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INVESTING
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Securities

# Imara Edwards Securities (IES) – 2017 Review and 2018 Outlook on Zimbabwe – *Dawn of a new day*

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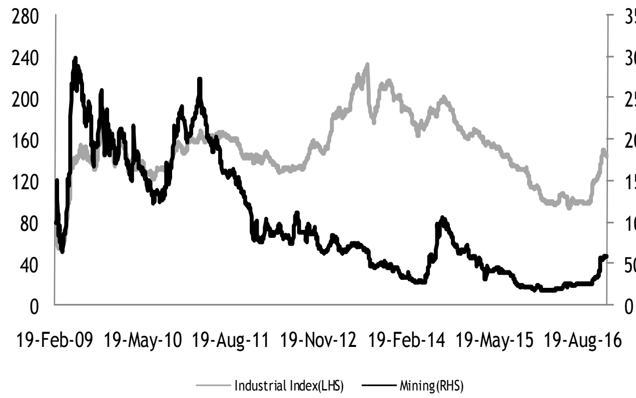
Zimbabwe entered a new chapter in November 2017, following the resignation of Robert Mugabe, and his replacement with Emmerson Mnangagwa. The President in his inaugural speech pledged to 'hit the ground running' and promised to hold fresh elections in 2018. He outlined a broad vision for restoring economic and financial stability and touted a 'new economic order'. The new economic order is set to address fiscal imbalances and financial sector vulnerabilities; public enterprises and local authorities' reform; improving the investment environment; dealing with corruption in the economy; reengagement with the international community; stimulating production and exports and creating jobs.

The country appears to be at a crossroad, although the economic downturn that was experienced since 2013 appears to be reversing and Zimbabwe's economy is showing some signs of a recovery. Favourable rains received in the 2016/17 season boosted growth of the agricultural sector in 2017 raising per capita output. The GDP growth rate is expected at 3.7% in 2017 against an initial target of 1.7% and up from 0.7% in 2016.However, the country still faces complex fiscal and macroeconomic imbalances despite strong fundamentals for economic growth. According to the MOF, the economy is projected to grow by 4.5% in 2018 riding on the continued recovery of the agricultural sector. Nonetheless, well-designed policies will be vital to accelerate growth and sustainability.

On the Zimbabwe Stock Exchange, foreign outflows increased significantly although the market reached an all-time high (post dollarisation), driven by greater participation of domestic investors mainly on negative sentiments about the local economy. The depreciating RTGs, inflationary pressures and shortage of viable alternative investments helped fuel the gains. The ZSE market cap peaked at USD 15.2bn just before the political intervention by the military on 14 November 2017. At which point the market had gained 269.6% on a YTD basis and the Industrial Index was at 534.13 points. The market then eased as sentiment changed and the gain in 2017 ended at 130.4% for the Industrial Index while the Mining Index put on 143.4%.

In our view, the market rally was largely induced by excess liquidity in the market a result of wanton issuance of Treasury Bills. A lot of local investors with excess RTGS balances sought to hedge against the depreciating currency and sort to invest in relatively safe, liquid assets hence the stock market was a natural destination of the excess liquidity exacerbated by the lack of clarity on the introduction of Bond Notes.

Indices performance since dollarisation




*Source: ZSE & IES*

**TOP TEN MOVERS**

| | 31.12.17 | 31.12.16 | Move (USc) | % ch |
|---|---|---|---|---|
| G/BELTINGS | 0.80 | 0.08 | 0.72 | 900.0% |
| ZBFH | 36.00 | 4.52 | 31.48 | 696.5% |
| NAMPAK ZIM | 18.00 | 2.40 | 15.60 | 650.0% |
| CFI | 70.75 | 9.74 | 61.01 | 626.4% |
| HIPPO | 176.00 | 35.00 | 141.00 | 402.9% |
| ARISTON | 1.70 | 0.35 | 1.35 | 385.7% |
| FMHL | 19.50 | 4.20 | 15.30 | 364.3% |
| MASIMBA | 7.20 | 1.70 | 5.50 | 323.5% |
| AFRICAN SUN | 4.80 | 1.20 | 3.60 | 300.0% |
| RIO ZIM | 120.00 | 30.00 | 90.00 | 300.0% |

