**FBC Securities (Private) Limited**

*(Registered Stockbroker) - Member of the Zimbabwe Stock Exchange*

You Matter Most

# 2023 H1 REVIEW & OUTLOOK

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# Global Overview

- Whilst the global economic outlook has improved owing to resilience in advanced economies and China's reopening, growth is still expected to slow down in 2023.

- The combination of persistent inflation and rising cost of capital are expected to increasingly constrain consumers and businesses, taking a toll on spending, investment and employment.

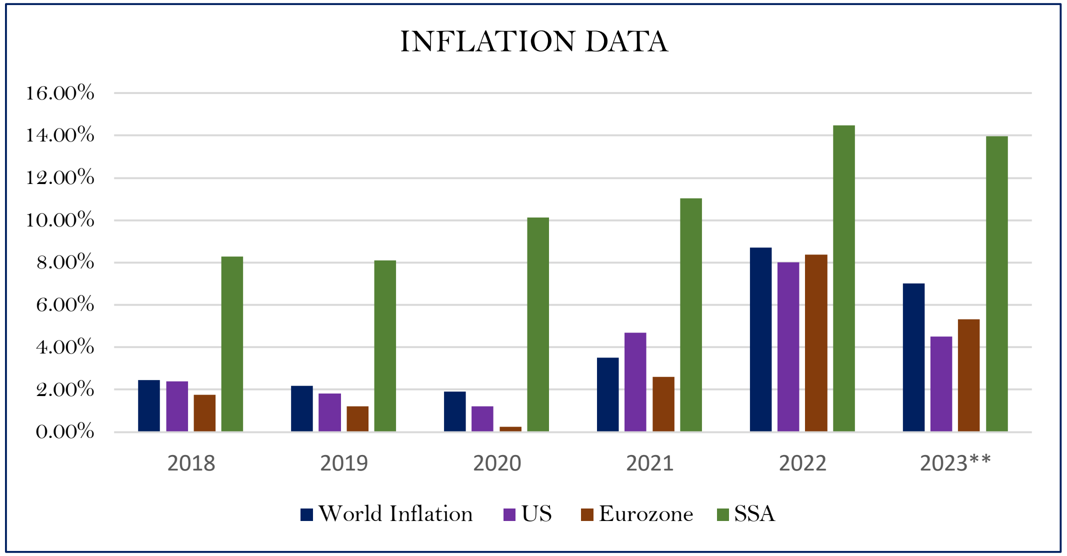
- Declining demand due to reduced purchasing power and tightening global financial conditions will contribute to easing inflation. Despite the moderation, global inflation is still expected to remain significantly above historical trends.

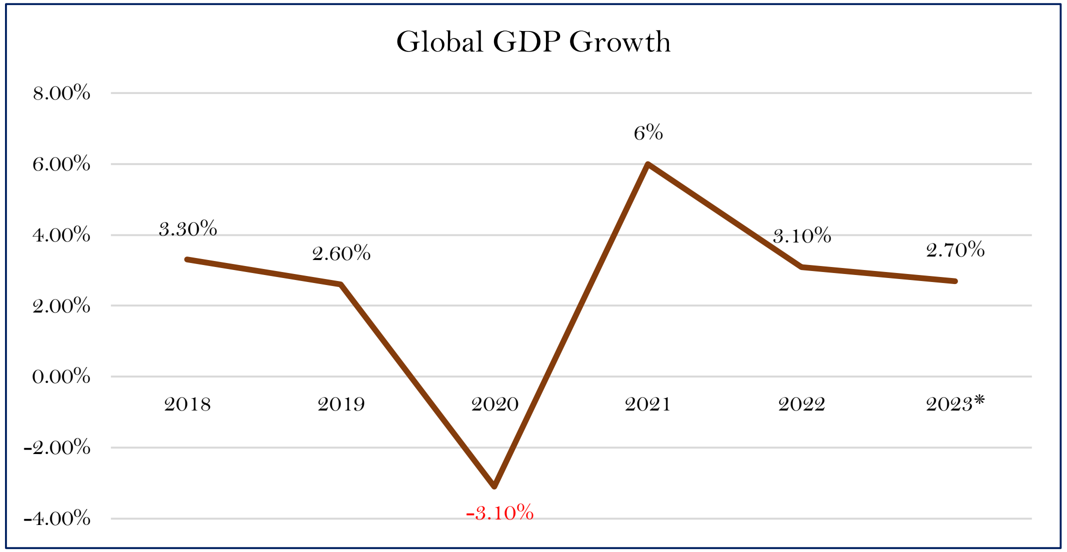
- **US** inflation fell from 4.9% in April to 4% in May, marking the 11$^{th}$ straight month of easing price increases. Officials have raised borrowing costs sharply since last year in a bid to rein in price volatility. A sustained trend of cooling inflation is likely to ease pressure on the Federal Reserve to continue raising interest rates.

- The **Euro zone** economy fell into a technical recession, being two successive quarters of contraction, in the first 3 months of the year as GDP fell by 0.1% compared with the final quarter of 2022. Looking ahead, growth is expected to remain soft despite falling energy prices, as monetary policy tightening dents investment and existing inflationary pressures constrain consumption.

- **China**'s central bank announced a cut to one of its key lending rates, a move that is seen as confirmation that the country's economic growth is losing steam. According to the central bank, the cut will boost liquidity in the banking system and make short term loans cheaper. The rate dropped from 2% to 1.9%.

- The World Bank has projected growth in **Sub Saharan Africa** of 3.2% in 2023, as external headwinds, persistent inflation, higher borrowing costs and increased insecurity weigh on activity.




***Source: worldbank.org***

# Commodities Highlights

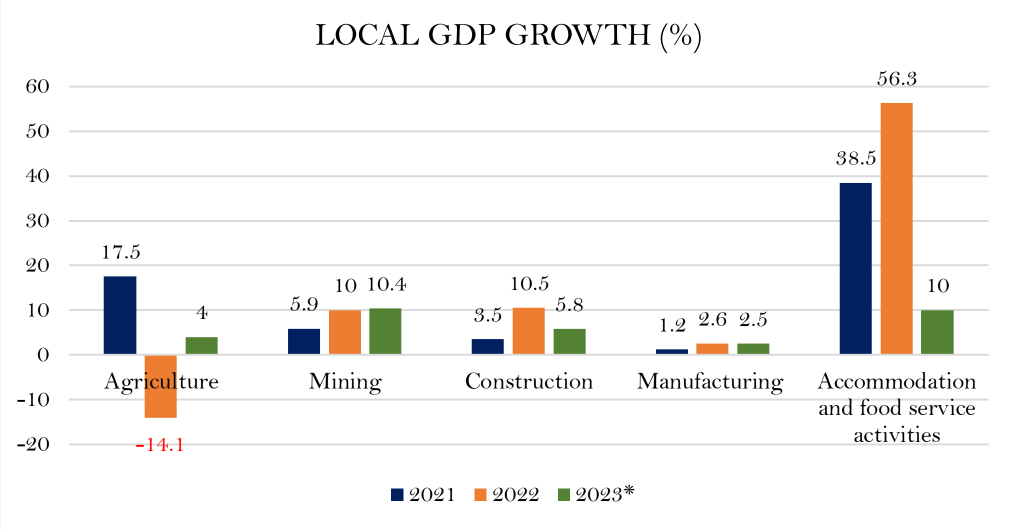
- Whilst prices of all major commodity groups remain above their 2015-19 levels, prices have fallen from their peaks in the aftermath of the post-pandemic demand surge and war in Ukraine. Commodity prices are likely to remain elevated in 2023, but are expected to average below 2022 levels, which will continue to weigh on affordability and food security.

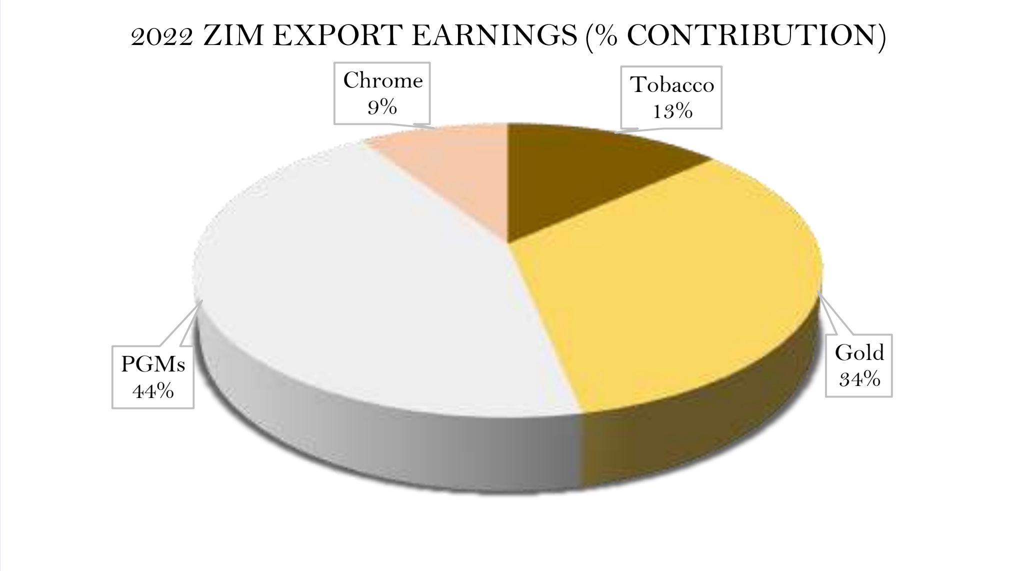
- Global commodity prices fell by an average 14% in the first quarter of the year and are expected to continue falling this year. The global economic slowdown and ongoing geopolitical tensions remain key downside risks for commodity markets in 2023.

