



NAVIGATING A PANDEMIC AND TRANSITIONS

2020 Operational and Financial Summary

Zambeef Products PLC's ("Zambeef", the "Company", the "Group") financial year ended 30th September 2020 was characterized by a difficult operating environment because of adverse macro-economic fundamentals, worsened by the coronavirus (COVID-19) pandemic which directly affected the number of customers visiting its retail outlets. The Zambian Kwacha weakened 54% against the US Dollar during the financial year, resulting in high inflation and reduced customer spending. The Group also experienced challenges stemming from reduced electricity supply because of continued load shedding, resulting in high diesel generator fuel expenditure and repairs and maintenance costs. The Group's strong underlying performance was driven by growth in the stockfeed, dairy and beef divisions. Management continued driving efficiencies to enable sustained top-line growth while looking for opportunities to optimize costs.

Zambeef's revenue was ZMW3.9 billion (USD239.6 million) and achieved a gross profit of ZMW1.22 billion (USD75.2 million), respectively 23.6% and 12.4% above the prior year in Kwacha terms, but both down by 5.8% and 14.4% in US Dollar terms, respectively. An impairment charge on a deferred tax asset of ZMW47.0 million (USD 2.9 million) resulted in the Group posting a loss after tax of ZMW135.6 million (USD8.4 million) compared with a profit of ZMW38.7 million (USD2.9 million) in the prior financial year, a 478% and 388% reduction in Kwacha and Dollar terms, respectively.

LuSE Share Performance

Price: 1.10 52 Week High: 1.10 Currency: ZMW
Volume: 3.84 million 52 Week Low: 0.90

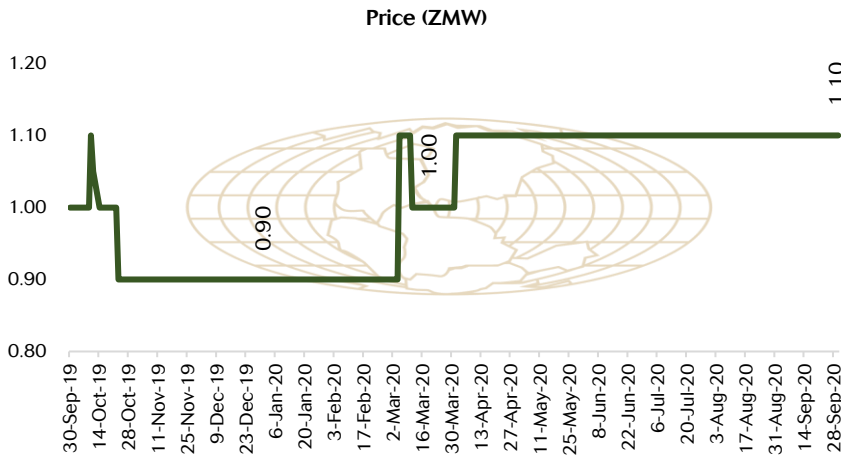


Figure 1: LuSE Performance

Source: LuSE and Zambeef Website

AIM Share Performance

Price: 5.74 52 Week High: 4.25 Currency: GBp
Volume: 24.23 million 52 Week Low: 8.05

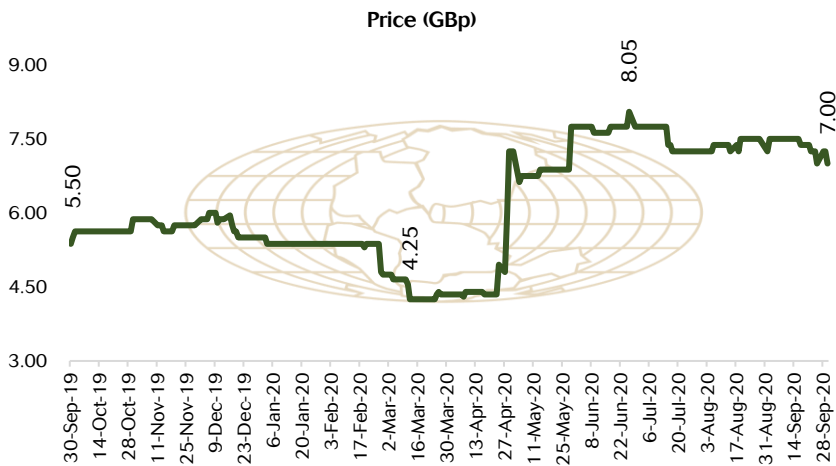


Figure 2: AIM Performance

Source: AIM and Zambeef Website

Performance Metrics

	2019	2020
EBITDA Margin	7.20%	11.20%
Gross Profit Margin	34.50%	31.40%
Debt to EBITDA	3.94	1.83
Debt/Equity	27.30%	20.95%

Zambeef Products PLC
Plot 4970
Manda Road
Industrial Area
Lusaka, Zambia

www.zambeefplc.com

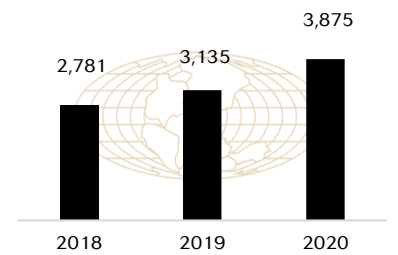
Founded: 1994
Listed: 2005
Sector: Retail/Agribusiness

P/E: (0.41)
Market Cap ZMW: 330,637,549.00
Market Cap USD: 15,493,793.30
Issued Shares: 300,579,590
Preference Shares: 100,057,658

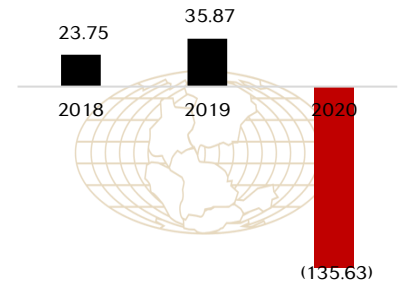
Employees: 7,082

11-26-211 US\$ to ZMW: 21.35

Revenue (ZMW' Millions)



Income (ZMW' Millions)



EPS (Ngwee)

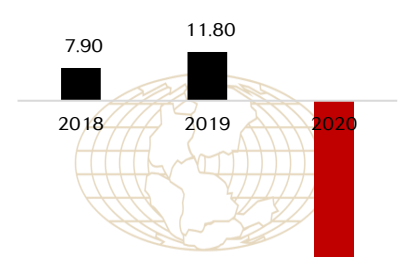


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2020 FISCAL YEAR OVERVIEW

Operations and Finance

The financial year ended 30th September 2020 ("YE 2020") was characterised by a difficult operating and economic environment due to adverse macro-economic fundamentals and the Covid-19 pandemic. The Zambian Kwacha weakened by 54% against the US Dollar, resulting in high inflation and reduced customer spending.

The Group also experienced challenges stemming from reduced electricity supply because of continued load-shedding, resulting in high diesel generator fuel expenditure, and repairs and maintenance costs. This, coupled with a 49% increase in the electricity tariff at the beginning of the calendar year, significantly increased operational costs and eroded margins.

