

BUY

Initial Opinion	BUY
Release Date	12/31/2021
Initial Target Price	MAD 150

MAROC TELECOM

Secteur	TELECOM
Reuters	IAM.CS
Bloomberg	IAM MC

MAD 134

Current Price	MAD 121
Potential	11%
Investment Horizon	18 M

A LESS FAVOURABLE CONTEXT..., REQUIRING A REVISION OF THE TARGET PRICE

The release of Maroc Telecom 2022 mid-term achievements occurs in a context which it is not very favourable to revenue growth. In addition, this H1-22 was marked by the recognition of a provision for a penalty payment applied by the Moroccan regulator to the incumbent operator for an amount of MAD 2.45 Bn. Under these conditions, we have revised our growth assumptions for the Group and consequently our stock's valuation.

At the end of this exercise, we downgrade our target price from MAD 150 to MAD 134. Based on a stock market price of MAD 121 (price on August 24th, 2022), we believe that the recent stock's decrease remains disproportionate to the quality of its fundamentals.

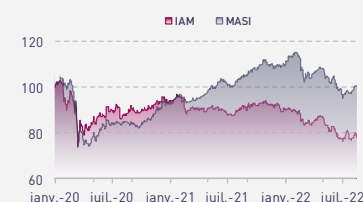
Our analysis is structured around five key messages:

- Regulatory constraints and competitive pressures in Morocco are increasingly impacting the growth profile of Maroc Telecom's Mobile revenue. At the origin, a limited leeway in terms of « Offers & Promotions » compared to competitors, a stricter framework for specific B2B Offers and a maintaining of a tariff asymmetry at the expense of the incumbent operator ;
- Revenue of Fixed-Line in Morocco and international activities demonstrate good resilience thanks to the continued expansion of the broadband Internet customer « ADSL & FTTH » and the sustained growth of Mobile Data in Africa. However, Mobile revenue growth of African subsidiaries is slowed by the downward trend in Termination rates (TR) whose impact is expected to continue in 2023 ;
- We believe that inflationary pressures in Morocco will weigh more on Mobile revenue growth in H2-22. Our opinion is supported by the historical correlation established between the general price level and telecommunications expenditure, particularly by Prepaid Mobile users. The latter represent approximately 90% of the mobile fleet in Morocco ;
- In an unfavourable context for cash generation, we are witnessing a downward readjustment of the payout⁽¹⁾. This went from a historic level of around 100% to an average of 70% over the period 2019-2021. According to our own scenario, the Group's target payout⁽¹⁾ would now settle between 70 and 80% during the period 2022-2023 ;
- Taking into account the recent drop of the stock, the offered D/Y becomes relatively more attractive. This is an average D/Y of 4.5% over the period 2022-2023 compared to 3.5% for the Equity market.

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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
Maroc Telecom	-2.4	-4.4	-14.5
MASI	2.0	-3.2	-4.4

ADV (MAD Mn)	1 M	3 M	12 M
Maroc Telecom	8.3	11.9	13.3
MASI	42	100	147

Capitalisation	At 08/24/2022
In MAD Mn	105,491
In \$ Mn	10,109

Price at 08/24/2022

[1] Payout calculated on the basis of the recurring earnings capacity displayed

Sources : AGR Computations & Estimates

H1-22 ACHIEVEMENTS PENALIZED BY REGULATORY PRESSURES

Upon our analysis of Maroc Telecom's 2022 mid-term results, we come out with three main findings:

(1) Growth in Morocco penalized by the regulatory context

At the end of H1-22, Maroc Telecom shows a significant drop in its revenue in Morocco, i.e. -2,2% at MAD 9.6 Bn. This decline results from the decrease in Mobile revenue of -5.0% impacted by an intensification of regulatory constraints and competitive pressures since 2020. As examples, we note: **(a)** a limited leeway in terms of « Offers & Promotions » relating to unlimited Mobile Data, ADSL and FTTH⁽³⁾ equipment compared to competitors, **(b)** a stricter framework for specific B2B Offers and finally, **(c)** a maintaining of a tariff asymmetry in favour of competitors.

It should be noted that H1-22 was marked by the provisioning of the penalty imposed on Maroc Telecom for an amount of MAD 2.45 Bn following the decision related to unbundling.

