Intended for

Company Update
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Analyst

Agaichatou Diakite
aicha.diakite@jda-ci.com

Head of research

Diakaridja KONE
diakaridja.kone@jda-ci.com

Joseph & Daniel Advisory

Research and Analysis Office
Tel: (+225) 22 467 895
Abidjan (Côte d'Ivoire)

In this report :

**SOCIETE NATIONALE DE TELECOMMUNICATION (SONATEL)**

sonatel

# Investment Case

SONATEL Group is the leading Senegalese telephone operator that markets telecommunications services in the fixed, mobile, Internet, television and data sectors for individuals and businesses. The Sonatel Group has been operating in Mali since 2002, Guinea (2007), Guinea Bissau (2007) and Sierra Leone (2016). The company has been listed on the Reginal Stock Exchange (BRVM-Abidjan) since 1998 with a share capital of XOF 240 billion.

With a population of 15.7 million, Senegal (the country where the headquarters is located) is the second largest economy in the West African region. The mobile market reached 9.57 million subscribers in 2019, a slight increase of 9.6% compared to the previous year. In addition, the mobile penetration rate increased from around 105% in 2018 to 109% at the end of 2019.

The consolidated turnover of the Sonatel group, which includes subsidiaries in Mali, Guinea, Guinea-Bissau and Sierra Leone, are expected to grow by 6.14% in 2020, 4.68% and 4.25% around the year 2021 and 2022 with XOF 1 153.45 billion in 2020, XOF 1 207.49 billion in 2021 and 1 258.86 billion in 2022. This growth is the result of the expected increase in both subscribers (6.38% in 2020) and revenue from the growth drivers.

Using four different methods of valuation, we consider the current price of SONATEL (XOF 11 200) as being underestimated because our weighted target price using all those methods would be XOF 21 400 in 2020. Consequently, we recommend a BUY rating as far as the whole 2020 and 2021 year.

This recommendation is based on:

- Upward trend of mobile subscribers;
- Growth of penetration rate;
- Increase in the gowth drivers (mobile banking and mobile data);
- A little growth of the average revenue per user (ARPU);
- Increase in Investment to upgrade assets;
- Huge impact of the COVID 19 Pandemic

We are expecting an increase in the number of customers and a slight increase in the ARPU since our forecasts for the Company have an upward trend. Indeed, the Group's investments focused mainly on the mobile access network (extension, densification, 4G and 5G), the deployment of fiber, extension of backhaul, transport, reinforcement of infra core network and energy. Also, we are expecting the same level of dividend in 2020 (XOF 1 361) compared to 2019. According to the management, the dividend should be back on track around the year 2021 at XOF 1 667. According to the sector players once this pandemic is over, the global economy will be largely driven by the digital technology that Africa must be prepared to catch up with and, in some ways, lead the future of the digital world.

## Telecommunication Sector

| SNTS - BRVM | February 1st, 2021 |
|---|---|
| Closing Price (XOF) | 11 200 |
| Rating: | BUY |
| Target price (XOF) | 21 400 |
| Potential Upside: | 91.07% |
| Beta | 1.11 |
| 52-week range (XOF): | 10 500 – 15 500 |
| Market cap (XOF Mn): | 1 120 000 |
| Shares O/S: | 100 000 000 |
| Free Float: | 23% |
| Avg. Daily Value (XOF 000): | 194 369 |
| Dividend (XOF): | 1 361 |
| Dividend yield: | 12.15% |

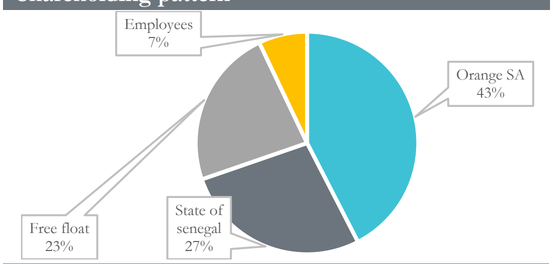
## Key Financials

| (XOF Mn) | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| Revenues: | 1 086 756 | 1 153 455 | 1 207 489 | 1 258 855 |
| EBITDA: | 499 573 | 508 398 | 532 098 | 554 175 |
| EBITDA margin (%): | 45.97% | 44.08% | 44.07% | 44.02% |
| Net Profit: | 196 771 | 200 303 | 206 811 | 211 156 |
| Net margin (%): | 18.11% | 17.37% | 17.13% | 16.77% |
| EPS (XOF): | 1 970 | 2 003 | 2 068 | 2 112 |

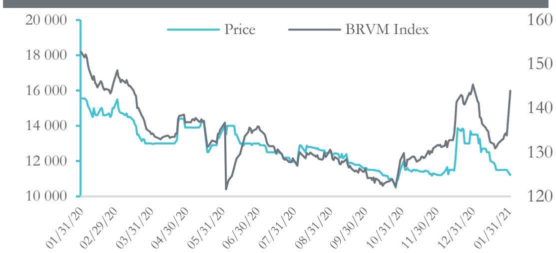
## Valuation summary

| | 2019A | 2020E | 2021E | 2022E |
|---|---|---|---|---|
| P/E (x): | 5.68 | 5.59 | 5.42 | 5.30 |
| P/B (x): | 1.57 | 1.61 | 1.64 | 1.68 |
| EV/Sales (x): | 1.11 | 1.05 | 1.00 | 0.96 |
| EV/EBITDA (x): | 2.51 | 2.44 | 2.33 | 2.24 |
| ROE (%): | 23.46 | 24.24 | 25.60 | 26.72 |
| ROCE (%): | 23.60 | 23.72 | 23.45 | 22.89 |

## Shareholding pattern




## Historical Share Price



| Valuation summary | | | | |
|---|---|---|---|---|
| (XOF mn) | Market Cap. | Per share | Upside | Weight |
| GGM | 1 670 000 | 16 700 | 49% | 40% |
| DCF target | 2 240 000 | 22 400 | 100% | 20% |
| P/E target | 2 510 000 | 25 100 | 124% | 20% |
| EV/EBITDA. | 2 610 000 | 26 100 | 133% | 20% |
| **Weighted Average** | **2 140 000** | | | |
| # of shares (m) | 100 | | | |
| **Weighted average target value (XOF)** | **21 400** | | | |
| Current market price | 11 200 | | | |
| **Upward (downward)** | **91.07%** | | | |
| Expected dividend yield 2020 | 11.45% | | | |
| **Total expected return** | **102.52%** | | | |

| WACC calculation | |
|---|---|
| Debt to capital | 28.23% |
| Equity to capital | 71.77% |
| Beta | 1.11 |
| **ERP** | **4.00%** |
| RFR | 5.95% |
| **Cost of Equity** | **10.39%** |
| Effective interest rate | 7.00% |
| Effective tax rate | **32.60%** |
| Cost of debt after tax | **4.72%** |
| **WACC** | **8.79** |

| DCF (XOF mn) | 2020e | 2021e | 2022e |
|---|---|---|---|
| Revenues | 1 153 455 | 1 207 489 | 1 258 855 |
| EBITDA | 508 397 | 532 098 | 554 176 |
| EBIT | 321 970 | 333 575 | 338 271 |
| Tax on EBIT | 96 883 | 100 030 | 102 132 |
| Working capital change | 33 428 | 17 680 | 16 729 |
| Net capex | 260 000 | 260 000 | 270 000 |
| **Free cash flow to the firm** | **171 108** | **175 251** | **183 667** |
| Componding period | 1 | 2 | 3 |
| Discount factor | 0,92 | 0,84 | 0,78 |
| Discounted FCF | **157 283** | **148 076** | **142 648** |
| ∑ of discounted FCF | **157 284** | **305 363** | **448 015** |
| PV of terminal value | 2 172 091 | 2 067 610 | 1 924 870 |
| **Total EV** | **2 329 375** | **2 372 973** | **2 372 885** |
| **Net debt (cash)** | **87 687** | **87 687** | **87 687** |
| + Associate | - | - | - |
| Minorities | 29 421 | 30 377 | 31 015 |
| - **DCF target market capitalization** | **2 241 688** | **2 285 286** | **2 285 198** |
| **Number of shares (m)** | **100** | **100** | **100** |
| **Fair value per share (XOF)** | **22 417** | **22 853** | **22 852** |

| Multiple-based valuation (XOF bn) | 2020e |
|---|---|
| **Target EV/EBITDA** | **5.43** |
| EBITDA | **508 397** |
| Target EV | 426 288 |
| Less net debt and other adjustments | 146 628 |
| Target market capitalization | 2 612 655 |
| **Multiple-based valuation per share (XOF)** | **26 100** |
| | |
| **Target P/E** | **12.54** |
| Earnings Per Share | **2 003** |
| Target market capitalization | 2 510 000 |
| **Multiple-based valuation per share (XOF)** | 25 100 |

## Country Overview

With an area of 196 722 km², Senegal is bordered on the North by Mauritania, on the East by Mali, on the South by Guinea and Guinea Bissau, on the West by Gambia and the Atlantic Ocean on a facade of 500 km. Dakar (550 km²), the capital, is a peninsula located in the far west. The country of Gambia forms a quasi-enclave in Senegal, penetrating more than 302 km inland. The Cape Verde Islands are located 560 km from the Senegalese coast. The country owes its name to the river which borders it to the East and North and which has its source in the Fouta-Djalon in Guinea. The climate is tropical and dry with two seasons: the dry season and the rainy season.

Senegal is one of the most stable countries in Africa. Since independence in 1960, the country has experienced three major political alternations, all peaceful. Also, there has never been a coup d'état, and the “Senegalese model” was often put forward in the past, even if Amnesty International still denounces some arrests of a political nature.

Senegal is part of the Economic Community of West African States (ECOWAS). Since April 2, 2012, the country's president is Macky Sall. Integrated into the main bodies of the international community, Senegal is also part of the African Union (AU), the Community of Sahelo-Saharan States (CES), the International Organization of La Francophonie and the Organization of Islamic cooperation.

Between 2014 and 2018, Senegal recorded one of the strongest economic growth in Africa, still exceeding 6% per year. Real GDP growth stood at 5.3% in 2019, up from 6.3% in 2017. It is mainly driven by the service sector, while, on the demand side, the main drivers of growth are investments (+12.5%) and exports (+7.2%).

Since early 2020, the coronavirus pandemic (COVID-19) has significantly changed the country's economic outlook. In 2020, growth slowed sharply to an estimated level of 1.3%, with services (such as tourism and transport) and exports being particularly affected. Senegal responded by taking containment measures and putting in place an "economic and social resilience program" (PRES) to protect lives and livelihoods. However, the weakness of budgetary reserves and safety nets, the vulnerability of the health system and the weight of the informal sector create difficulties.

The economic recovery will probably be gradual and driven by a strong comeback in consumption and private investment. A significant influx of private investment is essential to increase Senegal's production capacity and support export growth. Services continue to dominate GDP, while the primary sector (agriculture in particular) is the most dynamic growth engine. The current health crisis has delayed oil and gas development projects, which are expected to contribute to revenues and exports only around 2025.

The country has a significant number of telecommunications infrastructures. Cable, fax, Internet and money transfer services are now available all over the country. There has been an increase in Internet-related activities and services and the use of cell phones. In recent years, the use of mobile telephony has grown dramatically.

