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STOCK MARKET: HOW TO TACKLE THE REPORTING SEASON?

In this edition, we analyze the sustainability of the Moroccan stock market recovery, after a performance of +15.6% since May⁽¹⁾ 2023.

Since the MASI index has fully benefited from the visible decline of bond yields, investors should now focus on listed companies reporting season of semi-annual results. A period which would be marked, according to our expectations, by profit-taking operations.

1 THE MASI INDEX CONFIRMS ITS SENSITIVITY TO BONDS...

The decline of bonds yields since last May is in our opinion, the main factor behind the solid recovery of the Equity market.

2 ... AND BENEFITS FROM THE RETURN OF RISK APPETITE

The turnaround of the yield curve in a context marked by the easing of inflationary pressures led to a decline in investors' return requirements.

3 4 INDICATORS TO MONITOR IN THE SECOND HALF

The MASI future orientation would be based on the quality of listed companies' results, the inflation level, the evolution of Demand as well as the investment dynamic.

Our investment strategy presented during the last two editions [[Cf. AGR House View January 2023/ Cf. AGR House View April 2023](#)] was based on two main criteria: *resilience* and stock's *valuation level*. In fact, the recommended sectors fully benefited from the return of risk appetite on the Equity market, such as Banking (+25%), Ports (+23%) and Telecom (+32%):

In view that the Moroccan stock market will be "driven" by fundamental rather than technical indicators over the next quarter, we have made a slight readjustment to our investment strategy. We note the following recommendations:

- (1) Raise the exposure to **Banking** and **Telecom** sectors;
- (2) Maintain weightings regarding **Ports** and **Mining** sectors;

(1) From May 02nd to August 10th 2023

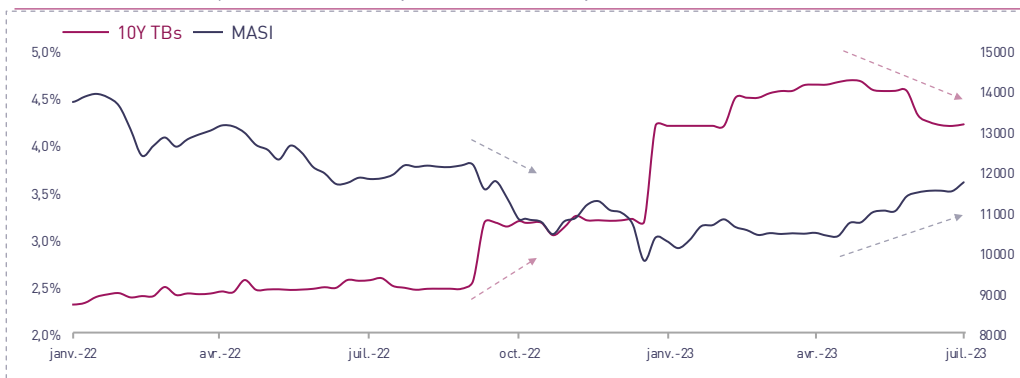
Bond's volatility has been the main factor impacting the evolution of the Equity market since 2022.

EQUITIES CONFIRM THEIR STRONG SENSITIVITY TO BONDS...

The orientation of the stock market in recent years confirms, in our opinion, its high sensitivity to bonds. In 2022, the bullish reversal of the yield curve in Morocco was accompanied by an annual underperformance of the MASI index of -20%. In January 2023, the appreciation of the 10-year TBs from 3.19% to 4.21% was accompanied by a weekly stock market correction of -9.4%, the worst in its history.

Following the Moroccan Central Bank's decision to take a pause in its monetary tightening process last June and in the absence of budgetary pressures [see Moroccan Public Budget 2023], we witnessed a visible easing of the yield curve from Q2-23 [see Semi-annual Fixed Income Market H1-23]. Indeed, the 10-year TBs fell by -45 BPS from 4.70% in May to 4.25% at the end of July 2023. A situation which was accompanied by a solid recovery of the MASI index, i.e. +15.0% during the same period.

