



OLDMUTUAL

PORTFOLIO MANAGER'S DIGEST Q2 2022

Research Note | Zimbabwe



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“Today people who hold cash equivalents feel comfortable. They shouldn’t. They have opted for a terrible long-term asset, one that pays virtually nothing and is certain to depreciate in value”– Warren Buffet.

Q2 2022 Zimbabwe Equities Review

Market Summary

The Zimbabwe Stock Exchange's (ZSE) main All Share Index (ALSI) rose by 24.8% in Q2. Headlining the gainers during the quarter was CFI with a return of 203.28% followed by FCB at 171.43%. BAT topped the losers as it faltered 18.83% followed by Simbisa with a negative return of 12.3%. The relatively subdued performance of both indices in real terms was hampered by reduced liquidity for the greater part of the quarter as the Ministry of Finance and the RBZ increased efforts to tighten money supply. Notwithstanding the highly inflationary environment during the period, equity sector returns remained significantly low.

The total value of shares traded on the ZSE in Q2 2022 was ZWL\$34.55b, a 201.7% increase compared to Q2 2021. Foreign investors were net sellers of ZWL\$4.42b worth of equities on the ZSE and accounted for 9.91% of total trades. ZSE liquidity dropped sharply to 1.2% compared to 25.6% in Q2 2021.

Trading on the Victoria Falls Stock Exchange (VFEX) in the period under review improved significantly relative to the same period in 2021 with a total of 23.99m shares worth US\$3.19m changing hands compared to 119 982 shares worth US\$28 981.74. Padenga and Bindura remain the most liquid stocks in this market.

The total value of shares traded on the FINSEC ATP in Q2 2022 was ZWL\$50.36m, a 11.05% increase from Q2 2021. A total of 0.25m shares traded compared to 1.3m shares in Q2 2021 a decline of over 80%. The OMZIL Class B share registered a 60.0% return for the quarter outperforming both the ZSE All Share index and ZSE top 10 index.

Notable events in Q2 2022 included:

- Increase in Capital Gains Withholding Tax from 2% to 4% (securities held for less than 9 months)
- Listing of the Morgan & Co Made in Zimbabwe ETF on the ZSE
- Medtech Holdings Limited changed its name to Bridgefort Capital Limited
- Acquisition of a 32.55% stake of Turnall by Zimbabwe Brands Pvt Ltd
- Temporary suspension of bank lending from the 9th of May 2022 to the 17th of May 2022
- Suspension of Customs duty on the importation of basic commodities.
- 2022 Financial Adjustments Bill to condone unauthorised expenditure incurred by the Ministry of Finance and Economic Development for the year 2020 and 2019

The table below shows the key performers during Q2 2022 and in the last 12 months.

Top Movers			
Q2 2022	% Change	12 Months	% Change
ZSE ALL SHARE	24.8%	ZSE ALL SHARE	219.49%
ZSE TOP 10	17.16%	ZSE TOP 10	289.09%
CFI	203.28%	CFI	52 196.82%
FCB	171.43%	ZECO	9 500.0%
GETBUCKS	146.15%	BRIDGEFORT	8 399.28%
NMB	137.41%	ECONET	485.35%
TANGANDA	126.75%	SIMBISA	438.9%
Losers			
	% Change	Losers	% Change
BAT	(18.83%)	GENBELT	(49.8%)
SIMBISA	(12.3%)	STARAFRICA	(41.4%)
HIPPO	(8.0%)	WILLDALE	(28.62%)
SEEDCO	(5.22%)	FIRST MUTUAL PROPERTIES	(24.62%)
TURNALL	(4.79%)	ARISTON	(20.99%)

Source: ZSE & OMSEC Research Data base

The graph below shows the performance of the ZSE listed ETFs during Q2 2022

ETF	Closing Price (ZWC)	Q2 % Change	YTD % Change
DATVEST ETF	198.21	5.43%	98.21%
MORGAN & CO MIZ ETF	127.12	27.12%	27.12%
MORGAN & CO MULTI SECTOR ETF	2 694.30	85.66%	169.43%
OLD MUTUAL ZSE TOP 10 ETF	976.57	14.07%	121.90%

