

Tobacco

Update

Czech Republic

Philip Morris CR

Still offers a decent dividend, we raise our recommendation to Buy

Buy

Price	20.03.24	CZK 15,400
12m target		CZK 17,041
Upside to TP		10.7%
Dividend		CZK 1,210
Total return		18.5%

Sector stance
Overweight

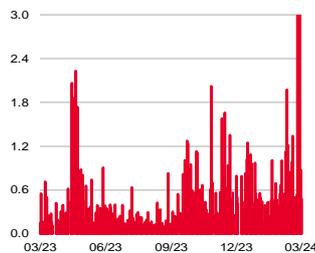
Investment type
High dividend yield

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC	TABKsp.PR	Bloom	TABAK CP
52-week range		15040-	17980
Market cap. (CZKbn)		42.3	
Market cap. (EURm)		1678	
Free float (%)		22.00	

Performance (%)	1m	3m	12m
Share	-1.7	-1.8	-11.2
Rel. PX Index	-2.7	-8.3	-21.3

Source: Bloomberg

The latest analysis and report:

https://bit.ly/PMCR_e1H22_EN

https://bit.ly/PMCR_1H22_EN

Investment recommendation: We upgrade our recommendation on Philip Morris CR shares to Buy with an adjusted target price of CZK17,041. The previous recommendation and price target were Hold and CZK18,349. PMCR has both a **very strong balance sheet with no debt and a dividend policy that pays out all net income.** On the other hand, the business in this sector is bound by several regulations, for example on smoking or cigarette sales. Our forecasts assume an increase in excise taxes on traditional cigarettes and especially on smokeless products. This could lead to an increase in the price of PMCR products with a potential impact on demand.

PMCR is the **clear leader in the conventional cigarette segment as well as in smokeless products**, where tobacco is heated rather than burned. In both parent markets, the Czech Republic & Slovakia, we expect the **share of smokeless products to grow at the expense of traditional cigarettes** despite the overall market decline.

From our perspective, investors see PMCR as a dividend name. Therefore, the dividend proposal is essential. We await the Board's dividend proposal with the publication of last year's results (March 27). We estimate that PMCR should pay a dividend of CZK1,210 per share to its shareholders. This payout represents a gross dividend yield of +7.9%.

Valuation: We used the discounted dividend model to value Philip Morris ČR. We discounted our dividend projections using a cost of capital of 7.4%-7.8% for the 2023-2030 period and 7.8% for the terminal period. We assume a long-term growth rate of 0%. We set our target price at CZK17,041 per Philip Morris CR share. Compared to the current market price, this implies a potential of +10.7%. The total return including dividends amounts to +18.6%. This corresponds to a Buy recommendation. (The expected total return is above +15%.)

Based on our new target price, which we set using a DDM, Philip Morris CR trades at a P/E of 12.0x (e2024), P/S (e2024) of 2.1x and EV/EBITDA of 7.3x (e2024). The sector median is 7.5x, 2.2x and 7.3x, respectively. PMCR thus trades in line with the market median on EV/EBITDA and at a slight discount to P/S and on the other hand at a premium to P/E. In addition, PMCR offers a very respectable dividend yield (7.9%), which is one of the highest among its peers.

Financial Data	2022	2023e	2024e	2025e	Ratios	2022	2023e	2024e	2025e
Revenues (CZKbn)	20.9	20.8	22.6	22.5	P/E (x)	12.6	14.0	12.0	12.4
EBIT margin (%)	20.3	18.3	20.3	19.6	P/FCF	10.1	5.6	4.5	4.7
Net Income (CZKbn)	3.6	3.3	3.9	3.8	Dividend yield (%)	7.8	7.1	8.3	8.0
EPS (CZK)	1,324	1,214	1,420	1,371	P/BV (x)	5	6	5	5
DPS (CZK)	1,310	1,210	1,420	1,370	EV/S (x)	2	2	2	2
Payout (%)	98.9	99.7	100	99.9	EV/EBITDA (x)	7.8	8.8	7	7.6
Interests Coverage (x)	n.m.	n.m.	n.m.	n.m.	P/OCF	20.9	12.0	10.1	10.6
Net Debt/EBITDA (x)	-1.6	-1.7	-1.6	-1.7	ROE (%)	41.6	38.9	45.0	42.3

Expected events: 2H23 / FY23 results to be announced on March 27, 2024.

