

Beverages

Update

Czech Republic

# Kofola CeskoSlovensko

Expected growth, M&A potential

## Buy

Price 29.05.23	<b>CZK 244</b>
12m target	<b>CZK 313</b>
Upside to TP	<b>28.3%</b>
Dividend	<b>CZK 11.3</b>
Total return	<b>32.9%</b>

**Sector stance**  
Underweight

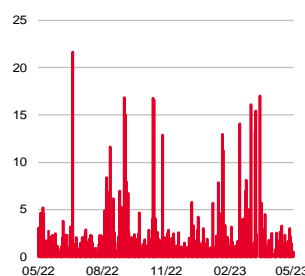
**Investment type**  
High dividend yield  
Acquisition growth

### 1 year performance



Source: Bloomberg

### Trading volume (in ths of shares)



Source: Bloomberg

### Share data

RIC KOFOL.PR Bloom	KOFOL CP
52-week range	226-303
Market cap. (CZKb)	5.5
Market cap. (EURm)	231
Free float (%)	27
<b>Performance (%)</b>	<b>1m 3m 12m</b>
Share	-0.4 -2.0 -18.3
Rel. PX Index	3.5 4.5 -19.3

Source: Bloomberg

**Recommendation:** We reiterate a **Buy** recommendation on Kofola CeskoSlovensko with a **target price of CZK313** per share. (The previous recommendation and target price were Buy and CZK381.) After the pandemic-related restrictions that hit the restaurant business hard, Kofola was again impacted by high input and energy price inflation. We expect organic growth in all three of Kofola's core businesses. In addition, we see growth potential through M&A operations, where Kofola has been quite active in the recent past.

**Business Outlook:** In our forecasts, we estimate an average annual EBITDA growth rate of +5.7% and revenue growth of +6.4% over the period 2023-2027. In 2027, revenues should reach CZK10.8bn and EBITDA CZK1.5bn. This year, we expect input costs (especially packaging and sweeteners) to rise rapidly, but Kofola should demonstrate cost discipline in other cost items. According to our forecasts, this year's EBITDA will be at the upper end of management's target (CZK1.10-1.25bn). We estimate that it will grow +9.6% yoy to CZK1.217bn.

**Valuation:** We used a discounted free cash flow model to value Kofola's shares. We discounted our projections over the 2023-2027 forecast period using a cost of capital of 8.2%-9.1% and a terminal value of 9.1% at a long-term growth rate of 2%. **We set our target price at CZK313 per share.** Our price offers a growth potential of +27.8% compared to the current market price. The total potential, including dividend yield, is +32.4%. This is equivalent to a Buy recommendation.

We value Kofola at a P/E of 21.6x and EV/EBITDA of 8.4x. The sector median of comparable companies is 24.1x and 18.8x, respectively. Thus, Kofola trades at a significant discount to its peers.

**Key Risks:** The price of input materials, especially packaging materials and sweeteners, is obviously a significant risk. Energy prices remain in question. In addition, any restriction of distribution channels, as in the case of the pandemic, is a risk. A fall in real wages could also play a role, which could affect demand for the group's products. Finally, the planned transition to a higher VAT rate on beverages could have a negative impact on demand.

**Upcoming Events:** Kofola plans to release its 1Q23 results on 1 June.

### Financial Data

	2022	2023e	2024e	2025e
Revenues (mil. CZK)	7,875	8,796	9,235	9,721
EBITDA margin (%)	14.1	13.8	13.6	13.7
Net Income (mil. CZK)	264	323	406	480
EPS (CZK)	10.8	11.8	14.5	18.2
DPS (CZK)	13.5	11.3	11.3	13.5
Payout (%)	457	105	95	93
Interest Coverage (x)	2.0	2.7	3.4	4.8
Net Debt / Equity (%)	2.6	2.4	2.0	1.6

### Ratios

	2022	2023e	2024e	2025e
P/E (x)	23.9	21.6	17.2	14.5
Price / Free Cash Flow	12.3	7.7	10.2	9.6
Dividend yield (%)	4.7	4.0	4.7	4.3
P/BV (x)	4.7	5.0	4.6	4.1
EV/S (x)	1.2	1.2	1.1	1.0
EV/EBITDA (x)	8.6	8.4	7.9	7.2
P/OCF	6.8	5.1	6.2	5.8
ROE (%)	19.8	23.6	27.9	30.0

### The latest analysis and report:

[https://bit.ly/Kofola\\_last\\_divi2021](https://bit.ly/Kofola_last_divi2021)  
[https://bit.ly/Kofola\\_3Q21\\_results](https://bit.ly/Kofola_3Q21_results)  
[https://bit.ly/Kofola\\_4Q21final](https://bit.ly/Kofola_4Q21final)

SOCIETE  
GENERALE  
GROUP

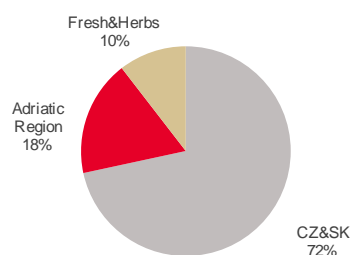


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## Company overview

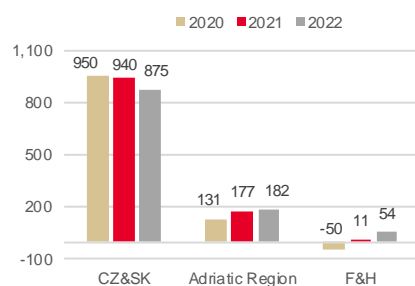
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Leading positions on Slovak and Slovenian markets, second place on Czech and Croatian markets</li> <li>Strong local brands</li> <li>Vast experience of management in the areas of production and distribution of nonalcoholic beverages</li> </ul>	<ul style="list-style-type: none"> <li>High bargaining power of retail chains pressuring producers' margins</li> <li>High leverage, possibly impacting dividends</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Inorganic growth via potential acquisitions</li> <li>Focus on healthy nutrition, extending UGO salad bar segment</li> <li>Fall in raw material costs (especially sweeteners and packaging)</li> <li>Potential dividend growth</li> </ul>	<ul style="list-style-type: none"> <li>Restrictive measures impacting business</li> <li>Raw materials cost increase</li> <li>Failure to integrate acquisitions</li> <li>Adverse macroeconomic situation in countries the company operates in</li> </ul>