The entire ETF (Exchange Traded Funds) market was up in Q2 2022 with the Morgan & Co Multi Sector ETF leading the pack with a return of 85.66%. The Datvest Modified Consumer Staples ETF was the worst performer with a Q2 return of 5.43%. A new ETF, the Morgan & Co Made In Zimbabwe ETF was listed during the quarter returning 27.12%.



Zimbabwe Stock Exchange Trade Statistics

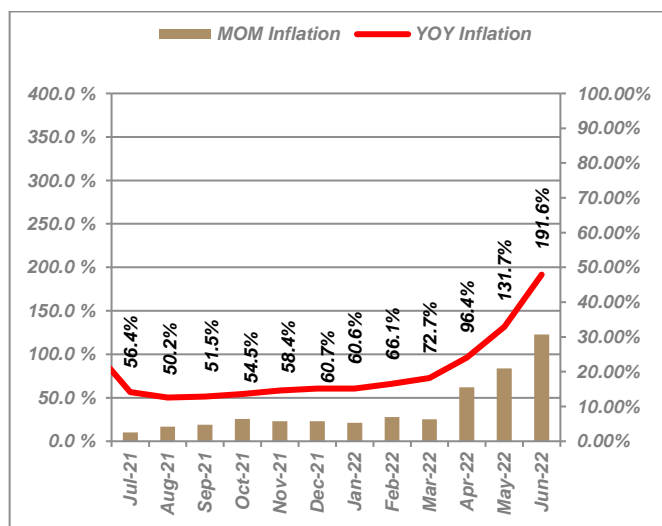
	Total Value Traded	Volume Traded	Industrial Index	Mining Index	vol of shares (foreign)	val. of shares (foreign) \$	Net Foreign Inflows	\$ market capitalisation	ZSE Liquidity	foreign participation %
Jul-21	\$ 2 921 334 846	181 010 800	6 818.29	3639.99	29 617 039	\$ 682 851 051	\$ 232 847 637	\$ 803 900 154 014	4.4%	11.7%
Aug-21	\$ 3 461 272 876	147 232 100	6 652.31	3595.05	14 841 876	\$ 425 592 498	\$ 69 235 012	\$ 792 291 484 686	5.2%	6.1%
Sep-21	\$ 4 731 317 785	2 909 442 257	8 580.16	4857.20	7 367 135	\$ 412 544 664	\$ 382 935 168	\$ 1 032 472 924 915	5.5%	4.4%
Oct-21	\$ 5 661 929 115	107 831 300	11 329.57	7085.20	19 417 007	\$ 1 227 308 356	\$ 1 013 714 714	\$ 1 378 227 921 300	4.9%	10.8%
Nov-21	\$ 9 899 591 308	791 661 820	10 695.57	6714.23	675 549 990	\$ 4 466 582 794	\$ 3 645 446 239	\$ 1 290 069 754 680	9.2%	22.6%
Dec-21	\$ 17 577 212 861	230 974 308	10 822.36	6811.43	32 340 799	\$ 1 138 731 253	\$ 323 044 150	\$ 1 317 205 109 565	16.0%	3.2%
Jan-22	\$ 4 022 039 348	82 402 101	12 079.74	7817.52	4 313 412	\$ 306 644 089	\$ 201 359 460	\$ 1 475 217 446 997	0.0%	0.0%
Feb-22	\$ 7 987 285 542	153 372 800	14 990.42	9953.27	29 629 749	\$ 1 479 677 947	\$ 162 504 908	\$ 1 863 028 601 451	5.1%	9.3%
Mar-22	\$ 8 188 877 299	117 889 000	15 858.92	10476.38	18 916 257	\$ 1 522 012 607	\$ 40 873 386	\$ 1 964 738 416 303	5.0%	9.3%
Apr-22	\$ 11 367 188 798	193 411 483	28 391.75	18786.03	15 061 428	\$ 1 687 966 837	\$ 469 647 630	\$ 3 547 347 523 897	3.8%	7.4%
May-22	\$ 8 611 503 257	195 475 400	23 072.46	15337.16	9 555 390	\$ 1 816 610 011	\$ 1 272 906 913	\$ 2 893 011 699 544	3.6%	10.5%
Jun-22	\$ 14 570 097 916	271 227 100	19 791.94	12273.75	19 072 317	\$ 3 342 860 232	\$ 2 681 365 356	\$ 2 439 165 449 582	7.2%	11.5%
12 Month Total	\$ 98 999 650 950	5 381 930 469	19 791.94	12273.75	875 682 399	\$ 18 509 382 338	\$ 9 768 045 500	\$ 1 733 056 373 911	5.7%	9.3%
Q2 2022	\$ 34 548 789 971	660 113 983	19 791.94	12273.75	43 689 135	\$ 6 847 437 080	\$ 4 423 919 899	\$ 2 959 841 557 674	1.2%	9.91%

