The DCZ IPO.

What do we REALLY think?

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Dear Reader,

Our opinion details a fundamental valuation of Dot Com Zambia PLC (DCZ) based on a critical analysis of its IPO prospectus. Our analysis identifies multiple material red flags, primarily concerning revenue sustainability and excessive dependency on a single government entity.

After adjusting for these non-recurring and high-risk factors, our model determines a **fair value range of ZMW 1.08 to ZMW 2.7 per share**.

RED FLAGS & VALUATION ADJUSTMENTS.

Our Valuation varies greatly from the implied prospectus valuation due to adjustments for specific instances that in our opinion are material.

RED FLAGS:

1. **Inflated 2024 Revenue**

The 147% revenue growth is not sustainable and driven by one-off events being the NRFA toll price hike and the revenue generated from the TKC Plaza Toll Gate.

Valuation Adjustement:

- The revenue base reduced to reflect the single-instance factors, establishing a sustainable revenue base of ZMW 237.8 million.

Adjustment of 2024 Revenue*	
Audited 2024 Revenue	528,952,974
Less: TKC Plaza Revenue	(136,282,970)
60% NRFA toll price increase**	(154,853,821)
Adjusted 2024 Revenue***	237,816,183

2. **Over-dependence on the NRFA**

Overdependence on the NRFA for revenue creates a single point of failure. e-Toll pricing and contract terms are largely outside of their control.

Valuation Adjustment:

- Applied a 3% Company-specific Risk Premium to the Weighted Average Cost of Capital (WACC).

3. **Low Profit Margins**

Gross Margins of 3.2% are characteristic of a low-value-added payment processor, not a high growth tech company.

Valuation Adjustment:

- We used a conservative P/E Multiple of 11.1x.This multiple was arrived at using a blend of low-margin processors and single-customer contractor multiples, not sole tech company multiples

P/E ANALYSIS		
Company	Business Type	P/E Multiple
Payment Processors Avg	Low-margin processors	14.4
Government Contractors Avg	Single-Customer Dependent	6.5
Zambian Market Avg	Local Market Conditions	7.5
Emerging Market Payment		16
Appropriate P/E Multiple		**11.1**

4. DCF Financial Projections

The prospectus uses a combination of a 29.29% WACC with aggressive growth, a combination that, in our opinion is designed to artificially support a high valuation.

Valuation Adjustment:

- Our DCF model used an adjusted revenue base, realistic margin growth and a rationally derived WACC of 28.55%.

Weighted Average Cost of Capital			
Component	**Input**	**Calculation**	**Result**
		Cost of Equity	
Risk-Free Rate (Rf)	18%	Source: BoZ 2025	
Market Risk Premium	8.5%	Emerging Market Premium	
β Beta	1.3	Payment Processor Avg (1.1+0.2 risk premium)	
Cost of Equity (Re)			**28.55%**
		Cost of Debt	
Base Lending Rate	24.5%	BoZ Policy Rate	
Company Credit Spread	3.0%	NRFA Dependency Premium	
Pre-Tax Cost of Debt (Kd)			**27.50%**
Tax Rate	30%	30% Corporate Tax Rate	
Post-Tax Cost of Debt			**19.25%**
		CAPITAL STRUCTURE	
Market Value of Equity (E)	100,000,000	Conservative Market Cap (1m shares @ K10)	
Market Value of Debt (D)	0	*Company is debt-free per prospectus*	*From Balance Sheet
Total Capital (V)			100,000,000
Weight of Equit (E/V)			1
		WACC CALCULATION	
WACC Formula		(E/V)*Re+(D/V)*Rd*(1-Tax)	
WACC			**28.55%**

VALUATION ANALYSIS

1. **Adjusted P/E Multiple Valuation**: **ZMW 2.69 per share.**

- Conservative Earnings Base: We normalized earnings by takung a conservative base of ZMW 2.43 million, giving signifcant weight to pre-2024 profitability and giving a haircut to the inflated 2024 earnings.
- Appropriate P/E Multiple: We applied a blended P/Ex of 11.1x, reflecting the peer group in which DCZ was placed: low-margin payment processors and government contractors, not high-multiple tech firms.
- The math: (ZMW 2.43 Earnings * 11.1 P/E)/10m shares = **ZMW 2.69 per share.**