**BOTTOM TEN MOVERS**

| | 31.12.17 | 31.12.16 | Move (USc) | % ch |
|---|---|---|---|---|
| HWANGE | 3.80 | 3.00 | 0.80 | 26.7% |
| DAWN | 2.00 | 1.60 | 0.40 | 25.0% |
| ART ZDR | 6.98 | 6.10 | 0.88 | 14.4% |
| NTS | 1.15 | 1.10 | 0.05 | 4.5% |
| ZECO | 0.02 | 0.02 | 0.00 | 0.0% |
| FIDELITY | 11.00 | 11.00 | 0.00 | 0.0% |
| GETBUCKS | 3.70 | 3.70 | 0.00 | 0.0% |
| TURNALL | 0.95 | 1.04 | -0.09 | -8.7% |
| EDGARS | 4.02 | 4.80 | -0.78 | -16.3% |
| RTG | 1.00 | 1.20 | -0.20 | -16.7% |

*Source: ZSE & IES*

## Macroeconomic Overview

GDP Growth Rates by Sector (%)

| | 2017F | 2018F | 2019F | 2020F |
|---|---|---|---|---|
| **GDP by Industry Growth Rates** | **3.7** | **4.5** | **5.6** | **6.0** |
| Agriculture | 14.6 | 10.7 | 8.1 | 8.9 |
| Mining | 8.5 | 6.1 | 7.6 | 8.9 |
| Manufacturing | 1.0 | 2.1 | 3.9 | 4.2 |
| Electricity and water | 10.7 | 28.5 | 11.9 | 6.6 |
| Construction | 2.2 | 2.1 | 8.1 | 8.4 |
| Distribution, hotels and Restraurants | 1.1 | 7.3 | 7.0 | 8.0 |
| Transport & communication | 2.3 | 1.9 | 4.1 | 6.0 |
| Finance,banking and Insurance | 0.2 | 1.2 | 9.2 | 6.2 |
| Administrative and support services | -0.9 | -0.9 | -0.9 | -0.9 |
| Education and training | 2.3 | 0.5 | 3.1 | 3.1 |
| Human health and social work | 2.0 | 2.2 | 1.0 | 1.0 |
| Private education and health | 2.2 | 0.9 | 2.7 | 2.6 |
| Real estate | 2.2 | 2.1 | 8.1 | 8.4 |
| Other services | -1.7 | -0.8 | -0.2 | 1.0 |
| Private households with employed persons | -1.5 | 0.0 | 0.8 | 0.0 |

*Source: MOF*

GDP growth increased from 0.7% in 2016 to an estimated 3.7% in 2017. It is projected to increase by 4.5% in 2018. A modest recovery in international commodity prices is expected to spur growth in mining. Energy production is expected to improve following the completion of the Kariba South Extension Plant in December 2017. Agricultural output will be supported by scaled up coordination and funding from the government and the private sector and greater investment in irrigation development. Tourism is expected to benefit from the increase in international tourist arrivals. However, other sectors will remain lacklustre. While the 2017 estimates seem achievable, we believe that the 2018 growth projections are bullish. The 2017/2018 agricultural season has not been very encouraging given the erratic rains and the economy continues to face structural challenges from high informality, weak aggregate demand, high public debt and weak investor confidence. The country is experiencing shortages in foreign currency required to fund critical inputs in most sectors of the economy and the high cost of production which has eroded competitiveness.

**Fiscal Framework (USDm)**

| | 2017F | 2018F | 2019F | 2020F |
|---|---|---|---|---|
| Nominal GDP (USDm) | 18,130.0 | 19,426.3 | 21,108.5 | 23,067.7 |
| GDP Growth (%) | 3.7 | 4.5 | 5.6 | 6.0 |
| Annual average inflation (%) | 1.1 | 3.0 | 5.8 | 6.3 |
| Revenue and Grants (USDm) | 4,339.0 | 5,071.0 | 5,484.0 | 5,970.0 |
| Tax Revenue (USDm) | 3,669.0 | 4,300.0 | 4,676.0 | 5,080.0 |
| Percentage of GDP (%) | 20.2 | 22.1 | 22.2 | 22.0 |
| Non Tax Revenue (USDm) | 237.0 | 237.2 | 245.5 | 3,722.0 |
| Percentage of GDP (%) | 1.3 | 1.2 | 1.2 | 1.3 |
| Retained funds (USDm) | 433.0 | 434.0 | 434.0 | 434.0 |
| Percentage of GDP (%) | | 2.2 | 2.1 | 1.9 |
| Grants (USDm) | | 100.0 | 120.0 | 156.0 |
| Percentage of GDP (%) | | 0.0 | 0.0 | 0.0 |
| Total Expenditure (USDm) | 6,045.0 | 5,743.0 | 5,893.0 | 6,033.5 |
| Percentage of GDP (%) | 33.3 | 29.6 | 27.9 | 26.2 |
| Recurrent Expenditure (USDm) | 4,515.0 | 4,581.0 | 4,578.0 | 4,676.3 |
| Percentage of GDP (%) | 24.9 | 23.6 | 21.7 | 20.3 |
| Employment Costs (USDm) | 3,394.8 | 3,239.4 | 3,268.4 | 3,268.4 |
| Percentage of GDP (%) | 18.7 | 16.7 | 15.5 | 14.2 |
| Capital and Net Lending (USDm) | 1,530.0 | 1,162.0 | 1,315.5 | 1,357.2 |
| Percentage of GDP (%) | 8.4 | 6.0 | 6.2 | 5.9 |
| Budget Balance (USDm) | -1,706.5 | -671.8 | -409.1 | -63.5 |
| Percentage of GDP (%) | -9.4 | -0.4 | -1.9 | -0.3 |
| Total Debt Stock (USDm) | 13,579.0 | 14,454.8 | 15,075.3 | 15,283.0 |
| Percentage of GDP (%) | 74.9 | 74.4 | 71.4 | 66.3 |
| Domestic (USDm) | 6,031.4 | 6,699.7 | 7,002.2 | 6,894.9 |
| Percentage of GDP (%) | 33.3 | 34.5 | 33.2 | 29.9 |
| Foreign (USDm) | 7,547.6 | 7,755.1 | 8,073.1 | 8,388.1 |
| Percentage of GDP (%) | 41.6 | 39.9 | 38.2 | 36.4 |

