Dec 2022

Pangaea Securities

Chilanga Cement PLC *Equity Report*

Brand Equity and Shareholder Value

Sector Report
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CHILANGA CEMENT

Brand Equity and Shareholder Value

New Management, New Name: Chilanga Cement PLC ("Chilanga" or the "Company") changed its name from Lafarge Cement PLC to Chilanga in 2021 to maintain its legacy built on 73 years of quality goods and services. This was after Chilanga's majority shareholders Pan African Cement Limited ("Pan African"), and Financière Lafarge SAS ("Financière Lafarge") sold their combined 75% stake in the Company to Huaxin (Hainan) Investment Co., Ltd, for USD112 million. Huaxin Investment Company is the holding company of Huaxin Cement Company Limited ("Huaxin").

Mixed HY2022 Results: Chilanga reported a 16% decline in revenue for HY2022 compared to the same period in 2021, the revenue decline was attributed to the reduction in demand in an over-supplied local market and the unstable macroeconomic climate in export markets underpinned by non-tariff restrictions and increased local cement production capabilities in those markets. Net profit surged 43% to ZMW83 million (2021: ZMW 58 million). HY2022 Earnings Per Share ("EPS") rose 45% to ZMW0.42 (2021: ZMW0.29.) We anticipate the appreciation of the Kwacha and stabilization of supply chain disruptions in the latter half of 2022 will lead to reduced costs of production.

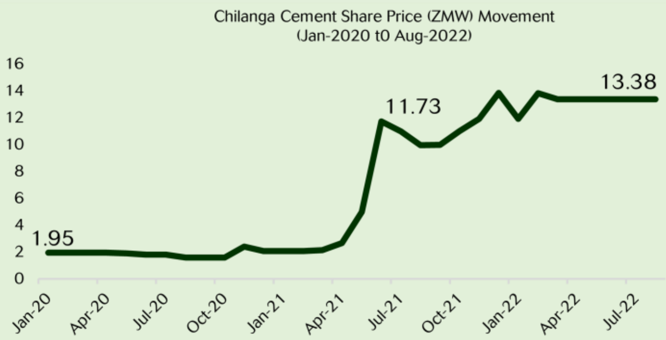
FY2021 Performance: FY2021 Chilanga recorded ZMW2.1 billion in revenue, 24% more than FY2020 (2020: ZMW1.7 billion). This increase was due to a 7% surge in exports, accounting for ZMW1.2 billion (59%) of total revenue. Earnings Before Interest Tax Depreciation and Amortization ("EBITDA") rose 22% from ZMW405 million in FY2020 to ZMW492 million in FY2021. Net income reduced by 19%, to ZMW291 million in FY2021 (2020: ZMW363 million). This was attributed to higher administrative costs and income tax expenses compared to the prior year's tax credit
.

A Healthy Balance Sheet: The Company recorded ZMW1.4 billion worth of assets. Chilanga's Debt-to-Equity ratio ("D/E") was 0.35 in 2021, representing a low-leverage capital structure that signals a healthy balance sheet. Further, the Company's Equity Multiplier (Assets/Equity) of 1.36 means the Company is mostly funded through equity than debt. The Company also boasts Zero long term-debt, a 0.65 Cash Ratio, and a Current Ratio of 2.

Focus On the Export Market: Although domestic sales dropped in FY2021 it was offset by an increase in exports; the Company earned ZMW1.2 billion (2020: ZMW925 million) in export revenue. This presents a regional expansion opportunity for Chilanga, as Africa has seen per capita consumption of cement quickly rise from 40kg to 112kg over the last few years.

Shareholder Value: The Chilanga stock ("Stock") is one of the most traded stocks on the Lusaka Securities Exchange ("LuSE"), over a three-month period of 4 May - 4 August 2022. It is also the seventh most valuable stock on the LuSE with a market capitalization of ZMW2.68 billion, approximately 3.7% of the LuSE equity market capitalization. By FY2021 year-end, the share price had increased exponentially achieving a 569% Capital Gains Yield, having opened the year at ZMW2.07 and closing at ZMW13.85; a ZWM11.75 capital gain per share.

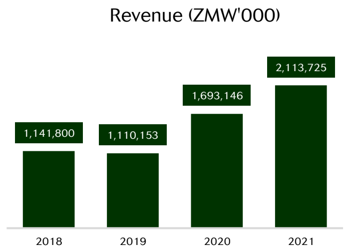
Company Outlook: Chilanga Cement is expected to grow in the long term, achieving a Compounded Annual Growth Rate ("CAGR") of 5% on its top-line earnings based on previous financial performance, this will be driven by recovering local sales and exports. This modest growth rate reflects a matured company in an increasingly competitive market. This trend is anticipated to continue, given anticipated macroeconomic stability, and rising regional cement demand.

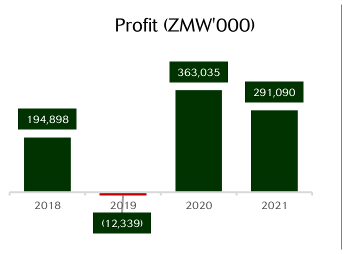


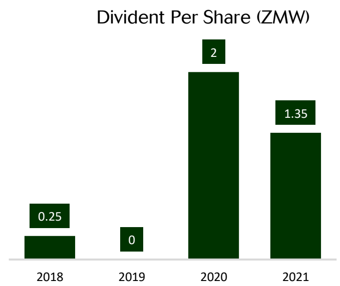
CHILANGA CEMENT

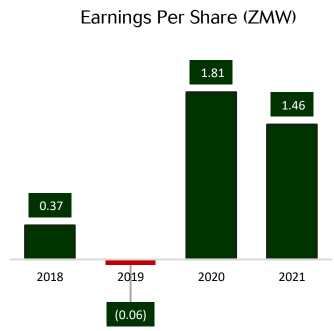
07 December 2022

LuSE Ticker	CHIL
LuSE Price, ZMW	13.38
LuSE Price in USD	0.82
Issued shares	200,040,457
Market Cap, ZMW	2,676,541,315
Market Cap, USD	155,706,110
Price-to-Earnings	9.2
52-Week Low, ZMW	9.41
52-Week High, ZMW	13.85
CEO	Jianping Chai
ZMW/USD	17.19









CONTENT

Chilanga Cement

Chilanga was established in 1949 by the Government and Colonial Development Corporation ("CDC") which is now known as British International Investments ("BII"). The Chilanga plant was one of the earliest industrial development programs after the copper mining industry and the railway line. In 1957, the Company was privatized to increase efficiency, and then nationalized in 1973. Chilanga was the first state-owned company to be listed on the LuSE.

Chilanga established its first plant in Chilanga Town located in Kafue district, in the Lusaka Province of the Republic of Zambia. The Company now operates two fully integrated plants – one in Ndola and the other in Lusaka – and an aggregate plant in Central Province. The Chilanga Cement Plant has a capacity of 950,000 tonnes per annum while the Ndola Cement Plant has a capacity of 550,000 tonnes per annum.

The Company had diversified its export portfolio to Burundi, Malawi, and Zimbabwe which had mitigated the Company's risk profile. Chilanga also has an established distribution network comprising a network of depots across the country. These depots are in strategic towns including Livingstone, Chipata, and Mpulungu. Through its depots, Chilanga is able to sell to wholesalers and retailers. Additionally, the Company sells its products to private and public institutions, especially for large-scale projects. Chilanga works closely with these institutions from the design stage to the implementation on products and solutions that ensure high-quality strong infrastructure, and reduced costs.

The Company is a supplier of building materials and construction solutions in Zambia and the SSA region with a special focus on Burundi, Zimbabwe, and Malawi.

Following the 2021 acquisition of the Company by Huaxin, the Company is now part of Huaxin Cement Company Limited. A global leading cement manufacturer, making the Company part of one of the biggest construction materials companies in the world. As of October 2022, Huaxin held about 80% stake in Chilanga.

Chilanga Plant Capacity: 950,000 Tonnes Per Annum

Ndola Plant Capacity: 550,000 Tonnes Per Annum

Total Capacity: 1,500,000 Tonnes Per Annum

Brand Equity → Experience

Customer-Centric → Financial Resilience

Zero long-term debt → Synergy

Positive Industry and Company Prospects → Shareholder Value

Investment Summary

Shareholder Entry Point

A high-level review of Chilanga's share price reveals the Stock's ability to rebound and potential for sustained price recovery. At the close of FY2014, the Stock was trading at ZMW26.00, ZMW12.00 more than the August 2022 closing price of ZMW13.38. As a result, the Price-to-Earnings ratio ("P/E") fell from 12.3 in 2014 to 9.16 in October 2021. Pangaea Securities Limited ("we" or "our" or "Pangaea") is of the view that the Stock price is en route to returning to its former price valuation.

