Equities Research
research@invictus-securities.com
+263-(0) 4 776607/788257/8

INVICTUS SECURITIES

Zimbabwe Stock Exchange

May Monthly Review

Analysts

Raymond Madombwe
Blessmore Tsingozviziwa

Economic Overview & Executive Summary

Yearly Inflation

Inflation declined further in May by 0.05% to -2.7%. The persistent decline in inflation points to Zimbabwe being in a deflationary cycle. However, the Reserve Bank of Zimbabwe view the persistent price decline as disinflation, it is unlikely they will institute any measures to reverse the situation.

ZSE Market Summary

The ZSE total market cap shed 2.16% to close the month at US$3.98 billion, with the industrial index retreating 2.11% while the mining index gained 3.54%. Market turnover declined 20% to close the month at US23.28 million with the major contributors being Econet, Delta and African Sun. Foreign interest in the ZSE recovered in May with foreigners contributing 56% to total purchases and 59% to total sales.

Top Movers & Shakers

The top monthly movers were ART, RioZim, Star Africa, Masimba and CFI which registered gains of 66.67%, 50%, 40%, 25% and 24.5% respectively. The top market shakers in May were Truworths, RTG, Powerspeed, Fidelity Life and Zimplow which recorded losses of 33.33%, 33.33%, 31.82%, 23.91% and 23.08% respectively.

Financial Results

During May, heavyweight counters Delta and Econet released their full year results with both reporting a decline in revenues as well as headline earnings. Delta reported a 4% decline in revenue and 10% decline in EBITDA while Econet posted a 1% decline in revenue and 14% in EBITDA. Mid-cap counter, OK Zimbabwe Limited also reported a disappointing set of results with revenues declining 4% and EBITDA declining 10%. The results reflect the general state of the economy which continues to slip back into recession

Outlook

The recent results reflect the general state of the economy. We do not expect the economy to recover in the short term and expect corporate earnings to come under increased pressure. Zimbabwe is at risk of falling into a deflationary trap unless something is done to revive the economy. Zimbabwe needs to focus on attracting investment and improving the business environment. It needs to restore business and investor confidence.

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Market Performance	Value	% Change
Industrial Index	152.96	-2.11
Mining Index	44.45	3.54
Market Cap (US$ billions)	3.98	-2.16

The Zimbabwe Stock Exchange declined further in May, falling 2.16% to close the month at a total market capitalization of US$3.98 billion. The Industrial Index continued on its downward trajectory shedding 2.11% to close the month at 152.96, mainly attributed to a 8.16% loss in Econet and selling pressure in mid-caps Hippo, OK Zimbabwe and Seedco, which recorded losses in the month of 11.54%, 10% and 5.26% respectively. The mining index gained 3.54% weighed up mainly by an anticipation of a rights issue offered by RioZim.

Flows	Millions	% Change
Total Value (US$)	23.28	-20
Average Daily Value	1.16	-20
Total Volume	288.48	-51
Average Daily Volume	15.7	-51

Activity in the market remained subdued in May, with turnover declining 20% to US$23.28m.The average daily trades shed 20% to close at US$1.16m. Additionally, the total volume traded declined 51% to 288.48m shares and the major contributors to this were Econet, Delta and African Sun, with Econet & Delta contributing 27%, while African Sun contributed 16%.

Foreign Participation	Value (US$m)	Change	% of Total Flows
Foreign Purchases	13.14	+49%	56
Foreign Sales	13.74	+26%	59

Foreign participation surged in May with purchases registering a 49% growth while sales were up 26%. Foreigners were net sellers contributing 59% to total turnover, whilst also purchasing 56% of total purchases in May.

Movers	Change
ART	66.67%
RioZim	50%
Star Africa	40%
Masimba	25%
CFI	24.5%

Gains of 66.67% were recorded in Amalgamated Regional Trading (ART) holding limited and these were spurred by the mandatory offer to minorities by Cranbal, Silvermine & Zadmab. RioZim Limited rallied 50% buoyed by the company obtaining exchange control approval which enabled commencement of the rights issue for the Cam and Motor gold mining project. Star Africa gained 40% due to positive sentiment with regard to the company managing to dispose its assets in a bid to pay creditors. Masimba also gained 25% which was mainly attributable to its unbundling of plastics manufacturing subsidiary, Proplastics, from the construction business, paving way for its separate listing on the local stock market. CFI was also among the movers gaining a healthy 24.50% on the back of a planned capital raise by the company.

Shakers	Change
Truworths	-33.33%
RTG	-33.33%
Powerspeed	-31.82%
Fidelity Life	-23.91%
Zimplow	-23.08%

Truworths came off 33.33% on the back of a difficult trading environment. RTG also lost 33.33% which was mainly attributable to the introduction of 15% value added tax (VAT) on foreign tourists, which resulted in Zimbabwe becoming more expensive, dampening business growth prospects. Engineering sector stocks Powerspeed and Zimplow shed 31.82% and 23.08% respectively on the back of deteriorating economic fundamentals. Fidelity Life was also among the shakers losing 23.91% value. The share price slump was attributable to dampened market expectations which turned out to be unfounded as the company recorded a healthy 38% growth in total income in Q1 2015.

