EFE SECURITIES
Members of the Zimbabwe Stock Exchange

EFE Research 2017 ZSE Review

Release date: 08 January 2018

Zimbabwe 2017 Equities Review and Outlook

Executive Summary

Structural deficiencies that stalked the Zimbabwean economy remained prevalent in 2017 evidenced by the growing challenge of delayed foreign remittances, a resurgent currency black market amidst general lack of confidence in the banking setting as bank balances ballooned. Consequently, rising prices especially for imported goods set off a spiral in rates in the currency black market and the stock market as investors sought to hedge themselves against these emerging challenges. The economy continued to lurch from one challenge to another as politicking became the order of the day, as government appeared lost for solutions while, power games dominated most discussion forums ahead of the 2018 election year.

Developments came to a head in November, after a military intervention code named 'Operation Restore Legacy' purpotedly targeting criminals around President R. G. Mugabe culminated in a swift power transfer to the seemingly military backed faction of the rulling party and in the process completely decimated their percieved foes in the rulling party. Most of the deposed foes now face a litany of charges for various corrupt activities following the emergence of a new political order.

Headwinds in the financial markets following the introduction of bond notes saw investors pursuing equities as one of the main options for value preservation. Surging demand amidst growing liquidity on balooning bank balances gave the ZSE impetus in 2017 driving the benchmarks to record highs as cash balance holders flocked to the bourse en-masse in the face of the difficulties in the economy. Despite the slight correction in the final two months of the year, 2017 turned out to be a record year for the ZSE, with the benchnmark index rising 130% year on year, owing to the 10 months rally to November as investors unwound cash and near cash investments, moving into equites as they sought to hedge themselves against potential currency risks.

Despite the changes in the political dispensation that has ushered a positive economic perspective, though too early to judge, we see a stormy short term outlook with perspectives on currencies remaining relatively unchanged and we believe equities will remain a formidable investment option for value preservation. We have made a selection of counters which we believe offer some opportunities for growth in 2018 riding on various factors including the government support for the various sectors, company specific issues like pending corporate transactions while, the dually listed counters remain top picks for their ability to self correct in relation to the their prices in international markets to reflect currency disparities.

Demographics

Population	14,546,961

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

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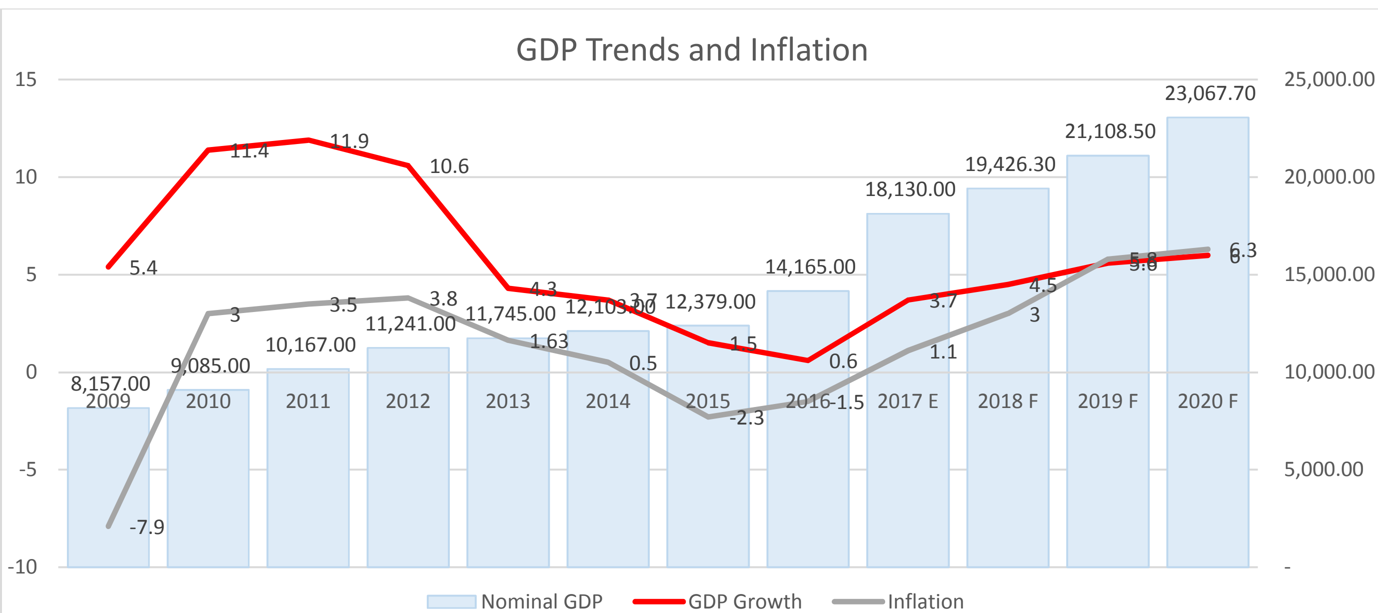
Socio-Political Developments

