

Tobacco

Update

Czech Republic

Philip Morris CR

Dividend story continues, we raise TP to CZK 18,349

Hold

| | |
|----------------|------------------|
| Price 03.03.23 | CZK 17220 |
| 12m target | CZK 18349 |
| Upside to TP | 6,6% |
| Dividend | CZK 1320 |
| Total return | 14,2% |

Sector stance
Overweight

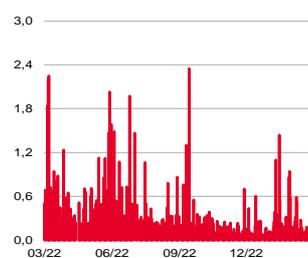
Investment type
High dividend yield

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

| | |
|------------------------|------------------|
| RIC TABKsp.PR | Bloom TABAK CP |
| 52-week range | 15820-17960 |
| Market cap. (CZKbn) | 47,2 |
| Market cap. (EURm) | 2012 |
| Free float (%) | 22,00 |
| Performance (%) | 1m 3m 12m |
| Share | 1,5 1,9 3,0 |
| Rel. PX Index | -2,7 -13,6 -0,6 |

Source: Bloomberg

The latest analysis and report:

https://bit.ly/PMCR_e1H22_EN

https://bit.ly/PMCR_1H22_EN

Investment recommendation: We are raising our target price for the shares of Philip Morris CR to CZK18,349 and issuing a Hold recommendation. The previous TP and recommendation were CZK 18,183 and “Buy”. PMCR leads in the traditional cigarette segment, both in its markets in the Czech Republic and Slovakia. The market share of new, heated technologies is also growing rapidly. In addition, it has a traditionally strong debt-free balance sheet. Furthermore, it distributes its entire net profit to its shareholders, which implies a high dividend. The risk is, of course, the possibility of tightened regulation on cigarette sales and smoking. We also anticipate rising excise taxes on heated products. Both would likely lead to a rise in the price of PMCR products, with a possible impact on demand.

We expect that the trend in the market share growth of **new smoke-free technologies** (e.g. IQOS / HEETS) will be confirmed. This should be evident in both the company’s markets (CR & SK). In our projections, we expect PMCR’s **market share in this sector to increase to 20%** from 12.0% and 14.4% (CR & SK). Given that PMCR is viewed as a **dividend story**, the **proposal of a dividend** from last year’s (2022) earnings will be highly watched. We expect a distribution of **CZK1,320 per share**. This would correspond to a gross dividend yield of +7.7%.

Valuation: We used the **discounted dividend model** to value Philip Morris CR. Our DDM assumes cost of capital in the range of 9.3-8.6% over the period 2022 to 2030 and 8.6% for the terminal phase at a long-term growth rate of 0%. We set the **target price at CZK18,349** per share. This corresponds to a +6.7% premium to the current market price. **Total potential return, including dividend, is +14.4%. This corresponds to a Hold recommendation**, where the total estimated yield is 0-15%.

Philip Morris CR trades at a P/E of 12.7x (e2023) and EV/EBITDA of 9.8x (e2023). The sector median is 9.9x and 7.2x, respectively. This means that PMCR trades at a premium to comparable companies in the sector. But for the P/S multiple (e2023), it’s a slight discount. In addition, PMCR offers a high dividend yield (7.7% vs 6.8%), which is above the median of its peers.

Financial Data

| | 2021 | 2022e | 2023e | 2024e |
|------------------------|-------|-------|-------|-------|
| Revenues (CZKbn) | 18.9 | 20.8 | 23.3 | 22.6 |
| EBIT margin (%) | 23.1 | 21.4 | 24.2 | 24.7 |
| Net Income (CZKbn) | 3.5 | 3.6 | 4.5 | 4.4 |
| EPS (CZK) | 1,281 | 1,324 | 1,625 | 1,607 |
| DPS (CZK) | 1310 | 1320 | 1630 | 1610 |
| Payout (%) | 102.3 | 99.7 | 100.3 | 100.2 |
| Interests Coverage (x) | n.m. | n.m. | n.m. | n.m. |
| Net Debt/EBITDA (x) | -1.8 | -1.9 | -1.7 | -1.8 |

Ratios

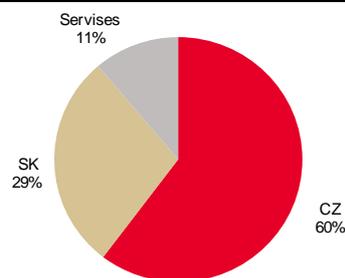
| | 2021 | 2022e | 2023e | 2024e |
|--------------------|------|-------|-------|-------|
| P/E (x) | 11.9 | 12.7 | 11.3 | 11.4 |
| P/FCF | 3.3 | 4.3 | 4.1 | 4.1 |
| Dividend yield (%) | 9.3 | 7.9 | 8.9 | 8.8 |
| P/BV (x) | 4.8 | 5.4 | 5.4 | 5.3 |
| EV/S (x) | 2.7 | 2.7 | 2.6 | 2.7 |
| EV/EBITDA (x) | 10.0 | 10.9 | 9.8 | 9.9 |
| P/OCF | 8.3 | 9.9 | 9.9 | 9.9 |
| ROE (%) | 40.5 | 42.2 | 49.7 | 46.8 |

Expected events: Results for the 2H22 and FY22 will be published on 28 March 2023.

Company overview

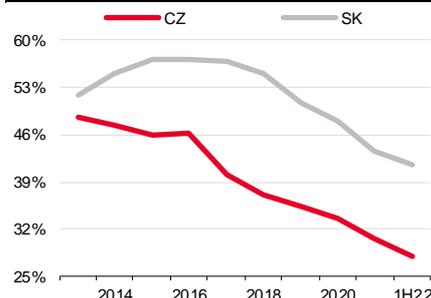
| Strengths | Weaknesses |
|---|---|
| <ul style="list-style-type: none"> ▪ Market leader in traditional tobacco products in the Czech Republic and Slovakia ▪ Market leader in heated tobacco products in the Czech Republic and Slovakia ▪ Concentration of cigarette production in Kutna Hora for the European market ▪ Zero indebtedness ▪ Attractive dividend policy | <ul style="list-style-type: none"> ▪ A closely profiled product base ▪ Dependence in heated tobacco products on parent company ▪ High level of product taxation ▪ Strong regulation of the tobacco industry ▪ Declining market share of PMCR in the Czech Republic |
| Opportunities | Threats |
| <ul style="list-style-type: none"> ▪ Developing and maintaining market leadership in new technologies ▪ Measures against illegal imports and sales of tobacco products ▪ Official global recognition of the significantly lower harmful effects of heated tobacco products | <ul style="list-style-type: none"> ▪ Jump in excise duty on tobacco products, especially on new technologies (heated products) ▪ Increase in the HEETS production margin of the parent company, thereby reducing the profitability of this product for PMCR ▪ Significant increase in commodity input prices (including energy) ▪ Stricter regulation of smoking and tobacco products ▪ Reduction in dividend payments |

