

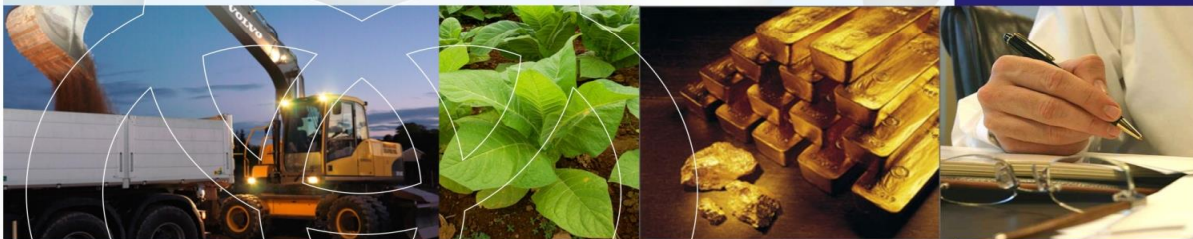
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mmc CAPITAL

(Members Of The Zimbabwe Stock Exchange)



The Market Making Corporation

Market Statistics		
	17-Jan	Weekly Change
Mkt Cap \$'m	5,211.00	-0.7%
Mkt turnover \$'m	9.61	-7.5%
Indices		
ZSE Industrial	202.73	-0.6%
ZSE Mining	38.82	-7.5%
NSE 20	5,018.58	-0.8%
Nigeria All Share	41,751.55	0.7%
JSE All Share	46,675.88	2.5%
NIKKEI-225	15,734.46	-1.1%
FTSE	6,829.30	1.3%
DJIA	16,458.56	0.1%

Source: ZSE, Bloomberg

In this week's review:

- Untiring spending power squeeze, falling aggregate demand;
- Protectionism under the spot light again in 2014;
- Consumers relatively sanguine about the improving labor market in the U.S;
- ZSE running out of steam;
- Insurance stocks continue to shine on the ZSE;

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Top-10 Statistics and Market Performance

Top 10 Market Capitalisation								
Name	Market Performance					Valuations		
	Change	Sales €	Value US\$	00ct CapUS\$ m	Weight	PE	PBk	RoE
Delta	-2.1%	138.99	3,227.9	1,717.5	33%	15.8	4.9	31%
Econet	-2.4%	61.50	3,681.7	559.2	11%	6.91	1.06	25.2%
Innsco	0.0%	80.00	109.0	432.1	8%	11.13	2.99	33.5%
BAT	3.1%	1,320.00	103.5	272.4	5%	40.00	27.77	58.8%
OK Zim	0.5%	20.00	672.7	230.9	4%	17.39	3.83	20.5%
Hippo	5.6%	95.00	39.7	183.4	4%	13.38	0.90	6.7%
Seedco	0.0%	91.00	51.0	177.4	3%	14.94	2.33	15.4%
Natfoods	0.0%	210.00	13.0	143.6	3%	10.30	2.59	25.2%
TSL	-2.6%	38.00	14.6	132.1	3%	20.99	2.48	11.1%
CBZ	0.1%	15.01	139.1	102.7	2%	1.90	0.61	25.4%
Sub Total			8,052	3,951	76%			
ZSE Total			9,610	5,211	100%			

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

Untiring spending power squeeze, falling aggregate demand

... Among other factors, a company's performance is influenced by economic variables such as interest rates, inflation and consumer spending ...

... The beverages giant's depressed numbers confirm that the local consumer's wallet continues to be under immense pressure ...

....., Zimstats released its inflation report in which Zimbabwe's year-on-year inflation cooled 21 basis points from 0.56% in November 2013 to settle at 0.33% in December 2013.....

....The World Bank, in the week under review forecast a growth rate of 3.3% for Zimbabwe in 2014.....

....Tourism was highlighted as a key sector which is increasingly becoming an important driver of growth in several Sub-Saharan African countries including Zimbabwe.....

....our view is that economic growth will be in the region of 1.0% to 1.5% this year.....

....In the week under review, the minister of industry criticized protectionism measures recently imposed by government, arguing that they are protecting inefficient local firms.....

.... We concur with the minister's view that if these measures are not implemented on a case by case basis, inefficient companies will be protected thus defying the concept of comparative advantage

.... The country needs to craft policies that facilitate the creation of comparative advantages by local manufacturers.....

