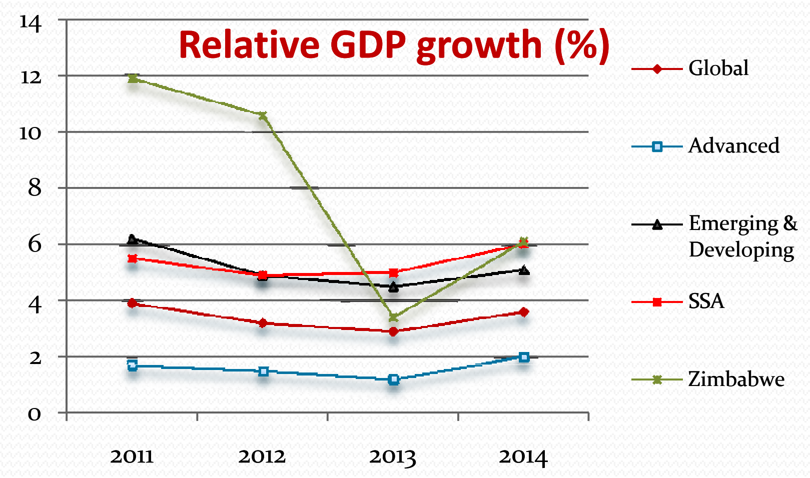
Zimbabwe Equities Pitch Book

Investing in Emerging Champions..............

FBC Securities
strength • diversity • service

Zim Economic Snapshot

- Zimbabwe's 2009–2013 GDP growth can be illustrated in a two phased growth pattern in which :
- ***Phase 1*** *- momentum saw GDP growth take a positive linear trajectory, reflecting a CAGR of 30% between 2009 and 2011 on the rate of increase*.
- The rapid growth phase was fast curbed by socio-political concerns emerging to be antagonistic to policy formulation and infrastructural development- ushering in an era of moderating growth which characterised ***Phase 2 -*** *in which the rate of increase in CAGR dropped to (-34%) between 2011 and 2013.*
- ***Post Election :*** Efforts to clarify and realign policy with broader economic interests are anticipated to realign the growth trajectory with regional peers. Economic growth has been forecast at 6.1% and 6.4% in 2014 and 2015 respectively (MoF).
- *Economic Translation will require the integration of consistent policy implementation with sustained policy formulation which requires stakeholder commitment and buy –in at the right levels.*



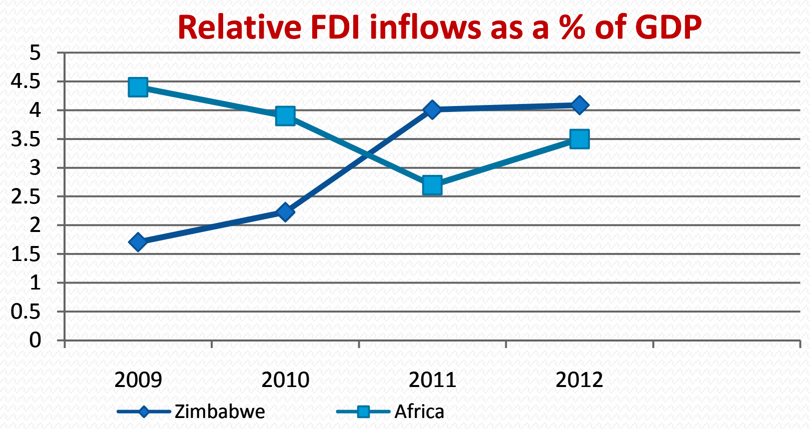
Source: IMF/ Zim Ministry of Finance

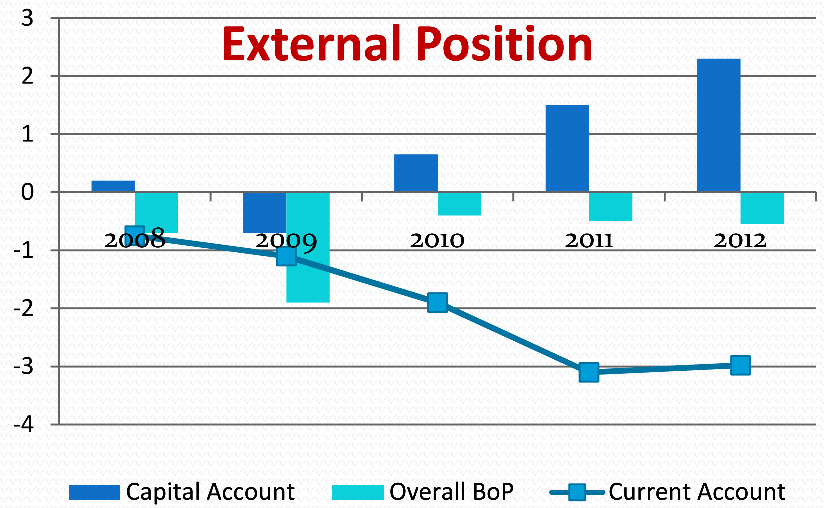
Key Statistics

Size of Economy	**$13.1bn**
Key Sectors	Agriculture/Mining
Currency	US$
Population	13.8m
Literacy Rate	92%
Inflation	1.7%

Zim Economic Snapshot cont'..

