MMC CAPITAL WEEKLY EQUITIES REVIEW, 12 November 2013

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(Members Of The Zimbabwe Stock Exchange)

The Market Making Corporation

Zimbabwe Equities Market Review
Weekly Review

12 November 2013

Market Moving Insights!

Market Statistics	8-Nov	Weekly Change
Mkt Cap $'m	5,474.00	1.2%
Mkt turnover $'m	9.57	48.3%
Indices		
ZSE Industrial	212.45	1.2%
ZSE Mining	51.24	1.9%
NSE 20	5,019.18	0.6%
Nigeria All Share	37,870.87	0.3%
JSE All Share	45,481.19	-0.2%
NIKKEI-225	14,086.80	-0.8%
FTSE	6,708.42	-0.4%
DJIA	15,761.78	0.9%

In this week's review:

- **The heat is rising on the mining sector;**
- **The search for funding continues – no joy from diamonds;**
- **U.S Markets react positively to strong jobs data and;**
- **The bulls are raging on the ZSE.**

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Top-10 Statistics and Market Performance

Market Performance						Valuation Metrics		
Name	Change	Sales ¢	Value US$ 000	Mkt CapUS$ mln	Weight	PE	PBk	RoE
Delta	2.9%	140.0	316.0	1,727.1	32%	16.5	5.6	34%
Econet	3.1%	63.00	5,962.6	572.9	10%	7.08	1.09	25.2%
Innscor	0.6%	83.50	161.0	451.0	8%	11.61	3.12	33.5%
OK Zim	-3.8%	25.00	5.4	288.5	5%	21.01	4.99	23.8%
BAT	4.3%	1,200.00	296.0	247.6	5%	36.36	25.24	58.8%
Hippo	0.0%	112.00	2.6	216.2	4%	15.77	1.06	6.7%
Seedco	0.0%	99.00	585.2	193.0	4%	16.26	2.53	15.4%
Natfoods	-0.4%	240.00	444.8	164.2	3%	11.78	2.96	25.2%
TSL	-6.0%	33.00	298.9	114.7	2%	18.23	2.15	11.1%
CBZ	0.0%	15.00	792.2	102.6	2%	1.90	0.61	25.4%
ZSE Total			9,574	5,474				

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

The heat is rising on the mining sector

… The sector proposed massive fee cuts of close to 100% citing funding constraints and falling commodity prices in the current environment …

… The mining sector is currently the country's biggest contributor to export revenue and is still operating at levels that are well below potential …

The week under review saw the release of the 2012 annual report of Chamber of Mines Zimbabwe (CoMZ) where the mining sector bemoaned the current tax regime that it feels is very penal. The sector proposed massive fee cuts of close to 100% citing funding constraints and falling commodity prices in the current environment. CoMZ opined that government intervention in the form of favorable taxes and fees is of paramount importance to avert job cuts and mine closures. The application fee for the registration of precious metals (or precious stones) is currently pegged at US$100,000 relative to the sector's proposal of US$300. For diamond mining companies, the government has pegged the fees at US$1 million while the sector is proposing a reduction to US$300. The mining sector is currently the country's biggest contributor to export revenue and is still operating at levels that are well below potential. There is a lot of idle capacity in the sector which is failing to be utilized due to the depressed funding levels. It is estimated that over $5-7 bln is needed over the next 5 years for the mining industry to operate at optimal capacity. Just a handful of mining houses have been able to access long term loans due to the transitory nature of banking sector deposits. The perceived high country risk rating has also made it difficult for local companies to access long term lines of credit on international financial markets.

… For the mining companies, the overall level of tax, including royalties, influences incentives for exploration and development.

Our view is that there is need to craft a well-balanced tax and fee regime in Zimbabwe that carefully trades off the interests of government and the miners. The ultimate goal of the government's mining tax system should ensure the greatest possible benefit for the public while simultaneously encouraging investment in the sector. Achieving this requires realistic consideration and careful balancing of the objectives of the two key players: the mining companies and the government. For the mining companies, the overall level of tax, including royalties, influences incentives for exploration and development. Higher levels of taxation are likely to reduce incentives to invest, and, in marginal cases, even to keep some mines operating. The timing of tax charges also influences investment patterns. Raising tax rates will increase government receipts in the short term, but if the increases are too high, they will discourage exploration and development, thus reducing the tax revenues generated by the sector in the long run.

