

### BUY

Initial Opinion	BUY
Release Date	02/24/2021
Initial Target Price	MAD 273

### MUTANDIS

Sector	AGRIBUSINESS
Reuters	MUT.CS
Bloomberg	MUT MC

### MAD 305

Current Price	MAD 260
Upside	+17%
Investment Horizon	12 Months

## AN UNFAVORABLE FY 2021 ..., NOT IMPACTING THE GROWTH MODEL

The release of Mutandis H1-21 results takes place in a particular context. On the one hand, the Group announced a few months ago the acquisition of the company Season based in the United States. This should become part of the Group's consolidation scope starting from August. On the other hand, the surge in international commodity prices should continue to weigh on the operator's margin levels during the second half of the year.

Under these conditions, we have updated our growth forecasts and our valuation of Mutandis stock. At the end of this exercise, we come out with the following conclusions :

- Thanks to the diversification of its activities portfolio, Mutandis manages to stabilize its revenue level at MAD 689 Mn in H1-21. In more detail, the good performance of the "Food Bottles" and "Fruit Juices" business lines offset the one-off downturn in the "Detergents" and "Seafood" segments;
- The drop in the EBITDA margin of -0.9 pt from 15.3% to 14.4% is mainly due to the fact that Mutandis did not impact the surge in input prices on its selling prices. This situation should persist during H2-21 before hoping for a gradual readjustment starting from 2022. Under these conditions, we have revised downwards our initial scenario of margins evolution during the period 2021-2023;
- The acquisition of the company Season, the reference brand of "premium" Sardine in the USA, is a major step in the development of Mutandis. During the period 2022-2023, the company will contribute considerably to the results of Mutandis through an average revenue of MAD 480 Mn. an average EBITDA of MAD 67 Mn and an average net income of MAD 54 Mn. The latter would represent nearly 45% of the Group's recurring profits over the studied period;
- The impact of the Season acquisition on the valuation of Mutandis stock was limited by the downward revision of future margin levels. Nevertheless, this operation would allow Mutandis' profit to cross the threshold of MAD 130 Mn by 2023 against an average of MAD 75 Mn since the IPO. This is an increase in the net profit of +76%, which translates positively to the stock's P/E ratio. The latter would settle at a relatively attractive level in 2023, i.e. 15.7x against a reference of 21x for the equity market;
- At the end of our valuation exercise based on the DCF "sum of the parts" method, we revise our target price of Mutandis stock to **MAD 305** against **MAD 273** initially, justified exclusively by the new acquisition of the company Season. This represents an upside of 17% over a MT horizon. In the end, we keep our recommendation to **BUY** the stock.

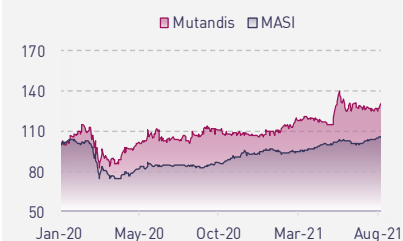
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### STOCK EVOLUTION (BASIS 100)



### MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
MUTANDIS	1.2	-5.5	19.3
MASI	2.4	3.6	27.7

ADV (MAD Mn)	1 M	3 M	12 M
MUTANDIS	2.2	3.7	2.4
MASI	119	180	139

Capitalization	As at 09/16/2021
In MAD Mn	2,079
In \$ Mn	232

Prices at 09/16/2021

## A resilience in revenue thanks to the diversification of the business portfolio

After a significant drop of -9.9% during Q1-21, Mutandis' consolidated revenue shows a significant recovery of 11.4% during the second quarter of 2021. To this end, the operator's half-year revenue remained almost stable at MAD 689 Mn against MAD 683 Mn a year earlier. These achievements are slightly below our initial 2021 forecasts through an achievement rate of 46% at the end of this first semester.

When analyzing the change in the operator's revenue in H1-21, we note two major findings:

- ⇒ An increase of 81.2% in the "Food Bottles" activity benefiting from a double *price/volume* effect due to the rise in international PET prices and the recovery in out-of-home consumption. For its part, the "Fruit juices" activity recorded an increase of 14.6% in H1-21, driven by the repositioning of the Group's two own brands, namely Marrakech Pulp and Vitakids;
- ⇒ A -12.6% decline in the "Detergents" business line caused by an unfavorable base effect due to the overconsumption of this type of product in H1-20. At the same time, the "Seafood products" activity fell by -11.2%, reflecting the difficulties in supplying Sardines from Laâyoune region. As a reminder, this region represents nearly 50% of the supply of Sardines from Mutandis.

