



# Pangaea Securities

## 2019 CAPITAL MARKETS REPORT SUMMARY

An Illiquid Year

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**Pangaea Office Park**

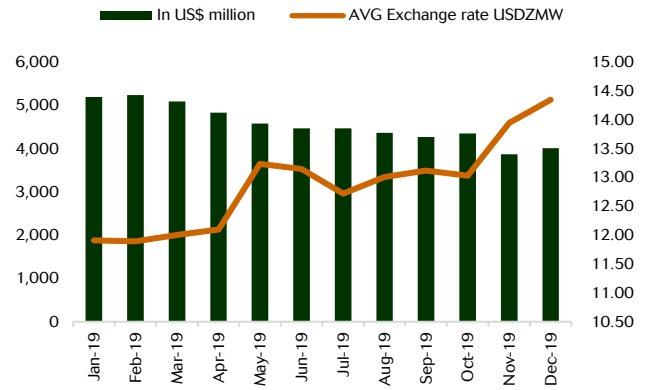
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Local Market

Illiquidity was the theme for capital markets in 2019. The equity market was bearish in 2019 and continues with the same trend for the first quarter of 2020. The Lusaka Securities Exchange All-share Index (LASI) was 33.14% down at the end of 2019.

LuSE Market Capitalization

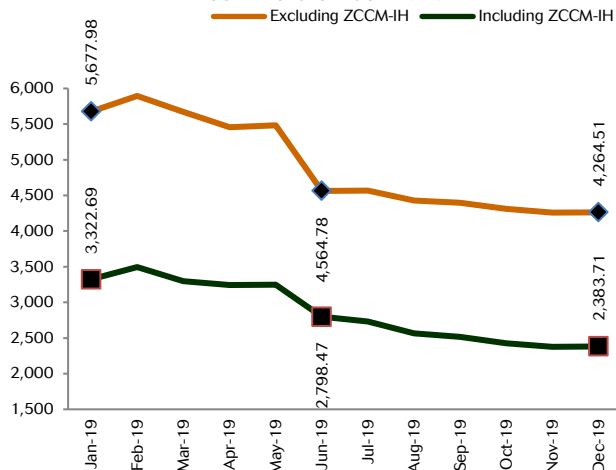


LuSE Market Capitalisation

Source: LuSE, Bank of Zambia, Pangaea Securities

Due to a lack of trades and the consequent drop in prices the LuSE market capitalization was also dropped by 9.19% in Zambian Kwacha terms (Jan – ZMW 62.2 million to Dec – ZMW 56.6 million). The drop in dollar terms was 22.74% (Jan – US\$ 5.2 million to Dec – US\$ 4.02 million). The depreciating kwacha exacerbated the financial impact on the exchange. 2019 proved to be worse compared to 2016, when Zambia was effectively in a recession.

LuSE Allshare Index 2019

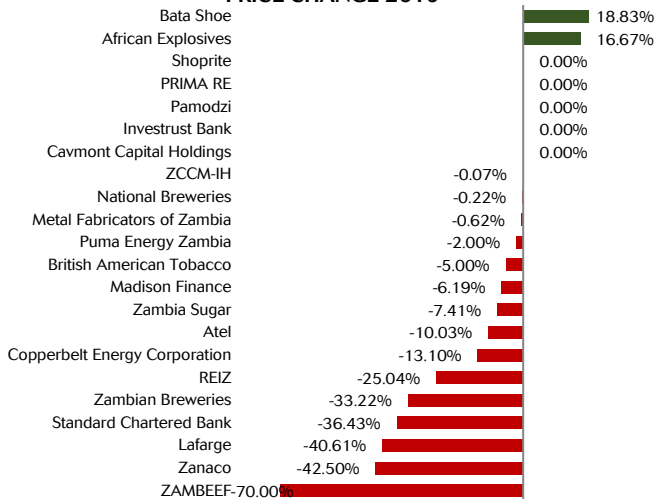


LuSE Index

Source: LuSE, Bank of Zambia, Pangaea Securities

Only 2 stocks had growth in 2019 – Bata and African Explosives.

