



Invest in Lesotho's **Electrical Appliances Sector**

LESOTHO

A highly competitive location for outsourcing the assembly of electrical appliances for export to global markets including the USA and EU.



Invest in Lesotho



Electrical Appliances

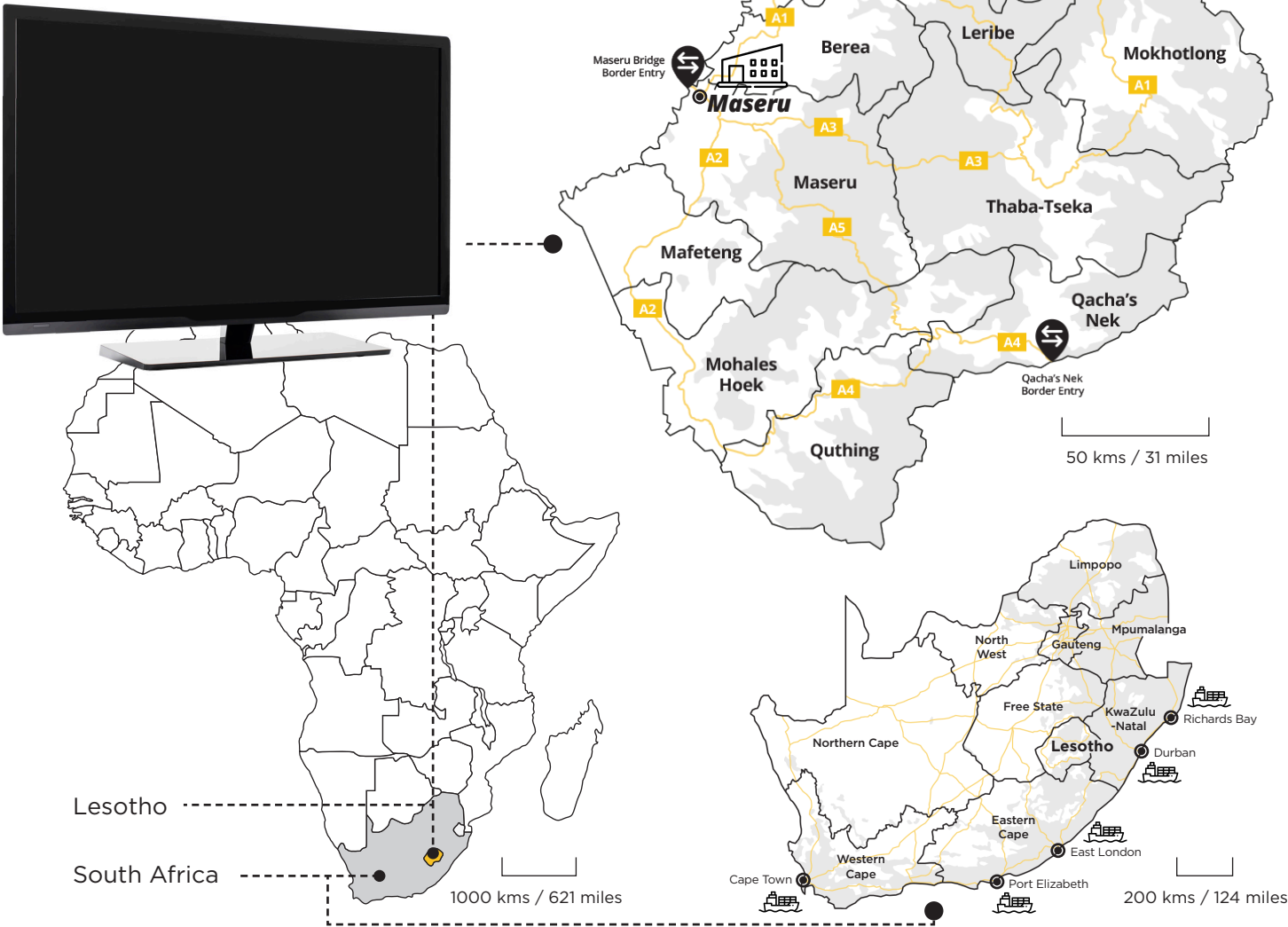


Introduction

Lesotho has an existing electrical appliances sector based on the assembly of TV sets and sound recorders.

This project would build on that, taking advantage of Lesotho’s competitive labour costs, English-speaking, trainable workforce, proximity to South Africa and the preferential access it enjoys to major global markets

including the USA and EU, as well as the Southern Africa region as a member of the SACU and SADC.



