






ANALYTICAL NOTE ON SONATEL

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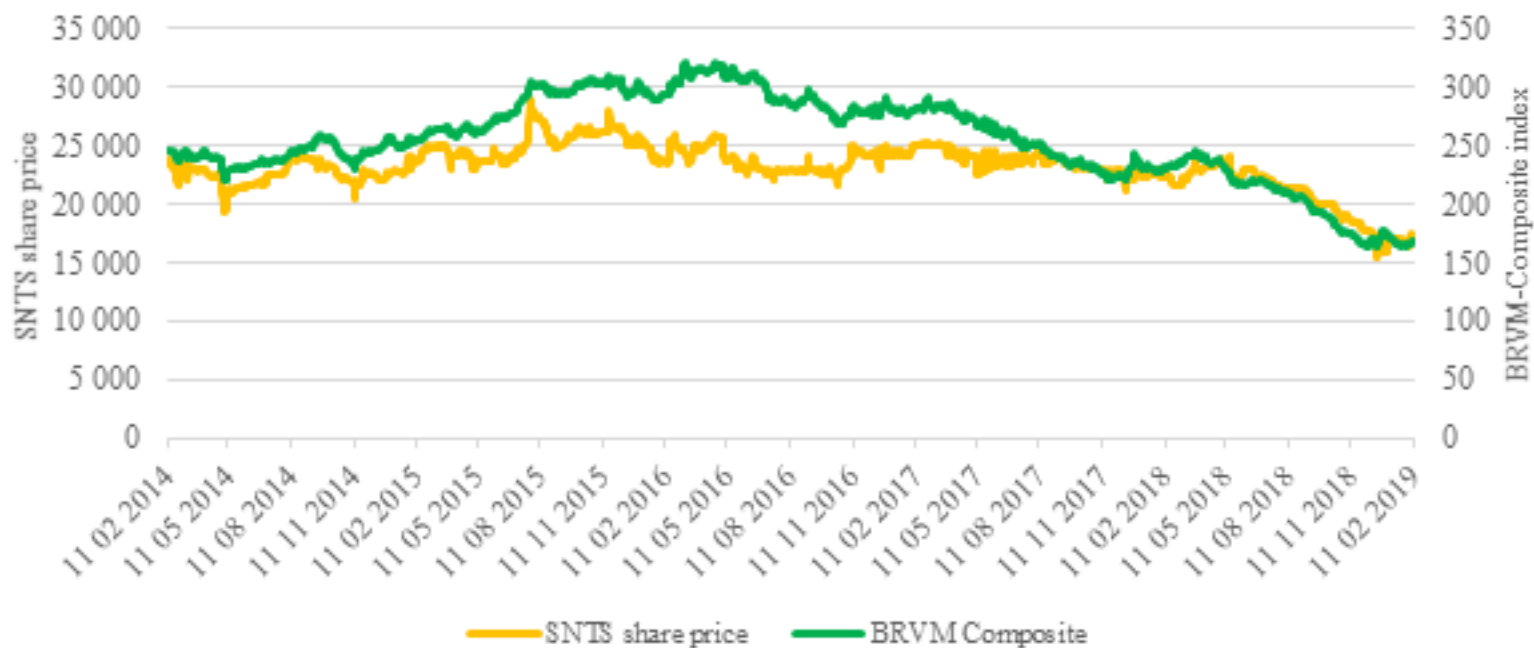
SONATEL, business model redefinition on the horizon

Once again, 2017 demonstrated SONATEL's leadership and strong operational and financial performance everywhere it operates, despite much tougher competition and an increasingly challenging regulatory and tax environment. SONATEL maintained its profit trajectory and consolidated its leadership by maintaining strong commercial positions in all countries thanks to its dynamic conquest of new subscribers, major investments, enhanced operational excellence, and customer relations. However, SONATEL is facing brutal competition in its main markets (Senegal and Mali), with declining revenue on voice. In this context, the telco is engaging in a strategic shift to conform with its customers' new habits.

SONATEL's major shareholders: Orange SA (France Télécom): 42%; Government of Senegal: 27%; Employees: 8%; floating (BRVM): 23%.