Equities have been highly sensitive to fluctuations in the yield curve
Evolution of the MASI Index (points) Vs. Yield of the 10-year TBs (%) since January 2022



Sources: AGR Computations & Estimates, Bloomberg, Auction ATW bank

... AND BENEFIT FROM A RETURN OF RISK APPETITE STRATING FROM MAY

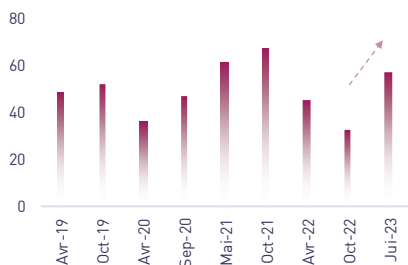
Our two flagship indices, developed since 2011, enable today to better assess the future perception of investors as well as their real return requirements toward Equities. The results obtained in Q2-23 attest to the return of risk appetite:

- The AGR Confidence Index published in June 2023 shows an improvement in the perception of the 35 most influential investors on the Moroccan financial market [see AGR Confidence Index - Morocco]. This is an increase of +24.0 points to 57 points;
- The AGR Risk Premium, calculated according to the survey method, clearly reflects the decrease in investors' return requirements toward Equities. Last June, the Equity Risk Premium fell by -200 BPS from 8.0% initially to 6.0% in June 2023 [See AGR Equity Risk Premium July-23].

The AGR Confidence Index reached in June 2023 its highest level since October 2021.

THE AGR CONFIDENCE INDEX REACHED A TWO-YEAR HIGH

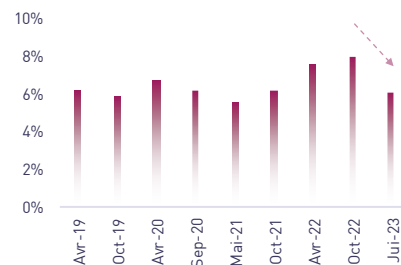
AGR Confidence Index Vs. MASI Index (pts)



Source: AGR Computations & Estimates

THE DECLINE IN THE EQUITY RISK PREMIUM REFLECTS THE RETURN OF RISK APPETITE

AGR Risk Premium according to the survey method (%)



Source: AGR Computations & Estimates

We anticipate a phase of profit taking, mainly during August and September.

The return to growth in equipment loans is supporting the resilience of banks.

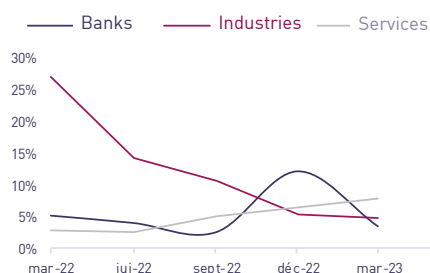
INDICATORS TO WATCH OUT FOR FOT THE SECOND HALF OF 2023

Since the easing of bond yields in Morocco have largely been integrated into the MASI Index, we believe that the evolution of the stock market during the second half of 2023 would depend on four main indicators:

- **Listed companies achievements** in Q2 and H1-23 would be an opportunity for investors to make profit-taking operations on stocks showing growth below expectations and/or announcing less favorable prospects for the rest of the year. In our view, *industrial* stocks are concerned by this scenario [\[see Listed Companies results Q1-23\]](#);
- The evolution of **inflation level** remains the main *driver* of both investors' return requirements and the monetary decisions of the Moroccan Central Bank. Note that the continuous deceleration of inflation since March 2023 is a reassuring factor for investors ;

Q2-23 ACHIEVEMENTS WOULD TRIGGER PROFIT-TAKING OPERATIONS

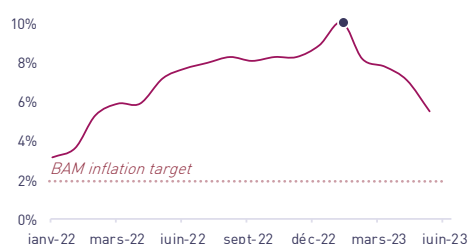
Quarterly growth in revenues by main sectors



Sources: Bloomberg, AGR Computations

INFLATION'S DECELERATION IS A REASSURING SIGNAL FOR EQUITIES

Monthly evolution of inflation

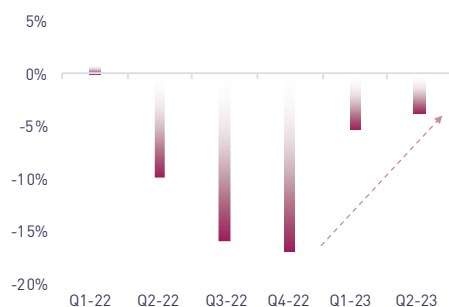


Sources: HCP, AGR Computations

- The **cement sales** behaviors over the coming months would be a strong signal for investors. In fact, the continued decline of this indicator could lead to downward revisions of growth forecasts for the Cement, Industry and Construction sectors for the year 2023;
- The sustainability of the recovery in **equipment loans** would constitute a reassuring signal for the banking sector, whose weight in the market's capitalization amounts to 35%. In our view, the positive direction of this indicator would support the resilience of banks' growth.

