



## ***PORTFOLIO MANAGER'S DIGEST FIRST QUARTER 2018***

Analyst: Simbarashe Mangwendeza

| <b>OUTLINE</b>                         | <b>Page</b>    |
|--|----------------|
| <i>Market Summary</i> .....            | <b>3</b>       |
| <i>Trade Statistics</i> .....          | <b>4</b>       |
| <i>Economic Review</i> .....           | <b>5</b>       |
| <i>Equity Return Analysis</i> .....    | <b>6</b>       |
| <i>Market Valuation Overview</i> ..... | <b>7</b>       |
| <i>Sector PER Graphs</i> .....         | <b>8 - 12</b>  |
| <i>Top 5 Picks</i> .....               | <b>13 - 14</b> |

“Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it.” – Warren Buffet.

### Q1 2018 Zimbabwe Stock Exchange Review

#### Market Summary

The Zimbabwe Stock Exchange’s (ZSE) main Industrial Index dropped **12.62%** in the first quarter of 2018 following a **20.4%** negative return in the final quarter of 2017. The equity market’s negative trend follows from a significant rally that peaked in November 2017. The market has since been trending lower after peaking in November. Prior sentiment, when the market was rallying has been replaced by more prudent equity acquisitions and disposals as investors align themselves with fundamental valuation investment motivations. Hence this has seen the market adjust downwards as buy and sell equity decisions now have a more prudent approach which has seen previously overpriced securities adjusting downwards. Currency shortages still persist however with a significant share of foreign investors failing to remit dividend income and share sales proceeds given the lack of foreign currency. The mining index registered a similarly negative return for the quarter closing down **12.17%**. Pushing down the mining index returns was BINDURA NICKEL CORPORATION which lost **41.12%** during the quarter as bad publicity regarding corporate governance failures that resulted in loss of funds for the company put a negative damper on the company’s investment outlook. Despite the tough economic environment, listed companies, particularly those in the consumer sector, enjoyed revenue growth that was underpinned by high in-store inflation. Added to that, there was a general increase in sales volumes arising from electronic money purchases which were favoured ahead of the informal sector due to physical cash shortages.

The total value of shares traded in the first quarter of 2018 was US\$141.6m a 204.7% upswing from Q1 2017. It should be noted that foreign investors were net buyers of US\$24m worth of equities on the ZSE and accounted for 38% of all trades in the first quarter of 2018. In Q1 2017, foreign investors accounted for 48.7% of all trades and were net sellers of US\$14.4m worth of shares.

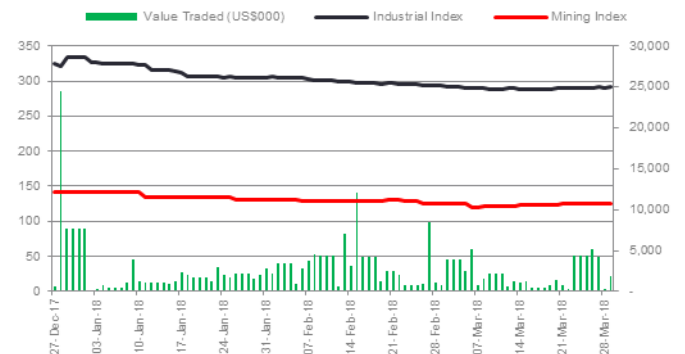
Some of the significant events that happened during the year include the resignation of BAT’s Finance Director Mr L. Fransisco and appointment of Mr. L. Malunga as his replacement; CAFCA issued a profit warning statement indicating that its earnings per share for its first half operations are likely to be usc4.5 per share compared to usc0.7; CFI was suspended from trading on the ZSE; A public offer for CFI shares was made by Messina Investments at a price of US\$1.10/share following its suspension from trading; Mr S.T. Biyam appointed as chairman on the RTG Board; RTG receives approval to issue 625m rights offer shares at usc0.93/share and 1.8 billion debenture units at usc0.93/debenture with a coupon of 6% annum; SEEDCO was granted exchange control approval to partially unbundle and list its foreign operations on the Botswana Stock Exchange and have a secondary listing on the ZSE; SIMBISA gets shareholder approval to have a secondary listing on the Alternative Investment Market of the London Stock Exchange; TSL appoints Mr P. Devenish as its CEO; and Turnall appoints Ms. R.

Chisveto and Mr. S. Mavende as Managing Director and Finance Director respectively.

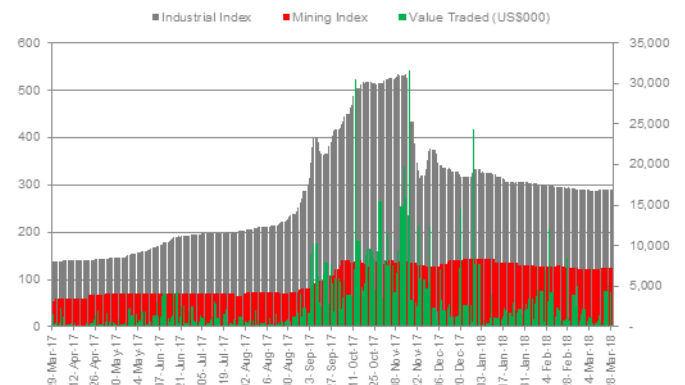
The table below shows the key performers and non-performers during Q1 2018 and the 12 months to 31 March 2018. The graphs show the trend for the industrial and mining indices as well as the value of trades.

| Top Movers |          |            |          |
|------------|----------|------------|----------|
| Q1 2018    | % Change | 12 Months  | % Change |
| INDUSTRIAL | (12.62%) | INDUSTRIAL | 109.41%  |
| MINING     | (12.17%) | MINING     | 113.61%  |
| CAFCA      | 100.0%   | GENBELT    | 627.27%  |
| ZIMPLOW    | 27.88%   | NAMPAK     | 450.0%   |
| AXIA       | 11.11%   | ECONET     | 317.45%  |
| TSL        | 8.55%    | ZBFH       | 227.27%  |
| FBCH       | 3.0%     | POWERSPEED | 226.67%  |
| Losers     |          |            |          |
|            | % Change |            | % Change |
| BAT        | (43.98%) | ART        | (30.77%) |
| BINDURA    | (41.12%) | RTG        | (15.97%) |
| ART        | (35.53%) | TURNALL    | (13.46%) |
| CBZH       | (33.33%) | FIDELITY   | (4.0%)   |
| ARISTON    | (32.94%) | -          | -        |