PRICE CHANGE 2019

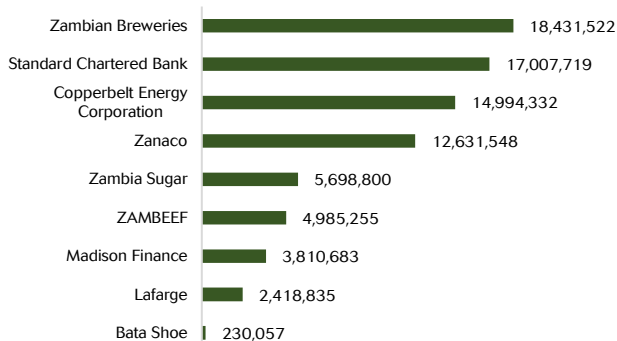


LuSE Stock Performance

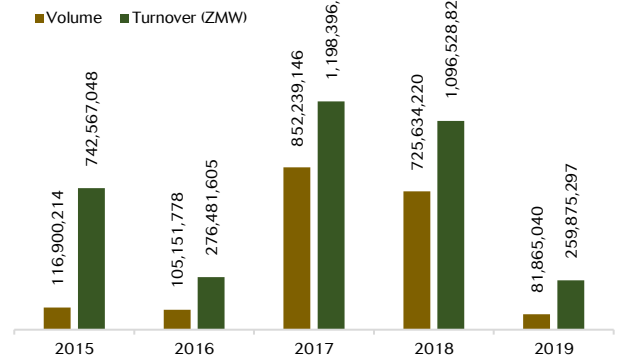
Source: LuSE, Pangaea Securities

Even with low cash in the markets – the usual key drivers in the market such as Zambrew, Standard Chartered and CEC experienced high volumes.

Top 10 Traded Stock of 2019



LuSE Liquidity



LuSE Liquidity

Source: LuSE, Pangaea Securities

2019 was a challenging year for Pangaea Securities but still outperformed its competitors. Pangaea Securities had a better monthly performance compared to competitors.

Rank	Broker	Turnover	Market Share (Turnover)
1	Autus Securities	101,944,514	39.23%
2	Pangaea/EMI Securities	77,358,062	29.77%
3	Stockbrokers (Z) Ltd	65,405,778	25.17%
4	Madison Assets	15,069,152	5.80%
5	Equity capital Resources	97,792	0.04%
6	Intermarket Securities	-	0.00%
Total		259,875,297	100.0%

Rank	Broker	Volume	Market Share (Volume)
1	Stockbrokers (Z) Ltd	30,112,503	36.78%
2	Pangaea/EMI Securities	28,535,408	34.86%
3	Autus Securities	16,848,073	20.58%
4	Madison Assets	6,334,464	7.74%
5	Equity Capital Resources	34,592	0.04%
6	Intermarket Securities	0	0.00%
Total		81,865,040	100.0%

Rank	Broker	Trades	Market Share (Trades)
1	Stockbrokers (Z) Ltd	3,007	67.11%
2	Pangaea/EMI Securities	687	15.33%
3	Madison Assets	713	15.91%
4	Intermarket Securities	-	0.00%
5	Equity Capital Resources	45	1.00%
6	Autus Securities	29	0.65%
Total		4,481	100.0%

Rank	Broker	No. of Clients	Market Share (Clients)
1	Stockbrokers (Z) Ltd	14,194	42.16%
2	Pangaea/EMI Securities	8,211	24.39%
3	Madison Assets	4,305	12.79%
4	Intermarket Securities	6,488	19.27%
5	Equity Capital Resources	294	0.87%
6	Autus Securities	176	0.52%
Total		33,668	100.0%

Broker Activity in 2019

Source: LuSE, Pangaea

2019 Equity Analysis

**General Equity Update and ZAFFICO IPO:** The 2020 LuSE board will have a new entrant. Zambia Forestry and Forest Industry Corporation (ZAFFICO). The IPO was led by Pangaea Securities as the lead manager and was completed in February 2020. Our top sector picks for 2019 were retail, manufacturing and energy. These sectors performed poorly due to drought experienced during the 2018 – 2019 season. This year with the onset of the Covid-19 (Coronavirus) pandemic, it is almost impossible to forecast which sectors might experience growth. However, the agricultural sector might prove to be the light at the end of the tunnel, as good rainfall was recorded, and preliminary crop yields are promising.