Among other factors, a company's performance is influenced by economic variables such as interest rates, inflation and consumer spending (which in turn is influenced by employment levels). This therefore means that, in general, corporate performance provides a fair indication of the well-being of the economy. In Zimbabwe, the financial performance of the large-cap stocks on the ZSE generally depicts the state of the local economy. In the week under review, Delta Corporation Limited, which is the largest company by market cap (\$1.7 billion; 33% of the total market capitalization) on the local bourse published its trading update for the third quarter ended 31 December 2013. Revenue for the quarter came in 3% lower relative to the prior year. Larger beer volumes and sparking beverages took a 25% and 6% dip compared to prior year. Retail price distortions which were triggered by the increase in excise duty in December 2012 also impacted negatively on beer volumes. The beverages giant's depressed numbers confirm that the local consumer's wallet continues to be under immense pressure, as consumer needs continue to outpace the growth in incomes. The reduction in consumer spending poses headwinds for Zimbabwe as this results in less demand for goods and services. With falling demand, companies will reduce production; cost-cutting measures implemented; workers laid-off and resultantly, the economy contracts.

Also during the week under review, Zimstats released its inflation report in which Zimbabwe's year-on-year inflation cooled 21 basis points from 0.56% in November 2013 to settle at 0.33% in December 2013. Month-on-month inflation in December stood at negative 0.08% after shedding 0.17 points from 0.09 percent the previous month. Inflation is in retreat in Zimbabwe, showing the effects of spending power squeeze on the back of falling aggregate demand. The economy is in need of inflation and the slowdown in the inflation rate attests to the slowdown in economic growth. There is therefore an urgent need for the government to come up with policies that stimulate consumer demand.

These statistics paint a murky outlook on the growth prospects of Zimbabwe in 2014. The Treasury expects the local economy to record a growth rate of 6.1% anchored on strong recovery of the agricultural, mining and construction sectors. The Global Economic Prospect report which was published by the World Bank in the week under review forecasts economic growth of 3.3% in Zimbabwe in 2014. Tourism was highlighted as a key sector which is increasingly becoming an important driver of growth in several Sub-Saharan African countries including Zimbabwe. Tourist arrivals to the region grew by 5.7% in the third quarter of 2013, bringing the year to date growth to 5.1 percent, compared to annual growth of 4.4 percent in 2012. The strongest performers for the quarter were Zimbabwe (+12.1 percent), Seychelles (+11.8 percent), Cape Verde (+8.7 percent), South Africa (+3.3 percent), Mauritius (+2.8 percent), and Swaziland (+2.1 percent). The Tourism sector's contribution to the Zimbabwe economy is currently estimated at 10% and remains on the recovery path. As the majority of indicators of economic growth continue pointing to a slowdown, our view is that economic growth will be in the region of 1.0% to 1.5% this year.

Protectionism under the spot light again in 2014

In the week under review, the minister of industry criticized protectionism measures recently imposed by government, arguing that they are protecting inefficient local firms. His argument was premised on the idea that the government should not take part in conserving industries that, without competition, will adversely impact consumers in terms of quality and pricing. The minister also hinted that the Government will be instituting measures to manage imports as well as maintaining an even playing field with regards to cheap imports. The treasury recently hiked duty for twenty two (22) products to levels of around 40% from between 5% and 15%. Goods such as dairy products, wheelbarrows, plastic products such as buckets and plates, PVC pipes and steel products which include cast iron pots and galvanized steel sheets are included.

We concur with the minister's view that if these measures are not implemented on a case by case basis, inefficient companies will be protected thus defying the concept of comparative advantage. Under the principle of comparative advantage, 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.

Table 1: Stock indices performance.

Index	17-Jan-14	Weekly	YTD
Industrial	202.73	-0.62%	0.30%
Mining	38.82	-7.51%	-15.22%

Source: ZSE, MMC Capital Research

Table 2: Zfn-Sectoral Indices

Sector indices	17-Jan-14	Weekly (%)	Ytd(%)	YoY(%)
All - Share index	136.11	-0.82	+0.46	+25.50
ZSE Top - 10	143.34	-0.89	+1.14	+28.61
Agro-industrial	76.03	+1.27	+1.68	-6.64
Banking	81.99	+0.13	-2.99	+33.61
Conglomerates	70.77	-0.55	-0.01	+14.45
Dual-listed	190.01	+1.78	-2.21	+36.96
Insurance	120.2	+9.43	+15.11	+53.59
Manufacturing	257.81	-1.34	+0.69	+42.92
Mining	15.47	-8.03	-15.56	-47.41
Property	115.76	+0.91	-1.80	+19.08
Retail	275.73	+0.57	+0.22	+32.17
Tourism	30.06	-1.60	-1.59	+33.56

