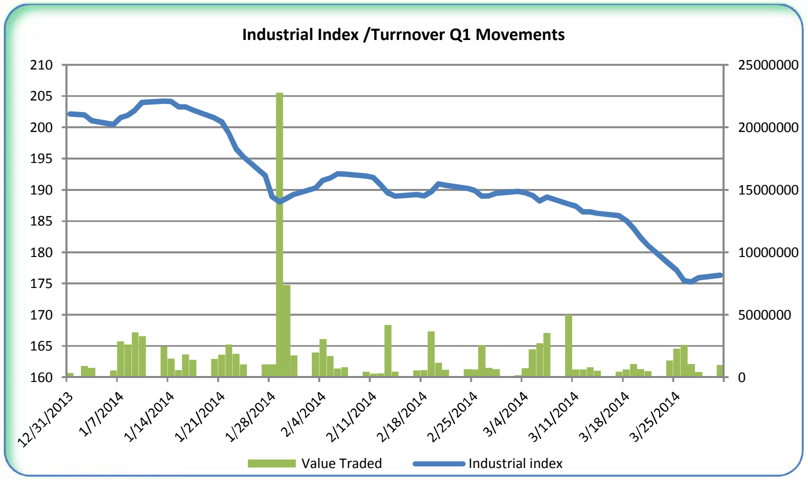
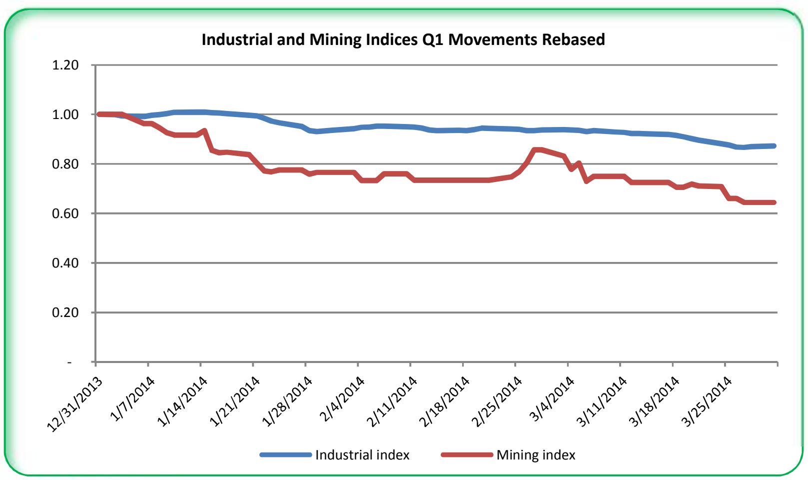
Indices	31/12/2013	31/03/2014	Change	% Change
Industrial index	202.12	176.32	(25.80)	(13.00)
Mining index	45.79	29.51	(16.28)	(36.00)

SOURCE: EFE SECURITIES/ZSE



SOURCE: EFE SECURITIES



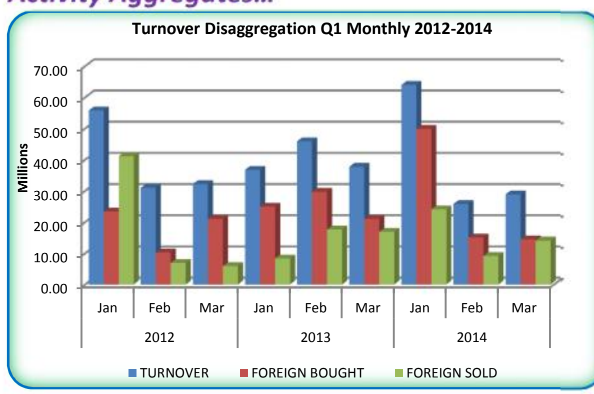
SOURCE EFESECURITIES

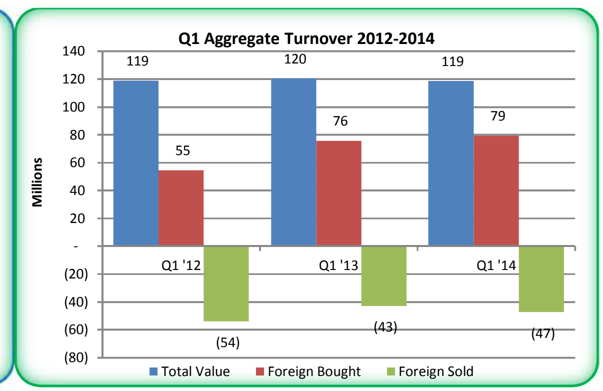
Weak economic fundamentals weighs on sentiment…

Weakening macroeconomic fundamentals and a general plunge in earnings for the December 2013 reporting date combined to see the equities market reciprocate the falling trend in direct variation for Q1 2014. A combination of factors including widespread squeeze in liquidity, a shrinking tax base and a decline in overall demand as well as in the general price level are among a varied set of economic anomalies that has resulted in dismal performances to the reported date. Further worsening the position has been the failure by policy makers to put in place clear measures to stem the attendant economic challenges prompting perceptions that the economy is on autopilot.