Zesco Electricity Generation (Gwh)

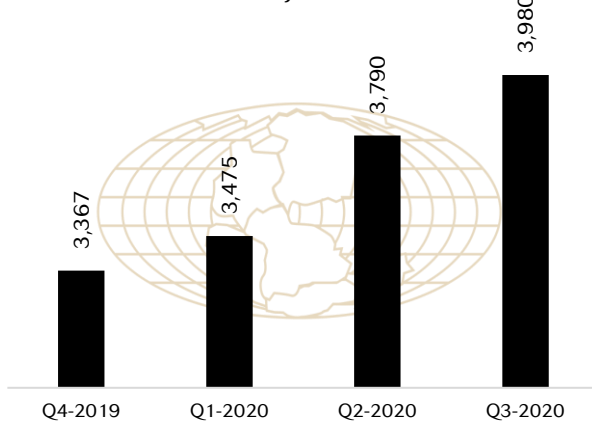


Figure 3: Zesco Generation

Source: Ministry of Finance (MoF)

Despite the challenges noted above, Zambeef posted an operating profit of ZMW210.5 million (USD13.0 million), a 30.6% growth in Kwacha terms and 0.5% reduction in US Dollar terms, compared with ZMW161.2 million (USD13 million) in 2019. The Group's strong underlying performance was driven by growth in the Stockfeed, Dairy and Beef divisions. The Group's achievement, in the face of challenging operational and economic headwinds, demonstrates its strength as a diversified and vertically integrated operation.

Zambeef Performance (ZMW Millions)

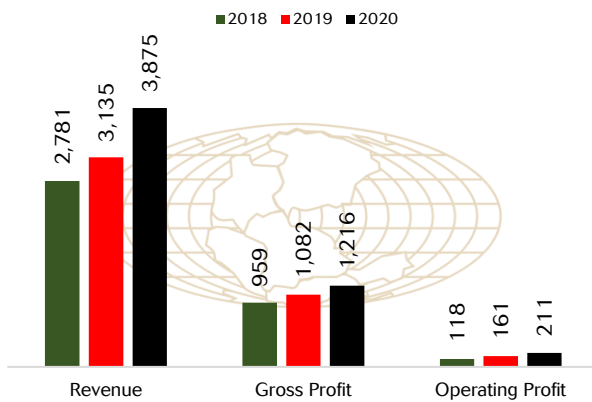


Figure 4: Zambeef Financials

Source: Company Information

Revenue and gross profit increased by 24% and 12% respectively in Kwacha terms for the Group due to price increases across most of the divisions despite an increase in input costs. Due to the depreciation of the Zambian Kwacha, the results in US Dollar terms reduced by 6% and 15% respectively in comparison to 2019.

The continued focus on cost control helped deliver a below inflationary increase of 10% from ZMW 921.0 million (USD 56.7 million) in the previous corresponding period to ZMW 1.0 billion (USD 61.6 million) in the period under review.

The Group ultimately recorded a loss of ZMW 102.0 million (USD 6.3 million) for 2020 compared to a profit of ZMW 18.5 million (USD 1.5 million) in the previous period. The loss can be mainly attributed to the operating profit growth erosion by foreign exchange losses, financing costs, and the impairment of deferred tax.

Zambeef Debt Position

Zambeef continues to de-risk the business by focussing on the reduction of debt to mitigate the impact of foreign currency volatility on future earnings. The net debt for the Group declined by 41% in US Dollar terms and 10% in Kwacha terms during the 2020 financial year. Term debt repayments during the 2020 financial year amounted to USD 8.9 million, reducing the total term debt to USD 18.2 million from USD 27.2 million in the previous financial year. With no new undertakings of debt, this puts the business in a less leveraged position and improves the debt service coverage ratio. However, the exposure to currency risk with the US Dollar denominated debt caused an increase in the term debt balance in Kwacha terms, due to the depreciation of the currency.

Reducing Debt (ZMW' Millions)

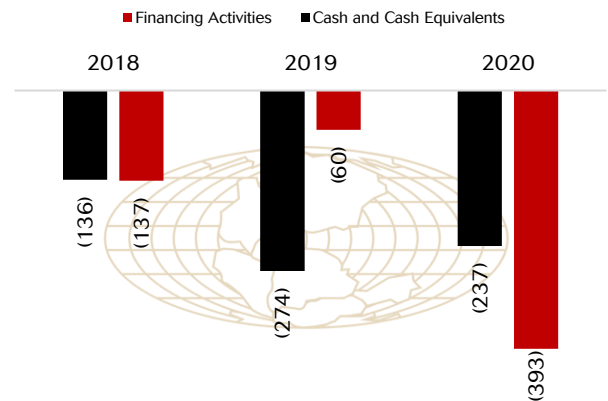


Figure 5: Zambeef Debt Financing

Source: Company Information

Finance costs reduced by 15% in US Dollars which can be attributed to the net debt reduction following improved operating cashflow generation and the Sinazongwe sale proceeds. No new long-term debt positions were undertaken by the Group and payments were made toward reducing principal amounts on term debt.

Disposal of Non-Core Assets

The Group entered into a binding sale and purchase agreement with Chenguang Biotech (Zambia) Agri-Dev Limited for the sale of Sinazongwe Farm. The disposal was executed in March 2020 for a cash consideration of USD 10.0 million. Chiawa farm remains listed for sale.

Dividend

While the Group Directors aim to enhance shareholder value, it has elected not to pay a dividend for this financial year due to 2020 depressed financial performance and debt levels. Based on last year's projections, it might take the Company an additional two years before it can reduce debt and declare a dividend.

Key Corporate Transitions

Board Chairman



Start Date: January 1st, 2020.

Mr Michael Mundashi was appointed as an Independent Non-Executive Director on 11 September 2019 before taking over as Board Chairman last year. has over 30 years post qualifying experience in both the private and public sectors.

In 2009, he was honoured with the rank State Counsel, a recognition by the profession on account of his distinguished career at the Zambian Bar. He is still in practice and Managing Partner of at Mulenga Mundashi Legal Practitioners, a firm he co-founded in 1999 after leaving the public sector. He has also served as Chairman of the Zambian Tax Appeals Court and as Independent Non-Executive Chairman of Standard Chartered Bank Zambia Plc.

Chief Executive Officer



Start Date: January 1st, 2020.

Mr Walter Roodt has been with Zambeef since July 2008 (12 years). He first joined the company as General manager of Novatek Feeds and was then promoted to become Deputy Managing Director in January 2018 before becoming Group CEO.

He was appointed to the Zambeef Board on 5 February 2019. He had been working closely with Mr Francis Grogan (previous Chief Executive Officer) and Mr Mike Lovett, the Group's Chief Operating Officer, since January 2018 in a well-planned succession to ensure a successful and smooth transition. He has over 16 years of experience in Agriculture in Southern Africa.