General description

## Company Overview

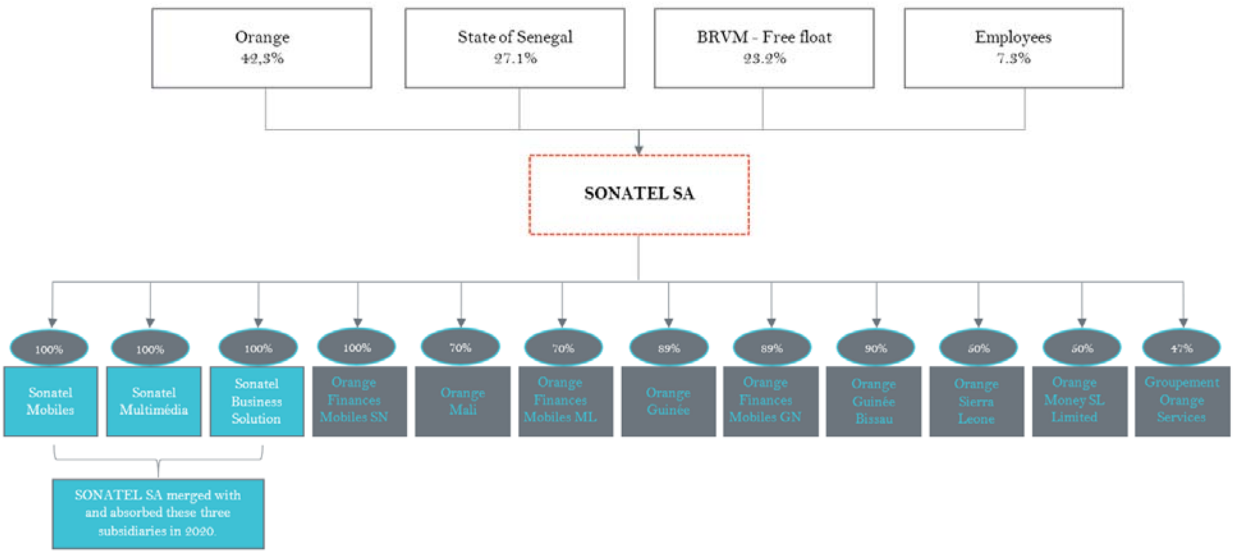
Société Nationale de Télécommunication du Sénégal was created on July 23, 1985 by the merger of the Office of Posts and Telecommunications (OPT) and "Télé Sénégal". The company is then the first telecommunications operator in Senegal. In 1995, SONATEL Group amends its by-laws by opening its capital. In September 1996, SONATEL Group innovates by making available to its customers a mobile phone system. In 1997, it became a private company by joining forces with France Telecom, which currently holds 42% of its share capital. The SONATEL Group is a reference in telecommunications in West Africa. It offers solutions in the areas of communication including fixed, mobile, internet, television, mobile money and data used by individuals and businesses. Leader in all its countries of presence, the SONATEL Group began its external growth in Mali in 2002, then moved to Guinea and Guinea Bissau in 2007 and most recently in Sierra Leone in 2016.

SONATEL Group is a structuring company for the economy of its country of origin and has made Senegal a traffic hub and a major player in the development of telecommunications in West Africa. The company has built a modern network, fully digitized by transmission loops and international links by high-speed optical fiber submarine cables. Indeed, significant investments have enabled the Group to maintain and consolidate its profitability trajectory and its commercial positions. Thus, the Group invested more than XOF 207 billion in 2019, representing growth of 6.7% compared to 2018. The Group's customer base amounted to 32.7 million at the end of 2019 thanks to these investments which largely contributed to the improving the customer experience, strengthening operational excellence, continuing efforts to improve the quality of technical service and strengthening customer loyalty.

## Business snapshot by country and competition

The SONATEL Group operates under the Orange brand in its five countries of presence. Its activity is split between Senegal and Mali for 76% and for the rest between Guinea, Guinea Bissau and Sierra Leone.
The SONATEL group was gradually formed, first by launching operations in Mali in 2002 and then Guinea and Guinea Bissau in 2007 and finally by the acquisition of Airtel Sierra Leone in 2016. With mobile market shares of 53.1% in Senegal, 59.0% in Guinea, 56.9% in Mali, 47.4% in Bissau and 48.1% in Sierra Leone, the SONATEL group is leader in all its markets.

Exhibit 01: Shareholders and subsidiaries




*Soucre: 2019 annual report*

## In Senegal


### ➢ SONATEL SA

SONATEL SA is the Group's parent company. Until the end of 2016, SONATEL SA's operations were mainly focused on landlines telephony activities. However, with the renewal of its license in 2017, SONATEL SA now holds a global license allowing it to make landlines, mobile and the Internet. The company operates on the territory of Senegal and abroad, in accordance with the laws and regulations in force and signed agreements, in: - the establishment of telecommunications networks opened to the public, - the provision of fixed-point telephone services, telex and telegraph services, packet data communications services, - the establishment and operation of facilities allowing the public to access services, - the establishment and operation of a cellular radiotelephony network, - the acquisition and exploitation of concessions, rights and privileges for the landing, the laying and the exploitation of submarine cables, the establishment of radio centers, earth stations for space communications and all the other systems of telecommunications, - the sale or rental of telecommunications equipment, - the supply of all telecommunications services, subject to a regime of regulated competition or free competition, - and in general, any transaction including commercial, industrial, financial, real estate, etc. likely to promote the development of the company.

The number of landline subscribers totaled more than 206 000 lines at the end of 2019. This is mainly driven by the commercial success of offers backed by Flybox and fiber, combined with the increase in net connections on ADSL which helped mitigate the complete stop of selling CDMA (Code Division Multiple Access)'s product. The growth of fixed broadband access remained strong in 2019, with a fleet of 230 000 customers, including 82 000 Flybox customers and 7 000 fiber customers. This performance reflects the success of landlines boadband offers via the various technologies available (ADSL, Flybox, fiber, LTE / TDD). Even if the landline telephony services represents only around 2% of the consolidated turnover, SONATEL SA takes profit from its subsidiaries which offer access to the Internet and to multimedia, Fintech and specialized services for private and business customers under the Orange brand. SONATEL SA, through its subsidiary Sonatel Mobiles, maintains its leadership in the mobile market with more than 55.9% of the Senegalese market in 2019.

### ➢ Sonatel Mobiles

In **1999**, the first subsidiary namely Sonatel Mobiles was created under the Alizé brand. 100% owned by SONATEL SA, this new subsidiary manages all of the group's mobile offers and its purpose, on the territory of the Republic of Senegal and abroad, in accordance with the laws and regulations in force and the signed agreements, to:

- the establishment and operation of mobile networks and services,
- and generally, any transaction, particularly commercial, industrial, financial, movable, real estate, etc. likely to promote the development of the company.

***Since October 2020, the subsidiary Sonatel Mobiles was absorbed by its parent company SONATEL SA. This merger allows them to optimize the manufacturing process, to sustain their activities and to better cope with the heightened competition in their fields of activity.***

### ➢ Sonatel Multimédia

In **2001**, Sonatel Multimedia, another subsidiary responsible for developing Internet activity under the Sentoo brand was created.

Indeed, this subsidiary Sonatel Multimedia aims in Senegal and in any other country to:

- the operation and marketing of all products and services of telecommunications not included in the domain of SONATEL SA's monopoly, which must contribute to the development of telecommunications traffic on Senegalese public networks, or between these networks and similar foreign networks, to which are added the operation and marketing of all equipment and products of security. To this end, it ensures:
- the import, marketing, sale and rental of all office automation, telephone and communication equipment and services,

- advertising on SONATEL SA's telecommunications media (card, electronic directory, etc.),
- the purchase, sale, exchange, import, distribution, packaging, storage, warrantage, transit, transport, handling, representation, commission, brokerage, sale in wholesale, semi-wholesale and retail, of all services, products, materials, goods and objects of all kinds and from all sources, falling within the scope of the defined object,
- the acquisition in all forms, construction, development, ownership, administration and management, rental as lessor or as lessee, short term and long term of all buildings and all property and rights real estate, whether built or not, which can serve in any way the needs and business of the company within the framework of the corporate purpose,
- the company's participation in all companies, economic interest groups or companies, created or to be created, which may relate directly or indirectly to the corporate object or to any similar or related objects, in particular to companies, groups or companies whose the object would be likely to contribute to the achievement of the corporate object and this, by all means, in particular by way of contributions, subscription or purchase of shares, of company shares or of beneficiary shares, of merger, of a joint venture, group, alliance or sponsorship,
- the import, marketing, sale of all services and supply of equipment related to internet activity, and in particular subscriptions, professional solutions, connections, site creation, accommodation, training, etc. " technical assistance and all other products related to internet activity,
- and generally, any operation, in particular commercial, industrial, financial, movable, real estate, etc. likely to promote the development of the company.

***Since October 2020, the company Sonatel Multimedia (100% owned by SONATEL SA) has been absorbed by its parent company. This merger allows them to optimize the manufacturing process, to sustain their activities and to better cope with the fierce competition in their fields of activity.***

### ➢ Sonatel Business Solutions

In **2004**, Sonatel Business Entreprises, the 3rd subsidiary specializing in private business networks was created and its purpose in all countries, particularly in the States party to the OHADA Treaty, and more particularly in the Republic of Senegal to:

- the sale, installation of hardware and software for peripheral telephony, telecommunications networks and data networks;
- technical studies and concepts in the field of telephony and peripheral telephony, telecommunications networks and data networks;
- participation in all companies or companies created or to be created;
- and generally, any operation, in particular commercial, industrial, financial, movable, real estate, etc. likely to promote the development of the company.

***Since October 2020, the subsidiary has been absorbed by SONATEL SA. This merger allows them to optimize the manufacturing process, to sustain their activities and to better cope with the heightened competition in their fields of activity.***

### ➢ Orange Finances Mobiles Sénégal

Orange Finances Mobiles Senegal, Electronic Money Establishment (EME) provides customers with or beneficiaries of a mobile line number subscribed to with Sonatel Mobiles for their personal or professional needs, a service called "Orange Money", consisting of a prepaid and rechargeable electronic money account allowing the User to carry out national or international money transfers and payment transactions. Orange Money is a mobile banking account, launched in Senegal in **2010**, allowing postpaid and prepaid customers to make financial transactions on the mobile. Since the launch, Orange money has enabled 2 millions customers to access payment, transfer, purchase and subscription products directly from their mobile which represent a penetration rate of 22.7%. ***Orange Finances Mobiles Senegal remains to this day the only existing subsidiary of Sonatel SA in Senegal.***

**In summary, following the meetings of the Board of Directors, Sonatel SA decided to merge and absorb its existing subsidiaries in Senegal, with the exception of Orange Finance Mobile Senegal. Thus, the absorbed companies are Sonatel Mobiles, Sonatel Multimedia and Sonatel Business solutions, while the absorbing company remain Sonatel SA.**

### ➢ Context of the merger-absorption transaction

The organization of Sonatel group separated until 2020 the operations in Senegal between five (5) distinct companies through a breakdown by activities. As a result, the accounts were kept separately with flows between entities which generate administrative costs, complexity, slowness for the customer and taxes. In addition, the evolution of telecoms activity over the past 2 decades has been marked by the following elements:

- the predominance of mobile operations to the detriment of fixed lines with regard to service access resources;
- the convergence of technologies at the core network level and the extensive pooling of equipment (all IP) rendering obsolete the economic distinction between landline and mobile which had prevailed in 1999 (at the launch of SENTEL) when Sonatel Mobiles was created. The main objective at this period was to separate the economic events linked to the mobile, under the legal constraint of subsidiary, from the newly liberalized mobile activity;
- Since the completion in 2009 of the full pooling process and the transfer of landline, mobile and internet operational activities to Sonatel SA, positioned as a holding company providing services, the volume of intra-group services in Senegal has continued to increase. That has gradually making the process of meeting customer needs more complex.

According to management, the amounts re-invoiced between the 5 companies of the group (in Senegal) increased by XOF 29 billion in 2019 compared to 2018 for a total amount of XOF 193.6 billion. This created a "ghost factory" and a high complexity of management that did not create value for the clients, let alone for the shareholders. These multiple operations also created malfunctions as well as the need to better manage these flows that resulting in the provision of resources exclusively dedicated to these operations.

In addition, it should be noted that more than 95% of the amounts re-invoiced within Senegal concern interconnection operations (65%) and pooled operations (30%) between Sonatel SA and Sonatel Mobiles.

Thus, the volume of banking transactions (all flows combined) between the 5 companies in Senegal was around XOF 450 billion at the end of 2019 with more than half of the flows operated mainly between Sonatel SA and Sonatel Mobiles. These bank flows notably include inter-company transactions within the framework of cash pooling centralized by Holding Sonatel SA.

Exhibit 02: Banking transactions between the Senegalese subsidiaries

| Année | Orange Finances Mobiles Sénégal | Sonatel Multimédia | Sonatel Business Solutions | Sonatel Mobiles | Sonatel SA | Total général |
|---|---|---|---|---|---|---|
| **2016** | 11 090 | 8 605 | 9 804 | 191 060 | 181 078 | **401 637** |
| **2017** | 8 179 | 10 760 | 8 327 | 180 715 | 216 763 | **424 744** |
| **2018** | 8 540 | 13 088 | 11 355 | 168 237 | 269 337 | **470 557** |
| **2019** | 13 463 | 13 141 | 7 049 | 219 161 | 194 562 | **447 377** |

*Soucre: Sonatel SA*

### ➢ Expected results frm the merger absorption operation

The merger absorption is expected to contribute significantly to internal agility, the simplification of organizations, the optimization of resources and the improvement of the financial situation of the company. More precisely, it will allow:

- refocusing very time-consuming support processes towards value-creating operations, which should contribute to the objective of reducing the full-time equivalent (FTE) by 10%,

- a significant streamlining of financial operations and bank flows with no external impact and accentuating the red tape observed in the management processes of client, supplier, etc.
- a better understanding of the financial statement (balance sheet, income statement, cash flow, etc.) of all of Sonatel's operations in Senegal,
- the launch of a simplification of the organization by the elimination of certain operational units maintained at the level of each entity, better reliability of the monitoring of bank accounts and reconciliations,
- the simplification of the statutory audit services which are mandatory by company and invoiced individually,
- the drop in interim costs following the redeployment of staff affected by this merger project,
- optimization of notarial fees for the annual legal secretariat and costs related to attendance fees for boards of directors,
- a reduction in taxation linked to intercompany invoicing,
- rationalization of the standardized governance of the entities (board of directors, Ordinary General Meetings, tax returns, statutory auditors, regulated agreements, etc.).