Chilanga has been a consistent dividend yielder on the LuSE, with a noticeably high payout ratio of 92.47% in FY2021 and 110% for the FY2020. From 2014, the Company declared dividends every year except in 2019, when Chilanga recorded a loss of ZMW12million. Correlation analysis of the Company's EPS and dividends per share ("DPS") revealed a strong positive correlation coefficient of 0.9 (Scale: 0 to 1).

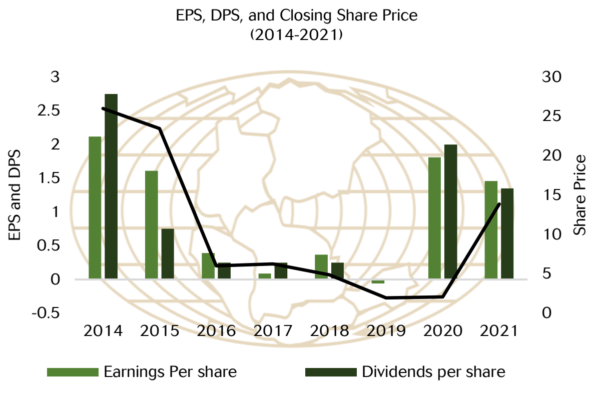


Figure 1

Consistent Dividend Payout

The Board of Directors (the "Board") approved and paid an interim dividend of ZMW0.75 per share (2020: ZMW1.5) for HY-2021. At the board meeting on 4 November 2021, the Board approved and paid an interim dividend of ZMW0.60 per share (2020: ZMW0.5): a 32.5% reduction in DPS. Historically, Chilanga has been paying dividends consistently, with a noteworthy seven-year high of ZMW2.75 in 2014.

Dividend Yield

Chilanga recorded a reduction in dividend yield in FY2021 compared to FY2020. A ZMW1.35 DPS was declared in FY2021, representing a 32.5% reduction compared to ZMW2 declared for FY2020. Chilanga also reported a 19.3% reduction in EPS from ZMW1.81 to ZMW1.46 in FY2020 and FY2021, respectively, ascribable to a ZMW141million income tax expense in FY2021.

Huaxin's Dividend Policy

The new parent company, Huaxin, has a stable dividend policy. In 2021, dividends representing 40.16% of the consolidated net profit was distributed to the shareholders.

Bullish Stock Performance

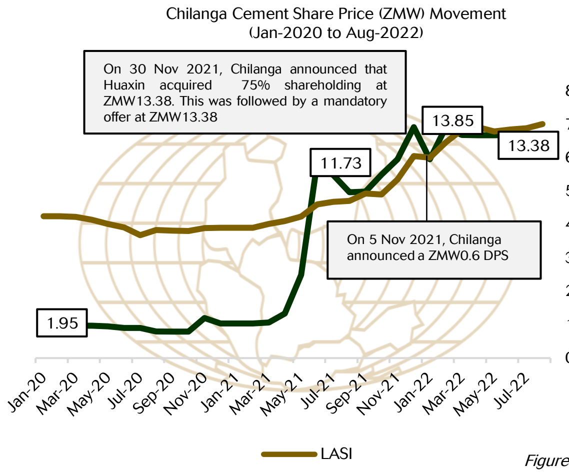


Figure 2

On 9 January 2018, the Stock price was ZMW6.25 and increased by 114% compared to the closing price for August 2022 (ZMW13.38). In 2022, the Stock averaged ZMW13.5, in contrast to ZMW9.18 in 2021. The Stock appears to be relatively stable around ZWM13.37 as of November 2022. The Stock is currently the seventh most valuable Stock on the LuSE with a market capitalization of ZMW2.68 billion, which is about 3.63% of the LuSE equity market (including Shoprite).

Year-To-Date Price Movements

The Stock began FY2021 with a share price of ZMW13.85 but had lost 3.39% off that price valuation by September 2022, ranking it 21st on the LuSE in terms of Year-To-Date ("YTD") performance.

Why Invest in Chilanga

It is our view that the following make Chilanga an ideal investment:

- Considering the impressive payout ratio, the consistency of the dividend payout, a 1H FY 2022 EPS of ZMW0.42, and Huaxin's dividend policy, we are of the view that Chilanga will continue yielding dividends for the foreseeable future.
- Over the period 2016 to 2021, Chilanga recorded steady financial performance and demonstrated financial resilience. As evidenced by the Company's financial rebound in 2020 from 2019, which continued to 2021
- The Company has a stringent policy on managing liquidity risk. This is evident as leverage is less than 30% and the Company is both solvent and liquid with cash and cash equivalent amounting to ZMW154 million as of FY2021 year-end.
- Huaxin has 115 years of experience, an expansion strategy, and an established global supply chain distribution network. This adds value to Chilanga's existing operation; and
- It is our view that the Stock has been on route to recovery, realizing its full potential, and that at ZMW13.37 per share. The Stock is relatively undervalued when the Stock P/E is compared to the LuSE average of 10.54 as of 31 October 2022. It will potentially retain its former price valuation owing to its strong financial performance. In this regard, ZMW13.38 per share is an attractive entry point.

	2014	*2015*	*2016*	*2017*	*2018*	*2019*	*2020*	*2021*
Dividend Yield (DPS/closing share price)	0.11	0.03	0.04	0.04	0.05	-	0.97	0.10
Payout Ratio (DPS/EPS))	1.30	0.47	0.64	2.78	0.68	-	1.10	0.92
Price-to-Earnings (Share Price/EPS)	12.3	14.6	15.4	69.4	13.2	(32.5)	1.1	9.5
Dividend Cover (EPS/DPS)	1.30	0.47	0.64	2.78	0.68	-	1.10	0.92
EPS	2.12	1.61	0.39	0.09	0.37	(0.06)	1.81	1.46
DPS	2.75	0.75	0.25	0.25	0.25	-	2.00	1.35
Share price 'ZMW (31 December)	26.00	23.44	6.00	6.25	4.87	1.95	2.07	13.85

Financial Overview

FY2019: Chilanga recorded a 29% reduction in local sales to ZMW585 million (2018: ZMW825 million). However, there was a 69% increase in export sales to ZMW513 million (2020: ZMW303 million), resulting in a net decrease in revenue of only 3%. This reduction was underpinned by the strict austerity measures the Government implemented, which included focusing on infrastructure projects that were at least 80% complete. In this regard, some new and ongoing projects were put on hold to manage Zambia's burgeoning debt levels. This, coupled with rising inflation, kwacha depreciation, increased load shedding, and surging fuel costs, hiked production costs and exacerbated the already strenuous operating environment. This resulted in a 106% reduction in net income, and the Company recorded a loss of ZMW12 million. Consequently, the Board did not declare any dividends.

FY2020: The year was characterized by challenging economic conditions, the COVID-19 Pandemic, and the resulting recession that stemmed from the 4.9% Gross Domestic Product ("GDP") contraction (2019:1.9% growth, 2018:4% growth). Despite this, Chilanga's performance took a positive turn and recorded an increase in revenue, attributable to a 29% increase in exports. The rise in demand was partly due to the insufficient cement supply in the Sub-Saharan Africa ("SSA") region. Countries such as Tanzania and Zimbabwe experienced surges in cement demand following increased economic activity in the wake of the COVID-19 Pandemic. These developments and the enforcement of strict operating cost measures culminated in an increase in revenue and subsequent increase in profit after tax ("PAT") to ZMW363 milion in 2020 (2019: loss of ZMW12 million).

