EQUITY NOTE

Company update

Wednesday 15 September 2021

BMCE CAPITAL
GLOBAL RESEARCH

ITISSALAT AL-MAGHRIB

The stock direction is subject to future dividend policy

Telecom Operator | Reuters/ Bloomberg : IAM.CS/IAM MC | Morocco

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Price
MAD 140
At 09/08/2021

Target Price
MAD 145
Previous : MAD 142

Upside
+4%

Recommandation
Accumulate

Previous : Accumulate

A stock to accumulate

Slight increase in our target price to MAD 145 (vs. MAD 142 last March) resulting in target P/E of 22.4x in 2021E and 21.1x in 2022E.

A confirmed resilience

Despite the scale of the investments planned for the coming years, the historical operator has a strong capacity to generate cash, thanks in particular to its control of operating costs, enabling it to maintain its margins at satisfactory levels.

Africa, the telecom eldorado

Although, the international activities are showing sustainable growth with increasing revenues (nearly 48% of consolidated revenues), the region's potential remains untapped. IAM could further strengthen its achievements on the continent by penetrating the Eastern region.

Continued digital transformation

MAROC TELECOM should also benefit from the continuation of digitalization projects in Morocco by both companies and public administrations, boosted by the effects of the pandemic crisis, which would strengthen the fixed-line segment as evidenced by the ADSL customer base expansion of +9.2% in Q1 2021.

A less favorable regulatory environment

MAROC TELECOM could continue to suffer in 2021E from a more restrictive regulatory environment, in particular due to the maintenance of tariff asymmetry, facilitating the intensification of competition.

An expected return of dividends

Finally, the acquisition by ETISALAT GROUP of ABU DHABI FUND FOR DEVELOPMENT's interest in MAROC TELECOM could probably be seen as a positive signal, in particular as regards the return to a normative dividend distribution policy in the future.

Key financial indicators

	2019a	2020a	2021p	2022p
Revenues	36,517	36,769	35,819	36,670
EBIT	8,232	12,018	11,211	11,184
NIGS	2,726	5,423	5,687	6,016
EPS	3.1	6.2	6.5	6.8
Var. (%)	-54.6%	98.9%	4.9%	5.8%
DPS	5.5	4.0	6.0	6.3
ROE	23%	43%	38%	38%
PE multiple (X)	49.3	23.5x	21.6x	20.5x
Dividend yield	3.6%	2.8%	4.3%	4.5%
Payout	149.4%	56.4%	95.0%	95.0%

Source: BMCE Capital Global Research

Stock market information

Price (MAD)	140
Target price	145
Upside	4%
Recommendation	Accumulate
Number of shares (m)	879
Market capitalization (MAD m)	121,315
Floating	19.16%
Perf. y-t-d	-3%
High/low 12m	149/134
Volatility	10,0%

Source: BMCE Capital Global Research

Valuation of the company (1/2)

GROWTH CATALYSTS

- ✓ Affiliation with the Emirati Group ETISALAT ;
- ✓ Confirmed resilience of the company ;
- ✓ Dynamism of the Fixed-line & Internet segment in a context of health crisis...
- ✓ Accompanied by an intensification of investments in Internet infrastructure to boost this segment where there is still a potential to exploit ;
- ✓ Expected launch in 2023 of 5G to allow the sector to start a new bullish cycle ;
- ✓ High cash generation capacity ;
- ✓ Significant geographical growth with 10 subsidiaries on the African continent.

VALUATION RISKS

- × The Moroccan market is running out of steam, especially in the mobile segment, as it reaches maturity...
- × ...Also, loss of market share due to the degradation of the quality of service and the aggressiveness of the competition;
- × Continued decline in ARPU due to increased competition and reduced purchasing power;
- × Deterioration of international roaming and incoming revenues in a context still marked by travel restrictions;
- × The application of unbundling measures is likely to accelerate, which should eventually weigh on the performance of the Fixed-line & Internet segment;
- × Major investments to come for 5G deployment.

≡ Valuation method

For the purposes of the valuation of the MAROC TELECOM Group, we have used the discounted cash flows method - DCF.

New vs. Old valuation assumptions

	New assumptions	Old assumptions	Impact on the valuation
Revenues AAGR 20-30	1.9%	0.6%	↑
Average EBITDA margin 21-30	50.7%	50.9%	↓
Discount rate	7.2%	7.2%	=
Risk-free rate	2.4%	2.4%	=
Equity market risk premium	8.5%	8.2%	↑
Target Gearing	35.4%	30.0%	↑
Bêta	0.8	0.8	=
Infinite growth rate	0%	0.0%	=

Source: BMCE Capital Global Research

Our forecast on revenue growth has been revised upwards due to the incorporation of the first effects of 5G in commercial realizations at the end of the decade.

Our DCF model shows a target price of MAD 145, i.e. an Upside of 4% vs. the price at 09/08/2021

Evolution of the main financial aggregates and projections

MAD m	2021e	2022e	2023e	2024e	2025e	2026e	Terminal Value
EBITDA	18,554	18,885	19,025	19,024	19,151	19,556	
-Taxes	6,494	5,665	5,707	5,707	5,745	5,867	
+Gain on amortization	2,203	2,310	2,448	2,528	2,498	2,498	
-Investments	4,298	4,767	8,192	8,430	8,677	6,002	
FCF	10,269	11,040	7,587	8,163	6,843	9,975	138,256
Discounting factor	0.98	0.91	0.85	0.79	0.74	0.69	0.52

Company Value	127 131
+Sum of discounted FCF	69,516
+Terminal value	72,360
-Net debt	14,745
Number of shares (m)	879

	2021e	2022e
EPS	6.5	6.8
Target PER	22.4	21.1
Target price	145	
Price	140	
Upside/downside	+4%	

Source: BMCE Capital Global Research

Valuation of the company (2/2)

≡ Market comparison method

As an indication, we present the comparable of MAROC TELECOM, whose sample is composed of the following international peers:

Main stock market peers as of 09/03/2021

Company	Country	Capi. in USD m	P/E 2021e	P/B 2021e	EV/EBITDA 2021e
MAXIS BHD.	Malaisia	9,103.0	25.9x	5.3x	12.1x
PLDT. Inc.	Indonesia	5,741.0	9.9x	2.0x	5.1x
STARHUB LTD	Singapour	1,606.0	15.2x	4.1x	6.3x
Average		5,483.3	17.0x	3.8x	7.8x
MAROC TELECOM	Morocco	13,776.0	21.6x	7.6x	7.5x

Source: BMCE Capital Global Research, Six Financial

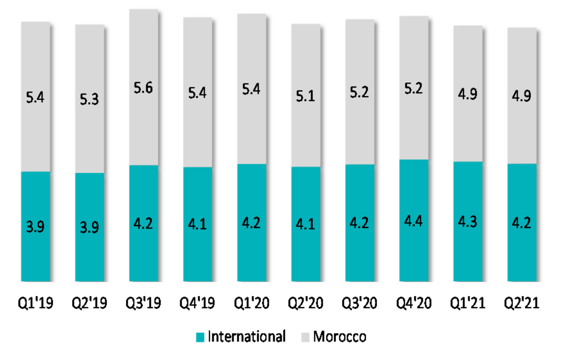
Valuation of MAROC TELECOM using the comparable method

	NIGS 2021e	Shareholders Equity 2021e	EBITDA 2021e
MAROC TELECOM (MAD m)	5,727	14,522	18,626
Implied valuation (MAD m)	202,295	45,528	137,551
Target price (MAD)	109.98	62.22	165.47
Average price (MAD)		113	

Source: BMCE Capital Global Research, Six Financial

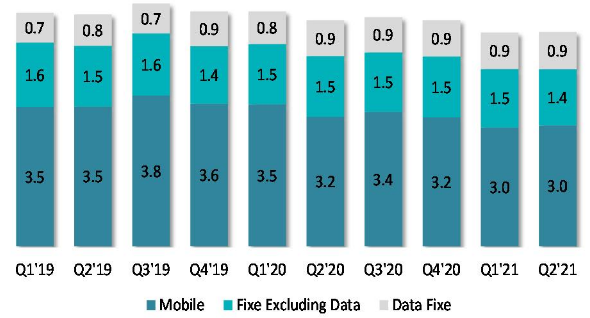
Company Overview

Africa, a real growth driver
Evolution and structure of Group sales by region



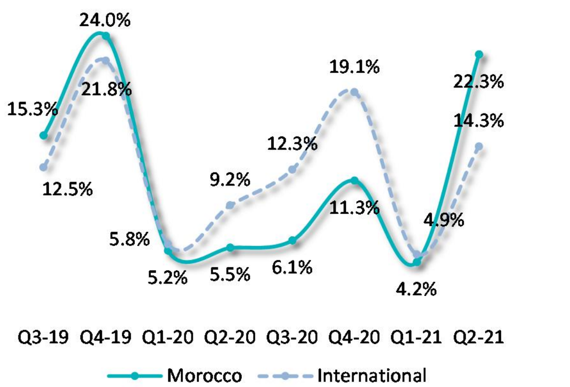
Source: BMCE Capital Global Research

The Mobile Morocco in loss of speed
Evolution and structure of Moroccan sales by activity



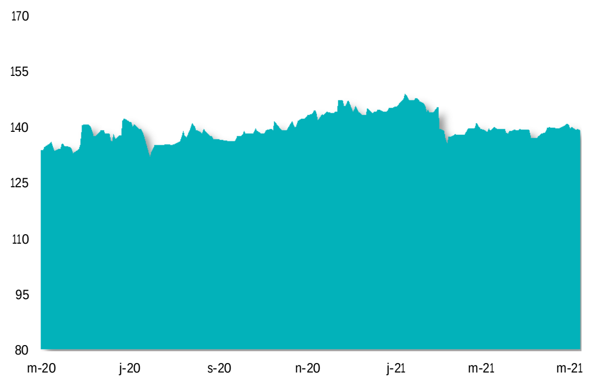
Source: BMCE Capital Global Research

A recovery in investments in Q2 2021
Evolution of the CAPEX/CA



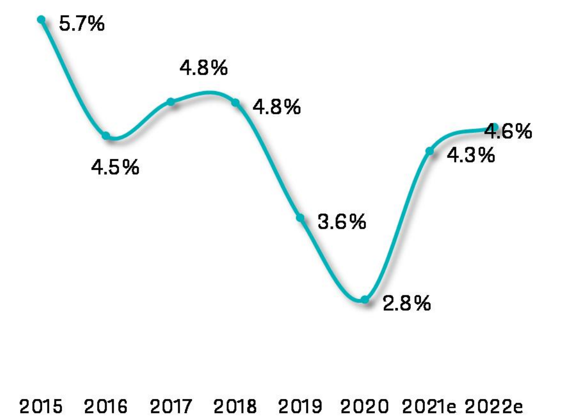
Source: IAM, BMCE Capital Global Research

A -3% y-t-d performance (vs. 12.4% for the MASI)
Evolution of the price over a sliding year



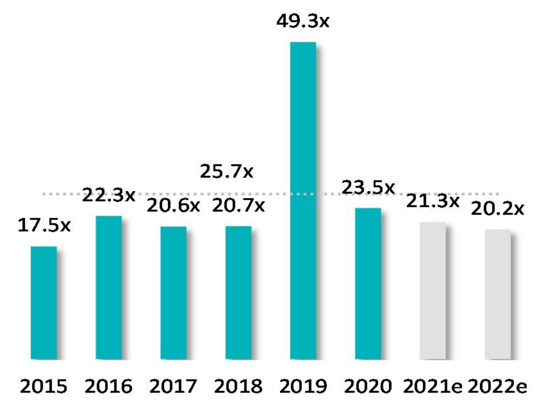
Source: Bourse de Casablanca, BMCE Capital Global Research

A priori cyclical decline in the dividend
D/Y realized and forecast of MAROC TELECOM