- Demand for energy and metal commodities may be dented by restricted manufacturing activity amid softer consumer and business demand, weaker capital investment due to increasing borrowing costs and lingering recession concerns. On the other hand, a rebound in demand from China following the end of its zero-Covid policy, demonstrated resilience in advanced economies and potential supply disruptions due to geopolitical tensions may exert some upward pressure across all commodity groups during the year, limiting downward movement of commodity prices.

- Expectations of continued hikes have exerted downward pressure on gold prices. Losses have however been limited by lingering recession fears and concerns around the ongoing tensions between Russia and Ukraine. Price movements in palladium and oil markets have been restricted by increased demand concerns as broader economic weakness is expected to dampen global demand.

- Local authorities projected growth to be underpinned, in part, by favorable international commodity prices. Existing downward pressure on commodity prices may limit the country's earning potential from mining output. Prices in the country's top earners, gold and tobacco, have largely been on the decline since last year. Additionally, demand may be dented this year due to persistent recession fears and tightened monetary conditions globally. Growth of the country's mining sector is also likely to be moderated by insufficient power supply, rising costs, foreign currency shortages and an inconsistent policy environment.




***Source: MoFED***

# H1 Review

- Whilst local authorities maintain a more optimistic outlook for the country's GDP growth this year, expecting growth of around 6% as opposed to an initial 3.8% projection, existing global and local economic complexities point us to a more conservative outlook for the local economy.

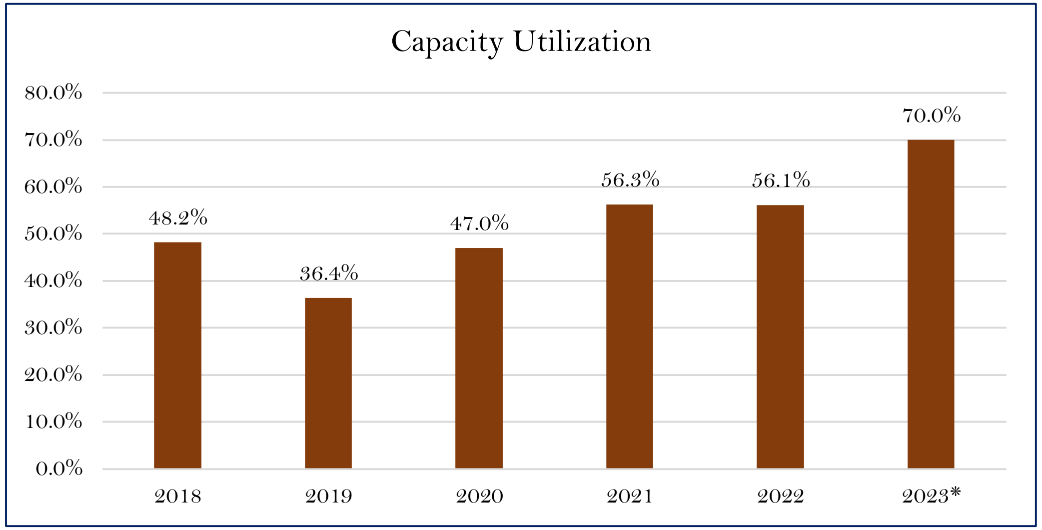
- The World Bank has revised its projections for the Zimbabwean economy downwards from an initial growth forecast of 3.6% to 2.9%, citing global shocks, structural bottlenecks, and price and exchange rate instability as restrictive factors.

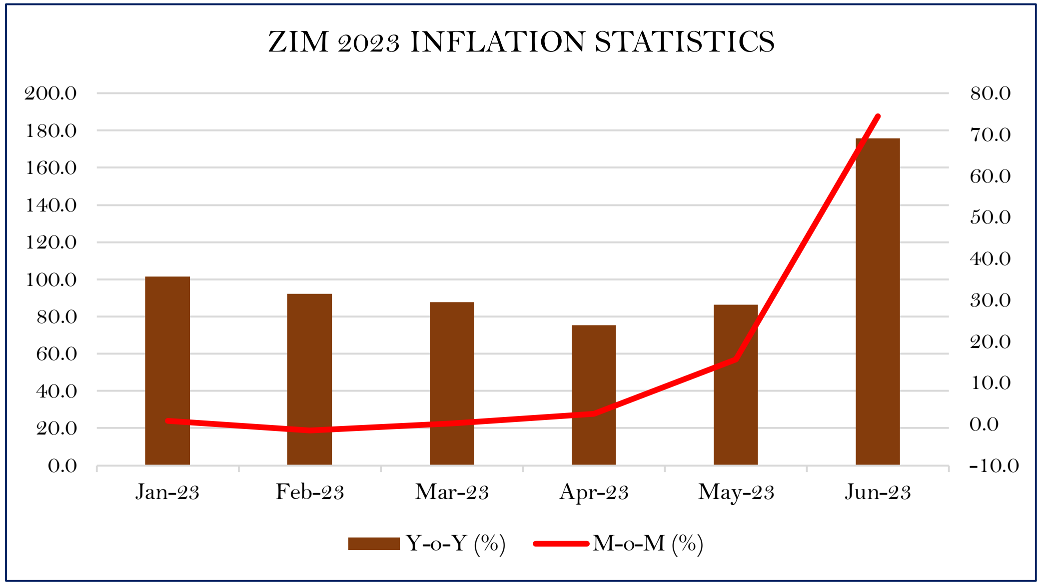
- According to the Confederation of Zimbabwe Industries' manufacturing survey for 2022, owing to power outages, forex shortages and hawkish policies, capacity utilization was stagnate at 56%. While the Industry and Commerce Ministry has set a target of 70% capacity utilization in 2023, in the first half of the year the local operating environment was characterized by currency volatility, frequent power cuts and a tight monetary policy. Resultantly, we expect capacity utilization to remain subdued and likely fall below the 70% target.

- Destabilization of the local currency and persistent inflationary pressures remain pertinent. Following a period of relative stability, pursuant to stabilization measures implemented in the second half of last year, official blended inflation figures spiked in May and June. Monthly inflation accelerated to 74.5% in June from -1.6% recorded in February this year, while annual inflation increased to 175.8% compared to 92.3% in February.

- The local currency has also faced increasing pressure, particularly in the last months of the first half, losing 739% and 742% of its value against the US dollar on the official and parallel market, respectively, between December 2022 and June 2023.

- The relationship between money supply, exchange rate and inflation appears strong as historically, an increase in money supply has coincided with a spike in exchange rate and inflation.




***Source: RBZ***

# Currency Crisis

- In response to rising inflation and rapid devaluation of the local currency, authorities introduced a host of liquidity managements measures and continue to implement measures aimed at promoting the use of the local currency.

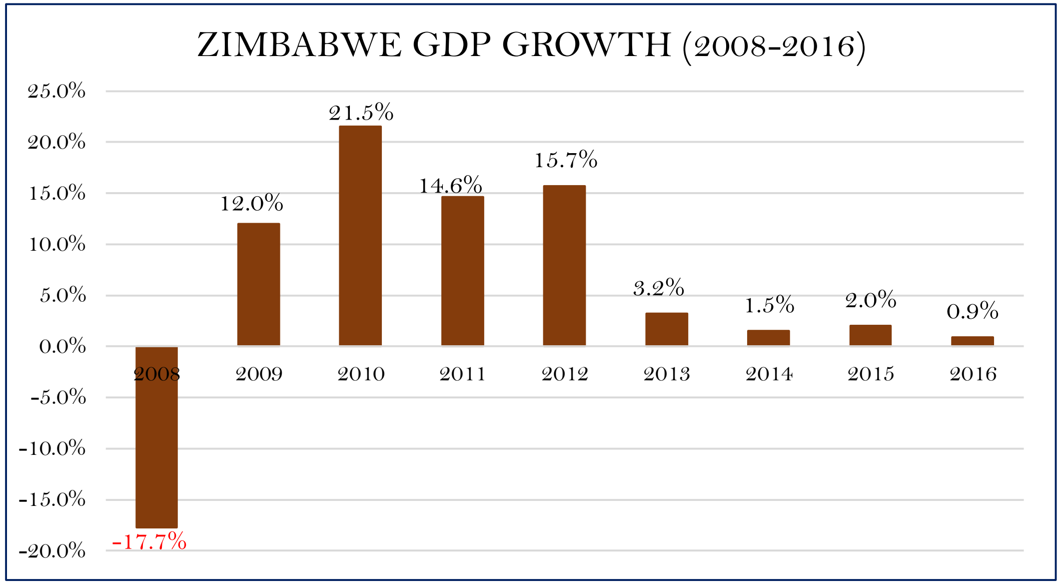
- Theoretically, a mix of measures to increase the supply of foreign currency, while simultaneously reducing demand for the USD by increasing demand for local currency should alleviate pressure on the local currency and the rate of devaluation. However, we continue to witness loss of ZWL value and calls for dollarization.