Chief Financial Officer



Start Date: September 11th, 2019

Ms. Faith Mukutu has held several senior finance and operational roles, she served as Financial Director of Zambia Sugar plc where she was instrumental in implementing the Illovo finance transformation program. This program aimed to drive greater business insight and support the business in making sound commercial decisions by allowing for a value adding finance function. Prior to this she was Finance Director of Zambian Breweries plc, a division of SABMiller Group plc. Ms. Mukutu is an Associate Member of the Zambia Institute of Chartered Accountants and a Fellow of the UK's Association of Chartered Certified Accountants.

GROUP DIVISIONS PERFORMANCE

Zambeef's Board of Directors and Executive Management will have to navigate the Company through a business model that is exposed to currency risk while reducing its US Dollar denominated debt burden.

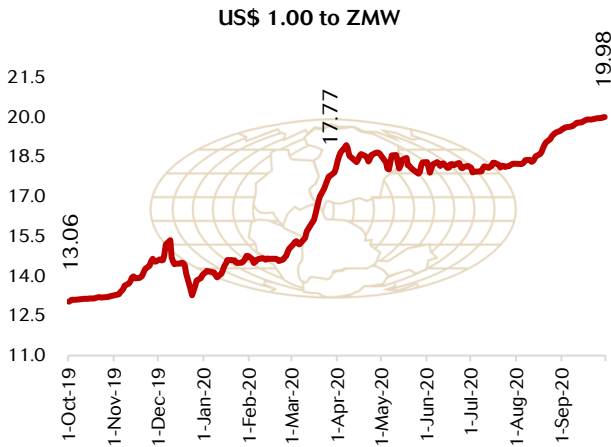


Figure 6: USD to Kwacha FOREX 2020

Source: Bank of Zambia (BoZ)

Zambeef can be classified as having five major drivers; Retailing and Cold Chain Food Products (CCFP), Stockfeed (Novatek), Cropping, and Others. Retailing is divided into Retailing Zambia and Retailing West Africa. Cold chain food production is segmented into beef (Zambeef), chicken (ZamChick and ZamHatch), pork (Masterpork), milk and dairy (ZamMilk), fish, and eggs. The various divisions combine to create a vertically integrated business.

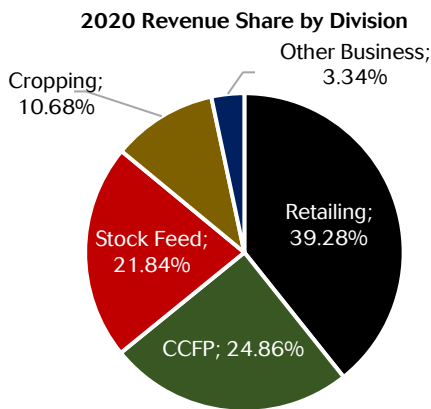


Figure 7: Zambeef Division Revenue Share

Source: Company Information

In 2020, the Group's strong underlying performance was driven by growth in the stockfeed and the CCFP divisions. The two CCFP sub-divisions that contributed the most to the revenue growth are milk and beef.

Note: The analysis that follows for each division is extracted from the Company's 2020 annual report and results presentation at the Annual General Meeting.

Revenue Distribution (ZMW' Millions)

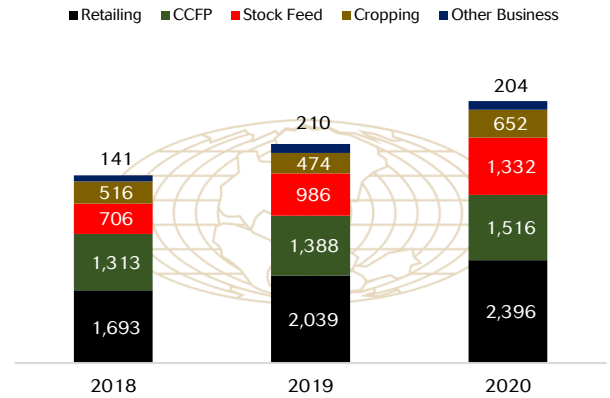


Figure 8: Zambeef Revenue Contributors

Source: Company Information

Stockfeed Division

Stockfeed operations performed well during the year against the backdrop of the 2018/2019 drought and operational headwinds. This division was the largest contributor to operating profit for the Group due to a combination of increased sales volumes, and robust cost management on the back of improved operational efficiencies. The division sold 242,700 tonnes of feed in 2020, compared to 218,769 tonnes in 2019.

The large and growing poultry sector in Zambia consumes 74% of the feed sales generated by Zambeef. The division also recorded an impressive 45% increase in export sales despite export restrictions. The division exported to 11 other African countries, generating much-needed foreign currency revenue.

Stockfeed Revenue and Gross Profit (ZMW' Millions)

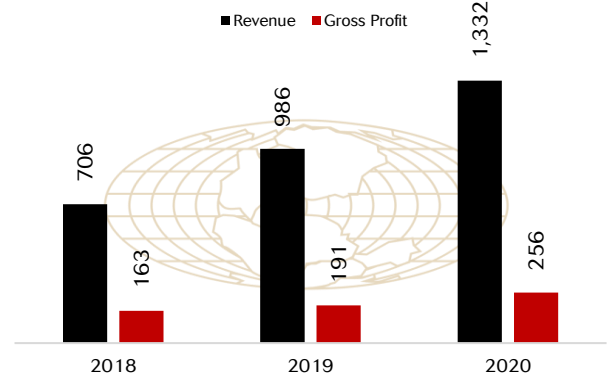


Figure 9: Stockfeed Division

Source: Company Information

Retail and CCFP Divisions

In line with the Group's strategic focus to fully optimise its existing infrastructure and drive efficiencies through its retail network, Zambeef rolled out two new retail outlets in strategic locations across Zambia during the year, compared with seven in 2019. Shoprite, in which it operates instore butcheries, expanded by another three retail outlets in Zambia.

The combined Retail and Cold Chain Food Products division posted a marginal 1.8% growth in operating profit in Kwacha terms on the back of an 18% growth in revenue. This was despite depressed consumer spending that negatively impacted sales volumes in the retail outlets. Cost pressures due to the depreciation of the Kwacha, continued load shedding, and increased electricity tariffs further eroded margins.

Zambeef's chain of 236 retail outlets - both own-brand and within Shoprite supermarkets - remain at the heart of the business, with demand from customers driving supply. The Group's focus during the 2020 financial year was to optimise its existing retail store performance. For the year ended 30 September 2020, Zambeef rolled out four new macro-outlets in strategic locations, compared to seven in 2019. The Group also leveraged Shoprite's growth, opening three new in-store butcheries.

increased, while chicken and beef sales decreased due to supply constraints.