Revenues by segment (1H22)



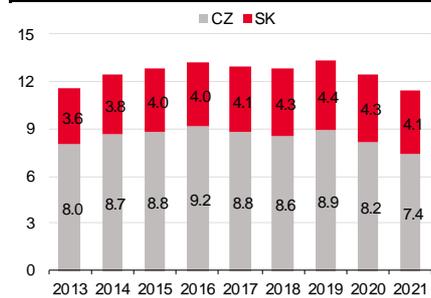
Source: Philip Morris CR

Cigarette market share



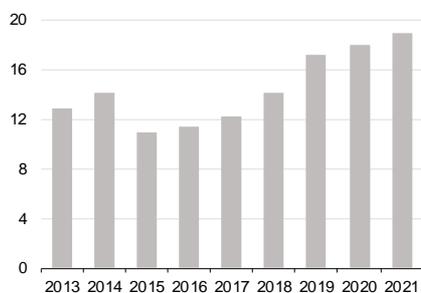
Source: Philip Morris CR

Sales by country (bn units)



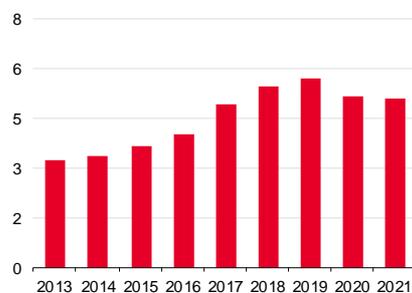
Source: Philip Morris CR

Sales (CZKbn)



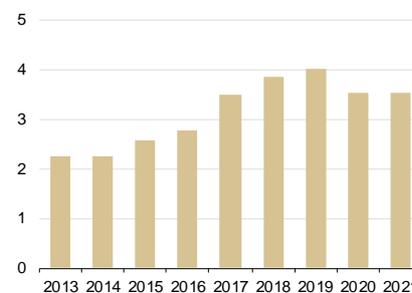
Source: Philip Morris CR

EBITDA (CZKbn)



Source: Philip Morris CR

Net profit (CZKbn)



Source: Philip Morris CR

Company results and outlook

Philip Morris CR reports on a half-yearly basis. The last published results were for the first half of last year and were announced in September.

Results for 1H22

PMCR: 1H22 results

| CZKm | 1H21 | 1H22 | y/y | KB |
|------------------------|-------|-------|-------|-------|
| Revenues | 8,887 | 9,810 | 10.4% | 9,816 |
| Profit from Operations | 2,087 | 2,119 | 1.5% | 2,220 |
| Net Profit | 1,729 | 1,830 | 5.8% | 1,776 |
| EPS (CZK) | 630 | 667 | 5.8% | 647 |

Source: PMCR, Economic and Strategy Research, Komerční banka

In the first half of the year, PMCR's **total revenues increased +10.4% to CZK9.8bn**. In the Czech Republic, revenues increased +14.1% to CZK5.9bn, driven by growth in sales of smoke-free products and favourable cigarette price developments. Total combined market share increased by +7.9% to 8.6bn units due to increased sales in border areas. The combined **PMCR market share declined from 42.9% to 39.9%**. This was driven by a decline in cigarette shares to 27.9% (31.4% previous). In contrast, the HEETS share increased by 0.5 pp to 12.0%. The migration of users from classic products to new technologies is evident. **Problems with the supply of raw materials also had negative impact, resulting in short-term production shortfalls. In Slovakia**, the combined cigarette and smoke-free market grew +3.1% to 3.6bn units. The **PMCR share was only slightly lower at 56.0%** (56.5% previous). As expected, the cigarette share declined to 41.6% from 44.4%, but this was offset by an increase in the share of new technologies to 14.4% from 12.1%. Slovakian revenues for 1H22 amounted to EUR113m (CZK2.8bn). Not surprisingly, there was an increase in general and administrative expenses. **Operating profit increased +1.5% to CZK2.1bn** due to cost inflation. **Net profit increased +5.8% to CZK1.8bn** due to the improved financial result.

Projection of full-year results 2022

PMCR: e2022

| CZKm | 2021 | e2022 | y/y |
|------------------------|--------|--------|-------|
| Revenues | 18,867 | 20,778 | 10.1% |
| Profit from Operations | 4,367 | 4,443 | 1.7% |
| Net Profit | 3,517 | 3,634 | 3.3% |
| EPS (CZK) | 1,281 | 1,324 | 3.3% |

Source: PMCR, Economic and Strategy Research, Komerční banka

We expect the trend of decline in classic cigarettes to continue, offset to some extent by the growth of new technologies, particularly heated products. We also expect that, as consumers switch from classic products to new technologies, there will be a degree of cannibalism, with the share of cigarettes declining in favour of heated refills.

We expect the **war in Ukraine to have an impact on the results**. There have been disruptions in the supply of materials from Russia and Ukraine. The situation is thought to have stabilised by the end of 2022. However, there will likely be an increase in production at the main plant in Kutna Hora. This is because one of the Group's factories is located in Kharkiv, Ukraine. Production there has been discontinued and production capacity has been replaced by other plants throughout the Philip Morris International (PMI) Group, including Kutna Hora.

Furthermore, **PMCR uses gas as the main source of thermal energy**. However, as the company had fixed prices for 2022, the impact will only be felt in the following years. The company's management is looking for possible alternatives.

High inflation (e.g. energy and other commodity prices) in both CZ and SK has an impact on the demand for PMCR products. However, this has not yet been seen in 2022. Still, it is possible that it will become apparent in the following years.

