

BUY

Initial Opinion	BUY
Release Date	02/24/2020
Initial Target Price	MAD 261

MUTANDIS

Sector	RETAIL
Reuters	MUT.CS
Bloomberg	MUT MC

MAD 273

Current Price	MAD 206
Upside	+33%
Investment Horizon	12 Months

PROVEN RESILIENCE ..., NOT YET INTEGRATED IN THE STOCK'S PRICE

A reassuring mid-term ..., under the sign of stability

Within an unprecedented health crisis context, marked by a rigid lockdown lasting over 90 days, Mutandis reported reassuring mid-term 2020 achievements. This is an almost stable revenue of MAD 683 Mn and an EBITDA of MAD 105 Mn recording a slight decrease of -1%

Taking into account our own scenario for the year 2020, we forecast a slight increase in revenue of 1.1% against an almost stagnation of EBITDA. From 2021, the Group's various activities would return to a normative growth rate allowing consolidated revenue and EBITDA to show sustained AAGR of 6.3% and 8.9% respectively.

Based on its cost structure, Mutandis' earning power would cross the threshold of MAD 100 Mn at the end of the 2020-2022 period, i.e. target AAGR of NIGS at 15.2%.

Diversification of activities supporting results' resilience ...

The diversification of Mutandis' business portfolio makes perfect sense today. Indeed, the Group is showing good resilience in 2020 while maintaining a positive outlook over the medium term. These are 2 flagship activities which contribute to 80% of the consolidated EBITDA:

(1) The **Detergent** activity, which weighs 52% in EBITDA, shows a growth profile of 7.5% over the medium term while having an outstanding generating cash capacity. Ultimately, this activity will be supported by structural drivers such as: change in consumption habits, the age pyramid in Morocco and the extension of the distribution network ;

(2) The **Seafood** business, which weighs 28% in EBITDA, offers better potential in terms of improving margins with a relatively high risk due to its cyclical nature. In this context, we believe that the operator would benefit from a growing interest in international markets for canned pelagic fish. The increase in sales to the EU and the USA would ultimately justify the improved margins of this activity.

... and allowing the stock to benefit from the decrease in the cost of capital

Like resilient stocks on the Equity market, Mutandis stock would in turn benefit from the technical decrease in its cost of capital. Under the effect of the downward trend in sovereign rates in Morocco, the WACC of the Group would drop from 8.4% in 2018 to 7.9% in 2020. Taking into account our growth scenario, we come out with a target price of MAD 273 offering an upside potential of 33% on the stock market.

MUTANDIS: 2019 ACHIEVEMENTS VS. AGR FORECASTS FOR THE 20E-21E PERIOD

IN MAD MN	2019	2020E	2021E	VAR 19-20E	VAR 20E-21E
Consolidated Rev	1,462	1,477	1,567	+1.1%	+6.0%
EBITDA	228	227	248	-0.2%	+9.0%
EBITDA Margin	15.6%	15.4%	15.8%	-0.2 pt	+0.4 pt
Recurring NIGS Net Margin	82	76	88	-6.8%	+15.1%
	5.6%	5.2%	5.6%	-0.4 pt	+0.4 pt
Reported NIGS	82	68	88	-16.5%	+28.3%
DPS (MAD)	8.5	8.5	9.0	-	+5.9%
D/Y (price MAD 209)	4.1%	4.1%	4.3%	-	+0.2 pt

* Including the contribution of MAD 10 Mn to the Covid-19 fund

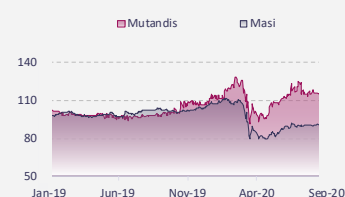
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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
MUTANDIS	-4.8	-0.2	13.7
MASI	0.3	0.1	-12.6

ADV (MAD Mn)	1 M	3 M	12 M
MUTANDIS	0.4	1.9	2.3
MASI	52	94	143

Capitalization	As at 09/04/2020
In MAD Mn	1,647
In \$ Mn	180

Prices at 09/04/2020

Sources : Mutandis PR, AGR Computations & Estimates



An interesting growth profile of the EBITDA over the period 2020-2022

The resilience of Mutandis' business model is based on an attractive diversification of its activities through distinct risk profiles. From 2021 onward, activity would return to a normative growth through an average annual growth in EBITDA of 8.9%.

Detergents: A remarkable development of its own brands

In H1-20, the Detergents business rose by 10%, benefiting from household interest for the Group's own brands. It is mainly bleach given the sanitary context. In our opinion, this segment should continue its momentum over the period 2020-2022 thanks to the strong positioning of the Group's own brands and a volume effect following the continued expansion of the distribution network.

This good orientation of the Detergents activity would be accompanied by an increase in EBITDA by 10.2% on average per year over the period 2020-2022, equivalent to a margin of 18.6%.

Seafood: A gradual improvement in profitability

Despite a less favorable first quarter of 2020 marked by the partial shutdown of traditional inshore fishing, the Seafood Products activity ended the half-year with a 6.0% revenue growth. This performance is explained by a favorable product mix effect combined with an increase in sales of ancillary products over this period.

Taking into account our scenario, the EBITDA for this activity would show an AAGR of 7.8% over the period 2020-2022. This would benefit from a catch-up effect from 2021 after a year 2020 disrupted by the effects of lockdown on traditional fishing as well as the temporary shutdown by the authorities of some factories' activity because of the Covid-19 pandemic.