Source: Bourse de Casablanca, BMCE Capital Global Research

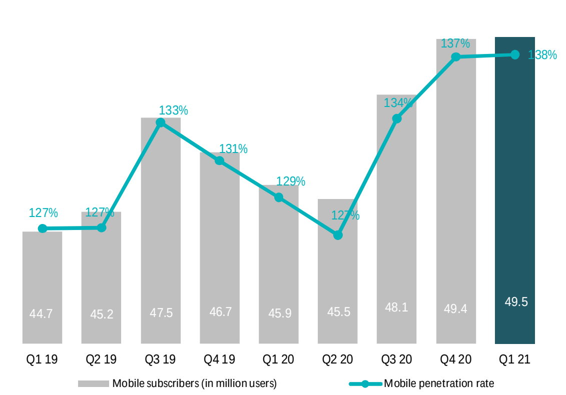
Return of the PER to its normative level expected for 2022
Realized and forecasted PER of MAROC TELECOM



Source: IAM, BMCE Capital Global Research

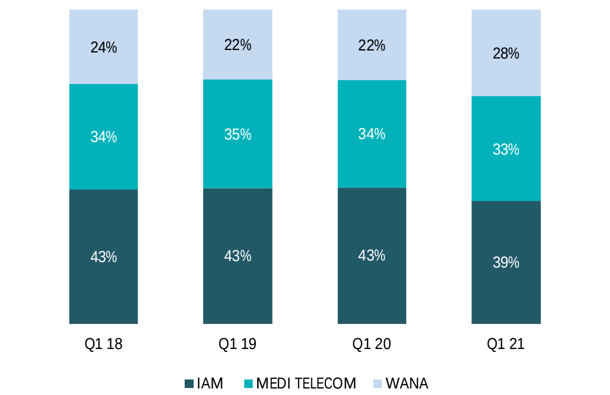
Industry Overview

Penetration rate up 4 points to 137%.
Evolution of the Mobile subscriber base



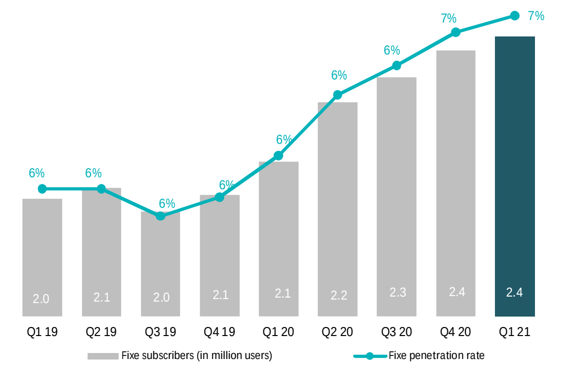
Source: ANRT, BMCE Capital Global Research

Intensified competition in the mobile sector
Market share by operator in the Mobile segment



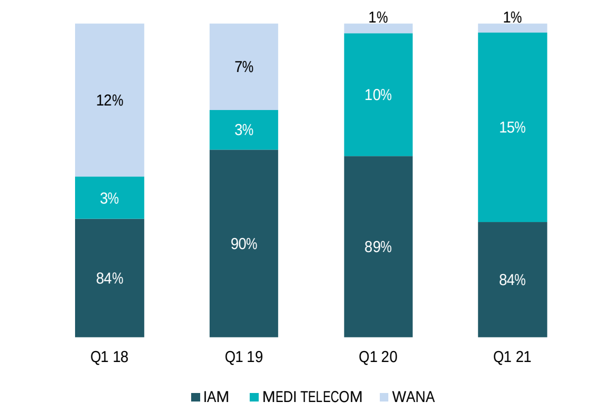
Source: ANRT, BMCE Capital Global Research

A subscriber base of nearly 2.4 million by the end of 2020
Evolution of the Fixed-line subscriber base



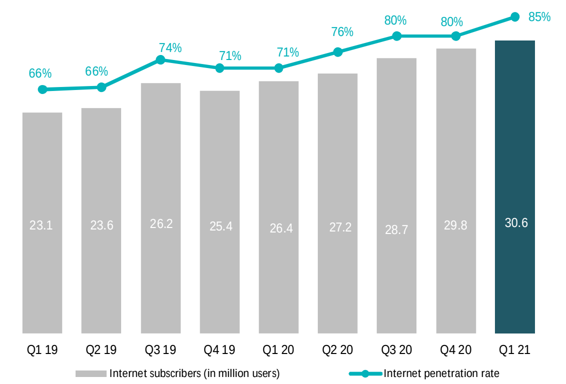
Source: ANRT, BMCE Capital Global Research

A loss of Fixed-line market share
Market share by operator in the Fixed-line segment



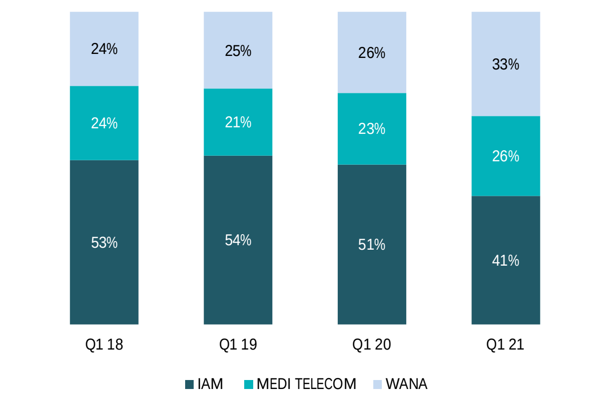
Source: ANRT, BMCE Capital Global Research

Global Internet customer base up 17% y-o-y
Evolution of the Internet subscriber base



Source: ANRT, BMCE Capital Global Research

Competition's enthusiasm for the Internet
Market share by operator in the Internet segment



Source: ANRT, BMCE Capital Global Research

Financial analysis and forecasting (1/3)