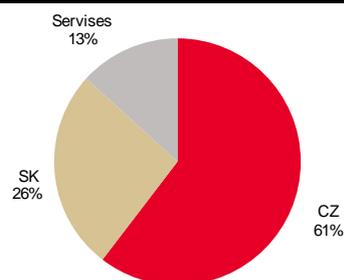
SOCIETE
GENERALE
GROUP

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Company overview

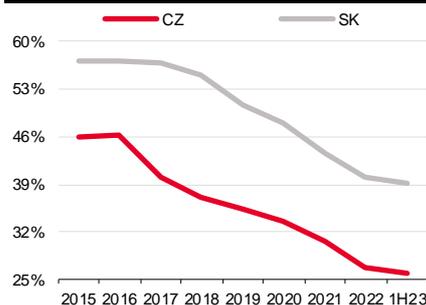
Strengths	Weaknesses
<ul style="list-style-type: none"> Market leader in traditional tobacco products in the Czech Republic and Slovakia Market leader in heated tobacco products in the Czech Republic and Slovakia Concentration of cigarette production in Kutna Hora for the European market Zero indebtedness Attractive dividend policy 	<ul style="list-style-type: none"> A closely profiled product base 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) Significant increase in commodity input prices (including energy) Stricter regulation of smoking and tobacco products Reduction in dividend payments

Revenues by segment (1H23)



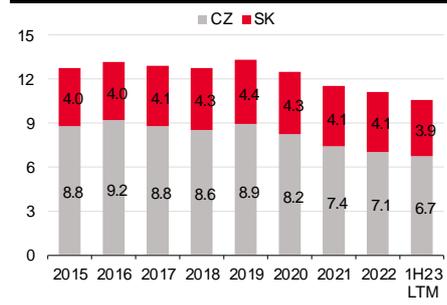
Source: Philip Morris CR

Cigarette market share



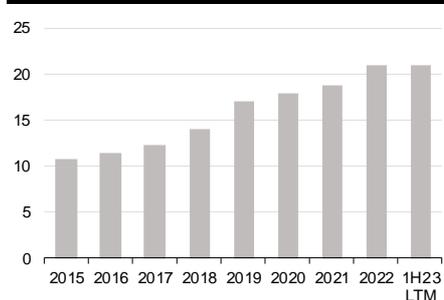
Source: Philip Morris CR

Sales by country (bn units)



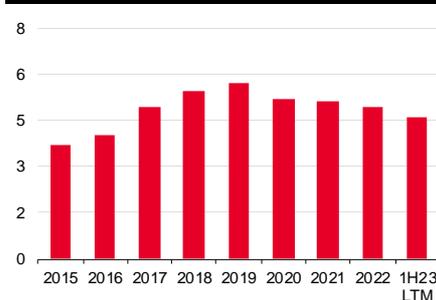
Source: Philip Morris CR

Sales (CZKbn)



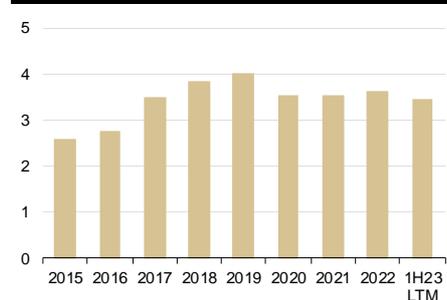
Source: Philip Morris CR

EBITDA (CZKbn)



Source: Philip Morris CR

Net profit (CZKbn)



Source: Philip Morris CR

Company results and outlook

The latest published results of Philip Morris ČR are for the first half of last year.

Results for 1H23

PMCR: 1H23 results

CZKm	1H22	1H23	y/y	KB
Revenues	9,810	9,711	-1.0%	10,819
Gross Profit	4,459	4,218	-5.4%	4,848
Profit from Operations	2,119	1,826	-13.8%	2,249
Net Profit	1,830	1,653	-9.7%	1,851
EPS (CZK)	666	602		674

Source: PMCR, Economic and Strategy Research, Komerční banka

Total revenues for 1H23 amounted to CZK9.7bn. This is a decrease of 1.0% yoy, but 10.2% below our expectations. Total sales volume decreased by 10.3% yoy to 4.9bn psc. The decline in classic products could neither be offset by higher volumes of smoke-free units nor the favorable price environment for smoking tobacco products. In the Czech Republic, sales declined to CZK5.8bn (-1.1% yoy). The market share of PMCR declined slightly to 39.6% in 1H23 (39.9% in 1H22). In Slovakia (SK), sales declined by 8.3% to CZK2.6bn. The market share in SK declined to 53.7% (56.0% in 1H22). The reasons are like those in the Czech Republic. Despite the trends in the CR and SK, the company's revenues from manufacturing services increased by 17.0% to CZK1.3bn. This was due to higher export volumes following the closure of the plant in Kharkiv, Ukraine, which was replaced by production in Kutná Hora. **Operating profit decreased by 13.8% yoy to CZK1.8bn.** The decrease was due to higher production costs, which were negatively affected by inflation. Last year (2022) the company had fixed energy prices (electricity and gas). In 1H23, these tripled due to the geopolitical situation. On the other hand, the **net profit of CZK1.7bn** (-9.7% yoy) was positively impacted by high interest rates.

