

# Q3 Report



You Matter Most



**FBC Securities (Private) Limited**

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

# Table of Contents

Global Overview .....	1
Commodities Highlights .....	2
Local Economic Overview .....	3
Stock Market Overview .....	5
Q4 Outlook .....	7
ZSE Top Picks .....	9
VFEX Top Picks .....	13



# Global Overview

## USA

The US economy has been on an upward trend, albeit at a moderate pace. The US economy expanded at an annual pace of 2.1% in the second quarter, showing continued resilience in the face of higher borrowing costs for consumers and businesses.

## EURO-ZONE

The European Central Bank raised its key rate to 4%, in a move intended to return inflation target to 2%. Eurozone growth is likely to be lower than previously expected following subdued activity between January and June. Growth is now projected at 0.8% in 2023, lower than initial projections of 1.1% growth.

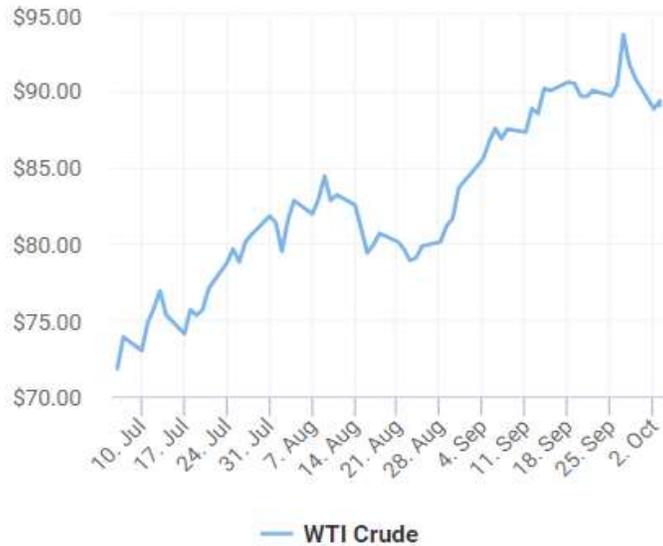
## CHINA

Weaker than expected recovery this year following the country's exit from its zero-Covid policy has increasingly brought fears about the country's economy and growth. The government expects to hit its target of around 5% for 2023.



# Commodities Highlights

## OIL



## GOLD



## COPPER



- OPEC has maintained its forecasts for robust growth in global oil demand in 2023 and 2024.
- The organization cited signs that major economies are stronger than expected. OPEC forecast world oil demand will rise by 2.25 million barrels per day in 2024.

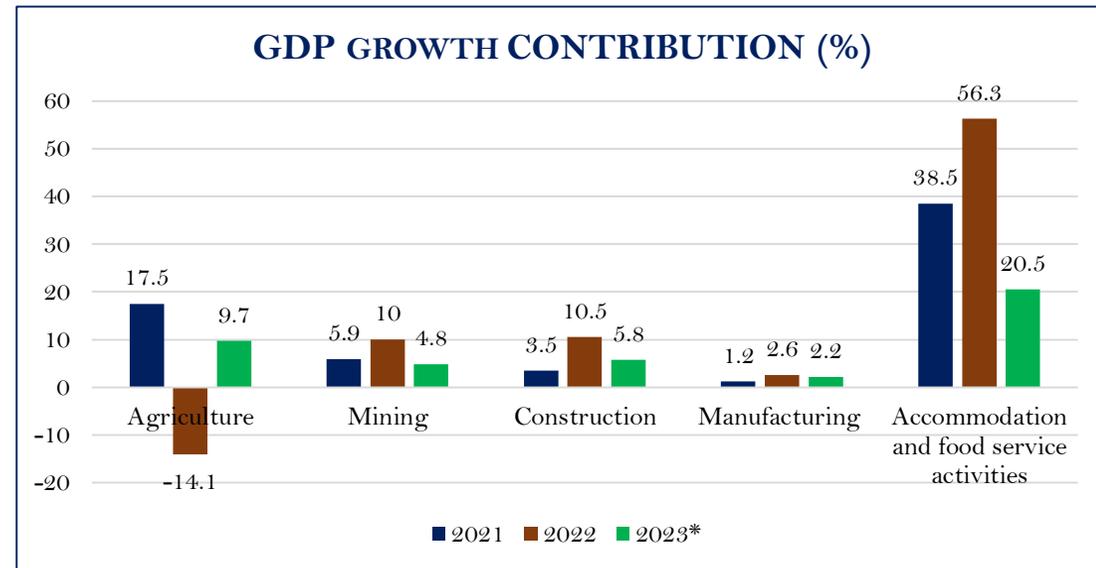
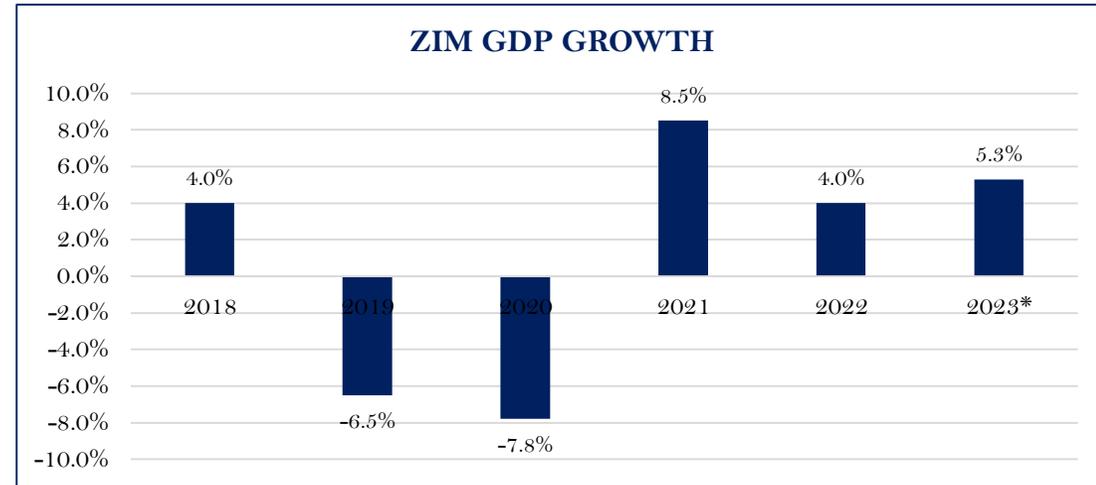
- Gold prices are facing increased downward pressure as expectations for further rate hikes by the Federal Reserve have risen. Officials have stated the need for a restrictive monetary policy in order to bring inflation down to the 2% target

