Company: Copperbelt Energy Corporation Business: Energy Founded: 1997 Listed: 2008 Country: Zambia	Sector Report Equity research Name: Elina Chipungu Contact: echipungu@pangaea.co.zm

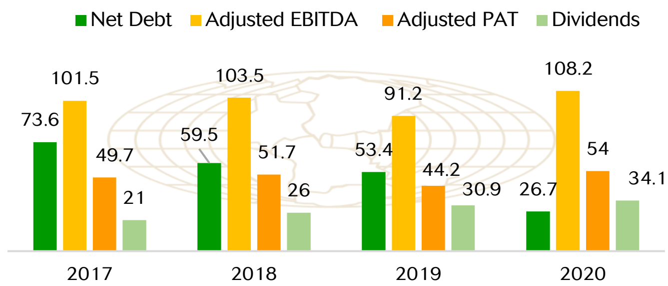
Cash is King

Financial Highlights 2020: Copperbelt Energy Corporation ("**CEC**" or the "**Company**") recorded a profit after tax of USD 5.6 million compared to a profit after tax of USD 12.24 million for FY2019. This was due to a 71% increase in impairment losses compared to the prior year FY2019. The impairment losses were due to the Konkola Copper Mines ('**KCM**") payment default amounting to USD153.1 million for FY2020. Despite KCM's unpaid invoices and the non-refund of Value Added Tax ("**VAT**"), the liquidity position of the Company remained strong. Cash flow from operations was recorded at USD 71.4 million compared to USD 49.8 million for FY2019. This demonstrated the efficient working capital management of the Company despite the challenging macro-economic environment. Excluding impairment losses, adjusted EBITDA increased by 19% compared to FY2019 consequently increasing profit after tax by 22%.

Dividend: Shareholder returns were favorable for FY2020. An interim dividend amounting to USCents 2.1 per ordinary share was declared for FY2020. This was a 12% increase in dividends paid out compared to FY2019. The Company has consistently paid out dividends over the last five years and has returned approximately USD 128.0 million to shareholders. Shareholders continue to benefit from USD denominated returns in an environment where the currency continues to depreciate amidst economic headwinds .

Net Finance Costs: Finance costs decreased by 33% for FY2020 due to a significant proportion of debt prepaid for that year. This decreased net debt by 50% leaving CEC with the lowest debt position in the last five years.

Summary of Historical Financials (USD million)



* Ajusted EBITDA and PAT exclude impairments, provisions and write backs

Regulatory Enviroment: The Government of Zambia continues to implement various legislative and regulatory reforms to transform the power sector. The National Energy Policy of 2019, the Electricity Act No 11 of 2019 and the Energy Regulation Act No 12 of 2019 where enacted in February 2020 to provide for the generation, transmission, distribution, and supply of electricity . During FY2020, statutory instrument no. 57 of 2020 was issued which declared CEC's transmission and distribution lines as a common carrier. CEC challenged this directive through the action for Judicial review in the High Court of Zambia, and the implication of this statutory instrument to utilise the Company's infrastructure at a tariff equivalent to about 30% of CEC's current network tariff. On 22nd February 2020 the High Court ruled judgement in favour of the Company. The Government of Zambia appealed against the ruling of the High Court.We expect the outcome of the matter to impact the Companys financial position.

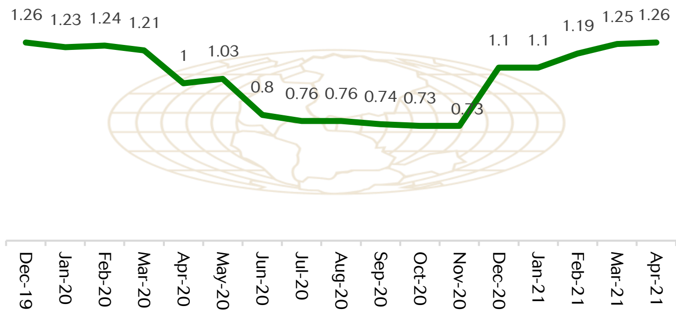
Contractual Agreements: The non- renewal of the Bullk Supply Agreement ("**BSA**") has continued to be a major concern for stakeholders of the Company. CEC remains committed to resolving the matter at hand. The Power Supply Agreements ("**PSA**") between CEC and the mines on the Copperbelt still remain in place and the Company has contined to provide an efficient service to the mining customers on the Copperbelt. The PSA between CEC and KCM that expired on May 2020 led to a shift of KCM's load to the wheeling segment of the Company. This shift required CEC to enter into two contracts namely, the transmission use of system and the grid connection agreement. The Company will continue to negotiate toward concluding these contractual agreements .

Reduction in Credit Risk: The shift of KCM's load to the wheeling segment significantly reduced the credit risk of the Company. On the downside , the shift had an a marginal impact on the topline of the Company which decreased by 9% compared to FY2020. We expect a gradual reduction in impairment expenses in FY2021 due to the reduced credit risk.

LuSE Ticker	CECZ
LuSE Price, In ZMW	1.25
LuSE Price in USD	0.057
Issued Shares	1,625,000,597
Fully Diluted Shares	1,625,000,597
LuSE Market Cap, in ZMW [Fully Diluted]	2,031,250,746
Market Cs ap in USD [Fully Diluted]	93,606,025.17
52-Week High In ZMW	1.25
52-Week Low In ZMW	0.70
Exchange Rate USD to ZMW [May 2021)	22.22
Sector	Energy
Website	cecinvestorszambia.com
Share performance over: 3 Months	13.00%
6 Months	71.00%
12 Months	3.00%

(Source: Annual Report, Pangaea Research)

Average Monthly Share Prices (ZMW)



Equity Performance: The CEC share price has increased by 15% since the start of the year and by 4% in the last twelve months mainly due to the approved interim dividend on 26th November 2020 of USCents 2.1 per ordinary share pushing the share price to ZMW 1.25. CEC remained the most traded stock on the Lusaka Securities Exchange (LuSE) with 44% of traded volumes generated by the Company. Despite the bearish performance of the LuSE. due to the macro economic plagues faced during FY2020, CEC remains an attractive stock with a dividend yield of 35% for FY2020.

Valuation: The P/E ratio for the Company stood at 7.5x at the end of FY2020 which is underpriced when compared to its local and international peers. The electric utilities' industry average stood at 14.7x for FY2020. We expect the valuation of the stock to continue to be impacted by the residual risks associated with the Company.