The search for funding continues – no joy from diamonds

… This development dampens confidence about the feasibility of the country's diamond industry contributing meaningfully to the fiscus …

As the search for funding continues, the week under review saw the Minister of Finance hinting at the absence of diamond revenue for the 9 months to 30 September 2013. This development dampens confidence about the feasibility of the country's diamond industry contributing meaningfully to the fiscus. Resultantly, annual revenue projections (for 2013) were revised downwards from the initial US$3.86 billion to $3,762 billion. Collection projections for November 2013 and December 2013 were trimmed from a cumulative total of $816.2 million to $702.2 million.

… Zimbabwe is believed to be the fourth largest diamond producing nation in the world, and if properly managed, the local diamond industry has potential to be a game changer for our economy …

In 2012, a total of $41 million was realized from the diamond industry against a target of US$600 million, further necessitating the downward revision of the national budget and economic growth projections. Zimbabwe is believed to be the fourth largest diamond producing nation in the world, and if properly managed, the local diamond industry has potential to be a game changer for our economy. The industry has the potential to relieve a lot of the fiscal pressure that the economy is currently experiencing, which has seen capital expenditure being sacrificed to the detriment of economic growth. The move to lift the sanctions on Marange is a positive development which should increase the interest in our diamond industry. There is a huge capital deficit in the country and no doubt sanctions were playing a negative role in the mobilization of investment capital flows into the economy.

Table 1: Stock indices performance.

Index	8-Nov-13	Weekly	YTD
Industrial	212.45	1.23%	39.40%
Mining	51.24	1.89%	-21.31%

Source: ZSE, MMC Capital Research

Table 2: *Zfn*-Sectoral Indices

Sector indices	8-Nov-13	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	142.2	+1.19	+59.06	+37.35
ZSE Top - 10	148.39	+1.59	+76.38	+43.37
Agro-industrial	85.16	-0.14	+6.94	-2.40
Banking	82.18	-1.71	+12.88	+26.45
Conglomerates	73.91	+0.15	+62.76	+27.78
Dual-listed	200.24	+1.48	+44.88	+38.33
Insurance	130.3	-1.87	+26.08	+59.12
Manufacturing	262.56	+2.30	+116.40	+62.64
Mining	20.22	+6.76	-33.67	-37.65
Property	129.9	+0.57	+31.69	+36.38
Retail	329.58	-3.30	+108.00	+77.19
Tourism	26.67	-4.27	+6.18	+21.26

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	8-Nov	Weekly	Market Cap($'m)	Value traded($)
TA	9.00	29%	14.84	3,766
MEDTECH	0.05	25%	1.40	118
HWANGE	14	17%	23.27	1,433
BARCLAYS	4.50	13%	96.89	79,769
MEIKLES	26.50	6%	65.02	6,307

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	8-Nov	Weekly	Market Cap($'m)	Value traded($)
INTERFRESH	1.00	-29%	0.49	100
PELHAMS	0.10	-23%	1.00	1,691
STAR AFRICA	1.50	-17%	7.78	3,234
ZIMPLOW	4.00	-11%	24.91	2,566
ABCH	54.90	-9%	39.38	17,614

Source: ZSE, MMC Capital Research

Stock Market Review

Global capital markets activity was a mixed bag in the week under review with the Dow hurdling 0.9 percent to a record 15,761.78 points, capping its fifth week of gains in a row. This was on the back of better-than-forecast jobs report which added to signs that growth is strong enough for the economy to withstand a stimulus reduction. FTSE 100 trimmed 0.4% to close at 6,078.42 points despite the positive news that the U.K. economy will grow 1.3% this year and 2.2% in 2014, making it the liveliest economy in the European Union, EU economists predict. On the local front, the mainstream index advanced 1.23% to close at 212.45 points. The resources index also traded northwards in the week, gathering 1.89% to close at 51.24 points. Mimicking the gains in the indices, total market capitalization rose by 1.2% to end the week at US$5.474 billion.