**Mining:** Average copper prices rebounded to US\$ 6,451 per MT due to an uptick in global demand caused by improvements in the US – China trade negotiations in the first quarter of 2019. However, prices did not maintain the same momentum during the year as the global economy was stagnant for the rest of the year. Zambia recorded a lower copper production for the year 2019 compared to 2018.

The Zambian government dropped plans for the Sales Tax initiative as it was most businesses including mines were against its implementation. The Sales Tax proposal was going to have a negative impact on investor confidence in the mining sector.

uncertainty caused might need a year for investors to regain confidence.

2019 experienced stabilization in fuel due to a global oil price drop that benefited companies such as PUMBA – who have maintained their market share in the country at about 25%. The current price decrease also has no serious impact as it will likely increase in the short term due to relatively low copper prices and the depreciating local currency.

In December 2019, ZESCO increased tariffs by 90 – 300 % across the board in spite of public and private opposition. ZESCO had to import power from South Africa due to low water levels in the country and high demand by an ever increasing Zambian population. The importation of power and high demand have led to ZESCO increasing tariffs to pay for additional power costs. Independent Power Producers (IPP) have also been increasing the price of power per kilowatt they supply to ZESCO.

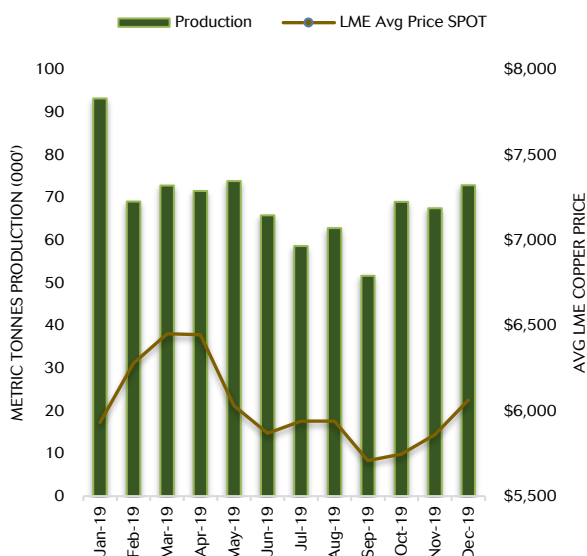
**Agriculture:** Zambia had one of its worst droughts for the 2018 – 2019 farming season. Agricultural products were one of the greatest contributors to inflationary pressures faced by Zambia.

The drought and low crop yield had a negative impact on agricultural companies such as Zambeef, Zambia Sugar and British American Tobacco. Zambeef, in particular, recorded low revenues and also saw its stock price plummet. According to the CSO, retail prices in 2019 show that the national average price of a 25 kg bag of Breakfast Mealie meal increased by 78.10 percent from K91.25 to K162.52 while the national average price of a 25 kg bag of Roller Mealie meal increased by 97.64 percent from K73.43 to K145.13. The national average price of a 20-litre tin of Maize grain increased by 97.64 percent from K41.87 to K82.65.

Costs are expected to increase in 2020 with the current depreciation of the local currency and the new coronavirus pandemic.

**Banking:** Commercial banks average lending rates increased to 28.0 percent in December 2019 from 25.4 percent in June 2019. This reflected the rise in the cost of funds and mirrored yield rates on Government securities. The performance of the banking sector continued to be on aggregate, satisfactory. This was reflected in the sector remaining well capitalized and the non-performing loans ratio being below the 10 percent prudential threshold at 9.8 percent in December 2019 according to the Ministry of Finance.