- Between 2007-2008 the country experienced one of the worst episodes of hyperinflation ever recorded, with prices doubling almost daily at its peak as a result of both supply and demand side pressures exerting force on local prices. A resultant tighter monetary policy, in a bid to tame inflation, put pressures on both banks and domestic producers, threatening to completely destabilize the financial system and wider economy.

- At the height of inflation in 2009, the country dumped its local currency in favor of a multiple currency system consisting of a series of foreign currencies, with the US dollar becoming the popular medium of exchange.

- Dollarization immediately worked to reduce inflation, reducing instability of the country's overall economy and allowing increased citizen's buying power and economic growth. The country registered double digit GDP growth in the years following the dollarization move. Dollarization allowed Zimbabwe to eliminate exchange rate risks, build real savings, boost lending rates and improve the investment climate.

- The question however stands whether there is enough USD liquidity locally to sustain 100% dollarization, taking into consideration the needs for transacting purposes and supply of US dollars. Furthermore, by giving up the option to print the country's own money, it loses the ability to directly influence the economy through its monetary policy.

# Election Impact

- The upcoming harmonized elections are set to take place in August this year, against the backdrop of persistent currency devaluation, rampant inflation, a local energy crisis and global economic shocks posing threat to the country's economic performance.

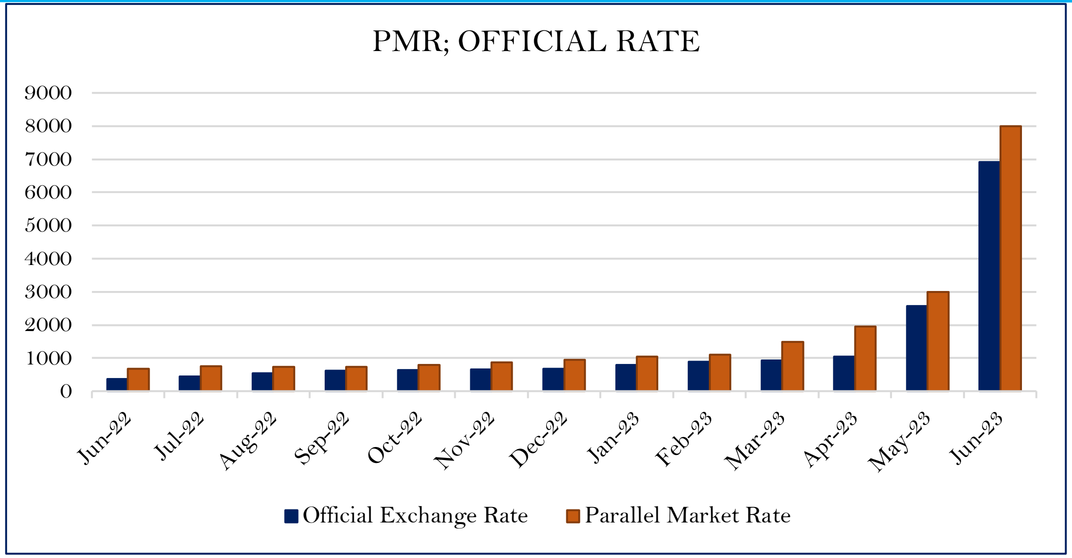
- Given ongoing efforts to tame inflation and arrest currency devaluation, the risk of destabilization owing to increased government spending is a key consideration. It is therefore important to consider the possible impact of election spending on inflation and economic stability.

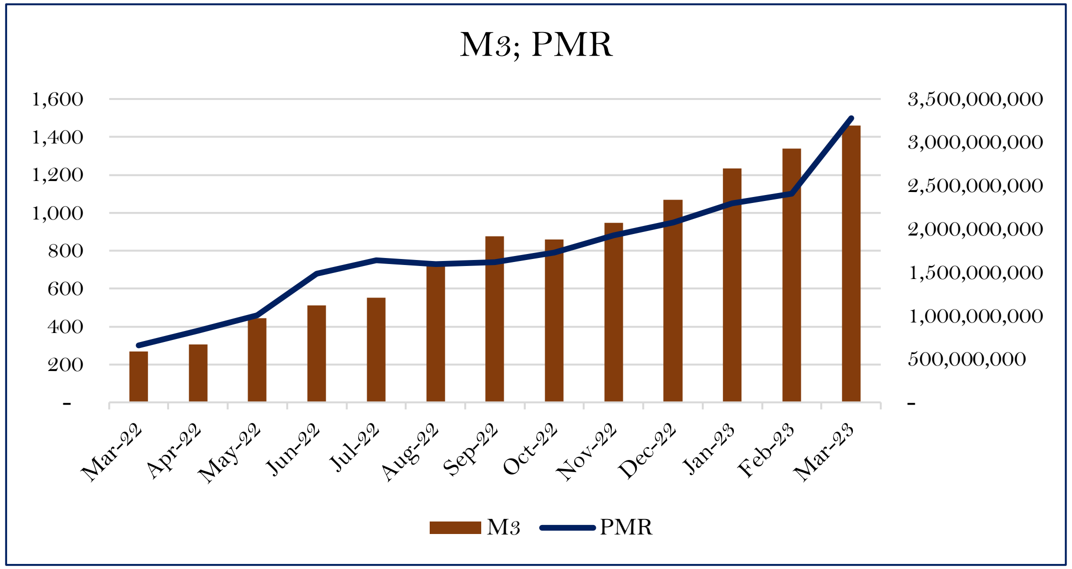
- The African Development Bank earlier this year highlighted elections as a risk to recovery and economic resilience in some countries, including Zimbabwe. Historically, there has been a trend of increased government expenditure in election years. In 2018, the country's budget deficit more than doubled to 11.1% of GDP from an initial 5% forecast. This was due to a spike in election related expenditure, most notably, increased public sector salaries and purchase of farming inputs.

- Despite measures implemented over the course of last year, between December and June of this year the local currency lost 739% and 742% of its value on both the parallel and official market, respectively. The Reserve Bank of Zimbabwe has communicated its continuing commitment to its tight monetary policy aimed at restoring and sustaining exchange rate and inflation stability.

- Huge injections of liquidity into the economy may potentially undermine these efforts as there exists a strong correlation between money supply, exchange rate and inflation as evidenced by spikes in the depreciation of parallel market rates that have coincided with bulk payments by government to service providers.

- Unless carefully managed, increased liquidity owing to increased government expenditure may have a destabilizing effect on the local economy in the second half of the year, resulting in further devaluation of the currency and loss of value.




***Source: RBZ***

# H2 Outlook

- The government projected local economic growth of 6% this year, up from initial forecasts of 3.8%. This comes on the back of improved agricultural performance and increased electricity availability.

- Despite relative improvement in power supply experienced in recent weeks and the prospect of a favorable agricultural season, the economy remains vulnerable to shocks stemming from high inflation, exchange rate volatility as well as an uncertain global economic outlook that are likely to moderate growth this year.

- In view of the upcoming elections and uncertainty around money supply and possible disruptions, authorities' commitment to the tight monetary policy aimed at restoring and sustaining exchange rate and inflation stability remains encouraging.

- Moving into the second half of the year, we believe liquidity management remains key to taming inflation and exchange rate movements. Without careful liquidity management, increased money supply may have a destabilizing effect on the economy in H2.

- Additionally, currency dynamics, including distortions presented by widening parallel market rate premium, pose a threat to economic stability. We believe convergence of the official and parallel market rate is a possibility, hinged primarily on the accelerated liberalization of the foreign exchange market, combined with continued efforts to maintain an appropriately tight monetary policy for the sustainable restoration of macroeconomic stability.

- While the first half of the year was characterized by erratic power supply that resulted in business disruptions and ballooning operating costs, there has been some improvements in power supply. General improvements in power supply should bode well for businesses in H2, if sustained. Improved power supply will limit disruptions to operations as well as reduce operating costs.

# Stock Market Overview

- Liquidity conditions in the economy continue to have a strong impact on market performance. The Zimbabwe Stock Exchange rallied for a number of weeks during the second quarter of the year, however, as liquidity tightened locally, market performance began to lose steam.