Strengths & Opportunities

Lesotho already manufactures electrical appliances, primarily for export to South Africa. These include TV sets, sound recorders and reproducers and related accessories.

LESOTHO’S EXPORTS OF THESE PRODUCTS TOTALLED

USD 59m

IN 2017

This is an opportunity to diversify the product base and ramp up production levels to serve markets beyond the Southern Africa region.

Lesotho has an abundant and stable labour force with a deserved reputation for manual dexterity. The Lesotho labour force is predominantly young. The literacy rate is 76% and 90% of the population speak English. The majority of the population resides in the lowlands with direct access to the South African road network. Lesotho has relatively harmonious labour relations.

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

- ELECTRICAL APPLIANCES
- TELEVISION SETS
- SOUND RECORDERS
- SOUND REPRODUCERS



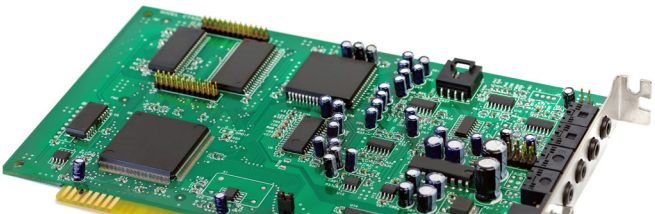
Belo Industrial Estate, Butha Buthe.

centres. This helps reduce set-up costs. The industrial estates at Belo near Butha-Buthe and Tikoe near Maseru are potential project locations. Lesotho offers a wide range of attractive incentives to companies setting up manufacturing operations.

These include:

- 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 the RSA). Furthermore, the Lesotho Revenue Authority has introduced flexible VAT payment systems, for tax compliant firms, to ease cash flows.

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



Electrical Appliances



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Strengths & Opportunities

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

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 machinery.

PREFERENTIAL MARKET ACCESS TO EU

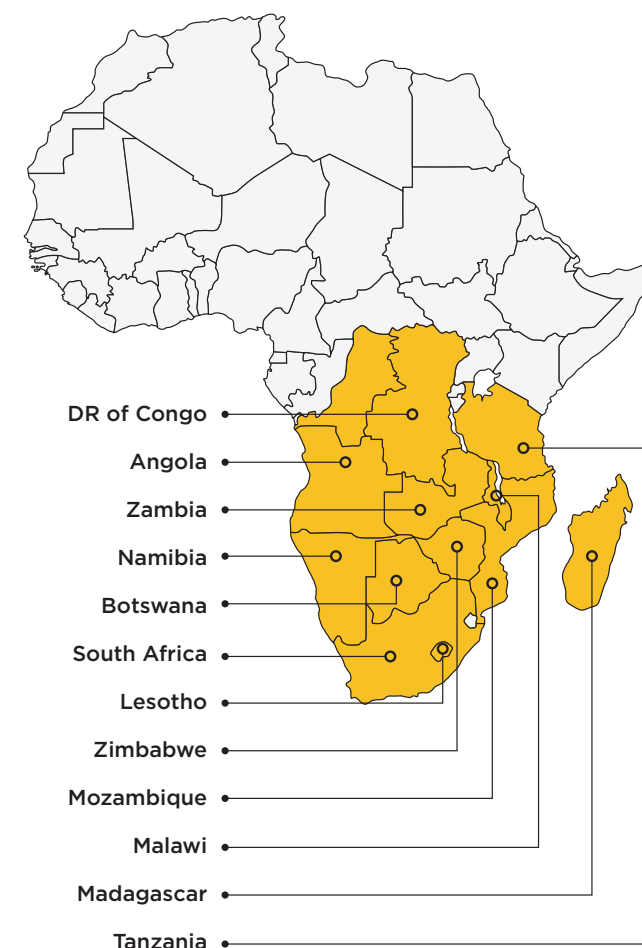
As a Less Developed Country, Lesotho benefits from preferential market access to the EU under the EU/SACU EPA; EFTA; MERCOSUR; and with a wide range of countries under the Generalised System of Preferences (GSP), including China.

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



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 workforce is trainable and training costs can be offset against tax.



Belo Industrial Park, Buthe Buthe.

Electrical Appliances



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Financial Analysis

TOTAL INVESTMENT

A total investment of approximately:

LSL* 13.7m

comprising fixed assets of LSL 11.6m, pre-production expenditure of LSL 837k and initial working capital of approximately LSL 1.2m will be required for the establishment of the Electrical Appliance manufacturing enterprise. The graphs below illustrate a financially viable operation with the opportunity expected to generate a profit from the second year of operations throughout its operational life.



