

### BUY

Initial opinion	BUY
Release date	09/14/2020
Initial Target Price	MAD 1.200

### EQDOM

Sector	CONSUMER LOAN
Reuters	EQD.CS
Bloomberg	EQD MC

### MAD 1.650

Target Price	MAD 1.372
Upside	20%
Investment Horizon	12 Months

## CONFIRMATION OF THE RECOVERY... , UPWARD REVISION OF THE STOCK TARGET PRICE

### A confirmed recovery of "consumer loans" in Morocco

At the end of the 1<sup>st</sup> half of 2021, Eqdom confirms the recovery of its activity by recording a 48.0% increase in its loan production compared to H1-20 to MAD 1,279 Mn. This is a level almost similar to that observed pre-health crisis, i.e. around MAD 1,300 Mn.

It is reassuring to note that this recovery in activity is driven by the good momentum in the two pillars of the Moroccan consumer loan sector. On the one hand, the production of "automotive loans", which jumped by 86.0%. On the other hand, "Personal loans" which grew by 28% over the same period.

### Financial achievements limited by the weight of the cost of risk

In a context of economic recovery, the operator's consolidated NBI stood at MAD 276 Mn, up 10.4% compared to H1-20 and 1.3% compared to H1-19. The good control of general operating expenses allows the GOI margin to remain stable at 55%, in line with the average observed over the 2018-2020 period. The increase in the net cost of risk by MAD +36 Mn to MAD 115 Mn weighed on the earning power. To this end, the NIGS is almost similar to that of H1-20, i.e. MAD 20 Mn.

The achievements in terms of NBI and Gross Operating Income remain in line with our annual forecasts for 2021E through achievement rates of 51% and 48% respectively. Meanwhile, the low achievement rate of the NIGS does not call into question since we expect an acceleration in the normalization of the cost of risk during H2-21.

### A revision of the stock target price from MAD 1,200 to MAD 1,650

Since our "BUY" recommendation » on September 14<sup>th</sup>, 2020, Eqdom stocks posted a performance of 39%, from MAD 990 to MAD 1,372. Taking into account the solid recovery in household consumption, the room for normalization of the cost of risk and the decrease in the stock's discount rate, we raised our target price to MAD 1,650 against MAD 1,200 initially. This is an upside potential of 20% over the MT.

Beyond its positive outlook, the ability of Eqdom to return to its normative dividend at the end of the 2020R-2023E period would improve its attractiveness on the stock market. According to our scenario, the DPS would evolve from MAD 65 to MAD 80 during this period, i.e. an average D/Y of 5.6% against 2.8% for the Moroccan Equity market.

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

In MAD Mn	H1-2019	H1-2020	H1-2021	VAR	2021E	AR 2021E <sup>(1)</sup>
NBI	273	250	276	+10.4%	543	51%
GOI	154	142	152	+6.9%	317	48%
GOI Margin	56.4%	56.8%	55.0%	-1.8 pt	58.5%	-
Cost of risk	33	79	115	+46.2%	163	71%
Reported NIGS	69	22	20	-7.6%	95	21%
Net Margin	25.3%	8.7%	7.3%	-1.4 pts	17.5%	-

[1] AR: Achievement rate, i.e. results H1-21 R / Annual forecasts 2021E

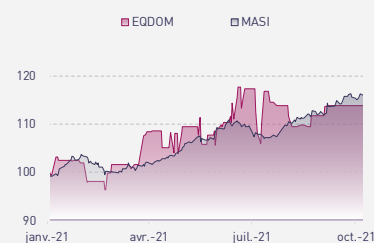
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### STOCK EVOLUTION (BASIS 100)



### MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
EQDOM	5.5	4.9	37.6
MASI	3.0	9.2	27.9

ADV (MAD MN)	1 M	3 M	12 M
EQDOM	0.9	0.9	0.6
MASI	154	119	146

Capitalisation	Au 10/14/2021
In MAD MN	2,292
In \$ MAD	253

Prices of 10/14/2021

## "Automotive" & "Retail", the barometers of the recovery

The dynamics of the "Automotive" and "Retail" activities constitute, in our opinion, a reliable barometer to assess the strength of the recovery of the Moroccan consumer loan sector. Based on official figures and our discussions with professionals in the sector, we note two reassuring findings:

- Automotive sales stood at 131,637 units at the end of September 2021, up + 53.1% in comparison to September 2020 and +12.6% compared to the first 9 months of 2019 (i.e. pre-crisis period). Also, market operators confirmed the strength of their order books over the coming months ;
- Modern distribution is showing strong momentum in 2021. As an indication, Label Vie Group's sales showed solid growth in Q2-21 of +9.0% compared to Q2-20 and of +15% compared to Q2-19 (pre-crisis period). Also, industry professionals would confirm the solid recovery in sales in the "Leisure & Appliances" category.

