

## AFRICA RISK CONSULTING

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#### Morocco Summary 14 December 2016

*King Mohammed VI (1999-present) and the government of Morocco finance the Aftissat wind farm in the contested region of Western Sahara through investment vehicle Nareva Holdings. The farm will bring power to more of the region and to major industrial and extractive clients. The Casablanca Stock Exchange (CSX) reveals plans to sell up to 40% of its shares to strategic investors and the public. The government argues that the demutualisation will allow the CSX to grow to its full potential. Finance minister Mohamed Boussaid announces that the government will issue its first sharia compliant sukuk bond and open its new Islamic finance financial market in the first half of 2017.*

#### Palace finances wind farm in Western Sahara

King **Mohammed VI** (1999-present) and the government of **Morocco** are financing development in the contested region of **Western Sahara**. The government is keen to develop the area that the **Polisario Front** claims should be the independent **Sahwari Arab Democratic Republic (SADR)**. State-owned investment vehicle **Nareva Holdings** completed financing for the **Aftissat** wind farm in Morocco on 8 December.<sup>1</sup> Nareva, through its subsidiary **La Société Energie éolienne du Maroc (EEM)** (the wind energy company of Morocco), announced a 4 billion dirham (\$397m) investment in the project.<sup>2</sup> EEM will construct the 202 megawatt (MW) farm in the **Boudjour** region of Western Sahara.<sup>3</sup> The company estimates the farm will come online by December 2018.<sup>4</sup> The funding comes from EEM's parent companies, 75% owner Nareva and 25% owner, pension fund, **Caisse Interprofessionnelle Marocaine de Retraite**.<sup>5</sup> Morocco-based commercial banks **Attijariwafa Bank** and **Banque Centrale Populaire** lent funds for the project.<sup>6</sup> The precise breakdown of the funds is not publicly available at time of writing. Nareva Holdings is a subsidiary of the **Société Nationale d'Investissement**, the investment holding company of King Mohammed.<sup>7</sup>

The king's investment in Western Sahara has a political agenda:

*"The palace wants to improve the quality of life in the region, to build resistance to any possible referendum on sovereignty, encourage Moroccan corporates to operate in the region to exploit its mineral wealth and shift the population demographics, and persuade multinationals to invest, which will disincentivise the international community to push for the sovereignty vote."<sup>8</sup>*

Boudjour contains Western Sahara's largest city, **Laâyoune**. The wind farm will supply power to provide steady electricity to 1.5 million people, and will create 900 direct jobs during the construction phase.<sup>9</sup> As well as financing the plant, Nareva also raised funds to extend 400kv power lines by

<sup>1</sup> L'Economiste, 8 Dec 2016.

<sup>2</sup> L'Economiste, 8 Dec 2016.

<sup>3</sup> L'Economiste, 8 Dec 2016.

<sup>4</sup> Telquel, 9 Dec 2016.

<sup>5</sup> L'Economiste, 8 Dec 2016.

<sup>6</sup> L'Economiste, 8 Dec 2016.

<sup>7</sup> L'Economiste, 8 Dec 2016.

<sup>8</sup> Source, journalist, Rabat

<sup>9</sup> Telquel, 9 Dec 2016.

250km to reach further into Western Sahara.<sup>10</sup> The head of the regional **Office Nationale de l'Electricité et de l'Eau Potable (ONEE)** said:

*"This strengthening of the electricity infrastructure in the southern provinces will contribute to the connection of the city of **Dakhla** to the national electricity network."*<sup>11</sup>

The project is aimed at large commercial customers that the government is encouraging to invest in the region.<sup>12</sup> These include **France**-based cement company **Lafarge**; state-owned **Office Cherifien des Phosphates**, the world's largest extractor of phosphates; state-owned cement company **Ciment du Maroc**; metals processor **Managem**; state-owned petrochemicals company **Société Nationale d'Electrolyse et de Pétrochimie**; and medical gas company **Air Liquide Maroc**.<sup>13</sup>