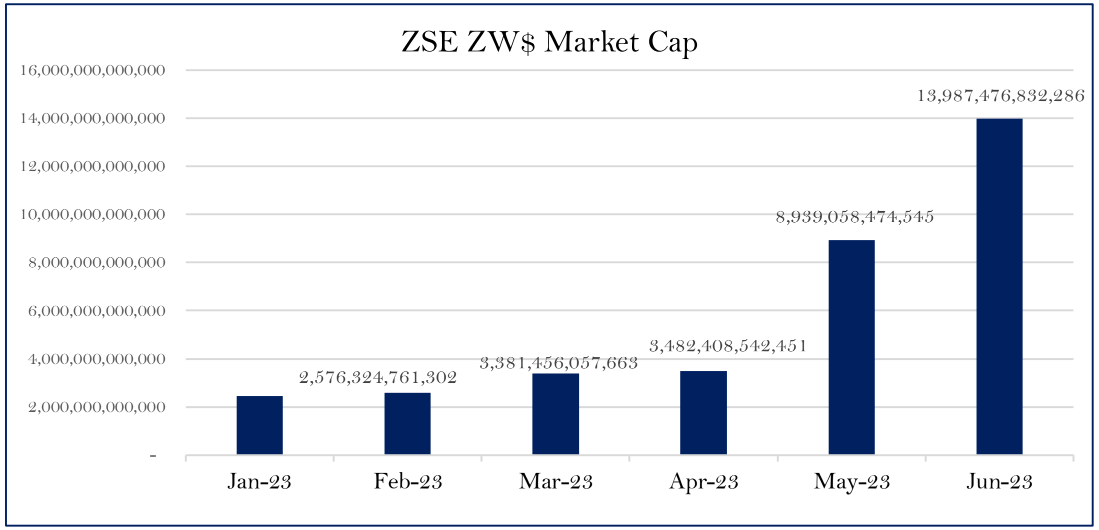
- Rapid depreciation of the local currency, particularly towards the end of the first half, largely outpaced market performance. The benchmark ALSI registered a year to 30 June gain of 779%.

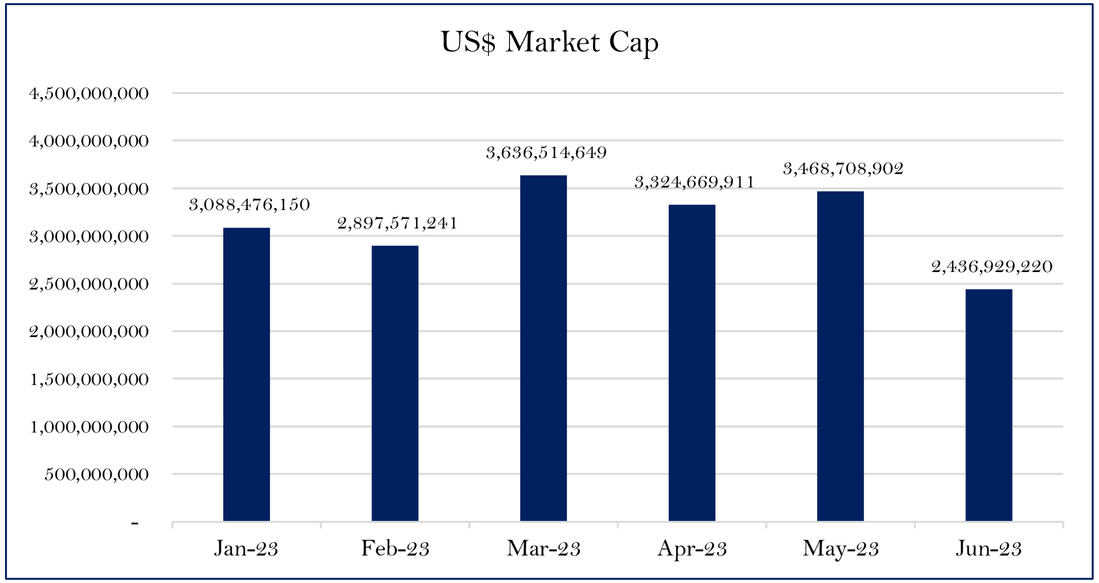
- Concerns of value preservation against continuous depreciation of the local currency in a market where efficient hedging assets are limited remain topical. Resultantly, there has been growing interest in alternative asset classes, as opposed to the stock market, in a bid to preserve value.

- Gold coins have been an efficient liquidity management tool, reported to have mopped up circa ZW$34 billion from the economy. The gold coins became a popular alternative investment option as they possess value preservation characteristics through the underlying asset, gold, that is generally more stable and price movements that are pegged to the official exchange rate.

- The Top 10 Index advanced 656% year to 30 June, while market cap grew to ZW$13.94tln. Whilst market capitalization has registered significant growth in ZWL terms, advancing 584% between December 2022 and June 2023, in USD terms, performance has been underwhelming. USD market cap fell 18% year to 30 June, indicating negative real growth on the ZSE.

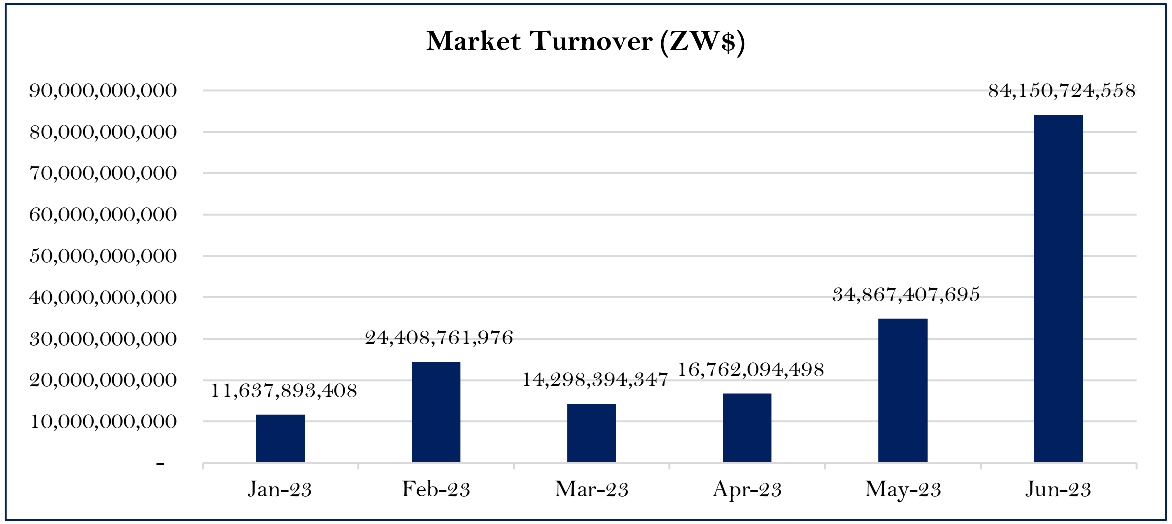
- Performance on the Victoria Falls Exchange has remained largely subdued in the first half of the year, with selling pressure generally prevalent. Market capitalization advanced 127% between December and June 2023 to US$1.29mln as the bourse has seen a number of listings to date. The benchmark VFEX ALSI has however shed 23% in the year to 30 June.

