Sogécapital Bourse

الشركة العامة
SOCIETE GENERALE

STOCK OVERVIEW

MUTANDIS SCA

ABREVIATIONS

ADTV: Average Daily Trading Volume

AfDB: African Development Bank

CAGR: Compound Annual Growth Rate

DCF: Discounted Cash Flows

D/Y: Dividend Yield ratio

EBITDA: Earnings Before Interest, Taxes, Depreciation, and Amortization

GDP: Gross Domestic Product

IPO: Initial Public Offering

MAD: Moroccan Dirham

MSU: Mobile Sales Units

P/B: Price-to-Book ratio

P/E: Price Earnings ratio

PET: Polyethylene Terephthalate

USD: United States dollar

WAC: Weighted Average Cost

WACC: Weighted Average Cost of Capital

YTD: Year To Date

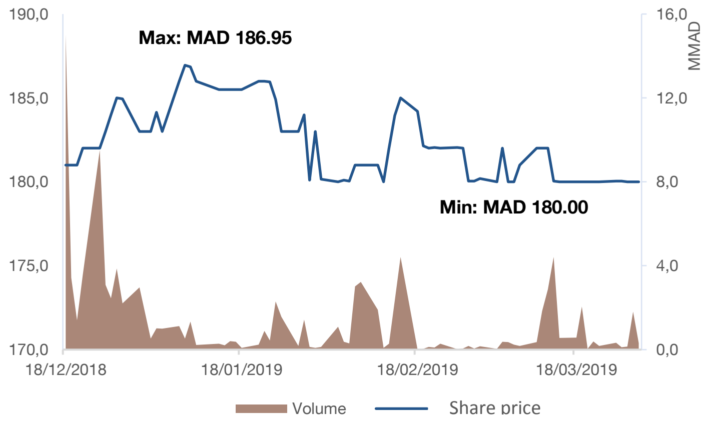
Summary

Executive Summary

Stock market data

From 01/02/2019 to 03/29/2019	
Last Price (MAD)	180.0
Capitalization (MAD Bn)	1.4
Free-float cap (MAD Bn)	0.9
ADTV (MAD million)	0.7
WAC (MAD)	182.3
Highest price (MAD)	187.0
Lowest price (MAD)	180.0
Share price performance	
1 month (%)	-0.1%
3 months (%)	-2.7%
YTD (%)	-1.6%

Stock price evolution since IPO



The consumer goods sector in which Mutandis group operates is closely linked to changes in household consumption. In Morocco, households spent nearly MAD 610.7 billion in 2017 against MAD 400.4 billion in 2008, representing a CAGR of +4.8%. These growth rates are valid in both urban and rural areas. According to the African Development Bank (AfDB), household consumption in Morocco is expected to increase to reach MAD 780.0 billion (equivalent of US 78.0 billion) by 2019, i.e. a CAGR of 13.0%.

Given that Mutandis group generates almost 30% of its turnover in exports and especially in the African continent, it is important to note that household consumption in Africa has been rising over the last eight years. This household consumption rose from USD 1,172.0 billion in 2010 to USD 1,463.0 billion in 2017 (e), i.e. a CAGR of +3.2% and, according to the AfDB, it should increase by a rate of 7.4% to reach USD 1,686.0 billion in 2019.

This growth is explained by the rise of the African population with the emergence of the middle class population, coupled with the increase in the purchasing power of households. Given the economic performances revealed in 2018 with a growth rate of 3.5% in overall GDP, the situation on the African continent remains good. The expected levels of economic growth for the year 2019 and 2020 are respectively 4.0% and 4.1%, foreshadow a significant potential in terms of household consumption in Africa.

In this perspective, the Group could take full advantage of the economic growth in Morocco as well as in Africa through its strategy of diversification of activities, which allows it to ensure a balance and a recurrence of the flows (presence in four ranges of products : detergents, seafood, beverage bottles and juices). The group markets its products under 15 brands among them, 9 benefit from frequent and substantial marketing budgets (Magix, Maxis, Marrakesh, Anny, Marine, etc.).

Today, Mutandis is entering an important phase in its commercial and industrial strategy. With its recent IPO, the group has significant financial resources to launch new agribusiness projects. In order to launch new products with high added values especially in the seafood and hygiene activities, The Top management is planning to invest in four potential projects with the objectives of improving sales and EBITDA margin levels.