Evolution of the main financial aggregates and projections

IFRS in MAD m	2 019	2020	Var %	2021e	Var %	H1 2020	H1 2021	Var %	% Realized
Group revenues	36,517	36,769	0.7%	35,819	-2.6%	18,323	17,780	-3.0%	49.6%
Morocco	21,690	20,881	-3.7%	n/a	n/a	10,524	9,774	-7.1%	n/a
International	16,095	16,883	4.9%	n/a	n/a	8,318	8,515	2.4%	n/a
Adjusted Group EBITDA	18,922	19,100	0.9%	18,554	-2.9%	9,603	9,160	-4.6%	49%
Margin (%)	51.8%	51.9%	0.1 pts	51.8%	-0.1 pts	52.4%	51.5%	-0.9 pts	n/a
Morocco	12,294	11,950	-2.8%	n/a	n/a	5,980	5,390	-9.9%	n/a
Margin (%)	56.7%	57.2%	54.9%	n/a	n/a	56.8%	55.1%	-1.7 pts	n/a
International	6,629	7,150	7.9%	n/a	n/a	3,623	3,771	4.1%	n/a
Margin (%)	41.2%	42.4%	1.2 pts	n/a	n/a	43.6%	44.3%	0.7 pts	n/a
Adjusted Group EBITA	8,232	12,018	46.0%	11,211	-6.7%	5,836	5,571	-4.5%	49.7%
Margin (%)	22.5%	32.7%	10.1 pts	31.3%	-1.4 pts	31.9%	31.3%	-0.5 pts	n/a
Morocco	8,294	8,079	-2.59%	n/a	n/a	4,037	3,524	-12.7%	n/a
Margin (%)	38.2%	38.7%	45.2%	n/a	n/a	38.4%	36.1%	-2.3 pts	n/a
International	3,246	3,520	8.44%	n/a	n/a	1,798	2,046	13.8%	n/a
Margin (%)	20.2%	20.8%	68.2%	n/a	n/a	21.6%	24.0%	2.4 pts	n/a
Published Group NIGS	2,726	5,423	98.9%	5,687	4.9%	3,006	2,832	-5.8%	49.8%
CAPEX Group	6,788	3,448	-49.2%	n/a	n/a	1,186	2,115	78.3%	n/a
CAPEX/revenues (excluding frequencies & licenses)	14.70%	9.00%	-5.7 pts	15%	6.0 pts	6.50%	11.90%	5.4 pts	n/a
CFFO ajusté Groupe	13,352	15,719	17.7%	n/d	n/d	7,099	5,478	-22.8%	n/d
Group net debt	17,350	17,619	1.6%	16,979	-3.6%	18,659	14,908	-20.1%	n/a
Group net debt / EBITDA	0.9	0.9	0.0 pts	0.9	1.5 pts	1.0	0.8	-0.2 pts	n/a

Source: Company, BMCE Capital Global Research

≡ Business performance

- **H1-21 achievements : Consolidated revenues down 3% to MAD 17.8bn**
- Contraction of mobile revenues in Morocco of -11.7% to MAD 5,985m explained by :
  - The intensification of competition, particularly in the prepaid data segment ;
  - The impact of the -35% decrease in call terminations on the revenue of incoming services ;
  - Also, the collapse of roaming and international revenues due to drastic travel restrictions.

  Taking into account the stagnation of the Moroccan Mobile customer base (+0.3%) at 19.6 million subscribers, the blended ARPU decreased by -11.4% to MAD 48.8, including a -6.7% decline of 3G/4G+ Internet customers, probably due to an eviction effect of Mobile Data customers towards the competition.
- Quasi-stagnation (-0.5% to MAD 4,702m) of Fixed-line and Internet revenues in Morocco, covering :
  - A +7.7% increase to MAD 1,838m in revenues from Fixed-line Data (including Internet, TV via ADSL and Data services for businesses), which continues to gain ground, driven mainly by the increase in the number of fixed lines (+1% to 2 million users) and the Broadband customer base (+3.3% to 1.7 million subscribers) ... ;
  - ... However, weighed down by the decline in the Voice segment.
- International revenues increased by +2.4% (2.5% on a comparable basis) to MAD 8,515m, representing 47.9% of total revenues versus 45.4% in H1 2020. This increase is mainly due to :
  - Good sales momentum in the African subsidiaries, as evidenced by the 11.1% y-o-y increase in the customer base to 50.2m at the end of H1 2021, driven in particular by the Malian (+18.1%), Burkina Faso (+11.5%) and Ivorian (+8.5%) markets ;
  - Also, an excellent performance in Mobile Data activities (+15.4%), thanks in particular to a major extension program on 3G and 4G networks and Mobile Money (+28.4%).

Financial analysis and forecasting (2/3)

Outlook

FY-21E: Expected decline in consolidated revenues of -2.6% to MAD 35.8bn, due to :

- The expected decline in outgoing Mobile revenues in a context of (i) exacerbated competitive pressures, particularly in Morocco, which should result in a loss of market share, and (ii) a decline in purchasing power ;
- The deterioration in Roaming and international inbound revenues due to travel restrictions. However, the easing of travel restrictions announced at the end of H1 21 should partially reduce this revenue shortfall ;
- Also, the decrease in incoming revenues impacted by the planned decrease in call terminations (nearly -50% by the end of 2021) in Morocco ....
- .... Despite the expected improvement in Fixed-line and Internet revenues due to the expansion of the customer base.

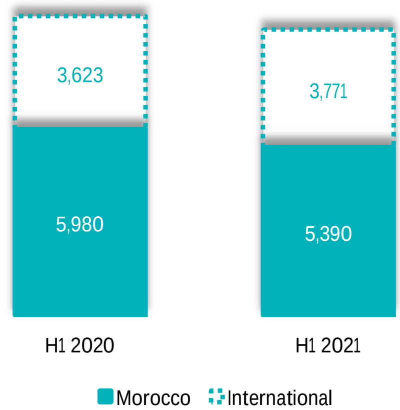
≡ Operational results

H1-21 Achievements: Margin rate maintained

- Decrease in adjusted consolidated EBITDA of -4.6% to MAD 9,160 million, including :
  - A -9.9% drop in Morocco's EBITDA to MAD 5,390m for a margin maintained at 55.1% (-1.7 pt) ... ;
  - ... This was partially offset by the +4.1% increase (+4.2% on a comparable basis) in the EBITDA of the African subsidiaries to MAD 3,771m (i.e. 41.2% of total EBITDA), thanks in particular to the improvement in the gross margin and better control of operating expenses. As a result, the EBIDTA margin increased by 0.7 points (at constant exchange rates) to 44.3% ;

As a result, the Group EBITDA margin was virtually unchanged at 51.5% (-0.9 pt at constant exchange rates), reflecting rigorous cost management.