What started as a slow year on the socio political setting with more activity anticipated in the coming year of election, proved to be one of the most eventful years in Zimbabwe's history as the air of change swept through the political fabric of the country. The military apparatus, long accused by the opposition of doubling in politics and siding with the ruling party finally came to the forefront of politics seizing control of government operations and holding captive the country's long serving ruler Robert Mugabe for over a week in an operation code named "Restore Legacy". The operation, which was claimed to be targeting criminals around President Robert Mugabe, proved to have been a culmination of the internal party fights in Zanu PF as one faction ascended to the echelons power both in party and government clearly with the blessings of the military. The operation will however go down in history as one of the swiftest and efficiently executed power transfer process as within a couple of months a new government had been set up with a blend of civilian and military personnel in cabinet, though what cannot be ignored is the now undoubted army influence on the political fabric of the country. Many of the foes of the new powers went into exile at the height of the operation and are yet to return while, only a handful were arrested by the military before being handed back to the police to face legal prosecution though it is yet to be seen whether the state will have prima facie cases against them.

With a pending election in 2018 it is unfathomable that the military personnel now part of government will only be in power for a mere eight months putting serious doubts on the chances of an acceptable free and fair election, more so with pronouncements from some in the ruling party that the army will play a part in their campaigns for 2018. Post the developments in 2017, though ushering a younger much needed leader, this has clearly galvanised the ruling party going forward while, the opposition continues to debate and struggle with propositions of coalitions with the aim of taking on the ruling party under a united banner.

