


2020 Listed Companies Analysis Report

September 2021

pwc

www.pwc.com/zm

Table of Contents

Foreword	3
Executive summary	4
1. Market capitalisation and performance of the Lusaka Securities Exchange	7
2. Business and financial performance	13
3. Company dividend behaviour and stock performance	22
4. Operational cash flow analysis	28
5. Corporate governance and company compliance	31
6. State of the capital market and outlook	36
7. Global outlook: PwC's 24th Annual Global CEO Survey	40
8. Conclusion	41
Glossary	42
Appendix: Ratio formulas	43
Contributors	44

Foreword

The scale of challenges that businesses have faced in the recent past has been unprecedented. These challenges have been reflected in the performance of the capital market over the last few years. According to the World Bank, the Zambian economy fell into a recession for the first time since 1998, with the economy contracting by 1.2% in 2020. The recession was exacerbated by the COVID-19 pandemic and the high sovereign debt levels. In the same year, we saw Zambia become the first African nation to default on its debt in the COVID-19 era when it missed the Eurobond payment amounting to USD42.5 million towards the end of 2020. This resulted in the Country credit rating being downgraded from a rating of CC to selective default by Fitch Ratings and S&P Global Ratings.

In this report, we analyse the impact of the COVID-19 pandemic, the slowdown in economic growth and the performance of the economy in general on the financial and operational performance of companies listed on the LuSE.

We would like to take this opportunity to thank our guest contributors, Pangaea Securities Limited, for their valuable input into this report. Last, but not least, we would like to thank the dedicated PwC team members who made this important report happen.

We trust you will find the contents of the report useful and welcome your feedback.

Andrew Chibuye

Country Senior Partner
PwC Zambia

Executive summary

Approach

The PwC Listed Companies Analysis 2020 report analyses the performance of the 24 companies listed on the Lusaka Securities Exchange (LuSE).

The analysis, the first of its kind by PwC Zambia, is based on a desktop review of publicly available financial information of all the companies listed on LuSE as well as an analysis of the impact of COVID-19, key economic indicators, such as the exchange rate and inflation, between 2019 and 2020 on the overall performance of the local stock market.

Market capitalisation

In absolute terms, LuSE's total market capitalisation was K57.5 billion in 2020 compared to K56.7 billion in 2019, representing a growth of K846 million or 1.5%. Our analysis shows that 10 out of the 24 companies listed on LuSE accounted for 94.8% of the total market capitalisation in 2020. This is in line with 2019 when 10 of the companies listed represented 94.1%. Furthermore, one company, Shoprite Holdings, accounted for 60% of the total market capitalisation, with a value of K34.2 billion in both 2020 and 2019.

Due to the impact of currency volatility on companies' performance in 2020, we also analysed the market capitalisation in US dollar terms. The results show that as of 31 December 2020 the market capitalisation for all the companies listed on LuSE was USD2.7 billion compared to USD4 billion on 31 December 2019, showing a reduction of USD1.3 billion between 2019 and 2020.

When we looked at market capitalisation on a sector basis, four sectors saw the biggest reduction in capitalisation: financials; telecoms; utilities; and oil and gas. The reduction was driven mainly by the fall in the share price of companies in these sectors due to slow economic activities and a weak and unstable currency between the two reporting dates.

The performance of LuSE

Our review shows that the LuSE All-share index (ASI) fell 8% between 2019 and 2020. When we compared LuSE's ASI performance to other indices in Southern Africa and East Africa, the results were a mixed bag, with 50% of the markets reviewed increasing during the year and the other 50% falling.

Financial performance

All the four sectors analysed recorded an increase in revenue, operating expenses and finance costs but only one sector showed an increase in profits before tax. The increase in profits before tax was observed for the Basic Materials, Utilities, Industrials, and Oil and Gas sectors. All other sectors experienced a fall in profit before tax.

The increase in revenue but fall in profits was mainly due to the economic impact of COVID-19, which led to increased company expenditure. Most notably, the cost of servicing foreign currency denominated loans increased due to the depreciation of the kwacha, while high inflation led to an increase in the cost of goods and services. General expenses also increased as companies found themselves having to comply with new COVID-19 requirements, such as personal protective equipment for staff and other covid-related costs.

Financial services

The provision for credit risk losses increased from K279 million to around K527 million among financial services companies in 2020. This significant increase was partly because all companies owning government securities were forced to carry losses on these investments because of Zambia's deteriorating fiscal and monetary conditions. Analysis of the three commercial banks listed on LuSE showed that each company increased its credit provisions attributed to government securities to more than 100% in 2020.

Basic materials, utilities, industrials, and oil and gas sectors

On average, these sectors recorded an increase in sales volumes and commodity prices. The overall increase in the sector's revenue can be attributed to companies in these sectors benefiting from the depreciation of the kwacha, with most of these companies earning their revenue in US dollars, as well as an increase in copper prices in the last quarter of the financial year.

Consumer services and consumer goods sectors

The increase in revenue among consumer goods and services companies is likely attributable to an increase in sales volumes as well as general price increases due to inflation. The depreciation of the kwacha will have also increased the price of imported goods and these price rises will have been passed onto customers. Earnings before interest, taxes, depreciation and amortisation (EBITDA) remained relatively stable compared to 2019, while total assets showed an increase of 3%.

Telecoms

The telecommunications sector saw increased revenue on the back of higher data usage as many employees worked from home during the pandemic. However, reductions were noted in EBITDA due to the higher cost of doing business. The overall profitability of the sector decreased mainly due to significant increases in financing costs brought about by unrealised foreign exchange losses mainly on foreign currency-denominated borrowings.

Dividend behaviour and stock performance

Our analysis shows that despite the COVID-19 pandemic, companies in the following sectors were mainly able to pay dividends:

- Financial Services
- Basic Materials, Industrials, Utilities and Oil and Gas
- Consumer Goods
- Consumer Services.

We noted that in the period under review, eight of the 13 companies that paid out dividends in 2019 had an increase in the dividend amount per share in 2020. We also noted that two companies operating in the Basic Materials, Industrials, Utilities and Oil and Gas sector generated positive cash flows all year round and were, therefore, able to pay out both interim and final dividends to shareholders.

Currency volatility

The depreciation of the kwacha against the US dollar has not spared the stock market. According to data from the Bank of Zambia (BoZ), the kwacha depreciated by 50.6% against the US dollar between 31 December 2019 and 31 December 2020. Based on our review, the depreciation of the local currency affected companies in the following ways:

- Market capitalisation
- General profitability
- Increase in finance costs due to increased interest rates as well as foreign currency losses for dollar-denominated borrowings
- A positive impact on the revenues for companies whose functional currency were mainly US dollar.

Operational cash flow analysis

Most listed entities generated positive cash flows from operating activities used in investing activities for capital expansion in the non-financial sector and investments in liquid assets such as government securities for the financial sector. The financing activities concentrated on debt repayments and dividends payout, resulting in negative cash outflows.

Corporate governance and company compliance

Analysis of the corporate governance of the listed companies showed that generally, the level of compliance varied depending on the requirement. This ranged from 96% for requirements such as 'the chief executive must not hold the role of chairman' to as low as 50% for requirements such as 'the audit committee must set the principles for recommending the use of the external auditors for non-audit services. Also noted from the review of the financial information was the non-disclosure of certain required information in the financial statements. From our analysis above, we observed that attendance during the nomination committee appeared to be low. In general, more work needs to be done going forward if corporate governance requirements are to be met.

State of the stock market and outlook

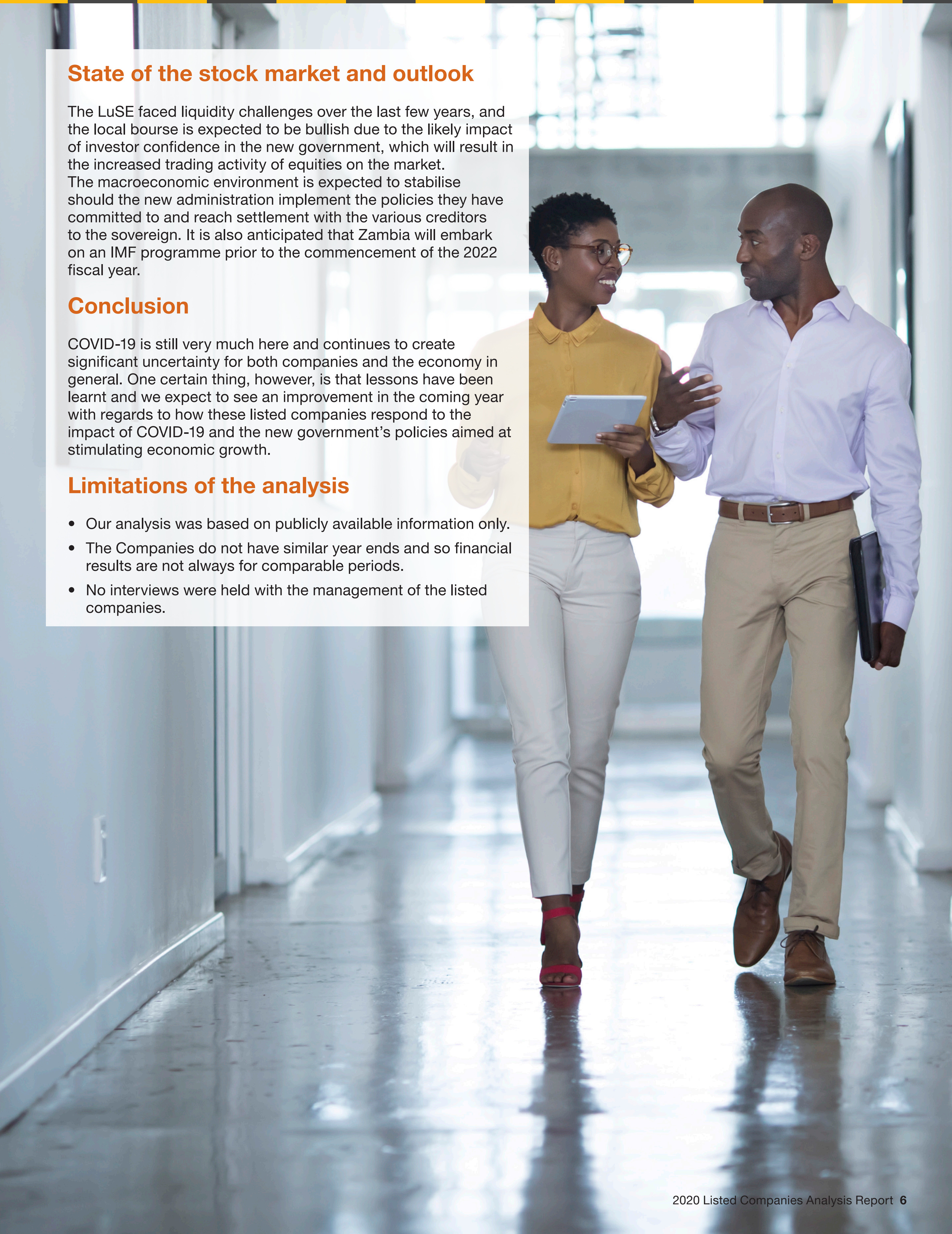
The LuSE faced liquidity challenges over the last few years, and the local bourse is expected to be bullish due to the likely impact of investor confidence in the new government, which will result in the increased trading activity of equities on the market.
The macroeconomic environment is expected to stabilise should the new administration implement the policies they have committed to and reach settlement with the various creditors to the sovereign. It is also anticipated that Zambia will embark on an IMF programme prior to the commencement of the 2022 fiscal year.

Conclusion

COVID-19 is still very much here and continues to create significant uncertainty for both companies and the economy in general. One certain thing, however, is that lessons have been learnt and we expect to see an improvement in the coming year with regards to how these listed companies respond to the impact of COVID-19 and the new government's policies aimed at stimulating economic growth.

Limitations of the analysis

- Our analysis was based on publicly available information only.
- The Companies do not have similar year ends and so financial results are not always for comparable periods.
- No interviews were held with the management of the listed companies.



1. Market capitalisation and performance of the Lusaka Securities Exchange

Highlights of the market capitalisation analysis:

- The market capitalisation for LuSE increased in kwacha terms by K846 million while in dollar terms it reduced by USD1.3 billion between 31 December 2019 to 31 December 2020.
- During the year ended 31 December 2020, there was a successful listing of one company, Zambia Forestry and Forest Industries Corporation (ZAFFICO). The company raised K299.1 million from the IPO.
- ZCCM Investment Holdings recorded the largest gain in terms of market capitalisation during the year to 31 December 2020 with an increase of K1.66 billion to K6.24 billion, up from K4.58 billion on 31 December 2019.
- Among the 24 companies listed on LuSE, we noted that 11 companies recorded a reduction in market capitalisation, five recorded an increase and no movement was recorded for eight companies between 31 December 2019 and 31 December 2020.

Market capitalisation

There are currently 24 companies listed on LuSE. These companies operate in different sectors of the economy as shown below:

Sector	Number of companies
Basic Materials	4
Consumer Goods	6
Consumer Services	2
Financial Services	7
Industrials	2
Oil and Gas	1
Telecoms	1
Utilities 1	1

Source: African Markets (https://www.african-markets.com/).

Below is a table that summarise the market capitalisation of all companies currently listed on LuSE:

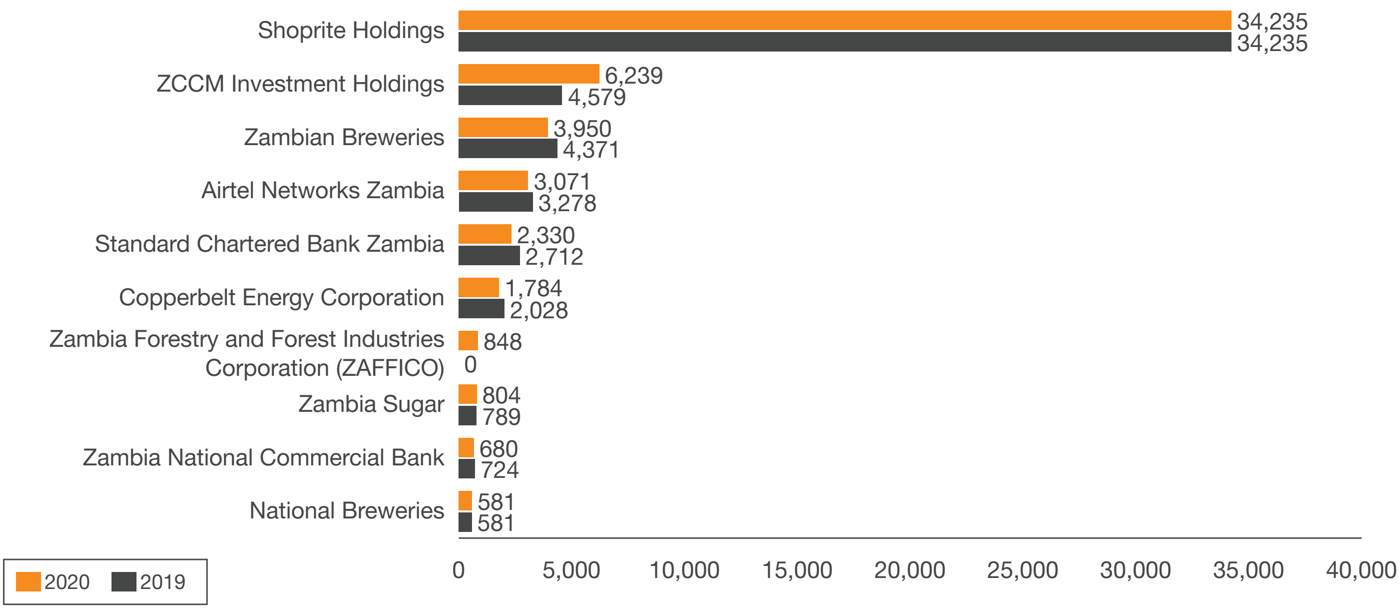
Description	31 December 2020		31 December 2019		Change	
	Market cap K' million	Market cap USD' million*	Market cap K' million	Market cap USD' million*	Market cap K' million	Market cap USD' million*
Total market capitalisation	57,501	2,717	56,655	4,032	846	(1,315)

** The dollar market capitalisation was arrived at by converting the kwacha market capitalisation using the Bank of Zambia mid-rate for the year ended 31 December 2020 and 31 December 2019 of K21.165/USD and K14.053/USD respectively.*

Source: LuSE, African Markets and PwC analysis

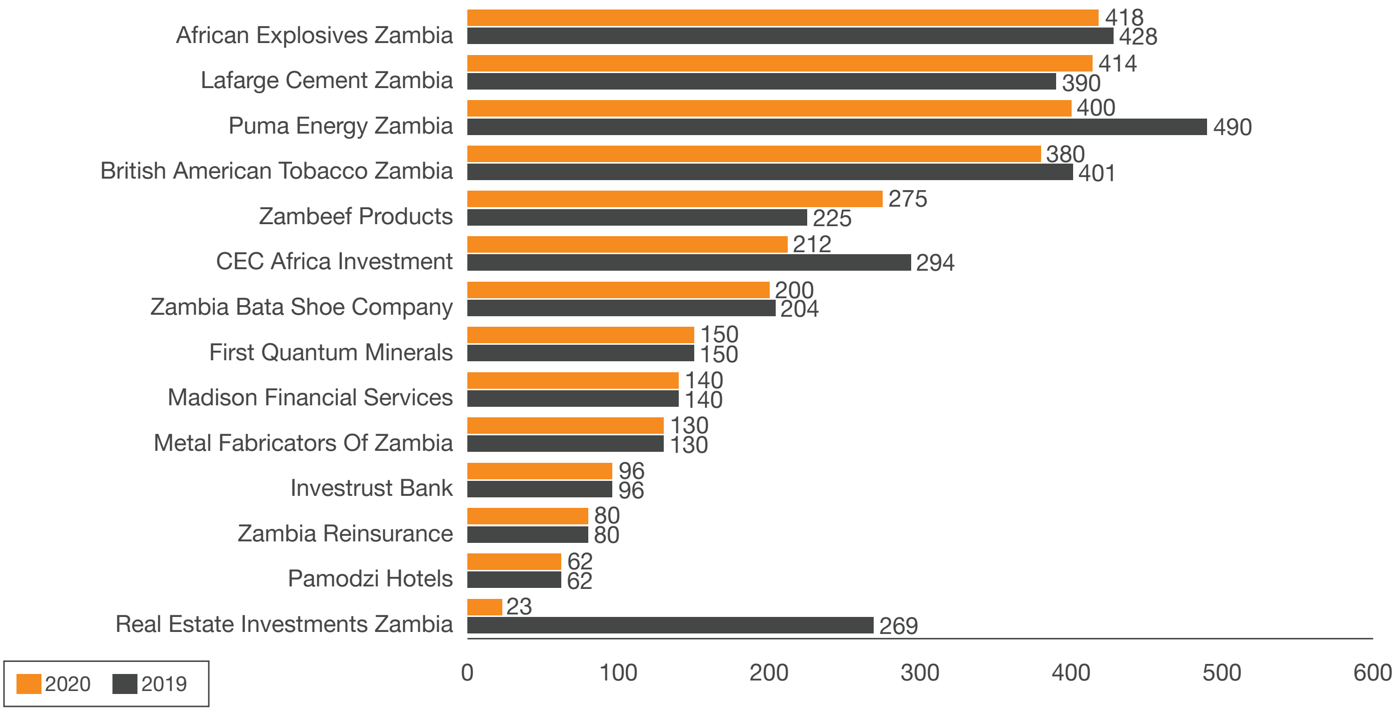
We have categorised the companies into two segments: 'top 10' and 'others'. We have defined the top 10 companies as those with at least a market capitalisation of K500 million while those with a market capitalisation below K500 million have been classified under others.

Market cap: Top 10 companies (K'million)



Source: LuSE, African Markets and PwC analysis

Market cap: Other companies (K'million)



Source: LuSE, African Markets and PwC analysis

From the analysis above, we observed that the top 10 companies accounted for 94.8% (2019: 94.1%) of the total market capitalisation, while the remaining 14 companies only accounted for 5.2% (2019: 5.9%).