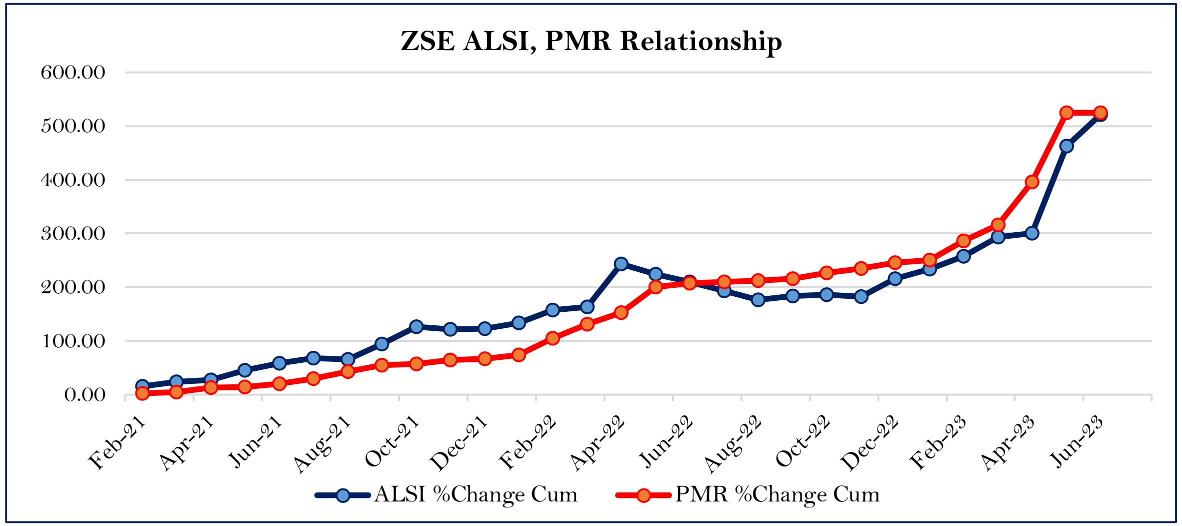


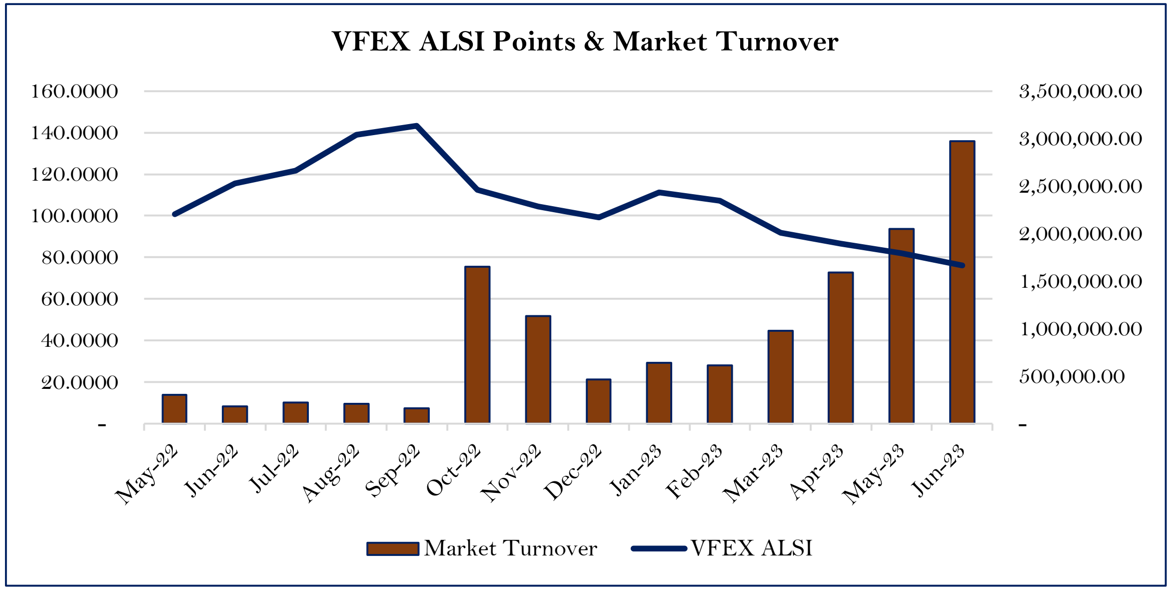



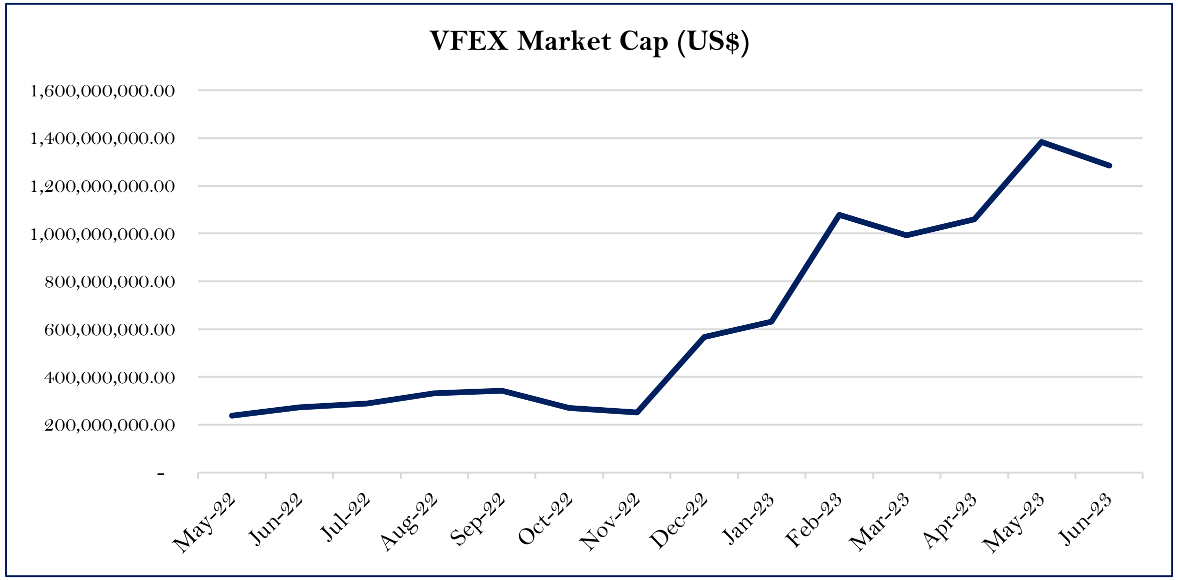

***Source: ZSE; FBC Securities Research***

# Stock Market Overview cont'




***Source: ZSE; FBC Securities Research***

# Stock Market H2 Outlook

- The market is likely to remain highly susceptible to local economic developments, including policy intervention, that may affect liquidity conditions and business performance.

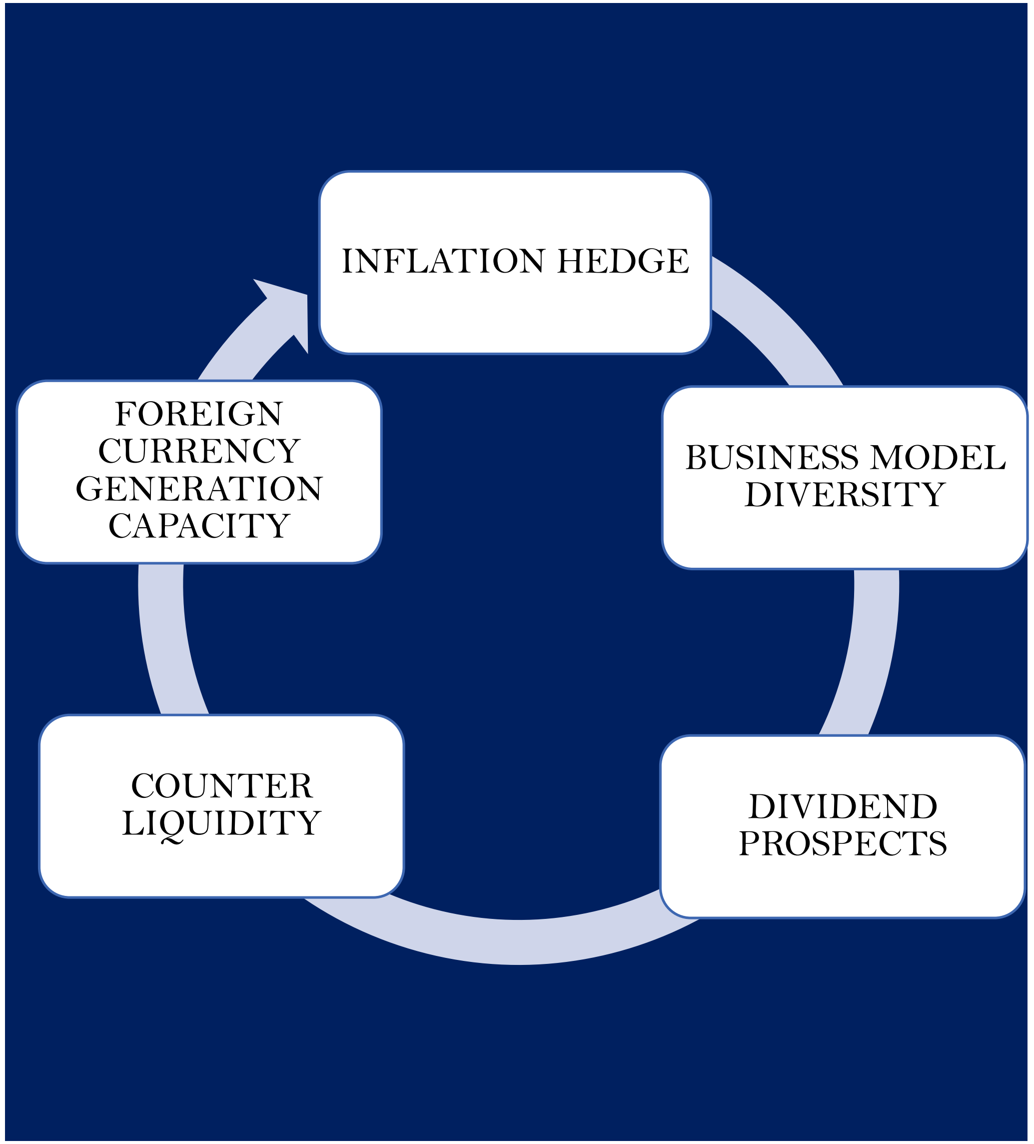
- Ahead of the 2023 general elections, we expect a cautious sentiment to prevail among investors as they continue to assess the impact of the elections on business. Historically, election periods have been marred by economic volatility and bouts of violence, which may dampen investor confidence.