## Towards a normalization of the Cost of Risk from H2-21

It is true that Eqdom's good commercial performance was limited by the increase in its net cost of risk of +46.2% from MAD 78.8 Mn in H1-20 to MAD 115.2 Mn in H1-21. Nevertheless, we believe in a readjustment of this indicator for the following reasons :

- Like the banking sector, the trend of the Moroccan consumer loan sector would be marked by a visible improvement in the cost of risk from H2-21 compared to an over-provisioning observed in 2020. This scenario is supported by the net improvement in economic, sectoral and health indicators in Morocco ;
- The significant increase in loan production will take place in 2021 on a better risk basis compared to 2020. In fact, finance companies are more selective. Since the average outstanding loan is less than 4 years, we will see an accelerated normalization of the net cost of risk over the period 2021-2022.

## Main adjustments to our 2021E-2023E growth forecasts

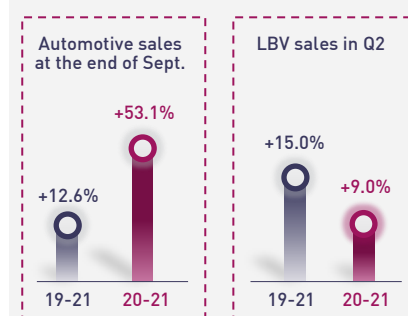
The update of Eqdom's business plan during the period 2021E-2023E concerns the following adjustments:

- A slight upward revision of NBI in 2021E, i.e. +10.9% to MAD 562 Mn. In 2022E, growth is revised to +8.0% against +9.1% initially;
- A downward revision of the net cost of risk in 2021E to MAD 132 Mn against MAD 163 Mn, i.e. a variation of -9.5%. Over the period 2021E-2023E, this would post an AAGR of -9.9% to settle at MAD 107 Mn. After reaching 1.37% of the gross outstanding, the net cost of risk would stand at 0.98%. A level above the 2017-2019 average of 0.83%;
- A revision of the NIGS in 2021 to MAD 87.0 Mn against MAD 95.0 Mn initially. Over the period 2021E-2023E, the retained AAGR is 28.0% equivalent to a target profit of MAD 143 Mn and a dividend capacity of MAD 80 per stock ;
- Finally, a significant revision of the discount rate from 9.4% in September 2020 to 7.8% in October 2021 following the drop in the Equity Risk Premium, the shift in the yield curve and the stock's relative resilience compared to the MASI index.

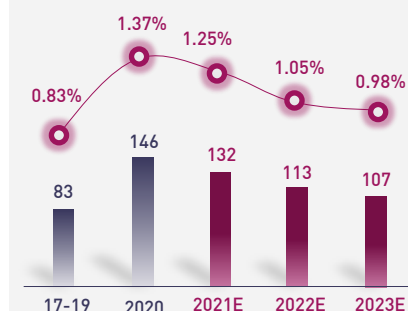
## EQDOM : AGR FORECASTS 2021E-2023E

IN MAD MN	2020R	2021E	VAR 20R-21E	2022E	2023E
Initial NBI	506	543	+7.2%	592	646
New NBI	-	562	+10.9%	606	649
Initial GOI	273	317	+16.3%	360	405
New GOI	-	300	+9.9%	332	360
Initial GOI Margin	53.9%	58,5%	+4.6 pts	60.8%	62.7%
New GOI Margin	-	53,4%	-0.5 pt	54.7%	55.6%
Initial NCR	146	163	+11.6%	147	132
New NCR	-	132	-9.5 %	113	107
Initial NIGS	35	95	+174.0%	130	171
New NIGS	-	87	+152.2%	123	143
Initial DPS	65	57	-12.5%	60	103
New DPS	-	70	+7.7%	75	80

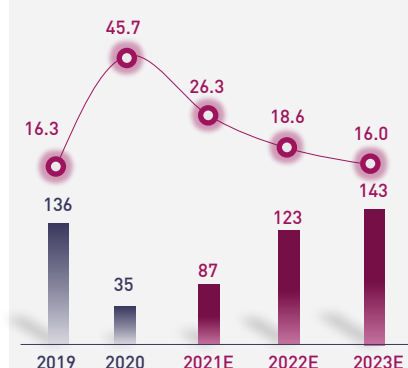
## EVOLUTION : AUTOMOTIVE VS. RETAIL SECTORS



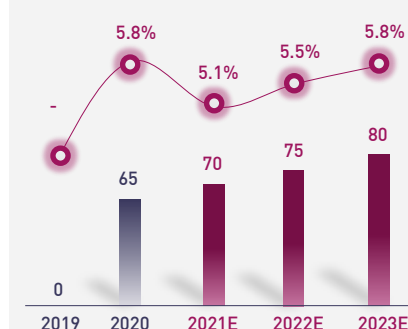
## EQDOM : NCR (MAD MN) VS. NCR/OUTSTANDING



## EQDOM : NIGS (MAD MN) VS. RECURRING P/E(x)



## EQDOM : DPS (MAD) VS. D/Y



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