

### HOLD

Initial Opinion	BUY
Release Date	24/02/2020
Initial Target Price	MAD 2,340

### SMI

Sector	Mining
Reuters	SMI.CS
Bloomberg	SMI MC

### MAD 2,500

Current Price	MAD 2,335
Potential	+7%
Investment Horizon	12 Months

## SMI : A SUCCESSFUL INVESTMENT BET

### Silver, an attractive investment theme in 2020

Silver's bullish acceleration since mid-March 2020 by 90% triggered a lot of interest among international fund managers. In fact, this metal's current price levels would be supported by solid fundamentals. This is the catch-up potential in the price of Silver in comparison to Gold, the downward trend in the mining supply and finally, the activation of the banknote printing by the major central banks implying a depreciation in the value of the currency [\[Cf. Silver: Towards a new bullish super-cycle ?\]](#).

### SMI, a strong ability to outperform Silver

As one of the world's TOP 10 Silver mines, SMI is among the few single-product miners with a competitive cash cost between 8.0 and 9.0 \$/Oz. The sustainability of current Silver price levels, combined with the stability of SMI's production, would allow the mining operator to benefit from a considerable *margin effect*.

With a normative production of 180 T, we note that for each additional dollar at the level of Silver price, the operator's profitability would increase by MAD +30 Mn over a full year, i.e. 30.0% in comparison to FY 2019 profit. This high sensitivity is supported by SMI's deleveraged profile.

### A "cautious" revision of our 2020-2021 growth forecasts

Taking into account the high volatility of Silver and pending confirmation of its bullish cycle, we made a "cautious" revision regarding our growth forecasts for the period 2020-2021 [\[Cf. AGR Book Afrique\]](#):

- A revenue growth in 2020 of 12.8% based on an average selling price of 19.4 \$/Oz. In 2021, the increase in revenue would reach 16.5% taking into account an average selling price of 22.0 \$/Oz in comparison to a spot price around 27.0 \$/Oz currently ;
- A net income growth in 2020 of 56.0% to MAD 142 Mn against MAD 159 Mn initially due to the expected drop in production in a Covid-19 crisis. In 2021, the net income would stand at MAD 204 Mn, up 43.6% compared to 2020 driven by a positive Silver price effect.

### SMI : UPDATE OF OUR FORECASTS FOR THE PERIOD 2020E-2021E

IN MAD MN	2019	2020E	2021E	VAR 19-20E	VAR 20E-21E
Initial Revenue	852	1,128	1,240	+32.5%	+9.9%
New Revenue	-	961	1,119	+12.8%	+16.5%
Initial EBITDA	388	495	553	+27.6%	+11.7%
New EBITDA	-	483	587	+24.4%	+21.5%
Initial EBITDA Margin	45.6%	43.9%	44.6%	-1.7 pts	+0.7 pt
New EBITDA Margin	-	50.3%	52.4%	+4.7 pts	+2.1 pts
Initial Net Income	91	159	201	+74.7%	+26.4%
New Net Income	-	142	204	+56.0%	+43.6%
DPS (MAD)	0.0	60.0	100.0	-	+67.0%
D/Y (%)	0.0	2.6	4.3	+2.6 pts	+2.3 pts
EV/EBITDA (x)	6.7	7.8	6.4	-	-

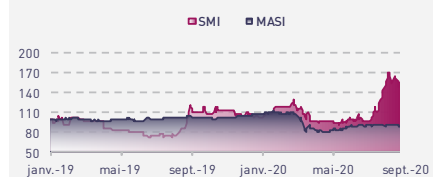
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### STOCK EVOLUTION (BASIS 100)



### MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
SMI	-8.2	47.3	37.4
MASI	-2.0	-2.9	-12.7

ADV (MAD MN)	1 M	3 M	12 M
SMI	1.0	1.0	0.6
MASI	57	74	143

Capitalization	As of 09/18/2020
In MAD Mn	3,841
In \$ Mn	418

Prices at 09/18/2020

## Towards standardization of production from 2021

The Silver activity is considered to be a mature activity of SMI allowing a strong generation of cash flow. Due to the aging of the Imiter mine, the main aim of Management is to preserve the profitability levels through the:

- (1) Stabilization of the annual production at around 180 T in order to control the cash-cost level below 9.0 \$/Oz ;
- (2) Maintaining of an average CAPEX level around MAD 180 Mn in order to renew the mine life (estimated at over 16 years).