Geographical sales breakdown (2022)

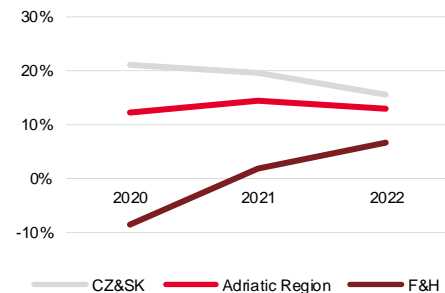


Source: Kofola

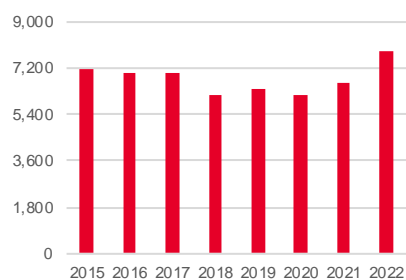
EBITDA by segment (CZKm)



EBITDA margin (%)

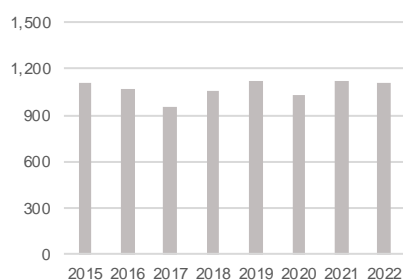


Sales (CZKm)

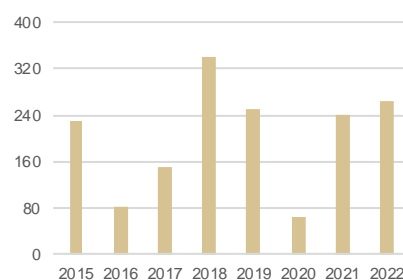


Source: Kofola

EBITDA (CZKm)



Net Profit (CZKm)



## Company results

### The year 2021

Kofola's reported numbers for the last quarter and the full year 2022 exceeded estimates and the company's own guidance.

#### Kofola's financials for 4Q22 and FY 2022

CZKm	4Q21	4Q22	y/y	KB	Cons.	2021	2022	y/y	KB	Cons.
Sales	1,569	1,811	15.5%	1,810	1,811	6,636	7,875	18.7%	7,874	7,875
EBITDA	142	230	62.5%	222	207	1,128	1,110	-1.6%	1,102	1,087
margin	9.0%	12.8%	3.7pps	12.3%	11.4%	17.0%	14.1%	-3.0pps	14.0%	13.8%
EBIT	-9.8	88	n.m.	72		519	533	2.6%	517	
Net Profit	-60	54	n.m.	13		229	209	-8.8%	168	

Source: Kofola CeskoSlovensko; Economic & Strategy Research, Komerční banka, \*Company consensus

In recent years, Kofola has typically released selected operating data (revenue and EBITDA) in mid-February. The full results were then included in the annual report. The presentation took place on 13 April.

In the last quarter of 2022, Kofola achieved revenues of CZK1.81bn (+15.5% yoy) and EBITDA of CZK230m (+62.5% yoy). This most likely reflects the price increase during the year. Tight control of operating costs (e.g. marketing, admin) helped meet the full-year guidance. Another major contributor was the stabilization of energy costs in the fourth quarter alone, which fell from the highs seen during the year. (Kofola buys energy on the spot market.) However, the increase in raw materials (sweeteners, packaging materials) was almost as high as the increase in sales. The most important segment, CzechoSlovakia, which drove the results, increased EBITDA in 4Q to CZK225m (CZK166m in 4Q21). The growth was driven by a lower comparative base, with 4Q21 still impacted by Covid restrictions. Fresh&Herbs reached CZK18m (CZK3m a year ago). Only the Adriatic region recorded a loss of CZK13m, which is half of what it was a year ago (CZK-26m). Net profit in 4Q was CZK54m (CZK-60m a year ago). Last year, total EBITDA was CZK1.11bn (-1.6% yoy) on revenues of CZK7.88bn (+18.7% yoy). Net profit for the full year decreased by 8.8% yoy to CZK209m. As a reminder, Kofola achieved its EBITDA targets of CZK1.08bn and revenue growth of +19%.

Leverage (Net debt/EBITDA) is 2.97x (3.06x at the end of 2021). This is in line with the target of <3.0x.

### Projections of 1Q23 results

Kofola is expected to report first quarter 2022 results on 1 July.

CZKm	Q1 22	Q1 23 (KB)	y/y
Sales	1,506	1,708	13.4%
EBITDA	112	177	58.8%
margin	7.4%	10.4%	3.0pps
EBIT	-35	34	n.m.
Net Profit	-106	-5	n.m.

Source: Kofola CeskoSlovensko; Economic & Strategy Research, Komerční banka

In the first quarter, sales are expected to grow +13% yoy, with volumes down 8%. This was already announced as part of the 2022 results. In addition, energy prices, which Kofola buys on the spot market, have fallen. Sweetener costs are likely to have risen, but like energy, packaging costs should also fall. We expect tight cost control. The first quarter is the weakest in terms of seasonality. Due to good weather, the summer months or quarters are the most important from

a full-year perspective. We expect Kofola's commentary to be cautious for the next quarters, but to confirm the full-year guidance.