- Supply pressure and tepid demand have contributed to a fall in copper prices this year. Increasing inventories amid slowing global manufacturing and weaker Chinese markets point to uncertainty in the copper market in the medium term.



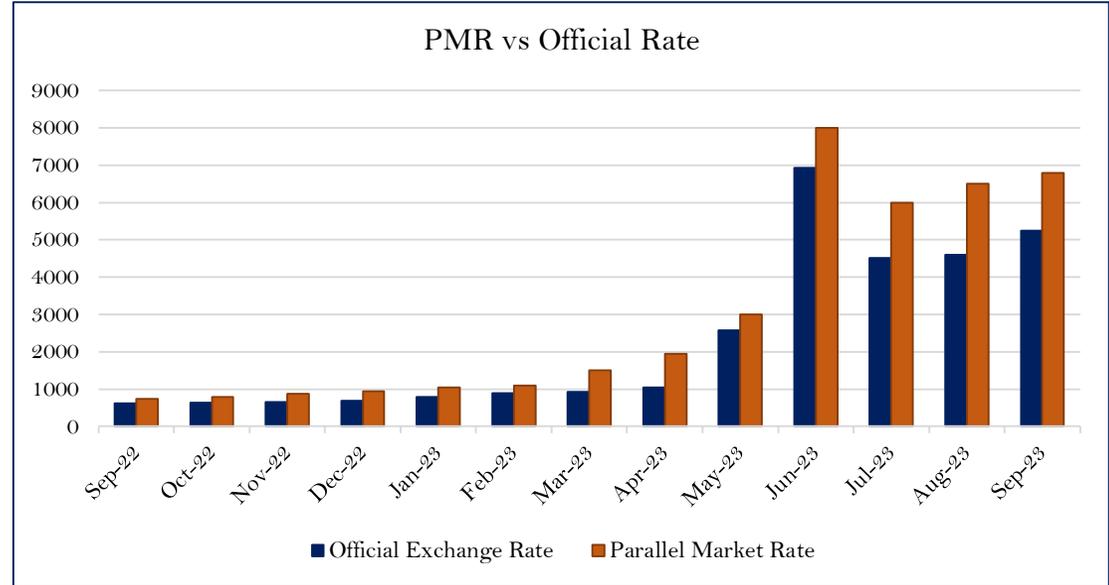
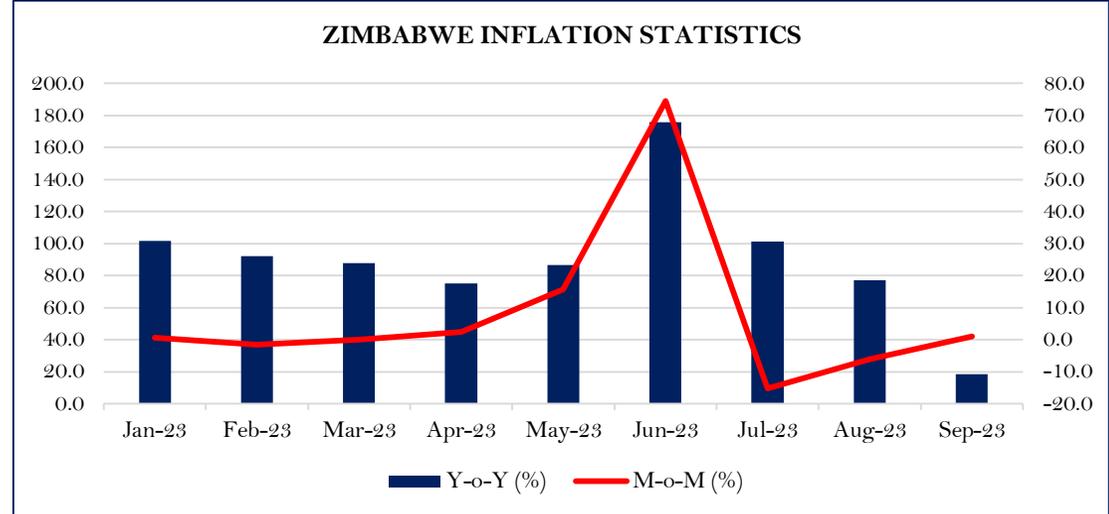
# Local Economic Overview