- ZSE performance continues to respond to local money supply. As liquidity increases, funds are directed to the stock market, boosting performance. While elections have generally been characterized by increased money supply as election related government expenditure rises, the local economy is faced with a unique challenge as authorities continue to target inflation and exchange rate volatility through liquidity tightening measures. Loosening the grip on money supply may have a destabilizing effect on the economy, increasing inflationary pressures and exchange rate volatility.

- Despite the growing trend of dollarization locally, with estimates of the economy being over 80% dollarized, the VFEX remains dominated by sellers. We anticipate investors will remain cautious moving into elections and the second half of the year, which may increase selling pressure and limit the amount of foreign currency directed to the USD denominated bourse.

- The ZSE's performance has largely lagged behind inflation and exchange rate trends as liquidity constraints restrict share price performance. This however creates an opportunity for investors to accumulate quality stocks at discounted prices as the bourse houses a number of fundamentally sound investment options.

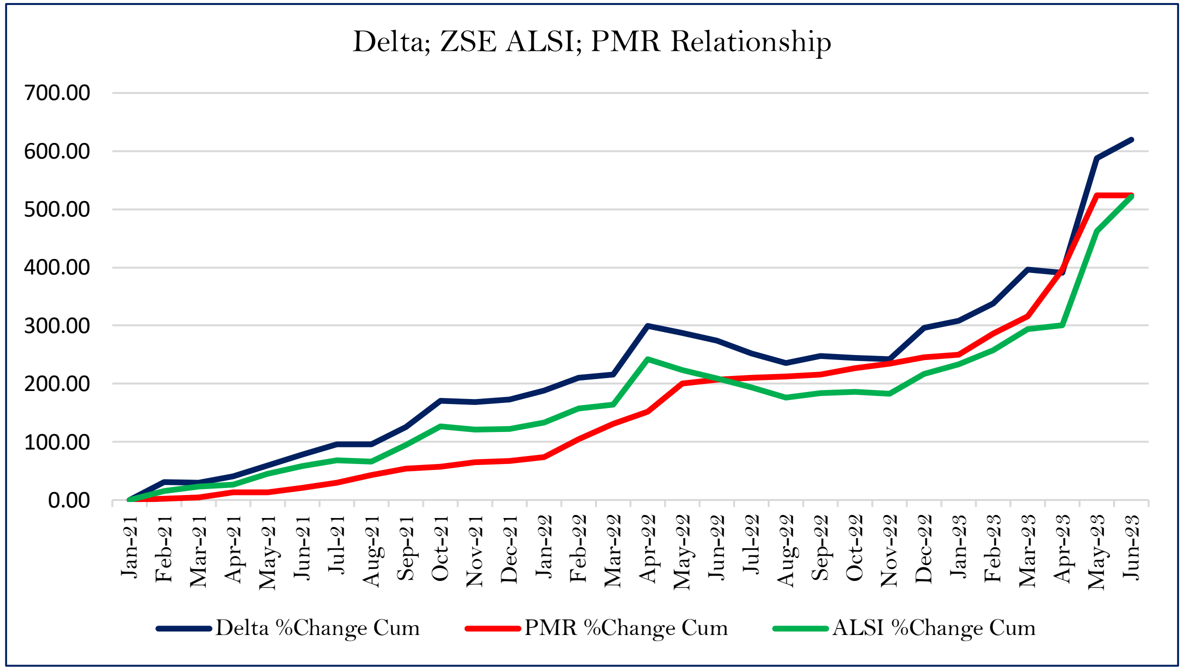
- We expect liquidity dynamics and value preservation concerns to remain key themes going into the second half of the year. Presented with continuous currency devaluation and prevailing uncertainty ahead of elections, we maintain the view that investors should boost the resilience of their equity portfolios by focusing on a combination of high quality counters and consistent dividend payers.



# ZSE TOP PICKS

# 1. Delta Corporation Ltd

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.46 |
| Market cap (US$ mln) | 601.34 |
| NAV (US$) | 0.11 |
| PER (x) | 5.79 |
| Forward PER (x) | 5.27 |
| Price/NAV | 4.33 |
| Dividend Yield | 0.07% |
| EV/Share (US$) | 0.45 |

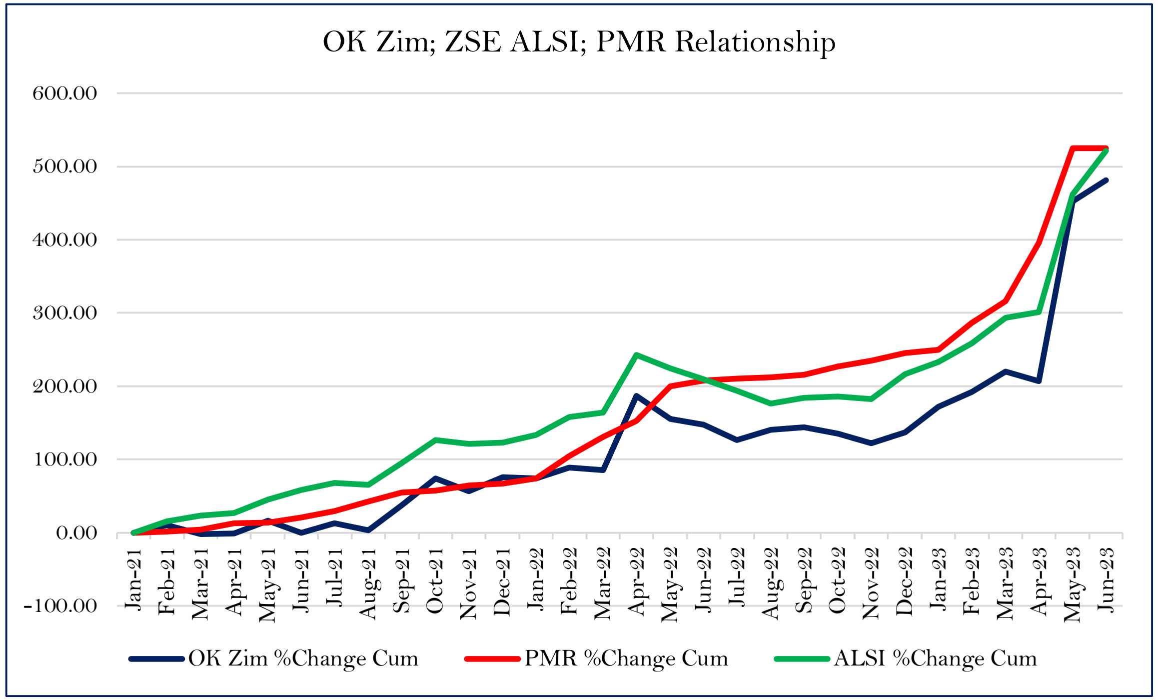



***Source: ZSE; FBC Securities Research***

- The company has consistently registered volume and revenue growth over the years, demonstrating long term sustained demand for its products. Management has also successfully defended margins, despite complexities in the local economic environment characterized by currency volatility and high inflation.
- The local economy is expected to benefit from an improved agricultural season, increase in mining activities and election spending. We anticipate this will feed into the general population's income to the benefit of Delta's sales.
- On a cumulative basis, Delta's share prices has consistently outperformed the ZSE ALSI and parallel market rate movements. Given the need for value preservation against continuous depreciation of the local currency, in a market where efficient hedges are limited, Delta has demonstrated value preservation characteristics as a long term investment.

