EFE Securities Research

Zimbabwe
2013 Stock Market Review
&
2014 Outlook

17 January 2014

Executive Summary

In this paper we endeavor to put our views and expectations on the socio-economic landscape for Zimbabwe in 2014 building on the base of established of same in the preceding year. In 2013 Zimbabwe managed to ride out potentially explosive hurdles on the socio political front achieving major milestones including the completion of a difficult constitution making process that culminated a plebiscite on same and the ushering in of a new home drawn charter for Zimbabwe. Thereafter the country went through an electoral process which was won by the post-independence ruling party Zanu PF and retaining the incumbent President Robert G Mugabe, though the losers had some qualms about the result. The 2014 setting on the political front has a semblance of stability with investors fully aware of what they will be facing at central government level unlike the prior year that was mired with divergent policy views from the involved political players however the following challenges continue to face the new dispensation:

- Structural Economic Fragilities: Economic weakness on the back of depressed foreign direct investment as a result of policy challenges especially the empowerment regulations, though the new minister of finance in his first fiscal policy statement promised more clarity around the regulations.

- Government Wage Bill Pressure: This has been the same challenge highlighted each year since dollarization; in 2014 the pressure of the wage bill will remain a major threat especially in the face of the many electoral promises around raising civil servants' salaries to above the poverty datum line. With recurrent expenditure already accounting for 86% of the projected revenues any increase in the wage bill will take recurrent expenditure to in excess of 100%.

The Strategy: 2013 was an impressive year for the ZSE with a 32.6% growth in the main stream industrial index in the face of the political and economic challenges that the country was facing. As the country became increasingly consumptive bias on the equities market has gradually shifted towards stocks in the retail sector or those that have successful established optimal capacities to meet local demand and fend off import competition. We have identifies a number of key issues that we believe will drive the market in 2014:

- Politics: 2014 increasingly looks like one of the most stable years in this respect and therefore the market is likely to face less and less of the impact of political noise to pave the way for some stability as companies focus more on doing well and delivering the results.

- Good Performances – With several companies already enjoying the benefits of right sizing and restructuring their operations to sustain the challenging economic environment, we believe financial performances will without doubt influence the direction of the market. The economic slow-down however will be a major hurdle for the all companies and those that will successfully establish ways to keep volumes moving will carry the day.

- Corporate activity and restructuring – A lot of deals that have been initiated in 2013 will be concluded in the ensuing year and just by viewing the recent deals it is clear that these companies have to go offshore to secure funding as the capacity of local players remains heavily constrained.

- Foreign Flows – Less political noise should ease foreign investors' worries and all that remains is for the companies to improve their allure for investors to buy in.

We have crafted a selection of the stocks to watch in 2014 and extended coverage to eight of these in this report namely BAT, DZLH, Delta, Econet, Edgars, OKZIM, Truworths and TSL. Our selection of these stocks is based on the fundamentals of the sectors that they are in and the potential vested in those sectors given the broader economic setting.

Contents

Population (Million)				13.1
	2011	2012	2013 Est.	2014 Prj.
Real GDP Growth (%)	11.90	10.60	3.40	6.10
Inflation Average (%)	3.5	3.8	1.7	1.5
Central Government				
Revenues (US$ Billion)	2.770	3.452	3.722	4.120
Expenditures (US$ Billion)	3.102	3.746	4.057	4.120
External Sector				
Exports (US$ Billion)	4.771	4.355	4.430	5.024
Imports (US$ Billion)	8.491	7.456	7.682	8.321

Socio - Political Review

2013 the year that was…

Zimbabwe completed yet another tumultuous year on the socio political front and indeed it was a make or break year highlighted by the completion of the new Charter and referendum on the same and 31st of July 2013 harmonized elections that brought to an end the political marriage of convenience that is the SADC brokered Global Political Agreement that ushered in the government of national unity.

A successful constitution making process…

The country achieved a major mile-stone after overcoming several hurdles to produce the new constitution which received an overwhelming 'yes' vote from the populace ushering Zimbabwe into its first internally generated national constitution. This signing of the new constitution into law saw several changes and key appointments into the judicial and legal system with the newly set up constitutional court immediately finding itself seized with a coterie of constitutional cases. The key case being the Jealous Mawarire application to have the president announce an election date, which he won prompting the President to set 31st of July as the date for the harmonized election.

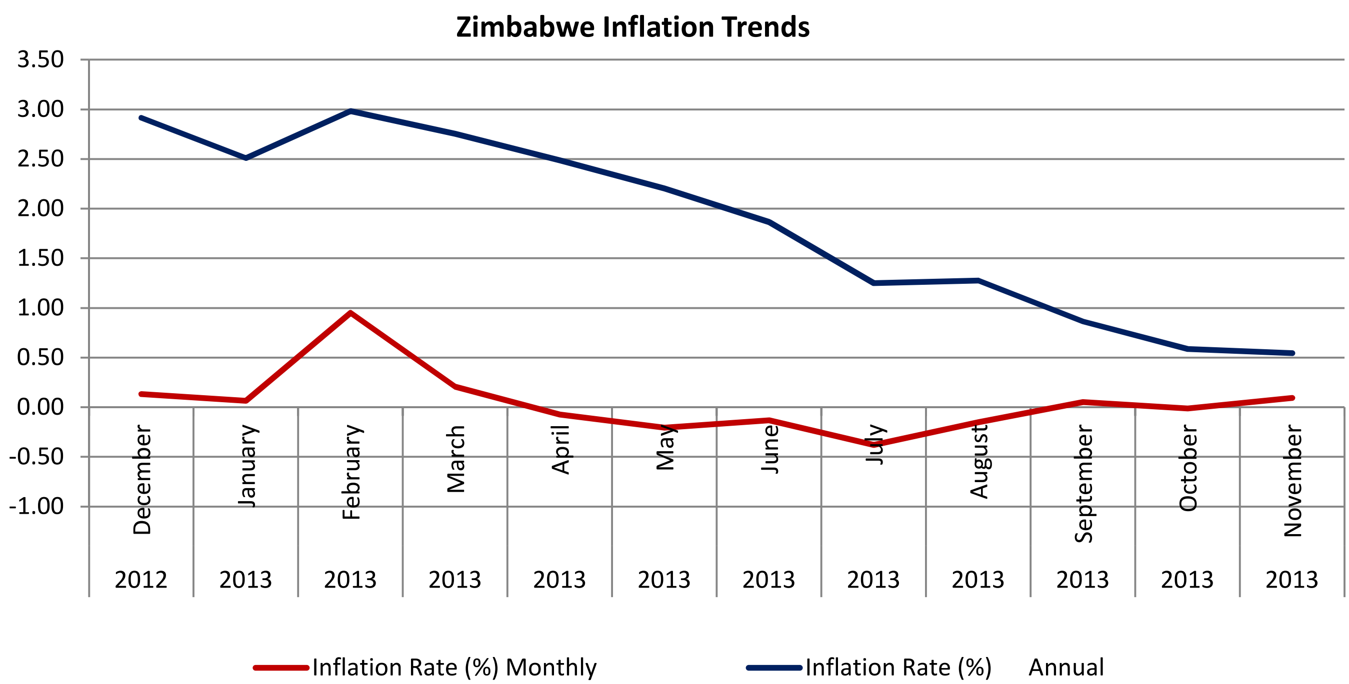
The elections…

Coming into the year, debate was high on whether elections would go ahead or not, and all this was put to rest as Zimbabwe forged ahead with the harmonised elections. The ruling party won resoundingly as the incumbent President Robert Mugabe was re-elected after taking 61% of the vote while his party garnered well over the two thirds majority in the house of Assembly. With an election date hastily announced to avoid precedence of contempt of court, the major concern ahead of the election was the fear of election violence and a contested result.

Economic background and Overview

The 2013 economic year has been one infested with malignant economic ills; from a liquidity squeeze to a decline in capacity utilization and liquidation of some businesses. However it has to be noted that much of the economic thrust post dollarization has been broadly defined by the fiscal developments in the absence of monetary policy. The introduction of a multicurrency system in 2009 brought with it a semblance of economic stability and fiscal discipline on the part of government and this saw the GDP recording tremendous growth since then albeit from a low base. However with dwindling national revenues in 2013 which totaled $3.6b against a projected $3.9b, a collapse in industry as measured in capacity utilization which declined by over 10% to 39% policy makers have their plate full to arrest the debilitating economy.

Inflation



SOURCE: ZIMSTATS

Zimbabwe's downward inflation trend since the adoption of the multicurrency system carried through in 2013. In December 2012 inflation rebased to 100 following changes to the consumer basket weights and methodology of calculation. This culminated in the declining trend continuing with November 2013 inflation figure coming down to 0.54% which is 82% lower compared to 2.99% decline attained in the same period last year (y-o-y).