### CSX plans broader ownership

The **Casablanca Stock Exchange (CSX)** revealed plans to sell up to 40% of its shares to strategic investors and the public on 29 November.<sup>14</sup> The bourse has faced criticism from ratings agencies and institutional analysts that it is not open enough to external investment. The sale of a significant stake in the company may be a precursor to a more international and expansionist outlook. **Karim Hajji**, CEO of CSX, told the media that the company planned to sell 20% of its shares through a public listing and a further 15-20% to a strategic investor.<sup>15</sup> The sales will take place across the next five years.<sup>16</sup> The CSX changed its ownership structure in June 2016 from a mutual company to a limited company as the first step towards listing some of its shares.<sup>17</sup> The demutualisation has allowed the company to issue new shares that it can either list or sell privately.<sup>18</sup> According to Hajji, the impetus to do so came from the Moroccan government, which has also encouraged the bourse to find a strategic investment partner to help move the business forward.<sup>19</sup> The public sale of stock is to broaden the ownership of the market, which ratings' agency **Fitch** has repeatedly criticised for being too insular.<sup>20</sup> Both transactions could take place at the same time.<sup>21</sup>

The CSX is the second largest stock market in **Africa** by market capitalisation, which is \$55 billion across its 75 listed firms.<sup>22</sup> The bourse's **Casablanca All Share Index** rose 20% in 2016 due to increasing company earnings, while other African stock exchanges have fallen.<sup>23</sup> It is currently attracting firms for initial public offerings (IPOs) of small and mid-sized companies within 2017.<sup>24</sup> It is also planning to introduce listings for exchange traded funds (ETFs) and real estate investment trusts (REITs) in the next five years.<sup>25</sup> The CSX does not currently allow for derivatives trading but plans to start a derivatives market within the next 10 years.<sup>26</sup> According to a local financial journalist:

*"The CSX must take the step to broaden ownership if it wants to grow, it is currently too reliant on the internal markets, the [Moroccan] banks are highly exposed and a major crash could*

<sup>10</sup> L'Economiste, 8 Dec 2016.

<sup>11</sup> Telquel, 9 Dec 2016.

<sup>12</sup> Telquel, 9 Dec 2016.

<sup>13</sup> Telquel, 9 Dec 2016.

<sup>14</sup> Reuters, 29 Nov 2016.

<sup>15</sup> Reuters, 29 Nov 2016.

<sup>16</sup> Reuters, 29 Nov 2016.

<sup>17</sup> Reuters, 29 Nov 2016.

<sup>18</sup> Reuters, 29 Nov 2016.

<sup>19</sup> Reuters, 29 Nov 2016.

<sup>20</sup> Reuters, 29 Nov 2016.

<sup>21</sup> Reuters, 29 Nov 2016.

<sup>22</sup> Reuters, 29 Nov 2016.

<sup>23</sup> Reuters, 29 Nov 2016.

<sup>24</sup> Reuters, 29 Nov 2016.

<sup>25</sup> Reuters, 29 Nov 2016.

<sup>26</sup> Reuters, 29 Nov 2016.

*damage many listings. It is also the right time to do this as the economy is looking good and investment into Morocco is high.”<sup>27</sup>*

However, other financial observers are concerned that demutualising could stretch the CSX too far. According to a member of a brokers’ association in **Casablanca**:

*“The CSX does not need to demutualise to grow, on the brokering side we have lots of international interest for publicly traded stocks and shares. As Morocco grows, so does the market, flooding it with external capital will simply increase expectations for a bubble, or worse create one.”<sup>28</sup>*

The brokerage bodies, which currently control the CSX through a 12-person governing council, have caved to the pressure of the finance ministry to support the demutualisation.<sup>29</sup> Part of the reason they are resistant is that they will no longer hold a monopoly over trading and brokerage activities.<sup>30</sup> The government, on the other hand, wants to make the CSX the go-to listing option for African companies, competing with the **Johannesburg Stock Exchange (JSE)** in **South Africa**.<sup>31</sup> According to an academic author of an **Organisation for Economic Co-Operation and Development (OECD)** paper on the subject, private ownership will need careful handling:

*“The finance ministry believes that demutualisation will allow the listings on the exchange to grow, and it is likely that they will, but not necessarily in the way they think. Because of the flexibility of the exchanges, brokers will still control most of the trading – meaning they will act to avoid large fluctuations in value. However, private control may turn the attention of emerging markets traders away from **Asia** and **South America** to Africa in general, and the CSX in particular. This would lead to growth and diversity in trading – but will expose the market to high fluctuations. It is, I think, a good thing that it [the demutualisation] is going ahead but it will require careful management from both public and private sector actors to be successful.”<sup>32</sup>*