Economic Review

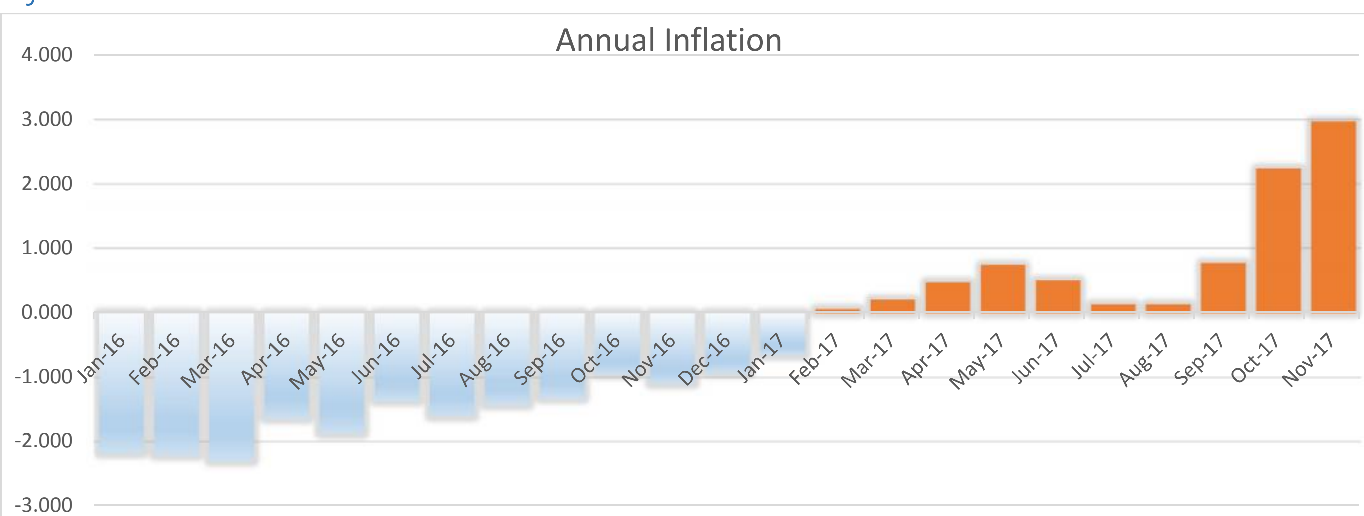


Source: MOFED/EFE Estimates

Structural weaknesses continued to stalk the Zimbabwean economy with authorities seemingly lost on options to tame the mounting challenges. Symptomatic of the problems were delayed remittances from the country and failure to meet international payments as the government moved to ration to limited foreign currency reserves so as to ensure consistent supplies of basic imported necessities. Efforts to quell the cash crisis through bond notes have seemingly failed to quench the demand for cash as the surrogate currency has also been running out with winding queues at banking halls becoming the order of the day. Economic growth for 2017 which was initially forecast at 1.7% has since been reviewed to an estimated 3.7% in the latest fiscal policy statement owing to a much improved agricultural season, thanks to the heavens for opening up the floodgates which worked well for the government's command agriculture program. Riding on the favourable outcomes of 2017 the economy is now forecast to grow by 4.5% in 2018. Nominal GDP for 2017 now expected to come in at $18.13bn is postulated to grow to $19.43bn in 2018 spurred mostly by agriculture along with electricity and water cluster that are forecast to grow 10.7% and 28.5% respectively. With a new political dispensation though less than two months into its reign there is an heir of optimism that positive policies will be in the offing to tame the haemorrhaging economy. Key policy statements in the new dispensation have fomented the optimism with the right pronouncements on key areas of recurrent expenditure management pointing to a paradigm shift to what the authorities are terming a New Economic Order. It is however one thing to make a policy statement and to implement it, the new government faces a daunting task of applying economic sense in an election year where populist actions tend to lead with economic sense generally thrown to the wind as cheap politicking takes root.

The Zimbabwean economy has to contend with mounting inflationary pressures mostly arising from the currency disparities which have created a thriving currency black market for hard currency and multiple pricings depending on the method of payment. The need to disincentive the thriving black market for currency thus emerges as a key area of focus for the new government though the only sustainable option available to the authorities remains the promotion of export focused industries to grow foreign currency inflows along with luring the much needed foreign direct investments into the country. Despite the difficulties in the economy, increasing use of plastic money helped prop up formal business which had suffered from the growing informal sector of the economy which was mostly dependent on cash transactions. The reporting season bore testimony of the impact of plastic money on performance, as companies reported better than expected financials with improved revenues in most cases.

Inflation



Source: MOFED/EFE Estimates

The cash crises has been the major symptom of the structural fragilities in the economy, however in 2017 the emerging inflationary created an additional area of concern for the authorities. As the period of deflation ebbed off in late 2016, the inflation menace started rearing its head on 2017 initially being kept in check inside 1% only to shoot up in the fourth quarter with the expected outturn for 2017 pegged at 3% though events in the final weeks of December 2017 suggest that a higher figure on the measure could result. Earlier in June 2017, the second issue of the World Bank Zimbabwe Economic Update (WBZEU) inflation (calculated with a private consumption deflator) was estimated to end 2017 at 3.2%, up from -1.6% in 2016, and balloon in 2018 to 9.6%.

A more bearish forecast for Zimbabwe was from The International Monetary Fund which was predicting inflation to end 2017 at 5%. With the lack of clear policy measures to tame the fiscal imbalances creating structural weaknesses in the economy, achieving a sustainable inflation measure in Zimbabwe remains uncertain. The new government under the new political dispensation has however made the right noises at least for now though they have to contend with a delicate balancing act to draw the electorate in an election year while, trying to implement hard economic policies on the ground.

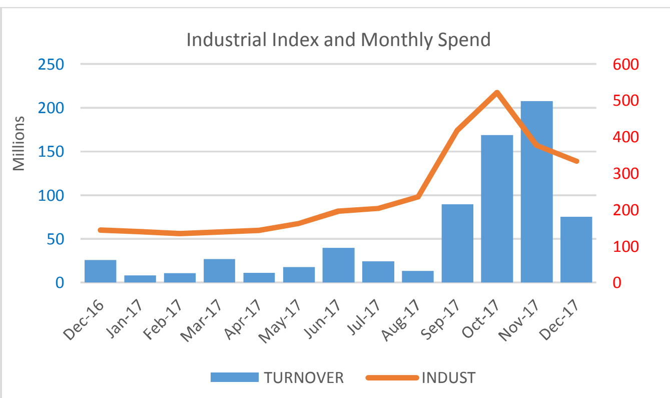
By November 2017, the annualised inflation rate had crept up to 2.97%, up from -0.93% at the end of December 2016 having been in the positive since February 2017. Key amongst the drivers of inflation has been the budget deficit and growing RTGS balances against dwindling nostro and hard currency balances.

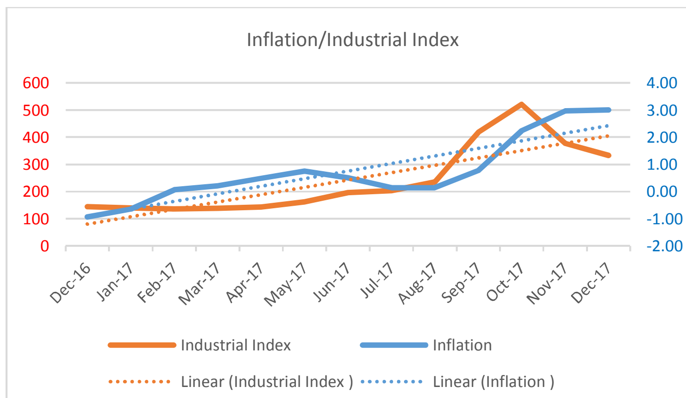
ZSE Review

ZSE charges on monetary uncertainties…

Index	FY 2016	FY 2017	Change	% Change
Industrial	144.53	333.02	188.49	130.42%
Mining	59.51	142.40	82.89	139.29%