The total market capitalisation as at 31 December 2020 was K57.5 billion compared to K56.7 billion at the end of 2019. This represents a growth in the market value of K846 million or 1.5%. The growth was mainly driven by:

- The 36% increase in the ZCCM-IH share price, which translated to an absolute value increase of K1.7 billion
- The successful ZAFFICO initial public offering (IPO), which gave the company a market capitalisation of K848 million as at 31 December 2020

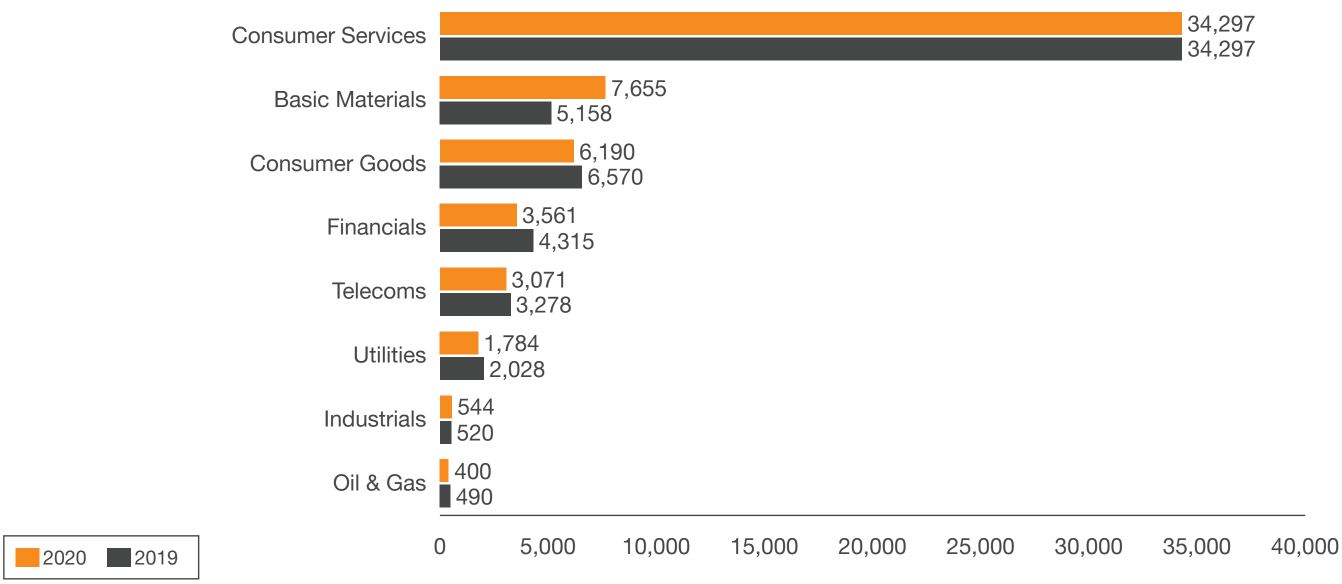
During the year ended 31 December 2020, ZAFFICO had a successful IPO in which 90.74% of 160 million shares that were offered to the market were subscribed. This resulted in the company raising K299.1 million through the listing of its shares. When ZAFFICO is excluded from the above analysis, the market capitalisation in kwacha reduced by K2 million between the two reporting dates, 31 December 2019 and 31 December 2020. One thing that stands out from the above market capitalisation is that Shoprite Holdings accounts for 60% of the market share, with a value of K34.2 billion at both reporting dates. When Shoprite is excluded from the analysis, the market capitalisation for the remaining companies stands at K23.3 billion (2019: K22.4 billion).

The depreciation of the kwacha against the US dollar has not spared the stock market. According to BoZ data, the kwacha depreciated by 50.6% against the US dollar between 31 December 2019 and 31 December 2020. Several factors have contributed to the deep and sustained depreciation of the kwacha, including persistent fiscal deficits, high debt distress and a recession triggered by the onset of the COVID-19 pandemic. These factors, in addition to historically heavy dependence on copper export earnings, have continued to expose the fragility of the local currency. Furthermore, a default on Eurobond coupon payments in the last quarter of 2020 resulted in a sovereign downgrade and a deterioration in investor confidence, piling more pressure on the already weak currency.

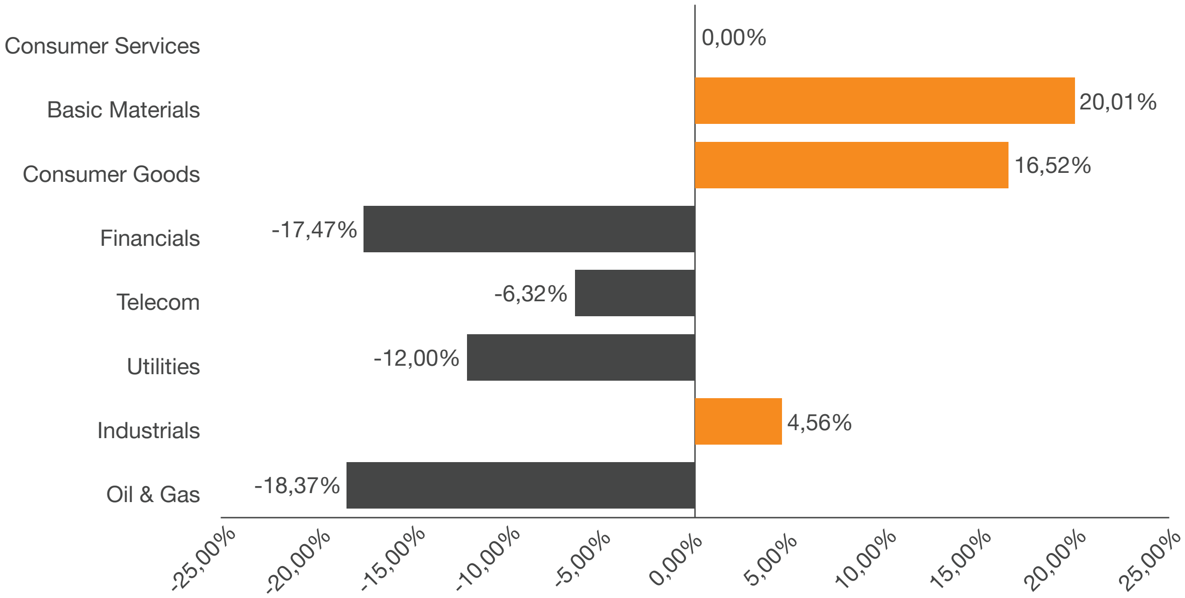
The market capitalisation in dollar terms as at 31 December 2020 and 31 December 2019 was USD2.7 billion and USD4 billion respectively. The significant depreciation of the currency resulted in USD1.3 billion being wiped off the value of the stock market between the two reporting dates. In addition to the depreciation of the kwacha against the dollar, the fall in share prices of most stocks – with the exception of ZCCM-IH (+36%), Zambia Sugar (+2%) and Lafarge Cement Zambia (6.15%) – contributed to the decrease in the market capitalisation.

The graphs below show our analysis of market capitalisation for each sector represented on LuSE in Zambian kwacha:

Market cap by sector, 2019 v 2020 (K' million)



Change in market cap, 2019 v 2020 (%)



Source: PwC analysis

From the analysis above we observed a reduction in the market capitalisation in four sectors: financials, telecoms, utilities, and oil and gas. The reduction was mainly driven by the fall in the share price of the companies within these sectors between the two reporting dates. While losses were experienced in these four sectors, gains were recorded in three sectors – consumer goods, basic materials and industrials. The gains were mainly due to the increase in ZCCM-IH's share price and the listing of ZAFFICO during the year. No movement was recorded in the consumer services sector because the share price of the two companies that make up the sector, Shoprite and Pamodzi Hotels, did not record any change.

Performance of LuSE

A stock market's performance can be measured by calculating changes in the stock price/value of all the companies listed. LuSE All share index is the only index available to investors in Zambia and is, therefore, a good representation of the performance of listed companies in Zambia.

The table below summarises the LuSE All share index (LASI) between the two reporting dates under consideration:

Description	31 December 2020	31 December 2019	Change	Change %
All share index (ASI)	3,912.33	4,265.51	(353)	(8%)

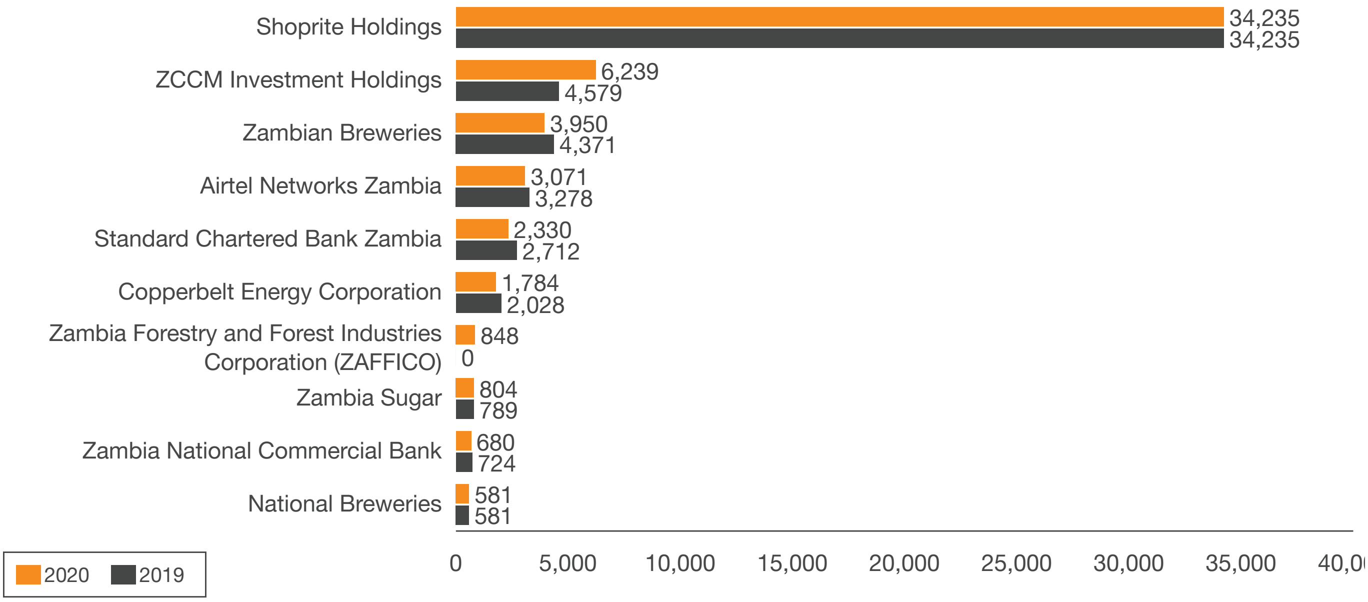
Between 31 December 2019 and 31 December 2020, LuSE lost 8% of its value.

We observed a similar trend in some of the other stock markets in Southern Africa and East Africa, with stock markets falling in Uganda, Kenya, Tanzania and Botswana during 2020. However, in contrast, four of the eight stock markets analysed rose during the year, including South Africa, Zimbabwe, Rwanda and Malawi. The below tables shows the percentage change in these eight stock markets in Southern and East Africa:

Description	Country	31 December 2020	31 December 2019	Change	Change %
JSE/FTSE All share index (ASI)	South Africa	59,409.00	57,084.00	2,325.00	4%
ZSE All share index (ASI)	Zimbabwe	2,636.00	230.00	2,406.00	1,046%
USE All share index (ASI)	Uganda	1,309.86	1,800.72	(490.86)	(27%)
RSE All share index (ASI)	Rwanda	148.15	135.58	12.57	9%
NSE All share index (ASI)	Kenya	152.11	166.41	(14.30)	(9%)
Malawi MSE All share index (ASI)	Malawi	32,392.84	30,252.20	2,140.64	7%
DSE All share index (ASI)	Tanzania	1,816.88	2,059.21	(242.33)	(12%)
Botswana Domestic Companies Index	Botswana	6,879.35	7,494.55	(615.20)	(8%)

Source: African Markets

Closing share price, 31 December 2019 vs 31 December 2020 (K)



Source: PwC analysis

The table below shows the companies that recorded an increase in their share price between 31 December 2019 and 31 December 2020. ZCCM-IH and Zambeef Products both saw their share price increase substantially during the year, rising 36.2% and 22.2% respectively in 2020. Meanwhile, ZAFFICO was a new listing in 2020 and therefore shows a 100% increase between the two dates and a 2.9% increase from the IPO offer price.

Name of company	Closing share price 31 December 2020	Closing share price 31 December 2019 (K)	Change %
Zambia Forestry and Forest Industries Corporation – ZAFFICO	2.12	2.06*	2.9%
ZCCM Investment Holdings	38.80	28.48	36.2%
Zambeef Products	1.10	0.90	22.2%
Lafarge Cement Zambia	2.07	1.95	6.2%
Zambia Sugar	2.55	2.50	2.0%

**IPO offer price*

The table below shows companies whose share price fell in 2020. Real Estate Investments Zambia recorded the biggest share price drop. Its share price fell from K4.49 per share on 31 December 2019 to K0.39 at the end of 2020 – a fall of 91.31%. Other companies that saw their share price fall during the year include CEC Africa Investment (27.8%), Puma Energy Zambia (18.4%), Standard Chartered Bank Zambia (14.1%) and Copperbelt Energy Corporation (12%).

Name of company	Closing share price 31 December 2020	Closing share price 31 December 2019	Change %
Real Estate Investments Zambia	0.39	4.49	(91.3%)
CEC Africa Investment	0.13	0.18	(27.8%)
Puma Energy Zambia	0.80	0.98	(18.4%)
Standard Chartered Bank Zambia	1.40	1.63	(14.1%)
Copperbelt Energy Corporation	1.10	1.25	(12.0%)
Zambian Breweries	7.23	8.00	(9.6%)
Airtel Networks Zambia	29.49	31.48	(6.3%)
Zambia National Commercial Bank	0.47	0.50	(6.0%)
British American Tobacco Zambia	1.80	1.90	(5.3%)
AEL Zambia	20.50	21.00	(2.4%)
Zambia Bata Shoe Company	2.60	2.65	(1.9%)
Metal Fabricators Of Zambia	4.78	4.79	(0.2%)

Of the twenty four companies currently listed on LuSE, no share price movement was recorded in seven companies. These companies are shown in the table below.

Name of company	Closing share price 31 December 2020	Closing share price 31 December 2019	Change %
Shoprite Holdings	63.00	63.00	0.0%
National Breweries	9.21	9.21	0.0%
First Quantum Minerals	3.70	3.70	0.0%
Madison Financial Services	2.88	2.88	0.0%
Investrust Bank	12.00	12.00	0.0%
Zambia Reinsurance	2.80	2.80	0.0%
Pamodzi Hotels	0.62	0.62	0.0%

If we average share price movements for 2020 (excluding ZAFFICO), companies on average lost 5.59% of their value.

2. Business and financial performance

Business performance: The impact of COVID-19, the general performance of the economy and response

Globally, the impact of COVID-19 on companies' financial results has varied depending on the sector or type of company. A few sectors, such as food retailing, telecommunications and capital markets, initially benefited from the crisis, but many others have been negatively affected, including most manufacturing and services-related industries. The extent to which demand from both corporate customers and individual consumers has declined – whether directly because of imposed restrictions or indirectly because of behavioural changes – has had a big impact on how far companies have been affected by the pandemic. Passenger transportation, hospitality, entertainment, tourism, and consumer goods and non-food retail have been among the industries hit hardest. The figure below summarises the effect by sector.

COVID-19's impact on non-financial services industries

Impact	Industry sector	**Comments** (exemplary)
Positive	Digital platforms	**Increased consumption** due to pandemic (e.g., of masks) and increased use of digital platforms and digitisation efforts across industries
Neutral	Consumer goods & retail (food); Telecommunications	Stable B2C consumption as more consumers **work from home** and **travel is limited**
Slightly negative	Agriculture; Healthcare; Utilities; Pharma & life sciences; Technology & software	Overall reduction in economic activity and GDP drives **less consumption**. Workforce **availability** and/or **productivity** are at risk
Negative	Chemicals; Industrial manufacturing; Freight transportation	**Production stopped** or **output reduced** throughout lockdown, uneven recovery
Very negative	Services; Consumer goods & retail (non-food); Automotive; Entertainment & media; Passenger transportation, travel, hospitality	**Point-of-sale closure** and **order cancellations** through lockdown, time frame and strength of recovery unclear

Source: PwC

In Zambia, we have seen some companies closing shops or cutting production, while others have enjoyed better performance than they have seen in years.

Highlights

	Revenue	Operating expenses	Finance costs	Profit before tax
Financial Services	29% ↑	51%	44%	52% ↓
Consumer services and consumer goods	7% ↑	7% ↑	28% ↑	10% ↓
Basic materials, utilities, industrial, oil and gas	23% ↑	23% ↑	42% ↑	71% ↑
Telecoms	21% ↑	48% ↑	117% ↑	221% ↓

The individual performance of each sector has been further analysed below.

Financial Services

In this analysis, the following companies were considered based on the available public annual financial statements:

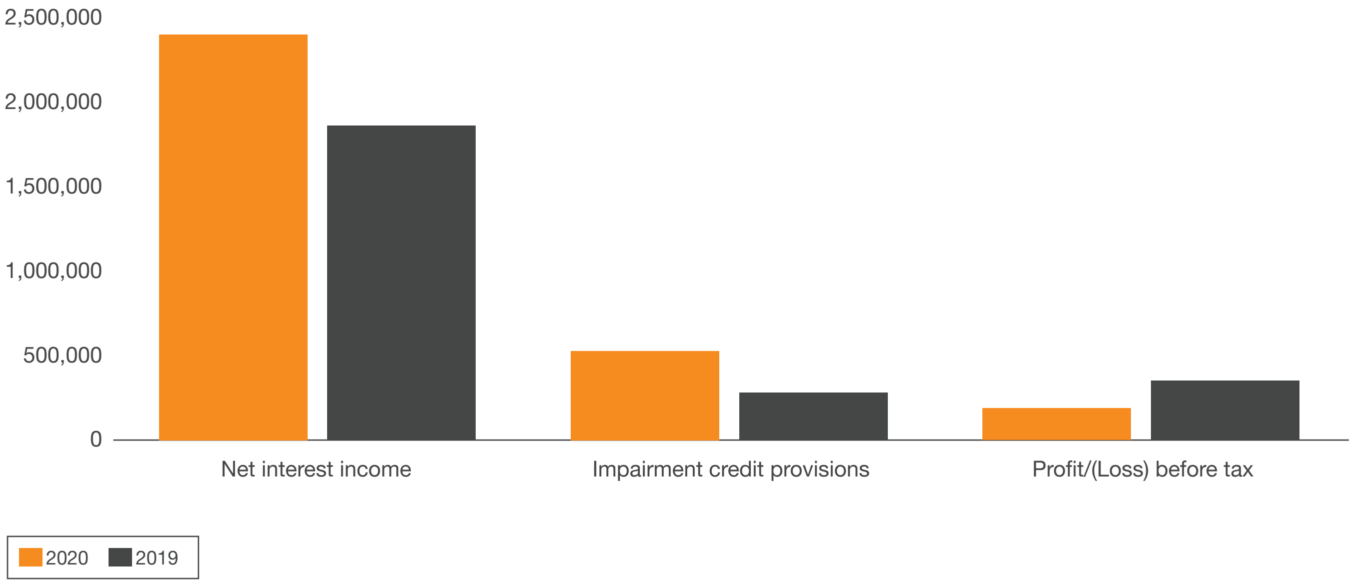
- Standard Chartered Zambia
- Zambia National Commercial Bank
- Cavmont Bank
- Real Estate Investments Zambia
- Zambia Reinsurance

For the purposes of this analysis we analysed Standard Chartered Zambia, Zambia National Commercial Bank and Cavmont Bank separately from Real Estate Investments Zambia and Zambia Reinsurance. It is important to note that Standard Chartered Zambia, Zambia National Commercial Bank and Cavmont Bank are registered commercial banks with big exposure to both retail and corporate clients in Zambia. In terms of the type of products they offer, these companies mostly offer traditional banking services with some exposure to the government through investments in government securities. Real Estate Investments Zambia and Zambia Reinsurance are other companies in the financial sector.

Financial performance analysis (commercial banks)

Net interest income, profit/loss and impairment for credit losses.