In addition, it appears that these merger operations should induce an improvement of XOF 75 261 billion in the equity capital of SONATEL SA corresponding to a merger bonus.

## In Mali

A vast Sahelian country, Mali is a West African country with a low-income economy, not very diversified and exposed to fluctuations in commodity prices. Its strong demographic growth (with a fertility rate of 6 children per woman in 2017) and climate change represent significant risks for agriculture and food security.
After increasing to 47.2% between 2011 and 2015 due to the security crisis, the rate of extreme poverty fell slightly to reach 42.7% in 2019 thanks to the exceptional agricultural production of the last four years. Poverty is concentrated in rural areas in the south of the country (90%), where the population density is highest.The impact of the coronavirus (Covid-19) epidemic on the Malian economy is, for the moment, limited. A importer of oil, the country is benefiting from the sharp drop in crude prices. A traditional safe haven in times of crisis, gold is Mali's leading export item. The crisis should therefore lead to an improvement in its terms of trade which would help reduce the current account deficit.

### ➢ Orange Mali

Founded in 1999, the Malian Telecommunications, ICT and Post Regulatory Authority ("AMRTP") is responsible for granting telecommunications licenses, ensuring fair competition between operators and protecting the interests of users of telecommunications services. Orange Mali, initially Ikatel, is a Malian telecommunications company, a mobile phone operator that was renamed Sonatel Mali on November 30, 2006. Second mobile operator in Mali since February 2003 has become leader with 58.8% market share in 2019.

By launching its commercial activities in 2003 less than six months after the granting of the operating license, the company translates the will of the Government of Mali to liberalize the telecommunications sector and to cover with its network all the capital and the regions of the country.

Since its creation, Orange Mali has presented a spectacular assessment. Today, the number of subscribers is estimated at 11.9 million customers against 100 000 in 2003,( with a penetration rate of 99%) and this at very competitive rates of communication, among the best in Africa. Despite a difficult economic and security context, Orange Mali has experienced years of growth. With the launch of 100% Orange optical fiber and 4G+, Orange Mali is the first operator to offer its customers incomparable connectivity at very high speed with:

- more than 98% coverage rate
- 17 965 localities covered in Mali

- 3 202 km of optical fiber deployed in all, including 37.70 km in 2018 for the opening up of Mali
- deployment of 4G in the capital Bamako

Orange Mali represent 34% of the group turnover and 36% of the group total mobile subscribers with a mobile ARPU of XOF 1 930.

### ➢ Orange Finances Mobiles Mali

Orange Money is a real success in Mali, launched in the country since 2012, allowing postpaid and prepaid customers to make financial transactions on the mobile. Since the launch, Orange money has enabled 2.1 millions customers to access payment, transfer, purchase and subscription products directly from their mobile which represent a penetration rate of 19.9% and more than 40 144 distribution points across the country. The activities of mobile banking represents a major new growth opportunity for the Group.

## In Guinea


Coastal country of West Africa, Guinea shares its borders with six countries (Guinea-Bissau, Senegal, Mali, Sierra Leone, Liberia and Cote d'Ivoire) and counted 12.7 million inhabitants in 2017. The first country's employer, the agriculture sector plays a key role in poverty reduction and rural development: it provides the income of 57% of rural households and the employment of 52% of the workforce.

In addition to this sector, natural resources but also processing industries and services are also economic assets for Guinea.

Experience also shows that mining and hydropower can have serious negative impacts, both direct and indirect, on biodiversity and the environment. Growth stalled in 2019 to 5.6%, after mining and non-mining activities slowed due to moderate growth in the agricultural sector. In the same year, inflation is estimated at 9.5%, a slight decrease compared to 2018 (9.8%), due to a tightening of monetary policy by the Central Bank. The overall budget deficit (including grants) improved from 1.1% of GDP in 2018 to 0.9% in 2019.

### ➢ Orange Guinea

Orange Guinea was launched on November 5, 2007. The fourth entrant on the market, it had only 200 000 customers at the time. The company maintains its acquired leadership since 2013 by closing the year 2018 with a market share of 63% corresponding to more than 7 million subscribers. Orange Guinea is a telecommunications company, a subsidiary of the Sonatel group, with a workforce of 399 employees. A digital company that works to offer Guinean people the best of technology with ease while being a dynamic player in social development.

Orange Guinea still predominates in mobile uses, but mobile Internet value-added services. Orange Guinea is the only operator in Guinea to cover all sub-prefectures in both 2G and 3G since 2016. The operator has a direct distribution network of 1 515 sites. The company strengthens its offer against its two competitors in Guinea, MTN and Cellcom. Indeed, for an amount of 90 million dollars (79.5 million euros), the Guinean subsidiary of Sonatel SA signed on March 14, 2019 the acquisition of a 4G license. It becomes the first operator in the country to offer a 4G flow.

According to the regulator, Orange Guinea has a 67% market share with 238 administrative centers of prefectures and sub-prefectures covered. On the other side, its competitors, CELLCOM and MTN, respectively hold 18% and 15% of market share with 88 and 262 administrative centers of prefectures and sub-prefectures covered. Moreover, Orange Guinea represent 18% of the group turnover and 25% of the group total mobile subscribers with a mobile ARPU of GNF 27 109 at the end of 2019.

### ➢ Orange Finances Mobiles Guinea

Orange is the pioneer of mobile banking in Guinea following the launch of Orange Money, a service used today by more than 1.2 million Guineans for a penetration rate of 16%. Orange Money is today one of the main growth drivers for the Group, and the service continues to evolve for the benefit of populations, businesses, institutions and governments. The ambition is to make Orange Money accessible to as many people as possible, in strict compliance with the regulations of central banks in the countries and currency areas where Orange operates.

## In Guinea Bissau


Guinea Bissau is a Portuguese-speaking country in West Africa. Its capital is Bissau. The country is part of the Economic Community of West African States and the Organization of Islamic Cooperation. It owes its name to its capital, Bissau and is a West African country bathed by the Atlantic Ocean, limited to the north by Senegal, to the east and to the south-east by the Republic of Guinea.

Guinea-Bissau's economy is structured primarily around agriculture (49% of GDP), which employs between 75 and 80% of the working population. The growing of cashew nuts, little developed, is the main source of exports and income for the country (73% of exports in value in 2017, XOF 84 billion in tax revenue in 2017 or 48% of revenue from state). However, economic activity remains heavily penalized by the very poor state of infrastructure, especially in the energy sector. The public grid supplies only one-twentieth of the national electricity needs, with a concentration on Bissau, the capital. The road network is underdeveloped and does not allow the opening up of certain regions with agricultural potential.

The country has experienced sustained economic growth since 2015, while real GDP has almost stagnated on average between 2000 and 2014. Thanks to the continued support of public spending, the payment of arrears, and the increase in the value of cashew nut exports, growth was 4.8% in 2015, 5.8% in 2016 and 5% in 2017 (for an estimated population growth of 2.5% per year). The average inflation rate, which reached 5.1% in 2011, decelerated to 1.5% in 2016 and 2.8% in 2017.

### ➢ Orange Guinea Bissau

SONATEL will start its commercial operations in Guinea Bissau before the end of the first half of 2007 through its subsidiary Orange Bissau. Thus, Orange Bissau had more than 600 000 active mobile customers at the end of 2018, representing a market share of 58%. The company is leader in the Internet market. Indeed, Orange Bissau was the first operator to launch 3G (2015) and 4G (2016) in Guinea Bissau. The whole capital, Bissau, is covered in 3G and 4G networks, and the regional capitals have been covered also in 4G. More than 90% of the active Orange Bissau fleet is now covered in 3G. Orange Bissau brought the population of the country very high speed. The technology will also benefit the country that will be able to see its ICT sector evolve through the creation of new uses, job creators and income generators.

The company was able to maintain its leading position thanks to the continued development and modernization of its network and commercial actions.

Orange Bissau represent 2% of the group turnover and 2% of the group total mobile subscribers with a mobile ARPU of XOF 2 935 in 2019.

### ➢ Orange Finances Mobiles Guinea Bissau

Orange Money is now much more than a transfer solution. The service enables the financial inclusion of populations and participates in the economic development of countries. The dematerialization of money has also made it possible to fluidify exchanges, secure transactions and today represents a considerable advantage for large companies, for SMEs as well as for individuals. Since the launch, Orange money has enabled 22.3 thousand customers to access payment, transfer, purchase and subscription products directly from their mobile which represent a penetration rate of 23.8% at the end of 2019.

## Regulatory authorities

The activities of operators in the telecommunications sector are subject to regulation by regulatory authorities at national level. Given its presence in several countries of the sub-region, the Sonatel group collaborates with each of the regulatory authorities of the 5 countries of presence.

Exhibit 03: regulatory authorities breakdown

| | Senegal | Mali | Guinea | Guinea Bissau | Sierra Leone |
|---|---|---|---|---|---|
| National Regulatory Authorities | ARTP<br>Autorité de Régulation des Télécommunications et des Postes | AMRTP<br>Autorité Malienne de Régulation des Télécommunications/TIC et Postes | ARPT<br>Autorité de Régulation des Postes et Télécommunications | ARN<br>Autoridade Reguladora Nacional | NATCOM<br>National Telecommunication Commission |
| International Regulators Relations | WATRA<br>ATU | | | FRATEL<br>ITU | |

Soucre: J&D Advisory

While each of the regulatory authorities have national power, the fact remains that they share several international organizations (of which they are members) among which: WATRA (West Africa Telecommunications Regulators Assembly), FRATEL (Reseau Francophone de la Regulation Telecommunications), ATU (Africa Telecommunications Union), ITU (International Telecommunications Union), etc.

## Sonatel group in the face of intensifying competition

### • Market share and competition in Senegal

The telecommunications market in Senegal has always manifested itself in a visible monopoly of the SONATEL company displaying huge results. The innovations brought by the new organization of the telecommunications sector lead to an evolution of the telecommunications market. Thus, the telecommunications market is growing with the introduction of incentives to competition because the new construction of the market encourages the entry of new economic agents. However, despite these incentives for competition, entry into the market is weakly acquired with the direct or indirect protection enjoyed by the public operator. Also, the monopoly of SONATEL is an obstacle to the promotion of competition. Following the privatization of SONATEL in 1997, the will of the Senegalese government was to open the telecommunications sector to competition.

Senegal has one of the most efficient telecommunications infrastructures in West Africa, contributing to the country's GDP of 5.2%. The Senegalese market includes three national operators, to date all the subsidiaries of large multinational groups: Sonatel of the Orange group, Free of the Saga Africa Holdings consortium and Expresso Telecom of Sudatel Telecom Group.

Exhibit 04: breakdown of competitors' market shares in Senegal

| Senegal | Segment | Sonatel Group | Free | Expresso |
|---|---|---|---|---|
| Market share | Landline (Fix) | 99.31% | - | 0.69% |
| | Mobile | 55.53% | 25.08% | 19.39% |
| | Data (Mobile+ADSL) | 67.67% | 26.37% | 5.93% |

Soucre: ARTP 2019 annual report

In 1999, the Millicom International Cellular Group (MIC) became the second Senegalese operator of mobile telephony. MIC, represented by the SENTEL brand, holds a 75% stake in its subsidiary. At the beginning of its activities, Sentel was better known under the brand name "Hello". In a perspective of innovation and dynamics of the sector, "Hello" was replaced by the mark "TIGO" in 2005. Since that date, the group's policy is to innovate, then to diversify its offers to answer a request of more and more growing. TIGO officially became FREE on October 1st, 2020. Aggressive communication, great offers: the new brand offers packages that combine Internet and telephony at reduced rates, often two times cheaper than its competitors. Indeed, the local money transfer group Wari has acquired Tigo for a cost of $ 129 million or XOF 80 billion.

In the dynamics of opening up the market to competition, a third operating license was granted in 2007 to the Sudanese company SUDATEL. This company, under the brand name "EXPRESSO SENEGAL", has been trying since the beginning of its activities, in 2009, to reduce the gap between them and the two previous operators by proposing a new standard of third generation telephony. This one, based on Universal Mobile Telecommunications Systems (UMTS), is completely out of sync with GSM networks (Global System for Mobile Communication).