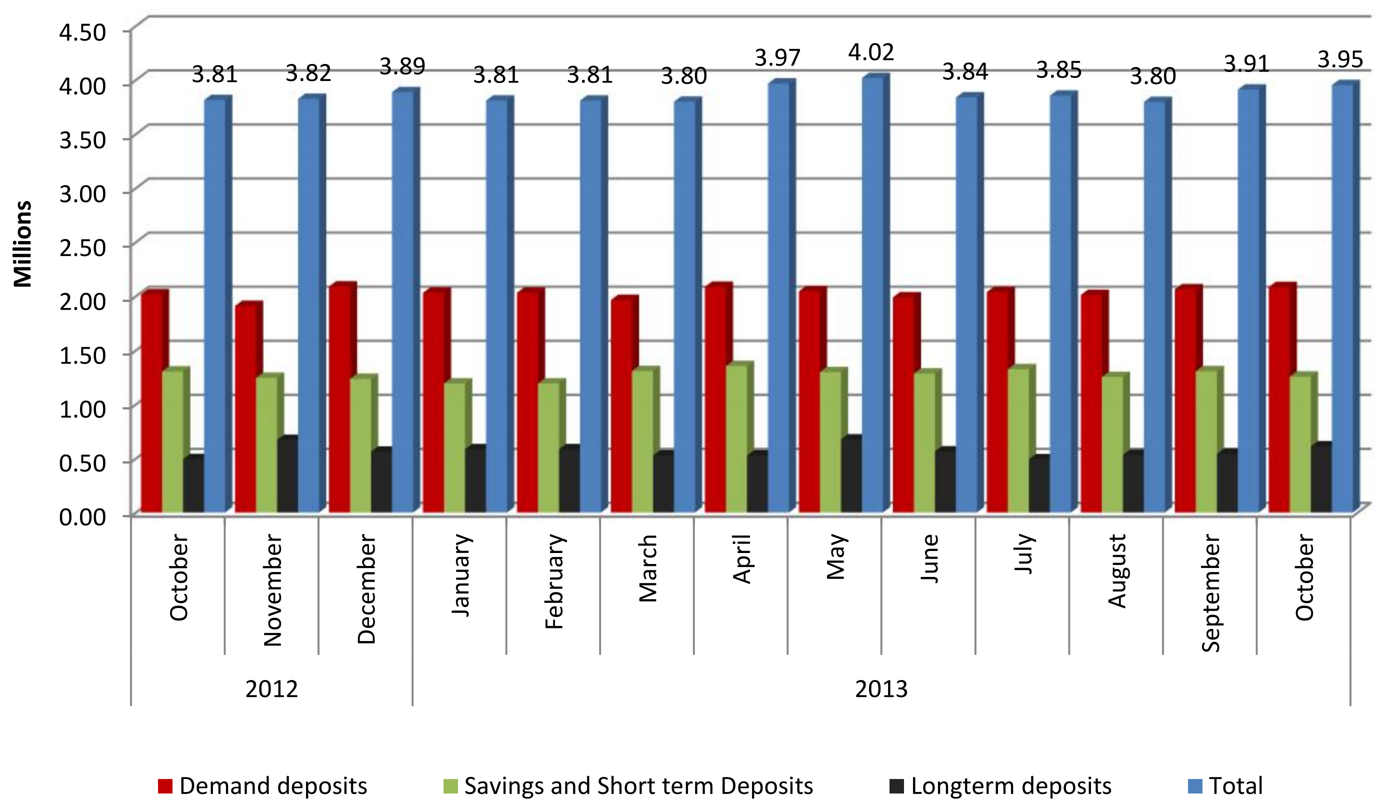
On a more general note the current deflationary gap can be best explained by the low aggregate demand prevailing in the economy. However the excesses of a reverse overheated economy stems from the country's inability to control money supply function which is grossly exogenous in nature. The downward trend in inflation is likely to persist in the near term giving light to the possibility of a wider deflationary gap. While a low inflation is something all nations would aspire to have however the underlying factors leading to such a development should be of sound economic fundamentals that promote sustainable growth. In Zimbabwe's case the declining inflation spurred by a weakening rand, which is the major source currency for our imports, against the backdrop of tight liquidity and generally weak economic fundamentals with declining economic production, the development points to difficulties in the operating environment.

Financial Sector Developments

The sector remained under spotlight on the back of structural fragilities and a more vicious liquidity crunch in the year under review. As the year commenced, the RBZ, in a bid to address the high lending rates, ordered banks to cap rates at 12.5% above the weighted average cost of funds for the respective banks. The RBZ has since suspended the MOU with effect from 1 December 2013, while on the other side banks decried loss of $73m in non-funded income since the MOU was affected.

In the first quarter of the year the RBZ extended bank capitalization deadline to 2020 from June 2014 without much clarity on how the extension would affect deadlines already set. Trust bank was the only institution to lose its banking license in the year on viability concerns while Interfin bank's curatorship period was extended to December 2014 to become the longest serving bank under curatorship in Zimbabwe's history. Capital bank has a pending application to degrade to a microfinance bank while FBCH suspended the merger of its banking and mortgage lending units. ZBFH however is in the process of seeking permission to merge its banking and mortgage lending units.

Deposits



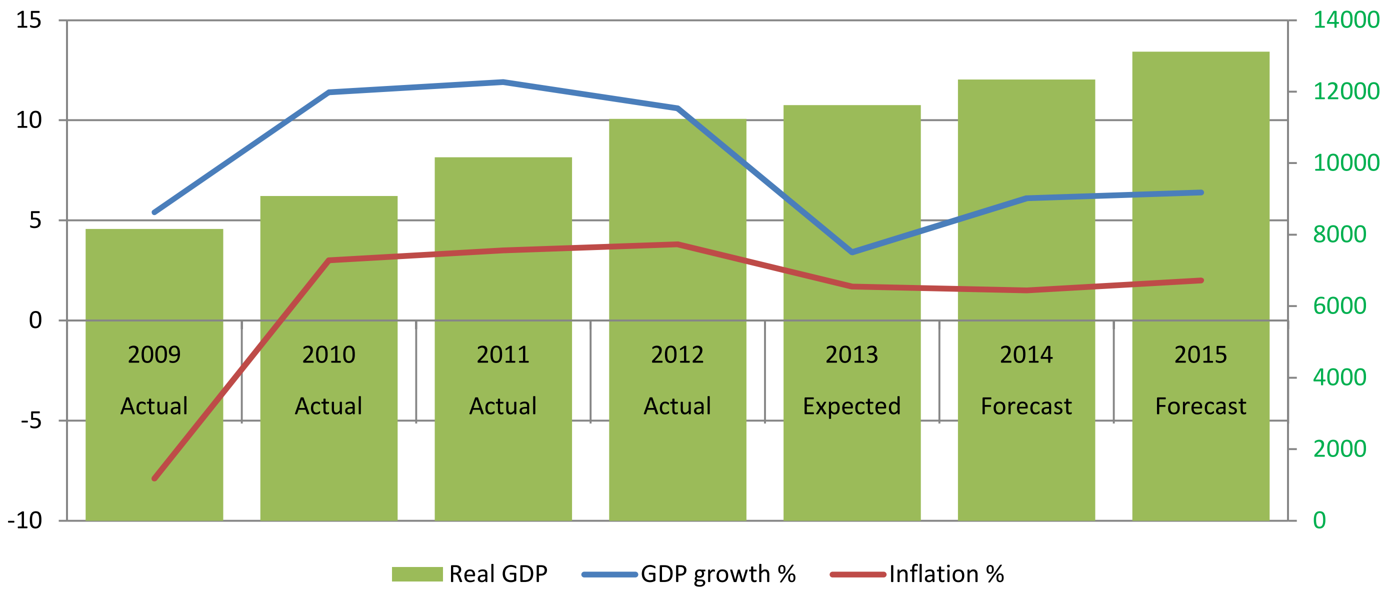
SOURCE: RBZ/EFE DATABASE

Banking sector deposits on a month to month basis fluctuated within the range $3.8bn to $4.02bn establishing an average of $3.88bn. Similar to last year the distribution and composition of the deposits remained skewed towards demand deposits and short term savings deposits leaving only a smaller part of the deposits available to fuel economic activity through on-lending. As a consequence the economy continued to suffer from tight liquidity, a situation that carried into the new year.

Economic performance,

GDP Trends

Initially GDP was projected to grow by 5% in 2013 from the 10.6% achieved in 2012. However a downward revision was imperative owing to dwindling aggregate demand emanating from tight liquidity in the economy. Consequentially this resulted in a constraining effect on economic growth which has since been revised downward to 3.4% for 2013.Major revenue sources were affected whereas global commodity prices remained depressed in the year especially the bullion, while remittances from diamonds continued to underperform.



SOURCE: MOFED

Capacity utilization as highlighted earlier has been losing ground owing to lack of liquidity and cheap lines of credit to finance recapitalization of industry. This has heightened the call for FDI and a reengagement of Bretton woods financiers such as IMF and the World Bank. However a national debt overhang to the tune of circa $7b, according to the Ministry of Finance and Economic Development, remains a dampener in government's efforts to attract solid commitment from same. The indigenization legislation has also sent wrong signals to the foreign investing community. While the current minister responsible for implementation has been credited for being cool headed and more mild in approach; clarity still remains the Achilles heel, though we commend the minister of finance's pledge to bring more policy clarity around the same in the ensuing year.

Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET)

Soon after the new government assumed power in September of 2013 the same released a cluster based economic blue print dubbed ZIM ASSET whose bid is to resuscitate the economy. The paper effectively cut short the ongoing policy under the Medium Term Policy blueprint instituted in 2011 by the inclusive government as a five year economic plan. With this new policy government targeted to obtain an average annualized economic growth rate of 7.1% anchored on a $9.2b dollar capital injection. However despite declining economic growth ZIM ASSET goes a step higher promising an average growth of 7.1% in the next 5 years leveraging on the judicious exploitation of the country's vast minerals and the revival of the agriculture sector. The crafting of a sovereign wealth fund will enable pooling of financial resources which will be distributed as per need. In 2012 the SWF was reported to have amassed $4b from various indigenization deals. The position however remains uncertain as government has since called for a revisit on some of the deals especially in the mining sector where miners are now expected to cede 51% without compensation.

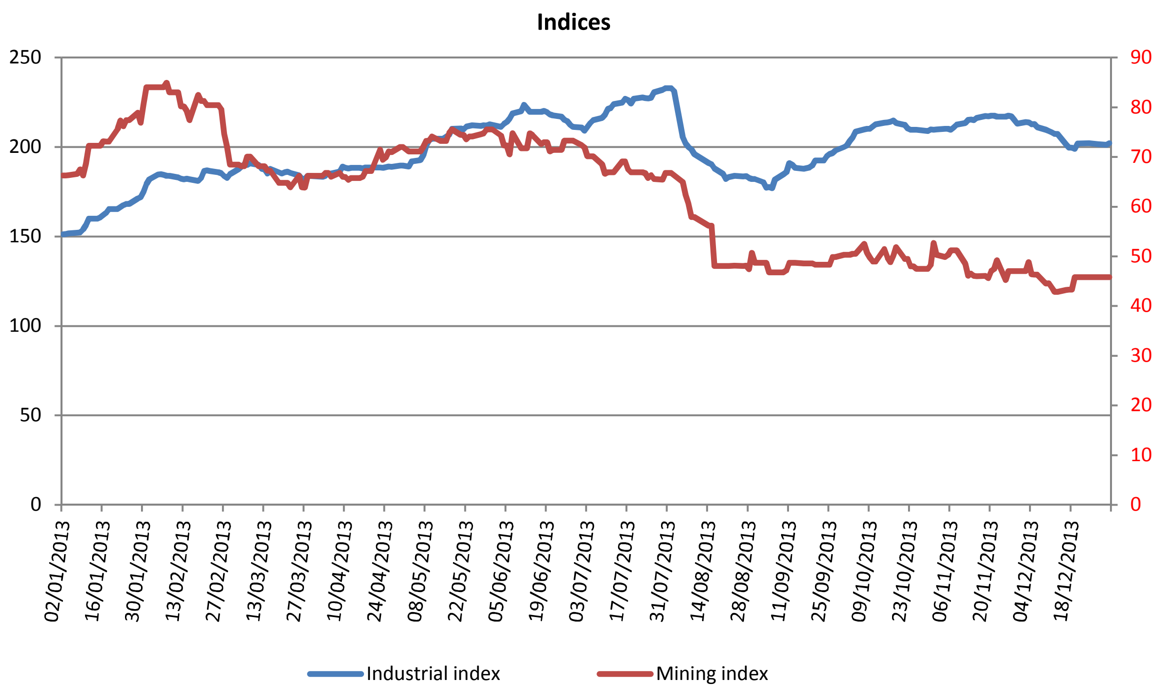
Our take on the Socio-Economic setup…

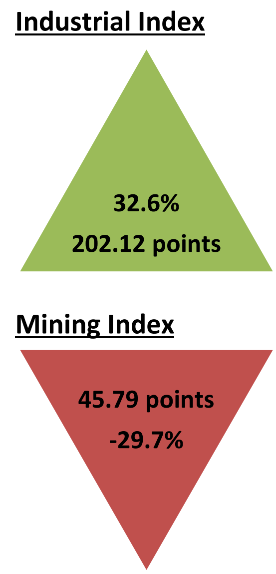
The 2014 fiscal year commenced on the back of an ever tighter economic environment characterised by a gripping liquidity situation, slowing down production and ever rising unemployment. The 2014 fiscal policy appears huge on promises but short on how they will be delivered with the main obstacle being funding. Recurrent expenditure alone is in excess of 85% of the projected revenues which leaves little room for government to influence and execute fiscal developments, recent calls from labour for salary increments only serve to increase more demands on the limited fiscal space. Aggravating the situation from the growing demands on the fiscus are reports of the dwindling alluvial diamonds pointing to an urgent need of heavy capital investment to enable extraction of underground diamonds. Further the financial sector fragilities remain pronounced with the apex bank said to be monitoring the situation at six local banks. With foreign direct investment into the productive sectors of the economy currently heavily hindered by the empowerment regulations, the finance minister's calls for more policy clarity around the rules would not have come at a better time. The growing pressure from government for beneficiation of minerals, though this might take longer again due to funding, if gradually implemented would help increase the contribution of the mining sector to national revenues. The promotion of a culture of long term savings would also go a long way in creating an internal source of debt funding for productive arms of the economy however this culture boils down to the establishment of confidence in the formal banking system and reports that a number of the local banks are facing difficulties only makes the call for a savings culture a pipe dream. We therefore believe that without a funding stimulus the projected growth of 6.1% for 2014 will be a pipe dream and feel that a more realistic growth target for the ensuing year will at best be around 4%.

Stock Market Review

The year 2013 was clearly a difficult proposition for the market as we saw a number of causalities with more companies being suspended while some were completely delisted from the bourse. Amongst those to be delisted from the official list were the termination of the long suspended trio of Barbican Holdings, TZI Limited and Red Star Limited, while for Cairns and Trust operational challenges prompted delisting of the two. Interfresh closed the year also heading for a delisting after its shareholders approved the plan to do the same. Five stocks however closed the year suspended with the newest members to this list being Phoenix and PGI.

Industrials in their best annual return since dollarization...

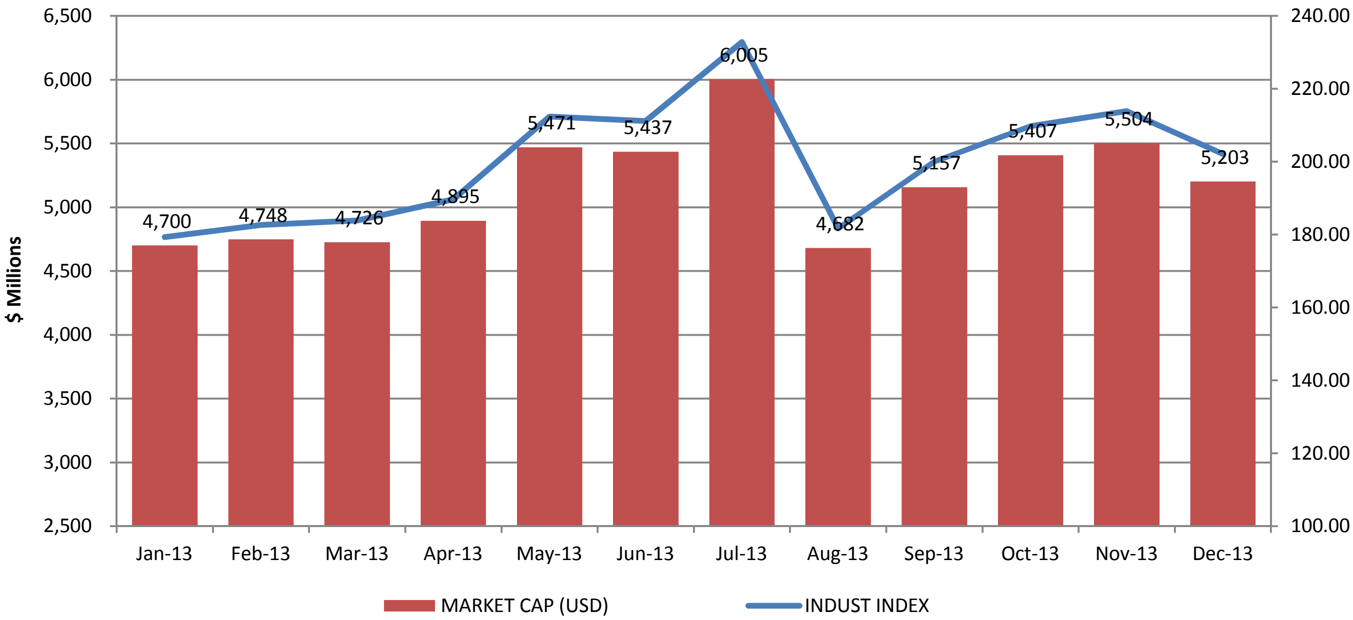




SOURCE: ZSE/EFE DATABASE

The ZSE had a rallying first half of 2013 on the back of promising financial performances recorded in the previous year. This saw the main stream industrial index go on a rising trajectory that peaked on the eve of the 31 July harmonized elections at an all-time high 232.87pts at which point the year to date return stood at an unprecedented 52.8%. The market however tumbled in the post-election following the initial contestation of the results by the opposition that delayed the inception of the new government over which period economic agents were unclear about the economic direction the market was taking. The industrials, however managed to survive the onslaught that had narrowed its YTD return to 18.3% by the 29th of August 2013 to close the year on a respectable annual return of 32.6%.