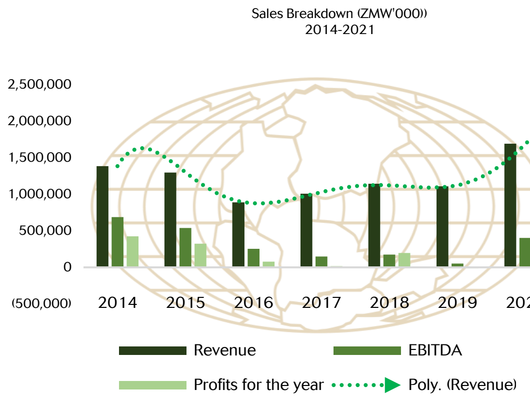


Figure 3

Supernormal Revenue Performance: FY2021

Chilanga recorded ZMW2.1billion in revenue in FY2021, a 24% revenue increase compared to FY2020. Year on Year ("YoY") increase is attributed to a 7% increase in exports due to Chilanga's export-focused strategy. The cost of production as a proportion of sales reduced from 50% in FY2020 to 43% in FY2021 due to the Kwacha's appreciation which caused a reduction in the YoY cost of goods sold ("COGS") which contributed to the 44% increase in gross profits in 2021 (2020: 50%). 2020 recorded higher production costs largely due to currency depreciation; the Kwacha averaged ZMW18.56/USD in 2020 (2019: ZMW12.89)

	FY2018	FY2019	FY2020	FY2021
Revenue Growth	13.2%	-2.8%	52.5%	24.8%
Gross Margin	50.4%	42.9%	49.8%	57.5%
Asset Turnover	53%	51%	73%	102%
PBT Margin	8.3%	-1.3%	20.2%	20.1%
EBIT Margin	9.1%	-2.2%	20.2%	20.0%
EBITDA Margins	15.1%	3.7%	23.9%	23.3%
Net Margin	17.1%	-1.1%	21.4%	13.8%

	FY2020	FY2021	Change
	ZMW'000	ZMW'000	%
Revenue	1,693,146	2,113,725	▲24.84
Cost of Sales	(849,583)	(898,354)	▲5.74
Gross Profits	843,563	1,215,371	▲44.08
Operating Profit	341,724	424,130	▲24.11
Profit Before Tax	342,057	422,690	▲23.57
Income Tax(expense) Credit	20,978	(131,600)	▼727.32
Profits for the year	363,035	291,090	▼19.82
Basic and diluted EPS (ZMW)	1.81	1.46	▼19.34

Operating Profit

Chilanga recorded a positive operating profit of ZMW291mllion for FY2021, which was 18% short of the previous year's operating profit. EBITDA varied negligibly hence flattish YoY between FY2021 and FY2020. Therefore, the decline in profits is attributable to the huge income tax expense incurred in 2021; (500% more than the previous year) and production cost escalation largely due to currency depreciation, which led to a 7.7% increase in gross margins between the two subsequent years. The Kwacha had appreciated significantly in 2022, averaging ZMW17.00 per USD (2021: ZMW19.90). We are of the considered view that this will lead to reduced production cost, which trickles down to increased gross profits and ultimately increased bottom-line earnings.

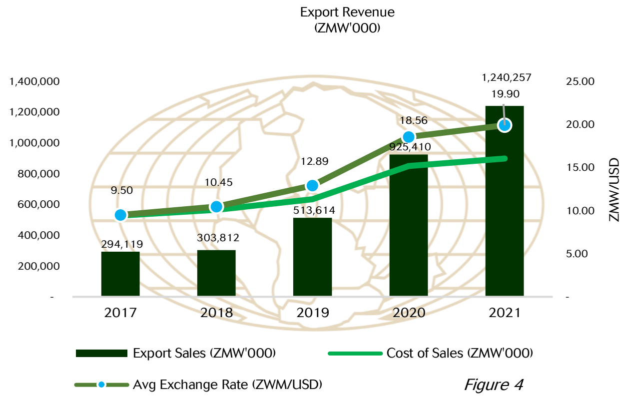


Figure 4

Profits Before Tax

The Company reported a Profit Before Tax ("PBT") of ZMW423 million in 2021, 24% over the ZMW342 million recorded in 2020. The performance was mainly attributed to the 7% increase in exports that brought more than ZMW1.2 billion equivalent of hard currency into the country. The increase in exports presents a huge win for the Company since 59% of all its sales are export based. This makes Chilanga Zambia's top exporter of both clinker and cement.

Profits for the Year

Though 2021 had better top-line performance than the previous year (24% increase), the bottom-line earnings had reduced by over 19%. This is, to a large extent, because of the higher tax expense incurred in 2021. The Company incurred a ZMW131 million tax expense compared to the ZMW12 million tax credit in 2020. Starting in 2014, the Company maintained a positive net margin over time, except in 2019, which was characterized by a challenging macroeconomic environment due to several factors such as depreciating local currency, high inflation rate, and low electric power supply leading to drastic load shedding. This led to the Company's bottom-line margin reducing from 21.4% in 2020 to 13.8% in 2021

Strong Balance Sheet

	FY2020	FY2021	Change
	ZMW'000	ZMW'000	%
Cash And Equivalents	283,140	154,140	▼45.0
Non-Current Assets	1,447,034	1,431,072	▼1.10
Property, Plant, And Equipment	1,415,894	1,427,619	▲0.83
Total Assets	2,307,296	2,072,096	▼10.19
Current Liabilities	427,215	311,752	▼27.03
Non-Current Liabilities	243,205	234,484	▼3.59
Total Liabilities	670,420	546,236	▼18.52
Retained Earnings	1,173,636	1,061,961	▼9.52
Total Equity	1,636,876	1,525,860	▼6.78

The Company's Property, Plant, and Equipment ("PPE") constituted 99.8% of non-current assets totalling ZMW1.4billion in 2021. In total, the Company had over ZMW2billion worth of assets in FY2021. Chilanga's Debt/Equity ratio was 0.35 in FY2021, a low-leverage capital structure that signals a healthy balance sheet. Further, the Company has an Equity Multiplier (Assets/Equity) of 1.35. The Equity multiplier is a risk indicator that measures the portion of a company's assets financed by stockholder's equity rather than by debt.

The decrease in current assets in 2021 was attributed to exchange rate losses that resulted in a reduction in cash and cash equivalents of 45% to ZMW154million in 2021 (2020: ZMW283million). In 2021, Chilanga had a 65% cash ratio, signalling that Chilanga could meet 65% of its current liabilities with relative ease.

In FY2021 Return on Assets ("ROA") reduced by 10.7%; this was because of the decrease in both PAT and total assets. The Company's ROA in 2021 was 14% above the industry's 2021 average of 11% for manufacturing companies, signalling Chilanga's productive efficiency. The Company is very efficient, with 102% Asset Turnover ratio in Fy2021; the high asset turnover ratio indicates the Company was exceptionally effective at extracting a high level of revenue from a relatively lower asset value.

Chilanga recorded a 14% decrease in Return on Equity ("ROE") in FY2021. This decrease resulted from a 19% decrease in PAT and a 6.8% reduction in total equity. Further, this reduction in total equity was due to the 9.5% decrease in retained earnings.

ROA, ROE and Current Ratio
2016-2021

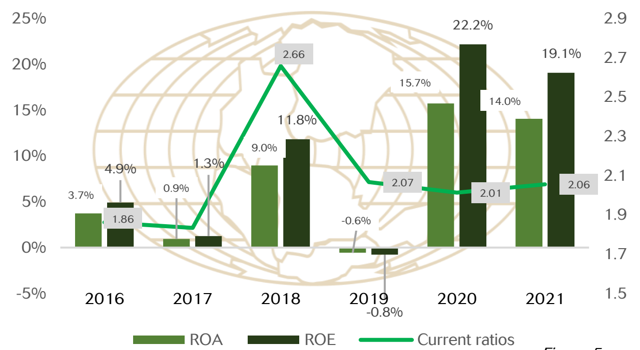


Figure 5

Zero-Long Term Debt

Chilanga boasts of having zero long-term debt and has maintained a current ratio above two over the last three years starting in 2019; this means the Company has been solvent and liquid, able to meet long and short-term obligations. This was also evidenced by the Company's non-use of its ZMW24 million overdraft facility held by Citibank Zambia Limited over the last two years.

First-Half Fiscal-Year 2022 Financials

Compared to HY2021, the Company recorded a 16% reduction in revenue for the same period in 2022. This was attributed to the reduction in local demand and the unstable macroeconomic climate in export markets. The latter was ascribed to supply chain disruptions, volatile inflation, and exchange rates following the Russia-Ukraine war.

	HY2021	HY2022	Change
	ZMW'000	ZWM'000	%
Revenue	961,475	802,850	▼16.50
EBIT	124,877	136,615	▲9.40
Investment Income	240	1,194	▲397.50
Finance Cost	(3,422)	(3,578)	▼4.56
PBT	121,695	134,231	▲10.30
Income Tax (expense)	(62,943)	(50,823)	▲19.26
Profit	58,752	83,408	▲41.97
EPS (ZMW)	0.29	0.42	▲44.83

Though sales declined, the stability of the Zambian currency and operating environment counter-acted other costs, including the unstable fuel prices experienced in the first half of 2022. This was indicated in the 9.4% increase in Earnings Before Interest and tax ("EBIT").

