

RESEARCH REPORT

EQUITY

MAY
2023

MAROC TELECOM : A DISPROPORTIONATE DROP IN THE STOCK MARKET

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Attijari
Global Research

BUY

Ancienne opinion	BUY
Date de publication	08/26/2022
Ancien cours objectif	MAD 134

MAROC TELECOM

Secteur	TELECOM
Reuters	IAM.CS
Bloomberg	IAM MC

MAD 104

Current Price	MAD 76
Potential	37%
Investment Horizon	18 M

EXECUTIVE SUMMARY

Following Maroc Telecom FY 2022 annual achievement and based on our discussions with the Management on April 11th 2023, we have updated our analysis as well as our stock's valuation.

Beyond the inflationary pressures that weigh on the sector's growth, we believe that the regulatory context remains the main risk facing Maroc Telecom. In fact, we note more frequent fine decisions, more tax pressures and strong aggressiveness on prices by the challengers.

From a fundamental point of view, we remain convinced that the stock's sharp correction in the Stock market is disproportionate regarding to this new regulatory context. Based on our own valuation assumptions, the stock's target price stands at MAD 104, offering an upside potential of 37%⁽¹⁾ on the stock market. In the end, **we maintain our BUY recommendation.**

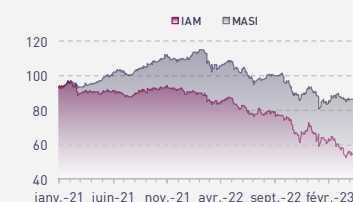
The main conclusions of our analysis concern four points:

- The intensification of competition in Morocco is supported by an increasingly restrictive regulatory framework toward Maroc Telecom, namely: (1) limited leeway in terms of Offers & Promotions for unlimited Data Mobile, ADSL & FTTH equipment, (2) more restrictive framework for specific B2B Offers and (3) sustainability of price asymmetry in favour of competitors;
- The incumbent operator should continue to deploy additional efforts to defend its market share in a more challenging competitive and regulatory context. The CAPEX/Revenue ratio would be at high levels of more than 18.0% over the 2023-2026 period. This scenario would put pressure on the company's future distribution levels;
- Changes in the regulatory framework seem to have a visible impact on Maroc Telecom's risk profile. This new situation is reflected in the stock's beta level which moved from a historical level 0.85 historically to 1.04 in 2023. Under these conditions, Maroc Telecom is penalized more by the rise in its discount rate rather than by the deterioration of its future recurrent cash flows. The stock's WACC stands at 8.7% in May 2023 compared to 6.3% in 2022. This change has a greater impact on *mature* companies, such as Maroc Telecom;
- After a sharp drop of -42%⁽¹⁾ over the past 12 months, Maroc Telecom stock offers attractive entry points for investors. This is, on the one hand, an average P/E of 11.6x against a target level of 16.0x for MASI Index and, on the other hand, a dividend yield of 6.0 % over the period 2023-2025.

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STOCK EVOLUTION (BASIS 100)



MARKET INDICATORS

Performances (%)	1 M	3 M	12 M
Maroc Telecom	-10.5	-22.9	-42.3
MASI	-0.4	-2.1	-20.2

ADV (MAD Mn)	1 M	3 M	12 M
Maroc Telecom	4.0	10.5	12.5
MASI	115	93	111

Capitalisation	At 05/08/2023
In MAD Mn	66,908
In \$ Mn	6,129

Price at 05/08/2023

[1] On the basis of the price at 05/08/2023, i.e. MAD 76

ACHIEVEMENTS IN LINE WITH OUR FORECASTS, A DIVIDEND BELOW EXPECTATIONS

Unsurprisingly, Maroc Telecom's 2022 operational achievements are down slightly, in line with our 2022E growth scenario communicated last August. The FY 2022 achievement rates compared to our initial forecasts are around 100% for revenue, EBITDA and recurring NIGS.

Morocco: A drop in revenue partially offset by Fixed Data

In 2022, Maroc Telecom recorded a decline in its revenue in Morocco of -1.8% at MAD 19,546 Mn. This under performance is explained by a -3.9% decline in Mobile revenue which was partially offset by the dynamics of Fixed Data. This activity shows a revenue up 6.7% to MAD 4,007 Mn, supported by the expansion of the FTTH (Fiber to the Home) fleet by 44% compared to 2021.

