.1%	0.4%
Nigeria All Share	37,765.82	0.4%	0.4%
JSE All Share	45,561.08	1.0%	-1.1%
NIKKEI-225	14,201.57	-1.0%	-2.0%
FTSE	6,734.74	0.3%	1.8%
DJIA	15,616.55	0.3%	0.3%

In this week's review:

- The funding conundrum – What is the right price to pay?
- Putting “Protectionism” under the spotlight,
- Washington is failing to reach a consensus,
- The bulls are ruling the roost on the ZSE,
- Volatility likely to persist in global capital markets and
- The ZSE likely to remain on the uptrend.

Analysts:

Tawanda Mazorodze

Tel +263 -4-783 069-71

Cell: +263-0-773 485 143

tawanda@mmccapital.co.zw

Kudzanai Samudzi

Tel +263 -4-783 069-71

Cell: +263-0-774 716014

kudzanai@mmccapital.co.zw

Top-10 Statistics and Market Performance

Name	Market Performance					Valuation Metrics		
	Change	Sales ¢	Value US\$ 000	Mkt Cap US\$ mln	Weight	PE	PBk	RoE
Delta	0.7%	136.0	175.5	1,677.7	31%	16.0	5.4	34%
Econet	1.8%	61.10	7,318.3	555.6	10%	6.87	1.05	25.2%
Innsco	-2.4%	83.00	568.9	448.3	8%	11.54	3.10	33.5%
Ok Zim	0.0%	26.00	27.7	300.0	6%	21.85	5.19	23.8%
Bat	-4.2%	1,150.00	289.2	237.3	4%	34.85	24.19	58.8%
Hippo	1.8%	112.00	2.0	216.2	4%	15.77	1.06	6.7%
Seedco	0.0%	99.00	128.1	193.0	4%	16.26	2.53	15.4%
Natfoods	0.4%	241.00	251.8	164.8	3%	11.83	2.97	25.2%
TSL	6.4%	35.10	0.6	122.0	2%	19.39	2.29	11.1%
CBZ	0.0%	15.00	211.0	102.6	2%	1.90	0.61	25.4%
ZSE Total			6,454	5,407				

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

The funding conundrum – What is the right price to pay?

... Zim is economy is still stuck in recession and in need of pro-active policymaking to arrest the economic slowdown ...

... BAZ is re-engaging the central bank to revisit the Memorandum of Understanding (MoU) that was signed between the banking sector and the RBZ ...

...The MoU resulted in a dip in non-funded income for the sector...

... The MoU led to a contraction of net interest margins as funding supply was depressed which saw cost of funding rising due to the drying up of liquidity ...

...Banking sector should be allowed to charge the right price to borrowers if it's to play its intermediary role effectively and promote capital allocative efficiency ...

... Local industry advocating for a policy that will force retailers to purchase 50% of their merchandise locally ...

... There are huge overtones of protectionism in the proposed policy...

... Our view is that the policy if not well crafted can be inflationary and might end up failing to achieve its intended purpose...

Events that took place in the week under review only served to confirm that the economy is still stuck in recession and in need of pro-active policymaking to arrest the economic slowdown. Chief among the challenges that are besieging the local economy is the absence of funding for capital projects and working capital requirements for most economic agents. In the week under review the Bankers Association of Zimbabwe (BAZ) was reported to be re-engaging the central bank to revisit the Memorandum of Understanding (MoU) that was signed between the banking sector and the RBZ early in the year. In the MoU banks agreed to charge borrowers interest rates that were at most 12% above their average cost of funding and also not to charge depositors with deposits that are below US\$800. The MoU was meant to encourage the banking public and the private sector to save and allow money to circulate in the economy whilst at the same time facilitating the critical sectors of the economy to access funding at economic prices. The end result was supposed to be enhanced economic growth since the Zim economy is a bank denominated meaning that banks are the major source of funding for the private sector of the economy.

The BAZ's request came in the face of a decline in the banking sectors profitability in the six month period ended 30 June as the MoU resulted in a dip in non-funded income for the sector. The majority of account holders in most banks make deposits below US\$800 and the scraping of charges to these account holders put a big dent in the sector's income. The interest rate cap on the other hand took a swipe at funded incomes as there was no cap imposed on the rate that could be charged on funds (deposits). Only lending was regulated leaving bankers exposed to rising funding costs whilst lending rates were capped. The end result was a contraction of net interest margins as funding supply was depressed which saw cost of funding rising due to the drying up of liquidity. Our view is that the regulation though necessary should allow market forces to play out in economic activities. In the absence of the central bank's lender of last resort function the only source of funding for the banking sector is the investing public and these are not price takers and it is the banking sector that will lose in the end. At the right price anything can sell and if the funds are properly priced the banking sector will attract enough funding and the sector should be allowed to charge the right price to borrowers if it's to play its intermediary role effectively and promote capital allocative efficiency.