Average* (ZSE and OMSEC Research Data base June 2022)



Economic Pointers

The Zimbabwean economy has been showing signs of positive business growth but increasing vulnerabilities from external and domestic factors threaten this growth. High imported and local inflation coupled with currency challenges negatively impacted on the operating environment in the second quarter of 2022. The Zimbabwe Statistical Office released June 2022 inflation numbers where official annual inflation reached 191.56% against projections of 35%. Month on month inflation stood at 30.70%, about five percentage points below the highest post dollarisation month on month inflation of 35.5%. The graph below shows a summary of Zimbabwe's official inflationary developments.



Source: ZIMSTAT

The local currency's performance trend on the auction market has been one of depreciation, opening at ZW\$108.666: US\$1 in January and closing on 30 June 2022 at ZW\$366.2687. This represents a currency depreciation of 70.33% which has seen the Ministry of finance and the RBZ respond with a raft of measures aimed at supporting the ZWL and tame inflation, including hiking minimum lending interest rates from 80% to 200%.

Gold is one of the principal foreign currency earners for Zimbabwe with the mineral accounting for an estimated 18.55% of the country's export earnings in 2021. According to Fidelity Printers and Refiners, gold output for the first half of 2022 was 15 976kg a 59% upswing compared to 10 028kg recorded in the first half of 2021. While small scale gold producers continue to underpin growth in this sector, we believe the improved business environment in this sector coupled with concessions being made for the

larger producers, should have a positive impact on medium term growth prospects.

Investment Markets Review and Outlook

Equities

The ZSE's market capitalisation has averaged US\$6.75 billion between 2014 and 2018. Using the WBWS rate (430) as at 25/07/2022, the market is trading at a 33% discount to its average at approximately US\$4.53 billion presenting long term investors with a golden opportunity to pick stocks at these favourable levels. The introduction of the gold coin with the prescribed asset status and the sharp increase in interest rates by the Reserve Bank of Zimbabwe could keep the stock market depressed in the short term. The gold coin could offer investors an alternative investment opportunity to invest their ZW\$ balances to preserve value and mitigate any further ZWL devaluation. However, we must caution that the decline in Covid 19 cases and the recent hike of interest rates globally could lead to a weakening gold price in the medium to long term. The equity sector hence remains attractive in the intermediate to long term given the economic growth prospects which is anticipated to filter through the performance of underlying counters.

Property Sector

High cost of building materials for new property developments will see property prices remaining comparatively high when compared to regional peers. The anticipated introduction of REITs sometime this year could improve liquidity for property sector investors.

Money Market

High annual and month on month inflation is likely to erode money market returns in the absence of regular interest rate reviews to keep pace with inflation with the minimum fixed term rate set at 80% per annum.