In our view, Philip Morris CR is, for investors, a dividend earner due to its **distribution of all unconsolidated earnings to shareholders**. We expect a **dividend of CZK 1,320** this year, i.e. from the profit of 2022. This would imply a decent gross **dividend yield of +7,7%**.

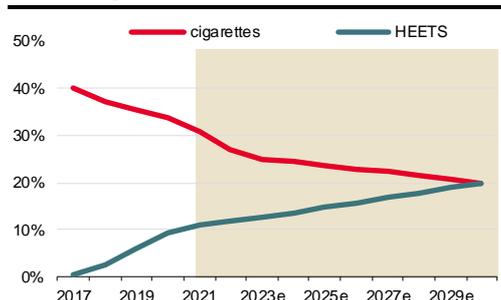
Long-term outlook

Increasing the share of new technologies.

Philip Morris is a global leader in new technologies. PMCR offers customers a range of new options through which tobacco is heated, not burned. Such use is probably less risky compared to conventional products, according to company officials. Heated tobacco products produce almost no smoke and are therefore also called smoke-free. They could be an alternative to classic cigarettes.

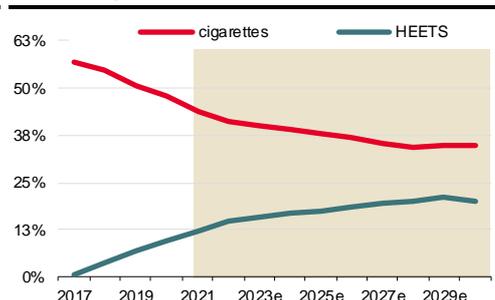
We expect smokers to switch to these new products, which will increase the market share. At the same time, however, the market share of cigarettes will decline precisely because of the switch to new technologies. In the first half of last year (2022), the market share of smoke-free products was 12% in the Czech Republic and 14.4% in Slovakia. In our forecasts, we expect this share to grow gradually to 20% in both markets.

Expected development of the market share of classic cigarettes and refills in the CR



Source: PMCR, Economic and Strategy Research, Komerční banka

Expected development of the market share of classic cigarettes and refills in the SK



Source: PMCR, Economic and Strategy Research, Komerční banka

Significant difference in the taxation of the two product groups.

From a regulatory perspective, the taxation of the two products varies significantly. New technologies are taxed less than conventional ones. The increase in taxation on heated technologies is certainly one of the threats that the whole sector naturally faces.

An amendment adjusting the tax rate was effective for the years 2021 - 2023. We expect that a new amendment will be introduced, and that the tax will continue to increase. Taxation of traditional cigarettes is significantly higher than that of smoke-free refills.

The fixed part of the excise tax on cigarettes in the Czech Republic increased this year by CZK90 to CZK1,970 per one thousand cigarettes. The ad valorem part of the excise duty remained unchanged at 30% of the selling price. The minimum rate increased by CZK160 per one thousand cigarettes to CZK3,520.

The excise duty on refill packs increased this year by CZK140 per kg of tobacco to CZK3,000.

Of course, both groups are also subject to 21% VAT.

The taxation gap between traditional and new products will likely narrow.

For conventional cigarettes, we expect the fixed part to grow by about 5% per 1,000 cigarettes per year in the coming years. We expect the same growth dynamics for the minimum excise rate. We expect the ad valorem to remain unchanged at 30%.

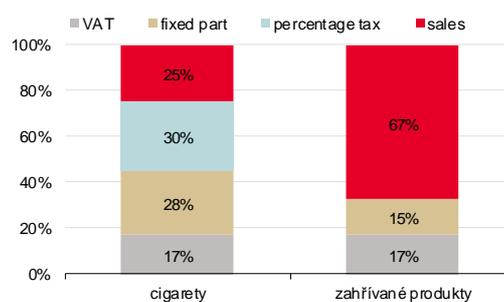
Starting next year, we anticipate a significant increase in the tax on heated products. Our assumption is that the excise tax will increase by 5% per year, similar to traditional products. We also expect the new excise duty to be increased by the ad valorem part. We assume 10% of the selling price next year. The large difference in the tax burden between the two product groups should narrow.

This tax burden applies to the Czech Republic. Similarly to CZ, Slovakia has a three-year (2021-2023) cycle of excise duty increases. From February 1, 2023, there was a further increase in the excise duty. The fixed rate of excise duty on cigarettes increased to €84.60 per 1,000 cigarettes. The minimum rate was increased to €132.10 per 1,000 cigarettes. The percentage tax rate on cigarettes remains unchanged at 23%.

The excise duty on heated products has been increased to €160 per kg of tobacco as of February. VAT on both product groups is 20%.

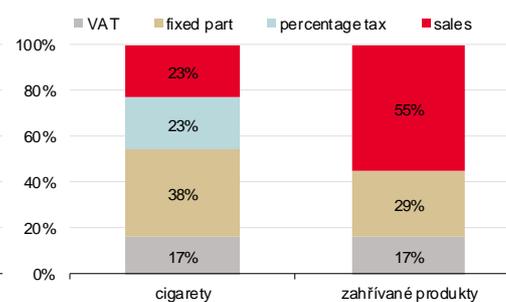
In the coming years, we expect excise taxes to increase similarly to the way they have increased in the Czech Republic. The fixed part of the excise tax will increase 5% per year. For new technologies, we further estimate the introduction of a fixed part of the sales price of 10%.

Tax burden on production in the CR



Source: PMCR, Economic and Strategy Research, Komerční banka

Tax burden on production in the SK



Source: PMCR, Economic and Strategy Research, Komerční banka

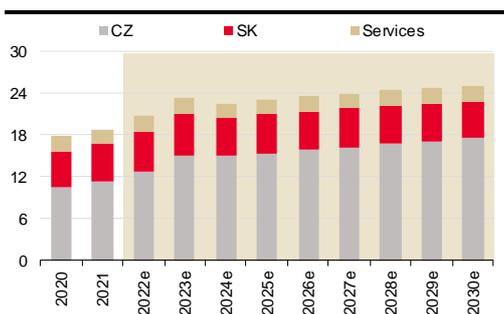
The total tax on conventional cigarettes is 76% of the price.