Zambia Copper Production and Prices



Copper Prices From Q2 - 2018 to Q1 - 2019

Source: LME, Pangaea

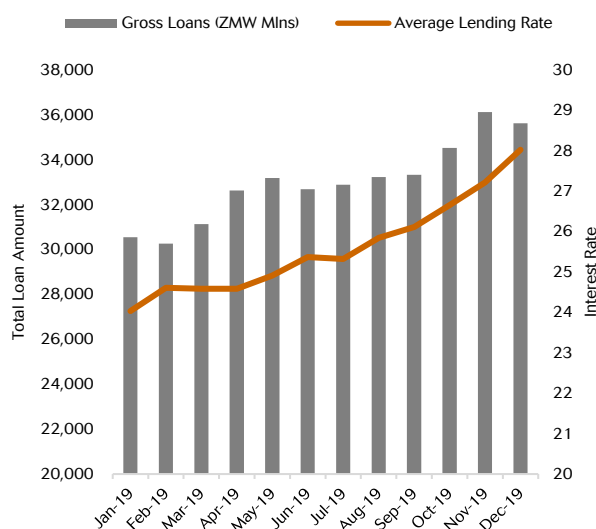
**Construction:** Both private and public construction continued to perform well in 2019 from the previous year. The government continued its massive infrastructure development program and the private sector has continued to build commercial buildings and shopping malls in the major towns around the country.

This continued growth has also highlighted the loans that government has acquired to fund these projects. Zambia's debt service due to infrastructure for 2020 will be high and raises uncomfortable questions as to how it will be financed. Continued questions on how the Zambian Government will pay its debt to China persist. Chinese companies continue constructing key infrastructure in the energy, health and transport sectors.

**Energy:** The energy sector in 2019 was another contributor to high inflationary pressures experienced in Zambia. It also proved to be one sector that contributed to the overall uncertainty of the Zambian Capital Markets potential and value due to low power generation caused by the 2018-2019 drought.

While CEC Zambia did record a price drop for the year, it remains one of the most traded companies on the LuSE. The Bulk Sharing Agreement (BSA) with ZESCO is under review and this has made investors weary of the energy sector exposure at the moment. While an agreement is expected to materialize by the end of Q1 of 2020 – the

Banking Gross Loans vs. Interest Rates (%)



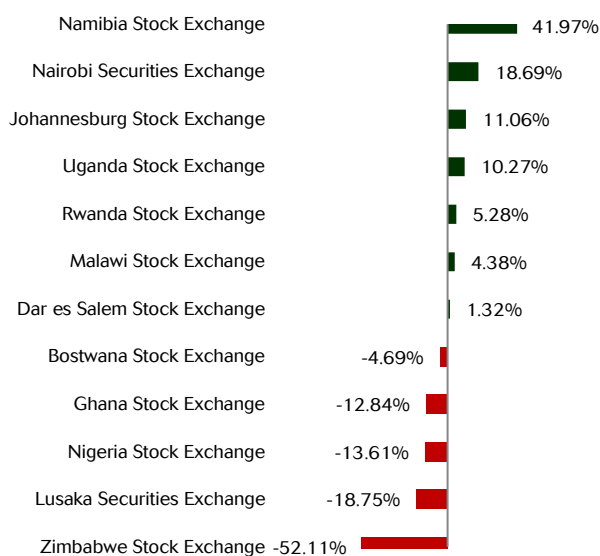
Commercial Banking Activity

Source: BOZ & LuSE

## Regional Market

In comparison to the other equity markets, the LuSE recorded a negative performance. Comparable regional markets faced a relatively better year compared to 2018. 2019 uncertainties will arise from the global economic trends that greatly affected the SSA markets/businesses. Commodity prices are forecasted to drop and lower revisions to GDP growth persist.

