



FBC Securities (Private) Limited

(Registered Stockbroker) - Member of the Zimbabwe Stock Exchange
You Matter Most

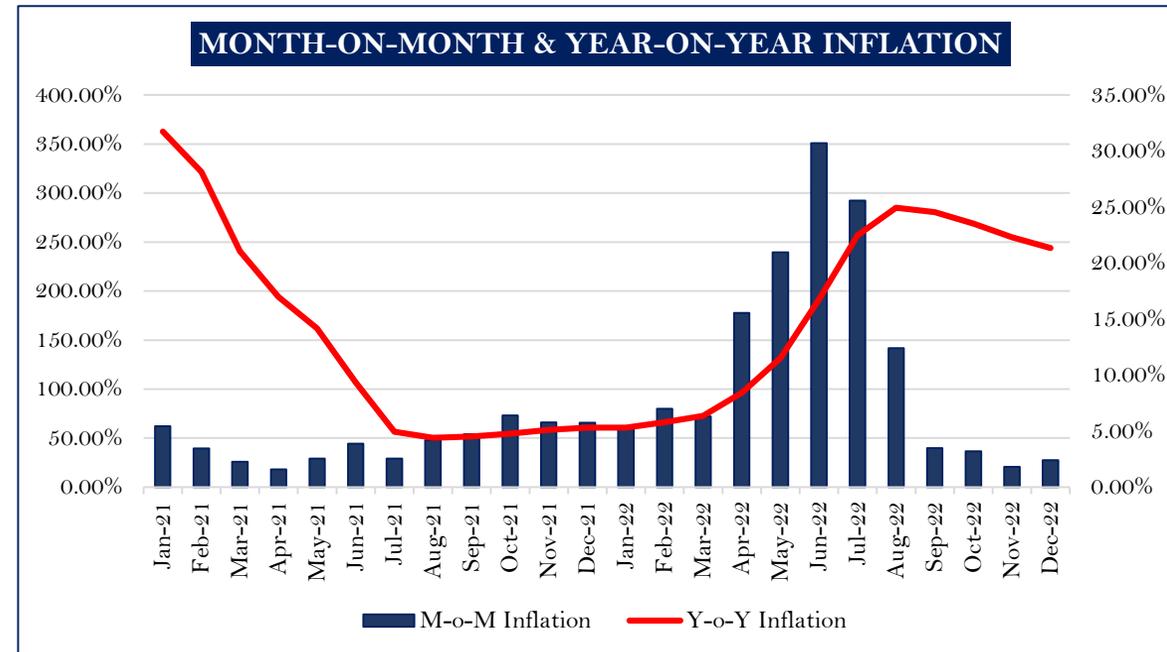
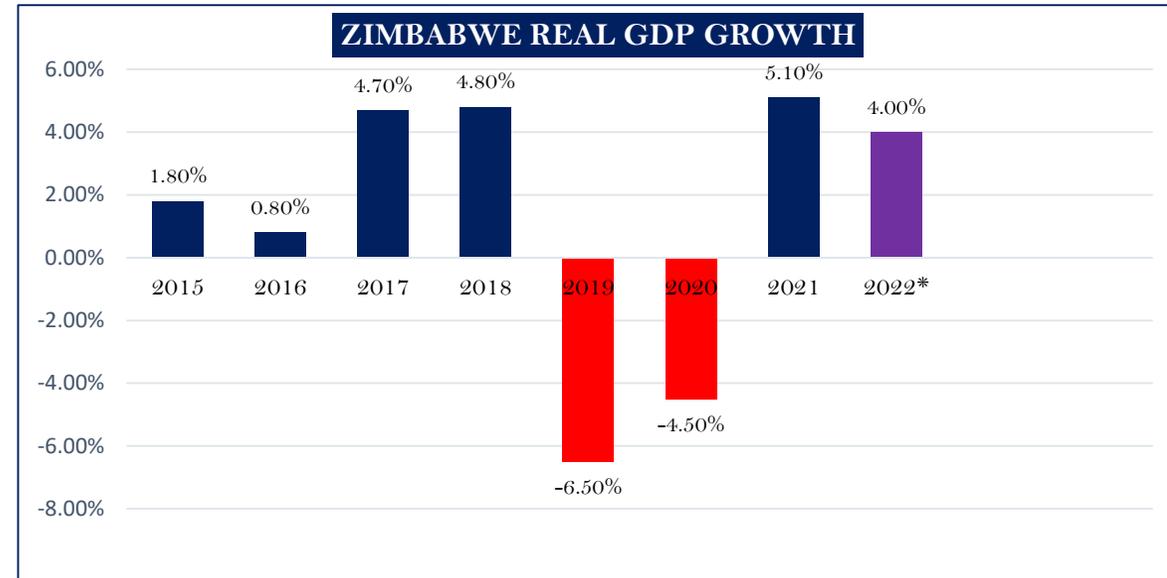
2023 ECONOMIC OUTLOOK

**Global headwinds & contractionary
measures to moderate growth**



2022 OVERVIEW

- Global economic activity experienced a broad-based slowdown in 2022. Elevated cost of living, tightening financial conditions, Russia's invasion of Ukraine and the lingering Covid-19 pandemic continued to weigh on the global economic outlook, driving fears of recession.
- Locally, unfavorable agricultural conditions and price instability constrained economic activity, with government revising growth projections from 4.6% to 4% for the year. The World Bank has projected growth of 3.4% while the International Monetary Fund projected growth of 3%.
- Inflation rates rose across the world, with central banks across the globe hiking interest rates in a bid to tame inflation. Many factors including supply chain disruptions amid increasing demand and the war in Ukraine contributed to soaring inflation.
- Rising inflation locally was believed to be a result of excess liquidity from payments on overpriced government contracts and cheap bank loans taken for speculative activities in currency and stocks. Annual inflation peaked at 285% in August, before decelerating and closing the year at 244%. Month-on-month inflation during the year reached its highest in June at 31%, and closed the year at 2%.
- Resultantly, government instituted a plethora of measures, including the decision to suspend payments to some contractors and increased the bank policy rate and medium-term lending rate to 200% and 100%, respectively. The Central Bank has highlighted intentions to maintain its tight monetary policy stance to keep a grip on inflation and exchange rate movements.
- The official exchange rate depreciated 530% during the year, from US\$1: ZWL108.666 to ZWL684.3339. On the alternative market, the local currency depreciated 367% from US\$1: ZWL210 to ZWL980 during the year.
- Government projected economic growth of 4% in 2022, a downward revision from initial 4.6% projection. Government's growth projection was above the IMF and World Bank projections of 3% and 3.4%, respectively. While the country still faces growth restricting factors, such as high cost of borrowing, liquidity constraints, policy missteps and perennial power shortages, positive developments in the mining and tourism sectors mean positive outturn remains a possibility.