Retail Network Expansion

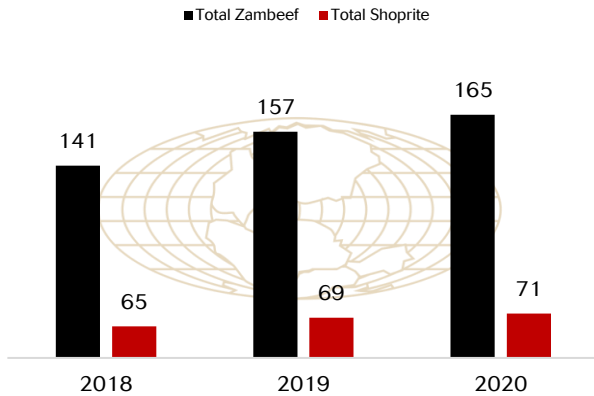


Figure 10: Zambeef Retail Network

Source: Company Information

Net sales in the combined Retail and Cold Chain Food Products (CCFP) divisions increased by 18% to ZMW2,513.0 million (2019: ZMW2,124.0 million) in Kwacha terms and decreased by 10% to USD155.0 million (2019: USD172.0 million) in US dollar terms. The gross profit margin decreased marginally for a second year in a row, to 25.7% (2019: 27.4%) despite an 11% growth in gross profit in absolute Kwacha terms, due to escalating costs of inputs amid high inflation and the depreciation of the Kwacha. Overheads increased by 14% to ZMW535.0 million (2019: ZMW473.0 million) in Kwacha terms but fell by 14% in US dollar terms to USD33.0 million (2019: USD38.0 million).

The combined Retail and CCFP divisions generated an EBIT margin of 4.4% (2019: 5.1%). The adverse macro-economic conditions and increased generator fuel costs led to the increase in input costs. Operating profit increased by 1.7% to ZMW110.0 million (2019: ZMW108.0 million) in Kwacha terms and decreased by 22.5% to USD6.8 million (2019: USD8.7 million) in US dollar terms.

Zambia Retail Sub-Division

Zambia retail revenue increased 17.5% to ZMW2,178.0 million (2019: ZMW1,854.0 million) while gross profit increased by 9.7%. Due to the depreciation in the Kwacha relative to the US dollar, however, revenue decreased by 10.5% to USD135.0 million (2019: USD150 million) in US dollar terms.

Strong revenue growth was driven by stockfeed, chicken, cooking oil and other traded goods. Difficult trading conditions and disruptions in supply channels resulted in volume declines across most product lines. Pricing adjustments, however, helped the Retail division offset that volume related revenue decline.

West Africa Retail Sub-Division

Optimising operations was the main focus in the West Africa business this past year. Revenue increased 18.3% in Kwacha terms and declined 10% in Dollar terms from ZMW185.0 million (USD15.0 million) in 2019 to ZMW219.0 million (USD13.5 million) in 2020. During the period, the overhead costs in Kwacha rose by 23%. West Africa retail contributes 9% to Group retail revenue and remains profitable. The driver of profitability was mutton and pork sales, which

Retail Revenues by Region (ZMW' Millions)

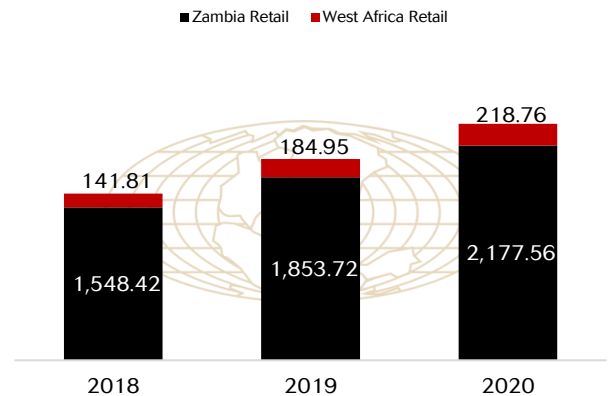


Figure 11: Zambeef Retail Regions

Source: Company Information

Beef Sub-Division

Beef is the largest contributor to revenue in the CCFP division. Beef sales volumes decreased by 1.8% compared with the previous financial year, with the reduced number of cattle slaughtered owing to supply constraints following a drought in the previous year that also impacted average slaughter weights.

Notwithstanding, the division posted 10% growth in revenue and 28% growth in gross profit due to a favourable sales mix and pricing. This translates to a gross profit CAGR of 9.5% since 2018.

Beef Revenue and Gross Profit (ZMW' Millions)

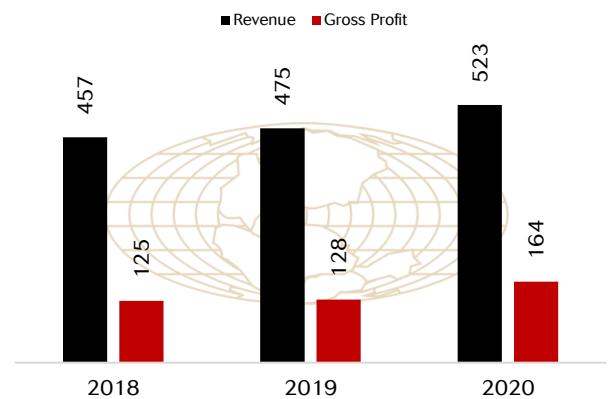


Figure 12: Zambeef Beef Sub-Division

Source: Company Information

Milk (ZamMilk) Sub-Division

Milk revenue increased by 6%, and gross profit increased by 36% to ZMW92.0 million (2019: ZMW67.0 million). Sales volumes fell by 7% due to a COVID-19-related reduction in demand. This segment of the business represents a gross profit compound annual growth rate (CAGR) of 12% over three years.

Milk production at Kalundu Dairy increased by 11% from an average of 26.6 litres/cow in 2019 to 29.6 litres/cow in 2020, with a total of 1,379 cows being milked daily at the year end. The feed cost of the milking herd increased by 10% due to the price of maize ingredients (maize meal and maize silage) included in dairy feeds.

ZamMilk Revenue and Gross Profit (ZMW' Millions)

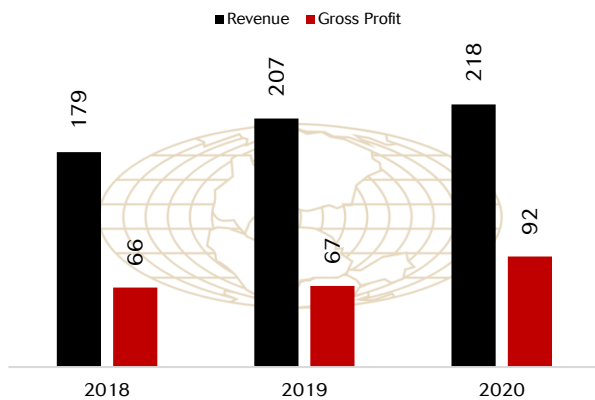


Figure 13: Zambeef Dairy Sub-Division

Source: Company Information

Poultry (Zamchick, Zamhatch and ZamEgg)

Combined revenue from the three poultry divisions increased by 17% in 2020. Despite revenue growth, gross profit declined by 27% from ZMW126.0 million in 2019 to ZMW92.0 million in 2020, mainly due to higher feed prices. The divisions recorded a combined operating profit of ZMW2.6 million for 2020, a 95% decline from last year (ZMW49.0 million) and the sharpest decline in operating performance among the divisions during the financial year.

