



## WEEKLY REPORT Zimbabwe Equity Research

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### Cafca – Half Year Results to 30 June 2010

Half Year Results to 30 June 2010

Unaudited US\$ Highlights	Jun-09	Change	Jun-10
	US\$	%	US\$
Turnover	1,906,024	249%	6,646,116
EBITDA	156,726	303%	631,121
Profit from Operations	145,296	261%	524,725
Profit before taxation	145,641	220%	466,483
Profit after taxation	98,257	195%	290,211
Attributable Earnings	98,297	195%	290,211
	Dec-09		Jun-10
Total assets	5,246,889	52	9,727,928
Total liabilities	307,219	665	3,806,000
Shareholder equity	4,939,670	14	5,921,928

Market Cap 17.09.2010	3,880,480
Enterprise Value	8,403,904

Cash Flows from Operations	(525,974)
Cash from Investing Activities	(152,260)
Cash From Financing	(57,642)
Cash and Cash Equivalents	(717,424)

#### Key Ratios

PER (x)	6.7
PBV (x)	0.7
EV/EBITDA (x)	6.7
ROA (%)	3.0
ROE (%)	4.9

#### Results Review

Group turnover grew 249% on the comparative prior half year period and 23% half on half to \$6.6m driven by a 197% increase in sales volumes as well as increase in price of copper. The group achieved an EBITDA of \$ 631,121 which was down -14% half on half. The PBT and PAT came in at \$466,483 and \$290,211 implying -15% and -13% half on half declines. The group's balance sheet stood at \$9.7m while the NAV was \$5.9m and closed in negative cash flow position of \$717,424 mainly due to negative operating cash flows of \$525,974. Capex over the reported period amounted to \$152,260, whilst working capital for the period was financed from borrowings that closed the period under review at \$834,483.

#### Value and Recommendation,

We assumed that Cafca would maintain their H1 performance trajectory which would see them post Turnover, EBITDA and earnings of \$13.2m, \$1.2m and \$580,000. Applying a EV/EBITDA model based on the group's current implied enterprise value of \$8.4m composed of \$3.9m market cap, \$3.8m total liabilities and -\$717,424 cash and cash equivalents, the group's forward EV/EBITDA came up at 6.7x which is indicating a 35.7% discount on the group's peer group comparative of 9.1(x). We therefore place a **BUY** recommendation on Cafca. **Analyst: Phenias Mandaza**

### ZHL – Half Year Results to 30 June 2010

Half Year Results to 30 June 2010

Unaudited US\$ Highlights	Jun-09	Change	Jun-10
	US\$	%	US\$
Gross Premium	27,752,329	-19%	22,439,152
Earned Premium	15,613,274	-2%	15,287,518
Total Revenue	20,172,207	1%	20,405,619
EBITDA	2,811,507	-59%	1,154,370
Profit from Operations	1,385,788	-150%	(689,476)
Profit before taxation	1,706,746	-182%	(1,404,430)
Profit after taxation	1,248,215	-200%	(1,251,140)
Attributable Earnings	386,690	-474%	(1,445,735)
	Dec-09		Jun-10
Total assets	97,986,897	8	106,234,042
Total liabilities	50,639,664	20	60,936,934
Shareholder equity	47,347,233	(4)	45,297,108

Market Cap 17.09.2010	11,511,472
Enterprise Value	66,321,303

Cash Flows from Operations	872,147
Cash from Investing Activities	(3,965,080)
Cash From Financing	3,041,735
Cash and Cash Equivalents	6,127,103

#### Key Ratios

PER (x)	(8.0)
PBV (x)	0.3
EV/EBITDA (x)	28.7
ROA (%)	(1.4)
ROE (%)	(3.2)

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**ZHL Continued...****Results Review**

Gross premiums trailed the previous year comparative at \$22.4m, as a result of the exclusion of premiums from Nicoz and Fidelity were not incorporated in the group's results as they are no longer subsidiaries of the group. Ceded premiums amounted to \$4.9m and this saw the group post \$17,6m NPW from which unearned premium provisions of \$2,3m were deducted to give the group earned premiums of \$15.3m. The group then earned brokerage fees to the tune of \$1,8m, banking interest and similar income of \$985,278; as well as \$1,6m from rentals in their property business, and other incomes of \$779,934 resulting in \$20.4m total revenue which was -1% lower than the prior year comparative.

The group's total expenses and claims came in at \$21.1m representing a growth of 12.3% driven by a 50.8% growth in operating and administrative expenses to \$9.6m; against the background of a decline in total revenue the group was plunged into an operating loss of \$689,476. Having accounted for other losses, finance cost and share of losses in associates the group's loss position was aggravated to \$1.4m and was only marginally reduced to \$1.5m by a \$153,290 income tax credit however the transfer to policy holders of \$152,499 saw the group attain attributable losses of \$1.4. The group's total assets stood at \$106.2m while the shareholder's equity was at \$45.3m and they closed with cash and cash equivalents amounting to \$6.1m.