Africa: A positive dynamic of Mobile Data

At the end of the FY 2022, international revenue increased by 2.0% to MAD 17,242 Mn, representing 48% of consolidated revenue. As expected, this growth level is supported by the strong growth of the Data Mobile segment, which recorded an increase of +28% over the same period. This activity was able to offset the continued decline in Termination rates (TR) in African markets. Adjusted for the decrease in termination, subsidiaries revenue were up 2.3%.

For example, Mobile TR in Gabon is expected to change from 7 FCFA/min in 2022 to 5 FCFA/min in 2023E. In Côte d'Ivoire, Mobile TR fell from 5 FCFA/min in 2021 to 3 FCFA/min in 2022, then to 2 FCFA/min in 2023E, i.e. respective decreases of -40% and -33%.

Preservation of margins in a less favourable regulatory context

In a competitive context marked by pressure on prices, Maroc Telecom still manages to maintain its profitability through a consolidated EBITDA margin of around 52%. Originally, the already proven expertise of the Management in terms of optimizing its operating costs both in Morocco and abroad.

DPS penalized by non-operational factors

Cash generation was impacted by two non-operational factors. On the one hand, the penalty payment of MAD 2.45 Bn applied by the Moroccan regulator following the dispute concerning the unbundling of the local loop. On the other hand, a tax audit for an amount of MAD 618 Mn.

Under these conditions, the operator's reported earning power declines by MAD -3.2 Bn, going from MAD 6.0 Bn in 2021 to MAD 2.8 Bn in 2022. Based on a payout of 70%, the DPS 2022 stands at its lowest historical level, i.e. MAD 2.19.

MAROC TELECOM: 2022 CONSOLIDATED RESULTS VS. 2022 AGR FORECASTS

IN MAD MN	2021	2022	VAR	AGR 22E	VAR 22E	AR 2022 ⁽¹⁾
Consolidated Revenue	35 790	35 731	-0.2%	35 656	-0.4%	100%
Moroccan Revenue	19 906	19 546	-1.8%	19 566	-1.7%	100%
Mobile	12 270	11 789	-3.9%	11 699	-4.7%	101%
Fixed & Internet	9 474	9 565	1.0%	9 569	1.0%	100%
Of which Data Fixe	3 754	4 007	6.7%	4 017	7.0%	100%
International Revenue	16 912	17 242	2.0%	17 114	1.2%	101%
Reported EBITDA	18 589	18 464	-0.7%	18 551	-0.2%	100%
EBITDA margin	51.9%	51.7%	-0.2 pt	52.0%	+0.1 pt	
Adjusted ⁽²⁾ EBIT	11 586	11 468	-1.0%	11 210	-3.2%	102%
EBIT margin	32.4%	32.1%	-0.3 pt	31.4%	-0.1 pt	
Reported EBIT	11 573	8 987	-22.3%	8 760	-24.3%	103%
EBIT margin	32.3%	25.2%	-7.1 pts	24.6%	-7.7 pts	
Adjusted ⁽²⁾ NIGS	6 014	5 820	-3.2%	5 936	-1.3%	98%
Net margin	16.8%	16.3%	-0.5 pt	16.6%	-0.2 pt	
Reported NIGS	6 008	2 750	-54.2%	3 486	-42.0%	79%
Net margin	16.8%	7.7%	-9.1 pts	9.8%	-7.0 pts	

(1) 2022 results versus AGR 22E forecasts

(2) Adjusted for the penalty imposed by the regulator for an amount of MAD 2.45 Bn and the tax audit of MAD 618 Mn



A GENERAL CONTEXT WHICH WEIGHS ON CASH-GENERATION

An inflationary environment weighing on Mobile revenue growth

We believe that the persistence of inflationary pressures in Morocco should continue to weigh on the pace growth of Mobile revenue. In Morocco, the inflation rate stood at 8.4% year-on-year in December 2022 before reaching a 35-year high in February 2023 at 10.1%.

With a high proportion of the food component in the household basket in Morocco (nearly 1/3) and given that 90% of Mobile customer is represented by the « prepaid » segment, customers would have to make trade-offs consumption at the expense of mobile spending. During inflationary periods, impacting food products, we note that the households first item of arbitration is telecommunications expenses.

