Invest in Lesotho's

Electrical Components Sector

LESOTHO

Manufacturing electrical components in Lesotho will drive down production costs for South African firms and open wider global markets including the USA and EU.

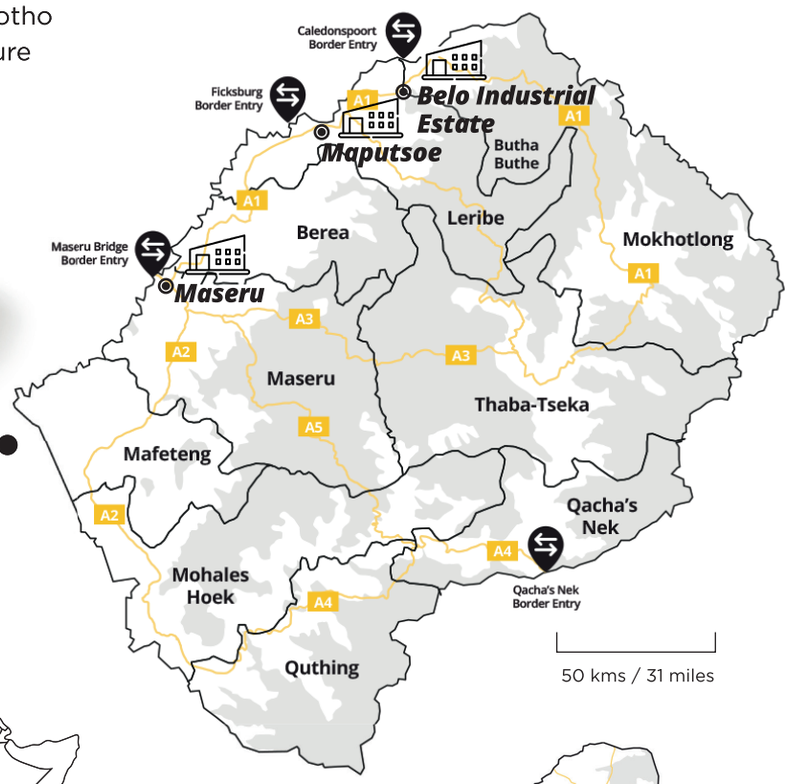
LNDC
LESOTHO NATIONAL DEVELOPMENT CORPORATION
We Build Industry

