EFE Securities Research

Zimbabwe
2016 Stock Market Review
&
2017 Outlook

1/23/2017

Executive Summary

Zimbabwe's economy has gone through some challenging times in recent years as the country struggles to secure reasonable funding for its capital needs along with operating expenditure. Limited foreign direct investment, largely blamed on an unpalatable investment climate, coupled with a highly consumption skewed spend leading to persistent negative balance of payments has lurched the country into a foreign currency crises desite the economy using a multicurrency system. Delays in processing remittances along with capped withdrawals as banks fail to access hard currency were some of the symptoms exhibited in recent months. Authorities responded by introduced a surrogate currency in the form of bond notes, though these are highly untrusted as parties fear the return of the much maligned local currency.

After a fairly stable 2016 on the socio political scene, temperatures are set to rise in 2017 as focus shifts to pending elections next year. The economy looks increasingly set to continue lurching from one challenge to another as politicking gains the ascendency. Headwinds in the financial markets following the introduction of bond notes have led us to conclude that the investors look set to keep equities as one of the main options for value preservation.

In the face of the difficulties in the economy, we have made a selection of stocks that we believe will be able to ride out storms and present investors with some good returns in the ensuing year. 2016 turned out surprisingly well for the ZSE, with the benchnmark index rising 25.84% year on year, owing largely to a fourth quarter rally that saw investor unwind cash and near cash investments and moving into equites as they sought to hedge themselves against potential currency risks. There has not been any change to this perspective on currencies and we believe equities will remain a formidable investment option for value preservation. From a wide selection of picks for the year, in this piece we have extended coverage to five of them namely ART, AFDIS, Barclays, Delta and OKZIM.

Demoographics

Population	14,546,961
Unemployment	8.7%

Economic Stats

GDP (PPP)	$28.33 billion (2016 est.)
GDP - per capita (PPP)	$2,000 (2016 est.)
Public Debt	45.4% of GDP (2016 est.)
Current Account Balance	-$1.069 bn (2016 est.)
Debt - External	$10.9 bn (31 Dec 2016 est.)
Total Revenue	3,520.7
Tax Revenue	3,264.6

	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
	Actual	**Actual**	**Actual**	**Actual**	**Est.**	**Rev Proj**	**Proj**
Agriculture, Hunting and Fishing (%)	1.40	7.80	-2.60	23.00	-4.70	-3.70	12.00
Mining and quarrying (%)	24.40	8.00	11.70	-3.40	0.40	6.90	0.90
Manufacturing (%)	13.80	5.30	-0.60	-5.10	0.20	0.30	0.10
Electricity and water (%)	6.40	0.30	5.00	5.40	-5.50	-19.00	2.50
Construction (%)	65.10	23.50	3.90	6.90	4.00	3.50	-2.00
Finance and insurance (%)	8.30	28.00	11.30	7.70	4.60	2.00	-1.00
Real estate (%)	48.90	59.00	0.70	4.70	3.50	2.00	0.00
Distribution, Hotels and restaurants (%)	4.30	4.30	3.90	2.50	3.70	1.70	0.80
Transport and communication (%)	0.00	6.70	7.00	1.10	1.90	1.50	-1.10
Public administration (%)	19.60	19.10	3.40	6.30	1.20	-5.00	-0.60
Education (%)	63.90	38.10	2.90	3.90	4.20	2.60	0.80
Health (%)	7.70	7.70	0.50	1.80	-0.70	0.40	0.10
Domestic services (%)	1.00	-3.50	6.00	2.20	2.00	1.00	1.50
Other services (%)	11.30	-10.70	-4.70	-3.30	3.00	3.00	3.00
GDP at market prices (%)	**11.90**	**10.60**	**4.50**	**3.80**	**1.10**	**0.60**	**1.70**

Source: MOFED 2017 Budget

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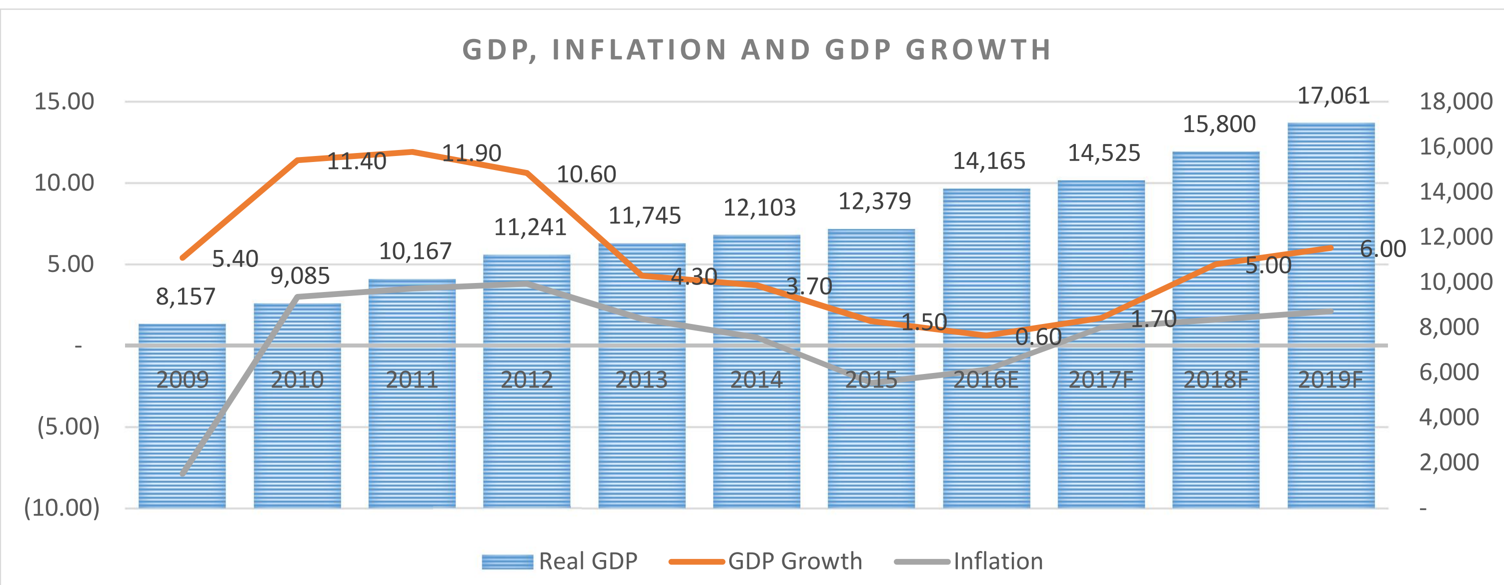
Socio-Political Developments

