

ZCCM-IH pays dividend despite loss

Despite posting a loss (after tax) of K987m for the year ended March 2015, Zambian miner ZCCM Investment Holdings (ZCCM-IH), was still able to pay a dividend of K1,56 per share, thanks to a profit of K277m in the previous financial year.



© Ekaterina Fribus [123RF.com](https://www.123RF.com)

This was a first in the history of ZCCM-IH, as it had not paid a dividend since its inception.

Factors influencing performance

In 2015, however, a number of factors impacted the performance of the group.

Copper prices continued to decline falling from US\$6,289 in 2014 to US\$4,701 in 2015. As a result, dividend income was only K45m in 2015 compared to K803m in 2014, amid declined revenues and production, in most of ZCCM-IH's investee companies.

ZCCM-IH reported a group operating loss of K2,2bn in 2015 compared to an operating profit of K871m in 2014.

The operating loss in 2015, was mainly as a result of an impairment loss of K2,1bn, recognised in respect amounts receivable from Konkola Copper Mines (KCM), of K719m (US\$94.9m) and Lubambe Copper Mines (LCM) of K705m (US\$93m).

A further impairment of K513.8m was recorded, as a result of a decline in the fair value of the investment in KCM, in view of continued challenges at the mine.

Lubambe Copper Mines

LCM reported revenue for the financial year ended 31 March 2015, at K1, 071m (US\$164,7m) as compared to K1,483m (US\$237m), in 2014. It also reported a loss for the same period of US\$78m, compared to US\$39m in 2014.

The main challenge that LCM faced during the financial year under review was the dilution of concentrates. Following an extensive ore body stoping design review conducted by SRK consulting, Lubambe evaluated various slot development methods and equipment requirements, with the recommended solution being inverse raise, using 3x Sandvik dl411-15 long-hole drill rigs.

Due to the above financial and operational challenges, LCM was unable to make repayments on the K705 (US\$93m) shareholder loan, and this loan was thus fully impaired as at 31 March 2015.

The way forward is to pursue the rights of ZCCM-IH PLC under the shareholder loan agreement.

Konkola Copper Mines

For KCM, it reported a net loss of US\$178,5m for the financial year ended 31 March 2015, compared to USD89,2m loss in 2014.

Revenue reported for the year, was US\$1, 077.1m, down 15.0% (2014: US\$1, 271.4m) due to a decline in the sale of copper and copper-related products.

Further, copper sales declined by 15,9% and sale of precious metals in slimes declined by 33.9%. Total finished copper production during the year was 168,923MT compared to 177,018MT in 2014.

During the year under review, KCM faced acute operational and financial challenges including cash flow constraints that resulted in KCM purchasing third-party concentrates in smaller quantities than what was sought. KCM is currently focusing on increasing production volumes, and addressing productivity across all of its operations.

To this end, KCM has been implementing various interventions to improve the overall operating performance and drive higher equipment availability and utilisation.

Outlook

ZCCM's core assets lie in the mining sector, and this makes about 80% to 90% of its portfolio. Since privatisation, ZCCM-IH has relied on dividend pay-outs largely from mining firms. Copper prices have continued to be depressed in the recent past, and recovery is slow. The copper price has recently shown some recovery, however, it is expected that the impact on revenue will be slow.

Hence, in order to move from relying on passive income and being dependent on mining, ZCCM-IH has embarked on diversifying its investment portfolio, by actively looking for investment opportunities beyond mining, into other sectors such as energy, agriculture and real estate, so that the company can create and maximise shareholder value.

Maamba project

For instance, in energy, the Maamba project is expected to be completed in June this year. ZCCM owns 35% of Maamba Collieries Limited. ZCCM-IH and its partner have invested close to US\$850m into this thermal power plant which will be producing 300mW of power.

Further, the recapitalisation of Ndola Lime Company Limited has advanced, with the project undergoing final commissioning. ZCCM-IH is reviewing the operations of Ndola Lime with a view to streamlining its

operations and make it competitive and efficient.

Investment property

As part of diversification into real estate, ZCCM-IH recently acquired an investment property that will be leased out to generate passive income. ZCCM-IH has also been identifying a number of strategic legacy properties, with a view of bringing them to use and turn them into income generation projects.

Further, ZCCM-IH is currently looking for strategic partners to invest in agricultural projects.

These are some of the efforts aimed at reducing dependence on revenue from the copper industry, and mitigating the impact from its cyclical nature.

For more, visit: <https://www.bizcommunity.com>