- A huge trade deficit has kept the economy in a perpetual adverse BOP position.
- With Zimbabwe a net importer from Industrial retardation, liquidity constraints have taken hold seeing lending rates average between 18-20% thereby inhibiting recovery and recapitalisation initiatives against a back drop of rising NPL 's estimated at 16%.
- ***Foreign Direct Investment*** at 3% has been curtailed by inconsistent policies which have aggravated investor perceptions increasing the risk versus return trade-offs.
- ***Inflation / Deflation*** **:** inflation has maintained a stable trend due to shrinking Money Supply resultantly suppressing demand Aggregates necessary to support the general price levels.
- ***Dollarization*** continues to play a pivotal role to the economic thrust as the US$ has remained strong against regional currencies.

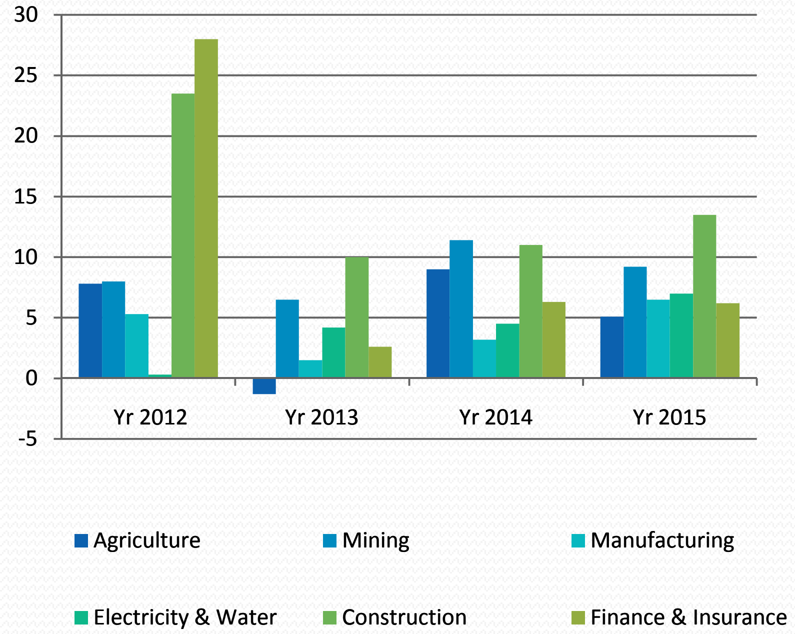




Key Economic Developments

- ***Zim Asset*** crafted as national economic policy strategy
- ***EU lifts sanctions*** on ZMDC despite maintenance of such by USA
- Vulnerabilities exposed in Zimbabwe banking sector leading to the closure of Trust bank. Six indigenous Banks are under supervision.
- ***National Budget statement :*** proposes supportive measures to revive investor confidence, and support critical sectors to facilitate economic recovery .
- ***2013/14:***key sectors are under capacitated for growth calling for an imminent redress of funding and infrastructural drivers.

"......You are going to see policy clarity like you have never seen before....." Finance Minister Patrick Chinamasa.



Stock Market Performance

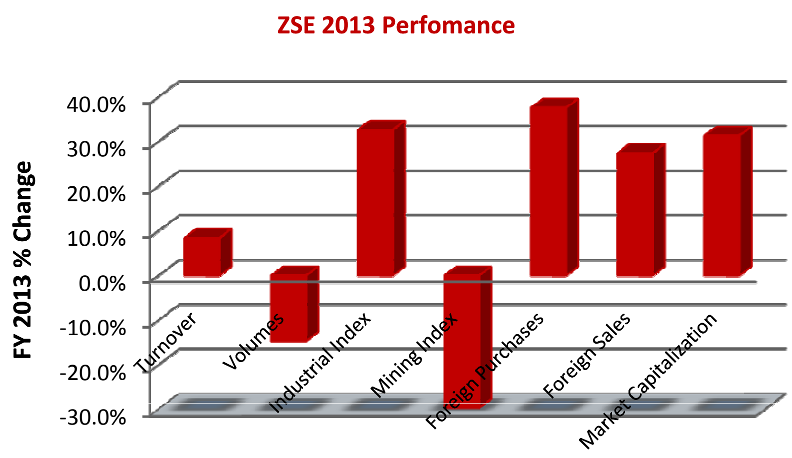
- ***Equities market*** was resilient to socio-political shocks in the local environment - positioning amongst Africa's top performing bourses.

