Transcript of the Management Presentation on Operations, Finance & 2022 Outlook at the 24th Annual General Meeting of Copperbelt Energy Corporation Plc

27 April 2022

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Owen Silavwe: Thank you, Chairman. Good morning shareholders and good morning Directors and members of Management. Welcome to today's AGM. I will start the presentation and then at some point, I will hand over to the Chief Financial Officer. I'm delighted to be making this presentation this morning to you to highlight how the Company has performed in the year 2021, and try to give you some insights in terms of what we believe the future of the Company looks like.

So, I do want to start with what we consider to be a critical aspect of the business and this is safety and our system liability. We obviously do report on this on a continuous basis because this is quite critical. We deal with a very dangerous product and this is electricity. However, I'm very pleased this morning to be reporting that our performance in this area has continued to be exemplary. Looking at all the statistics, we did very well in this area. We continued to extend the system's no lost-time accidents to almost 10.2 million man-hours from 8.2 million man-hours that we had last year.

We've continued with our very disciplined implementation of standards and through this, we continue to build on the Company's safety culture that has ensured that as a Company, we basically operate a world class operation from a safety perspective. We do obviously benchmark our operations, first of all to other utilities within the region, but we do benchmark to others in the world as well. Obviously, this level of operation has enabled us to continue to operate a fatality-free operation. Now, this is not something that we take for granted. I mean, this is something that you need to continuously monitor and ensure that we keep each other accountable, ensuring that at all times we follow the rules. This is an area where things can go wrong quite easily and, therefore, we shouldn't at any point rest on our laurels. We need to make sure that on a continuous basis, we keep reminding each other, as I said. We continuously hold each other to the safety standards that we have set.

From a system reliability perspective, again I'm happy to report that our network achieved very strong reliability and we continue to assure security of supply to all our customers. Anybody using our system, I think, will be delighted with the level of service that we continue to provide. This is not to say we don't have challenges. We do have our own challenges within our system. We continue to work on those, but what we make sure is that those challenges do not result in affecting service quality that we've promised our customers. From an external wider network perspective, because our network is connected to others, I want to report on three national blackouts that were experienced in 2021.

These are the big incidents. They do occur - they rarely occur - but if they do occur they are obviously very big incidents. Unfortunately in 2021, we experienced three of these, and as a Company that supplies to mines that operate below the water table, there is a requirement such as the contractual obligation to some of these customers, that during those periods we do provide emergency power. We've got a portfolio of emergency power sources, and during these three occasions, unfortunate occurrences, we did provide emergency power in line with our contractual obligations. I'm quite happy to report that the feedback that we got from the customers was very good, and of course we continue to look at how we can improve those systems going forward.

This being a national blackout, on the government side as well as the regulator side, a team was put in place to try and understand what exactly happened and find ways to make sure these things do not happen going forward. A report was issued to this effect, which contains the causes and indeed lessons learnt from these incidents. We have studied that report. We continue to engage others, and we believe we are better placed to avoid the occurrence of these incidents going forward. The sources of these incidents were obviously not in our network. Some of it was within Zambia, some of it was outside Zambia but overall, as utilities, we do work together because our systems are interconnected, to find ways of ensuring that these things first of all, don't occur, and if they do occur, how can we minimise the impact of such incidents on our customers.

One of the issues that I've been talking about, I think in the last two years, is the threat of copper conductors. As you know, copper is riding its crest in terms of price, and so any piece of copper lying around, or that you can get access to, tends to be highly valued. Because of that, and some of the challenges from an economic and social perspective that our market experiences, we've been at the receiving end of theft of copper conductors. I'm happy to report that we've made progress in this area, and we saw a lot of improvement in 2021, with some of the people involved in this having been apprehended.

This was a collaborative effort between our CEC security and the state police, and some of these people have also been taken to court and ended up being convicted. There are other solutions that we continue to work on to ensure that we completely eliminate this scourge going forward. So this is something that we'll continue to address but, overall, whatever we are doing is obviously meant to ensure that network availability and service continuity is there at all times for our customers.