*Source: MOF*

The World Bank trimmed the 2018 growth projection to 0.9% from the 1.8% that it projected in June last year citing a rising fiscal deficit. The projection is below the Sub-Saharan African average of 3.2%. Growth for 2019 was further revised downwards to 0.2% from 1.7%. However, the 2017 growth estimate was revised upwards from 2.3% to 2.8%.

Revenue Performance:Jan - Sept 2017 (USDm)

| | Actual | Target | Variance | % Variance |
|---|---|---|---|---|
| Total Revenue | 2,812.0 | 2,741.2 | 70.8 | 2.6 |
| Tax Revenue | 2,643.9 | 2,519.7 | 124.2 | 4.9 |
| Non-tax Revenue | 168.1 | 221.6 | (53.4) | (24.1) |

*Source: MOF*

**Fiscal space remained constrained.** The expansionary fiscal stance which began in 2016 continued into 2017 financed by issuing Treasury Bills purchased by local banks and issued directly to government creditors and an overdraft with the RBZ. This led to reduced liquidity, limiting fiscal space for capital and social expenditures. Although public revenue somewhat increased against target, total expenditure spiked as the government expanded the Command Agriculture Programme and maintained the high public sector wage bill(circa.19.0% of GDP). With limited foreign inflows, the fiscal deficit reached 9.3% of GDP from 8.7% in 2016 and was 2.4% in 2015. The fiscal deficit for 2017 is estimated at USD 1.7bn from revenues of USD 4.3bn and expenditures of USD 6.0bn.In 2018, a budget deficit of USD 671.8m (0.4% of GDP) is anticipated from revenues of USD 5.1bn and expenditures of USD 5.7bn on the back of reform adjustments. We believe the anticipated decline for 2018 is unattainable, as elections are likely to put further pressure on the budget.

Expenditure:Jan - Sept 2017 (USDm)

| | Actual | Target | Variance |
|---|---|---|---|
| Total Expenditure | 4,653.0 | 3,101.1 | (1,551.9) |
| Employment Costs | 2,567.1 | 2,263.3 | (303.8) |
| Operation and Maintenance | 543.0 | 295.5 | (247.0) |
| Interest | 150.1 | 133.5 | (16.6) |
| Capital Expenditure | 1,392.7 | 408.8 | (983.0) |

*Source: MOF*

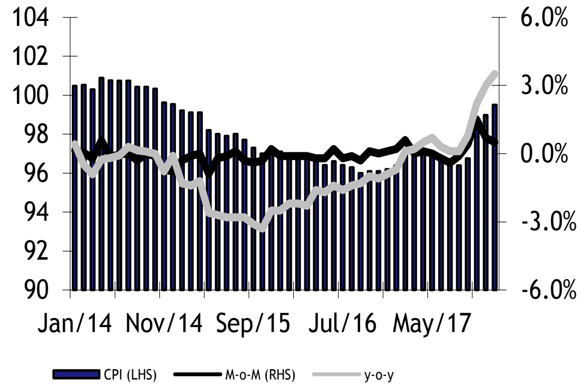
To allow GDP growth to accelerate in 2018 and beyond, the authorities will need to improve public expenditure efficiency and ensure adequate liquidity in the financial sector, in our view.

