



OLDMUTUAL

PORTFOLIO MANAGER'S DIGEST Q3 2022

Research Note | Zimbabwe



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“The stock market is a device for transferring money from the impatient to the patient.”– Warren Buffet.

Q3 2022 Zimbabwe Equities Review

Market Summary

The Zimbabwe Stock Exchange's (ZSE) main All Share Index (ALSI) declined by **25.37%** during the third quarter of the year. Losses were on the back of a tight monetary policy stance that has resulted in the drying up of ZW\$ liquidity in the market. The introduction of gold coins in July to a lesser extent, also aided the policy position. According to a latest RBZ Monetary Policy Committee report, a total of 9 516 coins valued at ZW\$9 billion had been sold as of 23 September 2022. Notwithstanding the highly inflationary environment during the period, listed equity sector returns remained significantly low.

The total value of shares traded on the ZSE in Q3 2022 was ZW\$33.2 billion, compared to Q2 2022 trades of ZW\$34.55 billion. Foreign investors were net sellers of ZW\$2.24 billion worth of shares on the ZSE and accounted for 22.54% of total trades. ZSE liquidity dropped sharply to 1.8% compared to 8.3% in Q2 2022.

The Victoria Falls Stock Exchange's (VFEX) All Share Index added 24.07% during the third quarter of the year. Trading during the quarter was significantly lower with a total of 8.43 million shares worth US\$0.60 million changing hands compared to 23.99 million shares worth US\$3.19 million in Q2 2022.

The total value of shares traded on the FINSEC ATP in Q3 2022 was ZWL\$17.45m, a 65.35% decline from Q2 2022. A total of 97 268 shares traded compared to 256 839 shares in Q2 2022 a decline of 62.13%. The OMZIL Class B share weakened by 37.5% during the quarter. The current ZW\$ liquidity crunch has seen market activity declining sharply during the quarter.

Notable events in Q3 2022 included:

- Suspension of payments to Government contractors with invoices that were quoted using parallel exchange rates,
- RBZ introduced the Mosi-oa-Tunya gold coin in July 2022,
- Listing of the Cass Saddle Agriculture Exchange Traded Fund,
- Cash offer of ZWL2.21 per share to GenBelt minority shareholders by Jemaimah Synergies (Pvt) Ltd,
- Cash offer of ZWL4.57 per share to Turnall minority shareholders by Zimbabwean Brands (Pvt) Ltd
- Launching of the US\$30 million Horticulture Export Revolving Fund by the Government
- Meikles Limited finalised the disposal of Cape Grace Hotel
- Afsun announced that it will be vacating the Kingdom Hotel

The table below shows the key performers during Q3 2022 and in the last 12 months.

Top Movers			
Q3 2022	% Change	12 Months	% Change
ZSE ALL SHARE	(25.37%)	ZSE ALL SHARE	72.16%
ZSE TOP 10	(25.53%)	ZSE TOP 10	88.19%
UNIFREIGHT	43.94%	CFI	50 445.87%
GENBELT	42.86%	ZECO	2 658.33%
AFSUN	41.32%	BRIDGEFORT	2 599.86%
TRUWORTHS	39.04%	RIO ZIM	316.0%
ARISTON	25.79%	AFDIS	233.33%
Losers			
Q3 2022	% Change	12 Months	% Change
TSL	(66.67%)	WILLDALE	(55.95%)
BRIDGEFORT	(61.5%)	FIRST MUTUAL PROPERTIES	(43.16%)
TANGANDA	(61.0%)	DZL	(42.37%)
AXIA	(54.34%)	TSL	(35.15%)
PROPLASTICS	(48.66%)	FIRST MUTUAL	(34.06%)

Source: ZSE & OMSEC Research Data base

The graph below shows the performance of the ZSE listed ETFs during Q3 2022

ETF	Closing Price (ZWC)	Q3 % Change	YTD % Change
CASS SADDLE AGRICULTURE ETF	207.00	107.00%	107.00%
DATVEST ETF	198.86	0.33%	98.86%
MORGAN & CO MIZ ETF	130.00	2.27%	30.00%
MORGAN & CO MULTI SECTOR ETF	2 762.18	2.52%	176.22%
OLD MUTUAL ZSE TOP 10 ETF	516.86	(47.07%)	17.44%

The current ZSE bear market also extended to ETFs. Four of the listed five ETFs had returns of less than 5% in third quarter. The Cass Saddle Agriculture ETF that was listed during the quarter had a return of 107%. The Old Mutual ZSE Top 10 ETF (OMTT) was the worst performer with a negative Q3 return of 47.07%. The most attractive ETF in terms of Net Asset Value (NAV) tracking is the OMTT, trading at a discount of 7.00% at the end of the third quarter. The other ETFs were trading at enormous premiums to their respective NAVs, ranging from 70% to 200%.