## Government to release *sukuk* in the first half of 2017

Finance minister **Mohamed Boussaid** told the media on 9 December that the government would issue its first sharia compliant *sukuk* bond in the first half of 2017.<sup>33</sup> Morocco is looking to leverage its strong relationship with the **Gulf States** and Islamic finance institutions to raise capital at favourable rates with this specialist product. The government will announce the size of the *sukuk* within four months, and its launch will coincide with the launch of a specialist market for Islamic finance products.<sup>34</sup> Morocco has considerable public debt, 63% of gross domestic product (GDP) in 2015, so is looking to explore more efficient ways of borrowing.<sup>35</sup> However, the country has a strong track record of managing its debt, and a diversifying economy. **Nicholas Blancher**, who led an **International Monetary Fund (IMF)** team to Morocco in November 2016, reported that Morocco’s debt was “*at a sustainable level and robust to various shocks*”.<sup>36</sup> The IMF recommends drawing in a diversified financial sector – including Islamic finance – and borrowing to fund reducing unemployment and improving education to drive growth.<sup>37</sup>

The government laid the groundwork to enter the lucrative Islamic finance market in 2012.<sup>38</sup> Islamic banks and insurers are moving to Morocco after the legislation came into effect in early 2015, and the

<sup>27</sup> Source, financial journalist

<sup>28</sup> Source, broker, Casablanca

<sup>29</sup> OECD report, 2014

<sup>30</sup> OECD report, 2014

<sup>31</sup> OECD report, 2014

<sup>32</sup> Source, researcher, Paris

<sup>33</sup> Reuters, 9 Dec 2016.

<sup>34</sup> Reuters, 9 Dec 2016.

<sup>35</sup> Al-Monitor, 15 Nov 2016.

<sup>36</sup> CPI Financial, 4 Dec 2016.

<sup>37</sup> CPI Financial, 4 Dec 2016.

<sup>38</sup> Reuters, 9 Dec 2016.

**Banque al Maghrib (BAM)** (central bank) has set up a *sharia* compliance board to monitor the industry.<sup>39</sup> Institutions are already preparing to enter the markets. State-owned bank **Crédit Agricole du Maroc (CAM)** won approval from the finance ministry in September 2016 to open an Islamic subsidiary in partnership with **Saudi Arabia-based Islamic Development Bank (IDB)** as part of the IDB's **Islamic Corporation for the Development of the Private Sector**.<sup>40</sup> The CAM holds a 51% stake in the business and will invest a proportionate amount of the \$20m starting capital, which the partners will double to \$40m once the Islamic market opens for business.<sup>41</sup>

## Implications

Morocco continues to move towards its target of 30% renewables by 2020 and 52% renewables by 2050. However, the high level of involvement by the palace shows that the government is having to put forward large amounts of money, by various routes, to achieve this. It may be right to rush development as the agreement by the **Organisation of Petroleum Exporting Countries (OPEC)** to reduce oil output could increase the cost of oil and with it Morocco's energy import bill. Politically the Aftissat farm is part of the government's ongoing programme of development in Western Sahara and other parts of southern Morocco. However, the direct palace involvement in the project and the long list of state-controlled partners demonstrate how keen the government is to make sure the region is as Moroccan as possible, if any vote on sovereignty comes to pass.

Morocco has a mature financial services market, a number of growing banks, and a growing number of Africa-focused companies using it as a base. The demutualisation of the stock exchange will allow the CSX to benefit from the stability and good reputation of the country. It comes with risks, and the government will need to learn from the lessons of other markets in Africa and the **Middle East** that have faltered when they move into private ownership. However, the strong interest of the government and the level of state investment in major listed entities should shield the bourse from any major shocks.

Morocco is in a strong position to leverage its ties to the Middle East to gain favourable rates on a *sukuk*. These same factors also put it in a strong position to be a centre of Islamic finance. The government is in a position to take on more debt, despite the high debt/GDP ratio, and has an IMF line of credit to fall back on if the *sukuk* bond is unsuccessful.

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<sup>39</sup> Reuters, 9 Dec 2016.

<sup>40</sup> Zaywa, 27 Nov 2016.

<sup>41</sup> Zaywa, 27 Nov 2016.