The year 2016 saw little changes in the political setup in Zimbabwe as the main protagonists remain largely the same with the exception of the emergence of a third political force constituted mainly of the remnants who were eschewed from the ruling party during the 2014 purge. The new force, while drawing decent crowds to their rallies is yet to face a real test of their mettle in an actual plebiscite. With 2018, the election year, creeping up on the horizon jockeying for key positions within the dominant parties have been the order of the day with the ruling party wars dominating tabloid reports. The opposition on the other hand was engrossed with growing demand for a coalition so as to present a united front against the ruling party in the 2018 election, though this has been proving difficult owing to differences amongst their rank and file. As parties hit the campaign trail we foresee business sense being thrown out the window as populist decisions take root in a bid to lure votes.

Economic Review

The Zimbabwean economy went through another challenging phase in 2016 as the foreign currency shortages re-emerged causing delays in international remittances. The Multi currency that had been celebrated for bringing stability and consistency faced its gravest criticism as industry lamented the dominance of the US dollar in the currencies basket having seen regional currencies weaken against greenback. Local manufacturers continued to struggle for competitiveness as inefficient plant and machinery coupled with high costs of inputs, mostly denominated in USD priced out most of the local produce. Further industry is yet to fully recover from the declines experienced in the period leading to the introduction of the multicurrency systems owing to the low capital inflows amidst an unfriendly investment climate. The country's regulatory framework for investments headlined by the indigenization and economic empowerment laws continued to be cited as the main hindrance to capital flow, more so with discourse from the relevant line ministries on implementation, though a presidential intervention over the course of the year toned down ministry differences.



Source: MOFED/EFE Estimates

The weakness commodity prices experienced in 2015 did not recover well enough in the year under review to help most of the African economies that had been dependent on exports of extracted minerals. The Zimbabwean government has had to make do with a constrained fiscal space in recent years while, declining industry activity has further dampened revenues trickling to the fiscus. Declining revenues on the back of a dwindling revenue base made for more pressures on the fiscus. Industry continued to struggle to find its footing with imports gaining a stranglehold on the local markets thus further creating pressures on the current account. Slow economic growth for 2016 expected to come in at 0.6% against an initial projection of 1.7% undermined overall performance of the public finances, as seen in the cumulative revenues from January to October 2016, falling 1.5% lower than the previous year levels, and 9.8% lower than budgeted estimates. In contrast expenditure continued to come well ahead of budget over this same period aggravating the inconsistency of the revenue collections against expenditure. Tellingly though, the dominance of recurrent expenditure as opposed to capital allocations in national budgets were symptomatic of the consumptive nature of the economy against an expectation of the focus to be on investing in growing revenue generation capacity. There is very little change to expect in 2017 as the budget for the ensuing year is also skewed towards recurrent expenditure at 84.8% leaving a mere 15.2% allocated to capital expenditure. Employment costs for the government remain too high when taken against the revenue generating ability.

The current account continued to be under pressure as imports continued to dominate, in 2016 the country's trade balance is expected to be in a negative $1.2bn. Pressures from the persistent negative balance of payments came to the head when the country began to face challenges in remitting international payments after a significant depletion of the nostro account balances. This was followed by the shortage of hard currency in banks leading to rationing of withdrawals with banks applying different limits according to their access to hard currency. As a consequence a parallel market for hard currency emerged with unofficial claims of bank balances being discounted at as high as 18% for cash.