The total tax burden on cigarettes is 76%. Moreover, it will continue to rise to our estimate of 80%. For a packet of conventional cigarettes containing 20 cigarettes and costing CZK140, the total tax will be 75.5%. The fixed part of the tax (CZK1,970 per 1,000 cigarettes) amounts to CZK39.40 (CZK1.97 per cigarette times 20 cigarettes). The percentage part of the tax (30%) is CZK42. The total amount is CZK81.40. The minimum tax is CZK70.40 (3.52*20). The higher of these two options is taken, i.e. CZK81.40. This must also include VAT (21%, CZK24.30). The total tax is therefore CZK105.70. The sales revenue from one box alone is about CZK34.

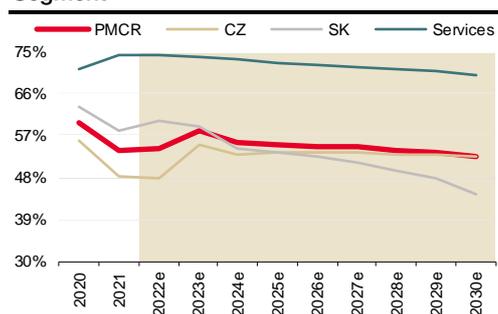
The total tax burden on heat-not-burn products in the Czech Republic is 32.6%. This is significantly lower than the burden for traditional cigarettes.

In Slovakia, the total tax rate is 77.3% for conventional products and 45.3% for heated refills.

Sales Development by Segment (CZKbn)



Expected Gross Margin Development by Segment



Source: PMCR, Economic and Strategy Research, Komerční banka

According to our estimates, total PMCR revenues are expected to grow at an average annual rate of +1.5% over the forecast period (2022-2030). They are expected to reach CZK22.2bn in 2022. In the last year of this period, they should grow to CZK24.3bn.

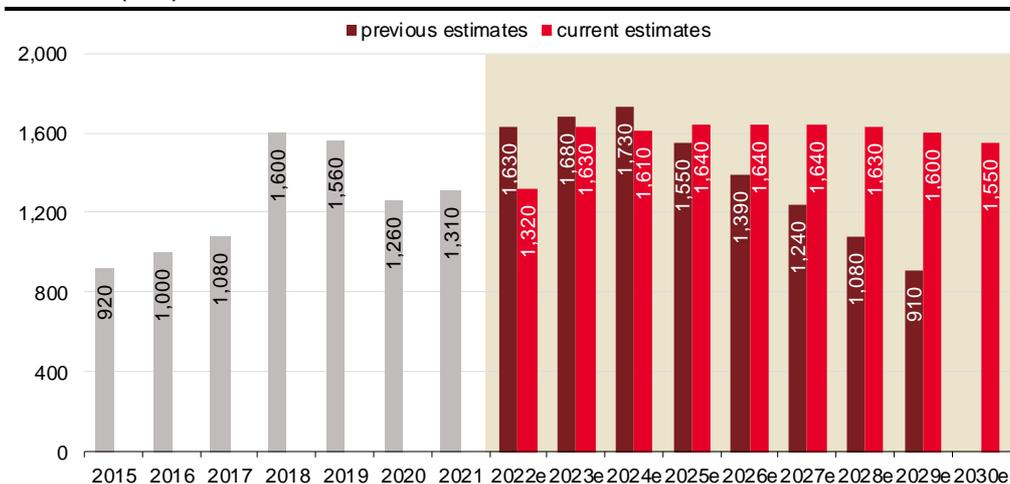
Cost inflation will have an impact on the numbers. Energy prices are likely to increase as PMCR uses gas as its main source of thermal energy, which will affect margins. We expect margins to decline to 43.9% in 2030 from 48.9% in 2021. Net profit is expected reach CZK4.3bn in 2030.

Philip Morris CR is undoubtedly considered a dividend stock by investors. It typically pays out 100% of net income to shareholders.

PMCR is a dividend story. We expect gross yield about 9%.

Last year, Philip Morris CR paid a dividend of CZK1,310 per share. This year, i.e. from 2022 earnings, we expect the company to pay CZK1,320 to shareholders. This implies a gross dividend yield of +7.7%. In the following years, we expect it to be around 9%.

Dividends (CZK)



Source: PMCR, Economic & Strategy Research, Komerční banka

Valuation

Peer comparison approach

PMCR trades at a premium compared to companies in the sector.

We have selected companies with a similar focus that sell their products in the Czech Republic, Slovakia or other European and global markets and are traded on stock exchanges. We consider British American Tobacco and Japan Tobacco International to be the most comparable companies to Philip Morris CR.

A table of relative comparisons is provided below. We can see that **Philip Morris CR trades at a premium to the median of its peers** (the P/E approximately 27% and the EV/EBITDA about 35%). This means that it is more expensive than its peers. But, in terms of **dividend yield, PMCR trades 15% above the market. This means that it offers a high dividend yield, probably one of the highest in the sector.**

Peers Comparison

| | P/E | | | P/S | | | EV/EBITDA | | | Dvd yield |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|--------------|--------------|--------------|
| | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | 2022 | 2023 | 2024 | (%) |
| Philip Morris CR | 12.7 | 12.7 | 11.4 | 2.2 | 2.2 | 2.2 | 10.9 | 9.8 | 9.9 | 7.9 |
| British American Tobacco PLC | 8.1 | 7.6 | 7.1 | 2.5 | 2.4 | 2.3 | 7.9 | 7.6 | 7.3 | 6.4 |
| Japan Tobacco Inc | 11.2 | 11.1 | 11.1 | 2.1 | 2.1 | 2.0 | 6.9 | 6.9 | 7.1 | 6.9 |
| Altria Group Inc | 9.3 | 8.8 | 8.5 | 3.9 | 3.9 | 3.9 | 8.5 | 8.3 | 8.1 | 8.1 |
| Imperial Brands PLC | 7.0 | 6.4 | 6.0 | 2.0 | 2.0 | 1.9 | 6.5 | 6.3 | 6.2 | 6.8 |
| Gudang Garam Tbk PT | 16.5 | 11.6 | 10.6 | 0.4 | 0.4 | 0.3 | 7.7 | 6.1 | 5.1 | 8.8 |
| Philip Morris International In | 15.8 | 14.5 | 13.3 | 4.4 | 4.1 | 3.9 | 13.1 | 12.1 | 11.2 | 5.2 |
| Medián trhu | 10.2 | 9.9 | 9.6 | 2.3 | 2.2 | 2.2 | 7.8 | 7.2 | 7.2 | 6.8 |
| <i>Philip Morris CR vs. median</i> | <i>23.7%</i> | <i>27.2%</i> | <i>19.3%</i> | <i>-3.1%</i> | <i>-2.8%</i> | <i>2.7%</i> | <i>39.9%</i> | <i>34.7%</i> | <i>37.5%</i> | <i>15.2%</i> |

Source: PMCR, Economic & Strategy Research, Komerční banka, Bloomberg

Discounted Dividend

We used the DDM method to value company.