Putting "Protectionism" under the spotlight

Protectionism is the economic policy of restraining trade between economies through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) "fair competition" between imports and goods and service produced domestically. In the week under review some captains of the local industry and government were engaged in discussions over the formulation of a policy which, if approved, will compel that at least half of all the stock sold by retailers should consist of locally manufactured products. The ministry of Industry and Commerce confirmed the developments though with reservations as to the proportion that would be required to be locally produced in the retailers' merchandise. There are huge overtones of protectionism in the proposed policy and there are repercussions that come with the policy that will need to be taken into account.

Our view is that the policy if not well crafted can be inflationary and might end up failing to achieve its intended purpose. Contrary to protectionism economic theory, under the principle of comparative advantage, shows that the gains from free trade outweigh any losses as free trade creates more jobs than it destroys because it allows countries to specialize in the production of goods and services in which they have a comparative advantage. The country needs to craft policies that facilitate the creation of comparative advantages by local manufacturers instead of protecting inefficient processes. The ideal thing is to refine the processes and make them competitive. This in our view will better the standards of living in the country and enhance economic growth as resource will be made best use of instead of creating deadweight losses.

Table 1: Stock indices performance.

Index	1-Nov-13	Weekly	YTD
Industrial	209.86	0.07%	37.70%
Mining	50.29	5.92%	-22.77%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	1-Nov-13	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	140.53	+0.52	+57.19	+34.72
ZSE Top -10	146.07	+0.40	+73.62	+42.01
Agro-industrial	85.28	+0.67	+7.09	-2.02
Banking	83.61	-0.25	+14.84	+28.90
Conglomerates	73.8	-0.82	+62.53	+27.77
Dual-listed	197.31	+2.34	+42.76	+35.65
Insurance	132.78		+28.48	+53.15
Manufacturing	256.65	+0.13	+111.50	+58.67
Mining	18.94	+1.61	-37.86	-49.87
Property	129.17	+4.19	+30.95	+34.23
Retail	340.81	+0.34	+115.00	+80.52
Tourism	27.86	-3.83	+10.91	+6.45

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	1-Nov	Weekly	Market Cap(\$'m)	Value traded(\$)
DAWN	1.45	21%	35.63	926,507
STAR AFRICA	1.80	19%	9.33	1,813
Masimba	6	19%	13.22	483
TA	7.00	17%	11.54	3,659
PADENGA	9.00	11%	48.74	22,508

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	1-Nov	Weekly	Market Cap(\$'m)	Value traded(\$)
INTERFRESH	1.40	-22%	0.68	142
AICO AFRICA	4.20	-16%	22.43	3,333
RTG	1.30	-13%	24.32	68,769
NTS	3.10	-7%	7.87	2,359
MEIKLES	25.00	-7%	61.34	5,087

Source: ZSE, MMC Capital Research

Stock Market Review

International capital markets traded predominantly northwards in the week with the Dow and FTSE 100 adding 30 bps apiece to close at 15,616.53 and 6,734.74 points respectively. Investors fretted over the Yen¥ level against the dollar and the Nikkei 225 lost 100 bps in the week to close at 14,201.57 points. Locally, the industrial index advanced by a marginal 7 bps propelled by the gains in selected top market cap counters. Delta gained 74 basis points to close at 136 cents. The beverages giant recently launched the super sip brand which is a ready-to-drink dairy beverage. Econet added 1.83% to close at 61.1 cents after releasing a fair set of numbers for the half year ended 31 August 2013. The top line grew by 11% to US\$376 million as the group continues to expand its mobile money business. The mining index also traded northwards in the week, collating 5.92% to close at 50.29 points. Limiting the gains in the indices, total market capitalization rose by 0.10% to end the week at US\$5.407 billion.

As reflected by turnover, trading activity slumped by 19.9% to US\$6.45 million in the week under review. Weekly volumes, however, improved to 138.65 million shares from the 45.77 million shares traded last week. Foreign investors were net sellers of Econet and Bat during the week under review. The foreign purchases to total turnover ratio trimmed to 24% from the prior week's figure of 37%. Foreign sales to total turnover ratio rose from last week's 27% to 35% this week. The overall foreign investor participation in the week was 59%, relative to last week's 64% of the total trades on the local bourse. The top ten counters on the bourse (excluding Old Mutual) constituted 74% of the total market cap in the week under review.