The market's downward spiral could also be a possible reflection of a market correction in the aftermath of a record performance in the prior year that saw the main stream index notch 32% in returns for the year 2013. The Industrial Index lost 13% in Q1 to 176.32pts compared to a 22% gain in the same period last year as subdued demand on the back of the liquidity challenges took its toll on the bourse. Weighing heavily on the market were losses in some of the ZSE's top capitalised stocks including Delta and Innscor which are 2 of the 3 most capitalised stocks on the bourse. Delta and Innscor were trading -18% softer at 115c and -22.3% lower at 62c respectively to their year opening levels as at 31 March. With demand for these stocks having been traditionally foreign driven, where they have been cherry picking with a heavy skew towards the blue chip stocks, a new trend of net foreign selloffs created even more pressure as demand continued to buckle. The mining index came off 36% to 29.51pts in the quarter as the sector remains gripped with capitalisation constraints while largely remaining in losses since dollarization.

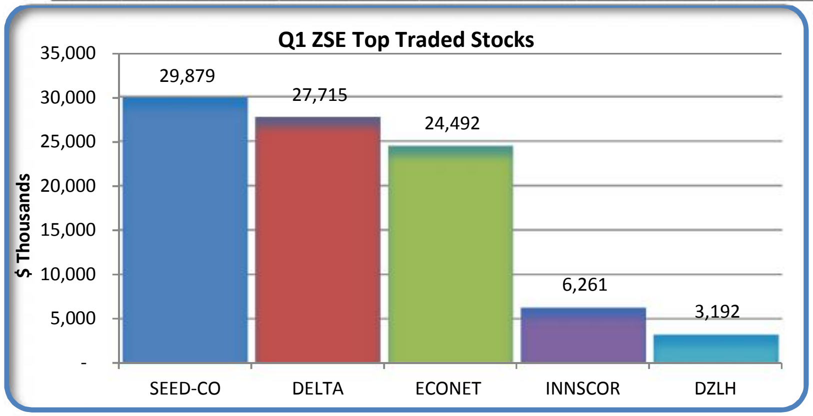
Activity Aggregates…





SOURCE EFE SECURITIES

Total market participation aggregates for the quarter showed an almost flat performance similar to the outturn achieved in the prior year. Aggregate turnover at $119m was flat on last year with a negative

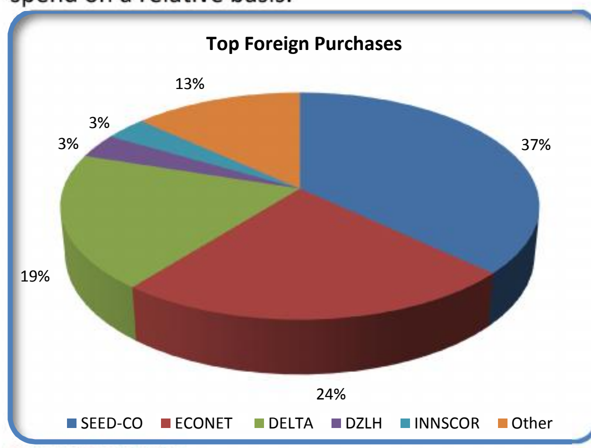


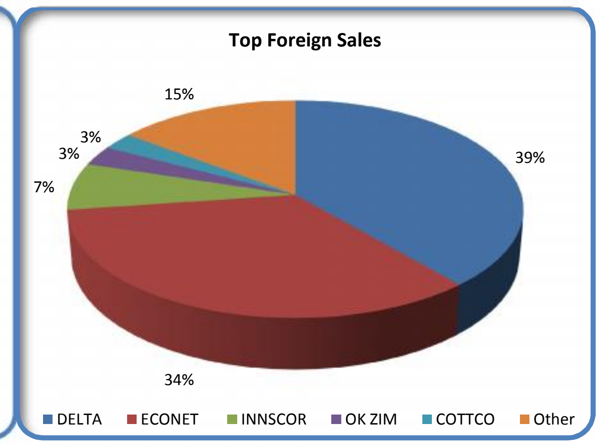
Q1	Risers				
		31/12/2013	31/03/2014	Change	% Change
1	ARTZDR	0.20	0.40	0.20	100.00
2	PIONEER	3.00	5.00	2.00	66.67
3	ZIMPAPERS	0.80	1.00	0.20	25.00
4	FIRST MUTUAL	8.00	9.00	1.00	12.50
5	ARISTON	1.00	1.10	0.10	10.00
6	COLCOM	22.00	24.00	2.00	9.09
7	NATFOODS	200.00	215.00	15.00	7.50
8	CBZ	15.00	16.00	1.00	6.67
9	TA	6.10	6.50	0.40	6.56
10	ECONET	60.00	62.12	2.12	3.53