**Public debt burden continued to threaten fiscal sustainability.** Total debt stock grew rapidly to USD 13.6bn in 2017, reaching 75.0% of GDP from 70.0% in 2016. External debt at USD 7.5bn (42.0% of GDP), most of which is in arrears, accounted for 55.1% of the debt stock. Domestic debt ballooned to USD 6.1bn (33.3% of GDP: 25.0% in 2016). With limited access to international capital markets, government continued to turn to domestic debt financing, largely through the banking system. Although progress was made in improving the business climate, governance and accountability remained problematic as FDI remained static at approximately USD 300.0m. Resorting to monetary financing of the fiscal deficit led to sharp increases in money supply by circa.48.0% to USD 8.0bn in November 2017 according to the RBZ. In a context of tight liquidity conditions and depleted international reserves this could add pressure to an already tight budgetary situation if not accompanied by fiscal, monetary and investment reforms. The clearance of external arrears could expand the government's access to international capital. We also welcome the proposed amendments to the Indigenous Act.

**The liquidity crisis contributed to a narrowing of the current account deficit.** Merchandise exports amounted to USD 4.6bn from USD 3.4bn in 2016 representing a 35.3% increase. Exports in 2017 were dominated by minerals (gold, nickel, platinum, and diamonds) and tobacco. Merchandise imports on the other hand increased marginally by 6.3% from USD 6.4bn in 2016 to USD 6.8bn in 2017. Imports were suppressed due to a combination of tight credit conditions, the inability of local banks to honour international payments, and import restrictions. Nonetheless, a deficit of USD 1.0bn is expected for 2017. Net international reserves declined from USD 339.0m in 2015 to USD 310.0m in 2016 to an estimated USD 150.0m in 2017, approximately 0.3 months of imports. The external sector still remains a threat to a strong recovery in the near term largely due to weak exports although imports have been coming down. The real exchange rate remained overvalued, undermining external competitiveness.

**Elevated inflationary pressures and FX shortages drove costs up**. Year-on-year inflation turned positive in February 2017 driven by rising food prices and the appreciation of the South African rand against the USD. The monetary financing of the budget deficit led to a robust and efficient electronic payment system increasing liquidity, which was further bolstered by the introduction of more bond notes, fuelling inflationary pressures and USD premiums on the parallel market. The official average annual inflation rate closed the year 2017 at 3.4% from an initial forecast of 1.1% and is anticipated to average 3.0% in 2018.

**Consumer Price Index**




*Source: Zimstats*

In our view, official inflation figures are meaningless due to the multi-tier pricing system evident in the economy (Bond Notes, RTGS (transfer), USD Notes, EcoCash (mobile money) etc).We believe that RTGS inflation will track the USD exchange rate currently quoted at a premium of approximately 60.0% with the OMIR at a premium of 50.0%. Furthermore, the continued issuance of TBs is inflationary. Our greatest fear is the likely return of price controls especially in light of the 2018 elections.

**The financial sector remained vulnerable to both systemic weaknesses and policy risks.** Bank assets continued to perform poorly, coupled with balance-of-payments issues, operational inefficiencies and severe liquidity restrictions. Moreover, the sector remains vulnerable to further economic headwinds, despite efforts made to reduce NPLs through ZAMCO. Although capital adequacy levels have recovered to reasonable levels, assets are not sufficiently diversified with the sector significantly exposed to the government. While lending rates stabilised to reasonable levels, they remained high while deposits rates remained low. As a result, credit to the private sector remained scarce.The level of total deposits continued to increase with total system deposits up 17.1% to USD 6.5bn from December 2016 to September 2017 albeit transitory in nature. Total loans and advances grew marginally to USD 3.7bn as at the end of September 2017 from USD 3.6bn as at December 2016 due to curtailed lending. The level of non-performing loans improved significantly to 8.6% at end of September 2017 from a peak of 20.5% recorded in September 2014 benefiting from ZAMCO assumption of some toxic assets from bank balance sheets.