Adjusted EBITDA Breakdown (Morocco and International) in MAD m



Source: Company, BMCE Capital Global Research

Outlook

- **FY-21E:** Group EBITDA down -4.9% to MAD 18.6bn with a slight decline in margin to 51.2% (vs. 51.9%), negatively impacted by the decrease in call terminations coupled with price maintenance compared to its main competitors.

Financial analysis and forecasting (3/3)

≡ Profitability

Achievements H1-21: A misdirected bottom-line

- Adjusted NBI decreased by 5.8% to MAD 2,832m, a more pronounced decline than that of EBITDA, due in particular to a financial result which increased its deficit by 5.6% to MAD -456m compared with the first half of the previous year.

  On the other hand, and taking into account the non-recurrence of the contribution to the COVID-19 fund, the published NIGS increased by +43.6% to MAD 2,827m.

Outlook

- **FY-21E :** NIGS up +4.9% to MAD 5.7bn, mainly due to the non-recurrence of the COVID-19 grant which should offset the impact of :
  - The decline in business activity expected in 2021 ;
  - And, the renewal of the social solidarity contribution (3.5% in 2021 vs. 2.5% in 2020).

≡ Investments

H1-21 Achievements: Recovery of investments

- Capital expenditure excluding frequencies and licenses jumped by +78.3% y-o-y (at constant exchange rates) to MAD 2,115m (11.9% of Group revenues), mainly to strengthen infrastructures in order to support growth in traffic and customer bases. The CAPEX/revenues ratio (excluding frequencies and licenses) is thus 11.9% compared with nearly 6.5% in H1 2020.

Outlook

- In its 2021 guideline, MAROC TELECOM has announced a return of its investments to a more normal level, i.e. 15% of its revenues in 2021, excluding frequencies and licenses. Given the strength of its cash flows, the company should be able to finance its current investment policy (excluding 5G) without having to resort to debt.

≡ Indebtedness

H1-21 Achievements: Decrease in net debt

- Net financial debt reduction of -20.1% (-20% on a comparable basis) to MAD 14,908m with solvency ratios still sustainable (Net Debt/EBITDA stabilized at 0.8x). Given the strength of its cash flows, the company should be able to finance its investments (excluding 5G).

Outlook

- The downward trend in MOROCCO TELECOM's indebtedness is expected to continue over the next two years, with forecast gearing of 92% and 81.1% in 2021E and 2022E, before rising again from 2023 onwards with the entry into force of investments relating to the 5G.

Perspectives (1/5)

≡ Limited impact of the implementation of unbundling

Following the investigation of the case filed by INWI against MOROCCO TELECOM, the record fine (MAD 3.3bn) imposed on the operator is only part of the sanction pronounced by the ANRT. The regulator has also issued a series of injunctions that IAM will have to strictly observe. The aim is to remedy the behavior observed and to allow the development of competition in the fixed-line broadband segment (voice and Internet), which will benefit consumers and businesses more, as is the case with mobile services.

Nearly 18 months after this legal battle, which finally ended with the withdrawal of INWI's complaint and the payment by MAROC TELECOM of its entire fine, no roadmap for the unbundling process has been communicated and there is no indication that it will be implemented.

Theoretically, unbundling should have a double negative impact on MOROCCO TELECOM's fixed-line revenues, namely (i) a loss of market share following the eviction of part of its customer base to new entrants, in particular in the first few years, and (ii) a fall in ARPU following the launch of aggressive competitive offers by challengers in order to build up their customer base. However, part of this loss of revenue should be offset by royalties from the use of its network for the many operations required to connect new subscribers (leasing, leased connections, etc.).

We subjected MOROCCO TELECOM's fixed-line revenues to a stress test based on the following assumptions:

- The line rental rate is set at MAD 39.9/line/month (last price communicated by IAM) ;
- Each unbundled line is a line recovered by the competition ;
- Fixed-line ARPU set at MAD 249.9 (BKGR estimates for 2020) ;
- Also, a stabilization of the national customer base at 2.4 million subscribers.

Unbundling stress test

Number of unbundled lines	Loss in market share	Gross losses (MAD m)	Revenues from rented lines (MAD m)	Net losses (MAD m)	Impact on Morocco sales
100,000	-4.8%	-294.3	47.9	- 246.4	-1.2%
300,000	-14.4%	- 882.8	143.6	- 739.2	-3.5%
500,000	-24.0%	- 1,471.4	239.4	-1,232.0	-5.9%
Renting price/ line/month (MAD)	39,9				

Source: BMCE Capital Global Research

In our most pessimistic scenario, where MAROC TELECOM would lose 500,000 lines to its competitors, i.e. a loss of -24 points of PDM, Moroccan revenues would contract by -5.9% while Group revenues would show a relatively limited decline of -3.3%.

Increased competition following unbundling should indeed erode MOROCCO TELECOM's profitability, but to a relatively limited extent. Even today, competitors are still making little use of unbundling, which is still difficult to make profitable given the costs of acquiring customers in terms of line rental and marketing expenses.