#### Industrial and Mining Index Q1 2018 Trend



#### Industrial and Mining Index 12 Month Trend



Source: ZSE & OMSEC Research Data base

## Zimbabwe Stock Exchange Trade Statistics

|                       | Total Value Traded    | Volume Traded        | Industrial Index | Mining Index  | vol of shares (foreign) | val. of shares (foreign) \$ | Net Foreign Inflows  | \$ market capitalisation | ZSE Liquidity | foreign participation % |
|-----------------------|-----------------------|----------------------|------------------|---------------|-------------------------|-----------------------------|----------------------|--------------------------|---------------|-------------------------|
| <b>Apr-17</b>         | \$ 11,205,670         | 75,857,712           | 143.20           | 66.33         | 56,436,354              | \$ 9,497,105                | \$ 6,779,518         | \$ 4,189,381,215         | 3.2%          | 42.4%                   |
| <b>May-17</b>         | \$ 17,637,003         | 170,830,515          | 162.34           | 69.63         | 109,160,301             | \$ 13,373,233               | \$ 5,311,884         | \$ 4,740,101,598         | 4.5%          | 37.9%                   |
| <b>Jun-17</b>         | \$ 39,747,329         | 311,145,262          | 195.97           | 69.79         | 111,411,757             | \$ 16,391,394               | \$ 2,384,899         | \$ 5,695,198,739         | 8.4%          | 20.6%                   |
| <b>Jul-17</b>         | \$ 24,705,399         | 153,439,454          | 203.25           | 69.44         | 78,795,893              | \$ 9,788,563                | \$ 1,499,746         | \$ 5,759,019,792         | 5.1%          | 19.8%                   |
| <b>Aug-17</b>         | \$ 13,600,669         | 115,925,416          | 235.03           | 73.47         | 63,739,942              | \$ 4,046,277                | \$ 1,697,618         | \$ 6,659,372,667         | 2.5%          | 14.9%                   |
| <b>Sep-17</b>         | \$ 89,808,134         | 264,086,673          | 418.39           | 122.57        | 157,274,019             | \$ 53,503,760               | \$ 24,568,621        | \$ 11,860,204,528        | 9.1%          | 29.8%                   |
| <b>Oct-17</b>         | \$ 168,828,632        | 1,006,788,402        | 521.85           | 132.49        | 246,205,727             | \$ 132,968,303              | \$ 31,451,770        | \$ 14,830,274,005        | 13.7%         | 39.4%                   |
| <b>Nov-17</b>         | \$ 207,524,047        | 196,492,509          | 376.69           | 126.86        | 70,697,208              | \$ 113,006,742              | \$ 20,818,556        | \$ 10,777,735,114        | 23.1%         | 27.2%                   |
| <b>Dec-17</b>         | \$ 75,355,495         | 879,676,697          | 333.02           | 142.4         | 19,761,749              | \$ 18,448,715               | \$ 5,012,455         | \$ 9,580,566,540         | 9.4%          | 12.2%                   |
| <b>Jan-18</b>         | \$ 34,704,376         | 50,246,880           | 305.35           | 130.42        | 23,009,217              | \$ 23,918,256               | \$ 11,642,369        | \$ 8,652,850,064         | 4.8%          | 34.5%                   |
| <b>Feb-18</b>         | \$ 66,184,479         | 138,142,187          | 294.55           | 124.91        | 46,117,207              | \$ 43,023,832               | \$ 1,191,079         | \$ 8,385,968,370         | 9.5%          | 32.5%                   |
| <b>Mar-18</b>         | \$ 40,667,128         | 108,997,097          | 291.00           | 125.09        | 59,622,818              | \$ 41,371,935               | \$ 11,143,746        | \$ 8,290,413,094         | 5.9%          | 50.9%                   |
| <b>12 Month Total</b> | <b>\$ 789,968,360</b> | <b>3,471,628,804</b> | <b>291.00</b>    | <b>125.09</b> | <b>1,042,232,192</b>    | <b>\$ 479,338,115</b>       | <b>\$ 62,523,472</b> | <b>\$ 8,285,090,477</b>  | <b>9.5%</b>   | <b>30.3%</b>            |
| <b>Q1 2018</b>        | <b>\$ 141,555,983</b> | <b>297,386,164</b>   | <b>291.00</b>    | <b>125.09</b> | <b>128,749,242</b>      | <b>\$ 108,314,023</b>       | <b>\$ 23,977,193</b> | <b>\$ 8,285,090,477</b>  | <b>6.8%</b>   | <b>38.3%</b>            |

Average\*

(ZSE and OMSEC Research Data base March 2018)

### Economic Review

Although the Zimbabwean economy could be on the right path following the significant political changes that occurred in 2017, the economy is still showing signs of vulnerability. This has mainly been due to the continued shortages of nostro funding that is negatively affecting the supply of critical raw materials and services. Banks have continued to limit cash withdrawals. The need for physical cash has however been reduced by the continued investment in plastic money infrastructure in the country. According to statistics from the Reserve Bank of Zimbabwe (RBZ), 96% of all transactions in the country (1 billion transactions) are now accounted for by electronic and mobile banking systems. In terms of the value of transactions, real time gross settlements (RTGS) funds account for 63% of the value of transactions followed by mobile transactions (18%), internet based transactions (8%), ATMs (7%), cash (4%) and the balance accounted for by point of sale machines and cheques. Most independent analysts and economic commentators agree that the country's route cause of nostro challenges relates to a persistently negative trade deficit. Certain import restrictive legislation in 2017 (SI 64 of 2016 and SI 122 of 2017) assisted in narrowing Zimbabwe's trade deficit to US\$1.457bn in 2017 from \$2.2bn in 2016. However the trade deficit has remained negative notwithstanding the thinner trade gap and resultantly the cash and nostro funding challenges have continued.

Zimbabwe, led by its new business focus, has greatly improved the business outlook sentiment. On the 14<sup>th</sup> of March 2018, the Government promulgated the revisions to the Indigenisation and Economic Empowerment Act that limited the 51% minimum local ownership clause to the diamond and platinum mining sectors only. Whereas business and investors alike welcomed the development, Zimbabwe's excessive regulatory red tape and bottlenecks which are yet to be addressed continue to hamper investment into the country. According to the ease of doing business survey 2018 report, Zimbabwe ranks 159 out of 190 countries. Zimbabwe's average ranking from 2011 to 2017 is 163. The improvement when compared to the average arose from a significant ranking improvement in attaining a construction permit along with marginal improvements in the ranking of starting a business, getting electricity and registering a property. We expect that significantly more progress can be implemented should the country manage to hold credible free and fair elections as this would assist by opening doors to long term development finance.