## 2017 Equities Performance

Key ZSE Statistics

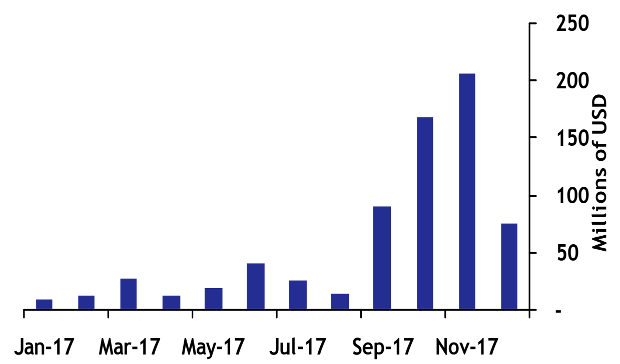
| | 2008* | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| Market Cap (USDbn) | 4.2 | 3.9 | 4.2 | 4.0 | 4.3 | 5.6 | 4.8 | 3.07 | 4.0 | 9.6 |
| Average daily turnover (USD '000) | 1,225 | 1,859 | 1,555 | 1,906 | 1,801 | 1,874.00 | 1,805.78 | 909.56 | 787 | 2,788 |
| Annual turnover (USDm) | 311 | 437 | 392 | 477 | 448 | 486.00 | 452.87 | 229.21 | 197 | 694 |
| Number of listed companies | 81 | 81 | 81 | 81 | 81 | 66 | 65 | 64 | 63 | 63 |
| Market cap as % of GDP | 86 | 75 | 67 | 45 | 44 | 51 | 39 | 22 | 27 | 53 |

*Source: IES, ZSE* *based on OMIR

**Weak investor sentiment.** Foreign outflows increased significantly although the market reached an all-time high (post dollarisation), driven by greater participation of domestic investors mainly on negative sentiments about the local economy. The depreciating RTGs, inflationary pressures and shortage of viable alternative investments helped fuel the gains. The ZSE market cap peaked at 15.2bn just before the political intervention by the military on 14 November 2017. At which point the market had gained 269.6% on a YTD basis and the Industrial Index was 534.13 points. The market then eased as sentiment changed and the gain in 2017 ended at 130.4% for the Industrial Index while the Mining Index put on 143.4% driven by the 146.4% gain in RioZim. In our view, the market rally was largely induced by excess liquidity in the market a result of wanton issuance of Treasury Bills. A lot of local investors with excess RTGS balances sought to hedge against the depreciating currency and sort to invest in relatively safe, liquid assets hence the stock market was a natural destination of the excess liquidity exacerbated by the lack of clarity on the introduction of Bond Notes.

Market turnover increased by 253.0% to USD 694.2m with average daily value trade amounting to USD 2.8m mainly on account of increased local activity on fears of spiralling inflation and weak local currency. Market activity increased substantially in October and November as foreigners mostly sold blue chips switching into Old Mutual/PPC (fungible counters) in the process legally externalising their funds.

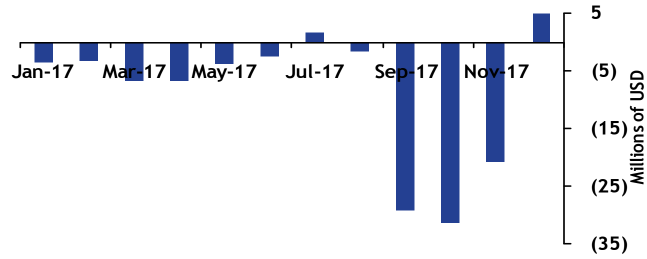
**Monthly value traded USDm**
**Jan 17 - Dec 17**




*Source: ZSE & IES*

Although foreign participation declined, it remained high contributing more than 55.0% to market turnover. Foreign investors remained net sellers in the year, for the third year running, and net foreign outflows amounted to USD 103.1m against net outflows of USD 75.0m in 2016, an increase of 37.5%. Due to foreign currency shortages there were marked delays on the settlement of foreign sale deals as well as dividends, especially which resulted in the firm demand for fungible counters. At the peak of the market the YTD gain for Old Mutual Plc on ZSE was 309.5% while the OMIR premium was 675.1% against street rate premium of between 90.0% and 100.0%. PPC had gained 524.6% with the implied premium at 876.4%

**Monthly net foreign dealing USDm**
**Jan 17 - Dec 17**




*Source: ZSE & IES*

The top gainers for the year were dominated by mid-to small cap stocks, although most blue chips recorded decent gains in local currency terms. Only three counters posted negative returns in 2017 with 53 achieving positive returns. Corporate earnings were generally subdued with most recording reduced profitability.