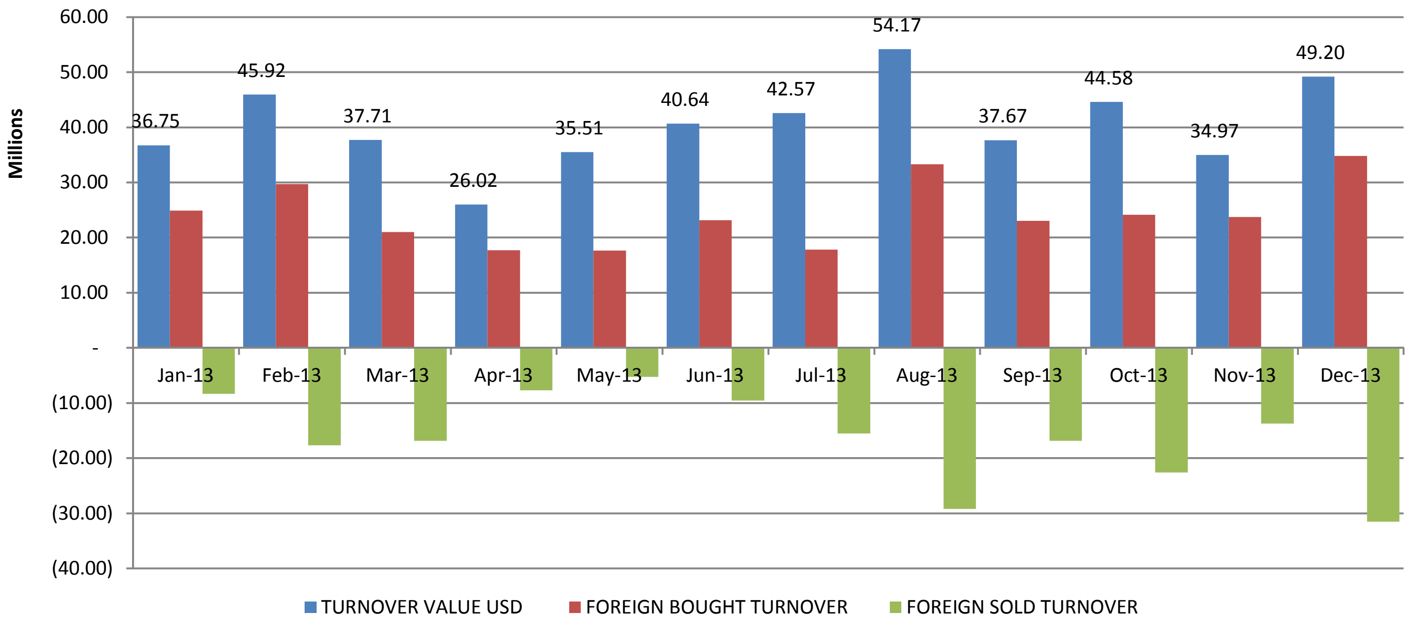
The resources index on the other hand had an initial rally that peaked at 84.07pts on 5 February 2013 which proved to be false start as thereafter it was all downwards for the Mining Index to see it close the year down -29.7% for the year at 45.79pts. Working against the minings were depressed global metal and commodity prices that dampened financial performances while the long running recapitalization and retooling challenges aggravated the operational position of the constituent companies bringing their operational viability directly into focus.



SOURCE: ZSE

The market cap peaked in the month of July at $6.00bn just ahead of the elections however the post-election selloff saw it slide to a month on month low of $4.68bn in August of 2013. The market eventually recovered to close the year $5.2bn.

Foreign players dominate trades as value surpass last year...



SOURCE: ZSE/EFE DATABASE

The ZSE spurned an estimated $485.7m in the year 2013 which was 8% higher than that achieved in 2012. Volumes were however 15% lower than the 2012 outturn at 3.0bn shares reflecting the confinement of trades to the higher value stocks. Foreign investors dominated the buy deal flow with an estimated 60% of the total 2013 purchase transactions being attributed to them. Equity portfolio disinvestments by foreign investors amounted to $194.7m being just 40% of the total turnover keeping the overall balance of payments in a net inflow position as more foreign investors continue to find the ZSE attractive. The trading pattern trends followed the now established trend of back to back foreign trades seen in the last couple of years where foreign players parcel out shares to each other as capacity constraints pushes most local players out of the fray. Heavy caps Delta, Econet, Innscor, AICO, SeedCO, CBZ and OK continue to be the market's favourites accounting for the lion's share of total volumes traded as investors remain averse to riskier small cap and mid cap stocks.

TOP PERFORMERS

COUNTER	12/31/2012	12/31/2013	CHANGE	% CHANGE
G/BELTINGS	0.01	0.08	0.07	700.00
BAT	360.00	1,200.00	840.00	233.33
TSL	11.50	38.00	26.50	230.43
AFRICAN SUN	0.90	2.70	1.80	200.00
PIONEER	1.00	3.00	2.00	200.00
INTERFRESH	0.20	0.50	0.30	150.00
MEDTECH	0.03	0.07	0.04	133.33
MASIMBA	3.00	6.50	3.50	116.67
AFDIS	15.00	30.00	15.00	100.00
WILLDALE	0.05	0.10	0.05	100.00

SOURCE: ZSE/EFE DATABASE

Market Heavies lead the ZSE Gains…

Market heavy weights drove the market performance for 2013 with anchoring performances that saw nine of the top stocks by market capitalization closing in gains with the only top ten stock to register negative returns being sugar producers Hippo. Notable amongst the top ten stocks to gain was cigarette manufacturers BAT that rode on some solid financial performances in the prior year coupled with a generous dividend policy and successful implementation of its indigenization plan to post a chat topping performance of 233% and closing the year trading at 1200c. Diversified group TSL that also has interests in tobacco auctioning gave a solid performance on 2013 that helped push it into the top ten capitalized stocks on the market after rallying +230.43% and closing the year trading at 38c. TSL's case was a clear reward for performance as the market acknowledged the decent financial performances attained by the group following the intensive restructuring and realignment exercise post dollarization embarked on by the group.

Multi listed financial services group Old Mutual also enjoyed an unprecedented run in the year under review trekking its firming price on the major markets JSE and LSE though the stock remains discounted on the ZSE to the other markets. Old Mutual was up 66.45% and closed the year trading at 253c. Following were food processing and packaging group Natfoods that continued to solidify its status as the major local supplier of packaged and processed food stuffs in Zimbabwe leveraging on their strategic relationship with major shareholders Tiger Brands and Innscor. In the year under review Natfoods added 51.52% and was trading at 200c by end of the year.

Domineering performances were also seen in the two top most stock by market capitalization Delta and Econet that put on 40.1% and 33.3% closing the year trading at 140.1c and 60c respectively. Delta managed to ride out slowing down volumes with changes to their product mix to maintain growth in revenues and sustain profits growth to maintain the stocks allure, while Econet's vigorous investment in new products and expansion of their business through acquisitions added to the attraction of the group. Other top stock gains were seen in retailers OKZIM that put on 33.3% and closed the year trading at 20c while SeedCO was up +16.9% at 90c and Innscor capped the heavy weight gainers of the year with a +14.29% advance to 80c.

Notable gains were also seen in African Sun that put on 200% and closed the year at 2.7c following the group's efforts to restructure their debt and a semblance of a turnaround in financial performance in the prior year barring the debt burden. Spirits manufacturers AFDIS were 100% to the good at 15c as the group successful concluded a rights issue to pay pack shareholder loans used to finance the company retooling and refurbishments. The year topping performance was seen in GBH whose price went up seven fold to 0.8c in the year

WORST PERFORMERS

COUNTER	31/12/2012	31/12/2013	CHANGE	% CHANGE
FALGOLD	12.00	5.00	(7.00)	(58.33)
PELHAMS	0.20	0.10	(0.10)	(50.00)
HWANGE	17.00	9.00	(8.00)	(47.06)
HUNYANI	3.70	2.00	(1.70)	(45.95)
ZIMPLOW	6.10	3.50	(2.60)	(42.62)
TA	10.00	6.10	(3.90)	(39.00)
RIOZIM	52.00	33.00	(19.00)	(36.54)
AICO	9.00	6.00	(3.00)	(33.33)
RADAR	12.00	8.00	(4.00)	(33.33)
STAR AFRICA	1.50	1.00	(0.50)	(33.33)

SOURCE: ZSE/EFE DATABASE

The only stock in the top ten to trade in negative emerged to be sugar manufacturers Hippo that retreated 18.9% and closed the year trading at 90.02c weighed down by the weak prices of sugar in the global markets. Mining stocks however dominated the fallers for the year with gold miners Falgold leading after shedding 58% to 5c as the global bullion price softened depressing the group sales and aggravating their funding position. Fellow miners Hwange was down 47.06% for year at 9c as funding continued to dominate the news with the group having had to engage a financial adviser to assess terms of a proposed $50m shareholder loan from one of the major shareholders of the group while RioZim's funding issues remained at the fore pushing the price down -36.54% to 33c. Other top fallers included furniture and home appliance group Pelhams that softened 50% to 0.1c while paper processing and packaging group Hunyani gave up 46% and closed the year at 2c. Zimplow that diversified into heavy earth moving and farming equipment distributorship through the acquisition of TPH dropped 42.62% to 3.5c. Investment holding group TA continued to lose its glitter shedding 39% in 2013 and closing at 6.11c and has cumulatively lost 89% since the beginning of 2010 when it was trading at 58c.