2. **Discounted Cash Flow (DCF) Valuation**: **ZMW 0.92 per share**

- WACC (Discount Rate): 28.55%. Calculated using a realistic Zambian risk-free rate (18%), an emerging market risk premium (8.5%) and a beta (1.3) adjusted for specific risks.
- Revenue Projections: Based on our adjusted 2024 Revenue baseline of ZMW 237.8m, growing at a decelerating rate (10% down to 5%).
- Margin Assumptions: EBITDA margins are forecast to improve gradually from 1.5% to 1.9%, reflective of the challenges of Improving profiability in a low margin business.
- The result: Our discount rate applied to cashflows from a more conservative revenue base yields a DCF Value of **ZMW 0.92 per share.**

DISCOUNTED CASHFLOW PROJECTION					
DCF Projections	**2025**	**2026**	**2027**	**2028**	**2029**
Revenue Growth %	10%	8%	7%	6%	5%
Revenue	261,597,801	282,525,625	302,302,419	323,463,588	342,871,404
EBITDA Margin %	1.50%	1.60%	1.70%	1.80%	1.90%
EBITDA	**3,923,967**	**4,520,410**	**5,139,141**	**5,822,345**	**6,514,557**
Depreciation and Amortisation Rate	0.05%	0.05%	0.05%	0.05%	0.05%
	130,798.90	141,262.81	151,151.21	161,731.79	171,435.70
EBIT	**3,793,168.12**	**4,379,147.19**	**4,987,989.91**	**5,660,612.79**	**6,343,120.97**
Tax on EBIT	30%	30%	30%	30%	30%
	1,137,950.43	1,313,744.16	1,496,396.97	1,698,183.84	1,902,936.29
Net Operating Profit After Tax (NOPAT)	**2,655,217.68**	**3,065,403.03**	**3,491,592.94**	**3,962,428.96**	**4,440,184.68**
Capex	0.50%	0.50%	0.50%	0.50%	0.50%
	1,307,989.01	1,412,628.13	1,511,512.09	1,617,317.94	1,714,357.02
Change in Working Capital	1%	1%	1%	1%	1%
ΔNWC	**237,816.18**	**209,278.24**	**197,767.94**	**211,611.69**	**194,078.15**
Unlevered FCFF	1,240,211.39	1,584,759.48	1,933,464.12	2,295,231.12	2,703,185.21

DCF CALCULATION					
	2025	2026	2027	2028	2029
Unlevered Future Cashflows*	1,240,211	1,584,759	1,933,464	2,295,231	2,703,185
Discount Factor	78%	61%	47%	37%	28%
PV of FCF	**964,770**	**959,001**	**910,164**	**840,501**	**770,044**
Terminal Growth rate	4.5%				
2030 FCFF	804,696				
Terminal Value					3,345,928
PV of Terminal Value					**953,139**

Enterprise Value	**9,210,174**
Value Per Share	**0.92**

FAIR VALUE ASSESSMENT

Valuation Method	Value per Share (ZMW)	Rationale
P/E Multiple	2.69	Based on sustainable earnings and an appropriate peer multiple.
Discounted Cash Flow (DCF)	0.92	Based on conservative growth and a risk-adjusted discount rate.
Final Fair Value Range	0.92 – 2.7	We consider ZMW 2.7 to be a reasonable valuation ceiling

BEAR CASE VALUATION	BASE CASE VALUATION	BULL CASE VALUATION
K1.17	**K1.81**	**K2.71**

Base Case Valuation:

The base case is arrived at by taking an average of the P/E Multiple and the Discounted Cash Flows.

Bear Case Valuation:

The lower limit adjusts for NRFA Dependency - Single Customer Risk and Liquidity Risk.

Bull Case Valuation:

The upper bound for the valuation adjusts for business growth potential, market leadership, EBITDA growth potential and DCZ being a the first *Homegrown Tech IPO* in Zambia.

So, what do we *Really think?*

The DCZ IPO representa a compelling business story, but the offer price of circa ZMW 12 per share is a heavy ask. The company's core vulnerability is its revenue model, which has could face difficulties with scaling, and has factors that are mostly out of their control.

Recommendation: We don't have any. **WE ARE NOT YOUR INVESTMENT ADVISORS… (YET).**

Thanks for reading!

Disclaimer: *This report is based on publicly available information in the DCZ IPO prospectus and independent analysis. It is for informational purposes only and does not constitute financial advice. Investors should conduct their own due diligence.*