I want to talk briefly about the business environment. Coming from 2020 to 2021, there are obviously a number of issues that were impacting on the business environment generally, and most of our shareholders will be aware that the private sector in general and CEC more specifically had certain concerns with the business environment.

I want to report on some of the things that have happened since. In August 2021, obviously, Zambia went to the polls, and those polls resulted in a new Government being elected. One of the good things to come out of the new Government has been the announcement of the Government's intentions to anchor the economy on the private sector. Obviously, for that to succeed, it's required that the Government works on improving the business environment in order to continue to attract private capital.

On our part as CEC, we do agree that it is a top priority for any government. And, as a business, we are continuing to reiterate this to make sure that we use the opportunity to resolve all historical issues, but more importantly, we'll use this opportunity to identify business opportunities and take advantage of those to grow our business and improve our business performance overall.

COVID-19 continues to be with us. I want to report that overall, 2021 saw an improvement, again, if you compare it to 2020. As a Company, we continue to ensure a safe and healthy environment for both our own employees, the contractors and indeed supporting the communities where we operate. For most parts of the year we were managing or operating under a mix of remote working as well as working from our offices. As I said, we continued to observe the health guidelines as guided by the health experts, and through this we think we managed the situation at our work environment quite well.

Just to give a bit of statistics: for the full year, in terms of the number of cases in the Company, which employs just under 400 full-time employees, the total number of positive cases recorded was about 109, which is roughly in the order of 30%. In terms of deaths, which obviously is very unfortunate, we did suffer some deaths. We had three deaths in 2021 as a result of COVID. We continued to encourage employees to get vaccinated and that drive is still continuing at the moment. From an employee perspective, we are sitting at around 35%. We know we should be doing better than that, and this is something that we'll focus on going forward.

As I said at the beginning, overall we think the COVID situation is improving, and based on the guidelines that we have received from the Government, we have fully reopened. Everybody is back at the office at the moment. This is being done while continuing to observe health guidelines.

In terms of the power situation, I want to report that the power availability was much better in 2021 if we compare it to 2020. We were able to achieve a good balance between supply and demand. This is mostly as a result of improved water levels at our hydropower plants, as well as the availability of most of the IPPs in-country.

We also witnessed the commissioning of 2 x 150MW new generators at Kafue Gorge Lower by the state utility, ZESCO. That has obviously improved the availability of power. This resulted in a significant reduction in terms of the load curtailment or the load shedding that we saw in 2020 and 2019. Actually, as I speak, the country at the moment actually has a lot more power than it requires, and you might be pleased to know that the country at the moment is actually a net exporter of power. We expect this situation to continue to improve as we move forward.

Just some highlights on the operational performance. I know the CFO will talk more about this in terms of the financial numbers, but just to highlight that demand continues to grow across all the business segments. Demand by the mines in 2021 grew by 2%. If you look at the other segments, for example, if you look at the wheeling of power on behalf of the state utility, that area grew by 10%. The power trading - where we sell power to the mines in DRC - the demand there grew by 10% as well. So our demand continues to grow across all segments and indeed across all customer categories. So this is a good foundation for much better performance going forward, particularly in a business environment that is continuing to improve as well.

Briefly, on our capital programme, one of the pillars of our strategy over the next five years is the energy transition agenda of the business. We continue to embrace the energy transition agenda. This is quite important in driving sustainable value creation for our shareholders, but it's also important in helping the Company to efficiently move towards net zero.

Under this programme, the Company is pursuing a number of projects, and these projects are mostly in the area of distributed renewables. Four years ago, we commissioned the 1MW solar plant, which is the Riverside Solar Plant. The purpose at the time was obviously to do this project as a pilot and use it to capacitate our engineers and some of the universities in Zambia. I'm happy to report that it has gone very well, and we are at a stage where we are now able to expand the capacity of this plant from 1MW to 34MW. This project is already underway as I speak, and we anticipate that it should be commissioned by year end.