1. EVOLUTION OF SONATEL'S SHARE PRICE VS. BRVM COMPOSITE (2014-2019)

Chart 1: Evolution SNTS stock and BRVM Composite index over 5 years



Current price	17,000
Price at 01/01/2018	23,000
Volume at 31/12/2018	34,964
Average volume (2018)	11,005
Average volume (2017)	15,476
1-year change	31.9%

Max price 2017	25,250
Min price 2017	21,070
Max 2018	24,000
Min 2018	15,500
Number of shares	100 million
P/E ratio (at 31/12/2018)	7.91

Dividend	1,500
Date	13/05/2018
Beta	0.81
Net return (31/12/2018)	9%
Industry	Utilities
Class	A

Table 1: Market data on SONATEL SN stock

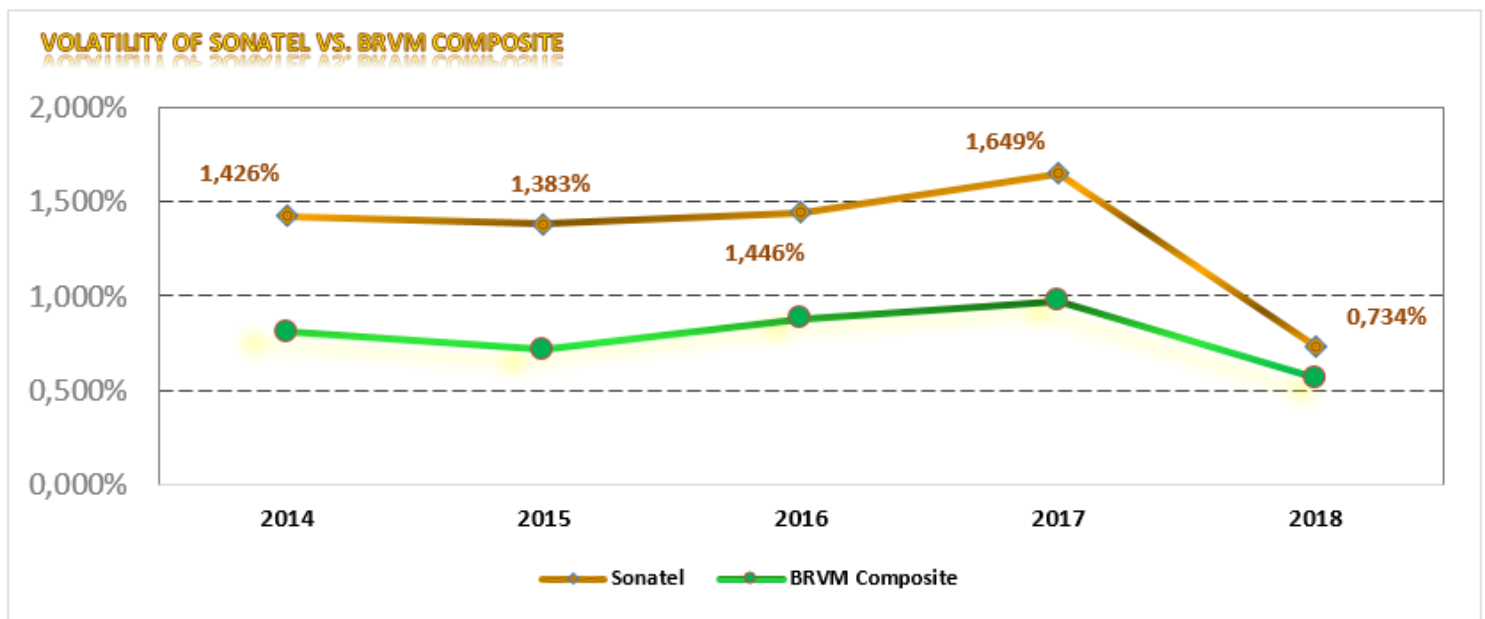
Over the period (2014-2019), SONATEL SN peaked at **28,000 CFA francs** (on 30/07/2015) and reached a low of 15,500 CFA francs (on 20/12/2018). At December 31, 2018, the share price was oscillating around its **October 2013 level (16,000 CFA francs)**.

