

# Colt CZ Group SE

Growth story, bet on organic and M&A surge

## Buy

Price 16.12.22	<b>CZK 555</b>
12m target	<b>CZK 652</b>
Upside to TP	<b>17.5%</b>
Dividend	<b>CZK 25</b>
Total return	<b>22.0%</b>

### Sector stance

Overweight

### Investment type

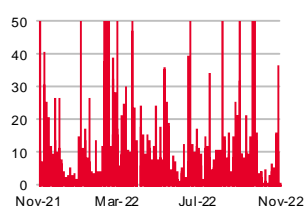
Growth story

### 1 year performance



Source: Bloomberg

### Trading volume (in ths of shares)



Source: Bloomberg

### Share data

RIC	CZG.PR	Bloom	CZG CP
52-week range		471 - 640	
Market cap. (CZKbn)		18.9	
Market cap. (EURbn)		0.8	
Free float (%)		19	
Performance (%)	1m	3m	12m
Share	0.9	1.3	10.6
Rel. to PX Index	7.4	6.2	32.8

Source: Bloomberg

### The latest analysis and report:

[https://bit.ly/CZG\\_Initiation\\_ENG](https://bit.ly/CZG_Initiation_ENG)

[https://bit.ly/CZG\\_1H22\\_EN](https://bit.ly/CZG_1H22_EN)

[https://bit.ly/CZG\\_3Q22\\_EN](https://bit.ly/CZG_3Q22_EN)

**Investment recommendation:** We issue a new target price of **CZK652** for the shares of **Colt CZ Group SE**. Compared to the current market price, this implies a potential upside of **+17.5%**. This corresponds to a **Buy** recommendation, which remains unchanged. The previous target price was CZK645.

The company was originally called Ceska zbrojovka, but renamed itself **after its acquisition of the legendary U.S. brand Colt**.

In Colt's main market in the US, the massive demand of the last two years seems to be waning slightly, but still remains very high. We expect demand to grow in the company's other countries. We expect higher interest from European countries. We also observe a growing trend in Asia. We estimate an increase of production, both in the Uhersky Brod factory and in Colt's American factories. We expect to be able to maintain an EBITDA margin above 20%. We expect average annual growth for this profit to be 2.9 % after about 40 % growth this year driven by Colt's consolidation.

**Active M&A player.** The company's management reiterated several times that M&A is one of the growth channels. We expect Colt to be able to meet the overall market demand in this segment. Thus, companies in the ammunition, optics or other equipment sector could become acquisition targets. We believe that Colt will be very active in this field. This is evidenced, among other things, by the company's outlook for 2025, which is unlikely to be achieved by organic growth alone. An active approach to acquisitions is also supported by the fact that Colt has a strong balance sheet. Debt is at 1.2x and the company shows a strong ability to generate cash. Last but not least, Colt has experience with acquisitions.

In addition to the growth story, whether organic or through acquisitions, Colt also offers a solid dividend. This year, there was a payout of CZK25 per share, which corresponds to a gross yield of 4.5% and a payout ratio of 73%. In our estimates, despite the fact that Colt plans to pay out at least 50% of earnings, we expect the dividend payout ratio to remain roughly at this year's level. Specifically, we expect 75% of net income, with the yield heading towards 7%.

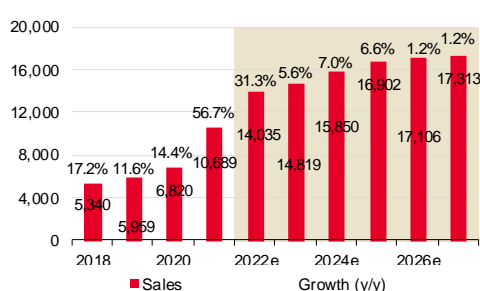
Our CZK652 TP is derived from DCF model. At our TP Colt would trade at P/E multiples of 16.6x (2023e) and 14.2x (2024e) and at EV/EBITDA multiples of 8.8x (2023e) and 7.9x (2024e). We use WACC in the range of 9.1% to 9.6% and a terminal growth rate of 2%.

