WEEKLY REPORT
Zimbabwe
Equity Research

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AICO Africa – Final Results for Year ended 31 March 2009

Results Summary

AICO Africa released an impressive set of results despite difficult working conditions stemming from hyperinflation, a sharp decline in global lint prices, price controls and shortages of vital raw materials such as electricity, coal and water.

Crop intake was 2,5% higher at 122,000 tonnes as they controlled 52% of market share. As such, revenue for the year was $120,7m (F2008: $152m), generating operating profits of $26,9m. Their income statement includes impairments of $15,6m mainly due to losses incurred as some debtors were converted from Z$ to US$ as well as hording of over-priced inputs during the acme of the economic downturn in Zimbabwe. Resultantly, they made a profit after tax of $16,8m (F2008: $27,0m) from an underlying profit of $32,4m. Borrowings were $3m up to $35m, $20m from Cottco and $15 from SeedCo. Their balance sheet however remains strong at $214,5m with a net asset value of $115,3m.

Outlook

AICO is optimistic going forward, with target market share of above 52% and net crop size of 250,000 tonnes. Over the 2 months to May 2009, they made a turnover of $14,6m and an operating profit of $3,4m. Olivine, their 49% owned upcoming FMCG subsidiary is currently undergoing refurbishments. They have so far sunk $2m on the food giant and need up to $5m to complete current refurbishment projects. Turning over $2m per month, Olivine is currently operating at 18% capacity with the aim to increase capacity to 60% by year end.

Recommendation

Based on management's net crop size forecasts of 250,000 tonnes as well as Olivine's revenue growth forecasts of 200% this year, AICO should turn over $247,3m with earnings of $26m. Applying regional average PERs of diversified ginning companies of 5,4x, our estimated value for AICO is $148,3m ($0,28 per share). At $0,23, there is no real upside potential. However, they stand as one of the most stable groups on the bourse with strong earnings growth potential from their FMCG. We attach a **LONG TERM BUY** recommendation on them.

Analyst: James T Chiuta

African Sun – Results for Half Year ended 31 March 2009

Summary of Results

African Sun released a dreary set of results owing to the harsh economic environment Zimbabwe had been operating in especially in the second half of last year. Zimbabwe operation, which contributed 75% of the group's total revenue, faced very low occupancy rates of 27%, pulling the group's average occupancy rate to 29% (break even occupancy rate is 28%). This was mainly due to the Global Financial Crisis as well as the harsh economic environment in Zimbabwe. The group enjoyed an Average Daily Revenues ADR of $96, recording revenues of $13,6m. African Sun's EBITDA margins were suppressed at 8% (H12008: 33%) as the conversion to use of multiple currencies resulted in increased costs in the face of depressed sales, earning them an EBITDA of $1,1m and a profit before tax of $0,54m.

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They earned a share of other earnings of associate companies (Dawn Properties) of $0,9m, resulting in the group's attributable earnings for the year of $1,4m. Basic EPS was 0,08c. African Sun maintained a strong balance sheet of $46,1m and an NAV of $31,1m and a gearing ratio of 2%.

Outlook

The group is optimistic about their future, with the political economic climate in Zimbabwe stabilising and the 2010 World Cup around the corner. Room bookings have increased and more international conferences like the COMESA Summit being hosted in Victoria Falls should increase occupancies. Group hotels in South Africa have secured business for the 2010 World Cup and they expect to have a hotel ready in Gaborone by then in an attempt to have their regional hotels involved in the huge tourist influx. At present, FIFA had secured 31,000 rooms out of 51,000 needed to accommodate people during the course of the tournament. Hence, tourism opportunities are likely to spill over into Zimbabwe and the rest of the region. African Sun's expansion plans remain buoyant having secured 458 rooms in Nigeria for management contracts in December 2008. Furthermore, they are awaiting the completion of four projects in the region that should increase their rooms under management by 566 rooms. Currently managing 2,926 rooms, African Sun is confident they will meet their 2012 target of 8,500 rooms. They are currently undergoing the refurbishment of their local portfolio and estimate the cost to come up to $15m, an amount they hope to secure though multiple financing agencies.