The management focuses on the development of four main drivers:

- Growth in sales volumes over all of its current activities through its commercial strength and the enrichment of its product lines;
- Densification of distribution channels under the increase of mobile sales units;
- Improvement of the seafood supply chain and migration to high value-added products;
- Development of the export activity toward high-margin territories.

As part of our valuation of the Group, we have remained on the same current scope of activities, as we do not have, as of today, any quantified data, or precise horizon for the implementation of its new projects. Today, the management has announced the launch of advanced market studies to better structure its new investments.

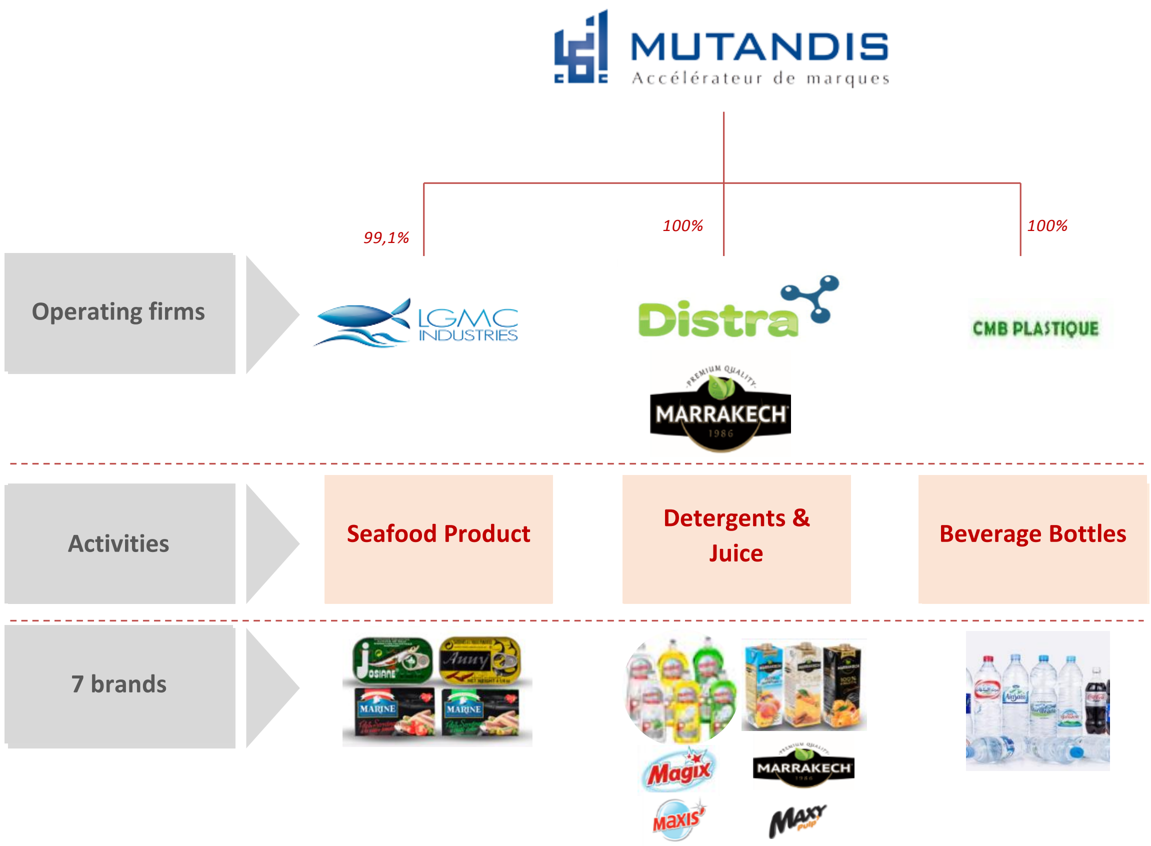
In terms of valuation methods, we have preferred the Discounting of Future Cash Flows (DCF) that we consider is the most suitable for Mutandis, whose activities have a significant potential for future development.

As a result of our valuation work, we have reached a value of MAD 228.9 per share, which means a potential of + 27.1% in the medium term. Hence, we recommend to BUY the stock of Mutandis.