Macro-Economic Factors 2020: Global economic growth contracted by 3.5% for FY2020 due to lockdown measures caused by the Covid-19 pandemic. The lockdown measures imposed caused a major disruption to global manufacturing industries and their supply networks. On the upside, a strong rebound of 5.5% is expected in 2021 due to the easing of restrictive measures and the rollout of the Covid-19 vaccine. According to the International Monetary Fund ("**IMF**") domestic growth contracted by 2.7% in Q4 2020 due to a contraction in key economic sectors. High inflation, widening fiscal deficits, unsustainable debt levels, low international reserves, and tight liquidity conditions further exasperated the economic environment. Mining sector activity increased toward the end of Q4 2020 as restrictions began to ease in Zambia. Copper production increased by 10.8% from 796,430 tonnes produced in FY2019 to 882,061 tonnes of copper in FY2020. Copper prices averaged USD 6,000 per tonne compared to US$ 5,700 per metric tonne for FY2019. This positively impacted copper export earnings which increased from ZMW 5.4 million in February 2020 to ZMW 12.2 million in December 2020.

Investment Summary

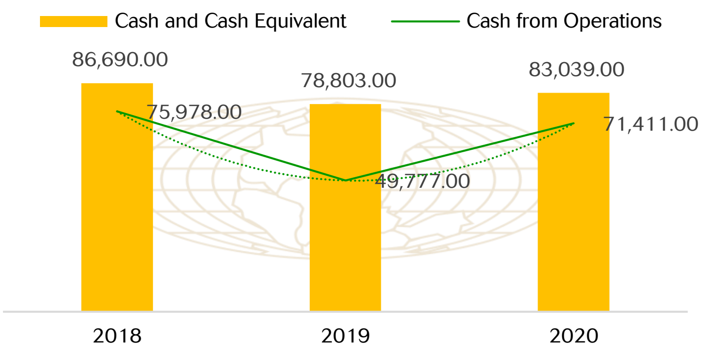
We are of the view that CEC has continued to provide shareholders with healthy USD returns with a dividend payout ratio of over 200% compared to an industry average of 67% for FY2020. The Company has taken measures in derisking the business model which will in turn have a positive impact on FY2021 performance. We expect the bottom line to rebound in FY2021 as CEC strives to derisk the Company and focus on its core business strategy. Positive sentiments include a demand for power backed by rising copper prices on the London Metal Exchange ("LME"). For FY2020, CEC saw a 5% increase in demand for power from its mining customers despite the strained economic activity caused by the Covid-19 pandemic.

Healthy Balance Sheet: CEC's balance sheet continues to be impacted by the increased impairments. This can be seen below in the reduction in its solvency ratio by 7% compared to FY2019 and a decrease in retained earnings/total assets by 10%, also compared to FY2019. The erosion of the bottomline by impairments continues to impact the financial position of the Company. Despite the implications of impairments on the balance sheet, CEC continues to maintain a healthy leverage position. Net debt/equity gradually reduced from 15% for FY2019 to 9% for FY2020 due to a prepayment of USD20.0 million to lenders as part of the Company's strategy to significantly reduce the gearing level. We believe this will strengthen the liquidity position of the Company for FY2021 and continue to free up cash flow for further investment. Investment in capital expenditure amounted to USD 8.3 million. This was lower than expected for a capital intensive company. Investments were limited due to the effects of the Covid-19 pandemic which disrupted the supply chain.

	2019	2020
Total Debt/Total Assets	0.45	0.55
Net debt/Equity	15%	9%
Net debt /EBITDA	0.15x	0.25x
Retained Earnings /Total Assets	24%	14%
Interest Coverage	3.58	3.04
Solvency Ratio	20%	13%
Cash Conversion Ratio	55%	66%

Positive Cash Flows: The Company has continued to show a healthy cash flow despite a reduction in earnings. The cash conversion ratio which determines the Companies efficiency in converting its profits to cash increased to 66% for the FY2020 which was a 14% increase from FY2019. Despite the challenges faced by the Company during FY2020, the ability of the Company to yield cash from its operations and sustain its working capital remains an attractive feature of the Company.

Cash and Cash Equivalent and Cash from Operations (USD'000)

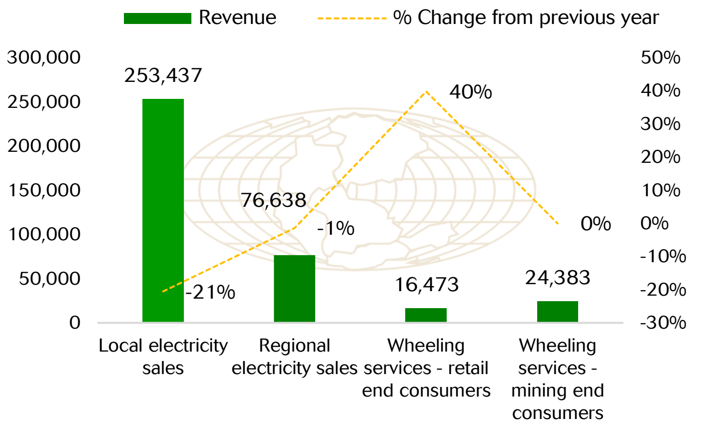


Source: Annual Report, Pangaea Research

Financial Overview

Revenue Breakdown 2020: Restructuring of the business model resulted in a 9% decrease in the topline earnings of the Company. KCM's contribution to revenue significantly decreased from 40% of revenues generated by the Company from KCM local supplies for FY2019 to 6% from the use of CEC"s infrastructure for the transportation of the power supplied to KCM by ZESCO for FY2020. This led to a 21% decrease in revenue from local electricity sales as indicated by the graph below.

Revenue Breakdown (Amounts in USD)



(Source: Annual Report, Pangaea Research)

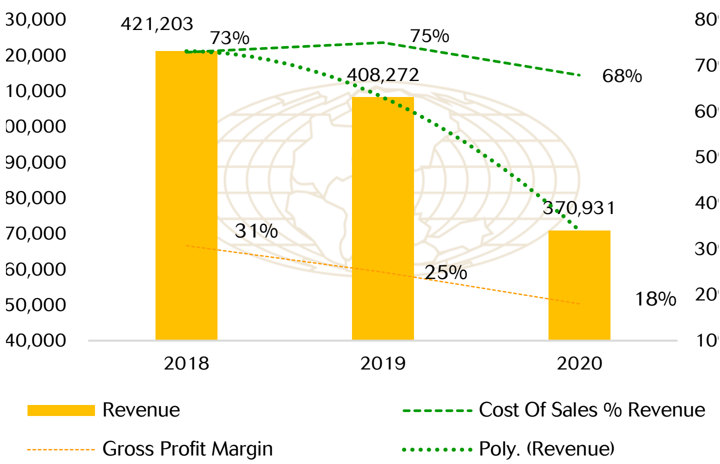
We have noted that revenue from wheeling services increased by 40% for FY2020 compared to FY2019. This was due to ZESCO's reduction in load shedding on the Copperbelt for its commercial and residential customers as well as an increase in exports to its customers in the DRC.