Recommendation

Assuming African Sun increases their rooms to 3,500 rooms this year, achieve an average occupancy rate of 50%, ADR remains at $96, we estimate their revenue and earnings forecast to be $61,3m and $12,9m respectively. Applying a regional average PER comparative of 15,6x, we value African Sun at $0,31 per share. At current price of $0,15, there is a 100% upside potential. **BUY**

Analyst: James T Chiuta

KMAL – 22 June 2009 EGM

The EGM called by major shareholder Econet Wireless Global Limited (Econet) to demerge KML was held on Monday the 22nd June. The resolutions to demerge Kingdom Financial Holdings Limited from Meikles Africa and re-list Kingdom Financial Holdings as a separate entity were passed by a 98% vote. The Meikles family was allowed to vote after their representatives proved their specification to be null and void.

Recommendation

The net asset values of the two companies, MA and KFH, as at 31 December 2008 were $89,7m (36c per share) and $34,0m (14c per share) respectively. KFH has to return $25m paid by MA to cover their capital requirements, leaving their real NAV on re-listing at $9m (4c per share). Using regional average PBV multiples of 2,2x, a fair price for MA and KFH when they open trade should be $0,79 and $0,09 per share. Now that the air is cleared and investors can see beyond the conflicts, one needs to know the direction of the two companies. They both have great potential given their strategic positions in the industry. However, no clear path has been mapped forward for these companies. For now, we would advise investors to wait and see how they will implement their growth plans on their separate paths. **AVOID.**

Analyst: James T Chiuta

Steelnet – AGM and Trade Update

Trade Update

Steelnet held their AGM on Thursday the 25th of June and gave a trading update. With volumes 60% lower and capacity utilization at 20%, turnover for the 5 months to May were only $500,000. 60% of it came from exports as Hastt serviced an Angolan order. BMA had just a 16 tonne order out of Hwange Colliery. Tube and Pipe Industries was starting (from zero production) to receive finished steel pipes from South Africa.

...Steelnet continued

Recommendation

The steel industry will only start picking up once the global and domestic economies begin to promote local infrastructure projects. As such, we expect volumes to remain suppressed for the next 18-24 months. We therefore recommend clients to stay out of Steelnet until there is solid evidence of support for infrastructure development projects. **SELL.**

General Beltings Holdings – AGM and Trade Update

Trade Update

General Beltings Holdings held their AGM on Wed the 24th on June and gave a trade update. The group turned over $1,4m in the 5 months to May with their chemical division, Cernol Chemicals, sales going up by 130% in this period as they improved their monthly sales from $83,000 in January to $200,000 in May. Currently operating at 30% capacity, their chemicals division increased their monthly volumes from 44 tonnes in January to 77 tonnes in May, enjoying gross margins of 47%. Capacity utilization should however increase as they secure export markets for their products. GB's functional capacity is 75%. However, sales had been suppressed as the group was only managing 1 tonne in January. Improvements have been made as they were now managing 8 tonnes in May and targeting 20 tonnes in June. Efforts to improve capacity and efficiencies should cost up to $1m which they wish to secure through the government or from supporting countries.

Recommendation

In the short term, there seems to be very little value in GBH given their industry has been revolving over the past 10 years while they were dormant. Their sales forecasts are too low to make them comparable with other regional companies in their industry. However, given their niche market (mines) is reviving, we could see earnings growth once the mining sector recovers. There is a high risk of failure though, but the rewards should entice the speculator. As such, we attach a **SPEC BUY** recommendation on GBH.

CBZ – AGM and Trade Update

Trade Update

CBZ held their AGM on Thursday the 25th of June and gave a trade update. Currently sitting on deposits of $150m (approx 33% of total market deposits), they control approximately 23% of the market in terms of advances. Income for the 5 months to May was $11m with 25% of it coming from net interest income from 11% last year. They went on to make a PAT of $2,9m. Management took pride in the fact that they are capitalized at $48m with total assets of $241m. Their property projects in the Grange, Borrowdale, Newlands and Mazowe, totalling over 150 Ha, should help kick-start their building society operations at Beverly.

Recommendation

CBZ have taken the first mover approach, aggressively lending 47% of their deposits. With a strong balance sheet though, they should be able to withstand any unforeseen problems in the industry. Controlling 33% of market share by deposits and 23% by advances, we forecast their annual earnings to be in excess of $26,4m. Applying a regional average PER of 9,9x, we attach a value of $0,29 per share. At $0,11, we see a great upside potential and recommend them as a **BUY**.