Based on this target price and assuming that the company would maintain the same level of dividend per share as the one of the previous year; Mutandis' share would have a **P/E 2019e of 18.5x** and a **D/Y 2019e of 3.3%**

<u>Overview of the company</u>

Mutandis Group is present in four main segments of the consumer goods sector through three subsidiaries. The following chart presents the Group and its subsidiaries:



In order to build a consolidated business plan forecast for Mutandis Group, we have conducted interviews with the Management, through which we have selected the following main assumptions:

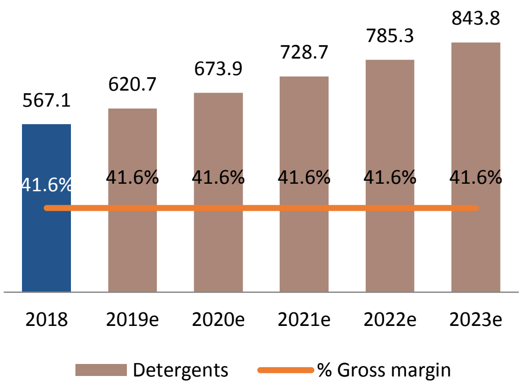
1. <u>Turnover and gross margin</u>

<u>Detergents :</u>

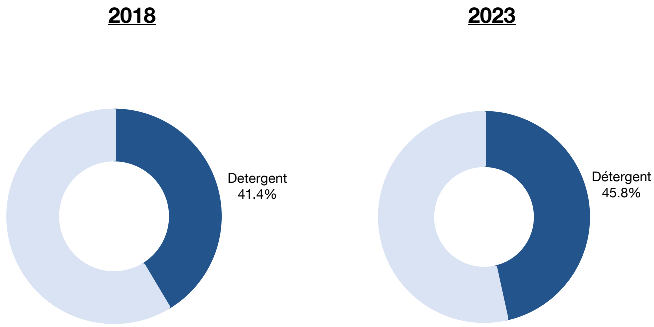
For the traditional sales segment, Distra has currently a fleet of 108 Mobile Sales Units (MSU) covering 35,000 grocers. Distra plans to gradually increase the number of MSUs to cover more points of sale. For the purpose of projections, we retained an increase of 10 additional MSU per year with the same level of current visits per MSU per point of sale. The target number for the fleet would reach 158 MSUs by 2023.

In the medium to large retail stores segment, we used the assumption of revenue growth in line with the growth of new store openings, averaging 6.5% per year.

Turnover and gross margin evolution



Activity weight in the total turnover



The turnover of the "Detergents" business should increase from MAD 567.1 million in 2018 to MAD 841.1 Million in 2023, ie a CAGR of 8.2%. The traditional sales segment generates an average of 63.6% of the total turnover of the business compared to 35.0% on average for the medium to large retail stores segment.

As a result, the "Detergents" business remains the largest contributor to overall sales of the group, rising from 41.4% in 2018 to 45.8% in 2023.

In terms of gross margin, the activity should generate MAD 349.7 million in 2023, with a relatively stable rate over the entire forecast period, representing a gross margin rate of 41.6%.

Seafood Product :

According to the management of the group, the company has changed its business model and now produces only on a « make to order » basis.

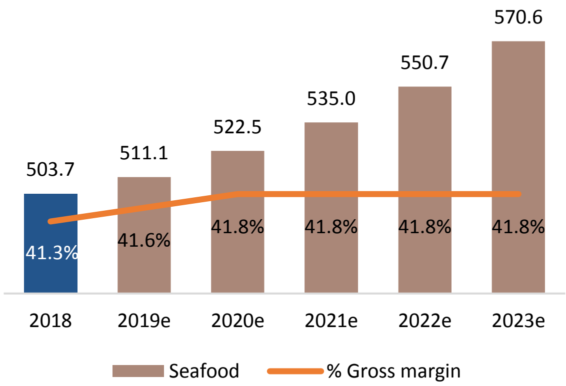
In terms of supply and sourcing, the company should have no constraints since sardine is available on Moroccan coasts with an abundant amount. The company exploits its own quotas and, if necessary, turns to other fishing quotas to ensure its supply.