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 %
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	3.3%	3.8%
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	0.0%	0.0%
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%
Jul-22	\$ 19 164 003 451	239 937 180	16 594.91	10265.73	79 110 816	\$ 12 745 661 589	\$ 1 903 385 904	\$ 2 068 222 005 293	11.1%	33.3%
Aug-22	\$ 9 087 949 628	139 225 500	13 705.12	8209.35	11 582 586	\$ 1 771 828 224	\$ 25 101 122	\$ 1 690 429 351 302	6.5%	9.7%
Sep-22	\$ 4 948 460 219	137 092 750	14 771.65	9140.55	10 032 480	\$ 450 714 348	\$ 307 979 988	\$ 1 819 157 070 315	3.3%	4.6%
12 Month Total	\$ 121 086 138 741	2 660 500 742	14 771.65	9140.55	924 582 231	\$ 31 956 598 286	\$ 11 319 494 697	\$ 1 978 818 362 519	6.1%	13.2%
Q3 2022	\$ 33 200 413 298	516 255 430	14 771.65	9140.55	100 725 882	\$ 14 968 204 161	\$ 2 236 467 014	\$ 1 859 269 475 637	1.8%	22.54%
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	\$ 417 973 497 267	8.3%	9.91%

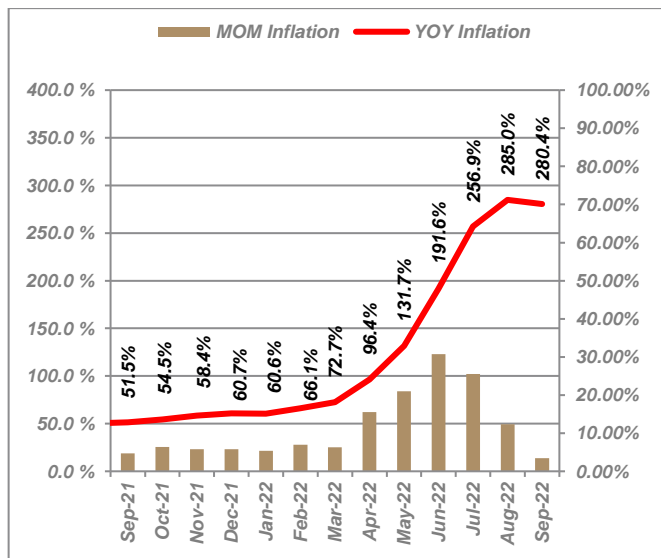
Average* (ZSE and OMSEC Research Data base Sept 2022)



Economic Pointers

There has seemingly been a change in sentiment in the outlook of Zimbabwe's economic prospects following major policy changes by both the RBZ and the MoF between May and July 2022. The authorities are clearly pursuing price stability over economic growth as evidenced by their hawkish policy stance. The Bank policy and medium-term lending rates are likely to be kept at current levels of 200% and 100% respectively for the remainder of the year. The headwinds being faced by the economy largely emanating from developments in the global economy resulted in a downward revision of the GDP growth forecast to 4.6% from the prior forecast of 5.5%.

Constantly rising prices of imported raw materials and supply bottlenecks caused by the Russia-Ukraine war continue to negatively impact the operating environment. Annual inflation was recorded at 280.4% in September 2022 compared to 51.5% for September 2021. The incessant daily power cuts are likely to hamper productive capacity in the immediate term. Several policy measures that were deployed at the end of the first half of the year by both the RBZ and the MoF aimed at stabilizing the economy have resulted in a significant fall of month-on-month inflation from a peak of 30.70% in June 2022 to 3.47% in September 2022. 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 2022 and closing on 30 September 2022 at ZW\$621.5321. This represents a currency depreciation of 82.52%. The gap between the official exchange rate and parallel market rate has narrowed significantly in the past two months following the stability measures applied by the authorities.