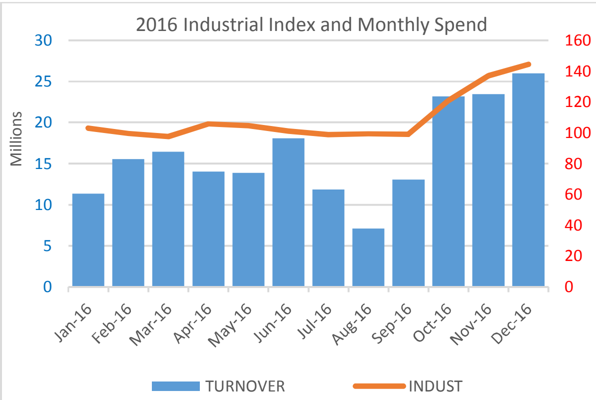
The ZSE rally that was experienced in the fourth quarter of 2016 carried through into 2017 as market chronicled record performances to see major indices close 2017 in the black. At the beginning of 2017 the Industrial Index sat at 144.53pts, one year on and the benchmark has accumulated 188.49pts equivalent to a 130.42% growth and could easily have been doubled that, had it not been for the unexpected mid November military intervention that culminated in the change of guard at the country's leadership. Similarly, the Mining Index was seen surging through the year accumulating 82.89pts which represented a 139.29% surge.

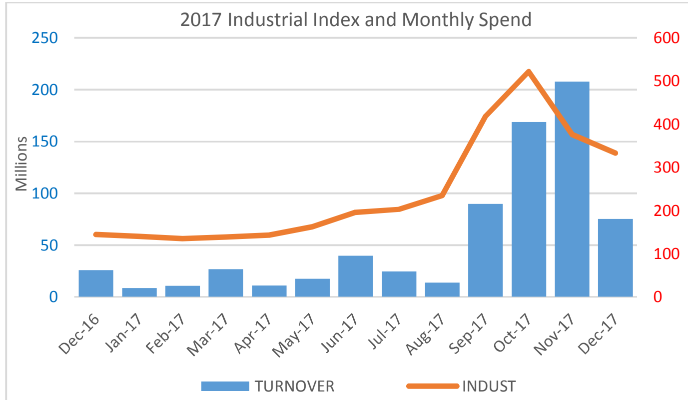




Source: Source: ZSE/MOFED/EFE Estimates

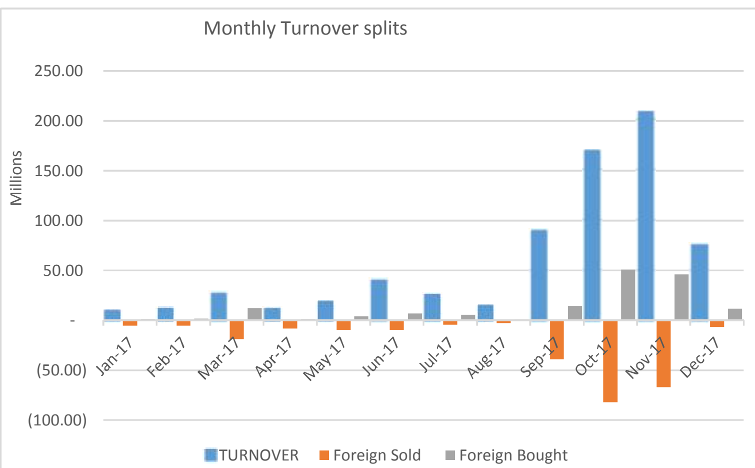
The same pressures that fuelled the Q4 2016 rally continued into 2017 as the monetary outlook remained uncertain and was mostly demonstrated in the adverse implications for the liquidity situation in the country seen in the slowing down of remittances. Further, remerging inflationary pressures spooked investors mostly those locally based into pursuing securities as a hedge. The trend lines for the Industrial Index against annual inflation calculated monthly reflected a positive correlation between the two measures in 2017. Demand was also spurred by the monetary authorities' decision to cap interest rates which saw money market investments losing their allure resulting in growing bank balances being channelled into equities thereby growing the liquidity on the bourse.





