

TETRAD

GROUP

WEEKLY REVIEW - 12 March 2010

ECONOMY

In line with its objective of stimulating economic growth, the ministry of finance over the week disbursed part of the US\$510 million Special Drawing Rights that the country received from the International Monetary Fund. A total of US\$100 million was disbursed to ministries, parastatals and local authorities earmarked for Infra-structure development.

The main beneficiaries include the productive sector that got US\$19.5 million; US\$10.2 million was set aside for the dualization of roads while the rehabilitation of the Harare International Airport Taxiways and construction of the Joshua Mqabuko Nkomo International airport got US\$18.1 million. A total of US\$10 million was budgeted for housing development; Mthabezi water project got US\$7 million; US\$6.2 was allocated to Information Communication Technology whilst Bulawayo water and Sanitation together with the completion of the Central Registry building got US\$6.4 million and US\$3.5 million respectively. Development of broadcast transmission network in Beitbridge got US\$800 000 whilst just US\$3 million was allocated to Marondera and Mutoko municipalities for the rehabilitation of water systems.

The Infrastructure Development Bank of Zimbabwe will administer the funds set aside for infrastructure development while the money allocated to the productive sector will be channeled through local banks. These funds carry a special interest rate of 5% and are repayable after two years.

The funds have been injected into the economy at a time when the liquidity situation in the economy has worsened. Most pledges for financial assistance that were made to the country towards the formation of the inclusive government are yet to materialize. The situation has further been compounded by the coming into effect of the Indigenization and Economic Empowerment Regulations. Investors that were bringing in funds into the country for portfolio and other direct investments are now holding back.

CORPORATE NEWS

Retail divisions buoy Inncor Revenues

Inncor Africa Limited published an average set of results for the six months ended 31 December 2009. Revenues for the period amounted to US\$208.7 million with the retail division contributing US\$74.14 million. The Milling and Manufacturing unit brought in US\$43.18 million, distribution and wholesale raked in US\$29.87 million, Inncor Zambia brought in US\$39.6 million leaving regional fast foods operations and Niloticus to account for the difference. Operating profit before depreciation and amortization came in at US\$19.7 million. The depreciation and amortization cost was

US\$3.7 million giving an operating profit before interest and fair value adjustments of US\$16 million. After deducting fair value adjustments of US\$1.2 million the group made a profit before interest and tax of US\$14.8 million. An interest expense of US\$361 375 was incurred. Equity accounted earnings for the period were US\$1.6 million giving a profit before tax of US\$16 million. Taxation came in at US\$4.6 million giving a profit for the period of US\$11.3 million and the EPS for the period was US 1.21 cents.

The company went on to declare a dividend of 0.40 cents per share payable on the 8th of April to shareholders registered in the company books on the 25th of March 2010.

Innsco closed the period with a balance sheet size of US\$205.6 million. Property Plant and Equipment was valued at US\$62.8 million from US\$57.3 million as at 30 June 2009. Interest bearing borrowings for the period were US\$17.3million. The group closed the period with a positive cash position of US\$15.9 million.

On the operations, the company revealed that it acquired a 49% shareholding in Irvine's Zimbabwe Pvt Ltd, a producer of chickens and eggs. It also revealed that it commissioned a new factory at Lytton Road that resulted in the line's capacity increasing by 50%. Volumes at Spar Distribution Centre improved by 40% whilst those at TV Sales and Home jumped by 67%. At Niloticus the company only culled 17 000 crocodiles against their annual target of 57 000.

Going forward, emphasis will be on trimming down costs. At National Foods the group intends to improve its production technology so as to improve the eventual product quality and efficiencies in the milling operations

Colcom declares a dividend from Interim profits

Colcom Holdings Limited published a fair set of results for the six months ended 31 December 2010. Turnover for the period was US\$20.9 million with management revealing that company volumes jumped by 42% when matched with those obtaining in the second half of 2009. Operating income before depreciation and amortization came in at US\$3.6 million. The depreciation expense amounted to US\$510 963 giving an operating income before interest and fair value adjustments of just above US\$3 million. Profit before tax for the period was US\$3.1 million and includes equity accounted earnings of US\$137 589 and deductions amounting to US\$56 710 in respect of fair value adjustments and interest payments. The tax expense for the period was US\$798 209 giving retained earnings of US\$2.3 million translating to an EPS of 1.34 cents. Colcom also declared a dividend of US 0.45 cents per share to be payable on the 8th of April to shareholders registered in the company books on the 26th of March 2010.

The balance sheet was US\$28.6 million and represents a growth of 14% from the US\$25 million as at 30 June 2009.

