



## EFE RESEARCH: Market Round Up

### Zimbabwe Equity Research

Telephone: +263 4 799132-5

E-mail: [research@efesecurities.co.zw](mailto:research@efesecurities.co.zw)

Website: [www.efesecurities.com](http://www.efesecurities.com)

Date: 08 June 2012

Index Name	Previous	Current	Change Pts	% Change	YTD Change Pts	YTD Change %
INDUSTRIAL INDEX	131.86	133.34	1.48	1.12	(12.52)	(8.58)
MINING INDEX	83.52	82.48	(1.04)	(1.25)	(18.22)	(18.09)

Risers					
	Stock Name	Price	Weekly change	% Change	YTD Change
1	CBZ	13.00	4.19	47.56	(7.14)
2	ARISTON	1.80	0.35	24.14	100.00
3	PELHAMS	0.85	0.15	21.43	7.59
4	APEX	0.06	0.01	20.00	(40.00)
5	ZBFH	12.20	1.70	16.19	(39.00)
6	ZIMPAPERS	0.95	0.10	11.76	35.71
7	PADENGA	5.01	0.51	11.33	(8.91)
8	ZPI	1.05	0.10	10.53	(24.46)
9	CFI	5.50	0.50	10.00	(8.33)
10	MASHHOLD	2.30	0.20	9.52	(23.33)

Fallers					
	Stock Name	Price	Weekly change	% Change	YTD % Change
1	PGI	1.00	(0.50)	(33.33)	(0.50)
2	ZECO	0.20	(0.07)	(25.93)	1.00
3	POWERSPEED	1.40	(0.25)	(15.15)	0.17
4	BARCLAYS	3.10	(0.39)	(11.17)	(0.28)
5	RioZim	45.00	(5.00)	(10.00)	0.29
6	TNH	3.20	(0.30)	(8.57)	(0.20)
7	PEARL	2.50	(0.20)	(7.41)	(0.22)
8	African Sun	0.75	(0.05)	(6.25)	0.07
9	LAFARGE	59.00	(3.00)	(4.84)	(0.16)
10	EDGARS	7.70	(0.30)	(3.75)	(0.14)

### Market comment

The market remained buoyant this week with the daily average value of trades for the week surging to \$3.5m which was 68% above the running YTD average value of trades of \$2.1m that was there heading into the reported week. An estimated 170,037,905 shares went under the hammer in the week yielding \$17.5m in total value helped a few block trades in Delta (20m shares), and retail group OK (26.2m shares). Foreign investor demand was buoyant at 47% of the total value of trades to see the balance of payments close in a net inflow position of \$3.7m. Underlining the active performance the main stream industrial index put on a cumulative +1.12% to 133.34pts as gains in nineteen stocks outweighed losses in thirteen stocks. The mining index on the other hand fell -1.25% to 82.48% dragged down by losses in RioZim.

Financial services stocks drove the market with CBZ emerging the pick of the week after an impressive weekly cumulative +47.56% rally took the group to 13c buoyed by a combination of both local and foreign demand. Likewise ZBFH registered an impressive +16.19% gain to 12.2c. Retailers also chipped in with gains to drive the market led by Pelhams that shocked the market with a surprise 1137% surge in earnings to \$1.5m for the year ended 31 March 2012 to get the market's nod rising +21.4% to 0.85c while fellow retail group OKZIM garnered +8% to 10.8c in the wake of its full year results to March 2012 in which the group posted a 1c EPS and declared a final dividend of 0.35c per share to bring the full year dividend to 0.5c per share. Agro based group Ariston were +24.14% up at 1.8c while other notable trades were seen in Apex (+20%); Zimpapers (+11.8%); Padenga (+11.3%) and ZPI that put on +10.53% to 1.05c

Notable amongst the fallers for the week was Barclays that fell 11.2% to 3.10c and property group Pearl that succumbed to selling pressure falling -7.41% to 2.5c. African Sun was down -6.25% at 0.75c despite news the group had made moves to secure an additional 12% stake in property group Dawn in a move meant to bring the lease arguments to a fore. Lafarge closed the week -4.8% softer at 59c while clothing retail group Edgars was down -3.75% at 7.7c.