We've got a second project, which is currently under consideration. It will be done at a capacity level of 50MW, which is something that we expect to announce in the next few months.

The third project under consideration here, which we've talked about the last two years, is the GET FiT programme, where we were awarded to develop 2 x 20MW. We remain a big part of that programme. The programme itself has stalled at the moment, but we expect that as the challenges to do with off-take and creditworthiness of the off-takers is resolved, we expect that this project will move to implementation. So we are obviously on standby as CEC and our consortium partner, InnoVent, to again, develop this project. Overall, these projects will play a critical role as a part of our supply portfolio.

I'll talk about how we are enhancing and strengthening our supply portfolio in a moment, but before I do that, let me talk about our rolling 10-year capital programme. It's something that we report on, on a yearly basis, because as you know the supply of power is obviously very critical to economic and social development and, therefore, power infrastructure itself tends to stay for years and years. So, you need to have a programme where you continuously modernise, as well as improve performance of the network.

This is a programme under which CEC continues to modernise the power network and adopt technologies that should facilitate adoption of things like smart grid operations and, indeed, digitisation. In 2021, under this programme, we spent just around USD16 million, which is 5% higher than we did the other year.

And again, we tend to spend a lot more than this, but again, due to challenges by COVID-19, which has mostly impacted the supply chain, we couldn't fully implement the programme. However, a lot of those projects have rolled over into 2021 in addition to new projects that we're implementing in 2022. In addition to the new projects we are implementing as part of 2022, my expectation is that we should do a better job at implementing and meeting our plans for 2022. This is basically premised on the measures that we have taken to ensure that we do better, given some of the challenges with supply chains, but also we anticipate that there will be a lot of improvements around the supply chain.

I want to move to the next slide where I give you an update on a number of commercial matters that were still outstanding when we met last year. The first one I want to talk about is the cost of service study. If you look at the cost of service, this is a study that has been going on for the last three years, and this was mostly focused on the cost of providing the service by ZESCO. Again, I'm pleased to report that this study was completed in 2021, and the final draft report was presented to the oversight committee of the report, which is the steering committee. The expectation was that based on the feedback that the consultant received from the steering committee, the report was going to be updated into a final report and then submitted at the ERB and the Ministry of Energy who, thereafter, would make a decision on how they intend to disseminate the outcome of the cost of service study to all stakeholders. Obviously, this will be done in consultation with all the stakeholders. So we await guidance from both the Ministry of Energy and the regulator on how that process will be handled. On our part, CEC remains a very active participant and keen follower of this process, as it's obviously important to both our business and that of our customers.

Secondly, I want to talk briefly about some of the adverse legislation that happened in the past and had impacted the Company. This refers to statutory instrument 57 of 2020 and statutory instrument 24 of 2021. Shareholders will recall that these were basically enacted to declare CEC's transmission lines as common carrier and, from our perspective, that was basically taking away the rights of the Company to run its business as it knows best.

So we did challenge the issuance of SI 57 in the courts of law, and I'm happy to report that that SI was quashed by the courts of law. Following the quashing of that SI, the then government proceeded to issue SI 24, which was basically doing something similar to what SI 57 did. Again, I'm happy to report that even if we took the matter of SI 24 to court, we actually didn't end up going through the court processes because the new Minister of Energy took the decision to revoke SI 24 on the basis that it was unfair to the Company. So, shareholders, you may take note that these matters are now history and the Company is at liberty to run its business the best way it knows as long as we do it within the laws of the land.

Thirdly I wish to highlight one or two things on the KCM debt to CEC. This debt currently sits at around USD170 million. It continues to grow on account of two things - one is ongoing interest, and secondly, the charges that we call grid service connection charges.

What are we doing from a Company perspective to collect this money that we are owed? So, two processes are currently underway. We've commenced arbitration in line with the power supply agreement that existed at the time. And then alongside that process, KCM approached us requesting for “without prejudice” negotiations. That process is also just beginning. We hope through these two processes, we should be able to find a solution to this matter.