Impact on income, impairment and PBT ('K'thousand)



Source: PwC analysis

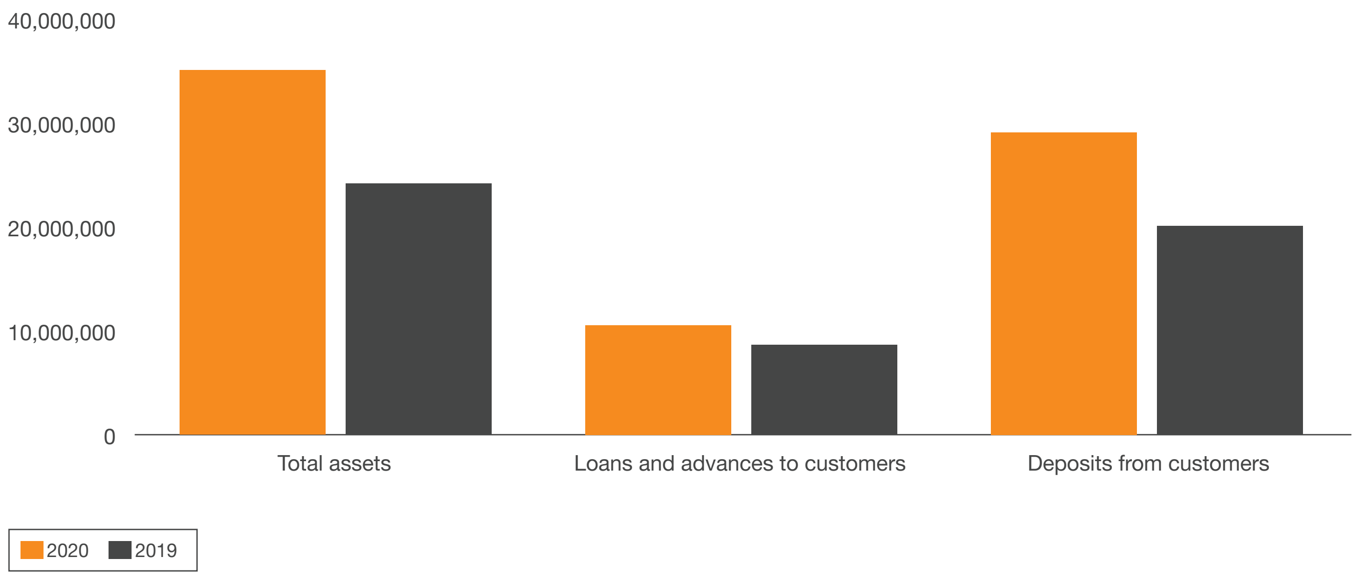
Analysis of net interest income, profit/loss and impairment for credit losses for commercial banks shows that despite an increase in the net interest income in 2020 from K1.76 billion to K2.28 billion – which arose mainly as a result of the expansion of product and service offerings – listed commercial banks recorded significantly less profits before tax compared to 2019. Average profits before tax for listed commercial banks fell from K321 million in 2019 to K201 million in 2020. Further analysis shows that this may be attributed to an increase in the provision for credit risk losses, which increased from K279 million in 2019 to around K527 million in 2020. Banks were forced to increase provisions because customers were struggling to repay loans in the wake of lockdowns and restrictions in business activity.

Our analysis shows that most commercial banks took active measures to help struggling customers by, for example, offering payment holidays, particularly for corporate customers.

The pandemic also increased the credit risk involved in holding government securities. Analysis of the three commercial banks shows that all three increased their credit provisions for government securities in 2020 to over 100%.

This increased credit risk resulted in a reduction in profit before tax. However, this did not affect the banks' balance sheet position, which showed an improvement in indicators tracked by the industry such as total assets, loans and deposits in 2020.

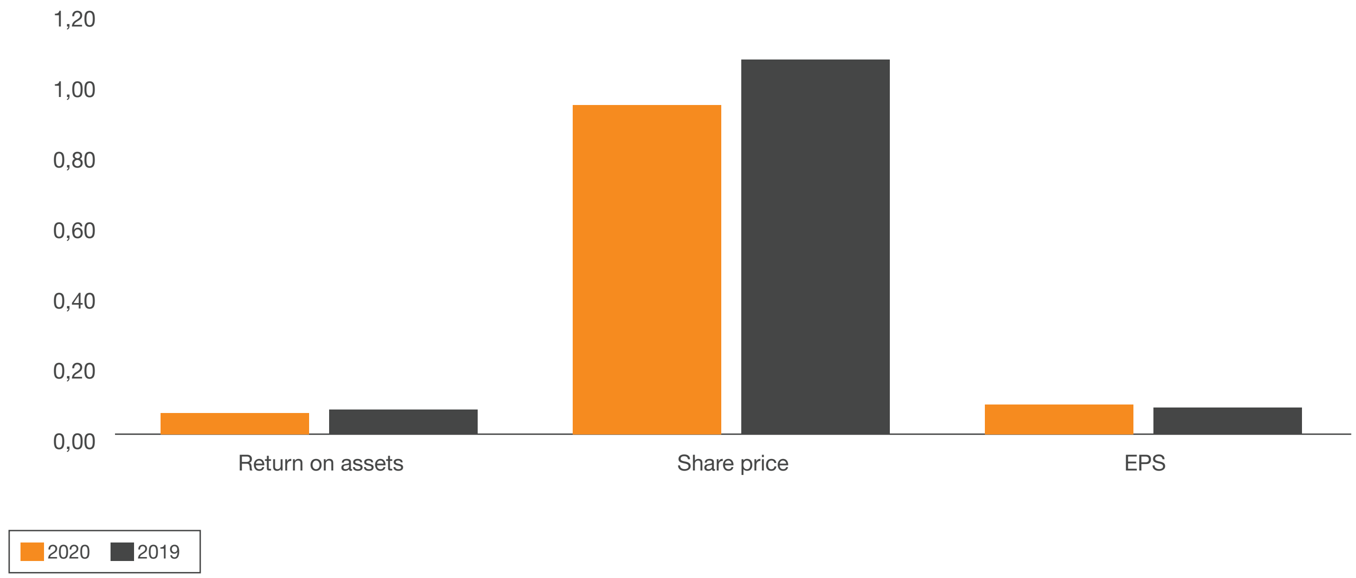
Impact on assets and liabilities ('K'thousand)



Source: PwC analysis.

The market indicators for the commercial banks were impacted as illustrated in the graph below:

Impact on market indicators (K)



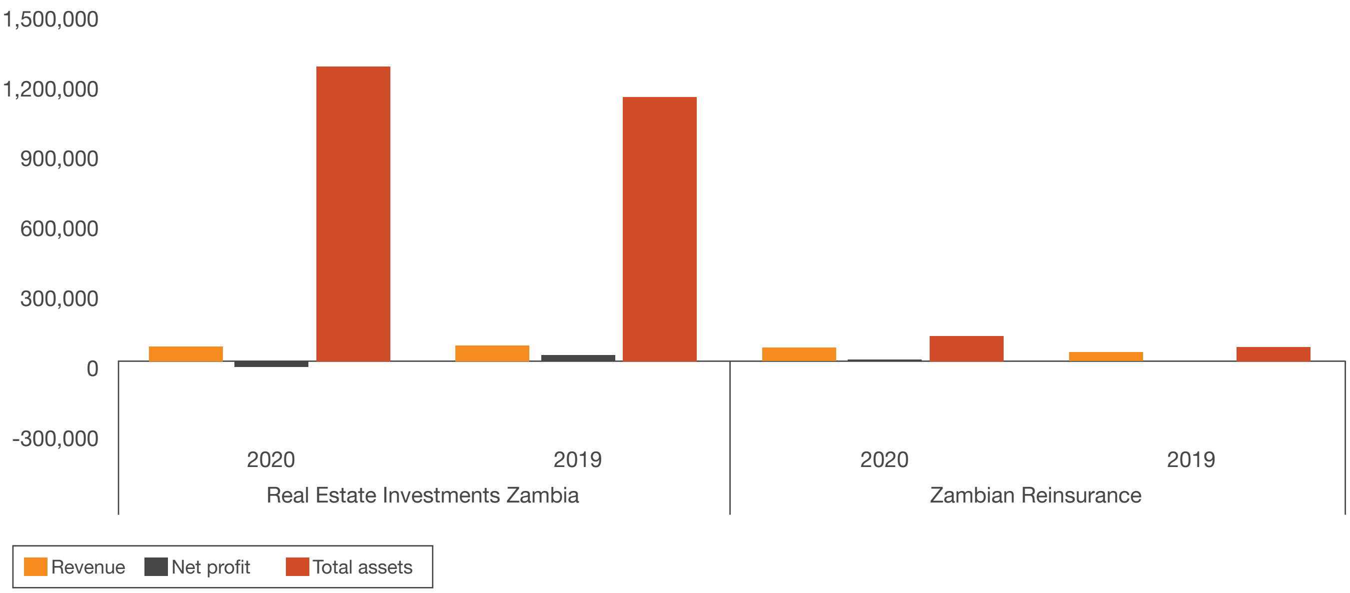
Source: PwC analysis.

The average share price for the three commercial banks fell from K1.065 in 2019 to K0.935 in 2020. This is despite the fact that earnings per share increased to K0.0845 per share compared to the prior year closing number of K0.075 per share. This may have been because investors did not invest in this sector due to economic uncertainty and the expectation that banks would be hit hard by the pandemic. The closing return on assets also finished the year at a lower rate, at 6%, down from 7% in 2019.

While credit risk undoubtedly increased due to the impact of COVID-19, other factors also contributed to banks' low profit before tax, including rising inflation and the depreciation of the kwacha which lead to higher costs of doing business.

Real Estate Investments Zambia and Zambia Reinsurance performance analysis (Other financials)

Other Financial Services performance indicators K(thousands)



Source: PwC analysis

As the graph above shows, Real Estate Investments Limited was adversely impacted by the pandemic and the economic downturn. Company revenue fell by 7% in 2020 from K67.4 million in 2019 to K62.5 million last year, while a net loss after tax of K24.3 million represented a 192% decrease in profit after tax, which was K26.5 million in 2019.
The reduction in revenue was caused by an increase in vacancy rates as several corporate clients downsized their office rental space and other businesses closed. Additional revenue was lost through tenant retention measures such as foregoing rental income from tenants who were directly shut down by the government, extending rental discounts, and capping US dollar denominated rentals at an exchange rate lower than the market rate. Net profit was eroded due to the increase in finance costs and significant foreign exchange losses experienced on US dollar denominated debt. Net finance expenses increased by 48% (K40.2 million in 2020 compared to K27.2 million in 2019), while exchange losses increased to K150.9 million in 2020 compared to K42 million in 2019, representing an increase of 260%.

Zambia Reinsurance, on the other hand, noted an increase in total revenue of 50% (K57.7 million in 2020 compared to K38.3 million in 2019) as well as a profit after tax of K6.7 million compared to a profit in 2019 of K3.612 million, representing an increase of 112%.

The company's financial position improved, with total assets increasing from K60.979 million in 2019 to K107.746 million in 2020. The increase in revenue and net profit is largely driven by higher exchange gains experienced during the period, as well as an increase in premiums.

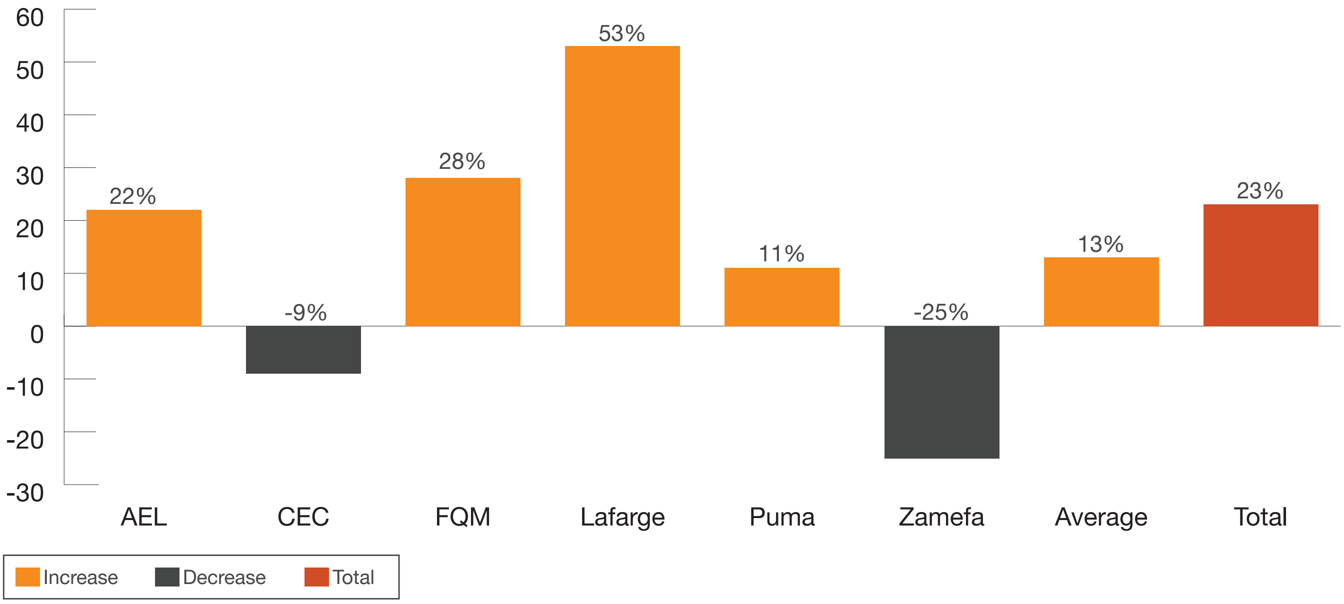
Basic materials, utilities, industrials, and oil and gas sectors

The following were analysed based on the publicly available financial data from the published financial statements:

- AEL Zambia (AECI)
- Copperbelt Energy corporation (CEC)
- First Quantum Mining (FQM)
- Lafarge
- Puma
- Metal Fabricators (Zamefa)

Overall, the sector showed improvement in key performance measures in 2020, including revenue, Earnings before interest, taxes, depreciation and amortisation (EBITDA) and net profit. This is mainly due to increased sales volumes and an increase in commodity prices.

Revenue analysis



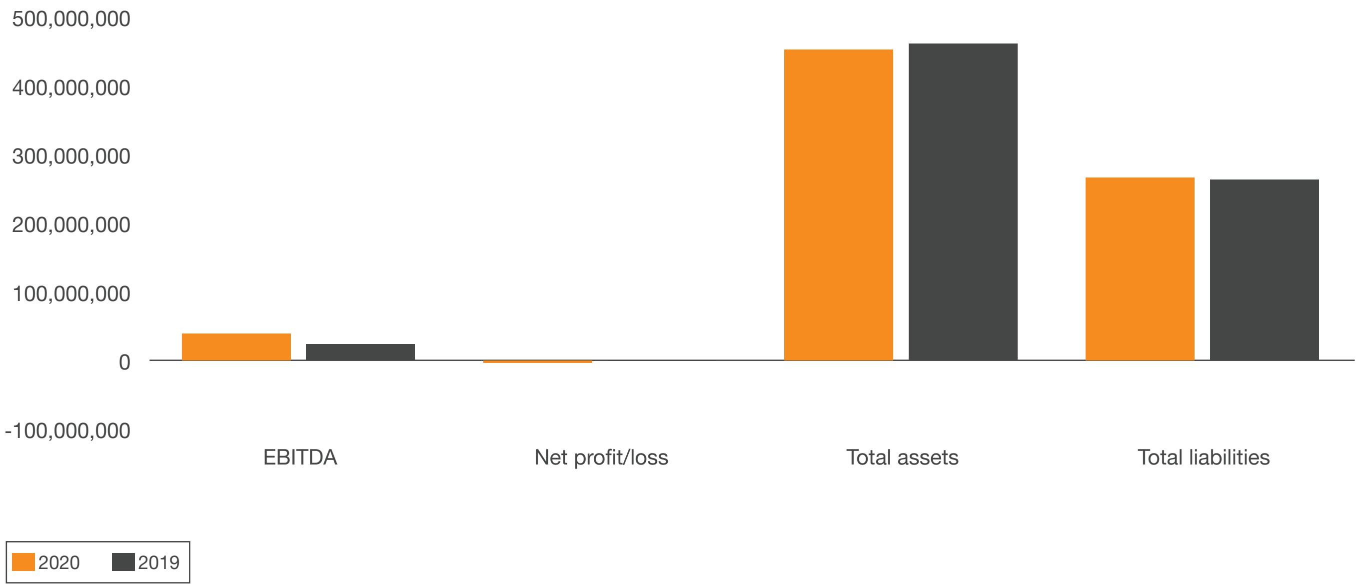
Source: PwC analysis

As illustrated above, all companies with the exception of CEC and Zamefa recorded an increase in revenue. The reduction in revenue for CEC was attributed to the expiry of the company's bulk supply agreement with ZESCO, which lead to a change in its operating model. Meanwhile, the reduction in revenue for Zamefa was mainly because of lower sales volumes due to the unavailability of copper cathodes during the first half of the company's financial year.

The overall increase in the sector's revenue can perhaps be attributed to the fact that the sector benefited from the depreciation of the kwacha as most of these companies' earnings are in US dollars. An increase in copper prices in the last quarter of the financial year also helped.

Overall, all other indicators improved in 2020 compared to the previous year.

Basic Materials, Utilities, Industrials, and Oil and Gas sectors ('K'thousand)

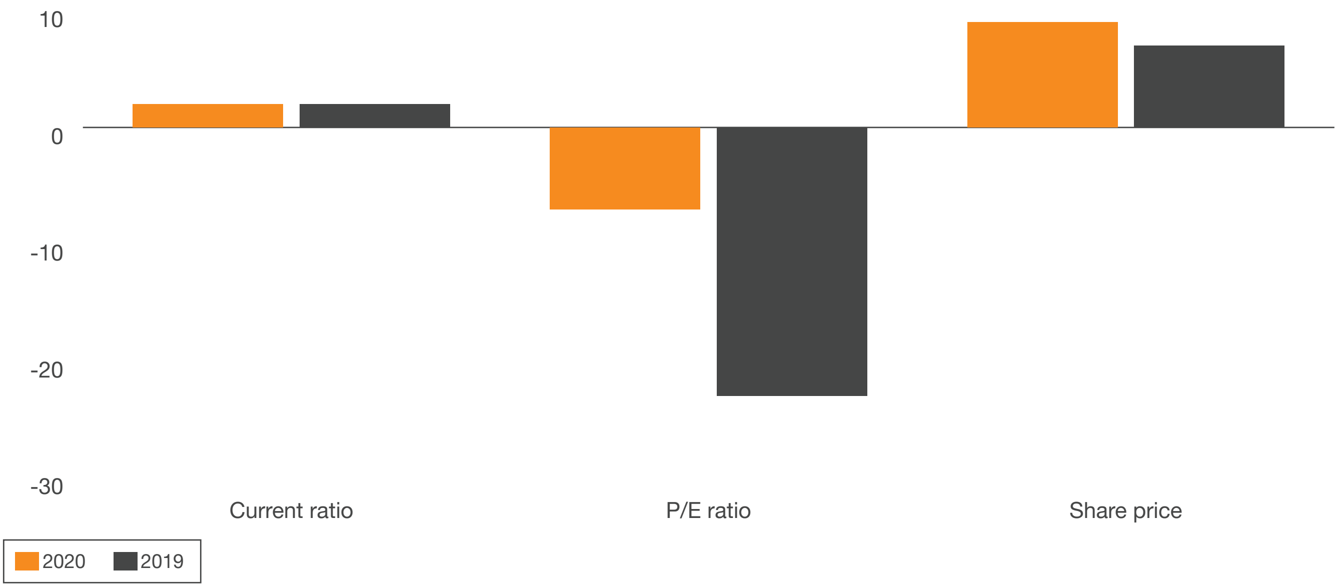


Source: PwC analysis

Appetite for shares in these companies remained firm in 2020, most likely because investors believed these companies were less likely to be affected by broader economic problems. Indeed, companies in this sector benefitted from the weak Kwacha. This is because most of these companies' revenue is in US Dollars but they report financially in Kwacha.