In **2018**, overall, SNTS stock stayed within a band of 15,500 to **24,000 CFA francs**. In the first half of 2018, it generally traded for an average of 22,500 francs; since July 2018, SNTS has seen its stock price decline (subsequent to the release of its report on activities **for the first half of 2018**), hitting its lowest point in five years at **15,500 CFA francs**.

The **pullback** by SNTS's share could be **due to a 6.5% decline in SONATEL's net results to 104 billion CFA francs**, and lack of management communication regarding its strategic orientation and operations dynamics over the long term. At first glance, the outlook for SONATEL may **seem somewhat grim**. In fact, while facing heightened competitive pressure in its primary markets (Senegal and Mali), SONATEL is operating in a **rapidly changing regulatory and tax environment, with the implementation of new measures such as the unbundling of the local loop** in Senegal, and the introduction of new sales taxes in Mali (February 2018) and Senegal (July 2018).

1.1. VOLATILITY OF SONATEL SN STOCK

Volatility is an estimate of the risk associated with the behaviour of a security's stock market price in terms of fluctuations. The most well-known metric is standard deviation. In 2018, on a monthly basis, the SNTS stock showed volatility of 0.73%. SNTS is clearly not very volatile. Chart 2, below, compares the volatility of the BVRM Composite index and SNTS.



1.2. SONATEL SHARE BETA

A financial asset's beta coefficient is a measurement of the stock price's sensitivity that considers the fluctuations of the asset's price in relation to its benchmark market. It is a risk indicator: a higher coefficient means that the stock price is more likely to advance sharply in a bull market, but also likely to post losses that exceed the market's during a downturn.

Calculated over one year (2018) and on a monthly basis, the company has a beta of 0.81 compared with the BRVM Composite index. SNTS seems to track market movements slightly.

2. SONATEL SN VALUATION

We used the **discounted cash flow (DCF)** method to value the **SONATEL SN security**. The method is recognized as the fundamental corporate valuation method.

It expresses a **dynamic vision of the company's value**, as it is articulated based on the **future cash flows** the company could generate given the **factors that affect its activity**.

We used the following assumptions in determining the value of SONATEL SN stock:

Coût Moyen Pondéré du Capital (CMPC):	14,21
Taux sansRisk-free rate (%)*	6,5
PMarket risk premium du marché:	7,37
Beta Désendetté:	1,06
Coût de la dette (%):	21,13
Gearing:	15,02
Taux d'imposition (%):	30
Taux de croissance à l'infini (%):	2

* : 10-year yield on a government of Senegal bond

Using the DCF method, we estimate the value of the SONATEL SN security to be **18,700 CFA francs** for a **weighted average cost of capital of 14.24%** and a **perpetual growth rate of 2%**.

3. SWOT ANALYSIS OF SONATEL

The **SWOT analysis** reveals SONATEL's **strengths and weaknesses**, as well as **opportunities and threats**.

SONATEL'S STRENGTHS

- **Leadership positions** in all markets
- **Strong financial capacity** with ongoing good profitability
- **Stable equity and self-financing capability**
- **Low debt load**
- **Strong notoriety** due to use of the "ORANGE" brand

SONATEL'S WEAKNESSES

- **Sluggish implementation** of reforms in the telecommunications sector
- **Decline in average revenue per user (ARPU)**

OPPORTUNITIES FOR SONATEL

- **Heavy adoption of financial services** via Orange Money in countries where it is implemented
- **Upswing in international transfers** via Orange Money (already effective in Côte d'Ivoire)
- **Low penetration rate for telecommunication services** in Sierra Leone (52.5%) and Guinea Conakry (81%)
- **Renewed growth of its mobile customer base**
- **Growth drivers: mobile banking and mobile internet**

THREATS TO SONATEL

- **Challenging regulatory and tax environment**
- **Heightened competition and erosion of average monthly revenue per customer**
- **Heavy competition** in the mobile segment with a more than 100% penetration rate in both Mali and Senegal
- **Skyrocketing over-the-top services** (Whatsapp, Viber, Telegram, etc.) **impacting outgoing international calls.**

To deal with a decline in voice revenue, SONATEL has engaged in a strategic **shift on mobile banking and mobile internet**. These two factors constitute the **two main growth drivers for SONATEL's activity in the years to come**.

