

SELL

Initial opinion	BUY
Release date	01/25/2021
Initial target price	MAD 240

COSUMAR

Sector	AGRI-BUSINESS
Reuters	CSR.CS
Bloomberg	CSR MC

MAD 240

Actual	MAD 280
Potential	-14%
Horizon	12 Months

ACHIEVEMENTS IN LINE WITH EXPECTATIONS ..., ADJUSTMENT OF OUR 2021-2022 FORECASTS

Revenue supported by the recovery in “out of home” consumption

At the end of the 1st half of 2021, Cosumar posted an increase in its consolidated revenue of +2.9% to MAD 4,382 Mn driven by the recovery in “out of home” consumption following the easing of restrictions on mobility. Thus, sales of white sugar on the local market show a growth of +5.7% over the same period, returning to their pre-health crisis levels. Under these conditions, the operator was able to offset the decline in export activity over the same period.

EBITDA improved by 7.0% to MAD 976 Mn supported by a double positive effect. On the one hand, the recovery in consumption. On the other hand, the good performance of the local sugar crop yields through production of 340 KT in H1-21 against 325 KT in H1-20. These achievements are in line with our initial annual scenario, equivalent to annual achievement rates of 50% for revenue and 49% for EBITDA and NIGS ([Cf. Listed Companies 2020 Results](#)).

Export activity penalized by a less favorable international market

The Export activity would have decreased by -8.2%, from MAD 1,386 Mn in H1-20 to MAD 1,272 Mn in H1-21. This is attributed to the drop in the exported white sugar selling prices. The latter stood at an average of 4,118 MAD/ T in H1-21 against 4,466 MAD/T in H1-20, i.e. a decline of -7.8%. At the same time, we are seeing a downward trend in international refining margins. According to our calculations, the average *white sugar/raw sugar* spread fell by -13.0%, from 101 \$/T to 88 \$/T over the studied period.

A stock trading above our fundamental valuation

Since our BUY recommendation in January 2021, Cosumar stock posted a performance of 26%, exceeding our fundamental price of MAD 240. As of today, we believe that the Group's growth prospects are largely integrated into our valuation level.

As a precautionary measure and pending for new elements to justify a revision of our business plan, we are keeping our target price unchanged at MAD 240. Taking into account a price of MAD 280, the stock thus displays a valuation premium of 14% on the stock market. This could not be offset over the short-term by the stock's D/Y levels.

Technically, our recommendation for the Cosumar stock is changed from **BUY** to **SELL**.

COSUMAR: CONSOLIDATED H1-21 RESULTS VS. INITIAL FORECASTS AGR 2021E

IN MAD MN	H1-2020	H1-2021	VAR	2021E	TR 2021E ⁽²⁾
Consolidated revenue	4,260	4,382	+2.9%	8,716	50%
EBITDA	912	976	+7.0%	2,001	49%
EBITDA Margin	21.4%	22.3%	+0.9 pt	22.7%	-
NIGS ⁽¹⁾	367	477	+30.0%	980	49%
Net Margin	8.6%	10.9%	+2.3 pts	11.5%	-

(1) including a contribution to the Covid-19 special fund of MAD 100 Mn

(2) Achievement rate, H1 2021 results/ AGR annual forecasts

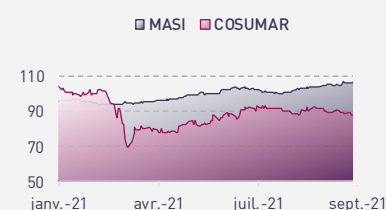
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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
COSUMAR	1.1	2.6	47.4
MASI	3.0	5.6	31.8

ADV (MAD MN)	1 M	3 M	12 M
COSUMAR	6.7	10.1	8.9
MASI	168	138	144

Capitalization	At 09/28/2021
In MAD MN	26,456
In \$ Mn	2,940

Prices as of 09/28/2021

A weak sugar crop, limiting export capacities in 2021

Given the less favorable conditions which marked the recent sugar crop, local production of white sugar is expected to drop by -26% to 388 KT in 2021E against 526 KT a year earlier. This is the lowest level observed in the past seven years. To this end, the domestic consumption coverage rate would be around 1/3 in 2021E against a five-year average above 45%.

In order to meet the domestic Demand for white sugar, which amounts to 1.2 MT, most of the refinery's capacities will be mobilized locally. Therefore, we expect a drop in exported volumes of almost -15% from 648 KT in 2020 to 550 KT in 2021E.

Durrah project, a visible impact on profits from 2022

According to recent Management announcements, the Durrah refinery in Saudi Arabia has already started production of refined white sugar in Q3-21. Based on an annual capacity of 840 KT, an average refining margin of 70 \$/T observed on the international market and a 43% stake of Cosumar in this project, the impact on profits is estimated, between MAD 100 Mn and MAD 120 Mn from 2022. This is a contribution of 12% to the Group's normative NIGS.

