

Beverages

Update

Czech Republic

Kofola ČeskoSlovensko

Organic growth & boost from M&A, higher dividend

Buy

Price 03.09.24	CZK 299
12m target	CZK 402
Upside to TP	34.4%
Dividend	CZK 19.1
Total return	40.8%

Sector stance
Neutral

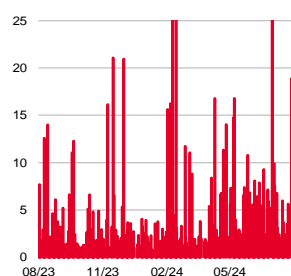
Investment type
High dividend yield
Acquisition growth

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC KOFOL.PR Bloom	KOFOL CP
52-week range	263-308
Market cap. (CZKb)	6.7
Market cap. (EURn)	266
Free float (%)	27
Performance (%) 1m	3m
Share	-2.0 0.3 7.6
Rel. PX Index	-4.3 -3.1 -10.3

Source: Bloomberg

Recommendation: We reiterate our Buy rating on Kofola ČeskoSlovensko with a price target of CZK402 per share (previously Buy and CZK313 on May 29, 2023). We expect Kofola to deliver significant earnings growth to its shareholders based on two pillars. First, it will be organic growth, and the contribution from recent acquisitions, especially the Pivovary CZ group, will also be significant starting in the second quarter of this year.

Business outlook: Kofola's EBITDA is expected to reach CZK1.55-1.80bn this year, representing +33.6% yoy growth on +25% higher revenues. According to our model, results should be at the upper end of the FY target. The compound annual growth rate (CAGR 2028) should reach +11.6% for EBITDA and +8.9% for revenues. Kofola has been very active in M&A. We do not rule out further acquisitions as we believe Kofola will continue to closely monitor all opportunities, but we expect Kofola to now focus on integrating new units and achieving synergies.

Valuation: We have used a DCF (Discounted Free Cash Flow) model to value Kofola shares. We discounted our 2024-2028 estimates using 7.2-8.4% cost of capital and 8.4% for the terminal value. Our valuation also includes a discount for low liquidity. We assume a long-term growth rate of 2%. Based on the DCF, we arrive at a valuation of Kofola of CZK402 per share. This represents a potential of +34.4% compared to the current market price. The TSR is +40.8%. This corresponds to a Buy recommendation.

Based on our forecast, we value Kofola at a P/E 11.3x and EV/EBITDA of 6.7x. The sector median is higher at 21.5x and 14.2x, respectively. Thus, Kofola trades at a large discount to its peers. One reason for this could be the small free float. On the other hand, it offers a much higher dividend yield, probably by far the highest among its peers.

Risks: High price increases for raw materials (sweeteners or packaging materials) are among the main risks. Or, for example, high energy prices, as in the crisis years. Restriction of distribution channels, as in the case of a pandemic. Demand can be affected by a decline in real consumer purchasing power.

Upcoming Events: Kofola is expected to report 2Q24 results on September 23.

Financial Data	2023	2024e	2025e	2026e	Ratios	2023	2024e	2025e	2026e
Revenues (mil. CZK)	8,690	10,883	11,441	12,042	P/E (x)	14.9	12.6	11.3	10.3
EBITDA margin (%)	14.4	15.7	17.3	17.1	Price / Free Cash Flow	6.7	17.3	9.7	9.6
Net Income (mil. CZK)	369	709	796	866	Dividend yield (%)	4.5	3.4	4.7	5.3
EPS (CZK)	16.6	31.8	35.7	38.8	P/BV (x)	3.8	4.8	4.0	3.4
DPS (CZK)	13.5	13.5	19.1	21.4	EV/S (x)	1.0	1.2	1.2	1.1
Payout (%)	114	82	60	60	EV/EBITDA (x)	6.7	7.9	6.7	6.3
Interest Coverage (x)	2.5	4.7	6.4	6.8	P/OCF	3.7	7.6	5.5	5.4
Net Debt / Equity (%)	2.0	2.5	1.9	1.5	ROE (%)	26.4	42.7	38.8	35.6

The latest analysis and report:

https://bit.ly/Kofola_4Q23_EN

https://bit.ly/Kofola_1Q24_EN

https://bit.ly/Kofola_exDVD24_EN

SOCIETE
GENERALE
GROUP

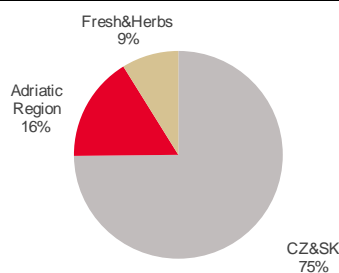


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Company overview

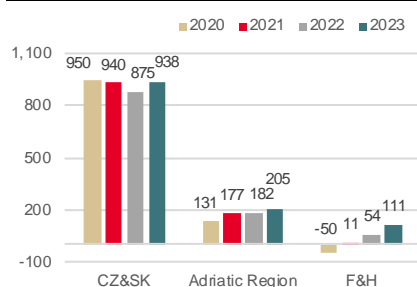
Strengths	Weaknesses
<ul style="list-style-type: none"> Leading positions on Slovak and Slovenian markets, second place on Czech and Croatian markets Strong local brands Vast experience of management in the areas of production and distribution of nonalcoholic beverages 	<ul style="list-style-type: none">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

Geographical EBITDA breakdown (2023)