## A surge in input prices weighing on margin levels

At the end of this first half-year, Mutandis' EBITDA settled at MAD 99 Mn, down -4.9% compared to H1 -20. This is a decrease of -0.9 pt in the EBITDA margin to 14.4%. These achievements remain lower than our initial forecasts through a 2021 achievement rate of 40%.

At the origin of this discrepancy with our forecasts, the unprecedented rise in international commodity prices and the cost of transport, which could not be fully reflected in selling prices. According to the Management, the prices of chemical raw materials used in the "Detergents" activity have increased between 15% and 40%. For their part, the prices of cardboard and plastic packaging would have followed the same trend. Finally, soybean oil prices would have jumped by 40% also due to the poor global harvest. Taking into account the continued acceleration in international commodity prices during Q3-21, pressure on margins should therefore persist.

Meanwhile, it should be noted that the surge in input prices was partially limited by the operator's rationalization of its payroll and its Marketing expenses.

## An earing power below our initial forecasts

The reported NIGS fell by -16.0% year-on-year to MAD 28 Mn in H1 2021. This is an achievement rate of 32% compared to our initial estimate of MAD 86 Mn for the entire FY 2021.

At the origin of this underperformance, the significant deterioration in margin levels in a context marked by the increase in input prices combined with the 4.4% rise in the depreciation level due to the Group continuous development efforts.

### MUTANDIS: CONSOLIDATED H1-21 RESULTS VS. INITIAL FORECASTS AGR 2021

IN MAD MN	H1 2020	H1 2021	VAR	AGR 21E	AR 2021 <sup>(1)</sup>
Consolidated revenue	682.7	689.2	+0.9%	1.498	46%
Consolidated EBITDA	104.5	99.4	-4.9%	248	40%
EBITDA margin	15.3%	14.4%	-0.9 pt	16.6%	-
Reported NIGS	32.9	27.6	-16.0%	86	32%
Net margin	4.8%	4.0%	-0.8 pt	5.7%	-

(1) Achievement's rate, i.e. H1 2021 results/ AGR annual forecasts

Sources : Mutandis PR, AGR Computations & Estimates



## Growth forecasts for the new "Season" subsidiary

As of July 30<sup>th</sup> 2021, Mutandis completed the acquisition of 100% stake in the company Season, considered as the reference brand of "premium" Sardine in the United States. This company would hold a market share of 25% of "Sardine" and 40% of "Premium Sardine".

Our scenario for the evolution of Season main indicators is as follows:

- ⇒ The average revenue would be around MAD 480 Mn over the period 2022-2023 with a growth profile of 5.0% in the MT. This will be driven by the effects of synergy with the parent company, particularly in terms of enriching the product offering. We cite as an example the integration of cooking oils, capers, anchovies and olives;
- ⇒ We expect an average EBITDA margin of 14.0% over the period 2022-2023, equivalent to an average level of MAD 67 Mn;
- ⇒ Net income would stand at MAD 54 Mn on average over the same period, representing 45% of Mutandis' recurring earning power over the period 2022-2023. On the MT, we expect an AAGR around 8.0%.

### SEASON: GROWTH FORECASTS OF THE MAIN INDICATORS 2022-2023

IN MAD MN	AVERAGE 22E-23E	MT GROWTH PROFILE	LT GROWTH PROFILE
Revenue	480	+5.0%	+3.0%
EBITDA	67	+6.0%	+3.0%
EBITDA margin	14.0%	-	-
Net income	54	+8.0%	+4.0%
Net margin	11.3%	-	-

## Achievement of a new growth level over the period 2021-2023

Following the integration of the Season subsidiary starting from August 2021, the interest charge relating to this acquisition and the impact of the increase in input prices on margins, we have updated our growth forecasts for the period 2021- 2023. The following conclusions emerge:

- ⇒ The operator's revenue is expected to show a sustained growth through an 21-23 AAGR of 13.6% to reach MAD 2,077 Mn in 2023;
- ⇒ EBITDA should follow a higher trend benefiting from the bullish readjustment in margins. This indicator would stand at MAD 321 Mn in 2023, i.e. an AAGR of 22.7%;
- ⇒ Taking advantage of a positive scope effect, NIGS should reach MAD 132 Mn in 2023 through an 21-23 AAGR of 43.2%. This is a target net margin of 6.4% by 2023 compared to 4.0% in 2021, i.e. an increase of 2.4 points.