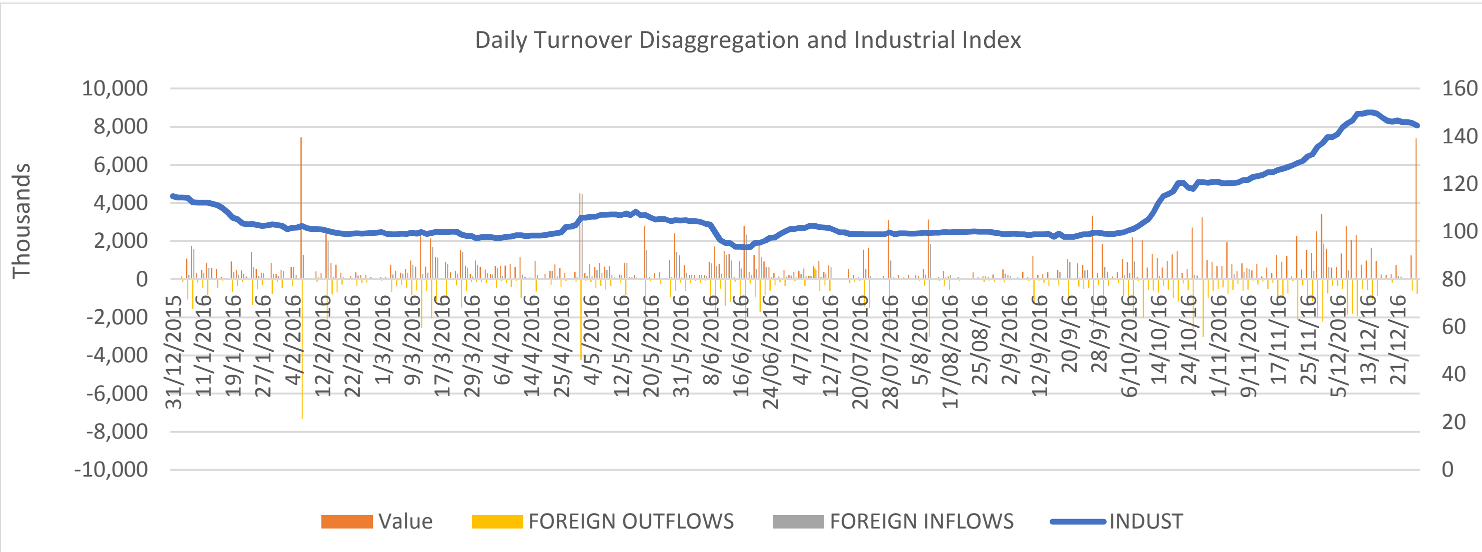
ZSE Review

A rallying final quarter carried the day for the ZSE rescuing the market from going for a fourth consecutive annual loss while, eliminating a host of unprecedented records that had continued to stalk the market. Two counters Pelhams and Radar fell by the ways side over the year losing their listings on the ZSE as the market registered some of its worst records since 2009 when it dollarized. The fourth quarter rally rode on resurgent local demand as the government forged ahead with plans to introduce a surrogate currency. As a consequence the markets saw a significant shift of funds from money market investments to equities that were perceived as better hedged investments against the potential currency risk.

	2015	***2016***	***Change***	***%Change***
Industrial	114.85	144.53	29.6800	25.84
Mining	23.70	58.51	34.8100	146.88

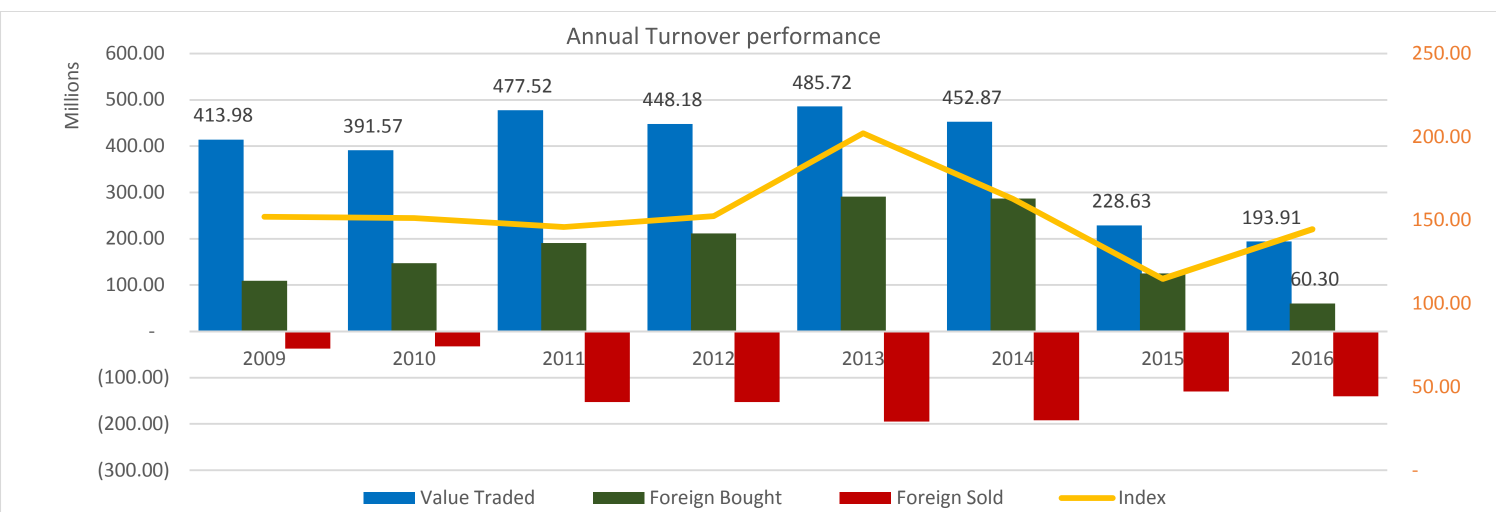
Source: ZSE/EFE Estimates

The benchmark Industrial Index opened the year at 114.85pts and went on a slide in the first three quarters of the year as a sustained foreign sell off weighed on the market amidst lack of interest from local players. Over the year the industrials touched a low of 93.39pts in mid-June as sentiment towards equities hit rock bottom, which interest was to be jolted when government came up with proposals to introduce a surrogate currency amidst a crippling cash crises that was underlined by long winding queues at banks as withdrawal limits tightened. For the market in particular, delays in movement of international payments, and remittances further heightened the foreign selloff while the little foreign demand that was coming into the market began to hold back as investor skepticism on the ability to eventually retrieve investments grew.