According to the Minister of Energy, water in the Kariba dam where a majority of hydroelectricity is generated increased by 40% in 2020 compared to 2019. This decreased load shedding, and positively impacted supply of power to the wheeling segment. We expect revenue from the wheeling segment to increase for FY2021 due to decreasing load shedding.

Revenue from the DRC remains an important segment in the Company and has grown steadily since 2016 with a Compounded Annual Growth Rate (CAGR) of 27%. Revenue for FY2020 decreased marginally by 1% compared to FY2019. We expect growth in the DRC to continue backed by electricity demand .

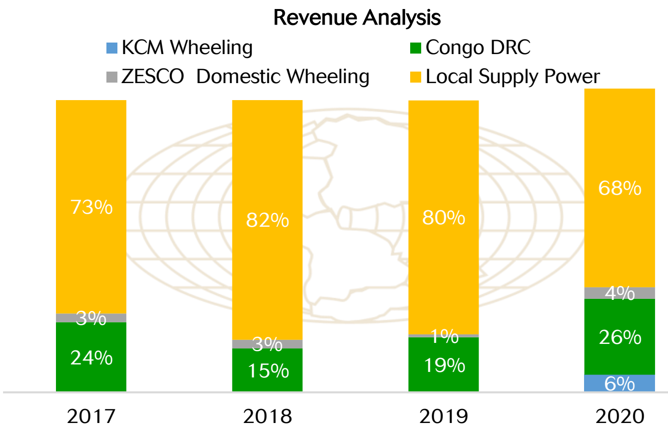
Gross Profit Margin and Cost Of Sales: Cost of sales decreased by 7% compared to FY2020 due to a 23% reduction in purchase power costs. This was due to the shift of the KCM load to the wheeling segment . Gross profit margin decreased by 7% due to the decreased revenue for FY2020.

Gross Profit and (Cost of Sales% Revenue)



Source: Annual Report, Pangaea Research

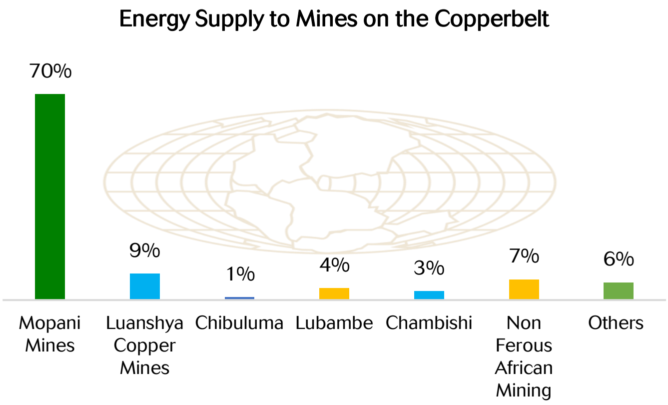
Revenue by Segment: We have noted a gradual reduction in revenue from local supplies from 73% for FY2017 to 68% for FY2020 due to a change in the business model of the Company. The conditions of the BSA still remain valid despite a contract not being in place for 75% of revenues distributed to ZESCO. This change in the business model has been positive for the Company due to the reduction of the concentration risk in KCM. Despite the shift of the KCM load to the wheeling segment, we have seen increased demand in power from the mining customers on the Copperbelt with Mopani Copper Mines ("**MCM**") being the largest customer. Power demand increased by 5% to 3284 GWh for FY2020 compared to the prior year.



Source: Annual Report, Pangaea Research

Revenue impacted by growth in the Mining Industry: It is noted that 90% of CEC's revenue was generated from the mining industry. In the first three quarters of FY2020 the mining sector faced major disruptions due to the the adverse effects of the Covid-19 pandemic. Mines such as Chambeshi, for example, remained placed under care and maintenance throughout FY2020.

According to Zamstatitics the mining industry showed 7% growth in Q4 and contributed to 20.9% of Zambia's Gross Domestic Product ("GDP") for FY2020. Growth in the mining industry was supported by an uptick in copper prices that closed FY2020 at USD 7,742 per tonne . According to the London Metal Exchage ("LME"), copper has been the most resilient metal during the Covid-19 pandemic and the upward trajectory is projected to continue due to increased demand from China which accounts for 21% of Zambia's export earnings. Recovery in the mining industry was seen in Q4 2020 as production of copper increased by 8% compared to FY2019. We expect production to increase for FY2021 due to the favourable market prices for copper. This will, in turn, revamp energy demand and positively impact the Company's revenue.



Source: Annual Report, Pangaea Research

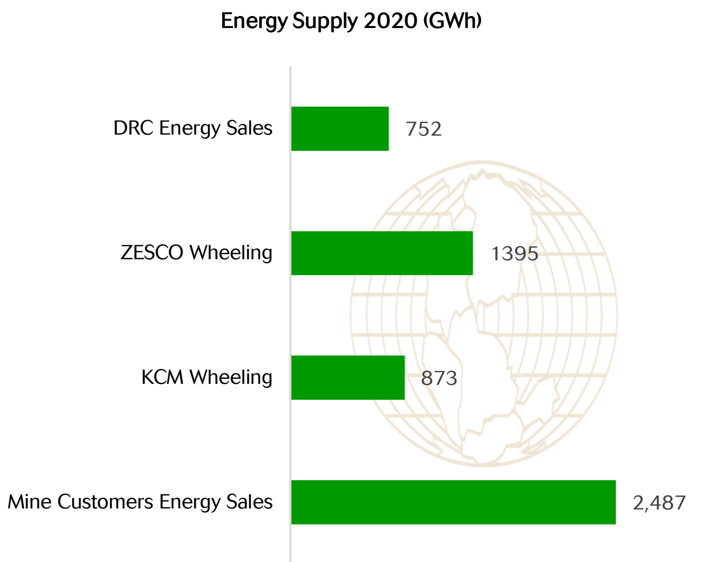
Operational Challenges at Mopani Mines: During FY2020, Mopani mines, CEC's largest customer, recorded impairments amounting to USD 1,041.0 million in Glencore's, its largest shareholders books, owing to persistent operational challenges. This resulted in an agreed 90% shareholding sale to ZCCM-IH, a minority shareholder. The agreed terms of the sale include a repayment of USD 1.5 Billion debt to Glencore by way of royalty payments and 33.3% of cash flows within the life span of the mine. The implications of the sale are Glencore will have 100% offtake rights of Mopani's copper cathode and copper anode slimes until the debt is repaid.

The payment terms are structured to provide relief to Mopani in years when the copper price is low and when operations are not profitable. Royalty payment is fixed for the first three years and thereafter is linked to the performance of the copper price.