The group's capitalization thresholds for the reinsurance, insurance and insurance broking operations are above the statutory requirement whilst they are pursuing the capitalization of the banking operations based on the new set deadline of 31 December 2010.

**Value and Recommendation**

We applied the sum of parts method, taking the attributable current market values of their listed interests as well as the reinsurer's value which we derived using the PBV approach, below is the breakdown of what ZHL holds in the listed entities as well as a brief valuation of the Re-insurance business.

**Listed Interests**

	Mkt Cap (US\$m)	ZHL's Stake (%)	Attributable to ZHL (US\$)
CFI	12.04	34	4.09
Fidelity	3.05	17.18	0.52
Nicoz	11.19	32.9	3.68
ZPI	9.44	54	5.10
<b>Total</b>			<b>13.40</b>

**Re-insurer**

Group NAV (US\$m)	66.41
Attributable to Re-insurer (US\$m)	45.30
Regional PBV(x)	0.90
<b>Value (US\$m)</b>	<b>40.77</b>
<b>Total Value (US\$m)</b>	<b>54.17</b>
<b>Target Price per share (USc)</b>	<b>7.06</b>

Listed insurance stocks on the local market still remain fairly undervalued relative to the common valuation multiples and this may be attributed to the fact that core insurance business growth largely tracks the performance of the overall economy which in the case of Zimbabwe is coming from a low-base whilst the growth remains depressed. Using our sum of parts valuation model our target price for ZHL is 7.06c which implies a projected PBV of 0.82x in line with their regional comparatives. We believe, buying ZHL would be buying a stake in CFI, Fidelity, Nicoz and ZPI as well as the re-insurance business at a discount. We attach an **ACCUMULATE** recommendation on ZHL.

**Analyst: Phenias Mandaza**

## Market Highlights

Industrials closed the week down 1,2% at 131.65pts as 27 counters traded in the negative compared to 17 gainers whilst the rest of the counters remained at the prior week's levels. The Mining index however was up 0.88% at 162.41pts buoyed by gains in three of the four counters in the index. The total market turnover week on week was -7,6% lower at \$5,3m as 67,7% of the amount was contributed by the top five counters by value traded with Econet alone accounting for 31,5% of the market's total turnover. Foreign investors dominated the trades at 56,7% of the week's total buy side turnover

BAT was the week's worst performer after shedding 28,6% and

traded at 150c. Redstar, M&R and Interfresh retreated by an identical 14,3% and traded at 0.06c, 18c and 0.3c respectively. ASTRA sealed the worst five performers list after coming off 13.8% and closed at 2.5c. Most market heavy weights featured amongst the losers list amongst whom were Delta, Seedco and Innscor that shed 0.5%, 2.3% and 1.2% at 50c, 92c and 46c respectively. PPC was down 3% at 320c while Natfoods came off 4.4% to 80c.

Clothing retail group Edgars and agro based company Ariston were joint top performers after adding 36% apiece to trade at 4.5c and 1.5c respectively. Celsys followed gaining 20% to 0.6c. Falgold was up 16.7% at 7c and while Interfin and PGI completed the top performers list having added 14.3% each to close at 24c and 4c respectively.

## Weekly Trade Statistics and Winners & Losers

### All ShareTop Gainers

Counter	Prices as at 17 September 2010 (US cents)	Prices as at 24 September 2010 (US cents)	Move (US cents)	% Change for the week (%)	YTD Change (%)
EDGARS	3.30	4.50	1.20	36.36	18.42
ARISTON	1.10	1.50	0.40	36.36	25.00
CELSYS	0.05	0.06	0.01	20.00	(40.00)
FALGOLD	6.00	7.00	1.00	16.67	0.00
INTERFIN	21.00	24.00	3.00	14.29	20.00
PGI	3.50	4.00	0.50	14.29	(50.00)
OK	8.80	10.00	1.20	13.64	42.86
CHEMCO	40.00	45.00	5.00	12.50	12.50
STAR AFRICA	6.00	6.70	0.70	11.67	(39.09)
BINDURA	13.00	14.50	1.50	11.54	(34.09)

### All ShareTop Losers

Counter	Prices as at 17 September 2010 (US cents)	Prices as at 24 September 2010 (US cents)	Move (US cents)	% Change for the week (%)	YTD Change (%)
BAT	210.00	150.00	(60.00)	(28.57)	(30.23)
REDSTAR	0.07	0.06	(0.01)	(14.29)	(80.00)
M & R	21.00	18.00	(3.00)	(14.29)	(10.00)
INTERFRESH	0.35	0.30	(0.05)	(14.29)	(25.00)
ASTRA	2.90	2.50	(0.40)	(13.79)	25.00
RIOZIM	194.00	170.00	(24.00)	(12.37)	(34.62)
CFI	13.00	11.50	(1.50)	(11.54)	(60.34)
AFRICAN SUN	3.00	2.70	(0.30)	(10.00)	(77.50)
POWERSPEED	1.00	0.90	(0.10)	(10.00)	0.00
APEX	0.24	0.22	(0.02)	(8.33)	(40.54)

### Trade Statistics

Turnover Statistics	Previous Week	Current Week	Change US \$	Change %
Market Turnover	5,744,733.03	5,310,168.98	(434,564.05)	-7.56%

### Weeks Top ValueTraded Counters

Counter	Value Traded	% Of Turnover
ECONET	1,670,822.85	31.46%
DELTA	860,803.05	16.21%
INNASCOR	496,906.66	9.36%
OK ZIM	326,740.80	6.15%
RIO ZIM	240,188.10	4.52%
Total	3,595,461.46	67.71%

## Indices

	17 September 2010	24 September 2010	Change	% Change (%)	YTD Change (%)
Industrial Index	133.23	131.65	(1.58)	(1.19)	(13.32)
Mining Index	161	162.41	1.41	0.88	(12.88)

## Currencies

	17 September 2010	24 September 2010	Change	% Change
Rand/USD	7.1191	7.0522	(0.07)	(0.95)
USD/Euro	1.3129	1.3406	0.03	2.07
USD/Pound	1.5696	1.5704	0.00	0.05
Yen/USD	85.8005	84.4362	(1.36)	(1.62)

Source: Bloomberg.com

## Upcoming Events

Company	Event & Place	Date	Time
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## Commodities

	17 September 2010	24 September 2010	% Change	YTD Change
	US\$	US\$	for week (%)	(%)
Aluminium (US\$/tonne)	2,167.50	2,233.50	3.04	1.15
Brent Crude(US\$/barrel)	75.00	75.92	1.23	(3.63)
Copper(US\$/tonne)	7,685.00	7,705.50	0.27	4.89
Gold(US\$/oz)	1,280.50	1,299.10	1.45	16.90
Lead(US\$/tonne)	2,223.00	2,217.50	(0.25)	(7.41)
Nickel(US\$/tonne)	23,300.00	22,670.00	(2.70)	22.67
Platinum(US\$/oz)	1,620.00	1,644.00	1.48	9.82
Silver(US\$/oz)	20.87	21.39	2.49	24.94
Zinc(US\$/tonne)	2,156.00	2,206.00	2.32	(14.16)

Source: Bloomberg.com

## Dividends

Company	Final/ Interim	Amount (USc)	Record date	Payment date	Price as at (USc)	Yield (%)
n/a						

## Dually Listed Counters

	ZSE Price US cents	JSE Price US cents	Discount (US cents)	Discount (%)	JSE Price ZAR cents	LSE Price GBP
OLDMUTUAL	150.00	215.11	(65.11)	(30.27)	1,517.00	135.60
PPC	320.00	425.40	(105.40)	(24.78)	3,000.00	n/a

## Outlook

As we approach the quarter end we expect the market to maintain its steady growth though its likely to be on thin volumes and values. It is relatively quiet on the corporate calendar though the most recent history doesn't suggest any significant market responses from either AGM or release of results. We believe trades will remain concentrated within a selected few counters with guaranteed returns amongst which the counters listed below would feature in our opinion:

## Top Picks

### Buy

Colcom	Running profitably, business growing and have positive cashflows. Declared interim dividend as expected
Dawn	Trading at average PBV of 0,5x. Have strong diversified earnings potential in tourism and commercial properties. Risk lies in properties being used to secure loans for African Sun
Delta	Aim to double their supply in the financial year in a market in which they are a virtual monopoly
Pearl	Trading at average PBV of 0,5x. Regional average is 2x.
ZPI	Trading at average PBV of 0,5x . Have strong mix of properties that can generate cash. Have a big pool of undeveloped land-banks that can convert to business anytime.
Seedco	Dominate local and regional seed market and growing strong in new regions.
ZHL	Sum of interest in listed companies higher than their market cap. Strong earnings potential if they successfully recapitalise all business units.
Truworths	Strong earnings potential. Trading at annualised PER of 6x
ABC	Though risk lies in retail banking development prospects which could go either way in the environment current economic environment, they are trading at low PER and PBV (3x and 0,4x).
OK	Strong earnings potential once credit lines increase and local producers increase supply.

### LT Buy

Aico	Strong recovery play in Olivine and lint business while the seed business has potential to outdo its current good performance on the back of regional expansion.
PGI	Exciting business model in a potentially lucrative building and allied industry poised for growth as disposable incomes improve. Risk lies in potential dilution should a rights issue be considered in the \$10m recapitalisation plan

### Spec Buy

Old Mutual	Room to make 15-25% profit from arbitrage.
PPC	Room to make 15-25% profit from arbitrage.
Econet	Dominating market share (62+%) and growing network coverage as well as product range.

### NOTES:

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