### Regional Indices Performance 2019



Returns for Selected African Indices

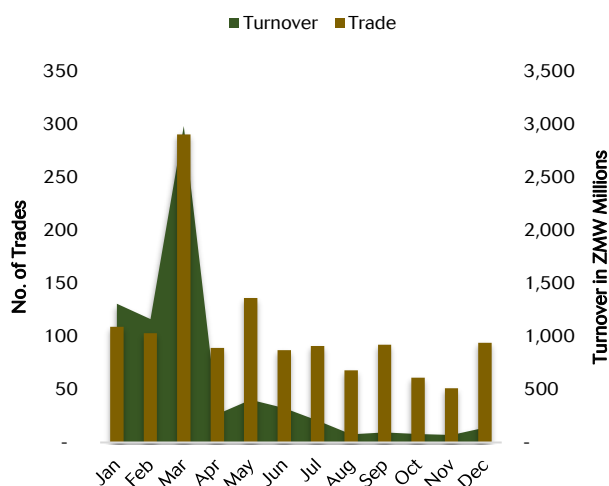
Source: Bloomberg, Pangaea Securities

## Macroeconomic and Microeconomic Indicators

Challenging macroeconomic fundamentals continue contributing to the equity markets bearish performance. The Bank of Zambia (BOZ) increased the Policy Rate to 11.5% for the first quarter of 2020 to offset the poor economic performance 2019. To counter inflation – rising food prices and depreciation of the kwacha - banks nominal lending rates remained relatively high at an average rate of 28%. Demand for government securities improved in the last quarters of 2019. Subscription rates increased to over 91% for Treasury Bills and this led to a record performance by local banks in the country with Stanbic Bank being leader of the pack.

Yield rates for both Treasury bills and Government bonds for the first quarter of 2020 have been oversubscribed. However, these early gains for 2020 that were built on an improving 2019 Q4 performance will be wiped away by the corona virus pandemic.

### GRZ Bond Activity on the LuSE



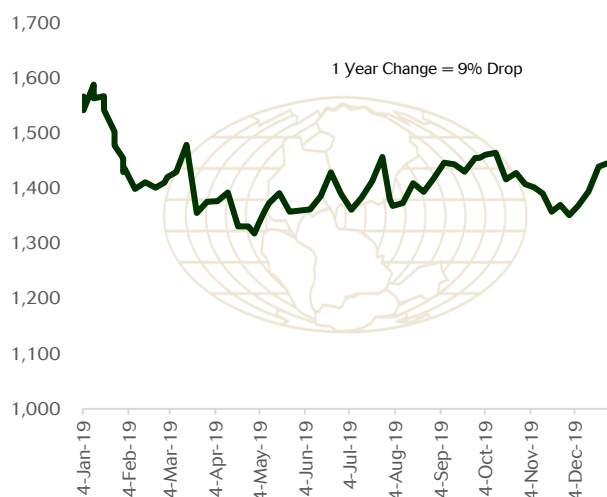
Bond Activity 2019

Source: BOZ & LuSE

## Economic Highlights

- According to Ministry of Finance, Zambia's economic growth slowed to 2 percent in 2019. This was due to the impact of the drought on agricultural production. Inflation is close to the Bank of Zambia's upper band and is projected to rise over the course of 2019.
- The Zambian government did not abolish the Valued-Added Tax.
- Zambia's preliminary estimates indicate that the fiscal deficit, on a cash basis, was 8.2 percent of GDP, against a budget target of 6.5 percent of GDP. This was largely due to higher external debt service payments on account of depreciation of the Kwacha and more than programed spending on capital projects and the Farmer Input Support Programme.
- Zambia's debt exceeded 85 percent of gross domestic product in 2019. In 2017 the Debt to GDP ratio was around 62 percent.
- Reserves were USD 1.5 billion in January 2019 which is down from USD 2.1 billion at the beginning of 2018. Reserves stood at USD 1.4 billion of imports at end of December 2019 which translates to 1.6 months of cover.