Outlook

The equity sector remains attractive given the high inflation expectations and economic growth prospects post the Covid 19 pandemic. Investors are recommended to focus on counters that have significant pricing power, dominate market positions and strong balance sheets with low levels of debt.



Equity Return Analysis

Companies ranked by market weight from highest to smallest

Total Return Analysis	Q1 2022 (zwl)	Q2 2022 (zwl)	Capital Gain/(Loss) (zwl)	Dividend past 12 months (zwl)	Quarter Return	YOY Return	Total Return Including Dividend
DELTA	240.9214	340.9864	100.065	3.15	41.53%	371.23%	375.58%
ECONET	138.2422	160.9707	22.729	1.00	16.44%	485.35%	488.98%
INNSCOR	307.4921	400.3179	92.826	4.80	30.19%	364.26%	369.82%
ECOCASH	69.84	68.40	(1.448)	-	(2.07%)	356.06%	356.06%
NATFOOD	1800	2000	200.0	13.99	11.11%	284.52%	287.21%
SIMBISA	221.5475	194.3059	(27.242)	2.13	(12.3%)	438.9%	444.8%
CBZH	90.6897	169	78.31	2.87	86.35%	101.21%	104.63%
BAT	3665	2975	(690.0)	-	(18.83%)	230.92%	230.92%
AXIA	72.0021	109.7456	37.744	0.66	52.42%	425.55%	428.71%
TANGANDA	96.119	217.95	121.831	0.50	126.75%	262.65%	263.48%
HIPPO	299.9905	276	(23.991)	2.32	(8.0%)	97.1%	98.76%
FBCH	35.95	75	39.05	1.79	108.62%	150.0%	155.95%
OK	30.0281	38.0241	7.996	0.98	26.63%	153.46%	159.97%
TSL	112	120	8.0	0.45	7.14%	200.0%	201.13%
SEEDCO	179.9092	170.5102	(9.399)	-	(5.22%)	224.78%	224.78%
AFDIS	220	342	122.0	1.48	55.45%	425.43%	427.7%
CFI	122	370	248.0	-	203.28%	52 196.82%	52 196.82%
MEIKLES	140.7662	135.1278	(5.638)	2.43	(4.01%)	62.8%	65.73%
Mid Cap Listed Companies							
RTG	6.45	10.5	4.05	0.06	62.79%	132.95%	134.28%
GETBUCKS	6.5	16	9.5	-	146.15%	1.78%	1.78%
AFSUN	8.7255	12.6977	3.972	-	45.52%	117.07%	117.07%
FIRST MUTUAL	18	24	6.0	0.206	33.33%	(12.72%)	(11.97%)
ZBFH	60	88	28.0	1.45	46.67%	14.29%	16.17%
MASIMBA	53.9955	60	6.005	0.42	11.12%	50.0%	51.04%
FIRST MUTUAL PROPERTIES	10.2613	11.65	1.389	0.02	13.53%	(24.62%)	(24.48%)
RIO ZIM	55	110	55.0	-	100.0%	321.46%	321.46%
DZL	36	35.7045	(0.295)	0.410	(0.82%)	7.04%	8.27%
PROPLASTICS	42	50.6381	8.638	0.38	20.57%	81.17%	82.53%
LAFARGE	125	150	25.0	-	20.0%	150.0%	150.0%
NMB	12.075	28.6667	16.592	-	137.41%	138.89%	138.89%
NAMPAK	14.55	14.5	(0.05)	-	(0.34%)	0.0%	0.0%
MASH	3	5.8256	2.826	0.04	94.19%	64.1%	65.31%
ZIMRE	4.2165	5.35	1.134	0.02	26.88%	66.39%	66.9%
					Quarter	YTD	
Currency	Q1 2022	Q2 2022			Appreciation/ (Depreciation)	Appreciation/ (Depreciation)	
usd/zw\$	142.4237	366.2687			(61.11%)	(76.69%)	
usd/zar	14.6228	16.2867			(10.22%)	(12.31%)	
usd/gbp	0.7606	0.822			(7.47%)	(12.02%)	
usd/eur	0.903	0.9585			(5.79%)	(12.01%)	
usd/ven	121.7382	135.7303			(10.31%)	(18.13%)	

*Source: OMSEC Research Data Base June 2022



Market Sector Valuation Overview

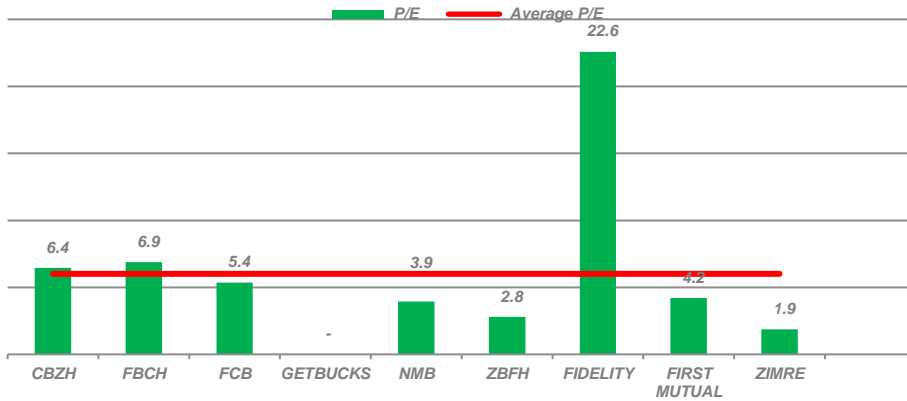
30/06/2022	MKT CAP	SECTOR (ZW\$ m)	SECTOR	SECTOR	SECTOR INDEX
Sector	ZW\$(m)	ROLLING EARNINGS	AVERAGE P/E	AVERAGE P.BOOK	QTR RETURN
Financials	239 448.9	43 906.3	13.78	7.5	90.42%
Consumer Staples	1 253 821.3	48 535.1	32.37	12.9	26.4%
ICT	597 072.3	16 220.6	43.61	22.3	8.3%
Consumer Discretionary	221 420.8	11 090.6	25.70	9.0	8.7%
Materials	54 507.5	2 098.1	14.31	3.2	24.4%
Real Estate	26 237.6	17 311.7	0.76	0.4	37.7%
Industrials	39 241.7	2 949.8	13.06	6.3	3.4%