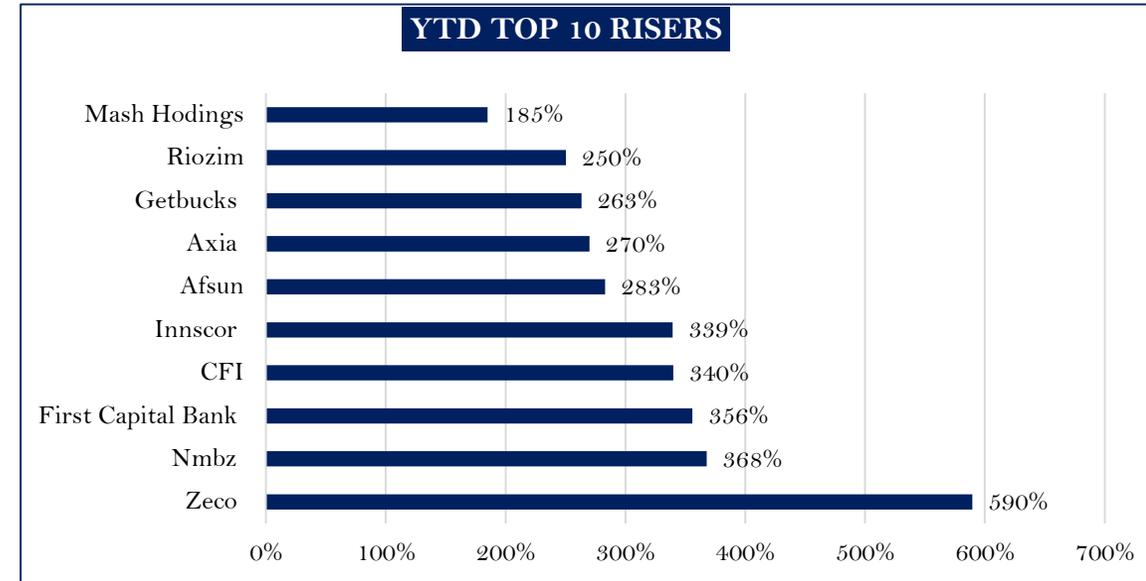


Sources: RBZ; MoFED; ZIMSTATS; FBC Securities Research

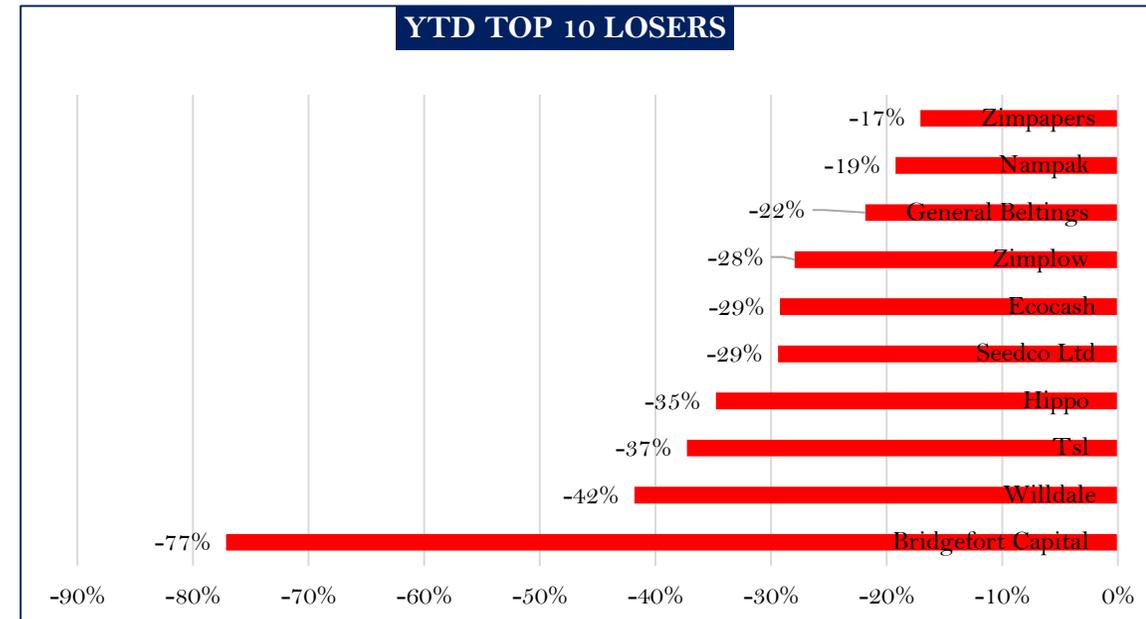
2022 OVERVIEW

STOCK MARKET OVERVIEW

- Following a rather impressive run in the first quarter of 2022, stock market performance came under pressure as liquidity constraints and the consequences of government's efforts to tame inflation weighed on the market. The ZSE All Share Index advanced 80% year-on-year, against annual inflation of 244% and significant currency devaluation. The bearish sentiment presented opportunities for portfolio reconstruction and accumulation of quality stocks at discounted prices.
- Improved foreign currency generation especially by counters involved in consumer staples, tourism and hospitality, agricultural exporting and mining companies has been encouraging and saw a number of counters making dual dividend payments in both local currency and USD.
- Issuer appetite on VFEX continued to grow as the bourse gained momentum owing to inherent government incentives and other value opportunities. By the end of the year, the bourse had seen a number of new listings, including migration of Simbisa and National Foods from ZSE to VFEX, Nedbank ZDRs and the Karo Bond.
- The Victoria Falls Stock Exchange has been largely stable as it has not been susceptible to abrupt policy changes compared to the Zimbabwe Stock Exchange. Foreign currency capital raising, export retention, lower fee structure and brand positioning have been instrumental in attracting issuer demand on the VFEX platform.
- Whilst liquidity challenges have been prevalent, with generally depressed activity levels, the bourse is poised for increased activity owing to the growing number of listings on the horizon. The VFEX remains a viable option for investors with USD liquidity, offering attractive returns in a more stable currency than the local ZWL. The exchange offers a 5% withholding tax on dividends and no capital gains tax on share disposal, meaning shareholders are able to retain more of their earnings, compared to the situation prevailing on the ZSE. This coupled with an anticipated increase in the flow of USD in the formal economy, we anticipate improved performance of the bourse in 2023