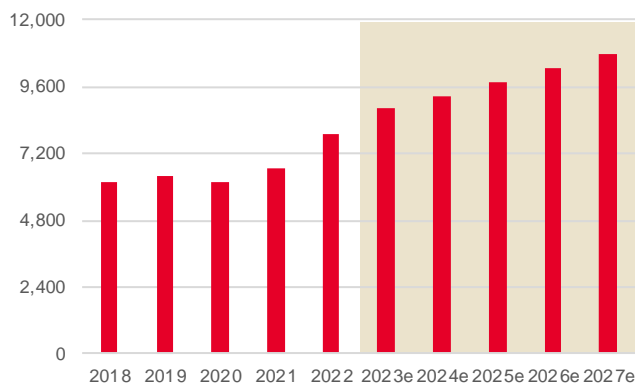
Kofola is expected to achieve sales growth of +13% yoy to CZK1.7bn in 1Q23. Kofola increased its production prices by +20%. This, together with falling real wages, is likely to have impacted demand. According to earlier data, volumes declined by 8% yoy. We expect lower energy prices. Packaging prices should also follow a downward trend, while sugar prices continued to rise in 1Q23. We also assume that Kofola has saved on other operating costs, such as marketing and administration. We expect Kofola's EBITDA to reach CZK177m (+59% yoy). For 1Q23, we expect a small net loss of CZK4.6m (CZK-105.6m in 1Q22).

FY projection: Kofola expects EBITDA of CZK1.10-1.25bn. Total revenues are expected to grow +12% yoy. Leverage remains below 3.0x and there is a dividend outlook of at least CZK11.30 per share, with a final decision expected this fall. We expect Kofola's management to confirm these goals. Our 1Q23 estimates imply around 15% of the FY guidance.

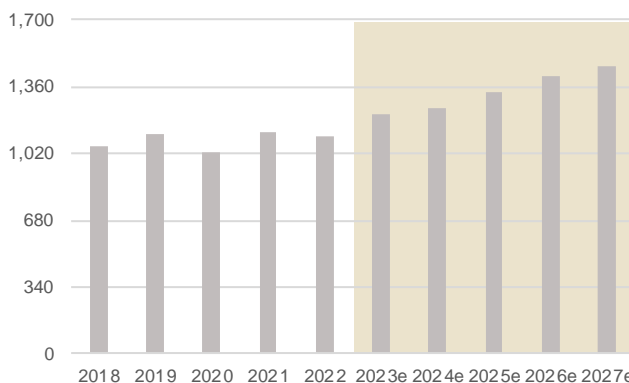
We expect that, as in previous presentations, Kofola will show the development of its sales in the months following 1Q. It is also possible that there will be an update on M&A developments.

## Long-term forecasts

Sales (CZKm)



EBITDA (CZKm)

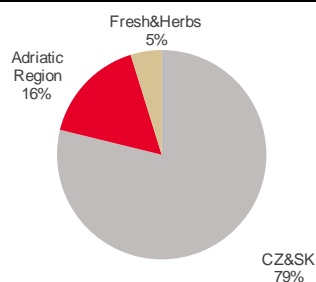


Source: Kofola CeskoSlovensko; Economic & Strategy Research, Komerční banka

Kofola has three business pillars. These are the CzechoSlovakia operations, the Adriatic region, which includes Slovenia and Croatia, and Fresh&Herbs, which includes the UGO salaterias, the tea business, syrups, juices and others.

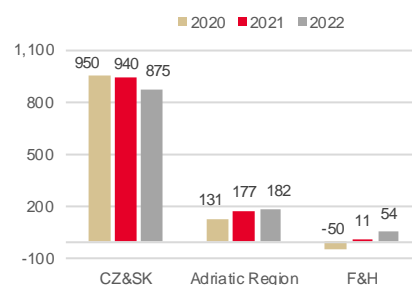
Kofola's most important sector is CzechoSlovakia. Last year, it accounted for 79% of the EBITDA of the entire Kofola Group. The Adriatic segment accounted for 16% and Fresh&Herbs for the remaining 5%. The development in recent years has been negatively affected first by the pandemic and then by the difficult energy situation.

EBITDA (2022)



Source: Kofola CeskoSlovensko

EBITDA by segments (CZKbn)



Kofola's guidance is to achieve an EBITDA CZK1.10-1.25bn this year. This corresponds to yoy growth of +5.8% (midpoint). Sales will be affected by the price increase of Kofola's beverages. On the other hand, demand is expected to decrease due to the decline in real purchasing power. In 1Q, Kofola reported total revenue growth of +13% yoy, although volumes sold were down 8% yoy. Our EBITDA estimates are closer to the upper end of Kofola's guidance. We expect Kofola to achieve an EBITDA of CZK1.217bn this year (+9.6% yoy) on a revenue growth of +11.7% yoy to CZK8.796bn.

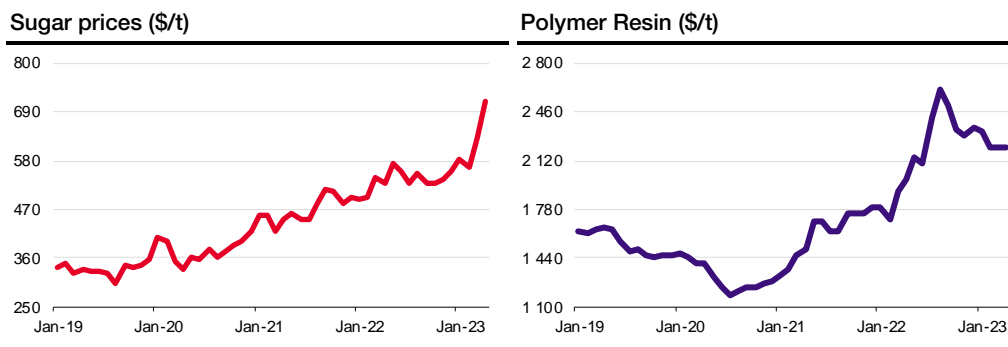
The consolidation package of Prime Minister P. Fiala's government includes an increase in VAT on beverages. The VAT rate is to be increased from the current 15% to 21%. This will most likely lead to higher prices for consumers. This could have a negative impact on demand and sales volumes. We assume that the government coalition will pass the consolidation package with the strength of its majority and that the change will take effect from next year.