In addition to the positive NPV and IRR, the initial investment cost of the project is expected to be fully recovered in just under nine 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.

NET PROFIT

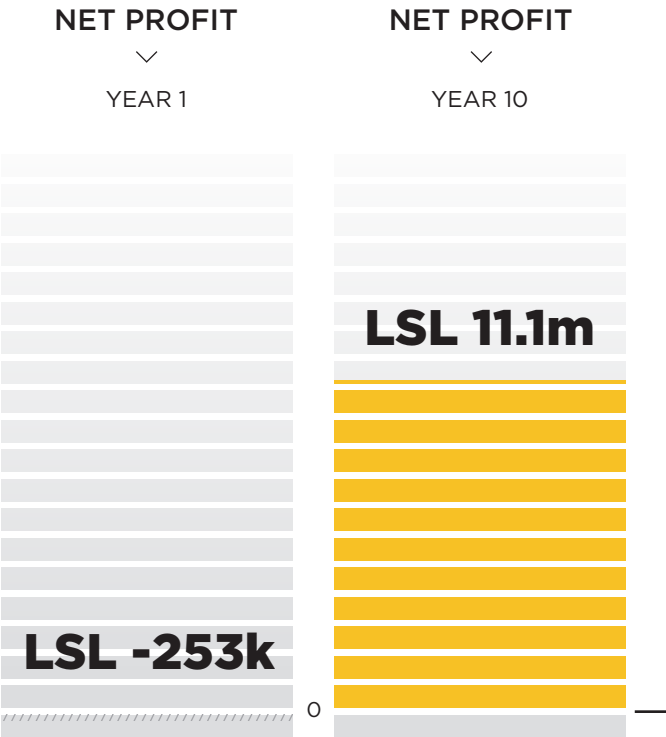
The enterprise's annual net profit after tax increases from

LSL-253k

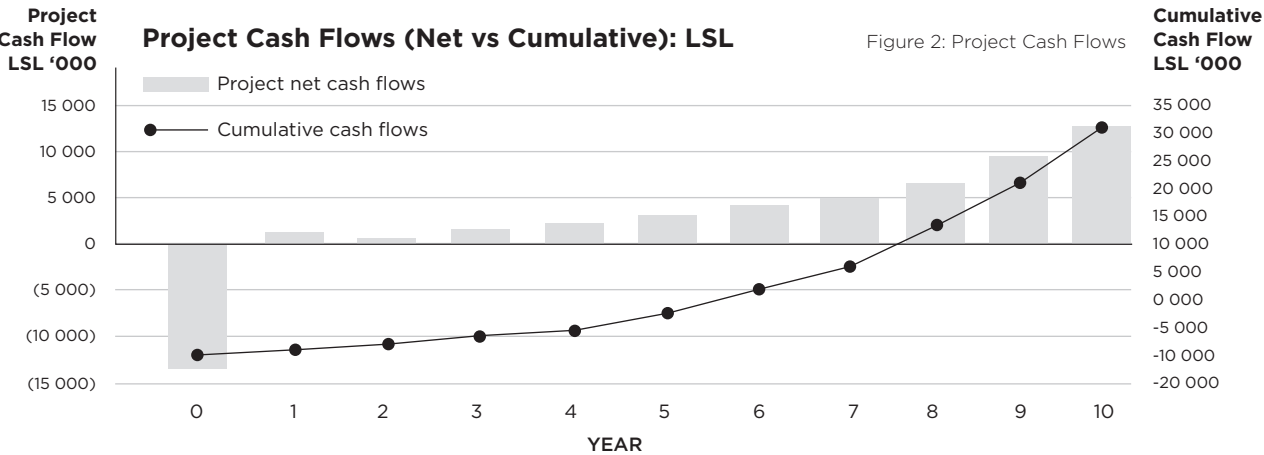
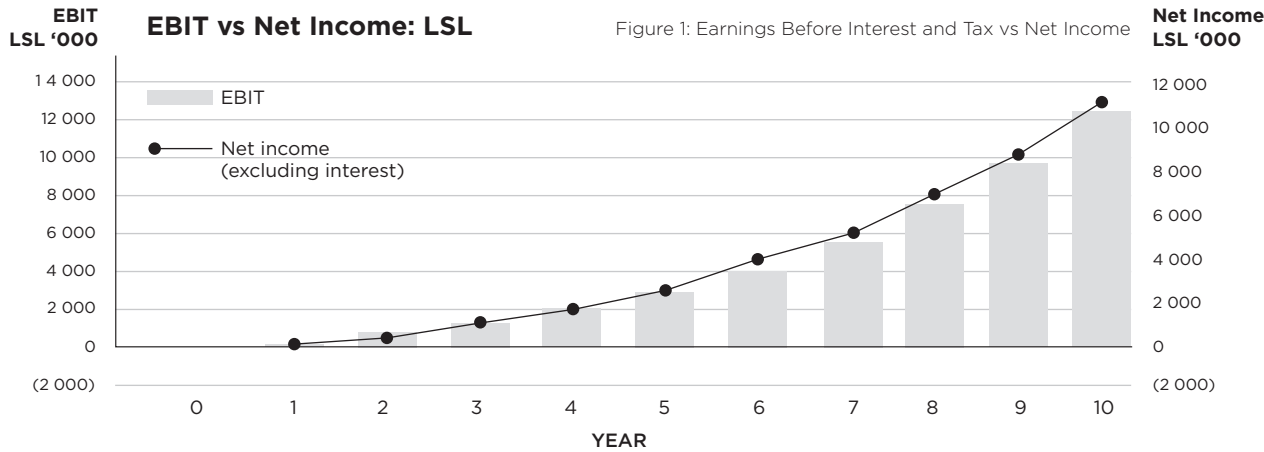
in year 1 to approximately:

LSL 11.1m

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



Financial Analysis



The projected future cash flows generated by the enterprise are discounted at a rate of 18%. The outcome of the discounted cash flow analysis is summarized in Table 1.

Table 1: Investment Indicators

Net present value (NPV)	LSL 8.7m
Discounted payback period	8.89 years
Internal rate of return (IRR)	18.12%
Profitability index (PI)	2

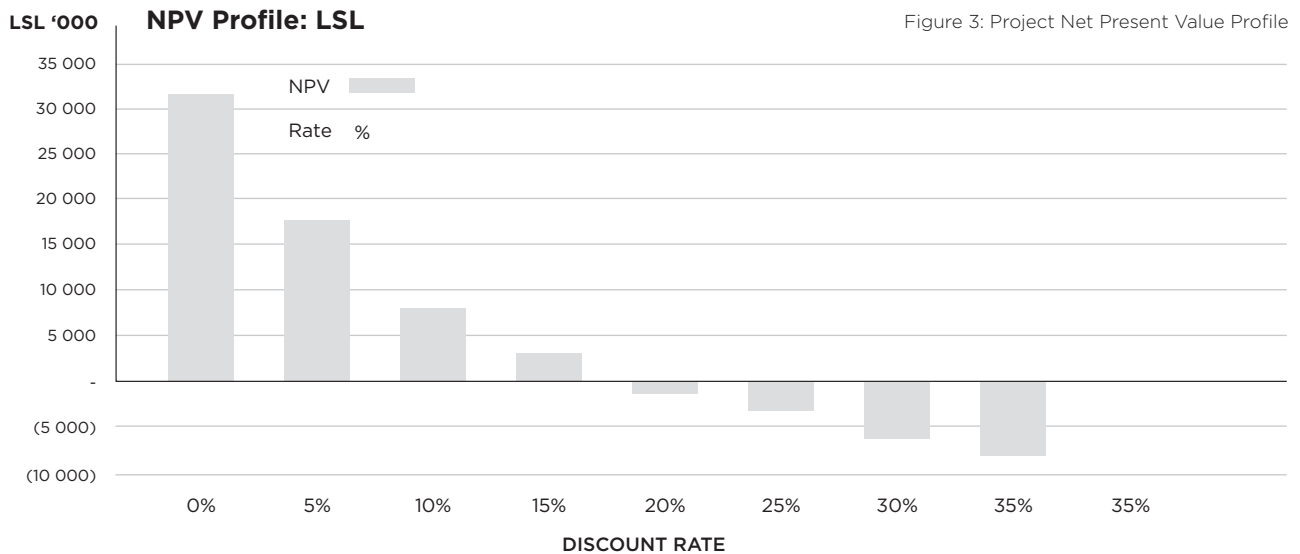
*1 LSL = 1 ZAR

Electrical Appliances



Financial Analysis

The positive NPV at a discount rate of 18% and IRR of 18.12% highlights the financial viability of the Electrical Appliance manufacturing investment opportunity.



Tikoe Industrial Estate, Maseru.



Belo Industrial Park, Buthe Buthe.

NOTE

The financial analysis of the Electrical Appliance 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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