As a reminder, the Durrah project will be included in the consolidated financial statements of the Cosumar Group using the "equity method".

Main adjustments to our 2021-2022 growth forecasts

Our exercise of updating the Cosumar Group's growth forecasts over the period 2021-2022 highlights the following adjustments :

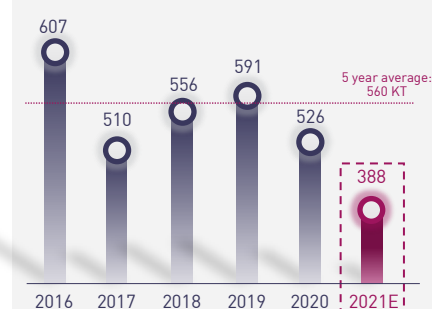
- A downward revision in the export activity growth during 2021 due to the relatively weak agricultural crop. Nevertheless, the expected recovery in domestic consumption would limit the decline in the Group's consolidated sales to -0.6% in 2021E against +1.0% initially. In 2022E, we anticipate a growth of +0.7% in consolidated revenue ;
- A drop in consolidated EBITDA of -1.0% against 9.3% initially. This downward adjustment is justified by the relatively low level of the sugar crop combined with the decline in the average international refining margin. In 2022, EBITDA would show a slight upturn of +1.7% to MAD 1,843 Mn ;
- An increase in NIGS revised to 13.6% in 2021 against 21.0% initially. This growth rate takes into account the non-recurrence of the Covid donation of MAD 100 Mn as well as the gradual ramp-up of production at the Durrah refinery. This would reach its cruising speed in terms of production from 2022. As a result, the NIGS would show a sustained growth of 9.8% in 2022, thus exceeding the threshold of MAD 1.0 Bn.

With a view to further updating our business plan, we are awaiting more detailed communication from Top Management regarding two projects. These are the new vegetable fat plant in Casablanca and the white sugar packaging plant in Guinea Conakry.

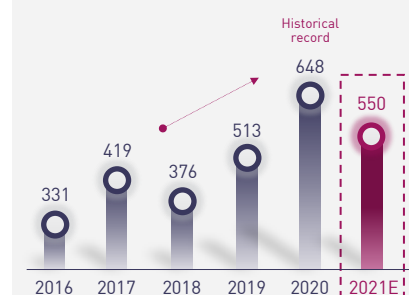
COSUMAR: NEW AGR FORECASTS 2021E-2022E

EN MDH	2020R	2021E	2022E	VAR 20R-21E	VAR 21E-22E
Initial Revenue	8,630	8,716	8,847	+1.0%	+1.5%
New Revenue	-	8,581	8,644	-0.6%	+0.7%
Initial EBITDA	1,830 ⁽¹⁾	2,001	2,017	+9.3%	+0.8%
New EBITDA	-	1,812	1,843	-1.0%	+1.7%
Initial EBITDA Margin	21.3%	23.0%	22.8%	+1.7 pts	-0.2 pt
New EBITDA Margin	-	21.1%	21.3%	-0.2 pt	+0.2 pt
Initial NIGS	810	980	1,077	+21.0%	+9.9%
New NIGS	-	920	1,010	+13.6%	+9.8%
Initial DPS	6.0	9.0	10.0	+50.0%	+11.1%
New DPS	-	7.0	8.0	+16.7%	+14.3%
D/Y (%)	2.9	2.5	2.9	-	-
P/E (x)	24.5	28.9	25.0	-	-

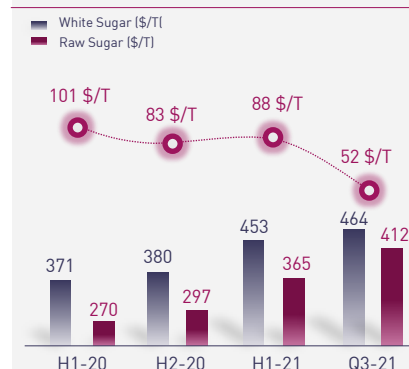
COSUMAR: LOCAL SUGAR PRODUCTION (KT)



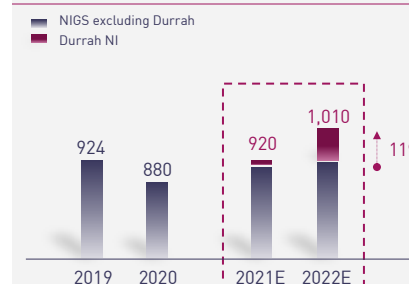
COSUMAR: EXPORTS VOLUME (KT)



COSUMAR : REFINING MARGIN (\$/T)



DURRAH IMPACT ON RECURRING NIGS



(1) Published EBITDA, not comparable to AGR's method of calculating

Sources : Cosumar PR, Bloomberg, Office des changes, AGR Computations & Estimates



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