Sectoral performance as measured by the **12-Zfn indices** reflects a firming market as nine of the indices traded in the black during the week. The property sector was the week's top performer firming by 4.19% to 129.17 points on the back of gains in Dawn (28.83%) to 1.45 cents (**Table 2**). The Tourism sector was the week's worst performer, shedding 3.83% to close at 27.86 points driven by losses in the price of RTG, (13.33%) to 1.30 cents. The Top-10 ended the week in the positive territory, gathering 0.40 percentage points as eight counters traded in the black. Manufacturing and retail stocks continue to lead the pack on a year-on-year basis and year-to-date basis respectively.

Property management and development firm, Dawn, led the movers pack, pocketing 21% to close at 1.45 cents. Sugar refiners, Star Africa landed in the second position adding 19% to 1.8 cents with shares worth US\$1,813 exchanging hands. Construction and industrial group, Masimba and the conglomerate, TA Holdings, were among the top risers for the week collecting 19% and 17% respectively (**Table 3**). Agro concerns, Interfresh and Aico were the worst performers for the week, trading 22% and 16% lower to close at 1.4 cents and 4.20 cents respectively. The Tyre producer, NTS and the conglomerate, Meikles capped the losers pack after dropping 7% apiece (**Table 4**).

Outlook

U.S economic data released in the week under review painted a murky picture about the growth prospects of the world's largest economy with consumer confidence falling to a six month low in October on the back of the partial government shutdown. The manufacturing sector is now on the rebound with factory activity rising to its highest in two and half years according to the institute for supply management (ISM). The third quarter earnings season is underway and the majority of companies that had reported managed to beat analysts' earnings estimates. Equities are likely to remain the asset class of choice as the prospects still remain promising. The Zim market may trade on the back foot this week as demand for Zim assets continues to weaken ahead of the 2014 National budget pronouncement which has been delayed to either December or January. The government is expected to come up with an expansionary budget that will stimulate the faltering economy. We maintain our overweight rating on agro-stocks in particular Hippo and Seedco, whilst we are also bullish on Innscor, Edgars and Delta in the consumer oriented and retail space. On the manufacturing space we have an overweight rating on Lafarge, PPC, Natfoods and BAT. We are bullish on FBCH and Barclays in the banking space and we like Pearl because it has arguably the best property portfolio in the property sector. Trading at a TTM PER of 10.48x the local bourse is just 5% the MSCI EMI's 11x PER making it almost fully valued.