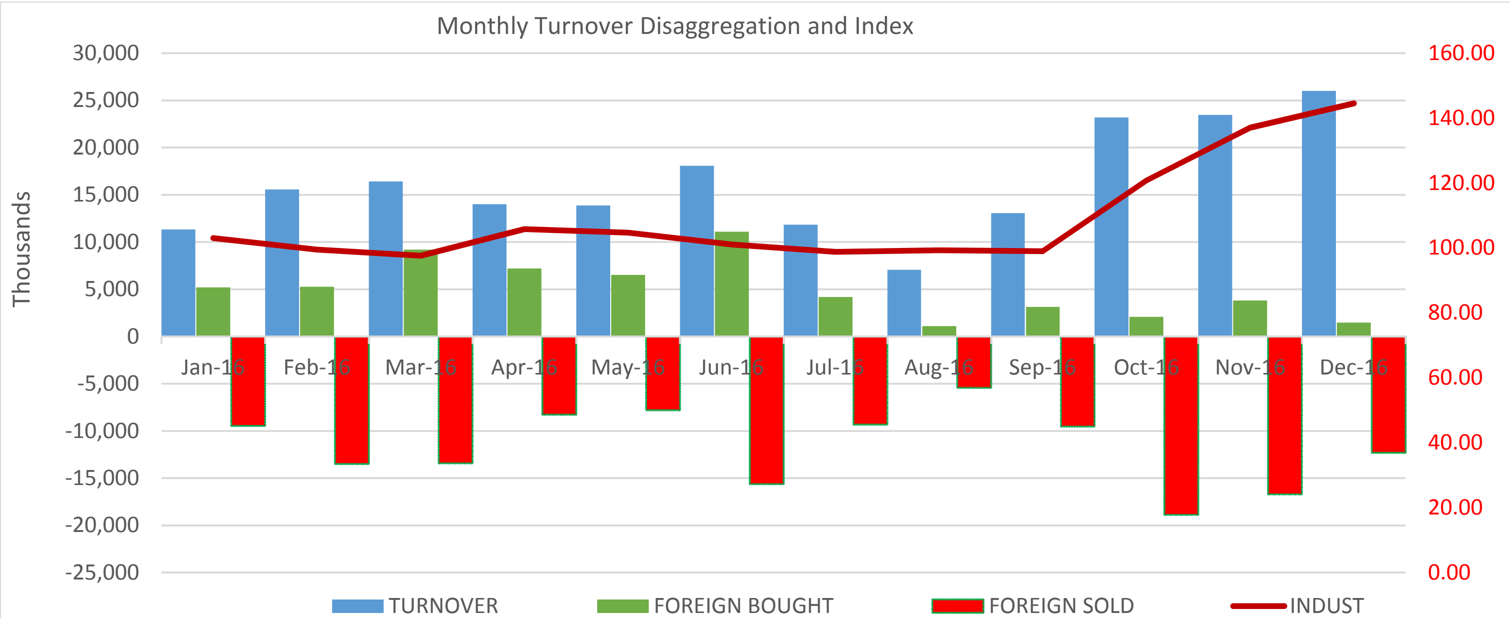
Source: ZSE/EFE Estimates

With prices having taken a dip amidst the foreign selloff, the announcement of the introduction of bond notes spooked the erstwhile dormant local investors as memories of pre dollarization crises years quickly filtered back. The voracious appetite for spawned by the announcement quickly wiped out the supply overhang in the market in September as the industrials closed Q3 at 98.96pts to set off 46% final quarter rally that not only wiped out earlier losses but spurred the ZSE Industrial Index to a 25.84% return in 2016 after closing at 144.53pts. The mining index on the other hand had succumbed to some poor performance in 2015 as it opened 2016 at 23.70pts, but went on an unprecedented 146.88% surge over the year and ended pegged at 58.51pts.



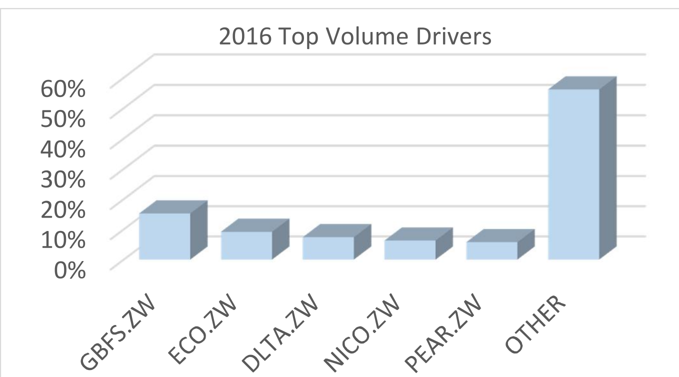
Source: ZSE/EFE Estimates

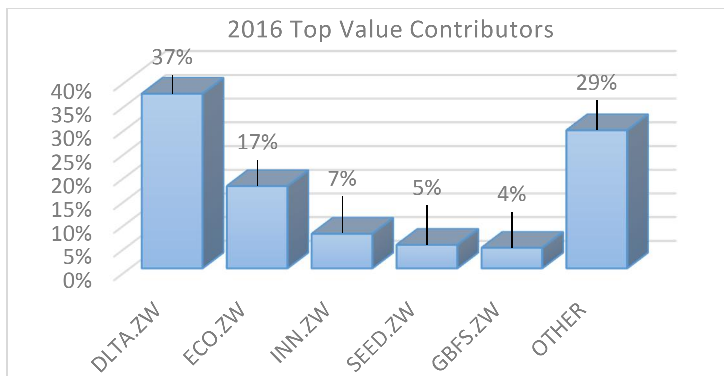
Interest in the ZSE was at its lowest in 2016 when taken in terms of the activity aggregates as the market liquidity fell to its lowest. The total value of trades for the year fell 15% to an eight year low of $193.91m with foreign buying which had previously anchored liquidity contributing at least 55% of turnover had its contributions coming down to just 31% of the aggregate spend for the year.



Source: ZSE/EFE Estimates

As already alluded to, the market suffered from a foreign sell off throughout the year and incidentally this worsened in the second half of the year when foreign buying barely touched a fifth of monthly turnover aggregates. Resurgent local demand however helped prop up trading activity as all the months to September failed to breach the $20m monthly turnover outcome.





Source: ZSE/EFE Estimates

The market's momentum stocks Delta, Econet, Innscor and SeedCo proved their mettle as they emerged as the most liquid stocks on the bourse accounting for 66% of the annual market spend. Delta and Econet are the standout performers for the year with respective contributions of 37% and 7% as investors continue to cherry pick in the heavies. The surprise inclusion in the top traded cluster was the market's newest listing Get Bucks claiming 4% of the aggregate market spend with a block trade in the final session of the year propping up its contribution.

