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SHAREHOLDERS COMPANION GUIDE BOOK

2021

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01. INTRODUCTION

The Shareholder's Companion Sheet was created to make the process of choosing companies on the Lusaka Securities Exchange, simpler for investors, especially beginner investors.

It collates ten years of data for over twenty listed companies and automatically calculates over ten essential metrics, that will assist an investor in understanding the listed companies' performance over time.

My hope as the creator of this product is that it helps the common man become more informed in their purchases and not rely on guess work and trending opinions.

In this guide book I will therefore begin by introducing you to financial statements, what they are and how they played a role in this product. I will then define the metrics in the companion sheet and give some useful guidelines on how you can apply them in your process of analyzing companies.

I will further then explain the bonus features of this digital product, such as the shareholdings tracker, the share price tracker, and the color theme feature.

Lastly, I will end this guide by listing references used in the creation of this product and providing an appendix with information that will help you know how to use this sheet for years to come!

I hope you enjoy this product and thank you once again for purchasing it.

Chano

02. A BEGINNERS GUIDE TO FINANCIAL STATEMENTS

Warren Buffett is famously known for saying "You have to understand accounting and you have to understand the nuances of accounting. It's the language of business and it's an imperfect language, but unless you are willing to put in the effort to learn accounting- how to read and interpret financial statements- you really shouldn't select stocks yourself." (emphasis-mine)

This quote from arguably the best investor alive, can be a terrifying one for a newbie investor. But it does not need to be if one is willing to put the effort to learn how to read financial statements.

There are plenty of brilliant articles, books, even videos on YouTube that explain financial statements simply, this section will therefore be merely an introductory guide to them, with a bias to explaining the metrics featured in my sheet. I will however put more references in the reference list should you choose to further your research into financial statements.

"I made my first investment when I was eleven. I was wasting my life up until then"
Warren Buffett

WHAT YOU NEED TO KNOW ABOUT FINANCIAL STATEMENTS

According to Investopedia financial statements are "written records that convey the business activities and the financial performance of a company". Every year a company records their transactions and collates them into what are known as financial statements.

There are four main financial statements; The Balance Sheet, The Income Statement, The Cashflow Statement and The Statement of Shareholders Equity. Each statement reveals its own "story" of the company's performance each year. However, when analyzing a company, investors mostly focus on the first three.

01 — The Balance Sheet

This statement is considered a snapshot of the company's assets, liabilities, and equity (capital) at a particular point in time.

In the Shareholder's Companion Sheet, the figures "Equity" and "Liabilities" are taken from the Balance Sheet. Equity simply means the money invested by the owners of the company. Whereas Liabilities means the money owed by the company.

A simple formula that you can remember to summarise the Balance Sheet is as follows:

Assets = Equity + Liabilities

This indicates that the total assets the company has is funded by either/both the money the owners put in and the money they borrowed.

WHAT YOU NEED TO KNOW ABOUT FINANCIAL STATEMENTS

02 — The Income Statement

According to zoho.com, an income statement is a financial statement that shows you the company's income and expenditures. It also shows whether a company is making a profit or loss for a given period.

In the Shareholder's Companion Sheet, the figures "Revenue", "Net Profit" and "EPS" are found in the Income Statement.

- Revenue is the total income generated from the sale of goods and services that a company offers.
- Net Profit is the amount of income a company remains with after expenses are removed.
- Lastly, EPS which stands for Earnings Per Share simply indicates how much a company makes for each share of its stock. So, for each share you have, EPS tells you how much a company made in profit.

03 — The Cashflow Statement

A cashflow statement records the movements of the actual cash within the business regarding its operations, financial activities, and investments.

In the Shareholder's Companion Sheet, the figure "Operating Cash" is found in the Cashflow Statement. Operating Cash means the amount of cash that a company is left with when operating expenses are removed.

When a company produces their financial statements, they also add detailed notes which expand on various points within the statements. As part of the notes, the company will give details on whether it paid out dividends in the financial year.