Zimbabwe's tobacco marketing season after 15 days of auctioning (12 April 2018) has yielded 23.8 million kgs at an average price of US\$2.75 per kg. Whilst the weight is 10% below last year's weight at the same stage of the season, the current average price is 13% firmer. The national output for the current crop of tobacco is expected to have an output of 200 million kgs compared to 186 million kgs in the 2016/17 season. Tobacco continues to play a critical role in improving Zimbabwe's supply of foreign currency and any growth in this sector has a significant positive impact on the country's trade balance.

According to the Zimbabwe Chamber of Mines, mining sector output for 2018 is expected to grow by 5% to US\$2.5bn. Growth is expected to be underpinned by chrome, diamond and gold production. We do however emphasize that more policy reforms are still necessary to support big producers as we have seen impactful support given to small scale producer production in 2017. Suggested areas for improvement is the increase in foreign currency retention for capital equipment, enabling power tariffs for big mining houses and amendments to the minerals act to allow for increased exploration and foreign direct investment inflows to the sector.

### Investment Markets Review and Outlook

#### Equities

For the first quarter of 2018, the equity market closed lower as prices adjusted downwards towards fundamentally justified price levels following the aggressive rally in Q4 2017. Post March 2018, the market has recovered slightly having returned 4.3% month to date (16 April 2018). We believe that should the continued optimism and pro-business policy direction be maintained by Government, the equity market should recover with upside pockets of opportunity in companies that produce competitive products as well as commodity based companies that can reign in their costs. The increased use of plastic money is expected to continue to benefit financial services companies with the accompanying earnings growth from fee income expected to be sustained with the on-going cash shortages.

#### Property Sector

The drop in economic activity and higher voids and rental arrears has seen property yields remaining depressed. High financing costs as well as the high cost of building materials for new property developments will see property prices remaining comparatively high when compared to regional peers. In the outlook we expect a nascent recovery in this sector that will be linked to the level of economic activity.

#### Money Market

Average interest rates for money market investments were bounded by the RBZ interest rate floor and ceiling of between 6% – 12%. The RBZ's active involvement in money market investments through their 7% investment savings bond is expected to thin margins for institutional money market players as minimum deposit rates could rise towards 7%. We do not expect interest rate spreads to improve on the money market given RBZ interest rate controls and continued moral suasion to lower bank lending rates.

#### Outlook

Pro-business policies are expected to maintain the momentum of improved recovery prospects for Zimbabwe. The equity sector remains attractive in the short to intermediate term whilst money market yields are expected to improve for entities that can invest directly in government and quasi government paper. The property sector is not expected to grow significantly in the medium term.

## Equity Return Analysis

(Companies ranked by market weight from highest to smallest)

|                                 | Q4 2017 | Q1 2018 | Capital Gain/(Loss) | Dividend past 12 months | Quarter        | YOY      | Total           |
|---------------------------------|---------|---------|---------------------|-------------------------|----------------|----------|-----------------|
| Total Return Analysis           | (usc)   | (usc)   | (usc)               | (usc)                   | Return         | Return   | 12 Month Return |
| DELTA                           | 160     | 158.75  | (1.25)              | 4.95                    | (0.78%)        | 84.59%   | 90.35%          |
| ECONET                          | 92.16   | 67      | (25.16)             | 1.32                    | (27.3%)        | 317.45%  | 325.69%         |
| INNSCOR                         | 100     | 97      | (3.0)               | 0.90                    | (3.0%)         | 115.56%  | 117.56%         |
| SEEDCO                          | 200.00  | 195.00  | (5.0)               | 4.38                    | (2.5%)         | 105.26%  | 109.87%         |
| BAT                             | 3570.05 | 2000    | (1,570.05)          | 51.00                   | (43.98%)       | 30.72%   | 34.05%          |
| NATFOOD                         | 650     | 540     | (110.0)             | 12.10                   | (16.92%)       | 52.64%   | 56.06%          |
| HIPPO                           | 176     | 168     | (8.0)               | -                       | (4.55%)        | 330.77%  | 330.77%         |
| OLD MUTUAL                      | 552.06  | 561.95  | 9.89                | 9.15                    | 1.79%          | 57.77%   | 60.34%          |
| PADENGA                         | 54.71   | 41.5    | (13.21)             | 1.20                    | (24.15%)       | 127.4%   | 133.97%         |
| SIMBISA                         | 47      | 35.5    | (11.5)              | 0.68                    | (24.47%)       | 107.6%   | 111.58%         |
| OK                              | 20      | 16.5    | (3.5)               | 0.20                    | (17.5%)        | 170.49%  | 173.77%         |
| AFDIS                           | 148     | 145     | (3.0)               | 0.85                    | (2.03%)        | 163.64%  | 165.18%         |
| RIO ZIM                         | 120     | 120.75  | 0.75                | -                       | 0.63%          | 201.88%  | 201.88%         |
| TSL                             | 36.85   | 40      | 3.15                | 0.45                    | 8.55%          | 93.24%   | 95.41%          |
| FBCH                            | 20      | 20.6    | 0.6                 | 1.07                    | 3.0%           | 156.86%  | 170.14%         |
| NAMPAK                          | 18      | 16.5    | (1.5)               | -                       | (8.33%)        | 450.0%   | 450.0%          |
| LAFARGE                         | 137.98  | 136     | (1.98)              | 2.50                    | (1.43%)        | 183.33%  | 188.54%         |
| AXIA                            | 18      | 20      | 2.0                 | 0.70                    | 11.11%         | 185.71%  | 195.71%         |
| BARCLAYS                        | 6       | 4.4     | (1.6)               | -                       | (26.67%)       | 46.67%   | 46.67%          |
| MEIKLES                         | 29.2    | 30      | 0.8                 | -                       | 2.74%          | 150.0%   | 150.0%          |
| <b>Mid Cap Listed Companies</b> |         |         |                     |                         |                |          |                 |
| CBZH                            | 15      | 10      | (5.0)               | 0.51                    | (33.33%)       | 0.1%     | 5.23%           |
| FIRST MUTUAL                    | 19.5    | 16      | (3.5)               | -                       | (17.95%)       | 133.24%  | 133.24%         |
| FIRST MUTUAL PROPERTIES         | 6.1     | 4.8     | (1.3)               | -                       | (21.31%)       | 45.45%   | 45.45%          |
| ZBFH                            | 36      | 36      | 0.0                 | 1.830                   | 0.0%           | 227.27%  | 243.91%         |
| MASH                            | 3.46    | 2.7     | (0.76)              | 0.10                    | (21.97%)       | 35.0%    | 39.85%          |
| BINDURA                         | 5.52    | 3.25    | (2.27)              | -                       | (41.12%)       | 8.33%    | 8.33%           |
| DZL                             | 13.4    | 11.5    | (1.9)               | 0.20                    | (14.18%)       | 130.0%   | 134.0%          |
| GETBUCKS                        | 3.7     | 3.7     | 0.0                 | 0.09                    | 0.0%           | 0.0%     | 2.56%           |
| DAWN                            | 2       | 1.59    | (0.41)              | 0.011                   | (20.5%)        | 27.2%    | 28.1%           |
| ZIMRE                           | 2.59    | 2.5     | (0.09)              | -                       | (3.47%)        | 51.52%   | 51.52%          |
| NMB                             | 9       | 9       | 0.0                 | 0.36                    | 0.0%           | 171.08%  | 181.93%         |
| ZPI                             | 2.4     | 1.9     | (0.5)               | 0.04                    | (20.83%)       | 90.0%    | 94.2%           |
| AFSUN                           | 4.8     | 3.75    | (1.05)              | 0.07                    | (21.88%)       | 212.5%   | 218.31%         |
| POWERSPEED                      | 7.5     | 6.86    | (0.64)              | -                       | (8.53%)        | 226.67%  | 226.67%         |
| RTG                             | 1       | 1       | 0.0                 | -                       | 0.0%           | (15.97%) | (15.97%)        |
| <b>Currency Appreciation</b>    |         |         |                     |                         |                |          |                 |
|                                 | Q4 2017 | Q1 2018 |                     |                         | Quarter Return |          | YTD Return      |
| usd/zar                         | 13.5001 | 11.8659 |                     |                         | (12.11%)       |          | (12.11%)        |
| usd/gbp                         | 0.74706 | 0.71119 |                     |                         | (4.8%)         |          | (4.8%)          |
| usd/eur                         | 0.84655 | 0.81147 |                     |                         | (4.14%)        |          | (4.14%)         |
| usd/yen                         | 112.499 | 106.501 |                     |                         | (5.33%)        |          | (5.33%)         |

