

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing April 2016

#### Morocco Summary 18 April 2016

*Morocco and the United Nations (UN) continue to clash over Western Sahara. The government is lobbying the UN Security Council to remove from the Mission des Nations Unies pour l'organisation d'un référendum au Sahara occidental (MINURSO) (United Nations Mission for the Referendum in Western Sahara) the mandate to hold a referendum in the region. France-based auto manufacturer Renault announces a \$1 billion investment to bring its component manufacturers into Morocco to support its manufacturing output. The state will be an investor in the new 'manufacturing ecosystem'. Italy-based petroleum major Eni enters Morocco and buys an operational stake in the Rabat deepwater area to diversify its exploration on the Atlantic coast. Construction group Alliances Development suspends trading on the Casablanca Stock Exchange (CSX) for five days as it draws together a debt restructuring plan.*

#### Morocco confirms continued support but UN personnel are out.

Morocco confirmed on 24 March that it will continue to support the peacekeeping units of the **United Nations (UN)** active in **Western Sahara**, but will not re-admit other UN personnel.<sup>1</sup> Morocco's relationship with the UN has worsened since secretary general **Ban Ki-moon** referred to the Moroccan "occupation" of the region (see *ARC Briefing Morocco March 2016*). Foreign minister **Salaheddine Mezouar** said that Morocco would continue to support the peacekeeping forces of the **Mission des Nations Unies pour l'organisation d'un référendum au Sahara occidental (MINURSO)** (United Nations Mission for the Referendum in Western Sahara).<sup>2</sup> However, its decision to expel civilian staff charged with the organisation of the referendum is "irreversible".<sup>3</sup>

Morocco-UN relations are now at an impasse. The fifteen-member **UN Security Council** condemned Morocco's actions on 24 March. However, it did not reach an agreement to demand Morocco re-admit the civilian staff.<sup>4</sup> This is due to Moroccan allies including **France** and **Russia** refusing to go beyond a broad condemnation.<sup>5</sup> According to sources within the UN, Morocco is now putting pressure on the Security Council to change MINURSO's mandate:

*"Morocco is putting pressure on the Council to drop the referendum mandate from MINURSO and make it peacekeeping only...they are saying 'look, the secretariat overstepped badly and now we need you to roll back UN interference in our domestic political issue'."*<sup>6</sup>

Ban's office has issued a statement saying that he was expressing a personal opinion and that the issue was a misunderstanding. The foreign affairs ministry has rejected this description of Ban's use of the word 'occupation' as a "premeditated act to alter the nature of the dispute".<sup>7</sup> The **Polisario Front**, which lobbies for an independent Western Sahara, stated on 23 March that if MINURSO ceased to operate, it could put the 1991 ceasefire in jeopardy.<sup>8</sup> It has continued to lobby the Security Council

<sup>1</sup> Le Matin, 24 Mar 2016.

<sup>2</sup> Le Matin, 24 Mar 2016.

<sup>3</sup> Le Matin, 24 Mar 2016.

<sup>4</sup> Reuters, 25 Mar 2016.

<sup>5</sup> Reuters, 25 Mar 2016.

<sup>6</sup> Source, UN, Geneva

<sup>7</sup> Reuters, 29 Mar 2016.

<sup>8</sup> Reuters, 23 Mar 2016.

to condemn Morocco's action across April. Polisario Front president **Mohamed Abdelaziz** wrote to Ban on 14 April to say that the expulsion of MINURSO personnel was the precursor to Moroccan aggression in the region.<sup>9</sup>

### Renault announces \$1 billion investment

France-based car manufacturer **Renault** has announced a \$1 billion investment in its car manufacturing business in Morocco.<sup>10</sup> Industry minister **Moulay Hafid Elalamy** made the announcement at a press conference on 8 April.<sup>11</sup> The investment is a major expansion of production for Renault and shows a high level of confidence from **Europe**-based companies in Morocco as a manufacturing base.