- Despite a fragile exchange rate and an inflationary environment, authorities have maintained a positive outlook for the domestic economy.
- Growth projections have been upgraded from 3.8% to 5.3% on account of better performance by agriculture, mining, ICT and tourism, supported by expected improvements in electricity generation in the second half of the year. Attainment of durable macroeconomic stability is also expected to spur economic growth above the projected 5.3%.
- For 2023, cereal production, excluding the winter wheat crop, is estimated at 2.6 million tonnes, 40% ahead of levels of production achieved last year. In mining, growth is projected at 4.8%, benefiting from increases in the production of lithium, chrome, diamonds and platinum group metals.
- The manufacturing sector is expected to grow by 2.2%, driven by a better agricultural season and measures implemented by authorities to tame inflation and exchange rate volatility.
- Government projections are notably higher than IMF and World Bank projections of 2.5% and 2.9%, respectively. The country continues to face some downside risks to the growth outlook. In their projections, the World Bank and IMF cited global shocks, structural bottlenecks, and price and exchange rate instability as restrictive factors.



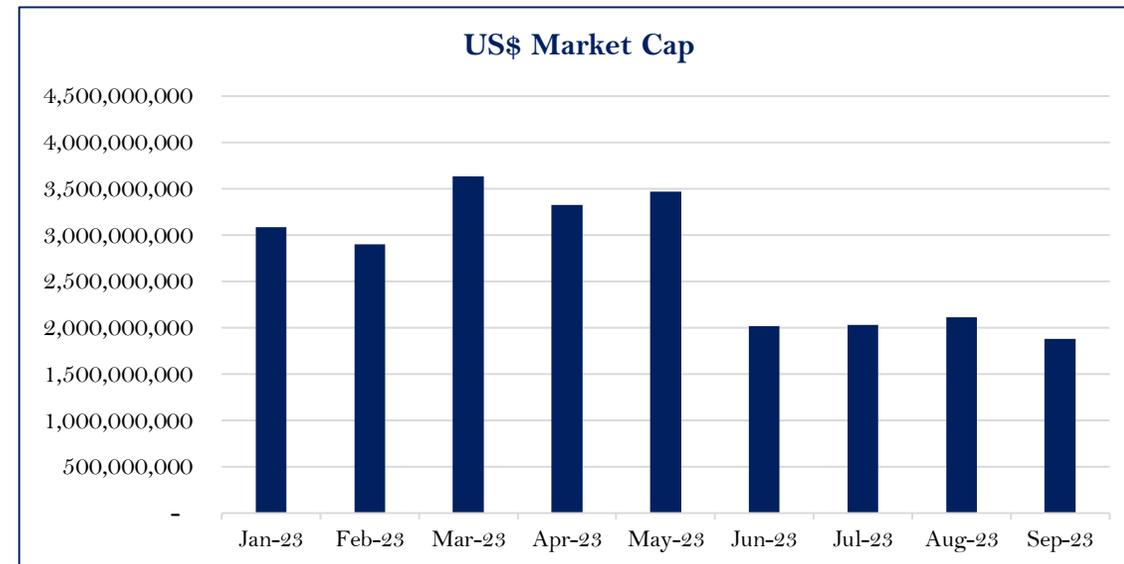
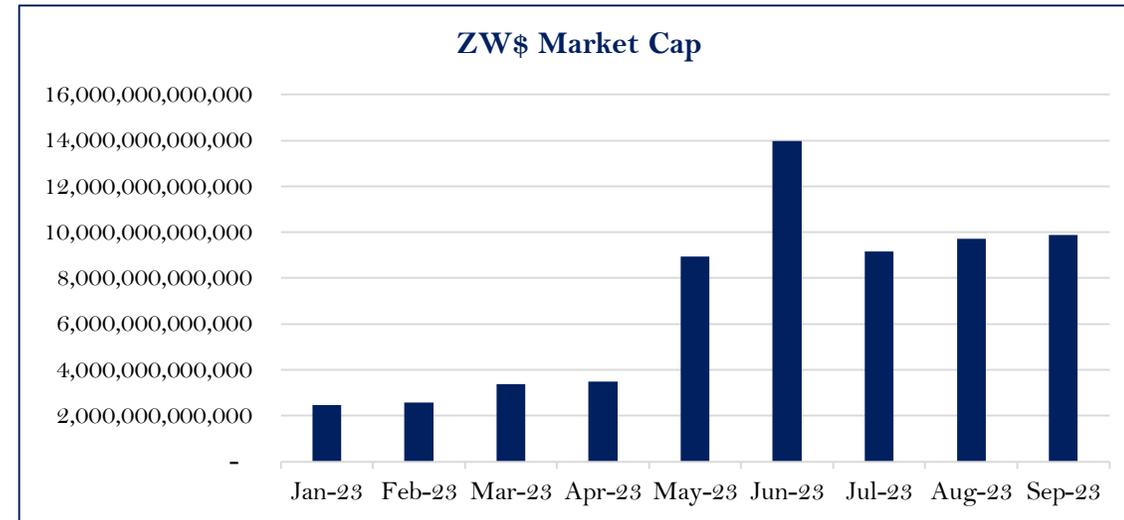
# Local Economic Overview Cont'

- Government measures to anchor inflationary pressures and currency volatility have since impacted positively, as the exchange rate has largely stabilized and inflation continues to slow.
- In the Mid-Term Monetary Policy Statement presented in August, outlining measures to ensure sustainable price and exchange rate stability for the remainder of the year, the Bank reiterated commitment to the tight monetary policy.
- Local inflation figures peaked in June, prompting additional liquidity management efforts by government, ultimately resulting in a broad slow down in inflation.
- Annual inflation slowed down significantly following adoption of an inflation calculation method that captures the dominance of USD transactions locally. Annual inflation fell to 18.4%, compared to 77% reported last month. Monthly inflation moved to 1% in September.
- Authorities expect monthly inflation to continue to moderate in the second half of the year to levels of below 3%. Annual inflation is also expected to continue to decline and end the year between 60%-70%.
- Pressure on the local currency remains elevated, however, particularly as the second half of the year generally coincides with high fiscal spending to support the main summer agricultural cropping season and bonus season.