According to the Mining Chambers of Zambia, production in Mopani mine is expected to significantly increase in FY2021. This will only be achieved following expansion projects such as the Mopani Synclinorium Project and the Midola expansion project which is expected to increase production and improve cash flows that will service the debt owed to Glencore.

It is noted in the ZCCM-IH Annual Reports that historically Mopani has faced challenges with operations due to high operational costs and high finance costs incurred on capital expenditure projects. It is critical for a strategic partner to come onboard in order to facilitate the development of expansion projects that will aid in financing Mopani's high operational costs and free up its cash flows to repay the Glencore debt. We expect demand to increase in the medium term upon completion of the projects.

Operational Challenges at KCM: Due to the ongoing litigation in relation to the winding up of KCM by ZCCM-IH, the minority shareholder of KCM on May 2019, there has been uncertainty relating to the continued operation of KCM.According to Vendata Resources ("**Vendata**") Annual Report, the matter remains in arbitration. On November 2020, a court in London ordered a halt to proceedings to allow Vedanta, 80% shareholder of KCM to undergoe arbitration.On 9th January 2021, a Zambian court ruled the provisional liquidator of KCM to remain in post. According to Vendata's Annual Report, the Group believes that it has lost control over KCM and has accordingly deconsolidated KCM from the group accounts. The unpaid KCM debt continues to remain the biggest challenge for CEC, on the upside KCM only accounts for 6% of CEC's revenue which reduces the residual risk associated with the mine.

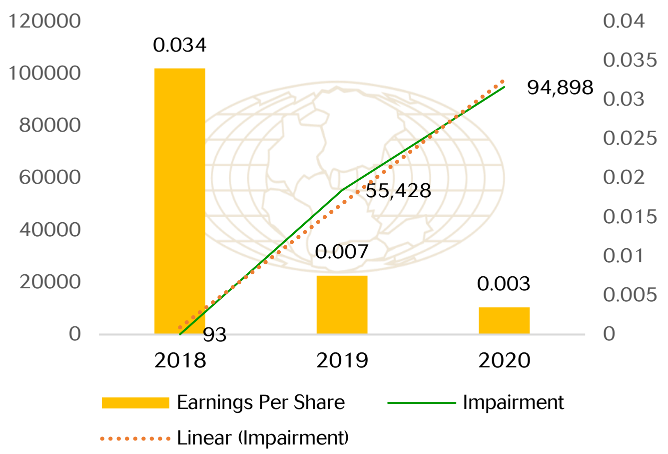


Source: Annual Report, Pangaea Research

Earnings Analysis

Earnings Per Share and Impairment: Earnings per share continues to be eroded by the increasing impairments, as shown on the graph below. The Company has seen an increase in the KCM debt due to increasing interest charges that have significantly increased the amounts recorded as impairments per International Financial Reporting Standards 9 ("IFRS9"). We expect the rate of growth of impairments to reduce substantially due to the reduction in credit risk from KCM.

Earnings Per Share and Impairment

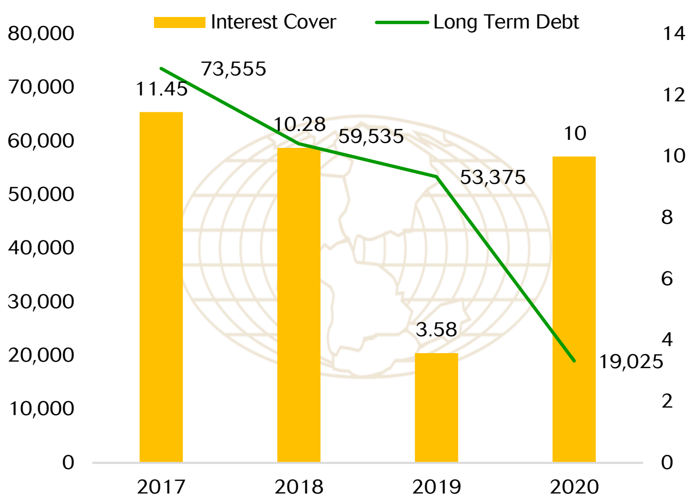


Source: Annual Report, Pangaea Research

Balance Sheet

Interest cover for FY2020 increased to 10x EBIT coverage despite the increased impairements impacting operating profit. This was due to a prepayment of USD 20.0 million to lenders. The prepayment of debt significantly reduced long term borrowings to USD 19.0 million for FY2020 compared to USD 53.0 million in FY2019. Finance costs reduced by 33% for FY2020. It is noted that the depreciating currency in Zambia had a minimal impact on the Company's borrowing due to earnings generated in USD. We expect the Company to continue to control debt levels and mitigate the business risks faced in a challenging economic environment.

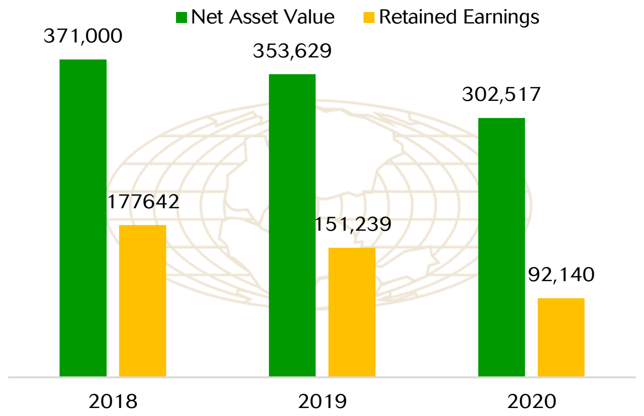
Interest Cover and Long Term Debt



Source: Annual Report, Pangaea Research

The Net Asset Value decreased by 18% due to an increase in total liabilities from USD286 million for FY2019 to USD372 million for FY2020. This was due to an increase in trade payables and deferred income tax. Retained earnings continue to be impacted by the effects of the impairment of the Company . Retained earnings decreased by 39% compared to FY2019.

Net Asset Value and Retained Earnings



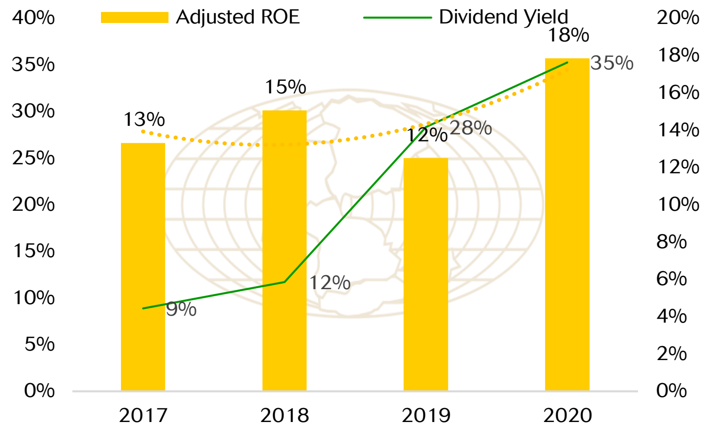
Source: Annual Report, Pangaea Research

Shareholder Returns

Return on Equity and Dividend Yield: Adjusted ROE increased from 12% for FY2019 to 18% in FY2020 due to an increase in Adjusted Profit After Tax. Non-adjusted return on equity was recorded at 2% compared to 3% for FY2019. The increased impairments remain the main cause of reduction in shareholder value. In comparison with its peers, CEC is above the LuSE average ROE of 5% .