(2) Good resilience of Fixed-Line in Morocco and African subsidiaries

The Fixed-line activity in Morocco continues to grow, posting an increase of 1.6% in H1-22 against an average of 0.9% during the last 6 semesters. This activity is supported by the good momentum of Fixed-Line Broadband, whose revenue improved by 7.3% to MAD 1.97 Bn at the end of the same period. Note that the continued expansion of the ADSL Internet fleet, which now has 1.7 Mn subscribers with an FTTH⁽³⁾ fleet up 45% in H1-22.

The Group's international revenue slightly increased by 0.4% to MAD 8.6 Bn thanks to the strong growth of the Data Mobile segment of +29%. The latter was able to counterbalance the continued decline in Termination rates (TR), whose the trend seems to become structural in African markets. Excluding the decrease in termination rates, subsidiaries' revenue were up 2.8%. For example, Mobile TR in Gabon will change from 7 FCFA/min in 2022 to 5 FCFA/min expected in 2023. In Côte d'Ivoire, Mobile TR will be reduced to 2 FCFA/min in 2023 against 5 FCFA/min in 2021.

(3) Mid-term achievements in line with our 2022E growth scenario

Restated from the new « penalty », whose the total amount was fully provisioned in Q2-22, Maroc Telecom's mid-term results remain in line with our initial annual growth forecasts. At the consolidated level, revenue, EBITDA and adjusted NIGS show annual achievement rates of 49%, 51% and 48% respectively. In this context, our 2022 annual growth forecasts have been slightly adjusted.

MAROC TELECOM: CONSOLIDATED RESULTS H1-22 VS. REVISION OF 2022 AGR FORECASTS

IN MAD MN	H1-21	H1-22	VAR	AGR 22E	VAR 22E	AR 2022 ⁽¹⁾
Consolidated Revenue	17 780	17 568	-1.2%	35 656	-0.4%	49%
Moroccan Revenue	9 774	9 561	-2.2%	19 566	-1.7%	49%
Mobile	5 985	5 684	-5.0%			
Fixe & Internet	4 702	4 778	1.6%			
Of which Data Fixe	1 838	1 973	7.3%			
International Revenue	8 515	8 552	0.4%	17 114	1.2%	50%
Published EBITDA	9 160	9 171	0.1%	18 551	-0.2%	49%
EBITDA margin	51.5%	52.2%	+0.7 pt	52.0%		
Adjusted ⁽²⁾ EBIT	5 571	5 740	3.0%	11 210	-3.2%	51%
EBIT margin	31.3%	32.7%	+1.4 pts	31.4%		
Published EBIT	5 557	3 287	-40.8%	8 760	-21.2%	38%
EBIT margin	31.3%	18.7%	-12.6 pts	24.6%		
Adjusted NIGS ⁽²⁾	2 832	2 869	1.3%	5 936	-1.2%	48%
Net margin	15.9%	16.3%	+0.4 pt	16.6%		
Published NIGS	2 827	417	-85.2%	3 486	-42.0%	NS
Net margin	15.9%	2.4%	-13.5 pts	10.0%		

(1) H1-22 results versus AGR 22E forecasts (2) Adjusted for the penalty imposed by the regulator for an amount of MAD 2.45 Bn

[3] Fiber To The Home

Sources : Maroc Telecom press release H1-22, AGR Computations & Estimates



A NEW CONTEXT..., REQUIRING A REVISION OF OUR CENTRAL GROWTH SCENARIO

An inflationary context limiting Mobile's growth prospects

Following the international trend, we believe that the inflationary pressures that the Moroccan economy is experiencing in 2022 should weigh on the pace growth of the Mobile segment's revenue. In Morocco, the inflation rate stood at 5.7% on average between March and May 2022 before reaching a 27-year high in July 2022 at 7.7%. With a relatively high weight in the consumption budget, i.e. 3.0%, communication expenditure would be very sensitive to decisions made by households in their future consumption choices.

Insofar as 89% of the Mobile customer fleet in Morocco is represented by prepaid, customers would systematically readjust their telecommunications expenses following the rise in the food component prices. This represents more than 1/3 of the household basket in Morocco.