The informal and small-scale chicken farming sector increased supply where the formal sector could not supply effectively due to operational headwinds. Increased costs and electricity supply challenges had a lower impact on the informal sector, which positively contributed to sales volumes for Zamhatch and Novatek Stockfeed. Zamchick volumes and revenue increased by 4% and 21% respectively compared with the prior year. High stockfeed price negatively impacted margins, resulting in a 26% reduction in gross profit for the division. Operational challenges were experienced during the 2019/2020 summer rain season as the industry faced widespread dysbacteriosis, which negatively impacted broiler growth performance.

The egg division, which is characterised by price elasticity, experienced a 12% reduction in volumes sold following average price increases of 22%. Despite a 6.6% increase in revenue, gross profit fell by 100% when compared to prior year.

Pork (Masterpork)

Supply chain disruptions in the Masterpork division stemming from high pig rearing costs led to a 12% reduction in volumes sold. The division performed better than the prior year, with revenue and gross profit growing by 13% and 38% respectively, mainly due to pricing adjustments. Management focussed on optimising the carcass quality of pigs slaughtered through advances in the grading and pricing system.

Cropping Division

Cropping division revenue grew 37% from the previous year, despite a reduction in volumes, due to a good summer crop price and translational currency effects. The division experienced a sharp escalation in costs, however, resulting from the increases in electricity tariffs and US Dollar denominated costs. Load shedding caused electricity shortages that affected the winter wheat yield as optimal irrigation programmes could not be followed. Despite the challenges, the division contributed positively to Group operating profit.

Other Divisions

Flour Milling

Flour sales volumes for the year declined 25% due to reduced demand following price increments. The drastic drop in the maize price at half-year meant that consumers had the option to buy cheaper maize products as a substitute. Despite a 5% drop in revenue, the milling division achieved a 16% growth in operating profit partly due to overhead reductions.

Zamleather

Zamshu shoe sales grew by 7% compared to the previous year. Revenues were up 12% on prior year due to pricing and increased wet-blue leather exports, despite a slowdown of export channels due to the onset of the COVID-19 pandemic.

The pandemic also impacted local shoe sales following the suspension of school activities across the country. Zamleather division sold more higher-grade leather and value-added shoes in 2020.

ZAMBEEF STRENGTHS, CHALLENGES AND OUTLOOK

Strengths

Vertical Integration with Currency Hedging Possibilities - The Zambeef business model endeavours to link Zambian farmers with the fast-growing population of urban consumers across Zambia and the region. Through its extensive retail network, Zambeef is the largest and most integrated agricultural value chain product provider in Zambia, linking cattle, pig, maize, soya and chicken farmers with urban consumers throughout Zambia and the region.

As per the financial metrics, Zambeef has the production capacity and asset register to be able to sustain food security in Zambia and grow to the level of managing to feed the over 200 million people in Zambia's neighbouring countries.

The Company's different segments such as the Stockfeed (Novatek) Division can generate foreign currency through exports. Optimizing exports and foreign currency generation would increase cashflows that would hedge against a depreciating Zambian Kwacha. As noted in the Macro-economic section of this report, Non-Traditional Exports (NTEs) increased their contribution to the current account. Zambeef has the potential to exploit this increase and generate more US dollar denominated revenue.

Increasing Urban Population - The core of the business is the main beneficiary and user at the end of the integrated value chain - the consumer. Due to the vertical integration of the business, it allows Zambeef to price its products competitively enough for people in low-income households to satisfy their needs from the retail stores. Most Zambeef retail and macro stores, as well as Shoprite, are located in urban (to semi-urban) areas of Zambia.

Zambia's Total and Urban Population (Millions)

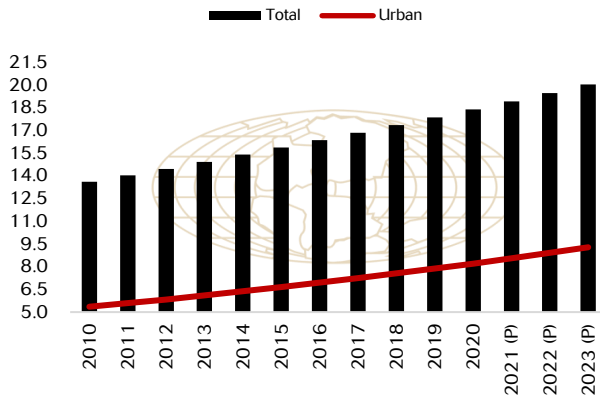


Figure 14: Zambia Population

Source: ZamStats and World Bank

Traded Volumes (Million)

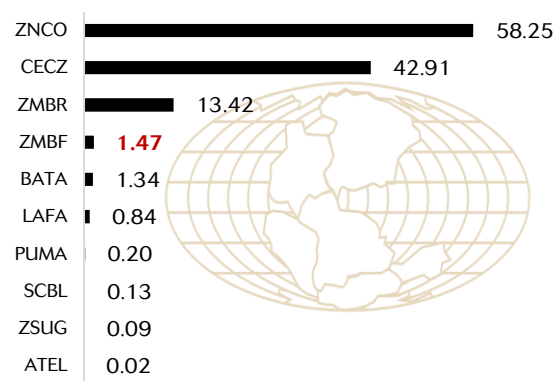


Figure 15: Zambeef Trading Volume Performance

Source: LuSE

Challenges

Debt Burden – Zambeef’s net debt declined by 41% in US Dollar terms and 10% in Kwacha terms during the 2020 financial year. Term debt repayments during the 2020 financial year amounted to USD8.9 million, reducing the total term debt to USD18.2 million from USD27.2 million in the previous financial year. With no new undertakings of debt, this puts the business in a less leveraged position and improves its debt service coverage ratio.

Besides the balance sheet debt, the preference shares held by CDC continue to be the “elephant in the room” with no obvious immediate consequences on the financial and operational performance of the Group. Although they rank as equity, the redemption value of the shares escalates at an annual compounded rate of 12%, which is significantly higher than the average cost of the Group’s US Dollar debt, which is still approximately 7%. The Group does not pay finance costs on this debt. At a compounded value of US\$ 87.4 million (4th Year - 2020), however, this becomes a significant factor in the valuation of the business as it erodes value from the indicative enterprise value of the business. As the Company enters 2021 (5th year of the preference share agreement), Zambeef has redemption options that have yet to be determined impact on the Company’s operations and financials for 2021.

No Dividends and Bank Overdraft Dependency – The Chairman reports that the Group will not be paying dividends until debt is reduced and cash flows become positive. As was the case with last year’s cashflow statements, Zambeef continues operating on a negative cash balance meaning paying a dividend is dependent on the bank overdraft facilities being settled. Strategy suggests that Zambeef will be disposing of non-core assets to free up cash flows. Assuming preferential share debt will be settled first, it could take another three fiscal years for the Group to declare a dividend. This implies that an investment in Zambeef in the short – medium term is unlikely to garner dividends.

With the Company focused on debt reduction, increasing cashflows and managing the impacts that the preference shares will have on the business – potential investors are more likely to be pessimistic than optimistic. This sentiment is reflected on the LuSE, where, relative to its peers that pay dividends on an annual consistent basis, Zambeef only had 1.5 million trades. Its peers had trades of over 10 million. Relative to its net asset value and market capitalization, the Group should be competing with the top three listed companies highlighted below (Zanaco, Copperbelt Energy Corporation and Zambrew).

