



## **ANALYSIS: COPPERBELT ENERGY CORPORATION OFFER**

**MARCH 2018**

### **COMPANY BACKGROUND**

CEC was the first member of the Southern African Power Pool (SAPP), which aims at providing reliable energy supply to members in the region. The SAPP was until recently an organisation with membership exclusively of state owned power utility companies which reports into the energy ministers of the SADC region. However the governments in the region recognised that there was need for increased private sector participation hence the constitution was amended to allow for private sector participation, hence CEC was the first private sector utility company to be admitted as a member of SAPP. Being a member of SAPP enables CEC not only generate but also supply power to countries within the group. Membership also assists with the achievement of optimal tariff rates as Africa has the lowest electricity tariffs in the world, an unsustainable condition for utility companies.

Copperbelt Energy Corporation (CEC) was formed over 60 years ago when the Rhodesia-Congo Border Company (CEC's founding predecessor) was founded with a mandate to provide power solution to mining companies. In 2007 CEC extended its mandate beyond Zambia and has since been providing transmission service to a mining operation in Congo DR. CEC was listed on the stock exchange in January 2008 and is also a licensed carrier of telecom traffic using broadband optic fibre through a joint venture with Realtime Technology Alliance Africa Zambia Limited (RTAA).

CEC is an independent power transmission and distribution company with closely linked businesses i.e. internet service provision, via RTAA, and wholesaling of national and international fibre bandwidth capacity via CEC liquid. CEC Plc has also expanded through CEC Africa to Nigeria.

CEC's mission is to supply reliable energy and high quality service to meet its customers' unique and changing needs efficiently and proactively through robust infrastructure, diverse power source and professional team and its vision is to be the leading Zambian investor, developer and operator of energy infrastructure in Africa by providing innovative solutions and building strategic partnership through committed professional team.

### **THE OFFEROR**

The Board of Directors of CEC Plc received a firm intention from Zambian Transmission LLP (the "Offeror" or "Zambian Transmission") to make a binding offer to purchase all of the ordinary shares in the capital of CEC.

The Offeror is a limited liability partnership incorporated under the laws of England. It is currently wholly owned by CDC, and has entered into a binding equity commitment letter with APMC pursuant to which APMC has agreed, subject only to the Offer becoming unconditional, to provide a fixed amount of capital which will result in it having a minority interest in the Offeror.

CDC is the United Kingdom's development finance institution and is wholly owned by the UK Government Department for International Development ("DFID"). As at 31 December 2016,



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CDC had total assets worth US\$ 6.0 billion and has a specific mandate to invest in infrastructure assets across Africa.

APMC is an alternative investment fund creating and enabling opportunities through investments in African infrastructure. The fund was launched in August 2017 with a total fund commitment of US\$650m backed by a selection of blue chip Scandinavian institutional investors.

## **THE OFFER**

The Offeror is offering to acquire all of the issued CEC Shares for a cash consideration of US\$ 0.2338 per share. Based on the average mid exchange rate of ZMW 9.7614: US\$1 (being the average mid-rate on 22 January 2018 published by Bank of Zambia), this equates to ZMW 2.28220 per share and represents a premium of approximately:

59.59% to the Closing Price of ZMW1.43 per CEC Share on 22 January 2018 (being the last business day prior to the date of submission of the Offer Letter);

69.05% to the volume weighted average Closing Price of ZMW 1.35 per CEC Share for the 12 months ended on 22 January 2018 (being the last practicable business day prior to the date of submission of the Offer Letter).

Based on the Offer Letter, the issued ordinary share capital of CEC is valued at approximately US\$ 380 million or ZMW 3.709 billion (based on the exchange rate set out above).

The price alluded to above may be adjusted to take into account any dividend, distribution or return of capital declared, made or paid by CEC by the aggregate distribution, dividend or return of capital declared, made or paid by CEC, in such circumstances, CEC Shareholders would be entitled to retain any such dividend, distribution or return of capital.

## **VALUATION AND RECOMMEND**

Below is the relative valuation for CEC

		Price/Book	TEV/Revenue	P/E
ASE:JOEP	The Jordanian Electric Power Company Limited	1.40	0.43	11.16
BRVM:CIEC	Compagnie Ivoirienne d'Electricité		0.40	12.94
NASE:KPLC	The Kenya Power and Lighting Company Limited	0.21	0.13	2.11
MISX:RTSB	Public Joint-Stock Company TNS energo Rostov-on-Don		0.17	16.85
UGSE:UMEM	Umeme Limited	1.34	1.10	6.56
BOVESPA:TRPL4	CTEEP - Companhia de Transmissão de Energia Elétrica Paulista	1.00	4.43	8.06
ASE:IREL	Irbid District Electricity Co. Ltd.	6.89	0.54	11.63
LUSE:CEC	Copperbelt Energy Corporation PLC	2.13	1.04	7.00
	Average	2.17	1.03	9.90
	% Under/(Over) valued	1.9%	-1.5%	41.4%
	Average % Under/(Over) valued	14.0%		
	Target Price	2.39		

Relative valuation is based on Price to Book only due to the loss for the year ended 2016.

The valuation implies that CEC Plc is undervalued by 14%. It is our recommendation that for long term investors (especially Pension funds and institutional investors) to hold the stock with the expectation that the stock appreciates to its long term target price of 2.39. On the other hand, for short/medium term investors, we recommend to take profits and exercise their rights to sell as the stock has given a return of the offer price of K2.28 is close to the target price of



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K2.39 (4.6% shortfall). It is also our view that the stock may in the short term struggle to reach its target price in the absence of the support the current price is receiving from the offer.

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The research analyst who prepared this report certifies that the view expressed herein accurately reflect the research analyst's personal views about the subject security and issuer and that no part of his compensation was, is or will be directly or indirectly related to specific recommendations or views contained in this report.



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