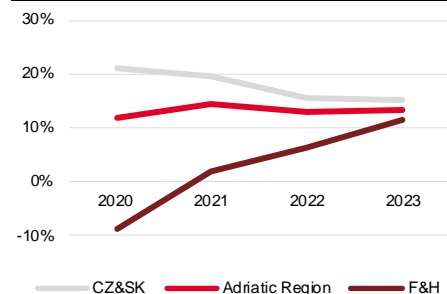


Source: Kofola

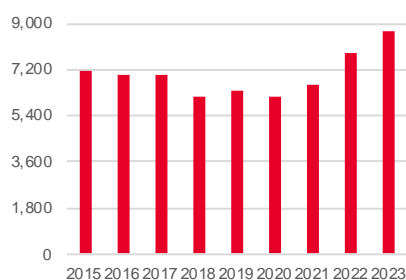
EBITDA by segment (CZKmn)



EBITDA margin (%)

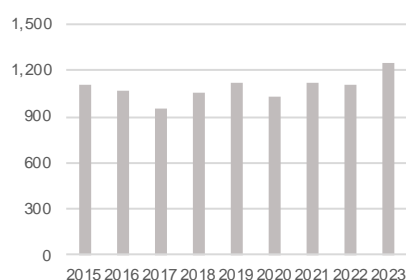


Sales (CZKmn)

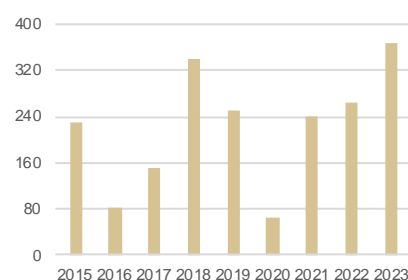


Source: Kofola

EBITDA (CZKmn)



Net Profit (CZKmn)



Company results

Kofola's latest published results are for the first quarter of this year. Seasonally, the beginning of the year is the weakest. Kofola has reported a decent organic growth. This was also supported by recent acquisitions. The results were ahead of estimates and Kofola's management reiterated its guidance for the full year.

Review of 1Q24

Kofola's 1Q24

CZKm	1Q23	1Q24	y/y	KB	vs KB	Cons.	vs Cons.
Sales	1,712	2,091	22.1%	1,977	5.7%	2,034	2.8%
EBITDA	218	265	21.4%	253	4.5%	256	3.4%
margin	12.7%	12.7%	-0.1pps	12.8%	-0.1pps	12.6%	0.1pps
EBIT	84.3	124	47.0%	119	4.1%	119	4.1%
Net Profit	34.4	-18.7	n.m.	-2.1	n.m.	-11.5	n.m.

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

Kofola reported **sales growth of +22.1% to CZK2,091m** in 1Q24. CZK. That was 2.8% higher than the consensus. This is surprisingly positive, as we underestimated the price effect. **Revenue growth is higher than Kofola's own previous estimate** (revenue +14%, volume +7%). This is **due to the consolidation of the Pivovary CZ group at the beginning of March**. Organic growth of Kofola itself was +13.2% as expected. Energy costs are slightly lower than last year. Packaging and sweeteners were also lower. On the other hand, personnel and marketing costs increased. **EBITDA amounted to CZK265m**. This represents an **increase of +21.4%** compared to the previous year. Double-digit sales growth was achieved in all Kofola segments. However, EBITDA decreased in the main sector, CzechoSlovakia, where EBITDA decreased slightly by 5.5% on sales growth of +11%. This is likely due to acquisition-related costs. EBITDA in the Adriatic and Fresh&Herbs sectors grew strongly by +71% and +63% respectively. The reasons are like those mentioned above. Net profit swung to a loss of CZK18.7m. This was due to exchange rate changes and the revaluation of EUR loans.

Compared to the full-year guidance, 1Q24 EBITDA is almost 16% of the target. The first quarter is seasonally the weakest. It will not have the same impact as the second and especially the third quarter, which are the most important for the full-year results.

Full Year 2024 Forecast

Full year 2024 results could be announced in mid-February 2025. The next quarterly report is scheduled for September 23, 2024, when Kofola will report figures for the second quarter and first half of the year, respectively.

Please note that as of this year (2024), the right-wing government of Prime Minister Fiala has increased the corporate income tax from 19% to 21%. There has also been an increase in the VAT rate on beverages. The VAT rate is now 21%, up from 15%. This is likely to mean further price increases for the end consumer and may also have a negative impact on demand for beverages.

CZKm	2023	e2024 (KB)	y/y
Sales	8,690	10,883	25%
EBITDA	1,253	1,709	36%
margin	14.4%	15.7%	1.3pps
EBIT	747	1,139	52%
Net Profit	369	709	92%

Source: Kofola; Economic & Strategy Research, Komerční banka

The significant yoy growth is due to Kofola's M&A activity. At the end of January this year, the company acquired 49% of Mixa Vending. The latter focuses on the operation of food and beverage vending machines. At the beginning of March, Kofola also completed the acquisition of 51% of the Pivovary CZ group. Read more about the acquisitions in the M&A section below.

In our model, we expect total sales to grow by 25.2% yoy to CZK10.9bn. We expect volume growth to be slightly higher than last year. This should also reflect the increase in consumers' real purchasing power. Operating costs will increase for raw materials, administration and distribution. We also expect personnel costs to rise as the number of employees increases. Acquisitions this year could increase this number by about 600 to about 2,650. On the other hand, energy costs should be lower. According to our estimates, EBITDA should grow by +36.6% yoy to CZK1.7bn in 2024. We also expect the margin to increase by more than one percentage point (+1.3 pps). We expect net profit to reach CZK709m (+92.2% yoy) in 2024. We believe our estimates are conservative. For 2024, they are in line with the company's revenue guidance and closer to the upper end of Kofola's EBITDA target.