Over the forecast period (2023-2027), we estimate that total revenues will grow at CAGR of +5.7%. The Czech Republic and Slovakia will remain Kofola's most important markets. Together, they are expected to generate nearly 80% of total revenues.

Kofola's business is naturally seasonal. The second and third quarters are the strongest. The weather is more favorable (warmer) and tourism increases, holidays are taken and customer consumption in restaurants increases. The third quarter is the strongest and has averaged over 30% of total annual sales in recent years. The second quarter contributes approximately 28%.

By contrast, the first and fourth quarters are by far the weakest. On average, the last quarter of the year accounts for approximately 23% of total sales, compared to approximately 19% in the first quarter.

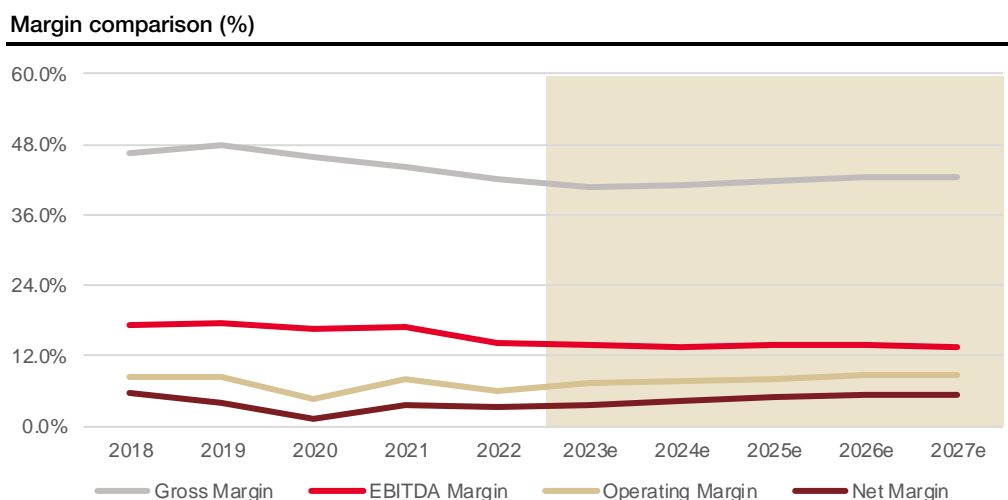
The main material cost items are packaging materials (PET), sweeteners and concentrates. In 2022, PET accounted for 57.8% of material costs, sweeteners 23.8% and concentrates 18.4%. The charts below show that packaging prices have been falling since about the middle of last year. They are at a much more comfortable level than sugar costs. While packaging costs have come down from their highs, the price of sugar remains a challenge. Kofola buys energy on the spot market. Following the energy crisis that peaked last year, there was a significant power price reduction at the end of 2022. This was one of the reasons why Kofola was able to meet its full year target.



Kofola strives to strictly control operating costs. We expect sales, marketing and distribution expenses to grow by +4.1% this year and by +5.2% on average over the forecast period (CAGR 2023-2027). We estimate that administrative expenses will grow at a similar pace (+4.5% yoy). We then estimate total operating expense growth at +5.1% through 2027.

Kofola plans to achieve EBITDA of CZK1.10-1.25bn this year, with sales growth of +12%. We estimate EBITDA of CZK1.217bn, which is practically at the upper end of Kofola's full-year target. We estimate top-line growth of +11.7%, which is in line with management's guidance.

In the forecast period, EBITDA is expected to reach CZK1.47bn. This corresponds to a CAGR of +5.7%.



Source: Kofola CeskoSlovensko; Economic & Strategy Research, Komerční banka

In 2020, the company's margin declined due to the restrictive measures introduced because of the Coronavirus pandemic. This had an overwhelming impact on the HoReCa (hospitality) segment with a significant reduction in demand. As a result, the EBITDA margin declined by approximately one percentage point to 16.7% this year (2020). It then increased slightly with the easing of restrictions, only to be hit again in 2022, this time in the form of high raw material and energy inflation. In 2022, the EBITDA margin was 14.1%. In the coming years, we estimate an EBITDA margin of around 14%.

## Dividend policy

The dividend is expected to increase

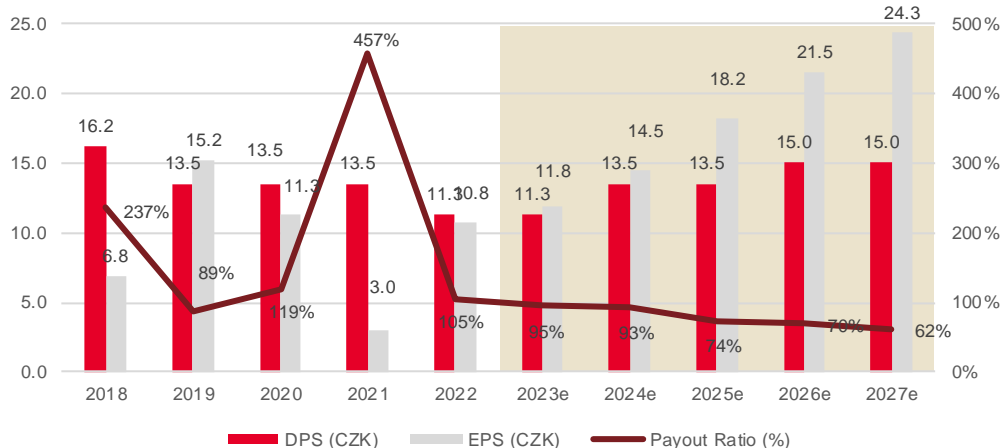
We see a upside potential for dividends.

