

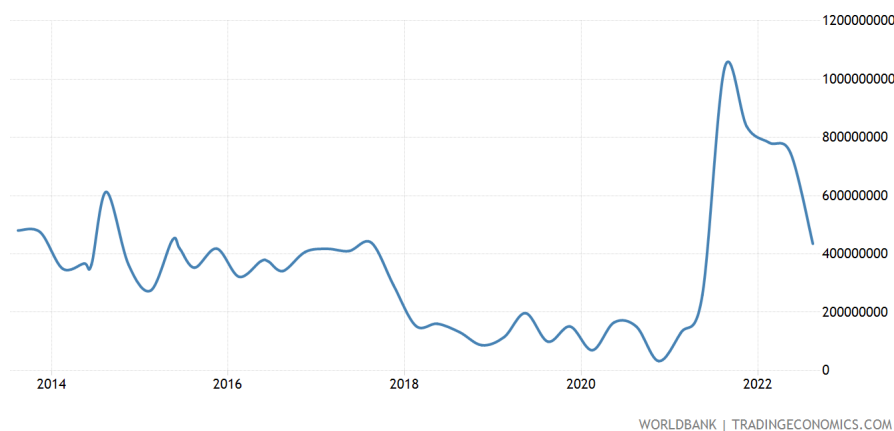
## HAS VICTORIA FALLS STOCK EXCHANGE LOST ITS ALLURE?

The VFEX, or Victoria Falls Stock Exchange, is Zimbabwe's exclusively US dollar only stock market. Immediately after the exchange was launched in 2020, VFEX attracted attention, as it offered listed companies exemptions for capital gains taxes and, *most importantly*, the ability to repatriate 100% of their US dollar earnings. As a result, the Zimbabwe Stock Exchange, or ZSE's mainboard in the capital of Harare, was shrinking in the past years because of companies that migrated to VFEX. Companies in Zimbabwe constantly experience a shortage of foreign exchange.

In particular Padenga's decision to list on the Victoria Falls Stock Exchange in 2021 was considered a boom for the new exchange and the government's incentive scheme. John Legat, CEO of Imara Asset Management, the country's largest broker, rightly commented, that the decision of Padenga to list on VFEX deprived local investors from a good stock, and could lead to an exodus from the Zimbabwe Stock Exchange. Legat called for the Government to give the same incentives to companies to list on the ZSE.

In its *Exchange Control Directive RY002/2023*, the government of Zimbabwe increased export retentions at 75% across all industries, including companies listed on VFEX. The balance of 25% of the export proceeds must be sold to the Reserve Bank at the prevailing interbank market rate. In the words of the famous Maori legend, VFEX lost its wings, if it ever had any.

Desperate governments take desperate measures. According to the World Bank, foreign reserves (ex gold) in Zimbabwe was reported at USD \$434,674,310 in 2022.



VFEX never was a capital market innovation. Instead, it was a **regulatory safe haven**. There have hardly been any real offerings to raise capital on VFEX. As the below

figure, published by African Financials illustrates, the VFEX-All Shares Index has lost 39.54% YOY. **We project this trajectory to continue.** Most global investors will wish to avoid the trappings of a small, highly illiquid exchange with heavy-handed exchange restrictions.

The ZSE has fared better in the face of adversity, as shown in the figure below. The depreciation of the Zimbabwe dollar against the US dollar has kept the growth in market cap of ZSE stagnant for a long time. To give but one example: in March 2023, the ZSE grew 36%, bringing market cap up to \$3.36tn from \$2.4tn in February 2023.



#### Victoria Falls All Share Index (VFEX-ASI) Profile

The Victoria Falls All Share Index (VFEX-ASI) is a stock market index that tracks the performance of the top companies listed on the Victoria Falls Stock Exchange (VFEX). The VFEX-ASI is considered to be the benchmark index for the VFSE and is widely used as a measure of the overall performance of the stock market in Victoria Falls.

Promising as that may sound, the local Zimbabwe currency depreciated 34% in the same month, as a result performance in real terms was diluted to 1.5%.

Yet the ZSE does offer upside. Year to date growth has been 718.34%, and it is trading at a deep discount to fair value.