Demand for Government Securities Remains High - Demand for Treasury bills were much stronger compared to Government Bonds with auctions attracting bids in excess of the amounts on offer by 54% and in a shortfall of 40% respectively. Most investors will continue to look at Government securities rather than Zambeef due to the cash constraints the Company is currently experiencing.

Government Security Yields vs LuSE Index

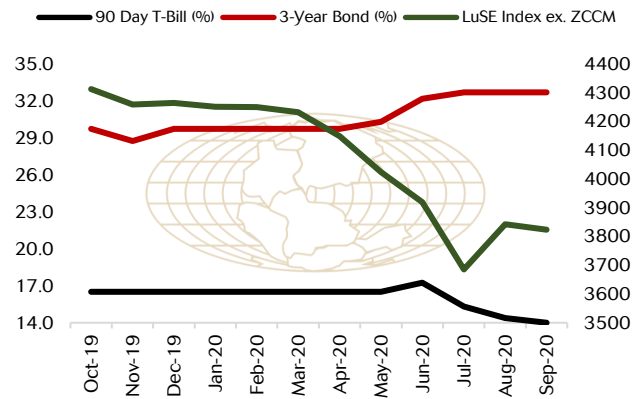


Figure 16: Interest and Stock Yields Comparison

Source: BoZ & LuSE

Outlook

COVID-19 Impact - The pandemic has impacted the way Zambeef does business. Although it appears to have been contained in Zambia and the region, any escalations could cause enforced lockdowns, which could negatively impact business. The Group remains committed to implementing and enforcing safety protocols in its outlets and places of work.

As per the Chairman’s remarks, Zambeef’s management remains committed to focusing on core divisions to generate cash flow that will be channelled toward deleveraging the business and investing in higher returning projects. These plans will be underpinned by:

- Consistent revenue growth through optimising existing retail infrastructure, driving the CCFP and Stockfeed operations;
- Continued capital investment in the best performing areas of the business;
- Cash generation through improved margins, cost control, working capital management and prudent capital expenditure;
- Continued divestment of non-core assets; and
- Environmental and food safety improvement projects.

ZAMBIA'S 2020 MACRO-ECONOMIC ENVIRONMENT

Zambia's Debt Pressures and Default

Zambia made headlines for being the first African country to default on its external debt obligations in November 2020. This has led to an economic environment with difficult financial and operational conditions for businesses. According to the Ministry of Finance, stocks of external debt by the end of the third quarter of 2020 were up by 3.26 percent at US\$12.36 billion from US\$11.97 billion recorded as at the end of the second quarter. This marginal increase was on account of continued disbursements for some projects.

Zambia's External Debt (US\$ Billions)

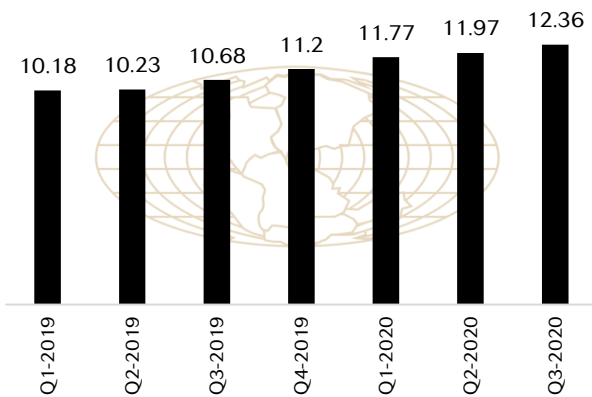


Figure 17: Zambia External Debt

Source: Ministry of Finance (MoF)

Monetary Policy Rate Held At 8.0%

The Monetary Policy Committee decided to maintain the monetary policy rate at 8.0% to moderate risks to financial stability and support growth, lives, and livelihoods. The Committee noted that financial stability remains fragile despite signs of marginal improvement in economic activity in the third quarter following the partial relaxation of COVID-19 restrictions. Although growth is expected to recover in the medium-term, limited fiscal space, as well as uncertainty surrounding the persistence of the COVID-19 pandemic and access to external financing remain key downside risks to growth prospects. In this regard, successfully navigating the debt restructuring process to restore debt sustainability and implementing fiscal and other structural reforms are critical to return to fiscal fitness and macroeconomic stability.

Global Economy Contraction and Domestic Revival Projections

Global economic activity is showing signs of recovery as economies partially reopen and policy stimulus measures begin to take effect. In this regard, a less severe contraction of 4.4% is projected in 2020 than the earlier projection of 4.9%.

GDP (US\$ Billions)

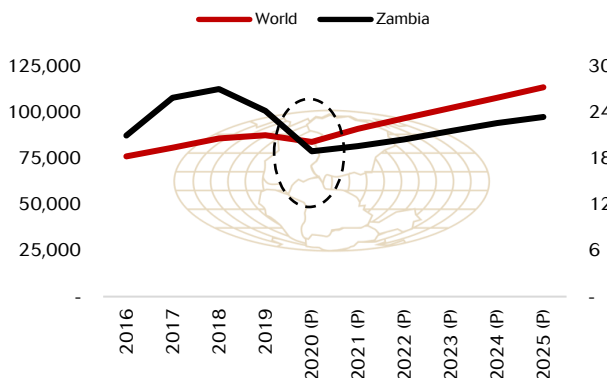


Figure 18: Gross Domestic Product (GDP)

Source: BoZ and IMF

Bank of Zambia financial trading and coincident indicators of economic activity point to some improvement in Q3, reflecting the partial relaxation of COVID-19 restrictions. Nonetheless, for 2020, the economy is projected to contract by 4.2%. The observed better performance in the mining production in the year to September may moderate the severity of the contraction.

Real GDP Growth Rate (%)

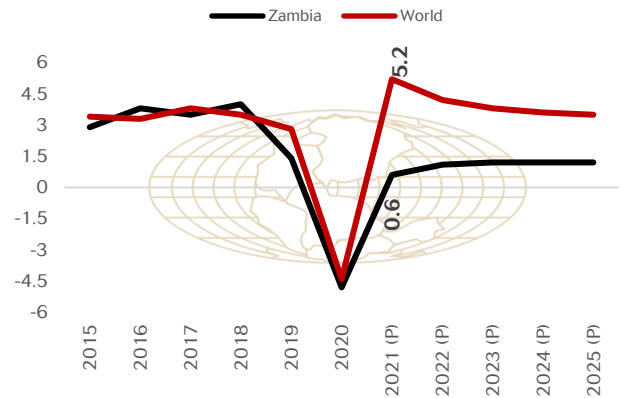


Figure 19: Zambia vs World Growth Rate

Source: BoZ and IMF

Inflationary Pressures Remain High

Over the next eight quarters, a moderation in inflationary pressures is anticipated although inflation will persist above the 6-8% target range throughout the forecast horizon. Inflation is forecasted to average 16.7% in Q4 2020. In 2021, it is expected to decline to 13.5% and further to about 10.0% in 2022 on an annual average basis. The factors underlying the decline in inflation include subdued aggregate demand and moderation in food prices as well as money supply growth. However, the risks to the inflation outlook are tilted to the upside and these include higher than anticipated monetary expansion, possible upward adjustment in fuel pump prices, further deterioration of the fiscal position as well as the depreciation of the Kwacha. Inflation may decelerate faster if the measures being taken by Government to restructure debt and implement key structural reforms materialize.