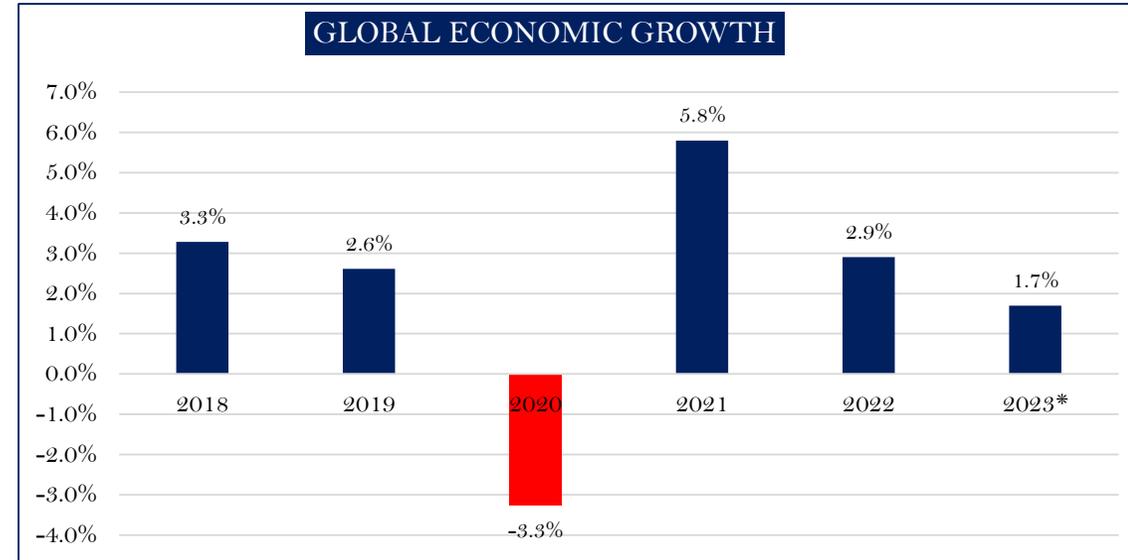
Source: ZSE; FBC Securities Research



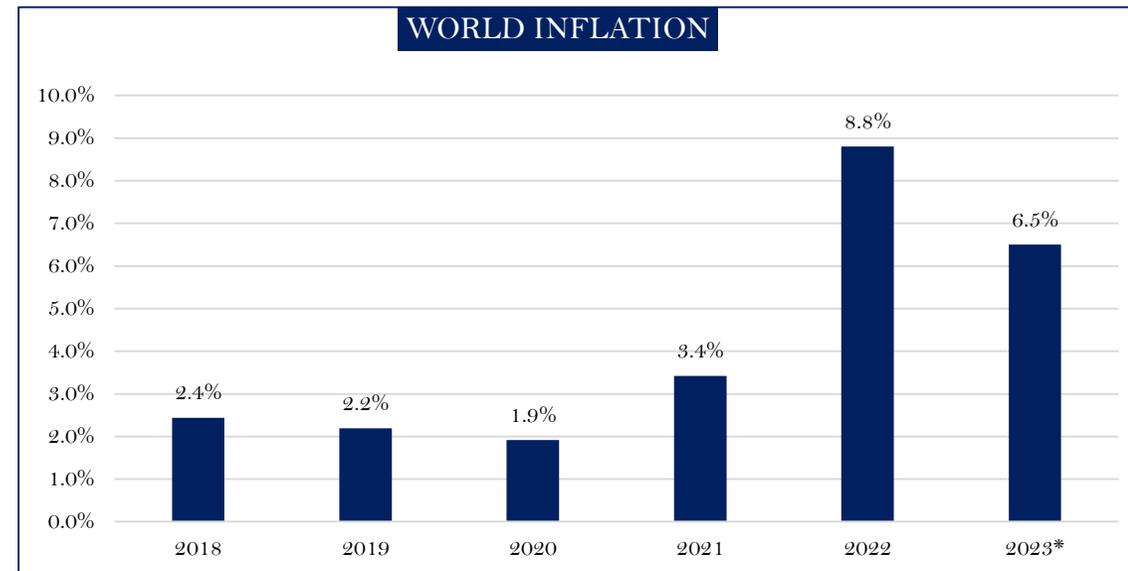
Source: ZSE; FBC Securities Research

2023 GLOBAL ECONOMIC OUTLOOK

- Global economic growth is expected to slow sharply due to elevated inflation, higher interest rates, reduced investment and disruptions caused by the Russia-Ukraine war. On the other hand, China's reopening and anticipated economic growth could provide a boost for global economic activity. The World Bank and IMF have cut down global growth projections for 2023 to 1.7% and 2.7%, respectively.
- Almost a year later, Russia and Ukraine are still at war. The Russian invasion of Ukraine started on February 24, 2022, casting further uncertainty on the global economic outlook as well as exacerbating existing supply chain concerns. Conflict between the countries is expected to ramp up in 2023 as the key warring parties are all postured for decisive escalation.
- **China:** Widespread, prolonged lockdowns aimed at containing the Covid-19 pandemic restricted economic activity in 2022. China is expected to experience an acceleration in activity this year as pent-up demand is released. Normalization of the Chinese economy will be instrumental in easing supply chain disruptions and easing inflationary pressures in 2023.
- **UK:** The International Monetary Fund's outlook for the UK economy includes contracted output and elevated inflation. Further rate increases are expected this year, however, which will likely result in a drop in spending and investment, easing inflationary pressures.
- **US:** Rising prices and higher borrowing costs have prompted consumers and businesses to curb spending, resulting in lower aggregate demand. Economic growth is projected fall to 1% in 2023. The Federal Reserve is expected to hike interest rates to a peak of 5%-5.25% in continued efforts to tame inflation.
- **Sub-Saharan Africa:** The World Bank has projected growth of 3.6% for the region in 2023, as it expects most economies to suffer from the effects of economic influences outside the region's control.



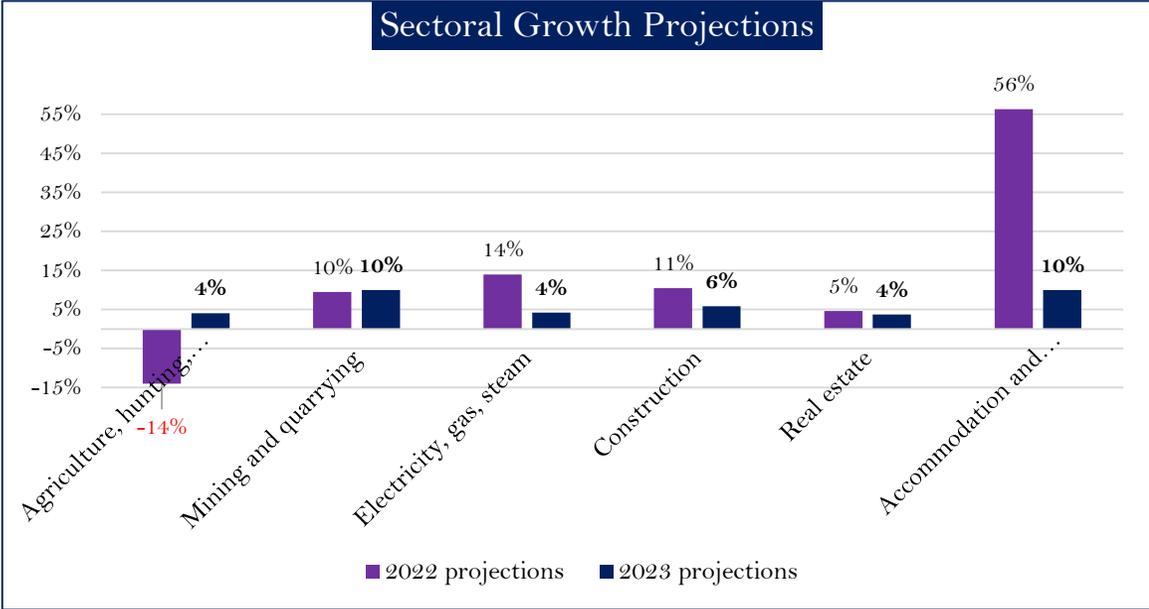
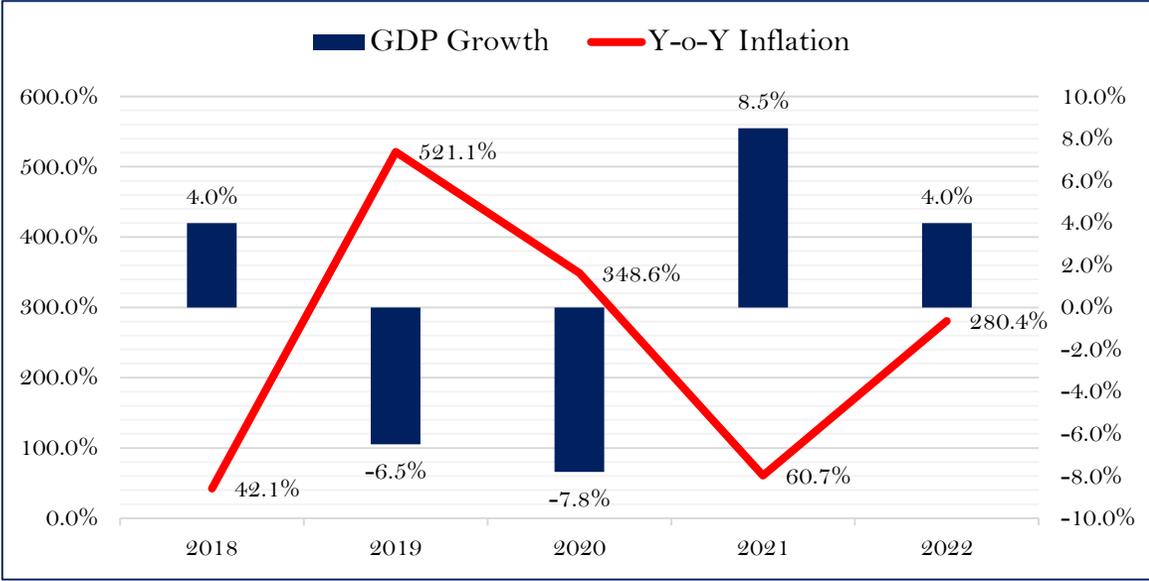
Source: worldbank.org