A more restrictive competitive and regulatory context

We believe that the significant drop in revenue of Morocco Mobile activities of -3.9% is linked to both an increased competition and a stricter regulatory framework since the end of 2020. Maroc Telecom is therefore facing several constraints. These are: **(1)** a limited leeway compared to competitors in terms of « Offers & Promotions » relating to unlimited Mobile Data, ADSL & FTTH equipment, **(2)** a stricter framework for specific B2B Offers and finally, **(3)** a maintenance of a tariff asymmetry in favour of competitors.

At the same time, sanctions are now part of the inherent risks within Moroccan telecom sector. In fact, the Group has been fined twice within 3 years. This is a penalty payment of MAD 2.45 Bn following non-compliance with the regulations governing the unbundling of the local loop. This comes after a fine of MAD 3.3 Bn in January 2020 for abuse of a dominant position in the Morocco Fixed line activity.

Cash distribution capacity under pressure

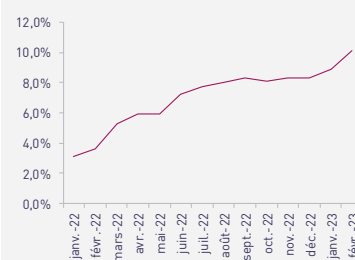
The Group's CAPEX/Revenue ratio is at the high end of its international benchmark, i.e. around 17% over the 2018-2022 period. We believe that the incumbent should continue to make additional efforts to defend its market share within a less favourable competitive and regulatory context. Such a scenario would result in a CAPEX/Revenue rate of 20% in 2023 and an average of 18% on the mid-term. Under these conditions, the payout ratio would now be reduced to 70% against a historical level of 100%.

Update of our growth forecasts

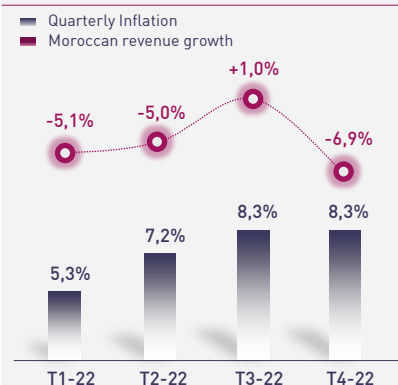
Operating assumptions

- ⇒ **Morocco Mobile:** This activity is evolving in an unfavourable context preventing it from returning to positive growth over the 2023-2025 period. Over the short-term, inflation is expected to weigh on household telecommunications expenses. On the mid-term, regulatory and competitive constraints should continue to exert pressure on the operator's market share;
- ⇒ **EBITDA margin :** The structural fall in TR in African markets and the leeway available to Management in terms of cost control, favor the scenario of an EBITDA margin above 50% on the MT;
- ⇒ **Mali fine :** As a precautionary measure, we have deducted the fine imposed on Sotelma, a 51% owned subsidiary of Maroc Telecom in Mali, from the Group's cash generation capacity in 2023E. This would be a total amount of MAD 476 Mn representing, according to our estimates, 15% of the free operating cash flow generated by the international subsidiaries in 2023E.

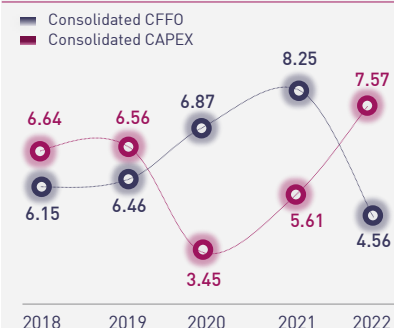
MOROCCO: INFLATION RATE



MOROCCO: INFLATION Vs. MOBILE REVENUE

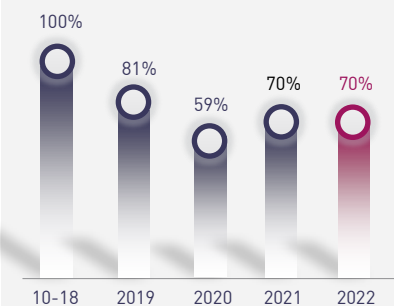


MT: CFFO⁽¹⁾ Vs. CAPEX (MAD Bn)



(1) Cash Flow From Operations excluding investing activities

MT: PAYOUT⁽²⁾ EVOLUTION



(2) On the basis of the adjusted consolidated results

A NEW STOCK MARKET CONTEXT, IMPLYING NEW VALUATION STANDARDS

Maroc Telecom stock would be penalized more by an increase in its WACC on the stock market rather than by the deterioration of its future cash flows. Several elements argue for this observation: **(1)** A sustained upward reversal in bond rates, **(2)** An increase in investors' return requirements and **(3)** A change in the risk profile under the effect of the new regulatory context.

In this context, the stock's WACC stands at a historic high of 8.69%, up 242 BPS compared to 2022. This WACC increase has a greater impact on « *yield* » stocks with a low « *growth profile* », like Maroc Telecom.

An aggressive reversal in Bond Rates (*Rf*)

The change of Bank Al-Maghrib's monetary policy combined with the inflationary expectations of investors on the mid-term led to a lasting acceleration of rates increase in Morocco.

The 10-year TB, used in the Equity valuation models, surged from 2.51% in August 2022 to 4.50% in March 2023, i.e. an appreciation of almost 200 BPS.

An increase in investors' return requirements (*Equity Risk Premium*)

In the current economic context, equities are clearly losing their attractiveness compared to bonds (see *AGR House View January 23*). This situation is clearly reflected in the AGR Equity Risk Premium calculated per survey, which goes from a low of 5.5% in May 2021 to 8.0% in 2023 (see *AGR Equity Risk Premium*).

A change in the risk profile under the effect of the regulatory framework (*Beta*)

Historically, Maroc Telecom was perceived as a « resilient » security on the stock market thanks in particular to its ability to preserve its earning power and its dividend. Thus, the stock displayed a defensive Beta varying between 0.8 and 0.9 over the period 2017-2022.

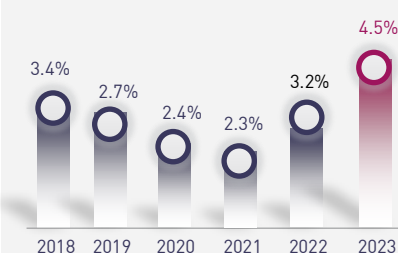
The evolution of the regulatory framework, through sanction risks which is now an integral part of the sector, seems to have a visible impact on the risk profile of the incumbent operator. This new situation results in a beta for Maroc Telecom stock of 1.04 against 0.85 historically.

MT : WACC EVOLUTION

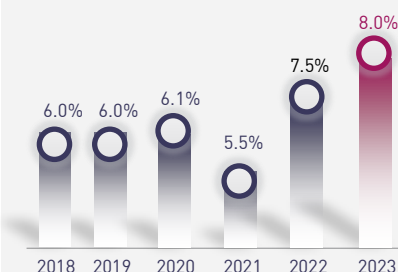
	2022	2023	Var (BPS)
10-year TB	2.51%	4.50%	+199
Beta	0.85	1.04	+19
Equity risk premium	7.5%	8.0%	+50
Cost of Equity	8.9%	12.8%	+390
Cost of Debt ⁽¹⁾	3.1%	3.6%	+50
WACC	6.27%	8.69%	+242

(1) After taxes

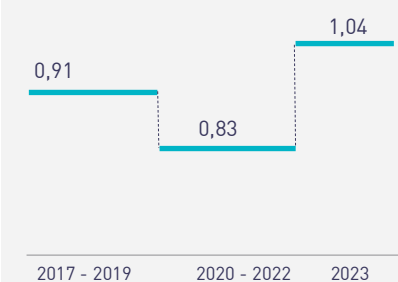
MOROCCO: 10-YEAR TB EVOLUTION (Rf)



MOROCCO: ERP EVOLUTION



MT STOCK : BETA 1-YEAR⁽²⁾ EVOLUTION



(2) Average used during valuation exercises

SUMMARY OF OUR VALUATION ASSUMPTIONS

Business growth scenario in Moroccan activities

- ⇒ We maintain a downward trend in Mobile activity in Morocco over the 2023-2026 period, as result of inflationary, regulatory constraints and competitive pressures. This is a forecast revenue AAGR of -1.0%;
- ⇒ We retain a positive AAGR of the Fixed-Line segment of +2.5% supported by the positive dynamic of the FTTH (Fiber to the Home);
- ⇒ The Group is able to defend an EBITDA margin of around 56.0% on the mid-term due to its already proven ability to control its costs;
- ⇒ We are opting for an average CAPEX/Revenue ratio of 17% during the 2023-2026 forecast period due to the additional efforts required by the new regulatory and competitive context.

MAROC TELECOM: FCF GENERATED BY ACTIVITIES IN MOROCCO 2023-2026

MOROCCO (IN MAD MN)	2022R	2023	2024	2025	2026
Revenue	19 546	19 058	18 724	18 567	18 524
Change					
Mobile	-1.8%	-2.5%	-1.8%	-0.8%	-0.2%
Fixed-Line	-3.9%	-7.2%	-4.5%	-4.0%	-3.0%
	0.9%	1.0%	2.5%	2.5%	2.5%
EBITDA	10 974	10 730	10 560	10 435	10 373
EBITDA Margin	56.1%	56.3%	56.4%	56.2%	56.0%
CAPEX	3 183	3 430	3 089	3 064	3 056
% revenue	16.3%	18.0%	16.5%	16.5%	16.5%
FCF	2 137 ⁽¹⁾	4 809	5 064	5 048	5 044
% revenue	10.9%	25.2%	27.0%	27.2%	27.2%
WACC	6.27%	8.69%	8.69%	8.69%	8.69%

[1] 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 of around 2.3% over the 2023-2026 period;
- ⇒ 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 an average CAPEX/Revenue ratio of 18.9% over the 2023-2026 period compared to an average of 20.3% during the 2017-2021 period.

For the determination of the African subsidiaries' discount rate, we took into account a cost of Equity (Ke) of 13.3%. It is computed upon a survey we conducted among investors operating in Central Africa.

MAROC TELECOM: FCF GENERATED BY INTERNATIONAL ACTIVITIES 2023-2026

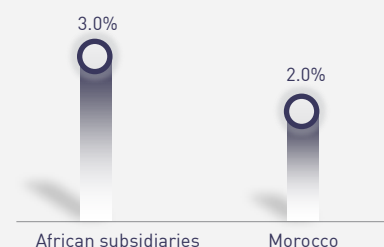
INTERNATIONAL (IN MAD MN)	2022R	2023	2024	2025	2026
Revenue	17 242	17 621	18 044	18 495	18 958
Change					
	2.0%	2.2%	2.4%	2.5%	2.5%
EBITDA	7 518	7 736	7 976	8 231	8 494
EBITDA Margin	43.6%	43.9%	44.2%	44.5%	44.8%
CAPEX	4 388	3 524	3 338	3 422	3 507
% revenue	25.4%	20.0%	18.5%	18.5%	18.5%
FCF	-893	2 689 ⁽²⁾	3 624	3 826	3 837
% revenue	NS	15.3%	20.1%	20.7%	20.2%
WACC	9.88%	9.84%	9.84%	9.84%	9.84%

[2] As a precautionary measure, we have deducted the fine imposed on Sotelma for an amount of MAD 476 Mn from FCF 2023

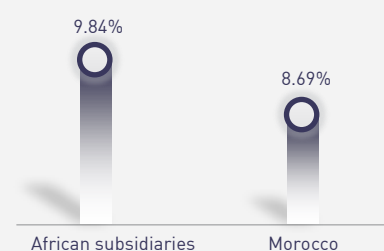
MT: TARGET FINANCIAL STRUCTURE



MT: PERPETUAL GROWTH RATE



MT : ADOPTED WACC



ATTRACTIVE TARGET D/Y, SUPPORTED BY THE STOCK'S SHARP CORRECTION

A target price of MAD 104, showing upside potential of 37%

Following our valuation based on DCF sum of the parts method. Based on the new assumptions used, the aggregate Enterprise Value of Maroc Telecom Group settles at MAD 92 Bn, i.e. a target price per share of MAD 104. In more details:

- The EV of activities in Morocco settles at MAD 70 Bn, contributing 60% to the valuation;
- The EV of international activities amounts to MAD 47 Bn, representing 40% of the valuation;
- The consolidated net debt stood at MAD 16.4 Bn at the end of 2022;
- The share of minority interests is estimated at MAD 9.4 Bn, representing an average of 20% of the EV of African subsidiaries.

Compared to a stock market price of MAD 76 on 05/08/2023, Maroc Telecom offers an upside of 37% on the mid-term compared to its fundamental valuation.

The downward readjustment of the payout policy seems to be confirmed

In a context which it is not very favourable to cash generation, marked by: (1) visible regulatory pressures, (2) a weakening in the growth of Mobile revenues in Morocco and (3) a maintenance of a sustained investment effort, we are seeing a downward readjustment of Maroc Telecom's dividend's payout. Since 2019, the average payout has decreased to 61% against a historic level of around 100%.

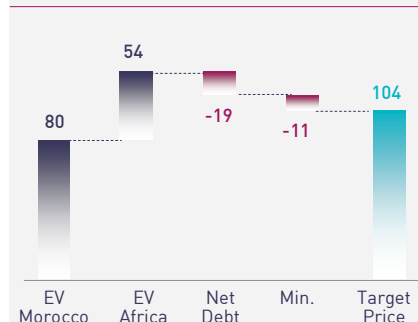
According to our scenario, the incumbent operator's target payout would now be around 70% over the 2023-2026 period. Nevertheless, the stock's correction in the Equity market improves its dividend yield, which stands at around 6.0% over the studied period.

During the 2023-2026 period, we believe that the incumbent operator would be more in the perspective of preserving a recurring earning power between MAD 5.7 Bn and MAD 6.0 Bn. To this end, the dividend yield offered would be the main « driver » of the stock's evolution.

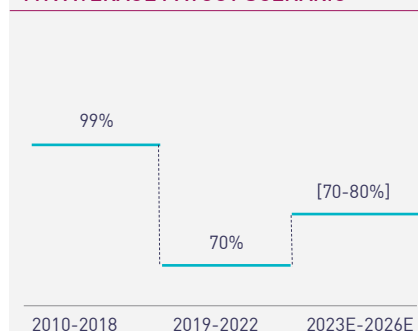
MAROC TELECOM: CONSOLIDATED FORECAST RESULTS 2023-2026

IN MAD MN	2022R	2023	2024	2025	2026
Consolidated revenue	35 731	35 625	35 712	35 997	36 404
Change	-0.2%	-0.3%	0.2%	0.8%	1.1%
Recurring EBITDA	18 492	18 466	18 536	18 666	18 867
Change	-0.5%	-0.1%	0.4%	0.7%	1.1%
EBITDA Margin	51.8%	51.8%	51.9%	51.9%	51.8%
Recurring NIGS	5 820	5 749	5 728	5 809	5 911
Change	-3.2%	-1.2%	-0.4%	1.4%	1.8%
Net Margin	16.3%	16.1%	16.0%	16.1%	16.2%
Reported NIGS	2 750	5 407	5 728	5 809	5 911
Change	-54.2%	96.6%	5.9%	1.4%	1.8%
Net Margin	7.7%	16.1%	16.0%	16.1%	16.2%
MULTIPLES (MAD)	2022R	2023	2024	2025	2026
EPS	6.62	6.54	6.52	6.61	6.72
P/E recurring	14.3x	11.6x	11.7x	11.5x	11.3x
DPS	2.19	4.58	4.56	4.63	4.71
D/Y	2.3%	6.0%	6.0%	6.1%	6.2%

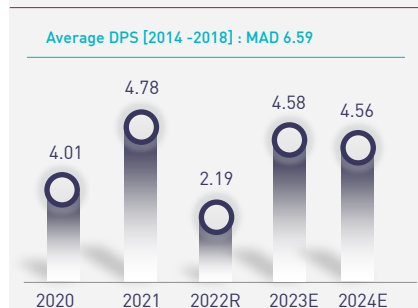
MT: TARGET PRICE PER SHARE (IN MAD)



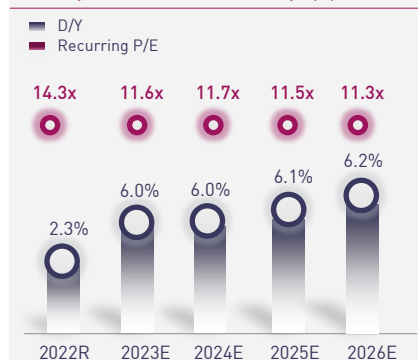
MT: AVERAGE PAYOUT SCENARIO



MT: DIVIDEND (DPS) SCENARIO



MT: D/Y⁽¹⁾ VS. RECURRING P/E(x)



(1) D/Y is calculated on the basis of the price at 05/08/2023

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