Inflation Rates (%) and Consumer Price Index

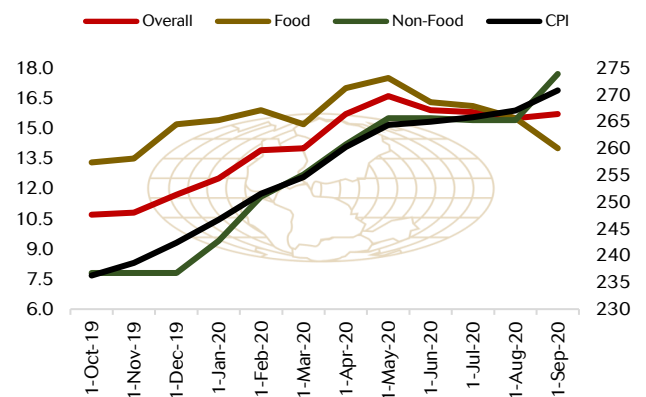


Figure 20: Zambia Interest Rates and Prices Index

Source: BoZ and ZamStats

Current Account Surplus Expands

The current account surplus expanded to US\$601.7 million (3.8% of GDP) from US\$350.7 million (2.25% of GDP) in Q2, driven by net exports. Merchandise exports grew by 35.2% to US\$2.3 billion due to higher earnings from copper and NTEs.

Copper Production and Prices

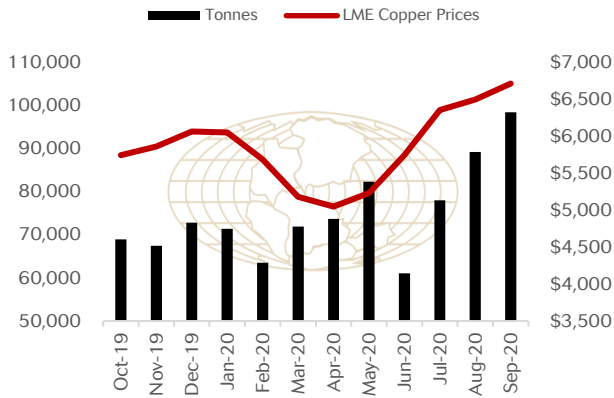


Figure 21: Zambia Copper Performance

Source: BoZ and ZamStats

Gross International Reserves (US\$ Millions)

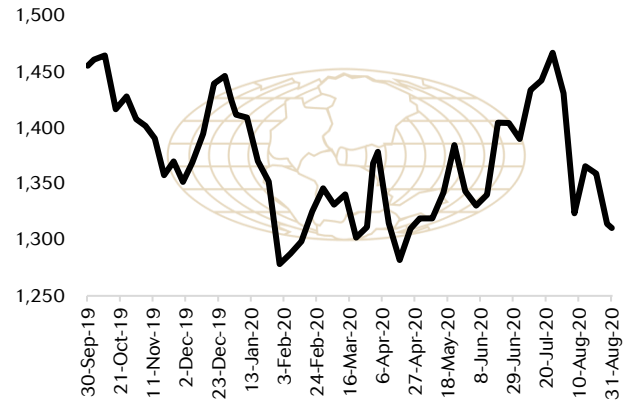


Figure 23: Zambia US\$ International Reserves

Source: BoZ

NTEs, at US\$0.6 billion, were 50.7% higher driven by seasonal pick up in agricultural exports such as burley tobacco, maize, and maize seed, as well as cane sugar. Merchandise imports grew by 19.8% to US\$1.2 billion, supported by the easing of Covid-19 restrictions and a gradual pick-up in domestic economic activity.

NTEs and Current Account Impact (US\$ Millions)

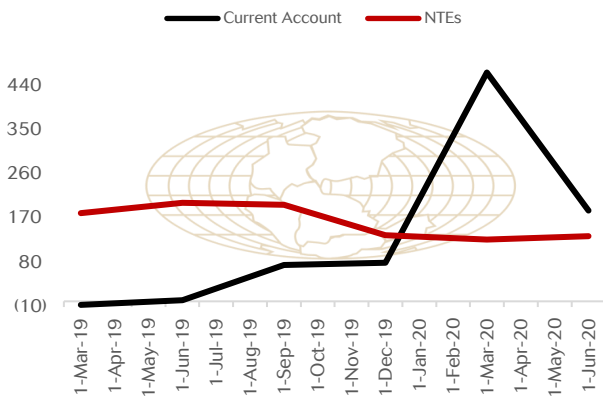


Figure 22: Zambia NTEs and Current Account Performance

Source: BoZ and ZamStats

Interest and Overnight Interbank Rates Decline Further

Generally, market interest rates maintained a downward trend, largely reflecting the accommodative monetary policy stance. The commercial banks' average lending rate declined to 25.7% in September from 26.4% in June and further to 25% in October.

The overnight interbank rate declined to a quarterly average of 8.55% from 10.98% and was maintained within the Policy Rate Corridor of 7% to 9% throughout the quarter.

Private Sector and Money Supply

Credit growth to the private sector picked up slightly to 13.8%, year-on-year, in September from 10.4% in June. This was largely attributed to the sustained increase in demand for bridge financing and working capital by firms to meet rising operating costs. Credit to Government, however, continued to expand (69.2%) at a faster pace which led to a growth in money supply (46.5%) compared to June (42.9% and 29.4% respectively).

Kwacha Depreciation and International Reserves Reduction

The Kwacha depreciated against other major trading partner country currencies, albeit at a slower pace, mainly on account of increased forex market interventions by the Bank of Zambia. Against the US dollar, the Kwacha weakened by 3.3% to an average of ZMW18.94/US\$ in Q3 and closed the year at ZMW20.02/US\$. With increased net foreign exchange sales for market support coupled with debt service, gross international reserves declined by US\$111.8 million to US\$1,321.2 million (equivalent to 2.3 months of import cover) at end-September from US\$1,433.0 million at end-June (equivalent to 2.3 months of import cover).

CONCLUSIONS

Zambeef has been in this position before and the depreciation of the Kwacha is not unique to the 2020 financial year. The Kwacha depreciated by 13% during the same reporting period of 2019. The US dollar average exchange rate peaked at ZMW 13.94 per US Dollar in May 2019 – this represented a kwacha depreciation of 22%. While the 2020 pandemic did add another dimension, we believe Company management has enough experience to operate in such a volatile economic environment.

Overall, the Group is one of the few Zambian companies that can provide immense shareholder value and is right for investors with a medium to long term view of the agri-retail business. Zambeef is a company that will experience exponential growth in the future as soon as it reduces its debt burden.