Market Highlights	1	Top Picks	6
Company Results	2	Upcoming Events	6
In the News	4	Disclaimer	7

# Weekly Market Review EFE Research

## OK Zimbabwe Review of Full Year Results to March 2012

OK Zimbabwe	
Current Price :	10.8
52 Week High :	12.01
52 Week Low :	8.7
20 Day VWAP :	10.07
P/E :	10.77
D/Y :	4.63
PBV :	2.34
EV/EBITDA :	8.05
Shares in Issue :	1,027,421,409
Market Cap :	\$110,961,512.17

Financial Data	Final 31-Mar-11	Final 31-Mar-12	Forecast 31-Mar-13
Revenues	257,426,323	412,563,027	476,602,915
Gross Profits	43,511,788	70,161,940	80,393,204
PBT	5,319,998	14,980,734	20,641,706
PAT	4,285,700	10,306,497	14,201,152
NAV	38,813,463	47,514,911	61,716,063
Total Assets	68,782,530	95,495,906	109,697,058
EPS (US cents)	0.42	1.00	1.38
NAVPS	3.78	4.62	6.01
Dividend Per Share	0.21	0.50	1.50
PBT Margins	2.07%	3.63%	4.33%
PAT Margins	1.66%	2.50%	2.98%
RoE	11.04	21.69	23.01
P/E (X)	18.15	10.97	7.81
PBV	2.00	2.38	2.00
Div Yield	2.77%	4.55%	12.50%
Earnings Yield	5.51%	9.12%	11.52%
Closing Share Price	7.57	11.00	
<b>EFE Target Price</b>			<b>18.49</b>

### Results Review

OK Zim released its full year results to march 2012 reflecting a 60% growth in revenues to \$412.6m from which earnings before interest tax, depreciation and amortization (EBITDA) of \$19.2m were achieved being 4.6% EBITDA margins. Operating at 3.63% PBT margins the group profit before tax closed at \$15.0m and having accounted for the tax obligation of \$4.7m the group settled at a profit for the year of \$10.3m implying an attributable EPS of \$1c. Underlining the performance OK declared a final dividend of 0.35c

per share bringing the dividend for the year to 0.5c. The group balance sheet ended the year standing at \$95.5m of which \$47.5m of this total represented the NAV and had long term borrowings of \$5m coming at a cost of 12% following the final drawdown of a convertible loan from their recapitalisation partners Investec Africa Frontier Private Equity Fund. Group operations generated \$11.2m while cash and cash equivalents for the year closed at \$11.7m with capex for the year standing at \$11.5m.

### Operations

The group's refurbishment drive continued in the year under review with an additional eight outlets in their portfolio being refurbished while two new outlets being added to their stores stable bringing the total number of outlets to 53. The Net sales per square meter improved to \$5,168 from \$3,952. Due to local industry capacity constraints 60-65% of the group's merchandise were imports largely from South Africa with the group employing both direct sourcing and indirect with the target being to increase direct importation. Credit terms improved to about 30 days while in some lines the group reports its has had to prepay. There was a marginal improvement in stock turn to 9.6 days from 10day; shrinkage was reduced to below 1% at 0.7% being \$2.08m in absolute terms down some \$120k from prior year level.

In the outlook period the group expects to open two new stores to add to their current stable while the refurbishment work is either in progress or planned for a further six outlets applying funding from the \$5m borrowings. The group intends to open an office in Johannesburg to harness and consolidate their import sourcing function. With the aim to improve profitability it is envisaged that the group's strategic thrust will include a focus on high mark up categories.

**Valuation and Recommendation:** Based on the results from OK Zimbabwe for the full year to march 2012 we deduced that the group was doing \$37.8m. on this basis we assumed the group will maintain the turnover performance in the first half of F13 with 10% upliftment in the second half that encompasses the festive season whilst average GP margins are maintained at 17% and improved PBT margins of 4.3% to give forecasts for F13 revenues, gross profit and PBT to \$476.6m, \$80.3m and \$20.6m respectively. From these we believe the group will close F13 with a bottom line of \$14.2m. Applying a regional average peer group (excl OKZIM) PER 18.61x implies a target value for OKZIM of \$264.3m (18.49c). Notwithstanding any exogenous pressures on market prices like the liquidity challenges that dogged the local bourse for the greater part of the current calendar year we believe OKZIM offers great scope for investment. Trading at an undemanding trailing P/E of 10.7x relative to its regional comparative we believe the group is poised for strong performance going forwards. This should be anchored by the stable balance sheet that is a product of an early recapitalisation in the post dollarization era that has seen the group embark on a fruitful shop refurbishment and face uplift that has set them apart from competition: **BUY.**