\*Source: OMSEC Research Data Base

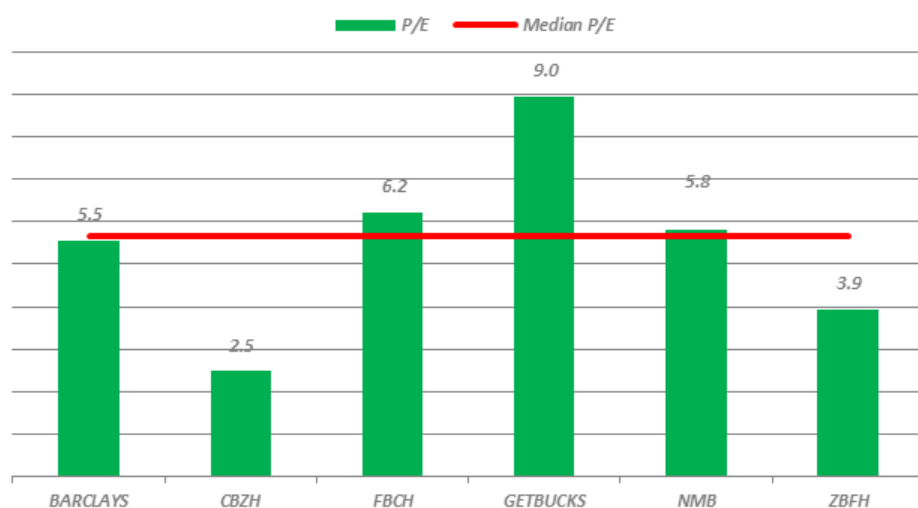
**Market Sector Valuation Overview**

| 29-Mar-18<br>Sector | MKT CAP<br>USD(m) | SECTOR (USD m)<br>R. Earnings | SECTOR<br>R. P/E | SECTOR<br>P.NAV | SECTOR INDEX<br>YTD RETURN |
|---------------------|-------------------|-------------------------------|------------------|-----------------|----------------------------|
| Commodities         | 958.0             | 45.3                          | 21.16            | 4.5             | (2.6%)                     |
| Bank                | 433.7             | 85.1                          | 5.10             | 3.4             | (14.4%)                    |
| Insurance           | 435.1             | 1,634.6                       | 0.27             | 1.21            | (3.5%)                     |
| Beverages           | 2,607.3           | 87.2                          | 29.91            | 19.3            | (11.8%)                    |
| Diversified         | 75.1              | 0.0                           | -                | 1.0             | (49.3%)                    |
| Food                | 575.1             | 26.7                          | 21.55            | 3.7             | (16.9%)                    |
| Hotel               | 56.1              | 4.82                          | 11.65            | 30.1            | (4.2%)                     |
| Retail              | 863.0             | 47.0                          | 18.36            | 14.2            | (4.8%)                     |
| Consumer            | 231.2             | 11.4                          | 20.24            | 17.9            | (23.6%)                    |
| Communication       | 1,735.7           | 71.8                          | 24.18            | 57.9            | (27.3%)                    |
| Manufacturing       | 400.6             | 84.1                          | 4.76             | 2.0             | (5.1%)                     |
| Property            | 181.3             | 9.0                           | 20.17            | 8.4             | (21.2%)                    |
| Mining              | 208.2             | 7.5                           | 27.70            | 1.3             | (12.5%)                    |