Notwithstanding several economic challenges, the country's foreign currency receipts increased by 32% as at 31 August 2022 to US\$7.7 billion from US\$5.8 billion for the

same period in the prior year. Favourable commodity prices, increased gold output (22.3 tonnes at 31 August 2021 compared to 13.2 tonnes in the same period last year) and a successful tobacco marketing season all have contributed positively to the economy.

Investment Markets Review and Outlook

Equities

The negative performance in Q3 2022 saw a reversal of the bullish second quarter. This followed profit taking by some investors as the ZSE became an alternative avenue to raise ZW\$ as interest rates were increased significantly by the RBZ. The ZSE appears to be significantly undervalued with USD market cap of US\$2.61 billion at the official exchange rate compared to an average of US\$4 billion in the USD era. Fundamentals of underlying companies on the market are generally solid registering double digit volumes growth. The long term outlook for equities remains bullish. In the short term, share prices may continue to move sideways to reflect the ZW\$ liquidity challenges. Companies that have strong financial position and foreign currency generation are expected to weather the storm better and perform admirably in the outlook.

Property Sector

The anticipated introduction of REITs sometime this year could improve liquidity for property sector investors. Being a real asset, the property sector's valuation is unlikely to change in real terms. However, the decline in Covid 19 cases has seen a waning in void levels. Property sector players are adapting as evidenced by the change in use of several properties that can service the specialised needs of growing sectors of the economy such as agriculture, warehousing, and logistics as well as sections of the retail and informal sectors.

Money Market

The review of the minimum fixed term deposit interest rate from 25% to 80% per annum in July by the Reserve Bank of Zimbabwe has given some room for better interest rate margins however it remains a far cry from annual inflation numbers in excess of 250%. High annual inflation is likely to erode money market returns in the absence of regular interest rate reviews to keep pace with inflation.

Outlook

Economic activity in the fourth quarter of the year is generally subdued. Resultantly performance of investment markets is expected to mimic general economic activities in the period. Investors are expected to continue focusing on counters that have solid fundamentals such as strong foreign currency generation capability, dominate market position and strong balance sheets.



Equity Return Analysis

(Companies ranked by market weight from highest to smallest)