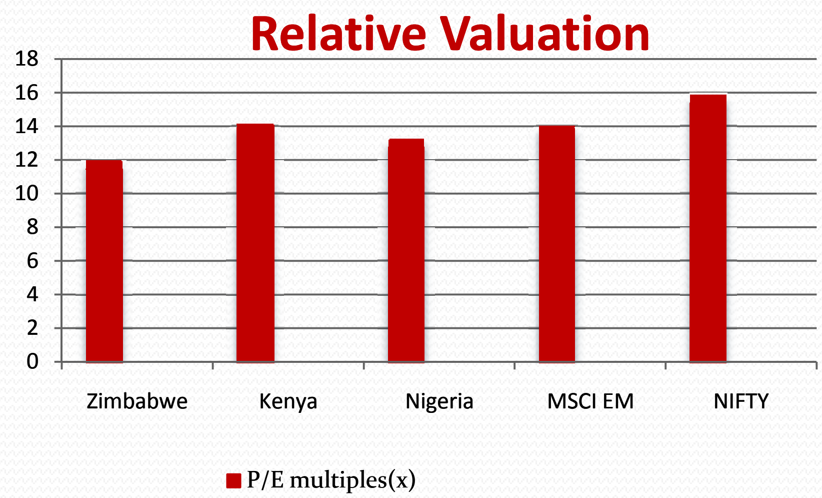
  ZSE ⬆ 32.6% (fy2013 industrials)

- Market turnover was US$485mil, ⬆ 8.4% on prior year.
- Volumes ⬇ 14.7% to $3 billion.
- Foreign portfolios increased their foothold on the local bourse as Foreign inflows ⬆ by 38% to $299m while outflows were ⬆ 28% at $90m.
- Market capitalisation closed the year at $5.2 billion, ⬆ 31% on prior year.

Outlook

- 2014 is a more certain year. Having concluded pressing political processes, stakeholders are focussed on economic recovery. Capital raising initiatives will continue to be at the centre of capital market activity, so will be the transition to an automated trading system and the use of a CSD -all of which are expected to improve activity on the local bourse and increase its depth.





Equity Market Investment Pulls

- ***Under Valued Market - Low P/E Multiples*** – Zimbabwean Capital Markets have remained among the highest rewarding investment destinations in Africa since dollarization owing to the markets low PE Multiples.

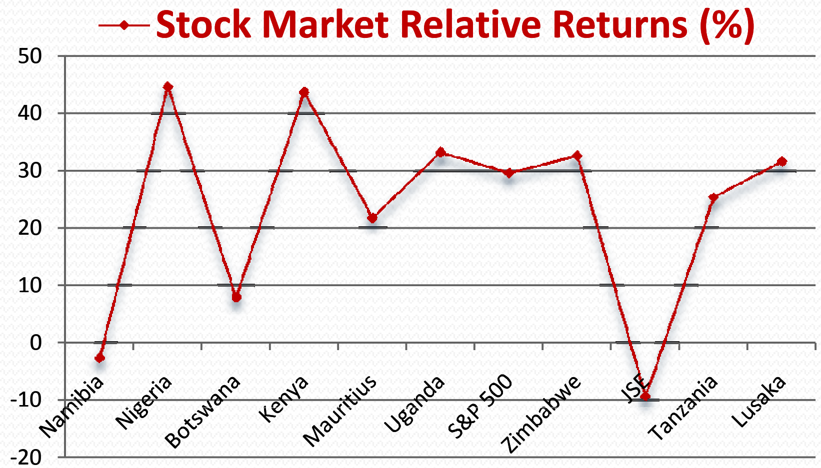
  Nifty 15.8x; Nigeria 13.2 x ;Kenya 14.1x ; ZSE 11.6x

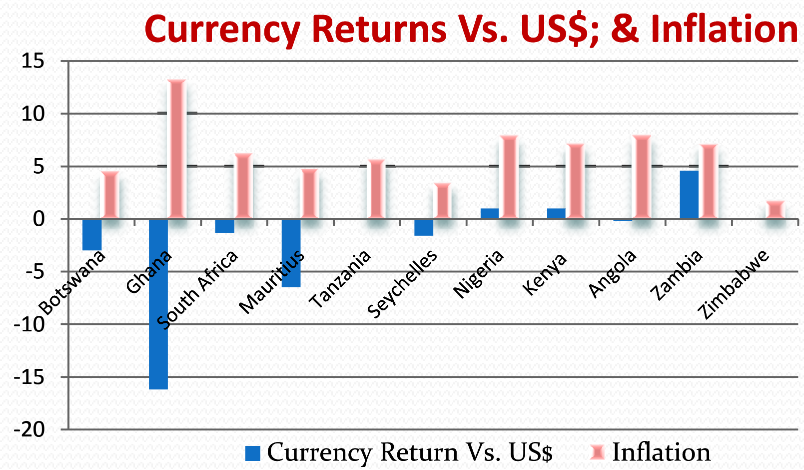
- **Hedging Opportunities:** Dollar denominated assets present lucrative capital market alternatives as the dollar has turned to outperform regional comparable currencies.