Revision of key valuation assumptions

The revision of our Business Plan for Maroc Telecom Group is structured around two main components:

Operating assumptions :

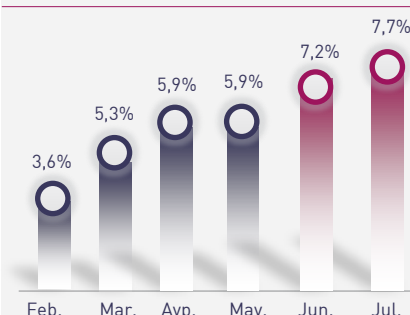
- ⇒ **Mobile Morocco :** This activity is evolving in a less favourable context that does not allow the incumbent operator to return to positive growth during the period 2022-2025. On the short-term, the inflationary context should weigh on the budget allocated to mobile spending. In the medium term, regulatory and competitive constraints should relatively limit Maroc Telecom's growth prospects in this segment ;
- ⇒ **EBITDA Margin :** Faced with the downward trend in TR⁽¹⁾ in African markets and a less favourable context in Morocco, our central scenario is build around maintaining margin levels on the medium term ;
- ⇒ **Investment in Morocco :** The Group's CAPEX levels are currently at the high end of the international benchmark. In our opinion, the incumbent operator should make additional efforts to confront growing competitive pressures. This scenario does not favor a normalization of the CAPEX/Revenue ratio to fall below 14% by 2025 ;
- ⇒ **Regulatory penalty :** As a precautionary measure, we have deducted the amount of the penalty imposed by the regulator ANRT from the Group's cash generation capacity in 2022E. This is a total amount of MAD 2.45 Bn, representing 25% of the free operating cash flow estimated for 2022.

Stock market assumptions :

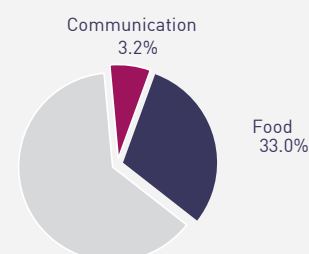
Currently, Maroc Telecom stock is facing both endogenous and exogenous constraints on the stock market. These translate into an increase in the weighted average cost of capital (WACC) by +0.7 point, rising from 5.6% to 6.3%. In more detail, we note:

- ⇒ An increase in the Equity Risk Premium from 6.1% in 2021 to 7.5% in 2022 in a context marked by investors' growing risk aversion toward the market investors [[Cf. AGR Equity Risk Premium](#)] [[Cf. AGR Confidence Index](#)] ;
- ⇒ A bullish reversal in the bond yield curve due to investors' inflationary expectations. The risk-free rate (10-year T-Bonds) rose from a low of 2.29% in February to 2.47% in August 2022, i.e. an appreciation of 18 BPS ; [[Cf. Fixed Income : H1 2022 report](#)] ;
- ⇒ A readjustment of the « risk profile » of Maroc Telecom Stock following the announcement of penalties which impact the Group's pay out capacity and therefore the stock's volatility level on the market. This situation should ultimately be reflected in the stock's specific risk through an increase in Beta. For our valuation, we opted for the 3-year historical beta, i.e. 0.85.

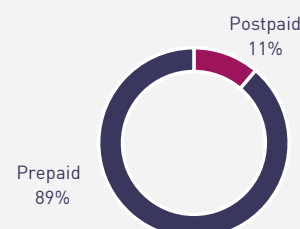
MOROCCO: INFLATION RATE IN 2022



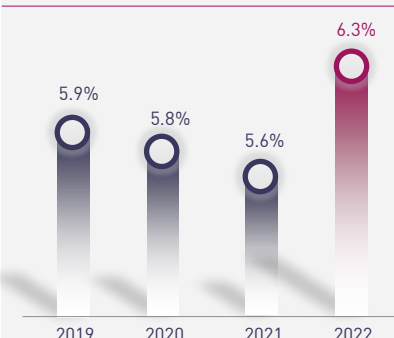
MOROCCO: CONSUMER BASKET



MOROCCO : MOBILE FLEET STRUCTURE



MT: WACC OF MOROCCAN ACTIVITIES



[1] Termination rates

Sources : Maroc Telecom press release H1-22, ANRT, HCP, AGR Computations & Estimates

VALUATION ASSUMPTIONS SUMMARY

Business growth scenario in Moroccan activities

- ⇒ We maintain a downward trend in Mobile activity over the period 2022-2025, as result of inflationary, regulatory constraints and competitive pressures. This is a forecast revenue AAGR of -4.3% ;
- ⇒ We retain a positive AAGR of the Fixed-Line segment of +1.8% supported by the positive dynamic of Data and more particularly FTTH^[2];
- ⇒ The Group is able to defend an EBITDA margin of around 56.0% on the mid-term due to its expertise and its already proven ability to control its costs ;
- ⇒ We are opting for a relatively high CAPEX/revenue ratio of 16.0% due to the additional efforts required by the new context.

MAROC TELECOM: FCF GENERATED BY ACTIVITIES IN MOROCCO 2021-2025

MOROCCO (IN MAD MN)	2021R	2022E	2023E	2024E	2025E
Revenue	19 907	19 566	19 351	19 004	18 838
Change	-4.7%	-1.7%	-1.1%	-1.8%	-0.9%
Mobile	-8.1%	-4.7%	-4.0%	-4.5%	-4.0%
Fixed-Line	-0.5%	1.0%	1.2%	2.5%	2.5%
EBITDA	11 234	11 055	10 895	10 718	10 587
EBITDA Margin	56.4%	56.5%	56.3%	56.4%	56.2%
CAPEX	2 630	3 131	3 096	3 041	3 014
% revenue	13.2%	16.0%	16.0%	16.0%	16.0%
FCF	4 538	3 217 ^[1]	5 401	5 281	5 256
% revenue	22.8%	16.4%	27.9%	27.8%	27.9%
WACC	6,30%	6,30%	6,30%	6,30%	6,30%

[1] As a precautionary measure, we have deducted the regulatory penalty of MAD 2.45 Bn from FCF 2022

Business growth scenario in international activities

- ⇒ We maintain a moderate growth rate in international activities, i.e. an AAGR of revenue between 1.5 and 2.5% over the period 2022-2025 ;
- ⇒ The EBITDA margin should continue to improve slightly, driven by the potential available to the new Moov subsidiaries in terms of optimizing their cost structure ;
- ⇒ We maintain a high CAPEX/revenue ratio between 18 and 20%, in line with the average observed during the period 2018-2021.

For the determination of the discount rate (WACC) of international subsidiaries, we took into consideration a cost of Equity (Ke) of 13.8%. This is computed upon a survey we conduct among investors operating in West African countries.

MAROC TELECOM: FCF GENERATED BY INTERNATIONAL ACTIVITIES 2021-2025

INTERNATIONAL (IN MAD MN)	2021R	2022E	2023E	2024E	2025E
Revenue	16 912	17 114	17 388	17 736	18 162
Change	0.2%	1.2%	1.6%	2.0%	2.4%
EBITDA	7 355	7 496	7 686	7 893	8 155
EBITDA Margin	43.5%	43.8%	44.2%	44.5%	44.9%
CAPEX	2 894	3 423	3 304	3 192	3 269
% revenues	17.6%	20.0%	19.0%	18.0%	18.0%
FCF	3 713	3 825	3 443	3 747	3 803
% revenue	22.0%	22.3%	19.8%	21.1%	20.9%
Discount rate	9.90%	9.90%	9.90%	9.90%	9.90%

MT : WACC COMPUTATIONS

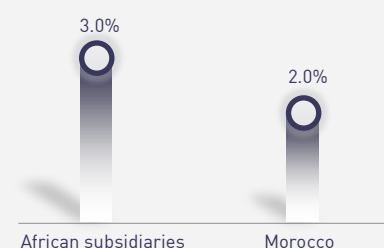
2022	
10-year T-bonds	2.51%
Beta	0.85
Risk premium	7.5%
Cost of Equity	8.9%
Cost of Debt ^[1]	3.1%
WACC	6.30%

[1] After taxes

MT : TARGET FINANCIAL STRUCTURE



MT : PERPETUAL GROWTH RATE



[2] Fiber To The Home

Sources : Maroc Telecom press release H1-22, AGR Computations & Estimates

TOWARD A DOWNWARD ADJUSTMENT OF THE DIVIDEND POLICY?

A fundamental target price of MAD 134, offering an upside of 11%

Following our valuation based on DCF sum of the parts, the aggregate Enterprise Value of Maroc Telecom Group settles at MAD 18 Bn, i.e. a target price of MAD 134 per share. In more details :

- The EV of activities in Morocco settles at MAD 93 Bn, contributing 2/3 to the valuation ;
- The EV of international activities amounts to MAD 46 Bn, representing 1/3 of the valuation;
- A Consolidated net debt stood at MAD 12.2 Bn posted in H1-22 ;
- The share of minority interests is estimated at MAD 9.2 Bn, representing an average of 20% of the EV of African subsidiaries.

