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PORTFOLIO MANAGER'S DIGEST Q1 2022

Research Note | Zimbabwe



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“The investor of today does not profit from yesterday’s growth.” – Warren Buffet.

Q1 2022 Zimbabwe Stock Exchange Review

Market Summary

The market significantly outperformed inflation in Q1 2022. The Zimbabwe Stock Exchange's (ZSE) main All Share Index (ALSI) rose by 46.54% in Q1 compared to inflation of 19.8%. Performance has mainly been driven by inflation hedging activities and the strong financial performance of underlying counters. The Top 10 index registered a return of 53.81% for the period under review.

The total value of shares traded on the ZSE in Q1 2022 was ZWL\$ 20.20b, a 111.3% upswing from Q1 2021. Foreign investors were net sellers of ZWL\$322.99m worth of equities on the ZSE and accounted for 8.19% of total trades. The entire ETF (Exchange Traded Funds) market was up in Q1 2022 with the Datvest adjusted Consumer Staples and Morgan & Co ETFs up 88.0% and 45.12% respectively while Zimbabwe's maiden ETF, the Old Mutual ZSE Top Ten ETF (OMTT) had a remarkable 94.54% upturn.

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 95.63m shares worth US\$5.27m changing hands compared to 14 436 shares worth US\$2 686.26. Padenga and Bindura accounted for the bulk of trades on the VFEX with Caledonia & Seed Co International shares mostly illiquid.

The total value of shares traded on the FINSEC ATP in Q1 2022 was ZWL\$ 104.11m, a 478.69% increase from Q1 2021. A total of 0.8m shares traded compared to 0.6m shares in Q1 2021. The OMZIL Class B share registered a 50.0% return for the quarter.

Despite operating desirably for the greater part of the year, most ZSE listed companies have been confronted with a myriad of challenges chief among them were Covid-19 disruptions, cost push inflation, multiple exchange rates, power outages and foreign currency shortages.

Notable events in Q1 2022 included:

- Increase in Capital Gains Withholding Tax from 1% to 1.5% (securities held for more than 6 months) and 2% (securities held less than 6 months)
- Listing of the Morgan & Co ETF on the ZSE
- Listing of the Datvest ETF on the ZSE
- Demerger of Tanganda from Meikles Limited and Listing on the ZSE
- Cassava changed its name to Ecocash Holdings

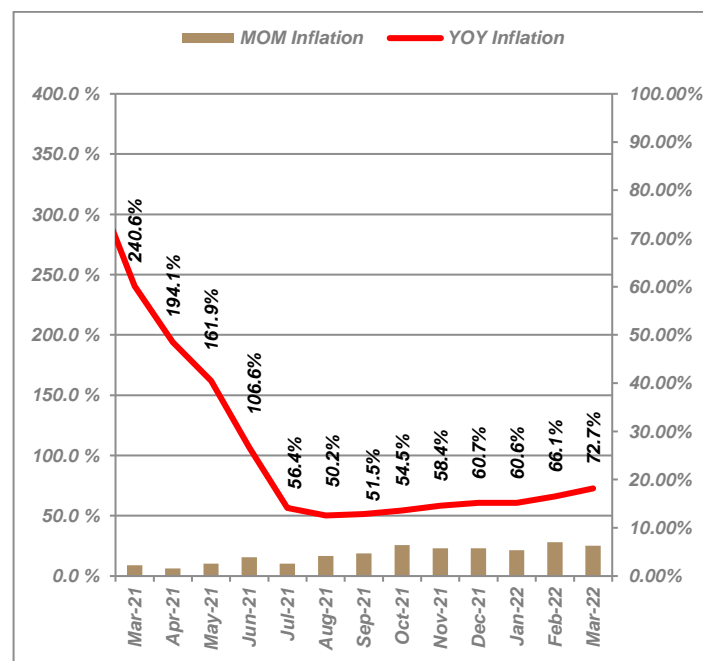
The table below shows the key performers during Q1 2022 and in the last 12 months.

