

Will the stock market wake up from its slumber?

By Linda Tsarwe

All major markets on the global front closed on a positive note. The U.S released a set of encouraging manufacturing and employment data which could be a probable sign that the world's largest economy is turning the corner. In Asia, China also released some encouraging data on manufacturing which boosted investor sentiment. In Europe the FTSE was up but on relatively smaller gains as compared to other global markets. There are fears that if party leaders in Greece do not eventually agree to implement the conditions necessary for the country to receive another bailout package, then Greece is likely to default.

However the same cheery mood failed to pass through the ZSE. Liquidity continues to elude the market exacerbated by the limited participation of foreign investors. As a result there was limited activity in the first month of 2012. Skepticism remains high over the implementation of the Indigenisation policy. A lot of uncertainty is also emanating from the political front with regards to when elections will be held. Talks of resuscitating the Zimbabwe Dollar has not done any good for the market.

Resultantly the industrial index lost 4.34% while the mining index was down 23.5%. Mining stocks continue to be hounded by recapitalization issues with only Falgold trading positively. Market turnover was 45.31% lower from December at US\$34.2million. In addition, following the price ramping that occurred over the last two weeks of 2011, there was a lot of price correction during the month, which resulted in a number of counters closing the month in the negative. Market capitalization also closed lower, after retreating 5.78% to US\$3.5billion. Overall 23 counters traded in the positive against 35 losing counters and 17 static counters.

Radar was the top performer with a 100% gain to 16cents. The share register for Radar is tightly held and the shares rarely trade hence price fluctuations are significant. Ariston followed with a gain of 48.9%. The company has issued a series of cautionary statements advising shareholders that a material transaction is being negotiated. Recent press reports allege that the biggest shareholder, Emvest, has sold out of Ariston to an unnamed South African investor. According to the same report, the new investor is expected to underwrite an ambitious US\$8million rights issue which Ariston is planning to undertake. It is however dependant on whether the proposal will get shareholder approval. Other gains were recorded in Pioneer and Interfresh which gained 40% apiece. Interfresh got approval from shareholders in December 2011 to dispose its head office properties. The funds are earmarked for debt reduction and working capital purposes. TA also closed positive in the registering gains of 33.33%.

The worst performer for the month was Border which lost 67.39% to end at 15cents. Like Radar, the share register for the company is tightly held and the share price fluctuates

significantly when it does trade. Medtech registered a 65% loss while Gulliver was down 62.50%. Investors remain clueless of operations at Gulliver whilst operations at Medtech continue to make losses. Interfin lost 44.44% for the month to end at 5cents while CBZ was down 35.71% to 9cents. The fears of a liquidity crunch in the market hit banking stocks, as investors feared that some banks might not be able to survive the crisis. Furthermore, CBZ was also one of the counters that experienced price ramping end of 2011, and hence the loss was also partly due to price correction.

On the corporate news, the trio of Cairns, Chemco and CFI released a dismal set of result during the month. Cairns recorded a loss of US\$8.2million for the full year to August 2011 which is worse than the US\$6.2million in the previous year. The company is suffering from serious working capital challenges and this is threatening the viability of the company. Management is banking on the ability of Finance Trust to sell its stake to a new investor, who hopefully will inject funds into the business. However, it is proving to be difficult, as Cairns seems to be a hard sell. CFI and Chemco, who are also suffering from the same problem of working capital shortages, had losses of US\$4.1million (2010:US\$2.5million) and US\$2.4million(2010:US\$808,226) as at September and October 2011 respectively.

Post month end, Rio Zim issued a cautionary advising its shareholders that it has accepted an offer that will provide sufficient funds to solve the company's debt issues. This comes at a time when a consortium of banks is pushing for judicial management at Rio Zim. However the board is of the view that it will be more beneficial for shareholders if the new investor comes in and injects funds into the business rather than placing Rio Zim under judicial management. We await the developments at the company and hopefully if this new investor comes in, this will be the relief that the Rio Zim creditors have been waiting for. For the month of January the stock lost 28.6%.

The monetary policy statement has done nothing to stimulate activity on the stock market thus far and if anything some of the measures announced like cash rationing has further heightened fears that the liquidity crunch could be worse than initially envisaged.

In the short to medium term it would appear that the same factors that have been driving the market down are unlikely to improve. Electioneering is likely to intensify as political parties prepare for polls. We are likely to see the Indigenisation Policy being rolled out aggressively which will further cripple the markets.

However beginning of February even though the industrial index is down 0.53%, there has been some improvement in daily turnover with the bulk of the funds being foreign money. This could be a sign that foreign investors are slowly returning to the market. If the trend persists, then we could see some recovery on the market but not to a large extent