

# RESEARCH REPORT

EQUITY

JULY  
2023



## SONATEL : SOLID RESILIENCE..., NOT PRICED INTO THE STOCK

- 03 | Positive business momentum in 2022, ... a reassuring Q1-23
- 04 | A proven ability to defend an earning power of FCFA 260 Bn
- 05 | A fundamental valuation offering a stock's upside of +25%
- 05 | A stock offering one of the best "P/E - D/Y" pairs within the BRVM



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## SONATEL

TELECOM | BRVM |  
BLOOMBERG: SNTS BC

BUY



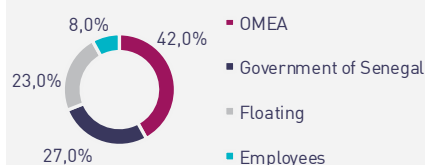
TARGET PRICE | FCFA 19.674

PRICE 07/12/2023 (FCFA 15.700) | POTENTIAL +25%

Release date July 18<sup>th</sup> 2023

## EXECUTIVE SUMMARY

## SHAREHOLDER STRUCTURE



## STOCK EVOLUTION Vs. BRVM C



## MARKET &amp; FINANCIAL INDICATORS

Performances (%)	3 M	6 M	12 M
SONATEL	-0.6	3.0	6.1
BRVMC	1.3	-0.4	-2.7

ADV (MFCFA)	3 M	6 M	12 M
SONATEL	148	175	163
BRVMC	515	613	701

## Capitalization

In FCFA Mn	1 570 000
In \$ Mn	2 525

P&L (FCFA Mn)	2021R	2022R	2023E
Revenue	1 335	1 455	1 545
EBITDA	591	643	677
NIGS	211	236	252

Ratios & Multiples	2021R	2022R	2023E
D/Y (%)	11.1	11.0	7.8
P/E (x)	6.6	6,4	6,2
EV/EBITDA (x)	2.7	2.6	2.5
Net Debt/EBITDA (x)	0.3	0.2	0.1
Gearing (%)	21.0	16.0	14.1
ROE (%)	25.7	26.3	25.6

Price at 07/12/2023

## FINANCIAL CALENDAR IN 2023

February	Publication of the 2022 annual results
April	Publication of business review Q1-23
July	Publication of H1-23 results
October	Publication of business review Q3-23

## A "leadership" preserved in all countries of presence

The incumbent telecommunications provider of Senegal (SONATEL), a subsidiary of the Orange Group, is a key player in West Africa. The company is active in Fixed Line telephony, Mobile, Internet Services, Mobile Money segments as well as in new services related to the use of Data. At the end of 2022, Sonatel maintains a leading position in the countries of presence:

- **Senegal** : incumbent operator with a market share of 59% and a Mobile penetration rate of 120%. Sonatel's positioning in the Mobile Money segment has been impacted by the arrival of the new entrant Wave. The latter has caused an 80% drop in price in this segment;
- **Mali** : market leader with a market share of 53% and a Mobile penetration rate of 106%. The operator experienced a slight decline in its market share of -0.5 pt in 2022;
- **Guinea** : market leader with 66% market share and 102% Mobile penetration rate. The operator was able to improve its market share by +6 pts in 2022;
- **Guinea-Bissau** : market leader with a market share of 61% and a Mobile penetration rate of 113%. The operator improved its market share by +2 pts in 2022;
- **Sierra Leone** : despite strong competition, Sonatel maintains its leading status with a market share of 52%, down -3 pts in 2022. Taking into account a Mobile penetration rate of 89%, this market has a higher growth potential.

## An appreciable resilience in a more constraining environment

In a restrictive inflationary and regulatory context, we have revised Sonatel's annual revenue growth profile to +5.4% during the 2022-2025E period against +7.3% over 2019-2022. Mobile Data remains the main growth driver with an AAGR of +12.3% and a revenue contribution of 37.0% over the same period.