- **Market share and competition in Mali**

The telecommunications sector in Mali is relatively well supervised, but the competitive dynamics are rather timid, with a large share of the market held by Orange Mali. Poor network coverage, unstable quality of service and high access costs amplify the digital divide between Bamako and the rest of the country. The telecommunications sector in Mali has developed around the incumbent operator, the Société des Télécommunications du Mali (SOTELMA), which emerged from the restructuring in 1989 of the Post and Telecommunications Office. From 1999, a process of liberalization of the telecommunications sector allowed the entry into the market of two new investors and operators, the Orange Group in 2003, and with the privatization of SOTELMA, Maroc Telecom, which today owns 51% of its capital and operates under the trade name MALITEL. A third license was granted in 2013 to the company ATEL, controlled by the pan-African group Planor, holder of the international TELECEL brand, but it was not until 2018 that its services were made available to the public.

Exhibit 05: breakdown of competitors' market shares in Mali

| Mali | Segment | Orange Mali | Malitel | Atel |
|---|---|---|---|---|
| Market share | Mobile | 58.8% | 38.2% | 3.0% |
| | Data (Mobile+ADSL) | 57.0% | 36.7% | 6.0% |

*Soucre: AMRTP 2019 annual report*

Born from the merger between the national telecommunications branch of the former OPT and the international telecommunications of Mali (TIM), the company of Telecommunications of Mali was created in 1989 after its separation from the Post of Telecommunications and is ranked as the number two in the country in terms of subscriber. Thanks to an international call for tenders, the Maroc Telecom group was awarded in July 2009, 51% of the capital dedicated to a strategic partner for an amount of XOF 180 billion. Maroc Telecom's vision is to maintain and consolidate the leading position in the fixed telephony and internet segments and to take larger market shares in the mobile telephony segment.

Alpha Télécommunications Mali (Atel-SA), operating under the "Telecel" brand name, opened in 2017 in the country. The telecoms company, holder of the third mobile license in the country, aims to become the leading operator in the country in terms of quality. To this end, it relies on the high-quality network deployed by telecoms equipment manufacturer Huawei. With the support of the West African Development Bank (BOAD), this telecoms company has invested nearly XOF 100 billion. Holder of the third mobile license in the country since 2012, the company will have taken 5 years to establish its telecommunications network in the country and thus compete with Malitel (Sotelma) and Orange Mali.

- ## Market share and competition in Guinea

Exhibit 06: breakdown of competitors' market shares in Guinea

| Guinea | Segment | Orange Guinée | MTN | Cellcom |
|---|---|---|---|---|
| Market share | Mobile | 58.7% | 28.7% | 12.6% |
| | Data (Mobile+ADSL) | 65.0% | 29.0% | 6.0% |

Soucre: arpt.gov.gn

MTN Group (Mobile Telephone Networks) is a South African multinational corporation engaged in telecommunications. It was founded in 1994 and is present in 22 countries in Africa and the Middle East. Areeba Guinea today MTN Guinea was originally a company of INVESTCOM, an international Lebanese group born in 1982, covering all sectors of telecommunications, and it is in third place behind Orange and Cellcom with 15% market share. Operational since April 18, 2006, MTN Guinea is the company that revolutionized the world of mobile telephony in Guinea.When MTN was installed, the penetration rate of the telephony market was 5.6% in Guinea but to date the penetration rate is 108% in the country and more than 7.6 million subscribers at the end of 2019.

Cellcom is a telecommunications company founded by an American group and number 2 in Guinea with 18% market share after Orange. Present in two countries in West Africa, Cellcom started its activity in Liberia in 2004 and then in Guinea-Conakry in 2008. Covering the entire Guinean territory, Cellcom provides high quality communication services and Internet access. broadband at an affordable price for the benefit of a large number of subscribers which continues to evolve day after day! Indeed, with nearly 2 000 000 subscribers, Cellcom allows its customers to communicate via the telephone line or via the Internet.

- ## Market share and competition in Guinea Bissau

Guinetel is a mobile telephone operator from Guinea-Bissau. Belonging to the public company Guiné Telecom and Portugal Telecom, Guinetel is one of the three mobile telephone companies in Guinea-Bissau in addition to Orange and MTN.

MTN Guinea Bissau is one of those mobile network operators servicing Guinea Bissau. Formerly Spacetel Guiné-Bissau S.A., founded in 1994, MTN Guinea Bissau is a wholly owned subsidiary of South African-based MTN Group.

- ## Market share and competition in Sierra Leone

Sierra Leone Telecommunications Company (Sierratel) was Sierra Leone's first and sole telecoms operator in the country to offer landline telephony services in the capital and provincial cities. Since the advent of mobile telephony services, the Company offers telephone, broadband, different internet plans, business systems, computer networks, security solutions, cabling services, long distance, and support services in Sierra Leone.

SMART Mobile Sierra Leone (Intergroup Telecom Sierra Leone) is a subsidiary of Timeturns Holdings Limited which has Telecom Interests in Nepal, Cambodia, Burundi, Tanzania, Uganda, Sierra Leone and the Democratic Republic of Congo. SMART Mobile Sierra Leone began operations on the 28th of March 2014 and is the most recent milestone in the group's expansion in the African Continent.

## SONATEL Group strategies

The company chose couple of strategy that will helps moving forward and expend his business in West Africa region.

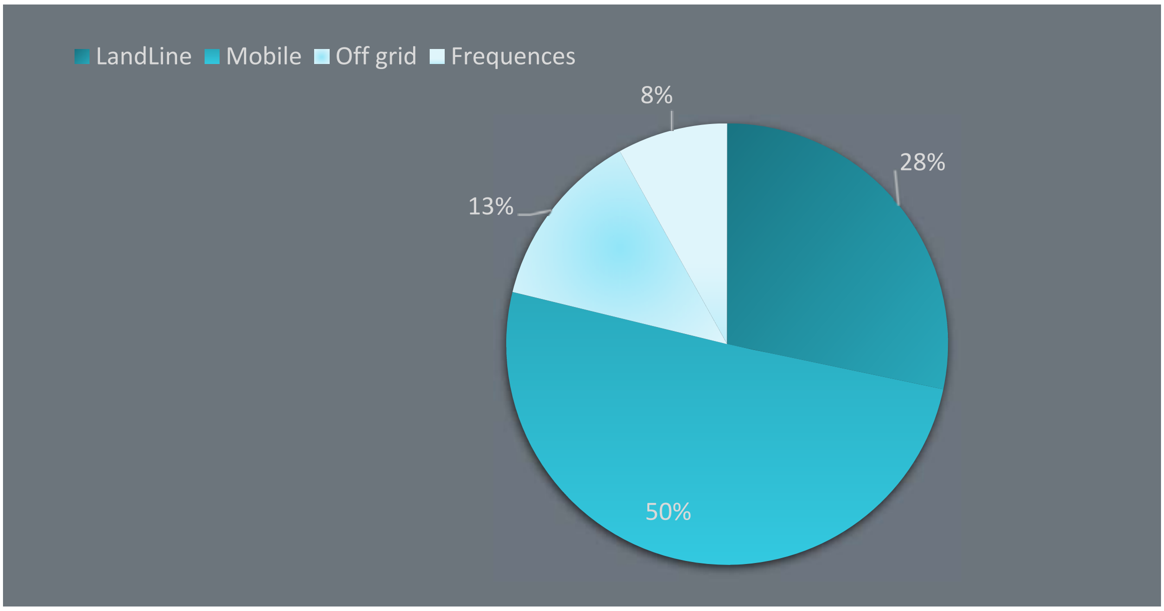
**Competitive strategy**: SONATEL is today the leader in its domestic market. One of the strategies put in place is to maintain this position. This involves the development of new products, new content and the creation of exclusive partnerships as well as spending money on marketing actions to maintain his position. The Sonatel group, through its Orange brand, has revealed to the general public, the second act of its digital revolution. It also intends to honor its contribution in the realization of the "Digital Senegal Strategy 2025" through a further decline in Internet fees and the improvement of the quality of service.

**The internationalization strategy**: The group is also betting on developing internationally. The company is now established in 6 countries in West Africa. Noticing the penetration rate of Senegal around 100%, SONATEL is therefore going to conquer new customers in new markets, where access to telecommunications is still limited. In this ways, the company has been reinforcing the investment in subsidiaries.

**The integration strategy**: Probably the most visible strategy since the most relayed through the various media, SONATEL relies on an integration strategy by buying competitors in foreign markets. An example is the acquisition in 2016 of the Indian operator AIRTEL Sierra Leone. The company announced the finalization of the 100% buyout of Airtel Sierra Leone.

**Investment Strategy**: Investments financed by the "Sonatel 6.5% - 2020-2027" bond issue mainly concern the maintenance and extension of the network in Senegal, the Group's leading market in terms of volume and value. These investments are decisive in the execution of the Sonatel Group strategy, which globally aims for a better experience for its customers. This program is part of the consolidation of its leadership position in its Mobile business while creating a virtuous circle allowing to boost growth drivers, Data and Mobile Banking, diversification projects and the acquisition of new subscribers. These investments, in the Senegal Perimeter, the Group's parent company, will also increase the strategic advantage over very high speed fixed and mobile connectivity, and the Group's efficiency.

Exhibit 09: Investment breakdown



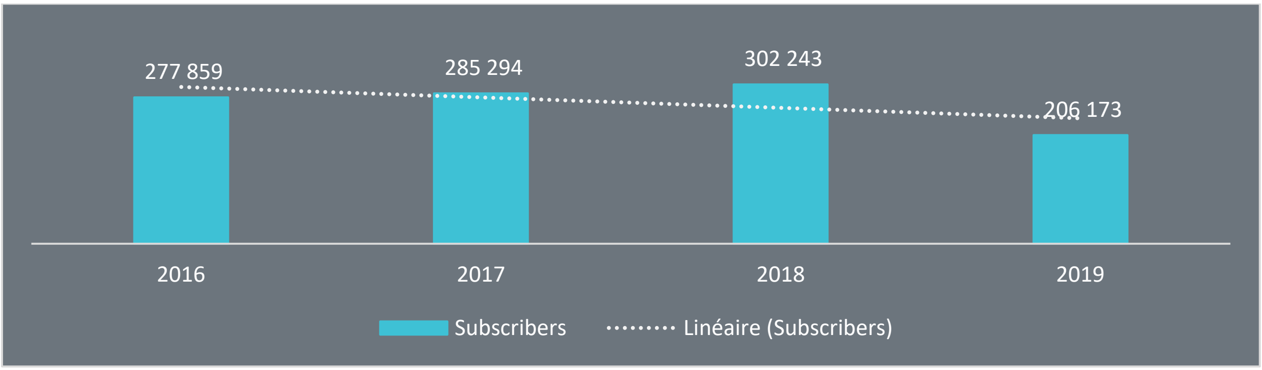

*Soucre: Sonatel.sn*

## SONATEL recent developments (2016-2019)

With 8.7 million subscribers, SONATEL operating under the Orange brand, is the leader in a three-player Senegalese mobile market, with a market share of 55.9% in a 108% penetrated mobile market. SONATEL is the strongest mobile operator in Senegal. We expect Senegal's rapidly maturing mobile market will enable the company to retain its dominance as a mobile operator.

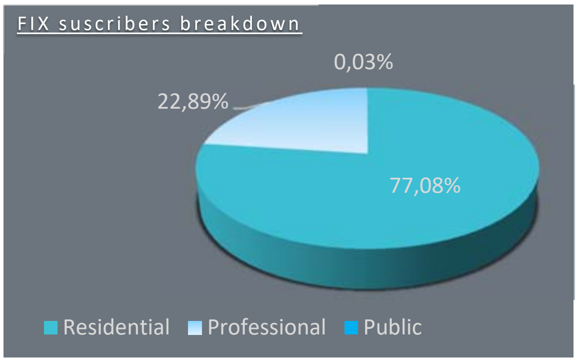
### ➢ Landline (Fix) suscribers

Exhibit 10: Landline sucribers evolution



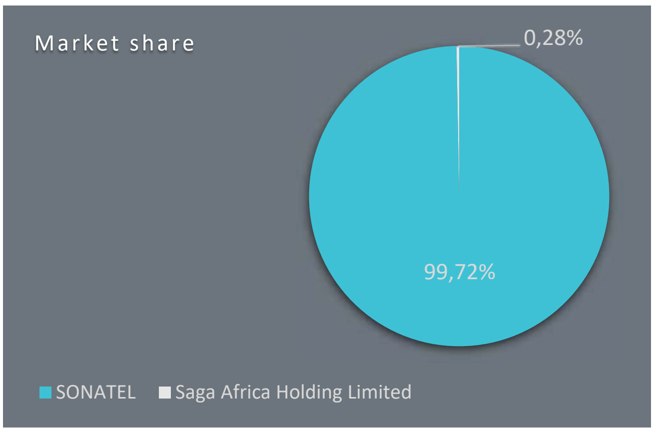

*Soucre: Sonatel.sn*

SONATEL group offers fixed-line and internet services in Senegal and Mali with a total fixed line subscriber base of 206 173 and 229 850 internet subscribers at year-end 2019. In common with many other markets, the fixed-line business in Senegal, mainly corporate-growth driven, is defined by a growth in activity, representing a 1.8% gowth between 2015 and 2018 and a slowdown of activity (-31,7%) from 2018 (302 243 subscribers) to 2019 (206 173 subscribers). This improvement in recorded growth, from 2015 to 2018 is mainly driven by the commercial success of offers around the Flybox and fiber, combined with the increase in net connections on ADSL, all thanks to the new price drop in the part of Act 2 of the Internet revolution in Senegal. On the other side, the drop in activity observed in 2019 was impacted by the discontinuation of the CDMA product (Code division multiple access) which is a coding system for telecom transmissions.




