



# Invest in Lesotho's **Hemp Sector**

## **LESOTHO**

Lesotho is an ideal location to grow and process Hemp, yielding a range of useful products with exciting benefits.



Invest in Lesotho



# Hemp

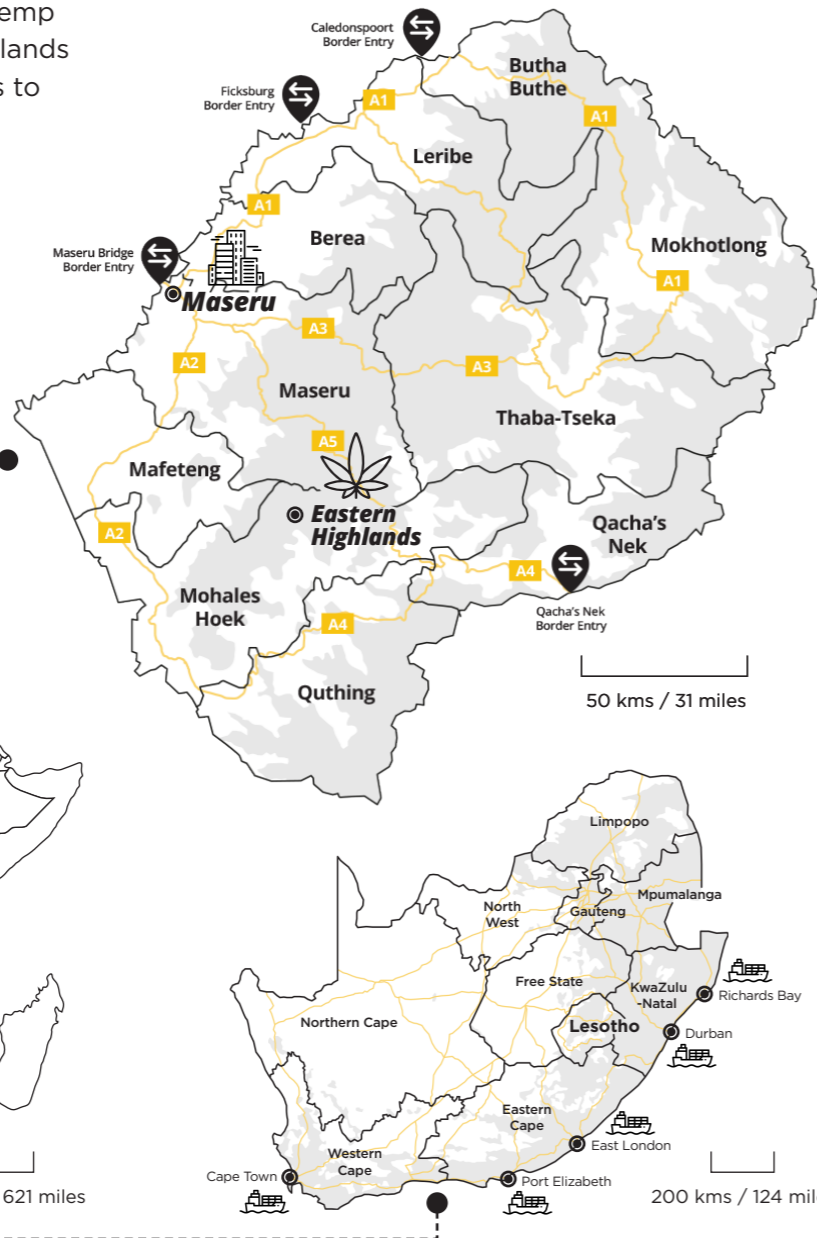


## Introduction

**This project is about cultivating and processing Hemp (Cannabis sativa).**

Lesotho's Hemp fibres can be used in a multitude of products in the manufacturing of textiles, clothes, bags, shoes, paper, building materials, and for insulation purposes. Hemp can be grown and processed in the Highlands Region of Lesotho where there are dams to supply hydroelectric power and water.

Production costs, including labour are low. Lesotho's network of trade agreements facilitates exports to the EU, USA, China and Canada as well as the SADC/SACU region.



## Strengths & Opportunities

**In 2019 major hemp importers were Germany (LSL\* 35.68 million), Spain (LSL 51.2 million), Czechia (LSL 1.49 billion), Australia (LSL 43.2 million) and Poland (LSL 35.8 million).**

The agreements with SACU, SADC, EU, USA, China and other bilateral arrangements will ensure market opportunities for local companies.

China is the largest producer of hemp in the world, accounting for 70% of the world output.