WAITING FOR A REVERSAL OF THE DOWNWARD TREND IN CEMENT SALES

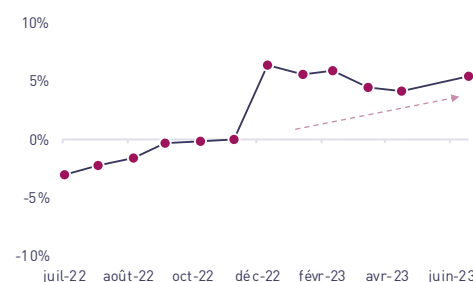
Quarterly evolution of cement sales



Source: AGR Computations, APC

SOLID GROWTH IN EQUIPMENT LOANS SUPPORTS THE RESILIENCE OF BANKS

Monthly evolution of Equipment loans



Sources: BAM, AGR Computations

Resilient sectors largely outperform the MASI index in 2023

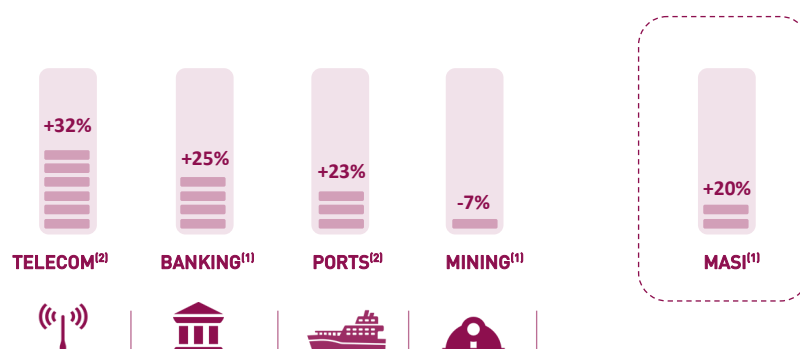
ASSESSMENT OF OUR INVESTMENT STRATEGY IN 2023

In our last edition, we continued to favor sectors which are resilient to inflation and have relatively "low" valuation multiples. In our view, this is a P/E 25E below the fundamental target level of the Equity market, i.e. 16.0x.

In addition to **Banks & Mining**, which have been implemented since January 2023 [\[see AGR House View January 2023\]](#), we have integrated two new sectors from April. These are **Telecom** and **Ports** [\[See AGR House View April 2023\]](#). As of August 10th 2023, the recommended sectors are showing interesting performances since their integration into our investment strategy. These are **Telecom** (+32%) [\[See Maroc Telecom-May 23\]](#), **Banks** (+25%), **Ports** (+23.0%). However, **Mining** has posted an underperformance of -7.0% since January following the decrease of Managem, whose results would be impacted by political instability in Sudan.

THE RECOMMENDED SECTORS OUTPERFORM THE MASI INDEX IN 2023

PERFORMANCE RANKING OF RECOMMENDED SECTORS IN 2023 (AVERAGE PERFORMANCE SINCE RECOMMENDATION DATES)



(1) From January 26th to August 10th 2023, (2) From April 5th to August 10th 2023

Sources: Bloomberg, AGR Computations & Estimates

We are maintaining our recommendation to overweight the Banks & Telecoms sectors.

HOW TO TACKLE THE EQUITY MARKET DURING THE SECOND HALF OF 2023?

We believe that the Equity market should experience during Q3-23 a period of profit-taking, particularly during August and September (reporting period of Q2 and H1 results). This scenario is supported by the lagged impact of weaker local Demand on the achievements of listed companies, particularly industrial ones.

From this perspective, we still favor the **Banking & Telecom** sectors thanks to the resilience of their growth, the attractiveness of their valuation levels and the upside potential of their dividends in 2023. Meanwhile, we recommend holding positions on **Port & Mining** sectors in a medium term investment logic.

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