2013 Major Transaction and Corporate Actions

A crippling economic environment hampered the much anticipated recapitalizations while the slow-down in demand only helped prompt downsizing in some companies. In 2013 we saw a number of companies bringing on board some foreign investors by either selling stakes of their companies held either in treasury or under the control of directors. Notable amongst the transactions done in 2013 were the disposal of stakes previously held in treasury to strategic partners in CBZ and FBCH. Another one was Astra where management teamed up with Plascon of South Africa to acquire the controlling shareholding previously held by the RBZ; similarly CFI successfully disposed of part of their shareholding in the milling and food packaging unit Victoria Foods to Grindrod of South Africa. Of note in all these transactions was the fact that most of the partners were foreign largely due to the lack of capacity in local players to take up such stakes or to be of relevance to the companies involved as partners.

Equities market Outlook

After a tumultuous 2013 on the socio political front; 2014 offer a slightly stable proposition though the economic challenges rearing their head through a tight liquidity situation that has exposed more fragilities in the local banking sector coupled with limited fiscal space as seen the recurrent expenditure taking up 86% of the projected national revenues. Recent trends have however shown our market to perform at juxtaposition to the overall economy largely due to the dominant participation of foreign players on the local bourse coupled with the highly selective picking of equity investments in the market. It is without doubt however that the stocks that will give supporting financial results and those offering attractive medium to long term prospects will have alluring prospects in 2014. The Zimbabwe economy has largely become consumptive and thus we expect the rightly sized companies with direct access to retail business to thrive. To this end companies in the retail, agro based, food processing as well as packaging; banking spaces should give some decent performances in the ensuing year. In our view we have identified the best case, worst case and probable outcomes for the ZSE.

Best Case Outcome 15% return with a 25% probability

This scenario is anchored by an improvement in the macroeconomic framework with some significant investments into the productive sectors of the economy and arresting the hemorrhaging liquidity situation and boosting aggregate demand in the economy. We believe that efforts to attract investment should not mere talk but should be supported by the political will to achieve the very objective of investment attraction through the crafting of policies that support same.

Worst Case Scenario <5% return with a 15% Probability

This outcome is premised on the assumption that the debilitating economic environment continues unabated with the economy sliding into deflation against a background of weak economic fundamentals. Organic growth alone would not suffice to meet the growing demands on the fiscus and without any significant investment inflows the slowdown will eventually catch on to those companies that have so far held their ground.

Probable Case 10% return with a 60% probability

We place the highest probability on this outcome as we expect the government to put in place measures partially address the funding challenges and liquidity in the economy. While some of the solutions that may come to the table may not be absolute solutions we believe demand will be slightly sustained to guarantee the current demand levels.

Sectorial Picks

Sector	Brief Overview	Weight	Our Pick
Agro-processing	Agriculture has traditionally been the backbone of Zimbabwe's economy and the companies' efforts to improve efficiencies and capacities in the sector better performances are forecast going forward	Overweight	Hippo, SeedCO,
Banking	The Non-Performing Loans problem remains a real threat in the sector while liquidity challenges continue to trouble a few players in the sector. The extended deadline for capital requirements has eased pressure on local banks but the implementation of empowerment regulations remains a challenge for the foreign owned banks.	Neutral	CBZ, NMB, Barclays
Beverages	Volumes taken up by the market have been slowing down in direct relation to the slowing economy. This sector has however established reasonable capacity to take advantage of any improvements in demand should there be a turn in the economy.	Overweight	Afdis, Delta
Conglomerate	Diversity of income streams in a challenging economic environment remains the obvious attraction for stocks in this sector. Appropriate selections based on the source of the income streams can bear decent results from the companies.	Overweight	Innscor, TSL, Meikles

ICT	Increasing innovation in the ICT sector is seeing more diversified income streams creating fairly sustainable business models more so with such innovations as mobile money transfer services	Overweight	Econet
Insurance	Uptake of insurance services has been on a slow upward trend however the slowing down economy poses a threat to this performance	Neutral	Afre,
Manufacturing – Food	Recapitalisations and rationalisations have been the order of the day for local food manufacturers with their allure being the strong equity on their brands. Increasing efficiencies and capacities coupled with improving input supplies makes for a promising platform for much better performances in the medium to long term	Overweight	Dairibord, National Foods
Manufacturing – Non Food	Undercapitalization, low capacity utilization and stiff competition from imports particularly from the far east remain the key challenges for the non-food manufacturers. Those that have made strides to improve capacities and establish some niche markets have the chance to succeed	Underweight	Turnall
Mining	Refurbishments and retooling remain a dire need for the listed mining houses on the ZSE. With mineral and precious metal prices depressed we expect a slow turnaround in the sector. This contrasts with the national outlook where mining is expected to grow by 11% as the listed universe is a far cry of the full extent of mining operations in Zimbabwe.	Underweight	Hwange
Property	Rental rates have remained depressed while rental rate increases have become increasingly difficult on the back of the depressed economic activity. We do not foresee	Neutral	Mash, Pearl, ZPI
Retail	As already alluded to elsewhere in this paper the economy is increasingly consumptive and this sector with the right sourcing and suppliers should thrive though the economic slowdown will in all likelihood end up catching up with the consumer spend.	Overweight	OKZIM, Edgars, Truworths,

For the purposes of this paper we have extended coverage to a few of our picks in the next section of companies coverage and hope to put up more coverage on the excluded companies as the year progresses.

Companies

British American Tobacco

Interim results to June 2013:

Interim revenues for the six months to June 2013 amounted to $23.1m relatively stable in relation to the prior year performance. Gross profit increased by $2.5mn to $16.0mn as cost containment measures bore results. Fair value on share awards made to the Employee Share Ownership Trust as part of compliance with Indigenization and Economic Empowerment legislation at $10.2m saw the company close with an operating loss profit of $2.4m. Finance costs of $139,000 coupled with Income tax expense of $3.7m resulted in BAT closing with a net loss for the period of $1.4mn compared to a profit from last year of $5.1m.

Operations Review

Domestic cigarette sales volumes declined 16% compared to the outturn from the same period last year with the decrease in sales volumes affecting all local brands with resilience being seen only in market leader Madison The group is however shown to control 75% of the market from independent research. Dunhill, the global drive brand, grew volume by 44% compared to last year though this was off a small consumer base. Cut rag exports to Mozambique were discontinued with focus being shifted towards building distribution of the manufactured cigarette portfolio.

Outlook

Management expects the company to continue delivering solid performances riding on the strength of their brand portfolio and business processes that should deliver a sustainable and competitive advantage. These should see the group consolidate their effort to distribute manufactured products in the formally cut rag market, Mozambique.

Comment and Valuation

BAT has established itself as one of the top performers on the ZSE supported by some solid financial performances capped with attractive dividend rewards to shareholders. Its interim numbers to June 2013, bore the same hallmarks of financial strength excluding the fair value charge for the shares awarded to the employee share ownership trust. Based on their H1 performance trajectory we forecast a turnover of $52.1m for the full year with target GP and PAT of $36m and $7.3m. Applying a PER of 18.4x to the adjusted PAT of $16.5m net of the ESOT deductions we value BAT at $303.8m which is an implied target price of 1,472.54c. Capital gains on the stock appear limited after the rallies in recent years, the allure for BAT vests in the generous dividend payout that in recent years ran at in excess of 90%. As the dynamics and economics of their markets suggest maturity in the cigarette industry we believe that their long run success will continue to ride on the strong brand equity and market leadership of their products. With a market share of 75% we maintain our bullish take on the cigarette manufacturer, and therefore maintain the **BUY** recommendation on BAT.