- **Sustainable market dynamics:** Money market returns averaging 12% - above regional averages, higher money market returns are expected to exert an upward pressure on expected equity returns (ER).

- **Transitioning Economy:** with the economy currently in transition, corporate actions are looming which will see the shareholding structure and quality of entities being transformed. Alongside the macroeconomic shifts ZSE is anticipated to transition from quantitative listings to qualitative listings.

- **Going Electronic :** The automation of the ZSE is set to deepen the market in terms of process flows, product offering and investor participation. CSD and ATS projects underway.





Key Sector Analysis

- While mining, agriculture, electricity and water, manufacturing and construction are tipped to be at the forefront of economic thrust, analysis of these key economic sectors has been made to guide investment decisions in 2014.
- In context to the ZSE, key focus sectors are:

Mining Sector

Attractions:

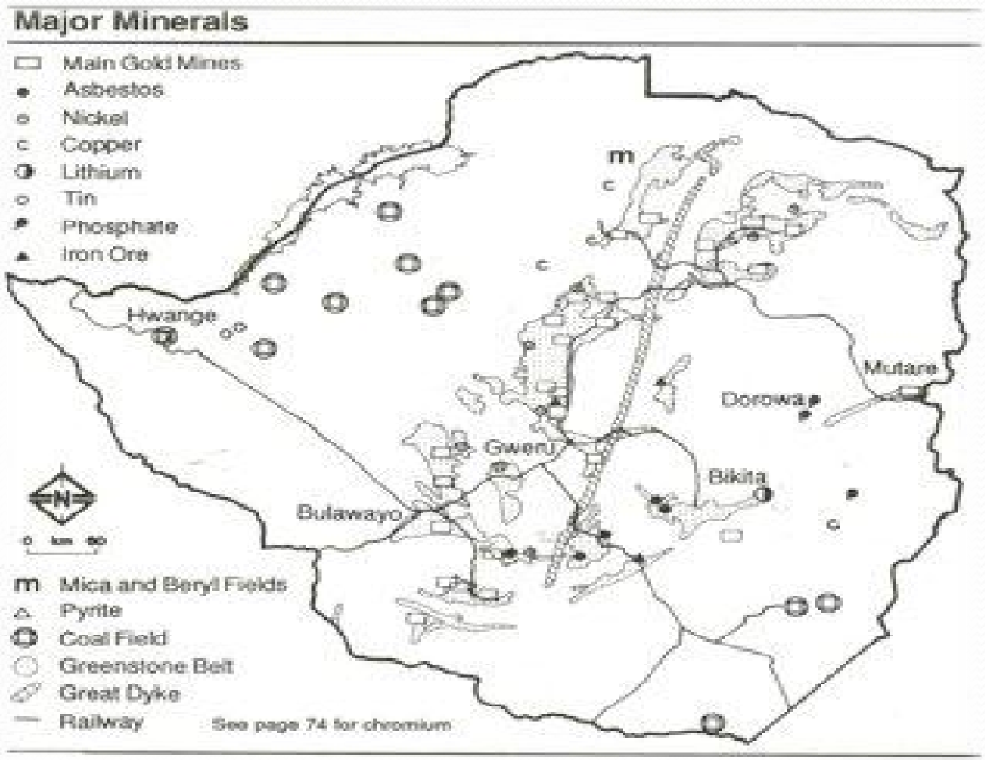
- Abundant resource endowment.
- Output gap-unexploited capacity.
- National Priority sector- Poised for support and activity.
- Value addition and beneficiation to increase realisable sector value.

Risk Factors:

- Retreating global commodity prices from subdued global demand and improving supply.
- Excessive government involvement antagonist to free market forces.
- Lack of financial muscle to exploit existing capacity.

Key Facts

- Second largest platinum producer in the world.
- Large stock piles of diamonds.
- Contributes ~50% of Forex Source.
- Accounts for 17% of GDP.
- Diverse mineral offering.



Key Sector Analysis

Agriculture Sector

Attractions:

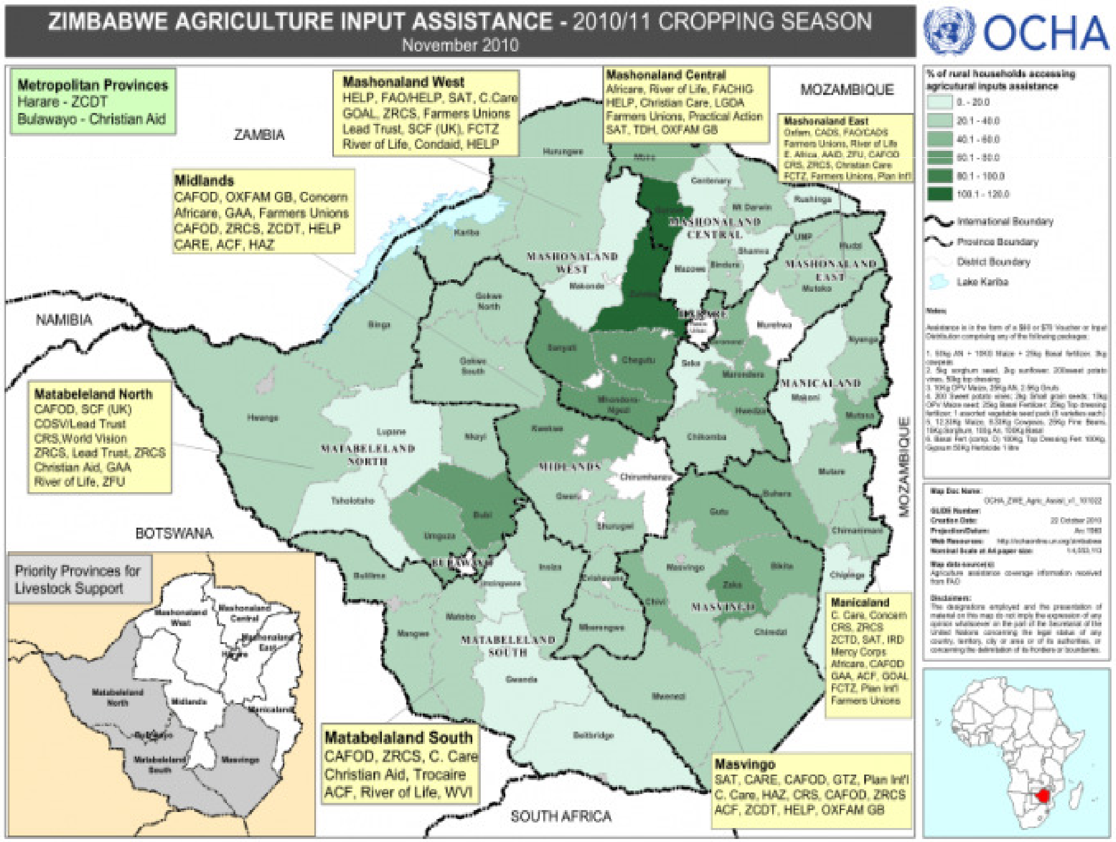
- Sustainable demand locally and internationally.
- Relatively favourable rainfall patterns.
- Output gap-unexploited capacity.
- Government Priority sector- Poised for support and activity.

Risk Factors:

- Property rights issues frustrating efforts to secure technical and financial support.
- Funding gap
- Weakening commodities prices
- Lack of resource accountability and professional management.

Key Facts

- Formally the bread basket of Africa
- Sector contributes between 15-18% of GDP
- Contributes 40% of national export earnings.
- Contributes 60% of materials to agro-based industries
- Employs approximately 70% of the population including agriculture related industries.



Key Sector Analysis

Manufacturing Sector

Attractions:

- Poised for growth citing adequate supply side support, from Agriculture and other sectors.
- Sustainable demand from local, regional and international market.
- Good and upgradable infrastructure to achieve efficient production levels.
- Excess Capacity to absorb expansion efforts.

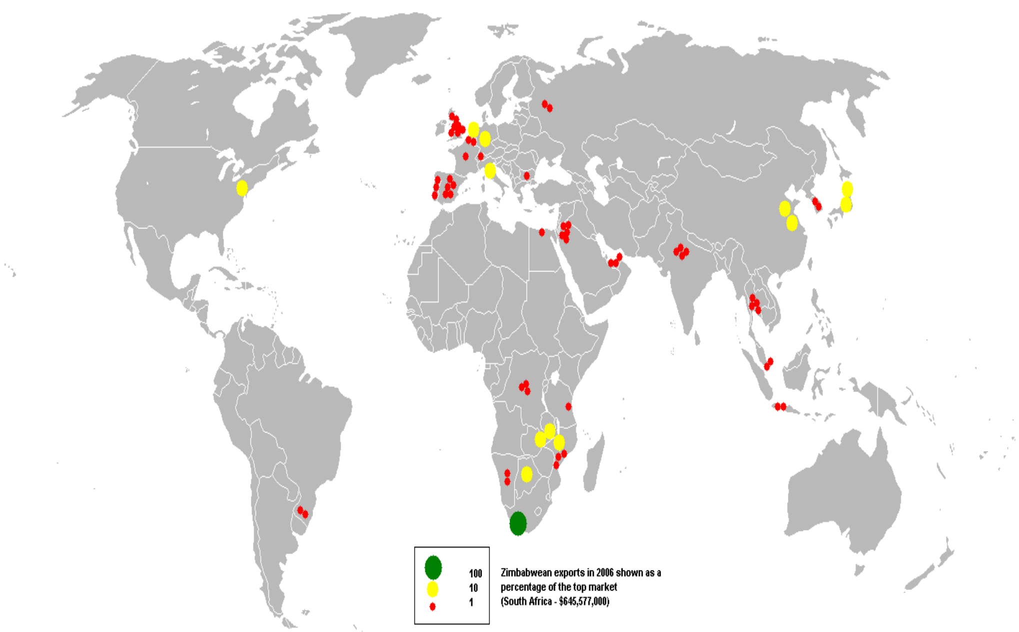
Risk Factors:

- Low comparative advantage .
- Cut throat competition from low priced imports
- Lack of funding to recapitalize operations to optimal levels
- Skills gap from brain drain.