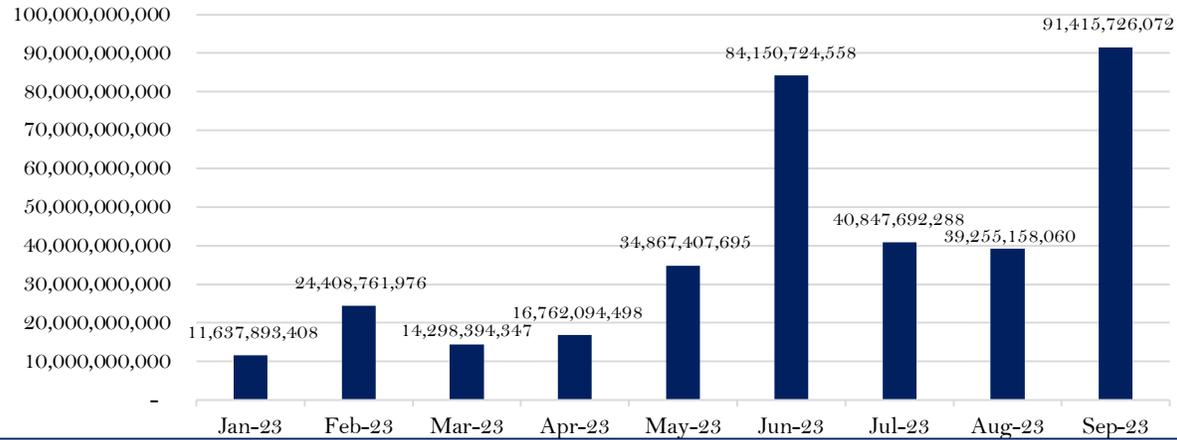
# Stock Market Overview

- Market activity has remained depressed in the current year, hampered by tight liquidity and confidence issues that continue to affect investor sentiment.
- While market capitalization has advanced 383% year-to-date in ZW\$ terms, in USD terms market cap is down 37% between December 2022 and September 2023.
- In its pensions industry report for the half year to 30 June 2023, IPEC reported a decline in quoted equity investments from 40% to 26% of total asset composition for the industry. Investment property has been the dominant asset class, constituting 52% of total assets compared to 38% recorded in the comparable period last year, indicating the industry's investment preference for the asset class.
- The ZSE ALSI advanced moderately in September, adding 1.2% from 125,134.79 points to 126,642.42 points. Year to date, the ALSI has advanced 550%.
- Despite a widespread dollarization trend, activity on the VFEX remains largely subdued as a result of continuing confidence issues, growing preference for alternative investment options among local investors and low participation from foreigners. The benchmark ALSI added 4% in September to close the month at 74.48 points. Year to date, the ALSI has lost 25%.