Source: Zfn, MMC Capital Research

Table 3: Gainers

Counter	Market			
	17-Jan	Weekly	Cap(\$'m)	Value Traded(\$)
FALGOLD	5.00	25%	20.57	539
FIRST MUTUAL	11.00	24%	41.82	6,926
COLCOM	24.00	9%	38.17	950
CAFCA	30.00	7%	2.47	4,912
HIPPO	95.00	6%	183.37	39,722

Source: ZSE, MMC Capital Research

Table 4: Losers

Counter	Market		Value	
	17-Jan	Weekly	Cap(\$'m)	traded(\$)
WILDDALE	0.05	-50%	0.89	199
ARISTON	0.60	-40%	8.27	3,661
HWANGE	6.13	-32%	10.19	12,457
MEDTECH	0.05	-29%	1.40	1,415
ART	0.30	-25%	1.29	750

Source: ZSE, MMC Capital Research

Stock Market Review

Global capital markets traded mixed in the week under review with the Dow gaining 10 bps to close at 16,458.56 points on favorable retail sales data. The data revealed that consumers remained relatively sanguine about the improving labor market. Housing starts also remained strong in December, and factory output continued to post healthy growth. FTSE 100 also closed 130 bps in the positive at 6,829.30 points as the World Bank's upgrade of global-growth forecasts offset concern over valuations. The World Bank raised its global-growth forecasts, predicting the European economy will expand 3.2 percent this year. On the local front, the mainstream index ran out of steam in the week, trimming 62 bps to close at 202.73 points. The resource index also eased 7.51% to close at 38.82 points. Reflecting the losses in the indices, the total market capitalization fell by 0.7% to end the week at US\$5.211 billion.

Trading turnover on the local bourse retreated by 7.5% to \$9.61m in the week and weekly volumes rose to 46.52m shares this week from 35.22m shares last week. Foreign investors were net sellers of Delta, Econet and Dairibord in the week. The foreign purchases to total turnover ratio retreated to 28% relative to 31% last week whilst the foreign sales to total turnover ratio came in at 36% compared to 17% last week. The overall foreign investor participation was 64%, a surge from last week's 48% 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 six of the indices recording loses in the week. The insurance sector was the week's top performer for the third week running, gathering 9.43% to 120.2 points. This was a result of gains in First Mutual up 23.6% to 11 cents. The mining sector was the worst performer for the week for the second week running, dipping 8.03% chiefly on the back of share price plunging in Hwange (31.89%) to 6.13 cents and Bindura (2.86%) to 1.7 cents. The ZSE Top-10 at 143.34 points lost 0.89% in the week as Delta and Econet which, together weigh 44% of the total market capitalization, lost some ground (Table 2).

The gold miner, Falgold led the movers pack for the week, advancing 25% to close at 5 cents. The insurer, First Mutual and the meat processor, Colcom were also among the top gainers for the week accumulating 24% and 9% respectively (Table 3). The cable manufacturer, CAFCA also expanded 7% to close at 30 cents and the sugar processor, Hippo capped the top movers pack after gaining 6% to close at 95 cents. Clay bricks manufacturer, Willdale was the worst performer for the week, trading 50% in the negative to close at 0.05 cents. Agro concern, Ariston and the coal miner, Hwange were also among the losers pack, easing 40% and 32% respectively (Table 4).

Outlook

Global capital markets are likely to trade mixed this week. In the U.S., markets are likely to trade on the back foot this week on investor concerns that had remained after December's weak payrolls report. Positive economic data had been a primary force driving stocks higher in the fourth quarter of 2013 and a reversal in those underpinnings might cause investors to harvest gains. European stocks are likely to advance this week, tracking gains in Asian shares after the Chinese central bank offered emergency funds to cool money market rates and ease the country's latest cash squeeze. The 2013 fourth quarter earnings reporting seasons continues and will also have an impact on stock prices this week.

Locally, the market is likely to remain under pressure this week as the economy still lacks the stimulus for growth. We maintain our view that foreign interest will continue to be heavily skewed towards stocks with solid operating fundamentals. We advocate a defensive strategy in 2014 in the light of the obtaining operating environment which remains constrained for growth (tight liquidity, low capitalization in industry).