These are reported as "Dividends Per Share", which in the Companion Sheet is written as "DPS". This figure simply shows how much money per share a company is paying out in dividends.

CONCLUSION ON FINANCIAL STATEMENTS

Financial Statements are released every year and after they are audited form part of the annual report to shareholders. Every publicly listed company is mandated to make those reports available to the public. These can be found on the company's website or the LuSE website itself.

When it comes to the Shareholder's Companion Sheet, the figures listed above are the only numbers that I got from the financial statements of companies. These are the numbers I used to automatically calculate the metrics I will expand on in the next section.

Of course, there are many more parts of financial statements that I could have used, but I focused on these because they are essential starting points to analyzing a company's performance.

Furthermore, the book “Invested” which is my best recommendation for picking companies, also recommends the use of these components. "Invested" seeks to give investors an insight into investing like Warren Buffett and Charlie Munger who are renowned investors worldwide. Do check it out if you can.

03. THE METRICS IN THE SHEET

In this section I will first define and then explain how you can apply the metrics in the shareholders companion sheet.

DEFINITION OF METRICS

01 — Growth metrics

- There are four growth metrics calculated based off the financial statement components mentioned in the previous section. These growth metrics include: Revenue Growth, Net Profit Growth, Equity Growth, Liabilities Growth and Operating Cash Growth.
- Each of these growth metrics simply tell you how these factors are changing year by year. E.g., if the percentage of revenue growth in 2019 is 20%, it means the company increased its revenue by 20% from 2018

02 — Price to Earnings Ratio (P/E)

- The Price to earnings ratio, as by its name, shows you what the companies share price is relative to its per-share earnings (EPS). It helps investors know the relative value of a company’s shares when you compare it to either itself over time or to another company in its industry.
- The basic idea when looking at the P/E ratio is that based on its industry for example, a company can be over-valued or under-valued compared to its peers. Meaning people are paying too much for its value or not enough for its value respectively.
- Of course this means that if a company is considered cheap (undervalued) in comparison to it's peers, holding other things constant, it would be preferable to an investor.
- This is because if it is indeed undervalued currently, the hope is that therefore it has potential for growth in its share price to and thus higher return for investors.

DEFINITION OF METRICS

03 — Earnings Yield

- Earnings yield is simply the inverse of the P/E ratio and can thus also help investors know whether a stock is currently undervalued or overvalued
- According to Investopedia, the earnings yield can be used to compare stocks to bonds, to in a sense see which one has a better opportunity for return.
- If earnings yields are higher than what say a benchmark bond is offering, it would indicate that the stock is undervalued relative to the bond, thus more potential for higher return.

04 — Dividend Yield

- Dividend yield is a stocks annual dividend payment to shareholders expressed as a percentage of the stocks current price.
- In the sheet, I used the year end stock price to calculate dividend yield for simplicities sake (stock prices change).
- However, the main idea is that it shows you the annual percentage return for every stock you have at the point when the dividend is declared.
- For example, let's say you have 500 shares today and the price of each stock is K1. If a dividend is declared today and it is K0.5 per share the dividend yield is 50%. This would mean you essentially got 50% return on your investments value today.

05 — Net Margin

- Net Margin shows you how much profit a company makes as a percentage of its revenue.
- It is one thing for a company to generate high sales revenue but seeing what percentage of that remains after taking away expenses is important to investors as well.
- This is because dividends and the possibility for growth of a company are based off how the company performs profit wise.

DEFINITION OF METRICS

06 — Return on Equity (ROE)

- By its name, return on equity is measuring how much of the money invested by shareholders has turned into profit. This indicates to shareholders that when you invest your money in this company, this percentage is made in profit.
- This metric is calculated by taking the profit from the income statement as a percentage of the total equity in the balance sheet statement.

07 — Return on Invested Capital (ROIC)

- Whereas the ROE is the profit on equity, ROIC measures the profit on all invested capital, which means both liabilities and equity.
- It is important to investors to not only see how a company is using the shareholders money but borrowed money to generate profit.