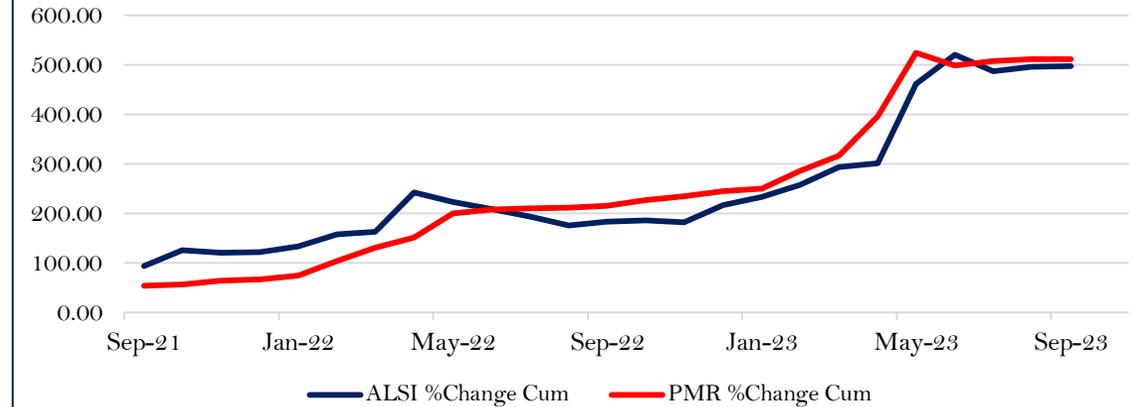


# Stock Market Overview cont...'

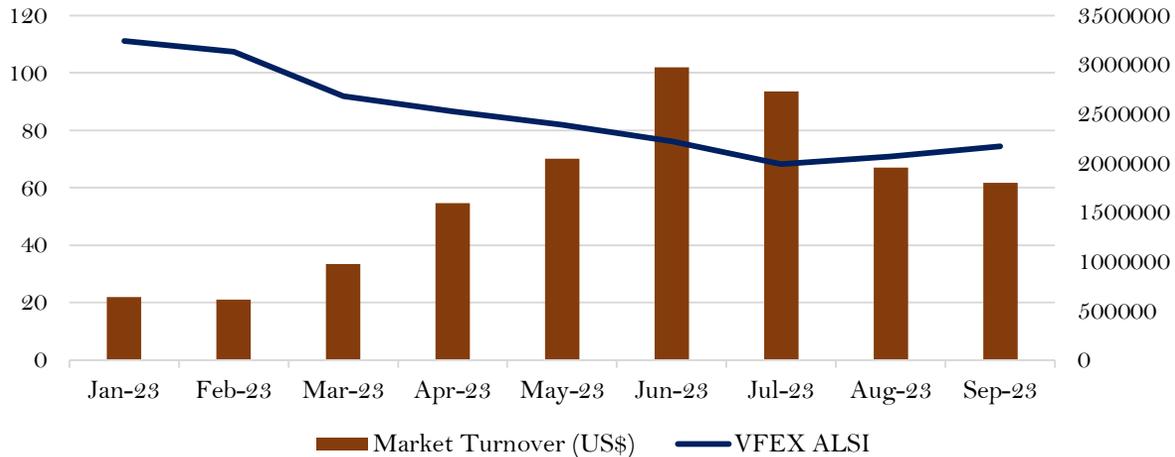
### MARKET TURNOVER (Zw\$)



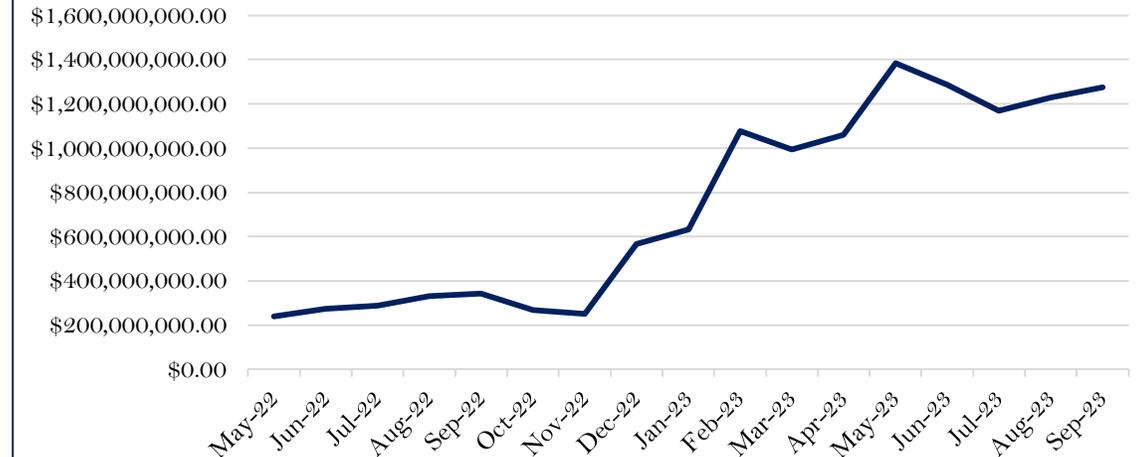
### ALSI; PMR RELATIONSHIP



### MARKET TURNOVER VS VFEX ALSI POINTS



### VFEX MARKET CAP (US\$)



# Q4 Outlook

- In the outlook, focus is likely to center on the future of country's currency.
- The US dollar remains a dominant feature in the local economic space as the dollarization trend continues. Currently, foreign currency denominated loans constitute circa 90% of total bank loans, while over 80% of local transactions are in US dollars.
- Authorities have however maintained their position on promoting use of the local currency and have, over the last few years, put measures in place to promote the ZW\$ and anchor inflation and exchange rate pressures.
- Promoting wider use of the local currency has been challenging as economic agents continue to favor the US dollar for transacting and value preservation. While exchange rate stability has been achieved to an extent, and official inflation figures continue to trend downwards, confidence in the local currency remains low due to past experiences of volatility and value loss.
- Stability of the local currency remains fragile, hinged primarily on government's ability to continue to control money supply, foster confidence and encourage use of the local currency. A mix of measures to increase the supply of foreign currency, while simultaneously reducing demand for the USD and increasing demand for local currency should also alleviate pressure on the local currency.
- The stock market's performance is likely to continue to be impacted by local liquidity conditions and value preservation concerns given existing currency dynamics. We expect appetite for alternative investments to continue to grow as investors continually assess local economic conditions.