Full-year guidance: Kofola's management expects EBITDA of CZK1.55-1.80bn and revenue growth of +25% yoy this year. These figures include the recent acquisitions. Kofola itself (comparable to 2023) should achieve EBITDA of CZK1.35-1.45bn and sales growth of +7% yoy. Kofola's performance is subject to seasonal factors. Due to the seasonality of Kofola's operations, the second and third quarters are the most important for full-year results.

M&A

Acquisitions are one of the channels through which the company will continue to grow its business beyond its normal organic growth.

Kofola has been very active recently in terms of new acquisitions. At the beginning of the year, it completed the purchase of apple orchards in Libina. In January, it completed the acquisition of 49% of Mixa Vending, a company that operates beverage and food vending machines. The most significant transaction followed in early March. Kofola entered the brewing business by acquiring a 51% stake in the Pivovary CZ group. This will complement its portfolio of soft drinks and cider. We also believe that Kofola has a pre-emption right on the remaining shares. If the remaining shareholders (RSJ 29% and Úsovsko 20%) decide to exit these operations, we would expect Kofola to buy their shares.

Mixa Vending has sales of approximately CZK170m and EBITDA of CZK36m. It employs approximately 100 people.

Pivovary CZ includes the traditional Zubr, Holba and Litovel breweries. The group has annual sales of approximately CZK1.3bn and EBITDA of approximately CZK250m. Kofola will thus expand its portfolio with traditional beer brands.

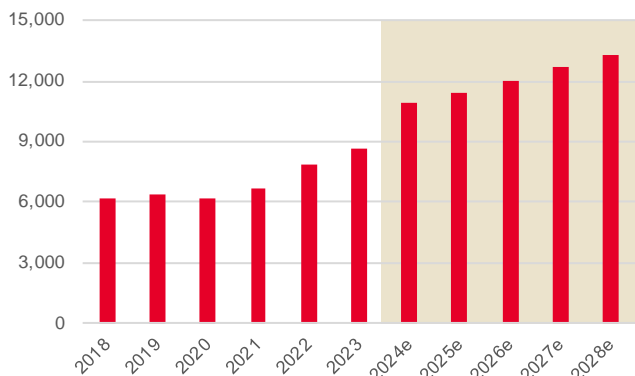
We expect that Kofola will now focus on consolidating these companies. However, we are confident that it will continue to monitor the market and further expansion opportunities. Potential acquisition targets could include businesses that would further expand the existing beverage business. Another area where potential acquisitions could be made is in the ingredients sector, especially at the virgin level. Indeed, Kofola attaches great importance to the sustainability of its business. Any further acquisitions would be in line with the sustainability philosophy that Kofola promotes.

M&A activity may result in, among other things, an increase in leverage. This could, for example, affect Kofola's ability to pay a dividend to its shareholders (see Leverage and Dividends below). However, not all M&A transactions have resulted in a material increase in debt. Kofola could

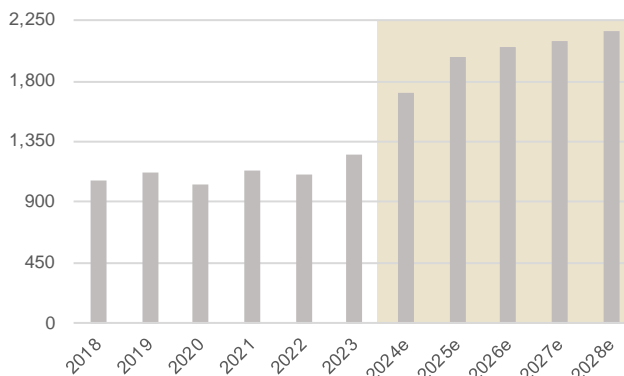
finance larger acquisitions by issuing new shares, through a joint venture or with a financial partner.

Long-term forecasts

Sales (CZKm)



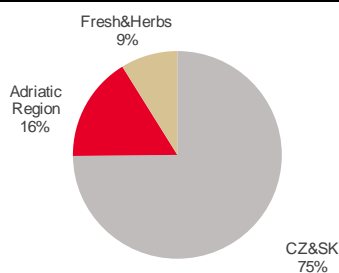
EBITDA (CZKm)



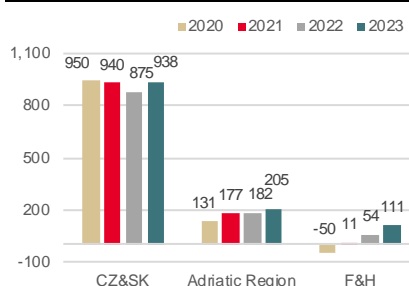
Source: Kofola; Economic & Strategy Research, Komerční banka

The new acquisitions, especially Pivovary CZ, will significantly increase Kofola's earnings. Moreover, Pivovary CZ should have its core business in the same region where Kofola has traditionally been very strong. This is particularly true in Moravia. We estimate that although the breweries are geographically mainly part of the Czechoslovak operations, Kofola is likely to start disclosing data on the additional Breweries segment in its next report (2Q24 results, September 23, 2024). There will now be four core businesses Czechoslovakia, the Adriatic region, which includes Slovenia and Croatia, Fresh&Herbs (UGO, tea business, syrups, juices) and finally Brewing.