As a precaution, we take into consideration an annual production of 160 T in 2020 (i.e. below the normative level), because of the health crisis' negative effects.

## A high sensitivity of profits regarding the Silver price recovery

Taking into account a cash cost of 8.6 \$/Oz, a controlled investment effort and a deleveraged financial structure, SMI is able to outperform the strong recovery in Silver prices.

To confirm the above, the attached table sets out the sensitivity of the EBITDA and earning power in front of 3 Silver price scenarios in 2021.

Therefore, for an increase in the average Silver price from 20 \$/Oz to 27 \$/Oz (i.e. + 35%), the earning power would increase more than 3 times, from MAD 126 Mn to MAD 400 Mn.

## The return to dividend in 2020 ..., a credible scenario

After a loss-making in 2018 marked by the significant deterioration of the Imiter metal grade, the shareholder decided to waive the distribution of the dividend for the 2018 and 2019 FYs. The aim being to strengthen SMI's equity.

Given the financing needs of the parent company Managem for the development of its new mining projects, SMI should logically return to its historic payout policy. On the basis of a normative dividend payout of 60%, the DPS would therefore increase from MAD 87 in 2017 to MAD 100 in 2021, equivalent to a target D/Y above 4.0%.

## An update of our target price from 2,335 to MAD 2,500

Our valuation of SMI stock is based on the DCF method. At the end of this exercise, we come up with an Equity value of MAD 4,137 Mn, equivalent to a stock target price of MAD 2,500.

Silver's shift from an average price level of 16.0 \$/Oz in 2019 to over 20.0 \$/Oz over the period 2020-2022 would bring SMI's EBITDA and FCFs to 28.8% and 53.9% respectively. At the same time, the stock would benefit from a visible improvement in its target valuation levels at the end of this period, i.e. an EV/EBITDA of 6.0x and a P/E of 16.8x.

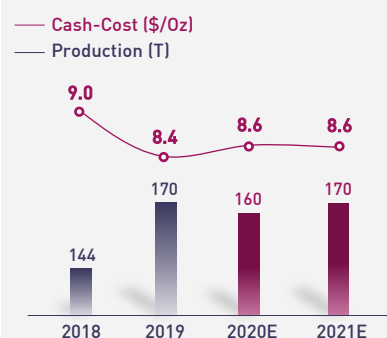
INDICATORS (MAD MN)	2019	2020E	2021E	2022E
EBITDA	388	483	587	622
EBITDA Margin	45.6%	50.3%	52.4%	52.5%
CAPEX	274	180	180	180
% Revenue	32.2%	18.7%	16.1%	15.2%
WCR	228	250	280	284
% Revenue	26.8%	26.0%	25.0%	24.0%
CALCULATED ECONOMIC FCF	-4	241	317	371
FCF Margin	-	25.1%	28.3%	31.3%
P/E (X)	28.3	27.0	18.8	16.8
EV/EBITDA (X)	6.7	7.8	6.4	6.0

Taking into account an unlevered Balance Sheet, we use a discount rate of 10.8%. The latter takes into account a risk-free rate of 2.5% (10y T-Bond), an Equity risk-premium (ERP) of 6.7% calculated according to the survey method and finally, an adjusted beta of 1.24 based on peers method. This reflects the risk profile of a single-product mining company.

The long term growth rate is limited to 2.0%, making it possible to achieve an acceptable weight of the Terminal Value in the EV, i.e. 45.0%.

In the end, we upgrade our target price to MAD 2,500 against MAD 2,340 initially. To this end, we recommend HOLDING SMI stock in portfolios.