To value the company, we used a discounted dividend model through 2030. **We discounted the estimated dividends using a cost of capital in the range of 9.3-8.6% over the period 2022 to 2030 and 8.6% for the terminal phase at a long-term growth rate of 0%.**

The cost of capital is based on the risk-free interest rate (the yield on 10-year Czech and Slovak government bonds), the adjusted beta coefficient (we use 120 months of data from Bloomberg), the equity risk premium and the country risk premium of the countries in which Philip Morris CR operates (both based on data from A. Damodaran of New York University).

The zero-growth rate reflects our assessment of a decline in tobacco consumption in PMCR's main markets, the threat of further excise tax increases and the risk of a reduction in the dividend payout ratio. We expect these factors to be partially offset by potential price increases and the development of the market for heated tobacco products.

A detailed structure of the calculation of the discount factor and other valuation parameters are shown in the table on the following page.

Based on our model, we estimate the **fair value / target price of the company at CZK18,349** per share.

Discounted Dividend Model

| CZKbn | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 |
|---|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cost of Equity | 9.3% | 8.9% | 8.3% | 8.4% | 8.6% | 8.6% | 8.6% | 8.6% | 8.6% |
| Beta | 0.545 | 0.545 | 0.545 | 0.545 | 0.545 | 0.545 | 0.545 | 0.545 | 0.545 |
| Risk Free Rate | 4.3% | 3.9% | 3.3% | 3.4% | 3.6% | 3.6% | 3.6% | 3.6% | 3.6% |
| Equity Risk Premium | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% | 7.1% |
| Country Risk premium | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.1% | 1.1% | 1.1% | 1.1% |
| DDM (CZK) | | | | | | | | | |
| Dividend - Gross | 1,320 | 1,630 | 1,610 | 1,640 | 1,640 | 1,640 | 1,630 | 1,600 | 1,550 |
| Dividend - Discounted | 1,225 | 1,389 | 1,266 | 1,190 | 1,096 | 1,009 | 923 | 835 | 745 |
| Sum of Discounted Dividends | 9,677 | | | | | | | | |
| Terminal Value | 8,672 | | | | | | | | |
| LT Growth | 0.0% | | | | | | | | |
| Fair Value Per Share - DDM (CZK) | 18,349 | | | | | | | | |

Source: Economic and Strategy Research, Komerční banka

The following table shows the sensitivity of the target price to changes in the discount rate and long-term growth rate.

Sensitivity Analysis

| LT Growth/WACC | -100 bb | -50 bb | 8,6 %* | + 50 bb | + 100 bb |
|-----------------------|----------------|---------------|---------------|----------------|-----------------|
| -1.0% | 18,349 | 17,831 | 17,367 | 16,949 | 16,570 |
| -0.5% | 18,931 | 18,349 | 17,831 | 17,367 | 16,949 |
| 0.0% | 19,590 | 18,931 | 18,349 | 17,831 | 17,367 |
| 0.5% | 20,342 | 19,590 | 18,931 | 18,349 | 17,831 |
| 1.0% | 21,208 | 20,342 | 19,590 | 18,931 | 18,349 |

Source: Economic and Strategy Research, Komerční banka

Risk factors

Philip Morris CR operates in a highly regulated market and is therefore exposed to a number of risks. We consider the main downside risks to our valuation to be:

- **Regulation of smoking in public:** The Czech Republic has historically been relatively tolerant of smoking in public. The tightening of smoking legislation poses a high risk to the sector as a whole. We have incorporated the impact of the new smoking restrictions into our models. The further tightening of regulations is a risk to the share price.
- **Tax changes:** A significant increase in excise taxes or VAT rates may have a negative impact on the company's margins. The amount of profits and dividends paid out may be affected by an increase in corporate income tax.
- **Manufacturing Services Fee:** Any decision by Philip Morris International to move this production to other countries would be significantly detrimental to our target price. Furthermore, the manufacturing services fee is dependent on the margins and volumes to be achieved by the parent PMI group. There may be downward pressure on this fee in the future. At the same time, future decisions of the majority shareholder may not be in the best interests of minority shareholders and may adversely affect the profitability of the stand-alone PMCR.
- **Cigarette alternatives:** The growing popularity of, for example, e-cigarettes or cut tobacco may exacerbate the expected decline in the cigarette market, where the PMCR is strongest. Similarly, the increase in gray or illegal cigarette imports may have a similar effect.
- **Competitors to IQOS:** Competitors already have alternatives to IQOS. British American Tobacco has been offering its glo product in the Czech Republic and Slovakia since September 2018.
- **Change in dividend policy:** PMCR distributes all profits to its shareholders. An adjustment, i.e. a reduction, would have a negative impact on the share price.

Positive impact:

- **Action against illegal imports:** Measures to crack down on the illegal market. This applies, in particular, to illegal imports, which could increase demand for the company's products.
- **Alternative smoking technologies:** Philip Morris is making significant investments globally in the development of new platforms, such as IQOS (heated tobacco technology), that could fundamentally change the tobacco industry and, if accepted and widely adopted, have significant impact on the company's bottom line.