Compared to a stock market price of MAD 121 on 08/24/2022, Maroc Telecom offers an upside of 11% compared to its fundamental valuation.

The downward adjustment of the pay out policy seems to be confirmed

In a context which it is not very favourable to cash generation, marked by: **(a)** a growing regulatory pressures, **(b)** a slowdown in the Mobile revenue growth and **(c)** a sustained investment effort, we are seeing a readjustment of Maroc Telecom's dividend's pay out policy. During the period 2019-2021, the average payout⁽¹⁾ settled at 70% against a historic level close to 100%.

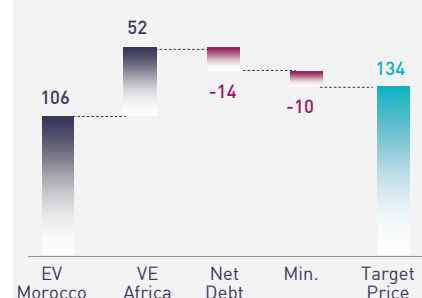
According to our scenario, the incumbent's target payout⁽¹⁾ would now settle between 70 and 80% over the period 2022-2025. Under these conditions and taking into account the stock market correction, Maroc Telecom's dividend yield would still be attractive. This is an average D/Y of 4.5% on the medium term.

During the period 2022-2023, we believe that Maroc Telecom would preserve a recurring earnings capacity between MAD 5.8 Bn and MAD 6.0 Bn. To this end, **the level of the proposed payout would be the main parameter able to impact the share price on the stock market.**

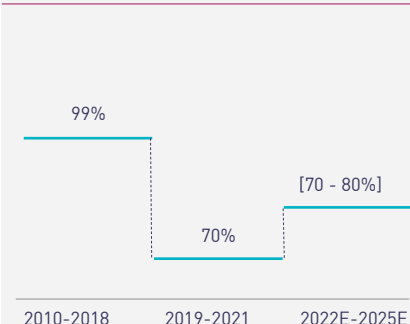
MAROC TELECOM: CONSOLIDATED FORECAST RESULTS 2021-2023

IN MAD MN	2020	2021	2022	2023
Consolidated revenue	36 769	35 790	35 656	35 933
Change	0.7%	-2.7%	-0.4%	0.8%
Recurring EBITDA	19 100	18 589	18 551	18 680
Change	0.9%	-2.7%	-0.2%	0.7%
EBITDA Margin	51.9%	51.9%	52.0%	52.0%
Recurring NIGS	6 001	6 014	5 936	5 977
Change	-0.5%	0.2%	-1.3%	0.7%
Net Margin	16.3%	16.8%	16.6%	16.6%
Published NIGS	5 423	6 008	3 486	5 977
Change	98.9%	10.8%	-42.0%	71.5%
Net Margin	15%	17%	10%	17%
MULTIPLES (MAD)	2020	2021	2022	2023
EPS	6.83	6.84	6.75	6.80
P/E	21.2x	20.6x	17.8x	17.7x
DPS	4.01	4.78	5.06	5.44
Payout ⁽¹⁾	59%	70%	75%	80%
D/Y	2.8%	3.4%	4.3%	4.6%

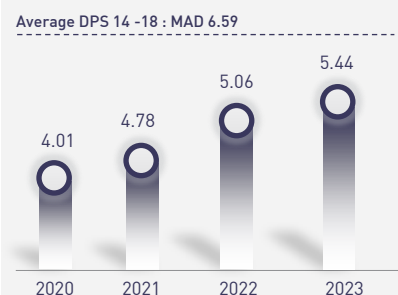
MT: TARGET PRICE PER SHARE (IN MAD)



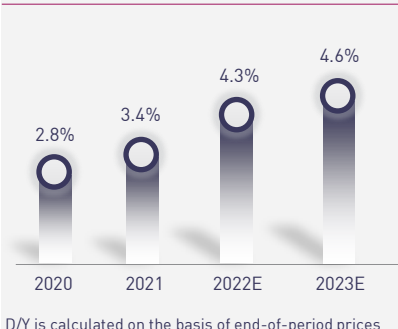
MT: AVERAGE PAYOUT⁽¹⁾ SCENARIO



MT: DIVIDEND (DPS) SCENARIO



MT: DIVIDEND YIELD (D/Y)



(1) Payout calculated on the basis of the displayed recurring profit capacity

Sources : Maroc Telecom press release H1-22, AGR Computations & Estimates

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