# 2. OK Zim Ltd

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.04 |
| Market cap (US$ mln) | 49.52 |
| NAV/ share (US$) | 0.05 |
| PER (x) | 2.93 |
| Forward PER (x) | 2.45 |
| Price/NAV | 0.76 |
| Dividend Yield | 10% |
| EV/Share (US$) | 0.04 |

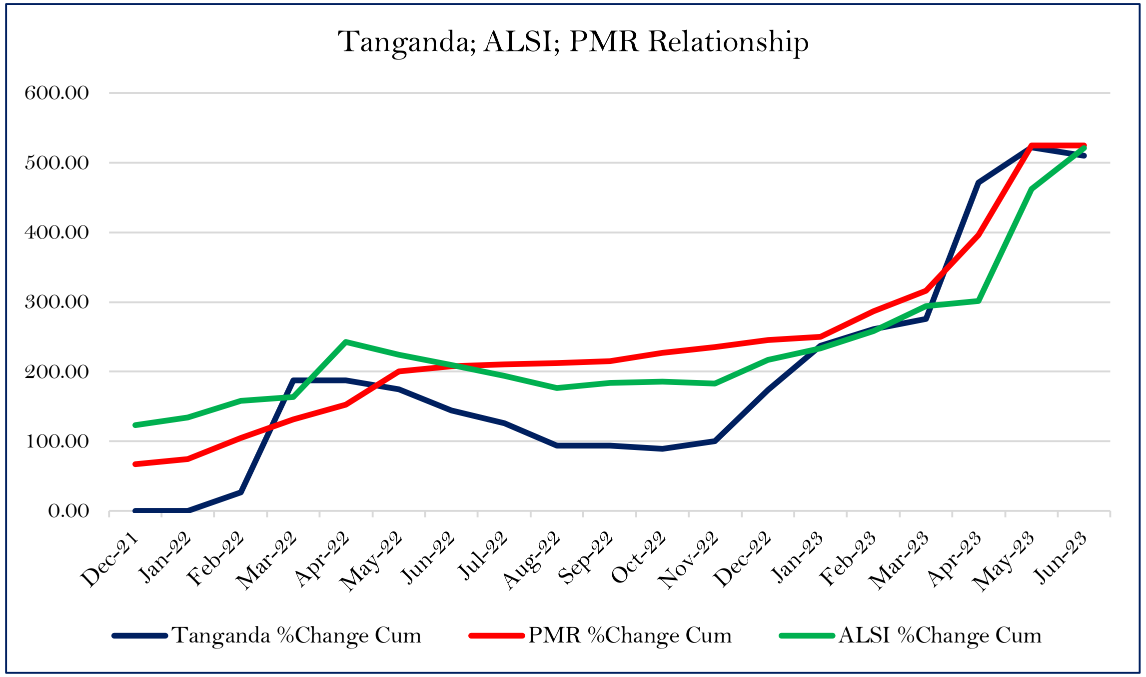



***Source: ZSE; FBC Securities Research***

- In addition to its varied product offering and expansion drive, OK Zim's highly recognizable brand and market dominance present an investment case for the company.
- The company faces risks of increased competition from informal stores that offer discounted USD prices and cheap imports following the scrapping of import duties. Profit margins are also likely to remain under pressure due rising inflation locally.
- On a cumulative basis, the company share price previously underperformed in comparison to the ZSE All Share Index and parallel market rate movements, however, OK Zim's share price has been on a steady rise, on track to outperform benchmarks. Given the challenges in both the global and local economic environments, we maintain the view that investors should seek to take up positions in defensive stocks such as OK Zim. The company has also paid out consistent dividends which is beneficial in times when capital gains are depressed

# 3. Tanganda Tea Company

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Discretionary** |
| Price (US$) 30- June 2023 | 0.21 |
| Market cap (US$ mln) | 55.07 |
| NAV/ share (US$) | 0.04 |
| PER (x) | 8.20 |
| Forward PER (x) | 7.13 |
| Price/NAV | 5.56 |
| Dividend Yield | 2% |
| EV/Share (US$) | 0.21 |

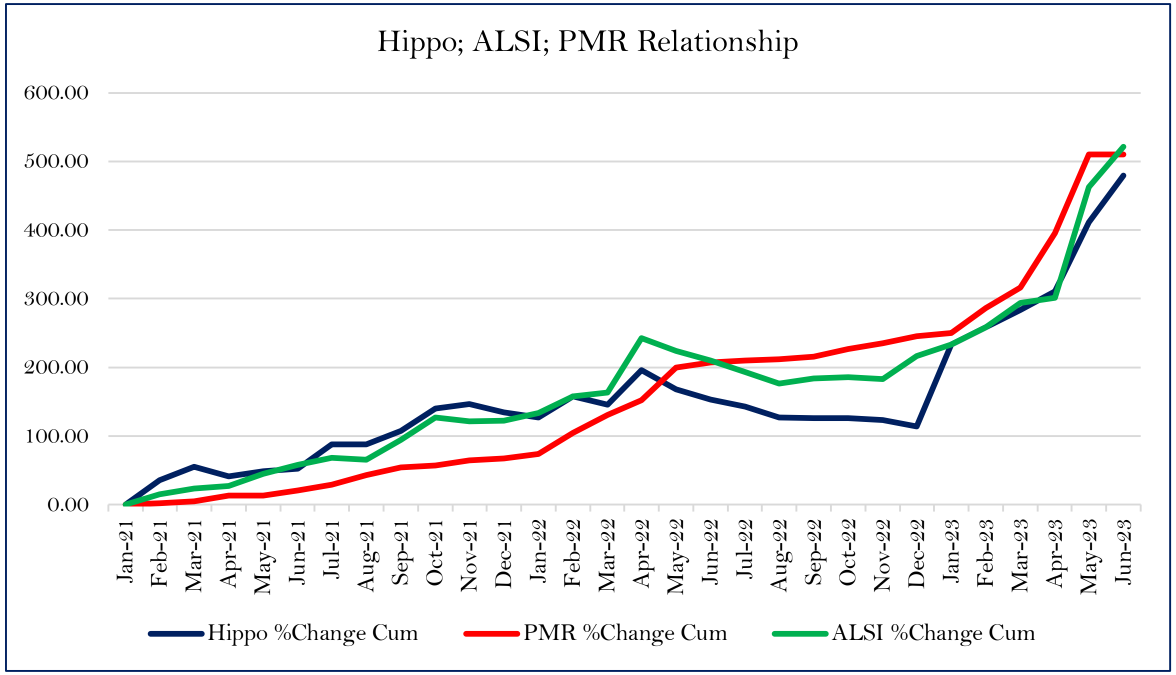



***Source: ZSE; FBC Securities Research***

- The 2022/23 agricultural season is predicted to have normal to above normal rainfall, boding well for companies operating within the agricultural sector. Tanganda remains the largest producer, packer and distributor of tea in Zimbabwe and has developed the largest hectarage of both macadamia nuts and avocado, becoming the single largest producer of both high value crops in Zimbabwe.
- As the effects of the Covid-19 strain decimate and disturbances from the Russia-Ukraine war cool off, we anticipate an enabling environment for the company's export business.
- Whilst the company share price previously underperformed in comparison to the ZSE All Share Index and parallel market rate movements, that position has since reversed and it is now trading at a premium to the benchmark index, presenting value preservation characteristics in the current inflationary environment.

# 4. Hippo Valley Estates

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.40 |
| Market cap (US$ mln) | 77.13 |
| NAV/ share (US$) | 0.30 |
| PER (x) | 1.68 |
| Forward PER (x) | 1.46 |
| Price/NAV | 1.35 |
| Dividend Yield | 0.8% |
| EV/Share (US$) | 0.42 |

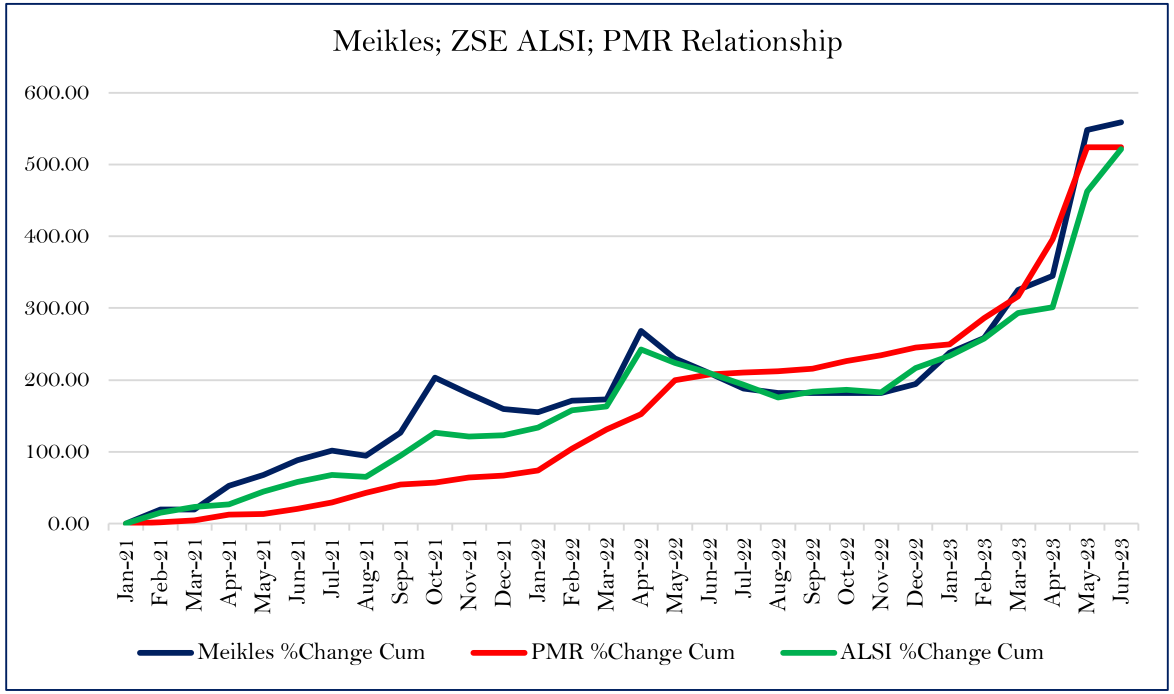



***Source: ZSE; FBC Securities Research***

- Hippo Valley remains a dominant player in the local sugar industry, consistently contributing circa 50% of total industry production and sales. Following the scrapping of import duty on basic commodities announced this year, the company is likely to face sustained competition from cheaper import substitutes in the current year. However we anticipate the import competition penetration to be below 10% of aggregate sugar sales volumes
- We anticipate long term volume growth supported by completion of the Kilimanjaro Project. Production is also expected to benefit from the forecast normal to above normal rainfall in the 2022/23 season.
- Whilst the company share price previously underperformed in comparison to the ZSE All Share Index and parallel market rate movements, the share price has been on a steady rise, on track to outperform the benchmark index.