Source: OMSEC Research Data Base

## ZSE Sector Price Earnings Relative Comparisons

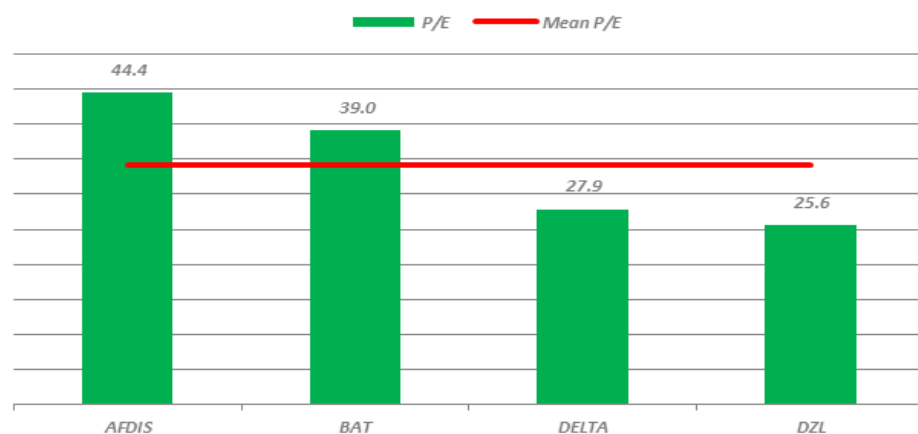
### Banking Sector P/E Graph



| Bank            | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 236.1 | (14.45%)       |
| Best Performer  |       |                |
| FBCH            | 20.6  | 3.0%           |
| Worst Performer |       |                |
| CBZH            | 10    | (33.33%)       |

CBZH and ZBFH are the most attractive companies on a P/E scale. GETBUCKS' relatively low earnings have seen its P/E remain the highest in the sector. Banking sector earnings remain quite subjective particularly for CBZH given potential impairment write offs on NPLs and earnings concentration risk from treasury income.

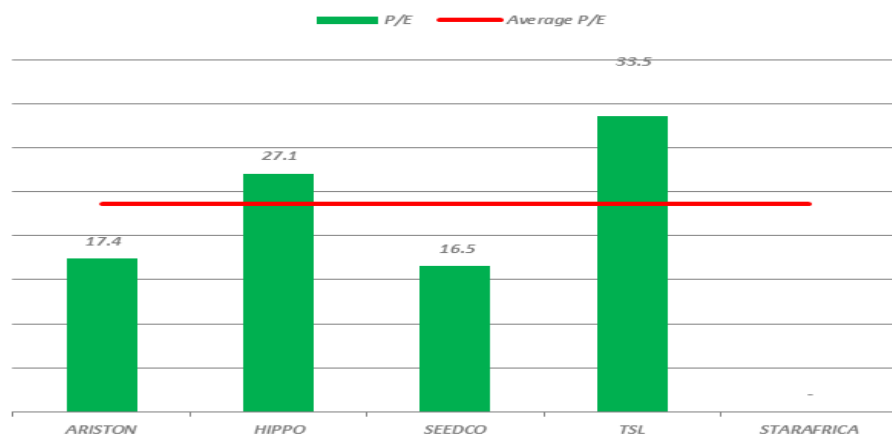
### Beverages Sector P/E Graph



| Beverages       | Value  | Quarter Change |
|-----------------|--------|----------------|
| Sector Index    | 1071.2 | (11.83%)       |
| Best Performer  |        |                |
| DELTA           | 158.75 | (0.78%)        |
| Worst Performer |        |                |
| BAT             | 2000   | (43.98%)       |

DZL's P/E is the most attractive company in this sector but this is because its peers are trading at significantly higher price earnings relative even when compared to a 5 year historic average. We expect DELTA's P/E to come down due to significant earnings growth that have carried over into Q1 2018.

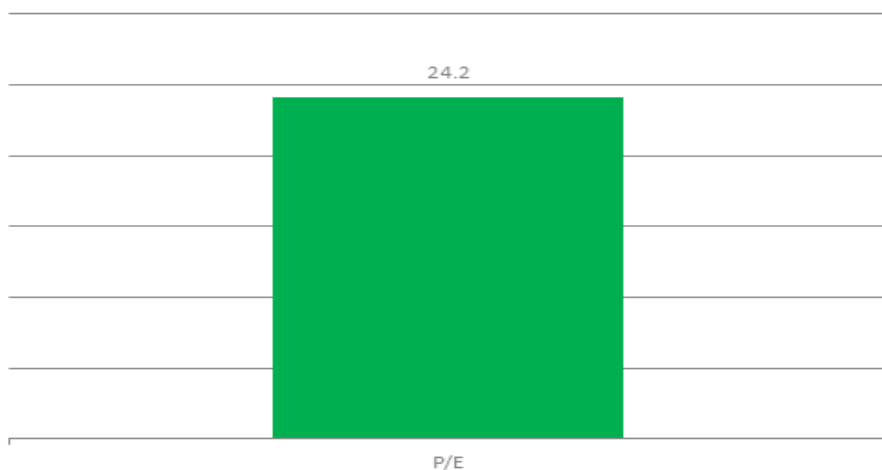
### Commodity Sector P/E Graph



| Commodities     | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 576.8 | (2.57%)        |
| Best Performer  |       |                |
| TSL             | 40    | 8.55%          |
| Worst Performer |       |                |
| ARISTON         | 1.14  | (32.94%)       |

The best performer in the commodities sector was TSL with an 8.55% return. The most attractive company on a P/E scale is SEEDCO with business growth opportunities both in the region and in its local market expected.

## ECONET



| Communication   | Value  | Quarter Change |
|-----------------|--------|----------------|
| Sector Index    | 1203.7 | (27.3%)        |
| Best Performer  |        |                |
| ECONET          | 67     | (27.3%)        |
| Worst Performer |        |                |
| ECONET          | 67     | (27.3%)        |

Econet is the only company whose operations are in the mobile communications sector and listed on the Zimbabwe Stock Exchange. Notwithstanding being the only listed company it remains a market leader even amongst its unlisted peers. On a P/E scale the company is trading at relative par to the ZSE All Share P/E of 24.7X.