Overall, the sector remained resilient in the year, showing a better performance, mainly due to the fact that the depreciation of the kwacha was good for the industry that is mostly dollar denominated in terms of revenue while the financial reporting is kwacha based. An increase in copper prices was noted towards the last quarter of the financial year. As a result, we noted that investors had appetite for the sector as indicated by the below market indicators:

Basic Materials, Utilities, Industrials, and Oil and Gas sectors (K)



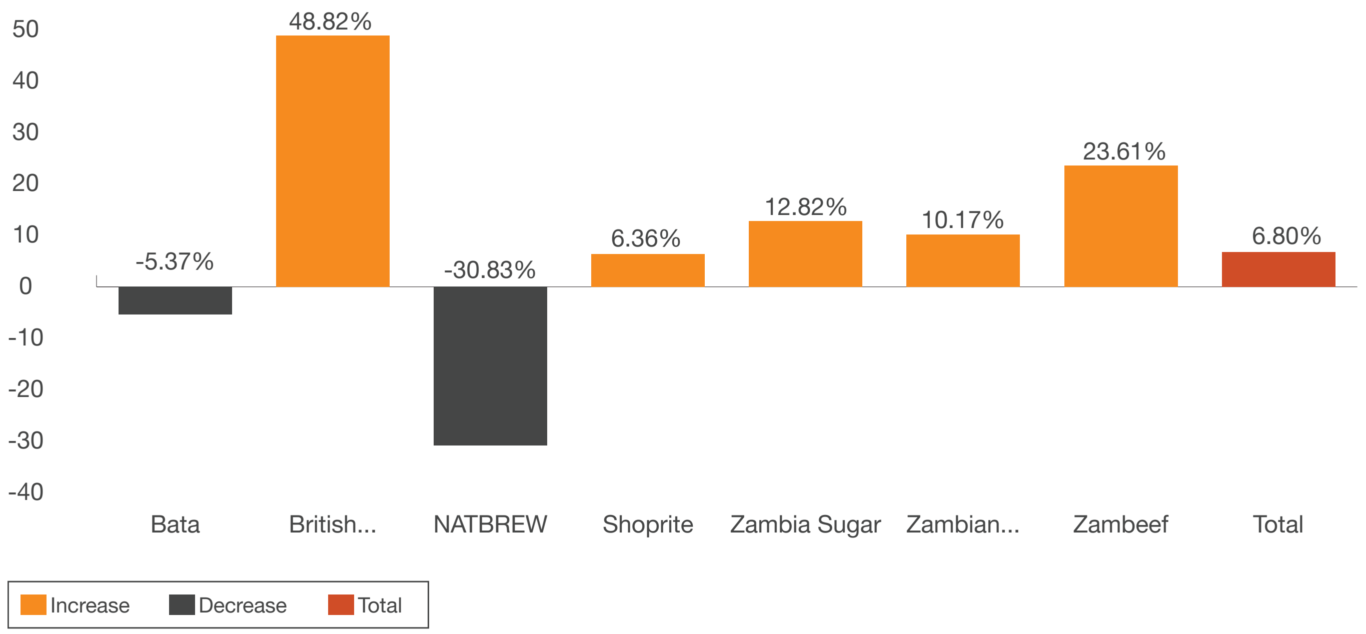
Source: PwC analysis

Consumer services and consumer goods sectors

The following were analysed based on the publicly available financial data:

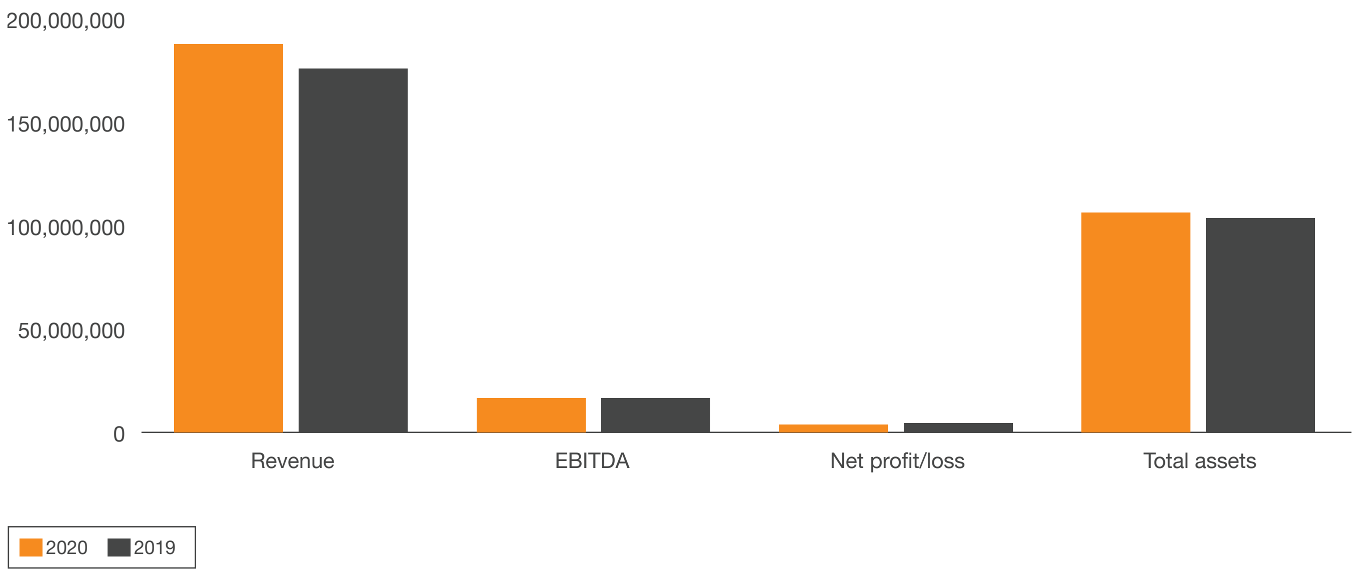
- Bata
- British American Tobacco (BAT)
- National Breweries
- Shoprite
- Zambia Sugar
- Zambeef
- Zambian Breweries

Revenue movements



Source: PwC analysis

Consumer Services and Consumer Goods K (thousands)



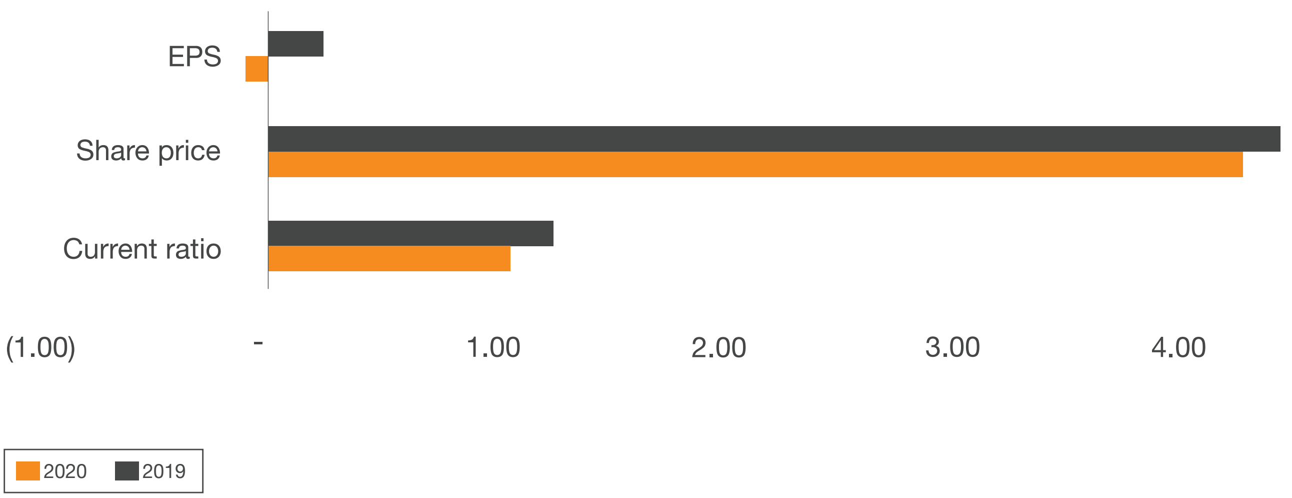
Source: PwC analysis

The consumer goods and consumer services sectors recorded a reduction in net profits in 2020 compared to 2019. This was despite a 10% increase in revenue recorded. The increase in revenue could have been attributed to an increase in sales volumes as well as commodity price increases due to inflation and the impact of the depreciation of the kwacha on imported goods, which were passed on to customers as price adjustments.

Other indicators that we analysed relate to the EBITDA and total assets. EBITDA remained relatively stable compared to 2019, while total assets showed an increase of 3%.

Further analysis of the market indicators such as the earnings per share, the share price and the current ratio were affected as illustrated below:

Impact on selected ratios (K)



Source: PwC analysis

As the graph above shows, earnings per share, the share price and current ratio were all down in 2020 compared to 2019, with earnings per share falling into negative territory.

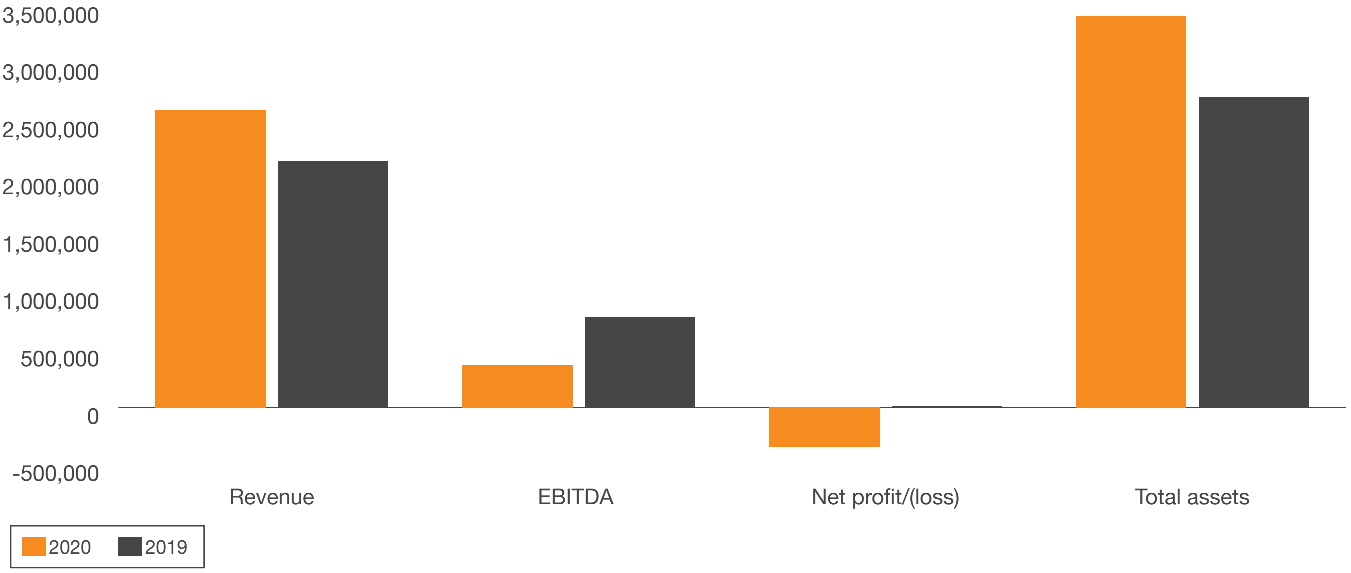
Thus consumer goods and consumer services companies appear to have been affected more by the pandemic than companies in the basic materials, utilities, industrials, and oil and gas sectors. Inflation brought about by the depreciation of the kwacha against other major currencies was the main reason for this under performance among consumer goods and services companies as it increased the cost of doing business and reduced customers' purchasing power.

Telecoms

The following were analysed based on the publicly available financial data from the published financial statements:

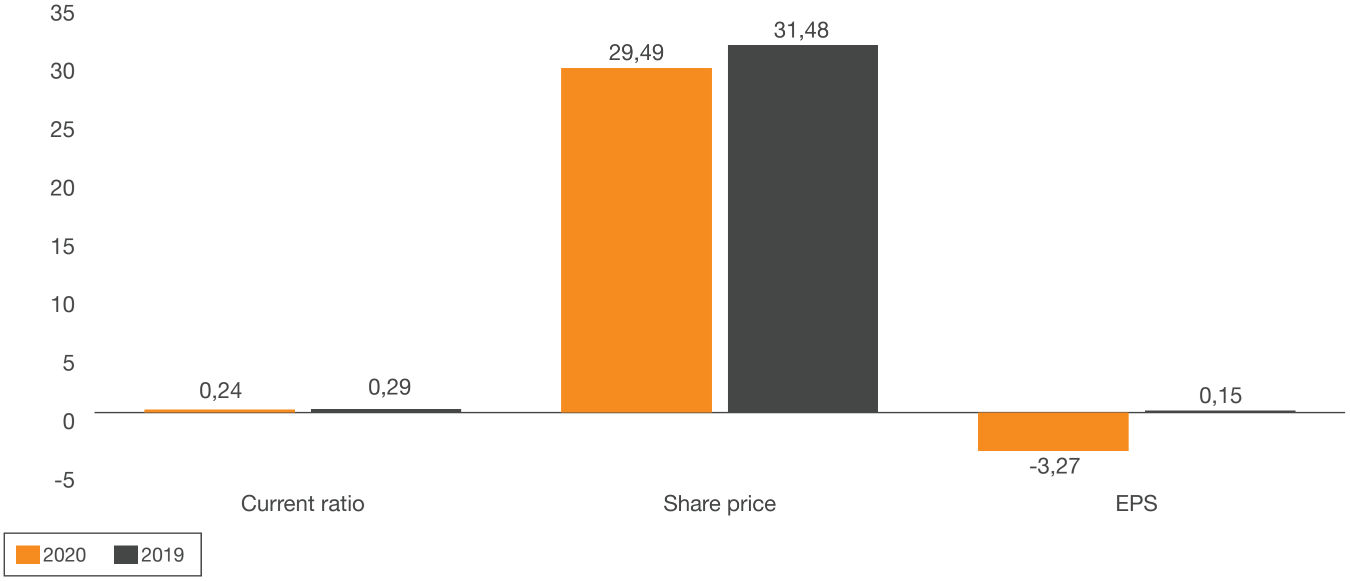
- Airtel Networks Zambia

Revenue, EBITDA, profits and assets (K'000)



Source; PwC analysis

Other indicators (K)



Source; PwC analysis

Revenue in the telecommunications sector increased due to higher volume of data usage as more people worked from home during the pandemic. Travel restrictions also ensured meetings were held virtually, again boosting sales of data. However, reductions were noted in EBITDA due to the higher cost of doing business, and the overall profitability of the sector decreased mainly because of significant increases in finance costs caused by unrealised foreign exchange losses mainly on foreign currency denominated borrowings.

3. Company dividend behaviour and stock performance

Listed companies experienced both significant gains and losses in their stock price. We have analysed dividend behaviour in relation to the stock performance of the listed companies on LuSE below.

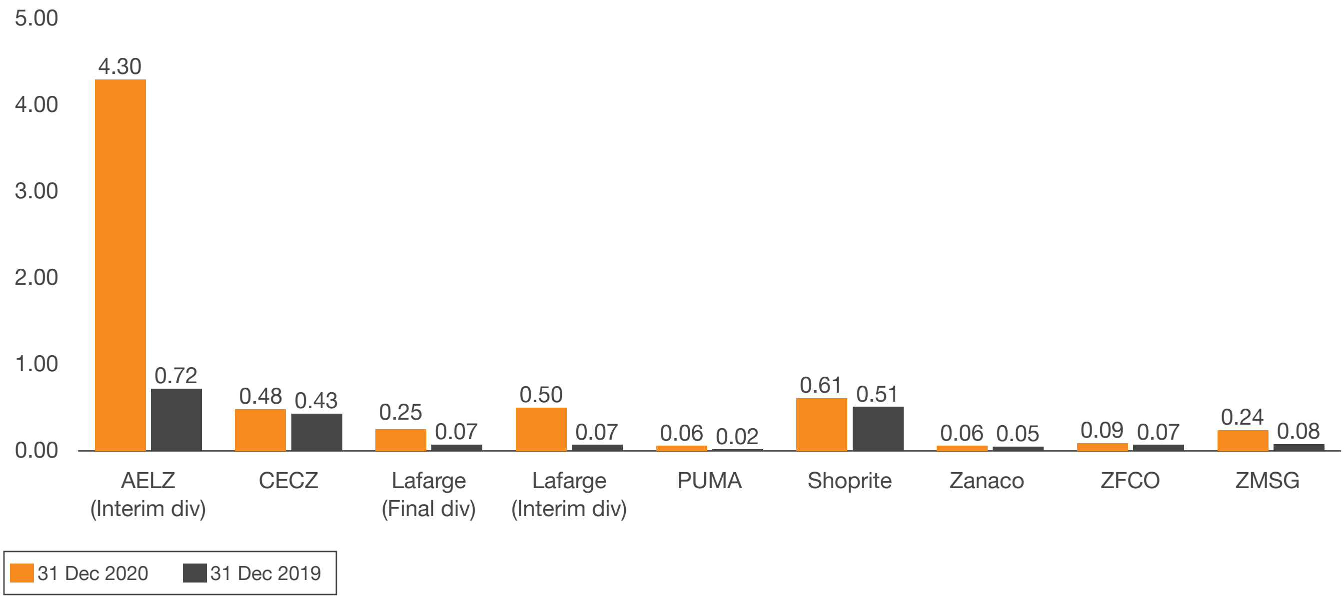
Dividend analysis

Our analysis illustrates that despite the COVID-19 pandemic, dividends were paid out by some companies operating in the following sectors: financials, basic materials, industrials, utilities, consumer goods and consumer services sectors.

Companies whose dividend per share has increased

Eight of the 13 companies that paid out dividends in 2019 increased the dividend amount per share in 2020. Furthermore, two companies operating in the industrial and basic materials sectors, Lafarge Cement Zambia and AEL Zambia, generated positive cash flows all year round and were therefore able to pay out both the interim and final dividends to shareholders.

Listed companies: Dividend increase (K)

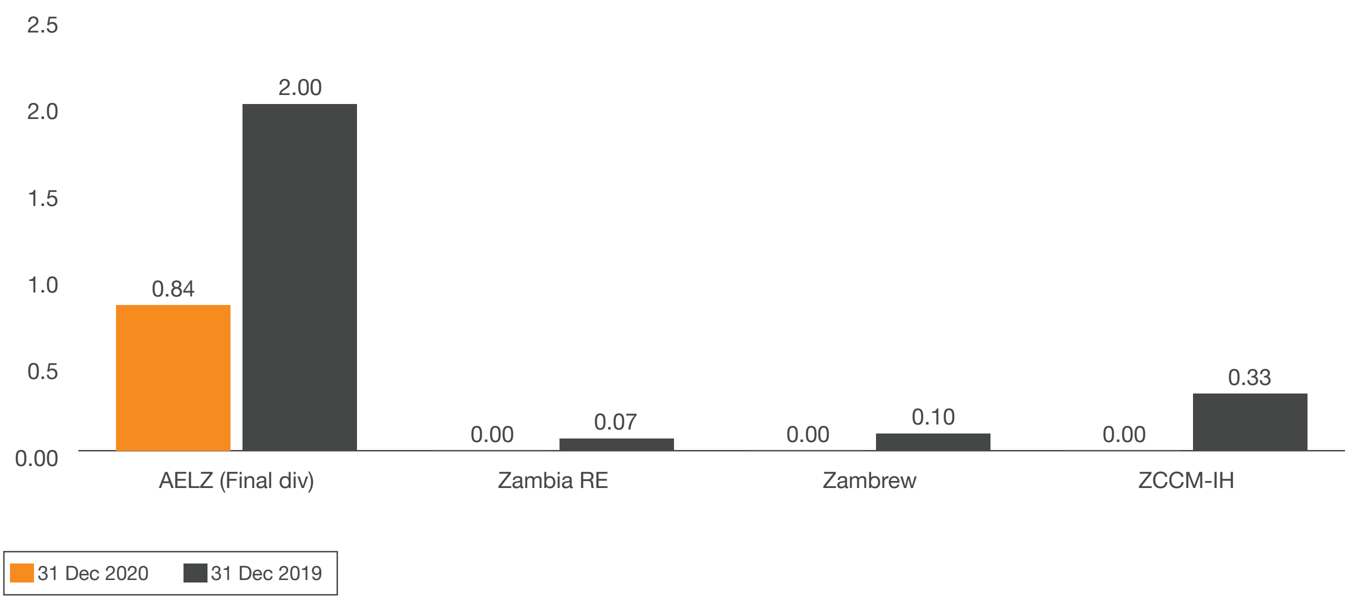


Source; PwC analysis

Companies whose dividend amount per share reduced

We noted that in the period under review, four of the 13 companies that paid out final dividends in 2019 reduced the dividend amount per share in 2020. Furthermore, three of the four companies chose not to make any dividend payments in 2020 whereas they had paid dividends in 2019.