# 5. Meikles Limited

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.19 |
| Market cap (US$ mln) | 49.79 |
| NAV/ share (US$) | 0.26 |
| PER (x) | 1.00 |
| Forward PER (x) | 0.91 |
| Price/NAV | 0.73 |
| Dividend Yield | 13% |
| EV/Share (US$) | 0.06 |



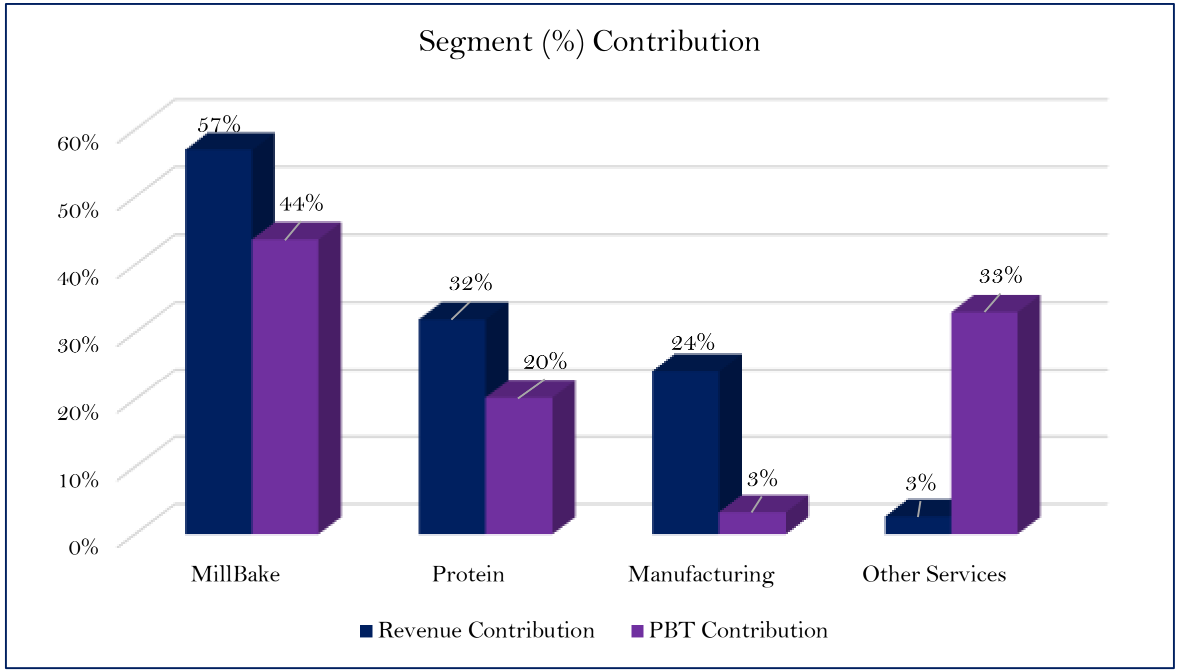

***Source: ZSE; FBC Securities Research***

- Coming off the Covid-19 pandemic, the local tourism sector has been showing signs of recovery, with this recovery expected to continue in the second half of the year. The company's hospitality segment registered growth in both room occupancy and revenue per available room in the third quarter to December 2022.
- The retail industry is expected to benefit from anticipated growth in the local agricultural, mining and construction sectors. We however note the risks to economic growth and consumer incomes including ongoing power supply challenges, inflation and exchange rate volatility.
- The company share price has largely outperformed the ZSE ALSI and parallel market rate movements. Given the need for value preservation against continuous depreciation of the local currency, in a market where efficient hedges are limited, Meikles has demonstrated value preservation characteristics over the long term.

# VFEX TOP PICKS

# 1. Innscor Africa Ltd

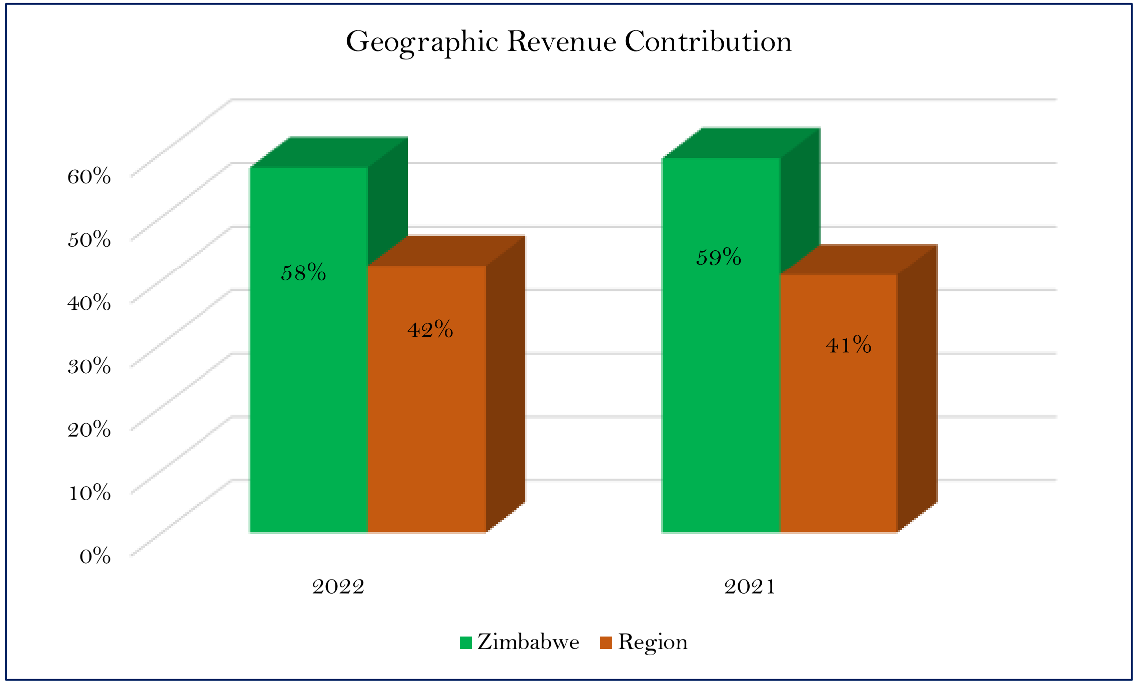
| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.45 |
| Market cap (US$ mln) | 257.22 |
| NAV/ share (US$) | 0.36 |
| PER (x) | 2.82 |
| Forward PER (x) | 2.25 |
| Price/NAV | 1.24 |
| Dividend Yield | 3% |
| EV/Share (US$) | 0.49 |




- The FMCG sector is expected to remain resilient in face of economic uncertainty in the medium to long term. The group also benefits from its ability to pass inflation through to its customers, thus enabling the company to defend margins in times of rising inflation.
- Innscor is well positioned to navigate challenges presented by an uncertain global outlook and complexities in the local environment due in part to its diversified product offering.
- The Group has highlighted its focus on its investment pipeline in the current year, to the tune of US$56 million. The company will benefit from these projects through world class technologies and processes that will introduce significant volume capacity, exceptional product quality and manufacturing cost efficiency.

# 1. Simbisa Brands

| MARKET DATA | |
|---|---|
| **Sector** | **Consumer Staples** |
| Price (US$) 30- June 2023 | 0.38 |
| Market cap (US$ mln) | 213.69 |
| NAV/ share (US$) | 0.08 |
| PER (x) | 9.40 |
| Forward PER (x) | 8.18 |
| Price/NAV | 4.23 |
| Dividend Yield | 2% |
| EV/Share (US$) | 0.37 |




- Simbisa Brands has established itself as a market leader locally and continues to dominate the local space.
- The Group remains on a growth trajectory, highlighting further expansion plans, both locally and regionally. The Group expects to open a further 49 stores, increasing its store count to 680 stores. We expect the increased store count and improved trading hours as business activity normalizes post Covid-19 to feed into revenue growth for the Group.
- Additionally, we expect envisaged growth in key economic sectors such as mining, agriculture and construction industries to translate to improved consumer disposable income, albeit limited by resurgent inflation and currency volatility.

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