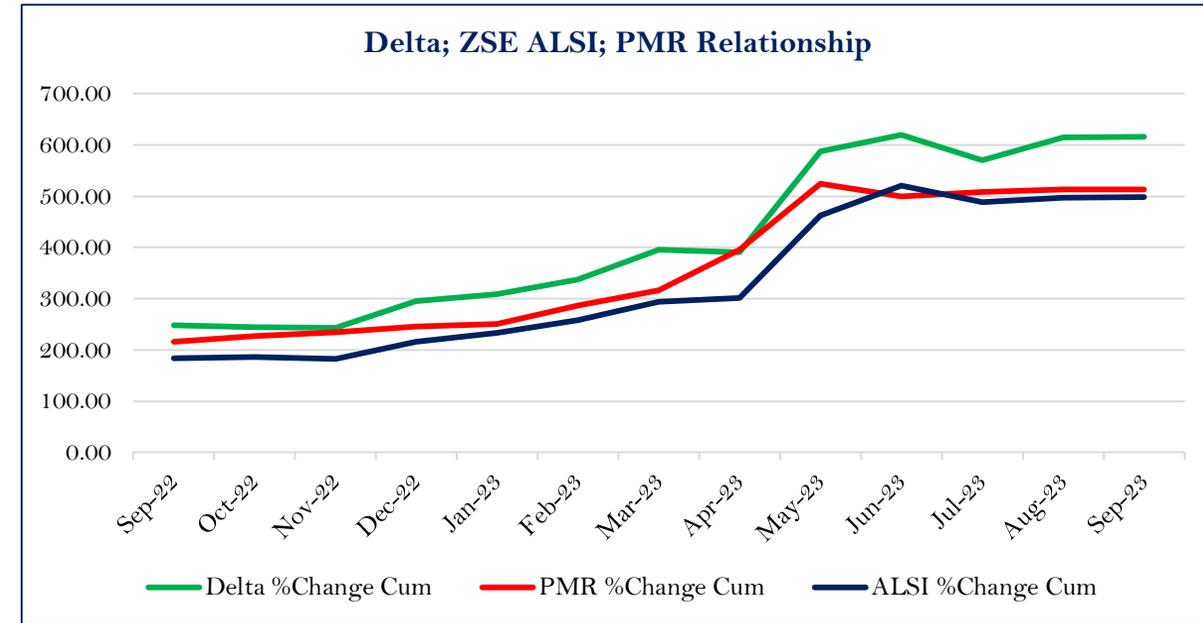


# ZSE TOP PICKS

# 1. Delta Corporation Ltd

## MARKET DATA

Sector	Consumer Staples
Price (US\$) 30- September 2023	0.44
Market cap (US\$ mln)	569.96
NAV (US\$)	0.11
PER (x)	5.49
Price/NAV	4.11
Dividend Yield	0.07%
EV/Share (US\$)	0.43



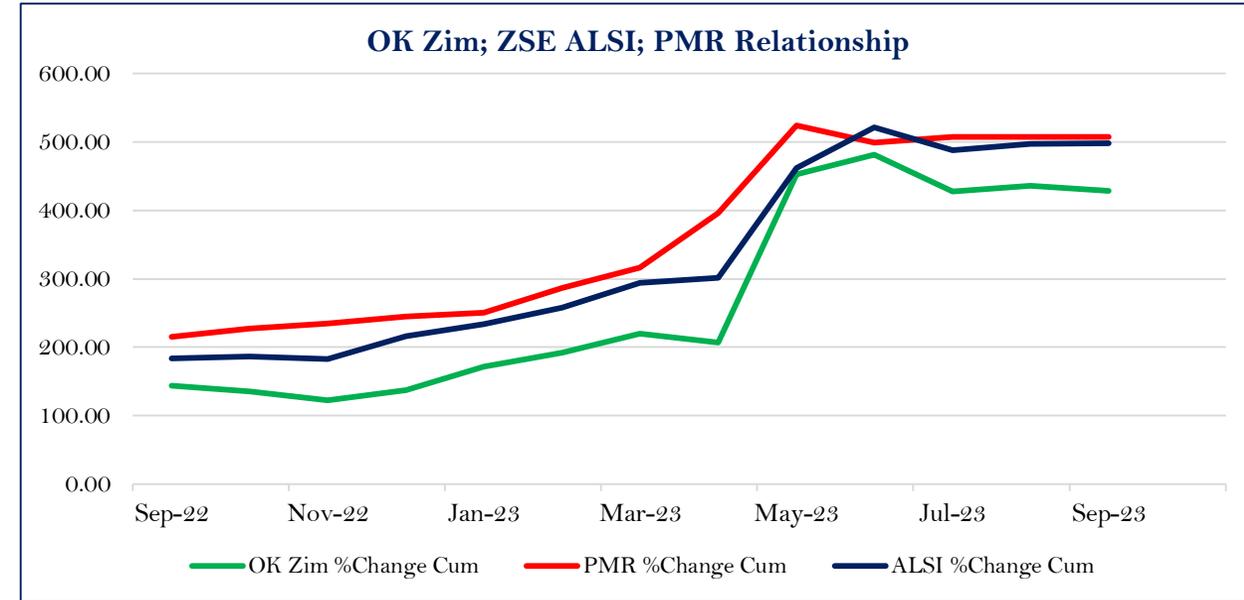
Source: ZSE; FBC Securities Research

- 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 group's volume trajectory remains strong. We anticipate improved volume performance in the last quarter of the year supported by bonus season and the festive season. We anticipate a good agricultural season and increase in mining activity to 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

## MARKET DATA

Sector	Consumer Staples
Price (US\$) 30- September 2023	0.02
Market cap (US\$ mln)	29.64
NAV/ share (US\$)	0.02
PER (x)	5.48
Price/NAV	0.93
Dividend Yield	7%
EV/Share (US\$)	0.03