On the corporate action front it was relatively busy with at least five transactions concluded during the year. Econet concluded the biggest capital raise on the ZSE as it raised USD 130.0m through a renounceable rights offer and linked debenture, in February 2017. RioZim also concluded the purchase of Palatial Gold Zimbabwe t/a Dalny Mine from Falgold for a consideration of USD 8.0m. FML Holdings raised USD 17.3m through a renounceable rights offer with part of the proceeds channelled towards the acquisition of NicozDiamond. There were also some unsuccessful mandatory offers including NSSA's offer to NicozDiamond minorities, Stalap offer to CFI minorities. During the year Pearl Properties changed its name to FM Properties. There was one delisting in the year as Colcom was delisted following the Innscor offer to minorities. The year 2017, saw Barclays Plc sell 81.0% of Afcarme to First Merchant Bank Capital Holdings (Mauritius) in a private share transfer. Barclays Plc will retain 19.0% in Barclays for a period of up to three years. Afcarme transferred 15.0% interest in Barclays Zimbabwe to 1912 ESOT.

## Equities Outlook for 2018

**Financial sector vulnerabilities to remain high**, on account of elevated country and bank specific risks. Given the tight liquidity conditions, foreign currency shortages and limited credit lines we believe that bank asset quality pressures will remain elevated hence the vulnerabilities in the banking sector will remain high. Generally most banks earned decent profits from discounting TBs (for most local banks), although the classification of these assets remain a big issue. Under IFRS 9, due to be introduced in 2018, banks should mark-to-market the TBs on their balance sheets as opposed to the current scenario of booking the nominal values. Given the discount rates on these assets (ranging from 10% to 30%, depending on maturity), by marking-to-market these assets, the equity base of most banks will be significantly depleted. To date most banks have controversially avoided marking-to-market these assets claiming these are being held to maturity even in cases where these assets have been traded on the market as a result of the liquidity crunch. In our view, banks benefited from the market volatility especially with regards to cash shortages as transactional volumes increased. Although the economic environment will remain challenging, banks are adept at managing risks and some banks will perform reasonably well. We expect that banking system NPLs will remain below 10.0% due to curtailed lending.

In our view, property companies are likely to struggle on account of increasing vacancy rates, declining yields, increasing arrears coupled with the lack of affordable mortgage financing. Nonetheless, those property companies that are diversified are better positioned to weather the storm, in our opinion.

Although tourism is likely to rebound, most of the listed companies with exposure to the sector have very weak financials. In our opinion, these are likely to continue to struggle although we are aware about the possible once-off gains from the elections. We note that for the listed space the best hotel proposition (in terms of profitability, location etc) is through **Meikles Limited,** although we concur that there are issues with the particular name.

Generally, in 2017 consumer stocks benefited from price adjustments, civil servants bonuses and the changed political sentiment. Nonetheless, it is difficult to gauge the sustainability of the gains especially in light of foreign currency shortages, inflationary pressures etc. For pure retailers, 2018 is likely to be tricky and unpredictable.

**Sentiment likely to drive market performance -** We expect the macroeconomic environment to remain challenging at least in the short-term. The possibility of an early election remains real which may probably result in a changed policy stance. Political campaign spending may provide support to consumption – it is likely that political tensions will be reduced (watered) in most areas. As the ZSE derives most of its earnings locally so the risk of a local economic slowdown remains high. Given the significant quantum of maturing TBs the money created will need to find a home and the stock market is a natural place for such funds as it is fairly liquid coupled with the ease of transacting using electronic means (formats). In addition, the inflation outlook, lack of confidence in the fixed income instrument and currency shortages will be key to determining market sentiment.

Given the muddy economic outlook we believe that volatility on the ZSE will likely stay high. Investors should note that the volatility in valuations normally creates buying opportunities and we recommend picking up the blue chips on weakness. Given the size of the market, patience is generally required to build a position. The market is characterised by high levels of local institutional investors who are relatively inactive compounding the liquidity problems.

### Top Picks for 2018

**Fewer stocks have an appealing risk/return profile**, even under the most optimistic assumptions on growth in revenues and margins. With market earnings multiple at a 119.0% premium to 9-year averages, market valuations are fairly pricey, in our view. In our view, the ZSE still carries good long-term growth potential given the economy's prospects of a recovery if the necessary reforms are undertaken. For our top picks, we are not sector specific and recommend investors adopt a bottom-up strategy. In our view, blue chip stocks will offer defensive qualities that can limit the downward risk of equity portfolios.

Our picks tend to be monopolistic, lowly geared, well managed businesses with strong cash generation abilities and solid balance sheets. These include companies such as **Afdis**, **BATZ**, **Delta**, **Econet**, **Hippo**, **Innscor**, **Old Mutual Plc**, **Padenga, PPC** and **Seed Co**.

In our view, those companies that produce Zimbabwe's scarcest resource (foreign exchange) and or have operations outside the country will remain in favour, especially **Old Mutual Plc**, **Padenga** and **PPC.** In our view, OMIR remains attractive for those who need to bring money in Zimbabwe through the normal banking channels – at a 50% premium (before charges). Although some listed mining companies **Bindura** and **RioZim** offer forex hedge, they have very weak balance sheets and are not for the faint hearted and the more adventurous investors may find Speculative value.