Kofola intends to pay an annual dividend of CZK300m. This is equivalent to CZK13.50 per share. Such a dividend was actually paid by Kofola in 2019-2021. Last year a dividend of CZK11.30 was paid. The decrease was caused by a turbulent year (2021) that was significantly affected by the pandemic.

Kofola announced a similar payout of CZK11.30 this year. After the pandemic years, the cause, for a change, was the energy crisis. This is probably the reason for the expected payout, which is lower than the company's dividend policy. As in previous years, shareholders should decide on the dividend in the fall, when Kofola has a better view of the year's results.

We expect Kofola to return to a payout of CZK13.50 per share in the coming years. This could bring the payout ratio down to 60%. This is a much lower level compared to 2019-2021. Based on our price target (see below), the projected dividend would represent a dividend yield of around 3.6%.

### Dividend projections (CZK)



Source: Kofola CeskoSlovensko; Economic & Strategy Research, Komerční banka; in year in which is paid

However, according to our projections, Kofola will be able to pay out a higher dividend to shareholders. We expect significant room for dividend growth over the forecast period as earnings per share (EPS) increase while debt decreases (see below). According to our estimates, the dividend could increase to CZK15/share.

On the other hand, we also see risks that could affect the dividend payout, one of which could be potential acquisitions. In recent weeks there has been speculation in the press about interest in buying the Pivovary CZ Group (breweries). This could affect the ability to pay the dividend. The dividend payment could also be affected by the market situation (see the dividend approval at the end of the year) or the high level of debt.

## Indebtedness

Kofola's leverage, as measured by the net debt/EBITDA ratio, increased sharply in 2020 (see chart below). This was due to the acquisitions of Ondrášovka and Karlovarská Korunní. At the end of last year, this ratio was just below 3.0x. We consider this debt level to be comfortable.

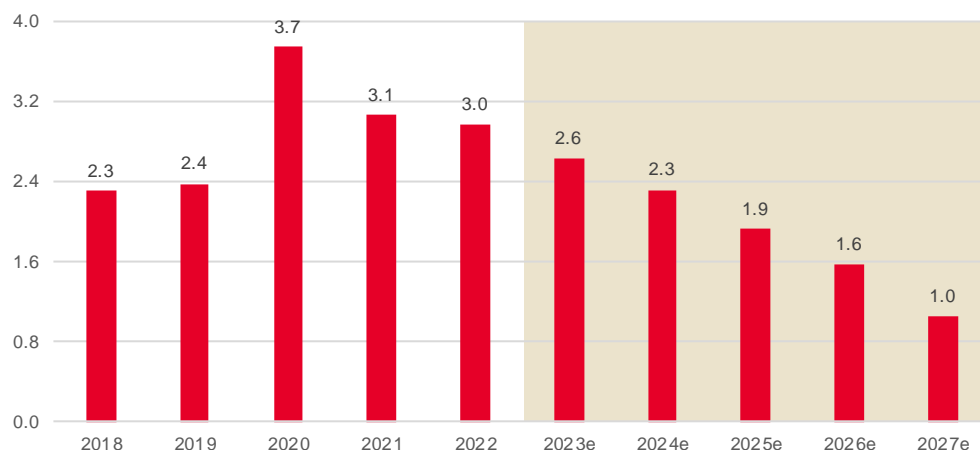
Bank covenants are set at 3.5x.

Leverage to drop to 1.6x.

According to our projections, net debt/EBITDA should continue to fall below 2.0x. Such a leverage level would of course consolidate capacity and help pay a dividend.

The chart below shows that even though the leverage increased more than expected, Kofola was able to quickly reduce it to a reasonable level. At the same time, even with this level of indebtedness, Kofola has demonstrated that it has not lost its ability to pay a dividend and that this has not affected distributions to shareholders (see charts above and below).

Leverage (Net Debt / EBITDA)



Source: Kofola, Economic & Strategy Research, Komerční banka

## M&A activities

In addition to organic growth, acquisition is certainly another way to develop the company.

Potential acquisition targets could include operations that would further expand the existing core soft drinks business. Another area where potential acquisitions could be recruited could be in the Fresh&Herbs sector (e.g. local sourcing, healthy ingredients). We expect that any potential acquisitions would be in line with the sustainability philosophy that Kofola promotes.

Recently, the press reported Kofola's interest in acquiring a majority stake in the Pivovary CZ Group (breweries). This would be the first such transaction in the brewing segment. However, we do not expect Kofola to further develop the alcoholic beverages sector with hard liquor or wine, for example. We expect any acquisitions to complement the existing product portfolio.

Not all M&A transactions would necessarily result in a significant leverage increase. In addition, Kofola would like to keep its net debt/EBITDA multiple below 3.0x. In case of an acquisition, the indebtedness should not exceed 3.5x. Kofola could finance major acquisitions by issuing new shares, through a joint venture or with a financial partner.



## Valuation

### Sector comparison

Kofola trades at a significant discount to its peers.

The Kofola Group does not have any comparable publicly traded competitors in the Czech Republic. Therefore, we selected companies with a similar focus that sell their products in the Czech Republic or other European countries for comparison. At the same time, we used the S&P 500 Soft Drinks sector index for comparison with the overall soft drinks market.

The table below shows selected multiples that we use to compare Kofola to its peer group. In terms of P/E, Kofola trades at a significantly lower premium on earnings compared to competitors. However, the discount is even higher for EBITDA or sales multiples (EV/EBITDA, EV/Sales and P/S). On the other hand, Kofola offers an above-average dividend yield of 4.6% relative to the sector.

A relative comparison of the selected multiples indicates a significant discount in Kofola's valuation compared to its peers.