# Weekly Market Review EFE Research

## Pelhams Review of Full Year Results to March 2012

<b>Pelhams</b>			
Current Price :			0.85
52 Week High :			0.85
52 Week Low :			0.1
20 Day VWAP :			0.76
P/E :			5.62
D/Y :			0
PBV :			1.91
EV/EBITDA :			3.64
Shares in Issue :			995,648,470
Market Cap :			\$8,463,011.99
<b>Financial Data</b>			
	<b>31-Mar-11</b>	<b>31-Mar-12</b>	<b>2013 F</b>
Revenues	8,581,103	16,709,292	23,240,980
Gross Profit	2,575,501	4,441,855	6,780,782
Operating Profits	814,499	4,295,631	5,379,423
PBT	144,454	2,137,763	2,677,123
PAT	121,831	1,506,612	1,886,732
NAV	2,861,204	4,424,855	6,311,587
EPS (US cents)	0.01	0.15	0.19
NAVPS	0.29	0.44	0.63
Dividend Per Share	0.00	0.00	0.00
<b>Ratios</b>			
GP Margins	30.01	26.58	29.18
Operating Margins	9.49	25.71	23.15
PBT Margins	1.68	12.79	11.52
PAT Margins	1.42	9.02	8.12
PBV	0.56	1.80	1.34
RoE	4.26	34.05	29.89
P/E (X)	13.08	5.29	5.85
Div Yield	0.00%	0.00%	0.00%
Earnings Yield	7.65%	18.91%	22.29%
Closing Share Price	0.16	0.80	
<b>EFE Target Price</b>			<b>1.89</b>

### Results Review

Pelhams released a much improved set of results for the year ended 31 March 2012 with revenue growing 95% to \$16.7m and posted Gross Profit of \$4.4m. Other income of \$4.5m boosted incomes to clear overheads and operating expenses leaving the furniture retailer with \$4.2m operating income. Finance costs at \$2.2m took the group to before tax profits of \$2.1m from which after tax profits of \$1.5m were attained. Group Assets closed at

\$15.1m and had equity valued at \$4.4m. The group's operations however were in a negative cash outflow positions of \$7.8m and closed with cash and cash equivalents of only \$281,322.

### Operations

Extension of credit terms to twenty four months from eighteen months drove the sales growth with unit sales grow by in excess of 100% while credit sales grew 127%. Margins fell to 27% from 30% in prior year on the back of increases in local production costs. The sales mix was skewed towards locally produced goods that earn lower margins relative to imports. The debtor's book grew 197% to \$10m by year end on which net interest income of \$2.3m was earned. Securitisation of the debtor's book was the group's primary source of funding to raise the level of trading. Trade winds the group's manufacturing unit contributed 5% to the reported revenues.

The group intends to continue leveraging on its brands, distribution network and staff to sustain and consolidate the company position. The group expects to augment its securitisation structures as the main source of funding for its trading activities while focus will remain on credit for the short term. Imports are also expected to become a significant component of the group's merchandise to enhance profitability by countering the high costs of producing locally.

### Valuation and Recommendation

As expected Pelhams' performance was driven y credit and it is on the management of the credit and the collection end that the group is now to be expected to deliver. With a market that does not have a credit bureau the exposure of companies to potentially bad loans remains very high. It is against this back ground that we believe the group will not be as aggressive in growing sales to manage default risk. Premised on this we forecast Pelhams to achieve a turnover of \$23.2m and to achieve operating margins of 23%. This should imply operating profits at \$5.4m and PAT of \$1.8m. Applying a historical average Market PER of 10X we forecast a market cap of \$18.9m (Target Price:1.89c). We believe that with Pelhams trading at a P/E multiple of 5.62x the group is certainly heavily discounted and offers lucrative opportunity for capital growth. We therefore place a Buy Recommendation on the group.



# Weekly Market Review EFE Research

---

## In the News ...

**Edgars Q1 turnover up 30 pc:** Edgars Stores Limited (Edgars) says group performance remains strong, with all margins in the first quarter to April surpassing prior year figures.

**Full Story:** <http://www.dailynews.co.zw/index.php/business/35-business/9705-edgars-q1-turnover-up-30-pc.html>

**Banks repatriate \$243m nostro funds:** Banks have repatriated a total \$243 million as part of efforts to comply with the Reserve Bank of Zimbabwe (RBZ) policy to have 75 percent of their balances onshore.

**Full Story:** <http://www.dailynews.co.zw/index.php/business/35-business/9677-banks-repatriate-243m-nostro-funds.html>

**Credit spurs Pelhams to profit:** Listed furniture and appliance retailer Pelhams Limited (Pelhams') sales grew 95 percent for the year to March 2011 underpinned by a six-month upward review on credit terms to a maximum of 24 months.

**Full Story:** <http://www.dailynews.co.zw/index.php/business/35-business/9646-credit-spurs-pelhams-to-profit.html>

**Non-asbestos plant drives Turnall volumes:** Turnall Holdings Limited (Turnall)'s turnover in the first four months of the year to April slid six percent on prior year's figure of \$12 million, the company said.