RISERS

Symbol	Previous	Current	Change	%Change
GBH.ZW	0.0001	0.0008	0.0007	700.00
ARTD.ZW	0.0100	0.0610	0.0510	510.00
RIOZ.ZW	0.1040	0.3000	0.1960	188.46
BIND.ZW	0.0153	0.0400	0.0247	161.44
COLC.ZW	0.1700	0.3700	0.2000	117.65
PHL.ZW	0.0773	0.1600	0.0827	106.99
PROL.ZW	0.0210	0.0420	0.0210	100.00
SACL.ZW	0.0060	0.0119	0.0059	98.33
CFI.ZW	0.0500	0.0974	0.0474	94.80
FML.ZW	0.0230	0.0420	0.0190	82.61

FALLERS

Symbol	Previous	Current	Change	%Change
MMDZ.ZW	0.0004	0.0002	0.0002	50.00
CAFCA.ZW	0.4000	0.2005	0.1995	49.88
PPC.ZW	1.0000	0.5500	0.4500	45.00
NTS.ZW	0.0170	0.0110	0.0060	35.29
RADR.ZW	0.0248	0.0161	0.0087	35.08
ARIS.ZW	0.0052	0.0035	0.0017	32.69
ASUN.ZW	0.0170	0.0120	0.0050	29.41
BARC.ZW	0.0425	0.0320	0.0105	24.71
EDGR.ZW	0.0610	0.0480	0.0130	21.31
DAWN.ZW	0.0200	0.0160	0.0040	20.00

2016 Bulls

A positive breadth for the year underlined the bullish sentiment that prevailed on the market in the final quarter. Overall, 38 counters closed in the black for the year against 16 stocks that were in the red. Engineering group GBH was the surprise top performer for the year ballooning 700% albeit from a low base and closed at $0.0008. The successful turnaround of operations at stationery group ART saw them post the first profitable financials from them since dollarization. Riding on the solid results ART went up 510% and closed the year at $0.0610. The minings duo of RioZim and Bindura gained 188.46% and 161.44% and were the main reason for the resources index's rally. Other top annual gains were seen in Colcom up 117.65% at $0.3700 and Padenga firming 107% to $0.16%. Pro-plastics doubled its value over the year and closed at $0.0420.

2016 bears

Despite the bullish sentiment of the last quarter, sixteen stocks closed softer with Medtech leading the fallers on 50% slide to $0.0002 as cable manufacturers Cafca followed on a 49.88% drop to $0.2005. A rights issue to cover debt obligations for PPC saw them slip 45% to $0.5500 while, tyre manufacturers NTS shed 35.29% and settled at $0.0110. The highly illiquid stock Radar fell 35.08% and settled at $0.0161 as agricultural based group Ariston came off 35.08% and closed the year trading at $0.0035. Struggling tourism group African Sun shed 29.41% for the year and ended at $0.0120 while, banking group Barclays declined 24.71% after parent Barclays plc announced plans to divest from their investments in Africa including Zimbabwe.

The Equities Outlook.

2016 was a turbulent year for the ZSE equities despite the bullish sentiment of the final quarter that helped carry the market into the black. Economic uncertainties and policy inconsistencies on the part of the authorities dampened the foreign investor perspective on the market while, further aggravating the general sell off that was affecting emerging markets over the last year. With monetary developments in the economy becoming increasingly unpalatable, currency risk became a real risk to contend with for players on the market. Frailties in the economy continue to dampen the outlook for the market with little in terms of the policy framework being proffered to stem the time. With a pending plebiscite, though still a year and half away, political jockeying has already commenced and we expect it to reach fever pitch as the year wears on. Soon enough we anticipate policy makers to major on the minors with populist decisions set to take center stage in the quest for votes. The allure in Zimbabwe's equities has been that the market is denominated in the USD but recent experiences have already shown that a deposit in the local financial system is not the same as the hard currency equivalent.

With remittances facing longer delays to be processed it may be a safe assumption that the local transactions though denominated in USD, once funds are in the local financial system the time value of spot transactions is lost especially for foreign players who would have to wait for periods on end to receive their funds. The final quarter of 2016 has seen the ZSE equities recover quite modestly spurring the benchmark Industrial Index into the black. Our perspective is that the medium term outlook remains strewn with challenges for the economy with little being offered in terms of solutions on the horizon, key amongst them cash shortages and coupled with potentially worsening ability to meet international payments. While these major symptoms may ease in the near term, as major flows may be anticipated from the tobacco selling season coupled with easing of food imports as we approach harvests, we believe that the structural weaknesses in the economy will remain making the benefits of the above mentioned developments less effective. The drive towards value preservation will likely see investors continue to seek cover in equities thus helping the market to maintain resilience and some prices to improve. We believe that investors' interest will remain confined to the market's blue chip stocks due to their risk averse nature in the face of high uncertainties. These expectations are guided by two scenarios which we perceive to be the bear case and the bull case as below:

- **Bear Case:**

  This scenario assumes the maintenance of the current status quo in which uncertainties macroeconomic setting abounds leading to continued deterioration of the economy due to structural deficiencies. The skepticism surrounding developments in the monetary system particularly the mistrust of bond notes and the maintenance of value of deposits in the local financial system, is certain to keep investors chasing local equities as one of the remaining frontiers for value preservation against any potential currency adjustments. Consequently, the liquidity will remain high in chase of equities resulting in improved prices though their growth will likely remain in check given the Q4 2016 rally as considerations of the fundamental drivers of value in stocks will also come into focus. This checked growth means that moderate growth in the range of 5%-6% with the above scenario in our view carrying an 85% probability.