The impairment of KCM remains the main cause for the reduction in shareholder value. In the long-term, ROE is expected to normalise once the KCM issue has been resolved.

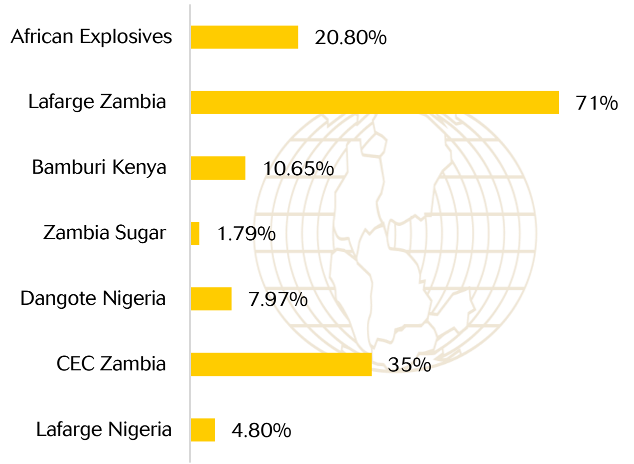
Adjusted Return On Equity and Dividend Yield



Ajusted EBITDA and PAT exclude impairments , provisions and write backs

CEC has consistently paid out dividends for the past five years recording the highest dividend payout among the companies listed on the LuSE. CEC recorded a dividend payout ratio of 279% for FY2019. The Company's dividend policy is a pay out of 50% of earnings. The Dividend Yield of CEC stood at 35%. This was one of the highest dividend yield's recorded among the companies listed on the LuSE and the highest dividend yield recorded amongst a group of comparable companies.

Dividend Yield Comparables

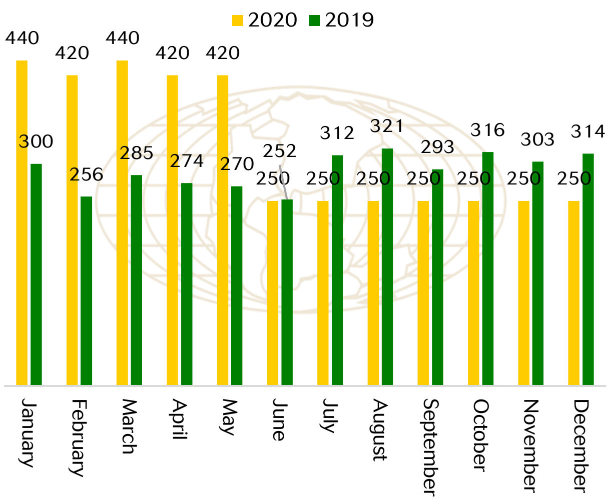


Source: Annual Report, Pangaea Research

Business Model Analysis

Mining Energy Sales : Power energy sales for CEC mining customers during FY2020 totalled 2,433GWh compared to 3,137GWh for FY2019. The decrease was due to the shift of the KCM load to the wheeling segment of the Company. It is noted that load shedding minimised during FY2020 due to an improved 2019/2020 rain season but did not impact the mines as they received full power requirements. The total energy imported into the Company network in FY2020 increased by 3.5% to 4,755GWh from 4,594GWh in FY2019.The majority of power was purchased from ZESCO whereas 89.6GWh was purchased from Lunsemfwa and Dangote. According to Reuters Africa, Dangote began selling power to CEC in Q1 2020 generated from a 30MW predominantly coal-fired thermal power plant. CEC aims to continue to diversify its power sources and expand its supply portfolio. We expect demand in mining energy sales to increase from Mopani's Synclinorium Project, the Mindola Expansion Project, NFCA South East Ore Body completion, and the Macrolink Resources Project.

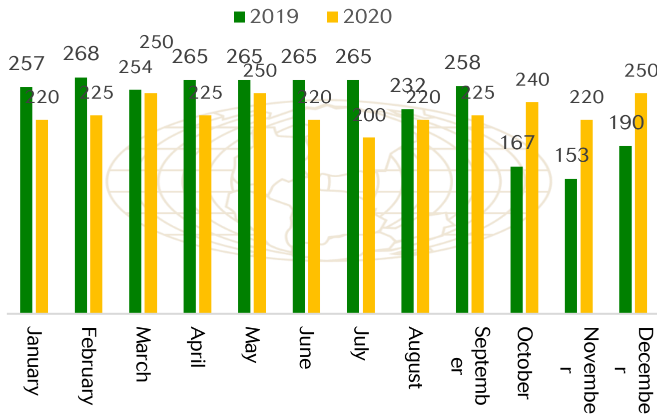
Mining Energy Sales(MW)



Source: Annual Report, Pangaea Research

Domestic Wheeling Sales: Domestic wheeling sales decreased marginally from 226MW for FY2019 to 224MW for FY2020. We expect increased growth in the wheeling segment backed by reductions in load shedding supported by a good rainy season and the completion of the Kafue Gorge Lower which is expected to add 300MW to the grid. Revenue generated from domestic wheeling continues to remain lower than 10% of total revenue due to continued subsidised tariffs.

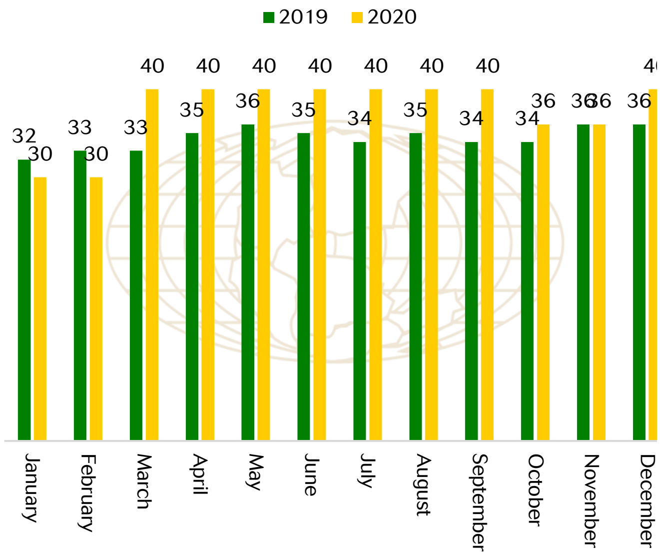
Domestic Wheeling (MW)



Source: Annual Report, Pangaea Research

Frontier Mine : Frontier Mine, located in the DRC, is connected to the CEC power network. All power requirements are transported through the CEC network. Frontier Mine increased by 6% from an average of 34MW in FY2019 TO 36MW in FY2020.We expect this segment to remain stable and generate positive returns for FY2021.