Source: worldbank.org; imf.org

2023 LOCAL ECONOMIC OUTLOOK

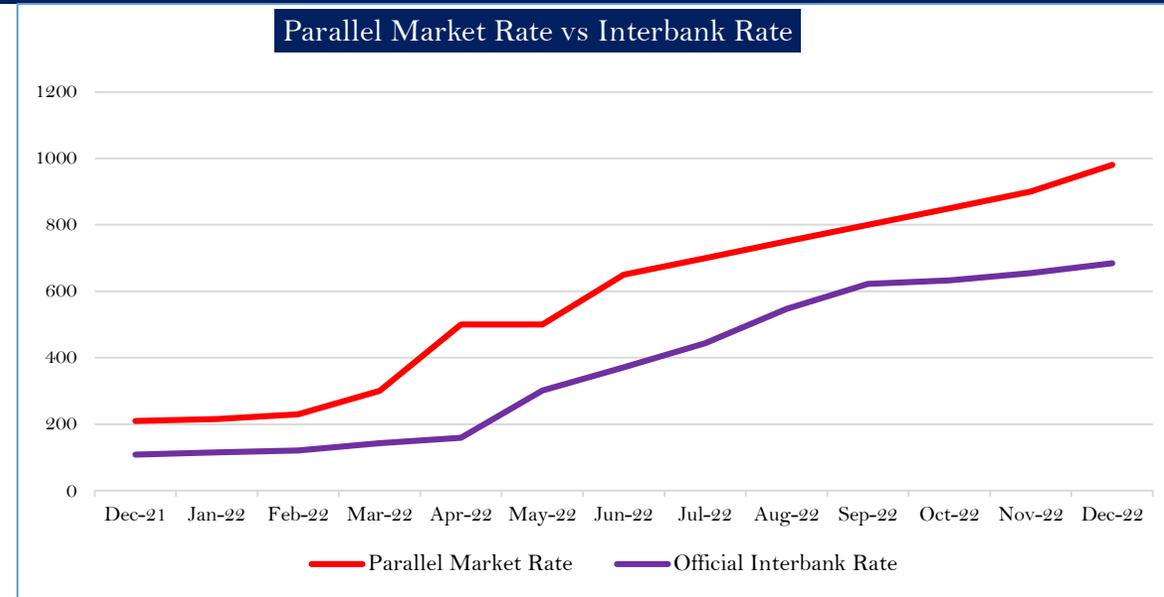
- Government projected GDP growth of 3.8% in 2023, a deceleration from 4% in 2022, on account of the uncertain global economic outlook and potential adverse domestic factors. Growth in 2023 is expected to be sustained mainly by mining, construction and agriculture, as well as accommodation sectors.
- The mining sector is expected to grow by 10.4% underpinned by anticipated favorable international mineral prices, as well as increase in investments. Government is working to strengthen the governance framework for the mining sector in order to improve confidence and investment in the sector. China's anticipated increase in economic activity in 2023 will likely bode well for global commodity prices, however, demand concerns remain prevalent as economies grapple with elevated inflation and increasing borrowing costs.
- Global tourism is expected to rise by circa 30% in 2023 as travel normalizes post-Covid. Elevated fuel costs, labor shortages and inflation, all contributing to increased cost of travel, may be restrictive factors in the recovery of global tourism. The local tourism sector is set to benefit from recovery in international tourism, coming in of new players in the aviation sector and meetings, incentives, conferences and exhibitions.
- Growth of the agricultural sector in 2023 is projected at 4%. The projected positive agriculture growth for 2023 is based on the normal to above normal rainfall forecast, climate proofing measures under the National Accelerated Irrigation Rehabilitation Programme, as well as the restructuring and transformation of agriculture systems to improve the viability and productivity of the sector.
- By the end of 2022, the country's agricultural sector was already showing promising signs for the 2022/23 season with just over 465 700ha of maize planted by mid-December, compared with just over 215 480ha by mid-December in 2021. The sector is poised for favorable performance in the current season owing to projections of above normal rainfall and access to government and private inputs.



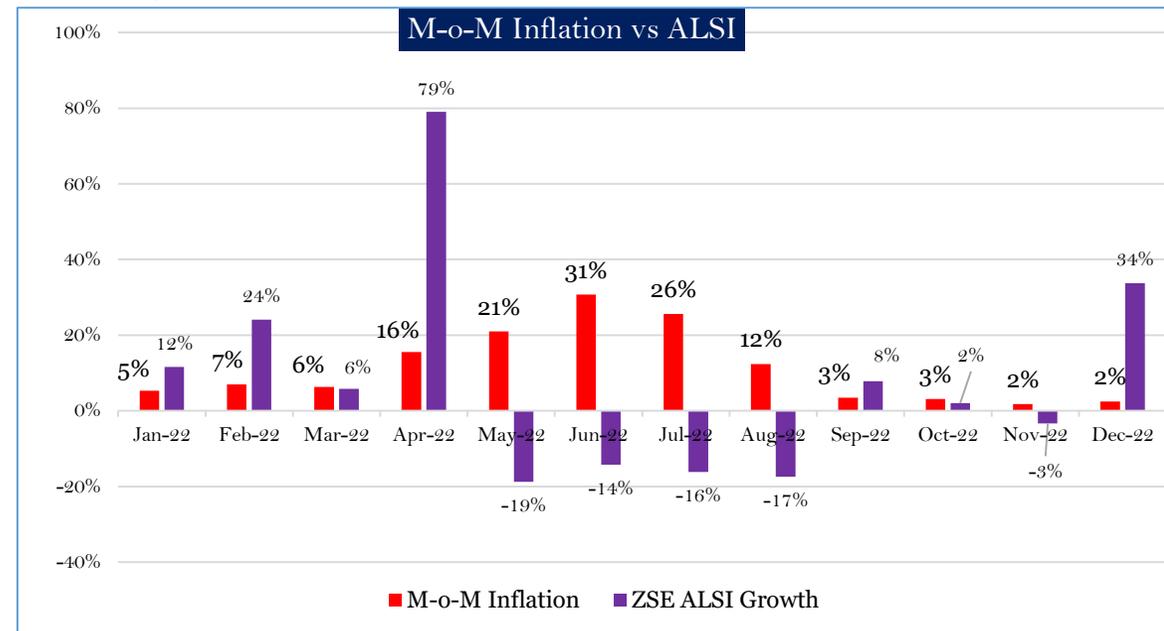
Sources: RBZ; MoFED; ZIMSTATS; FBC Securities Research