Dividend: EPS for 1H23 is CZK 602. This falls below our estimates, as does the full-year net profit. **For the FY, this corresponds to approximately CZK1,204** per share.

Projection of 2H23 respectively 2023

Results preview: PMCR e2023

CZKm	2H22	e2H23 (KB)	y/y	2022	e2023 (KB)	y/y
Revenues	11,138	11,066	-0.6%	20,948	20,777	-0.8%
Gross Profit	4,771	4,708	-1.3%	9,230	8,926	-3.3%
Profit from Operations	2,124	1,966	-7.4%	4,243	3,792	-10.6%
Net Profit	1,806	1,679	-7.0%	3,636	3,332	-8.4%
EPS (CZK)	658	611		1,324	1,213	
DPS (CZK)				1,310	1,210	

Source: PMCR, Economic and Strategy Research, Komerční banka

Our estimates assume that the share of conventional cigarettes will continue to decline.

This is likely to reflect both a decline in overall market share and a shift in smokers to new technologies. There will almost certainly be a shift of customers from conventional cigarettes to mainly smokeless products. The share of conventional cigarettes will decrease and the share of heated products will increase.

The Philip Morris International factory in Kharkiv is out of action due to the war in Ukraine. Its production is being replaced by other Group factories. Part of its production was replaced by the main Philip Morris ČR plant in Kutná Hora.

Higher energy costs (electricity and gas) are still expected, although they should be lower than in the first half of last year. Other operating costs are expected to reflect high inflation.

Philip Morris CR plans to distribute its entire unconsolidated net income to its shareholders. In our view, it is a dividend name in investors' portfolios. We expect a **dividend of CZK1,210** for the last year (2023), payable this year. Compared to the current market price, this would imply a **dividend yield of 7.9%** (gross).

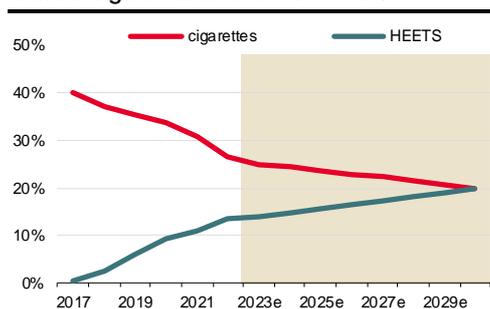
Long-term outlook

Growth in the share of new technologies.

Philip Morris is undoubtedly a leader in new technologies, not only in the Czech Republic. As an alternative to traditional cigarettes, in which combustion takes place, it offers a range of products in which the tobacco is heated rather than burned. It is assumed that these new technologies or products are less risky than traditional ones.

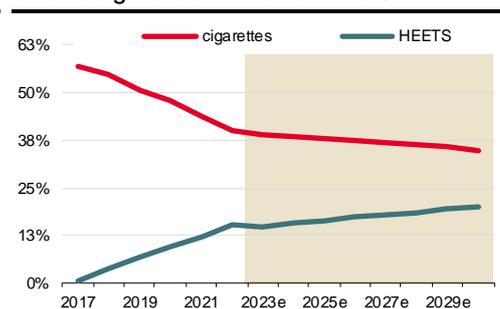
As seen in previous quarters and years, smokers are expected to switch to these new products in the future. This will increase the market share of smokeless products. On the other hand, the share of conventional smokers will decline as they are expected to change their habits and switch to smokeless refills. The share of conventional cigarettes will therefore decline. In the last published report for the first half of last year, the market share of heated products (HEETS, Fiit, TERE) was 13.7% in the Czech Republic and 14.5% in Slovakia. According to our forecasts, this share will gradually increase 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

The large difference in taxation between the two product groups favors smokeless cartridges.

There is a significant difference in the taxation of the two groups of products, i.e. traditional cigarettes and smokeless products. New products are taxed less than traditional cigarettes. The fundamental difference is in the excise tax.

From 2024, excise duties on tobacco products increased. We expect further increases in future years. The excise duty consists of a fixed part and a percentage part. However, the sum of the two must be higher than the minimum rate in the EU. Of course, VAT is also payable.

The percentage (ad valorem) of the tax in the Czech Republic has remained the same in recent years, at 30% of the sale price. We do not expect it to change in the next few years. The second part of the excise tax, the fixed part, will increase by 10% to CZK2.17 per cigarette from 2024. The minimum tax rate will be CZK4.22 per cigarette. Cigarettes are also subject to the basic VAT rate of 21%.

For heated products, a fixed part of CZK3,450 per kg will apply in 2024, which means approximately CZK21.05 per unit. This corresponds to an increase of +15%. The percentage part will not be paid. But of course, as with traditional cigarettes, the VAT at the same rate (21%) should not be forgotten.