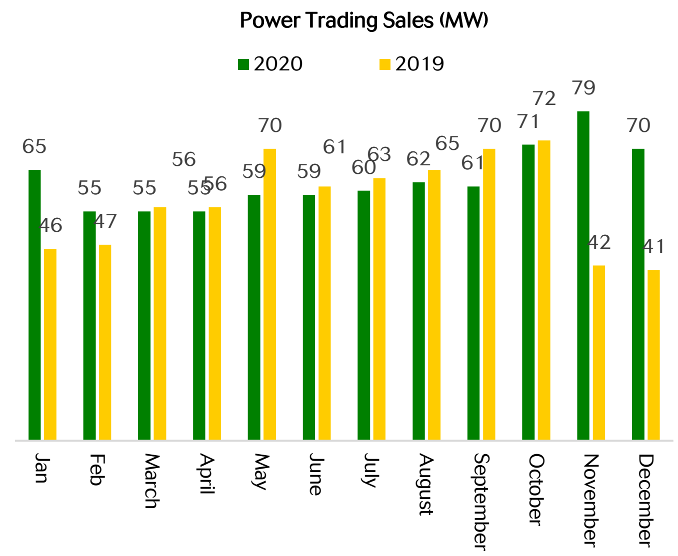
Frontier Mine (MW)



Source: Annual Report, Pangaea Research

Power Trading

Power Trading: Power trading sales into the DRC marginally increased to 752GWh in FY2020 from 744GWh in FY2019. It is noted that despite an increase in growth, risks to this business segment include the artificial transmission path constraints in Zambia negatively affecting overall pricing and margins.



Source: Annual Report, Pangaea Research

Income Statement

USD,000	2019	2020	% Change
Revenue	408,272	370,931	-9%
Cost of sales	-306,312	-251,976	-18%
Cost of Sales as % of revenue	**75%**	**68%**	-7%
Gross profit	101,960	118,955	17%
Other income	7,414	10,039	35%
Operating expenses	-36,574	-24,149	-34%
Impairment of receivables	**-55,428**	**-94,898**	71%
Operating Profit	17,372	9,947	-43%
(Loss)/profit before taxation	12,522	6,675	-54%
Finance income	5,319	7,133	34%
Net Finance costs	-10,169	-10,405	2%
Income tax expense	**-276**	**-1,066**	286%
Profit after Tax	12,246	5,609	-54%

Source: Annual Report, Pangaea Research

Valuation Metrics

	2019	2020
Price at year-end (ZMW)	1.25	1.25
P/E	12.21	7.11
P/B	6	5.74
P/EBITDA	0.23	0.28
EV per share (USD)	0.71	0.84
EV/Sales	2.83	3.39
EV/EBITDA	0.62	0.73

Source: Annual Report, Pangaea Research

Events Post FY2020

Declaration of SI 57 as Ultra Vires by the High Court : On 29th May 2020, the Ministry of Energy declared CEC distribution lines as a common carrier. On 31st May 2020 the Energy Regulation Board ("**ERB**") declared an interim transmission tariff for use of the Company's distribution network which was 30% of CEC's current network tariff.The Company challenged the decision in the High Court on 26th February 2021. The court found the decision by the Minister to declare the Company's assets as common carrier to be disproportionate, ultra vires and illegal. On 5th March, the Government obtained an ex-parte order restraining CEC from enforcing the ruling and appealed the ruling.We expect that outcome of the matter to have an impact on CEC's financial statements for FY2021.

Covid-19 Pandemic : During FY2020 the Covid-19 pandemic continued to disrupt global supply chains and impact business activity. Covid-19 cases began significantly rising throughout Zambia in mid-December 2020. According to Centre for Disease Control and Prevention, the average number of daily confirmed Covid-19 cases increased from 44 cases during December 1st –10th to over 1000 cases a day in January 2021.

The Covid-19 vaccination was officially launched on 14 April 2021 at the University Teaching Hospital in Lusaka, Zambia. Zambia received the first consignment of 228,000 doses of the vaccine from the COVAX facility, a global Initiative representing a partnership among the World Health Organization ("**WHO**"), Global Alliance for Vaccines and Immunization ("**GAVI**"), United Nation's Children Fund ("**UNICEF**") and the Coalition for Epidemic Preparedness Innovations ("**CEPI**"). We expect the roll out of the vaccine to significantly reduce transmission of the virus and improve market sentiments.

Business Risks

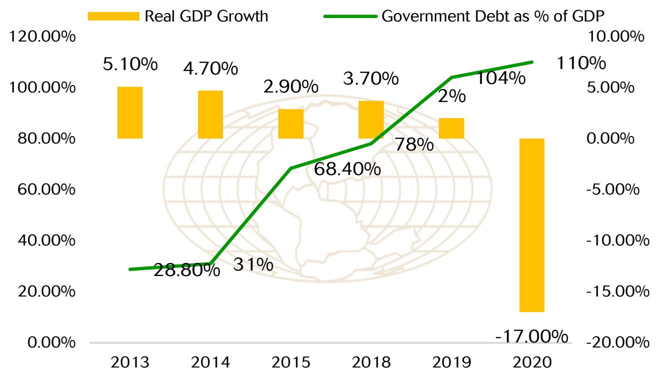
KCM Credit Risk: The KCM credit risk has significantly reduced due to the discontinuation of supplying power to KCM . The shift of the KCM load to the wheeling segment of the Company implies that KCM directly buys power from ZESCO and CEC charges ZESCO for its distribution services. It is noted that despite this shift in the KCM load the USD153.1 million debt still remains unpaid and will continue to impact the Company's financial statements. CEC aims to focus on collection of the debt in 2021 which will in turn increase the liquidity of the Company and allow it to settle what is owed to ZESCO. The KCM liquidation process remains unresolved and will continue to impact the operations of KCM. It is noted that CEC continues to be exposed to trading without contractual agreements in place. We expect the Company to continue engaging with relevant stakeholders to ensure new contracts are put in place.

Macro- Economic Indicators

Contraction in GDP Growth: According to the IMF, global GDP contracted by 3.5% for FY2020 due to interruption in supply chains caused by the Covid-19 pandemic. It is anticipated that the economy will rebound by 5.5% in 2021 due to the easing of lockdown measures and the roll out of the Covid-19 vaccine.

