

HOLD

Initial opinion	BUY
Release date	09/25/2021
Initial target price	MAD 240

COSUMAR

Sector	AGRI-BUSINESS
Reuters	CSR.CS
Bloomberg	CSR MC

MAD 195

Actual	MAD 205
Potential	-5%
Horizon	12 Months

REVISION OF OUR GROWTH FORECASTS, ...IN A CONTEXT OF MARGIN PRESSURE

Revenues up sharply, driven by the Export business

At the end of the 1st half of 2022, Cosumar recorded an increase in its consolidated revenue of +16% to MAD 5,076 Mn, driven mainly by the Export activity. This rose by +68%, going from MAD 1,272 Mn in H1-21 to MAD 2,137 Mn in H1-22. This is due to a double positive Price/Volume effect.

According to the Foreign Exchange Office statistics, the export selling price would stand at MAD 5,583 T in H1-22 against MAD 4,118 T in H1-21, an increase of +36%. On the other hand, the volumes exported jumped by +24%, going from 309 KT to 383 KT over the same period. Compared with our annual forecast, the achievement rate of revenue settles at 50%.

Margins under pressure due to rising energy costs

Contrasting with the positive commercial achievements, EBITDA and NIGS fell by -7.5% and -15.9% respectively. Under these conditions, the EBITDA margin has deteriorated by -4.5 pts, going from 22.3% in H1-21 to 17.8% in H1-22.

These changes can be explained by two factors. On the one hand, the drop in volumes produced by local sugar crops (whose margin level is higher than the refining activity). On the other hand, the surge in the coal price internationally, the main input by sugar refineries. The price of coal has more than tripled, going from an average of 97.2 \$/T in H1-21 to 316.2 \$/T in H1-22. Note that this bullish trend continues during H2-22, through a spot price around 450 \$/T.

A revision of our recommendation from SELL to HOLD

Taking into account the less favorable weather conditions and the higher energy bill, we have readjusted our scenario for the evolution of margins over the 2022-2023 period. Furthermore, we are maintaining a positive contribution from the Export activity and Durrah project. Technically, we are witnessing an increase in the cost of capital under the effect of the increase in both the risk premium toward stocks and bond yields.

In the end, our target price for Cosumar stock comes out at **MAD 195** against **MAD 240** initially ([see Research Paper Cosumar H1-21](#)). Based on the current stock price, we are adjusting our recommendation from **SELL** to **HOLD**.

COSUMAR: CONSOLIDATED RESULTS H1-22 VS. INITIAL AGR FORECAST 2022E

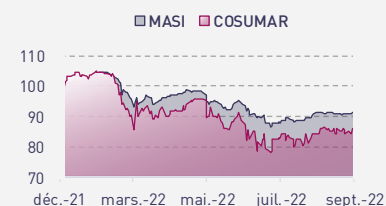
IN MAD MN	H1-2021	H1-2022	VAR	2022E	AR 2022E ⁽¹⁾
Consolidated revenue	4,382	5,076	+15.8%	10,223	50%
EBITDA	976	903	-7.5%	1,736	52%
EBITDA Margin	22.3%	17.8%	-4.5 pts	17.0%	-
NIGS ⁽¹⁾	477	401	-15.9%	693	58%
Net Margin	10.9%	7.9%	-3.0 pts	-9.1%	-

(1) TR: Achievement rate, i.e. H1-22 R results/2022E annual forecasts

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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
COSUMAR	-7.7	-4.7	-25.7
MASI	-4.0	-3.1	-11.5

ADV (MAD MN)	1 M	3 M	12 M
COSUMAR	3.7	2.1	6.9
MASI	122	85	143

Capitalisation	Au 09/29/2022
In MAD MN	19,370
In \$ Mn	1,880

Prices as of 09/29/2022

Sources: Cosumar PR, AGR Computations& Estimates



Water stress weighed on local agricultural performances

Local production of white sugar remains low for the 2nd consecutive year, i.e. its lowest level since 2016. This should fall by -17% to 321 KT in 2022E against 388 KT in 2021. National consumption coverage should stand at around 30% in 2022E against a 5-year average of more than 40%.

The water stress that Morocco is facing today, resulting in a visible drop in the filling rate of dams, weighs considerably on the local sugar campaigns. As a precautionary measure, we are maintaining local production between 300 and 350 KT over the 2022E-2023E period.

A new export record expected in an inflationary context

Given a favorable context for white sugar exports, Cosumar was able to achieve a new record in terms of exports, thus exceeding 650 KT in 2021. Taking into account an optimal utilization rate of the refinery's production capacities Casablanca in 2022E, exported volumes could exceed the 700 KT mark for the first time.

We see an upward trend in both white sugar prices and refining margins internationally. According to our calculations, the average white sugar/raw sugar spread increased by +28%, going from 88 \$/T in H1-21 to 113 \$/T in H1-22. This trend continues in Q3-22, with a premium above 140 \$/T.

Main adjustments to our 2022E-2023E growth forecasts

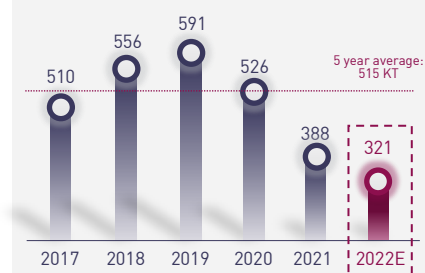
Our exercise to update the growth forecasts of the Cosumar Group during the period 2022E-2023E illustrates the following readjustments:

- Strong growth in Export activity of +36% to MAD 3.96 Bn in 2022E in a context highlighted by visible pressures on global Supply. With a high oil price, a good part of the production of Brazilian sugar cane is directed towards alternative energy products such as ethanol. Thus, we anticipate consolidated sales growth of +12.2% in 2022E before consolidating at -2.1% in 2023E;
- A drop in 22E consolidated EBITDA of -6.1% to MAD 1,736 Mn, i.e. a margin of 17.0% in 2022E. This drop is mainly justified by the surge in the average price of coal by +189%, rising from 137 \$/T in 2021 to 396 \$/T in 2022E. As a precautionary measure, we retain a drop in EBITDA of -1.2% in 2023E as Coal continues its upward trend with a price currently around 450 \$/T. In fact, coal remains the main input in terms of Cosumar's variable cost structure;
- A decrease in NIGS of -9.1% in 2022E to MAD 693 Mn. This relatively more pronounced correction than that of EBITDA could be partly explained by the increase in the Social Solidarity Contribution to 5.0% against 3.5% initially. Moreover, the Group's EBITDA should record a recovery of +7.8% in 2023E supported by the ramp-up of the contribution from Durrah (MAD +80 Mn) which should reach its cruising speed in terms of production in 2023E. This new project is consolidated using the Equity method.

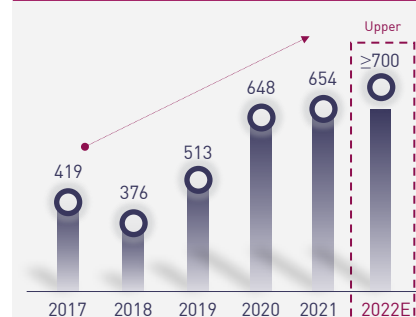
COSUMAR : REVISION OF OUR AGR 2022E-2023E FORECASTS

IN MAD MN	2021R	2022E	2023E	2022E/2021	2023E/2022E
Consolidated revenue	9,113	10,223	10,007	+12.2%	-2.1%
EBITDA	1,849	1,736	1,715	-6.1%	-1.2%
EBITDA Margin	20.3%	17.0%	17.1%	-3.3 pts	+0.1 pt
NIGS ⁽¹⁾	763	693	747	-9.1%	+7.8%
Net Margin	8.4%	6.8%	7.5%	-1.6 pts	+0.7 pt
DPS	6.0	7.0	7.0	+16.7%	-
D/Y	2.3%	3.4%	3.4%	+1.1 pts	-

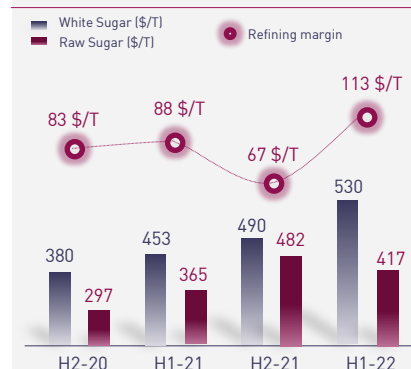
COSUMAR: LOCAL SUGAR PRODUCTION (KT)



COSUMAR: EXPORTS VOLUME (KT)



COSUMAR: REFINING MARGIN (\$/T)



COAL: PRICE EVOLUTION \$/T



(1) Coal FOB Newcastle Australia USD/T

(1) Durrah project in Saudi Arabia: Cosumar holds a 43.3% stake in the refinery. Its production capacity is 840 KT.

(2) Reported EBITDA, not comparable to the AGR forecast calculation method

Summary of our stock valuation

At the end of our DCF valuation, we come out with an Economic Value of Cosumar of MAD 16,441 Mn. After the incorporation of our valuation of the 43% stake held by the Group in the Durrah refinery in Saudi Arabia (MAD 2.4 Bn) and the deduction of the Net Debt (MAD 377 Mn), the equity value reaches MAD 18,463 Mn.

This value of Equity corresponds to a price per stock of MAD 195 against MAD 240 initially. Given the stock market correction, observed since our last Recommendation dated 29/09/2021 ([Cf. Research Paper-Cosumar H1-21](#)), we believe that the stock is now fairly valued.

In the end, our recommendation changes from **SELL** to **HOLD**.

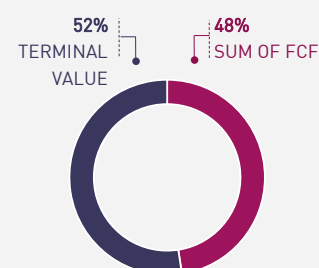
Our target price revision is mainly justified by the increase in the WACC which goes from 6.5% initially to 8.7% currently. More in detail:

- ⇒ An increase in the Equity Risk Premium from 6.1% in 2021 to 7.5% in 2022 ([see Risk premium](#));
- ⇒ An adjusted beta stable at 1.08;
- ⇒ An upward readjustment of the 10-year risk-free rate (Rf) to 3.2% following the decision of the Moroccan central bank to raise its key rate by 50 BPS (09/28/2022);
- ⇒ A weight of the Terminal Value of 52% in the EV. This contribution is justified by the Group's development strategy, which is based on external growth.

COSUMAR: UPDATE OF AGR FORECASTS 2022E-2023E

INDICATEURS (MDH)	2020	2021	2022E	2023E
EBITDA	1,836	1,849	1,736	1,715
EBITDA Margin	21.3%	20.3%	17.0%	17.1%
CAPEX	458	268	400	400
% Revenue	5.3%	2.9%	3.9%	4.0%
WCR	2,291	1,589	1,329	1,201
% Revenue	26.5%	17.4%	13.0%	12.0%
CALCULATED FCF	281	1,860	1,212	1,069
FCF Margin	2.3%	15.8%	9.2%	8.2%
P/E (X)	24.5	32.3	27.9	25.9
EV/EBITDA (X)	11.6	13.5	11.1	11.2

SHARE EV BREAKDOWN



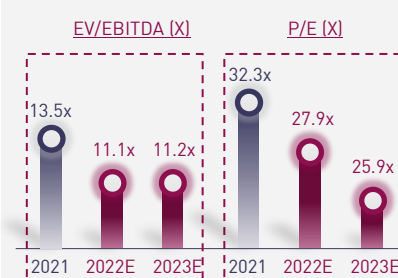
COSUMAR: EQUITY COST CALCULATION

KCP	
LT Growth	5.0%
10 year TB (Rf)	3.2%
Risk premium	7.5%
Bêta	1.08
COST OF EQUITY	11.3%

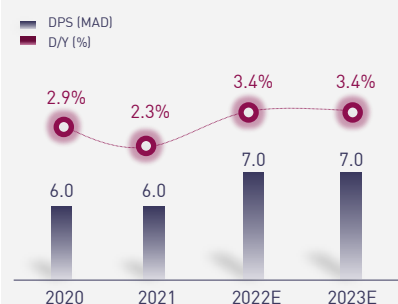
COSUMAR: WACC CALCULATIONS

WACC	
B/(D+E) ratio	1/3
Kd (post tax)	3.5%
WACC	8.7%

COSUMAR : VALUATION MULTIPLES



COSUMAR : DPS (DH) VS. D/Y (%) EVOLUTION



Sources: Cosumar PR, Bloomberg, Foreign Exchange Office, AGR Computations & Estimates

COSUMAR AGRI-BUSINESS | MOROCCO |

BLOOMBERG: CSR MC

Growth (%)	2018	2019	2020	2021	2022E	2023E
Reported Revenues	-8,0%	7,1%	5,1%	5,6%	12,2%	-2,1%
Adjusted EBITDA	-3,5%	3,0%	-2,3%	0,7%	-6,1%	-1,2%
EBIT	-5,2%	0,4%	-2,8%	-0,5%	-9,2%	-2,4%
NIGS	-9,8%	3,7%	-12,3%	-5,8%	-9,1%	7,8%
DPS	50%	-30%	-14%	0%	17%	-
Profitability	2018	2019	2020	2021	2022E	2023E
EBITDA Margin	23,8%	22,9%	21,3%	20,3%	17,0%	17,1%
Operating Margin	18,9%	17,7%	16,4%	15,5%	12,5%	12,5%
Apparent Corporate Tax	27,2%	31,0%	29,6%	33,0%	33,0%	33,0%
Net Margin	11,6%	11,3%	9,4%	8,4%	6,8%	7,5%
FCF/Revenues	-23,9%	10,9%	2,3%	15,8%	9,2%	8,2%
ROE	17,3%	18,1%	15,6%	14,1%	12,5%	13,1%
Payout	106%	72%	70%	74%	95%	88%
P&L (MAD Mn)	2018	2019	2020	2021	2022E	2023E
Reported Revenues	7.667	8.212	8.630	9.113	10.223	10.007
EBITDA	1.826	1.880	1.836	1.849	1.736	1.715
Depreciation & amortization	376	425	422	441	457	467
EBIT	1.450	1.455	1.415	1.408	1.279	1.248
Corporate Tax	358	428	357	412	370	360
Net Income	892	925	811	764	719	789
Minority Shareholders	1,2	0,9	1,4	1,0	1,0	1,9
NIGS	891	924	810	763	693	747
Balance Sheet (MAD Mn)	2018	2019	2020	2021	2022E	2023E
Shareholders' Equity	5.164	5.095	5.204	5.412	5.565	5.692
Minority Shareholders	6,4	6,8	7,6	7,6	7,4	7,6
Consolidated Shareholders' Equity	5.170	5.102	5.212	5.419	5.572	5.699
WCR	2.005	1.618	2.291	1.589	1.329	1.201
Net Debt	1.111	999	1.529	377	-54	-221
Gearing (%)	21,5%	19,6%	29,3%	7,0%	NS	NS
Free Cash Flow (MAD Mn)	2018	2019	2020	2021	2022E	2023E
Changes in WCR	2.734	-387	674	-702	-260	-128
Recurring CAPEX	492	579	458	268	400	400
Normative Corporate Tax	30%	30%	30%	30%	30%	30%
Free cash-flow	-1.836	1.252	281	1.860	1.212	1.069
Dividends (n-1)	633,1	944,9	661,4	566,9	566,9	661,4
Valuation Multiples	2018	2019	2020	2021	2022E	2023E
P/E	18,5	22,4	24,5	32,3	27,9	25,9
D/Y	5,7%	3,2%	2,9%	2,3%	3,4%	3,4%
P/B	3,2	4,1	3,8	4,6	3,5	3,4
EV/EBITDA	9,6	11,5	11,6	13,5	11,1	11,2
EV/Revenues	2,3	2,6	2,5	2,7	2,0	2,0
Stock Figures (MAD)	2018	2019	2020	2021	2022E	2023E
Stock price	175	219	210	261	205	205
EPS	9,4	9,8	8,6	8,1	7,3	7,9
DPS	10,0	7,0	6,0	6,0	7,0	7,0
Book Value per share	55	54	55	57	59	60

Stock Price at 09/29/2022.

Sources: BLOOMBERG, AGR calculations and estimates

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