08 — Debt to equity Ratio

- As was mentioned by the simple formula that summarises the balance sheet, the debt-to-equity ratio, shows what ratio of debt to equity a company uses to finance (purchase) its assets.
- Some industries may need less debt than others, but it is important for investors to know how much debt leverage, and thus exposure the business they are investing in has.
- Too much debt can be a risk, but also too little debt can mean less growth.
- The metric therefore helps signal to investors where the company is in terms of its financial position.

APPLICATION OF METRICS

There are too many metrics to go into detail over how to apply each one, but certain principles apply when understanding a metric. These are as follows:

01 — What is the trend?

- This will apply to majorly the growth metrics and the profit metrics.
- Here you will be analyzing what the trend has been, growing or declining? Of course, net profit growing will mostly be seen as a good thing.
- However, something like debt growing you may need to unpack further, what was driving the constant increase in debt? Is the business struggling or maybe in a place of expansion?

02 — What is the magnitude?

- On this point, you will be looking at the actual number of a given metric in a year. For example, with metrics like dividend per share or P/E ratio, you can understand how well the company has performed in that particular year when you look at its average or what you know the industry standard is.
- Another aspect of looking at the magnitude is to understand the given metric considering other factors that surrounded the business.
- For example, even if the net profit of a company went down, because of the pandemic, how low did it go?
- The actual number is therefore still important to understand alongside the trend you are observing.

03 — What is the industry standard?

- This is probably the most crucial one in understanding a business, because when you invest in a company you are believing it has the capacity to outperform its competitors and thus bring you more return over time.
- However, to know this you need to know how its industry performs. This can be as simple as a google search, asking the SEC or even a broker.
- Different industries will have different averages for the metrics. For example, the banking sector or capital-intensive business may have a higher debt-to-equity ratio by the nature of its business. Whereas a service business may have a lower average debt-to-equity ratio.
- What is most important is doing some research and making sure to be context specific when you talk about the metrics of a company.

04. HOW TO USE THE REST OF THE WORKBOOK

While majority of the shareholders companion sheet has the companies and their metrics, there are other parts to the sheet that can help make your journey as a shareholder better. (Please note that the Currency Sheet will only be discussed in the Appendix)

SHAREHOLDINGS SHEET

In this section of the workbook, you will be able to track your shareholdings and easily calculate share price movements when possible spikes in your shareholdings occur.

01 — Singular Assessment

MY SHAREHOLDINGS AT SPECIFIC POINTS

SINGULAR ASSESSMENT	COMPANY 1	COMPANY 2	COMPANY 3	COMPANY 4	COMPANY 5	COMPANY 6	COMPANY 7	COMPANY 8	COMPANY 9	COMPANY 10	TOTALS	AVERAGE GROWTH
FIRST PURCHASE												
Share Price	ZMW 1.00	ZMW 1.10	ZMW 1.20	ZMW 1.30								
Share Qty	100	200	300	400								
Valuation	*ZMW 100.00*	*ZMW 220.00*	*ZMW 360.00*	*ZMW 520.00*							ZMW 1,200.00	
GROWTH FROM FIRST PURCHASE												
Share Price	ZMW 1.10	ZMW 1.20	ZMW 1.30	ZMW 1.40								
Share Quantity	200	300	400	500								
Valuation	*ZMW 220.00*	*ZMW 360.00*	*ZMW 520.00*	*ZMW 700.00*							*ZMW 1,800.00*	*50.00%*
Share Price Appreciation	***10.00%***	***9.09%***	***8.33%***	***7.69%***								***8.78%***

The first part of the shareholdings sheet will look like the picture above. When you make your first purchase into a company, put in the details of its price and quantity as indicated. If you already have stocks, put in the details in your statement of purchase that shows the quantity and price you bought them at.

If you find yourself just wanting to randomly calculate what your growth has been in your share price or your total shareholding valuation, you will input your current share price and quantity, and this will be calculated for you.