Volumes have steadily improved amongst the company divisions. At the pork business, volumes have grown by 44% when matched with first half of 2009. The division is mainly benefiting from the improved supply and quality of stock feeds. This has resulted in an improvement on both the number and weight slaughtered animals. Volumes for the pie business grew by 40% when matched with the corresponding period. The division also purchased new equipment over the period. However the high costs of raw materials has put pressure on margins. Volumes of manufactured beef

products improved by 30% at the Associated Meat Packers. The company also revealed that it disposed its beef herd so as to stick to its core business of pig production and processing.

Below Par performance from National Foods Holdings Limited

National Foods Holdings Limited produced a below par set of results for the half year ended 31 December 2009. Company operations were dragged down by the influx of foreign products that exerted pressure on margins, weak internal control systems as well as high costs of production mainly arising from plant inefficiencies. Revenues for the period were US\$79.9 million and the group recorded an operating profit before depreciation and amortization of US\$19 032. Depreciation for the period amounted to US\$842 442 giving operating loss before interest and tax of US\$823 410. After adding equity accounted earnings of US\$298 733 and subtracting the interest expense of US\$885 580, the group retained a loss before tax of US\$1.4 million. The loss reduced to US\$1 million after adding a tax credit of US\$402 148.

Interest bearing borrowings were US\$10.3 million and trade and other payables amounted to US\$17 million. Over the period the group utilized US\$9.3 million in building inventories and capital expenditure for the period was US\$1.1 million.

Volumes improved in all company divisions. Overallly volumes when matched with the second half of 2009 grew by 10% to 140 000 mt. Flour sales grew by 13% to 48 800 mt. The unit focused on improving product quality to match that of imports. Volumes for stock feeds improved by 142% to 44100mt .Capacity utilization at the unit is currently at 32%. Production at NATPAK for the period was 10.6 million square meters whilst general prepacks recorded a growth of 36% to 19 700mt. Maize milling operations also recorded an increase in volumes although capacity utilization is still hovering around 14%. The Oil and Meals unit posted a loss as it suffered from power outages, plant breakdowns and regional shortages of hexane.

Going forward the group plans to improve on its control systems. National Foods intends to improve its product quality through investing into new technology.

Disappointing performance from Zimpapers

Zimpapers reported a disappointing set of results for the year ended 31 December 2009. Company performance over the period was largely constrained by shortages of finance that resulted in low capacity utilization at the company's factories. Revenues for the year amounted to US\$17.7 million. Cost of sales was US\$5.5 million giving a gross profit of US\$12.2 million and a margin of 68.7%. Income from other operations amounted to US\$409 364 giving total income for the period of US\$12.6 million. Operating expenses for the period were high at US\$14.6 million and administration expenses accounted for 82.2% leaving the balance for selling and distribution expenses. This resulted in an operating loss of US\$1.9 million and a profit before tax of US\$2 million after accounting for US\$45 618 for finance costs and US\$6 341 for exchange losses. The balance sheet size stood at US\$19.2 million.

The commercial printing department brought in the bulk of losses at US\$1.3 million largely a result of high overheads and little revenue. Capacity utilization at the division is again still low. The newspaper division made a loss of US\$328 218 and the company advised that the unit was now importing newsprint as local supply was tight.

Zimpapers has evidently failed to take advantage of its current monopoly on the market. The coming on board of another daily paper will undoubtedly worsen the company prospects. The company is also looking for funds for recapitalization and refurbishments of factories that can not be availed by their majority shareholder.

Satisfactory performance by CAFCA

The cables producing company managed to post an average profit of US\$431 809 in the twelve months to 31 December 2009. Revenues for the period amounted to US\$7.2 million. Operating profit for the period was US\$719 804 giving an operating margin of 9.8%. Finance costs were low at US\$22 911 giving a profit before tax of US\$696 893. The tax cost for the year was US\$265 084 enabling the group to retain US\$431 809 equating to an EPS of 1.34 cents.

Overall business volumes grew by 57% over the previous year with utilities and barter deals contributing 49% to the volumes.

The balance sheet closed the period at US\$7.9 million. Cafca closed the period with a negative cash position of US\$18 953 largely due to the barter deals with utilities.

Fair results from Afre Corporation

Afre Corporation published a fair set of results for the twelve months ended 31 December 2009. Gross premium income for the period was US\$24.6 million and retrocessions amounted to US\$5.6 million giving net premium income of US\$19 million. The unearned premium reserve for the period was US\$1.8 million giving net premium earned of US\$17.2 million. After adding rental income of US\$3.8 million, actuarial fees of US\$ 120 818 and investment income of US\$13.9 million the group had total income of US\$35.1 million. The investment income figure includes a fair value gain of US\$29.4 million from quoted equities; interest income of US\$1.5 million; US\$1 million from disposal of investments and an impairment cost on properties of US\$18.1 million.