**CHINA'S FIBRE SALES AMOUNTED TO**

# LSL 19.2

**BILLION IN 2018**

China's world share of imports is around 1% with China's focus on food production as part of its food security, their share of imports will rise when it starts to look at imports of hemp to supply its textile and clothing industries.



\*1 LSL = 1 ZAR

- TEXTILES
- CLOTHES
- PAPER
- BUILDING MATERIALS
- SHOES



Example of facility used for growing medicinal cannabis.

China's annual growth of imports from 2018-19 was around 611%. The major exporters to China were France (58%), Netherlands (20.5%) and South Korea (11.8%).



Hemp used for fibre.

# Hemp



## Project Assumptions

Currently Lesotho does not have legislation on the cultivation, processing, export and transportation of hemp. The government is however intending to use the same regulations that govern the cannabis industry, the Drugs of Abuse (Cannabis) Regulations administered by the Department of Health for this purpose.



Site for growing and processing medicinal cannabis.

## Financial Analysis

### TOTAL INVESTMENT

A total investment of approximately:

# LSL 3.3m

comprising fixed assets of almost LSL 3m, pre-production expenditure of LSL 60k and initial working capital of LSL 70k will be required for the establishment of the Hemp production enterprise. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit throughout its operational life.



Whereas the opportunity generates a positive NPV and IRR, the initial investment cost of the project, although acceptable, is only expected to be fully recovered in year 10. The investment opportunity nevertheless 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.

- TEXTILES
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### NET PROFIT

The enterprise's annual net profit after tax increases from approximately:

# LSL 166.6K

in year 1 to approximately:

# LSL 1.3m

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.

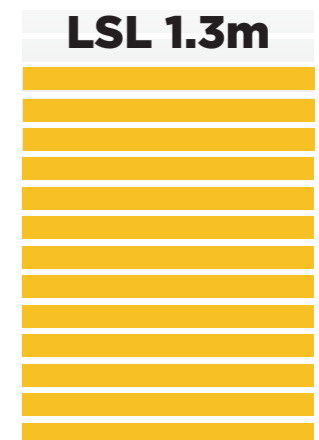
### NET PROFIT

↓  
YEAR 1



### NET PROFIT

↓  
YEAR 10



# Hemp



- TEXTILES
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## Financial Analysis

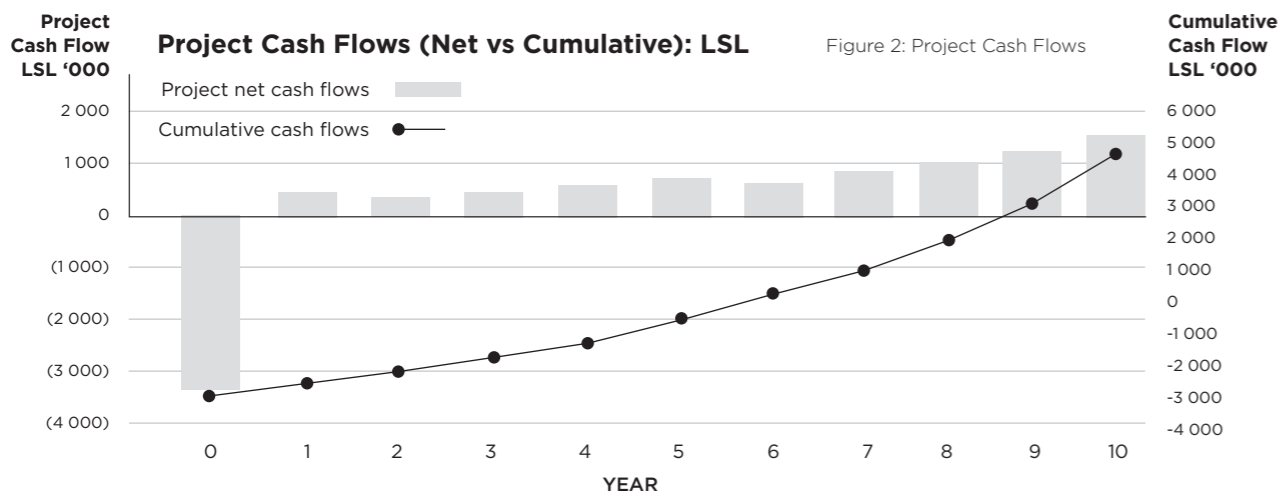
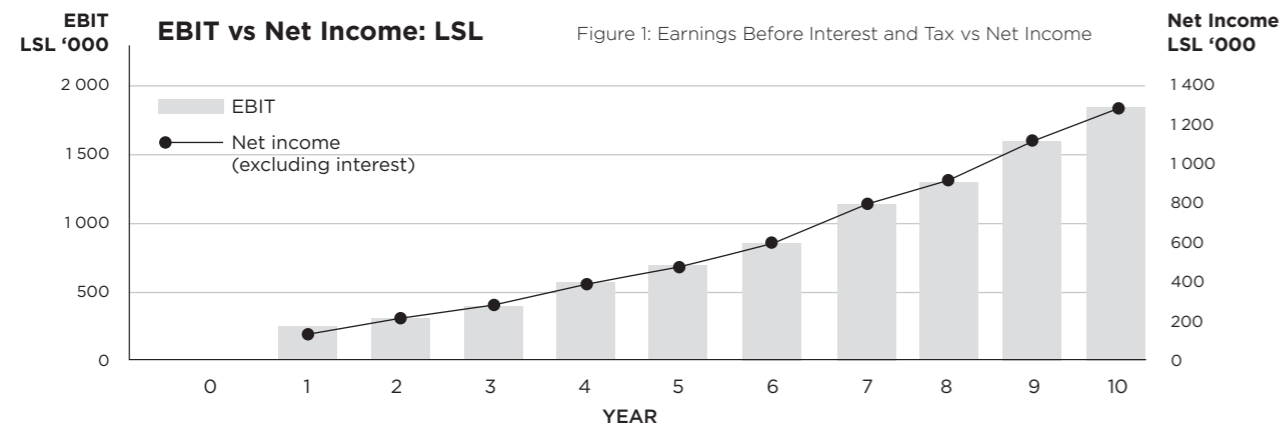