			British American Tobacco Zimbabwe
Price:			1320
52 Week High:			1475
52 Week Low:			434.4
20 Day VWAP:			1212.27
Current Price			1320
YTD Return			13.30%
Issued Shares			21
Mkt Cap ($000)			272,362
P/E (X)			22.2
Financial Data	**Actual**	**Actual**	**Forecast**
	31-12-12	**30-06-13**	**31-12-13**
	US$000's	**US$000's**	**US$000's**
Revenues	51,853	23,137	52,121
Gross Profit	29,891	15,969	35,974
Operating Income	17,612	2,405	14,078
PAT	12,262	-1,439	7,335
NAV	17,960	4,259	13,033
EPS (US$)	0.71	-0.09	0.42
Div Per Share	60.80	-11.20	34.88
RoE	68.27	-33.79	56.28
P/E (X)	5.07	(111.11)	31.28
Div Yield	16.89%	-1.12%	2.64%
Earnings Yield	0.20%	-0.01%	0.03%
Closing Price	360	1000	
Target Price			**1,472.54**

SOURCE: EFE SECURITIES

DZLH

Interim results to June 2013: Group revenues for the six months ended 30 June 2013 amounted to $49.1mn up by 1% on last year. The group was in an operating loss of US$3.1mn compared to a 2012 operating profit of US$4.4mn as a consequence of once costs related to rationalization of operations in the group. Excluding the once off expenses, group costs increased by 8% on account of increases in costs of key materials and wages. The group went on to post after tax losses of $3.3m after accounting for finance costs and income tax expenses. The group's balance sheet stood at $69.9m and of this amount $43.8m represented the shareholders equity. Cash and cash equivalents at the end of the period amounted to $1.1 after operations had generated $1.9mn

Operations: Sales volumes decreased by 0.6% from 32.22mn litres in 2012, to 32.04mn litres with volume growth by product standing at 8% for liquid milks, 13% for foods and a 12% decrease for beverages. Relocation of plant and equipment affected product supply over the period, while this coupled with rationalization of plant and staff compliment to give the group once off costs of $4.3m to that weighed on the interim performance. The growth in liquid milks was buoyed by the increased raw milk intake in Malawi, and importation of processed UHT milk from South Africa while investments made in yoghurt, tomato sauce, salad cream and ice cream gave the impetus to the foods. Management believes that increased capacity and brand building will continue to enhance competitiveness. Affecting beverages category was stiff competition and limited product availability.

The group expected to consolidate operations and reduce overhead costs from the rationalization exercise with benefits having been expected to accrue from H2 2013 as plant and equipment from Bulawayo and Mutare was re-deployed to functional factories in Harare and Chitungwiza. Raw milk intake grew by 2%, to 13.3mn litres, from 13.1mn litres received in the same period last year which was ahead of national performances as Zimbabwe recorded a 1% decline while supplies in Malawi increased by 9%. The group's Heifer Importation Scheme in Zimbabwe has seen an additional 4% of raw milk per month in line with management target.

Comment and Recommendation:

Dairibord completed a much needed rationalisation in the first half of 2013 with benefits of the exercise having been expected to start accruing in H2 of 2013. We believe that once all settles this should see the group post 2014 revenues of $109.9m while better margins from the leaner structure should results in operating profits and PAT of $11.1m and $8.2m respectively. Applying a PER of 11.97x from a selection of food processors we determined a target value for Dairibord at $97.9m placing our target price at 22.99c. As benefits of the group's heifer importation program continue to accrue coupled with a leaner structure we anticipate more improved performances from DZLH.

Price:			15.50
52 Wk High:			31.00
52 Wk Low:			13.00
20 Day VWAP:			15.27
P/E:			7.84
D/Y:			0.03
PBV:			1.14
EV/EBITDA:			7.59
Issued Shares(000)			358,001
Market Cap:			55,490
	Jun 13A	Dec 13F	Dec 14F
	US$000	US$000	US$000
Revenues	**49,052**	**107,786**	**109,872**
EBITDA	**6,099**	**12,198**	**14,544**
Operating Profit	**(3,060)**	**6,823**	**11,147**
PBT	**(3,268)**	**6,823**	**10,716**
Profit for the year	**(3,305)**	**5,205**	**8,175**
Total assets	**76,583**	**81,709**	**89,884**
Total capital	**44,519**	**49,645**	**57,820**
Total liabilities	**25,334**	**25,334**	**25,334**
EV	**80,824**	**80,824**	**80,824**
Ratios			
Shares In Issue (000)	355,981	355,981	358,001
EBITDA Margins	12.43	11.32	13.24
Operating Margins	(6.24)	6.33	10.15
PBT Margins	(6.66)	6.33	9.75
PAT Margins	(6.74)	4.83	7.44
EPS (US cents)	(0.93)	1.46	2.28
Dividend Per Share	2.00	3.00	4.00
RoE	(4.32)	6.37	9.10
P/E (X)	(26.93)	10.26	6.79
Div Yield %	8.00	20.00	25.81
Earnings Yield	(3.71)	9.75	14.73
Closing Price	25.00	15.00	15.50
Target Price			**22.99**

SOURCE: EFE SECURITIES

Delta Beverages

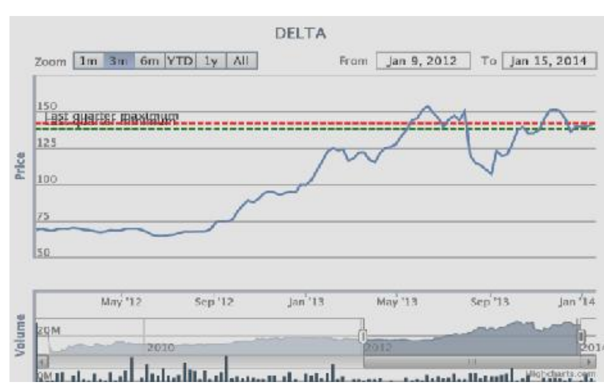
Interim Results to Sept 2013: Group revenue increased by 5% to $315.5m (Turnover - $367.3m), and the group achieved an EBIT of $62.6m representing a growth of 10% on the back of an improvement in operating margin percentage from 21.92% to 23.04%. Group EBITDA grew 10% to $77.7m and from these attributable income of $47.2m (up 12%) was achieved indicating an implied normal EPS of 3.83c per share. The group then rewarded its shareholders with an Interim total dividend of $16m which is 14% above that paid out last year. Group balance sheet as at the end of the reported period stood at $582.1m while of which $363m deemed to be ordinary shareholders' funds

Operations Review: Overall group volumes were up 4% at 3.5m hl with contributions coming in at 26% Lager Beers, 22% Sparkling Beverages, 50% sorghum beer and 2% to Maheu. By beverage types, Lager Beer volumes declined by 10% while gross sales were down 4% to $164m, Sparkling Beverage volumes grew by 8% driven by pack innovation and improved availability while category gross sales went up 8% to $110m. Chibuku (sorghum beer) registered gross sales of $76m up 24% while volumes were up 9% for the half year on the back of the launch of Chibuku Super. The alternative beverage mainly Maheu recorded huge growth with volumes up 57% and gross sales surging 59% to $7m. Delta's Q3 trading update however reflected the slowdown in consumer spending which on its own highlights slowing down economic activity. Consequently revenues were down 3% for Q3, and up 2% for the nine months to December 2013 in line with management expectations. Q3 volumes were flat and consequently up 2% for the nine months to December 2013.

Outlook: The group's major focus in H2 will be on issues such as a lobby for excise duty reduction to drive lager beer growth while plans are afoot to commission a second plant for Chibuku Super and the launch of the 1,25lt Chibuku Super convenience pack. Plans are afoot to roll out 350ml PET pack for SBs

Comment: The group's performance was pretty much in line with expectation in terms of revenues and volumes achieved in H1 largely due to the guidance of the quarterly updates from the company. Their improved margin performance at operating level was the icing on the cake as the group's bottom-line surpassed our expectations as the growth was more than double the growth in revenues. In line with Q3 performance we forecast a marginal FY revenue growth to $747.6m for FY 2014 after factoring in the slowdown in demand. Applying the H1 margins we forecast that the group to attain earnings of $105m for the full year to March 2014. Based on our average P/E of 20.61x this places our target price at 173.69c. Delta's allure has always been its strong market presence coupled with their consistent capital investments that have resulted in optimal productivity and should assure sustainable returns. We believe that the group's drive to diversify its income streams via additions to their product range is a welcome move towards its long term growth prospects. We therefore maintain a **BUY** rating on them.

Company Name	**Delta**		
Current Price :			138.99
52 Week High :			157.00
52 Week Low :			104.90
20 Day VWAP :			139.78
P/E :			15.94
D/Y :			0.03
PBV :			4.80
EV/EBITDA :			11.10
Issued Shares (mn)			1,243.48
Market Cap (mn)			1,740.87
	final	**Interim**	**FORECAST**
	31-Mar-13	**30-Sep-13**	**31-Mar-14**
	US$ 000	**US$ 000**	**US$ 000**
Gross Sales	740,162	367,259	747,564
Revenues	631,276	315,468	642,142
EBITDA	161,500	77,700	164,280
Operating Income	134,989	62,578	137,312
PAT	104,123	47,708	105,915
AE	104,123	47,202	104,792
NAV	347,250	394,452	452,042
EBITDA Margins	22%	21%	22%
EPS (US cents)	8.46	3.80	8.43
Dividend Per Share	3.40	1.53	3.39
RoE	29.99	24.19	23.43
P/E (X)	13.59	16.33	16.61
Div Yield	2.96%	1.23%	2.96%
Earnings Yield	7.36%	6.12%	7.36%
Closing Share Price	115.00	124.01	
EFE Target Price			**173.69**



SOURCE: EFE SECURITIES

Econet

Interim Results to Aug 2013: Econet posted an almost flat performance for the interim period to August 2013 where the basic and diluted EPS took a marginal 2% drop to 4.5c. The highlights of the interim period performance included the 11% increase in revenues to $376.6m coupled with an 8% jump in EBITDA to $165.3m as group sustained a respectable EBITDA margin of 44%. Higher depreciation charges at $45m on the back of the heavy impairment of loans at the bank coupled with steeper finance charges at $18m saw the group close with before tax profits of $106m which was 5.5% lower than the prior year comparative. From these the group closed with after tax profits of $70.5m 10% down on last year. The group's balance sheet stood at $1.1bn and of this $564m was the group's NAV. Operations generated $219m in cash and they closed with cash and cash equivalents of $39.9m.