We should also be noted that the group holds 99.72% of the fix market share in Senegal at the end of 2019 and used to be the only company providing those services in the country. But since then, SONATEL group has shared its parts with a new company which opened in 2019 called Saga Africa Holding Limited and which has 0.28% of the market share.

**The Fix contributed 12.25% to SONATEL Senegal's turnover, which represents around XOF 28.405 billion.**



## ➢ Mobile suscribers

Having substantially grown during the past 10 years, SONATEL group mobile market appears to us to be one of the most mature markets compared with its West African peers. In Senegal, SONATEL mobile market is its main source of revenue, where the mobile penetration is about 108%. Indeed, this section show a pace of growth compared to the previous year. The group has more than 32.3 million customers in 2019, which represents an increase of almost 11% compared to the previous year with 29.1 million customers. This growing number of customers represents a growth rate of nearly 5.74% per year since 2016.

The **mobile customer** base totals **32.3 million customers in 2019 compared to 2018 (+10,8%)** resulting from a good commercial momentum in all countries around the reduction of sim cards prices.

- **In Senegal**, the 9.6% rise observe on the same period was driven by the pursuit of the monetization of Data uses, the good dynamics of the fleet and the decrease in free following coaching promotions.
- The 13.4% growth in **Mali** thanks to the extension and improvement of 3G coverage as well as the launch of 4G TDD in Bamako to replace WIMAX, while massive fleet outings have recorded in 2018 in accordance with binding measures on the obligation identification of subscribers.
- In **Guinea,** the 5.5% growth was possible thanks to the continuation of the programs of extension of the coverage of the territory integrating the deployment of 4G which helps recruited more than 402K mobile subscribers compared to 2019.
- **In Bissau**, the mobile customer base consisting exclusively of prepaid plans is in 4.0% increase over one year, reaching 710 000 customers. This dynamic result mainly from the good recruitment dynamic around mobile data offers especially with 4G.
- The mobile customer base in **Sierra Leone** increased by 24.2% year on year around improving the quality of service and the customer experience through modernization of the network and the opening of new sites.

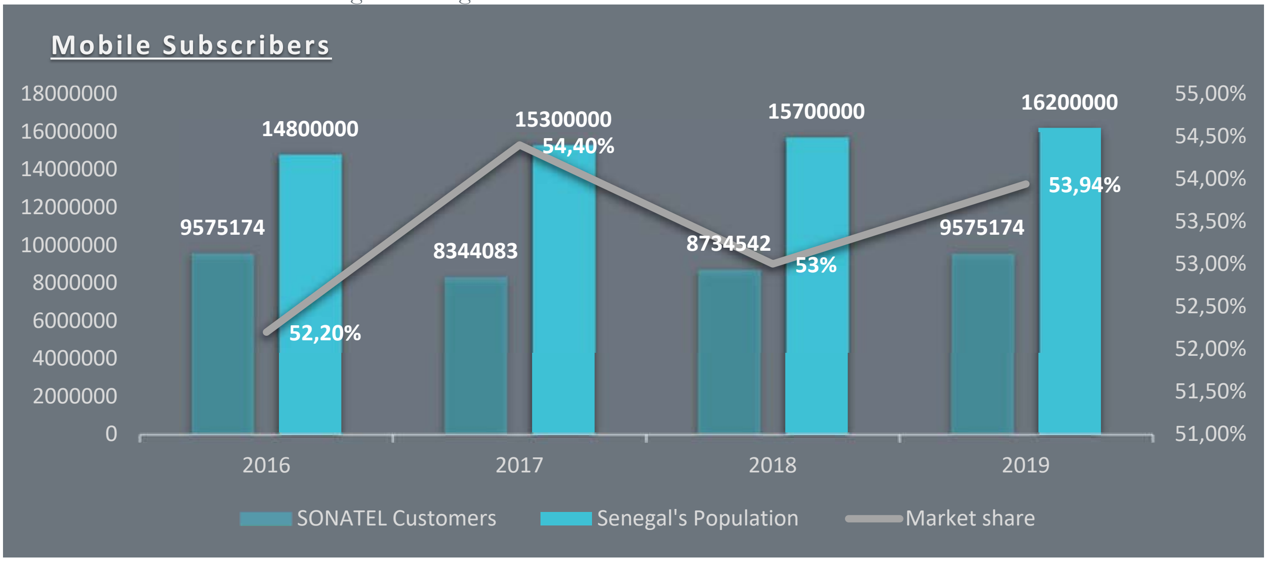
Exhibit 11: Sonatel mobile sucribers

| Year | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Mobile subscriber | 27 319 568 | 29 736 083 | 29 146 650 | 32 301 044 |
| Change | 4.49% | 8.85% | -2.0% | 10.8% |
| Senegal | 7 900 150 | 8 344 083 | 8 734 542 | 9 575 174 |
| % Change | -6.1% | 5.6% | 4.7% | 9.6% |
| Mali | 11 262 654 | 12 539 918 | 10 468 834 | 11 871 848 |
| % Change | -5.3% | 11.3% | -16.5% | 13.4% |
| Guinea | 6 032 667 | 6 783 073 | 7 268 259 | 7 670 324 |
| % Change | 14.3% | 12.4% | 7.2% | 5.5% |
| Bissau | 600 384 | 646 573 | 682 701 | 709 819 |
| % Change | 7.5% | 7.7% | 5.6% | 4.0% |
| Sierra Leone | 1 523 713 | 1 422 436 | 1 992 314 | 2 473 881 |
| % Change | -0.7% | 8.8% | 40.1% | 24.2% |

*Soucre: Sonatel.sn*

Out of this number, the mobile fleet in Senegal, where the holding is located, stood at 9.5 million customers at the end of December 2019, which represent an increase of 800 000 customers (+9.6%) compared to 2018. This growth was essentially possible thanks to the good commercial performance of the year around uses including 4G and 4G + and postpaid redesign. We see this as the main driver in acquiring new subscribers in the near future.

*Exhibit 12: Mobile subscribers in Senegal Vs Senegal market share*




*Soucre: Sonatel.sn*

For 2020, the group intends to maintain its leadership and increase its revenues. The company, which plans to test 5G during the year, is committed to a successful transformation into a digital service provider.

## Fix & Mobile ARPU

*Exhibit 13 : ARPU*

| ARPU | Senegal | | Mali | Guinée | Bissau | Sierra Leone |
|---|---|---|---|---|---|---|
| | Fixe XOF | Mobile XOF | Mobile XOF | Mobile GNF | Mobile XOF | Mobile SLL |
| 2019 | 92928 | 3147 | 2224 | 27109 | 2935 | 20322 |
| | 26.3% | 2.7% | 15.2% | 2.5% | 8.6% | 8.5% |
| 2018 | 73579 | 3063 | 1930 | 26452 | 2701 | 18729 |
| | 2% | 12.6% | 37.4% | 2.5% | 3.6% | 4% |
| 2017 | 94838 | 2794 | 1618 | 26448 | 2832 | 19542 |
| | -0.30% | 5% | -15.30% | 1.7% | -0.40% | 7.2% |
| 2016 | 95084 | 2261 | 1912 | 26006 | 2842 | 18230 |
| | -5.60% | 1.3% | 14.7% | 2.0% | -1.70% | - |
| AGGR 2016-2019 | **-0,76%** | **11,65%** | **5,17%** | **1,39%** | **1,08%** | **3,69%** |

Despite a tense business environment in its various markets - political and economic crisis in Bissau, precarious security context in northern Mali, political protest movements in Guinea, economic gloom in Sierra Leone and renewed competition in Senegal - the telecom company has been able to preserve growth.

The mobile ARPU has been increasing over the past few years, rising from XOF 2 261 in 2016 to XOF 3 147 in 2019 in Senegal, representing a growth of 11.65% over the period. Similarly, in other countries of presence, we note a 5.17% growth rate in Mali, 3.69% in Sierra Leone, 1.39% in Guinea and 1.08% in Bissau over the period 2016-2019. The main reason would be the strong growth in mobile recharging thanks to revenues generated by mobile data, strengthening the contribution of Orange Money uses, value-added services and thanks to terminal sales, despite the drop in International incoming revenues. In 2019 only, the Data mobile ARPU reached XOF 1 878.8 (+9.4% compared to the previous year) and the Orange Money ARPU reached XOF 1 116.6 (+9.6% increase compared to 2018).

## Financial activities trend

*Exhibit : Snapshot of income statement*

| Value in mn (XOF) | 2016 | 2017 | 2018 | 2019 | CAGR |
|---|---|---|---|---|---|
| Revenues | 905 036 | 972 905 | 1 022 000 | 1 086 756 | 6.29% |
| Overhead Cost | 441 300 | 484 494 | 525 355 | 573 376 | 10.34% |
| Ebitda | 454 584 | 468 379 | 481 242 | 499 573 | 45.97% |
| *Ebitda margin* | *50.23%* | *48.14%* | *47.09%* | *45.97%* | *-426 pts* |
| Operating Profit | 323 158 | 307 786 | 312 287 | 316 748 | 35.71% |
| *Operating Margin* | *35.71%* | *31.64%* | *30.56%* | *29.15%* | *-656 pts* |
| Net Financial | (10 426) | (8 659) | (13 517) | (24 539) | (33.02%) |
| Extraordinary | 3 648 | (1 662) | (3 380) | 2 490 | (11.95%) |
| Net Profit | 215 881 | 202 185 | 202 251 | 196 771 | (3.04%) |
| *Net margin* | *23.85%* | *20.78%* | *19.79%* | *18.11%* | *-574 pts* |

Indeed, the turnover is growing at an annual rate of 6.29% over the period 2016 to 2019, increasing from XOF 905.03 billion to XOF 1086.76 billion. This is the result of the upward trend of the works and services sold by 5.93%. The turnover growth was mainly driven by Mobiles and Data, which are the main contributor to the group revenue with a great contribution in Senegal, Guinea and Mali. They brought respectively 53% and 18.7% to the turnover in 2019 representing an increase of 1.1% and 24.7% compared to 2018. They are followed then by international interconnections revenue (13.5%) and Orange money (6.1%), broadband fix (4.3%), the fix (2.6%) and others (1.7%).

**EBITDA** recorded an increase of **3.20%** per year to reach **XOF 499.53** billion in 2019 against XOF 454.58 billion at the same period in 2016. This growth is supported by the increase in turnover (+6.29%) which help mitigate the increase of the overheadcost costs (an annual rate of 8.34%). Indeed, overhead cost went from XOF 357.85 billion in 2016 to XOF 455.05 billion in 2019 due to an increase in employees' salaries at an annual rate of 12.34% reaching XOF 118 billion in 2019. Regarding EBITDA margin, we are observing a decrease from 50.23% in 2016 to 45.97% in 2019. This drop in the margin rate continued due to charges induced by external elements to the activity (taxation, regulations, energy cost).

Consequently, the group's consolidated **Operating Profit** of XOF **316.75 billion** in 2019 decreased at an annual rate of **0.67%** compared to XOF 323.15 billion in 2016. It should be noted that this drop in operating marging occurred in 2017 and since then the company is back on track with a growth of 1.74% between 2017 to 2018 and a growth of 1.43% from 2018 to 2019. The margin rate stood at 29.1% in 2019 compared to 35.7% 3 years before, down by 6.6 points following the increase in depreciation of 11.63% (XOF +51.4 billion over the year 2016-2019). Over the period, Sonatel group has reinforced its investment policy for 3G and 4G and the acquisition of Airtel Sierra Leone.