Some of the second tier stocks which offer speculative opportunities include **Axia**, **FBCH**, **Lafarge, Meikles, OK Zimbabwe, Nampak, Simbisa and TSL.**

In our opinion, investing in financial institutions is a risky undertaking, and careful selection of stocks is necessary, to identify institutions in which an attractive level of earnings is to be maintained. We rate banks at best as Spec Buys and our picks in this space include **Barclays**, **FBCH**, **NMBZH** and **ZBFH**.

# 2018 Stock Picks

**Buy Recommendations**

| | PER Hist. | PER +1 | PBV Hist. | PBV +1 | Market Cap 29.12.17 | IES Fair Value (USDm) | Updated recommendation |
|---|---|---|---|---|---|---|---|
| Afdis | 60.5 | 48.8 | 9.3 | 8.7 | 170.7 | 180.0 | Dominant market share in the spirits mass market which has high growth potential. Spirits business remains the major contributor to both volume and revenue at 65%. Main constraint is foreign currency which has resulted in product supply gaps. Strong cash generation and pristine balance sheet. |
| BATZ | 65.3 | 42.9 | 54.2 | 25.1 | 736.6 | 411.6 | Dominant market share. Strong cash generation. Generous dividend policy. Good RoaE and RoaA. In market where a defensive strategy is the buzz word among portfolio managers we believe there is a place for BATZ. |
| Delta | 27.9 | 24.9 | 4.1 | 3.8 | 1,989.5 | 2,000.0 | Pristine balance sheet, strong cashflows and solid brands. Virtually a monopoly. Due to the group's strong product portfolio spanning across almost all the beverage categories, consumers can trade down or up within its products. Due to reduced capex requirements and strong cash generation we expect the dividend payout to increase. |
| Econet | 25.7 | 13.4 | 3.2 | 3.1 | 2,461.1 | 2,604.2 | Dominant market share and significant growth potential in the sector. Head start over other players in terms of data penetration. We expect margins to recover due to cost containment and increased contribution of other new products. We expect that Econet will generate higher cash flows from operations over the next few years. |
| Hippo | 28.1 | 23.8 | 1.5 | 1.4 | 339.7 | 347.4 | High cash generative abilities, sound management. Technical support from Tongaat Hulett. The domestic market remains a key focus area. The company expects to continue benefiting from the current import restriction. Favourable weather conditions have resulted in substantial progress being made on improving irrigation efficiency. |
| Innscor | 17.5 | 15.5 | 2.9 | 2.7 | 541.6 | 622.2 | Defensive businesses with attractive medium to long-term prospects. Strong cash generation. Performance was on the back of good sales volume growth driven by reduced average selling prices, improved capacity utilisation and efficiencies as well as cost containment.The performance to be driven by increased sales volumes, reduced average selling prices, improved capacity utilisation and efficiencies as well as cost containment. |
| Old Mutual Plc | 23.9 | na | 2.5 | na | 292.5 | na | Local asset managers with limited exposure to foreing assets can take positions. The planned group seperation is likely to unlock value. |
| Padenga | 24.0 | 19.8 | 5.6 | 4.7 | 296.3 | 378.8 | Renowned for large premium quality skins production. Opportunities to extend into production of alligators and saltwater crocodiles. |
| PPC | 192.4 | na | 2.8 | na | 15.8 | na | Local asset managers with limited exposure to foreing assets can take positions. |
| Seed Co | 17.3 | 13.6 | 3.1 | 2.5 | 476.2 | 594.7 | Dominant market share (80%) of the local hybrid seed maize. Huge demand for seed in the region. We are confident on future performance and believe shareholders will be richly rewarded. Management anticipates demand for seed for the current season to lead to a stock out position, although this will be mitigated by inventory movements between subsidiaries. The proposal to partially unbundle and list the external operations of the group on a regional stock exchange to fund growth opportunities, is still under discussion. |