Thus far, the two activities' **contribution to SONATEL's sales growth in 2017 equals 28.1% and 78.9% respectively** (Source: 2017 annual report). In the future, mobile banking and mobile internet will boost SONATEL's financial performance.

Moreover, **Orange's development of financial services through its joint venture with NSIA Banque to create Orange Bank Africa** should increase SONATEL's sales considerably.

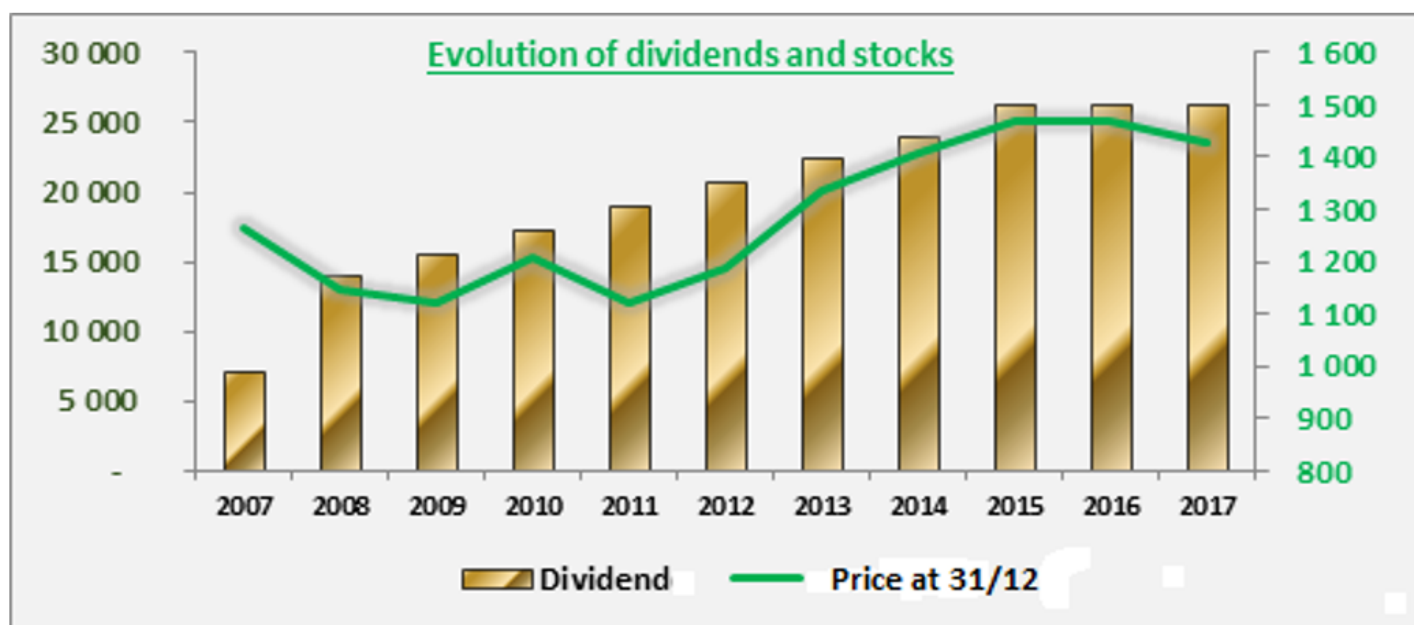
4. SONATEL FINANCIAL INFORMATION

SONATEL DIVIDEND DISTRIBUTION POLICY

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Price at 31/12	17,500	13,000	12,000	15,400	12,000	14,500	20,050	22,800	25,000	25,000	23,500
Net dividend	990	1,170	1,215	1,260	1,305	1,350	1,395	1,440	1,500	1,500	1,500
Distribution rate	68%	83%	73%	76%	94%	88%	82%	73%	76%	77%	82%

Source: SONATEL activity reports (2007-2017)