Eg. Company 1 had an increase in share price of 10%, and Company 4 has 7.69% increase in share price from the first purchase made.

The last column shows the average increase in both the portfolio valuation since your first purchase and the share price average increase. In this case, the whole portfolio grew by 50% whereas the average share price increase was 8.78% for these companies.

SHAREHOLDINGS SHEET

02 — Periodic Tracking

MY SHAREHOLDINGS AT SPECIFIC POINTS

PERIODIC TRACKING	COMPANY 1	COMPANY 2	COMPANY 3	COMPANY 4	COMPANY 5	COMPANY 6	COMPANY 7	COMPANY 8	COMPANY 9	COMPANY 10	TOTALS
May-21											
Share Price	ZMW 2.00	ZMW 2.50	ZMW 3.00	ZMW 3.50							
Share Quantity	100	100	100	100							
Valuation	*ZMW 200.00*	*ZMW 250.00*	*ZMW 300.00*	*ZMW 350.00*							*ZMW 1,100.00*
Jan-22											
Share Price											
Share Quantity											
Valuation											*ZMW 0.00*
Jun-22											
Share Price											
Share Quantity											
Valuation											*ZMW 0.00*
Jan-23											
Share Price											
Share Quantity											

The second part of the sheet gives you an opportunity to just track your shareholdings over time. You do not need to put the details every week or even month. It can be a semi-annual or annual activity where you just put what your total quantity of stocks is for each company and the current price.

The "Totals" column of this section will therefore show you your stocks net worth as at the point of your last tracking.

Please note that you need to make sure you put your total quantity each time. So, if you buy new stocks make sure you take that mental note of what your total quantity now is.

CAPITAL APPRECIATION SHEET

Whereas the Shareholdings sheet showed you what your total shareholdings were and the growth at specific points, the capital appreciation sheet seeks to help you track what is happening within each company over time.

COMPANY 1						
Year	Jan Price	Dec Price	Dec Share Qty	Total Dividend	Capital Appreciation	Valuation
2021					0.00%	ZMW 0.00
2022					0.00%	ZMW 0.00
2023					0.00%	ZMW 0.00
2024					0.00%	ZMW 0.00
2025					0.00%	ZMW 0.00
2026					0.00%	ZMW 0.00
2027					0.00%	ZMW 0.00
2028					0.00%	ZMW 0.00
2029					0.00%	ZMW 0.00
2030					0.00%	ZMW 0.00
2031					0.00%	ZMW 0.00
2032					0.00%	ZMW 0.00
2033					0.00%	ZMW 0.00
2034					0.00%	ZMW 0.00
2035					0.00%	ZMW 0.00
AVERAGE					0.00%	ZMW 0.00

As can be seen, you will put the share price in January and December to be able to see what the increase/decrease in share price has been in percentage. In this case since January has passed, you can simply find the prices on the LuSE page as they post daily share prices. Find the first one from this year and put it in.

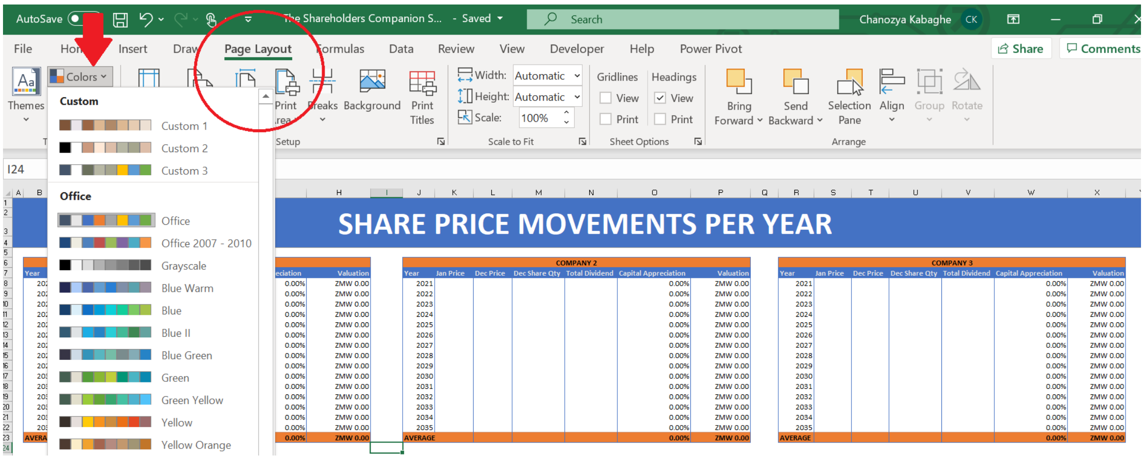
At the end of the year you will therefore put the December Stock price. Then, sing your December quantity of stocks, you will be able to therefore see what your stock worth is in companies at the end of the year. Because you will do this every year, you can therefore see how your holdings changed for each company you have.