Top Movers			
Q1 2022	% Change	12 Months	% Change
ZSE ALL SHARE	46.54%	ZSE ALL SHARE	253.3%
ZSE TOP 10	53.81%	ZSE TOP 10	301.32%
ZECO	316.67%	MEDTECH	18
SIMBISA	146.16%	CFI	143.82%
AXIA	139.61%	ZECO	6 566.67%
ART	91.39%	GETBUCKS	1 525.0%
INNSCOR	89.35%	SEEDCO	732.57%

Losers			
	% Change	Losers	% Change
GENBELT	(42.51%)	NTS	(16.0%)
MEDTECH	(40.0%)	FIRST MUTUAL	(10.01%)
ZBFH	(22.08%)		
FIDELITY	(17.65%)		
TRUWORTHS	(17.5%)		

Source: ZSE & OMSEC Research Data base

The graph below shows the key month on month and year on year inflation during 2022





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 %
Apr-21	\$ 3 075 999 294	205 740 729	4 641.11	2660.37	70 900 381	\$ 1 702 236 437	\$ 976 403 101	\$ 540 745 237 057	6.8%	27.7%
May-21	\$ 3 917 933 200	191 785 900	5 428.28	3005.08	37 637 914	\$ 1 148 895 222	\$ 483 797 578	\$ 634 011 148 066	7.4%	14.7%
Jun-21	\$ 4 459 117 004	248 500 624	6 194.88	3154.44	75 095 810	\$ 2 109 157 565	\$ 1 809 251 690	\$ 745 175 951 681	7.2%	23.6%
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	0.0%	0.0%
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%
12 Month Total	\$ 75 903 910 477	5 367 843 739	15 858.92	10476.38	1 015 627 369	\$ 16 622 234 483	\$ 8 613 577 971	\$ 1 153 090 345 893	6.6%	10.9%
Q1 2022	\$ 20 198 202 188	353 663 901	15 858.92	10476.38	52 859 418	\$ 3 308 334 642	\$ 322 990 982	\$ 1 767 661 488 251	1.1%	8.19%

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



Economic Pointers

The GDP growth rate for Zimbabwe is forecasted to be 5.5% in 2022, 2.3% higher than the SADC regional economy growth projection of 3.2%. The Zimbabwean economy's reliance on the agricultural sector exposes it to huge risks in the future if the country does not prioritise investments into smart and climate proof agricultural methods. The erratic rainfall has resulted in write offs of some of the maize crop, the staple food for Zimbabwe, signalling a less than satisfactory contribution to overall GDP from agriculture for the 2021/22 season.

The performance of the mining sector improved significantly in terms of gold deliveries to Fidelity Printers & Refiners that reached 7.7 tonnes, a 92.5% increase in the first quarter of 2022 compared to 4.0 tonnes in the same period last year. In addition to that, the 8% jump in the gold price in Q1 2022 should see improvement in terms of export earnings for the quarter. Gold accounted for an estimated 18.55% of the country's export earnings in 2021.

Zimbabwe's economy is expected to be negatively affected by the rising global inflation that has seen a lower global economic growth projection of 4.4% in 2022 compared to 5.9% in 2021. Additionally, the geopolitical tension in Europe is also significant driver of inflation in Zimbabwe. A prolonged Russia-Ukraine conflict will likely result in sustained cost push inflation as most raw materials used in the economy's strategic sectors are imported – petroleum-based products & fertilisers being among the most impacted imports. High inflation will likely remain a major concern for investors in the near term.

While the impact of Covid-19 is expected to be mild in 2022, the pandemic is anticipated to continue clouding the business outlook as the risk of new variants and waves remains high in the absence of herd immunity. This notwithstanding, government and private sector initiatives to contain the virus are commended.