Listed Company Statistics as at 1 November 2013

Counter	Sector	Weekly Change	Latest Price	Mkt Cap US\$m	Rolling PE	Price/ Book	EV/ EBITDA	Earnings Yield	ROE	YTD	ROA
AICO	Agro processing	-16%	4.20	22.43	(3.33)	0.2860313	5.60	-30%	-2.67%	-53%	-0.70%
ARISTON	Agro processing	0%	1.20	16.54	30.00	1.22	(38.79)	3%	12.81%	-8%	5.77%
BAT	Agro processing	-4%	1,150.00	237.29	34.85	24.19	18.04	3%	58.75%	219%	18.18%
BORDER	Agro processing	0%	15.00	6.44	2.21	0.06	2.06	45%	2.76%	0%	1.90%
COLCOM	Agro processing	0%	27.00	-	31.03	0.00	(0.53)	3%	6.36%	8%	4.46%
HIPPO	Agro processing	2%	112.00	216.18	15.77	1.06	7.20	6%	6.70%	1%	3.90%
INTERFRESH	Agro processing	-22%	1.40	0.68	(3.04)	0.06	(3.63)		1.31%	600%	0.55%
PADENGA	Agro processing	11%	9.00	48.74	10.71	1.67	6.57	9%	17.42%	100%	13.05%
SEEDCO	Agro processing	0%	99.00	191.08	16.26	2.53	14.23	6%	15.38%	29%	7.43%
ABCH	Banking	0%	60.00	43.04	5.17	0.34	(0.20)	19%	20.66%	9%	1.72%
BARCLAYS	Banking	-7%	4.00	86.12	33.33	2.26	(8.08)		6.56%	54%	0.92%
CBZH	Banking	0%	15.00	102.62	1.90	0.61	(0.67)	53%	25.37%	50%	3.31%
FBCH	Banking	8%	13.50	62.20	5.06	0.80	0.30	20%	18.50%	80%	3.41%
NMB	Banking	-7%	7.00	19.65	2.55	0.50	(3.43)	39%	19.47%	977%	3.13%
ZBFH	Banking	0%	11.00	19.27	2.75	0.37	(2.89)	36%	17.83%	38%	2.78%
CFI	Conglomerate	0%	3.61	3.81	(0.98)	0.09	(20.61)	-102%	-10.98%	-26%	-5.11%
INNSCOR	Conglomerate	-2%	83.00	449.52	11.54	3.10	7.66	9%	33.53%	19%	15.30%
MEIKLES	Conglomerate	-7%	25.00	61.34	20.66	0.45	12.48	5%	3.95%	67%	2.01%
RADAR	Conglomerate	0%	8.00	4.09	(1.79)	0.11	6.00	-56%	-5.91%	-33%	-2.33%
STAR AFRICA	Conglomerate	19%	1.80	9.33	(0.56)	(10.51)	(5.81)	-178%	1814.57%	20%	-33.62%
TA HOLDINGS	Conglomerate	17%	7.00	11.54	4.70	0.20	1.61	21%	8.91%	-30%	3.17%
TSL	Conglomerate	6%	35.10	122.01	19.39	2.29	15.14	5%	11.12%	205%	7.86%
ECONET	ICT	2%	61.10	555.59	6.87	1.05	2.13	15%	25.16%	36%	12.32%
ZIMPAPERS	ICT	0%	0.80	4.61	2.76	0.58	2.91	36%	21.51%	0%	5.71%
AFRE	Insurance	12%	13.50	29.31	4.02	1.68	2.42	25%	68.49%	160%	6.51%
FIDELITY	Insurance	0%	11.00	11.98	3.69	1.25	3.03	27%	37.32%	-8%	7.13%
NICOZDMD	Insurance	0%	2.50	13.99	5.10	0.95	4.35	20%	19.14%	79%	10.53%
ZHL	Insurance	0%	1.20	9.30	5.00	0.20	(53.22)	20%	10.87%	0%	4.28%
AFDIS	Manufacturing - Beverages	0%	32.00	30.40	37.65	5.53	17.25	3%	14.70%	113%	6.32%
DELTA	Manufacturing - Beverages	1%	136.00	1,641.38	16.02	5.43	10.23	6%	34.45%	36%	20.24%
LAFARGE	Manufacturing - Construction	0%	115.00	92.00	19.90	2.60	8.48	5%	12.78%	64%	7.44%
M&R	Manufacturing - Construction	19%	6.17	13.25	26.83	0.68	4.90	4%	2.57%	106%	1.34%
PGI	Manufacturing - Construction	0%	0.10	0.48	(0.06)	1.22	(4.74)	-1580%	-1922.45%	-80%	-21.97%
TURNALL	Manufacturing - Construction	10%	5.50	14.01	550.00	0.92	6.53	0%	0.25%	0%	0.11%
WILLDALE	Manufacturing - Construction	0%	0.20	3.56	(3.33)	0.49	(10.66)	-30%	-14.31%	300%	-7.08%
DZHL	Manufacturing - Food	-3%	18.51	66.27	123.40	1.43	14.72	1%	1.36%	-12%	0.87%
NATFOODS	Manufacturing - Food	0%	241.00	164.84	11.83	2.97	8.90	8%	25.15%	83%	13.76%
ART	Manufacturing - Nonfood	0%	0.60	2.80	5.45	0.26	4.77	18%	4.43%	13%	1.53%
ASTRA	Manufacturing - Nonfood	-4%	4.80	6.71	5.45	0.52	3.04	18%	9.55%	-4%	6.37%
GBH	Manufacturing - Nonfood	0%	0.08	0.42	(19.12)	0.09	0.59	-5%	-48.15%	700%	-17.32%
HUNYANI	Manufacturing - NonFood	0%	4.00	12.79	12.90	0.60	5.75	8%	3.91%	8%	2.25%
NTS	Manufacturing - Nonfood	-7%	3.10	7.87	9.12	1.45	6.46	11%	16.08%	3%	10.89%
PIONEER	Manufacturing - Nonfood	0%	4.00	21.99	(2.42)	4.64	704.66	-41%	-11.85%	300%	-2.98%
POWERSPEED	Manufacturing - Nonfood	6%	1.90	7.20	13.57	0.93	5.04	7%	6.80%	36%	2.93%
ZECO	Manufacturing - Nonfood	0%	0.02	0.09	(0.03)	0.00	(0.04)	-3300%	-9.35%	100%	-6.49%
ZIMPLOW	Manufacturing - Nonfood	0%	4.50	22.62	14.06	0.85	9.63	7%	2.39%	-31%	1.21%
MEDTECH	Manufacturing - Pharmaceutical	0%	0.04	1.12	1.21	0.83	5.93	83%	35.21%	33%	5.76%
CAFCA	Manufacturing -Cables	0%	35.00	11.41	8.54	1.61	5.65	12%	18.44%	-13%	10.93%
BINDURA	Mining	-3%	1.95	2.46	(0.98)	(0.41)	(0.60)	-103%	216.66%	30%	-25.33%
FALGOLD	Mining	0%	4.00	4.45	(3.64)	(1.34)	(39.47)	-28%	50.45%	-67%	-9.09%
HWANGE	Mining	8%	12.00	22.05	(20.00)	0.21	3.31	-5%	-0.50%	-29%	-0.22%
RIOZIM	Mining	0%	30.00	9.00	(12.71)	0.40	7.22	-8%	-13.20%	-42%	-2.45%
DAWN	Property	21%	1.45	35.63	24.17	0.43	19.53	4%	1.86%	107%	1.79%
MASH	Property	0%	3.20	59.49	3.17	0.61	10.44	32%	17.87%	24%	16.89%
PEARL	Property	0%	3.00	37.14	3.96	0.33	6.50	25%	8.41%	7%	7.61%
ZPI	Property	0%	1.20	20.60	3.08	0.39	9.67	33%	12.23%	0%	11.51%
EDGARS	Retail	1%	12.10	34.21	7.61	3.13	6.04	13%	36.18%	51%	11.18%
OK ZIM	Retail	0%	26.00	269.53	21.85	5.19	11.57	5%	23.83%	73%	11.69%
PELHAMS	Retail	0%	0.13	1.29	(0.72)	0.36	(15.16)	-138%	-49.20%	-35%	-13.45%
TRUWORTHS	Retail	7%	3.75	14.01	11.72	2.85	11.04	9%	24.08%	50%	6.7%
AFRICAN SUN	Tourism	8%	2.82	23.24	9.10	1.03	5.33	11%	11.34%	213%	4.5%
RTG	Tourism	-13%	1.30	21.39	(18.57)	1.45	18.96	-5%	-6.97%	-46%	-2.1%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
Afdis	AGM	11:00am	6-Nov-13	Head Office, Stapleford