The Management is also focusing on strengthening the sales of high added-value products by further promoting the sale of canned skinless and unshelled sardines over the traditional sardine canning. The Management takes advantage of this opportunity to penetrate other markets abroad, in particular in the Middle East region where the market is potentially significant. A first experiment is initiated in Saudi Arabia in 2019 and should be followed by other similar operations abroad.

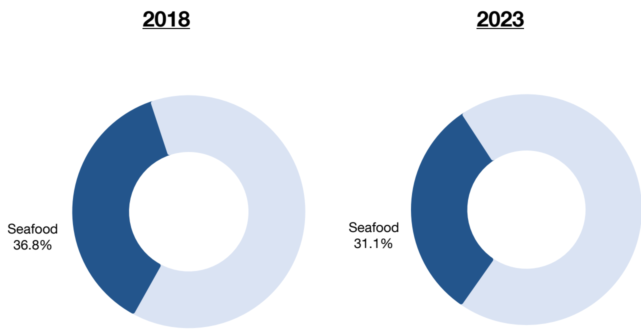
The group is also starting to serve the Moroccan market with canned skinless and unshelled sardines' products under a local brand called "Marine". According to the Management, the local market has significant potential.

Today, LGMC's plants produce 30,777 tons of fishes and is expected to grow between 1,000 and 1,200 additional tons by a maximum of 37,000 tons by 2023. Therefore, the quantity produced by 2023 would be estimated at 128.8 million boxes (equivalent to 125 g) against 107.1 million boxes produced in 2018.

Turnover and gross margin evolution



Activity weight in the total turnover



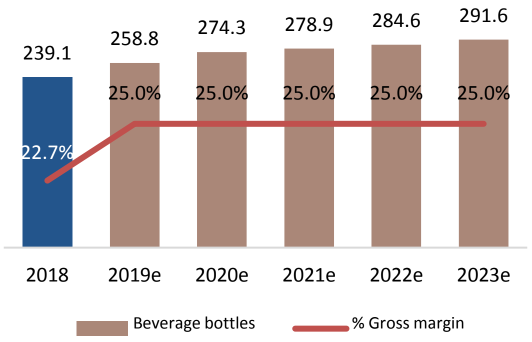
Thus, the turnover of the "Seafood Products" activity should increase from MAD 503.7 million in 2018 to MAD 570.6 million in 2023, ie a CAGR of 2.5%. The sales revenue of the "Seafood" business in relation to the group's overall turnover should decline from 36.8% in 2018 to 31.1% in 2023. This regression is explained by the level of growth that should be achieved over the forecast period and remains lower than that of the other activities of the group.

In terms of gross margin, the activity should generate MAD 238.6 million in 2023, with a rate slightly improving over the entire forecast period, a gross margin rate of 41.8% against 41.3% in 2018. This improvement is due to the commercial shift taken by the company, which favors the sale of canned skinless and unshelled sardines' products over the traditional products.

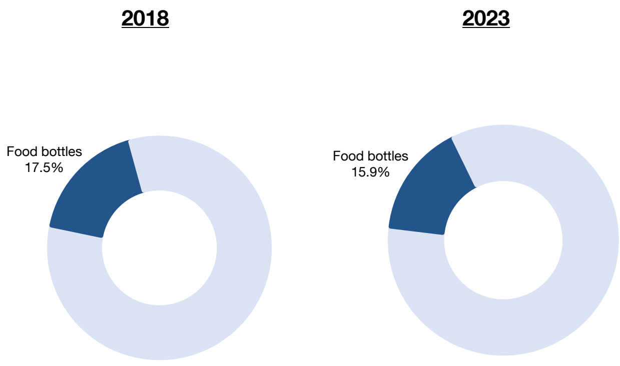
Beverage bottles :

In recent years, the consumption of bottled water in Morocco has reached significant levels in comparison with the consumption of soft drinks, which is experiencing slight regressions from one year to the next. For our growth assumptions, we used the average volume sales over the last three years that we applied to the 2018's sales.

Turnover and gross margin evolution



Activity weight in the total turnover



As a result, the forecast turnover of the "Beverage bottles" business is expected to increase by a CAGR of 4.1%, from MAD 239.1 million in 2018 to MAD 291.6 million in 2023.

The weight of turnover generated from the "Beverage bottles" activity is expected to decrease from 17.5% in 2018 to 15.9% in 2023.