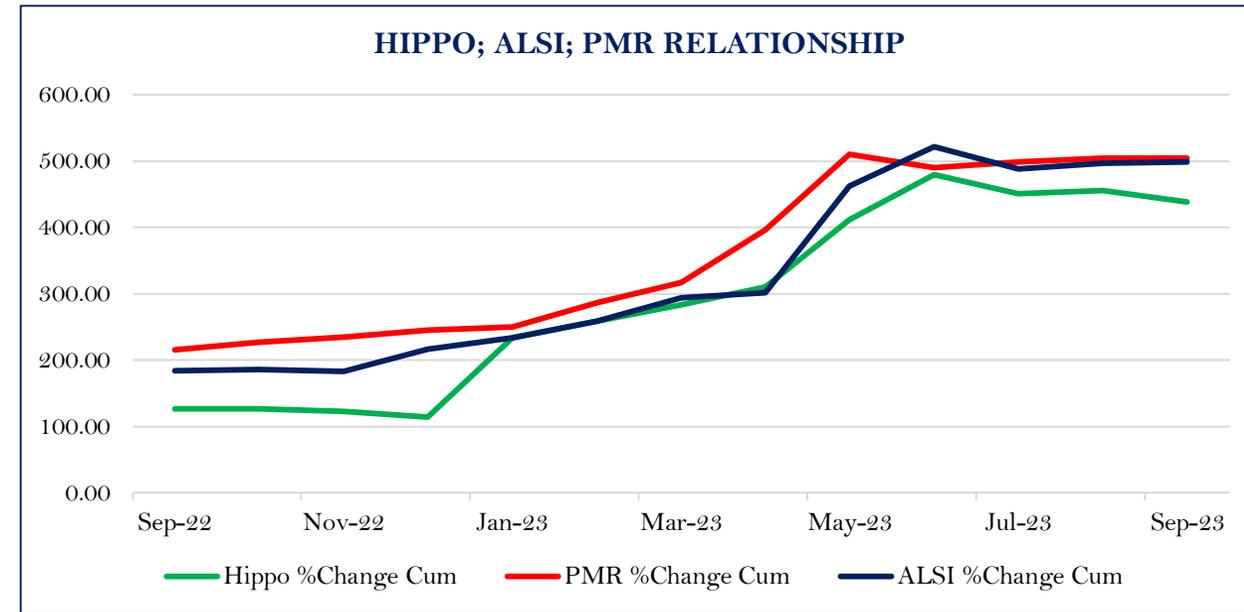
Source: ZSE; FBC Securities Research

- The growing popularity of informal stores continues to drive increase in competition for the more formal retail outlets. As the dollarization trend continues and ZW liquidity remains tight, the discounted USD prices offered by informal stores will remain more appealing in comparison.
- ZSE performance has been largely subdued in the current year owing to prevailing macroeconomic conditions, resulting in a number of counters trading at a discount to their fair value. This creates opportunity for investors to accumulate quality counters at discounted prices.
- In view of an uncertain global outlook and a uniquely challenging domestic environment, investors may take positions in established, mature businesses operating in defensive sectors such as OK Zim. The company has consistently paid out dividends, which is beneficial when capital gains are depressed, and has high prospects for both inorganic and organic growth.

# 3. Hippo Valley Estates

## MARKET DATA

Sector	Consumer Staples
Price (US\$) 30- September 2023	0.31
Market cap (US\$ mln)	60.63
NAV/ share (US\$)	0.30
PER (x)	1.32
Price/NAV	1.06
Dividend Yield	0.96%
EV/Share (US\$)	0.34



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. The business also has foreign currency generation capacity through exports
- We anticipate long term volume growth supported by completion of the Kilimanjaro Project. Additionally, the country's agricultural sector has benefited from normal to above normal rainfall in the 2022/23 season.
- While market activity has been subdued in the current year, limiting price movements, the prevailing situation creates opportunity for investors to take up position in quality counters at discounted prices.



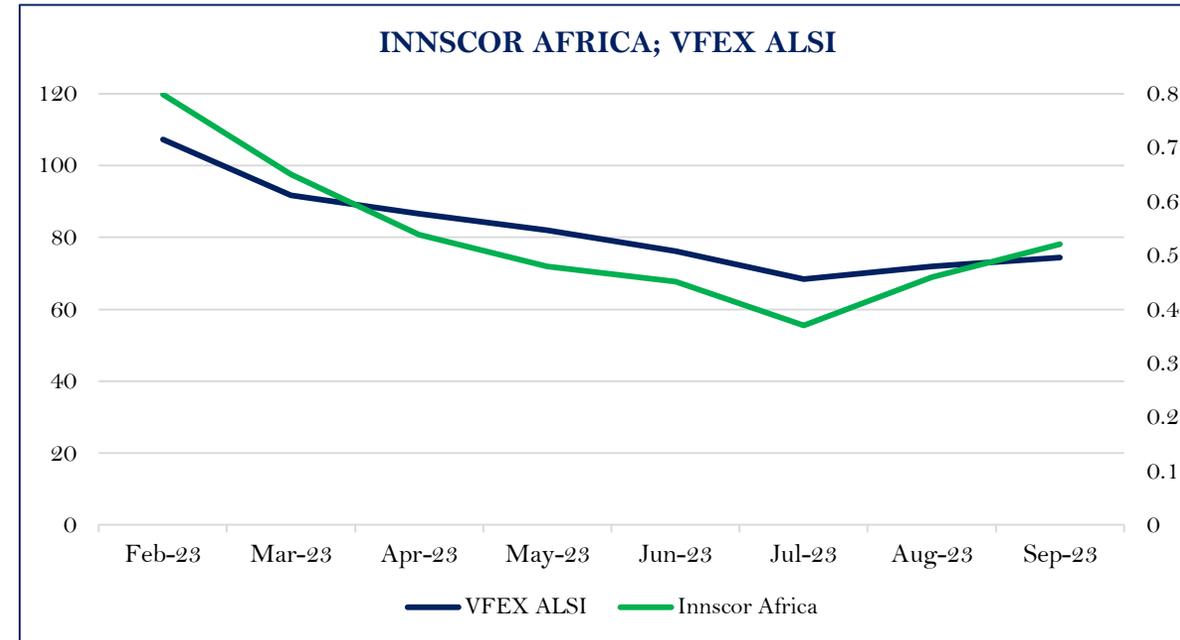
# VFEX TOP PICKS



# 1. Innscor Africa Ltd

## MARKET DATA

Sector	Consumer Staples
Price (US\$) 30- September 2023	0.52
Market cap (US\$ mln)	297.52
NAV/ share (US\$)	0.73
PER (x)	8.79
Price/NAV	0.71
Dividend Yield	5%
EV/Share (US\$)	0.59