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

Stock ratings and basis for financial analysis

MMC CAPITAL RESEARCH believes that investors utilise various disciplines and investment horizons when making investment decisions, which depend largely on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations. Given these differences, MMC CAPITAL RESEARCH has two principal aims in its equity research: 1) to identify long-term investment opportunities based on particular themes or ideas that may affect the future earnings or cash flows of companies on a 12 month time horizon; and 2) from time to time to identify short-term investment opportunities that are derived from fundamental, technical or event-driven techniques on a 0-3 month time horizon and which may differ from our long-term investment rating.

MMC CAPITAL RESEARCH has issued this document for distribution to its clients. It may not be reproduced or further distributed in whole or in part for any purpose. This document is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. MMC Capital Research has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; MMC Capital makes no guarantee, representation or warranty and accepts no responsibility or liability as to the accuracy or completeness of its content.

Additional disclosures

1 This report is dated as at 4 November 2013

2 All market data included in this report are dated as at close of 4 November 2013, unless otherwise indicated in the report.

MMC Capital

22 Arundel Road
Alexandra Park
P. O. Box BW 1797

HARARE, ZIMBABWE

Tel: +263-4-783069-71, +263-4-744467

Tellular: +263-0 -772 020 279
www.mmccapital.co.zw

Managing Director

Edward Mapokotera
edward@mmccapital.co.zw
+263 772 128 203

Executive Director

Itai Walter Chirume, CFA, CIPM
itai@mmccapital.co.zw
+263 773 336 832

Sales & Trading

Edmond Mupfapairi (Head)
edmond@mmccapital.co.zw
+263 772 282 932

Tinashe Mapara, CFA
tinashe@mmccapital.co.zw
+263 773 413 288

Research

Tawanda Mazorodze (Head)
tawanda@mmccapital.co.zw
+263 773 485 143

Kudzana Samudzi
kudzana@mmccapital.co.zw
+263 774 716 014