

RESEARCH REPORT

STRATEGY

JANUARY
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START 2021 UNDER THE *CASH-CONVERSION* PERSPECTIVE



Attijari
Global Research

For institutional use

EXECUTIVE SUMMARY

If we had to sum up the year 2020 in one word, we would say without hesitation "VOLATILITY". Faced with the Covid-19 crisis, the MASI index underwent the fastest correction in its history, losing more than 28% of its valuation within just 18 trading sessions. However, this unprecedented volatility was not as penalizing for investors. This created great investment opportunities through a catch-up in market performance of more than 25% since the Q2-2020.

At the start of this year, the question which arises is the following: "how to approach the year 2021, especially since the stock market recovered more than 90% of its correction induced by the Covid shock?".

Today, we cope with three realities. The first one concerns the lack of visibility regarding the profile of the economic recovery. The second one is a growing scarcity of investments with attractive yield. The third one is linked to the emergence of debt risk within corporates.

In this context, we are placing the cash generation at the heart of our investment strategy in 2021. Transforming its results into cash-flow, is the only reality allowing to ensure a sustainable return for the Shareholder and a strong resilience for the company. To this end, the *cash-conversion* ratio that we used assesses the ability of a company to convert its revenue into operating cash-flow.

Our analysis of the stock market over the period 2019-2022 takes place in two phases :

- (1) First of all, we identify the companies having a capacity to defend a high level of *cash-conversion* thanks especially to the resilience of their margin level and the good control of their WCR ;
- (2) Secondly, we make sure that this generation of cash has a positive impact on Shareholder remuneration through improving the creation of economic value and the dividend. In fact, the stock market remains particularly efficient with regard to these two indicators.

At the end of our analysis, we end up with a portfolio of 8 stocks. These would best meet our investment theme which deals with cash generation. During the period 2020-2022, our portfolio displays an average *cash-conversion* ratio of 79%, an improvement in the creation of economic value and an important cash-up effect of dividend allowing to offer a target D/Y of 5.6%. This return level is 2.6 times higher than that of the Moroccan bond market.

According to our understanding of the Moroccan market's expectations, we believe that investors will have no complex in paying a valuation premium for this profile of stocks. This conviction reinforces the target return⁽¹⁾ of our portfolio, which according to our expectations will amount to 26% over the period 2021-2022.

Taha JAIDI
Head of Strategy

(1) Cumulative gross return including dividends and price appreciation during the period 2021-2022

AGR STOCK SELECTION UNDER THE *CASH-CONVERSION* THEME

At the end of our analysis, we come out with a selection of 8 listed companies. These would best meet our investment theme, which focus on *cash-conversion*.

During the 2020-2022 period, the selected stocks would be able to better defend their cash generation through a high average cash-conversion ratio, i.e. above 77%. The sustainability of such a level of cash generation is justified by three main factors:

- (1) A visible catch-up effect of the activity with an AAGR in revenue of 8.6%;
- (2) Good control of working capital requirement reflected in an average debt level of 13%;
- (3) An improvement in EBITDA margin of +1.9 pts supported by a visible improvement in productivity.

AGR PORTFOLIO: CAPACITY TO SUSTAIN A HIGH *CASH-CONVERSION* DURING THE PERIOD 2020-2022

Stocks	Revenue Growth			EBITDA margin			Gearing	<i>Cash-Conversion</i>		
	20	21	22	20	21	22	Average 20-22	20	21	22
MAROC TELECOM	1.5%	2.9%	4.0%	51.9%	51.5%	51.1%	96%	78%	78%	78%
CIMAR	-6.4%	6.0%	4.0%	49.6%	45.4%	48.5%	-33%	75%	84%	81%
COSUMAR	6.4%	0.8%	0.8%	22.6%	22.7%	22.7%	16%	75%	76%	76%
TOTAL MAROC ⁽¹⁾	-10.0%	12.0%	9.0%	7.1%	9.9%	9.9%	-12%	86%	83%	82%
SNEP	-3.2%	2.9%	12.4%	20.8%	17.7%	18.7%	15%	61%	64%	68%
MUTANDIS	-3.0%	7.3%	6.6%	15.5%	16.1%	16.5%	38%	85%	80%	80%
CMT	-10.9%	21.3%	13.1%	44.0%	52.4%	54.6%	-13%	97%	71%	76%
SMI	1.5%	21.8%	12.5%	50.0%	54.5%	54.7%	-7%	94%	83%	86%
PTF AGR	-3.0%	9.4%	7.8%	32.7%	33.8%	34.6%	13%	81%	77%	79%

[1] Growth in volumes because revenue is not a relevant indicator for analyzing the activity

The capacity of the selected stocks to defend the cash generation would be accompanied both by an appreciation of the creation of economic value and a positive widening of the dividend yield spread in comparison to the 5 year T-bonds. These are two essential conditions for the performance for any stocks in the Moroccan market particularly in the current context:

- (1) An improvement in economic value creation of 16.4% from an average of 2.72 to 3.16 during the period 2019-2022. This increase is partly justified by the ability of the selected companies to take advantage of the technical decrease in their cost of capital while preserving their economic profitability;
- (2) An expected improvement in the dividend paid allowing an average D/Y of 5.2% over the period 2021-2022. As a result, the yield spread over 5 year T-bonds would sharply increase to settle at 350 BPS by 2022.