Investment Markets Review and Outlook

Equities

In the outlook, the equities market is expected to outperform fixed income securities as investors are expected to continue demanding real assets to prevent value erosion. High inflation is likely to affect disposable incomes and aggregate demand. However, anticipated increase in public sector expenditure in view of the elections is likely to sustain demand and performance of some of the listed entities. Share prices may continue an upward trend to reflect the inflationary environment and anticipated economic growth. Companies that dominate their markets, with significant pricing power and ability to maintain high profit margins are expected to weather the storm in the outlook.

Property Sector

High cost of building materials for new property developments will see property prices remaining comparatively high when compared to regional peers. We expect a recovery of this sector when economic activity improves as Covid-19 negative effects wane.

Money Market

High inflation does not auger well for this investment asset class. The upward review of the Bank Policy Rate from 60% to 80% per annum by the Reserve Bank of Zimbabwe is likely to see an improvement in nominal interest rates. However fixed income returns are expected to remain sub-inflationary in the near term.

Outlook

The equity sector remains attractive in the short to intermediate term given the high inflation expectations and economic growth prospects which is anticipated to filter through the performance of underlying counters. Limited investment options are also likely to support equities going forwards. Investors are recommended to focus on counters that have significant pricing power, dominate market positions and strong balance sheets.



Equity Return Analysis

Companies ranked by market weight from highest to smallest

Total Return Analysis	Q4 2021 (zwl)	Q1 2022 (zwl)	Capital Gain/(Loss) (zwl)	Dividend past 12 months (zwl)	Quarter Return	YOY Return	Total Return Including Dividend
ECONET	85	138.2422	53.2422	1.00	62.64%	506.35%	510.74%
DELTA	162.5312	240.9214	78.39	1.80	48.23%	421.24%	425.13%
ECOCASH	40.653	69.8445	29.192	-	71.81%	409.03%	409.03%
INNSCOR	162.40	307.49	145.096	4.80	89.35%	326.4%	333.05%
SIMBISA	90	221.5475	131.548	2.13	146.16%	456.44%	461.79%
NATFOOD	1374.5882	1800	425.412	13.99	30.95%	469.62%	474.05%
BAT	3201	3665	464.0	-	14.5%	358.13%	358.13%
HIPPO	280	299.9905	19.991	2.32	7.14%	104.99%	106.57%
CBZH	75.1681	90.6897	15.522	3.83	20.65%	29.56%	35.03%
SEEDCO	105.5636	179.9092	74.346	-	70.43%	732.57%	732.57%
TSL	70.1714	112	41.829	0.45	59.61%	160.47%	161.51%
AXIA	30.05	72.0021	41.952	0.66	139.61%	302.21%	305.89%
OK	27.4463	30.0281	2.582	0.75	9.41%	97.97%	102.91%
MEIKLES	125.1004	140.7662	15.666	1.80	12.52%	212.47%	216.46%
AFDIS	125	220	95.0	0.50	76.0%	428.53%	429.73%
TANGANDA	60.1	96.119	36.019	-	59.93%	59.93%	59.93%
FBCH	33.8535	35.95	2.097	1.79	6.19%	41.54%	48.57%
RTG	7.8	6.45	(1.35)	-	(17.31%)	239.46%	239.46%