In terms of gross margin, the activity is expected to generate MAD 72.8 million in 2023, with a stable rate over the entire forecast period, ie a gross margin rate of 25.0% corresponding to the average rate observed between 2017 and 2018.

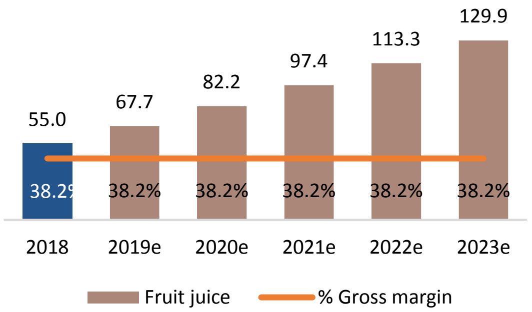
Juice :

Before the acquisition of the brand by Mutandis, sales of Marrakech juice were in free fall. The estimated market share decreased from 15% in 2015 to 8% in 2017. Since its acquisition by the group, the main objective is to gradually regain the historical position of the brand Marrakesh in this sector of activity, which is experiencing stable growth of 2% per year.

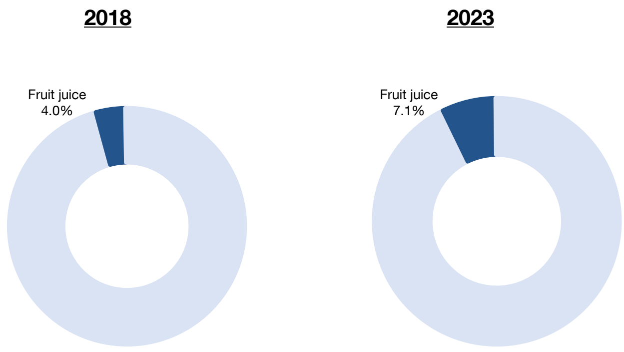
By pooling distribution with Distra's distribution network and its sales force, the goal of reaching 15% market share by 2023 could be achievable.

In this perspective, Mutandis is equipping itself with human, logistical and marketing resources to succeed in this challenge. In 2018, Mutandis launched new fruit juice products on the local market to boost sales, particularly Pulpy (Juice in PET packaging), Vita Kids (juices for children), Marrakech Premium.

Turnover and gross margin evolution



Activity weight in the total turnover

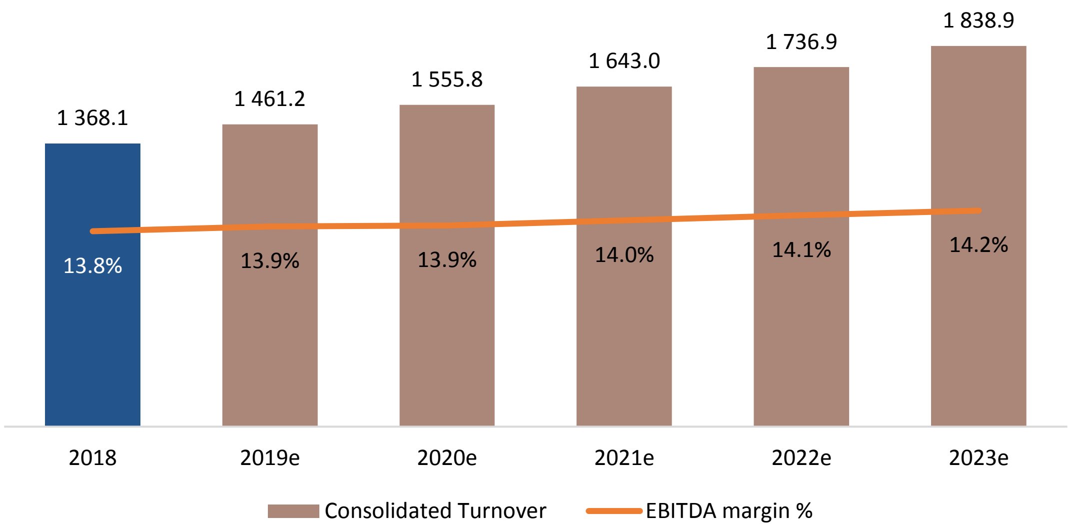


As a result, we estimate, based on our assumptions, an average annual growth in sales of the category "Juices" of around 18.7% over the next five years. Sales are expected to increase from MAD 55.0 million in 2018 to MAD 129.9 million in 2023.

