RESEARCH REPORT

EQUITY

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A STRONG BUY SIGNAL IN FAVOR OF THE BANKING SECTOR

Attijari Global Research

Report for institutional use

EXECUTIVE SUMMARY

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In this Research Paper, we focused on the evolution of the valuation multiples of the Banks index and the MASI index over the period 2010-2024E. At the end of this exercise, we note an "*unusual*" spread level which deviates significantly from the normative trend observed over the last 15 years.

Ultimately, our quantitative analysis reveals a potential recovery of the Banks index of +20% over the MT. Therefore, we recommend investors to overweight the Moroccan banking sector in their portfolios.

In more detail, we emerge with the following conclusions:

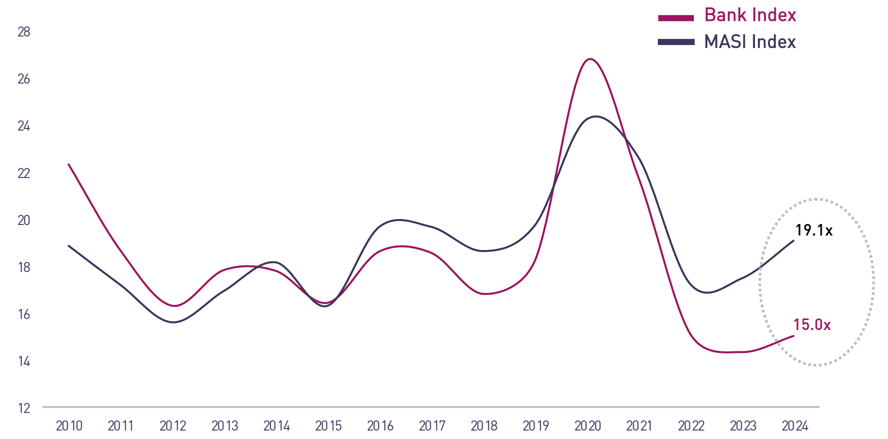
- For the 1st time, the spread between the P/E of the "banking sector" and that of the "Equity market" widened significantly to more than 25%, i.e. 15.0x versus 19.1x respectively ;
- In relative terms, the "*Banks P/E*" compared to the "*MASI P/E*" stands at 0.79 in 2024 against a 15-year average of 0.97. An "*unusual*" situation which seems hardly sustainable over the MT;
- We forecast an upward adjustment of the banking sector's average P/E to approach 18.0x in the first instance. A level equivalent to the lower band of our confidence interval, i.e. 0.91 *(Cf. Graph 2, page 2)* ;
- The achievement of our scenario would result in a target performance of the banking sector of at least +20% on the MT. Especially since Moroccan banks will show during the 2023-2025E period, both steady and resilient growth profile.

"UNUSUAL" VALUATION SPREADS BETWEEN BANKS INDEX AND THE MASI INDEX

Analyzing the evolution of the adjusted valuation multiples[1] of the MASI index and the Banks index during the period 2010-2024E, we note a fairly "*unusual*" widening of P/E spreads from 2022.

This spread reached for the first time a level of 27% through a P/E 24E of 15.0x for listed banks compared to 19.1x for the Equity market. Note that during the period 2010-2021, this valuation gap was slightly in favor of the Banks index, i.e. an average of 1.0%.

ADJUSTED P/E (x)[1] : EVOLUTION DURING THE PERIOD 2010-2024E



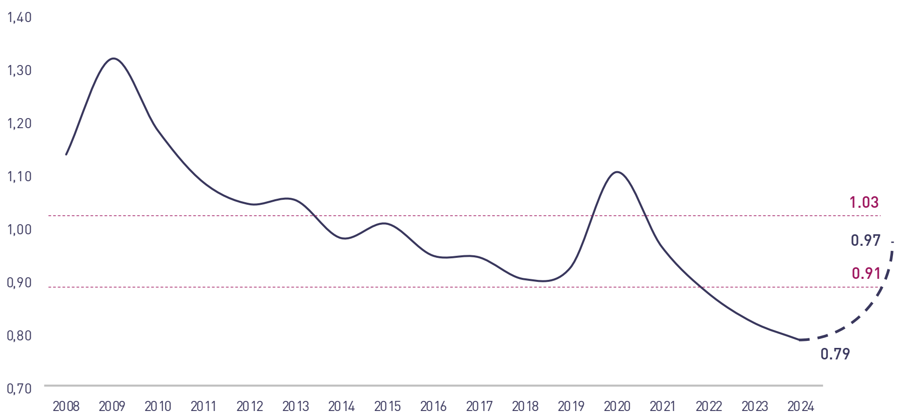
(1) P/E (x) based on the recurring results excluding loss-making companies

In relative terms, the "*Banks P/E to market P/E*" ratio is historically traded within a confidence interval[2] of [0.91-1.03].