Mid Cap Listed Companies

CFI	93.5714	122	28.429	-	30.38%	17 143.82%	17 143.82%
DZL	35	36	1.0	0.25	2.86%	132.26%	133.87%
FIRST MUTUAL PROPERT	7.8	10.2613	2.461	0.02	31.56%	107.3%	107.62%
AFSUN	6.4226	8.7255	2.303	-	35.86%	269.41%	269.41%
FIRST MUTUAL	20	18	(2.0)	0.12	(10.0%)	(10.01%)	(9.42%)
NAMPAK	11.1569	14.55	3.393	-	30.41%	93.74%	93.74%
PROPLASTICS	28.9983	42	13.002	0.21	44.84%	85.43%	86.34%
ZBFH	77	60	(17.0)	0.74	(22.08%)	62.16%	64.17%
LAFARGE	80	125	45.0	-	56.25%	150.0%	150.0%
FCB	3.454	4.5071	1.053	0.44	30.49%	105.85%	125.77%
GETBUCKS	6	6.5	0.5	-	8.33%	1 525.0%	1 525.0%
ZIMRE	3.7608	4.2165	0.456	0.02	12.12%	103.92%	104.72%
ZIMFLOW	23.6	20.8603	(2.74)	0.21	(11.61%)	189.73%	192.67%
ARISTON	3.7221	3.1194	(0.603)	0.06	(16.19%)	53.46%	56.31%
MASH	3.2447	3	(0.245)	0.03	(7.54%)	61.29%	62.71%

Currency	Q4 2021	Q1 2022	Quarter Appreciation/ (Depreciation)	YTD Appreciation/ (Depreciation)
usd/zw\$	108.67	142.4237	(23.7%)	(40.74%)
usd/zar	15.95	14.6228	8.32%	1.06%
usd/gbp	0.7376	0.7606	(3.02%)	(4.61%)
usd/eur	0.8814	0.903	(2.39%)	(5.56%)
usd/yen	115.098	121.7382	(5.45%)	(9.01%)

*Source: OMSEC Research Data Base Mar 2022



Market Sector Valuation Overview

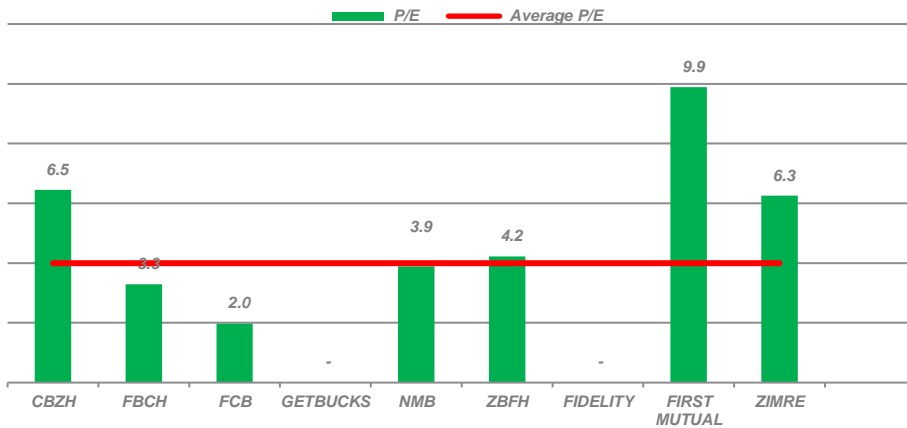
31/03/2022	MKT CAP	SECTOR (ZW\$ m)	SECTOR	SECTOR	SECTOR INDEX
Sector	ZW\$(m)	ROLLING EARNINGS	AVERAGE P/E	AVERAGE P.BOOK	QTR RETURN
Financials	125 748.3	25 859.6	31.86	7.2	8.80%
Consumer Staples	992 343.0	36 202.5	28.99	14.5	41.6%
ICT	540 976.9	16 220.6	39.83	21.5	66.3%
Consumer Discretionary	215 701.8	11 058.7	18.08	7.0	83.5%
Materials	43 822.0	2 118.7	13.45	3.7	41.9%
Real Estate	19 265.2	12 543.6	1.11	0.5	15.5%
Industrials	37 393.1	2 838.3	13.19	7.8	4.6%