The weight of the turnover of the "Juice" activity should increase from 4.0% in 2018 to 7.1% in 2023.

In terms of gross margin, business should generate MAD 49.6 million in 2023, with a stable rate over the entire forecast period, representing a gross margin rate of 38.2% corresponding to the rate observed in 2018.

2. EBITDA :



The EBITDA should grow at an average annual rate of 6.7% to reach MAD 260.1 million by 2023 against MAD 188.5 million in 2018. This increase is partly due to the continuous rise of turnover and economies of scale on common fixed costs to all activities at the parent company and its subsidiaries (Other external expenses and payroll charges). As a result, EBITDA margin is expected to increase from 13.8% in 2018 to 14.2% in 2023.

3. Operating income :

Operating income should grow at an average annual rate of 6.4% over the forecast period from MAD 126.8 million in 2018 to MAD 172.8 million in 2023. The operating margin should remain stable around 9.5% over the period compared to 9.3% in 2018. In fact, depreciation & amortization charges should slightly impact down the EBITDA margin as the group plans to continue its investment plan related to the maintenance of its operating tools and the launch of advertising campaigns to promote its own brands.

The following table presents our assumptions regarding the Mutandis Group's investment plan:

En MMAD	2019(e)	2020(e)	2021(e)	2022(e)	2023(e)
Investment in maintenance	55.7	54.2	55.5	55.5	55.5
Investissement in Branding	10.0	-	10.0	-	10,0
Total investment	**65.7**	**54.2**	**65.5**	**55.5**	**65.5**

4. Net income :

The net income of the Group is expected to increase from MAD 77.7 million in 2018 to MAD 134.1 million in 2023, representing a CAGR of 11.5%. This change is explained by the increase in both the operating result and the financial result. The latter should improve as the group reduced its debt and consequently its financial charges following the IPO capital increase.

This situation could change depending on the progress of the investment projects planned by the group that are now under study. According to the management, the target gearing level of the group should be around 40%.

Summary of the estimated financial statements

Forecasted income statement

	2017	2018	2019e	2020e	2021e	2022e	2023e
Revenues	**1 269.0**	**1 368.1**	**1 458.9**	**1 553.2**	**1 640.2**	**1 734.1**	**1 836.2**
Cost of Goods Sold	784.4	845.9	896.1	952.9	1 005.0	1 061.3	1 122.6
Gross profit	**497.1**	**540.3**	**572.6**	**610.1**	**645.0**	**682.6**	**723.4**
Gross margin %	39.2%	39.5%	39.3%	39.3%	39.3%	39.4%	39.4%
EBITDA	**165.1**	**188.5**	**202.2**	**215.5**	**229.3**	**244.0**	**260.1**
EBITDA margin %	*13.0%*	*13.8%*	*13.9%*	*13.9%*	*14.0%*	*14.1%*	*14.2%*
Depreciations and amortizations	58.0	56.7	63.3	68.7	75.2	80.8	87.3
EBIT	**105.5**	**126.8**	**138.9**	**146.8**	**154.0**	**163.3**	**172.8**
Operating margin %	*8.3%*	*9.3%*	*9.5%*	*9.5%*	*9.4%*	*9.4%*	*9.4%*
Financial Income	**-25.5**	**-30.0**	**-11.4**	**-11.1**	**-7.6**	**-3.8**	**-0.4**
Income before taxes	**73.9**	**90.4**	**127.5**	**135.7**	**146.4**	**159.5**	**172.4**
Taxes	17.2	19.2	28.4	30.2	32.6	35.5	38.3
Net income	**55.4**	**77.7**	**99.2**	**105.5**	**113.8**	**124.0**	**134.1**
Net margin %	*4.4%*	*5.7%*	*6.8%*	*6.8%*	*6.9%*	*7.1%*	*7.3%*