Chilanga recorded a 10.3% increase in PBT in HY2022, from ZMW121 million for HY2021 to ZMW134 million. This, compounded with the 19.3% reduction in income tax expense, contributed to the 42% increase in profit for the period. Consequently, EPS increased by 44.8%.

Chilanga remained liquid, with ZMW98 million in cash as of 30 June 2022. The Company also maintained a strong balance sheet, with no outstanding debt and PPE worth ZMW1.4 billion.

Considering the Kwacha appreciation and declining inflation rate observed in the third quarter of 2022, we expect lower production costs and a subsequent increase in gross profit in the latter half of 2022.

Operational Overview

Chilanga Overview

The Company manufactures and sells cement and aggregate products for the building and construction industry in Zambia and for international export. Since 2020, Chilanga has employed an active export market expansion strategy that has culminated in a broad export market including but not limited to Tanzania, Burundi, Malawi, and Zimbabwe.

Chilanga established its first plant in Chilanga town, located in Kafue district, Lusaka Province of the Republic of Zambia. Chilanga now has two fully integrated cement plants with a combined production capacity of 1.5 million tonnes per year. In addition to these plants, the Company had four depots in Mpulungu, Chipata, and Livingstone.

Experienced Leadership

The Chilanga Chairman, Muna Hantuba, was elected board member in 2003 and intended for Chilanga to provide the Zambian market with innovative, sustainable, and eco-friendly building solutions. Mr. Hantuba has more than 31 years of experience in the financial sector.

Jianping Chai, the current Chief Executive Officer ("CEO"), was elected to the Board in 2021 and has served as CEO since. He has over 30 years of experience and has had several roles within the Huaxin group, such as Plant manager and senior roles in Group Human Resources and Administration.

Product Portfolio

The following are the well-known brands in Chilanga's product portfolio: Mphamvu, a Portland limestone cement; Powerplus for heavy industrial construction, Supaset for making cement blocks, Powercrete for applications in the mining industry, and PowerBuild for mass concrete applications such as dam foundations.

The Company also produces aggregates used in building projects, heavy construction, road construction, mining, and the production of concrete products.

Cement Production

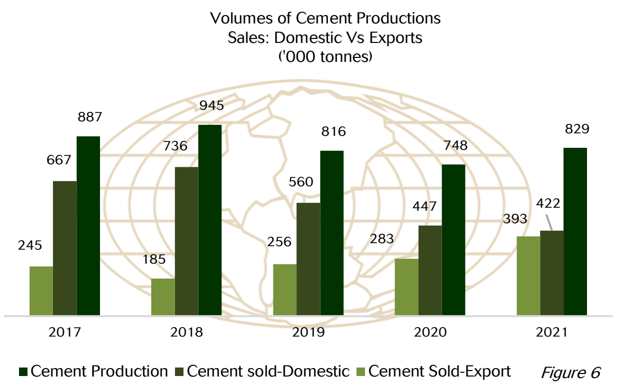


Figure 6

The domestic volume sales of Chilanga constituted more than 50% of Chilanga's sales in 2021. However, since 2019 the increase in exports has cushioned the Company from reduced revenue generation following reductions in domestic demand and increased market saturation, further exacerbated by an unstable macro-economic business environment and economic liquidity constraints. Although domestic demand dropped by 25 Kilotons ("KT") in 2021 compared to 2020, as seen in the graph, this was offset by a 36KT increase in exports, and the resulting net increase was 11KT.

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Competitive Market

Chilanga is Zambia's most popular cement brand, having been only significant cement manufacturer with Zambezi Portland Cement solely focused on the Copperbelt and North Regions. Dangote Cement ("Dangote") was introduced into the market with a 1.5 million tonnes capacity plant in Ndola on the Copperbelt Province in 2015. The new volume caused cement prices to plummet, adversely affecting Chilanga's margins and profitability.

Cement production declined from 1.1 million tonnes to 605 thousand tonnes in 2016. Cement prices also reduced significantly. By July 2015, cement prices, on average, had decreased by ZMW14.00, from ZMW75.00 to ZMW61.00. Consequently, Chilanga's revenue reduced by 31% from ZMW1.3 billion in FY2015 to ZMW890 million in FY2016.

Sinoma Cement Co., Ltd ("Sinoma"), a subsidiary of China National Materials Company Ltd built a cement manufacturing plant in Lusaka, Zambia, in 2018, with a production capacity of 1,000KT. This further added to the increased domestic competition for Chilanga. Note that the increase in export volumes, to an extent, has been sufficient to offset the decline in sales, such that the total sales volume is stable.

Growth In National Production Capacity

Zambia is currently seeing one of the most rapid growth rates in investment in cement capacity on the African continent. Six producers, with a collective production capacity of 5,836KT, compete for roughly 2,500KT of local annual cement demand.

Group Name	*Company*	*Location*	*Capacity (KT)*
Dangote Cement Plc	Dangote Industries (Zambia)	Ndola	1,500
Scirocco Enterprise Limited	Amake Cement Industries	Lusaka	1,000
China National Building Materials Co, Ltd	Sinoma Mpande Limestone	Chongwe	1,000
Huaxin Cement Co, Ltd	Chilanga Cement Zambia	Lusaka	950
Zambezi Portland Cement Co	Zambezi Portland Cement Co	Ndola	800
Huaxin Cement Co, Ltd	Chilanga Cement Zambia	Ndola	550
Baudot Cement Zambia, Ltd	Baudot Cement Zambia	Lusaka	36
Total			5,836

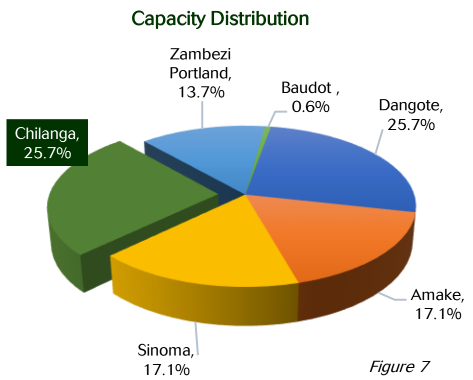


Figure 7

Several projects in Zambia are anticipated to raise the local demand for cement. Interestingly, much of the capacity expansion is lured by opportunities for profitable export trade; for example, only 20% of Scirocco ("Amake") Enterprises' product is destined for the domestic market, whilst Zambezi Portland Cement targets 50% for the local market. For Chilanga, 47% of the cement volumes produced were exported in 2021. Popular export destinations include Malawi, the Democratic Republic of Congo, Zimbabwe, and Tanzania.

Domestic Construction Sector Outlook

Insufficient infrastructure remains a major challenge in Zambia. The key areas that require heavy infrastructure development include health, education, transport and communication, water and sanitation, and hydropower generation. Zambia is estimated to have a housing shortage of 1.5 million housing units; an estimated 110,000 units will need to be constructed per year for the next ten years to meet this demand.

Like most developing counties across SSA, Zambia is investing in necessary infrastructure to support developmental reforms. Zambia is implementing the Link Zambia 8000 project, which aims to transform the country from land-locked to land-linked. The Link Zambia project involves paving 8,201KM of roads at an estimated cost of USD5.6 billion. Zambia is expanding the collection of road tolls on major roads to fund road maintenance and broaden financing options for road infrastructure development. Prime examples include the Pave Zambia 2000 program, aimed at rehabilitating 2000KM of urban roads, and the L400 project, which is constructing and rehabilitating 400KM of Lusaka urban roads at a cost of USD348 million.

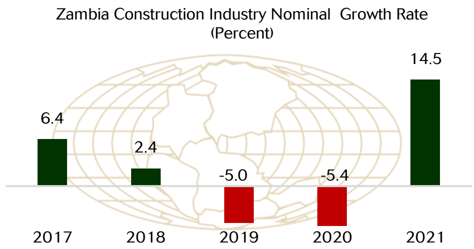


Figure 8

Domestic Cement Demand Outlook

In 2021, domestic cement sales were hampered by an uncertain economic climate; this included a volatile exchange rate, fuel hikes, and an escalating inflation rate. Contrastingly, in 2022 the reduced inflation rate and appreciation of the Kwacha cultivated positive local and international market sentiment.

In 2021 Lusaka South Multi-Facility Economic Zone attracted more than 30 companies with a total pledged investment of USD230 million. Construction of production facilities has commenced for six companies, while 21 companies were awaiting approval from the Zambia Environmental Management Agency.

A prime indicator of increased local cement demand was the 2022 National Budget which included multiple provisions for construction projects. This signaled the likelihood of significant infrastructure development and increased cement sales, especially at the community level. With the increased allocation towards the Constituency Development Fund, we believe it will lead to increased community construction projects. Chilanga, being a local brand, is well-positioned to supply materials for most of the projects.