Source: OMSEC Research Data Base



ZSE Sector Price Earnings Relative Comparisons

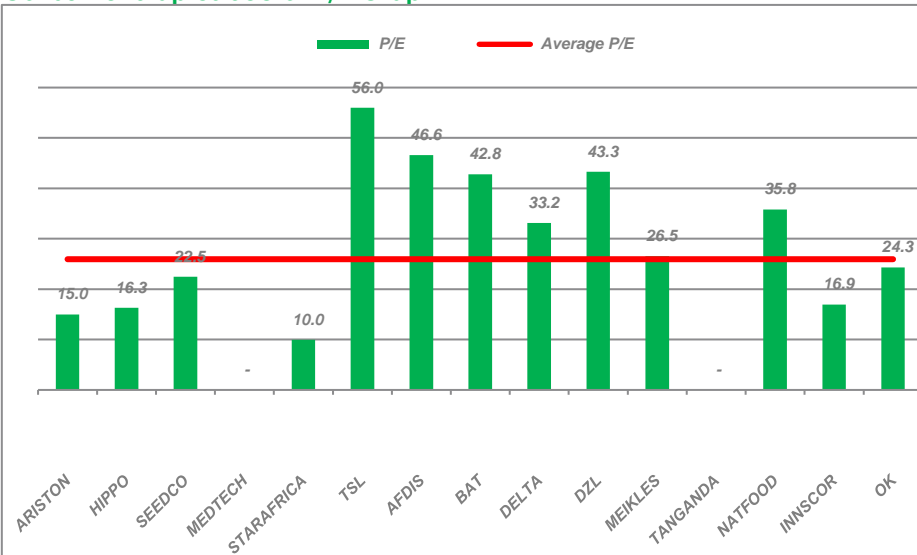
Financial Sector P/E Graph



Financial Sector	Value	Quarter Change
Sector Index	15254.75	8.8%
Best Performer		
NMB	12.08	49.94%
Worst Performer		
ZBFH	60.00	(22.08%)

FBCH and FCB are the most attractive companies on a P/E scale. The best performer in Q1 was NMB gaining 49.94%. The worst performer was ZBFH, losing 22.08 in Q1.

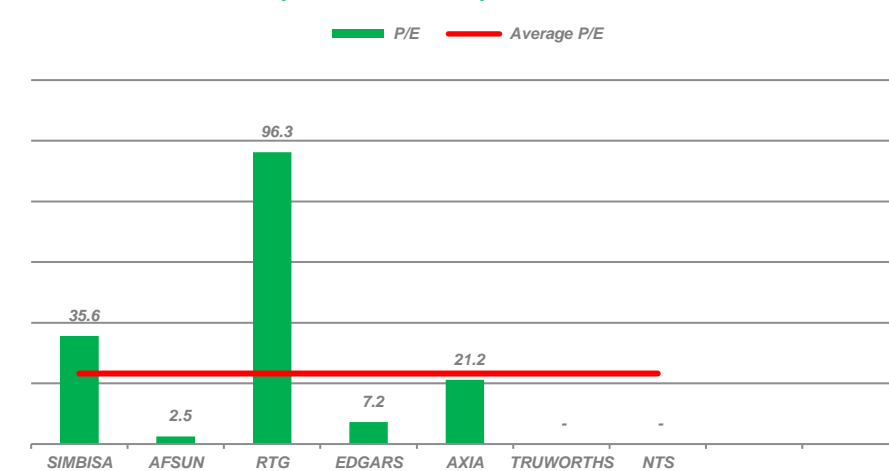
Consumer Staples Sector P/E Graph



Consumer Staples	Value	Quarter Change
Sector Index	19362.2	41.6%
Best Performer		
INNSCOR	307.492 1	89.35%
Worst Performer		
MEDTECH	21	(40.0%)

The average sector P/E has been pushed up by TSL which settled at a P/E of 56X. Star Africa, Ariston and Inncor are the most attractive companies on a P/E scale in this sector. Of note is the unbundling and subsequent listing of Tanganda Tea by Meikles. The best performer in this sector was Inncor with a Q1 return of 89.35%