Renault is planning to build an “*industrial ecosystem*” around its existing operations in **Tangier** and **Casablanca**.<sup>12</sup> The new ecosystem will draw into the country a number of other companies that currently manufacture Renault components.<sup>13</sup> It will raise the local sourcing of components at the current plants to 65% (up from 32%) and Renault projects will generate annual revenue of \$206m.<sup>14</sup> Both Renault and the government have yet to release precise details of the companies that might rebase operations to Morocco or specify the types of parts they will manufacture.<sup>15</sup> Renault is investing an undisclosed amount in the project, and the other ‘ecosystem’ companies will also invest in Renault’s facilities.<sup>16</sup> According to local sources, the state is another investor:

*“The government is putting money into this...they are treating it as an infrastructure investment and will take a stake in the project through one of the development finance institutions.”<sup>17</sup>*

The large-scale ‘ecosystem’ investment model will expand on the network of local manufacturing companies that have grown around Renault’s auto plants.<sup>18</sup> According to industry analysts, this could set a precedent for sector expansion:

*“Bringing the expertise of international parts manufacturers into Morocco, as a low price market to manufacture, will both boost profits and the Moroccan economy – it is an intelligent way of satisfying the government’s desire to increase local participation in the sector... it could set a precedent for other large manufacturers in Europe to do the same.”<sup>19</sup>*

However, according to local journalists this could lead to some local businesses losing out to larger international providers:

*“There are small businesses around the Casablanca plant that provided parts to Renault that would be more expensive to ship from their main producers...there is a high risk they will now go out of business.”<sup>20</sup>*

Renault’s car moulding pressing factory in Tangier is the biggest in **North Africa** with a capacity of 400,000 vehicles per annum. Renault opened the factory in December 2014 with an initial investment of \$683m.<sup>21</sup> The Moroccan auto industry is growing and is predicted to reach \$10 billion per annum

<sup>9</sup> Reuters, 14 Apr 2016.

<sup>10</sup> Reuters, 9 Apr 2016.

<sup>11</sup> Reuters, 9 Apr 2016.

<sup>12</sup> L’Economiste, 9 Apr 2016.

<sup>13</sup> L’Economiste, 9 Apr 2016.

<sup>14</sup> L’Economiste, 9 Apr 2016.

<sup>15</sup> Reuters, 9 Apr 2016.

<sup>16</sup> Reuters, 9 Apr 2016.

<sup>17</sup> Source, academic with ties to the palace, Rabat

<sup>18</sup> L’Economiste, 9 Apr 2016.

<sup>19</sup> Source, trade and industry analyst, Brussels

<sup>20</sup> Source, business journalist, Casablanca

<sup>21</sup> Reuters, 9 Apr 2016.

by 2020, as a result of France-based **PSA Peugeot Citroen's** decision in 2015 to build 200,000 vehicles per year with an initial investment of \$600m.<sup>22</sup>

### Eni buys into Moroccan oil exploration

Italy-based energy company **Eni** announced on 30 March that it was taking over operating the **Rabat deepwater exploration area (DEA)**.<sup>23</sup> Morocco's offshore oil and gas permits have yet to yield any large finds, but have attracted increased interest in 2016 as prospectors cast their net wider to search for new supply. Eni purchased a 40% stake in the Rabat DEA from **London (United Kingdom) Alternative Investment Market (AIM)**-listed **Chariot Oil & Gas** for an undisclosed sum.<sup>24</sup> Chariot believes that the area could hold up to 768m barrels of oil.<sup>25</sup> However, the company sold the stake in order to focus more on growing other opportunities, while maintaining a small (10%) stake in Morocco.<sup>26</sup> Eni released a statement saying that the move will help it expand its presence on the **Atlantic Margin**.<sup>27</sup> It is looking to diversify its portfolio across North Africa in order to give it a stronger portfolio in frontier exploration areas.<sup>28</sup> According to an industry analyst:

*"While the oil price is low, those companies that have reserves are spending them to strategically tap into undiscovered reserves...the large finds elsewhere in the **Mediterranean**, like the one in **Egypt** last year, have increased interest in Morocco, which is the last stretch of offshore in the region without a major find."*<sup>29</sup>

### CSX suspends shares in Alliances Development

Morocco's stock market regulator **Autorité Marocaine du Marché des Capitaux (AMMC)** suspended trading in shares of construction group **Alliances Development (AD)** from 31 March to 5 April.<sup>30</sup> AD had asked the AMMC to suspend trading in shares on the **Casablanca Stock Exchange (CSX)** to allow it to postpone its annual results announcement, claiming it needed time to finalise a debt restructuring plan.<sup>31</sup> AD released its new business plan on 4 April, including plans to restructure the entire debt burden of the company from 2016 to 2018.<sup>32</sup> Shares in AD fell 10% to \$4.86 from its pre-close benchmark of \$5.40.<sup>33</sup> AD's shares on the CSX fell over 65% in the past year. AD issued a profit warning earlier in March saying that it would post a larger loss for 2015 than it previously expected. The move is a culmination of several years of a difficult business operating environment for the group, which is heavily encumbered by ongoing real estate and hotel developments.<sup>34</sup>