According to Zamstatistics, domestic economic growth contracted by 2.7% in Q4 2020 due to a decline in key economic sectors as a result of the Covid-19 Pandemic. In addition, the economy was constrained by high debt servicing costs estimated at USD 1.5 billion in 2020 coupled with high inflationary pressures recorded at 19.2% on December 2020. This resulted in the depreciation of the Zambian Kwacha against the United States Dollar which ended the month of December 2020 down by 46% from the exchange rate recorded in December 2019. According to the Bank of Zambia, GDP is projected to recover in 2021 supported by positive growth in mining, electricity, gas and water, as well as information and communication sectors.

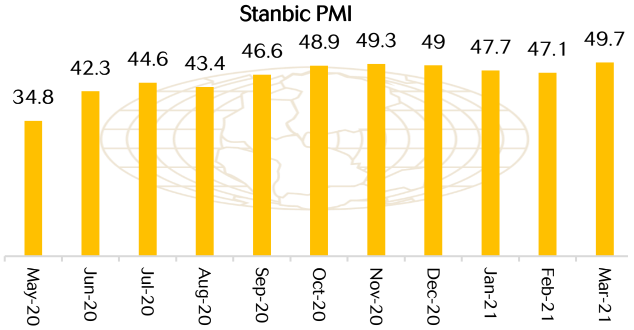
Real GDP Growth and Government Debt as % of GDP



Source :BOZ, Pangaea Research

Business activity slowly recovered in Q1 2021. The Stanbic Purchasing Index increased to 49.7 in March 2021 from a low of 34.8 in May 2020 but was still slightly under the 50.0 targeted stability level. The Purchasing Index indicated that the Zambian private sector neared stabilisation at the end of Q1 2021, amid signs of improvement in consumer demand. New orders and employment were stable and companies were at their most optimistic since the onset of the Covid-19 pandemic.

Stanbic PMI

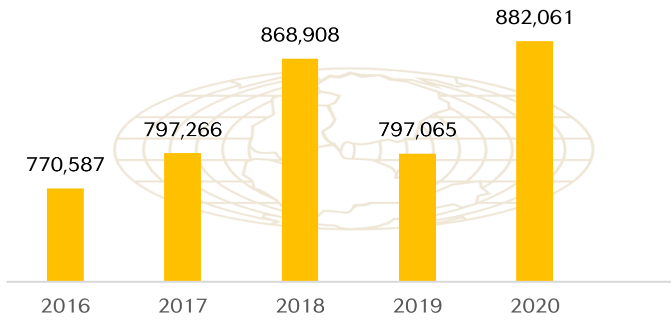


Source :BOZ, Pangaea Research

Copper: According to Zamstatistics copper earnings accounted for 80 percent of total exports for FY2020. Switzerland, China, and Singapore were the main copper export destinations. Copper production increased from 797,065 tonnes in December 2019 to 882,061 in December 2020 due to favourable copper prices backed by recovery in copper demand in China and increased demand for electric vehicles which are expected to utilise 3.7 million tonnes of copper by 2030 (The Economist, 2021).

According to the Minister of Mines, Zambia is expected to produce a total of 900,000 tonnes of copper in 2021. This will encourage economic growth in the mining sector and have a positive impact on real GDP growth.

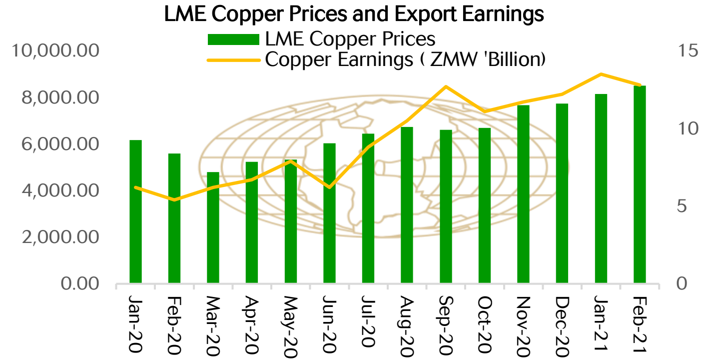
Copper Production(Tonnes)



Source :BOZ, Pangaea Research

Copper prices have been on an upward trajectory and have increased by 50% since December 2019, peaking to an average of USD 8,460 per metric tonne in February 2021. According to Goldman Sachs, copper prices are expected to average USD 11,000 per metric tonne over the next 12 months. We expect copper prices to continue to rise in 2021 due to increased demand as economies and industries continue to recover from the Covid-19 pandemic amidst a roll out of the vaccine. We have seen a continued increase in copper production and expect the value of export earnings from copper to increase in 2021 and increase the forex in Zambia which is the main source of revenue for foreign debt repayment.

LME Copper Prices and Export Earnings



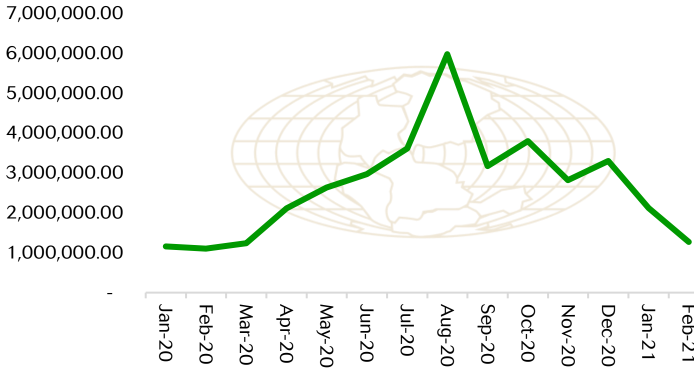
Source :BOZ, Pangaea Research

Challenges in the Mining Industry: Challenges in the mining industry continue to persist despite an increase in copper prices. Mines such as MCM and KCM are in need of strategic investors to financially support expansion projects and revamp operations. Investors withhold funding due to the fiscal image of Zambia and continuous changes in the mining policies. It is noted that with the upward trejectory in copper prices, royalty taxes increase from a minimum of 5.5% to 7.5% when copper trades at USD 6,000 to USD 7,500 per metric tonne, with a further increase to 10% when prices exceed USD 9,000 per metric tonne. With the increase of copper prices above USD 6,000 since the end of June 2020, royalties are expected to increase and put pressure on mines.

According to the 2021 budget, Government has proposed to remove import duty on copper ore and concentrates to encourage local processing. This is expected to increase production in 2021 and support the growth of the industry. According to First Quantam Minerals (FQM) there is a need for a competitive tax and royalty regime in Zambia in order to attract foreign investors. The challenging macro environment deters investors from the mining industry which has a direct impact on CEC and its mining sector revenue segment.