Consumer Discretionary Sector P/E Graph

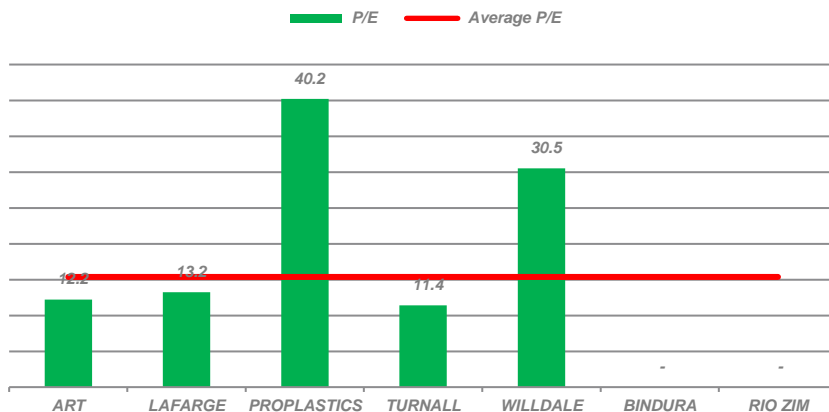


Consumer discretionary	Value	Quarter Change
Sector Index	22486.1	83.55%
Best Performer		
SIMBISA	221.5475	146.16%
Worst Performer		
TRUWORTHS	1.65	(17.5%)

The best performer in the consumer Discretionary sector was Simbisa with a 146.16% return. Truworths was the worst performer, shedding 17.5% in Q1. Afsun and Edgars had the lowest P/E ratios in this sector.



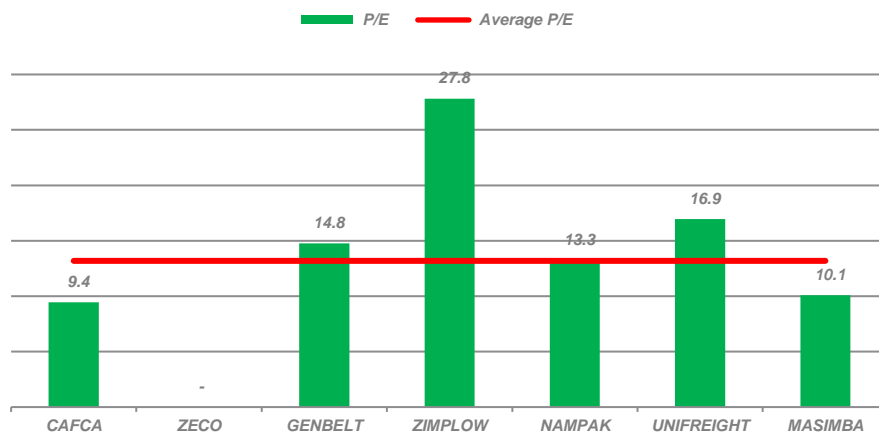
Materials Sector P/E Graph



Materials	Value	Quarter Change
Sector Index	12393.3	41.85%
Best Performer		
ART	20	91.39%
Worst Performer		
WILLDALE	3.05	(1.44%)

ART added a significant return of 91.39% during the quarter and was the best performer in this sector. Willdale was the worst performer in this sector losing 1.44% in Q1. Turnall and ART are the most attractive companies on a P/E scale.