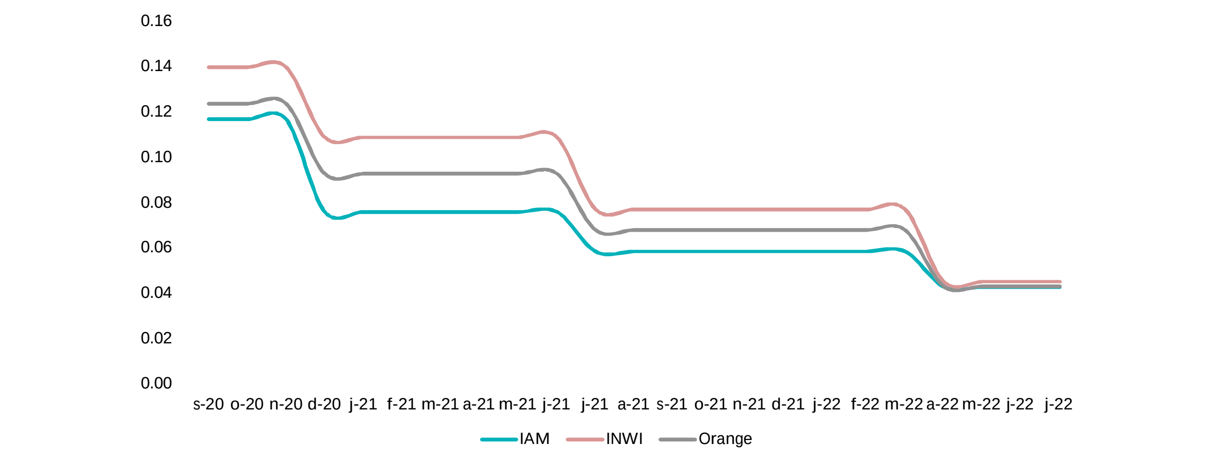
Perspectives (2/5)

≡ Tariff asymmetry, very unfavorable to MOROCCO TELECOM

In order to maintain a balance in the exchange of interconnection flows between operators, the ANRT has introduced a framework for mobile and fixed-line termination charges (in three stages up to 2022), involving a 35% reduction in mobile charges for MOROCCO TELECOM, compared with 25% for ORANGE and 22% for INWI, with asymmetry maintained. The extent of these cuts takes into account the nature of the networks, interconnection levels and the specificities of each operator.

Thus, at the end of the said multi-year framework, a cumulative reduction of -70% for the mobile network (-40% for the fixed network) was recommended, with a gap that is gradually narrowing to converge in fine around 0.044 MAD/HT/Min as illustrated below.

Announced schedule of mobile interconnection rates (MAD/HT/Min)



Source: Company, BMCE Capital Global Research

By lowering interconnection rates, the ANRT hopes to boost competition through the launch of more competitive and generous offers, particularly in the voice segment. Although this measure is aimed more at MOROCCO TELECOM, it could weaken the business models of the 3 operators.

It remains very difficult to quantify the impact of interconnection charges on revenues because they only affect incoming service revenues. Unfortunately we have no information on the breakdown of Moroccan mobile revenues between incoming and outgoing revenues. However, according to MOROCCO TELECOM, if the impact is negative on turnover, it would be rather positive on margins because the amount per minute paid by an IAM customer to carry out a telephone conversation through the network of one of its competitors is also lower.

≡ 5G, a genuine growth driver

Much more publicized than the deployment of its predecessors, the arrival of 5G is considered a disruptive technology because of its strong transformational power. Apart from purely technical considerations (increased throughput and density), the major advance that the transition to 5G should allow is its ability to interconnect several objects simultaneously, thus opening up new fields of possibility.

With the multiplication of uses, particularly in industry and medicine, telecom operators should benefit greatly from this new windfall. The European Commission estimates that 5G will generate revenues of EUR 225 billion worldwide by 2025. However, like any new technology, its cost and profitability horizon remain uncertain.

Perspectives (3/5)

In Morocco, the deployment of this technology is planned for 2023 in the absence of a clear roadmap on the main milestones to follow as well as the requirements of the regulator in this area: price of the license, spectrum of the new frequencies, coverage rate, etc.

Based on the facts, only MAROC TELECOM seems able to sustain major investments to acquire and operate this technology. The other operators would be less comfortable financially to follow, which suggests that the regulator can still postpone the deadline for 5G.

It is clear that MAROC TELECOM has definite growth drivers, but there are still a number of hurdles to overcome before we can take full advantage of them. A positioning on East Africa, even late, should, in our opinion, become a priority given the region's potential. Nevertheless, the cultural and linguistic barrier could be an obstacle to the operator's continental ambitions.

≡ Africa, the Eldorado of telecoms

With a young population, strong demographics and a penetration rate of only 45%, the African continent represents a prime choice for telecom operators seeking growth. According to GSMA forecasts, Sub-Saharan Africa's mobile subscriber base is expected to exceed 600 million by 2025, representing a CAGR of +4.3%.

This significant increase in the number of subscribers is expected to be driven by the dynamism of the Mobile Internet business, whose users are expected to increase by 10% per year before reaching 475 million users by the end of 2025. This expected growth should be supported by:

- ✓ The deployment of a major network infrastructure investment policy with a projected total budget of USD 52bn over the next 5 years ;
- ✓ The democratization of smartphones with the multiplication of low cost products and the appearance of advantageous financing offers ;
- ✓ Also, greater accessibility to telecom services in a context of falling prices, especially for broadband networks.

However, the development potential is concentrated on 3 star markets, namely Nigeria, Ethiopia and the DRC, which alone should generate more than 40% of the expected growth thanks to (i) a large population (more than 80 million inhabitants), (ii) a definite economic dynamism with double-digit growth rates and (iii) a proactive policy in terms of digital development (the Digital Ethiopia Strategy 2025 and the National Digital Economy Strategy for Nigeria).

MAROC TELECOM has, from the beginning, chosen to position itself more in West Africa, probably for reasons of cultural and linguistic proximity, facilitating the implementation and management of its subsidiaries.

It should be noted that in order to join forces and take full advantage of the commercial and marketing synergies between its 10 African subsidiaries, the telecom operator announced in January 2021 their reunification under a single brand : MOOV AFRICA.