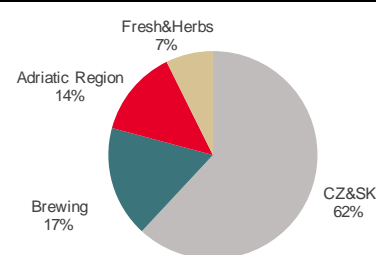
EBITDA (2023)



EBITDA by segments (CZKm)



Expected EBITDA



Source: Kofola; Economic & Strategy Research, Komerční banka

Czechoslovak operations have the highest share in EBITDA. Last year, it accounted for 75% of total EBITDA. The Adriatic region was a close second with 16%, followed by the F&H sector with 9%. This can be clearly seen in the pie chart above. However, once the acquisitions are completed, especially Pivovary CZ, there will be another segment of the business that should bite off shares in all the sectors mentioned.

According to our estimates, Czechoslovakia will continue to play the leading role, where its share could fall to around 62%. Pivovary CZ could account for 17% and the Adriatic region 14%. The rest would be supplied by F&H with 7%. This can also be seen in the chart on the top right.

This year (2024), Kofola would like to achieve EBITDA of CZK1.55-1.80bn with revenue growth of +25%. For EBITDA, this means yoy growth of almost +34%. This forecast includes new acquisitions. CAPEX should be up to 40% of EBITDA and debt should remain below 3.0x. A standalone Kofola comparable to 2023 should have an EBITDA of CZK1.35-1.45bn and revenues up +7% yoy.

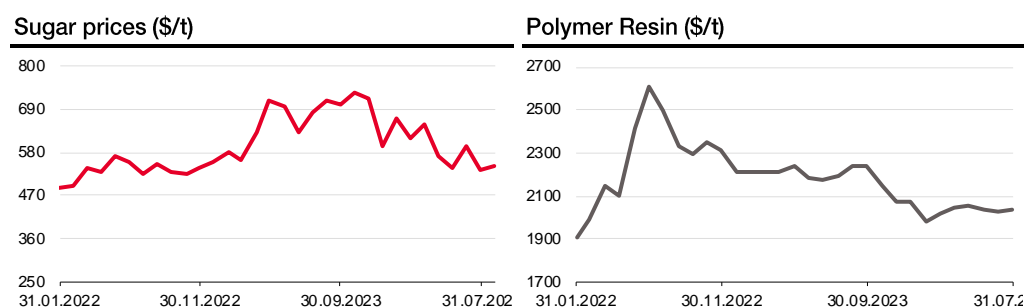
Please note that Kofola's performance is affected by seasonality. The summer months are the strongest. The strongest quarter is the third "holiday" quarter, which has contributed 44% of total EBITDA over the last three years. This is followed by 2Q with 30%, and the weakest 4Q (14%) and 1Q (12%). We expect the new business to have the same seasonality as Kofola's existing business.

For the full year, we expect Kofola to achieve sales growth of +25.2% yoy (CZK10.9bn). We expect organic growth in addition to acquisition growth, where we should see a price effect. In the final year (2028) of the forecast period, we expect sales to reach CZK13.3bn. This corresponds to a compound annual growth rate (CAGR) of +8.9%. Czechoslovakia will remain the most important segment with a share of around 60%. This is followed by breweries (15%), the Adriatic region (15%) and F&H (10%).

Direct material costs include the categories of packaging and sweeteners. Packaging accounts for 46.8% of material costs in 2023 (down from 57.8% in 2022). Sweeteners and other (e.g. concentrates) accounted for 36.6% (23.8% in 2022) and 16.6% (18.4% in 2022), respectively.

The charts below show the price development of packaging (PET) and sugar. For packaging, we can see that they were more or less stable last year, with a decline at the end of the year. Since the beginning of this year, they have been more or less at the same level as at the end of last year. A similar trend can be seen for sugar, whose prices declined at the end of last year. And PET prices are expected to decline slightly this year, while we expect sugar prices to be more or less stable.

Energy costs are also expected to decline. This was also reflected in the 1Q24 results. After the energy crisis, which culminated in a period of very high energy prices, energy costs will likely fall this year.

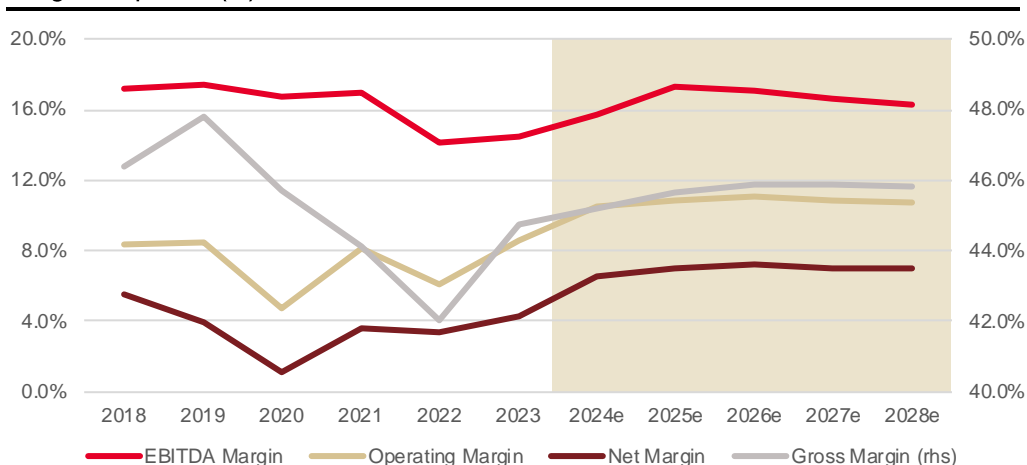


Source: Bloomberg

Total operating costs will grow by +8.3% (CAGR 2024-2028), reaching CZK4.7bn in the last year of the period. Costs will increase in line with higher volumes, as well as personnel costs due to the higher number of employees. The majority, about three quarters, are sales, marketing and distribution costs. We expect average growth in this category of +7.8% to CZK3.6bn in 2028. We estimate a slightly higher growth rate for administrative costs (+8.6%, CZK-1.1bn in 2028). Given that the home region, where Kofola is traditionally strongest, is also a core market for Pivovary CZ, there should be cost synergies.