#### Peers Comparison

	P / E			EV/EBITDA			EV/Sales			P/S			ROE	Divi. %
	2023	2024	2025	2023	2024	2025	2023	2024	2025	2023	2024	2025	akt.	akt.
Kofola CeskoSlovensko AS	21.6	17.2	14.5	8.4	7.9	7.2	1.2	1.1	1.0	0.8	0.8	0.7	23.6	4.6
Coca-Cola Co/The	23.1	21.4	20.0	19.9	18.7	17.5	6.5	6.1	5.8	5.8	5.5	5.2	39.4	3.1
PepsiCo Inc	25.1	23.1	21.5	17.6	16.4	15.4	3.2	3.0	2.9	2.8	2.7	2.5	37.3	2.8
Monster Beverage Corp	37.5	32.2	28.3	26.7	23.1	20.6	8.0	7.3	6.6	8.5	7.6	6.9	18.2	n/a
AG Barr PLC	16.6	15.3	13.7	9.1	8.4	7.6	1.3	1.3	1.2	1.5	1.4	1.4	13.2	2.6
Keurig Dr Pepper Inc	17.6	16.4	15.2	13.3	12.6	12.0	3.9	3.7	3.6	3.0	2.9	2.7	5.2	2.5
Fevertree Drinks PLC	74.1	47.1	35.8	41.9	28.0	22.3	4.1	3.7	3.3	4.3	3.9	3.5	9.6	1.1
MEDIAN	24.1	22.3	20.7	18.8	17.5	16.4	4.0	3.7	3.5	3.6	3.4	3.1	15.7	2.6
S&P 500 Soft Drinks & Non-alco	24.3	22.5	20.9	18.4	17.0	16.0	n/a	n/a	n/a	3.8	3.6	3.5	32.6	n/a
Kofola vs median	-10.4%	-23.0%	-29.9%	-55.5%	-55.1%	-56.4%	-71.0%	-71.2%	-71.6%	-78.1%	-77.5%	-77.0%	50.4%	79.6%
Kofola vs S&P 500 Soft Drinks	-11.1%	-23.7%	-30.5%	-54.6%	-53.8%	-55.2%	n/a	n/a	n/a	-79.3%	-79.3%	-79.3%	-27.6%	n/a

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Please note that relative comparisons may be misleading. This is mainly due to the heterogeneity of individual companies in terms of size, product mix, geographic segmentation or capital structure. We therefore consider relative comparisons to be a complementary valuation method only.

### Target price

A discounted cash-flow model was used.

A new target price is set at CZK313 per share.

**We have valued Kofola using a two-step discounted free cash flow (DCF) model with a five-year explicit forecasting period.** The free cash flow is discounted using a weighted average cost of capital (WACC) in the range of 8.2%-9.1% over the period 2023-2027 and 9.1% for perpetuity with a long-term growth rate of 2%. Based on the DCF method and the discount rates below, **we estimate the fair value of the Kofola to be CZK313 per share.**

**Kofola valuation**

	2023e	2024e	2025e	2026e	2027e
<b>WACC</b>	<b>8.2%</b>	<b>7.9%</b>	<b>7.9%</b>	<b>8.2%</b>	<b>9.1%</b>
<b>CoE</b>	<b>12.3%</b>	<b>11.8%</b>	<b>11.5%</b>	<b>11.5%</b>	<b>11.5%</b>
Beta	0.887	0.887	0.887	0.887	0.887
Risk Free Rate	4.4%	3.9%	3.7%	3.7%	3.6%
Equity Risk Premium	7.3%	7.3%	7.3%	7.3%	7.3%
Country Risk Premium	1.4%	1.4%	1.4%	1.4%	1.4%
<b>CoD</b>	<b>6.4%</b>	<b>5.9%</b>	<b>5.5%</b>	<b>5.4%</b>	<b>5.3%</b>
<b>Discounted FCFF (mil. CZK)</b>					
EBITDA	1,217	1,253	1,332	1,411	1,468
Taxes Paid	-164	-202	-220	-265	-279
WC Change	287	73	80	89	98
CAPEX	-440	-443	-467	-491	-538
<b>FCFF</b>	<b>900</b>	<b>680</b>	<b>726</b>	<b>744</b>	<b>750</b>
Preset Value of FCFF	832	583	576	546	504
Sum of Present Value until 2026	3,041				
LT Growth	2.0%				
Preset Value after 2026	7,226				
Net Debt	3,295				
Estimated Value of Equity	6,971				
<b>Target Price (CZK)</b>	<b>313</b>				

Source: Economic & Strategy Research, Komerční banka

The following table provides a snapshot of the sensitivity of Kofola's target price to changes in WACC and the long-term growth rate.

**Sensitivity analysis**

<b>Target Price</b>					
<b>LT Growth / WACC</b>	<b>-100 bb</b>	<b>-50 bb</b>	<b>8.3 % / 9.1 % *</b>	<b>+50 bb</b>	<b>+100 bb</b>
1.0%	313	339	339	313	270
1.5%	290	313	313	290	252
2.0%	290	313	<b>313</b>	290	252
2.5%	313	339	339	313	270
3.0%	369	405	405	369	313

Note: \* the first value corresponds to the average for the years 2022-26, the second value after 2026