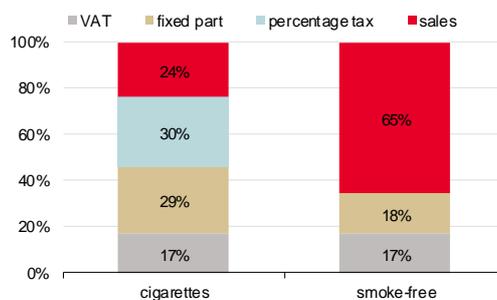
We expect further tax increases. The gap between the categories is likely to remain.

This year, the fixed portion of conventional cigarettes has increased by 10%. Over the next few years, we expect about half that rate, or 5% growth per year. We expect the same growth dynamics for the minimum excise tax. We assume that the percentage of the selling price of conventional cigarettes will remain unchanged at 30%.

For smokeless products, we estimate a faster growth rate of the fixed part of the tax. This year it increased by 15%. In the coming years, we expect it to grow at about the same rate. We do not take into account a percentage of the tax, as in the case of traditional products. Thus, the difference in taxation between the two categories under discussion in the Czech Republic will remain significant.

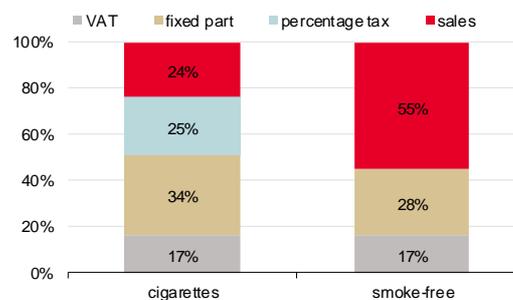
In Slovakia, we foresee a percentage rate on cigarettes of 25% of the selling price (from 1 February 2024), up from the previous 23%. For the fixed excise duty rate, we estimate a 10% increase to EUR0.913 per cigarette (EUR91.30 per 1,000 cigarettes). The minimum rate is EUR0.148 per cigarette. In the following years, we expect a 5% increase. We estimate a 10% increase in the excise duty rate on heated products. In the following years, we assume same a 10% increase. VAT on both product groups is 20%.

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

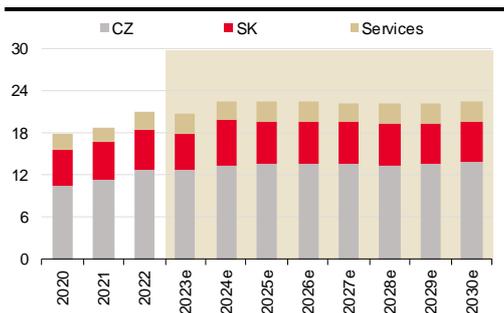
The total tax on classic cigarettes is 76% of the selling price.

For a packet of conventional cigarettes containing 20 cigarettes and costing CZK150, the total tax is 76.2%. The fixed part of the tax (CZK2,170 per 1,000 cigarettes) is CZK43.3 (CZK2.17 per cigarette times 20 cigarettes). The percentage part of the tax (30%) is CZK45. The total is CZK88.30, which is higher than the minimum rate of CZK84.40 (4.22*20). However, the higher of the two amounts, i.e. CZK88.30, applies. In addition, VAT (21%, CZK26) must be added. The total tax is CZK114.40. The sale of one box alone is approximately CZK35.60.

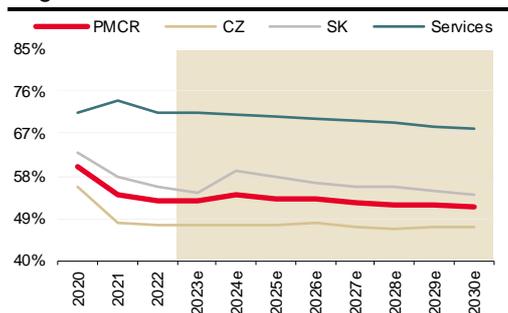
The total tax burden for smokeless products in the Czech Republic is 34.9%, which is significantly lower than for conventional cigarettes.

In Slovakia, the total taxation of conventional products is about the same as in the Czech Republic, i.e. 76.1% for conventional products and 44.7% for heated products.

Sales Development by Segment (CZKbn)



Expected Gross Margin Development by Segment



Source: PMCR, Economic and Strategy Research, Komerční banka

According to our estimates, total PMČR revenues are expected to grow at a compound annual growth rate of 1.1% over the forecast period (CAGR 2023-2030). They should reach CZK20.8bn in 2023. In the last year of the forecast period, they are expected to grow to CZK22.4bn.