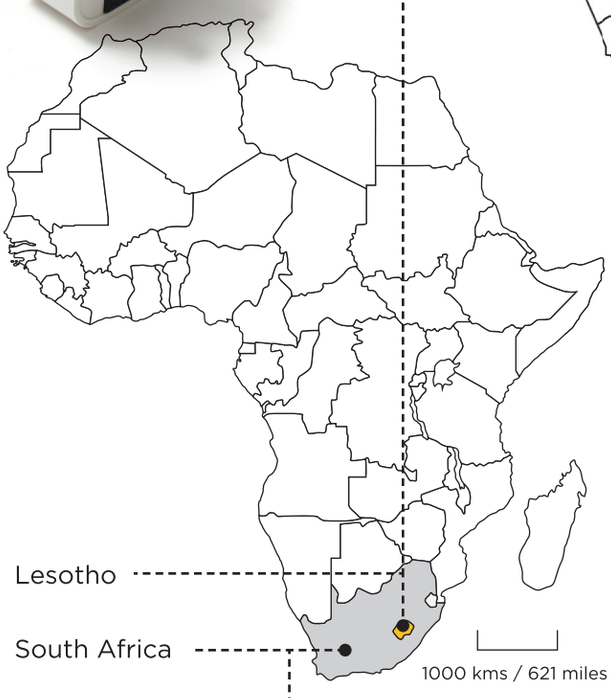
Electrical Components

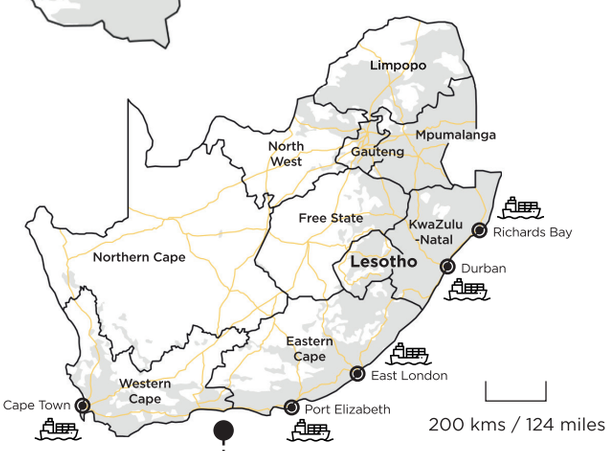
Introduction

Lesotho enjoys tariff-free access to South Africa as well as major global markets thanks to preferential trade agreements.

With a competitive and trainable English-speaking workforce and excellent road connections with South Africa, Lesotho is a profitable location for the manufacture of a wide range of electrical components, especially switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders and other connectors and junction boxes.







- ELECTRICAL COMPONENTS
- SWITCHES AND FUSES
- SURGE SUPPRESSORS
- SOCKETS
- LAMP-HOLDERS
- CONNECTORS

Strengths & Opportunities

Taking into account Lesotho's preferential trade access to major markets, the New Products New Markets Study has identified a market gap for Lesotho to fill: the manufacture of electrical switches, relays, fuses, surge suppressors, plugs, sockets, lamp-holders and other connectors and junction boxes for export.

Electronic Components factory, Maseru.

Lesotho has abundant labour with a deserved reputation for manual dexterity. The labour force is predominantly young.

THE LITERACY RATE IS

76%

meaning that the workforce is trainable. 90% speak English. The majority of the population resides in the lowlands with access to the South African road network. Lesotho has relatively harmonious labour relations.

In the Lesotho manufacturing sector, wage rates are 20% of those in the South African sector, making this a highly competitive location for South African OEMs looking to drive down production costs. The LNDC rents fully serviced factory shells in industrial estates located near population centres including Maseru.

Lesotho offers a wide range of attractive incentives to companies setting up manufacturing operations.

Including:

- A manufacturing corporate tax rate of 10% on profits for intra-SACU trade.
- No withholding tax on dividends distributed by manufacturing firms to local or foreign shareholders.
- No advanced corporation taxes are paid by companies on the distribution of manufacturing profits.
- Training costs are allowable at 125% for tax purposes.
- Payments made in respect of external management skills and royalties related to manufacturing operations are subject to withholding tax of 10%.
- Easy repatriation of manufacturing profits.
- A VAT rate of 15% (ensuring harmonisation with South Africa).

The project aligns with SDGs 1, 8, 9 and 10.

LNDC
LESOTHO NATIONAL DEVELOPMENT CORPORATION
We Build Industry

Electrical Components

Strengths & Opportunities

As a member of SADC/SACU, Lesotho already enjoys tariff-free access to these markets.

IN ADDITION, LESOTHO HAS TARIFF-FREE ACCESS FOR

6 400

PRODUCTS

to the US market under the African Growth and Opportunity Act (AGOA). In practice it only exports a small fraction of these product lines. AGOA-eligible products include electrical components.