We expect Kofola's EBITDA to reach CZK1.7bn this year, representing a yoy growth of +36.3%. In the last year of the forecast period, it should grow to CZK2.2bn, representing a CAGR of +11.6%.

Margin comparison (%)



Source: Kofola; Economic & Strategy Research, Komerční banka

In 2022, Kofola's margins declined due to the peak energy crisis and high energy costs. In the previous years, the restaurant business was particularly affected by restrictions related to the coronavirus pandemic. This explains the decline in the EBITDA margin in these years. Last year, the EBITDA margin was 14.4%. We expect it to grow to over 17% in the coming years. The next few years should also be around that level.

Dividend policy

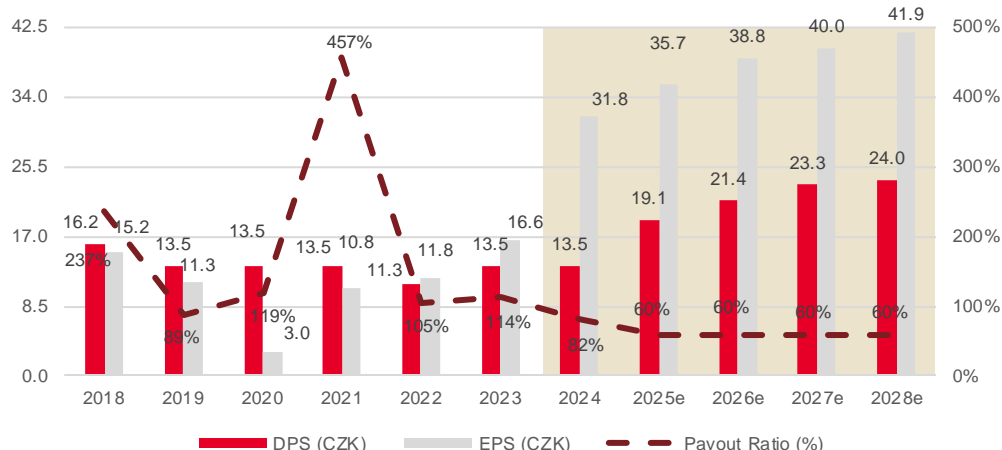
Kofola traditionally pays a dividend to its shareholders in the amount of approx. CZK300m per year. This is equivalent to CZK13.50 per share. For the year 2021 alone, i.e. the payout in 2022, a distribution of CZK11.30 was made. The reduction of the dividend this year was due to restrictions related to the Covid-19 pandemic. This year (August 9), Kofola paid the traditional CZK13.50/shr. This represents a gross yield of +4.5%.

The dividend is expected to increase over the forecast period.

We expect Kofola to pay a higher dividend than usual starting next year, i.e. from this year's profit. Kofola's earnings will grow substantially and the scope for profit sharing will increase significantly. This is against the backdrop of what we estimate will be lower leverage. We expect the company to share its profits with its shareholders. We therefore expect Kofola to change its dividend policy. We conservatively estimate a payout of 60% of net profit. This would imply a dividend of CZK19.10 per share for next year's payout and an attractive gross dividend yield of +6.4%.

If the payout ratio had remained at 60%, the dividend would have amounted to CZK24 in 2028. And the gross yield would have been +8%.

Dividend projections (CZK)



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

There are also risks that could jeopardize the dividend payment. Kofola's appetite for acquisitions could be one of them. The dividend could also be affected by current market conditions, such as the Covid-19 crisis and related restrictions, the energy crisis, or a sharp increase in costs. Or high leverage.

Indebtedness

The leverage will be reduced to a very comfortable level.

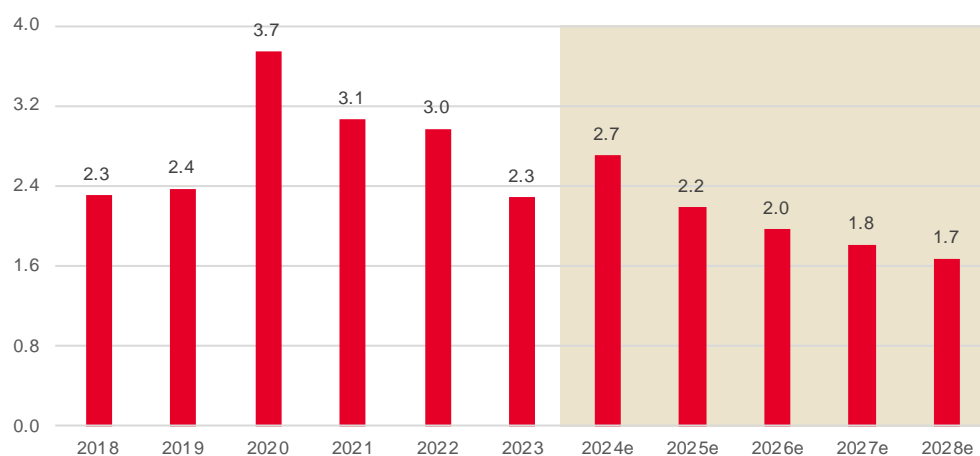
Kofola's target is to have a leverage ratio (net debt to EBITDA) of up to 3.0x at the end of this year. Bank covenants are set at 3.5x.