The ability to defend an EBITDA margin above 40.0%, is supported by the new cost efficiency plan. This would allow Sonatel to maintain a profit capacity of around FCFA 260 Bn over the next two years. Thus, the Group would have an interesting leeway in terms of its payout in order to return to a DPS above FCFA 1,500.

## Sonatel stock : attractive entry points for a MT investment horizon

Based on our conservative valuation assumptions, we come out with a target price for Sonatel stock of FCFA 19,674, offering an upside of +25%<sup>(1)</sup>. During the 2023E-2025E period, the stock displays one of the best "P/E-D/Y" pairs within the BRVM, i.e. 5.9x and 9.2% respectively.

## Conf-call Management - 06/12/2023

Following our conference call with the Management of Sonatel Group, we came away with a reassuring feeling.

## Insurance points :

- The sustainability of the Data Mobile growth over the MT;
- The ability to defend an EBITDA margin above 40.0% thanks to the optimization of IE<sup>(2)</sup>.

## Risk factors :

- Lack of visibility on future impacts of regulatory pressures;
- Rapid evolution of competition requiring a certain flexibility of the business model.

<sup>(1)</sup> Price as of 07/12/2023 : FCFA 15,700 ; <sup>(2)</sup> IE: Indirect expenses

## SONATEL

TELECOM | BRVM |  
BLOOMBERG: SNTS BC**Positive business momentum in 2022, ... a reassuring first quarter of 2023**

Sonatel confirms the resumption of its post-Covid activity with an increase in its revenues of +9.0% in 2022 versus +10.7% in 2021. This sustainability of growth reflects the resilience of the operator's business model within an unfavorable context. This is marked by intense competition, inflationary environment which weighs on telecommunications spending and increasingly regulatory pressures.

Revenue growth in 2022 is still driven by the Mobile Data, which posted growth of +23.5%. With a weight of 30% in revenue, Data Mobile contributes more than 70% to the growth of consolidated revenues in 2022.

Thanks to competitive offers on the Very High Speed segments (LTE/FDD/TDD and Fiber), Sonatel was able to limit the drop in Orange Money's of -9.3% revenue in 2022 and the natural decline in international activity. This is penalized by the accelerated development of VoIP<sup>(1)</sup> applications at the expense of traditional Mobile Voice communication.

Under the effect of the "good" control of costs, operating income shows growth of +9.4% in 2022, slightly higher than that of revenues (+9.0%). It should be noted that the change in expenses is mainly driven by infrastructure maintenance and network development. Under these conditions, the EBITDA margin and the operating margin have stabilized in 2022 at 44.2% and 29.6% respectively. At the same time, the relative improvement in the financial result of FCFA +9.4 Bn allowed the increase in net income of +11.8% to stand at FCFA 236 Bn in 2022.

The Group's achievements in Q1-23 confirm the solidity of its growth profile through an increase in its revenues of +9.8%. In addition, we believe that Mobile Money activity should experience a visible rebound in 2023, after a -9.3% drop in 2022. This scenario is supported by Management's ability to readjust its competitive strategy regarding this segment from 2023E.