Number four, I wish to highlight the development of the power supply agreement. Shareholders again will recall that the above supply agreement between CEC and ZESCO, which existed since 1997, expired in March 2020. In the last two years, we've been negotiating to try and put in place a successor agreement to the Bulk Supply Agreement. I'm happy to report that at the end of Q1, we've been able to agree on all the terms of the new Bulk Supply Agreement. We have since initialled and submitted for regulatory approval, the new Bulk Supply Agreement. We haven't signed it yet. Signing of the new Bulk Supply Agreement will obviously be done following approval by the regulators.

From the Company’s perspective, we expect that this process should conclude before mid of this year. Again, I want to note that this is very good progress on this important matter to the business, because then, this obviously begins to take us in the direction where as a Company we seek to have a diversity of sources. So we have been able to sign with a couple of IPPs, and we are on the brink of signing the new BSA. If we do bring in solar as a source of power as well, that gives us a diverse source of supply and we will continue to work on enhancing our supply portfolio.

At this stage, let me hand over to our Chief Financial Officer who is going to present the financial performance of the business.

Mutale Mukuka: Thank you, MD. Good morning shareholders. I will take you through the financial performance for 2021 and to set the tone, I'll start by interpreting the key items that happened in 2021 and how they feed into the financials. Most of these things have already been spoken to by our CEO and, therefore, I'll be quite brief.

The first aspect is the lack of agreement with ZESCO which impacted on the business and filtered through the financials. The second one is the many litigations that the Company had to go through. Now, the effect of this is that we ended up with higher costs than we would ordinarily have, arising from the many consultants, lawyers as well as Management and Board's time being spent on defending the business.

The KCM payment default was a continuing matter, and what you'll see is that whereas there was a load shift from the supply of power to KCM to the use of our infrastructure, it still had an impact on the default, coming through the impairment losses that you'll see in the numbers. The good side to it is that there was significant reduction in impairments and secondly, there was a significant improvement in the cash conversions and, therefore, the balance sheet is significantly better than where we were in 2020.

On the next slide, we'll just look at the key highlights of the business from a profitability perspective when we just focus on operational efficiency. We are essentially just looking at revenue, EBITDA and

PAT, and what you will see there is that there were material improvements in EBITDA by over 194% from USD32 million to USD94 million. There was another significant improvement in profit after tax by over 750% from USD6 million to USD51 million.

However, what you also see as a result of the load shift is that we have reduced or recorded a reduction in revenue. Now, when we move from profitability we look at actual cash costs and Capex. You'll see that with the efforts that were put in place - I think most of this has already been spoken to - we ended up deploying more capital using our aggressive capital allocation methods. We allocated USD16 million of funds towards the various capital items which I'll speak to. We also had an increase of 7% in cash costs, primarily driven by the legal costs.

From a liquidity perspective, which is a key metric to the shareholders and how the shareholders should view the business, you also see significant improvement or some improvement in our ability to generate cash, which went up by 7% from USD58 million to USD62 million. We also, to a larger extent, looking at the business at the time, tried to protect as much cash as we could to prepare the business for the many risks that were there. We ended up with a slightly higher cash balance than the previous year, and in pushing to try and de-risk the business we also tried to pay down our debt and we significantly reduced the gearing. As you'll see, our gearing at 6% is significantly lower than what you would expect to see, but also this is not optimal. The expectation is that once the business has stabilised, then we can have an optimal capital structure which aligns the risks of the business to a business of this nature which is capital intensive.

Recognising that the business had risks, but also recognising that we had the ability to generate cash during the period, we returned USc2.3 per share to the shareholders through a dividend payment.