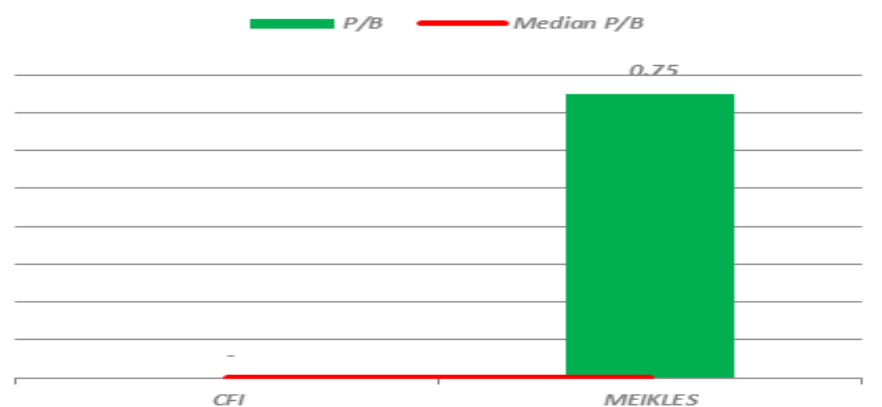
## Specialised Goods Sector P/E Graph



| Specialised Goods | Value | Quarter Change |
|-------------------|-------|----------------|
| Sector Index      | 802.6 | (23.6%)        |
| Best Performer    |       |                |
| ZIMPAPERS         | 1.12  | 1.82%          |
| Worst Performer   |       |                |
| PADENGA           | 41.5  | (24.15%)       |

ZIMPAPERS added a marginal return of 1.8% during the quarter and was the best performer in this sector. ZIMPAPERS operations have begun to turn a profit following its restructuring however we are concerned by the quality of its earnings as its receivables and statutory obligations remain excessively high.

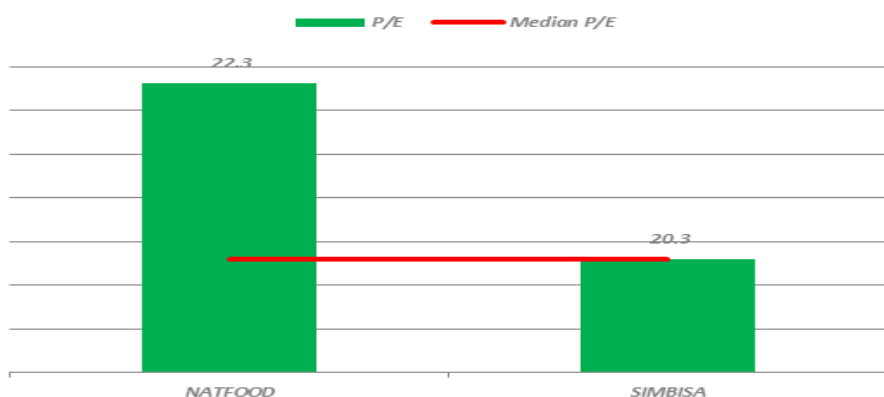
## Diversified Sector P/B Graph



| Diversified     | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 45.0  | (49.3%)        |
| Best Performer  |       |                |
| MEIKLES         | 30    | 2.74%          |
| Worst Performer |       |                |
| MEIKLES         | 30    | 2.74%          |

CFI is currently suspended from trading on the ZSE leaving Meikles as the only company in this sector. Meikles has negative earnings hence the comparison on a P/B basis. The company is attractive on a book value comparative.

## Food Sector P/E Graph



| Food            | Value  | Quarter Change |
|-----------------|--------|----------------|
| Sector Index    | 4251.1 | (16.92%)       |
| Best Performer  |        |                |
| NATFOOD         | 540    | (16.92%)       |
| Worst Performer |        |                |
| SIMBISA         | 35.5   | (24.47%)       |

Both companies in this sector are trading at a discount to the ZSE All-Share P/E. Following the negative returns for both companies during the quarter the upside potential for this sector has improved.

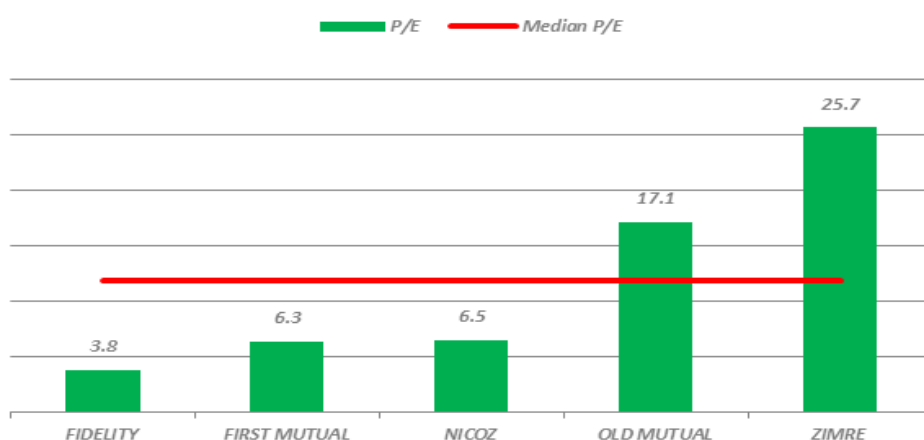
## Hotel Sector P/E Graph



| Hotel           | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 82.4  | (4.23%)        |
| Best Performer  |       |                |
| RTG             | 1     | 0.00%          |
| Worst Performer |       |                |
| AFSUN           | 3.75  | (21.88%)       |

AFSUN has recovered operationally through debt and operational restructuring to register technical rolling earnings. Given the pessimism arising from historical perennial losses the share price has trended lower, making it attractive now when compared to the ZSE's average P/E. RTG got recapitalisation funding but still has negative earnings.

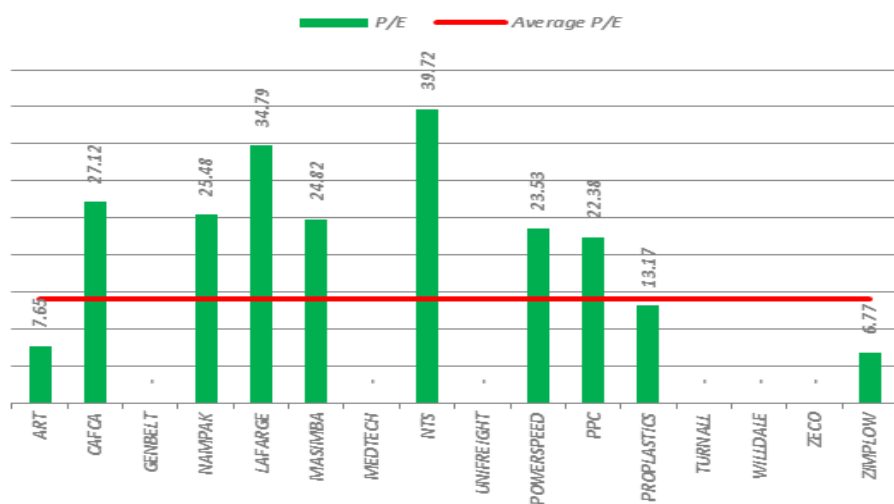
## Insurance Sector P/E Graph



| Insurance       | Value  | Quarter Change |
|-----------------|--------|----------------|
| Sector Index    | 816.0  | (3.51%)        |
| Best Performer  |        |                |
| OLD MUTUAL      | 561.95 | 1.79%          |
| Worst Performer |        |                |
| NICOZ           | 3.1    | (21.91%)       |

FIDELITY, FIRST MUTUAL and NICOZ remain attractive on a P/E basis. OLD MUTUAL was the best performer during the quarter with a return of 1.79%. The impending managed separation of OLD MUTUAL coupled with its fungibility status has underpinned its positive performance in the last two quarters.