Source: Economic & Strategy Research, Komerční banka

## Main risks

- **Restrictive measures:** Any restrictions, such as those during the coronavirus pandemic, will have a negative impact on Kofola's business. This is because they restrict distribution channels and reduce demand for the group's products.
- **Changing Consumer Preferences:** Consumer preferences evolve over time, so it is important for the company to stay abreast of current trends and directions in this area. For example, there has recently been increased interest in healthy eating. Failure to adapt could jeopardize Kofola's sales and market share.
- **Developed markets:** In the countries where the Kofola Group operates, the soft drink market is stagnating. Both international and local producers compete by offering a wide range of products. This situation increases the risk of price erosion or loss of market share.
- **Retail segment pushes down margins:** Customers generally prefer to buy discounted goods, which the retail segment can offer. This makes the retail segment more important and increases its bargaining power vis-à-vis the Kofola Group. This increases the pressure on selling prices or prevents input price increases from being reflected in the final price.
- **Inputs:** Inputs such as sweeteners and packaging materials are among the most significant cost items for the company. Their prices are based on market prices for raw materials such as sugar and polyester resin (or crude oil). A sudden increase in the price of these raw materials would have a negative impact on the profitability of the products and the Kofola Group as a whole.
- **M&A activity:** Organic growth is rather limited for Kofola. Therefore, growth through acquisitions (as was the case with Ondrášovka and Karlovarská Korunní) is proposed. Acquisition is a challenging process that does not always work in the company's favor, e.g. there is a risk of overpaying the target company.
- **Exchange rate:** Many of the raw materials (mainly sugar) used in the Group's production are purchased in euros or in local currencies with a euro-based valuation. As some of the countries in which the Group operates are outside the euro zone, a portion of the Group's sales are denominated in local currencies other than the euro. As a result, the Group is exposed to the risk of fluctuations in the euro exchange rate against these local currencies.
- **Interest rate fluctuations:** As the Kofola Group has bank loans in its portfolio, it is exposed to interest rate risk, which is partially offset by hedging derivatives.

**Kofola financials**

<b>CZK M</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023e</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>	<b>2027e</b>
<b>INCOME STATEMENT</b>								
Sales	6,171	6,636	7,875	8,796	9,235	9,721	10,224	10,755
CoS	-3,350	-3,710	-4,564	-5,203	-5,453	-5,673	-5,902	-6,182
Gross Profit	2,822	2,926	3,311	3,593	3,782	4,048	4,322	4,573
Operating Costs	-2,529	-2,391	-2,829	-2,938	-3,082	-3,254	-3,440	-3,629
Operating Profit	293	535	483	655	700	793	881	944
EBITDA adjusted	1,030	1,128	1,110	1,217	1,253	1,332	1,411	1,468
Fin. Net	-101	-170	-83	-166	-84	-66	-60	-68
Pre-tax	192	365	400	489	615	727	822	876
Income Tax	-126	-125	-136	-166	-209	-247	-279	-298
Net Income	66	240	264	323	406	480	542	578
<b>BALANCE SHEET</b>								
Total Assets	7,537	7,236	7,503	7,749	8,032	8,400	8,803	9,584
Non-current Assets	5,684	5,306	5,089	5,008	4,881	4,802	4,749	4,750
PPE	3,449	3,221	3,098	4,153	4,043	3,970	3,932	3,945
Others	2,235	2,085	1,990	854	838	831	818	805
Current Assets	1,854	1,929	2,415	2,741	3,151	3,598	4,054	4,834
Inventories	519	641	766	843	854	866	875	884
Trade and Other Receivables	783	867	998	1,084	1,107	1,132	1,155	1,179
Cash and Cash Equivalents	544	392	626	790	1,167	1,579	2,001	2,750
Others	7	30	24	23	23	22	22	21
Total Equity	1,307	1,297	1,288	1,358	1,463	1,642	1,850	2,429
Non-current Liabilities	3,993	3,436	3,664	3,732	3,801	3,872	3,944	4,017
Current Liabilities	2,237	2,503	2,552	2,659	2,767	2,886	3,009	3,138
<b>CASH FLOW</b>								
Pre-tax	192	365	400	489	615	727	822	876
Depreciation and amortisation	632	618	586	563	554	539	529	524
Other Non-cash Movements	152	168	80	182	90	77	68	77
Income Taxes Paid	-131	-149	-98	-164	-202	-220	-265	-279
WC Change	-60	140	-45	287	73	80	89	98
Net Cash Flow from Operating Activities	785	1,142	923	1,356	1,130	1,203	1,243	1,297
Net Cash Flow from Investing Activities	-1,349	-231	-382	-440	-443	-467	-491	-538
Dividends Paid	-275	-288	-253	-252	-301	-301	-334	-334
Net Cash Flow from Financing Activities	325	-1,052	-1,052	-753	-309	-325	-330	-11
Change in Cash	-231	-152	235	164	377	412	422	749