**SONATEL: 2022R CONSOLIDATED ANNUAL RESULTS VS. Q1-23 RESULTS**

IN FCFA BN	2021	2022	VAR 21/20	VAR 22/21	Q1-23	VAR Q1-23
<b>Consolidated Revenue</b>	<b>1 335.9</b>	<b>1 455.0</b>	<b>+10.7%</b>	<b>+9.0%</b>	<b>384.7</b>	<b>+9.8%</b>
Mobile	574.0	596.6	+9.2%	+3.9%		
Data Mobile	360.4	445.0	+26.6%	+23.5%		
Orange Money	145.5	132.0	-3.5%	-9.3%		
International	58.7	58.2	-16.0%	-0.9%		
Broadband Fixe	62.7	71.0	+10.7%	+13.2%		
Others activities	133.5	152.3	+12.9%	+14.1%		
<b>EBITDA</b>	<b>590.8</b>	<b>643.5</b>	<b>+12.4%</b>	<b>+8.9%</b>	<b>165.6</b>	<b>+14.3%</b>
<i>EBITDA margin</i>	<i>44.3%</i>	<i>44.2%</i>	<i>-0.7 pt</i>	<i>-0.1 pt</i>	<i>43.0%</i>	<i>+1.7 pts</i>
<b>EBIT</b>	<b>399.7</b>	<b>437.1</b>	<b>+17.9%</b>	<b>+9.4%</b>		
<i>EBIT margin</i>	<i>29.5%</i>	<i>29.6%</i>	<i>+1.9 pts</i>	<i>+0.1 pt</i>		
<b>NIGS</b>	<b>211.1</b>	<b>236.0</b>	<b>+25.2%</b>	<b>+11.8%</b>	<b>82.7</b>	<b>+31.9%</b>
<i>Net margin</i>	<i>15.8%</i>	<i>16.2%</i>	<i>+1.8 pts</i>	<i>+0.4 pt</i>	<i>21.5%</i>	<i>+3.6 pts</i>

[1] Voice Over Internet Protocol

Sources: 2022 Annual Report &amp; CP Sonatel Q1-23 Results, AGR Computations &amp; Estimates

## SONATEL

TELECOM | BRVM |  
BLOOMBERG: SNTS BC

## A proven ability to defend a normative profit of FCFA 260 Bn

With a resilient revenue growth profile (i.e. +5.4% per year) and taking into account the margins available to Management in terms of optimizing its costs, we believe that Sonatel would be able to defend an average earning power of FCFA 260 Bn during the 2023E-2025E period.

Our scenario over the 2022-2025E period is based on the following assumptions:

## ⇒ 5.4% AAGR of revenue driven by Mobile Data momentum

In a challenging environment, we retain an AAGR of +5.4% against +7.3% over the period 2019-2022. This growth profile is mainly driven by the **Mobile Data** activity, whose target AAGR would be +12.3% with a contribution to revenues that would increase from 31% to 37% over the same period. The **Mobile** business should maintain a low growth rate (i.e. an AAGR of +1.0%) with an average revenue contribution of 38%. **Mobile Money** should remain under pressure with less sustained growth of +3.0% on average per year. The **Fixed Broadband** activity should continue its momentum with an AAGR of +12.7%. Nevertheless, its contribution to revenues remains relatively limited at 5% over the same period.

## ⇒ Preservation of an EBITDA margin around 43.5% against 44% historically

Taking into account the sustainability of the inflationary context within West African countries, we have retained an AAGR for operating costs of 5.7% over the forecast period. In addition, Management would have some leeway through an efficiency plan related to expenses. It should be highlighted that the maintenance costs of infrastructures and the network would follow a normative progression.

In the end, the EBITDA margin would stand above 43.5% over the forecast period against an average of 44.0% between 2020 and 2022.

## ⇒ A sustained investment effort through a target CAPEX/Revenue ratio of 19.0%

In a competitive environment, Sonatel would continue its investment effort. According to the Management, the target CAPEX/Revenue ratio should oscillate between 16.0 and 18.0% over the 2022-2025E period. As a precautionary measure, we have retained a CAPEX/Revenue ratio of 19.0% due to the efforts required by both the competitive and the regulatory context.

The planned investments mainly concern the improvement of the quality of services through the continuous development of the network as well as the construction of new offices in the countries of presence in order to mark the anchoring of the Group within West Africa.

## ⇒ An estimated impact of FCFA 30 Bn related to the "Orange Mali-Remacotem" conflict

Following the "answering machine billing" conflict between Remacotem<sup>(1)</sup> and telecom operators in Mali, the cost related to Orange Mali could reach, according to our estimates, FCFA 30 Bn. We have therefore included this amount in the 2023E financial statements of the parent company.

## SONATEL: CONSOLIDATED FORECAST P&amp;L STATEMENT 2022R-2025E

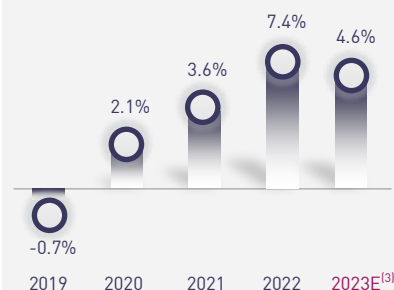
(FCFA Bn)	2022	2023E	2024E	2025E	VAR 23/22	AAGR 22-25E
Consolidated Revenue	1 455	1 545	1 626	1 705	+6.2%	+5.4%
Mobile	597	603	609	615	+3.9%	+1.0%
Data Mobile	445	512	573	630	+15.0%	+12.3%
Orange Money	132	139	141	144	+5.0%	+3.0%
EBITDA	643	677	710	742	+5.3%	+4.9%
EBITDA margin	44.2%	43.9%	43.7%	43.5%	-0.3 pt	-0.7 pt
Reported NIGS	236	222 <sup>(2)</sup>	266	277	-5.9%	+5.5%
Recurring NIGS	236	252	266	277	+6.9%	+5.5%

(1) Network of Malian consumers of mobile telephony

(2) Including the estimated fine of FCFA 30 Bn related to Orange Mali to be disbursed in 2023E

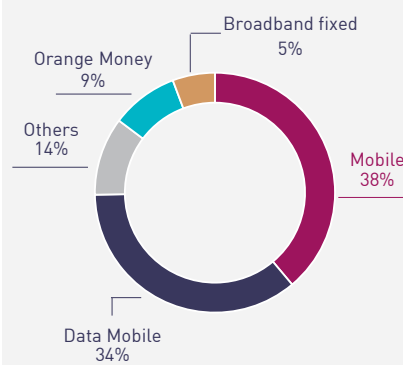
Sources: PR & Sonatel Financial Statements, BCEAO, AGR Computations & Estimates

## WAEMU : AVERAGE INFLATION RATE

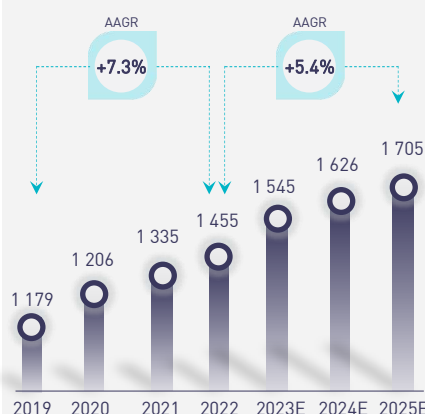


<sup>(1)</sup> At the end of April 2023

## SNTS: REVENUE BREAKDOWN 2022



## SNTS: REVENUE GROWTH PROFILE 22-25E



## SONATEL

TELECOM | BRVM |  
BLOOMBERG: SNTS BC**A fundamental valuation, offering a stock's upside of +25%**

At the end of our valuation exercise, we opted for the DCF method. Based on the assumptions made, we arrive at an EV of FCFA 2,111 Bn for Sonatel.

By deducting the net debt at the end of 2022 (i.e. FCFA 144 Bn), we come out with a fundamental value per share of FCFA 19,674 in comparison to a stock price of FCFA 15,700 on July 12<sup>th</sup> 2023. Thus, we recommend Sonatel stock for BUY due to a potential upside of +25% over the MT.

The main valuation assumptions are as follows:

- +5.4% AAGR of revenue over 2022-2025E. Beyond that, we retain a growth rate of +2.0%/year;
- An average EBITDA margin of 43.7% over 2023E-2025E. Beyond that, this margin should be normalize at 41.5%;
- A CAPEX/Revenue ratio of 19.0% on average over 2023E-2025E. Beyond that, we retain a target level of 18.0%;
- A stable FCF 2023E due to an outflow of FCFA -30 Bn (impact of Orange Mali-Remacotem" conflict);
- A WACC of 13.1% taking into account a target financial leverage of 25% and a specific risk premium of 2.0% applied by foreign investors vis-à-vis the BRVM Stock Exchange (*AGR ERP Survey Study - WAEMU Region*);
- A perpetual rate of 3.0% justifying a contribution of the terminal value of 34.0% to the total EV.

**SONATEL: FREE CASH-FLOW STATEMENT 2022R-2032E**

INDICATORS (FCFA BN)	2022R	2023E	2024E	2025E	AVERAGE 26E-32E
EBITDA	643	677	710	742	777
Change	+8.9%	+5.3%	+4.9%	+4.5%	+1.0%
EBITDA margin	44.2%	43.9%	43.7%	43.5%	41.5%
CAPEX	263	294	309	324	340
% revenue	18.0%	19.0%	19.0%	19.0%	18.0%
WCR/revenue	-18.7%	-18.0%	-18.0%	-18.0%	-13.0%
Fine - Orange Mali	-	30	-	-	-
FCF	201	204	253	263	272
Change	-16.8%	+2.0%	+23.6%	+3.8%	+1.8%
FCF margin	16.3%	13.3%	15.6%	15.4%	14.5%

**A stock offering one of the best "P/E-D/Y" pairs within the BRVM**

Today, Sonatel offers clear "visibility" and demonstrates its "ability" to defend a recurring profit around FCFA 260 Bn. During the 2023E-2025E period, the stock trades at a recurring P/E of 5.9x, i.e. a discount of 43% compared to its LT P/E<sup>(1)</sup> (10.4x) and 26% compared to the current P/E of the BRVM (8.0x).

At the same time, we believe that Sonatel would maintain a generous dividend policy supported by an interesting payout margin. While maintaining the payout at 60%, Sonatel would be able to offer a normative DPS between 1,500 and FCFA 1,600 over the 2024E-2025E period, equivalent to an attractive D/Y of 9.9%.

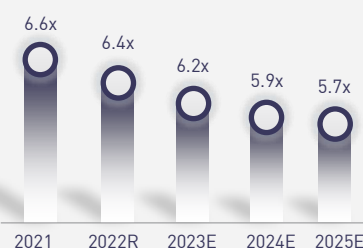
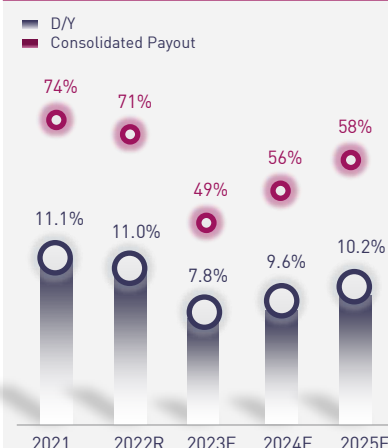
**SNTS: HYPOTHESIS OF THE WACC**

Indicators	2023
10-year TB	5.56%
Beta (7 years)	1.18
ERP (Local Investors)	6.4%
Financial Leverage	25%
<b>Cost of Equity</b>	<b>13.1%</b>
Cost of Debt (After taxes)	5.0%
<b>WACC (Local Investors)</b>	<b>11.1%</b>
Specific Risk Premium <sup>(2)</sup>	2.0%
<b>WACC retained</b>	<b>13.1%</b>

<sup>(2)</sup> Spread of profitability requirements between foreign and local investors vis-à-vis an investment on the BRVM Stock Exchange (*Report of AGR ERP Survey Study - WAEMU Region*)

**SNTS: RECURRING P/E(x) EVOLUTION**

Average P/E [2012 -2022] : 10.4x

**SNTS: D/Y<sup>(3)</sup> VS. PAYOUT (%) SCENARIO**

<sup>(3)</sup> End of year prices for 21-22 and on 07/17/2023 from 2023E.

<sup>(1)</sup> Average P/E over the 2012-2022 period

Source : AGR Computations & Estimates

## SONATEL TELECOM | BRVM |

BLOOMBERG: SNTS BC

Change (%)	2020	2021	2022	2023E	2024E	2025E
Revenue	2,3%	10,7%	9,0%	6,2%	5,2%	4,9%
EBITDA	6,9%	12,4%	8,9%	5,3%	4,9%	4,5%
Recurring NIGS	9,9%	25,2%	11,8%	6,9%	5,6%	4,1%
Reported NIGS	9,9%	25,2%	11,8%	-5,9%	19,9%	4,1%
DPS	0,0%	14,3%	7,2%	-26,5%	22,4%	6,7%
Profitability	2020	2021	2022	2023E	2024E	2025E
EBITDA Margin	43,6%	44,3%	44,2%	43,9%	43,7%	43,5%
EBIT Margin	27,6%	29,5%	29,6%	27,7%	29,5%	29,2%
Apparent Corporate Tax	35,0%	32,8%	33,9%	33,9%	33,9%	33,9%
Net Margin	14,0%	15,8%	16,2%	14,4%	16,4%	16,3%
FCF/Revenue	14,4%	18,1%	13,8%	13,3%	15,6%	15,4%
ROE	22,5%	25,7%	26,3%	25,6%	23,6%	22,1%
Consolidated Payout	80,7%	73,7%	70,6%	48,6%	56,3%	57,7%
P & L (FCFA BN)	2020	2021	2022	2023E	2024E	2025E
Revenue	1206	1335	1455	1545	1626	1705
EBITDA	526	591	643	677	710	742
Depreciation, amortization and provisions	186	190	207	250	231	243
EBIT	339	400	437	427	479	499
Corporate Tax	108	123	143	150	157	163
Consolidated Net Income	201	252	279	262	306	318
Equity Interests	33	41	43	40	39	41
Recurring NIGS	169	211	236	252	266	277
Balance Sheet (FCFA BN)	2020	2021	2022	2023E	2024E	2025E
Shareholders' Equity	749	821	899	968	1067	1184
Minority Shareholders	139	150	155	174	192	213
WCR	-216	-266	-271	-278	-293	-307
Net Debt	257	172	144	137	80	9
WCR (% Revenue)	-18%	-20%	-19%	-18%	-18%	-18%
Gearing (%)	34%	21%	16%	14%	8%	1%
Free Cash Flow (FCFA BN)	2020	2021	2022	2023E	2024E	2025E
Changes in WCR	67	-50	-5	-7	-15	-14
CAPEX brut	204	214	263	293	309	324
Normative Corporate Tax	35%	33%	34%	34%	34%	34%
Free Cash-Flow	174	242	201	205	253	263
Dividends (n-1)	136	156	167	123	150	160
Valuation Multiples	2020	2021	2022	2023E	2024E	2025E
P/E (x)	8,0	6,6	6,4	6,2	5,9	5,7
D/Y (%)	10,1%	11,1%	11,0%	7,8%	9,6%	10,2%
P/B (x)	1,8	1,7	1,7	1,6	1,4	1,3
EV/EBITDA (x)	3,1	2,7	2,6	2,5	2,3	2,1
Stock Figures (FCFA)	2020	2021	2022	2023E	2024E	2025E
Stock price at the end period	13 500	13 990	15 200	15 700	15 700	15 700
EPS	1686	2 111	2 360	2 522	2 664	2 772
DPS	1361	1556	1667	1225	1500	1600
Book Value per share	7 492	8 213	8 985	9 840	11279	12 550

Source : AGR Computations &amp; Estimates



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