PREFERENTIAL MARKET ACCESS TO EU

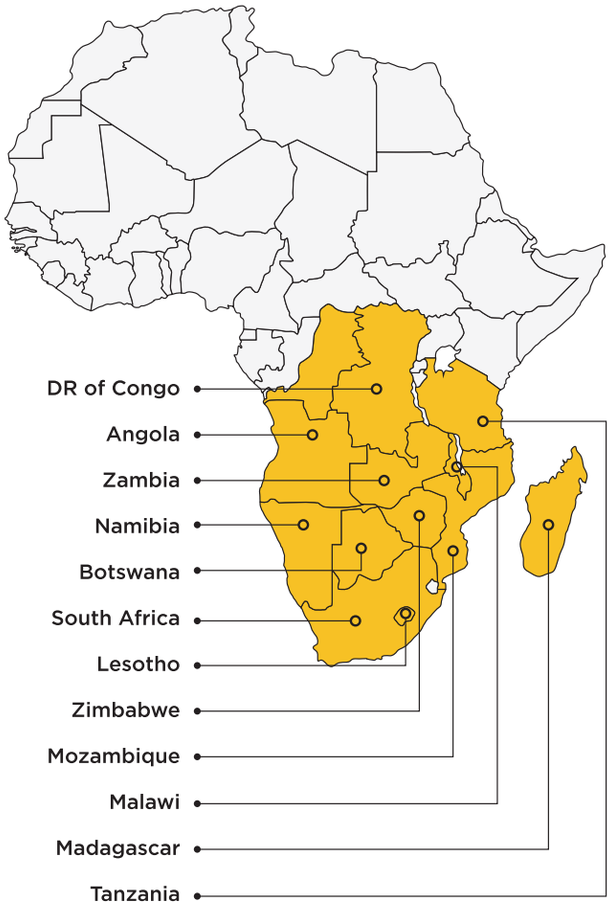
As a Less Developed Country, Lesotho benefits from preferential market access to the EU under the EU/SACU EPA; EFTA; MERCOSUR; and to a wide range of countries under the Generalised System of Preferences (GSP), including China.

Lesotho also can utilise inputs from other countries benefiting from China's LDC preferential scheme.

These agreements give Lesotho an important comparative advantage in relation to more developed exporters.

Lesotho's access to both regional and North American markets is well established in terms of logistics. The external road connections via South Africa are excellent. Access to the port of Durban for Lesotho made products is straightforward. Shipments from Lesotho take from 18 to 23 days to reach a US port.

SADC COUNTRIES



- ELECTRICAL COMPONENTS
- SWITCHES AND FUSES
- SURGE SUPPRESSORS
- SOCKETS
- LAMP-HOLDERS
- CONNECTORS

Project Assumptions

The immediate opportunity is for companies based in South Africa to outsource parts of their value chain to nearby Lesotho. But there are also openings for companies from outside the region to invest in manufacturing in Lesotho.

Training the workforce is an important consideration. South Africa offers a wider range of facilities for education and training than Lesotho. But the English-speaking workforce is trainable and training costs can be offset against tax.

Tikoe Industrial Park, Maseru.

Electrical Components

Financial Analysis

TOTAL INVESTMENT

A total investment of approximately:

LSL* 3.6m

comprising fixed assets of LSL 3.3m and initial working capital of LSL 330k will be required for the establishment of the Electrical Component manufacturing enterprise. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit throughout its operational life.

NET PROFIT

The enterprise's annual net profit after tax increases from

LSL 313K

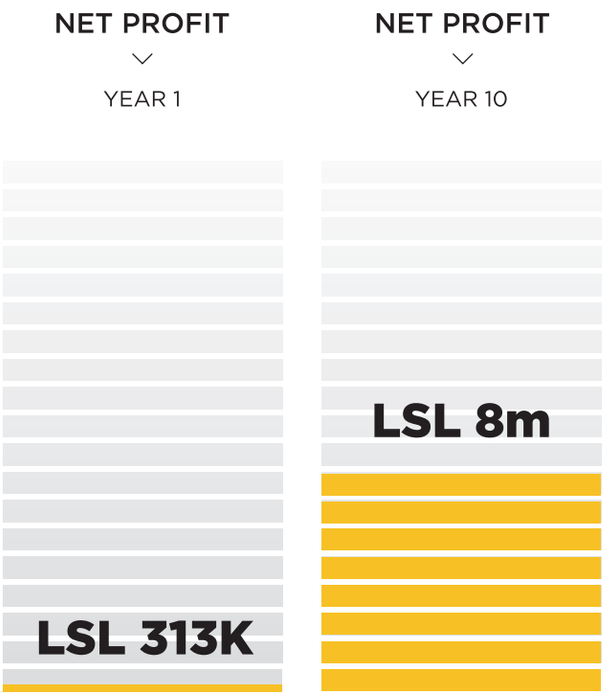
in year 1 to approximately:

LSL 8m

in year 10. Similarly, the projected cash flows of the envisaged project indicate that it will generate positive net cash flows throughout the 10-year operational period.