Total Return Analysis	Q2 2022 (zwl)	Q3 2022 (zwl)	Capital Gain/(Loss) (zwl)	Dividend past 12 months (zwl)	Quarter Return	YOY Return	Total Return Including Dividend
DELTA	340.9864	248.7391	(92.2473)	3.15	(27.05%)	125.56%	128.42%
ECONET	160.9707	114.8296	(46.141)	0.60	(28.66%)	120.79%	121.95%
INNSCOR	400.3179	307.9299	(92.388)	4.80	(23.08%)	128.07%	131.63%
ECOCASH	68.40	55.99	(12.404)	-	(18.14%)	78.0%	78.0%
NATFOOD	2000	1200	(800.0)	13.99	(40.0%)	76.3%	78.35%
SIMBISA	194.3059	159.1164	(35.19)	4.90	(18.11%)	129.88%	136.96%
CBZH	169	140	(29.0)	1.92	(17.16%)	68.54%	70.84%
BAT	2975	3140	165.0	-	5.55%	57.77%	57.77%
OK	38.0241	35.5159	(2.508)	0.98	(6.6%)	73.88%	78.66%
HIPPO	276	207	(69.0)	1.08	(25.0%)	(8.79%)	(8.32%)
CFI	370	357.612	(12.388)	-	(3.35%)	50 445.87%	50 445.87%
AFDIS	342	300	(42.0)	1.48	(12.28%)	233.33%	234.97%
FBCH	75	45	(30.0)	2.98	(40.0%)	50.25%	60.19%
AXIA	109.7456	50.109	(59.637)	1.76	(54.34%)	74.85%	80.99%
SEEDCO	170.5102	108.0049	(62.505)	-	(36.66%)	20.01%	20.01%
AFSUN	12.6977	17.9438	5.246	0.44	41.32%	83.29%	87.74%
MEIKLES	135.1278	100	(35.128)	2.43	(26.0%)	(13.77%)	(11.67%)
TANGANDA	217.95	85	(132.95)	0.50	(61.0%)	41.43%	42.26%
Mid Cap Listed Companies							
FCB	12.2338	9.1839	(3.05)	0.83	(24.93%)	144.63%	166.69%
RTG	10.5	6.89	(3.61)	0.15	(34.38%)	14.83%	17.41%
MASIMBA	60	64.95	4.95	-	8.25%	22.2%	22.2%
TSL	120	40	(80.0)	0.450	(66.67%)	(35.15%)	(34.42%)
FIRST MUTUAL	24	19.75	(4.25)	0.21	(17.71%)	(34.06%)	(33.37%)
RIO ZIM	110	104	(6.0)	-	(5.45%)	316.0%	316.0%
MASH	5.8256	6.2733	0.448	0.11	7.69%	40.51%	43.06%
ZBFH	88	66	(22.0)	2.22	(25.0%)	(22.35%)	(19.74%)
ZIMRE	5.35	5	(0.35)	0.083	(6.54%)	29.51%	31.66%
FIRST MUTUAL PROPERTIES	11.65	6.8536	(4.796)	0.02	(41.17%)	(43.16%)	(42.99%)
DZL	35.7045	22.188	(13.517)	-	(37.86%)	(42.37%)	(42.37%)
LAFARGE	150	98.9	(51.1)	-	(34.07%)	5.21%	5.21%
STARAFRICA	1.8	1.612	(0.188)	-	(10.44%)	(5.36%)	(5.36%)
ART	20	17	(3.0)	-	(15.0%)	84.03%	84.03%
NMB	28.6667	18.35	(10.317)	0.45	(35.99%)	22.33%	25.33%
Currency							
Currency	Q2 2022	Q3 2022			Quarter Appreciation/ (Depreciation)		YTD Appreciation/ (Depreciation)
usd/zw\$	366.2687	621.5321			(41.07%)		(82.52%)
usd/zar	16.2867	18.1275			(10.15%)		(12.01%)
usd/gbp	0.822	0.8969			(8.35%)		(17.61%)
usd/eur	0.9585	1.022			(6.21%)		(13.95%)
usd/ven	135.7303	145.0311			(6.41%)		(20.64%)

*Source: OMSEC Research Data Base Sept 2022



Market Sector Valuation Overview

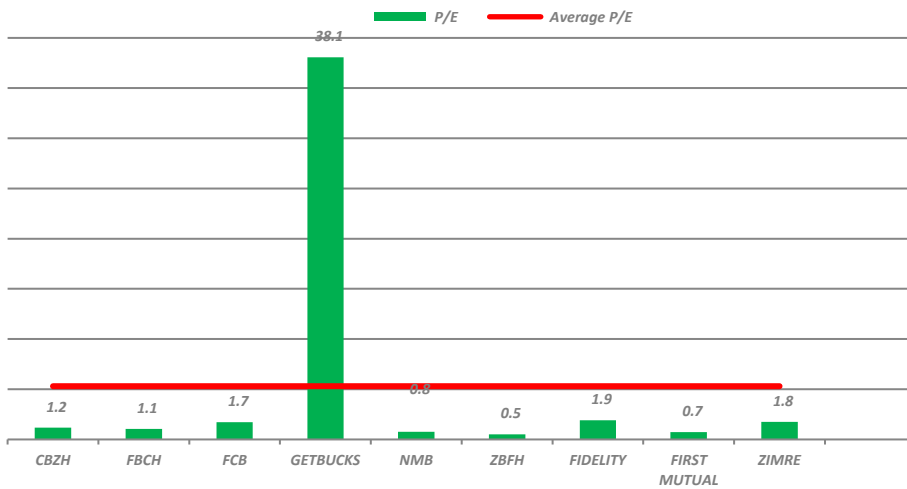
30 September 2022	MKT CAP	SECTOR (ZW\$ m)	SECTOR	SECTOR	SECTOR INDEX
Sector	ZW\$(m)	ROLLING EARNINGS	AVERAGE P/E	AVERAGE P.BOOK	QTR RETURN
Financials	187 973.3	159 431.9	5.30	2.6	(21.50%)
Consumer Staples	916 894.6	54 258.7	22.24	7.8	(27.6%)
ICT	444 255.0	18 781.7	36.62	9.0	(24.5%)
Consumer Discretionary	169 241.5	16 921.1	6.34	5.6	(23.8%)
Materials	39 741.7	1 896.5	14.63	2.3	(27.1%)
Real Estate	20 148.4	83 660.5	0.16	0.1	(20.4%)
Industrials	35 346.4	5 085.7	9.56	5.0	(8.6%)