Q1	Fallers				
		31/12/2013	31/03/2014	Change	% Change
1	PELHAMS	0.10	0.01	(0.09)	(90.00)
2	COTTCO	6.00	1.00	(5.00)	(83.33)
3	HUNYANI	2.00	1.00	(1.00)	(50.00)
4	RioZim	33.00	20.00	(13.00)	(39.39)
5	CFI	3.60	2.21	(1.39)	(38.61)
6	MASIMBA	6.50	4.00	(2.50)	(38.46)
7	NMBZ	6.50	4.00	(2.50)	(38.46)
8	BINDURA	2.00	1.30	(0.70)	(35.00)
9	FIDELITY	13.01	8.50	(4.51)	(34.67)
10	DAIRIBORD	15.00	10.00	(5.00)	(33.33)

variance. Foreign portfolio divestment increased to $47m on prior year however net foreign flows remained in the positive at $32m. Tapering of quantitative easing by the US among other countries has motivated liquidation of most foreign portfolios from emerging markets while at the same time economic growth forecasts for emerging markets and in particular Zimbabwe has been forecast to slowdown prompting portfolio restructurings.

SeedCo was the top traded stock in the first quarter with an estimated $30m in value of trades while the usual value drivers Delta and Econet closely followed with contributions of $28m and $24m respectively. The month of January stood out with trades in SeedCo buoying performance as part of the AICO unbundling transactions. Foreign demand drove much of the liquidity with 67% of the total purchases being attributed to foreign buyers. Beyond the month of January the trend shows a decline in foreign spend on a relative basis.





SOURCE EFE SECURITIES

Bears dominate Q1 trading patterns ….

Of the 62 active stocks on the ZSE 45 or 73% of the total were trading in the negative to their year opening prices as at 31 March 2014 while 13 risers were seen with only 3 being heavy caps. Amongst the heavy cap gainers that helped mitigate the market losses were Natfoods up 7.5% gain to 215c closely followed by CBZ on an upsurge of 7% to 15c and Econet that was +3.53% up at 62.12c.

The top fallers were dominated by mid and small cap stocks that have been susceptible to the vagaries in the Zimbabwe economy not to mention that most of them hardly operated profitably since 2009 when Zimbabwe dollarized. Pelhams led the fallers on a decline of 90% to 0.1c while Hunyani shrunk 90% to 0.01c following a flat outturn at operational level in its full year to December 2013. Rio Zim came off 40%

to 20c being the worst performance by a mining stock in the period. This is on the back of a loss of $4.7m loss by the mining house in the preceding year incurred mainly on the back of a high interest charge. Of note is the fact that 7 of the top 10 fallers reported either losses or reduced profitability for the year ended 31 December 2013. Dairibord incurred a loss of $1.8m for period to Dec 2013 while NMB posted negative returns of -$3.3m after some huge write. The duo featured in the top fallers set on declines of 33.3% and 39% to 10c and 4c respectively.

Among the best performers were Art which surged 100% to 0.4c while Pioneer rose 67% to 5c. The latter's gains come in the wake of the acquisition of Unifreight which they expect to add $21m to the top-line in the current year. Zimpapers notched 25% to close at 1c following the release of profitable results for the 2013 financial year. Also amongst the risers was meat processing company Colcom that was up 9.1% at 24c as the group emerged as one of those with better financials in the recently concluded reporting season.

Comment

Going forward we believe the direction of the market will generally be guided by developments in the broad economy. While the short run macroeconomic scope looks unattractive we believe that policy makers will be prompted to act to nip in the bud current economic challenges. We are expectant that policies which encourage investment will be crafted resulting in promotion of credit and FDI for the economy. This should ease the persistent liquidity challenges that have been weighing on the economy while acting as a stimulant to the latent demand.

Further, after a wave of declining prices in the first quarter some stock valuations have increasingly turned attractive and we believe this should attract renewed interest on the ZSE. With several heavy caps that had previously been viewed as having the supporting fundamentals trading at lower prices we expect the weak prices to be an alluring factor to buy into the ZSE equities. It is our view that the second quarter will see a rebound in some of these stocks that have become worthy buys in the face of the obtaining low prices. More impending interim and full year financial results will also give impetus to the market for a resultant market correction. Our opinion is that investors should take the opportunity of the depressed prices to gain exposure in the market while those who bought at the highs have a chance to bring down the average prices. Amongst some of the stocks that are looking cheap are BAT, Dairibord, Delta, Innscor and Seed-CO that have come off significantly from their year opening levels.

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