Operations Review: The group registered a 22% increase in subscribers to 8.5m over the period helping them maintain their position in the value share of 74%. The group registered 2.6% growth in voice related revenue streams of which 3.2% of the growth is attributable to new lines of business as ARPU's are sustained at about US$8. On data the group launched the 4G service and a device finance scheme. Data subscriber base and volume of data delivered grew as data bundles products were launched. EcoCash the group's mobile money transfer platform registered exponential growth in number and value of transactions and further growth is forecast as new products are introduced; over the same period the platform was upgraded to cater for higher volumes and transaction capacity per second. Innovative products launched over the interim period to date include the mobile agro insurance product EcoFarmer and the savings account product EcoCash Save to take advantage of the higher mobile penetration that exceeds the percentage of the population with bank accounts.

Valuation and Recommendation: Based on Econet's interim performance trajectory we forecast that the group should post revenues, EBITDA and PAT of $769m, $363m and $137m. Given the challenging and slowing economic environment, Econet has demonstrated its resilience with the 10% growth in revenues where all else is either stagnating or falling. Lower margins that were somewhat expected given the investments in promotion and growth through new products which should be recouped as the products find footing in the market. Our P/E based valuations places Econet at a target market capitalization of $1.2bn (71.46c), (price determined based on total shares including class A shares)

While the lower profitability could be a cause for concern we believe that this should not be surprising given their aggressive expansion drive and the attendant rationalizations that came with the acquisitions like the bank. Margins should therefore improve as these processes come to fruition. As growth in some of the mobile products like voice continues to show signs of stagnating we commend the group for the expansion drive that should auger the income diversification efforts and sustain the group on a growth path. We therefore maintain our **BUY** rating on the group.

Stock Data			
Current Price :			61.50
52 Week High :			71.00
52 Week Low:			48.00
20 Day VWAP :			62.41
P/E :			7.40
D/Y :			-
PBV :			1.72
EV/EBITDA :			4.72
Shares Issue (m)			1,572.51
Market Cap ($m):			971.81
	Full Year	**Interim**	**ForeCast**
	Feb-13	**Aug-13**	**2014 F**
Revenues	695	377	769
EBITDA	305	165	363
PBT	205	106	233
PAT	140	71	137
NAV	489	564	392
Total ASSETS	1,015	1,135	730
Total Liabilities	522	567	294
EPS (US cents)	9	5	9
Dividend Per Share	0	0	1
Ratios			
RoE	28.59	12.51	34.85
EBITDA Margin	44%	44%	47%
PBT Margins	29%	28%	30%
PAT margins	20%	19%	27%
P/E (X)	7.89	13.33	7.12
Div Yield	0.00%	0.00%	1.62%
Div Cover	-	-	8.68
Earnings Yield	12.68%	7.50%	14.05%
Closing Share Price	71	60	
EFE Target Price			**71.46**
Extras			
Subscribers	8,000	8,528	8,570
ARPU	-	8.00	8.00

SOURCE: EFE SECURITIES.

Edgars

2013 Interim Results Review

Revenue grew by 14% to $28.7m over the prior year on the back of a 13% increase in retail sales to $27.2m. From this a trading profit of $2.5m was achieved which was -7% lower than last year implicated by a surge in operating expenses. Subsequently PBT came in at $1.6m which is a growth of 21% after net interest paid shrunk by -36% to -$0.84m. Subsequently PAT of $1.09m was achieved which is a bottom line growth of 17% on prior comparative period. This culminated into an EPS of 0.44c while the balance sheet contracted by 14% to $38m as at the reporting date sufficing to give a NAVPS of 4.51c. This was after a repayment of borrowings which reduced by 38% to $4.3m while cash and cash equivalents closed the period at $0.55m.

Operations Review

Of the $28.7m sales revenue, Edgars' chain stores accounted for 75% of the net at $22m. Despite a 12% increase in turnover Edgars chain contribution ratio declined by 7% compared to last year while Jet now in the second year of operation contributed 16.8% at $4.94m in comparison to last year. Edgars' chain revenue grew by 12% on unit sales growth of 4.4%. The medium term loan secured in December 2012 also helped achieve an improved bottom line. In the period under review Edgars chain operated 24 outlets while an additional branch was opened in Chipinge in July. Under the jet brand new stores were opened in Gokwe, Chipinge and Harare bringing the total to 18 stores. More stores under Jet are expected to be opened before Christmas shopping season. Going forward the group will focus on marketing to increase brand awareness of Jet while improving product offering and implementing tighter cost control in the group.

Recommendation

The coming on board of Jet has set the tone for fresh growth stimuli in the apparel retailer. Despite a 17% revenue contribution rate Jet proves to be the trump card given its growth levels of 17% within its two years of operation. Given a less supportive macroeconomic environment rife with limited credit line and stagnant revenues we remain conservative on our forecasts. However the prospects of an upwards revision in civil servants salaries will augur well with a consumption skewed populace. We therefore expect the topline to grow by 5% to $65,4m. If they sustain GP margins of 50% these should translate to $32.4m gross profit. If we also apply EBITDA margins of 14% to the forecast second half performance and adding the first half outcome our full year EBITDA forecast will turn out at $8,97m. Against this background, PAT of $4.0m is expected. Based on a PER of 14.28x from selected peer groups in the region we value Edgars at $57.2m which translate to a target price of 19.52c. **BUY.**

Company Name	**Edgars**
Price:	12.5
52 Wk High:	15
52 Wk Low:	8
20 Day VWAP:	12.01
P/E:	9.24
D/Y:	0
PBV:	2.98
EV/EBITDA:	7.26
Issued Shares:	289.97
Market Cap:	35.09

Year End	**31-Dec-11**	**31-Dec-12**	**2013 F**
Revenues	52,966	62,576	65,392
PAT	3,336	3,798	4,006
NAV	11,661	30,463	38,185
EPS (US cents)	0.01	0.01	0.01
Dividend Per Share	0.00	0.00	0.00
RoE	0.43	0.32	0.10
P/E (X)	666.00	923.91	-
Div Yield	0.00%	0.00%	0.00%
Earnings Yield	11.38%	10.82%	11.42%

Target Price	**19.52**

SOURCE: EFE SECURITIES

OK Zimbabwe Limited

Current Price :	20.01
52 Week High :	30.00
52 Week Low :	15.60
20 Day VWAP :	19.85
P/E :	20.43
D/Y :	0.02
PBV :	4.66
EV/EBITDA :	13.76
Shares in Issue (m)	1,153.98
Market Cap ($m)	230.91

Financial Data	Final Mar-12	Final Mar-13	Forecast Mar-14
Turnover	412.56	479.64	504.50
Gross Profit	70.16	82.91	87.20
Operating Profit	15.45	17.67	20.66
PBT	14.98	16.90	19.86
PAT	10.31	12.38	14.55
NAV	38.81	47.51	56.39
Total Assets	95.50	116.30	130.84
EPS (US cents)	1.00	1.19	1.40
NAVPS	4.62	5.44	6.84
Div Per Share	0.50	0.60	0.70
PBT Margins(%)	3.63%	3.52%	3.94%
PAT Margins(%)	2.50%	2.58%	2.88%
RoE	21.69	21.96	20.50
P/E (X)	12.57	20.09	14.26
PBV	2.73	3.76	2.16
Div Yield	0.05	0.03	0.05
Earnings Yield	0.08	0.07	0.09
Closing Price	11.00	18.00	
Target Price			30.55

SOURCE: EFE SECURITIES

Interim results summary

Revenue for the period was up 13% to $234m over prior period to give gross margins of 17% while EBITDA surged 4.8% to $ 9.6m.Operating profit at $6.5m was 5% lower on last year whereas PBT and PAT came in at $6.5m and $4.8m respectively. The after tax profit achieved was marginally lower than that achieved last year resulting in a negative variance of 0.05%. Total assets stood at $122m which is up 17% on last year while equity surged 29% to $64m. Cash and cash equivalents closed the period 109% firmer at $15.9m while the group maintained an interim dividend of 0.2c.