Source: OMSEC Research Data Base



ZSE Sector Price Earnings Relative Comparisons

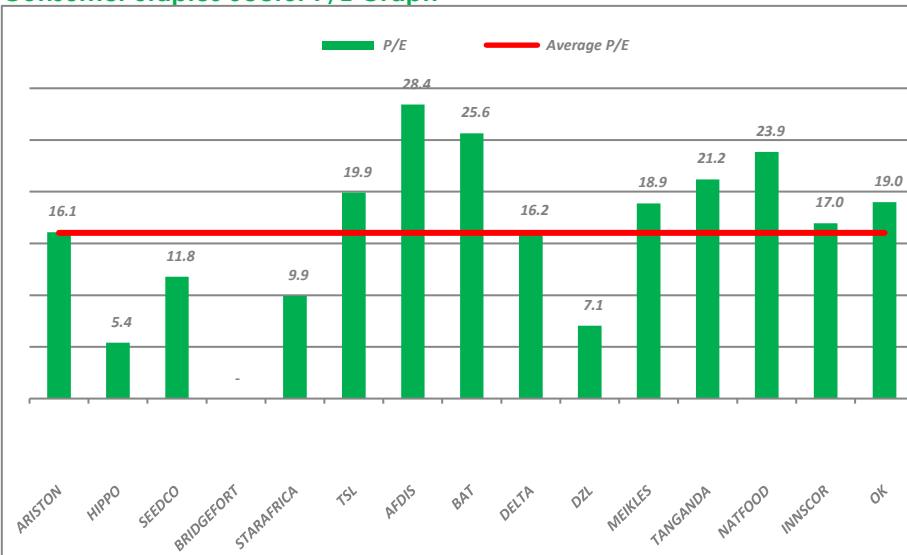
Financial Sector P/E Graph



Financial Sector	Value	Quarter Change
Sector Index	22 803.50	(21.5%)
Best Performer		
GETBUCKS	17.55	9.69%
Worst Performer		
FBCH	45.00	(40.0%)

ZBFH and FML are the most attractive companies on a P/E scale. The best performer in Q3 was GetBucks gaining 9.69%. The worst performer was FBCH, losing 40% in Q3.

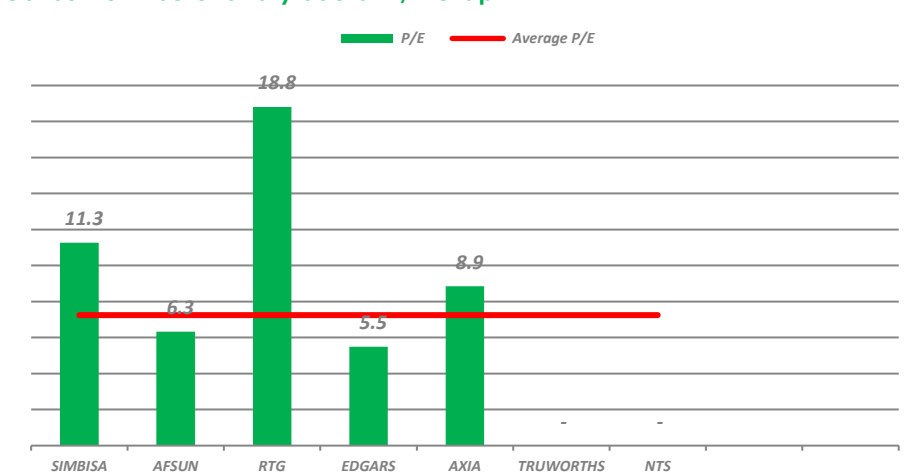
Consumer Staples Sector P/E Graph



Consumer Staples	Value	Quarter Change
Sector Index	17 724.3	(27.56%)
Best Performer		
ARISTON	3.8524	25.79%
Worst Performer		
TSL	40	(66.67%)

The average sector P/E has been pushed up by Afdis which settled at a P/E of 28.4X. Hippo, DZL and Star Africa are the most attractive companies on a P/E scale in this sector. The best performer in this sector was Ariston with a Q3 return of 25.79%.