Lastly, you can also put in what your total dividend pay-out was for each company in the year. If your strategy relies on dividends, you can thus see which company paid you more in dividends over time.

Please note that you only need to fill in information for the company's you own. I created enough tables for 30 companies, but you only need to track what is your shareholding.

COLOUR CHANGE FEATURE

This last feature of the sheet will not necessarily impact your journey as a shareholder but may make your experience of the shareholders companion sheet more enjoyable.



To change the colour theme, you will simply go to the "Page Layout" section of the top menu as circled in red above. In the "Colours" tab, you can choose among the group of colour combinations shown or you can customise your own colour scheme to suit your needs.

05. CONCLUSION

We have come to the end of this guidebook; I hope it has been helpful in understanding The Shareholders Companion Sheet and how you can make the most use of it for years to come.

Thank you once again for making this purchase. I appreciate the support and kindly want to implore you again to further support me by not selling or sharing this with anyone else. Encourage others to purchase their own sheet as your acknowledgment of the countless hours and effort that went into creating this especially for you!

Please do not hesitate to give me your feedback and any queries you have. You can send these either to the number you sent your proof of payment to or my brand email address: misskabaghe@gmail.com

Chano

PS. Do take time to read the references listed in the next section as they can add to your knowledge and further clarify aspects in this guidebook that you still do not understand. Also note that in the Appendix after the References, I have provided guidelines on key issues you need to note when using this sheet moving forward.

06. REFERENCE LIST

Because this is simply a guidebook and not an actual text book, you may find that some of the concepts need further explanation for full understanding. Use these references below to aid that process of understanding and feel free to email me more resources you find that are good that I can add to my list for future reference.

BOOKS

- "Invested" by Phil and Danielle Town
- "Warren Buffett and the interpretation of financial statements"- Mary Buffett and David Clark

WEBSITES

- www.investopedia.zom
- ww.zoho.com
- www.seczambia.org.zm
- www.luse.co.zm
- www.sbz.com.zm
- www.africanfinancials.com

YOUTUBE VIDEOS

- "Warren Buffett and the interpretation of financial statements"- The Swedish Investor
- "P/E Ratio Basics"- TD Ameritrade
- "Stock Multiples: How to tell when a stock is cheap/expensive"- The Plain Bagel
- "Investing Basics: Fundamental Analysis" - TD Ameritrade
- "The interpretation of financial statements" - The Swedish Investor
- "Growth vs Value investing" - The Plain Bagel

07. APPENDIX

When you are creating a sheet like this, there are many things that you come across that if someone needed to use it more effectively and for years to come, you must mention. The main ones I observed fall into these categories:

01 — Types of Financial Statements Used

- Some companies on the stock market are what would be known as conglomerates. Which simply means the company itself owns other companies.
- What this means is that there are two main types of financial statements; "Consolidated" and "Separate".
- If company X owns company Z, a consolidated financial statement would combine X and Z financial statements into one. Whereas, separate financial statements would state X by itself and Z by itself.
- Consequently, different companies, dependent on whether they are conglomerates or not, will report either "group", "company" or both.
- Investors prefer group statements, and that's what many companies actually do report in their statements. Therefore majority of the companies that are conglomerate, I reported group figures.
- However, for the sake of consistency across the years especially more recent, some companies like CEC, I chose to focus on company reports.
- What will indicate to you moving forward in what you should use is looking at the next annual report that reports the last year in the sheet as well and seeing where it is stated.
- Eg. If the last year in a sheet is 2020, when you look at the 2021 annual report, it will also indicate the 2020 figures. The figures that were stated in 2020 will therefore guide you to know which corresponding figure is for 2021. If it is in a group statement, which is most likely the case, then continue with group. If it is in a company statement follow suite.
- If by some chance a company changes from company to becoming a group over time, read the articles in the links attached to understand how to interpret this and the idea of group vs separate statements in general.
- https://pocketsense.com/difference-between-consolidated-financial-statements-stand-alone-financial-statements-1551.html
- https://blog.investyadnya.in/consolidated-vs-standalone-financials-which-one-to-consider/
- And when in doubt ask your broker for guidance :).

07. APPENDIX

02 — Different Names In Financial Statements

- For the most part, the names of the components in financial statements are similar across the board.
- However, some companies or sectors may have different names for the names in the sheet.
- For example, in the banking and insurance industry, revenue is actually called total operating income.
- Make sure you read the intro statement by the chairperson before the financial statements in the annual report and use the notes to clarify if when moving forward some definitions are different.

03 — Basic vs Diluted Earnings Per Share

- Follow this link to understand fully the difference between Basic and Diluted EPS
- https://www.investopedia.com/ask/answers/051115/what-difference-between-earnings-share-eps-and-diluted-eps.asp
- The main point here though is that investors prefer Diluted EPS as it is a more conservative estimate of EPS, therefore where Diluted EPS was mentioned as different from Basic EPS in the income statement, I used Diluted EPS.

04— Errors in Financial Statements

- Many of the over 150 Annual Reports I went through had levels of consistency and accuracy that was appreciated.
- However, some companies in some years had many errors, and had lacking consistency in the figures they stated across the years.
- I tried to ensure I used each years stated audited statements but even those had errors sometimes, leading me to make guesses of which one was correct.
- This therefore means that you should take the metrics in this sheet as estimations of performance and not factual performance because of the proneness to error.

07. APPENDIX

05 — Calculation Principles

- Some companies in their financial statements specifically the Balance Sheet, do not out rightly state "Total Liabilities" or "Total Equity" but may instead give just the figures within and you will have to add them up yourself.
- A guiding principle for the balance sheet is the formula Assets= Liabilities + Equity
- With this principle, if two of the figures are given and one is missing, which was the case for some companies, you can easily swap things around to finding the missing answer.

06 — Currency Differences

- There were a few countries that quote their financial statements in other currencies than Kwacha: FQMZ, CEC, CEC Africa and Shoprite.
- Therefore, I created a table in the Currency sheet that puts the end of the year exchange rates for the three currencies featured in the companies annual reports: US Dollar, Canadian Dollar and South African Rand.
- Moving forward you would simply put the years end exchange rate in the table and the conversions in the "ratios and metrics" table for these countries will reflect that.
- Please note therefore that all metrics that are calculated based off the share price (P/E ratio, dividend yield and earnings yield) are as at the last day in the year.
- To find the current date version of these metrics, you would simply change the share price and exchange rate to reflect that for your analysis.
- The top table which gets data from the financial statements will remain in the currency of the financial statements for the sake of accuracy.
- Only Pamodzi data from 2017 going back was removed because the financial statements did not provide the rates to accurately do conversions. Should you wish to invest in Pamodzi and want to analyze their statements, make use of your stock broker.

In conclusion, when you use this sheet moving forward, take time to familiarise yourself with the last recorded data, why it was that and if it needs editing moving forward. Be aware that errors can exist in finanical statements. Lastly, remember that the best analysis relies on consistency, therefore make sure whatever you do moving forward is consistently true with the best practices of analysing companies!

THE END