On the next slide, I just want to give perspective to the numbers. Sometimes, just looking at a number on its own does not give the full story but if you look at the trend of the business then you see the growth, and you can better tell whether the business is growing over a period. Is this growth sustainable or not sustainable? As you'll see, I already spoke to the revenue and what's driving the revenue to go down. What you will see, if you link that to the gross profit and the margin that CEC earns of around 25% to 30% - depending on the year - you see EBITDA margins as well in the range of 25% or so. But more importantly is a distribution of where we get our money so, you'll see that now we are moving to a stage where our revenues are distributed between three business lines. Of course, the supply of power to the mines under PPAs remains a large component, but you can see that more and more parties are using CEC's infrastructure, and that income being derived from there continues to grow.

Power supply to the DRC is another area which is recording significant progress. In revenue we had an over 10% increase. Now the Chair, in his introductory remarks, did allude to the fact that this year (2021) we essentially restored our profitability. This is something that you will see in the PAT trend because you'll see that in 2017/18, our profitability is comparable to where we ended up in 2021. So the two years, 2019 and 2020, were sort of dwarfed as a result of the impairments of the KCM receivables. I also want to mention here that in 2018, we had one exceptional item when we disposed of the equity in CEC Liquid. Therefore, there is an upside that was recorded there.

A more detailed cost trend, which you'll see on the next slide, is just the trend. Of importance there is how the business has been able to sustainably reduce the costs. With all the risks that we had, if you look at 2017, our costs were close to USD40 million, and over the last three years we've sustainably brought those costs down to just around USD30 million. We also have in the 2021 costs exceptional items, costs which went towards the protection of the business in form of legal costs to protect the business from the common carrier declaration, as well as the arbitration matters which were published and announced to the market.

I wanted to just mention one thing with respect to impairment. What you will see in 2020 is a very high impairment level at USD95 million. If you compare this to the previous slide, what you will see is that that number is very close to the gross profit that we earn. So in essence, if you compare 2020 from a profitability perspective, you'll see that CEC did not earn anything despite having its own costs to provide a service to its customers. I guess this explains why we felt that the impairment of the KCM receivables had a significant impact on the business. As of 2021, you will see that the level of impairments are sort of limited to about 4% of revenue.

I'll look at the next slide, just to give more colour to one of the most important parameters that we focus on as a business, and this is cash. From a cash perspective, what do we look for? We, number one, look to convert as much cash or as much of the invoices into cash, and typically we try to challenge ourselves to achieve an over 60% conversion ratio of the invoices if we look at it from an EBITDA perspective. I'm glad to highlight that in the year 2021 our conversion ratio was 64%. We converted 26% of the invoices less our payments - that's cash from operations. The total was USD76 million compared to USD71 million the previous year, and we've shown that over the period, we are steadily growing in this area.

The next two trend analyses I've spoken to. One is a direct representation of the cash and cash equivalents, and the other one is just the free cash flows of the business. But again, it's just to highlight that we realise that whereas revenue is good, profit is sanity. We believe that the most important thing in the running of a business is the ability to have the cash on an ongoing basis.

The next slide just looks at how we contribute to the key stakeholders and the market as a whole. Proud to say that local suppliers continue to get the bulk of CEC's generated value - 58% of all the money generated. This is a trend over a 5-year period: 2017-2021. We recognise that some of the equipment that we do buy has to come from foreign suppliers. We don't yet have local suppliers to provide us with that. But outside those two categories, the Government remains a key stakeholder and they continue to get a high share of the business, being third-ranked.

And then we also have the shareholders, yourselves, coming in fourth, and then followed by employees, our contribution to the communities, as well as the return of the money that we borrow from our lenders in the form of capital payments and interest repayments.

The next slide, I would just want to focus more on the value proposition that we see to our shareholders - yourselves. This is your Company and we believe that you need to see the value. There needs to be a story, there needs to be a case as to why you are investors in this business. You will see that the first form of reward that we see is that if the business does well, if the operations are operating in a sustainable way, the profitability going up and the cash being generated, we expect to provide you with a return either through the exchange through capital growth, as well as through a return of some of the money generated through dividend payments to yourselves. So what you will see over a five-year period is a steady growth in dividend payments. You see 2017 total dividends paid at USD21 million significantly growing over the period to the USD37 million which was paid last year, which was an increase of 10% compared to the 2020 dividend payment.