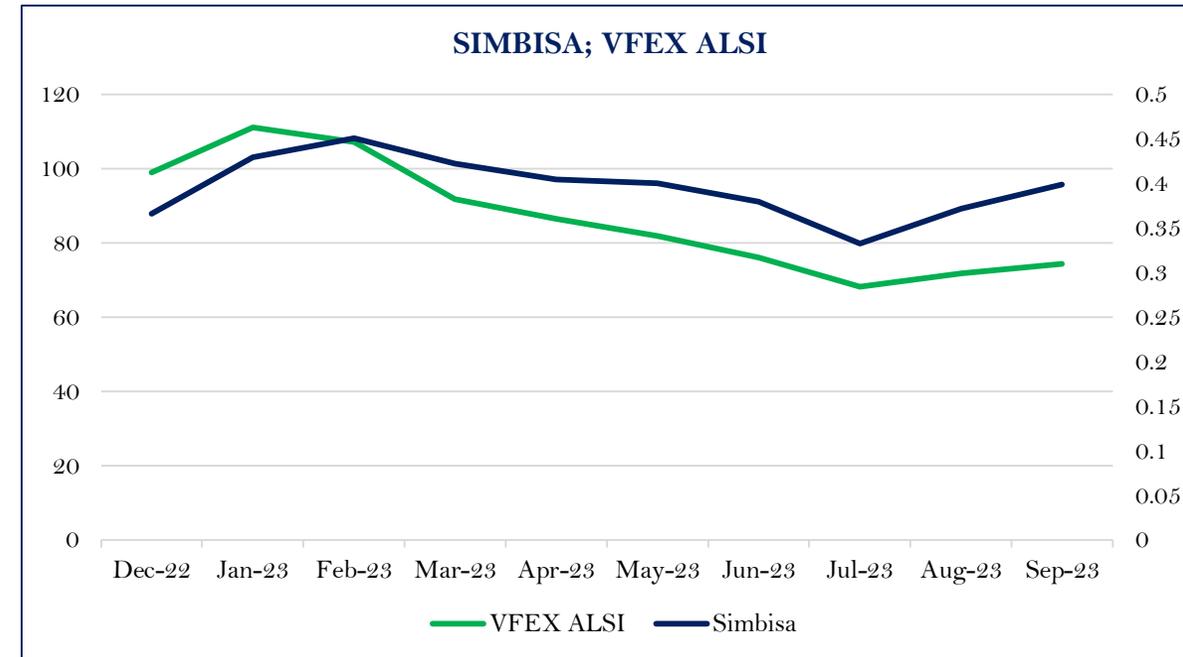
Source: VFEX; FBC Securities Research

- Innscor remains 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. Additionally, the business operates in the consumer staples sector, therefore, demand for its products is largely sustainable even in times of economic downturn.
- The group's overall volume trajectory remains strong underpinned by its investment drive, with focus being deployed on expanding plant capacities, enhancing manufacturing capabilities and product extensions as well as route-to-market initiatives that continue to be refined in order to drive volume into new markets.
- Despite a widespread dollarization trend, activity on the VFEX remains largely subdued with a number of counters trading at a discount to their fair value, creating pockets of value for investors. As capital gains are likely to remain subdued in the medium term, we recommend investors take long term positions in companies that have demonstrated resilience and have consistently paid dividends, such as Innscor Africa

# 2. Simbisa Brands

MARKET DATA	
<b>Sector</b>	<b>Consumer Staples</b>
Price (US\$) 30 September 2023	0.40
Market cap (US\$ mln)	224.48
NAV/ share (US\$)	0.17
PER (x)	12.88
Price/NAV	2.37
Dividend Yield	2%
EV/Share (US\$)	0.41

*Based on HY results*



*Source: VFEX; FBC Securities Research*

- 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.



## DISCLAIMER

This document may contain certain FBC Securities Private Limited analysts' opinions, expectations of performance and forecasts with respect to certain or all financial securities herein discussed. By their nature, all such forward-looking statements, opinions, expectations and forecasts involve risk and uncertainty because they relate to future events and circumstances which are beyond FBC Securities Private Limited control including amongst other factors, local, international and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other relevant legislation and other regulations in the environment. As a result, FBC Securities Private Limited's forecasts, opinions, expectations, forward looking statements may differ materially from the reality that emerges. FBC Securities Private Limited undertakes no legal obligation to update the forward-looking statements, the opinions, forecasts and expectations contained in this document or any other forward-looking statements it may provide. Facts and assumptions contained in this document should not be replicated or quoted without author's consent.



2nd Floor Bank Chambers  
76 Samora Machel Av.  
Harare, Zimbabwe  
Website: [www.fbc.co.zw](http://www.fbc.co.zw)

Tel: 2634797759/ 797761/64/67/69  
Email: [stockbrokers@fbc.co.zw](mailto:stockbrokers@fbc.co.zw)



**FBC Securities (Private) Limited**

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

You Matter Most