Source: OMSEC Research Data Base



ZSE Sector Price Earnings Relative Comparisons

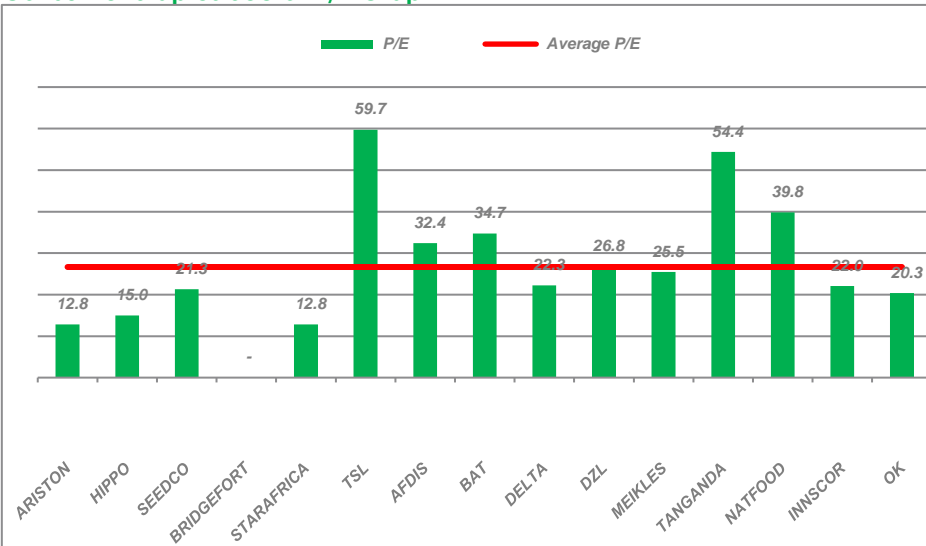
Financial Sector P/E Graph



Financial Sector	Value	Quarter Change
Sector Index	29 047.99	90.42%
Best Performer		
FCB	12.23	171.43%
Worst Performer		
ZIMRE	5.35	26.88%

ZHL and ZBFH are the most attractive companies on a P/E scale. The best performer in Q2 was FCB gaining 171.43% following an impressive set of results with a healthy dividend. The worst performer was ZHL, returning 26.88%.

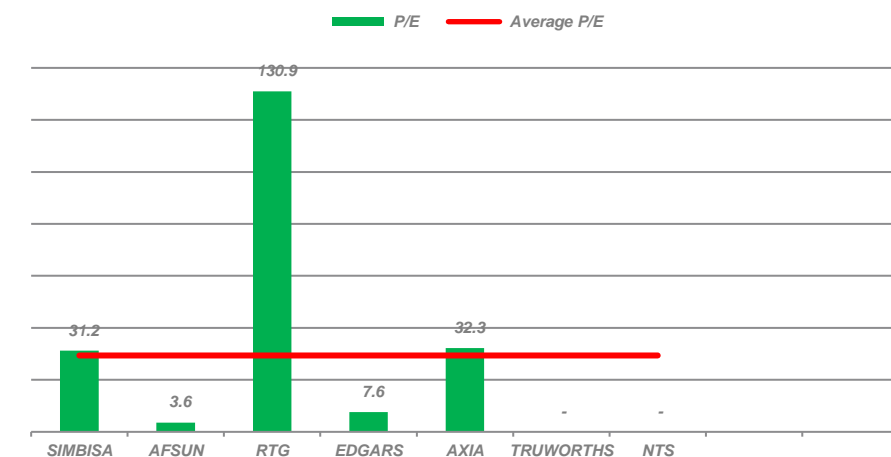
Consumer Staples Sector P/E Graph



Consumer Staples	Value	Quarter Change
Sector Index	24 466.3	26.36%
Best Performer		
TANGANDA	217.95	126.75%
Worst Performer		
BAT	2 975	(18.83%)

The average sector P/E has been pushed up by TSL which settled at a P/E of 59X. Star Africa, Ariston and Hippo are the most attractive companies on a P/E scale in this sector. The best performer in this sector was Tanganda with a Q2 return of 126.75%

Consumer Discretionary Sector P/E Graph

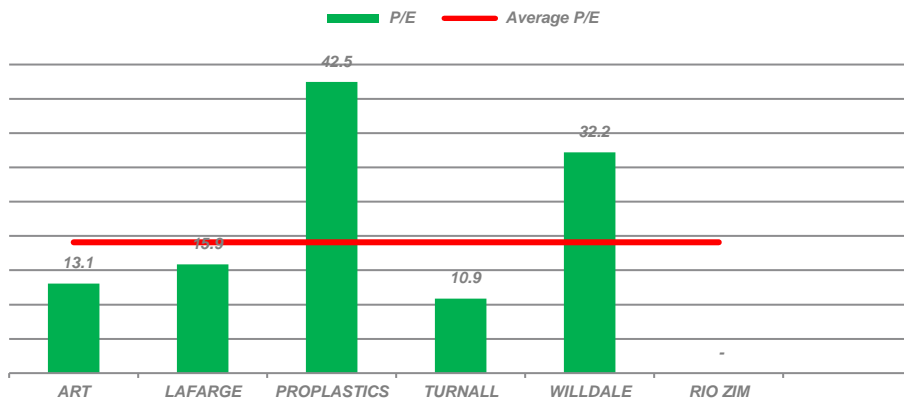


Consumer discretionary	Value	Quarter Change
Sector Index	24 450.0	8.73%
Best Performer		
RTG	10.5	62.79%
Worst Performer		
SIMBISA	194.3059	(12.3%)