Source: Source: ZSE/EFE Estimates

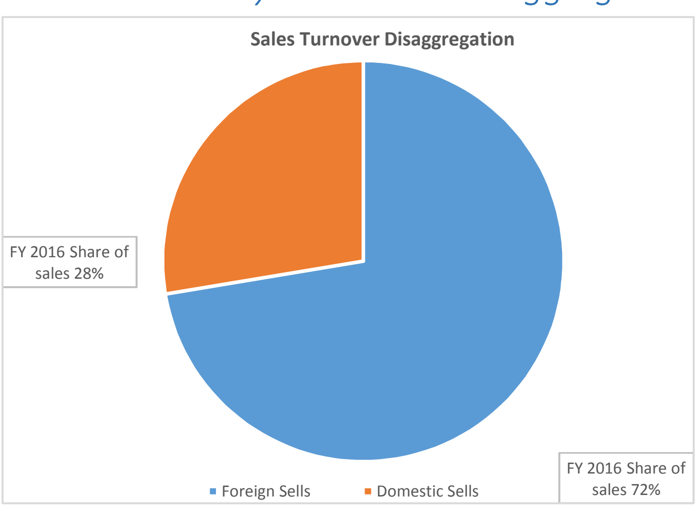
The first ten months of the year 2017 saw the ZSE go on an unprecedented rally accompanied by record activity as the bourse touched dizzy heights. The market bulked up its performance aggregates as the bourse rallied to a record value of trades of $694.9m as local investors piled in on equities, the assumed single possible hedge against inflationary pressures and monetary uncertainties. In contrast the market spun $193.9m in the whole of 2016 which falls short of the outcome of the peak month of November 2017 where $207.5m worth of trades sailed through the ZSE.

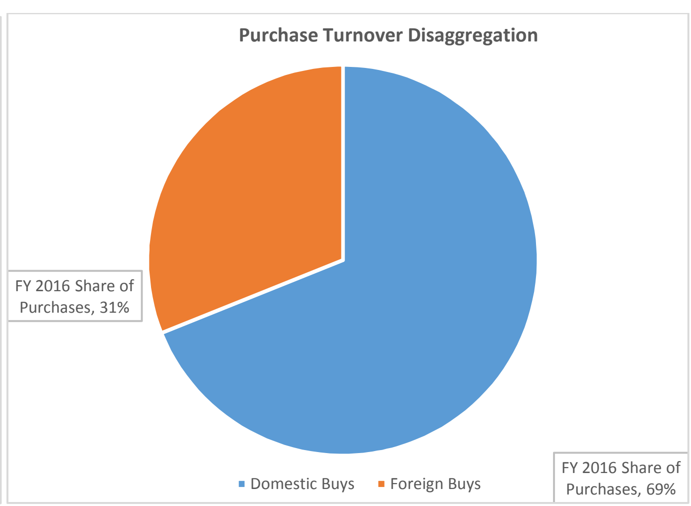


Foreign Investors in sell off on growing remittances challenges…

The market was in a net foreign sell off throughout the year as the remittances problem faced by the country saw international investors shy away from the market while, those already inside sought ways to get their funds out. A total of $258.6m worth of sales on the market were contributed by foreign investors against purchases of $157.8m setting an annual negative balance of payments on the market.

Domestic activity drives market aggregates



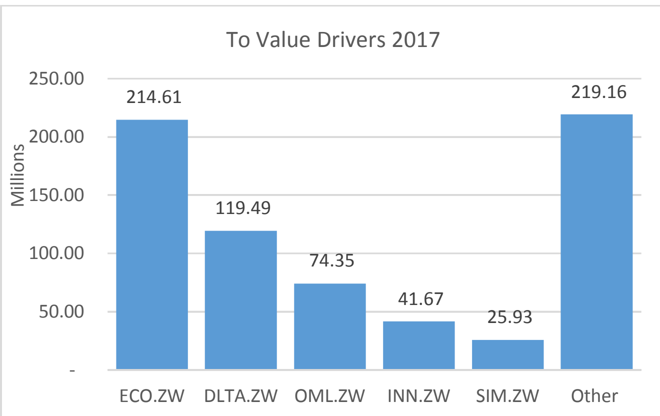


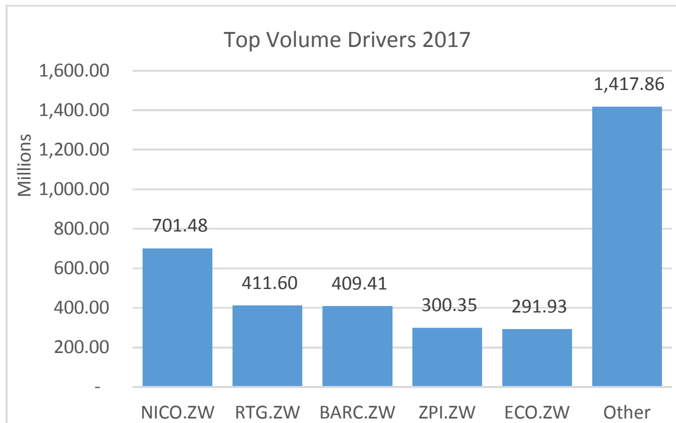
Source: Source: ZSE/EFE Estimates

The improved market activity was largely spurred by dominant activity from the local investors both on the buy and sell side as local stock piled in an effort to hedge themselves against anticipated challenges in the economy. Whereas foreign sales accounted for 72% of the disposals in 2016, the tables were swung around in 2017 as foreign disposals came in at 37%. Apart from the growing demand as locals shifted from the money market to the stock market, a higher outturn of locally driven corporate actions also spurred activity as several companies on the bourse went through some structural adjustments. Resultantly, locals anchored the sell side of the transactions claiming 63% of same in 2017 compared to the 26% achieved in 2016 as profit taking on improved prices emerged.