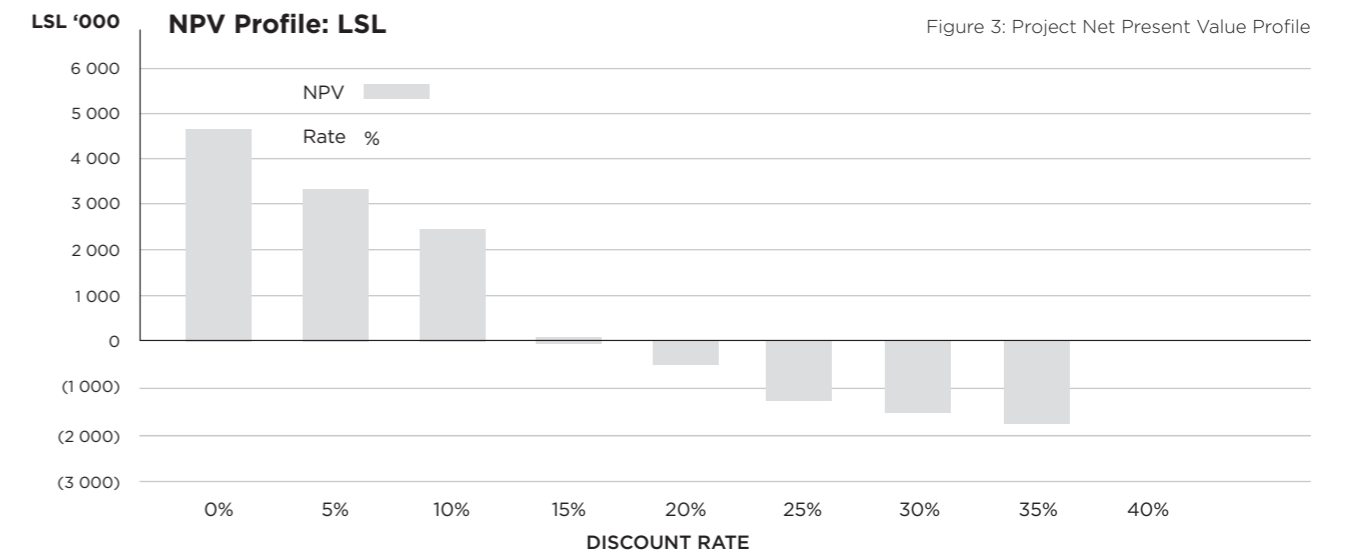
Table 1: Investment Indicators

Net present value (NPV)	<b>1.05m LSL</b>
Discounted payback period	<b>9.16 years</b>
Internal rate of return (IRR)	<b>15.36%</b>
Profitability index (PI)	<b>1</b>

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.

## Financial Analysis

The positive NPV at a discount rate of 10% corresponds to an IRR of 15.36%, highlighting the financial viability of the Hemp production investment opportunity.



Example of site for the production of medicinal cannabis.



Medicinal cannabis production.

### NOTE

The financial analysis of the Hemp 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.

### For more information please contact:

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