Consumer Discretionary Sector P/E Graph

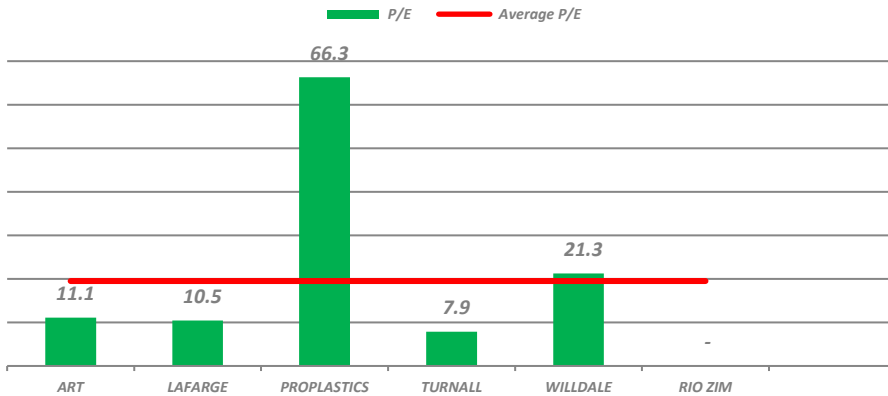


Consumer discretionary	Value	Quarter Change
Sector Index	18626.9	(23.82%)
Best Performer		
AFSUN	17.9438	41.32%
Worst Performer		
AXIA	50.109	(54.34%)

The best performer in the consumer Discretionary sector was Afsun with a 41.32% return. Axia was the worst performer, shedding 54.34% in Q3. Afsun and Edgars had the lowest P/E ratios in this sector.



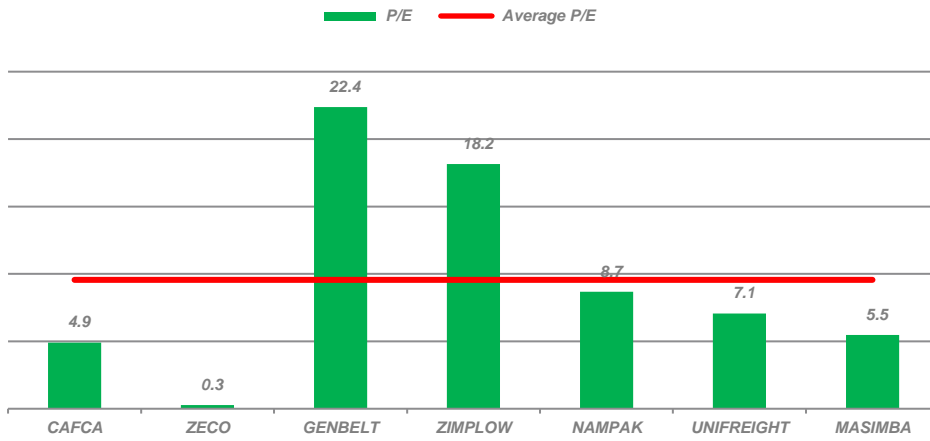
Materials Sector P/E Graph



Materials	Value	Quarter Change
Sector Index	11239.8	(27.08%)
Best Performer		
RIO ZIM	104	(5.45%)
Worst Performer		
PROPLASTICS	26	(48.66%)

Proplastics was the worst performer in this sector losing 48.66% in Q3. Turnall and Lafarge are the most attractive companies on a P/E scale.