- **Bull Case**

This scenario is premised on the major assumption that the jitters in the local financial markets fade as the recent interventions by authorities, bond notes, bear the desired result. With the right perceptions on the surrogate currency and operational efficiencies in the economy, local business will again enjoy brisk business and financial performances and outlook expectations are improved thus changing the fundamental value drivers for equities in the positive direction. These should see equities remain a major attraction for local investors while, the foreign players who in the recent past have largely been fleeing the market return spurring further demand and in these circumstances the market might see another rally. Elections are coming up in 2018 and given the developments in the ruling party, if media reports are to be believed, changes may be on the horizon and this expectation may spur further investment attraction to Zimbabwe's equities, causing rally as seen in the pre-election period of the last plebiscite. Under this scenario we place a 15% growth on the ZSE with a 15% probability of this outcome.

In both scenarios we expect equities to remain alluring particularly for local investors and therefore our forecast for the year is that the market should be up by circa 6.5% in 2017 spurred by either the uncertainties in the currency markets or a major shift in the fundamentals and structural economic weaknesses spurring improvement in business.

As already alluded to, the market's blue chip stocks will continue to dominate our picks as investors will likely seek safety to avert the uncertainties and we pick amongst them Delta, BAT, Econet, National Foods, Innscor, SeedCo, Old Mutual, Padenga and PPC. There are some companies on the ZSE that have made major strides towards turning around their operations and adapting to the challenging environment and making them fundamentally sound despite the economy. In this report we have extended coverage to only five counters with the intention for further coverage over this quarter. A major factor in our valuations has been the premium on Old Mutual trading price on the ZSE relative to its price on the JSE and the LSE which has averaged 33% in recent months. This, we believe reflects the differences in the underlying currencies, making the USD balances in Zimbabwe significantly discounted to the hard currency dollar in currency markets. This factor we have applied to all our relative valuations to come up with what we believe would be the much fairer values for our picks.

Amalgamated Regional Trading (ART ZDR)

ZSE Ticker			**ARTD.ZW**
Bloomberg Ticker			**ARTD.ZH**
Reuters Ticker			**ARTD.ZI**
Price:			**6.50c**
52 Wk High:			**6.50c**
52 Wk Low:			**1.00c**
Issued Shares (mn):			**862**
Market Cap (mn) :			**$56.00**
Interims Highlights	**FY 2015**	**FY2016**	**Change**
	$000	**$000**	**%**
Revenue	**29,834**	**29,761**	**(0.24)**
Gross Profit	**10,356**	**11,107**	**7.25**
Operating Exp	**-9,013**	**-7,879**	**(12.58)**
Operating Profit	**1,445**	**3,440**	**138.06**
Finance costs	**-1,295**	**-1,171**	**(9.58)**
Profit before tax	**150**	**2,269**	**1,412.67**
Taxation	**-740**	**0**	**(99.95)**
PAT	**-590**	**2,269**	**(484.52)**

Results and Operations review – FY to Sept 2016

ART has been on a rationalization drive that was augmented by major shareholders who helped fund investment in retooling. The results of which has seen some significant efficiency improvement along with profitability in 2016.

- Revenue saw a marginal 0.24% growth for the year
- Gross profit went up 7.25% owing to reduced manufacturing costs after factory automation and purchasing efficiency
- Restructuring reduced operating expenses for the year by 13%
- Batteries division was the main contributor to revenues at 68%
- Reduced cost of production at Eversharp improved profitability by 124%, despite volumes remaining relatively flat
- Paper division still loss making, though volumes improved

Comment

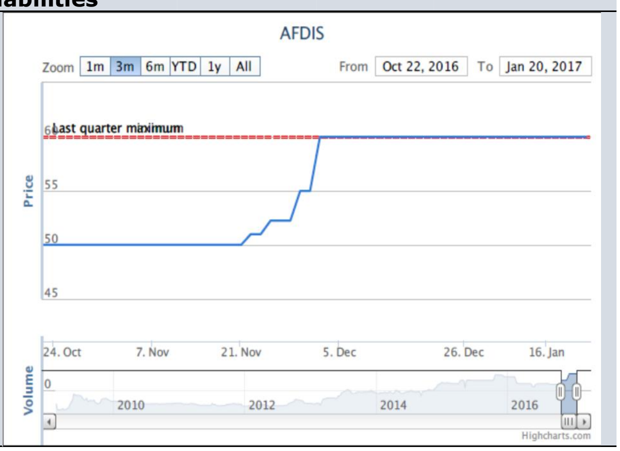
ART exemplifies that significant need for reinvestment in new plant and machinery in most Zimbabwean companies and kudos to the board and management team for getting the right equipment to return competitiveness to the company's products. Having commissioned a new battery plant the group is poised for growth with more revenue streams. With recapitalization mooted for the loss making paper division the future remains promising for ART. We believe that a 10% growth in revenue for 2017 is an attainable feat for the company and forecast $32.7m and an after tax profit of $4.0m (EPS 0.72). This would imply a forward PE of 9.01 which compares favorably with our adjusted expected multiple of 13.6x that gives us a target price of $0.0980 for ART. (**BUY**)

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	2017F
Revenue	25,133	30,102	34,069	30,217	28,681	29,834	29,761	32,737
Gross Profit	7,466	9,545	11,376	10,499	9,371	10,356	11,107	12,829
Operating Profit	(447)	664	2,631	2,215	915	1,445	3,440	5,162
PAT	(497)	(254)	474	7,392	(1,100)	(590)	2,269	3,990
Total assets	11,357	17,306	17,585	16,289	19,188	21,302	22,725	26,715
NAV	13,506	10,163	10,624	11,230	10,145	8,900	10,926	14,118
total liabilities	4,572	20,583	21,048	17,446	18,058	20,733	19,917	20,715

African distillers

ZSE Ticker	AFDS.zw
BLOOMBERG Ticker	AFDS.ZH
REUTERS Ticker	AFDS.ZI
Price:	60.00c
52 Wk High:	60.00c
52 Wk Low:	40.00c
Issued Shares:	115,306,024
Market Cap:	69,183,614