However, from 2022, our "*Banks P/E to market P/E*" ratio has fallen below the lower band of our confidence interval[2] to settle at 0.79x in 2024E. A situation which seems hardly sustainable over the MT horizon.

Under these conditions, our scenario forecasts the return of this ratio towards the lower band of our confidence interval, i.e. 0.91 as a first step. As a second step, the target level would be the normative LT average observed during the period 2010-2024E, i.e. 0.97.

RELATIVE P/E RATIO : BANKS P/E (x) TO MASI P/E



(2) Confidence interval at the 95% threshold based on historical observations retained over 2010-2024E of our ratio

Sources: Financial Statements, AGR Calculations & Estimates

... OFFERING ATTRACTIVE ENTRY POINTS ON THE STOCK MARKET

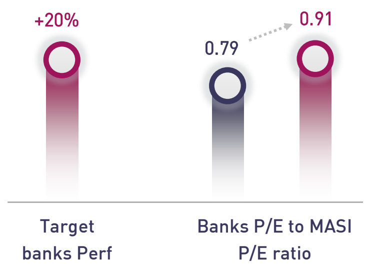
The upward adjustment of our "*Banks P/E to MASI P/E*" ratio going from 0.79 in 2024E to our first target of 0.91, involves two major scenarios[1] :

⇒ **Scenario 1** : correction of non-financial stocks' prices by -18% on average, under the assumption of a relative stabilization of the banking sector ;

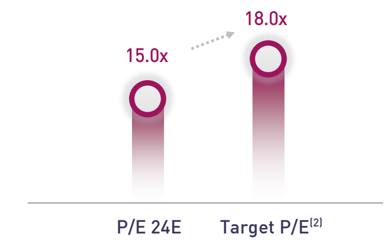
⇒ **Scenario 2** : Appreciation of the market capitalization of the banking sector by +20% on average under the assumption of relative stabilization of the non-financial sector.

We favor the second scenario, namely a target performance of the banking sector on the stock market of +20% over the MT. Such progression would allow the listed banking sector to return to a target P/E of 18.0x, equivalent to a ratio of 0.91 compared to the average P/E of the MASI index.

AGR : QUANTITATIVE SCENARIO



AGR : BANKS P/E (x) EVOLUTION



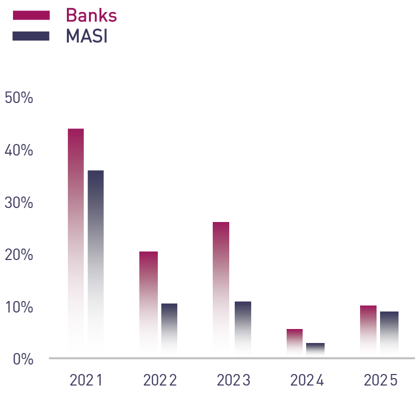
(2) Assumption of "Banks P/E to MASI P/E" ratio of 0.91

The expected recovery of the banking sector on the stock market is supported by two drivers which are not fully integrated in their current valuation multiples:

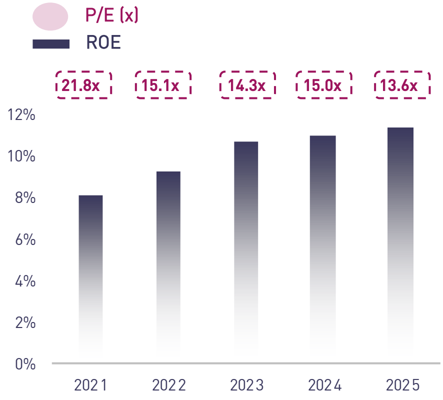
⇒ The proven ability of banks to outperform the market's profit growth over the period 2021-2025E. Since 2021, the banking sector has been both the leading contributor to the market's earnings growth (around 75%) and the most resilient sector through a beta structurally lower than 1 ;

⇒ The continued recovery of the banks' ROE over the 2021-2025E period, increasing from 8.0% to 11.4%. This improvement in the financial return of the banking sector has not yet been fully reflected in the evolution of its P/E (x).

PROFITS GROWTH: BANKS Vs. MARKET



BANKS : ROE Vs. P/E (x) EVOLUTION



(1) Alternative scenarios are possible involving a mixed fluctuations of the banking and non-banking sectors

Sources: Financial Statements, AGR Calculations & Estimates

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