≡ Towards a return of its distribution policy

The announcement of the drastic reduction of MOROCCO TELECOM's payout has shaken the Moroccan stock market due to its exceptional and unexpected character. Indeed, nothing could have predicted such a decision given the resilience of the company in the face of the crisis and the historically generous level of its distribution. This raises questions about its future choices in this area.

The first track to consider is the need for the company to strengthen its equity capital in particular, in a context still tinged with uncertainty. It should be remembered that MAROC TELECOM has experienced significant and exceptional cash outflows over the last two years, with the payment of the ANRT fine of MAD 3.3bn and the contribution to the COVID-19 fund for a total of MAD 1.0bn net, which has probably eroded its reserves (-50% between 2019 and 2020). By reducing its dividend by MAD 2bn, the operator would be able to replenish its equity by raising it to a more normative level. This decision would only be a precaution taken by the management in order to face the future more serenely.

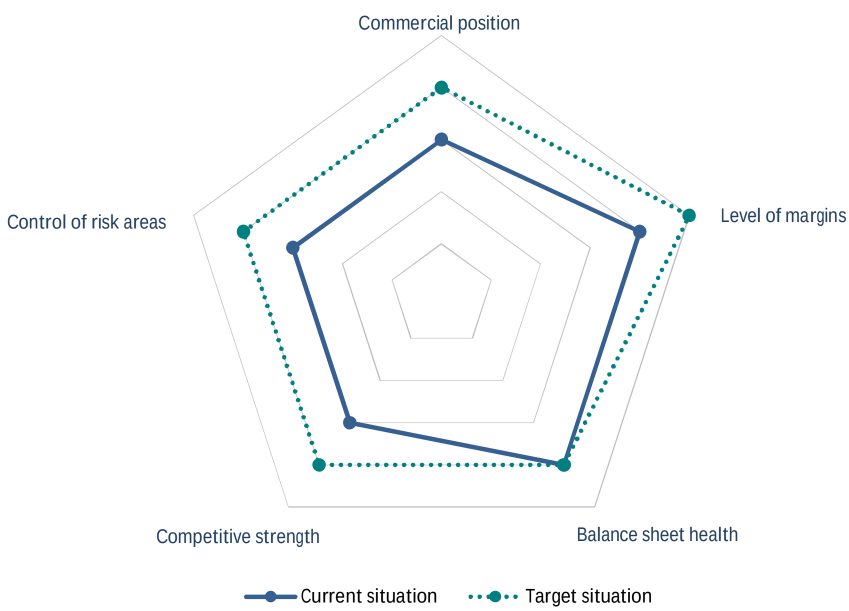
Perspectives (4/5)

The second possibility to be analyzed would be a lasting reduction in its distribution policy in order to finance future investments, particularly those related to the deployment of 5G and/or potential acquisitions as part of its continental development plan. However, this is unlikely to happen, as MAROC TELECOM has (i) a sufficient debt margin to take advantage of the financial leverage and (ii) a good credit rating which should enable it, if need be, to raise funds on attractive terms.

Finally, the recent reinforcement of ETISALAT GROUP in the capital of MAROC TELECOM (except for the impact on the share of the Emiratis) could probably be seen as a positive signal, in particular as regards the return to its generous distribution policy in the future.

≡ Stake and strategic implications

Stakes	Strategic implications	Opportunities/Threats
• Launch of 5G	• Disruptive technology heralding a new cycle for telecoms.	• Significant investments to be expected in terms of licenses and infrastructure; • Uncertain payback horizon … • … However, interesting growth potential.
• Dividends distribution policy	• Structuring the financing of future investments and acquisitions; • Strengthening of equity capital.	• Loss of interest from more yield-oriented investors; • Downward price adjustment to incorporate this parameter; • Additional source of funding for future investments and acquisitions.
• Africaines Subsidaries	• Main growth driver for the historical operator.	• Interesting growth potential (good demographic dynamics and still low penetration rate).



Perspectives (5/5)

≡ Forecasts 2021

BKR forecasts vs. Group Guidance

En M MAD	New forecast BKGR 2021E	Old forecast BKGR 2021E	New vs. Old Forecasts	Group Guidance 2021E
Group Revenues	35 818,71	36 503,20	↓	↓
Group EBITDA	18 554,09	19 018,20	↓	↓
Group NIGS	5 687,33	5 865,20	↓	ND

Source: Company, BMCE Capital Global Research

To summarize, and in view of the above, we are revising our forecasts for MAROC TELECOM slightly downwards and now expect:

- Consolidated revenues fell by 2.6% to MAD 35.8bn in 2021, due in particular to (i) the decline in Roaming and International revenues as a result of the delay in opening up borders, (ii) the fall in call termination revenues as a result of continued tariff asymmetry, and (iii) the decline in Moroccan Mobile revenues due to the poor performance of the Prepaid segment ;
- Group EBITDA deteriorated by -4.9% to MAD 18.6bn with a decline in the margin to 51.8% as a result of the decrease in call terminations coupled with the maintenance of prices compared to its main competitors;
- Also, an increase in NIGS of +4.9% to MAD 5.7bn, with the non-recurrence of the COVID-19 grant largely offsetting the impact of the renewal of the social solidarity contribution (3.5% in 2021 versus 2.5% in 2020).

Although revenues are expected to decline slightly in 2021, MAROC TELECOM should take advantage of its positioning both in Morocco and in Africa to regain its commercial momentum. Indeed, we expect consolidated revenues for 2022 to improve by 2.4% to MAD 36.7bn, incorporating the continued rise of Fixed-line data coupled with the good performance of its international activities.

The growth prospects of the incumbent operator are further confirmed for the coming years in view of the scale of the investments made and its sustainable financial situation. We thus come out with a target price of MAD 145, which values IAM at 22.4x and 21.1x its earnings capacity in 2021e and 2022e.