Key Facts

- Current capacity utilization ~40%
- Sector contributes between 12-15% of GDP.
- Requires approximately $10 billion recapitalisation

Some of Zimbabwe's export markets



Business Evolution

- To arrive at our recommended stock picks, we have developed a Business Evolution Model (BEM) analysis, defined by 3 stages in which ZSE listed companies can be categorised. Each stage has its elements illustrating the characteristics of the companies under the category. Following are the stages of the Business Evolution Model.

1st stage

- High debt overhang
- Machinery redundancy
- Stagnant Market
- Low comparative Advantage
- Unsustainable capital base
- Lost market share
- Negative cash flows
- Negative EPS

2nd Stage

- Near ideal debt structure
- Recapturing lost market share
- Realigning capital base to near sustainable levels
- Near optimal operational levels/structures
- Commendable strides in regional markets
- Improving cash flow positions
- Improving EPS
- Commendable comparative advantage

3rd Stage

- Ideal capital structures
- Realigned debt structures
- Optimal operational structures
- High comparative advantage
- High cash flow generating capacity

Recommended Picks

ECONET

Business Evolution Scale: Stage 2

Econet has established a dominant market position with 74% market share. Continued investment in infrastructure is set to be an impeccable value driver as it forms the foundation for network upgrade and expansion as well as geographical coverage enhancement. Growth in data and overlay services is expected to open up diversified revenue streams through tapping the financially unexplored informal sector estimated at over $3.5bn. Strong marketing and research capabilities will continue to sustain market dominance and leadership in new products and service development. However, penetration rates of above 97% and social chat forums will limit growth in voice space.

Revenue	$611.1m	Market Cap.	$545.6m
EBITDA Margin	47.6%	EV/EBITDA	2.6x
Financial Leverage	2.17	P/E	3.02x
ROE	49.7%	Current Price	62c

Upside Potential: +27%

TURNALL

Business Evolution Scale: Stage 2

Diversified product offering poised to increase revenue streams for the manufacturing concern. Improved cash-flow management (Cash Sale Model) is expected to give the company scope to reinvest into new products and production capacity. Growth opportunities in Sub-Saharan Africa wherein exists huge infrastructure gap in sanitation, business and accommodation facilities. Turnall is set to benefit from concerted efforts by government, local authorities and individuals to develop the infrastructural landscape. Demand for residential property remains high with 66% of the population in need of accommodation. However, the high interest burden and slow economic recovery on the local scene remain impediment to desired growth.

Revenue	$42.5m	Market Cap.	$24.65m
EBITDA Margin	11%	EV/EBITDA	7.72x
Financial Leverage	2.27	P/E	13.05x
ROE	3.7%	Current Price	5c

Upside Potential: +51%

Recommended Picks

DAIRIBORD

Business Evolution Scale: Stage 1

The industry is operating at 45% capacity , producing 51m litres of milk per annum against a local demand of 121m litres. Against this background, huge potential exist for local dairy industry participants if funding issues are ironed out. Integration of supply side will ensure consistent reliable raw material supply thereby eliminating production inefficiencies. The Buy Zimbabwe campaign initiatives are expected to a give competitive edge against imports. However, suppressed disposable incomes growth remains antagonistic to full potential realisation cascading down onto affecting revenues in the industry, mitigating efforts to protect market share and breach new market boundaries have been initiated and are showing signs of potential.

Revenue	$106.9m	Market Cap.	$66.2m
EBITDA Margin	11.3%	EV/EBITDA	5.71x
Financial Leverage	1.5	P/E	8.32x
ROE	17.8%	Current Price	15c

Upside Potential: +47%

INNSCOR

Business Evolution Scale: Stage 2

Diversified product and service offering forms the basis for strong and sustainable revenue base. Product and service distribution channel footprint gives a credible and sustainable competitive edge. Strong cash generating ability through the wide network of fast foods retail outlets ensures a good cash flow position further enhancing capacity to reinvest in positive NPV projects thereby growing the value component from PVGO (Present Value Growth Opportunities). Expanding regional retail footprint is set to expand revenue streams.

However conglomerate discount will limit price upside potential .

Revenue	$627.1m	Market Cap.	$469.9m
EBITDA Margin	12%	EV/EBITDA	6.67x
Financial Leverage	1.87	P/E	11.15x
ROE	33.4%		

Upside Potential: +21%

Recommended Stocks

PADENGA

Business Evolution Scale: Stage 2

We expect Padenga to continue benefiting from strong global demand for luxury branded goods which is expected by the luxury goods association to double over the decade. The company's earnings are spared from local economic shocks as the market is purely export market.