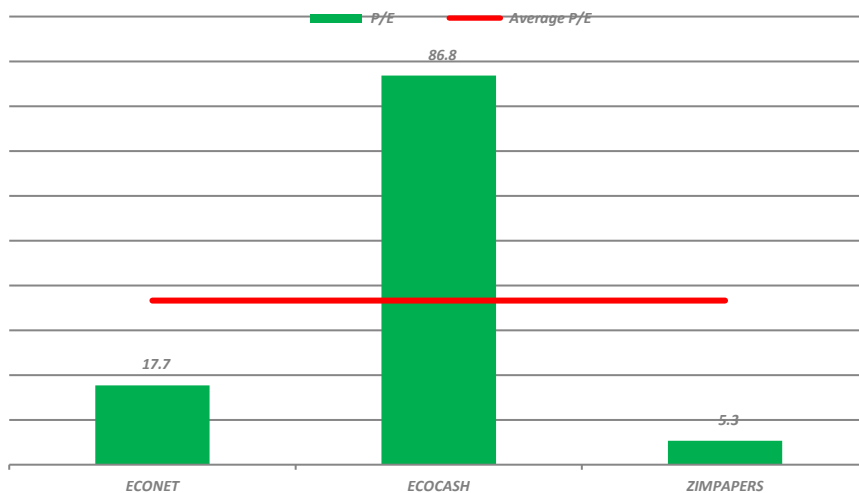
Industrial Sector P/E Graph



Industrial	Value	Quarter Change
Sector Index	18713.5	(8.56%)
Best Performer		
UNIFREIGHT	47.5	43.94%
Worst Performer		
CAFCA	170	(34.62%)

CAFCA and Masimba are the most attractive companies on a P/E scale. The best performer was Unifreight returning 43.94% in Q3.

ICT Sector P/B Graph

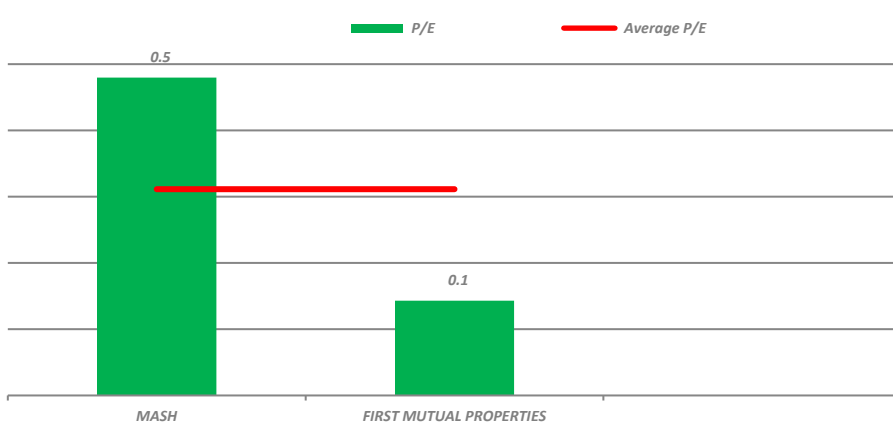


ICT	Value	Quarter Change
Sector Index	22337.6	(24.47%)
Best Performer		
ECOCASH	55.9922	(18.14%)
Worst Performer		
ZIMPAPERS	3	(40.0%)

Zimpapers was the worst performer in this sector, shedding 40.0% in Q3. 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	11101.8	(20.44%)
Best Performer		
MASH	6.2733	7.69%
Worst Performer		
FIRST MUTUAL PROPERTIES	6.8536	(41.17%)

The sector has come under increasing pressure due to lower demand for office space. Mash, with a 7.69% return was the best performer and FMP, lost 41.17% in Q3.



Top Five Picks

ECONET	Latest Fundamentals 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%.
Long Term Buy	
Current Price	
ZW\$85.18	
INNSCOR	Latest Fundamentals 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.
Long Term Buy	
Current Price	
ZW\$272.18	
DELTA	Latest Fundamentals The Company has a monopolistic market structure across its product offerings with an estimated market share of 95% in Lager beers, 86% in Chibuku and 65% in sparkling beverages. In addition, the company is growing its regional footprint. Strong foreign currency generation through local and regional operations in Zambia and South Africa
Buy	
Current Price	
ZW\$212.52	
MEIKLES	Latest Fundamentals 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.
Buy	
Current Price	
ZW\$99.95	
AXIA	Latest Fundamentals The company has three main business interests namely in Distribution Group Africa, TV Sales and Home and Transerv, a vehicle sundries, spares and parts company. The business invested US\$860 000 in July 2021 to increase TV Sales and Home's shareholding in Restapedic a bed manufacturer from 49% to 60%. The investment was channelled towards the construction of a 10 000 bed production facility. The new bedding factory facility is set to open in the first quarter of 2023.
Buy	
Current Price	
ZW\$55.50	



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