The company forecast a loss of \$22.6m in August 2015 during a \$102m maiden bond sale.<sup>35</sup> AD managing director **Ahmed Ammor** told the media that the company would give itself until 10 May to finalise the debt restructuring plan.<sup>36</sup> The company has managed to restructure its debt from \$850m to around \$4m since 2014, however it has not yet released finalised figures on its current debt burden.<sup>37</sup> It filed for the liquidation of three of its subsidiaries in the public works sector in

<sup>22</sup> Reuters, 9 Apr 2016.

<sup>23</sup> Eni press release, 30 Mar 2016.

<sup>24</sup> UP, 30 Mar 2016.

<sup>25</sup> UP, 30 Mar 2016.

<sup>26</sup> UP, 30 Mar 2016.

<sup>27</sup> Eni press release, 30 Mar 2016.

<sup>28</sup> Eni press release, 30 Mar 2016.

<sup>29</sup> Source, oil analyst, London

<sup>30</sup> AMMC press release 31 Mar 2016.

<sup>31</sup> L'Economiste, 31 Mar 2016.

<sup>32</sup> Les Afriques, 5 Apr 2016.

<sup>33</sup> Les Afriques, 5 Apr 2016.

<sup>34</sup> Jeune Afrique, 31 Mar 2016.

<sup>35</sup> Reuters, 31 Mar 2016.

<sup>36</sup> L'Economiste, 31 Mar 2016.

<sup>37</sup> L'Economiste, 31 Mar 2016.

December.<sup>38</sup> The group posted a reduction in turnover to \$290m in 2014 from \$460m in 2013, the equivalent of a \$96.8m loss in 2014 down from a \$58m profit in 2013.<sup>39</sup> The real estate sector has slowed since 2012. Close rival **Addoha** posted an 18% loss in share value across the 2015/2016 financial year.<sup>40</sup> According to local sources:

*“Real estate has boomed across the last five years, however demand is slowing down and financing is drying up. Banks no longer want to shell out for expensive hotel projects, or luxury condos when the tourism sector is static and the rest of the economy has yet to catch up... they are already heavily exposed in real estate and we may see some disinvestment if the situation gets any worse.”<sup>41</sup>*

## Implications

The government is pushing the UN as far as it can over Western Sahara. The attempt to remove the referendum mandate from MINURSO shows the government seeks to resolve any dispute over Western Sahara by placing it irrevocably under Moroccan control. The Polisario Front has some support but no political or economic base from which to leverage. It is highly unlikely the Security Council will amend MINURSO's mandate but without key civilian personnel it is unable to act to carry out that mandate.

Renault's investment validates the government's efforts to position Morocco as a natural manufacturing base for the European and global auto markets. Large international companies get significant government support, and benefit from the country's relative political stability. The government stake in the investment continues the trend of the state buying into both infrastructure and major private sector enterprises.

Morocco is also attracting increased energy sector investment (see *ARC Briefing Morocco February 2016*). Bringing ENI into the sector shows that the oil majors, as well as smaller companies, are interested in the elusive offshore reserves. **United States**-based oil major **Chevron** has prospected offshore in Morocco since 2012, but is considering pulling out of the country due to lack of finds. Eni has acquired its stake at a much lower point in the market and would make greater gains if it finds viable drilling sites.

Not all sectors of the economy are doing well. The real estate market is victim of both greater caution from the financing side and reduced demand. Greater headline economic success – measured in gross domestic product growth and foreign direct investment inflows – has yet to translate into greater spending power for the middle classes.

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<sup>38</sup> Jeune Afrique, 31 Mar 2016.

<sup>39</sup> Jeune Afrique, 31 Mar 2016.

<sup>40</sup> Reuters, 31 Mar 2016.

<sup>41</sup> Source, financial journalist, Casablanca

### About Africa Risk Consulting:

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