2023 LOCAL ECONOMIC OUTLOOK Cont..”

- Government set a month-on-month inflation target rate of between 1%-3%. Government expects inflation to continue to slow down to double digits, underpinned by assumptions of continued tight monetary and fiscal policy stance, stable foreign exchange market, strengthened government procurement processes, mopping up of excess liquidity and stable global commodity prices.
- Global inflation shocks resulting from geopolitical tensions, rising food and energy prices as well as supply chain disruptions present downside risks to the inflation outlook. Ahead of the 2023 harmonized elections and higher spending to fund the 2022/23 farming season, there is likely to be pressure on money supply, which if not carefully managed may trigger inflation and exchange rate volatility.
- Whilst the gap between official and parallel market rate had narrowed from circa 500% to less than 15% towards the end of the year, devaluation of the local currency on the parallel market accelerated over the festive season, with some vendors quoting rates of US\$1: ZWL1,000 compared to the official interbank rate of ZWL\$684.3339 at the end of the year.
- The ZSE experienced an extended period of subdued performance last year, with a number of counters trading at a discount to their fair values. Ahead of 2023 and the envisaged growth in key economic sectors, businesses are likely to benefit from improved consumer disposable incomes and better accessibility of foreign currency.
- The VFEX also remains a viable option for investors with USD liquidity, offering attractive returns in a more stable currency than the local ZWL. The exchange offers a 5% withholding tax on dividends and no capital gains tax on share disposal, meaning shareholders are able to retain more of their earnings, compared to the situation prevailing on the ZSE.
- We anticipate a general bullish sentiment to prevail on the stock market, however, gains may be moderated by inflation tightening measures that may limit availability of liquidity. We believe investors should consider companies with diverse business models, inflation hedging capabilities and foreign currency generation capacity, in the counter selection process.

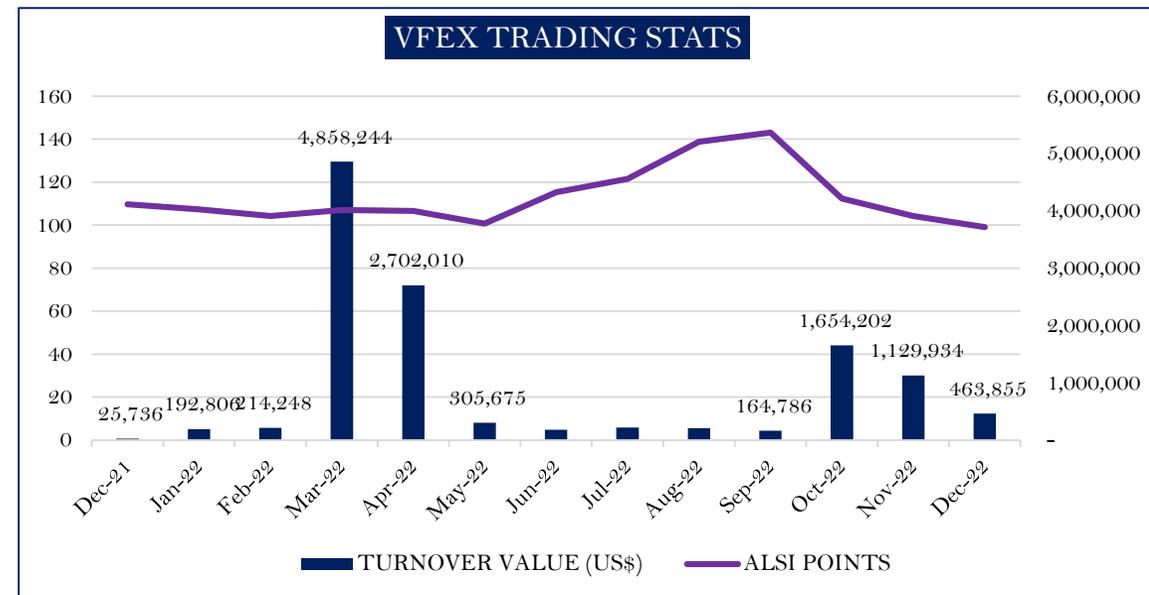


Source: RBZ; FBC Securities Research

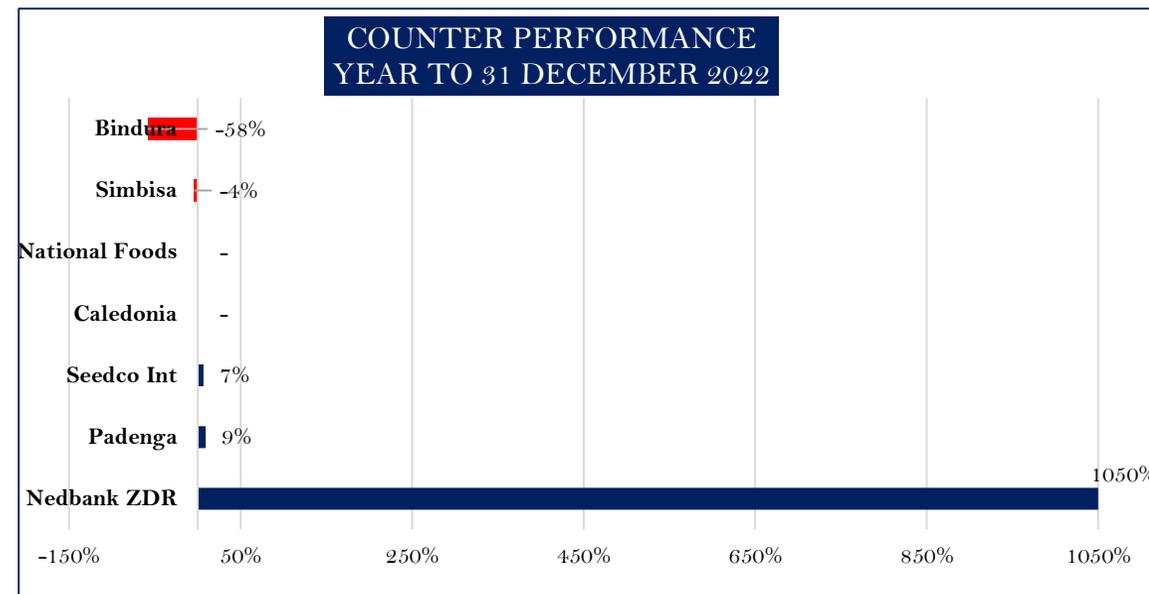


VFEX MIGRATIONS

- There has been a notable increase in interest in the VFEX, both from an issuer and investor perspective.
- Whilst the local currency denominated ZSE has faced challenges in the last year including high transaction costs and acute regulation, the VFEX has remained largely stable as it is has not been susceptible to abrupt policy changes and currency volatility.
- VFEX was launched in 2020 as part of efforts to attract global capital, restore foreign investor confidence in Zimbabwe’s capital markets and assist companies raise foreign currency capital. The bourse has experienced rapid growth in recent months and apart from attendant value opportunities, policy arbitrage has also been pivotal in attracting migrations .
- The VFEX platform offers a number of incentives, including tax exemptions on capital gains and the ability to repatriate funds which has been a challenge in previous years. Investors participating on the VFEX benefit from the ability to move capital and dividends freely, low transaction costs, tax incentives and minimal currency risks.
- Activity on the bourse increased notably in 2022. This was a function of more listings on the bourse and increased foreign currency liquidity in the formal market, available for trading purposes. Turnover volumes advanced 1,500% year to 31 December 2022, while turnover volumes grew 1,702% from US\$25,736 to US\$463,855. Market capitalization increased 118% over the year from US\$259.7mln to US\$566.0mln.
- By the end of the year 2022, there were 8 counters trading on the bourse, with a handful of pipeline migrations from the ZSE platform. The bourse hosts Padenga Holdings Limited, Caledonia Mining, Bindura Nickel Corporation, Simbisa Brands, Nedbank ZDR’s, Seedco International, National Foods and the Karo Bond.
- As more companies’ foreign currency generation improves, especially those involved in consumer staples, tourism and hospitality, agricultural exporting and mining companies, we anticipate more listings on the VFEX in the current year (2023). Axia Corporation and Seedco Limited are among the companies that have expressed interest in migrating to the VFEX early this year.