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Financials Review

OK Zimbabwe Limited results for the year ended 31 March 2015							
(US$millions)	**2015**	**2014**	**% change**		**2015**	**2014**	**% change**
Number of staff	4181	4142	0.94%	Gross Margin	17.80%	17%	4.71%
Revenue	462.7	483.7	-4.34%	EBITDA margin	3.80%	4.10%	-7.32%
Operating Cost	34.4	32.3	6.50%	Net Profit Margin	2.30%	2.80%	-17.86%
Operating Profit	10.6	13.4	-20.90%	PPE	57.4	52.9	8.51%
Profit After Tax	7.5	9.7	-22.68%	Long-Term Borrowings	1.1	2.8	-60.71%
Capital Expenditure	11.3	12.4	-8.87%	Current Assets	128.4	117	9.74%
Finance Cost	0.271	0.232	16.81%	Current Liabilities	47	39.6	18.69%
Net Cash from Operations	14.9	13.8	7.97%	DPS (US Cents)	0.33	0.42	-21.43%
Depreciation	6.7	5.4	24.07%	EPS (US Cents)	0.65	0.85	-23.53%
EBITDA	17.7	19.7	-10.15%	PERx	15.38		

- Sector remains very competitive with new entrants, expansion of established brands and the proliferation of vendors
- Revenue for the year shed 4.3% to US$462.7m mainly attributable to the general economic slowdown.
- Operating costs increased 6.5%, leading to a 20.9% decline in operating profit to US$10.6m
- Rising costs on the back of declining revenue resulted in margin compression with the net profit margin shedding 17.86% to 2.3%. This resulted in OK's net profit retreating 22.68% to US$7.5m
- The 23.53% drop in EPS reduced funds available for a dividend payout, with the declared DPS declining 21.43% to US 0.33c
- The decline in earnings growth led to a 8.87% slowdown in capital expenditure to US$11.3m
- Going forward, OK has tweaked its business model to cater for the differing tastes of consumers. They have introduced OK value stores to cater for the lower end of the market
- OK plans to open 3 new stores in FY 2016

Econet Wireless Zimbabwe results for the year ended 28 February 2015

(US$m)	2015	2014	% Growth		2015	2014	% Growth
Total Subscribers (millions)	9.2	8.8	5%	EBITDA margins	38%	44%	-14%
Broadband Subscribers (millions)	5.3	4.2	26%	Net profit margins	9%	16%	-44%
Ecocash Subscribers (millions)	4.2	3.5	20%	PPE & Intangible Assets	883.2	884.1	-0.10%
Total Revenue	746.2	752.7	-1%	Borrowings	242	228	6.10%
EBITDA	286	332	-13.90%	Total Assets	1256	1,174.00	7.00%
Depreciation, amortisation & impairments	126	104	21.20%	Curent Assets	257	230	12%
Operating Profit	159	230	-30.90%	Current Liabilities	305	325	-6%
Finance Costs	36	36.4	1.10%	Dividend per share (Usc)	0.31		
Net Profit	70	119.4	-41.40%	PER	12.5		
Capital Expenditure	125	140	-10.70%				

- The revenue for the period under review shed 1% to US$747.18 with potentially further downside risk resultant from the c.40% reduction in tariffs instigated by the regulator, POTRAZ.
- Regulation poses the greatest risk to Econet's earnings with POTRAZ pushing for infrastructure sharing, a development which would erode Econet's competitive advantage of the widest network coverage
- Broadband growth will also be negatively affected by the introduction of customs duty on imported smartphones.
- Broadband and overlay services remain the key growth drivers
- Operating income declined 31% due to the 21% increase in depreciation, amortisation and impairments
- Capital expenditure retreated 10.7% as the company plans to sweat its current assets and maintain the declining capex to revenue ratio
- Cost optimisation will be critical to sustain margins in light of the net profit margin coming off a significant 44% in FY 2015

Delta Corporation Limited results for the year ended 31 March 2015

(US$m)	2015	2014	% Growth		2015	2014	% Growth
Lager Beer Volumes (hl)	1,414.0	1,654.4	-17%	Total comprehensive income	92	107	-14%
Lager Beer Sales	278.0	316.0	-12%	Borrowings	70.0	71.3	-2%
Sparkling Beverages Volumes (hl)	1,472.0	1,575.0	-7%	Total Assets	664	620	7%
Sparkling Beverages Sales	204.0	225.0	-9%	Current Assets	227	231	-2%
Sorghum Beer Volumes (hl)	3,716.0	3,418.7	8%	Current Liabilities	95.0	170.0	-44%
Sorghum Beer Sales	176.0	146.0	21%	Net cash from operations	139.0	146.0	-5%
Alternative Beverages Volumes (hl)	194.0	172.7	11%	Net cash increase	47.0	11.0	327%
Alternative Beverages Sales	16.0	14.6	10%	Dividend per share (Usc)	3.65	3.6	3%
Total Revenue	576.6	602.2	-4%	Operating profit margins	22.1%	25.0%	-0.12
EBITDA	143.2	158.7	-10%	Attributable EPS (Usc)	7.44	8.55	-0.13
Operating Profit	111.0	129.0	-16%	PER	14.11		
Net finance expense	7.4	4.2	76%	Div	2.3		

- The total revenue in the financial period under review declined 4% to US$576.6m due to effects of lower sales value and volume in both lager beer and Sparkling Beverages.
- Lager Beer sales and Sparkling Beverages sales shed 12% to US$278m and 9% to US$204m respectively. This was mainly attributable to the negative movements in their volumes which was -17% to 1414(hl) for Lager Beer and -7% to 1472 (hl) for Sparkling Beverages.
- Sorghum Beer volumes improved to 3716 (hl) from 3419 (hl) and this was mainly driven by Chibuku Super innovation and investment.
- Operating Income was down 16% reflecting the changed sales mix in favour of lower priced products and the impact of price reductions.
- Cash generated from operations was down by 5% to US$139m due to lower profitability.
- EBITDA shed 10% from US$158.7m as the company was focusing on fixed cost management.
- Total assets increased to US$664 from US$620m mainly attributable to US$ 41,5m increase in investing activities.

Regards

37 Victoria Drive, Newlands
HARARE, Zimbabwe
Tel : +263 4 788257/8
website: www.invictus-capital.com
email: research@invictus-securities.com

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