The Government proposed an allocation of ZMW5.2 billion for the construction, maintenance, and rehabilitation of various roads in the 2023 National Budget. We are of the view that this will lead to increased local infrastructure projects such as new schools, hospitals, and roads. Construction projects earmarked for 2023 include:

- 56 early childhood education centres
- 120 new secondary schools
- 36 district hospitals, 16 mini-hospitals and 83 health posts.
- Completion of the Kafulafuta Dam project
- ZMW355million for aerodrome upgrades

The International Monetary Fund ("IMF") USD1.3 billion Extended Credit Facility ("ECF") will create the much-needed fiscal space for the Government to meet some of the country's infrastructure needs over the short-to-medium term. Under the ECF, health and education have been prioritized; we anticipate that this will lead to the development of hospitals, clinics, new schools, and the refurbishment of existing school infrastructure, thereby increasing demand for cement products.

Clinker Exports Market

The regional export market looks favourable, as Chilanga has increased its cement exports by 7%, exporting 393KT in 2021 compared to 283KT in 2020. Simultaneously, clinker exports reduced by 28%, from 225KT to 161KT. Generally, clinker exports have been on an upward swing, as they rose 42% between 2017 and 2021. These new markets for locally produced building materials will significantly contribute to the growth of this sector.

The sector's ability to earn foreign exchange through exports is essential for its earnings outlook. Especially if the Kwacha loses its recent stability against major currencies, particularly the US Dollar, as the U.S Federal Reserve has raised its benchmark lending rate to between 3% and 3.25%, a record 15-year high.

Figure 9

Business Risks

Growing Competition: Dangote, Amake, Zambezi Portland, and Sinoma are Chilanga's main competitors. Collectively, these manufacturers have a combined capacity to produce 4,300KT, or 73% of Zambia's total capacity.

Furthermore, Chilanga faces competition in its exports due to an oversupply of cement in Eastern Africa. For instance, Tanzania faces excess supply following the entrance of Dangote into the Tanzanian market.

Exchange Rate Volatility: Chilanga is exposed to currency risk through trade receivables, payables, and cash/bank balances which are predominantly US dollar denominated and, to a lesser extent, South African Rand and Euro-denominated. The proportion of sales derived from exports also makes the Company susceptible to exchange rate valuations, and COGS are also influenced by forex movements.

For Chilanga, the depreciation of the Kwacha has historically been positively correlated with increases in export revenue. Nevertheless, other underlying factors, such as shifts in Company strategy, external sector market conditions, and trade policies, can also explain these trends, as correlation does not always imply causality.

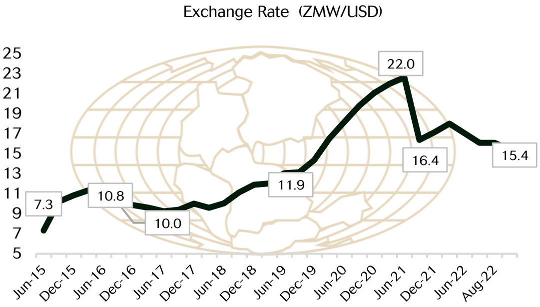


Figure 9

About Huaxin

Our Understanding of the Parent Company

Huaxin, based in China, is a wholly owned subsidiary of Huaxin Cement Co. Limited, ("Huaxin Cement") an entity listed on the Shanghai Stock Exchange in China. By 31 December 2020, Huaxin Cement was present in 13 provinces of China and 6 countries with almost 270 subsidiaries and branches. The total asset value of Huaxin Cement amounts to over CNY43 billion (approximately USD6.6 billion) and has sales of over CNY29 billion (approximately USD4.4 billion).

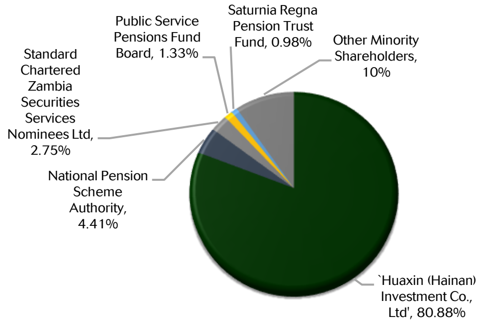
Huaxin is a leading player in the manufacturing and marketing of cement products in China. Founded in 1907, Huaxin Cement had a cement production capacity of 115 million tonnes/per year, an aggregate production capacity of 55 million tonnes/per year, and a ready-mix concrete capacity of up to 27 million cubic meters/per year. Huaxin Cement was ranked in China's top 500 manufacturing companies and was also listed as a Fortune China 500 company. By the end of 2021, the Company owned around 270 subsidiaries across 14 provinces and cities in China, including Hubei, Hunan, Henan, Guangdong, Kyrgyzstan, Cambodia, Nepal, Tanzania, Zambia, and Malawi, had a total cement grinding capacity of 116 million tons/year (grinding capacity).

In November 2021, Huaxin Cement spent USD112.8 million on purchasing a 75% (50.1% from Pan African and 24.9% from Financiere Lafarge) stake in Chilanga (then Lafarge). The exchange rate was based on the middle market Kwacha/United States dollar exchange rate published by the Bank of Zambia on 30 November 2021. Huaxin has 115 years of experience, an expansion strategy, and an established global supply chain distribution network. We believe this will culminate in increased operational efficiency.

Mandatory Offer

The Mandatory Offer by Huaxin to the minority shareholders of Chilanga Cement opened on 12 May 2022 and closed on 13 June 2022. Huaxin submitted a cash offer to the Board of directors of Chilanga to purchase from the minority shareholders all the remaining 50,013,468 shares of Chilanga Cement that it did not already own, representing 25% shareholding in the Company at a price per share of ZMW13.38. At the close of the Mandatory Offer on 13 June 2022, Huaxin acquired 12,375,420 shares tendered for sale. This level of acceptance represents 24.74 % of the 50,013,468 target shares that were the subject of the mandatory offer or 6.19% of the total shareholding in the Company. Huaxin had increased its stake from 75% to 81.19% shareholding whilst the balance of 18.81% was still held by various institutional and retail investors numbering approximately 3,516 in total. As of 16 August 2022, the Company ownership is as follows

Shareholding
(16 August 2022)



华新水泥
HUAXIN CEMENT

Huaxin's Objectives

The purpose of Huaxin's acquisition of Chilanga, as well as Lafarge Cement Malawi limited in 2021, was to add a combined cement production capacity of 1.75 million tons in two countries in Africa, which helped with Huaxin's steady implementation of its overseas development strategy and help the company expand its strategic layout in Africa.

After the completion of the acquisition, Huaxin plans to use its technical and talent advantages in the cement field to make necessary rectifications on the acquired assets to improve equipment operational efficiency, and at the same time reduce costs through management improvements and improve competitiveness and performance of the acquired assets.

Further, the limestone resources reserved by the acquired assets will be used to expand cement production capacity in the future, realize the rolling development of overseas projects, and further expand the company's development space in African countries along the "Belt and Road".

Huaxin acquired Lafarge Cement Malawi Ltd for USD10 million. The plant has a grinding station located in Blantyre, Malawi, Africa with a capacity of 250,000 tons per year. As of the end of 2020, its assets are USD 30.11 million (converted at 769.94 Malawian Kwachas to USD 1 at the end of 2020)

Huaxin Strategy and Policy

In 2021, Huaxin decided to focus on its core business, cement and cement-aggregate products and green waste disposal. Huaxin has also invested heavily in research and development to empower dynamic development. Huaxin also decided to focus on the development of green cement and ensuring environmental sustainability. This includes low-carbon projects and fundamental research.

Key features of Huaxin's operations model include:

- Management System: Huaxin implements both a horizontal and vertical management system to ensure sustainability and expand market share.
- Production: Subsidiaries formulate annual plans based on demand in their respective regions.
- Sales: High quality is pertinent to ensure competitiveness and maintain brand recognition.

Business Strategy

Customer Focused Strategy

In response to declining domestic sales, the Company has introduced new developments that aim to overcome the status quo. Spurred by the 2020 Covid-19 pandemic, Chilanga partnered with Tigmoo and Afridelivery to develop the Last Mile Delivery ("LMD") platform, which helps penetrate more than seven new diaspora markets. The LMD platform has given customers a fast and convenient way to buy cement.

We expect Chilanga to continue its expansion focus strategy and take advantage of rising SSA demand. It is our view that the implementation of this proven strategy and the potential growth of the LMD strategy positions Chilanga to be among the top cement manufacturers in the SSA region.