Source: VFEX; FBC Securities Research



Source: VFEX; FBC Securities Research

2023 Top Picks– Value Drivers



**Business Model
Diversity**



**Foreign Currency
Generation Capacity**



**Product Monopoly
Power**



Counter Liquidity



Dividend Prospects



**Fundamentals/ Intrinsic
Valuations**



**Product Susceptibility to
Policy Risk**

1. DELTA CORPORATION

The business' ability to generate USD income insulates the company against local currency value and inflation shocks. The group is set to address production capacity constraints that have restricted the supply of lager and sorghum beers by installing and commissioning new production plants within the first half of the year.

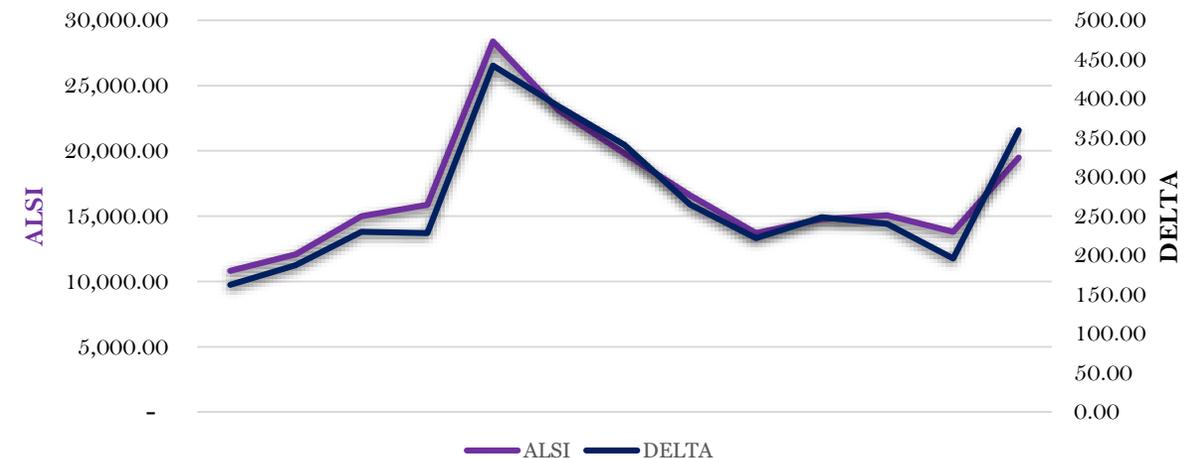
VALUE DRIVERS

KPI	Comment
Inflation hedge	Inflation proofing through flexible pricing & dual pricing (USD & ZWL)
Forex generation capacity	Natbrev Zambia & United National Breweries (South Africa)
Dividend prospects	Consistent and predictable dividend pay-out (USD Dividend)
Counter liquidity	Highly liquid
Growths prospects	High in regional markets
Product market structure	Monopolistic
Strengths	Extensive distribution network
Weaknesses	Import dependency on raw materials (glass packaging)
Opportunities	Regional expansion
Threats	Changes in consumer behaviour (health concerns)
Other Value propositions	<ul style="list-style-type: none"> All year round product Mature company with dominant market share across all segments Good capacity investment

MARKET DATA & VALUATIONS

Sector	Consumer Staples
Price (ZWL\$) 31-Dec-22	359.77
Shares in Issue (bn)	1.30
Market cap (bn)	469.21
NAV per share (ZWL\$)	57.12
P/E (x)	11.51
Earnings Yield	9%

DELTA vs ALSI



2. INNSCOR AFRICA LIMITED

The business is well positioned to weather the challenges presented by a looming recession and increasing inflationary pressures due in part to its diversified product offering. Additionally, the business operates in the consumer staples sector, therefore, demand for its products is largely sustainable even in times of economic hardship.

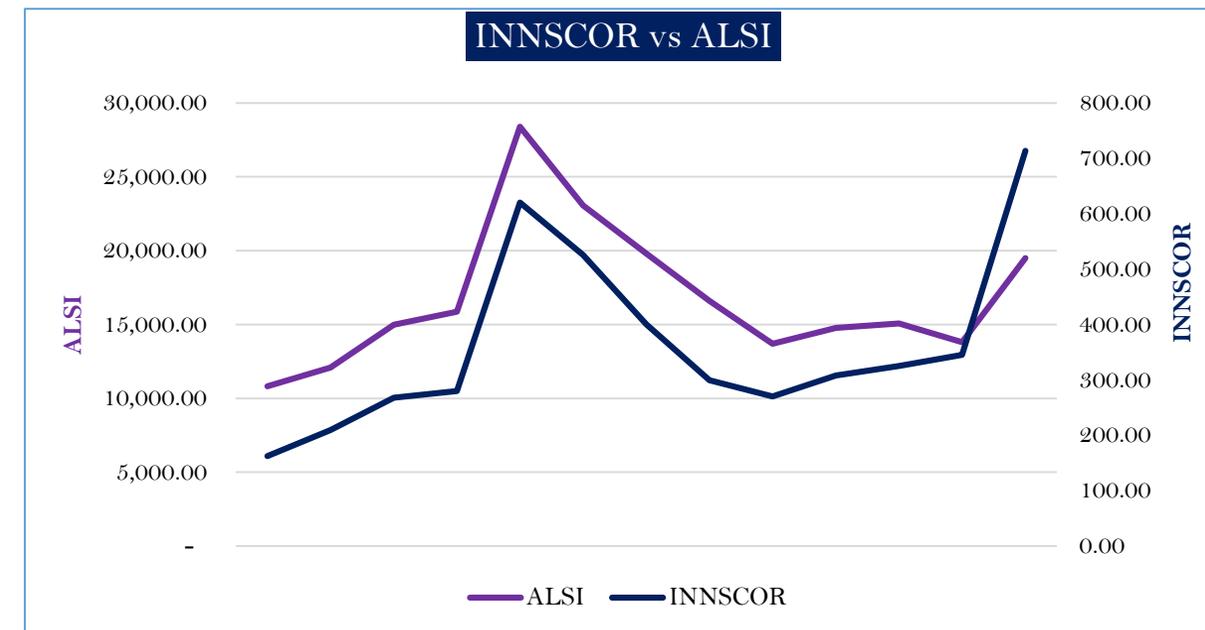
VALUE DRIVERS

KPI	COMMENT
Inflation hedge	Inflation proofing through flexible pricing & dual pricing (USD & ZWL)
Forex generation capacity	Thin
Dividend prospects	Consistent and predictable dividend pay-out
Counter liquidity	Liquid
Growths prospects	High
Product market structure	Monopolistic
Strengths	Synergies across associates and subsidiaries
Weaknesses	Price sensitive products e.g. bread
Opportunities	Optimised operation efficiencies
Threats	Raw materials price increases e.g. wheat and maize
Other Value propositions	<ul style="list-style-type: none"> Consistent stable growth in earnings per share Relatively high and growing net asset value per share Firm organization in terms of liquidity as evidenced by low gearing ratio Organization currently generating its own foreign currency through USD pricing