FBCH – AGM and Trade Update

Trade Update

FBC held their AGM on Thursday the 25th of June giving their trade update for the 1st 5 months to May. They achieved revenues of $7m, 80% of it coming from non-funded income. They earned a profit before tax of $1m. The bank currently sits on deposits of $40m lending out only 10% of them as they assess the risks of lending in this environment. Their NAV stands at $26m with total assets of $60m. They have also been agents for regional lenders such as PTA who in total availed $20m in the forms of letters of credit.

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...FBCH continued

FBCRe made a Gross Written Premium (GWP) of $6m and made a technical profit of $700,000 as they maintained their leading reinsurer status in the market. Their building society has a few property projects in the duct. They have recently completed a 140 unit housing project costing $500,000 and currently valued at $1,4m on stands and $3m on houses.

Recommendation

FBC's value lies mainly in their low risk status. With a prudent lending book of $4m (10% of deposits), as well as a profitable business model, we expect them to survive any turbulence that could arise in the near future. Furthermore, they have a good property portfolio to kick-start their building society. Using PBV regional comparatives of 1,6x we value FBC, with an NAV/share of 7,2c at $0,12 per share. For a company currently trading at 1,85c, FBC is grossly undervalued. We recommend them as a **BUY**.

Analyst: James T Chiuta

NMB – AGM and Trade Update

Trade Update

NMB held their AGM and gave an alarming trade update. Their NAV stands at $7,5m, an amount below the regulatory minimum capital requirements of local banks of $12,5m.The RBZ had however relaxed the due date for this requirement to be met to 31 March 2010. Hence, their license is still valid. They had a positive start to the US$ era, increasing their deposits by 450% to $10m. With total assets of $21m, NMB is lending out 50% of their depositor's book. They are currently making extensive efforts to recapitalize the bank from external sources as well as dispose of some assets in an attempt to return the $2,1m depositors' funds lost to the 2007 $6,4m fraud incident.

Recommendation

NMB may have a good brand and good management team to keep it afloat in the short run. However, their capital levels worry any depositor and investor, which should hinder their growth plans. As such, we do not urge investors to expose themselves to this counter especially since there are other banking groups with stronger balance sheets and earnings potential. **AVOID**.

Analyst: James T Chiuta

Hwange Colliery Company – AGM and Trade Update

Trade Update

Hwange held their 86th AGM on Friday the 27th of June. They indicated their growth plans going forward with needs to source up to $75m to do phase-1 refurbishments which should increase their operations to 350,000 tonnes per month. Phase-2 should increase their capacity to over 6m tonnes per annum. They are applying for mining concessions from the government in an attempt to increase their mining life from 50 years to 100 years with over 2b tonnes of underground coal reserves. Their coke oven battery is also under service and should be fully functional by August. The same applies for the dragline which needs $3m to get back onto the mine field.

Recommendation

Assuming management's plans succeed and they increase production to 4,2m tonnes per annum and enjoy an average price of $150/tonne with mining costs equivalent to current benchmark costs of $25/tonne, we forecast HCC's EBIT to be $500m and PAT to be $110m for the year. Applying a regional PER of 15x, we assign a market cap of $1,65b (a 1,548% upside potential). This should however take up to three years to achieve with minimum profits being achieved prior to that. Hence, our view on HCC is only long term**. LT BUY**.

Analyst: James T Chiuta

Market Highlights

The market was dormant over the week as the industrial index gained a meagre 3,6% to 151,66 points while the mining index shed 2,01 points to 277,62 points. Gains were seen in Falgold, Hippo and Colcom who advanced 5c to 13c, 40c to 115c and 10c to 35c. Losses were seen in GBH, Pioneer and Caps who lost 25c to 35c, 25c to 50c and 1c to 2,5c respectively.