Listed companies: Dividend increase (K)



Source: PwC analysis

Companies whose dividend per share was unchanged:

	31 December 2019 (K)	31 December 2020 (K)
First Quantum Minerals Zambia	0.09	0.09
Zambia Bata Shoe Company	0.02	0.02

Source: PwC analysis

Furthermore, in the period under review, two of the 13 companies that paid out dividends in 2019 paid the same dividend amount per share in 2020. According to First Quantum Minerals dividend policy, final dividends are determined based on the financial performance during the previous applicable financial year. On the other hand, Zambia Bata Shoe companies dividends payout remained the same in 2020 as a result of the impact Covid-19 had on the company.

Companies which did not pay out any dividends

Eleven companies chose not to pay out dividends in both 2019 and 2020. The majority of the companies were in the financial sector. Companies which did not pay out dividends are Airtel Networks Zambia, British American Tobacco Zambia Limited, CEC Africa Investments, Investrust Bank, Madison Financial Services, Metal Fabricators of Zambia (ZAMEFA), National Breweries, Real Estate Investments Zambia, Standard Chartered Bank Zambia, Taj Pamodzi Hotels and Zambeef Products.

We also noted that dividends were paid out by some companies as a result of their dividend policies. Our review of annual reports showed that companies such as First Quantum Minerals & Copperbelt Energy Corporation (CEC) paid out dividends during the pandemic.

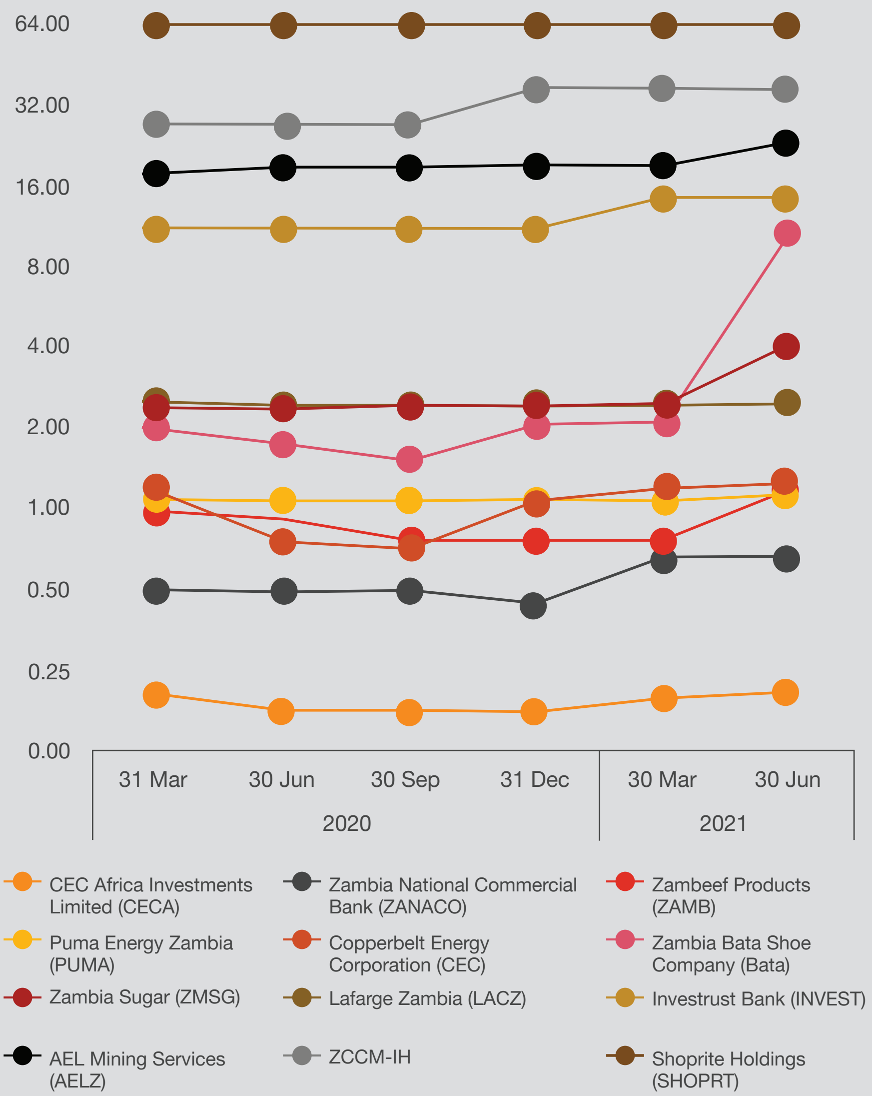
Only 10 out of the 13 companies that paid out dividends for the 2019 financial year declared dividends for 2020. Zambia Breweries and Zambia Reinsurance opted not to pay dividends as a result of a challenging financial year, whereas ZCCM-IH is yet to state whether dividends will be declared or not for 2020 after declaring a final Dividend of K0.33 per share for the nine-month period ended 31 December 2019 which was approved by the shareholders. Other companies, including Airtel, CEC Africa Investments, Madison Financial Services, National Breweries, Taj Pamodzi Hotels, Real Estate Investments Zambia, Standard Chartered, Zambeef and Metal Fabricators of Zambia, have not declared dividends since 2018. According to their annual reports, this was as a result of the macro-economic situation, COVID-19 pandemic, focusing on returning the business to profitability in the long-term, meeting debt obligations, currency devaluation, negative cash flows, an increase in operating expenses and reductions in net profits compared to prior year and investment in long term projects.

Share price: Major gainers and losers

Companies whose share price increased:

Our analysis shows that since the pandemic began the share price of some companies listed on LuSE has increased by between 24% and 502%. The major gainers are illustrated in the graph below:

Share price: Gainers (K)

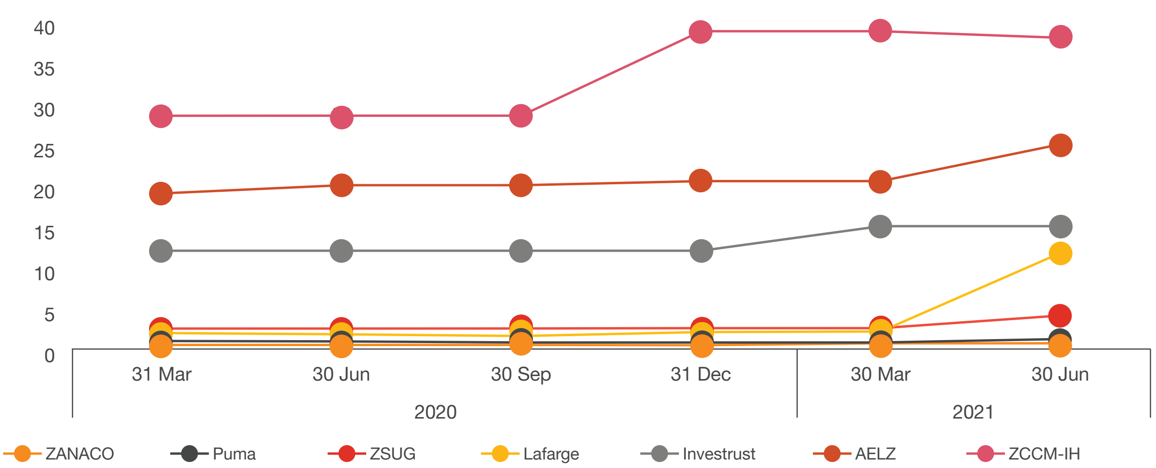


Source: PwC analysis

We noted that Lafarge Zambia (502%), Zambia Sugar (64%), Zambia National Commercial Bank (40%), ZCCM Investment Holdings (33%), AEL Zambia (32%), Investrust Bank (25%) and PUMA Energy Zambia (24%), were the major gainers between 18 March 2020 and

30 June 2021. This can be seen in the graph below:

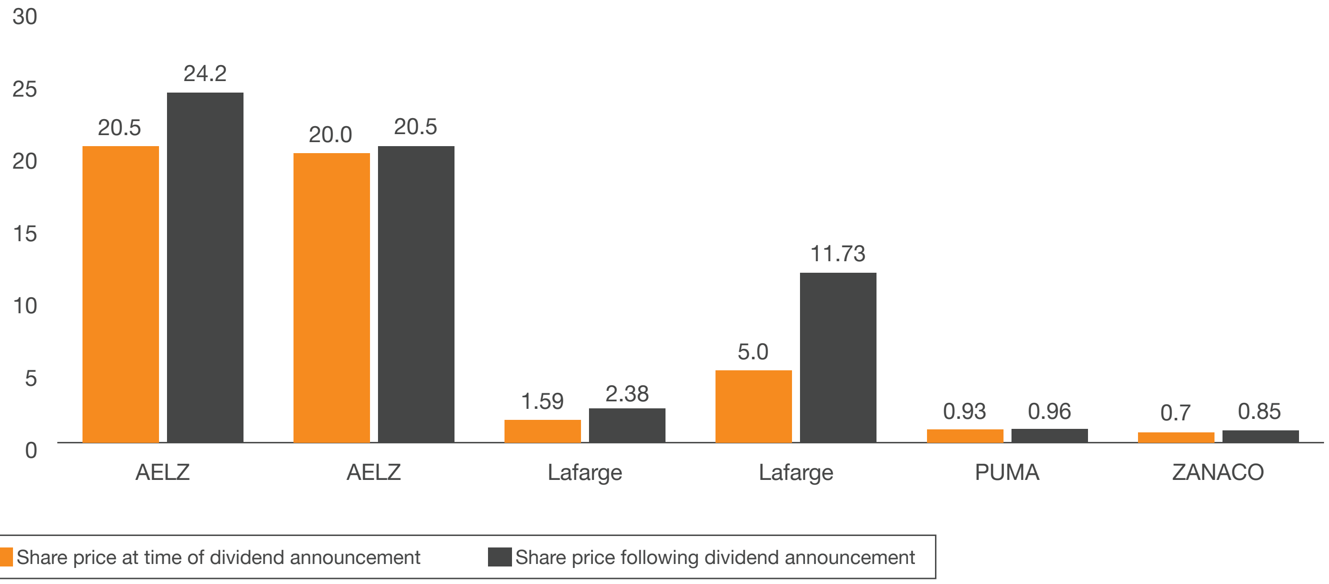
Share price by quarter: Gainers (March 2020 (K) – June 2021)



Source: PwC analysis

The share price of these companies rose for a couple of reasons. Firstly, the share price of a company started to gain value as soon as the payment of a dividend was announced. This mostly applied to growth/value stocks such as AEL Zambia , Copperbelt Energy Corporation, Lafarge Zambia and Zambia Sugar. The dividend announcements stated that the companies had positive financial performance and cash flows which enabled them to pay out dividends during the COVID-19 pandemic. We also noted a spike in stock trading once the dividend was announced as illustrated in the graphs below:

Changes in share price following dividend announcement (K)

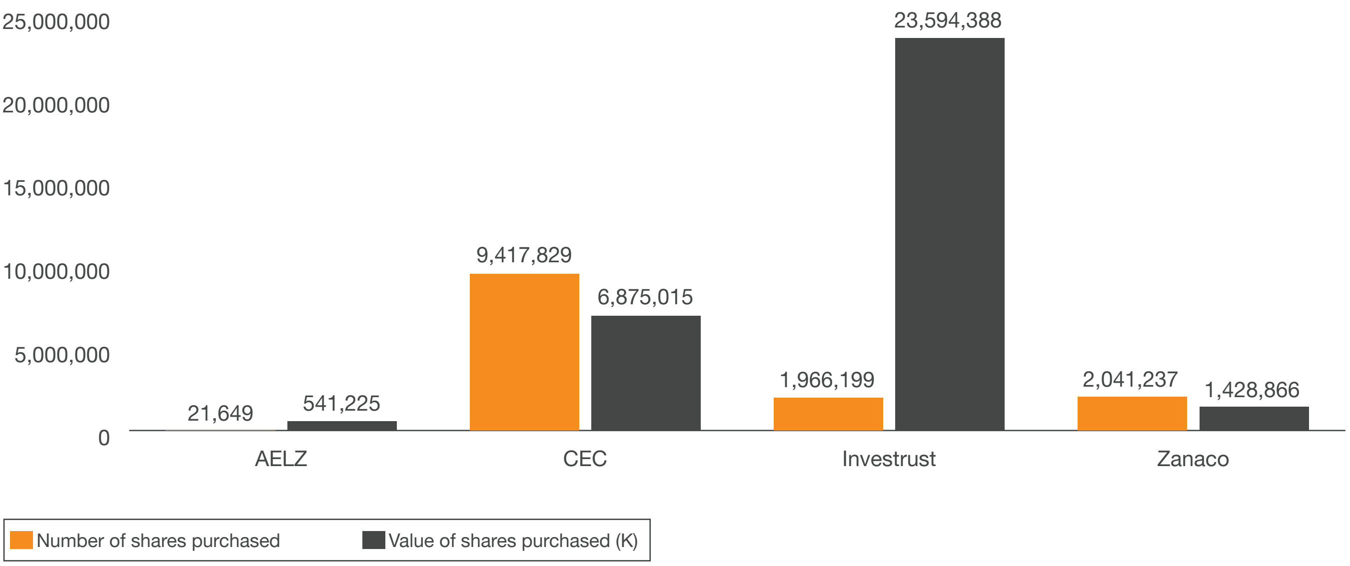


Source: PwC analysis

Secondly, our analysis revealed that the share price of Lafarge Zambia, ZCCM Investment Holdings and Investrust Bank increased by 502%, 33% and 25% respectively after the announcement of a merger or acquisition. We also noted that Cavmont Capital Holdings' share price remained the same despite the announcement of a potential merger and acquisition by Access Bank during the year.

Companies' share prices also rose when investors had confidence in the company and bought shares. The number of shares purchased has been summarized in the graph below:

Number and value of shares purchased



Source: PwC analysis

The graph below further illustrates the change in share price after bulk purchases of shares were done:

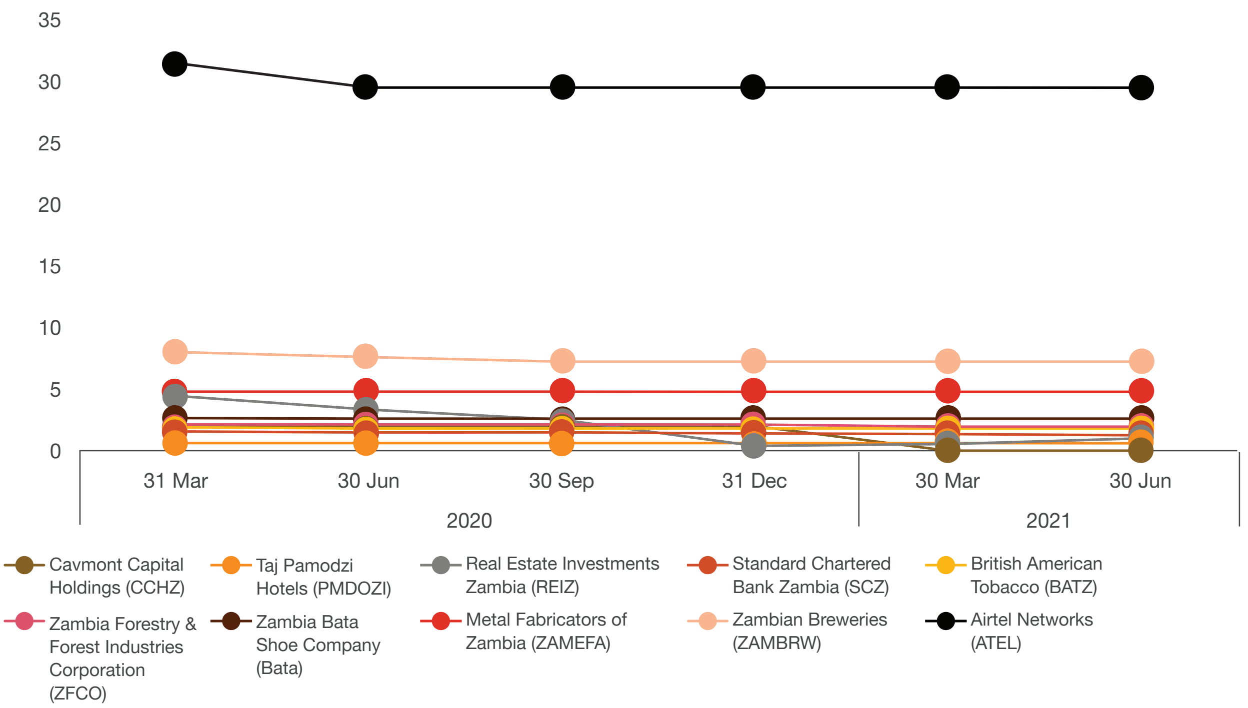
Change in share price following bulk share purchase (K)

Source: PwC analysis

Companies whose share price has declined

We noted that ten companies saw their share price fall over the period under review. This can be seen in the graph below.

Share price: Losers (K)

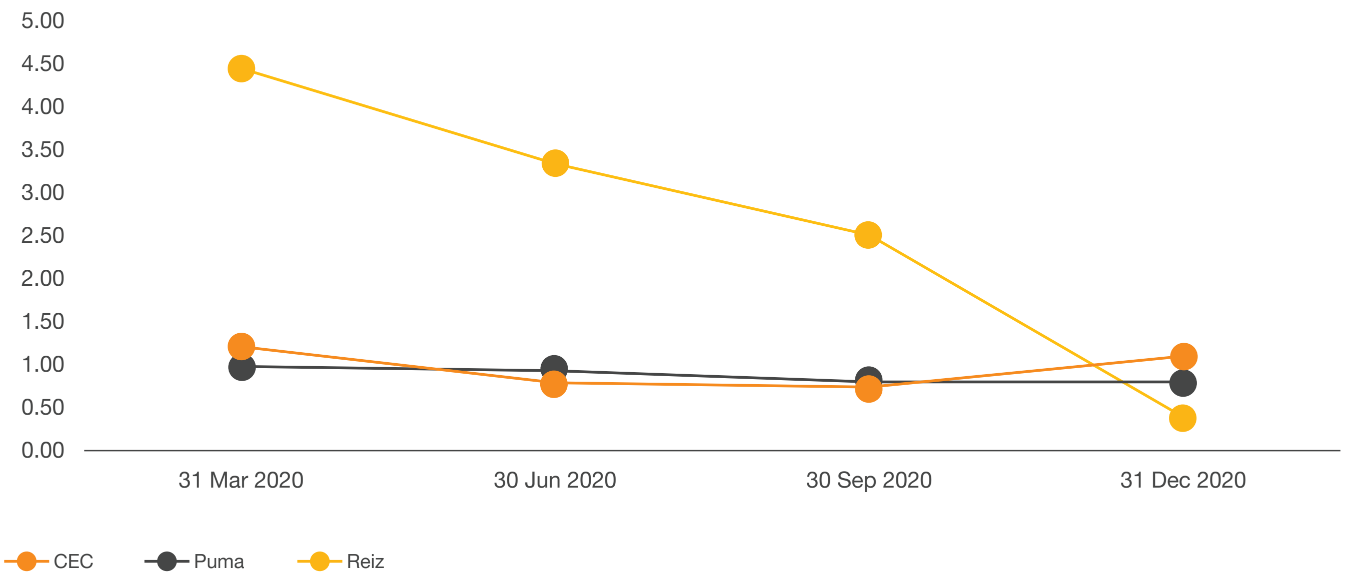


Source: PwC analysis

Of these ten, the three companies that saw the biggest share price falls were in the financial sector (Real Estate Investments Zambia) and the oil and gas and utilities sectors (Copperbelt Energy Corporation and PUMA Energy Zambia). Real Estate Investments Zambia's share price fell 91% between March and December 2020, while CEC and PUMA's fell 68% and 22% respectively.

The shareholders' reports for Real Estate Investments Zambia and PUMA Energy Zambia stated that this was not only as a result of the COVID-19 pandemic but also the impact of the devaluation of the kwacha, government legislation, bad debt provisions and an increase in operational costs as a result of inflation. In the case of Copperbelt Energy Corporation, the share price began to drop after 30 March 2020, which was immediately after Copperbelt Energy Corporation announced the power purchase agreement, or bulk supply agreement, between Copperbelt Energy Corporation and ZESCO, which had been entered into on 21 November 1997, came to an end. This is illustrated in the graph below.