Figures in MAD million

Forecasted balance sheet

	2017	2018	2019e	2020e	2021e	2022e	2023e
Goodwill	**410.6**	**410.6**	**410.6**	**410.6**	**410.6**	**410.6**	**410.6**
Intangible assets	112.6	116.4	116.4	116.4	116.4	116.4	116.4
Tangible assets	382.8	382.5	384.9	370.5	360.7	335.5	313.6
Total non-current assets	**1 133.0**	**1 136.2**	**1 138.6**	**1 124.2**	**1 114.4**	**1 089.2**	**1 067.3**
Inventories and work-in-progress	247.7	274.7	288.9	307.6	324.8	343.4	363.6
Trade receivables and other receivables	255.7	298.1	305.9	325.7	344.0	363.6	385.0
Total current assets	**594.1**	**669.1**	**698.3**	**743.4**	**785.0**	**830.0**	**878.8**
Cash	**74.3**	**209.2**	**18.0**	**18.9**	**19.9**	**67.2**	**134.4**
Total assets	**1 801.3**	**2 014.5**	**1 854.9**	**1 886.5**	**1 919.3**	**1 986.3**	**2 080.5**

Capital	680.4	799.7	799.7	799.7	799.7	799.7	799.7
Total Shareholders' equity,group share	**779.7**	**996.0**	**1 035.2**	**1 080.8**	**1 134.6**	**1 198.7**	**1 272.8**
Total shareholders' equity	**783.7**	**999.9**	**1 039.1**	**1 084.7**	**1 138.6**	**1 202.6**	**1 276.7**
Total non-current liabilities (including Borrowings and other financial liabilities)	**468.5**	**395.5**	**240.9**	**220.5**	**203.1**	**188.9**	**174.6**
Banks (credit balances)	113.1	106.3	72.7	47.2	14.4	0.0	0.0
Accounts payable	331.3	402.2	402.3	427.8	451.2	476.5	504.0
Total current liabilities	**575.2**	**619.1**	**574.9**	**581.4**	**577.7**	**594.9**	**629.2**
Total liabilities	**1 801.3**	**2 014.5**	**1 854.9**	**1 886.5**	**1 919.4**	**1 986.3**	**2 080.6**

Figures in MAD million

Forecasted cash flow statement

	2017	2018	2019e	2020e	2021e	2022e	2023e
Financing capacity	130.5	145.8	162.4	174.2	189.1	204.8	221.4
Effect of WCR change	-42.4	-15.6	-30.2	-13.3	-12.4	-13.4	-14.5
Cash flows from operating activities	**88.1**	**130.1**	**132.2**	**161.0**	**176.6**	**191.4**	**206.9**
The net acquisition of tangible and intangible assets	-139.7	-53.2	-65.7	-54.2	-65.5	-55.5	-65.5
Net acquisition of financial assets	-0.3	0.2	0.0	0.0	0.0	0.0	0.0
Cash flows from investing activities	**-140.0**	**-53.0**	**-65.7**	**-54.2**	**-65.5**	**-55.5**	**-65.5**
Increase/decrease in capital	94.4	195.5	0.0	0.0	0.0	0.0	0.0
Dividend paid to group shareholders and minority shareholders.	-51.9	-51.0	-60.0	-60.0	-60.0	-60.0	-60.0
Debt variation	12.0	-85.6	-154.6	-20.4	-17.3	-14.3	-14.3
Cash flows from financing activities	**54.4**	**58.9**	**-214.6**	**-80.4**	**-77.3**	**-74.2**	**-74.2**
Net Change in Cash	**2.5**	**136.0**	**-148.0**	**26.4**	**33.8**	**61.7**	**67.2**
Beginning cash balance	-45.2	-42.7	93.3	-72.7	-47.2	-14.4	46.2
Additional cash need at the end of the year			18.0	0.9	1.0	1.1	1.1
Ending cash balance	**-42.7**	**93.3**	**-72.7**	**-47.2**	**-14.4**	**46.2**	**112.3**