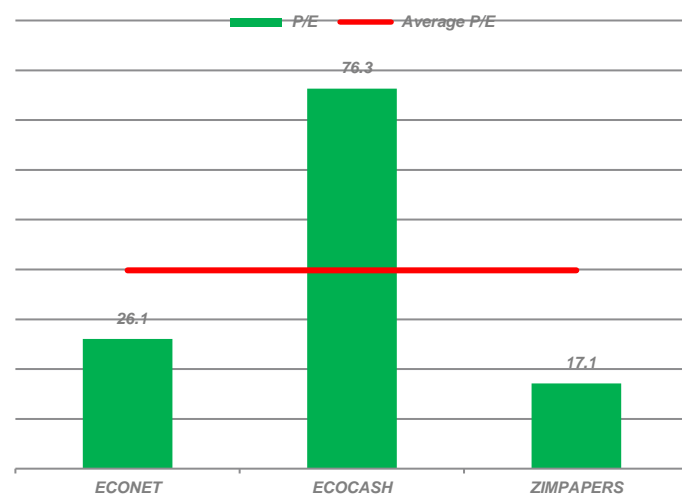
Industrial Sector P/E Graph



Industrial	Value	Quarter Change
Sector Index	19797.0	4.56%
Best Performer		
ZECO	0.02	316.67%
Worst Performer		
GENBELT	1.3193	(42.51%)

CAFCA and Masimba are the most attractive companies on a P/E scale. worst performer was GenBelt losing 42.51% in Q1.

ICT Sector P/B Graph

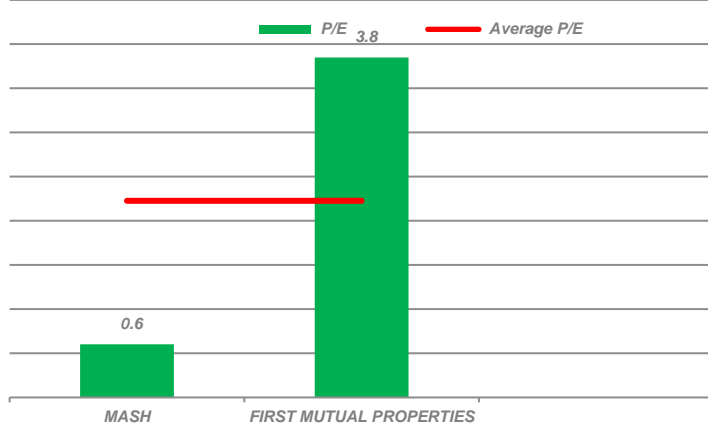


ICT	Value	Quarter Change
Sector Index	27307.6	66.28%
Best Performer		
ECOCASH	69.8445	71.81%
Worst Performer		
ZIMPAPERS	3.32	14.09%

Ecocash topped the gainers this quarter. Despite Zimpapers, the worst performer in the sector having the lowest P/E, we believe that there is better potential in Econet and Ecocash with their financials expected to be released before end of May 2022.



Real Estate Sector P/E Graph



Real Estate	Value	Quarter Change
Sector Index	10132.0	15.55%
Best Performer		
FIRST MUTUAL PROPERTIES	10.2613	31.56%
Worst Performer		
MASH	3	(7.54%)

The sector has come under increasing pressure due to lower property space uptake. FMP, with a 31.56% return was the best performer and Mash, down 7.54% was the biggest loser in the sector in Q1.



Top Five Picks

ECONET	<p>Latest Fundamentals</p> <p>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%.</p>
Long Term Buy	
Current Price	
ZW\$224	
INNSCOR	<p>Latest Fundamentals</p> <p>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.</p>
Long Term Buy	
Current Price	
ZW\$424.34	
DELTA	<p>Latest Fundamentals</p> <p>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. The fortunes of the Group will largely be dependent on the relaxation of COVID-19 restrictions in the Region as the effects of Covid-19 in South African and Zambian operations were devastating.</p>
Buy	
Current Price	
ZW\$359.95	
OK ZIMBABWE	<p>Latest Fundamentals</p> <p>Notwithstanding the significant macro-economic challenges, the business continues to record strong cashflow generation, requires minimal capex and has significant market share in the retail market space. The company also reported improved profit margins for the third quarter. We recommend accumulating the share for medium to long term gains.</p>
Buy	
Current Price	
ZW\$59.33	
HIPPO	<p>Latest Fundamentals</p> <p>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 as sugar imports are subjected to a 10 % tariff and an import licence requirement from the Ministry of Industry and Commerce.</p>
Buy	
Current Price	
ZW\$405.54	



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