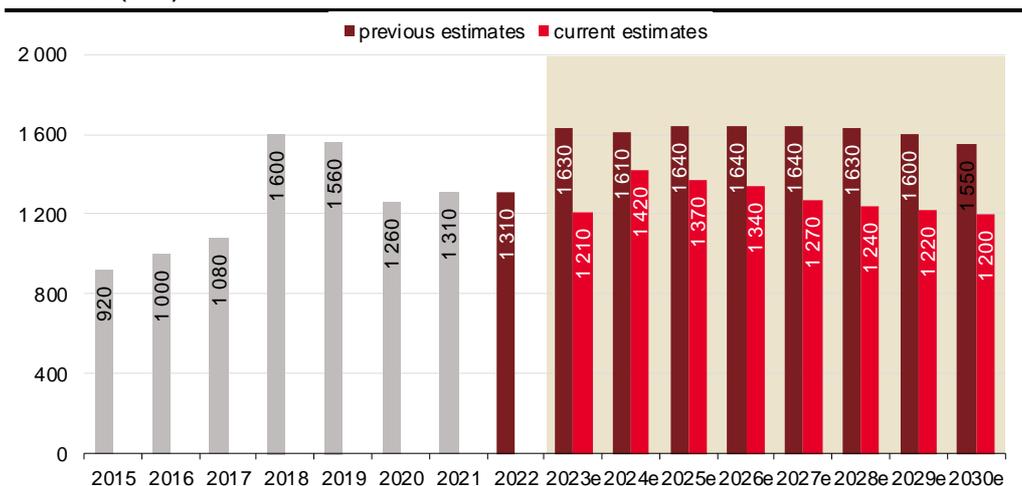
Cost inflation will be reflected in the figures. Energy prices are likely to increase as PMCR uses gas as its main energy source. This will impact margins. We estimate that they will decline from 44.1% in 2022 to 42.1% in 2030. We expect the margin to reach 43.0% in 2023. Net profit should reach CZK3.3bn in 2030. Net profit serves as the basis for the dividend calculation.

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

PMCR is a dividend name. We expect a gross yield of about 8 %.

Last year, i.e. from the 2022 profit, Philip Morris CR paid a dividend of CZK1,310 per share, which was the same as in the previous year. This year (from 2023 earnings), according to our estimates, the company is expected to pay CZK1,210 to shareholders. This implies a gross dividend yield of +7.9%. Of course, the dividend must be approved by shareholders at the AGM, expected to take place on April 30. Dividend payments to shareholders are expected to begin on June 17, 2024. In the following years, we expect the dividend yield to be around +8%.

Dividends (CZK)



Source: PMCR, Economic & Strategy Research, Komerční banka

Valuation

Peer comparison approach

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. **The comparison of PMCR with similar companies is mixed.** It shows that Philip Morris CR trades at a premium to the median of its peer group. On a P/E multiple, it is more expensive and therefore trades at a premium. On an EV/EBITDA comparison, it trades at the median and only at a slight premium to next year. The P/S multiple is lower and suggests a discount to its peers. In terms of **dividend yield**, however, PMCR is trading **+8% above the market**. This means that it **offers a high dividend yield, one of the highest in the sector**.

Peers Comparison

	P/E			P/S			EV/EBITDA			Dvd yield
	2023	2024	2025	2023	2024	2025	2023	2024	2025	(%)
Philip Morris CR	14.0	12.0	12.4	2.3	2.1	2.1	8.8	7.3	7.6	7.9
British American Tobacco PLC	6.3	6.0	5.8	1.9	1.9	1.8	6.7	6.5	6.4	10.0
Japan Tobacco Inc	14.4	13.5	12.5	2.7	2.6	2.5	9.3	9.1	8.7	4.9
Altria Group Inc	8.9	8.6	8.4	3.8	3.8	3.8	8.2	8.0	7.9	8.8
Imperial Brands PLC	5.8	5.2	4.9	1.6	1.5	1.5	5.6	5.4	5.3	8.6
Gudang Garam Tbk PT	6.6	6.3	5.8	0.3	0.3	0.3	3.9	3.7	3.5	6.0
Philip Morris International In	14.6	13.3	12.1	3.9	3.7	3.4	12.4	11.4	10.5	5.6
Medián trhu	7.7	7.5	7.1	2.3	2.2	2.2	7.4	7.3	7.1	7.3
<i>Philip Morris CR vs. median</i>	81.8%	60.6%	75.1%	-2.3%	-7.3%	-3.5%	18.8%	1.1%	6.3%	-7.8%

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

Discounted Dividend

We used a discounted dividend model to value the company.

To value the company, we used a discounted dividend model through 2030. We discounted the estimated dividends using a **cost of capital of 7.4-7.8% over the period and 7.8%** for the terminal phase at a **long-term growth rate of 0%**.

The cost of capital is based on the risk-free rate (yield on 10-year Czech and Slovak government bonds), the adjusted beta coefficient (Bloomberg), the equity risk premium and the country risk premium 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 the PMCR's main markets, the threat of further excise tax increases or 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 PMCR to be CZK17,041 per share.