Chilanga's commercial team had shifted focus from product and price-focused strategies to placing the consumer at the centre of the business. The potential benefit was that consumers could pay more for products they want instead of products available. This strategy aimed to provide consumers with tailor-made solutions to meet customer needs. This was in line with Huaxin Cement's strategy, the new parent company. Some innovations aligned with the new strategy include creating a toll-free line for customers, digitalizing the order process, and focusing on operational efficiency.

Exports into SADC/COMESA.

The SSA has an estimated cement capacity of 110 Million Tonnes Per Annum ("MTA"). Africa has seen Per Capita Consumption ("PCC") quickly rise from 40kg to 112kg in recent years. With a billion people in SSA and an age demographic weighted towards youth, cement producers have been attracted to the region, which has a great need for infrastructure and housing. Chilanga aims to expand into a region with high cement and clinker prices. These markets include Malawi, Zimbabwe, and Burundi in August 2022, Zambia exported ZMW82.4 million (19 % of exports) worth of Portland cement to Zimbabwe.

Reduced Production Cost and Improved Efficiency

Chilanga is dedicated to reducing its energy consumption and putting strict cost containment measures; this indicates the potential for improved profitability and cost efficiency. Considering the appreciation of the Kwacha, and low inflation, we expect improved margins over the short and medium term. In 2021, Chilanga spent ZMW81 million on capital expenditure to improve its operations.

Chilanga Dividend Policy

Management recommends that the Company will endeavor to have a payout of up to 75% of free cash flows as dividends after considering factors such as profits earned during the financial year, future capital requirements, cash flow position, past dividend trends, debt obligations (if any), reinvestment opportunities inter alia. Historically, Chilanga dividend payout ratio have ranged from 0% to 278%. The Company may not declare dividends in the event it reports a net loss for that year or if the Company is cash flow negative inter alia. The Company has only one class of equity shareholders. Interim dividends are only considered during the fourth quarter Board meeting for the third quarter year-to-date results.

Further, the retained earnings of the Company for any given fiscal year are expected to be used for additional capital requirements, inorganic growth, or for general corporate purposes, including contingencies.

Huaxin cement has a wealth of experience, high-level strategy, and established infrastructure. The potential synergies between Huanxin and Chilanga are apparent.

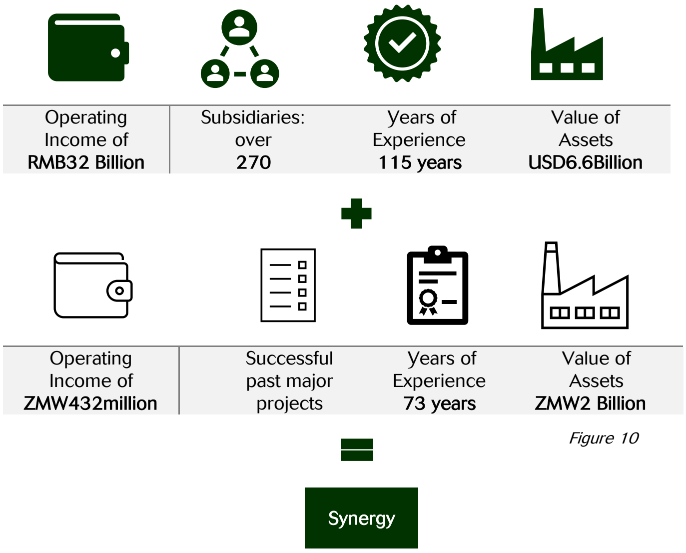


Figure 10

Chilanga Milestones

1949	Chilanga Cement was established by the Northern Rhodesian government and BII.
1951	Cement production began at the Chilanga plant. The first major project was cement supply for the Kariba Dam electric power station wall. Two more kilns were added in 1956 and 1967.
1969	Ndola plant Kiln was commissioned and a second was added in 1974.
1994	The Government's privatisation programme to improve the performance of nationalised companies led to Chilanga's privatisation.
2001	BII organised its cement operations to form PAC. Lafarge acquired Chilanga from PAC.
2007	Chilanga Cement PLC became Lafarge Cement Zambia PLC.
2008	A new plant was commissioned in Chilanga, doubling production capacity.
2015	The Lafarge Group and Holcim Limited merged to become the Lafarge Holcim Group. Lafarge Zambia PLC becomes a member.
2018	Lafarge Zambia installs a chemical shoot for waste incineration under the Eco unit brand to promote a zero-waste future.
2021	Lafarge Zambia was acquired by Huaxin Investment Company Limited. The company name reverts to Chilanga Cement PLC.

Business Valuation

By the start of 2021, the relative P/E ratio for Chilanga was 9.49, against the 10.6 average for companies on the LuSE. LuSE companies range between a P/E of 93 to -15, with Zambia Reinsurance on the high end and Madison Financial services on the Bottom-end as of October 2022. Chilanga P/E was the 7th highest on the LuSE, with a trailing P/E of 9.16 by the end of September 2022.

The Chilanga Stock, with a P/E of 9.16, is currently trading at a lower than the market average P/E of 10.54, selling at a discount. Following the pullback after 2015, Chilanga was undervalued compared to its historical seven year-average of P/E of 12.87. By the FY2021 year-end, the Stock was trading at 9.49 compared to 12.26 and 14.56 in 2014 and 2015, respectively. The Company P/E was at 69.44 by FY2017 due to the ZMW0.09 EPS recorded for FY2071 against the FY2017 closing price of ZMW6.25.

From 2016 to 2019, the Stock price reduced from ZMW26 in 2014 to ZMW1.95 by year-end 2019. By the start of FY2020, it is our view that the Stock has been en route to its full potential and that at ZMW13.37 per share, the Stock is relatively undervalued and will potentially retain its former price valuation. In this regard, it ZMW13.37 per share is an attractive entry point.

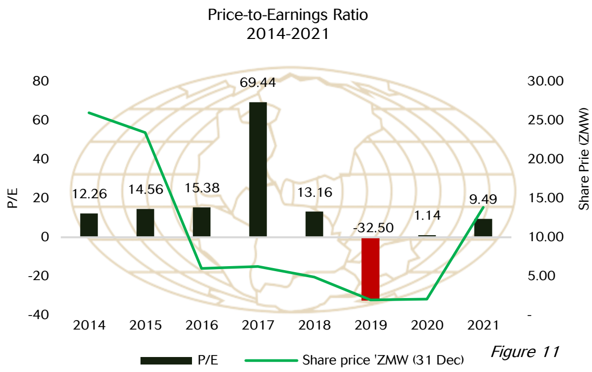


Figure 11

Chilanga Stock is the third most traded Stock on the LuSE over three months (15 July - 12 October 2022). The Stock had traded a total volume of 992,142 shares in 240 trades, valued at ZMW13.3 million over the same period. A volume high of 608,600 was achieved on 9 August for the same period. The tables below detail the various approximate metrics for the Stock, and the Stock's position on the LuSE as of 10 October 2022.

	2014	2015	2016	2017	2018	2019	2020	2021
EV/Sales	3.63	3.55	1.33	1.18	0.79	0.28	0.08	1.24
EV/EBITDA	7.32	8.60	4.68	8.09	5.23	7.64	0.32	5.32
EV/EBIT	7.64	9.51	9.24	20.73	8.65	(13.1)	0.38	6.19
Price (Closing, ZMW)	26.00	23.44	6.00	6.25	4.87	1.95	2.07	13.85
P/E (Share Price/EPS)	12.26	14.56	15.38	69.44	13.16	(32.5)	1.14	9.49
P/S (Market Cap/Sales)	3.76	3.62	1.35	1.24	0.85	0.35	0.24	1.31
P/B (Markey Cap/Total Equity)	4.46	3.70	0.76	0.83	0.59	0.24	0.25	1.82
P/EBITDA	7.58	8.76	4.75	8.48	5.65	9.49	1.02	5.63
Earnings Yield (EPS/Share Price)	8.9%	6.9%	6.5%	1.4%	7.6%	(3.1%)	87.4%	10.5%
Earnings Per Share	2.12	1.61	0.39	0.09	0.37	(0.06)	1.81	1.46
Market Cap (ZMW'000)	5,201,051	4,688,948	1,200,242	1,250,252	974,197	390,078	414,083	2,770,560