Total expenditure for the period amounted to US\$21.9 million and claims of US\$10.4 million accounted for 48% of the expenditure. Other components in the expenses included management fees of US\$8.6 million, commissions of US\$1.9 million and finance costs of US\$845 381.

The Surplus before tax was US\$13.2 million and this increased to US\$29.3 million after adding a tax credit of US\$16.1 million. Afre closed the year with a balance sheet size of US\$136 million. Investments were valued at US\$123.5 million.

Management revealed that the group increased its stake in Rainbow Tourism Group to 25.18%. The group also opened up a new reinsurance office in Botswana. Company focus going forward will be increasing revenues through continuous product innovation.

Pearl Properties posts a full year profit

Pearl properties released a fair set of results for the twelve months ended 31 December 2009. Rental income for the period amounted to US\$4.2 million with CBD offices

contributing 38.1% and office parks brought in 35.4%. Industrial properties raked in 15.3% whilst CBD retail and retail suburban accounted for 7.7% and 3.5% correspondingly. The company had dividend income of US\$19 848 and investment income of US\$1 million giving a total income of US\$5.2 million.

Administrative expenses for the period amounted to US\$2.1 million. After deducting an asset write off of US\$23 750 and maintenance costs of US\$91 202, the company made an operating profit before tax of US\$3.1 million. Pearl had an impairment cost of US\$17.3 million leading to a loss before tax of US\$14.2 million. Nonetheless a tax credit of US\$16.6 million arising largely from the change in tax legislation in which the deferred tax rate was lowered from 30.9% to 5% resulted in the group retaining a profit for the year of US\$2.4 million.

The balance sheet stood at US\$80.4 million as at 31 December 2009. Investment properties were revalued upwards from US\$69.6 million as at 30 June 2009 to US\$72.3 million as the company took on board the completed projects (TM North End, Bulawayo and Residential Flats). Pearl also closed the period with a positive cash position of US\$75 029.

On the operations, management revealed that they had managed to improve rentals per square metre from US\$0.28 obtaining in 2008 to US\$3.04. Rental yield also jumped to 4.85% in 2009 from 1.21% in 2008. In the full year to 31 December 2010 they are targeting rentals per square meter of US\$5. Tenants however continue to default with outstanding payments of US\$928 212 giving an arrears ratio of 21.90%. About 62% of the debtors are from office parks and CBD offices a sign that the tenants are also struggling.

Impairments dent ABC's profits

ABC Holdings Limited recorded a profit of US\$8.2 million in the Full year to 31 December 2009. Interest and Similar income for the period was US\$70.8 million. Net interest income before impairment and advances came in at US\$25.1 million with Zambian operations contributing US\$8.6 million, Mozambique brought in US\$5.4 million and Botswana raked in US\$4.9 million. Tanzanian operations contributed US\$4.9 million and Zimbabwe operations added on US\$2 million. Impairments for the period were US\$7.2 million giving net interest income after impairments of US\$17.9 million. Non Interest income for the year was US\$37.4 million giving total income of US\$55.3 million.

Operating expenses amounted to US\$51.6 million giving a net income from operations of US\$3.7 million. Share of profits from associates was US\$2.2 million leading to a profit before tax of US\$6 million. ABC received a tax credit of US\$2.2 million giving a profit after tax of US\$8.2 million, translating to EPS of US5.7 cents.

Total deposits as at 31 December 2009 were US\$502.9 million against loans and advances of US\$299 million. Borrowings for the period were US\$81.5 million.

Going forward, the group plans to roll out fully its retail banking project. Management further disclosed that they had managed to access a US\$30 million draw down facility from the African Development Bank that it will employ in its recapitalization plans.

EQUITY MARKET

After recording seven weeks of negative growth, the mainstream index finally managed to post a gain of 2.09% to end the week at 136.30 points as investors slowly returned to the market capitalizing on counters that had been oversold. The market was positive through out the entire week with the exception of Thursday that had a loss of 0.29%. Nonetheless weekly turnover registered a slump of 9.41% an indication that thin volumes were exchanging hands on the market.

Resource counters eased 3.28% to end the week at 160.51 points. Rio Zim continues to drag the mining index as it shed a further 12.2% to trade at US193 cents. The trio of Bindura, Falgold and Hwange were defensive over the week.