Results and Operations review

Revenue for the period was driven by improved sales volumes against a drop in margins, as margins contracted volumes improved. However the effect of constrained margins cascaded down to operating profit which turned out lower compared to last year. Net sales per square meter improved to $6,105 while gross margins were slightly lower at 16.9% compared to 17% previously. The group had to deal with limited margins as demand declined across the economy while at the same competition in sector reduced substantial room to exert upward revision. Prices therefore become sticky upwards. Two new shops were opened in the first half of the financial year to 2014. The group made efforts to diversify income streams by launching the multifranchised money transfer agency OK Money Wave, went into the sale of electricity vouchers and software development under Swan Technologies. Procurement focused on direct importation to create competitive pricing. Shrinkage for the interim period was contained below the 1% mark at 0.9% and $1.3m in absolute terms.

The group's strategic thrust was on market share growth and efficient use of existing capacity while expanding services by leveraging on IT skills. Efforts for new store development and maintenance coupled with refurbishment push will continue to expand footprint and enhance the shopping experience in the group stores. As such full and partial refurbishment work is expected to be done in five stores for H2 2014 while an additional two new branches will be opened one in Harare's Mabvuku suburb while another with be opened in the resort town of Hwange as the retail group establishes its presence in the resort town.

Valuation and Recommendation

In valuing OKZIM we took into cognizance the interim performance growth and projected this into the second half to come up with target revenues of $504.5m Maintaining H1 GP and PAT margins we forecast gross profits and after tax profits of $87.2m and $14.6m respectively. Applying an average PE multiple of 24.23x we came up with a target value of $352.5m which implies a target price of 30.55c. The group has been on a steadily growing trajectory for revenues and performance since dollarization. With OK increasingly becoming one of the strongest players in the retail space with an ever-growing presence in the Zimbabwe retail space we believe the stock is an attractive investment option on the Zimbabwean space. We thus maintain our BUY recommendation on the group.

Truworths

2013 Results Review: Revenue for the year at $25.38m were 10% up on prior year to give a gross profit of $12.4m. At EBITDA level of $2.4m the group operated at 10% margin to achieve a before tax profit of $1.6m. PAT came in at $1.2m and was 11% ahead the comparable period last year while the group declared a dividend of 0.078USc. The balance sheet grew by 20% to $19.4m on prior year on the back of a $2.7m long term debt coupled with retained profit for the year resulting in NAV per share of 1.47c. Cash and cash equivalents at the end of the year were at $0.41m while CAPEX was at $1.29m

Operations Review: Of the group's sales for the period of $25.38m cash sales were 25.1% while 74.9% were credit sales. Overall sales contributions by chain were Truworths 35.8%, Topics 51.7% and Number 1 12.5%. Aggregate merchandise sales increased 8.2% over prior year to $23.83m buoyed by a 26.9% upsurge in Number 1 stores sales. Over the reported period the number of active accounts improved 8.2% to 76,500 accounts. Trading margins improved by 1% to 5.9% while EBITDA margins firmed 3.7% to 14.6%.gross margin of 52.2% which is 1.5% up on last year was achieved on the back of a decrease in shrinkage of 0.8% and a 0.7% decrease in discounts. Going forward the group aims to increase sales after launching a Truworths/Topics In store Credit Card for use in Truworths and Topics Stores with the benefit to customers of improved repayment terms of 10.5% bringing down the monthly installment from 16.7% to just 6.2% with a longer credit period . The credit is being funded by a local financial institution with the initial phase of the credit card being funded to the tune of $5m, with the first review slated for January 2014. The group expects this first phase to generate an additional $2.7m in sales while the funding would free up $150,000 monthly into the working capital cycle.

Valuation and recommendation: Truworths has made a tremendous stride by extending the credit period to customers and at the same time lowering the repayment amount and if previous experiences following the introduction of credit and extension of repayment period is anything to go by, the group should experience significant growth in sales with the only constraining factor being the funding availed to the credit card facility by the sponsoring bank. However despite the constraint we forecast that the group will achieve revenue of $30.9mand post operating profit, PBT and PAT of $2.5m, $2.8m and $2.1m respectively. Applying an average P/E of 14.3x to our target earnings we value Truworths at $29.7m target price 8.29c. The retail sector is going through a reinvention to reach the global standards that are largely anchored by credit sales. We believe that Truworths is well positioned and has already ventured into longer term credit facility that should propel its performance of course subject to extension and increase in the credit line from the current $5m to a higher figure. Though concerns could be raised about the performance of the debtors book given the economic challenges, Truworths has always been conservative in its client selection and should ride out the storm with ease. **BUY**

STOCK DATA			**TRUWORTHS**
Current Price :			4.20
52 Week High :			5.50
52 Week Low :			2.23
20 Day VWAP :			4.14
P/E :			14.92
D/Y :			-
PBV :			2.80
EV/EBITDA :			12.99
Issued Shares (mn) :			358.80
Mrkt Cap ($mn) :			15.07
	FY 2012	**FY 2013**	**2014 F**
	$ 000	**$000**	**$000**
Revenue	23,059	25,377	30,865
Op profit/loss	1,157	1,376	2,524
PBT	882	1,598	2,815
Profit /Loss	648	1,182	2,083
Total Fixed Assets	2,303	2,815	1,852
Current Assets	13,793	16,559	18,642
Total Assets	16,096	19,374	21,457
Total Equity	4,320	5,502	7,064
Ratios			
Op Margins	10.04%	10.85%	8.18%
PBT Margins	7.65%	12.60%	9.12%
PAT Margins	5.62%	9.32%	6.75%
Target Market Cap			29,736
Target Price			**8.29**
Upside/Downside			97%

SOURCE: EFE SECURITIES

TSL Limited

2013 Interim Results Review:

The group posted improved revenue of $20.2m; 31% ahead of last year. Profit from operations was 50% up at $4.2m to give a firmer operating margin of 21%. Net finance costs were $0.3m; 1000% ahead of last year sufficing to marginally constrain PBT growth to 35% over last year at $4.3m. Profit for the period at $3m was 33% up implying an EPS of 0.9c which is 29% up while an interim dividend of 0.2c was declared. The Interim balance sheet stood at $80m, 10% ahead of last year. Current liabilities were up 54% on increased borrowings of $6m while cash and cash equivalents closed the period at $2.1m.

Operations Review:

The fine performance by the group in the period under review was underpinned by sustained tight cost control measures and increased tobacco supply as average prices of the golden leaf remained stable. Streamlining of operations in the preceding year also assisted in improving operating profit. The increase of 1000% in borrowings to $6m transformed saw the group closed with a gearing ratio of 10%.

Logistics: *Bak logistics* saw revenue grow 9% on the comparable period while profits declined due to price restructuring while Avis recorded 11% improvement in the bottom line over prior year despite revenue being 9% lower on discontinued fuel operations. ***Tobacco:*** TSF benefited from an upsurge in the national crop coupled with cost containment measures to improve profitability. Propak's revenue was 44% up on last year benefiting immensely from a growing customer base after re engagement of key clients. Cut rag saw revenue and profit drop due to disruptions in production during relocation of the cigarette department. ***TSL Property group:*** a new operation whose warehousing facilities will be ready for use in the first quarter of 2014. $1m was spent on refurbishment in a bid to preserve property value. Management is forecasting third party tenancy in excess of 80% by 2015. The group expects to continue benefiting from the rationalization initiatives launched last year. Tobacco initiatives taken on last year are also expected to positively contribute to overall group performance by year end. BAK restructuring is also expected to be completed soon while management expects the unit to start going profitable by the second half of the current financial year

Valuation and recommendation:

The allure of TSL vests in the successful realignment of operations and an agro based industrial model which exhibits much potential at macro level. With both the agricultural and industrial sector poised for growth, subject to funding, TSL is best positioned to harness this value and sustain its growth momentum. In valuing TSL we assumed they will carry the H1 momentum into H2 with an adjustment for seasonality to forecast revenue of $42m for 2013 while the benefits of their tobacco farmer support should see their 2014 revenues close at $50.4m. Assuming similar margins to H1 2013 the group should achieve 2014 operating profits of $12.7m and earnings of $10.2m. Applying its local group PER if 16.29x we value them at $166.5m (47.89c). BUY.

Current Price			38.00
52 Week High			39.00
52 Week Low			11.50
20 Day VWAP			38.89
P/E			20.37
D/Y			0.02
PBV			2.40
EV/EBITDA			17.46
Shares in Issue			356.74
Market Cap			135.56
	HY 2013	**2013 F**	**2014 F**
Revenue	20,222	42,012	50,414
Operatin Profit	4,235	8,799	12,670
PBT	4,356	9,227	12,809
PAT	3,091	7,910	11,053
Att Profit	3,357	7,313	10,219
Total Assets	80,587	88,497	110,602
Net Asset Value	56,518	63,831	85,102
Total Liabilities	19,936	19,936	19,936
Ratios			
EPS	0.97	2.10	2.94
NAVPS	16.26	18.36	24.48
TAPS	23.18	25.46	31.82
ROE	11.83	12.88	18.08
ROA	9.22	10.04	12.68
PE	9.58	18.06	12.93
PBV	1.14	1.31	1.55
EV/EBITDA	19.12	11.50	12.00
Price	18.50	24.00	
EFE Target Price			47.89

SOURCE: EFE SECURITIES

NOTES

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