Food Bottles: Towards a standardization of post-lockdown results

Marked by the cessation of activity for most of the hotels and restaurants during H1-2020, the Food Bottles segment saw its volumes decrease by -20%. However, this activity would show a recovery starting from 2021 benefiting from the gradual recovery of the Moroccan economy post-lockdown.

According to our forecasts, the EBITDA for this activity would show an AAGR of 6.0% over the period 2020-2022.

Fruit juice: An activity not yet significant in the consolidated results

The Fruit Juice activity saw a -4.0% drop in revenue in H1-20, in connection with the cessation of the hotels and restaurants activity. It should end the year with a negative revenue growth of -5.0%. However, this decline should not have a significant impact on the Group's results.

Recall that the Fruit Juice segment weighs less than 5.0% in consolidated revenue and EBITDA. This activity is considered as a growth driver for the LT and would continue the process of normalizing its margins over the 2021-2022 period.

MUTANDIS: GROWTH IN SALES AND EBITDA OF THE PORTFOLIO OF ACTIVITIES

IN MAD MN	2019	2020E	2021E	2022E
Revenue	1,462	1,477	1,567	1,670
Change	+6.8%	+1.1%	+6.0%	+6.6%
Detergents	+13.9%	+8.0%	+7.0%	+8.0%
Seafood products	+1.7%	+4.0%	+4.8%	+5.0%
Food Bottles	-1.7%	-23.0%	+5.0%	+5.0%
Juice	+19.4%	-5.0%	+9.0%	+9,0%
Consolidated EBITDA	228	227	248	269
Change	+11.7%	-0.2%	9.0%	+8.8%
EBITDA Margin	15.6%	15.4%	15.8%	16.1%

Sources : Mutandis PR, AGR Computations & Estimates



Continuous improvement in the EV/EBITDA multiple over the period 2020-2022

We believe that EBITDA is the main indicator to monitor for Mutandis. This would best assess the ability of Management to deploy its development strategies at the level of each activity and therefore promote the value creation for the Shareholder.

The gradual recovery of economic activity in Morocco would support an EBITDA growth of 8.9% per year during the period 2020-2022. This change would imply an improvement in the EV/EBITDA multiple of more than 16%, going from 8.9x to 7.5x at the end of the same period. A valuation level which displays a 25% discount compared to the Equity market (i.e. 10.0x).

An attractive positioning in terms of dividend yield

The Group's resilience against the health crisis was reflected in the preservation of its payout policy. For the FY 2019, Mutandis is among the few companies on the stock market to have raised its DPS by 13% to MAD 8.5. This is a 2019 D/Y of 4.1% against 3.0% for the Equity market.

Based on the current price, we believe that Mutandis stock is able to outperform the average market dividend yield, at least over the period 2020-2021.

A significant drop in the cost of capital, not yet integrated in the price

Mutandis' ability to defend both its operating results and its dividend payments to the Shareholder will enable it to take full advantage of the downward trend in the cost of capital displayed on the Moroccan stock market.

The significant fall in sovereign rate yields on the Moroccan market, combined with the Group's robust profile, has implied a technical drop in its cost of capital. The latter fell by 50 BPS during the period 2018-2020, from 8.4% to 7.9%.

In our opinion, this cost of capital effect is not yet integrated in the price level on the stock market and is therefore reassuring for investors.

Summary of our fundamental valuation

Our Mutandis valuation is based on the DCF "sum of parts" method. At the end of this exercise, we come out with a net Equity value of MAD 2,184 Mn equivalent to a target price of MAD 273.

Detergents and Seafood products represent 83% of the aggregate EV of the Group's activities. Meanwhile, the Food Bottles activity contributes 15% to the EV against 2% for the Fruit Juice activity.

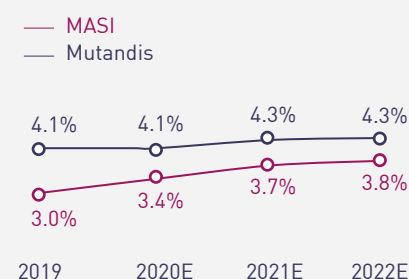
MUTANDIS GROUP'S : SUMMARY OF VALUATION PARAMETERS BY ACTIVITY

ACTIVITY	WEIGHT IN EBITDA	EBITDA MARGIN 20-22E	AAGR EBITDA 20-22E	FCF/ REVENUE	BETA BENCHMARK	DISCOUNT RATE
DETERGENTS	52%	18.2%	10.2%	11.0%	1.09	7.8%
SEAFOOD PRODUCTS	28%	13.0%	7.8%	9.7%	1.20	8.5%
FOOD BOTTLES	17%	22.3%	6.0%	15.3%	1.00	7.4%
JUICE	3%	13.3%	11.5%	2.2%	-	10.0%

MUTANDIS : VE/EBE (x) MULTIPLE



D/Y : MUTANDIS Vs. MASI



MUTANDIS : WACC CALCULATIONS

	2018	2020	Var BPS
TB 10y	3.1%	2.4%	-70
Beta	1.20	1.11	-9
ERP	6.0%	6.7%	+70
Ke	10.3%	9.8%	-50
Kd	4.1%	3.5%	-60
WACC	8.4%	7.9%	-50

*After taxes

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