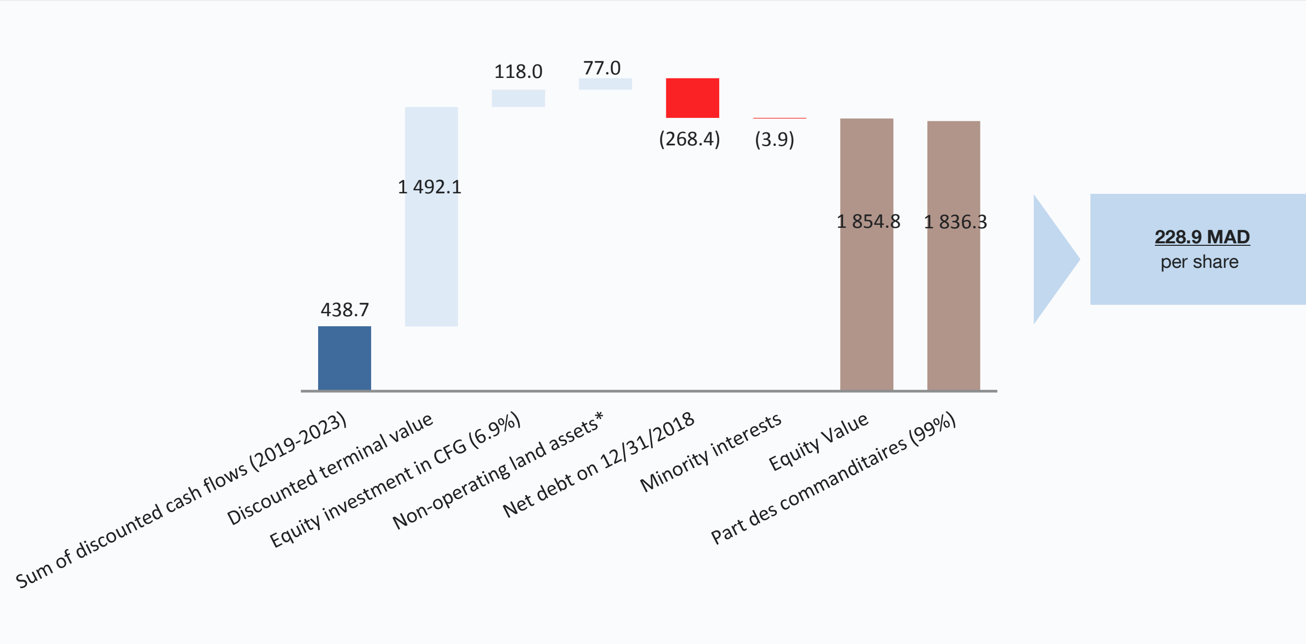
Figures in MAD million

Summary of the valuation & recommendation

For the valuation of the Mutandis group, we have used the discounted cash flow method (DCF). The discount rate of flows (WACC) retained is 7.82% and an infinite growth rate of 1.5%. Here is the WACC calculation table:

Risk-free rate 10-year T-bonds	3.30%
Market Risk premium (Rm-Rf)	6.10%
Levered beta	0.980
Cost of equity	**9.28%**
Cost of debt after tax	**4.43%**
Weighted average cost of capital (WACC)	**7.82%**

DCF Valuation :



* In June 30, 2018, the net market value of real estate assets and constructions held by Mutandis through the Seafood business is MAD 77 million.
Figures in MMAD (unless otherwise specified)

Based on valuation by DCF, we reach a value of 228.9 MAD per share, which represents a potential of 27.1% compared to the price observed on 04/05/2019.

Market multiples

Based on the target price, the stock multiples emerge as follow:

Multiples	2018	2019e	2020e
P/B	1.5x	1.8x	1.7x
P/E	18.8x	18.5x	17.4x
D/Y	4.1%	3.3%	3.3%

Multiple forecasts (2019 and 2020) are calculated based on the target price

Sensitivity matrices of the stock value

1. Sensitivity regarding WACC and growth rate :

WACC

Growth rate		6.82%	7.32%	7.82%	8.32%	8.82%
	0.50%	237.4	218.5	202.2	187.9	175.5
	1.00%	254.8	233.1	214.5	198.5	184.6
	1.50%	275.5	250.2	**228.9**	210.7	195.0
	2.00%	300.5	270.5	245.7	224.8	206.9
	2.50%	331.3	295.0	265.6	241.2	220.7

2. Sensitivity regarding the valuation of non-operating land amounting to MAD 77 million

Discounting the value of the non-operating asset

	100.0%	80.0%	60.0%	40.0%	20.0%	0.0%
Target price	219.3	221.2	223.1	225.1	227.0	**228.9**

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