MARKET DATA & VALUATIONS

Sector	Consumer Staples
Price (ZWL\$) – 31-Dec-22	713.67
Shares in Issue (mn)	569.88
Market cap (bn)	406.70
NAV per share (ZWL\$)	134.83
P/E (x)	12.00
Earnings Yield	8%

INNSCOR vs ALSI



3. ECONET WIRELESS ZIMBABWE

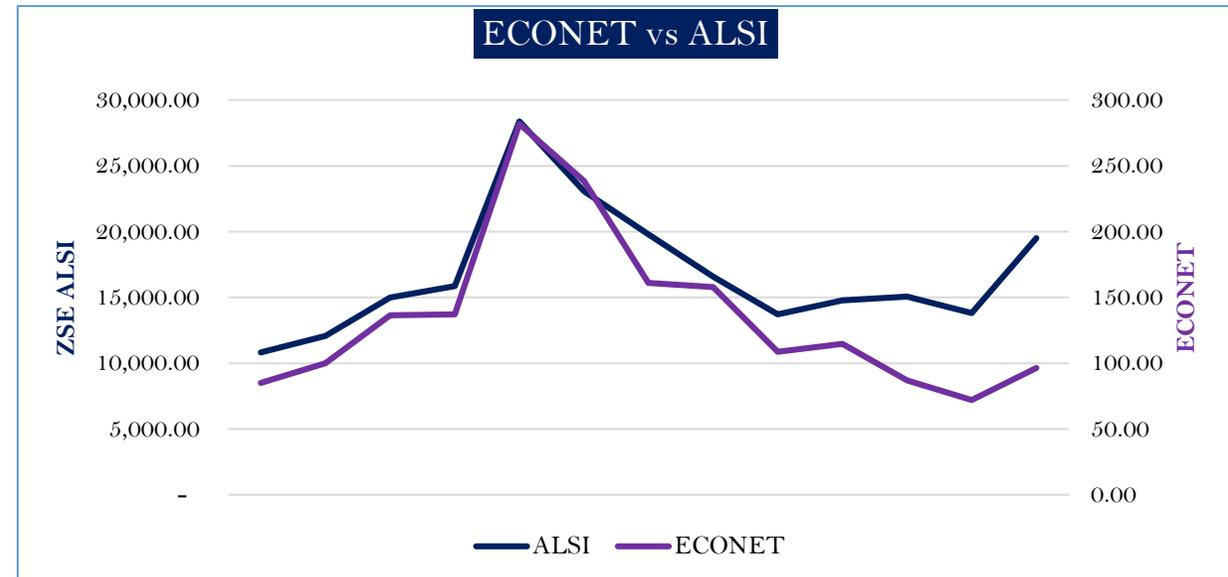
The company has maintained dominant market share and cemented its position as a market leader in the telecoms sector. Econet has also launched the 5G network which will improve customer experience and enhance product offering. The multi-pricing regime will improve foreign currency generation and aid in covering the company's core operational costs from infrastructure and software upgrades that require foreign currency

VALUE DRIVERS

KPI	COMMENT
Inflation hedge	Relatively low due to Potraz Regulation
Forex generation capacity	Thin
Dividend prospects	Consistent and predictable dividend pay-outs
Counter liquidity	Highly liquid
Growths prospects	High through diversification
Product market structure	Monopolistic
Strengths	Massive market share
Weaknesses	Acute regulation (local telecoms industry)
Opportunities	Digitalization growth in other economic sectors
Threats	Relative low barriers to entry from foreign players
Other Value propositions	<ul style="list-style-type: none"> • Robust business model • Good capacity investment • All year round product • Mature company with dominant market share in most product lines

MARKET DATA & VALUATIONS

Sector	Telecommunications
Price (ZWL\$) – 31- Dec-22	96.28
Shares in Issue (bn)	2.59
Market cap (bn)	249.41
NAV per share (ZWL\$)	78.23
P/E (x)	42.41
Earnings Yield	2%

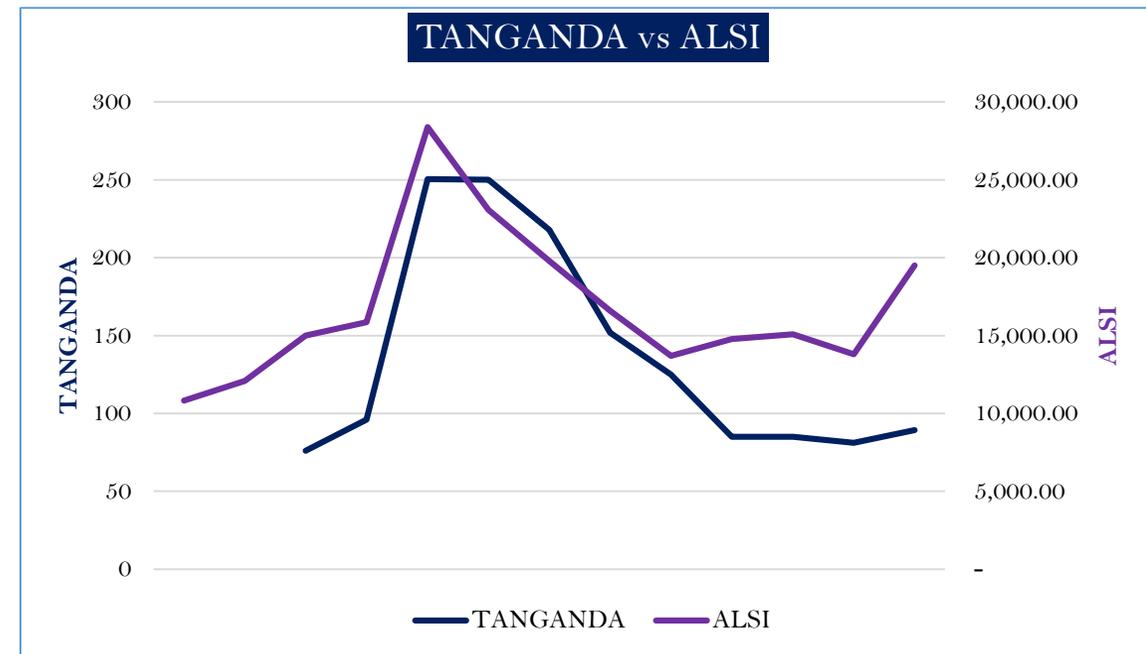


4. TANGANDA TEA COMPANY LIMITED

The business model remains compelling owing to the company's diversified agricultural export business, its tea production monopoly as well as its position as a market leader in the macadamia and avocado business.