Kofola's leverage was 2.7x at the end of the first quarter. This is a slight increase from 2.28x at the end of 2023. This is due to the completion of recent acquisitions. For the rest of the year, no significant amount is expected to be due. In our forecasts, we also expect debt of 2.7x at the end of this year.

In the following years, it should decline slightly below the 2.0x level. We consider this level of debt to be comfortable. It could, for example, allow for further acquisitions or a higher dividend. If a larger acquisition were to take place, we could see debt increasing, probably in the short term, perhaps even above the level of the bank covenants.

The chart below shows that even though leverage has shot up, Kofola has managed to reduce it quickly. But even with such leverage, Kofola has not lost its ability to pay a dividend (see above).

Leverage (Net Debt / EBITDA)



Source: Kofola, Economic & Strategy Research, Komerční banka

Valuation

Sector comparison

Kofola trades at a significant discount to foreign competition.

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 presents selected multiples we use to compare Kofola to its peer group. On all multiples (see table below), Kofola trades at a significant discount to the peer group median. However, it also offers an above-average dividend yield of 4.5% compared to the sector. This is arguably the highest in 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. %
	2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	akt.	akt.
Kofola CeskoSlovensko AS	12.6	11.3	10.3	7.9	6.7	6.3	1.2	1.2	1.1	0.8	0.8	0.7	42.7	4.5
Coca-Cola Co/The	25.4	23.9	22.4	22.5	21.0	19.7	7.4	7.0	6.7	6.8	6.5	6.2	41.1	2.7
PepsiCo Inc	21.2	19.7	18.4	15.5	14.5	13.6	2.9	2.8	2.7	2.5	2.4	2.3	51.3	3.1
Monster Beverage Corp	27.9	24.5	21.9	20.3	18.2	16.3	6.0	5.5	5.1	6.1	5.6	5.2	24.6	n/a
AG Barr PLC	17.5	15.5	14.0	9.8	8.7	8.1	1.6	1.6	1.5	1.7	1.7	1.6	13.7	2.3
Keurig Dr Pepper Inc	19.0	17.7	16.6	14.3	13.7	13.1	4.3	4.1	4.0	3.2	3.1	3.0	8.7	2.3
Fevertree Drinks PLC	30.3	23.2	19.2	17.3	13.9	11.7	2.6	2.4	2.2	2.7	2.5	2.3	6.5	1.9
MEDIAN	23.3	21.5	18.8	16.4	14.2	13.4	3.6	3.5	3.3	3.0	2.8	2.7	19.2	2.3
S&P 500 Soft Drinks & Non-alco	22.8	21.7	20.3	17.9	16.7	15.5	n/a	n/a	n/a	3.8	3.7	3.5	32.2	n/a
Kofola vs median	-45.8%	-47.6%	-44.9%	-51.6%	-52.6%	-52.7%	-65.4%	-66.4%	-67.6%	-72.2%	-72.0%	-72.0%	122.6%	91.6%
Kofola vs S&P 500 Soft Drinks	-44.6%	-48.0%	-48.9%	-55.7%	-59.8%	-59.3%	n/a	n/a	n/a	-78.3%	-78.8%	-79.0%	32.5%	n/a

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Please note that relative comparisons can be misleading. This is primarily due to differences between individual companies. These differences may relate to size, geography, product mix or capital structure. We consider this method of relative comparison with competitors to be supplementary only.

Target price

We used a two-stage DCF model to value the company.

Our new target price is CZK402.

We have valued Kofola using a two-stage discounted free cash flow (DCF) model with a five-year explicit period. The free cash flow is discounted using a weighted average cost of capital (WACC) in the range of 7.2%-8.4% over the period (2024-2028) and 8.4% for perpetuity with an expected long-term growth rate of 2%. Our valuation also includes a discount for low liquidity. Based on the DCF model, we estimate the **fair value of Kofola's shares to be CZK402** per share.

Kofola valuation

	2024e	2025e	2026e	2027e	2028e
WACC	7.2%	7.6%	7.9%	8.1%	8.4%
CoE	10.9%	11.0%	11.0%	11.1%	11.1%
Premium - liquidity	1.0%	1.0%	1.0%	1.0%	1.0%
Beta	0.830	0.830	0.830	0.830	0.830
Risk Free Rate	3.9%	4.0%	4.1%	4.2%	4.2%
Equity Risk Premium	5.7%	5.8%	5.8%	5.8%	5.8%
Country Risk Premium	1.1%	1.2%	1.2%	1.2%	1.2%
CoD	5.7%	5.8%	5.8%	5.8%	5.8%
Discounted FCFF (mil. CZK)					
EBITDA	1,709	1,977	2,057	2,102	2,165
Taxes Paid	-253	-251	-280	-296	-302
WC Change	-284	-113	-124	-136	-149
CAPEX	-653	-686	-723	-760	-800
FCFF	518	927	930	910	914
Preset Value of FCFF	494	823	765	692	641
Sum of Present Value until 2026	3,415				
LT Growth	2.0%				
Preset Value after 2026	10,265				
Net Debt	4,621				
Estimated Value of Equity	8,960				
Target Price (CZK)	402				