**Full Story:** <http://www.dailynews.co.zw/index.php/business/35-business/9643-non-asbestos-plant-drives-turnall-volumes.html>

**Gono rejects AAG calls:** Reserve Bank of Zimbabwe (RBZ) governor Gideon Gono yesterday rejected calls by the Affirmative Action Group (AAG) to relax lending preconditions for banks, saying the move posed serious lending risks

**Full Story:** <http://www.dailynews.co.zw/index.php/business/35-business/9589-gono-rejects-aag-calls.html>

**Barclays complies with indigenisation law:** Barclays Bank Zimbabwe is working on an indigenisation proposal that will effectively transfer the majority ownership of the British-owned bank to locals, officials have said...

**Full Story:** [http://www.herald.co.zw/index.php?option=com\\_content&view=article&id=43695:barclays-complies-with-indigenisation-law&catid=41:business&Itemid=133](http://www.herald.co.zw/index.php?option=com_content&view=article&id=43695:barclays-complies-with-indigenisation-law&catid=41:business&Itemid=133)

**African Sun-Dawn saga comes full circle:** LAST week there was a flurry of activity on the Zimbabwe Stock Exchange with a number of shares swapping hands in deals running into several millions of dollars. Some of the notable deals concluded included the acquisition by African Sun **Full Story:**

[http://www.herald.co.zw/index.php?option=com\\_content&view=article&id=43561:african-sun-dawn-saga-comes-full-circle&catid=41:business&Itemid=133](http://www.herald.co.zw/index.php?option=com_content&view=article&id=43561:african-sun-dawn-saga-comes-full-circle&catid=41:business&Itemid=133)

**Pelhams seeks US\$5m for working capital:** FURNITURE retailer Pelhams Limited is considering a long-term funding structure to expand "securitisation" of its debtors' book and raise working capital. Last year, the company required about... **Full Story:**

[http://www.herald.co.zw/index.php?option=com\\_content&view=article&id=43453:pelhams-seeks-us5m-for-working-capital&catid=41:business&Itemid=133](http://www.herald.co.zw/index.php?option=com_content&view=article&id=43453:pelhams-seeks-us5m-for-working-capital&catid=41:business&Itemid=133)

**'Hands off banks':** RESERVE Bank of Zimbabwe Governor Dr Gideon Gono has reiterated that no banks should be indigenised according to the equity model. He was addressing delegates at the Affirmative Action Group Conference **Full Story:**

[http://www.herald.co.zw/index.php?option=com\\_content&view=article&id=43457:hands-off-banks&catid=41:business&Itemid=133](http://www.herald.co.zw/index.php?option=com_content&view=article&id=43457:hands-off-banks&catid=41:business&Itemid=133)

## Weekly Market Review EFE Research

---

**Zimplot eyes Tractive Power takeover:** ZIMFLOW has acquired a 16 percent stake in Tractive Power for US\$3 million as the manufacturer of ploughs and agricultural implements eyes a controlling stake in the maker of farm machinery. **Full Story:** [http://www.herald.co.zw/index.php?option=com\\_content&view=article&id=43349:zimplot-eyes-tractive-power-takeover&catid=41:business&Itemid=133](http://www.herald.co.zw/index.php?option=com_content&view=article&id=43349:zimplot-eyes-tractive-power-takeover&catid=41:business&Itemid=133)

**NicozDiamond revises share buyback:** Insurance group NicozDiamond has been forced to revise its share buyback scheme after the Securities Commission of Zimbabwe (SECZ) raised concerns over the proposal **Full Story:** <http://www.newsday.co.zw/article/2012-06-07-nicozdiamond-revises-share-buyback/>

**Fidelity seeks \$21m for housing stands:** Fidelity Life Assurance of Zimbabwe is in the process of scouting for \$21 million to develop 5 000 high-density stands in Harare, as part of efforts to ease the housing backlog in the country. **Full Story:** <http://www.newsday.co.zw/article/2012-06-07-fidelity-seeks-21m-for-housing-stands/>

**Cabinet approves \$230m power deal:** Cabinet on Tuesday approved a \$230 million power deal between Zimbabwe Power Company (ZPC) and an Indian firm, Wapcos Limited, to revamp boilers at three thermal power stations in the country. **Full Story:** <http://www.newsday.co.zw/article/2012-06-07-cabinet-approves-230m-power-deal/>

**Plan to rescue troubled banks:** AN international financial consultant with local business interests has proposed a plan that would help government save indigenous banks currently reeling from liquidity crisis and non performing loans in the event of a collapse. **Full Story:** <http://www.theindependent.co.zw/business/35813-plan-to-rescue-troubled-banks.html>