## Manufacturing Sector P/E Graph



| Manufacturing   | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 219.0 | (5.13%)        |
| Best Performer  |       |                |
| ZIMPLOW         | 10    | 27.88%         |
| Worst Performer |       |                |
| ART             | 4.5   | (35.53%)       |

Investment in this sector should involve a further analysis of the respective company's cash-flow and access to nostro funds as well as the percentage of inputs that the company imports in its productive process. The less imports required the better. PROPLASTICS, ZIMPLOW and ART are worth considering for investment.

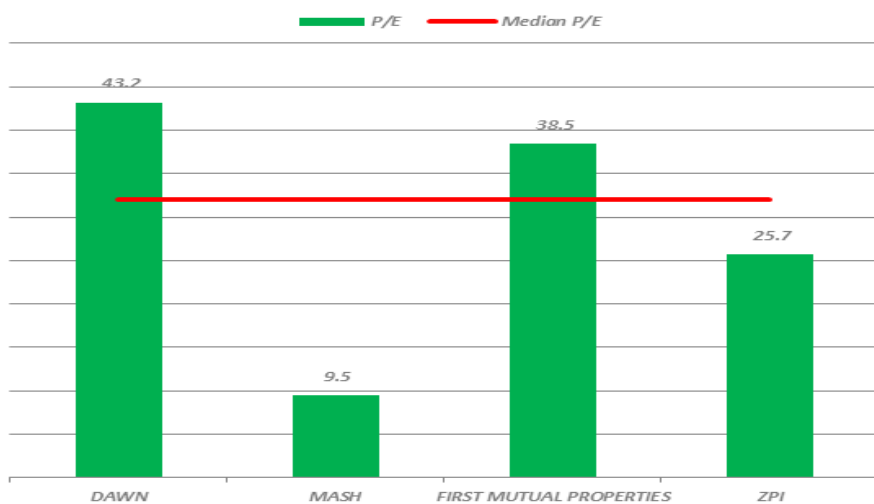
## Mining Sector P/E Graph



| Mining          | Value  | Quarter Change |
|-----------------|--------|----------------|
| Sector Index    | 52.6   | (12.52%)       |
| Best Performer  |        |                |
| RIO ZIM         | 120.75 | 0.63%          |
| Worst Performer |        |                |
| BINDURA         | 3.25   | (41.12%)       |

The mining sector has been a mixed bag. FALGOLD and HWANGE are technically insolvent. RIO ZIM's profitability has taken a positive turn with the company's re-organisation and toll mining arrangement with FALGOLD. BINDURA'S governance issues are negatively affecting their share price but their fundamentals look good with the firming Nickel price.

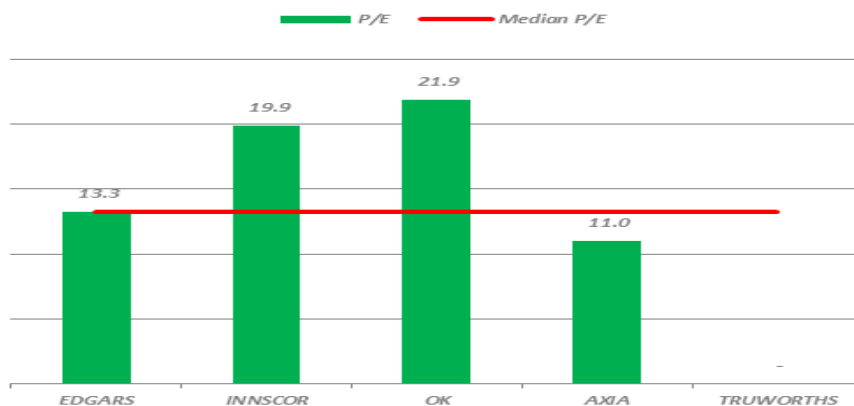
## Property Sector P/E Graphs



| Property        | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 125.3 | (21.24%)       |
| Best Performer  |       |                |
| DAWN            | 1.59  | (20.5%)        |
| Worst Performer |       |                |
| MASH            | 2.7   | (21.97%)       |

On a relative P/E basis MASH is the most attractive. The sector has come under increasing pressure due to lower economic activity resulting in voids, downward rental negotiations and increasing rental arrears. All companies managed a positive bottom line however there were no positive share price movements during the quarter.

## Retail Sector P/E Graphs



| Retail          | Value | Quarter Change |
|-----------------|-------|----------------|
| Sector Index    | 655.0 | (4.81%)        |
| Best Performer  |       |                |
| EDGARS          | 4.55  | 13.18%         |
| Worst Performer |       |                |
| OK              | 16.5  | (17.5%)        |

Edgars topped the gainers this quarter following an impressive set of results and a healthy dividend to boot. AXIA is the most attractive company on a P/E relative basis. OK and INNSCOR are overvalued at their current price levels.