Source: Economic & 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

Target Price					
LT Growth / WACC	-100 bb	-50 bb	7.8 % / 8.4 % *	+50 bb	+100 bb
1.0%	402	444	444	402	336
1.5%	366	402	402	366	309
2.0%	366	402	402	366	309
2.5%	402	444	444	402	336
3.0%	493	553	553	493	402

Note: * the first value corresponds to the average for the years 2024-28, the second value after 2028

Source: Economic & Strategy Research, Komerční banka

Main risks

- **Restrictive measures:** Any restrictions or limitations (such as in recent years in connection with the coronavirus pandemic) 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 and it is important that the company keeps abreast of current trends and directions in this area. For example, there is a growing interest in healthy lifestyles (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 highly competitive. Both international and local producers compete by offering a wide range of products. This situation increases the risk of price pressure or loss of market share.
- **Retail chains depress margins:** Customers generally prefer to buy the discounted goods that the retail segment can offer them. 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 increases in input prices from being reflected in the final price.
- **Inputs:** Raw materials such as sugar/sweeteners and packaging materials are one of the most significant cost items for the Group. 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 may be limited. Therefore, growth through acquisitions is offered. Kofola is very active in M&A (Ondrášovka and Karlovarská Korunní, Mixa Vending, Pivovary CZ). Acquisition is a complex process that does not always turn out in the company's favor, e.g. there is a risk of overpaying for the target company.
- **Exchange rate:** A number of raw materials (mainly sugar) used in the Group's production are purchased in EUR or in local currencies with a valuation based on EUR. The Group is exposed to the risk of fluctuations in the EUR exchange rate against 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

CZKmn	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
INCOME STATEMENT									
Sales	6,171	6,636	7,875	8,690	10,883	11,441	12,042	12,665	13,329
CoS	-3,350	-3,710	-4,564	-4,803	-5,962	-6,221	-6,517	-6,858	-7,220
Gross Profit	2,822	2,926	3,311	3,887	4,921	5,220	5,525	5,807	6,109
Operating Costs	-2,529	-2,391	-2,829	-3,140	-3,782	-3,975	-4,194	-4,431	-4,674
Operating Profit	293	535	483	747	1,139	1,245	1,330	1,376	1,435
EBITDA adjusted	1,030	1,128	1,110	1,253	1,709	1,977	2,057	2,102	2,165
Fin. Net	-101	-170	-83	-265	-144	-129	-116	-125	-124
Pre-tax	192	365	400	482	995	1,116	1,215	1,251	1,311
Income Tax	-126	-125	-136	-113	-286	-320	-349	-359	-377
Net Income	66	240	264	369	709	796	866	891	935
BALANCE SHEET									
Total Assets	7,537	7,236	7,503	8,028	9,727	10,279	10,861	11,431	12,039
Non-current Assets	5,684	5,306	5,089	5,130	7,094	7,105	7,148	7,240	7,370
PPE	3,449	3,221	3,098	3,113	5,856	5,811	5,807	5,841	5,911
Others	2,235	2,085	1,990	2,017	1,238	1,294	1,341	1,399	1,460
Current Assets	1,854	1,929	2,415	2,897	2,633	3,175	3,713	4,191	4,669
Inventories	519	641	766	706	954	987	1,023	1,058	1,096
Trade and Other Receivables	783	867	998	1,120	1,491	1,646	1,815	1,995	2,191
Cash and Cash Equivalents	544	392	626	1,071	188	541	876	1,137	1,382
Others	7	30	24	0	0	0	0	0	0
Total Equity	1,307	1,297	1,288	1,458	1,866	2,236	2,625	2,997	3,396
Non-current Liabilities	3,993	3,436	3,664	3,763	4,557	4,603	4,650	4,697	4,744
Current Liabilities	2,237	2,503	2,552	2,807	3,303	3,440	3,586	3,738	3,899
CASH FLOW									
Pre-tax	192	365	400	482	995	1,116	1,215	1,251	1,311
Depreciation and amortisation	632	618	586	540	570	732	726	726	730
Other Non-cash Movements	152	168	80	481	146	133	118	129	127
Income Taxes Paid	-131	-149	-98	-84	-253	-251	-280	-296	-302
WC Change	-60	140	-45	65	-284	-113	-124	-136	-149
Net Cash Flow from Operating Activities	785	1,142	923	1,485	1,173	1,617	1,655	1,674	1,717
Net Cash Flow from Investing Activities	-1,349	-231	-382	-396	-653	-686	-723	-760	-800
Dividends Paid	-275	-288	-253	-287	-301	-425	-477	-520	-535
Net Cash Flow from Financing Activities	325	-1,052	-1,052	-644	-1,403	-577	-599	-652	-672
Change in Cash	-231	-152	235	445	-883	354	334	262	245