### Zambia Foreign Reserves (USD Mlns)



Zambia Foreign Reserves

Source: BOZ

- Zambia's yield curve for the southern African nation's Eurobonds, which are the worst performers in emerging markets in the past year, is still inverted – meaning that shorter-dated securities have higher yields than those with longer maturities. Investors are also watching dwindling foreign-exchange reserves. They've halved in the past three years to \$1.5 billion. They cover barely 10 percent of Zambia's external debt, which is the lowest ratio among all African nations that have sold dollar bonds, according to data compiled by Bloomberg.
- Inflation is expected to remain high in 2020 on account of the pass-through effect of the exchange rate depreciation and the increase in fuel and electricity prices.

## Economic Strengths & Challenges

Strengths (Those outlined in the last report still stand with no new ones)

- Growing economy (lower-middle income status, good ease of doing business ranking, no exchange controls, rapid urbanization and stable political climate). Increased consumer spending and growth of middle class, (reflected in increased residential and commercial construction.)
- Enforcing Contracts: Zambia made enforcing contracts easier by making judgments rendered in commercial matters at the appellate and Supreme Court levels available to the general public online.
- Getting Credit: Zambia strengthened access to credit by introducing a new Movable Property Act and by setting up a new collateral registry. The new law implemented a functional secured transactions system. The collateral registry is operational, unified geographically, searchable by a debtor's unique identifier, modern, and notice based.
- Trading across Borders: Zambia made exporting and importing easier by implementing a web-based customs data management platform, ASYCUDA World.

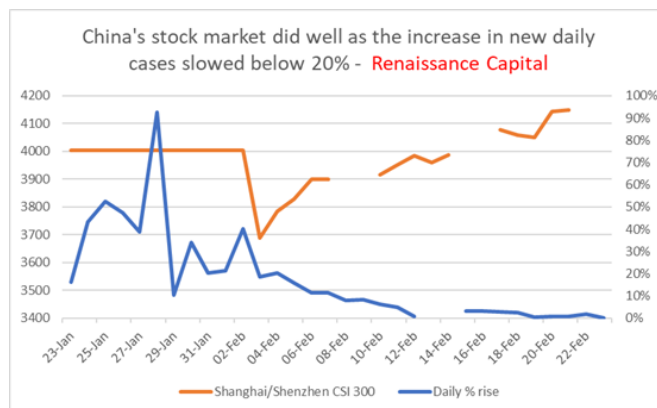
## Challenges

- External debt is less sustainable as debt portfolio has become costlier and riskier. Yields on Zambia's \$750 million of bonds due in 2022 have climbed almost 500 basis points since early February to 17.45 percent. Its 2027 bonds trade at 15.8 percent. No other country that's not in default has yields as high. (Bloomberg)
- Depreciating Kwacha: The Zambian Kwacha continues to depreciate at a relatively alarming rate due to debt and corona virus pandemic situation. The Kwacha is currently trading around **ZMW17 for US \$1**. Conservative projections show the Kwacha depreciating at a rate of 10% every fortnight which would make the currency reach at **ZMW20 for US \$1** by the end of Q2 2020.
- Paying Taxes: ZRA made paying taxes easier by introducing an online platform for filing and paying taxes at the end of 2019. ZRA has also intensified its tax collection by increasing the tax base. The motivation for this is to increase government revenues. These revenues will be key in paying Zambia's current debt exposure.
- Copper output reduced from 830,000 metric tonnes (MT) in 2018 to 828,102 MT in 2019. With the drop in in copper prices to just under US\$ 5,000 in 2020 we expect copper production to be lower. The onset of the coronavirus will also prove very challenging for mining companies which would stifle Zambia's foreign currency collection. This would lead to a further depreciation of the kwacha. Further depreciation of the kwacha would make external debt more expensive and government would have difficulties paying it US dollar dominated debt.

## Covid-19 (Coronavirus) Update

This information is based from information shared by RenCap's Global Chief Economist.