Financial statements - annual

Philip Morris CR Financials

| CZKbn | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e |
|---|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| INCOME STATEMENT | | | | | | | | | | | | | | | | |
| Sales | 10.9 | 11.5 | 12.2 | 14.1 | 17.1 | 17.9 | 18.9 | 20.8 | 23.3 | 22.6 | 23.2 | 23.6 | 24.0 | 24.4 | 24.7 | 24.9 |
| CoS | -5.7 | -6.0 | -6.1 | -6.1 | -8.4 | -9.1 | -10.6 | -11.5 | -11.7 | -12.0 | -12.4 | -12.7 | -13.0 | -13.3 | -13.7 | -14.0 |
| Gross Profit | 5.1 | 5.4 | 6.1 | 8.0 | 8.7 | 8.7 | 8.3 | 9.3 | 11.6 | 10.5 | 10.8 | 10.9 | 11.0 | 11.1 | 11.1 | 10.9 |
| Operating Costs | -1.9 | -2.0 | -1.8 | -3.2 | -3.7 | -4.3 | -3.9 | -4.9 | -5.9 | -5.0 | -5.1 | -5.2 | -5.3 | -5.4 | -5.5 | -5.6 |
| EBIT | 3.2 | 3.5 | 4.3 | 4.8 | 5.0 | 4.5 | 4.4 | 4.4 | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.6 | 5.4 |
| DA | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| EBITDA | 3.7 | 4.0 | 4.9 | 5.5 | 5.7 | 5.2 | 5.1 | 5.1 | 6.3 | 6.2 | 6.3 | 6.3 | 6.3 | 6.3 | 6.2 | 6.0 |
| Income Tax | -0.6 | -0.7 | -0.8 | -1.0 | -1.0 | -0.9 | -0.9 | -1.0 | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 | -1.2 | -1.1 |
| Net Income | 2.6 | 2.8 | 3.5 | 3.8 | 4.0 | 3.5 | 3.5 | 3.6 | 4.5 | 4.4 | 4.5 | 4.5 | 4.5 | 4.5 | 4.4 | 4.3 |
| BALANCE SHEET | | | | | | | | | | | | | | | | |
| Total Assets | 15.1 | 15.6 | 15.6 | 16.0 | 16.4 | 16.2 | 17.7 | 18.2 | 20.0 | 19.7 | 19.9 | 20.0 | 20.1 | 20.2 | 20.2 | 20.0 |
| Non-current Assets | 3.9 | 4.4 | 4.4 | 4.3 | 4.1 | 3.6 | 3.3 | 2.8 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| PPE | 3.8 | 4.3 | 4.3 | 4.2 | 3.6 | 3.1 | 2.8 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 |
| Current Assets | 11.1 | 11.2 | 11.1 | 11.6 | 12.3 | 12.6 | 14.4 | 15.4 | 17.3 | 16.9 | 17.2 | 17.3 | 17.5 | 17.5 | 17.5 | 17.3 |
| Inventories | 0.4 | 0.3 | 0.6 | 1.1 | 1.7 | 0.9 | 1.9 | 2.0 | 2.2 | 2.1 | 2.0 | 2.0 | 1.9 | 1.9 | 1.8 | 1.7 |
| Trade and Other Receivables | 0.4 | 0.4 | 0.8 | 2.1 | 1.5 | 0.9 | 1.0 | 1.1 | 1.3 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 | 1.7 | 1.7 |
| Cash and Cash Equivalents | 7.5 | 8.2 | 7.3 | 5.6 | 6.4 | 8.2 | 9.3 | 9.9 | 10.8 | 10.9 | 11.1 | 11.1 | 11.2 | 11.1 | 11.1 | 10.9 |
| Total Equity | 8.0 | 8.2 | 8.9 | 9.8 | 9.4 | 8.7 | 8.7 | 8.5 | 9.4 | 9.4 | 9.6 | 9.6 | 9.7 | 9.7 | 9.7 | 9.6 |
| Non-current Liabilities | 0.2 | 0.2 | 0.2 | 0.2 | 0.5 | 0.4 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Current Liabilities | 6.9 | 7.2 | 6.4 | 5.9 | 6.5 | 7.1 | 8.7 | 9.3 | 10.2 | 9.8 | 10.0 | 10.0 | 10.1 | 10.1 | 10.1 | 10.0 |
| Net Debt(-)/Cash(+) | 7.5 | 8.1 | 7.3 | 5.5 | 6.4 | 8.2 | 9.3 | 9.9 | 10.8 | 10.9 | 11.1 | 11.1 | 11.2 | 11.1 | 11.1 | 10.9 |
| CASH FLOW | | | | | | | | | | | | | | | | |
| Pre-tax | 3.2 | 3.5 | 4.3 | 4.8 | 5.1 | 4.5 | 4.4 | 4.6 | 5.6 | 5.6 | 5.7 | 5.7 | 5.7 | 5.7 | 5.6 | 5.4 |
| Depreciation and amortisation | 0.5 | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| WC Change | 3.2 | 0.9 | -1.6 | -2.7 | 0.6 | 2.1 | 1.0 | 0.2 | 0.0 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cash movements | -0.5 | -0.6 | -0.8 | -0.8 | -0.9 | -0.9 | -1.1 | -0.7 | -1.2 | -1.1 | -1.2 | -1.1 | -1.1 | -1.1 | -1.1 | -1.1 |
| Net Cash Flow from Operating Activities | 6.4 | 4.3 | 2.6 | 1.9 | 5.5 | 6.4 | 5.1 | 4.7 | 5.1 | 5.1 | 5.2 | 5.1 | 5.2 | 5.1 | 5.0 | 4.9 |
| Net Cash Flow from Investing Activities | -1.0 | -1.2 | -0.6 | -0.7 | -0.1 | -0.2 | -0.3 | -0.4 | -0.5 | -0.4 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Dividends Paid | -2.4 | -2.5 | -2.7 | -3.0 | -4.4 | -4.3 | -3.5 | -3.5 | -3.6 | -4.5 | -4.4 | -4.5 | -4.5 | -4.5 | -4.5 | -4.4 |
| Net Cash Flow from Financing Activities | -2.4 | -2.5 | -2.7 | -3.0 | -4.5 | -4.4 | -3.6 | -3.6 | -3.8 | -4.6 | -4.5 | -4.6 | -4.6 | -4.6 | -4.6 | -4.5 |
| Change in Cash | 3.0 | 0.6 | -0.8 | -1.7 | 0.9 | 1.8 | 1.1 | 0.6 | 0.9 | 0.1 | 0.2 | 0.0 | 0.1 | 0.0 | -0.1 | -0.1 |