Traded turnover in the week under review rose by 48.3% to US$9.57 million. Weekly volumes, however, slumped to 48.48 million shares from the 138.65 million shares traded last week. Foreign investors were net buyers of Econet and CBZ in the week as the foreign purchases to total turnover ratio rose to 35% from the prior week's 24%. Foreign sales to total turnover ratio declined from 35% in the prior week to 29% this week. The overall foreign investor participation in the week was 64%, relative to last week's 59%, of the total trades on the local bourse. The weight of the top ten counters on the bourse (excluding Old Mutual) remained flat at 74% of the total market cap during the week under review.

Sectoral performance as measured by the ***12-Zfn indices*** reflects a firming market, with seven of the indices trading positively during the week. The mining sector was the week's top performer firming by 6.76% to 20.22 points on the back of gains in Hwange (16.67%) to 14 cents. The Tourism sector was the worst performer for the second week running, shedding 4.27% to close at 26.67 points driven by losses in RTG, (7.69%) to 1.2 cents. The Top-10 ended the week in the positive territory, gathering 1.59 percentage points as seven 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.

The conglomerate, TA led the movers pack, pocketing 29% to close at 9 cents. The manufacturer, marketer and distributor of health, hygiene and beauty pharmaceutical products, Medtech landed in the second position adding 25% to 0.05 cents. The coal miner, Hwange and banker, Barclays were among the top risers for the week collecting 17% and 13% respectively (**Table 3**). Agro concerns, Interfresh and the retailer Pelhams, were the worst performers for the week, trading 29% and 23% lower to close at 1 cent and 0.10 cents respectively. Regional banker, ABCH capped the losers pack after shedding 9% to close at 54.90 cents **(Table 4).**

Outlook

Global capital markets will likely post positive gains this week on the back of the Friday report in the U.S which showed a good growth in the labor market in October, despite disruptions from the partial government shutdown. Employers added over 200,000 jobs in the month, well above consensus expectations. The European Central Bank (ECB) unexpectedly lowered its key interest rate to 0.25% from 0.5%, a move which was applauded by investors. Equities are likely to remain the asset class of choice as the prospects still remain promising. The local bourse is likely to trade on the back foot this week as demand for assets continues to slow down ahead of the 2014 National budget pronouncement which has been delayed to either December 2013 or January 2014 (from end of November 2013). The Treasury is expected to unleash 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 10.61x the local bourse is just 4% the MSCI EMI's 11x PER making it almost fully valued.