Source: Kofola, Economic & Strategy Research, Komerční banka

Kofola financials

	2020	2021	2022	2023	2024e	2025e	2026e	2027e	2028e
RATIOS									
ROE (%)	4.6	18.0	19.8	26.4	42.7	38.8	35.6	31.7	29.2
ROA (%)	0.9	3.3	3.6	4.8	8.0	8.0	8.2	8.0	8.0
ROIC (%)	1.2	4.4	5.1	6.9	11.8	11.6	11.8	11.5	11.4
MARGIN									
Gross Margin (%)	45.7	44.1	42.0	44.7	45.2	45.6	45.9	45.8	45.8
EBITDA Margin (%)	16.7	17.0	14.1	14.4	15.7	17.3	17.1	16.6	16.2
Operating Margin (%)	4.7	8.1	6.1	8.6	10.5	10.9	11.0	10.9	10.8
Net Margin (%)	1.1	3.6	3.4	4.2	6.5	7.0	7.2	7.0	7.0
Growth									
Sales (%)	-3.7	7.5	18.7	10.3	25.2	5.1	5.2	5.2	5.2
CoS (%)	0.1	10.8	23.0	5.2	24.1	4.4	4.8	5.2	5.3
EBITDA (%)	-16.0	24.6	-7.4	20.5	32.7	15.7	4.0	2.2	3.0
EBITDA adjusted (%)	-8.0	9.5	-1.6	12.9	36.3	15.7	4.0	2.2	3.0
Net Income (%)	-74	265	10	40	92	12	8.9	2.9	4.8
FINANCING									
Net Debt / EBITDA (x)	3.7	3.1	3.0	2.3	2.7	2.2	2.0	1.8	1.7
Net Debt / Equity (x)	2.9	2.7	2.6	2.0	2.5	1.9	1.5	1.3	1.1
Assets / Equity (x)	5.8	5.6	5.8	5.5	5.2	4.6	4.1	3.8	3.5
Interest Coverage (x)	2.4	3.1	2.0	2.5	4.7	6.4	6.8	6.9	7.2
VALUATION									
P/E (x)	79.1	26.7	23.9	14.9	12.6	11.3	10.3	10.1	9.6
P/Operating Cash Flow (x)	6.6	5.6	6.8	3.7	7.6	5.5	5.4	5.4	5.2
P/Free Cash Flow (x)	14.5	7.6	11.4	6.7	17.3	9.7	9.6	9.8	9.8
P/BV (x)	3.9	4.8	4.7	3.8	4.8	4.0	3.4	3.0	2.6
EV/S (x)	1.5	1.5	1.2	1.0	1.2	1.2	1.1	1.0	0.9
EV/EBITDA (x)	8.8	8.8	8.6	6.7	7.9	6.7	6.3	6.1	5.8
DATA PER SHARE (CZK)									
EPS	3.0	10.8	11.8	16.6	31.8	35.7	38.8	40.0	41.9
Operating Cash flow	35.2	51.2	41.4	66.6	52.6	72.6	74.3	75.1	77.0
Book Value	60.0	60.0	59.8	65.4	83.7	100.3	117.7	134.4	152.4
Gross Dividend	13.5	13.5	11.3	13.5	13.5	19.1	21.4	23.3	24.0
Dividend yield, brutto (%)	5.8	4.7	4.0	4.5	3.4	4.7	5.3	5.8	6.0

Source: Kofola, Economic & Strategy Research, Komerční banka

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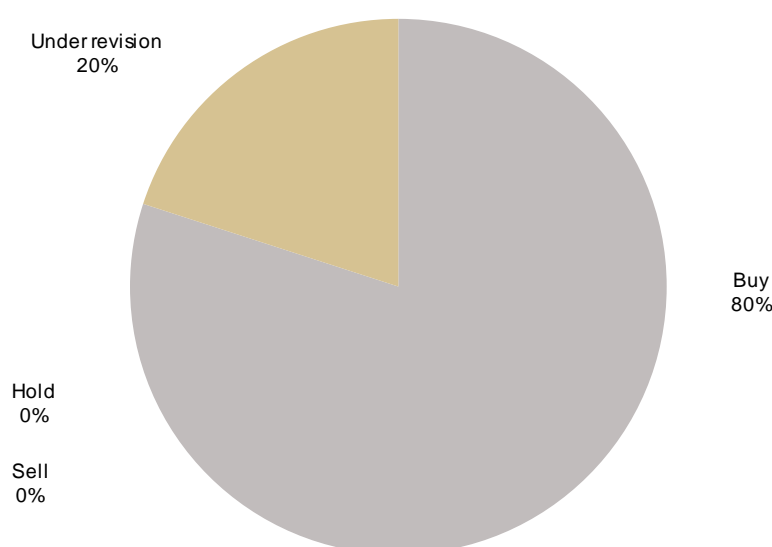
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

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
Overview of last investment research and recommendations related to stocks of particular issuers							
Recommendation	Buy	Buy	Buy	In revision	Buy	End	End
Target price	CZK1,034	CZK921	CZK402	In revision	CZK17,041	of coverage	of coverage
Date	07.09.2023	09.02.2024	03.09.2024	25.07.2024	21.03.2024	07.09.2022	25.02.2022
Price on the day of the publication	CZK923	CZK574	CZK299	CZK111.4	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	CZK313	CZK104.6	CZK18,349	GBp600	CZK362
Date	07.06.2022	16.12.2022	29.05.2023	05.09.2022	03.03.2023	11.02.2021	26.03.2021
Recommendation	In revision	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	In revision	CZK645	CZK381	CZK104.6	CZK18,183	GBp466	CZK293
Date	10.05.2022	17.01.2022	12.05.2022	05.09.2022	11.02.2022	30.08.2019	08.01.2020
Recommendation	Buy	In revision	In revision	Buy	Buy	In revision	Buy
Target Price	CZK905	In revision	In revision	CZK109.7	CZK16,512	In revision	CZK298
Date	10.12.2021	31.03.2021	15.02.2022	31.08.2021	20.11.2020	14.08.2019	12.12.2018
Recommendation	Buy	Buy	Buy	In revision	Buy	Buy	Hold
Target Price	CZK621	CZK357	CZK367	In revision	CZK18,308	GBp342	CZK270
Date	23.07.2020	27.11.2020	12.01.2021	07.05.2021	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