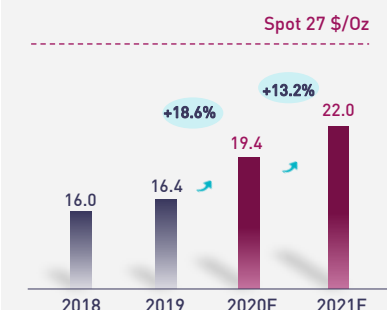
## SMI : PRODUCTION VS CASH-COST



## SMI : SENSITIVITY OF RESULTS (MAD MN)

SILVER (\$/OZ)	AGR SCENARIO			
	20	22	24	27
EBITDA 21E	485	587	688	841
NI 21E	126	204	282	400
P/E 21E	30.4x	18.8x	13.6x	9.5x

## SMI : SILVER SALES PRICE (\$/OZ)



## SMI : COST OF EQUITY CALCULATION

KE	
LT Growth	2.0%
10y T-Bond	2.5%
Risk-premium	6.7%
Bêta	1.24
<b>COST OF EQUITY</b>	<b>10.8%</b>

Sources : Bloomberg, AGR Computations & Estimates



## SMI MINE | MOROCCO |

BLOOMBERG: SMI MC

Growth (%)	2016	2017	2018	2019	2020E	2021E	2022E
Reported Revenues	7,2%	1,6%	-39,7%	25,6%	12,8%	16,5%	5,9%
Adjusted EBITDA	13,9%	3,1%	-75,4%	182,1%	24,4%	21,5%	6,0%
EBIT	18,9%	-3,0%	NS	NS	79,1%	48,7%	10,8%
Net Income	28,7%	-18,4%	NS	NS	56,0%	43,6%	11,7%
DPS	-31,8%	-42,0%	NS	NS	NS	66,7%	20,0%
Profitability	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA Margin	49,0%	49,7%	20,3%	45,6%	50,3%	52,4%	52,5%
Operating Margin	30,2%	28,9%	NS	13,2%	21,0%	26,8%	28,1%
Apparent Corporate Tax	18,5%	18,3%	NS	4,5%	20,0%	20,0%	20,0%
Net Margin	26,5%	21,2%	NS	10,9%	14,1%	16,2%	19,2%
ROE	20,5%	16,9%	NS	7,7%	10,7%	14,2%	15,2%
Payout	84,2%	59,9%	0,0%	0,0%	69,4%	80,6%	86,6%
P&L (MAD Mn)	2016	2017	2018	2019	2020E	2021E	2022E
Reported Revenues	1 107	1 125	678	852	961	1 119	1 185
EBITDA	542	559	138	388	483	587	622
Depreciation & amortization	208	234	288	276	281	287	290
EBIT	335	325	-150	113	202	300	332
Corporate Tax	67	54	3	4	36	51	57
Net Income	293	239	-179	91	142	204	228
Balance Sheet (MAD Mn)	2016	2017	2018	2019	2020E	2021E	2022E
Shareholders' Equity	1 426	1 418	1 096	1 187	1 330	1 435	1 499
WCR	660	564	201	228	250	280	284
Net Debt	26	17	1	21	-52	-79	-98
Gearing (%)	1,8%	1,2%	0,1%	1,8%	-3,9%	-5,5%	-6,5%
Free Cash Flow (MAD Mn)	2016	2017	2018	2019	2020E	2021E	2022E
Changes in WCR	-50	-96	-363	114	22	30	5
Recurring CAPEX	257	310	311	274	180	180	180
Normative Corporate Tax	18%	18%	18%	20%	20%	20%	20%
Free cash-flow	290	257	160	-20	241	317	371
Dividendes (n-1)	362	247	143	0	0	99	165
Valuation Multiples	2016	2017	2018	2019	2020E	2021E	2022E
P/E (x)	15,7	20,7	NS	28,3	27,0	18,8	16,8
D/Y (%)	5,4%	2,9%	0,0%	0,0%	2,6%	4,3%	5,1%
P/B (x)	3,2	3,5	2,3	2,2	2,9	2,7	2,6
EV/EBITDA (x)	8,5	8,9	18,4	6,7	7,8	6,4	6,0
EV/Revenues (x)	4,2	4,4	3,7	3,1	3,9	3,4	3,2
Stoc Figures (MAD)	2016	2017	2018	2019	2020E	2021E	2022E
End of period stock price	2 800	3 000	1 535	1 568	2 335	2 335	2 335
EPS	178	145	-109	55	86	124	139
DPS	150	87	0	0	60	100	120
Book Value per share	867	862	666	722	808	872	911

Prices at 09/18/2020

Sources : Bloomberg, AGR Computations &amp; Estimates

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