Discounted Dividend Model

CZKbn	2023	2024	2025	2026	2027	2028	2029	2030
Cost of Equity	7,7%	7,5%	7,4%	7,6%	7,8%	7,8%	7,8%	7,8%
Beta	0,522	0,522	0,522	0,522	0,522	0,522	0,522	0,522
Risk Free Rate	3,7%	3,6%	3,5%	3,7%	3,9%	3,9%	3,9%	3,9%
Equity Risk Premium	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%	5,6%
Country Risk premium	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%	1,0%
DDM (CZK)								
Dividend - Gross	1 210	1 420	1 370	1 340	1 270	1 240	1 220	1 200
Dividend - Discounted	1 195	1 304	1 172	1 065	936	848	774	706
Sum of Discounted Dividends	7 999							
Terminal Value	9 041							
LT Growth	0,0%							
Fair Value Per Share - DDM (CZK)	17 041							

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	7,8 %*	+ 50 bb	+ 100 bb
-1,0%	17 041	16 454	15 934	15 470	15 053
-0,5%	17 708	17 041	16 454	15 934	15 470
0,0%	18 473	17 708	17 041	16 454	15 934
0,5%	19 359	18 473	17 708	17 041	16 454
1,0%	20 398	19 359	18 473	17 708	17 041

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 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 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, smokeless products 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 new technologies:** Competitors already have alternatives to IQOS.
- **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	2022	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	20.9	20.8	22.6	22.5	22.5	22.3	22.2	22.3	22.4
CoS	-5.7	-6.0	-6.1	-6.1	-8.4	-9.1	-10.6	-11.7	-11.9	-12.4	-12.5	-12.6	-12.7	-12.7	-12.8	-13.0
Gross Profit	5.1	5.4	6.1	8.0	8.7	8.7	8.3	9.2	8.9	10.2	10.0	9.9	9.6	9.5	9.4	9.4
Operating Costs	-1.9	-2.0	-1.8	-3.2	-3.7	-4.3	-3.9	-5.0	-5.1	-5.6	-5.6	-5.6	-5.6	-5.5	-5.6	-5.6
EBIT	3.2	3.5	4.3	4.8	5.0	4.5	4.4	4.2	3.8	4.6	4.4	4.3	4.1	4.0	3.9	3.8
DA	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7	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	4.9	4.5	5.2	5.0	4.9	4.7	4.6	4.5	4.4
Income Tax	-0.6	-0.7	-0.8	-1.0	-1.0	-0.9	-0.9	-1.0	-0.9	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9
Net Income	2.6	2.8	3.5	3.8	4.0	3.5	3.5	3.6	3.3	3.9	3.8	3.7	3.5	3.4	3.4	3.3
BALANCE SHEET																
Total Assets	15.1	15.6	15.6	16.0	16.4	16.2	17.7	16.4	16.0	17.2	17.2	17.3	17.1	17.1	17.2	17.3
Non-current Assets	3.9	4.4	4.4	4.3	4.1	3.6	3.3	3.2	2.8	2.8	2.8	2.8	2.8	2.7	2.7	2.7
PPE	3.8	4.3	4.3	4.2	3.6	3.1	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.6	2.6	2.6
Current Assets	11.1	11.2	11.1	11.6	12.3	12.6	14.4	13.2	13.1	14.4	14.4	14.5	14.4	14.4	14.5	14.6
Inventories	0.4	0.3	0.6	1.1	1.7	0.9	1.9	1.9	1.7	1.8	1.8	1.7	1.7	1.6	1.6	1.5
Trade and Other Receivables	0.4	0.4	0.8	2.1	1.5	0.9	1.0	1.5	1.5	1.7	1.6	1.6	1.6	1.6	1.5	1.5
Cash and Cash Equivalents	7.5	8.2	7.3	5.6	6.4	8.2	9.3	7.6	7.5	8.4	8.5	8.7	8.7	8.8	8.9	9.1
Total Equity	8.0	8.2	8.9	9.8	9.4	8.7	8.7	8.8	8.4	9.0	8.8	8.8	8.7	8.6	8.6	8.6
Non-current Liabilities	0.2	0.2	0.2	0.2	0.5	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Current Liabilities	6.9	7.2	6.4	5.9	6.5	7.1	8.7	7.3	7.3	8.0	8.0	8.1	8.1	8.2	8.3	8.4
Net Debt(-)/Cash(+)	7.5	8.1	7.3	5.5	6.4	8.2	9.3	7.6	7.5	8.4	8.5	8.7	8.7	8.8	8.9	9.1
CASH FLOW																
Pre-tax	3.2	3.5	4.3	4.8	5.1	4.5	4.4	4.6	4.2	4.9	4.8	4.7	4.4	4.3	4.2	4.2
Depreciation and amortisation	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7	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	-1.8	0.0	0.3	0.2	0.1	0.1	0.2	0.1	0.2
Other operating cash movements	-0.5	-0.6	-0.8	-0.8	-0.9	-0.9	-1.1	-1.0	-0.5	-0.9	-0.9	-0.8	-0.8	-0.7	-0.7	-0.7
Net Cash Flow from Operating Activities	6.4	4.3	2.6	1.9	5.5	6.4	5.1	2.2	3.9	4.6	4.4	4.3	4.1	4.0	4.0	3.9
Net Cash Flow from Investing Activities	-1.0	-1.2	-0.6	-0.7	-0.1	-0.2	-0.3	-0.1	-0.3	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Dividends Paid	-2.4	-2.5	-2.7	-3.0	-4.4	-4.3	-3.5	-3.6	-3.6	-3.3	-3.9	-3.8	-3.7	-3.5	-3.4	-3.4
Net Cash Flow from Financing Activities	-2.4	-2.5	-2.7	-3.0	-4.5	-4.4	-3.6	-3.7	-3.7	-3.5	-4.0	-3.9	-3.8	-3.6	-3.5	-3.5
Change in Cash	3.0	0.6	-0.8	-1.7	0.9	1.8	1.1	-1.6	-0.1	0.9	0.1	0.1	0.0	0.1	0.2	0.2