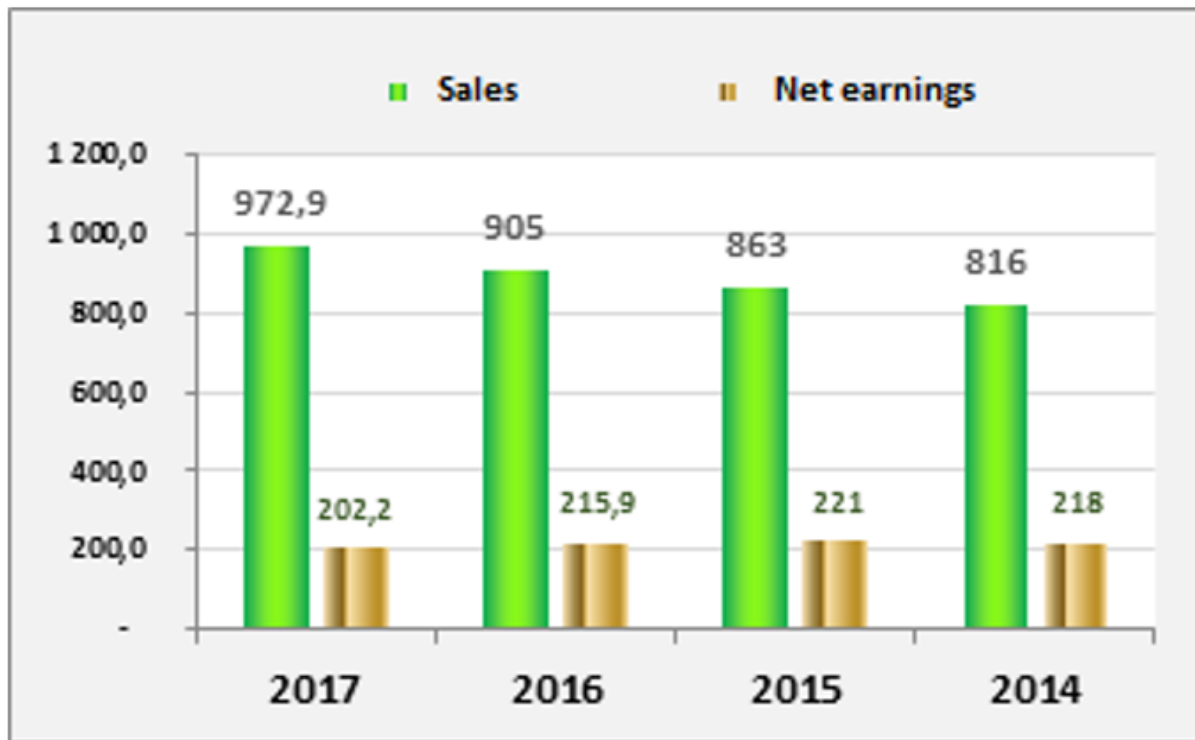
Chart 3: Evolution of dividends paid by SONATEL and its stock price (2007- 2017)



Source: BRVM

The company has a consistent dividend distribution policy with a net earnings distribution rate ranging from 68% to 94% over 10 years. Given a return of more than 7%, the decline experienced by SONATEL stock should probably not persist over the medium and long term.

SONATEL ACTIVITY INDICATORS



Source : SONATEL annual reports (2014 -2017)

2017 operating margin	32.70%
2017 net margin	21.70%
2017 earnings growth	-6.35%
2017 sales growth	7.50%

Source : 2017 Activity Report

Although net earnings were down in 2017, the financial data converges with the stock market fundamentals (return, P/E ratio).

It shows that SONATEL, a leader in these markets, is maintaining its growth dynamic thanks to good operational diversification while its net margin remains good.

In short, we recommend purchasing SONATEL SN at a maximum price of 18,700 CFA francs to benefit from an annual return of 8%. Although its financial performance has declined slightly, SONATEL should continue to pay a net dividend of 1,500 CFA francs per share to investors.

Appreciation by SONATEL SN's stock price over the medium/long term is dependent on maintaining and/or increasing market share in countries where it is active, as well as improving its financial and operational performance.

Investing in SONATEL SN means putting trust in a strong group that is a privileged target for investment funds given the low volatility of its stock price and regular dividend distribution.

DISCLAIMER:

The information in this analytical note communicated to recipients is selected from data that is publicly available and accessible, such as annual reports, websites, press releases, etc.

The judgements and estimates are the result of our personal reflection and reflect the analyst's opinions based on current market trends that are subject to periodic changes. The data in this analytical note must be construed as provided solely for information purposes and must not be used as a basis or ground for investment decisions.



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