Foreign Reserves: Gross international reserves declined to USD 1.2 billion in February 2021 from USD 1.45 billion at the end of December 2020. This level of reserves represents 2.4 months of import cover. The decrease in reserves during FY2020 was due to Government pressure to service external debt payments. The Central Bank aims to purchase gold from mining companies to diversify international reserves. According to the Central Bank, 282.79 kilogrammes of gold has been purchased since December 2020 at a cost of ZMW 345.6 million. 195.95 kilogrammes was purchased from Kansanshi Copper Mining Plc at a cost of ZMW 241.8 million, while 86.84 kilogrammes was purchased from Zambia Gold company, a subsidiary of ZCCM – IH at a cost of ZMW103.8 million.

International Reserves



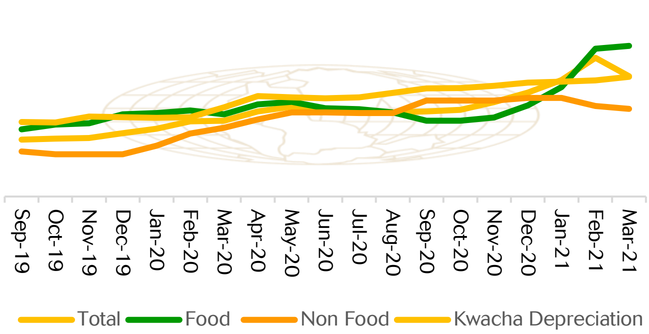
Source :BOZ, Pangaea Research

Debt Burden: According to the Minister of Finance, public external debt stood at USD 12.74 billion in December 2020 of which USD 3.0 billion was owed to Eurobond holders. Since November 2020, Zambia has skipped three (3) interest payments due to Eurobondholders. The Finance Ministry continues to engage the IMF in concluding a debt restructuring deal and is targeting to conclude on a bail out package before elections. According to the IMF, a deal is possible before elections. It is noted that timelines are tight as Parliament is expected to dissolve on 14th May.

Source :BOZ, Pangaea Research

Monetary Operations: In February 2021, the Monetary Policy Committee adjusted the policy rate upwards by 50.0 basis points to 8.5% due to increased inflationary pressures. Annual inflation exceeded the target range of 6-8%, averaging 17.6% in Q4 2020 from 15.7% in Q3 2020. The increase was due to an increase in energy prices, the fiscal deficit, higher food prices, and the effects of the depreciation of the Kwacha. We expect inflation to remain on an upward trajectory and move further away from the upward target range as the currency continues to depreciate. On the upside, food supply improved due to the good rainy season in 2020 and is expected to moderate inflation in the medium term.

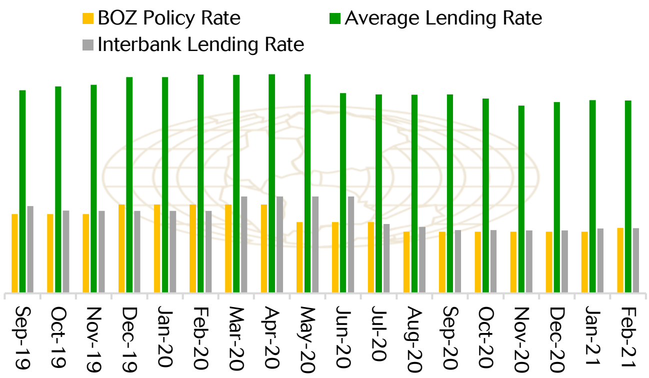
Inflation and Kwacha Depreciation



Source :BOZ, Pangaea Research

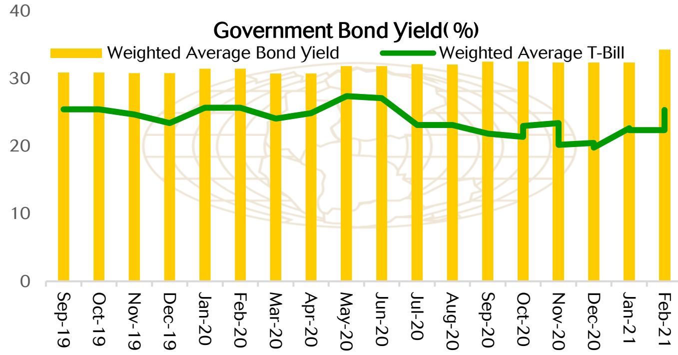
Average lending rates decreased to 25.7% percent in April 2021 from 28.0 percent in December 2020. This was mainly driven by the reduction in the Monetary Policy Rate to 8.0% in August 2020. Average lending interest rates continue to be high due to Government's pressure to borrow to service its debt and finance outstanding arrears owed to suppliers and contractors hence crowding out the private sector and further tightening an illiquid environment. Private sector lending decreased from 13.8% in December 2019 to 8.5% in December 2020 due to strict lending by Banks in attempts to reduce the risk of credit default .

Commercial Bank Interest Rates



Source :BOZ, Pangaea Research

Government Securities: The yields on government securities rose to 32.9% in February 2020 compared to 30.8% in December 2019 due to weaker demand for long dated securities. Appetite for short dated government securities continued to increase with a majority of investors subscribing to 364-day t-bills. According to the Zanaco March monthly report, increased interest in the primary bond market from off shore investors came on the back of the positive discussions between the IMF and Government . It is noted in the month of March 2020, government offered to sell bonds worth ZMW 1, 500 million, Government received investor bids totalling ZMW 2, 884.99 million at face value leading to a bid-to-cover ratio of 1.9. This was the highest bid level since since April 2018.



Future Prospects: The Company aims to diversify its generation and distribution capabilities. Currently, CEC and its partner InnoVent SAS were among six consortia awarded rights by the Government to develop two by 20MW solar PV projects. The process is under feasibility studies. Additionally, CEC is part of the Renewable Energy Feed in Tariff strategy under which GRZ intends to develop 100MW of hydro power. Other projects in the pipeline being undertaken include the UPEPO Holding's 150MW renewable hybrid project in which CEC is participating. The success of the projects depend on the outcome of the feasibility studies and the bankability of the projects.

Conclusion: CEC remains resilient in a challenging economic environment. The Company has continued to improve its cash position despite the KCM unpaid debt and the disruptions faced in the mining industry. Prospects remain positive as the economy begins to recover due to an uptick in copper prices, improvement in load shedding to support the domestic wheeling segment and increased demand for power in the mining industry - both in the Copperbelt and DRC market. On the supply side, CEC continues to diversify its sources of supply in order to meet increased demand. We expect the Company to continue to provide USD positive returns for shareholders in FY2021. It is noted that the contract risks still remain in place and the Company will continue to pursue measures to ensure all parties agree on viable terms and come up with formal agreements.

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Disclosures Appendix

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