Significant capital investments into operations to improve floor pen surfaces across all farms and increase breeding pen space will ensure enhanced quality of skins and appropriate facilities for large crop of young breeders to line with the goal of becoming self sufficient in domestic egg production thereby enhancing productivity and in turn revenues.

The setting up of Lone Star Alligator farms (USA) into Padengas model is set to smoothen out Padengas financial year further enhancing the Group's profitability and opening up new supply markets .

Revenue	$17.9m	Market Cap.	$44.3m
EBITDA Margin	36%	EV/EBITDA	6.64x
Financial Leverage	1.27	P/E	1.15x
ROE	10.7%	Current Price	8.19c

Upside Potential: +46%

SEEDCO

Business Evolution Scale: Stage 2

Strong research capabilities entail a competitive edge of Seed Co's success: Its technical co-operation with world best rated class research institutes such as CIMMYT, Syngenta Global and International Group institute for Semi-Arid offers a viable market advantage in launching suitable products in different locations. The unbundling of AICO that would lead to the disposal of AICO's stake in Seedco is expected to give a platform for strategic partnerships that would comprehend regional footing by the company.

Meanwhile, sustainable demand for food across the region and the globe at large guarantees a stable and growing market base. Point in case being that, demand for Seed Co's product range is relatively inelastic, confirming perpetual future incomes.

Revenue	$110.6m	Market Cap.	$176.8m
EBITDA Margin	24%	EV/EBITDA	8.32x
Financial Leverage	1.92	P/E	11.94x
ROE	15.2%	Current Price	91c

Upside Potential: +26%

Recommended Picks

RIO ZIM

Business Evolution Scale: Stage 1

Cost saving initiatives starting to bear fruit at Rio Zim however the immense debt overhang continues to burden overall group performance despite improved turnover and operating profits. A shift in Empresses Nickel Refinery business model from toll-refining to matte purchase and sale of own production has proved worthwhile. ENR achieved a turnover of $43.5 million ($14.3 million 2012) of which $5.7 million was from the sale of reverts. The operation continued to be affected by the unreliable, costly supply of liquid oxygen as well as high electricity tariffs however plans to install a 20 tonne per day oxygen plant are at an advanced stage with the shipment having arrived in Beira. The installation of the new plant is expected to result in monthly savings of approximately $300 000 as well as eliminate the plant stoppages that were occurring when the liquid oxygen supplier was struggling to cope with demand Plans for the re-commencement of mining operations at the Cam and Motor mine are progressing well with a 1 000 tonne per day plant in the process of being acquired. The commencement of production by second quarter of 2014 is targeted.

Revenue	$72.4m	Market Cap.	$14.2m
EBITDA Margin	10%	EV/EBITDA	10.32x
Financial Leverage	5.51	P/E	-5.06x
ROE	-28%	Current Price	31c

Upside Potential: +45%

MEIKLES

Business Evolution Scale: Stage 1

Despite prior tight financials for the company the future of Meikles presents growth opportunities with positive NPV. Diversified revenue streams offer a competitive potential. Traction has been made in the retail space while refurbishments in Hospitality are poised to raise RevPaR. Regional expansion (currently talking to developers in Zambia pertaining to construction of a hotel near Lusaka airport) is expected to have an offsetting effect on the company's earnings especially at a time when local fundamentals are abating. Immense potential exist in mining operation(Meikles Centar Mining) as the sector is earmarked to revive economic prospects which presents a case for Meikles as the group had made inroads into mining exploits through strategic partnerships

Revenue	$391.2m	Market Cap.	$48.2m
EBITDA Margin	2%	EV/EBITDA	15.07x
Financial Leverage	1.84	P/E	19x
ROE	4.5%	Current Price	19c

Upside Potential: +47%

DELTA

Business Evolution Scale: Stage 2

With continued expansion in alternative beverages and sorghum beer portfolio, Delta is poised for the next round of growth. Increasing cash generating ability from the operating activities is an important variable to support investment capacity by the group to continue benefiting from market leadership. Technological advancement and funding capacity by the group offers a competitive edge to remain the pioneer for new products which allows market skimming going forward especially if competitors are to respond slowly subject to limited financial muscle. Backward Integration efforts to further enhance the supply chain is expected to smoothen the production process and to ensure output consistency. However, limited developments in salaries due to anticipated low economic activity pose a negative impact on the company earnings.

Revenue	$631.3m	Market Cap.	$1.67bn
EBITDA Margin	27%	EV/EBITDA	9.81x
Financial Leverage	1.67	P/E	12.93x
ROE	33.8%	Current Price	140c

Upside Potential: +20%

OK ZIMBABWE

Business Evolution Scale: Stage 2

The group has a wide and well positioned branch network which gives a competitive edge. Overlay services like Electricity vouchers, money wave, swan technologies are set to diversify revenue streams. The retailer is making strides in stamping its regional footprint in efforts to open up new markets and enhance the revenue pool. The weakening rank against the US$ is anticipated to edge the margins higher as liabilities are created in a weaker currency whilst assets are created in a stronger currency. Positioned at various stages of the distribution chain (wholesale and retail), the group is expected to drive maximum value from the industry. However , weak barriers to entry coupled with escalating rivalry amongst existing firms will offer antagonist motion to the desired growth in earnings .