On the purchases side foreign investors continues to shy away from the market with their contribution to the spend falling from 31% in 2016 to 23% in 2017. Consequently, the local investors took up the mantle and led the aggregate for the second year running and drove 77% of demand on the market in 2017 having accounted for 69% of same in the previous annual outcome in 2016.

Momentum stocks spur values…





The market's momentum stocks anchored the activity aggregates, particularly the value of trades, whose top traded stocks were Econet (31%), Delta (17%) Old Mutual (11%) and Innscor (6%). Driving the annual volumes were Nicoz Diamond, RTG and Barclays that accounted for 20%, 12% and 12% respectively on the back of corporate transactions that saw major shareholding structural changes at the three companies. On Nicoz Diamond, NSSA's decision to consolidate their insurance related entities culminated in the transactions that will see the short term insurer becoming a subsidiary or part of First Mutual Holdings group when the deals are finalised. Similarly, in RTG the statutory pensions company, NSSA, shored up its shareholding in the tourism group as they gear to refocus the company for future growth. As for Barclays Bank Zimbabwe the divestment from the company of former parent company Barclays Plc after disposal of its stake to FMB of Malawi saw the block trade of the shares shore up volumes of the year.

Risers and Fallers

RISERS

Symbol	Previous	Current	Change	%Change
GBH.ZW	0.0008	0.0080	0.0072	900.00
ZBFH.ZW	0.0452	0.3600	0.3148	696.46
NPKZ.ZW	0.0240	0.1800	0.1560	650.00
CFI.ZW	0.0974	0.7075	0.6101	626.39
HIPO.ZW	0.3500	1.7600	1.4100	402.86
ARIS.ZW	0.0035	0.0170	0.0135	385.71
FML.ZW	0.0420	0.1950	0.1530	364.29
MSHL.ZW	0.0170	0.0720	0.0550	323.53
RIOZ.ZW	0.3000	1.2000	0.9000	300.00
ASUN.ZW	0.0120	0.0480	0.0360	300.00

FALLERS

Symbol	Previous	Current	Change	%Change
NICO.ZW	0.0275	0.0219	0.0056	20.36
RTG.ZW	0.0120	0.0100	0.0020	16.67
EDGR.ZW	0.0480	0.0402	0.0078	16.25
TURN.ZW	0.0104	0.0095	0.0009	8.65

The ZSE posted its best annual performance since dollarization on the back of sustained demand for the greater part of the year as local investors flocked to the bourse on mounting fears of the uncertainties in the inflation outlook for the country. Underlining the bullish run were the fifty seven counters that ended the year in the black relative to only four fallers while, three counters closed the year at the same level as the prior year. Demand initially started out skewed towards the market's momentum stocks as investors cherry picked in the blue chips and eventually found its way to the mid-tier and penny stocks that closed the year leading the rising charge. Consequently, the market's blue chip stocks anchored the bull-run, with Econet emerging as the top placed rising blue chip stock after posting a meteoric 207.2% rise to end the year at $0.9216. The telecommunications giant was involved in an initially disputed US$130m rights issue to pay off foreign loans in the biggest capital raise initiative on the ZSE since dollarization. The rights issue eventually sailed through with one of the highest subscription rates since dollarization after a compromise was reached on the terms of executing the rights issue allowing domestic investors to follow their rights in a local rather than offshore account.

BAT Zimbabwe, renowned for one of the most generous dividend pay-out ratios close to 100%, accumulated 134% over the year and ended at $35.7005 though the steepness of the counter's price would do with a split of the issued shares to make for more activity on the counter. Innscor powered to a 108% surge closing at $1.0000 as a leaner and more streamlined light manufacturing structure delivered robust numbers for the group and capped the year with a consolidation of their stranglehold on the meat processing and packaging group Colcom after a successful minority's buyout scheme of arrangement. SeedCO ballooned 98% to $2.0000 riding on a good FY17 financial outcome coupled with the group's proposal to unbundle its regional operations and list these on a regional stock exchange via a dividend in-specie as it seeks to raise capital for expansion projects. The market's top stock Delta was also not to be outdone in the surges as it put on a cumulative 81% and ended at $1.6000 consolidating its position as the market's top capitalised stock on the bourse. Food Processing and packaging group National Foods was 80% firmer at $6.5000 to complete most notable heavy cap gainers of the year.