**BNC to float US\$21m rights offer to restart mining operations:** BINDURA Nickel Corporation (BNC) announced plans to float a US\$21 million rights offer to finance the restarting of operations at its Trojan Nickel mine. The rights issue will be underwritten by Mwana Africa Plc's ZimNick Limited, a company owned by the mining junior. Mwana Africa Plc, the nickel mine's largest shareholder, recently raised US\$21 million from a strategic Chinese investor. **Full Story:** <http://www.theindependent.co.zw/business/35807-bnc-to-float-us21m-rights-offer-to-restart-mining-operations.html>

**CBZ posts 18,3% increase in income:** BANKING group CBZ's total income in the four months to April rose to US\$38,8 million, an increase of 18,3% over the comparable year ago period. **Full Story:** <http://www.theindependent.co.zw/business/35801-cbz-posts-183-increase-in-income.html>

**Capital injections breathe life into Ariston Holdings:** AGRICULTURE company Ariston Holdings reduced its losses by 75% to US\$0,226 million in the six months to March 31 2012, helped by fresh capital injections which saw the group retiring all expensive debt and paying off most of its creditors. **Full Story:** <http://www.theindependent.co.zw/business/35799-capital-injections-breathe-life-into-ariston-holdings.html>

# Weekly Market Review EFE Research

## Top Picks

Company	Investment Case
Fidelity	Top performer with a lean structure that is well focused on their core competencies life assurance and related products.
Delta	Market dominance and Strong volume growth in a recovering economy
Econet	Dominating market share (62+%) with a growing product range
Hippo	Growing capacity utilization and production with complementary firming demand both locally and internationally and the fairly higher than the traditional averages commodity prices
Natfoods	Can enjoy synergies from strategic association with major shareholder Tiger brands who recently shored up their stake in the group. The group's capacity utilization and production is set to grow on the back of improving agricultural production for input support
BAT	Operating in a mature market and is the supplier of leading cigarette brands. Declared an exciting dividend with a 90% payout reflecting the group's confidence in the current setup
OKZIM	Strong earnings potential on the back of a solid balance sheet once local producers increase supply
FBCH	Solid performance in prior year trading at an undemanding twelve months trailing P/E of 4.26x
Edgars	Trading at a PER of 8.38X there remains scope for better performance from the clothing retail chain while their strategic association South African based Edgars should see some benefits on product range and supply as seen with the introduction of JET into the Zimbabwe retail space
Barclays	Their conservative business model likely to pay off in the face of increasing liquidity challenges with many corporates being fingered in failing to meet their interest and principal repayments; Barclays is likely to be the least affected

## Upcoming Events

Company	Event	Venue	Date	Time
PGI	AGM	Head Office 146 Seke Rd	14-June-12	1200hrs
NMBZ	AGM	Unity Court	19-June-12	1000hrs
FBCH	AGM	Royal Harare Golf Club	21-June-12	1200hrs
ZIMPAPERS	AGM	6 <sup>TH</sup> Floor Herald House	22-June-12	1200hrs
MEDTECH	AGM	Boardroom, Stand 619, Ruwa	26-June-12	1100hrs
GBH	AGM	Cernol Chemicals Boardroom	26-June-12	1130hrs
ZHL	AGM	Nicoz Diamond Auditorium	26-June-12	1200hrs
TA HOLDINGS	AGM	Zambezi Room, Cresta Jameson	27-June-12	1100hrs
TRUST	AGM			
FIDELITY	AGM	Boardroom, 7 <sup>th</sup> floor 66 J. Nyerere	28-June-12	1200hrs
HWANGE	AGM	7 <sup>th</sup> Floor Coal house	29-June-12	1030hrs

## Companies Trading Under Cautionary

Company
CFI
RIOZIM
AFRE
TNH



# Weekly Market Review EFE Research

---

This document has been prepared by EFE Securities (Private) Limited (EFE), for the information of its clients. Although the statements of fact in this report have been obtained from sources that the company believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions and estimates included in this report constitute the company's judgment as of the date of this report and are subject to change without notice. The securities discussed and mentioned in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors they believe necessary. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. EFE and any of the individuals preparing this report may at any time have a long and/ or short position in any securities of companies in this report. In addition EFE may from time to time perform investment banking or other services for, or solicit investment banking or other business from any entity mentioned in this report. EFE may at times buy and sell shares on an agency or principal basis to its clients. Shares may rise or fall and investors may end up with a reduced amount from their initial capital invested. Additional information on recommended securities is available on request.