Listed Company Statistics as at 8 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	0%	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%	1,200.00	247.60	36.36	25.24	18.83	3%	58.75%	233%	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	42.94	31.03	0.00	(0.53)	3%	6.36%	8%	4.46%
HIPPO	Agro processing	0%	112.00	216.18	15.77	1.06	7.20	6%	6.70%	1%	3.90%
INTERFRESH	Agro processing	-29%	1.00	0.49	(2.17)	0.05	(3.49)		1.31%	400%	0.55%
PADENGA	Agro processing	0%	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	-9%	54.90	39.38	4.73	0.31	(0.30)	21%	20.66%	0%	1.72%
BARCLAYS	Banking	13%	4.50	96.89	37.50	2.54	(6.10)		6.56%	73%	0.92%
CBZH	Banking	0%	15.00	102.62	1.90	0.61	(0.67)	53%	25.37%	50%	3.31%
FBCH	Banking	-7%	12.50	57.59	4.68	0.74	0.09	21%	18.50%	67%	3.41%
NMB	Banking	0%	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%	3.60	3.80	(0.98)	0.09	(20.60)	-103%	-10.98%	-27%	-5.11%
INNSCOR	Conglomerate	1%	83.50	452.23	11.61	3.12	7.70	9%	33.53%	19%	15.30%
MEIKLES	Conglomerate	6%	26.50	65.02	21.90	0.48	12.85	5%	3.95%	77%	2.01%
RADAR	Conglomerate	0%	8.00	4.09	(1.79)	0.11	6.00	-56%	-5.91%	-33%	-2.33%
STAR AFRICA	Conglomerate	-17%	1.50	7.78	(0.47)	(8.76)	(5.57)	-213%	1814.57%	0%	-33.62%
TA HOLDINGS	Conglomerate	29%	9.00	14.84	6.04	0.26	1.94	17%	8.91%	-10%	3.17%
TSL	Conglomerate	-6%	33.00	114.71	18.23	2.15	14.30	5%	11.12%	187%	7.86%
ECONET	ICT	3%	63.00	572.87	7.08	1.09	2.19	14%	25.16%	40%	12.32%
ZIMPAPERS	ICT	0%	0.80	4.61	2.76	0.58	2.91	36%	21.51%	0%	5.71%
AFRE	Insurance	-4%	11.50	24.97	3.42	1.43	2.21	29%	68.49%	121%	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	4%	1.25	9.69	5.21	0.20	(53.22)	19%	10.87%	4%	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	3%	140.00	1,689.66	16.49	5.59	10.52	6%	34.45%	40%	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	5%	6.50	13.96	28.26	0.71	5.13	4%	2.57%	117%	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	0%	5.50	14.01	550.00	0.92	6.53	0%	0.25%	0%	0.11%
WILLDALE	Manufacturing - Construction	-5%	0.19	3.38	(3.17)	0.47	(10.37)	-32%	-14.31%	280%	-7.08%
DZHL	Manufacturing - Food	-3%	18.00	64.44	120.00	1.39	14.36	1%	1.36%	-14%	0.87%
NATFOODS	Manufacturing - Food	0%	240.00	164.16	11.78	2.96	8.87	8%	25.15%	82%	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%	5.00	6.99	5.68	0.54	3.16	18%	9.55%	0%	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	-3%	3.00	7.62	8.82	1.40	6.24	11%	16.08%	0%	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	-5%	1.80	6.82	12.86	0.88	4.86	8%	6.80%	29%	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	-11%	4.00	20.10	12.50	0.76	8.92	8%	2.39%	-38%	1.21%
MEDTECH	Manufacturing - Pharmaceutical	25%	0.05	1.40	1.52	1.04	6.53	66%	35.21%	67%	5.76%
CAFCA	Manufacturing -Cables	0%	35.00	11.41	8.54	1.61	5.65	12%	18.44%	-13%	10.93%
BINDURA	Mining	0%	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	17%	14.00	25.72	(23.33)	0.25	3.57	-4%	-0.50%	-18%	-0.22%
RIOZIM	Mining	5%	31.50	9.45	(13.35)	0.42	7.28	-7%	-13.20%	-39%	-2.45%
DAWN	Property	0%	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	4%	1.25	21.46	3.21	0.41	10.07	31%	12.23%	4%	11.51%
EDGARS	Retail	0%	12.10	34.21	7.61	3.13	6.04	13%	36.18%	51%	11.18%
OK ZIM	Retail	-4%	25.00	259.17	21.01	4.99	11.11	5%	23.83%	67%	11.69%
PELHAMS	Retail	-23%	0.10	1.00	(0.56)	0.28	(14.36)	-180%	-49.20%	-50%	-13.45%
TRUWORTHS	Retail	0%	3.75	14.01	11.72	2.85	11.04	9%	24.08%	50%	6.7%
AFRICAN SUN	Tourism	-1%	2.80	23.07	9.03	1.02	5.31	11%	11.34%	211%	4.5%
RTG	Tourism	-8%	1.20	19.75	(17.14)	1.34	18.18	-6%	-6.97%	-50%	-2.1%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
Delta	Briefing	3:30 PM	13-Nov-13	Mandell Training Centre, Marlborough
Colcom	AGM	9:00 AM	15-Nov-13	Head Office, Workington

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 12 November 2013
2 All market data included in this report are dated as at close of 12 November 2013, unless otherwise indicated in the report.

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