Revenue	$479.6m	Market Cap.	$300.0m
EBITDA Margin	5%	EV/EBITDA	13.35x
Financial Leverage	2.04	P/E	17.62x
ROE	25.9%	Current Price	20c

Upside Potential: +37%

Recommended Picks

TSL

Business Evolution Scale: Stage 2

Significant market share control in tobacco auctioning and related products presents a sustainable and comparative advantage. Expanding customer base and product range is expected to enhance revenue streams. Sustainable demand from Asia and other international markets will shoulder the group from local economic shocks. Involved at the top end of the tobacco value chain TSL is placed to reap maximum value from the tobacco industry. Massive growth potential in Agriculture from improved climate conditions and investment in the sector is poised to increase the quality and output of tobacco which will filter down to TSL's top-line. Contrary to the investment positives, competition from local and international brands at the top end of the tobacco value chain as well as increasing competition from other tobacco auctioneers is expected to restrict momentum in earnings growth.

Revenue	$31.96m	Market Cap.	$114.7m
EBITDA Margin	22.3%	EV/EBITDA	15.68x
Financial Leverage	1.24	P/E	12.10x
ROE	9.0%	Current Price	38c

Upside Potential: +17%

FBC HOLDINGS

Business Evolution Scale: Stage 2

Good balance sheet size combined with flexible cash position allows the group to investment in positive NPV projects. Diversified product and service offering with interest in manufacturing, Property, insurance , banking and stock broking which offer synergistic alliances within the confines of the group ensure sustainable revenue base and inhibits revenue leakages(One Stop Shop concept). Group synergies Diversified shareholding structure which creates a platform for funding and capital raising opportunities both locally and internationally. Despite a good cash flow position there is need to increase the balance sheet to support diverse business interest s and underwrite more business.

Revenue	$74.2m	Market Cap.	$80.97m
EBITDA Margin	29%	EV/EBITDA	0.95x
Financial Leverage	2.07	P/E	4.0x
ROE	9.6%	Current Price	12.7c

Upside Potential: +32%

Recommended Picks

FIRST MUTUAL

Business Evolution Scale: Stage 2

Regional expansion in SSA, expected to grow by 6% will have profound effect on the group's revenue sources and potential. With insurance penetration rate below 2% there is room to increase capacity utilisation and harness more business in consonant with local and regional growth trends. The growing balance sheet size increases the group's potential to underwrite more business thereby growing the top-line. A diversified service and product portfolio ensures consistency in revenue flows. However, a suppressed local environment will have inhibitive effect of the growth of the insurance business. The sheet balance size lacks capacity to accomplish the mandate by the group to meaningfully explore regional prospects across Sub Saharan Africa.

Revenue	$92.7m	Market Cap.	$45.6m
EBITDA Margin	20.9%	EV/EBITDA	3.98x
Financial Leverage	5.74	P/E	2.17x
ROE	22.5%	Current Price	10c

Upside Potential: +44%

HIPPO

Business Evolution Scale: Stage 2

The company's integrated supply chain ensures smooth production and output consistency. While there are only two companies in the production of sugar within the national frontiers, the sugar industry is characterised by low rivalry among existing firms coupled with significant barriers to entry; this enhance industry attractiveness. Sustainable local and regional demand is expected to secure steadfast revenue flows. Currently operating at around 76% capacity utilization with annual production of ~ 228 000 tons of sugar per annum, the Agri-Industrialist has capacity to increase output by fully exploiting its mill capacity which stands at over 300 000 tons per annum.

Opposing the Investment case motion is the suppressed local economic growth pattern coupled with retreating global commodity prices all of which is expected to obstruct desired revenue growth targets.

Revenue	$174.2m	Market Cap.	$183.4m
EBITDA Margin	20%	EV/EBITDA	6.27x
Financial Leverage	1.65	P/E	8.77x
ROE	6.7%	Current Price	95c

Upside Potential: +30%

Managing Director: Benson – Benson.Gasura@fbc.co.zw 0715 567 321 / 0735 167 321

Front Office: Richard - Richard.Mashawa@fbc.co.zw 077 2 446 789

Manatsa - Manatsa.Taguwireyi@fbc.co.zw 077 3 289 120

Davide - Davide.Muchengi@fbc.co.zw 077 3 940 770

Research: Yvonne - Yvonne.Saiti@fbc.co.zw 077 3 437 869

Martin – Martin.Mutunhe@fbc.co.zw 077 5 203 746

Albert – Albert.Norumedzo@fbc.co.zw 0775 198 997

The End !!