### MUTANDIS: NEW AGR GROWTH FORECASTS 2021-2023

IN MAD MN	2020R	2021E	2022E	2023E	TCAM 21-23
Consolidated revenue	1.396	1.611	1.976	2.077	+13.6%
Consolidated EBITDA	225	213	288	321	+22.7%
EBITDA margin	16.1%	13.2%	14.6%	15.4%	-
NIGS	68	64	112	132	+43.2%
Net margin	4.8%	4.0%	5.7%	6.4%	-
DPS (MAD)	8.5	8.5	9.0	9.5	+5.7%

## Slight upward revision of the target price at MAD 305

The update of our growth assumptions has led us to revise the target price of the Mutandis stock. This updating exercise revolves around two main points:

- ⇒ On the one hand, the integration of the company Season into the valuation scope. This is a 5-month impact in 2021 and a full-year impact from 2022;
- ⇒ On the other hand, the occasional pressure on margins following the surge in international commodity prices. To this end, we have revised downward the profile of the operator's EBITDA margin (excluding the impact of Season) over the period 2021-2023.

At the end of our valuation using the "sum of parts" DCF method, we come out with an Enterprise Value of Mutandis of MAD 3,135 Mn. After deduction of net debt, the value per share comes out at MAD 305 against MAD 273 initially. To this end, we maintain our recommendation to **BUY** the stock with an upside of 17%.

### SUMMARY: VALUATION PARAMETERS OF MUTANDIS BY ACTIVITY

ACTIVITY	WEIGHT IN EBITDA 21E-23E	EBITDA MARGIN 21E-23E	AAGR EBITDA 21E-23E	BETA BENCHMARK	DISCOUNT RATE <sup>(1)</sup>
Detergents	41%	16,8%	14.8%	0.85	6.5%
Seafood Products	19%	10.2%	22.7%	0.92	7.1%
Food Bottles	18%	18.8%	10.1%	1.00	7.2%
Fruit Juices	3%	10.2%	18.3%	0.90	7.0%
Season	19%	13.8%	7.6%	0.75	5.7%

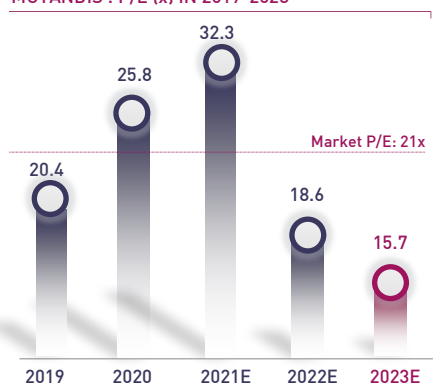
(1) Discount rate (WACC) taking into account a target financial structure based on 45% Debt and 55% Equity

## A significant improvement in valuation multiples ..., under the Season effect

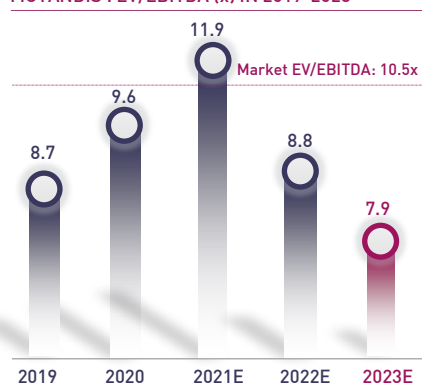
The acquisition of Season should allow the operator to significantly improve its profitability indicators over the period 2021-2023. This should be reflected positively on the valuation multiples of the Mutandis stock on the equity market:

- ⇒ Based on a target earning capacity of MAD 132 Mn in 2023, the earnings multiple would stand at 15.7x by 2023 against a normative level of 21x for the equity market. This is a 25% discount;
- ⇒ Taking into account an EBITDA of MAD 321 Mn in 2023, the EV/EBITDA multiple would settle at 7.9x against a reference of 10.5x for the MASI index. This is a 25% discount.

MUTANDIS : P/E (x) IN 2019-2023



MUTANDIS : EV/EBITDA (x) IN 2019-2023



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