Overallly there were 33 positive counters against 19 declines with 24 counters closing the week unchanged. Heavy weight counters were mixed over the week with Seedco, PPC, Old Mutual and Delta on the upside whilst CBZ, Econet and AICO were on the losing side. The volatility on the mid and small caps was evident as they made up both the top five and bottom five performers for the week. Pelhams was the top performer with its price doubling to US0.10 cents and CFX was next in line with a gain of 33.3%. The other three counters amongst the top five with gains of 25% included Gulliver, Interfresh and Steelnet.

The recovery in some big caps namely Delta, Innscor, Barclays and Old Mutual helped the overall market capitalization to recoup 1.65% and close the week at US\$3.45 billion.

TRADING STATISTICS

Table 1: ZSE trading statistics

	<u>Current week</u>	<u>Previous week</u>	<u>Change</u>
Total Market Capitalization	US\$3,445.74 million	US\$3,389.80 million	1.65%
Total Value of trades	US\$5,994,317.24	US\$6,616,926.51	-9.41%

Table 2: Old Mutual prices on different exchanges

	<u>Current week</u>	<u>Previous week</u>	<u>Change</u>	<u>Premium/(Discount)</u>
ZSE price	USc165.00	USc151.00	9.27%	
JSE price	ZAc1393	ZAc1330	4.74%	-12.12%
LSE price	Gbp123.50	Gbp119.10	3.69%	-11.88%

Table 3: PPC ZIM vs. PPC SA

	<u>Current week</u>	<u>Previous week</u>	<u>Change</u>	<u>Premium/(Discount)</u>
ZSE price	USc390.00	USc355.00	9.86%	-
JSE price	ZAc3275	ZAc3236	1.21%	-11.65%

NB: International cross rates in table 4 were used to compute the premium/discount on PPC.

Table 4: International Cross rates

	<u>Current week</u>	<u>Previous week</u>	<u>Change</u>
£ : US\$	1.5161	1.5171	0.07%
US\$: ZAR	7.4188	7.4285	-0.13%
£ : ZAR	11.2486	11.2076	-0.37%

Table 5: The comparison of the ZSE to other major indices

	<u>Current week</u>	<u>Previous week</u>	<u>Change</u>
Industrial index	136.30	133.51	2.09%
Mining index	160.51	165.95	-3.28%
FTSE 100	5 625.65	5 599.76	0.46%
DOW JONES	10 624.69	10 566.20	0.55%
JSE	28 262.40	27 904.65	1.28%
NIKKEI	10 751.26	10 368.96	3.69%

Table 6: Commodities

	<u>Current Week</u>	<u>Previous Week</u>	<u>Change</u>
Gold (US\$/oz)	1 105.40	1 135.10	-2.62%
Platinum (US\$/oz)	1 598.50	1 582.50	1.01%
Nickel (US\$/ton)	21 775.00	22 500.00	-3.22%
Oil (US\$/barrel)	80.82	79.69	1.42%

Table 7: Movers

<u>COUNTER</u>	<u>Current week-USc</u>	<u>Previous week-USc</u>	<u>PERCENTAGE GAIN</u>
PELHAMS	0.10	0.05	100.00%
CFX	0.04	0.03	33.33%
GULLIVER	0.50	0.40	25.00%
INTERFRESH	0.50	0.40	25.00%
STEELNET	0.25	0.20	25.00%

Table 8: Shakers

<u>COUNTER</u>	<u>Current week-USc</u>	<u>Previous week-USc</u>	<u>PERCENTAGE LOSS</u>
TURNALL	1.50	1.80	-16.67%
MEIKLES	32.00	40.00	-20.00%
PHOENIX	2.80	3.80	-26.32%
ARISTON	0.70	1.00	-30.00%
FIDELITY	2.20	3.50	-37.14%

MONEY MARKET

The disbursement of the US\$100 million for infra-structure development by the Ministry of finance will slightly improve liquidity in the economy. Government linked banking institutions are the ones that are likely to benefit from the disbursements to local banks.

UNIT TRUSTS

	<u>Current week</u>	<u>Previous week</u>	<u>Percentage Change</u>
JUPITER (USc/Unit)	4.06%	4.10	(0.98%)
VENUS (USc/Unit)	2.19%	2.25	(2.67%)
CAPRICORN (USc/Unit)	4.92%	4.98	(1.20%)

The week ahead

We do not expect the positive trend that was evident on the market last week to continue as nothing has changed on the economic fundamentals. There is still uncertainty with regards to the Indigenization and Economic Empowerment Regulations. We therefore expect the market to continue drifting sideways in the current week as offshore investors will remain on the sidelines.