Executive Summary

PROFIT & LOSS (MAD'm)	2019	2020	2021e	2022e	2023e	2024e
Sales	36,517	36,769	35,819	36,670	37,085	37,449
EBITDA	18,922	19,520	18,554	18,885	19,025	19,024
EBITDA	8,232	12,018	11,211	11,184	10,866	10,598
Consolidated Net Income	3,599	6,289	6,575	6,955	6,630	6,469
Net Income Group Share	2,726	5,423	5,687	6,016	5,735	5,596
BALANCE SHEET & OTHERS ITEMS (MAD'm)	2019	2020	2021e	2022e	2023e	2024e
Total Fixed Assets	51,485	48,580	50,139	50,675	55,562	58,984
Total Shareholders' Equity	12,181	12,755	14,483	16,065	16,280	16,570
Working capital need	-17,460	-13,838	-14,143	-14,419	-14,434	-15,182
Net Debt	17,260	17,487	16,979	16,057	20,308	22,262
Capital Employed	34,025	34,742	35,996	36,256	41,128	43,802
GROWTH & MARGINS	2019	2020	2021e	2022e	2023e	2024e
Sales growth	1.3%	0.7%	-2.6%	2.4%	1.1%	1.0%
EBITDA growth	6.0%	3.2%	-4.9%	1.8%	0.7%	0.0%
EBIT growth	-25.5%	46.0%	-6.7%	-0.2%	-2.8%	-2.5%
Net Profit growth	-54.6%	98.9%	4.9%	5.8%	-4.7%	-2.4%
EBITDA margin	51.8%	53.1%	51.8%	51.5%	51.3%	50.8%
EBIT margin	22.5%	32.7%	31.3%	30.5%	29.3%	28.3%
Net margin	9.9%	17.1%	18.4%	19.0%	17.9%	17.3%
RATIOS	2019	2020	2021e	2022e	2023e	2024e
Gearing	107.9%	104.8%	92.0%	81.8%	100.3%	106.1%
Net Profit/EBITDA	0.9	0.9	0.9	0.8	1.1	1.2
ROE	22.6%	42.6%	38.2%	38.4%	36.2%	34.6%
PER SHARE DATA (MAD)	2019	2020	2021e	2022e	2023e	2024e
Earning/share	3.1	6.2	6.5	6.8	6.5	6.4
Book value/share	13.7	14.5	16.9	17.8	18.0	18.4
Net dividend/share	5.5	4.0	6.0	6.3	6.0	5.9
VALORISATION	2019	2020	2021e	2022e	2023e	2024e
EV/Sales	4.2x	3.9x	3.9x	3.8x	3.9x	3.9x
EV/EBITDA	8.0x	7.4x	7.6x	7.4x	7.6x	7.7x
EV/EBIT	18.4x	12.1x	12.5x	12.5x	13.3x	13.8x
EV/CE	4.5x	4.2x	3.9x	3.9x	3.5x	3.3x
P/E	49.3x	23.5x	21.6x	20.5x	21.5x	22.0x
P/B	11.0x	8.8x	7.7x	7.6x	7.4x	7.4x
D/Y	3.6%	2.8%	4.3%	4.5%	4.3%	4.2%
Payout ratio	149.4%	56.4%	95.0%	95.0%	95.0%	95.0%
EV & MARKET CAP (MAD'm)	2019	2020	2021e	2022e	2023e	2024e
Price (MAD)	153	145	140	140	140	140
Number of shares	879	879	879	879	879	879
Total Market Cap	134,502	127,469	123,073	123,073	123,073	123,073
Enterprise Value	151,762	144,956	140,668	139,745	143,997	145,950

Source: Company, BMCE Capital Global Research forecast

NB : End of fiscal year prices for historical years and last prices for estimated years

Recommendation system

BMCE Capital uses an absolute recommendation system. Thus, the recommendation of each stock is adopted according to the total return, i.e. the upside potential (including dividends and share buybacks) over a 12-month period.

BMCE Capital uses 5 recommendations : Buy, Accumulate, Hold, Light, Sell. In specific cases and for a short period of time, the analyst may choose to suspend his opinion, in which case he uses the terms Suspended or Not followed, which are defined below.

Definition of the different recommendations

Buy : the stock should generate a total gain of more than 20% over 12 months ;

Accumulate : the stock should generate a total gain of between 10% and 20% over 12 months ;

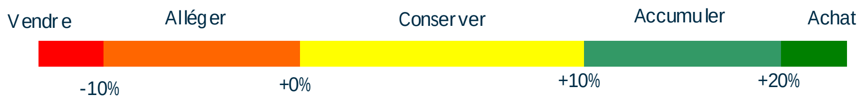
Maintain : the stock should generate a total gain of between 0% and 10% over 12 months ;

Alleviate : the stock should show a total decline of between 0% and -10% over the next 12 months ;

Sell : the stock should show a total decline of more than -10% over the next 12 months ;

Suspended / No recommendation : for ethical reasons, because of a capital transaction (takeover bid, exchange offer or other) or a change of analyst ;

Not followed : this mention is used for companies at the time of their IPO or before the initiation of coverage.



This recommendation system is given as an indication. Analysts may deviate from it in the event of erratic or occasional changes in a stock's price. The change of recommendation is therefore not systematic and may, in certain cases, only occur after a period of observation to confirm the stock's trend.

Valuation methods

This document may refer to the following valuation methods :

DCF : The discounted cash flow method consists of determining the present value of cash flows that the company will generate in the future. This method is based on estimates made using a number of assumptions. The discount rate used is the weighted average cost of capital, which represents the cost of the company's debt and the cost of equity estimated by the analysis, weighted by the weight of each in the company's financing.

Sum of the parts : This method consists of valuing the company's various activities separately, using methods appropriate to each of them, and then adding them together.

Stock market comparisons : This method consists of comparing the company's ratios to those of a sample of companies in the same business or with a similar profile (the "comparables"). The average of the sample is used to establish a valuation reference. The analyst then applies a premium or discount depending on his or her view of the company (growth prospects, level of profitability, etc.).

Anglo-saxons : The Anglo-Saxon method consists in determining the present value of the superprofits to be generated by the company in the future taking into account the minimum solvency ratio.

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