**Ones to watch**

| | PER | | PBV | | Market Cap | IES Fair Value | Updated recommendation |
|---|---|---|---|---|---|---|---|
| | Hist. | +1 | Hist. | +1 | 29.12.17 | (USDm) | |
| Axia | 13.2 | 10.3 | 2.8 | 2.3 | 97.5 | 131.7 | Well run company with good cash generating abilities. Issues include depressed consumer demand, liquidity constraints as well as delayed forex payments to foreign suppliers. |
| FBCH | 6.1 | 4.8 | 1.0 | 0.8 | 134.4 | 143.3 | A well run financial institution. A highly conservative and prudent management with vast experience in the local banking industry. |
| Lafarge | na | 22.1 | 2.8 | 2.5 | 110.4 | 127.5 | Demand for cement remains strong from the individual housing market. Improving efficiencies to result in improved margins. |
| Meikles | na | 14.1 | 0.7 | 0.7 | 70.3 | 121.0 | A crude sum of parts valuation indicates to a valuation aberration. The market currently values OK Zimbabwe (almost similar size to TM Supermarkets) at USD 186.3m. Assuming the market values stocks fairly, Meikles's 51.0% stake in TM Supermarkets translates to a value of approximately USD 95.0m way below the group's current market capitalisation of USD 70.3m. |
| OK Zimbabwe | 22.3 | 18.8 | 2.9 | 2.6 | 232.2 | 255.6 | Lack of disposable income is expected to keep retail sales suppressed in the medium term, in our view. |
| Natfoods | 29.2 | 34.5 | 4.7 | 4.4 | 444.6 | 378.1 | The group is on a solid footing to generate sustainable earnings going forward despite the challenges with foreign currency and subdued demand due to low disposable incomes. We expect overall volumes for FY 18 to at least match FY 17 levels as we anticipate marginal volume recovery in the maize milling division on account of the improved operating model. Margins are likely to be maintained owing to the on-going cost rationalisation initiatives. |
| Nampak | 27.8 | 19.4 | 2.0 | 1.8 | 136.0 | 157.3 | Cost containment and tight control over working capital. Limited foreign exchange availability negatively impacts raw material procurement. |
| Proplastics | 19.7 | 14.3 | 2.0 | 1.7 | 18.6 | 17.6 | Expect encouraging performance due to housing development projects, rehabilitation of old piping infrastructure and orders from the mining sector. The group's raw materials are listed under Priority 1 on the Import schedule and the company will therefore face minimal difficulties in the procurement of raw materials. Proplastics also benefits from the restriction of plastic pipe imports. |
| Simbisa | 34.4 | 26.2 | 9.0 | 7.1 | 262.1 | 246.5 | Remains a strong choice for long-term investors due to its solid brands and strong cash generation. Trading under cautionary regarding a possible secondary listing on the London Stock Exchange Alternative market as well as an acquisition of an international complimentary business. |
| TSL | 42.7 | 26.3 | 1.8 | 1.7 | 131.6 | 125.7 | Tightly held (free float is less than 20%), limiting downside risk. |
| Zimre | 30.7 | 18.0 | 0.9 | 0.8 | 39.6 | 33.6 | The operating units seem to have turned the corner although the group's balance sheet needs attention. Expect improved profitability due to cost control and a better treasury management. |

Sell /Take Profit Recommendations

| | PER Hist | PER +1 | PBV Hist | PBV +1 | Market Cap 29.12.17 | IES Fair Value (USDm) | Updated recommendation |
|---|---|---|---|---|---|---|---|
| CFI | na | na | na | na | 74.6 | na | Untenable debt levels. Undercapitalised operation. Aggressively revalued land. |
| Dairibord | na | | 1.1 | | 48.0 | na | Weak financial position will adversely affect group future prospects. Needs funding. |
| GetBucks | 11.1 | 8.1 | 3.0 | 2.5 | 40.5 | 30.0 | We note that competition in the microfinance space is intensifying and the pressure on consumers continues to increase as the economic environment deteriorates. Ratings are demanding relative to banking sector. Some of the listed financial services companies offer exposure to microfinance at relatively undemanding ratings. |
| GB Holdings | na | na | na | 0.8 | 4.3 | na | Poorly capitalised and the company is hungry for technical and financial support to take full advantage of SI 64 that requires mining houses to procure locally. |
| Hwange | na | na | na | 1.3 | 6.4 | na | Horrible cash flows on poor operating perfromance - recording gross loss. Balance sheet is in dire straits. |
| RTG | na | 46.8 | 1.6 | 1.4 | 18.7 | 17.8 | In spite of the reported turnaround we remain wary of the huge debt levels despite the approved capital raise. The fight between the two major shareholders NSSA and Hamilton Group is likely to continue and possibly escalate. |
| Turnall | na | na | 4.8 | 5.3 | 15.9 | na | Balance sheet in dire straits. Poor cashflows. |
| Zeco | na | na | na | na | na | na | Undercapitalised businesses. Company unlikely to see growth with troughs outweighing peaks. Aggressively revalued assets, otherwise would be sitting on negative equity. |

## NOTES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