Share price by quarter: Losers (March 2020 – December 2020 (K)



Source: PwC analysis

Companies whose share price have remained unchanged

We noted that four companies operating in the financials, basic materials and consumer goods had the same share price over the period under review. This can be seen in the table below:

Company name	31 March 2020 (K)	30 June 2020	30 September 2020	31 December 2020
First Quantum Minerals	3.7	3.7	3.7	3.7
Madison Financial Services	2.88	2.88	2.88	2.88
National Breweries	9.21	9.21	9.21	9.21
Zambia Reinsurance	2.8	2.8	2.8	2.8

Source: PwC analysis

4. Operational cash flow analysis

Net cash flow from operating activities

K' million	2020	2019	Change	Percentage change
Financial Services	7,128.85	499.36	6,629.49	1,328%
Consumer Services	10,659.33	2,408.00	8,251.33	343%
Consumer Goods	1,151.83	541.31	610.52	113%
Basic Materials	1,666.17	929.13	737.03	79%
Telecoms	1,425.87	715.70	710.17	99%
Utilities	71.41	49.78	21.63	43%
Industrial	497.25	71.09	426.16	599%
Oil and Gas	242.68	(128.90)	371.58	(288%)

Financial Services

The table above shows a 1,328% increase in net operating cash flows from operating activities.. We observed that financial institutions, especially commercial banks' cash flow from operating activities significantly increased between the two years owing to the increase in customer deposits. ZANACO's customer deposits increased from K9.6 billion to K15.6 billion which represented a K5.8 billion movement in 2020 (2019: K948 million). Other notable increases observed were the bank's loans and advances to customers that increased by K2.7 billion (2019: K624.8 million). An increase in customer deposits was also noted in Standard Chartered Banks customer deposits which increased from K9.3 billion to K12.2 billion in 2020 representing a movement of K2.9 billion (2019: K1 billion). The significant increase was in part attributed to the depreciation of the Kwacha against the US dollar. Translation of US dollar-denominated customer deposits resulted in a higher Kwacha equivalent. In addition, to encourage customer deposits, the banks offered attractive interest rates on term deposits in 2020 compared to 2019.

Other sectors

All other sectors had varying movements in the net cash flows in operating activities. However, we observed significant movements in the consumer services, industrials, and oil and gas sectors, which had changes of 343%, 599% and 288% respectively.

The industrials sector, which comprises Lafarge and Zamefa, had a 599% movement between the two years. In 2020, Lafarge had a profit before tax of K342 million (2019: loss before tax of K23 million), an increase in the working capital movement of K107 million (2019: K54 million) mainly attributed to an increase in trade and other payables of K176 million (2019: K30.6 million) and this had a positive effect on the cash flows from operating activities. Movements noted in Zamefa had an insignificant impact on the sector as a whole.

The oil and gas sector, which comprises Puma Energy Zambia , had an overall increase in cash flows from operating activities of 288% due to the increase in the profit before tax in 2020 of K244 million (2019: K161 million). In addition, there was an increase in net working capital movements, which moved from a negative K334 million in 2019 to negative K22 million in 2020. This movement was attributed to an increase in the movement of trade and other payables in 2020, which amounted to K137 million (2019: negative movement of K148 million). We also noted an increase in trade receivables which moved from a balance of K153 million in 2019 to a balance of K89 million in 2020.

The consumer services sector, which comprises of Shoprite Holdings, had an increase of 343% and this was attributed to a positive movement in working capital of South African R2.5 billion in 2020 (2019: negative working capital R3.5 billion), mostly attributed to the movement in inventory which reduced in 2020 by R1.1 billion (2019: negative movement of R3.5 billion). In addition, there was an increase in trade payables of R1.3 billion (2019: negative movement of R340 million).

Net cash flow from investing activities

K' million	2020	2019	Change	Percentage change
Financial Services	(5,121)	(345)	(4,776)	1,383%
Consumer Services	(389)	(4,717)	4,328	(92%)
Consumer Goods	(342)	(801)	459	(57%)
Basic Materials	(725)	(1,929)	1,205	(62%)
Telecoms	(694)	(457)	(237)	52%
Utilities		(10)	(21)	(52%)
Industrials	(48	(56)	8	(14%)
Oil and Gas	(97)	(55)	(42)	76%

Financial Services

The table above shows a 1,383% increase in net cash cash flows from investing activities. We noted that the financial institutions ramped up investments in government securities due to the attractive returns and risk free assets. Banks held huge balances in financial assets that could be considered 'non-traditional' with the traditional financial assets being loans and advances to corporate and retail customers.

There has been a significant shift in investments in government securities over the last two years. The significant movers include ZANACO, which purchased K8.9 billion of government securities in 2020 compared to K2.3 billion in 2019. Standard Chartered Bank increased its holding in government securities by K3.3 billion in 2020 from K2.3 billion in 2019. Zambia Reinsurance invested in government securities and term deposits with a total investment in 2020 of K45.9 million compared to K20.7 million in 2019. It was further observed that Zambia Reinsurance bought shares in ZAFFICO, a company that offloaded its shares on the LuSE in 2020 amounting to K2.1 million.

Other Sectors

All other sectors had varying movements in the net cash flows in investing activities. Investing activities in these sectors were concentrated on purchasing property plant and equipment to replace worn-out or obsolete equipment or expand their operating capacity. The companies predominantly invested in expanding their operating activities in 2019 and 2020, albeit reducing between the two years. There was a general reduction in capital expenditure in 2020 compared to 2019, and this was due to budgetary constraints caused by the COVID-19 uncertainty.

Net cash flows from financing activities

K' million	2020	2019	Change	Percentage change
Financial Services	577	(277)	855	(308%)
Consumer Services	(3,872)	1,784	(5,657)	(317%)
Consumer Goods	(872	(2,175)	1,302	(60%)
Basic Materials	(651)	716	(1,367)	(191%)
Telecoms	(726)	(384)	(342)	89%
Utilities	(56)	(37)	(19)	52%
Industrials	(301)	(51)	(251)	496%
Oil and Gas	(47)	(80)	33	(42%)

Financial Services

From the above analysis we noted a 308% increase in net cash flows from financing activities. Cash flows from financing activities in this sector were concentrated on servicing loans, lease obligations and payments of dividends. We noted a significant inflow amounting to K1.2 billion (2019: K 97 million) attributed to a draw down on a loan by ZANACO during 2020. This had a positive effect on these cash flows from the sector. Other inflows included a K 40million (2019: Nil) attributed to a share issue by Zambia Reinsurance. Cash outflows from companies in this sector, were mainly for dividend payouts

Other sectors

All other sectors had varying movements in the net cash flows in financing activities. Financing activities in these sectors were concentrated towards the servicing of loans, lease obligations and dividend pay-outs. We noted significant movements in the industrial, consumer goods and basic material sectors of 496%, 191% and 317% respectively.

The industrial sector, which comprises Lafarge Zambia and ZAMEFA increase attributed to a significant increase in the interim dividend paid out amounting to K300 million (2019: K50 million) by Lafarge Zambia. ZAMEFA did not pay a dividend in either year.

The significant movement in the basic materials sector is partly due to the overall movement in financing activities for First Quantum Minerals, which decreased from a net cash inflow of USD766 million to a net cash outflow of USD543 million. This is attributed to debt repayment of USD3.9 billion (2019: USD2.3 billion), interest payment of USD574 million (2019: USD181 million) in addition to other payments such as dividends. We further noted an increase in the dividend paid by AEL Zambia amounting to K170 million (2019: K50 million).

The significant movement in the consumer services sector is attributed to Shoprite Holding, which reduced borrowings by R4.8 billion (2019: R8.7 billion). In addition, there was an increase in the debt repayment, which amounted to R5.9 billion (2019: R4.2 billion). This resulted in an overall net cash outflow position of R3.9 billion (2019: net inflow of R2.1 billion).

5. Corporate governance and company compliance

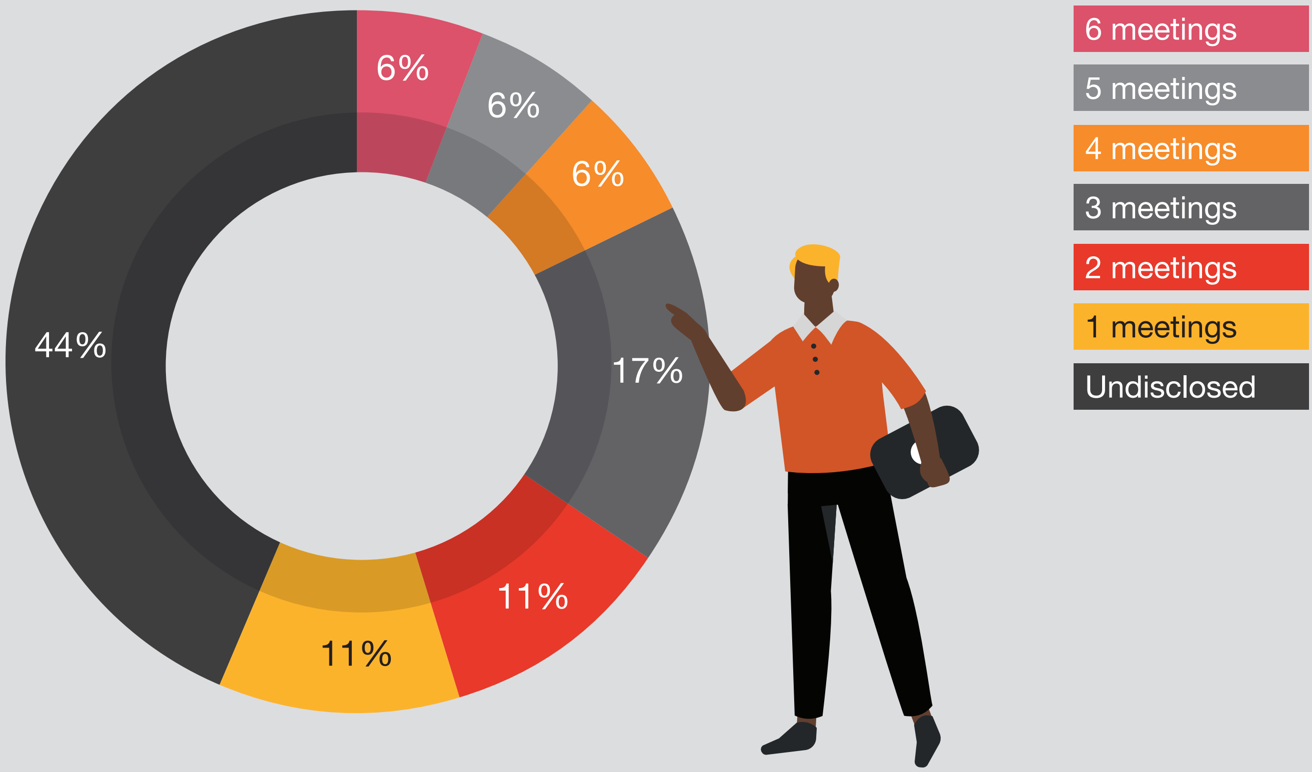
The Lusaka Securities Exchange Listing Rules requires listed companies to comply with specific corporate governance requirements and disclose such in their annual report to demonstrate compliance. The observations below are based on a review of 18 of the 24 companies publicly available annual reports.The remaining 6 companies were excluded from the analysis due to the unavailability of the full annual reports.

LuSE Guidelines	Number of companies compliant
There must be a policy detailing the procedures for appointments to the board. Such appointments must be formal and transparent, and a matter for the board as a whole, assisted where appropriate by a nomination committee.	12
The nomination committee must constitute only non-executive directors	10
The nomination committee should be chaired by the board chairperson	9
There must be a policy evidencing a clear division of responsibilities at board level to ensure a balance of power and authority, such that no one individual has unfettered powers of decision-making	13
The chief executive officer must not also hold the position of chairperson	16
Appointment of an audit committee	17
Appointment of a risk committee	12
Appointment of a nomination committee	14
The composition of such committees (i.e. risk, nomination etc), a brief description of their mandates, the number of meetings held and other relevant information must be disclosed in the annual report	16
The capacity of each director must be categorised as executive, non-executive or independent	17
The audit committee must set the principles for recommending the use of the external auditors for non-audit services.	7

Source: PwC analysis

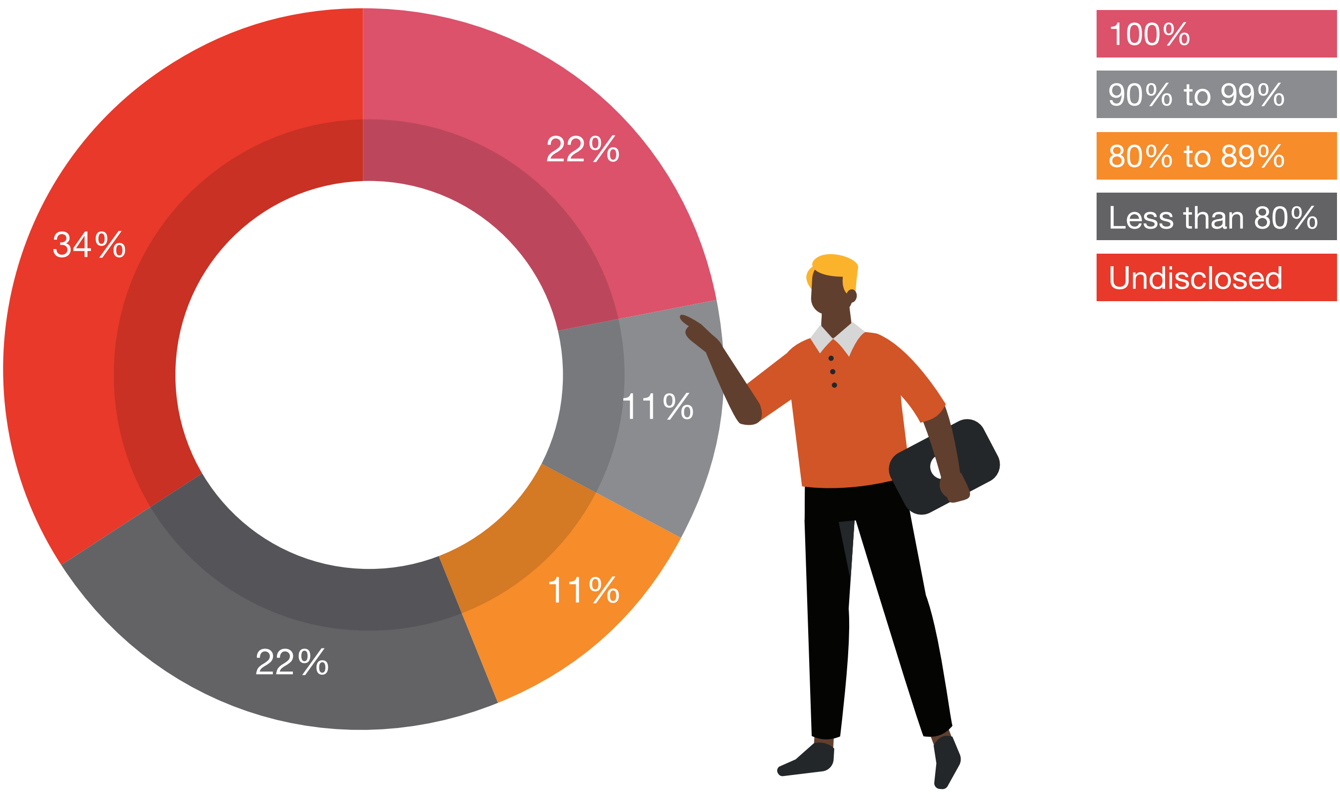
We further analysed the number of meetings held as well as the average attendance for the three key committees, which are the audit, nomination and risk committee.

Nomination Committee meetings held during the year



*Undisclosed means information not clearly disclosed in the annual report.

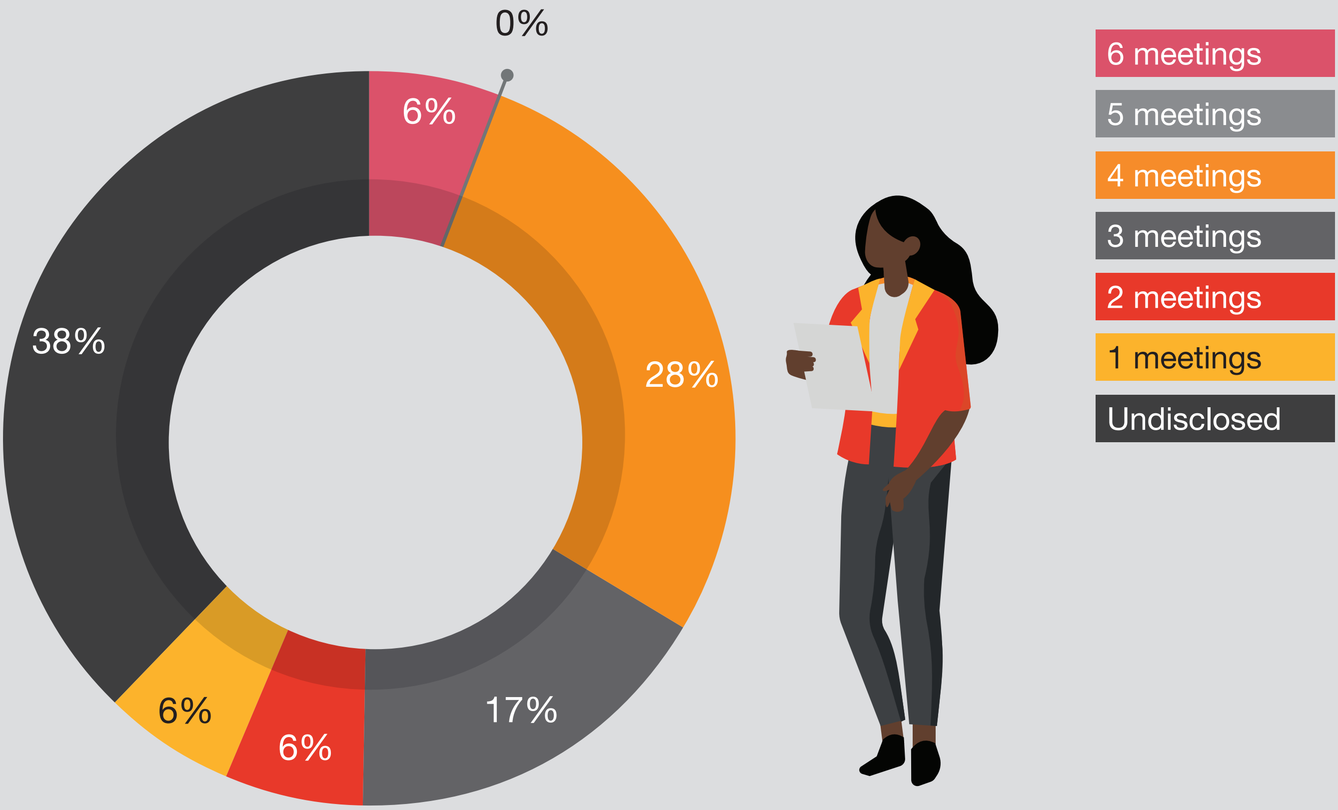
Average attendence level at Nomination Committee meeting



From our analysis above, we observed that attendance during the nomination committee appeared to be low.