Source: PMCR, Economic & Strategy Research, Komerční banka

Philip Morris CR Financials

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022e | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| VALUATION | | | | | | | | | | | | | | | | |
| P/E (x) | 11.9 | 12.6 | 11.7 | 11.2 | 9.6 | 10.9 | 11.9 | 12.7 | 11.3 | 11.4 | 11.2 | 11.2 | 11.2 | 11.2 | 11.4 | 11.8 |
| Price/cash flow (x) | 4.8 | 8.0 | 15.9 | 22.1 | 7.1 | 6.0 | 8.3 | 9.9 | 9.9 | 9.9 | 9.8 | 9.9 | 9.7 | 9.9 | 10.0 | 10.3 |
| Price/free cash flow (x) | 2.1 | 4.1 | 8.0 | 14.8 | 2.9 | 2.3 | 3.3 | 4.3 | 4.1 | 4.1 | 4.1 | 4.1 | 4.0 | 4.1 | 4.2 | 4.4 |
| Price/book value (x) | 3.8 | 4.3 | 4.6 | 4.4 | 4.1 | 4.4 | 4.8 | 5.4 | 5.4 | 5.3 | 5.3 | 5.2 | 5.2 | 5.2 | 5.2 | 5.2 |
| EV/S (x) | 3.5 | 3.8 | 3.9 | 3.4 | 2.6 | 2.6 | 2.7 | 2.7 | 2.6 | 2.7 | 2.7 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 |
| EV/EBITDA (x) | 10.3 | 10.7 | 9.7 | 8.9 | 7.9 | 9.0 | 10.0 | 10.9 | 9.8 | 9.9 | 9.7 | 9.8 | 9.8 | 9.8 | 10.0 | 10.2 |
| DATA PER SHARE (CZK) | | | | | | | | | | | | | | | | |
| EPS | 936 | 1,008 | 1,269 | 1,397 | 1,465 | 1,285 | 1,281 | 1,324 | 1,625 | 1,607 | 1,642 | 1,639 | 1,645 | 1,632 | 1,604 | 1,553 |
| Operating Cash flow | 2,335 | 1,578 | 933 | 706 | 1,992 | 2,322 | 1,841 | 1,700 | 1,854 | 1,862 | 1,880 | 1,854 | 1,891 | 1,858 | 1,827 | 1,778 |
| Book Value | 2,898 | 2,985 | 3,249 | 3,569 | 3,437 | 3,154 | 3,175 | 3,105 | 3,429 | 3,434 | 3,486 | 3,505 | 3,530 | 3,537 | 3,529 | 3,498 |
| Gross Dividend | 920 | 1,000 | 1,080 | 1,600 | 1,560 | 1,260 | 1,310 | 1,320 | 1,630 | 1,610 | 1,640 | 1,640 | 1,640 | 1,630 | 1,600 | 1,550 |
| Dividend yield, brutto (%) | 8.3 | 7.9 | 7.3 | 10.2 | 11.1 | 9.0 | 9.3 | 7.9 | 8.9 | 8.8 | 8.9 | 8.9 | 8.9 | 8.9 | 8.7 | 8.4 |
| RATIOS | | | | | | | | | | | | | | | | |
| ROA (%) | 18.7 | 18.1 | 22.4 | 24.3 | 24.9 | 21.7 | 20.7 | 20.2 | 23.3 | 22.2 | 22.8 | 22.5 | 22.5 | 22.2 | 21.8 | 21.2 |
| ROE (%) | 32.6 | 34.3 | 40.7 | 41.0 | 41.8 | 39.0 | 40.5 | 42.2 | 49.7 | 46.8 | 47.4 | 46.9 | 46.8 | 46.2 | 45.4 | 44.2 |
| MARGIN | | | | | | | | | | | | | | | | |
| Gross Margin (%) | 47.2 | 47.6 | 50.1 | 56.8 | 50.9 | 48.9 | 43.9 | 44.7 | 49.7 | 46.7 | 46.7 | 46.3 | 45.9 | 45.4 | 44.8 | 43.9 |
| EBITDA Margin (%) | 34.0 | 35.1 | 40.5 | 38.8 | 33.4 | 29.0 | 27.1 | 24.6 | 26.9 | 27.4 | 27.2 | 26.7 | 26.2 | 25.6 | 24.9 | 24.0 |
| Operating Margin (%) | 29.5 | 30.3 | 35.6 | 34.0 | 29.3 | 24.9 | 23.1 | 21.4 | 24.2 | 24.7 | 24.6 | 24.1 | 23.7 | 23.2 | 22.5 | 21.6 |
| Net Margin (%) | 23.7 | 24.2 | 28.6 | 27.2 | 23.5 | 19.7 | 18.6 | 17.5 | 19.1 | 19.5 | 19.5 | 19.1 | 18.8 | 18.4 | 17.8 | 17.1 |
| DYNAMIKA RŮSTU | | | | | | | | | | | | | | | | |
| Tržby (%) | -22.7 | 5.4 | 6.5 | 15.4 | 21.4 | 4.6 | 5.5 | 10.1 | 12.2 | -3.1 | 2.6 | 1.8 | 1.9 | 1.6 | 1.3 | 0.9 |
| Náklady na prodeje (%) | -38.1 | 4.6 | 1.4 | -0.2 | 37.9 | 9.1 | 15.8 | 8.5 | 2.2 | 2.6 | 2.6 | 2.6 | 2.6 | 2.5 | 2.5 | 2.5 |
| Hrubý zisk (%) | 7.4 | 6.3 | 12.1 | 31.0 | 8.8 | 0.3 | -5.2 | 12.3 | 24.5 | -9.0 | 2.5 | 0.9 | 1.2 | 0.5 | -0.1 | -1.1 |
| EBITDA (%) | 9.7 | 8.8 | 22.8 | 10.7 | 4.5 | -9.3 | -1.5 | 0.2 | 22.6 | -1.2 | 1.7 | -0.2 | 0.2 | -0.7 | -1.5 | -2.8 |
| Vykázaný čistý zisk (%) | 14.0 | 7.7 | 25.9 | 10.1 | 4.8 | -12.3 | -0.3 | 3.3 | 22.8 | -1.1 | 2.2 | -0.1 | 0.3 | -0.8 | -1.7 | -3.2 |
| FINANCING | | | | | | | | | | | | | | | | |
| Net Debt / EBITDA (x) | -2.0 | -2.0 | -1.5 | -1.0 | -1.1 | -1.6 | -1.8 | -1.9 | -1.7 | -1.8 | -1.8 | -1.8 | -1.8 | -1.8 | -1.8 | -1.8 |
| Net Debt / Equity (x) | -0.9 | -1.0 | -0.8 | -0.6 | -0.7 | -0.9 | -1.1 | -1.2 | -1.1 | -1.2 | -1.2 | -1.2 | -1.2 | -1.1 | -1.1 | -1.1 |
| Assets / Equity (x) | 1.9 | 1.9 | 1.7 | 1.6 | 1.7 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Interest Coverage (x) | n.m. |