Top Picks

Buy	Reduce	Buy	Sell
ABC		Old Mutual	
African Sun		PPC	
Aico		Steelnet	
Art		KML	
Lafarge		Zimnat	
Dawn			
Delta			
Econet			
Innscor			
Natfoods			
Pearl			
OK			
TA			
ZPI			

Winners and Losers

Top Gainers

Counter	Prices as at 19 Jun 09 (US cents)	Prices as at 26 Jun 09 (US cents)	Move (US cents)	% Change for the week (%)	YTD Change (%)
Falgold	8.00	13.00	5.00	62.50	(35.00)
Hippo	75.00	115.00	40.00	53.33	130.00
Colcom	25.00	35.00	10.00	40.00	16.67
PGI	6.50	9.00	2.50	38.46	(10.00)
Fidelity Life	0.60	0.80	0.20	33.33	(20.00)
NICOZ	1.50	2.00	0.50	33.33	100.00
NMB	1.00	1.30	0.30	30.00	(74.00)
Truworths	1.10	1.40	0.30	27.27	(30.00)
Lafarge	150.00	190.00	40.00	26.67	46.15
Pelhams	0.20	0.25	0.05	25.00	25.00

Top Losers

Counter	Prices as at 19 Jun 09 (US cents)	Prices as at 26 Jun 09 (US cents)	Move (US cents)	% Change for the week (%)	YTD Change (%)
GBH	0.60	0.35	(0.25)	(41.67)	(82.50)
Pioneer	0.75	0.50	(0.25)	(33.33)	(50.00)
Caps	3.50	2.50	(1.00)	(28.57)	25.00
CBZ	15.00	11.00	(4.00)	(26.67)	120.00
Cafca	80.00	60.00	(20.00)	(25.00)	50.00
Hunyani	9.00	7.00	(2.00)	(22.22)	250.00
Tractive	2.50	2.00	(0.50)	(20.00)	(80.00)
Turnall	2.80	2.30	(0.50)	(17.86)	15.00
Red Star	0.90	0.74	(0.16)	(17.78)	(85.20)
ZBFH	12.00	10.00	(2.00)	(16.67)	100.00

Upcoming Events

Company	Event & Place	Date	Time
ZBFH	AGM, ZB House, 46 Speke Ave	Tue 30 June	10.30AM
Medtech	AGM, Cnr Shumba/Hacha Rd Ruwa	Tue 30 June	11.00AM
Fidelity	AGM, 7th floor, 66 J.Nyerere Way	Tue 30 June	12.00 Noon
Caps	AGM, 2 Manchester Rd, Southerton	Tue 30 June	2.30PM

Indices

	19 June 09	26 June 09	Change	% Change (%)	YTD Change (%)
Industridal Index	146.33	151.66	5.33	3.64	46.33
Mining Index	279.63	277.62	(2.01)	(0.72)	179.63

Currencies

	19 Jun 09	26 Jun 09	Change	% Change
Rand/Dollar	8.0826	7.9047	0.18	2.25
Dollar/Euro	1.3869	1.4010	(0.01)	(1.01)
Dollar/Pound	1.6345	1.6498	(0.02)	(0.92)
Yen/Dollar	98.2813	95.4632	2.82	2.95

Dividends

Company	Final/ Interim	Amount (USc)	Record date	Payment date	Price as at 26 June 09 (Usc)	Yield (%)

n/a

Commodities

	19 Jun 09 US$	26 Jun 09 US$	% Change for week (%)	YTD Change (%)
Gold	933.50	944.60	(1.18)	6.75
Silver	14.17	14.19	(0.14)	27.89
Platinum	1,213.00	1,203.00	0.83	30.99
Copper	4,901.00	5,023.00	(2.43)	68.91
Nickel	14,760.00	15,355.00	(3.87)	36.57
Zinc	1,416.00	1,583.00	(10.55)	26.40
Lead	1,730.00	1,730.00	0.00	82.39
Aluminium	1,589.50	1,622.00	(2.00)	9.32
Brent Crude	71.59	70.75	1.19	49.83

Dual Listed Counters

	ZSE Price US cents	JSE Price US cents	Discount (US cents)	Discount (%)	JSE Price ZAR cents	LSE Price GBp
Old Mutual	110.00	127.27	(17.27)	(13.57)	1,006.00	77.70
PPC	200.00	366.87	(166.87)	(45.48)	2,900.00	n/a

Outlook

The market should remain quiet this week as there are no interesting events scheduled that should impinge on the ZSE. We should expect an increase in volume from the international investment community in the following weeks as there are many investment seminars targeting the international investors lined up this month. Therefore, our advice to investors is that they position themselves for a stock market rally giving special attention to the blue chips, FMCG and retail counters, as international investors are biased in their favour.