	30-Jun-16	30-Jun-15	Change
Revenue	25,065	22,041	-12%
Gross profit	12,737	11,017	-14%
Operating income	3,841	2,625	-32%
PBT'	4,026	1,795	-55%
PAT	3,112	1,119	-64%
Total assets	22,238	21,760	-2%
Equity	14,968	15,710	5%
Total liabilities	7,270	6,050	-17%



Results and Operations Review

AFDIS has been one of the consistent performers on the ZSE managing to remain profitable despite the challenging operating environment. FY 2016 financial performance saw declines in major lines weighed down by declining aggregate demand. The highlights for the year were:

- Revenue down 12% to $22.0m weighed down by reduced sales of high contributing spirits
- Volumes declined 5% on same period last year weighed down by spirits which went down 18%
- Gross profit fell 14% to $11.0m
- Operating income declined 32% to $2.6m
- Group incurred non-recurring reorganization costs amounting to $1.0
- PBT fell 55% to $1.8m and PAT shed 64% at $1.1m
- The group's Balance sheet stood at $21.8m with the net asset value of the company pegged at $15.7m.

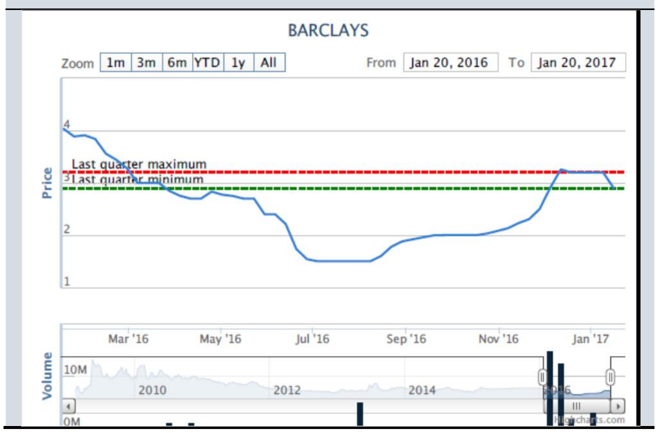
Comment

Afdis' performance in 2016 falls far short of the standards that the group set in recent history. It is a given that the falling consumer spend has taken its toll on companies and Afdis has seen its customers trade down the product range as they seek to maximize value for their money. This trend not only reduced the margins but also dampened revenue performance. We expect AFDIS to register minimal revenue growth in 2017, however profitability should be better in the absence of the non-recurring reorganization costs incurred in FY 2016 along with the benefits of the reorganization accruing. We forecast the group to attain Operating Income and PAT of $4.8m and $3.0m. Based on Afdis' peer group average earnings multiple of 21x along with a currency adjustment as reflected in the Old Mutual premium of 33%, we value Afdis at $95.8m which is a 38% premium on current price **(BUY).**

	FY 2013	FY 2014	FY 2015	FY 2016	2017 F	2018 F
Revenue	22,091	23,952	25,065	22,041	23,143	23,722
Gross profit	9,655	11,307	12,737	11,017	12,119	12,698
Operating income	1,661	2,997	3,841	2,625	4,827	5,406
PBT'	1,213	2,803	4,026	1,795	3,997	4,575
PAT	809	2,078	3,112	1,119	2,997	3,431
Total assets	13,930	19,501	22,238	21,760	24,758	28,189
Shareholders' equity	10,954	13,064	14,968	15,710	17,808	20,210
Total liabilities	7,977	6,437	7,270	6,050	6,353	6,671

Barclays bank of Zimbabwe Limited

ZSE Ticker			**BARC.ZW**
Bloomberg Ticker			**BARC.ZH**
Reuters Ticker			**BARC.ZI**
Price:			**2.90c**
52 Wk High:			**4.10c**
52 Wk Low:			**1.50c**
Issued Shares (mn):			2,153.32
Market Cap (mn):			62.45
	HY 2015	HY 2016	
Net Int income	7,780	8,720	12%
Non funded income	14,193	16,564	17%
Total income	21,717	24,896	15%
Operating profit	2,080	4,584	120%
PBT	2,199	4,584	108%
Profit After Tax	1299	3277	152%
Total Assets	311,735	350,916	13%
Total Equity	50,633	57,440	13%
Total Liabilities	261,102	293,476	12%



Results and Operations Review

Barclays' H1 performance in FY2016 was much improved compared to their previous outcomes as profitability went up. Highlights of the results were:

- Net Interest Income up 12% at $8.7m
- Non-Interest Income up 8% at $13.65m
- Total Income Up 15% at $25.28m
- Total operating expenses up 3% at $20.3m
- Profit before tax surged 108% to $4.58m
- Profit after tax ballooned 152% to $3.28m, basic EPS of $0.0015
- Balance sheet firmed 17% to $311m
- Deposits up 20% at $279m

Comment

Barclays has been always found itself on the spot with their conservative banking model over the years. Their performances always fell short of expectations as we felt they were not sweating their assets well enough. The H1 2016 numbers come in as a breadth of fresh air from the group as it rode on their stable structure. The numbers were just what the market needed especially after the confirmation of the decision by parent Barclays PLC to divest. We believe that the group can easily replicate the H1 performance to see them close with total income and after tax profit of $47.7m and $6.1m respectively. This places the group at a PE+1 of 10.26x, the group has traditionally traded at a premium to its local peers exhibiting earnings multiples in the twenties as investors placed a premium on its brand equity, going forward however with the mooted divestment of their parent, the premium will likely narrow. In the wake of the improving financials and quality earnings we place a **BUY** recommendation on the group.