The group's consolidated **financial result** reached XOF -24.5 billion in 2019 compared to XOF -10.4 billion in 2016. It remained negative during the whole period but increase by XOF 2 billion from 2016 to 2017 before it deteriorates by XOF 5 billion in 2018 and XOF 11 billion the following year, decreasing at an annual rate of 33.02% per year. This is the result of the drop of 3.68% in financial product combined to a 18% increase in financial charges, explained by the increase in interest on loans (net debt stood at XOF 440.5 billion in 2019 vs XOF199.2 billion in 2016).

Against all expectations, the net income of integrated entities fell by 3% over the period 2016-2019. From its results were withdrawn the share of equity affiliates which represented approximately XOF 264 million in 2019. In addition, the Consolidated **Net income of the whole** has **drop** amounted to **XOF 196.77** billion this year against XOF 215.88 billion in 2016, implying a decrease of 3.04% per year.

In fact, this result is affected by the weight of the financial charges, previously mentioned, linked to the result of rising service charges added to the increase in the level of amortization (+11.63%). We can also add to the list the drop in the HAO result (-11.95%) as well as the little decrease of 0.50% in the income tax from 2016 to 2019. All of that participate in the decline of the Consolidated net result of the whole.

Finally, from this result is removed the minority share which was XOF 28.8 billion in 2019, but XOF 29 billion each of the previous years until 2016, representing approximately 14% of the Consolidated net result. The remaining 86% represent the part of the consolidating entity's (SONATEL SA) account and is amounted to XOF 186.33 billion in 2016 and XOF 167.97 billion in 2019 representing a declin of 3.40% per year over the period.

Sonatel group has been used for several years to pay its shareholders all of its profits. The stock is also distinguished by the recurrence of its dividend payments with a payout rate of around 100% without slowing down its rate of investment, nor reducing the financial strength of its balance sheet and its level of debt. Indeed, the group disbursed a dividend of about **XOF 195.5 billion** every year.

## Capex

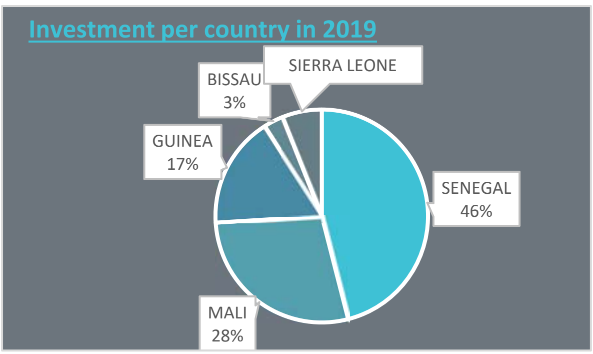
The increase in the level of depreciation resulting from the sustained investment policy with an average of XOF 200 billion in annual CAPEX, or about 19% of turnover. Also, an increase in interest charges on loans, linked to the Group's indebtedness policy with the aim of being able to continue to finance part of its investments in the various countries of presence (Senegal, Mali and Guinea). This increase in debt, admittedly still negligible compared to the Company's fundamentals, is a coherent strategy for financing long assets with long resources while maintaining an attractive dividend distribution level for shareholders.

The Sonatel group's investments in 2016 amounted to XOF 315.52 billion compared to XOF 255.96 billion in 2019 which representing a decrease of 6.74% per year over the period . They stay stable in proportion to turnover (19.1%) compared to 2018 and an average of 31.85% of depreciation expenses over the period.

The Group's investments focused mainly on the mobile access network (extension, densification, 3G, 4G, 4G +), the deployment of fiber, extension of backhaul, transport (main one cable), reinforcement of infra core network and energy.

Moreover, SONATEL is continuing its investment policy in rural areas with a program of 106 new sites in 2018 and 71 more in 2019 to improve coverage of localities. These investments have largely contributed to improving the customer experience, strengthening operational excellence, continuing efforts on the quality of technical service and strengthening the loyalty policy of their customers. The pursuit of investment to maintain the advantage competitive on connectivity enabled the maintenance of a level of margin supported by the improvement of the profitability of mobile data, mobile financial services and the control of direct costs, despite the continued fall in revenues from incoming international.

- Investment per country




The company has excess liquidity which allows it to have no problem in terms of working capital requirements, as the ratio of working capital needs improves by 149 daysof turnover on the 2016-2019 period. This is due to the amelioration of customers' collection period (41 to 35 days) and the extension of payment of the supplier's deadline from 197 in 2016 to 240 days in 2019.

In addition, the cumulative operating flow over the past three years being XOF 1 634.54 billion was able to cover investments net of asset disposals (XOF 1 152.74 billion) resulting in excess free cash flow of XOF 481.81 billion.

From this cash flow, SONATEL decided to grant to its shareholders a dividend distribution of XOF 194.08 billion on average over the period. In order to do this, the company increased its net bank indebtedness by XOF 158.41billion in 2017 and 2018 before reducing it in 2019 by XOF 9.21 billion. As a result, SONATEL group deepened its debt, which went from XOF 9.81 billion in 2016 to XOF 160.33 billion in 2019 due to the acquisition of Airtel Sierra leone.

With a debt leverage on equity capital of 22.44% in 2019, it could be said that SONATEL group will still be able to continue to enjoy the support of their investors.

In addition, the little drop of operating profit (-0.67% per year since 2016) impacted negatively the economic profitability which stood at 23.6% in 2019 against 30.26% in 2016.

However, the decrease in the leverage effect of 1.24% in 2019 compared to 2018 lead to a an deterioration in the return on equity ranging from 28.86% in 2017 to 26.66% in 2019. All this clearly explains the consequences of the downward trend in sales.

Finally, despite the downward trend results of the company, we think that SONATEL group will be able to improve its financial results with an increase of sales and a moderate level of operating expenses.

| Value (XOF mn) | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Fixed asset | 929 340 | 1 106 709 | 1 157 723 | 1 246 983 |
| Working capital requirement | (208 406) | (256 467) | (270 752) | (372 229) |
| **Capital employed** | **720 934** | **850 242** | **886 971** | **874 754** |
| Equity | 711 128 | 715 941 | 717 426 | 714 420 |
| Net Debt | 9 806 | 134 301 | 169 545 | 160 334 |
| **Capital invested** | **720 934** | **850 242** | **886 971** | **874 754** |

## SONATEL GROUP recent result commentaries

*Exhibit : Subscribers' breakdown*

| PARC | SEP 2019 | SEP 2020 | % Change |
|---|---|---|---|
| Senegal | 9 342 950 | 10 345 062 | 10.7% |
| Mali | 12 018 479 | 12 196 975 | 1.5% |
| Guinea | 7 588 257 | 8 1 72 400 | 7.7% |
| Bissau | 731 200 | 760 188 | 4.0% |
| Sierra Leone | 2 440 802 | 2 918 699 | 19.6% |
| **Mobile** | 32 121 688 | 34 393 324 | 7.1% |
| **Landline** | 207 159 | 220 912 | 6.6% |
| **Internet** | 217 387 | 291 845 | 34.3% |
| **TOTAL** | 32 546 234 | 34 906 081 | 7.3% |

The mobile customer base totals 34.4 million customers, up by 7.1% driven by good commercial momentum in all countries of presence, around sales promotion, price redesigns, the launch of new offers (Bundle) and the increase in the number of sites improving network coverage.

The number of the Group's mobile data customers stands at 12.1 million, an increase of + 8.1% compared to the third quarter of the previous year. At the same time, the active 4G base reached 4.1 million customers, an increase of +77.5% compared to 2019, while the penetration rate of Data services is stable at around 35.1%.

Also, the Orange Money active customer base stands at 7.9 million customers, an increase of +25.5% (+1.6 million active customers and +3.7 million registered customers compared to 2019 in Senegal, in Mali and Bissau thanks to the BCEAO decision to authorize the opening of accounts to all clients).

The fixed broadband customer base has 291 845 customers (including 171 518 fiber and Flybox customers), an increase of 34.3% thanks to the acceleration of the deployment of Fiber in Senegal, Mali and good progress recruitments around the Flybox, more particularly in these two countries.

While many services are affected by the covid-19 pandemic, SONATEL group has managed to pull its pin out of the game. With a resumption of activities, Sonatel group saw its turnover increase to XOF 894.99 billion in the third quarter of 2020, an increase of 3.2% compared to that posted in September 2019. This growth comes mainly from its subsidiaries from Guinea, Mali and Sierra Leone. This increase in turnover is driven by the contributions of relays (Data Mobile, Orange Money and Fixed Broadband) due to the strengthening of market shares following the growth of the parks (mentioned above) and the ARPU, as well as the penetration rates of Data 4G and Orange Money (23% compared to 19.5% in September 2019).

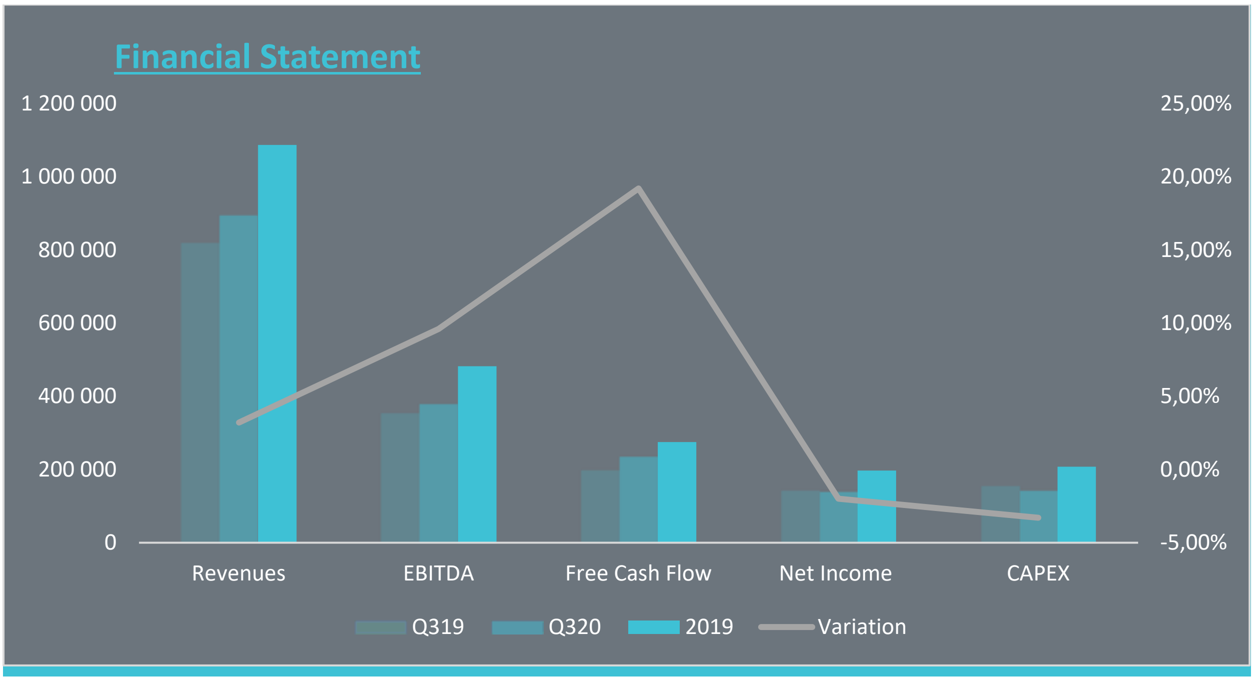
Added to this is the control of operational costs with a decrease in indirect costs of XOF 17.26 billion combined with an increase in direct costs of XOF 11.75 billion. Thus, the ratio of operating expenses to turnover fell by 2.48%, from 60.02% in September 2019 to 57.54% in September 2020.

Also we note an increase in EBITDA which goes from XOF 346.72 billion to XOF 379.97 billion and records a growth of + 9.6% (XOF +33.2 billion), thanks to a good control of the charges indicated above.

Also, operating income is up 4.6% thanks to operational performance despite the increase in depreciation resulting from investment efforts in recent years.

Similarly, we note the increase in financial charges due to the policy of financing the heavy investments made over time, favoring a 2.09% drop in profits over the third quarter of 2020.

Finally, net income came to XOF 140 billion, down -2% despite the improvement in EBITDA absorbed by the increase in depreciation and financial expenses.