The best performer in the consumer Discretionary sector was RTG with a 62.79% return. Simbisa was the worst performer, shedding 12.3% in Q2. Afsun and Edgars had the lowest P/E ratios in this sector.



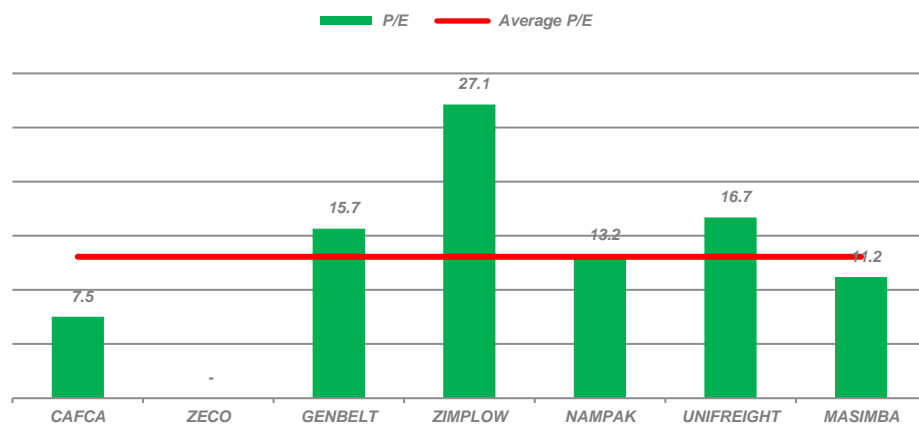
Materials Sector P/E Graph



Materials	Value	Quarter Change
Sector Index	15 414.0	24.37%
Best Performer		
RIO ZIM	110	100.0%
Worst Performer		
TURNALL	4.57	(4.79%)

Rio Zim added a significant return of 100% during the quarter and was the best performer in this sector. Turnall was the worst performer in this sector losing 4.79% in Q2. Turnall and ART are the most attractive companies on a P/E scale.

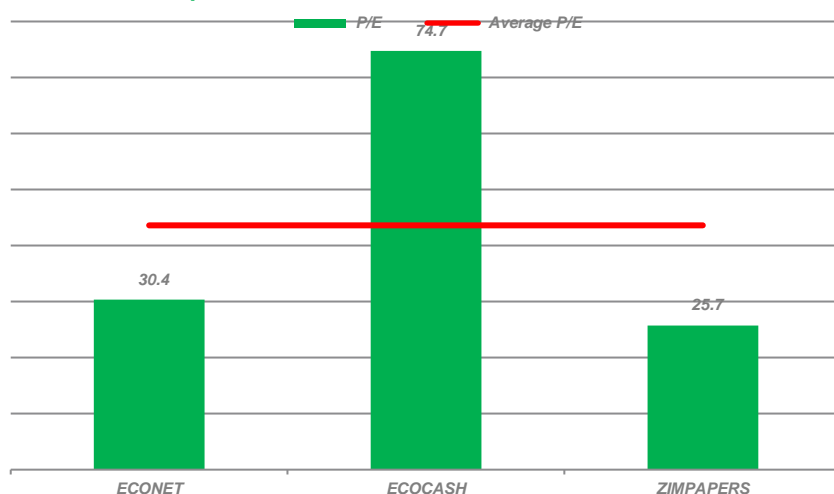
Industrial Sector P/E Graph



Industrial	Value	Quarter Change
Sector Index	20 466.3	3.38%
Best Performer		
ZECO	0.0288	44.00%
Worst Performer		
UNIFREIGHT	33	(1.49%)

CAFCA and Masimba are the most attractive companies on a P/E scale. The worst performer was Unifreight losing 1.49% in Q2.