Source: Kofola, Economic &amp; Strategy Research, Komerční banka

**Kofola financials**

	2020	2021	2022	2023e	2024e	2025e	2026e	2027e
<b>RATIOS</b>								
ROE (%)	4.6	18.0	19.8	23.6	27.9	30.0	30.3	26.5
ROA (%)	0.9	3.3	3.6	4.2	5.1	5.8	6.3	6.3
ROIC (%)	1.2	4.4	5.1	6.1	7.4	8.4	9.1	9.0
<b>MARGIN</b>								
Gross Margin (%)	45.7	44.1	42.0	40.8	41.0	41.6	42.3	42.5
EBITDA Margin (%)	16.7	17.0	14.1	13.8	13.6	13.7	13.8	13.6
Operating Margin (%)	4.7	8.1	6.1	7.4	7.6	8.2	8.6	8.8
Net Margin (%)	1.1	3.6	3.4	3.7	4.4	4.9	5.3	5.4
<b>Growth</b>								
Sales (%)	-3.7	7.5	18.7	11.7	5.0	5.3	5.2	5.2
CoS (%)	0.1	10.8	23.0	14.0	4.8	4.0	4.0	4.7
EBITDA (%)	-16.0	24.6	-7.4	13.9	3.0	6.3	5.9	4.1
EBITDA adjusted (%)	-8.0	9.5	-1.6	9.6	3.0	6.3	5.9	4.1
Net Income (%)	-74	265	10	22	26	18	13	7
<b>FINANCING</b>								
Net Debt / EBITDA (x)	3.7	3.1	3.0	2.6	2.3	1.9	1.6	1.0
Net Debt / Equity (x)	2.9	2.7	2.6	2.4	2.0	1.6	1.2	0.6
Assets / Equity (x)	5.8	5.6	5.8	5.7	5.5	5.1	4.8	3.9
Interest Coverage (x)	2.4	3.1	2.0	2.7	3.4	4.8	5.2	5.5
<b>VALUATION</b>								
P/E (x)	79.1	26.7	23.9	21.6	17.2	14.5	12.9	12.1
P/Operating Cash Flow (x)	6.6	5.6	6.8	5.1	6.2	5.8	5.6	5.4
P/Free Cash Flow (x)	20.6	7.4	12.3	7.7	10.2	9.6	9.4	9.3
P/BV (x)	3.9	4.8	4.7	5.0	4.6	4.1	3.7	2.8
EV/S (x)	1.5	1.5	1.2	1.2	1.1	1.0	0.9	0.8
EV/EBITDA (x)	8.8	8.8	8.6	8.4	7.9	7.2	6.5	5.8
<b>DATA PER SHARE (CZK)</b>								
EPS	3.0	10.8	11.8	14.5	18.2	21.5	24.3	25.9
Operating Cash flow	35.2	51.2	41.4	60.8	50.7	54.0	55.8	58.2
Book Value	60.0	60.0	59.8	62.9	67.7	75.7	85.0	111.0
Gross Dividend	13.5	13.5	11.3	11.3	13.5	13.5	15.0	15.0
Dividend yield, brutto (%)	5.8	4.7	4.0	4.6	4.3	4.3	4.8	4.8

Source: Kofola, Economic &amp; Strategy Research, Komerční banka

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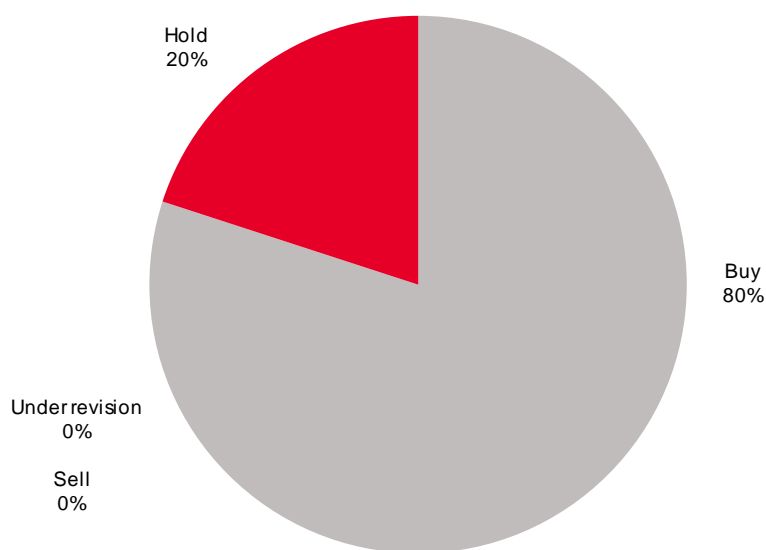
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

#### Investment recommendations of KB equity research



Source: Economic & Strategy Research, Komerční banka

#### KB Equity Research ratings on a 12 month period

**BUY:** absolute total shareholder return forecast of 15% or more over a 12 month period.

**HOLD:** absolute total shareholder return forecast between 0% and +15% over a 12 month period.

**SELL:** absolute total shareholder return forecast below 0% over a 12 month period.

Total shareholder return means forecast share price appreciation plus all forecast cash dividend income, including income from special dividends, paid during the 12 month period. Ratings are determined by the ranges described above at the time of the initiation of coverage or a change in rating (subject to limited management discretion). At other times, ratings may fall outside of these ranges because of market price movements and/or other short term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by research management.

**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
<b>Overview of last investment research and recommendations related to stocks of particular issuers</b>							
Recommendation	Buy	Buy	Buy	Buy	Hold	End	End
Target price	CZK 1393	CZK 652	CZK 313	CZK 104.6	CZK 18349	of coverage	of coverage
Date	07.06.2022	16.12.2022	29.05.2023	05.09.2022	03.03.2023	07.09.2022	25.02.2022
Price on the day of the publication	CZK 1154	CZK 559	CZK 244	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		
<b>Overview of investment researches and recommendations for last 12M (quarterly)</b>							
Recommendation	In revision	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	In revision	CZK 645	CZK 381	CZK 109.7	CZK 18183	GBp 600	CZK 362
Date	10.05.2022	17.01.2022	12.05.2022	31.08.2021	11.02.2022	11.02.2021	26.03.2021
Recommendation	Buy	In revision	In revision	In revision	Buy	Buy	Buy
Target Price	CZK 905	In revision	In revision	In revision	CZK 16512	GBp 466	CZK 293
Date	10.12.2021	31.03.2021	15.02.2022	07.05.2021	20.11.2020	30.08.2019	08.01.2020
Recommendation	Buy	Buy	Buy	Buy	Buy	In revision	Buy
Target Price	CZK 621	CZK 357	CZK 367	CZK 97	CZK 18308	In revision	CZK 298
Date	23.07.2020	27.11.2020	12.01.2021	29.10.2019	03.12.2018	14.08.2019	12.12.2018
Recommendation	Buy		In revision	Buy	Buy	Buy	Hold
Target Price	CZK 717		In revision	CZK 97	CZK 17546	GBp 342	CZK 270
Date	10.06.2019		26.11.2020	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
<b>Relationships of Komerční banka with particular issuers</b>							
KB Management or co- management of public offerings in the past 12 month	no	yes	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.						
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no
KB market making for common stocks of the issuer	no	no	no	no	no	no	no

Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

Source: Economic &amp; Strategy Research, Komerční banka