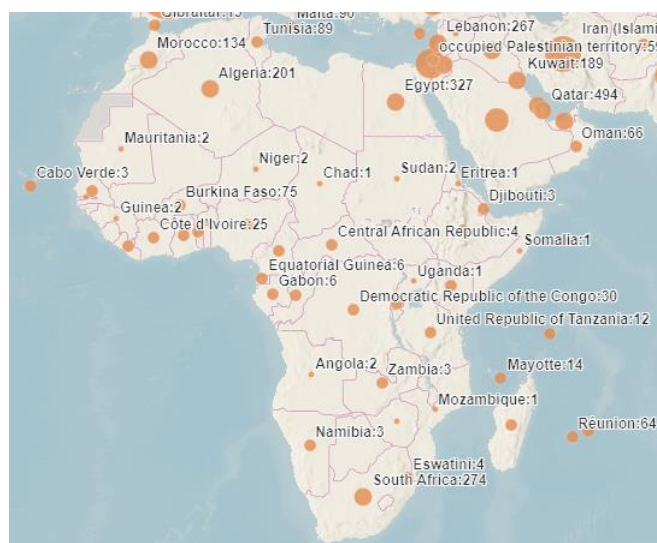
The coronavirus pandemic is an event that the 21<sup>st</sup> Century was not prepared for and could not have come at a worse time for developing countries. Zambia was just recovering from the 2019 economic slowdown as the disease became more prevalent. This is the impact the disease has had on China's Shanghai Exchange:



The pandemic's effect on China will have an impact on Zambia's economic growth prospects. The question that we in Zambia must think about is this:

"Since many SSA countries have 0% of the population above 80. Also, any economic hit from lockdowns may be too much for the country/population to bear – governments don't have the luxury of zero borrowing costs, and households don't have the savings. The impact is more likely to be indirect, from less tourism (Kenya) or lower commodity prices (Nigeria)." **How can Zambia benefit or not be as impacted as the developed economies?**

Here is the latest number of cases in Africa: (As a rule of thumb and based on the ever-increasing number of cases – multiply by a factor of 2 or 3 to estimate number each week)



	2017	2018	2019	2020	2021	2022	2023	2024
<b>Overall Economy Indicators</b>								
Gross Domestic Product, Current Prices (US\$ Billions)	25.87	26.72	23.95	23.34	23.42	23.64	23.95	24.40
Gross Domestic Product Per Capita, Current Prices (US\$)	1,500.65	1,503.40	1,307.03	1,236.19	1,203.47	1,179.29	1,160.27	1,147.79
General Government Revenue (ZMW Billions)	43.03	53.45	60.81	68.95	76.28	83.84	91.62	100.26
<b>Investor Confidence Indicators</b>								
Total Investment (% of GDP)	41.00	43.32	41.10	40.22	37.31	36.63	35.99	35.67
Inflation, Average Consumer Prices (% Change)	6.58	6.99	9.95	10.00	8.00	8.00	8.00	8.00
<b>Trade Indicators</b>								
Volume of imports Of Goods and Services (% Change)	12.41	6.30	(5.97)	0.40	1.56	1.87	1.78	2.68
Volume of Exports of Goods and Services (% Change)	3.55	7.28	2.26	3.12	3.13	3.08	3.16	4.34
<b>Demographics</b>								
Population (Millions)	17.24	17.77	18.32	18.88	19.46	20.04	20.64	21.26
<b>Debt Indicators</b>								
General Government Net Debt (% of GDP)	55.92	67.03	77.73	82.44	85.54	86.15	86.26	85.45
General Government Gross Debt (% of GDP)	61.85	78.11	91.65	95.46	98.03	97.56	96.73	95.09
<b>Current Account</b>								
Current Account Balance (US\$ Millions)	(1.01)	(0.71)	(0.85)	(0.79)	(0.69)	(0.62)	(0.56)	(0.49)
Current Account Balance (% of GDP)	(3.92)	(2.65)	(3.55)	(3.39)	(2.93)	(2.61)	(2.34)	(2.01)

## Disclosures

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