VALUE DRIVERS	
KPI	COMMENT
Inflation hedge	Relatively high forex generation capacity
Forex generation capacity	Relatively high
Dividend prospects	Proposed consistent dividend policy
Counter liquidity	Fairly liquid
Growth prospects	High through diversification of agricultural export business and value addition
Product market structure	Monopolistic locally, low import competition strain
Strengths	Large market share
Weaknesses	Business model prone to climate change
Opportunities	Improved cash flow generation from diversification of product operation
Threats	Unfavourable government policies
Other Value propositions	<ul style="list-style-type: none"> • Robust business model • Good capacity investment • All year round products through diversification of product offering • Dominant market share in product lines

MARKET DATA & VALUATIONS	
Sector	Consumer Discretionary
Price (ZWL\$) 31-Dec-22	89.37
Shares in Issue (mn)	261.06
Market cap (bn)	23.33
NAV per share (ZWL\$)	23.58
P/E (x)	5.59
Earnings Yield	18%

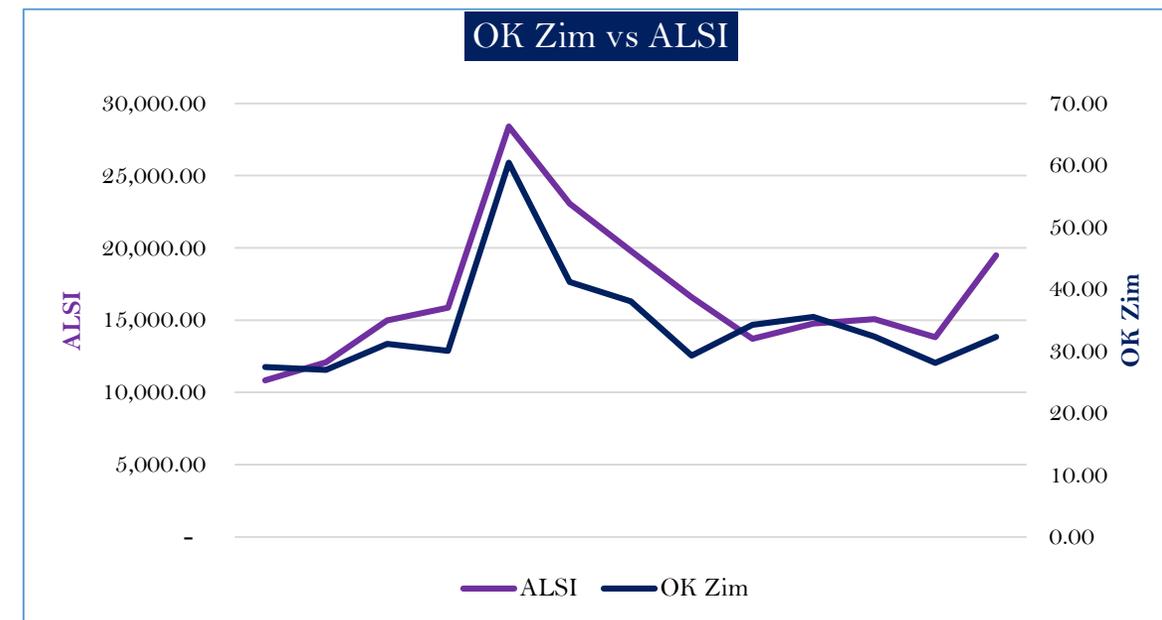


5. OK ZIMBABWE LIMITED

OK Zimbabwe's highly recognizable brand gives the company a competitive advantage on top of its varied product offering and the company's expansion prospects. The group also recently acquired Food Lovers', expanding the Group's reach and portfolio of stores.

VALUE DRIVERS	
KPI	Comment
Inflation hedge	Inflation proofing through flexible pricing
Forex generation capacity	Thin
Dividend prospects	Consistent and predictable dividend pay-out
Counter liquidity	Highly liquid
Growths prospects	High through organic and inorganic growth
Product market structure	Competitive
Strengths	Diverse product offering Large store footprint
Weaknesses	Thin forex generation capacity
Opportunities	Expansion through acquisitions
Threats	Competition from imports and informal stores
Other Value propositions	<ul style="list-style-type: none"> All year round product Mature company with recognisable brand Sustainable demand for product offering

MARKET DATA & VALUATIONS	
Sector	Consumer Staples
Price (ZWL\$) – 31-Dec-22	32.32
Shares in Issue (bn)	1.29
Market cap (bn)	41.60
NAV per share (ZWL\$)	16.94
P/E (x)	19.15
Earnings Yield	5%



6. HIPPO VALLEY ESTATES LIMITED

The duopolistic nature of the sugar industry continues to present organic and stable profit opportunities for the Company, ceteris paribus. Government's openness to engage with industry on the key issues of duty-free imports of sugar and appropriate pricing models will also be key in ensuring that the industry remains viable whilst protecting consumers.

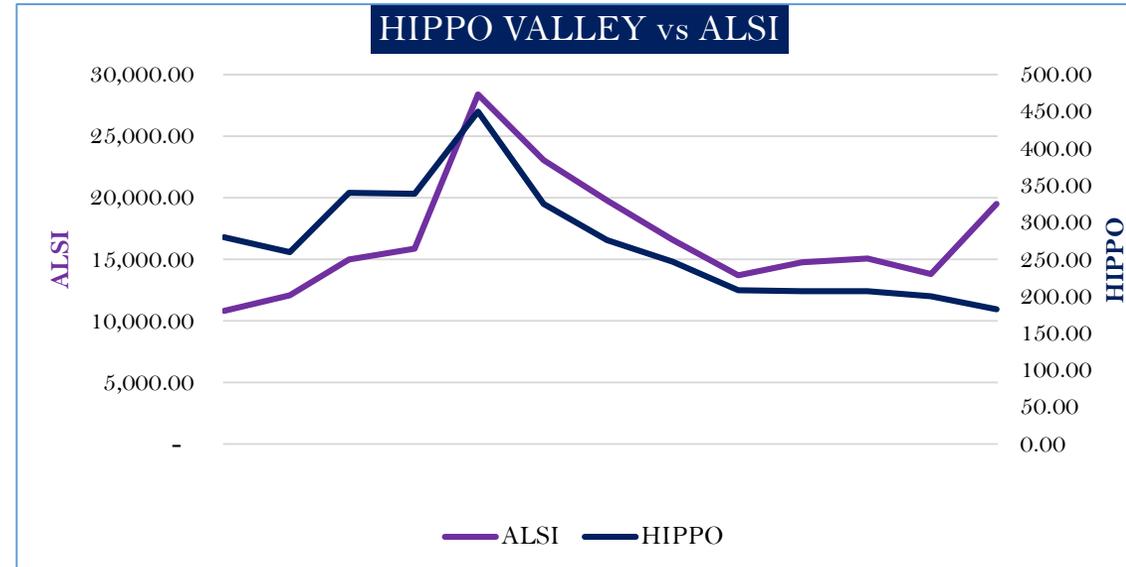
VALUE DRIVERS

KPI	COMMENT
Inflation hedge	Forex generation capacity
Forex generation capacity	High through regional operations
Dividend prospects	Consistent and predictable dividend pay-out
Counter liquidity	Moderately liquid
Growths prospects	High
Product market structure	Duopoly in the Sugar market
Strengths	Monopolistic power
Weaknesses	Few product lines
Opportunities	Growing foreign market
Threats	Government policy
Other Value propositions	<ul style="list-style-type: none"> Potential in regional operations

MARKET DATA & VALUATIONS

Sector	Consumer Staples
Price (ZWL\$) – 31-Dec-22	182.60
Shares in Issue (mn)	193.02
Market cap (bn)	35.25
NAV per share (ZWL\$)	18.22
P/E (x)	1.53
Earnings Yield	65%

HIPPO VALLEY vs ALSI



Research Team

Enock Rukarwa

Enock.Rukarwa@fbc.co.zw

Chiedza Chonzi

Chiedza.Chonzi@fbc.co.zw

Contact Details

Physical Address

2nd Floor Bank Chambers

PO Box 1227

76 Samora Machel Ave

Tel 263 2 797759/797761-69

Harare

Zimbabwe

Website www.fbc.co.zw

Email stockbrokers@fbc.co.zw

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