ICT Sector P/B Graph

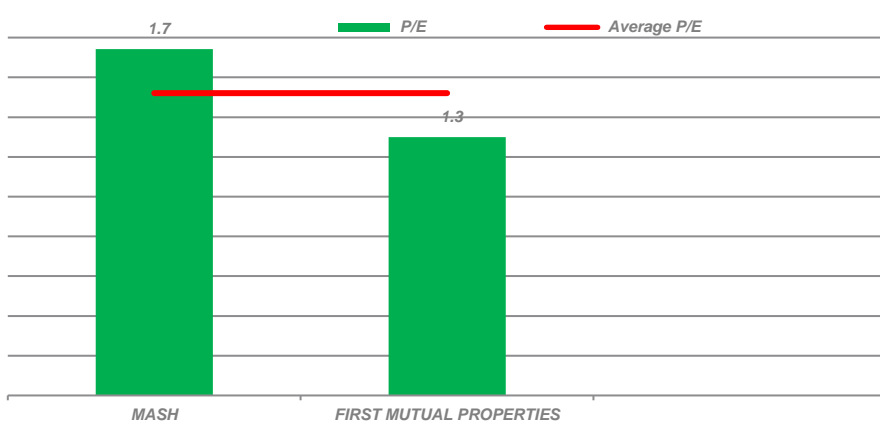


ICT	Value	Quarter Change
Sector Index	29 574.8	8.3%
Best Performer		
ZIMPAPERS	5	50.60%
Worst Performer		
ECOCASH	68.3961	(2.07%)

Zimpapers topped the gainers this quarter. Despite Zimpapers having the lowest P/E, we believe that there is better potential in Econet.



Real Estate Sector P/E Graph



Real Estate	Value	Quarter Change
Sector Index	13954.4	37.73%
Best Performer		
MASH	5.8256	94.19%
Worst Performer		
FIRST MUTUAL PROPERTIES	11.65	13.53%

The sector has come under increasing pressure due to lower demand for office space. Mash, with a 94.19% return was the best performer and FMP, returned 13.53% in Q2.



Top Five Picks

ECONET	Latest Fundamentals
Long Term Buy	Econet has taken an initiative by adopting and adapting technological advancements. Their new model now focuses on becoming a fully-fledged digital services provider (DSP). Developments in the economy will see increased demand for the services that ECONET provides. Econet is well positioned with a Market Share of Internet & Data Traffic of over 74%.
Current Price	
ZW\$135.99	
INNSCOR	Latest Fundamentals
Long Term Buy	The company is a dominant player in consumer sector, strong at cash generation and consistent dividend payer with a dividend yield of 1.60%. The company has approved a US\$70 million investment aimed at expanding operations and building a new flour milling plant in Bulawayo that it expects to commission in 2022.
Current Price	
ZW\$299.09	
DELTA	Latest Fundamentals
Buy	Bellwether stock with a strong consumer focus in lager beers, sparkling beverages and sorghum beer. The Company continues to grow notwithstanding a poor economic environment through acquisitions and internal sales revenue growth. In addition, the company is growing its regional footprint.
Current Price	
ZW\$269.93	
MEIKLES	Latest Fundamentals
Buy	Meikles, remains a suitable company for value preservation and consistent dividend income in the current environment. We recommend accumulating the share for medium to long term gains.
Current Price	
ZW\$106.47	
HIPPO	Latest Fundamentals
Buy	Monopoly producer of sugar in Zimbabwe through Hippo Valley Estates, reporting a 50% share of the industry's sugar sales in its March 2021 Full year results. The growth of the Beverages industry in Zimbabwe cemented demand for sugar giving the company more pricing power.
Current Price	
ZW\$247.85	



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