SHAREHOLDER INFORMATION

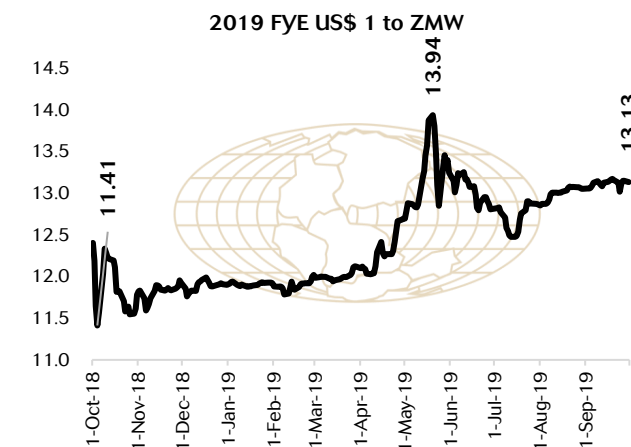


Figure 24: 2019 US\$ to Kwacha FOREX 2019

Source: BoZ

Shareholding		
CDC Group	52,601,435	17.5%
M & G Investment Management	46,304,408	15.4%
Africa Life	42,709,562	14.2%
National Pension Scheme Authority	24,797,818	8.2%
Sussex Trust	14,000,000	4.7%
Eastspring Investment	11,995,062	4.0%
SBM Securities	10,948,691	3.6%
Rhodora	8,639,374	2.9%
Red Fort Partnership	8,175,000	2.7%
Others	80,408,240	26.8%
Total	300,579,590	100.0%

Figure 25: Key Zambeef Shareholders

Source: Company Information and LuSE

For the year 2021, there are several threats that remain. A second wave of Covid-19 is imminent and recent reports confirm Zambia has seen an increase in cases and deaths. As of January 6, 2021, there have been 23,495 cumulative cases and 417 deaths. A second wave would also bring about adverse knock-on impacts on the economy such as reduced investor confidence which would delay any potential solutions to address the debt reduction initiatives the Company may need to implement. Low investor confidence would also increase the likelihood of a country downgrade by rating agencies.

CDC Group Plc are also the holders of 100,057,658 convertible redeemable preference shares. These shares have three voting rights for every four preference shares held resulting in CDC having 34.8% of the voting rights.

Apart from the opportunities listed in the preceding section – Zambeef is poised to benefit if key government projects are realised this year. The commissioning of the Lower Kafue Gorge power station would reduce load shedding in the manufacturing sector. This would reduce the Company’s operational costs and increase operating profits substantially.

The Bank of Zambia and Ministry of Finance have also continued to offer incentives through the banks to promote bank lending and consumer spending which should assist Zambeef ride the uncertain covid-19 induced economic downturn. The reduced interest rates might have a positive impact on Zambeef’s debt position as it could potentially restructure some of its interest payments. The planned sale of Chiawa farms, if successful, would also be a welcomed debt relief measure for the Group.

Weather conditions are forecasted to improve crop yields for the 2020/2021 farming season which would ensure Zambeef generates more US dollar revenue to hedge against a Kwacha projected to depreciate further in 2021. As 2021 is an election year, Zambeef has the opportunity to increase sales as individuals and various political entities mobilize to attract voters.

As stated in the last report, to have a successful 2021, it is imperative that the Group complete its strategic objectives and significantly reduce debt by generating more revenue, resolve the preference shares issue, and dispose of non-core operating assets. The Group can benefit from the financial incentives that the Government has implemented through the Bank of Zambia.

BOARD OF DIRECTORS



Michael Mundashi
Board Chairman

Qualifications: Bachelor of Laws Degree (University of Zambia); Post Graduate qualification as an Advocate of the High Court

of Zambia

Experience: Over 30 years post qualification experience in both the public and private sectors. Served as Chairman of the Zambian Tax Appeals Court and as Independent Non-Executive Chairman of Standard Chartered Bank Zambia Plc.



Walter Roodt
Chief Executive Officer

Qualifications: BSc. (Agric.) Animal Science (University of Pretoria, RSA); MSc. (Agric.) Nutrition Science (University of Pretoria, RSA);

Senior Executive Programme (London Business School, UK)

Experience: Over 15 years of experience in Agriculture in Southern Africa.



Faith Mukutu
Chief Financial Officer

Qualifications: A.C.C.A. (Chartered Certified Accountant) – Zambia Centre for Accountancy Studies, Zambia; Certified Accounting Technician – Zambia Centre for Accountancy

Studies, Zambia

Experience: Over 15 years' experience in senior finance positions of major corporates, including Zambia Sugar Plc and Zambian Breweries (part of SABMiller Group)



Margaret Chalwe-Mudenda
Non-Executive Director

Qualifications: LLB (University of Zambia) LLM (Southampton University, UK) Post Grad Diploma in Legislative Drafting.

Experience: Over 10 years' legal experience across several disciplines, including investment banking and labor law. Almost 10 years' experience in ICT and telecommunications.



Prof. Enala Tembo-Mwase
Non-Executive Director

Qualifications: BSc Biological Sciences (University of Zambia). MSc Medical Parasitology (University of London, UK). PhD in zoology – Entomology (University of London, UK)

Experience: Over 30 years' research and teaching experience. Associate Professor at University of Zambia. A founding member of women in science and technology.



John Rabb
Non-Executive Director

Qualifications: MBA (South Africa)

Experience: Over 30 years' business management. Former Managing Director of Wooltru Group.



Yollard Kachinda
Non-Executive Director

Qualifications: BSc (Ed.) Mathematics and Statistics (University of Zambia). MSc Social Protection Financing (Maastricht University, Netherlands).

Experience: Over 25 years' experience at Zambian National Pension Authority (NAPSA).



Dr. Lawrence Sikutwa
Non-Executive Director

Qualifications: MBA (Cornell, USA), FCII, Post Grad Diploma in Insurance (UK). Honorary Doctorate UNILUS, Zambia.

Experience: Over 30 years' 30 in business management. Previously Manager of Zambia State Insurance Corporation



Jonathan Kirby
Non-Executive Director

Qualifications: Bachelor of Accounting (University of the Witwatersrand). Higher Diploma in Tax Law (Rand Afrikaans University)

Experience: Over 30 years investment experience in private equity and infrastructure in UK, Europe, Africa and Asia. Previously managing partner and Head of the Islamic infrastructure fund at CapAsia.



David Osborne
Non-Executive Director

Qualifications: Natural Sciences Cambridge, UK

Experience: Over 30 years' in investment and private equity. Former Partner and Head of Islamic Infrastructure Fund at CapAsia.



Frank Braeken
Non-Executive Director

Qualifications: MBA in Finance (Leuven University, Belgium). Degree in Law with major in corporate law (Catholic University Lueven, Belgium). Advanced Management Program (Wharton Penn University, USA)

Experience: Over 30 years' investment experience in the Fast-Moving Consumer Goods (FMCG) industry. Previously head of Unilever Africa and Chief Investment Officer of Amatheon Agri Holding.

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Securities