If you look at the number of ratios, which are key to yourselves such as the return on equity, return on assets as well as the EPS, again you will see that on a sustainable basis, we aim to provide you with the appropriate returns. But as much as we do this, we do realise that the business has got risks and we'll continue to work on these risks. The MD did talk to some of these risks, but on the next slide we just look at the three key risks which will form part of the focus areas for 2022.

The first aspect is the unavailability of key contracts to underpin our operation. The second one is a power blockage in our sister company's transmission network for our bilateral supply. The last one, and probably more important and has already been spoken to, is how can we unlock the money that is owed by KCM. That's USD170 million, fully impaired. If this money comes back, it would be an improvement in our balance sheet to that tune. So we do recognise that the business has got risks and we definitely put these three items as the key risk areas and focus areas for 2022, which we'll be working on.

I'll now hand back to the CEO to finalise the presentation. Thank you.

Owen Silavwe: Thanks Mutale for that. So, shareholders, that is the performance in 2021. I just want to, before I close, try and highlight what the priorities for the business look like going forward. As I said, what we see is the environment is stabilising. It continues to improve, and we believe what's important from a business perspective - and I know some of these are obviously continuations from 2021 - it is important that the business continues to optimise its performance. In doing this, we need to, as I said, take advantage of the improving business environment, put a close to all contractual and indeed any dispute relating to commercial matters. We are hoping we should be able to close those issues this year. And if we do that, it enables us to put more focus on implementing our strategy going forward.

We do need to put more focus again on the implementation of our capital programme to support asset modernisation, digitalisation and efficiency improvements. This will ensure that we continue to deliver quality growth for our business. From a power supply perspective, we'll continue with the integration of renewable sources in our operations. We are continuing to explore opportunities to off-take fairly priced power from IPPs. So we do obviously understand the need for us to try and mitigate some of the risks that we've seen in the past and, therefore, we are working on having a solid mix of supply sources.

We are very much aware of the need to move the electricity market in Zambia forward. This is something that we know the Government is doing. There are a number of workstreams, and CEC is an active participant in shaping the country's future electricity market. The expectation is that this will be based on open access and economic pricing of services, so we are working actively with other stakeholders in the market and hopefully we get to an end point that helps our markets to move forward.

The next important pillar in terms of our strategy is that we need to enhance our relationships and ensure that we improve the communication. This is basically with respect to all our stakeholders, be it the Government, customers, regulators, yourselves (investors) and indeed the wider community. This is an area that we'll continue to work on and you will see that as investors you will probably begin to get a lot more communication from ourselves. We'll be quite happy as a business to get a lot more feedback from yourselves as well.

What do we see from a business outlook going forward? Expectedly as the business environment improves, and given the strong commodity prices that we're seeing, this should spur investment in existing and indeed new mining infrastructure, and this should obviously have a spillover to other factors of the economy. That invariably should drive strong demand going forward. Again, as we have mentioned, resolving contractual matters. We expect this should help the business to stabilise and refocus on improving performance and driving sustainable growth. Integrating renewables, that is critical to diversify the supply portfolio to try and move the Company as quickly as possible to net zero. That, together with asset modernisation, is quite key to building future capabilities and sustaining value creation.

In summary, what are the takeaways from today's presentation? We think the demand will continue to grow, it will continue to strengthen across basically all business segments and both for the Zambian and indeed the DRC market. We're happy with our financial performance in 2021, but as I said, we are not resting on our laurels. We'll continue to push to ensure that we continue to deliver value for our investors. Enhancing the performance of our network is critically important. That continues to be priority number one for us so that we continue satisfying the needs of our customers. Resolving the contractual matters remains critical and we've made very good progress on this front. As I indicated, the new BSA is undergoing regulatory approval. We hope to close on this well before mid-year.

Thank you. We can hand back to the Chairman.