## Top Five Picks

|                         |  |
|-------------------------|--|
| <b>AXIA</b>             | <b>Latest Fundamentals</b>   |
| <i>Long Term Buy</i>    | The company has three main business interests namely 50.01% in Distribution Group Africa their highest revenue earner, 66.67% in TV Sales and Home and 26% of Transerv, a vehicle sundries, spares and parts company. The business has been consistently growing despite several constraints being experienced in the economy. We expect the company to grow more if the economic environment turns a corner for the better. The company exhibited strong interim earnings growth hence our revised target price forecast as we maintain a cautiously optimistic view for the outlook. |
| <b>Target Price</b>     |  |
| <i>Usc41</i>            |  |
| <b>Current Price</b>    | <b>Key Technicals</b>  |
| <i>Usc23</i>            | AXIA is neutral on both the relative strength index and moving average convergence and divergence scale. We advise taking advantage of the current stability in the share price and invest for medium term gains.  |
| <b>Potential Upside</b> | <b>Sensitivity View</b>  |
| <i>76%</i>              | Best-case Scenario: Recovery in disposable incomes which would improve demand for its products. Growth in market share and improved cash and nostro funds locally to boost demand.<br><br>Worst Scenario: Increased liquidity drain, limited aggregate demand, dwindling employment and general decline in disposable incomes which would result in a poor uptake of the company's products.   |
| <b>AFSUN</b>            | <b>Latest Fundamentals</b>   |
| <i>Medium Term Buy</i>  | The company owns major hotels in tourist hotspots in Zimbabwe, that is Victoria Falls, the Nyanga Mountaineous region, Hwange National Park and City Hotels in Harare, Bulawayo and Mutare. Following the completion of Victoria Falls Airport, tourist arrivals have improved markedly. The company's profitability has improved on the back of debt and organisational restructuring with an international hotel management company taking charge of its major hotels.   |
| <b>Target Price</b>     |  |
| <i>Usc6.83</i>          | <b>Key Technicals</b>  |
| <b>Current Price</b>    | The company is in buy territory on the relative strength index scale and neutral on the moving average convergence divergence scale. We recommend taking advantage of the current weakness in the share price and accumulating the company's share for short to medium term gains.   |
| <i>Usc3.75</i>          | <b>Sensitivity View</b>  |
| <b>Potential Upside</b> | Best-case Scenario: Improved tourist arrivals to reach the Government target of 2.5 million arrivals in 2018 having recorded 2.2 million in 2017. Firming regional currencies against the USD to improve the cost for tourist. Reduced regulatory red tape for tourists visiting Zimbabwe and improved payment options for tourists.<br><br>Worst Scenario: Continued decline in disposable incomes hampering local tourism; bad publicity dampening tourist arrivals, payment option problems and a firmer USD making the Zimbabwe tourist destination uncompetitive.                 |
| <i>82%</i>              |  |
| <b>ART</b>              | <b>Latest Fundamentals</b>   |
| <i>Speculative Buy</i>  | The government directive to protect locally manufactured goods against imports has worked incredibly well as this has undeprinned the company's battery sales division. Significant shareholder changes and restructuring of their finances has buttressed this company's performance and the outlook looks brighter.  |
| <b>Target Price</b>     |  |
| <i>Usc5.2</i>           | <b>Key Technicals</b>  |
| <b>Current Price</b>    | The company's relative strength index is in neutral territory whilst the moving average convergence divergence is trending lower. We believe taking up available shares in the company as the fundamental outlook looks good for the short term.   |
| <i>Usc4.33</i>          | <b>Sensitivity View</b>  |
| <b>Potential Upside</b> | Best-case Scenario: Recovery in disposable incomes and liquidity improvement. Availability of foreign currency to import critical raw materials for the business's production process.<br><br>Worst Scenario: Depressed demand arising from poor liquidity and lower disposable incomes. Removal of protectionist policies and opening the gates to stiff import competition.  |
| <i>19.4%</i>            |  |

|                         |  |
|-------------------------|--|
| <b>ECONET</b>           | <b>Latest Fundamentals</b><br>ECONET is turning into a conglomerate as its sources of income through innovative technology provision continue to grow. We forecast that its banking subsidiary and dominant market share in mobile transaction services will ensure significant earnings growth for its upcoming results whilst its mobile communication business is expected to maintain its profitability whilst offering overhead cost containment advantages.  |
| <b>Long-term Buy</b>    |  |
| <b>Target Price</b>     | <b>Key Technicals</b><br>Both technical indicators are in conformance (relative strength index and moving average convergence divergence) for an upswing in the share price. We recommend accumulating the share in anticipation of a share price upturn.  |
| Usc102                  |  |
| <b>Current Price</b>    | <b>Sensitivity View</b><br>Best-case Scenario: Recovery in local aggregate demand and a levelling of the regulatory environment in the telecommunications sector. Increased uptake of technological innovations and a stable currency environment.   |
| Usc86.96                |  |
| <b>Potential Upside</b> | Worst Scenario: Foreign currency shortages hampering capital equipment acquisitions; Increased regulatory red tape when compared to Government owned telecommunications companies; Poor uptake of new products introduced by the company.  |
| 17%                     |  |
| <b>BARCLAYS</b>         | <b>Latest Fundamentals</b><br>The company has recently been acquired by FMB Capital Holdings and joins the bank's African footprint in Mozambique, Malawi, Zambia and Botswana. On acquisition, Zimbabwe's banking assets accounted for 50% of the group's total assets and 57% of the Group's equity. We expect the new shareholder to continue its aggressive growth and as such increased leverage of the bank's balance sheet should bring in more profitability. The prior shareholder was more conservative in the use of the bank's balance sheet assets. |
| <b>Medium Term Buy</b>  |  |
| <b>Target Price</b>     | <b>Key Technicals</b><br>The company's technicals indicate that the company is in buy territory on the relative strength index bollinger bands whilst the moving average convergence divergence is in neutral territory. We recommend taking advantage of the current weak share price for short to medium term gains.   |
| Usc5.9                  |  |
| <b>Current Price</b>    | <b>Sensitivity View</b><br>Best-case Scenario: Regional currency stability and increased financial services sector confidence locally combined with economic expansion, sustained growth in the use of electronic platforms increasing fee income and rising demand for non-funded income.   |
| Usc4.4                  |  |
| <b>Potential Upside</b> | Worst Scenario: Loss of confidence in the financial services sector locally. High inflation and currency weaknesses will have a dampening effect on the bank's profitability and demand for funded income.   |
| 34%                     |  |



The information contained in this document is derived from carefully selected sources. No representation is given about, and no responsibility is accepted for the accuracy or completeness of this document. Any views expressed reflect the current views of the author and do not necessarily represent the views of the OLD MUTUAL GROUP or any subsidiary or affiliate of the OLD MUTUAL Group. The views reflected herein may change without notice. OLD MUTUAL SECURITIES, its affiliates and their respective officers, directors, partners and employees, including persons involved in the preparation of this document, may from time to time deal in, hold, or act as market-makers, advisers, brokers, and commercial and or investment bankers in relation to equities, securities, or derivatives thereof. Members of staff of Old Mutual Securities may or may not hold interests in the subject matter of analysis and or commentary contained in this document. This document is provided to you for informational purposes only and should not be construed as and shall not form part of an offer or solicitation to buy or sell any equities, securities or derivatives thereof. It may not be reproduced, distributed or published by any recipient for any purpose. In connection with its distribution, this document has been approved by OLD MUTUAL SECURITIES.