

ZAMBIA SUGAR PLC

Zambia Sugar PLC (“Zamsugar” or the “Company”) is the country’s largest sugar producer. Zamsugar’s operations at a high-level can be split into sugar cane growing and sugar production. The Company’s sustained increase in revenue, active debt reduction strategy and consistent dividend policy, make for an attractive investment. Investor demand for the stock is reflected in its stock market activity, as it is among the most liquid stocks on the Lusaka Securities Exchange (“LuSE”).

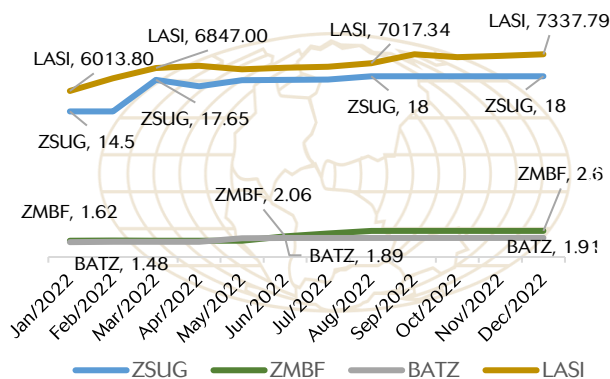
SHAREHOLDING STRUCTURE

Shareholder Name	Percentage
Illovo Group Holdings	75%
National Pension Scheme Authority	9.73%
Standard Chartered Zambia Securities Nominees Ltd	5.34%
Others	9.93%

MARKET INFORMATION AND PERFORMANCE

LuSE Ticker – 8 February 2023	ZSUG
LuSE Price, in ZMW (Current)	18
LuSE Price, in USD	0.94
Issued Shares	316,571,385
LuSE Market Cap, in ZMW [Fully Diluted]	5,698,284,930
LuSE Market Cap, in USD [Fully Diluted]	296,466,046
LuSE Market Cap Rank	4
52-Week High, in ZMW	18
52-Week Low, in ZMW	4.09
Forex USD to ZMW [8 February 2023]	19.22

Agribusiness Comparative Share Price Movements



2022 Trade Statistic	Volume	Turnover
Number	5,841,752.00	99,485,427.44
LuSE Rank	7	2

Zamsugar was ranked second in turnover on the LuSE, trading approximately ZMW99 million for the year 2022. In terms of Agribusiness rankings, it was first according to turnover yet second according to volume, with British American Tobacco (“BATZ”) ranking first. Zamsugar is the highest priced agribusiness stock, followed by Zambef PLC (“Zambef”) then BATZ. Interestingly, Zambef was the best performing stock having increased 61% over 2022, in comparison to Zamsugar’s 24% price increase. The latter was attributable to institutional purchases in the beginning of 2022 and in August 2022 the release of 2022 financials. A ZMW0.94 dividend declaration in November 2022 saw increased activity in the stock with over 2 million shares traded in December 2022.

2022 FINANCIAL RESULTS AND RATIOS

Financials (ZMW'000)	2021	2022	% Change
Revenue	4,988,980.00	5,111,776.00	2.5%
Operating Profit	1,614,962.00	1,242,498.00	23.1%
Net income	1,086,067.00	1,005,148.00	7.5%

Key Metrics	2021	2022	% Change
EPS (ZMW)	3.43	3.17	7.5%
ROE	0.42	0.30	28%
ROA	0.24	0.21	13.4%
Current Ratio	2.08	2.24	8.1%
Debt to Equity	0.78	0.48	38.6%

2022 COMPANY PERFORMANCE

Zamsugar’s main revenue stream is the Zambian market, followed by the Democratic Republic of Congo, Kenya and South Africa. Zamsugar dominates the domestic market, which is partially protected from foreign entrants owing to the country’s vitamin A sugar fortification legislation. This also underpinned their initial access to a broad export market, as Zambian produced sugar has a perceived slightly higher nutritional benefit. In 2022, the following likely underpinned a reduction in export revenues:

- The 17% appreciation of the Zambian kwacha from August 2021 to August 2022, increased the relative price of sugar in regional export markets;
- In Kenya, a restriction of sugar imports to 180,000Mt per year; and
- South Africa (“SA”) also saw similar reductions in imports based on the incentives and commitments by SA manufacturers and retail outlets to prioritize local sugar, as opposed to imports.

However, the decrease in export revenue was offset by a 19.8% increase in domestic sales. Interestingly, regardless of the above Zamsugar recorded a 2.5% increase in revenue from ZMW4.99 billion in 2021 to ZMW5.11 billion in 2022.

Increasing key input costs exerted downward pressure on Zamsugar’s bottom-line earnings. This was reflected by an increase in the cost of sales and distribution expenses for the period. In 2022, this downward pressure on profit was cushioned by a 73% reduction in net finance costs. This alleviation was attributable to a movement of a related party loan and its interest payments from Illovo Group Financing Services to the Group’s parent company ABF Overseas Limited. Thus, in 2022 profit only reduced by 7.5% to ZMW1.005 billion from ZMW1.09 billion in 2021. Culminating in a corresponding reduction in Earnings per Share (“EPS”) of 7.5%.

OUR 2023 INSIGHTS

The net effect of the currently depreciating exchange rate on Zamsugar is uncertain. As this simultaneously increases import costs, yet may also increase export volumes. However, we anticipate that the Company may be cushioned against this due to the:

- Ongoing La Niña climate pattern, which is expected to cause above average rainfall up to March 2023 for most of the country;
- Removal of customs duty on agricultural items such as biological control agents and suspension of this duty on selected agricultural equipment; and
- Continued employment of the debt reduction and cost minimization strategy.