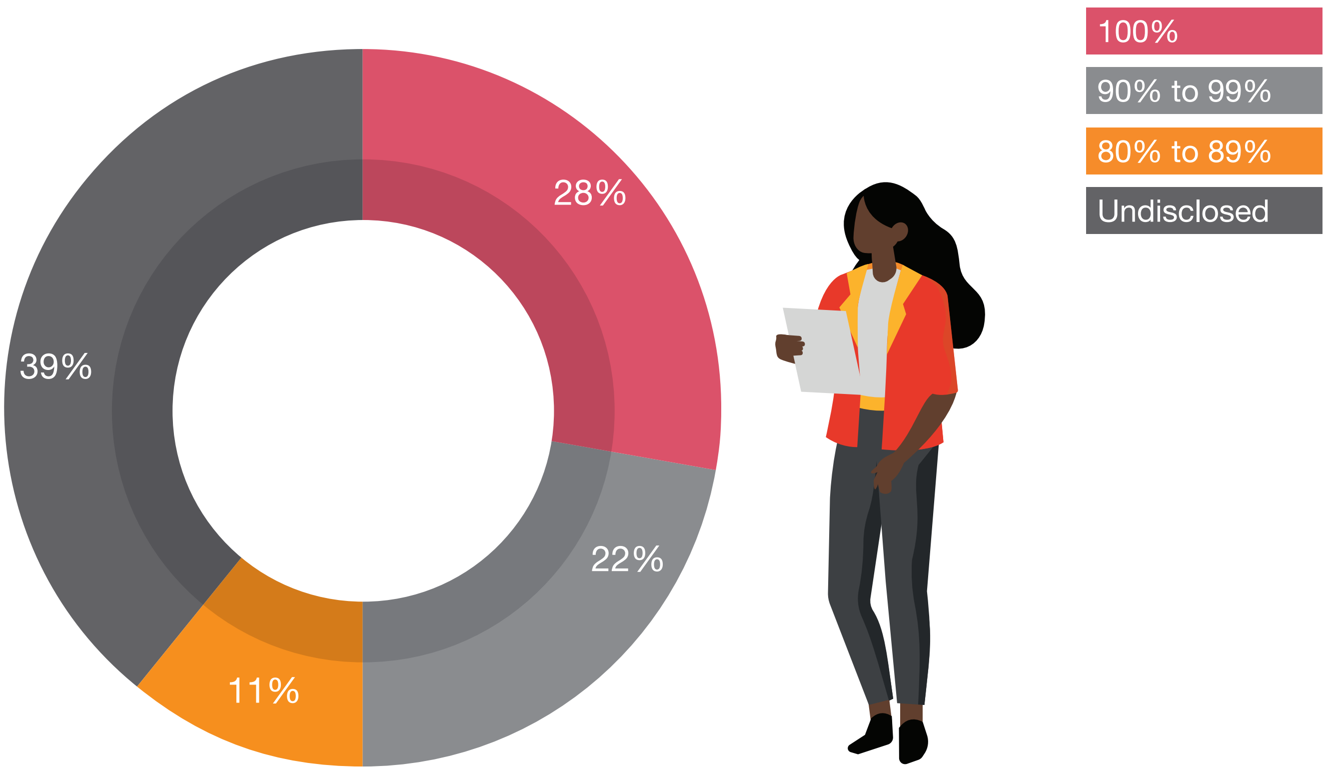
*Undisclosed means information not clearly disclosed in the annual report.

Risk Committee meetings held during the year



*Undisclosed means information not clearly disclosed in the annual report.

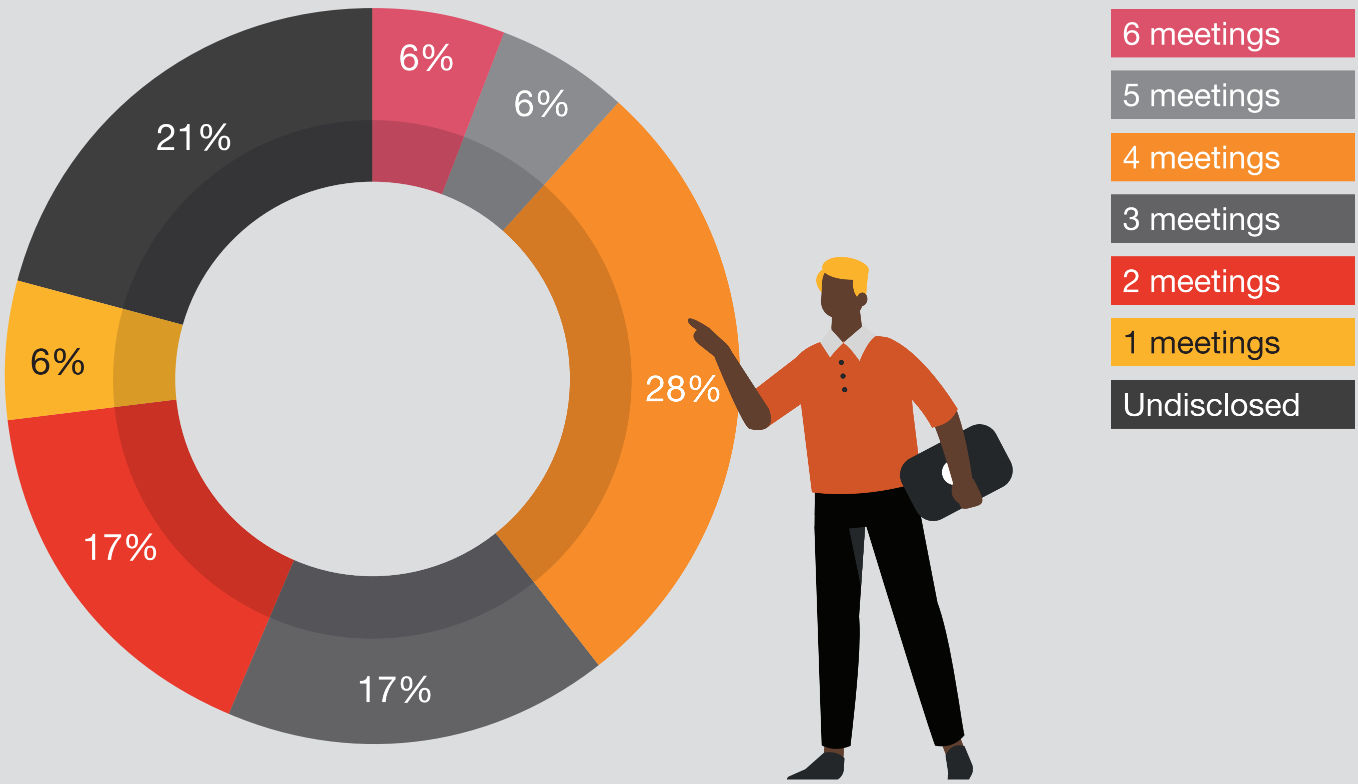
Average % attendance during Risk Committee meetings



The risk committee should be meeting at least four times a year. However, 44% of the companies held one or no meetings during the year. For the meetings held, we noted that more than 61% had attendance of 80% and above.

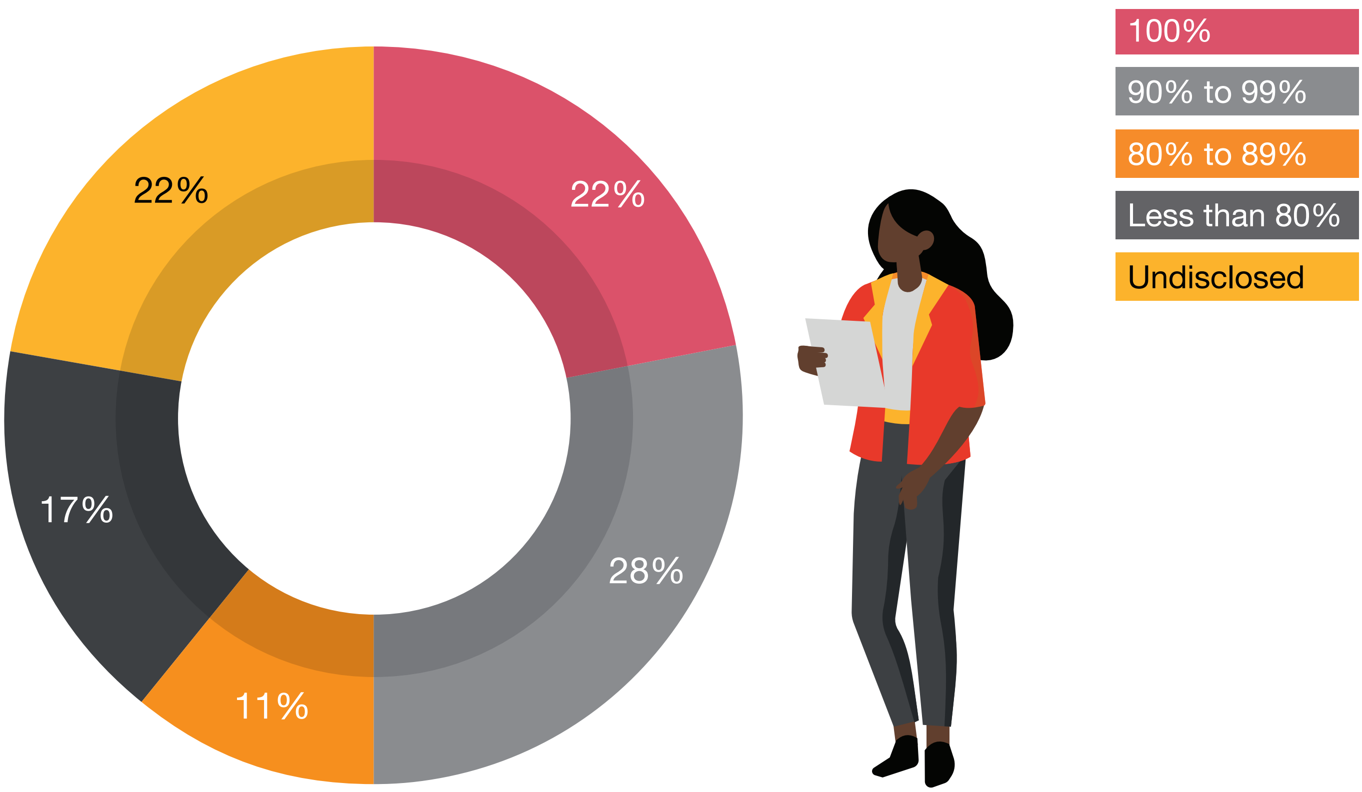
*Undisclosed means information not clearly disclosed in the annual report.

Audit Committee meetings held during the year



*Undisclosed means information not clearly disclosed in the annual report.

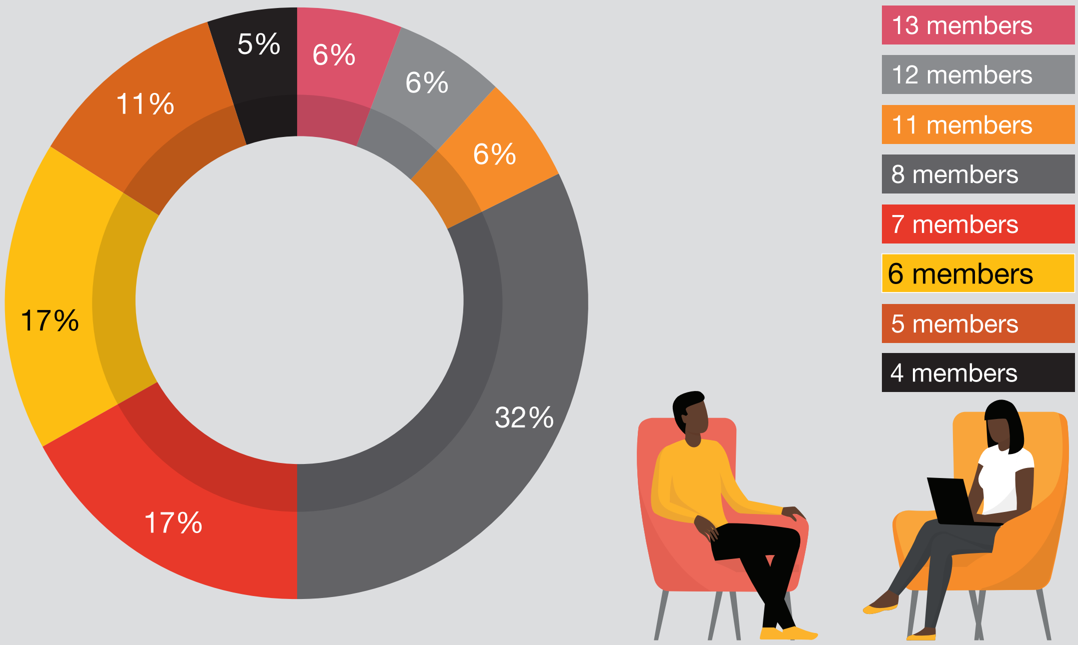
Average % attendence during Audit Committee meetings



From the analysis above, we observed more than 50% of the companies held at least three or more meetings during the year. For the meetings held, more than 60% had attendance of 80% and above.

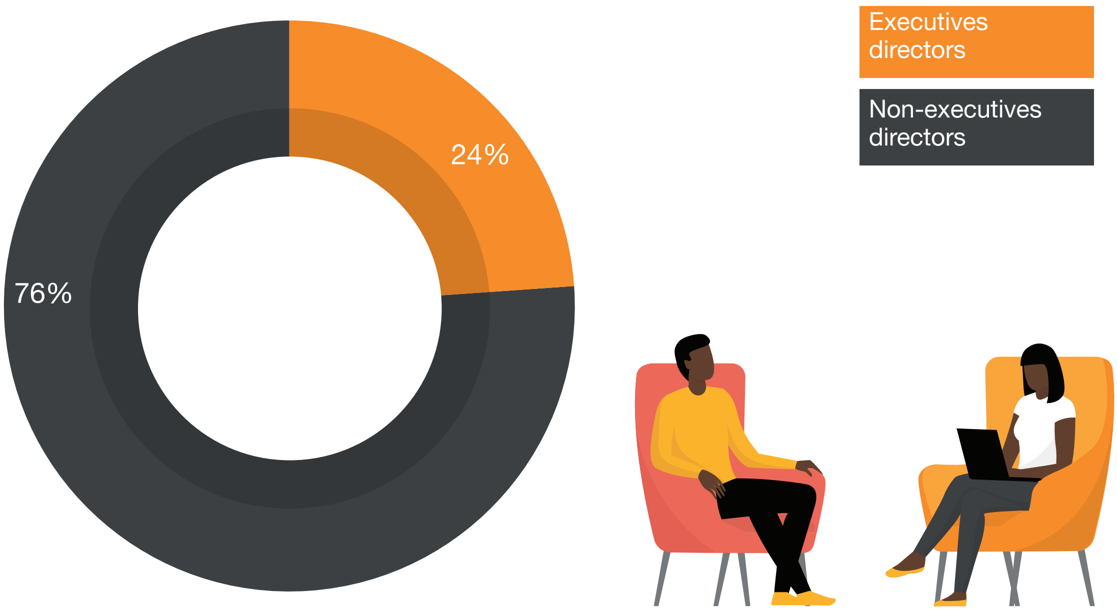
*Undisclosed means information not clearly disclosed in the annual report.

Board Member composition (Number)



There is no prescribed size of a board of directors. However, the recommendation according to Governance Today is that generally eight to ten members is the optimal number appropriate for larger commercial operations. A large number of members represents a challenge in terms of using them effectively and/or having any meaningful individual participation in board meetings.

Board composition



The mix of executive and non-executive directors on the board is one of the key attributes of an effective board in that it is composed of a majority of independent non-executive directors, which makes the board more independent and allows it to challenge decisions made by management.

From the above analysis, we noted that only four companies were fully compliant with the LuSE guidelines. LuSE needs to ensure greater adherence to corporate governance principles. An effective corporate governance structure ensures that the strategy is relevant, in line with current and emerging investor and stakeholder requirements, making adjustments and changes to maintain short, medium and long-term value-focused objectives. It also helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies.

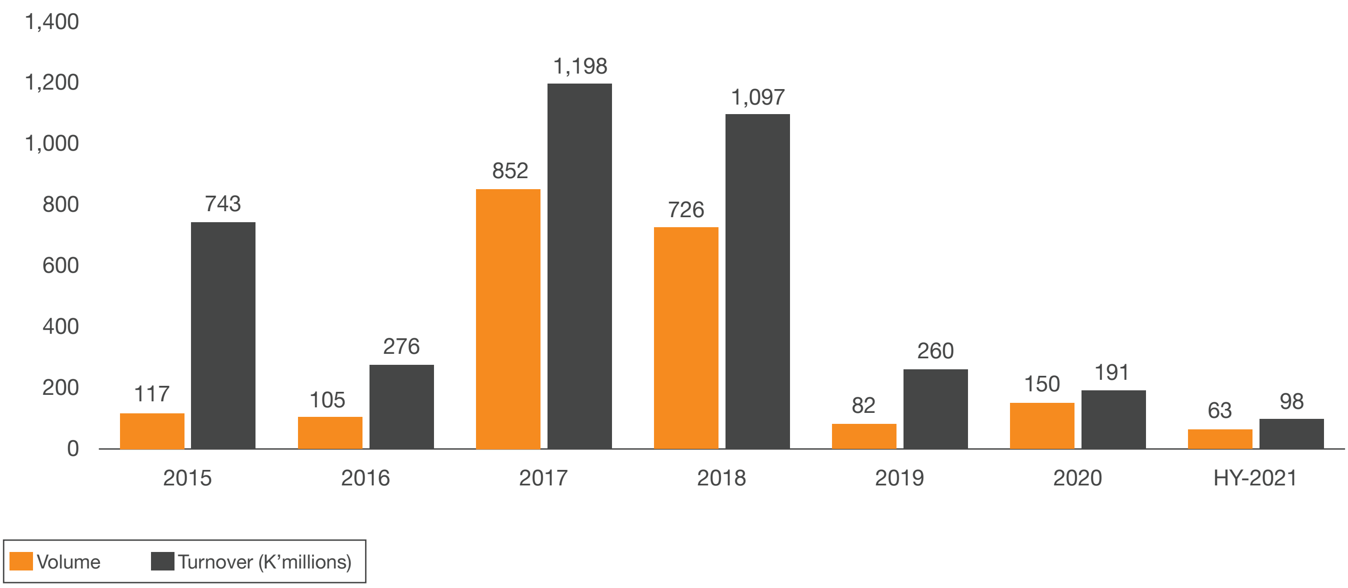
6. State of the capital market and outlook

By Ceaser Siwale - Chief Executive Officer, Pangea Securities and Tidale Mwale – Chisunka - Manager, Trading at Pangea Securities

LuSE has been experiencing liquidity challenges over the past few years. It was expected that following poor performance in 2019, 2020 would bring positive change and that a market correction would take place. Unfortunately, the COVID-19 pandemic and the subsequent slowdown of the economy saw LuSE experience an even worse turnover for 2020 and the first half of 2021 that is just as unimpressive. The equity market is bullish for the second half of 2021, but is unlikely to reach the volumes and turnover experienced in 2018.

On the bright side, the peaceful ushering in of a new regime is expected to revive investor confidence and we anticipate improvement in trading activity on LuSE and a rise in share prices on the back of increased demand for equities.

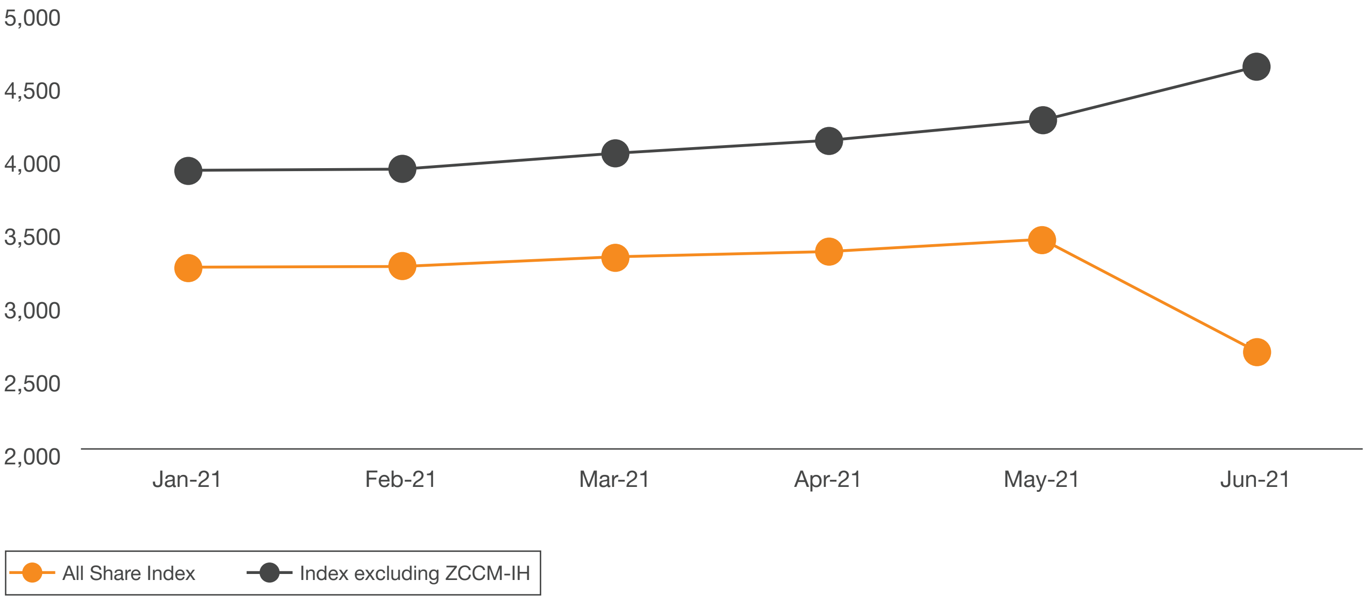
LuSE liquidity



Source: LuSE and Pangaea Securities

LuSE continues to slowly recover as volume and turnover increase in 2021. Many companies have resumed operations and this has directly impacted the market as we are seeing renewed optimism among investors and other market players.