AGR PORTFOLIO: VALUE CREATION AND SPREAD OF RETURN COMPARED TO THE BOND MARKET

STOCK	Economic Value Creation				VAR	D/Y				Spread of return (BPS)			
	19	20	21	22	19-22	19	20	21	22	19	20	21	22
MAROC TELECOM	2.78	3.56	3.95	3.99	43.5%	3.6%	4.1%	4.6%	4.8%	120	200	250	270
CIMAR	5.65	4.06	4.76	5.81	2.8%	6.0%	5.1%	5.5%	6.1%	360	300	340	400
COSUMAR	2.50	2.42	2.39	2.35	-6.0%	3.2%	3.8%	4.0%	4.4%	80	170	190	230
TOTAL MAROC	4.24	1.86	3.64	4.37	3.1%	4.8%	4.5%	4.9%	5.3%	240	240	280	320
SNEP	1.10	1.57	1.28	1.50	36.5%	0.0%	3.2%	3.8%	5.8%	-240	110	170	370
MUTANDIS	1.36	1.23	1.37	1.51	11.0%	4.1%	3.9%	3.9%	4.2%	170	180	180	210
CMT	3.20	2.37	3.39	3.62	13.1%	0.0%	4.9%	6.3%	7.5%	-240	280	420	540
SMI	0.90	0.97	1.77	2.15	139%	0.0%	3.1%	5.7%	6.8%	-240	100	360	470
PTF AGR	2.72	2.26	2.82	3.16	16.4%	2.7%	4.1%	4.8%	5.6%	30	200	270	350

Source : AGR Computations & Estimates

AGR STOCK SELECTION UNDER THE *CASH-CONVERSION* THEME

Taking into account our growth scenario for the period 2020-2022, we note an interesting catch-up effect of operational and financial indicators of our portfolio. These include:

- (1) An appreciation in EBITDA of 8.4% attesting to the ability of the selected companies to profit from the recovery of their activities;
- (2) An increase in the DPS of 44.7% on average following the return of the selected companies to their normative payout policy;
- (3) A visible upward readjustment of the ROCE of our portfolio by 7.2 pts from 16.4% to 23.6% over the same period.

AGR PORTFOLIO: ECONOMIC PERFORMANCE AND DIVIDEND POLICY

Stocks	EBITDA (MAD MN)			VAR	DPS (MAD)			VAR	ROCE			VAR ⁽¹⁾
	20	21	22	20-22	20	21	22	20-22	20	21	22	20-22
MAROC TELECOM	19,242	19,638	20,250	5.2%	6.0	6.7	7.0	16.7%	19.4%	21.5%	21.8%	2.4
CIMAR	1,856	1,801	2,000	7.8%	85	90	100	17.6%	31.6%	37.0%	45.1%	13.5
COSUMAR	1,974	2,001	2,017	2.2%	8.0	9.0	10.0	25%	16.5%	16.3%	16.0%	-0.5
TOTAL MAROC	686	1,060	1,166	69.9%	56	60	65	16.1%	13.8%	27.0%	32.4%	18.6
SNEP	190	167	198	3.8%	15	20	30	100%	11.4%	9.3%	10.9%	-0.5
MUTANDIS	220	244	267	21.4%	8.5	8.5	9.0	5.9%	8.0%	8.9%	9.8%	1.8
CMT	204	295	348	70.4%	75	100	120	60.0%	20.5%	29.3%	31.3%	10.8
SMI	432	574	648	49.8%	60	110	130	117%	9.6%	17.6%	21.3%	11.7
PTF AGR	3,101	3,223	3,362	8.4%	-	-	-	44.7%	16.4%	20.9%	23.6%	7.2

(1) Variation in points

Based on the fundamental prices calculated for each stock and taking into account the dividend scenario over the 2020-2021 period, our portfolio would show a target global return⁽²⁾ of 26%. In more detail, this is a stock performance of 17% coupled with a cumulative dividend yield of 9%.

In the end, the improvement in the EV/EBITDA multiple of 20% of our portfolio, from 10.25x to 8.17x over the period 2020-2022, reinforces our target global return of 26%.

AGR PORTFOLIO : VALUATION INDICATORS AND EXPECTED RETURN OVER THE PERIOD 2020-2022

Stocks	CAPI	EV/EBITDA (x)			D/Y			WACC	Price	Price	Return
	MAD MN	20	21	22	20	21	22		01/21/21	Tar 18M	21-22
MAROC TELECOM	127,996	7.58	7.43	7.17	4.1%	4.6%	4.8%	5.45%	145.6	160	19%
CIMAR	23,819	12.45	12.47	11.30	5.1%	5.5%	6.1%	7.77%	1,650	1,800	20%
COSUMAR	21,260	10.57	11.08	10.93	3.8%	4.0%	4.4%	6.82%	225	240	14%
TOTAL MAROC	11,066	15.98	10.21	9.12	4.5%	4.9%	5.3%	7.42%	1,235	1,420	24%
SNEP	1,251	6.55	8.26	6.83	3.2%	3.8%	5.8%	7.25%	521	685	39%
MUTANDIS	1,727	9.58	8.67	7.94	3.9%	3.9%	4.2%	6.49%	216	275	35%
CMT	2,690	12.05	8.72	7.40	4.9%	6.3%	7.5%	8.65%	1,600	1,850	27%
SMI	3,150	7.24	5.32	4.66	3.1%	5.7%	6.8%	9.94%	1,915	2,420	35%
PTF AGR	24,120	10.25	9.02	8.17	4.1%	4.8%	5.6%	7.47%	-	17%	26%

(2) Cumulative gross return including dividends and price appreciation during the period 2021-2022

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