Belo Industrial Park, Butha Buthe.

In addition to the positive NPV and IRR, the initial investment cost of the project is expected to be fully recovered in just under 5 years. The investment opportunity responds favourably to the Country's developmental objectives through its positive socio-economic impact in terms of employment creation, economic agglomeration and potential forex earning opportunities.



***1 LSL** = 1 ZAR
15 LSL = 1 USD (as of April 2021)

- ELECTRICAL COMPONENTS
- SWITCHES AND FUSES
- SURGE SUPPRESSORS
- SOCKETS
- LAMP-HOLDERS
- CONNECTORS

Financial Analysis

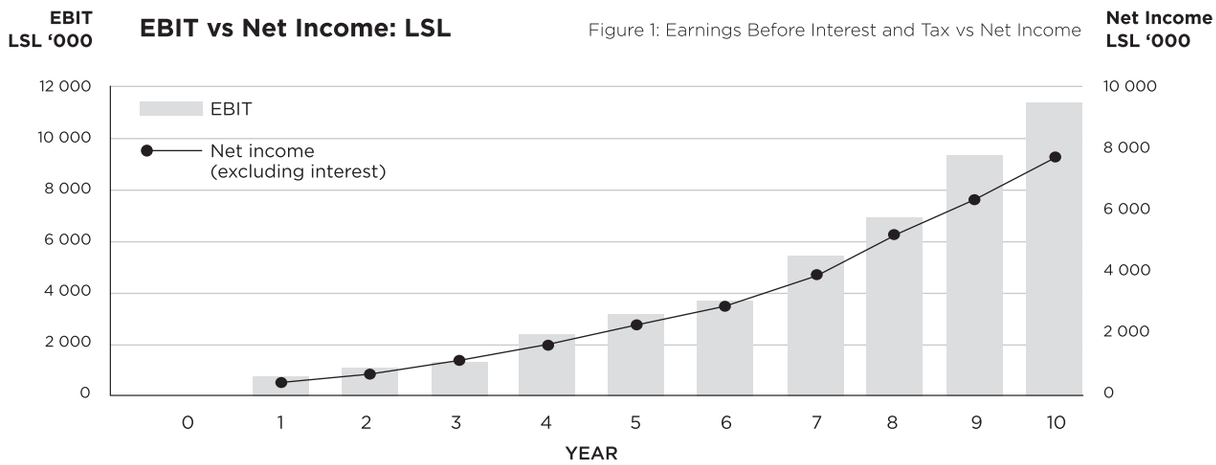


Figure 1: Earnings Before Interest and Tax vs Net Income

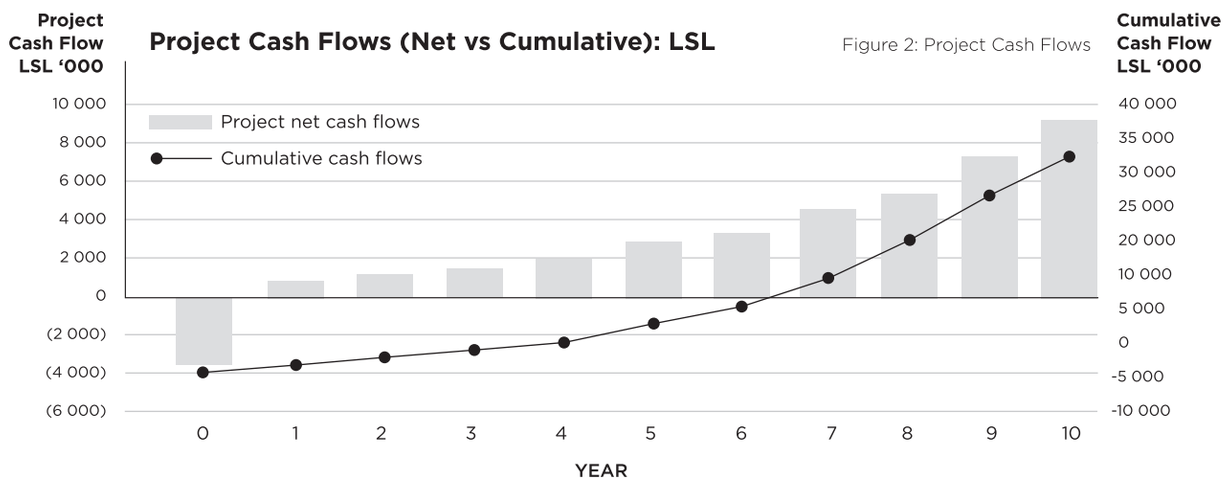


Figure 2: Project Cash Flows

The projected future cash flows generated by the enterprise are discounted at a rate of 10%. The outcome of the discounted cash flow analysis is summarized in Table 1.

Table 1: Investment Indicators

Net present value (NPV)	**LSL 15m**
Discounted payback period	**4.91 years**
Internal rate of return (IRR)	**45.43%**
Profitability index (PI)	**5**

Electrical Components

Financial Analysis