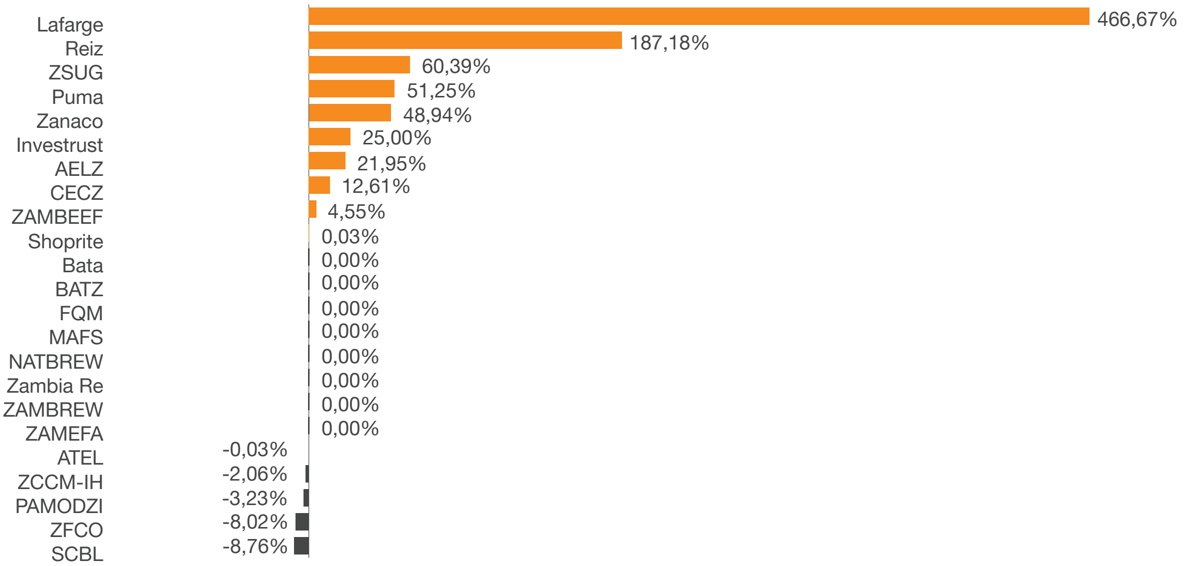
LuSE All-Share Index (ASI), HY2021



Source: LuSE and Pangaea Securities

All companies except for five have experienced a fall in share price between 31 December 2019 and 31 December 2020. The share prices of all companies were expected to rise this year as the economy picks up and appetite for trading improves.

Price change



Source: LuSE and Pangaea Securities

Top stocks traded HY2021 (based on turnover)

Stock	Number of trades	(K) Closing price	Volume	(K) Turnover
INVESTRUST	82	15	1,966,324	29,494,821.00
ZANACO	346	0.7	45,016,258	26,619,385.41
ZAMBREW	47	7.23	1,900,209	12,383,374.11
CECZ	1,164.00	1.25	8,478,373	10,830,397.01
LAFARGE	170	11.73	1,792,354	5,576,599.45
ZSUG	101	4.09	1,238,293	4,125,102.47
AELZ	127	25	91,905	2,145,332.95
SHOPRITE	29	63.01	25,157	1,585,092.15
FQM	310	3.7	414,899	1,535,126.45
ZCCM-IH	28	38	23,802	915,284.00
ZAMBIA RE	26	2.8	258,531	723,886.80
ZAMBEEF	65	1.15	440,566	487,369.45
ZFCO	41	1.95	226,094	440,726.30
PUMA	112	1.21	431,344	430,488.63
SCBL	101	1.25	278,893	379,552.86
ZAMEFA	19	4.78	23,475	112,210.50
ATEL	34	29.48	2,704	79,737.71
REIZ	59	1.12	111,238	72,838.97
BATA	46	2.6	5,129	13,335.40
BATZ	13	1.8	2,737	4,925.60
NATBREW	9	9.21	333	3,067.03
PAMODZI	8	0.6	858	514.8
MAFS	6	2.88	31	89.28

Based on turnover, Investrust is an anomaly as this was triggered by a strategic investment by Bank of Nevis International Limited. Bank of Nevis International Limited acquired a total number of 1,966,199 ordinary shares, representing a 24.08% shareholding in Investrust. However, the usual stocks that produce high turnover and volumes still make the top 10 – CEC, Zambian Breweries, ZANACO and Lafarge Cement.

2020 was a thought-provoking year for market participants. 2021 has seen increased trading due to the easing of COVID-19 restrictions and the re-opening of the economy. Based on half-year results, participants like Pangaea Securities continue to outperform competitors in terms of turnover while Stockbrokers Zambia leads the way in volumes.

Broker	(K) Turnover	Turnover Share	Volume	Volume Share
Pangaea Securities	41,140,143.98	43.22%	48,443,246.00	76.68%
Stockbrokers (Z) Ltd	36,604,246.00	38.46%	10,103,879.00	15.99%
Autus Securities	16,414,117.40	17.25%	4,157,067.00	6.58%
Madison Assets	799,821.00	0.84%	357,233.00	0.57%
Longhorn Associates Limited	147,699.00	0.16%	107,913.00	0.17%
Equity Capital Resources PLC	73,856.65	0.08%	5,476.00	0.01%
Intermarket Securities	-	0.00%	-	0.00%

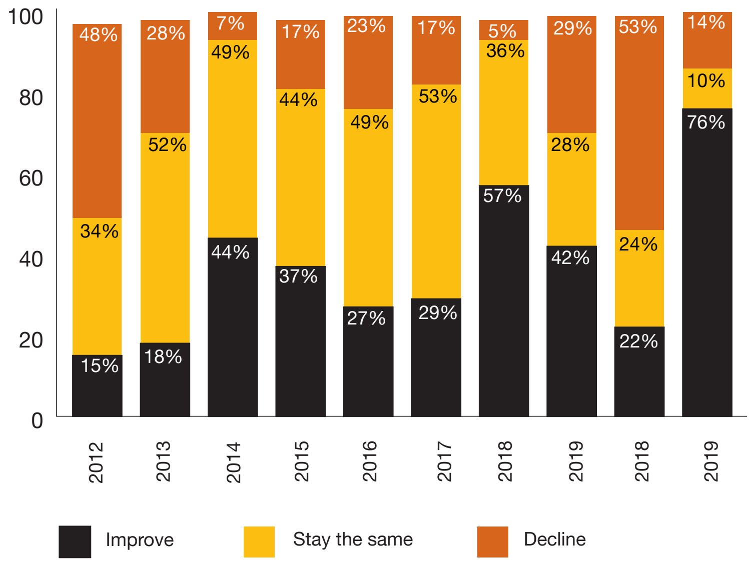
Pangaea's views on the current state of the Zambia capital market

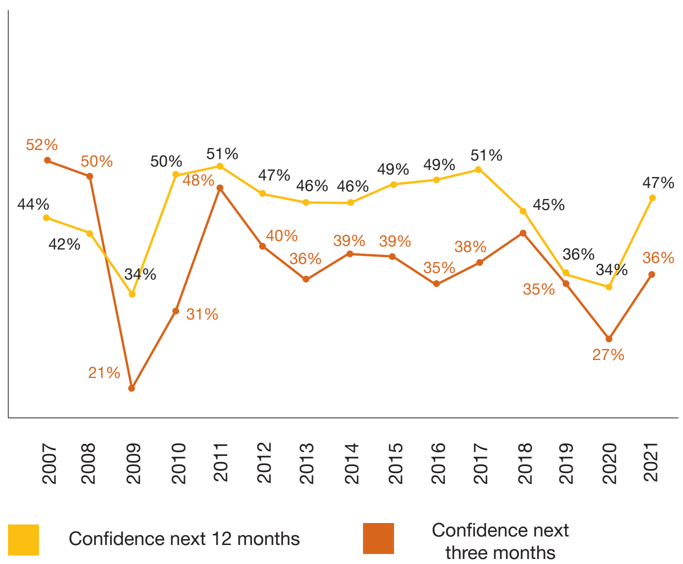
The capital market faces various challenges with the most prominent being low liquidity and limited participation. The foregoing are the challenges currently facing the Capital Market and thus serving as a hindrance to the market fulfilling its role in the Zambian Economy:

- High Fees Imposed by the regulatory bodies — The current rate of fees required for the registration of securities is high and constitutes a significant proportion of the aggregate fees for any issuance. This serves as a deterrent in attracting new issuances on the securities market. This is particularly unfortunate in the Zambian Capital Market due to the fact that the uptake of securities is never guaranteed as there are often a few or no underwriters of offers and when these come forward, they do so at high underwriting charges. As fees are the main source of income for the market regulators, the government should consider setting aside funds to financially assist the capital market regulatory bodies.
- Imposing burdens on the cost of doing business for listed entities or potential listings, does a little to incentivize existing issuers and attract new entrants. Fees should be revised to make listing an attractive option for potential listings by corporates.
- The LuSE Alternative Market (LuSE Alt-M) is a market which was established to be a vehicle of empowerment for small and medium enterprises and local investors and enable them to raise long term cheap capital. This Market is particularly hit by the high fees and rigid listing requirements.
- There is a low investment appetite amongst local Zambians.
- Poor financial literacy especially in matters concerning investment options is a factor. A comprehensive and systematic programme of sensitization needs to be conducted by Government players and stakeholders in the private investment sector. This could include road shows and other sensitization efforts that are funded by the government.
- The 'buy and hold' approach by institutional investors such as pension funds have the tendency to buy and hold. This exacerbates the low liquidity in the market as these tend to hold securities over a long period of time. Investment guidelines for institutional investors to operate as some form of market makers need to be put in place.
- Lack of outsourcing the Investment Function to External Fund Managers — Institutions investors such as pension funds should be encouraged to provide for outsourcing of the investment function to private sector asset managers. The outsourcing of the investment function will stimulate liquidity within the capital market.
- The Government should look at formulating a policy that encourages Pension funds to invest a certain amount of their funds into SMEs using the securities exchange as opposed to direct financing through loans.
- There is a need to vigorously ensure enforcement of the minimum free float requirements across the entire listings board to ensure adequate supply of equities which will also encourage foreign portfolio flows into the capital markets.
- Lack of incentives for Listed Companies — In Zambia, listed companies only enjoy a tax incentive in the inaugural year of listing. A more recurring system which offers tax benefits to Listed Companies will be far more appreciated. Listed companies could also be given further tax incentives dependent on the percentage shares that are in free-float beyond the required minimum. This will encourage the companies to increase the shares they have in free-float.
- Alignment of the capital market legislation and other regulations — It is pertinent that the various laws and regulations that govern the market must operate in harmony with one another. An area of concern is the interplay between the LuSE Listings Rules and other industry regulatory requirements.
- Limited number of companies to invest in — deliberate policies need to be formulated requiring parastatal companies to be listed. This will increase the number of listed companies and also diversify the sectors available for investment.
- Limited investment alternatives. Efforts to increase the type of securities available for investment (e.g. ETFs, derivatives) should be supported by the Pensions and Insurance Authority (PIA) investment guidelines that allow fund managers to invest in such securities.
- Removal or reduction of Withholding Tax on corporate and GRZ securities (both T-Bills and Bonds) will promote participation in the local markets while preserving the tax benefits associated with their status.
- Fiscal Incentives for issuance of Green Bonds as a way of enabling the Capital markets to be socially responsive and sustainable to economic growth. By this we need tax incentives for issuers of green bonds and to allow increased participation from both local and offshore investors.
- Growth of Collective Investment Schemes needs to have direct focus to allow mainstreaming of savings into the mainstream financial system. This will provide a competitive opportunity to allow ordinary citizens to grow their wealth and participate in increasing the total gross national income. Additionally, Growth of the Collective Investment Schemes has great potential to grow the total market capitalisation that helps secure a resilient economy over the passage of time.
- Streamline Fund Managers both Pension Fund Managers as well as traditional fund managers under one regulatory body — SEC to help drive the required policy and financial impact for the growth of the market. The PIA should be given administrative and conduct oversight while the SEC takes care of Financial oversight on all long term savings to allow easier and more impactful delivery of long term capital for the growth of the market.

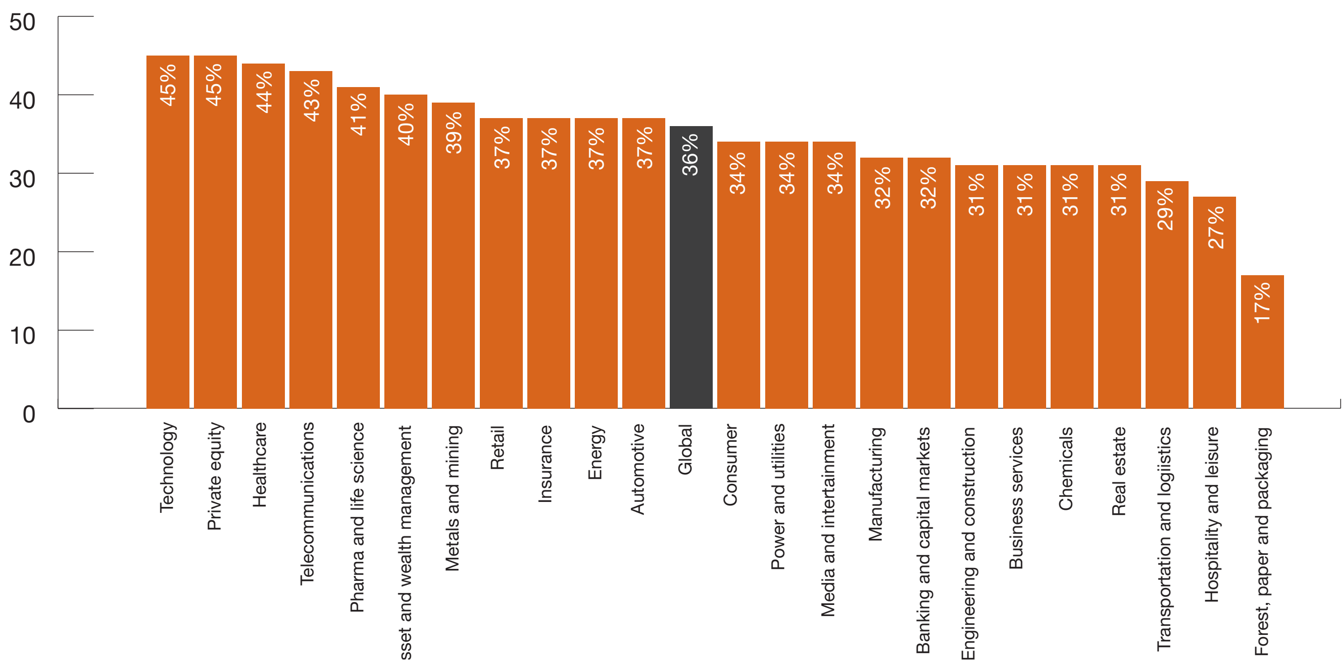
7. Global Outlook: PwC's 24th Annual Global CEO Surve

PwC's 24th Annual Global CEO Survey showed that despite the contraction of the global economies during 2020, the future outlook is optimistic as the global economies recover from the sharp changes brought about by the COVID-19 pandemic. Discussions with Chief Executive Officers during PwC's 24 Annual Global CEO survey indicate 76% believe growth will improve in 2021, with CEOs being more optimistic about global economic growth and more confident in their own organisation's growth prospects.





CEOs in the technology, private equity, health and telecommunications sectors are the most confident in short-term growth.



8. Conclusion

Adapting for performance

The performance of companies listed on LuSE was mixed in 2020, with each sector impacted differently by the COVID-19 pandemic and ongoing slowdown in the domestic economy. The COVID-19 pandemic and tough economic environment have forced companies to adapt and realign their businesses to fit in the new working environment over the last 18 months. Remote working and an acceleration in the use of technology are two ways in which organisations have had to alter their strategy to ensure survival. The threat of COVID-19 is still very much present, it is those companies that continue to adapt and evolve to domestic and global situations that are likely to have sustained performance.

The macroeconomic environment is expected to improve and stabilise on the back of sound policies the new administration is expected to implement. This market optimism is further enforced by the new administration's commitment to resume engagement with Zambia's creditors and the IMF on a possible package.

Glossary

Companies, classification and financial year ends that were a subject of the analysis

Company name	Symbol	Sector	Current year-end	Comparative year-end
AEL Zambia Plc	AECI	Basic Materials	31-Dec-20	31-Dec-19
First Quantum Minerals Ltd	FQMZ	Basic Materials	31-Dec-20	31-Dec-19
Zambia Forestry and Forest Industries Corporation – ZAFFICO	ZFCO	Basic Materials	31-Dec-20	31-Dec-19
ZCCM Investment Holdings Plc	ZCCM-IH	Basic Materials	31-Mar-20	31-Mar-19
British American Tobacco Zambia Plc	BATZ	Consumer Goods	31-Dec-20	31-Dec-19
National Breweries Plc	NATBREW	Consumer Goods	31-Mar-20	31-Mar-19
Zambeef Products Plc	ZAMBEEF	Consumer Goods	30-Sep-20	30-Sep-19
Zambia Bata Shoe Company Plc	BATA	Consumer Goods	31-Dec-20	31-Dec-19
Zambia Sugar Plc	ZSUG	Consumer Goods	31-Aug-20	31-Aug-19
Zambian Breweries Plc	ZAMBREW	Consumer Goods	31-Dec-20	31-Dec-19
Pamodzi Hotels Plc	PAMODZI	Consumer Services	31-Mar-20	31-Mar-19
Shoprite Holdings Plc	SHOPRITE	Consumer Services	31-Dec-20	31-Dec-19
CEC Africa Investment	CCAF	Financial Services	31-Dec-20	31-Dec-19
Investrust Bank Plc	INVESTRUST	Financial Services	31-Dec-20	31-Dec-19
Madison Financial Services Plc	MAFS	Financial Services	31-Dec-20	31-Dec-19
Real Estate Investments Zambia Plc	REIZ	Financial Services	31-Dec-20	31-Dec-19
Standard Chartered Bank Zambia Plc	SCBL	Financial Services	31-Dec-20	31-Dec-19
Zambia National Commercial Bank Plc	ZANACO	Financial Services	31-Dec-20	31-Dec-19
Zambia Reinsurance Plc	ZAMBIA RE	Financial Services	31-Dec-20	31-Dec-19
Lafarge Zambia Plc	LAFARGE	Industrials	31-Dec-20	31-Dec-19
Metal Fabricators Of Zambia Plc (trading as ZAMEFA)	ZAMEFA	Industrials	30-Sept-20	30-Sept-19
Puma Energy Zambia Plc	PUMA	Oil and Gas	31-Dec-20	31-Dec-19
Airtel Networks Zambia Plc	ATEL	Telecom	31-Dec-20	31-Dec-19
Copperbelt Energy Corporation Plc	CECZ	Utilities	31-Dec-20	31-Dec-19
Cavmont Capital Holdings Zambia Plc*	CCHZ	Financial Services	30- Jun-20	30-Jun-19

Source: African Markets and LuSE

**Delisted as at 31 December 2020*

Appendix: Ratio formula

- Current ratio = Current assets/Current liabilities
- Return on asset = Net income/Total assets
- Earnings per share = Net income/Total shares outstanding

Contributors


Andrew Chibuye
Country Senior Partner


Tonderai Luwisi
Associate Director, Assurance


Evelyn Tembo
Manager, Clients & Markets Development


Kasongo Lufuma
Senior Associate, Clients & Markets Development


Andrew Sikwanda
Associate Director, Assurance


Moonga Hamukale
Senior Manager, Advisory


Muchemwa Silavwe
Senior Manager, Assurance


Sonia Morgan
Manager, Assurance


Abubakar Deedat
Manager, Assurance


Nyankhundi Phiri
Senior Associate, Advisory

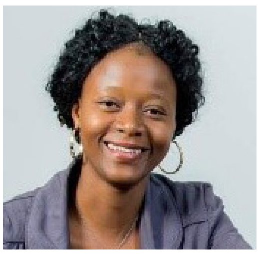

Malama Mwilwa
Associate, Advisory


Oliver Mumba
Senior Associate, Assurance


Ceaser Siwale
CEO, Pangaea Securities Limited


Tidale Mwale – Chisunka
Manager, Trading – Pangaea Securities Limited


Nenani Sichone
Associate – Pangaea Securities Limited


Elina Nawingwa Mwale
Company Secretary - Pangaea Securities Limited

(21-27260)