## SONATEL Group activities trend in 3rd Quarter 2020

| Value (XOF mn) | Sept 2019 | Sept 2020 | Var. | 2019 |
|---|---|---|---|---|
| Revenues | 820 000 | 895 000 | 3.2% | **1 086 756** |
| EBITDA | 355 300 | 380 000 | 9.6% | **482 055** |
| Free Cash Flow | 199 000 | 236 000 | 19.2% | **274 743** |
| Net Income | 143 400 | 140 000 | (2%) | **196 771** |
| CAPEX | 156 300 | 143 000 | (3.3%) | **207 312** |

### Investments

Sonatel group investments amounted to XOF 143.6 billion at the end of September 2020, down by 3.3% (XOF -4.8 billion). The CAPEX / turnover rate is down by 1.1 points, around 16%. The major challenges are centered around better customer services (capacity extension, densification), the use of Very High Speed with the acceleration of FTTX and 4G, 4G + and 4.5G deployments to meet strong demand of populations, varied fixed connectivity, abundance of data and digitization to facilitate the implementation and access to services while maintaining a modern, agile and optimized network.

### Sonatel group growth drivers

Before the 2010s, Sonatel's growth was mainly focused on mobile revenues generated by the growth of ARPU in the various business sectors. Thus, we saw the fall in the level of the ARPU of the mobile from XOF 4 250 in 2010 to XOF 2 261 in 2016 before resuming and reaching XOF 3 147 in 2019. Also, the EBITDA margin passed the bar. of 50% and reached 54% in 2010, 53% in 2011 and 52% in 2012 to reach 43.5% in 2018 and 44.4% in 2019 thus continuing in the same downward trend.

The mobile business and Data growth drivers will be driven largely by the large young population in Africa and the low bank account penetration. Indeed, the banking rate is 19% in the WAEMU area. Thus, the population will therefore positively affect the growth drivers, such as Orange Money and Mobile Data, in the telecommunications sector. This rise of mobile subscribers is mainly driven by consumers of 3G and 4G. However, this increase has greatly helped the expansion of mobile money, with mobile money being the main driver of financial inclusion in recent years.

Electronic money has become the main vehicle for the financial inclusion of populations in UEMOA given the low bank account penetration rate. This is largely explained by the strict conditions for opening an account, the high fees but above all by a certain incompatibility of the traditional banking system contrasting with the informal nature of the economy.

The transaction volume reached 1.9 billion transactions in 2018 representing a global value of XOF 23 533 billion, or 34% of WAEMU's GDP. The boom in mobile money has also been made possible thanks to a dense network of distributors or service points and ease of opening accounts.

The Orange Group is the leader in these countries of presence with 25% of the value of transactions and 30% of the volume of transactions.

In 2019, 80% of the Sonatel Group turnover is generated by mobile and Orange Money activities. Most of the growth in turnover is generated by the two growth drivers (Data and Orange Money), which at the same time make it possible to retain the subscriber base and slow down the decline in voice revenues.

The Group continues to collect the beneficial effects of the strengthening of the contribution of growth drivers, in particular Mobile Data, up + 25% compared to 2018 and Orange Money, which grew by + 33%.

In conclusion, even though we are facing a drop in ARPU's generating a drop on the total reveue, the company continues to have a sustained level of dividend thanks to the growth drivers combine to the strategy of merger and absorption of all subsidiaries instead of Orange Finance Mobile. Indeed, they not only fuel the increase in turnover but also reduce the downward trend in historical voice revenues while allowing better monetization of the subscriber base.

## SWOT Analysis

### STRENGTHS

- Leader of mobile telephony on all counties of presence
- Strong notoriety due to the use of the brand "ORANGE"
- Establishment of fiber optic network and 4G
- SONATEL returns strong dividends and attracts investors

### WEAKNESSES

- Low pace in the implementation of reforms in the Telecommunications sector
- Drop in EBITDA margin
- Drop in ARPU

### OPPORTUNITIES

- Development of social networks, creation of communities that needs to stay in touch wherever it is with his family.
- Abandon of fixed telephony in favor of the mobile, evolution of the demand in convergent offers.
- Countries in development very demanding in new technologies
- Growth of telecommunications services
- Growth in data and mobile banking (services)

### THREATS

- Loss of Customers for the benefit of competitors
- Arrival of news competitors in the market of mobile telephony (Free) and Mobile Money (Wave, Zizall, Yup)
- Companies limit spending on telecommunications
- Ramp-up of applications such as WhatsApp, Viber, Telegram, ..., impacting international outgoing calls.

## Forecasting Assumptions (2020-2022)

### ➢ ARPU

- We foresee a raise in mobile ARPU (main contributor to the revenue) in all country of presence except in Senegal, Mali and Sierra Leone for the coming years. Indeed, in general, ARPU is expected to decrease (-5.14%) in 2020 to reach XOF 2 693, due to the increase in competion. In 2021 and 2022 the ARPU will continue to drop and reach respectively XOF 2 645 (-1.78%) and XOF 2 624(-0.79%). In fact, the subscribers will continue to grow faster than the revenue due the multi-SIM phenomena combined to the competition's aggressive practice (focus on price). However, the good contribution of income growth drivers (mobile money banking, mobile data) combined with the growth of mobile subscribers will favorize the increase in revenue in the coming years.
- The penetration rate in Senegal, Mali and Guinea have already reach or exceeded 100% that why we anticipate a little rise in those country. There is a great potential in Bissau (84%) and Sierra Leone (54%) where the group can succeed in his marketing plan and increase his revenue per user.

| ARPU (XOF) | 2018 | 2019E | 2020F | 2021F | 2022F |
|---|---|---|---|---|---|
| Senegal | 2 986 | 2 839 | 2 693 | 2 645 | 2 624 |
| | 2.74% | -4.92% | -5.14% | -1.78% | -0.79% |
| Mali | 2 560 | 2 335 | 2 318 | 2 300 | 2 300 |
| | 10.90% | -8.79% | -0.73% | -0.78% | 0.00% |
| Guinea | 1 950 | 2 019 | 2 065 | 2 098 | 2 136 |
| | 7.30% | 3.54% | 2.28% | 1.60% | 1.81% |
| Bissau | 2 488 | 2 710 | 2 799 | 2 861 | 2 918 |
| | -3.94% | 8.92% | 3.28% | 2.22% | 1.99% |
| Sierra Leone | 1 431 | 1 105 | 1 053 | 998 | 948 |
| | -27.70% | -22.78% | -4.71% | -5.22% | -5.01% |

| Financial Keys | 2018 | 2019E | 2020F | 2021F | 2022F |
|---|---|---|---|---|---|
| Revenue | 1 021 956 | 1 086 756 | 1 153 455 | 1 207 489 | 1 258 855 |
| *% change* | *5,04%* | *6,34%* | *6,14%* | *4,68%* | *4,25%* |
| EBITDA | 481 243 | 499 573 | 494 557 | 517 608 | 539 069 |
| *% change* | *2,75%* | *3,81%* | *2,80%* | *4,66%* | *4,15%* |
| Net Income | 172 469 | 167 970 | 170 883 | 176 435 | 180 139 |
| *% change* | *0,01%* | *-2,61%* | *1,73%* | *3,25%* | *2,10%* |

### ➢ Financial Statement

The coronavirus (COVID-19) outbreak is a source of widespread concern and economic hardship for consumers, businesses and communities around the world. The situation is changing rapidly with widespread impacts. The effects of COVID-19 are being felt around the world and are having a significant impact on the telecommunications industry. As more countries impose lockdown, people spend more time at home for work and play and therefore use much higher amounts of data via the internet. Telecom operators are focused on increasing network resilience and how COVID-19 is affecting their planned investments.

Yet, 2020 revenue are expected at XOF 1 153 billion representing a 6.14% increase compared to XOF 1 086 billion in 2019. Indeed, the expected increase of subscribers by 6.38% (34.36 million) will be the main driver of this growth link to network usage which is skyrocketing, with many carriers reporting large spikes. In some countries, the volume of voice calls is also increasing exponentially. On the other side, we foresee a drop in ARPU by 0.77% (mentioned earlier) which will easily be mitigate by the increase of customer's subscriber in order to help the company to increase its revenue.

Moreover, we are expecting the revenue to grow by 4.68% and 4.25% respectively to XOF 1 207 billion and XOF 1 259 billion the following years. This raise will be mainly linked to the continuing growth of mobile subscribers but also in the revenue from Mobile data and Orange money department which are the main growth drivers. Indeed, we foresee that the number of subscribers will grew by 4.60% in 2021 to 35.94 million subscribers and 13.94% in 2022 to 40.95 million subscribers with a drop in ARPU at the advantage of the new competitor FREE which will put their effort on marketing strategy.

In addition, EBITDA will take profit from revenues growth and the good management of overhead cost. In this context. EBITDA is expected at XOF 494.56 billion in 2020 representing a 2.80% increase compare to 2019. Regarding the following years, EBITDA is expected at XOF 517.61 billion (+4.66%) in 2021 due to the increase of the revenue and XOF 539.07 billion in 2022 with a growth of 4.15% for the same reason.

Similarly, Net income is expected to increase at XOF 170.88 billion in 2020, XOF 176.43 billion in 2021 and XOF 180.14 billion in 2022 because of the growth in the Revenue combined to a good control of the overhead cost as well as a well maintained level of financial Income.

## ➢ Investment

As life and work continue through virtual options, ICT and digital solutions play a key role in ensuring that people can access goods and services through the use of mobile money, which is now the preferred mechanism for local transactions and payments. In this market, SONATEL group will attribute its performance to its huge investments policy which should be continuing in the coming years. We expect it to rise a little more than 20% of total revenue. The strong competition in Senegal will cause a value destruction effects on the mobile segment. However, in 2020, the company will redesign its penetration strategy for the mobile banking segment as well as the mobile data which should bring additional revenue and favor a slight growth in 2021.

## ➢ Relevant information

The Sonatel Group intend to pursue with the development of very high speed internet through all the fixed line and mobile technologies as well as the enrichment of its mobile financial services offer; and, will take part in the digital transformation and in the strengthening of their contribution for an emerging digital economy in their countries of presence. The company will pursuit of an ambitious investment policy with a capex envelope stabilized around XOF 250 billion as well as return to a dividend growth policy expected in 2021.

## ➢ Outlook

Despite growing competition in their main markets (Senegal and Mali), the Group has been able to maintained its strong commercial positions in terms of both volume and value thanks to a good recruitment dynamic and control over the years. The group achieved a better performance than 2018, despite the persistence of the political and economic crisis in Bissau, the precarious security context in the north of Mali, the political protest movements in Guinea, the economic gloom in Sierra Leone and the unfavorable developments in the competitive and regulatory environment in Senegal, where the revival of the activities of the main competitor accompanied by disruptive abundance offers has profoundly modified the prepaid market.

The group continues to reap the beneficial effects of strengthening the contribution of growth drivers, in particular mobile data which is up by 24.7% compared to 2018 and Orange Money which increased by +33%. That translates also, the consolidation of already solid volume and value market positions. We think that SONATEL group has a great opportunity to continue the growth of its activity level.

## Valuation Analysis

We recommend a Buy on SONATEL Stock with a 12-month target price of **XOF 21 400** based on aggregate of four methods. We value the company on relative multiples among our international peers in Telecomunication sector. Our relative EV/EBITDA and Price to Earnings (P/E) multiples of respectively **5.43x** and **12.54**x. In addition to relative multiple valuation methods, we have also used the discounted cashflow method as we anticipate positive cashflows over the forecast period and the Gordon Growth Model. We have found the most relevant method to be for this company would be the Gordon Growth Model as investors are really interested on the important amount that the company disburse over the years.

In our view, SONATEL's shares are currently undervalued as our average value using all the methods is **91.07%** higher than the actual price.

## EV/EBITDA valuation

In line with international trading and transaction comparabl,. we apply a 5.43x multiple to our FY20E EBITDA for SONATEL to reach a fair value of **XOF 26 100** for a positive net debt XOF 146.63 billion in 2020E.

| EV/EBITDA model (Avg. Peers 5.43) | 2020e |
|---|---|
| Ebidta (XOF mn) | 508 397 |
| EV (XOF mn) | 2 759 284 |
| Net debt (XOF mn) | 146 628 |
| Market Cap (XOF mn) | 2 612 655 |
| Shares outstanding | 100 000 000 |
| **Shareholder value per share (XOF)** | **26 100** |

## Price/Earnings valuation

In line with international trading comparable, we apply a 12.54x multiple to our FY20E EPS for SONATEL to reach a fair value of **XOF 25 100** based on this method.

| P/E model (Avg. peers 12.54x) | 2020E |
|---|---|
| EPS (XOF) | 2 003 |
| Number of shares | 100 000 000 |
| **Shareholder value per share (XOF)** | **25 100** |

## Gordon Growth Model

The estimated dividend per share for 2020 is **XOF 1 361**. Since the market expects dividend yield to be at 8.13% of the market stock price, we are able to determine a price of **XOF 16 700** at the end of 2020.

| Gordon Growth Model (GGM) | 2020e |
|---|---|
| DPS | 1 361 |
| Market yield | 8.13% |
| Growth rate | 0.0% |
| **Shareholder value per share (XOF)** | **16 700** |

## DCF valuation

Based on our growth assumptions and valuable information obtained from the management, we believe we have faithfully estimated future cash flows of SONATEL group. Our DCF valuation summary indicates a value per share of **XOF 22 400 in 2020**.