Listed Company Statistics as at 17 January 2014

Counter	Sector	Weekly Change	Latest Price	Mkt Cap US\$m	Rolling PE	Price/ Book	EV/ EBITDA	Earnings Yield	ROE	YTD	ROA
AICO	Agro processing	-8%	5.50	29.38	(4.37)	0.37	5.81	-23%	-2.67%	-8%	-0.70%
ARISTON	Agro processing	-40%	0.60	8.27	15.00	0.61	(26.42)	7%	12.81%	-40%	5.77%
BAT	Agro processing	3%	1,320.00	272.36	40.00	27.77	20.73	3%	58.75%	10%	18.18%
BORDER	Agro processing	0%	20.00	8.59	2.95	0.08	2.29	34%	2.76%	0%	1.90%
COLCOM	Agro processing	9%	24.00	38.17	27.59	1.49	7.41	4%	6.36%	9%	4.46%
HIPPO	Agro processing	6%	95.00	183.37	13.38	0.90	6.27	7%	6.70%	6%	3.90%
PADENGA	Agro processing	0%	8.00	43.33	9.52	1.48	5.91	11%	17.42%	0%	13.05%
SEEDCO	Agro processing	0%	91.00	175.64	14.94	2.33	13.52	7%	15.38%	1%	7.43%
ABCH	Banking	0%	59.00	42.32	5.09	0.34	(0.22)	20%	20.66%	0%	1.72%
BARCLAYS	Banking	0%	4.00	86.12	33.33	2.26	(8.08)		6.56%	-9%	0.92%
CBZH	Banking	0%	15.01	102.69	1.90	0.61	(0.67)	52%	25.37%	0%	3.31%
FBCH	Banking	2%	12.70	58.52	4.76	0.75	0.13	21%	18.50%	-6%	3.41%
NMB	Banking	-3%	6.50	18.25	2.37	0.46	(3.55)	42%	19.47%	0%	3.13%
ZBFH	Banking	0%	11.00	19.27	2.75	0.37	(2.89)	36%	17.83%	-1%	2.78%
CFI	Conglomerate	3%	3.60	3.80	(0.98)	0.09	(20.60)	-103%	-10.98%	0%	-5.11%
INNSCOR	Conglomerate	0%	80.00	433.27	11.13	2.99	7.42	9%	33.53%	0%	15.30%
MEIKLES	Conglomerate	-1%	19.00	46.62	15.70	0.34	11.00	6%	3.95%	0%	2.01%
RADAR	Conglomerate	0%	8.00	4.09	(1.79)	0.11	6.00	-56%	-5.91%	0%	-2.33%
STAR AFRICA	Conglomerate	2%	1.02	5.29	(0.32)	(5.96)	(5.19)	-314%	1814.57%	2%	-33.62%
TA HOLDINGS	Conglomerate	0%	6.00	9.89	4.03	0.17	1.44	25%	8.91%	-2%	3.17%
TSL	Conglomerate	-3%	38.00	132.09	20.99	2.48	16.30	5%	11.12%	-1%	7.86%
ECONET	ICT	-2%	61.50	559.23	6.91	1.06	2.14	14%	25.16%	2%	12.32%
ZIMPAPERS	ICT	0%	0.80	4.61	2.76	0.58	2.91	36%	21.51%	0%	5.71%
AFRE	Insurance	24%	11.00	23.88	3.27	1.37	2.16	31%	68.49%	38%	6.51%
FIDELITY	Insurance	-8%	12.00	13.07	4.03	1.37	3.23	25%	37.32%	-8%	7.13%
NICOZDMD	Insurance	-7%	1.35	7.55	2.76	0.51	1.40	36%	19.14%	-4%	10.53%
ZHL	Insurance	0%	1.40	10.85	5.83	0.23	(53.22)	17%	10.87%	-3%	4.28%
AFDIS	Manufacturing - Beverages	0%	30.00	28.50	35.29	5.18	16.26	3%	14.70%	0%	6.32%
DELTA	Manufacturing - Beverages	-2%	138.99	1,711.49	15.76	4.87	10.15	6%	31.05%	-1%	19.09%
LAFARGE	Manufacturing - Construction	0%	110.00	88.00	19.03	2.49	8.12	5%	12.78%	0%	7.44%
M&R	Manufacturing - Construction	0%	6.50	13.96	28.26	0.71	5.13	4%	2.57%	0%	1.34%
TURNALL	Manufacturing - Construction	0%	5.00	15.69	500.00	0.84	6.10	0%	0.25%	0%	0.11%
WILLDALE	Manufacturing - Construction	-50%	0.05	0.89	(0.83)	0.12	(6.21)	-120%	-14.31%	-50%	-7.08%