Source: PMCR, Economic & Strategy Research, Komerční banka

Philip Morris CR Financials

	2015	2016	2017	2018	2019	2020	2021	2022	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	12.6	14.0	12.0	12.4	12.7	13.4	13.8	14.0	14.2
Price/cash flow (x)	4.8	8.0	15.9	22.1	7.1	6.0	8.3	20.9	12.0	10.1	10.6	10.9	11.5	11.7	11.8	12.0
Price/free cash flow (x)	2.1	4.1	8.0	14.8	2.9	2.3	3.3	10.1	5.6	4.5	4.7	4.9	5.2	5.3	5.4	5.5
Price/book value (x)	3.8	4.3	4.6	4.4	4.1	4.4	4.8	5.2	5.6	5.2	5.3	5.3	5.4	5.4	5.4	5.4
EV/S (x)	2.1	2.3	2.7	2.7	1.9	1.7	1.7	1.8	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
EV/EBITDA (x)	6.2	6.7	6.8	6.8	5.6	5.8	6.4	7.8	8.8	7.3	7.6	7.7	8.1	8.3	8.4	8.5
DATA PER SHARE (CZK)																
EPS	936	1,008	1,269	1,397	1,465	1,285	1,281	1,324	1,214	1,420	1,371	1,342	1,273	1,238	1,221	1,201
Operating Cash flow	2,335	1,578	933	706	1,992	2,322	1,841	800	1,425	1,688	1,604	1,559	1,487	1,458	1,439	1,424
Book Value	2,898	2,985	3,249	3,569	3,437	3,154	3,175	3,193	3,045	3,263	3,214	3,215	3,156	3,137	3,138	3,132
Gross Dividend	920	1,000	1,080	1,600	1,560	1,260	1,310	1,310	1,210	1,420	1,370	1,340	1,270	1,240	1,220	1,200
Dividend yield, brutto (%)	8.3	7.9	7.3	10.2	11.1	9.0	9.3	7.8	7.1	8.3	8.0	7.9	7.5	7.3	7.2	7.0
RATIOS																
ROA (%)	18.7	18.1	22.4	24.3	24.9	21.7	20.7	21.3	20.6	23.5	21.9	21.4	20.3	19.9	19.5	19.1
ROE (%)	32.6	34.3	40.7	41.0	41.8	39.0	40.5	41.6	38.9	45.0	42.3	41.7	40.0	39.4	38.9	38.3
MARGIN																
Gross Margin (%)	47.2	47.6	50.1	56.8	50.9	48.9	43.9	44.1	43.0	45.3	44.5	44.1	43.2	42.7	42.5	42.1
EBITDA Margin (%)	34.0	35.1	40.5	38.8	33.4	29.0	27.1	23.5	21.4	23.1	22.4	22.0	21.1	20.6	20.3	19.8
Operating Margin (%)	29.5	30.3	35.6	34.0	29.3	24.9	23.1	20.3	18.3	20.3	19.6	19.2	18.3	17.8	17.5	17.1
Net Margin (%)	23.7	24.2	28.6	27.2	23.5	19.7	18.6	17.4	16.0	17.3	16.7	16.4	15.7	15.3	15.1	14.7
DYNAMIKA RŮSTU																
Tržby (%)	-22.7	5.4	6.5	15.4	21.4	4.6	5.5	11.0	-0.8	8.7	-0.1	-0.1	-1.0	-0.3	0.1	0.6
Náklady na prodeje (%)	-38.1	4.6	1.4	-0.2	37.9	9.1	15.8	10.7	1.1	4.3	1.2	0.6	0.6	0.6	0.6	1.3
Hrubý zisk (%)	7.4	6.3	12.1	31.0	8.8	0.3	-5.2	11.5	-3.3	14.5	-1.7	-1.1	-3.0	-1.4	-0.6	-0.4
EBITDA (%)	9.7	8.8	22.8	10.7	4.5	-9.3	-1.5	-3.7	-9.4	17.3	-3.4	-2.1	-4.9	-2.7	-1.4	-1.6
Vykázaný čistý zisk (%)	14.0	7.7	25.9	10.1	4.8	-12.3	-0.3	3.4	-8.4	17.0	-3.4	-2.1	-5.1	-2.7	-1.4	-1.6
FINANCING																
Net Debt / EBITDA (x)	-2.0	-2.0	-1.5	-1.0	-1.1	-1.6	-1.8	-1.6	-1.7	-1.6	-1.7	-1.8	-1.8	-1.9	-2.0	-2.0
Net Debt / Equity (x)	-0.9	-1.0	-0.8	-0.6	-0.7	-0.9	-1.1	-0.9	-0.9	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.1
Assets / Equity (x)	1.9	1.9	1.7	1.6	1.7	1.9	2.0	1.9	1.9	1.9	1.9	2.0	2.0	2.0	2.0	2.0
Interest Coverage (x)	n.m.															