Leading the bulls for FY2017, however was penny stock GBH which rallied 900% and ended the year pegged at $0.0080 while, banking giant ZB Financial Holdings shrugged off the nascent shareholder battles arising from the contentious acquisition of Intermarket Holding Limited assets in 2007, the group ballooned by a cumulative 696% to $0.3600. The financial services group has however been given an ultimatum by the central bank to split its assets and return Intermarket assets to its initial owners as the shareholders failed to come to an agreement. Packaging group Nampak Zimbabwe was 650% firmer at $0.1800 as the group continued to enjoy some growth. Agri industrial concern CFI that was also embroiled in a gruelling shareholder battle between the major shareholders closed the year on a cumulative 626% gain and sat at $0.7075, though in events post the year end the stock was placed on a three months suspension to meet certain compliance requirements for board appointments following the resignation of several board members at the height of the fights. Sugar producer Hippo added 403% and closed at $1.76 while, agri-industrial holding company, Ariston put on 385%. First Mutual Holdings rose 364% to end the year at $0.1950 riding on improved financials to June 2017 coupled with NSSA's clear statement of intent to support and consolidate their insurance investments under the group. Completing the risers set for the year were Masimba Holdings, RioZim and African sun that had respective gains of 323%, 300% and 300% on solid demand for the trio's stock.

Despite the bullish sentiment prevalent on the ZSE, there still emerged four shakers on the bourse by year end. Nicoz Diamond that is subject to a merger with First Mutual Holdings succumbed 20.36% to $0.0219 as the short term insurer's 15 year flirtation with the ZSE, at least directly, draws to its end. Rainbow Tourism Group shed 16.67% to $0.0100 despite the consolidation of shareholding in the group by NSSA purportedly for the purpose of recapitalising the group. Apparel retail group Edgars let go 16.25% to $0.0402 as investors concerns mounted on the group's ability to restock in the face of the foreign currency shortages. Turnall completed the 2017 with an 8.65% drop that took them to $0.0009 as the roofing products manufacturer continues to struggle to find its footing.

Stock Market Outlook

The ZSE equities enjoyed a strong performance in 2017 which will be very hard to maintain under normal circumstances. The changes in the country's political setting has come with optimism for economic sense and development which brought into check the market's ten months rally on expectations of policy shifts for economic stabilisation. Consequently, with this air of optimism, most stocks were precariously left hanging high with valuations no longer matching the changed outlook on fundamentals. The hitherto anticipated spiral in economic meltdown which had seen equities emerging as the sole investment to hedge against the vagaries of inflation and currency depreciation have since thawed slightly following commendable efforts and pronouncements from the new government, though pressures are still abounding on both the currencies and pricing of commodities in the economy. We believe that the pressures and economic fragilities that drove the market rally last year are still apparent and these including but not limited to the accumulating bank balances, constrained hard currency and nostro balances, multiple pricings in the economy emerging from currency disparities amidst a thriving black market for currency. Aggravating the situation is the fact that 2018 is an election year where cheap politicking comes to the fore to sway voter interest while, the conducting of the election will also have a significant bearing on the reintegration effort of the country into the main stream international economy. Further, the early part of the rainy season has not been so promising resulting in a delay in the traditional onset of the cropping season which may have potential ramifications for the forecast contributions of agriculture to the economic growth in 2018.

Against this backdrop we are of the view that in 2018 the ZSE will remain a top option for investors as they seek to hedge against the associated vagaries of the economy. The accumulating liquidity finding its way to the economy will keep the market on the positive trajectory though it goes without saying that cherry picking will remain the order of the day, as investors seek companies with sustainable operational models and structures in the face of the aforementioned challenges facing the economy. The slight correction on the bourse in late 2017 following the November military intervention has created opportunities for investors who had hitherto watched on the side-lines as bulls rampaged on the bourse.

As has become the norm on the ZSE the market's blue chip stocks will continue to drive the market direction with investors taking comfort from their robust businesses in the face of economic uncertainties. In selecting our picks for 2018 we have also considered the economic profile that will be applicable as set out in the recent fiscal policy statement. The economic thrust is hinged on a strong focus on revival of agriculture with good allocations to the agricultural sector set to drive the recovery of the sectors. Our stock picks are therefore biased towards agricultural allied counters along with agro processors. We expect the usual momentum stocks to be cornerstone of the market gains in 2018 amongst them Delta, BAT, Econet, National Foods, Innscor, SeedCo, Old Mutual, Padenga and PPC. Outside of the top capitalised stocks we have also seen significant efforts on operational restructuring, mostly in mid-tier stocks which we foresee will deliver strong performances in the short to medium term to justify improved prices on the board. Having observed the positive correlation between the market direction and inflation, with pressures continuing to mount on prices, market valuations look increasingly likely to go up factoring in the rising prices of commodities in the economy. Further, market prices are expected to factor in the variances in currencies and the dually listed counters portray the premiums to apply on valuations reflective of the differences in the underlying currencies. In the next section we give brief summaries of our picks with detailed company briefs set to be rolled out over the coming weeks:

Picks

Counter	Comments
Afdis Distillers Limited	The sprits manufacturer has been a consistent performer ever since they successfully localised production of part of their product portfolio which enabled them to manage the product pricing along with reducing their cost of sales.
Axia Corporation Limited	Axia has seen its price take a significant knock in the aftermath of the military intervention that brought a stop to the ZSE rally. Consequently, the group's valuation reflects one of the cheapest across the board at an earnings multiple of 6.38x on a market were most counters are trading well above 10x, we believe there is good scope for value on the counter.
Bindura Nickel Corporation Limited	The nickel miner has been patiently working the restart of its smelter which is currently 83% complete. Management anticipates the refurbishment process will be completed in 2018 subject to funding and improvement in nickel prices. Their strategic plan is to reap the most out of the investment by hastening the completion of the smelter when prices of Nickel improve.
British American Tobacco Zimbabwe Limited	One of the alluring features for BAT is that their generous dividend policy reflective of the company's strong hold on the market. The dynamics of the cigarette industry suggest that the company is operating in a mature market and they are a market leader in their space. The high valuation matrices reflecting on their price does raise concerns though these could be dispelled by the tightly held nature of their stock which makes it a much sought after asset. We do not see much challenge to their strangle hold on the market due to the habit creating nature of their products which creates strong customer bonds.
Dairibord Holdings Limited	Dairibord has underperformed over the recent years as management struggled to realign their structure to the challenging economic environment. Though likely to post another loss for the full year to December 2017, we anticipate that restructuring efforts will begin to bear fruit in 2018 and should reflect at the interim reporting.
Delta Corporation Limited	The market leader by capitalisation remains an endearing investment option though their financial performance in recent years have been characterised by declining revenues and profitability as customers trading down their product ranges in search of more value for money. We believe that the group has reached that low end of declines and should see a rebound in the local market. A plus for the group however is the regional expansion that saw them acquire a stake in Zambian brewer as they began to utilise their huge cash war chest.
Econet Wireless Zimbabwe Limited	Econet successfully completed a capital raise that enabled the group to reduce their loan liabilities and most importantly eliminated foreign currency obligations while, localising part of the debts at attractive interest rates. Now equipped with a less geared balance sheet we believe the company is well placed to focus on shareholder value creation. The

	dilution that came with the capital raise has however meant that valuation matrices have now extended well beyond its traditional valuations for earnings and book values multiples. The prevailing environment however suggests that their innovative products have created diversity that should create more value for shareholders.
Hippo Valley Estates Limited	Robust performance for the interim period from the sugar producer, which we believe should continue to their year-end. A strong agricultural budget in the fiscal policy offers opportunities for growth for the group. Further the huge investment into Tokwe Mukosi dam by government guarantees future cane production from their fields and support farmers.
Innscor Africa Limited	A series of unbundling exercises has left the former conglomerate as a well-focussed light manufacturing entity with a lean structure creating competitive advantages. The group is currently trading at an earnings multiple of 15.7x which we believe is not so demanding for a cash generating entity like them.
National Foods Holdings Limited	The food processing and packaging giant is expected to enjoy strong performance going forward riding on the fairly good harvests from prior year and anticipated future growth in agriculture while, leveraging on their strategic shareholders Tiger Brands.
Ok Zimbabwe Limited	The retail giant's recent performances bears testimony of the rewards of restructuring as the group came back with a strong financial performance in the interim period which we anticipate will continue to year end 2018.The growing usage of plastic money has seen a rebound in formal retailers and we expect them to continue to enjoy strong performances going forward.
Padenga Holdings Limited	With almost 100% of their sales in the export markets, Padenga remains very alluring, as apart from having an already profitable operation they are also benefitting from the export incentive which is undoubtedly an addition to the group's profitability. Padenga has already been a consistent performer and their operations at this stage have the capacity to weather the vagaries of the Zimbabwe economy particularly because of their export focus while, facing mostly locally denominated costs.
Riozim Limited	Global commodity prices have been on a steady rise and RIOZIM following the revival of its various operations is well poised for strong performances.
Seed Co Limited	Government's strong focus on agriculture particularly maize and wheat production has increased the allure of SeedCO, the biggest seed producers in the country. Their diversity across markets and expansion drive also makes for an attractive investment with potential to withstand market specific risks. The mooted transaction to list external operations on a regional exchange offers investors an opportunity to reflect more value from the additional listing.

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