Zdroj: PMČR, Ekonomický a strategický výzkum, Komerční banka

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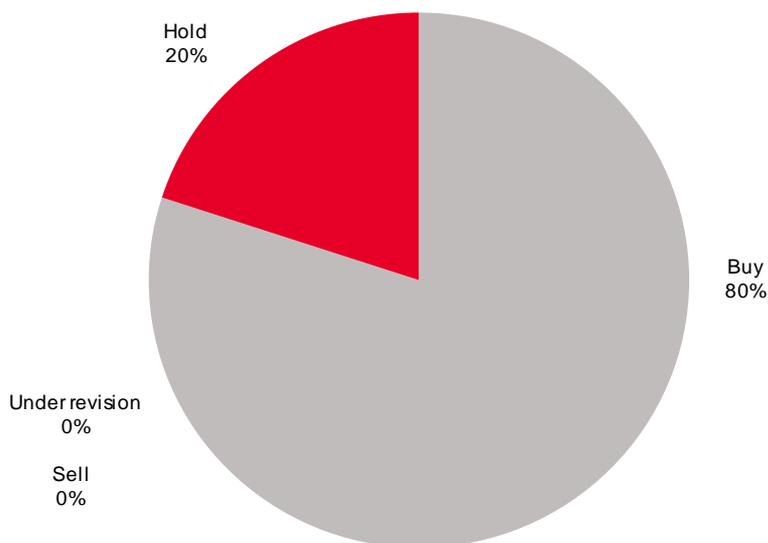
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The chart below shows the structure of the grades of valid investment recommendations of KB Economic and Strategic Research equity analysts (8 recommendations).

Investment recommendations of KB Equity Research



Source: economic and strategic research, Komerční banka

KB Equity Research recommendations for a 12-month horizon

BUY: estimated total return of 15% or more over the next 12 months

HOLD: estimated total return of 0 to 15% over the next 12 months

SELL: estimated total return of less than 0% over the next 12 months.

Total shareholder return means the estimated share price appreciation plus any estimated cash dividends, including any income from extraordinary dividends paid in the following 12 months. The specific recommendation is determined by the estimated total return stated above at the time the share coverage commences or the recommendation is changed. In the interim, price movements or other market situations may occur that may imply a different recommendation. Such interim deviations from the original recommendation are possible but are subject to review by KB Equity Research.

Overview of recommendations published by KB and relationships with particular issuers

| | CEZ | Colt CZ Group SE | Kofola | MONETA Money Bank | Philip Morris CR | Avast | O2 CR |
|---|--|---------------------|-------------|----------------------|---------------------|-------------|-------------|
| Overview of last investment research and recommendations related to stocks of particular issuers | | | | | | | |
| Recommendation | Buy | Buy | Buy | Buy | Hold | End | End |
| Target price | CZK 1 393 | CZK 652 | CZK 381 | CZK 104.6 | CZK 18349 | of coverage | of coverage |
| Date | 07.06.2022 | 16.12.2022 | 12.05.2022 | 05.09.2022 | 03.03.2023 | 07.09.2022 | 25.02.2022 |
| Price on the day of the publication | CZK 1 154 | CZK 559 | CZK 293 | CZK 73.2 | CZK 17200 | CZK 205,1 | CZK 270 |
| Investment horizon | 12 months | 12 months | 12 months | 12 months | 12 months | | |
| Author | B. Trampota | B. Trampota | B. Trampota | B. Trampota | B. Trampota | | |
| Overview of investment researches and recommendations for last 12M (quarterly) | | | | | | | |
| Recommendation | In revision | Buy | In revision | Buy | Buy | Buy | Buy |
| Target Price | In revision | CZK 645 | In revision | CZK 109.7 | CZK 18183 | GBp 600 | CZK 362 |
| Date | 10.05.2022 | 17.01.2022 | 15.02.2022 | 31.08.2021 | 11.02.2022 | 11.02.2021 | 26.03.2021 |
| Recommendation | Buy | In revision | Buy | In revision | Buy | Buy | Buy |
| Target Price | CZK 905 | In revision | CZK 367 | In revision | CZK 16 512 | GBp 466 | CZK 293 |
| Date | 10.12.2021 | 31.03.2021 | 12.01.2021 | 07.05.2021 | 20.11.2020 | 30.08.2019 | 08.01.2020 |
| Recommendation | Buy | Buy | In revision | Buy | Buy | In revision | Buy |
| Target Price | CZK 621 | CZK 357 | In revision | CZK 97 | CZK 18308 | In revision | CZK 298 |
| Date | 23.07.2020 | 27.11.2020 | 26.11.2020 | 29.10.2019 | 03.12.2018 | 14.08.2019 | 12.12.2018 |
| Recommendation | Buy | | Buy | Buy | Buy | Buy | Hold |
| Target Price | CZK 717 | | CZK 482 | CZK 97 | CZK 17546 | GBp 342 | CZK 270 |
| Date | 10.06.2019 | | 04.07.2019 | 07.03.2019 | 22.08.2017 | 15.06.2018 | 18.08.2017 |
| Valuation methods | DFCF | DFCF | DFCF | DFCF DDM ERM | DDM | DFCF | DFCF DDM |
| Frequency of rec. (per year) | once | once | once | once | once | once | once |
| Direct or indirect share (5% or more) of the issuer of the registered capital of KB | no | no | no | no | no | no | no |
| Other significant financial interest of KB and/or its linked persons in the issuer | no | no | no | no | no | no | no |
| KB direct or indirect share (0.5% or more) of the registered capital of the issuer. | no | no | no | no | no | no | no |
| Author's direct or indirect share (0.5% or more) of the registered capital of the issuer. | no | no | no | no | no | no | no |
| Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec. | no | no | no | no | no | no | no |
| Relationships of Komerční banka with particular issuers | | | | | | | |
| KB Management or co- management of public offerings in the past 12 month | no | yes | no | no | no | no | no |
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Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

Source: Economic & Strategy Research, Komerční banka