The positive NPV at a discount rate of 10% corresponds to an IRR of 45.43% and highlights the financial viability of the Electrical Component manufacturing investment opportunity.

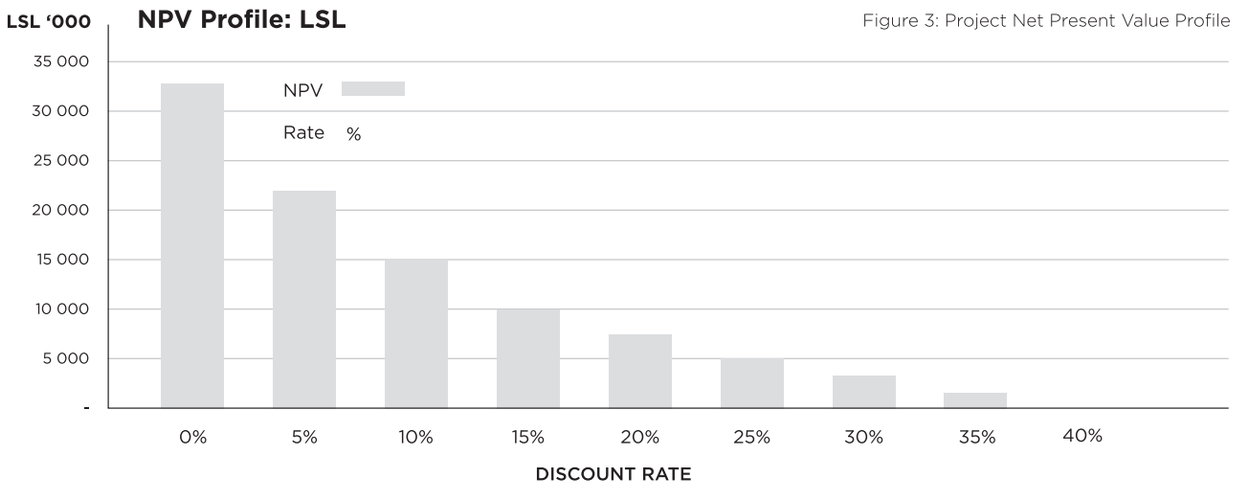


Figure 3: Project Net Present Value Profile

Belo Industrial Park, Butha Buthe.

Nyenye Industrial Park, Maputsoe.

NOTES

The financial analysis of the Electrical Components investment opportunity is computed over a ten-year period. Revenue and expenditure projections are in line with industry growth prospects and market potential and have been informed by and benchmarked against industry standards and norms. In addition, assumptions relating to inflation: depreciation and salvage value: and company tax have been worked out based on the existing laws and directives of the country. The figures above represent high level estimates as of January 2021 and are not derived from a full feasibility study. Investors are advised to conduct their own due diligence. The project assumes that the investor will have a viable business case that is driven by international client demand or Lesotho based business sector demand.

For more information please contact: