

Zimbabwe Equity Research

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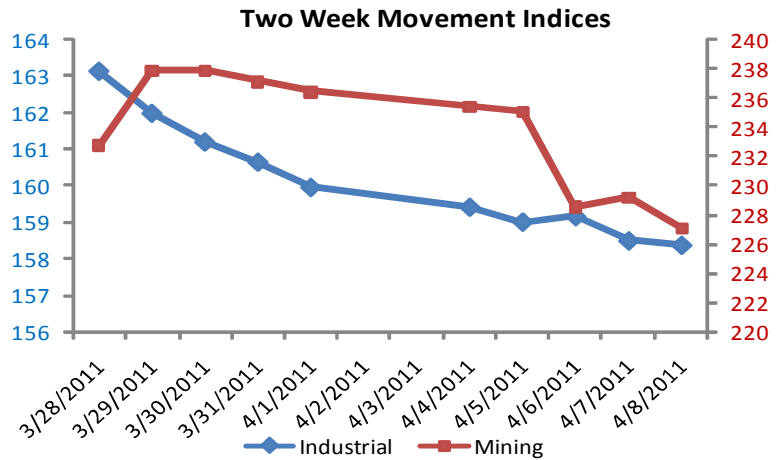
Market downturn continues unabated...

Market Highlights.

Index	Value @ 01-Apr-11	Value @ 08-Apr-11	Change in Points	% Change	YTD Change
Industrial Index	159.96	158.38	(1.58)	-0.99%	4.70%
Mining Index	236.47	227.15	(9.32)	-3.94%	13.35%

Source ZSE/EFE Database

A midweek recovery was not enough to warrant a market rebound as the market was sticky downwards since mid March. Over the week industrials lost -0.99% to 158.38pts as the year date gains narrowed to +4.7%. With little activity on the corporate calendar the market witnessed improved value of trades in a selected few counters the market appeared to rebalance post the recent wave of December full year results. With uncertainty reigning supreme on the back of indigenization and empowerment regulations the average daily turnover was at a lowly \$1.1m as the first full week of the second quarter got off to a slow start with local players seemingly taking a back seat.



Rio suffers losses as Essar reportedly pulls out of underwriting their proposed rights issue...

Minings were down by a cumulative -3.94% for the week at 227.15pts dragged down by a 5% loss in Hwange at 71c and heavy selling pressure in Rio Zim who were in the news reportedly on a failing recapitalisation bid following the withdrawal of Essar, the major financier they were courting citing discrepancies picked in the preparatory due diligence exercise which saw the mining house close trading 4.5% softer at 190c. Minimising the losses was a marginal 1% gain in Bindura to 10.1c as Mwana Africa continued to keep the market guessing on the possible recapitalisation plan for the nickel mining and refinery after media reports that they ruled out a possible equity transaction for recapitalising the subsidiary.

ZSE Trading Statistics	Weekending 01-Apr-11	Weekending 08-Apr-11	% Change	% Of Total Turnover
Volume Traded	85,188,843	45,722,679	(46.33)	
Value Traded (US \$)	5,922,836.67	8,810,290.00	48.75	
Foreign Volume Traded (Inflows)	6,270,350	8,423,015	34.33	
Foreign Value Traded (Inflows US\$)	660,919.12	5,686,636.51	760.41	64.55
Foreign Volume Traded (Outflows)	4,659,389	5,635,037	20.94	
Foreign Value Traded (Outflows)	324,517.17	4,912,005.72	1,413.64	55.75

Marked improvement in turnover as foreign inflows improve...

Market turnover at \$8.8m was a marked 49% improvement on last week's turnover thanks to revived interest in telecommunications company Econet which witnessed \$3.8m worth of trades going through the market which was an estimated 43% of total weekly turnover. Other notable trades were recorded in Delta and CBZ that accounted for an estimated 10.5% and 9.7% of total turnover. Foreign participation was in a net inflow position with total inflows being at an estimated 64.55% of turnover as foreign capital became the source of the much needed liquidity; outflows on the other hand remain significant though at an estimated 55.8% of the week's total turnover.

... and the movers and shakers

Weekly Top Gainers

Counter	Price as at 01-Apr-11	Price as at 08-Apr-11	Change in Cents	% Change	YTD Change
FIDELITY	4.00	5.50	1.50	37.50	0.21
TA	11.00	13.00	2.00	18.18	150.00
ABCH	50.00	55.00	5.00	10.00	(36.59)
African Sun	2.01	2.21	0.20	9.95	22.22
TRACTIVE	8.00	8.70	0.70	8.75	0.45
HUNYANI	4.00	4.30	0.30	7.50	45.00
CAFCA	45.00	48.00	3.00	6.67	7.50
TSL	8.00	8.50	0.50	6.25	200.00
CFI	10.00	10.50	0.50	5.00	6.25
HIPPO	115.00	120.00	5.00	4.35	(23.91)

Weekly Losers

Counter	Price as at 01-Apr-11	Price as at 08-Apr-11	Change in Cents	% Change	YTD % Change
CAPS	1.20	0.60	(0.60)	(50.00)	(40.00)
STEELNET	0.10	0.05	(0.05)	(50.00)	(75.00)
GULLIVER	0.20	0.11	(0.09)	(45.00)	(47.62)
MEDTECH	0.15	0.10	(0.05)	(33.33)	0.00
FBCH	5.00	3.50	(1.50)	(30.00)	0.00
POWERSPEED	2.40	1.80	(0.60)	(25.00)	20.00
TRUST	2.27	1.80	(0.47)	(20.70)	38.46
INTERFIN	25.00	20.00	(5.00)	(20.00)	0.00
PIONEER	0.60	0.50	(0.10)	(16.67)	(16.67)
EDGARS	9.50	8.00	(1.50)	(15.79)	33.33

Top performers for the week...

The market was predominantly losers with thirty three counters trading in the negative compared to only sixteen risers. The top risers list was dominated by small cap counters with Caps and Steelnet topping the list down -50% each at 0.6c and 0.05c respectively. Gulliver and Medtech followed shedding -45% and -33% to 0.11c and 0.10c. Financial services group FBCH sealed the top five losers list after retreating -30% to 3.5c.

Other notable losses for the week were seen in Meikles that came off -9.57% to 42.5c as selling pressure took its toll on the group. AICO dropped -8.11% to 17c as the group's recapitalisation plans that were expected in Q1 2011 remained vague a week into the Q2. Barclays still smarting from a dull full year set of results in which they were in \$1m loss came off -7.01% to close the week trading at 6.5c. FMCG and retail conglomerate Innscor lost -3.17% to 61c as the market readjusts after a post results rally had seen them top 70c, likewise their meat processing subsidiary Colcom dropped -6.46% to 42c.

Market sticky downwards as trades are predominantly losses ...

Fidelity continues to enjoy fine run on the market...

Fidelity topped the weekly risers after a 37.5% rally took them to 5.5c. Investment Holding company TAH followed recouping 2c (+18.8%) to 13c as the group recovers from post results losses that saw them hit an all time low of 10c. Regional financial services group ABCH garnered 5c (10%) to 55c. Also featuring amongst the other risers were Hippo that added 4.35% to 120c on renewed buying interest, while Cafca consolidated their position with a 6.67% rise to 48c. Regional tourism group African Sun seemingly on a recovery path rose +9.95% to 2.21c

In the news...

No equity transaction to recapitalise Bindura...

Mwana Africa Plc has discounted speculation that it was on the market to fundraise for its Zimbabwean unit, Bindura Nickel Corporation Limited (BNC) through an equity transaction. The London-listed junior miner, a number of funding options remained on the table to restart production at BNC's Trojan mine...

Full story: <http://www.financialgazette.co.zw/companies-a-markets/7821-mwana-africa-discounts-equity-transaction.html>

Mwana Africa opting for other financing options rather than equity for Bindura...

Zimbabwe's mineral output doubled in 2010...

Mineral production from Zimbabwe, which has the world's second-biggest platinum and chrome reserves after South Africa, doubled last year to \$1.38 billion as the country's economy recovers from a decade-long recession. Platinum production rose 26 percent to 8.6 metric tons in 2010, earning \$409 million, while gold generated \$380 million from 9.6 tons, compared with \$157 million from 4.9 tons a year earlier...

Full story: <http://www.bloomberg.com/news/2011-04-07/zimbabwe-s-mining-output-doubles-in-2010-as-nation-recovers-from-recession.html>

Company Stats

Sector **Mining**

Company Name **Hwange**

Stock Data

Price Range (Low,High) USc	20c;90c
Price Performance YTD	33.96%
Shares Outstanding (millions)	182
Market Capitalisation (USD)	129,269,270
Average Daily Value (USD)	7,195
Average Daily Volume	17,839
P/E (X)	20.74

Financial Data

	Tonnes 2009	Tonnes 2010
HPS Coal	1,033,968	1,759,095
HCC/HIC Coal	429,213	533,299
Coal Fines	185,726	151,036
Total Coal	1,648,907	2,443,430
Coke (Inc Breeze)	61018	67,513.00
Total	1,709,925	2,510,943

Financial Data

	31-Dec-09	31-Dec-10	2011 F
Revenues	66,363,128	98,926,994	148,390,491
Gross profit	23,315,344	33,354,148	50,031,222
PBT	4,970,483	10,679,412	18,619,118
PAT	2,589,521	6,231,723	13,247,585
Total Assets	127,204,071	170,789,848	184,037,433
NAV	52,497,952	58,795,919	72,043,504
EPS (US cents)	1.42	3.42	7.28
Dividend Per Share	0.00	0.00	0.00
RoE	4.93	10.60	0.18
P/E (X)	21.09	15.48	10.50
Div Yield	0.00%	0.00%	0.00%
Earnings Yield	4.74%	6.46%	10.25%
Closing Share Price	30	53	
EFE Target Price			76.40

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Hwange Colliery Company Limited full year results to 31 December 2010

Brief Description

Hwange Colliery Company Limited is a coal mining company with core activities of exploration, mining, processing and distribution of coal, as well as of the production of coke and related by-products in Southern Africa. The Company's mining operations include opencast mining, underground mining, coal processing and coking plant, exploration, technical and engineering services. Hwange Colliery Company's Limited products portfolio includes coal, coking coal, coke, industrial coal, and coal fines.

Results Review

Turnover for the year was 49% up at \$98.9m with exports contributing 12% of turnover. Operating on 34% GP margins the group achieved \$33.4m gross profits. Operating profits came in at \$9.4m having accounted for \$26m Administrative expenses and other income of \$3.2m. Attributable profits for the year stood at \$6.3m (3.4c basic eps). The company Balance sheet stood at \$170.8m with \$58.8m being the NAV and closed with cash and cash equivalents at \$647,420

Operations Review and Outlook

The company recorded a 47% increase in production and sales to 2.5m tonnes of coal and coal products. Management attributes lower income to the drop in coal and coke prices in the later part of the year. Domestic demand was driven by power generation industry as other industries remained subdued however management believe the envisaged economic growth would bring with it stronger demand in the other economic sectors. Over the year under review production was boosted by the procurement of mining equipment on a short term funding facility that they managed to secure in the year. The company hopes to focus on new regional and overseas markets to boost export sales. They are also expecting delivery of additional machinery and equipment before the end of Q2 of the ensuing year, acquired using a medium term financing facility, which should boost productivity and help meet the anticipated firm demand in H2. The company supports various industries in the Zimbabwean economy including power generation, agriculture, ferrochrome, steel and allied industries, cement production, brick making and manufacturing all of which are expected to register various levels of increases in productivity and growth this year and with it increased demand for Hwange's products.

Valuation and Recommendation

We assumed that the potential growth in the productivity in the Zimbabwean economy and ventures into regional and overseas markets should translate into in excess of 0% growth in production and sales for the coal miner. Notwithstanding production constraints this should translate to revenues of \$148,4m and a bottom-line of \$13.2m. Applying a PER of 10.5x (15X discounted 30%) we value the group \$139.1m which at the current price of 71c suggests the group is fully valued. However when production increases to the management forecast of 4,2m tonnes per annum and enjoy an average price of \$150/ton with mining costs equivalent to current benchmark costs of \$25/ton, we believe HCC's EBITDA and PAT can come up to \$500m and \$110m respectively for a full financial year. At the same PER multiples this assigns a long term target market cap of \$742,5m. This should however take up to three years to achieve (taking into consideration the fact that they need to recapitalize) with minimum profits being achieved prior to that. Hence, our view on HCC remains long term. **LTBUY**

Notes

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