Zdroj: PMČR, Ekonomický a strategický výzkum, Komerční banka

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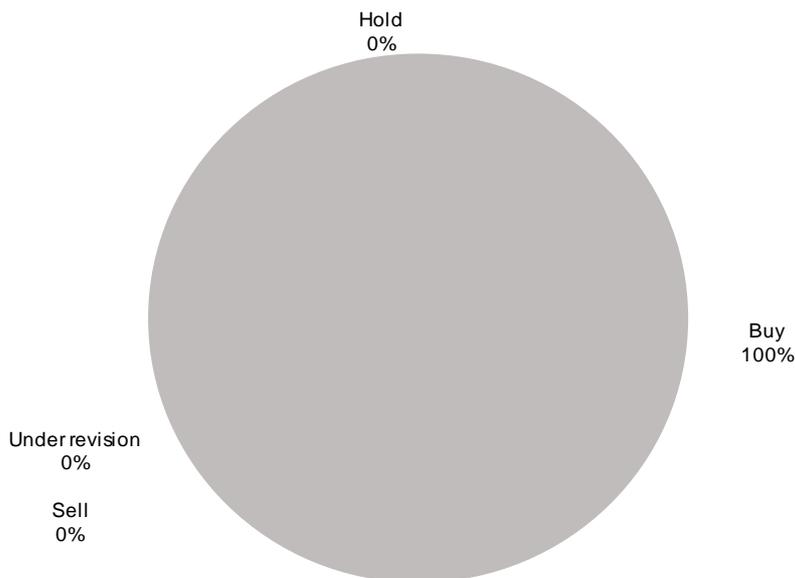
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The chart below shows the structure of the grades of valid investment recommendations of KB Economic and Strategic Research equity analysts (8 recommendations).

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	Buy	End	End
Target price	CZK1,034	CZK921	CZK313	CZK102.8	CZK17,041	of coverage	of coverage
Date	07.09.2023	09.02.2024	29.05.2023	19.10.2023	21.03.2024	07.09.2022	25.02.2022
Price on the day of the publication	CZK923	CZK574	CZK244	CZK84	CZK15,400	CZK205.1	CZK270
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	Buy	Buy	Buy	Buy	Hold	Buy	Buy
Target Price	CZK1,393	CZK652	CZK381	CZK104.6	CZK18,349	GBp600	CZK362
Date	07.06.2022	16.12.2022	12.05.2022	05.09.2022	03.03.2023	11.02.2021	26.03.2021
Recommendation	In revision	Buy	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	CZK645	In revision	CZK109.7	CZK18,183	GBp466	CZK293
Date	10.05.2022	17.01.2022	15.02.2022	31.08.2021	11.02.2022	30.08.2019	08.01.2020
Recommendation	Buy	In revision	Buy	In revision	Buy	In revision	Buy
Target Price	CZK905	In revision	CZK367	In revision	CZK16,512	In revision	CZK298
Date	10.12.2021	31.03.2021	12.01.2021	07.05.2021	20.11.2020	14.08.2019	12.12.2018
Recommendation	Buy	Buy	In revision	Buy	Buy	Buy	Hold
Target Price	CZK621	CZK357	In revision	CZK97	CZK18,308	GBp342	CZK270
Date	23.07.2020	27.11.2020	26.11.2020	29.10.2019	03.12.2018	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
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 & Strategy Research, Komerční banka