Company	*Symbol*	*Price (ZMW) (3.01.22)*	*Price (ZMW) (03.10.22)*	*YTD*	*EPS (ZMW)*	*P/E (TTM)*	*Market Cap (USD)*
*Shoprite**	SHOP	64	64	-	6.03	10.61	2,406,260,435.40
Copperbelt Energy Corp	CECZ	2.65	4	▲51%	0.53	7.55	413,275,838.50
Zambia Consolidated Copper Mines	ZCCM	37.98	37.98	-	13.26	2.86	388,300,792.36
Zambia Sugar	ZSUG	14.5	18	▲24%	3.43	5.25	362,301,500.51
Zambia National Commercial Bank	ZNCO	1.9	2.93	▲54%	0.69	4.25	268,959,022.13
Zambian Breweries	ZABR	6.75	7	▲4%	0.27	25.93	243,006,103.76
Chilanga Cement	CHIL	13.85	13.37	▼3%	1.46	9.16	170,049,650.95
Standard Chartered Bank	SCBL	1.2	1.33	▲11%	0.21	6.33	140,964,186.80
Airtel Zambia	ATEL	18	17.21	▼4%	6.67	2.58	113,799,593.08
Zambia Forestry and Forest Industries Corp.	ZFCO	1.95	2.5	▲28%	4.69	0.53	63,580,874.87
Africa Explosives	AECI	29.38	45	▲53%	4.89	9.2	58,386,126.65
Puma Energy Zambia	PUMA	1.21	1.61	▲33%	0.15	10.73	51,182,604.27
Zambeef Products	ZMBF	1.61	2.6	▲61%	0.56	4.64	49,688,962.36
British American Tobacco Zambia	BATZ	1.45	1.9	▲31%	0.29	6.55	25,665,559.99
National Breweries	NATB	9.2	4.1	▼55%	-1.91	-2.15	16,422,939.98
Bata Shoe Company	BATA	2.59	2.59	-	0.05	51.8	12,532,978.38
Investrust Bank	INVE	15	20	▲33%	-13.4	-1.49	10,382,494.91
Metal Fabricators of Zambia	ZMFA	4.78	4.78	-	1.92	2.49	8,233,130.29
Zambia Reinsurance	ZMRE	2.79	2.8	▲0%	0.03	93.33	8,011,190.23
Madison Financial Services	MAFS	2.47	2.47	-	-0.16	-15.44	7,852,238.05
Real Estate Investment Zambia	REIZ	1.25	1.63	▲30%	-5.75	-0.28	5,851,355.72
Pamodzi Hotels	PMDZ	0.6	0.72	▲20%	-0.37	-1.95	4,577,822.99

Economic Outlook

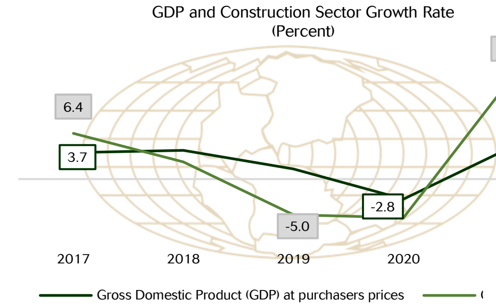


Figure 13

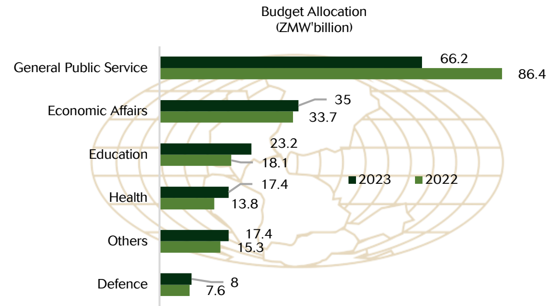


Figure 14

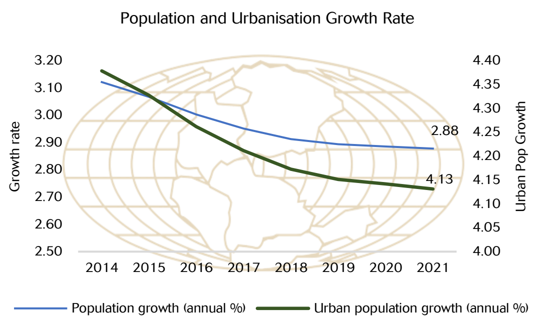


Figure 15

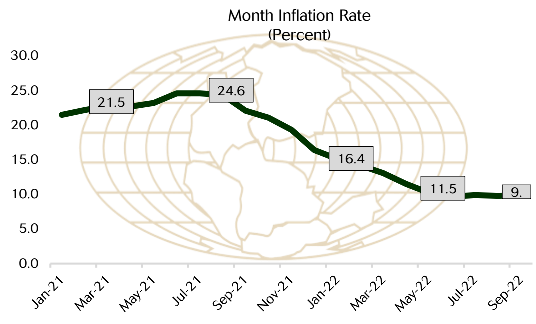


Figure 16

Gross Domestic Product

The 2021 final annual GDP estimates at constant 2010 prices show that the economy grew by 4.6% in 2021 compared to the 2.8% contraction recorded in 2020. The growth was mainly attributed to the performance of five industries which posted positive contributions to this growth. These were construction which grew by 1.4%, Information & Communication (1.2%), Agriculture, Forestry, and Fishing (0.5 %), Wholesale and Retail (0.4%), and Manufacturing (0.4%). Zambia's recovery was driven by high copper prices, post-election market confidence, and continued recovery in agriculture. GDP estimates for the second quarter of 2022 show that the economy grew by 3.5 % from 8.4 % in the second quarter of 2021, a fall of 4.9 % points. These estimates are based on the YoY comparison of GDP at constant 2010 prices *(Source; Zambia Statistical Agency, 2022).*

2023 National Budget

On 30 September 2022, the Zambian Minister of Finance, and National Planning ("MoF"), Honorable Dr. Situmbeko Musokotwane, delivered the 2023 National Budget (the "Budget") to the National Assembly in Lusaka. The Budget was under the theme, "Stimulating Economic Growth for Improved Livelihood." The total Budget amounted to ZMW167.3 billion, 3.4% short of 2022's ZMW172.99 billion. ZMW5.2 billion was allocated to construction, representing 3.1% of the total Budget, for the maintenance and rehabilitation of various roads across the country. *(Source; Zambian Parliament, 2022)*

Population and Urbanisation Rate

Zambia is experiencing a sharp demographic shift and is one of the world's youngest countries by median age. Its population, much of it urban, is estimated at 18.9 million in 2021 and is growing rapidly at 2.9% per year, resulting in the likelihood of it doubling close to every 25 years. This trend is expected to continue as its large youth population enters reproductive age, putting even more pressure on the demand for jobs, health care, and other social services. The rural-urban migration is at a rate of 4.35%, above the population growth rate. This presents a prospective surge in residential housing and, consequently, local cement demand. Zambia has a 2.8 million housing deficit; considering the reduction in mortgage interest rates in 2021, we envisage a recovery of local cement demand. *(Source: World Bank, 2022)*

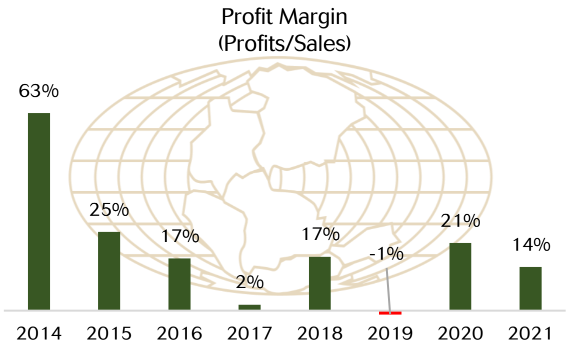
Falling Inflation Rate

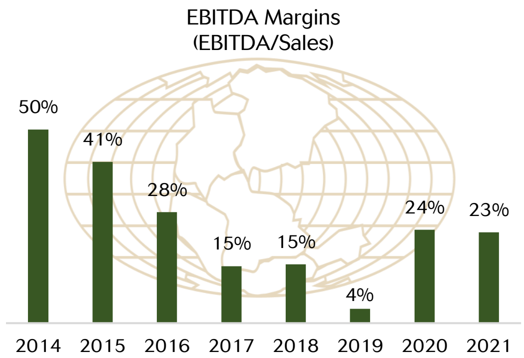
The growth in consumer prices, as measured by the inflation rate, has slowed to single digits. For September 2022, inflation was recorded at 9.9 % from 22.1 % in September last year as a result of the appreciation of the Kwacha, improved supply of food items, and the Bank of Zambia's maintenance of the Monetary Policy Rate at 9 %. A further projected decline into the 6-8 % target range is expected during the first quarter of 2024. Sustained implementation of fiscal consolidation and structural reform measures, supported by the ECF from the IMF, are among the key factors expected to contribute to lower inflation. Risks to the inflation outlook include persistently elevated energy prices, higher-than-expected maize prices, adverse weather conditions, tight global financial conditions, weak demand, and supply chain disruptions that could stem from Covid-19 containment measures. *(Source: Zambia Statistical Agency, 2022).*