Since our DCF method considers a three – year forecast period, there are of course certain risks and uncertainties related to such forecast. We have therefore also included a sensitivity analysis of the main input parameters to examine how variances in those parameters would affect and alter the DCF value.

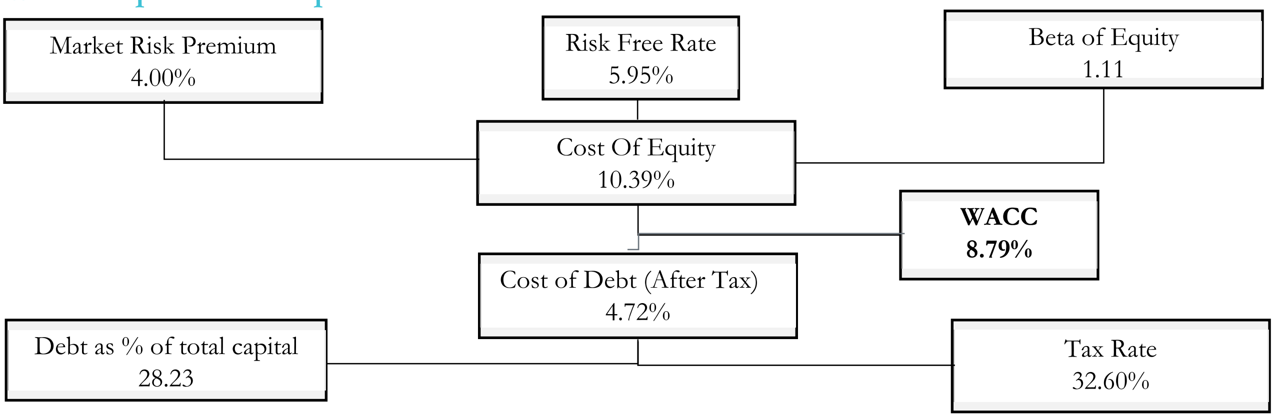
Our DCF valuation can be summarized as follow:

| DCF model | 2020e | 2021e | 2022e |
|---|---|---|---|
| PV of Cashflows (XOF mn) | 2 329 375 | 2 372 974 | 2 372 885 |
| Debt (XOF mn) | 440 502 | 440 502 | 440 502 |
| Cash (XOF mn) | 352 815 | 352 815 | 352 815 |
| Shareholders' value (XOF mn) | 2 285 199 | 2 285 199 | 2 285 199 |
| Shares outstanding | 100 000 000 | 100 000 000 | 100 000 000 |
| **Shareholder value per share (XOF)** | **22 400** | **22 900** | **22 900** |

We provide a sensitivity analysis as follow:

| Shareholder value per share | | XOF 21 000 |
|---|---|---|
| Changing | By | Changed value by |
| Turnover | 5% | 11.10% |
| Operating Costs | 5% | -10.21% |
| EBITDA | 5% | 8.80% |
| Interest Receivable | 5% | -0.02% |
| Discount Factor | 1% | 2.92% |

## WACC Inputs and Outputs



## Target Price

We have looked at various valuation matrices to assess a fair value and set a target price for SONATEL. Our valuation analysis includes EV/EBITDA, PER multiples and Gordon Growth Model based on an international peer group providing Telecommunication services and DCF method with a sensitivity analysis on main parameters.

| Valuations methods | Weight Factors | 2020E |
|---|---|---|
| DCF model | 20% | 22 400 |
| P/E model | 20% | 25 100 |
| EV/EBITDA model | 20% | 26 100 |
| GGM model | 40% | 16 700 |
| **Shareholder value per share (XOF)** | **100%** | **21 400** |

Therefore, SONATEL stock is expected to trade between **XOF 16 700** and **XOF 26 100** based on anticipated 2020 results. However, our target price of XOF 21 400 is a potential upside of **91.07%** from the current share price of XOF 11 200.

## Peer Group

Table below is a list of comparable publicly listed international companies operating in telecommunication. This provide a benchmark according to which SONATEL could be valued. We found the averages PER of 12.54x and EV/EBITDA of 5.43x.

We further give a brief description of each of the companies in our peer group.

| Companies | Ticker | Country | Market Cap. (US$ mn) | P/E multiple | EV/EBITDA multiple | Clos. Price as of 1st February* |
|---|---|---|---|---|---|---|
| ONATEL | ONTBF | Burkina Faso | 340.00 | 6.11x | 3.44x | 3 095 |
| SAFARICOM | SCOM.NR | Kenya | 13037.54 | 19.21x | 10.28x | 35.50 |
| MTN | MTNJ.J | South Africa | 7802.77 | 13.21x | 3.44x | 6 153 |
| STARHUB Ltd | STAR.SI | Singapore | 1664.78 | 11.93x | 4.89x | 1.28 |
| VODACOM | VODJ.J | South Africa | 15029.23 | 12.94x | 6.80x | 12 436 |
| SONATEL | SNTS | Senegal | 3133.06 | 11.82x | 3.71x | 11 200 |
| **Average value** | | | | **12.54** | **5.43** | |

** Prices are based on local currencies.*

- **ONATEL**

Office National des Telecommunications, is the incumbent operator of Burkina Faso. In 2009, Onatel was listed on the Regional Stock Exchange. This operation enabled the Burkinabe State to sell 20% of the capital of the telecommunications operator on the market. Onatel provides Fixed telephony services (voice and data) as well as Internet access, both to individual customers as well as to businesses and administrations. Although Onatel is no longer the number one on the market, it remains, at present, the only fixed telephony operator in Burkina Faso.

- **ETISALAT**

Emirates Telecommunications Corporation, whose trademark is Etisalat is the incumbent telecommunications operator in the United Arab Emirates; its head office is located in Abu Dhabi. In 2009, Etisalat was the 13th largest mobile telephone network operator in the world: its number of customers exceeded 100 million. Etisalat is present in many countries in Asia, the Middle East and Africa and strengthens its presence in West Africa through the subsidiaries of Maroc Telecom: Mauritel in Mauritania, Sotelma in Mali, Onatel in Burkina Faso, and Gabon Telecom in Gabon.

SAFARICOM: Safaricom, Kenya's largest telecom operator with 28 million customers. Safaricom is a listed Kenyan mobile network operator headquartered in Nairobi, Kenya. It is the largest telecommunications provider in Kenya, and one of the most profitable companies in the East and Central African region. The company offers mobile telephony, mobile money transfer, consumer electronics, ecommerce, cloud computing, data, music streaming, and fiber optic services. Safaricom controls approximately 63.5% percent of the Kenyan market and had a subscriber base estimated at approximately 33.1 million. In 2008, the government offered 25% of its shares to the public through the Nairobi Securities Exchange.

- **MTN**

MTN Group (Mobile Telephone Networks) is a South African multinational operating in the telecommunications fields. It was founded in 1994 and is present in 22 countries in Africa and the Middle East. It is the leading African telecom operator in terms of revenues and mobile subscribers in 2016, for 240 million mobile subscribers (a quarter of the African fleet and a third of the sub-Saharan fleet) and a turnover of 10, 3 billion euros. Nigeria is its main market, with 62 million subscribers (2016), 26% of its mobile fleet, followed by Iran (48 million subscribers) and South Africa (31 million subscribers) ; the group is also present in West Africa (Ghana, Cameroon, Ivory Coast) and in East Africa (Uganda, Sudan).

- **STARHUB LTD**

StarHub is a leading homegrown Singapore company that delivers world-class communications, entertainment and digital solutions. With our extensive fiber and wireless infrastructure and global partnerships, they bring to people, homes and enterprises quality mobile and fixed services. They develop and deliver to corporate and government clients solutions incorporating artificial intelligence, cyber security, data analytics and Internet. Launched in 2000 and listed on the Singapore Exchange mainboard since 2004, StarHub is a component stock of the SGX Sustainability Leaders Index and the SGX Sustainability Leaders Enhanced Index.

- **VODACOM**

Vodacom Group Limited (operating as Vodacom) is a South African mobile communications company, providing voice, messaging, data and converged services to over 55 million customers. From its roots in South Africa, Vodacom has grown its operations to include networks in Tanzania, the Democratic Republic of the Congo, Mozambique, and Lesotho, and provides business services to customers in over 32 African countries, including Nigeria, Zambia, Angola, Kenya, Ghana, Ivory Coast, and Cameroon. Vodacom provides coverage to Mount Kilimanjaro, which was the highest point in the world to be covered by GSM.

| Income statement (XOF mn) | 2018 | 2019 | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|
| **Revenues** | **1 021 956** | **1 086 756** | **1 153 455** | **1 207 489** | **1 258 855** |
| Cost of sales | 63 338 | 63 335 | 71 514 | 74 502 | 77 042 |
| Gross profit | 958 618 | 1 023 421 | 1 081 941 | 1 132 987 | 1 181 813 |
| Operating charges | 525 355 | 573 376 | 616 957 | 643 839 | 670 635 |
| **EBITDA** | **481 242** | **499 573** | **508 398** | **532 098** | **554 175** |
| *EBITDA margin* | 47.09% | 45.97% | 44.08% | 44.07% | 44.02% |
| Depratiations & Amortiz. | 168 955 | 182 825 | 186 427 | 198 523 | 215 906 |
| **EBIT** | **312 287** | **316 748** | **321 971** | **333 575** | **338 269** |
| *EBIT margin* | 30.56% | 29.15% | 27.91% | 27.63% | 26.87% |
| Net interest income (expense) | (13 517) | (24 539) | (24 784) | (26 733) | (24 983) |
| **Profit before tax** | **295 390** | **294 699** | **297 187** | **306 842** | **313 286** |
| Taxes | 95 567 | 100 133 | 96 883 | 100 030 | 102 132 |
| **Net profit** | 202 251 | 196 771 | 200 304 | 206 812 | 211 154 |
| *Net margin* | 19.79% | 18.11% | 17.37% | 17.13% | 16.77% |

| Balance sheet (XOF mn) | 2018 | 2019 | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|
| Cash and equivalents | 317 439 | 352 815 | 373 874 | 292 417 | 212 230 |
| Receivables | 285 054 | 281 061 | 297 471 | 312 260 | 325 544 |
| Inventories | 13 157 | 14 338 | 15 190 | 15 945 | 16 623 |
| Intangible fixed assets | 287 573 | 323 538 | 323 538 | 323 538 | 323 538 |
| Tangible fixed assets | 706 798 | 759 475 | 833 047 | 894 524 | 948 619 |
| Financial assets | 163 352 | 163 970 | 163 970 | 163 970 | 163 970 |
| **Total assets** | **1 773 373** | **1 895 197** | **2 007 090** | **2 002 654** | **1 990 524** |
| Payables | 568 963 | 667 628 | 718 326 | 751 543 | 782 234 |
| Provisions for risks | 72 942 | 72 647 | 72 647 | 72 647 | 72 647 |
| Bank overdrafts | 223 989 | 206 415 | 201 415 | 196 415 | 191 415 |
| Long term debts | 190 053 | 234 087 | 319 087 | 299 087 | 279 087 |
| **Total liabilities** | **1 055 947** | **1 180 777** | **1 311 475** | **1 319 692** | **1 325 383** |
| Shareholders equity | 576 561 | 573 555 | 554 750 | 542 097 | 524 276 |
| **Total liabilities & equity** | **1 773 373** | **1 895 197** | **2 007 090** | **2 002 654** | **1 990 524** |

| Cash flow (XOF mn) | 2018 | 2019 | 2020e | 2021e | 2022e |
|---|---|---|---|---|---|
| Change in working capital | 25 363 | 175 793 | 33 434 | 17 674 | 16 729 |
| **Cashflow from operations** | **391 834** | **534 701** | **431 108** | **435 251** | **453 667** |
| Net capex | 213 225 | 255 959 | 260 000 | 260 000 | 270 000 |
| **Free cash flow** | **170 244** | **204 426** | **171 108** | **175 251** | **183 667** |
| Equity raised/(bought back) | 0 | 0 | 0 | 0 | 0 |
| **Dividends paid** | 195 404 | 195 725 | 190 326 | 192 569 | 199 370 |
| Net cash flow | (25 160) | 8 701 | (19 218) | (17 318) | (15 703) |

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| | | |
|---|---|---|
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