DZHL	Manufacturing - Food	2%	15.50	55.49	103.33	1.20	12.57	1%	1.36%	3%	0.87%
NATFOODS	Manufacturing - Food	0%	210.00	143.64	10.30	2.59	7.86	0.10	25.15%	5%	13.76%
ART	Manufacturing - Nonfood	-25%	0.30	1.40	2.73	0.13	4.16	37%	4.43%	50%	1.53%
ASTRA	Manufacturing - Nonfood	0%	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%	0%	-17.32%
HUNYANI	Manufacturing - NonFood	0%	2.00	6.39	6.45	0.30	3.31	16%	3.91%	0%	2.25%
NTS	Manufacturing - Nonfood	-4%	2.50	6.35	7.35	1.17	5.12	14%	16.08%	0%	10.89%
PIONEER	Manufacturing - Nonfood	0%	3.00	16.49	(1.82)	3.48	556.08	-55%	-11.85%	0%	-2.98%
POWERSPEED	Manufacturing - Nonfood	0%	1.50	5.69	10.71	0.73	4.33	9%	6.80%	-17%	2.93%
ZECCO	Manufacturing - Nonfood	0%	0.01	0.05	(0.02)	0.00	(0.02)	-6600%	-9.35%	0%	-6.49%
ZIMFLOW	Manufacturing - Nonfood	-14%	3.00	15.08	9.38	0.57	7.51	11%	2.39%	-14%	1.21%
MEDTECH	Manufacturing - Pharmaceutical	-29%	0.05	1.40	1.52	1.04	6.53	66%	35.21%	-29%	5.76%
CAFCA	Manufacturing - Cables	7%	30.00	9.78	7.32	1.38	4.87	14%	18.44%	7%	10.93%
BINDURA	Mining	-3%	1.70	2.14	(0.85)	(0.36)	(0.58)	-118%	216.66%	-15%	-25.33%
FALGOLD	Mining	25%	5.00	5.56	(4.55)	(1.68)	(12.62)	-22%	50.45%	-58%	-9.09%
HWANGE	Mining	-32%	6.13	11.26	(10.22)	0.11	2.55	-10%	-0.50%	-32%	-0.22%
RIOZIM	Mining	0%	31.00	9.30	(13.14)	0.42	7.26	-8%	-13.20%	-6%	-2.45%
DAWN	Property	-1%	1.00	24.57	16.67	0.29	13.60	6%	1.86%	0%	1.79%
MASH	Property	0%	3.20	59.49	3.17	0.61	10.44	32%	17.87%	-2%	16.89%
PEARL	Property	2%	2.75	34.05	3.63	0.31	5.89	28%	8.41%	6%	7.61%
ZPI	Property	5%	1.10	18.88	2.82	0.36	8.88	35%	12.23%	-15%	11.51%
EDGARS	Retail	-1%	12.50	35.34	7.86	3.23	6.18	13%	36.18%	3%	11.18%
OKZIM	Retail	1%	20.00	230.80	17.39	3.83	9.38	6%	20.51%	0%	10.36%
PELHAMS	Retail	0%	0.05	0.50	(0.28)	0.14	(13.02)	-360%	-49.20%	-50%	-13.45%
TRUWORTHS	Retail	5%	4.20	15.69	13.13	3.19	11.88	8%	24.08%	0%	6.67%
AFRICAN SUN	Tourism	-4%	2.60	21.42	8.39	0.95	5.09	12%	11.34%	-4%	4.46%
RTG	Tourism	0%	1.60	26.33	(22.86)	1.78	21.30	-4%	-6.97%	0%	-2.1%

Events Diary

COMPANY	EVENT	Time	Date	VENUE
Innsco	EGM	8:15am	24-Jan-14	Royal Harare Golf Club
PGI	EGM	09:00am	24-Jan-14	Royal Harare Golf Club

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 Samudzai**.

Important disclosures

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Additional disclosures

1 This report is dated as at 21 January 2014

2 All market data included in this report are dated as at close of 21 January 2014, unless otherwise indicated in the report.

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