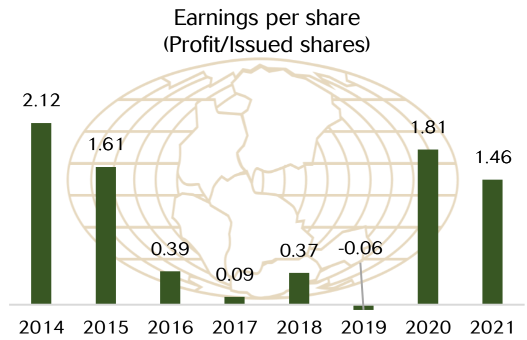
General Outlook

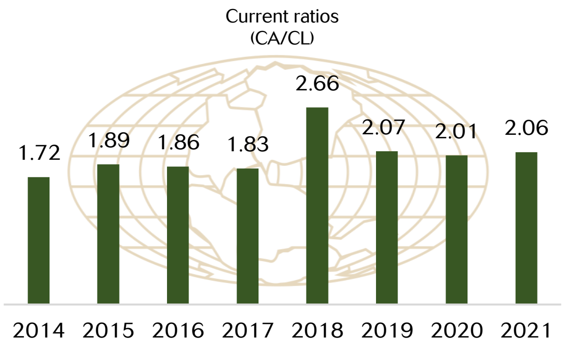
Over the short term, we expected interest rates to continue declining. The Kwacha appreciated significantly following the announcement IMF bailout Package. The Kwacha was the second-best-performing currency in the world as of August 2022. Over the medium to long term, increased investor confidence will lead to increased Foreign Direct Investments into the country. We also expect Zambia's credit rating to improve. Zambia has a positive economic outlook; the low inflation rate (9.7%: Jul 2022), strong Kwacha performance (ZWM15.8; 6 October 2022), low MPR (9%; Aug 2022), and positive projected GDP growth (+3.6%; 2022P). We expected all these factors to culminate in greater investor confidence, which will translate into a more robust and inclusive economy over the short, medium, and long term.

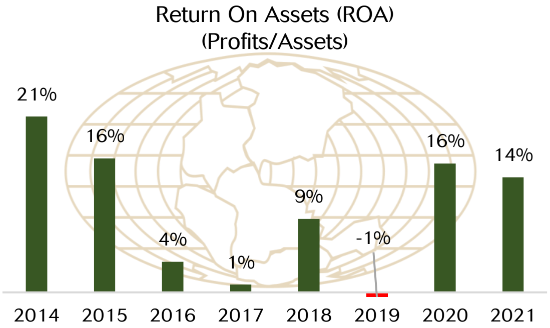
Charts

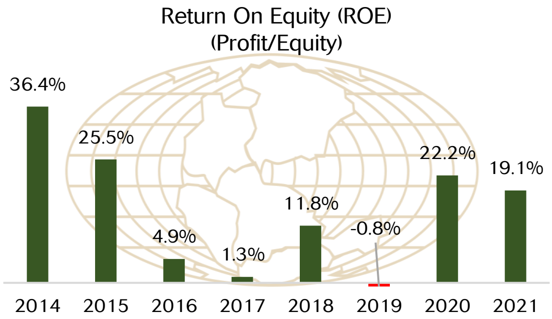

Profit Margin
(Profits/Sales)
63%
25%
17%
2%
17%
-1%
21%
14%
2014 2015 2016 2017 2018 2019 2020 2021


EBITDA Margins
(EBITDA/Sales)
50%
41%
28%
15%
15%
4%
24%
23%
2014 2015 2016 2017 2018 2019 2020 2021


Earnings per share
(Profit/Issued shares)
2.12
1.61
0.39
0.09
0.37
-0.06
1.81
1.46
2014 2015 2016 2017 2018 2019 2020 2021


Current ratios
(CA/CL)
1.72
1.89
1.86
1.83
2.66
2.07
2.01
2.06
2014 2015 2016 2017 2018 2019 2020 2021


Return On Assets (ROA)
(Profits/Assets)
21%
16%
4%
1%
9%
-1%
16%
14%
2014 2015 2016 2017 2018 2019 2020 2021


Return On Equity (ROE)
(Profit/Equity)
36.4%
25.5%
4.9%
1.3%
11.8%
-0.8%
22.2%
19.1%
2014 2015 2016 2017 2018 2019 2020 2021

Trade Statistics

Year	Trades	Volume	Turnover (ZMW)	High (ZMW)	Low (ZMW)	Closing Price (ZMW)	Market Cap (ZMW'mn)	Market Cap (USD'mn)
2015	444	1,443,508	36,069,401	27	20	23.44	4,689	427.00
2016	326	4,012,448	78,853,950	23.44	6.9	5.18	1,036	104.00
2017	279	7,351,552	24,914,692	7	5.18	6.25	1,250	124.75
2018	110	160,794	853,312	6.25	4.87	4.87	974	81.45
2019	348	3,918,835	9,178,531.65	27	20	1.95	390	27.7.0
2020	229	1,158,878	2,076,884	4.81	1.5	2.07	414	19.54
2021	627	152,295,176	1,984,988,510	14.66	2.07	13.85	2,771	166.03

About the LuSE

Chilanga is listed on the LuSE. The LuSE was established in 1993 and has since managed to diversify financial instruments on the market with equities, unit trusts, and government and corporate bonds

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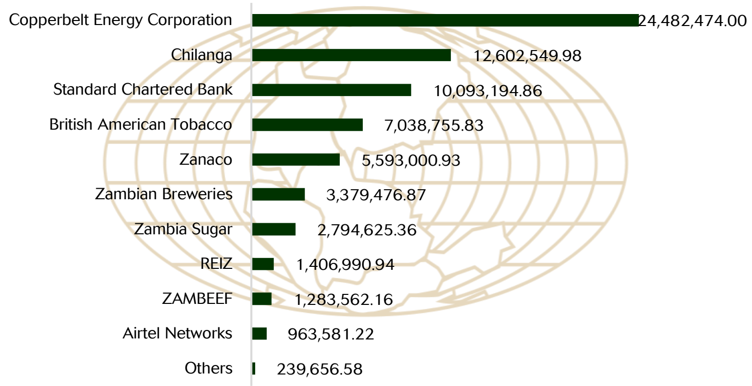
- The *LuSE All Share Index* ("LASI" or the "Index") was introduced in 1997 with a base value of 100 points. Following Zambia's economic and political liberalization in the early 90s, the Securities Act of 1972 was amended in 1993, establishing the Securities and Exchange Commission to regulate the Zambian securities market.

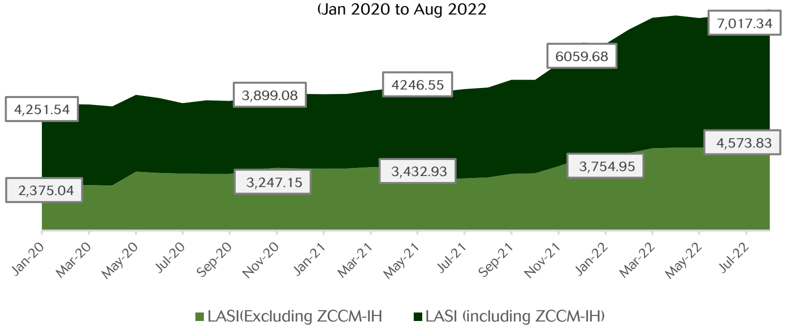
- The establishment of the LuSE was part of the government's broader economic reforms aimed at stimulating a dynamic private sector to be the primary engine for economic growth in Zambia. Since 2009 the LuSE has become dependent on its listed companies to generate operational revenues.

- The LuSE was the best-performing bourse in Africa last year, according to checks by Business Insider Africa.

- The LuSE's core mandate is to provide a fair and efficient platform through transparent and equitable trading of the listed securities. LuSE contributes to wealth development, financial services, and a platform for investment for foreign and local investors. It provides a platform where companies can raise long-term capital and secondary trading of shares. LuSE also provides facilities for listing securities and provides users with an orderly, transparent, and regulated platform to trade.

- As of 26 September 2022, the LASI closed at 7,210.58 points. The Market closed on a capitalization of ZMW72,318,030,736 (USD4,601,273,757)





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Disclosure Addendum

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