	FY 2012	FY 2013	FY 2014	FY 2015	2016 F	2017 F	2018 F
Net interest income	7,642	12,316	14,130	16,627	17,567	18,445	19,368
Non funded income	29,735	27,192	29,106	29,563	31,934	33,531	35,207
Total income	36,845	38,796	45,352	44,512	47,691	51,976	54,575
Operating profit	2,801	4,905	7,850	5,991	9,473	10,324	10,840
PBT	3,053	5,184	8,133	5,765	9,042	9,854	10,347
Profit for the year	2,124	2,952	6,588	3,880	6,085	6,632	6,964
Total Assets	281,527	307,806	292,848	299,311	305,396	312,028	318,992
Total Equity	40,529	44,341	49,285	54,200	59,372	65,009	70,928
Total Liabilities	240,998	263,465	243,564	245,112	246,025	247,020	248,064

Delta Corporation Limited

ZSE Ticker			DLTA.zw
Bloomberg Ticker			DLTA.ZH
Reuters Ticker			DLTA.ZI
Price:			91.50c
52 Wk High:			94.00c
52 Wk Low:			50.50c
Issued Shares (mn):			1,244.31
Market Cap ($mn) :			1,138.55

	30-Sep-15	30-Sep-16	Change
	$0	$0	%
Revenue	269,021	246,639	(8.32)
EBITDA	43,467	39,499	(9.13)
Operating Profit	43,467	39,499	(9.13)
Finance Income	5,599	5,065	(9.54)
Finance costs	-2,911	-3,255	11.82
Profit before tax	47,618	41,610	(12.62)
Taxation	-11,885	-10,626	(10.59)
PAT	35,733	30,984	(13.29)

Results and Operations Review

Delta showed no sign of bucking the declining trend as its results in H1 2016 saw all major performance lines trend southwards. Interim revenues down 8%, EBITDA down 9% while, profit after tax came off 10.59%. The decline in performance was accompanied with declining volumes and margins as consumers traded down the product ranges in search of more value for money. A similar trend ensued in the third quarter as revenue and volume outturn for the quarter was subdued on account of depressed aggregate demand and product shortages due to production bottlenecks. For the quarter volumes were down for all lies while, revenue was reported down 10% and 9% for the quarter and the nine months' period respectively.

Comment,

Delta has been hardest hit by the economic malaise in Zimbabwe seeing its performance aggregates continually trend southwards in recent years. Falling aggregate demand coupled with the narrowing consumer spend weighed on the group's performance. With the third quarter trading update reflecting sustained declines the group is set to see another decline. This performance falls short of the previous year's outcome, the allure for Delta vests in their fairly solid structure and their continued investment in new production lines. The possible divestment from the sparkling beverages business offers the potential for a hefty payout to shareholders while, also leaving them with a more focused beer company reducing the dilution of earnings. Despite the falling volumes and financial performance we believe Delta remains the top pick in value preservation while, the currencies premium as reflected in the Old Mutual arbitrage premium gives the stock even a potential for some capital gains.

	Actual	Actual	Actual	Forecast	Forecast
	31-Mar-14	31-Mar-15	31-Mar-16	31-Mar-17	31-Mar-18
Revenue	602,224	576,552	538,198	489,760	495,882
Operating Income	129,805	111,136	96,072	78,435	79,415
Profit before tax	136,295	121,763	105,911	84,173	85,226
Profit for the period	104,073	91,954	80,089	67,339	68,180
TOTAL ASSETS	619,886	663,668	696,238	720,480	729,486
Share holder's equity	414,379	456,645	487,899	511,468	517,861

OK Zimbabwe Limited

ZSE Ticker			OKZ.zw
BLOOMBERG Ticker			OKZ.ZH
REUTERS Ticker			OKZ.ZI
Price:			7.08c
52 Wk High:			7.48c
52 Wk Low:			3.00c
Issued Shares (mn):			1238
Market Cap (mn):			88

	Interim Sep-16	**Interim Sep-15**	**Change**
Revenue	218,596	213,640	2%
Gross Profit	37,165	37,522	-1%
Operating Profit	3,211	1,452	121%
PBT	3,133	1,310	139%
PAT	2,287	1,222	87%

Results and Operations Review

Retail group OK Zimbabwe enjoyed a recovery in performance in the first half of the financial year to March 2017 as margins improved significantly resulting in improved profitability. The financial performance highlights were:

- Revenue was up 2% to $213.6m
- Gross profit down 1% a $37.m
- Operating profit went up 121% and closed at $3.2m
- Profit before tax surged 139% to $3.1m and
- Profit after tax was up 87% at $2.3m.

The group continued with a drive for capital expenditure, on refurbishment and shops as they seek to maintain the attraction and customer experience and shops competitiveness. Gross margins improved due to efficient procurement, while operating costs were managed down for improved profitability. Two new stores were opened during the period under the OKMART line. Refurbishment plans are on for more outlets going forward as the group plans to sustain profitability

Comment

OKZIM has been underperforming in recent amidst growing competition. Their first half performance for the ensuing year places shows that the group seems to have found a way to manage operating expenses and improve margins in the current environment based on the H1 performance trajectory we project the group to achieve revenues of $442.5m and after tax profits of $5.6m. Based on our combined earnings multiples and EV/EBITDA multiples both adjusted for the Old Mutual arbitrage premium, we value the group at $130m presenting a 48% upside potential on its current price. **(BUY).**

	FY2013	**FY2014**	**FY2015**	**FY2016**	**2017 F**	**2018 F**
Revenue	479,636	483,660	462,707	437,513	442,469	465,832
Gross Profit	89,302	76,793	86,498	71,591	71,234	70,166
Operating Profit	17,670	13,545	10,884	1,568	7,217	10,663
PBT	16,903	13,314	10,613	1,234	6,947	10,265
PAT	12,382	9,585	7,531	672	5,558	8,212
Total Assets	117,393	117,041	128,376	125,282	131,951	139,342
Shareholders equity	6,417	66,903	71,366	72,662	78,220	86,431
Liabilities	110,976	50,138	57,010	52,620	53,732	52,911

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