Financial data	2021	2022e	2023e	2024e	Ratios	2021	2022e	2023e	2024e
Revenues (CZK m)	10689	14035	14819	15850	P/E (x)	14.8	10.1	14.0	12.0
EBITDA margin (%)	20.3	21.8	20.0	20.3	Price/free cash flow (x)	14.9	25.5	11.8	12.7
Net income (CZK m)	1161.0	1855.5	1381.7	1619.5	Dividend yield (%)	1.5	4.5	7.0	5.4
EPS (CZK)	34.4	54.4	39.3	46.0	Price/book (x)	3.3	2.9	2.9	2.7
Dividend/share (CZK)	7.5	25.0	38.3	29.4	P/S (x)	1.6	1.3	1.3	1.2
Interest cover (x)	6.5	11.0	4.6	5.4	EV/S (x)	2.0	1.6	1.5	1.4
Payout (%)	37.4	73.4	75.0	75.0	EV/EBITDA (x)	9.6	7.2	7.6	6.8
Net debt/equity (%)	0.7	0.5	0.5	0.4	EV/IC (x)	2.0	1.6	1.6	1.5

## Company overview

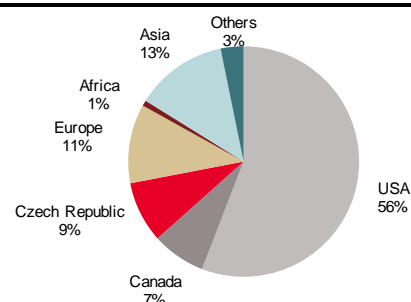
Strengths	Weaknesses
<ul style="list-style-type: none"> <li>Recognized international firearms manufacturer with global reach</li> <li>Strong focus on R&amp;D</li> <li>Highly skilled workforce</li> <li>Attractive financial profile - low debt and strong cash flow generation</li> <li>Diversification in terms of geography and market segments</li> </ul>	<ul style="list-style-type: none"> <li>Any event that would result in a production outage</li> <li>Legislation &amp; Regulation. The manufacture, sale, use, handling, etc. of firearms is subject to strict controls. A change in legislation could adversely affect the functioning of society</li> <li>Quite small free float, liquidity risk</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>Great potential for organic growth</li> <li>Expansion into new markets</li> <li>Increasing market share in the military &amp; law enforcement sector</li> <li>M&amp;A, CZG plans to play a key role in market consolidation</li> <li>One-stop shop potential. Focus on ballistic and tactical equipment and accessories</li> </ul>	<ul style="list-style-type: none"> <li>Highly competitive market. Inability to compete could affect the company's performance</li> <li>Currency risk (FX)</li> <li>Very tight labour market in the Czech Republic. Outflow of highly skilled employees and inability to find new ones</li> </ul>

Revenues (CZKkm)

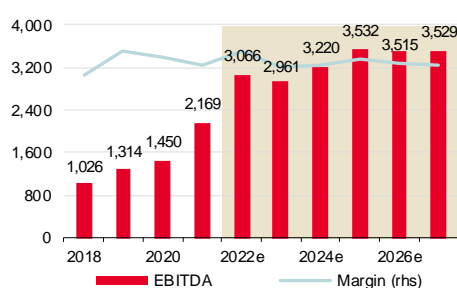


Source: Colt, Economic and Strategy Research, Komerční banka

Geographical breakdown of sales (9M22)

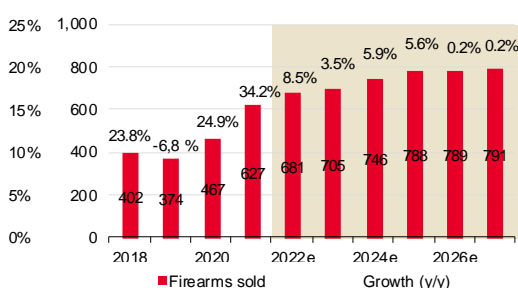


EBITDA (CZKkm)



Source: Colt, Economic and Strategy Research, Komerční banka

Products sold (k units)



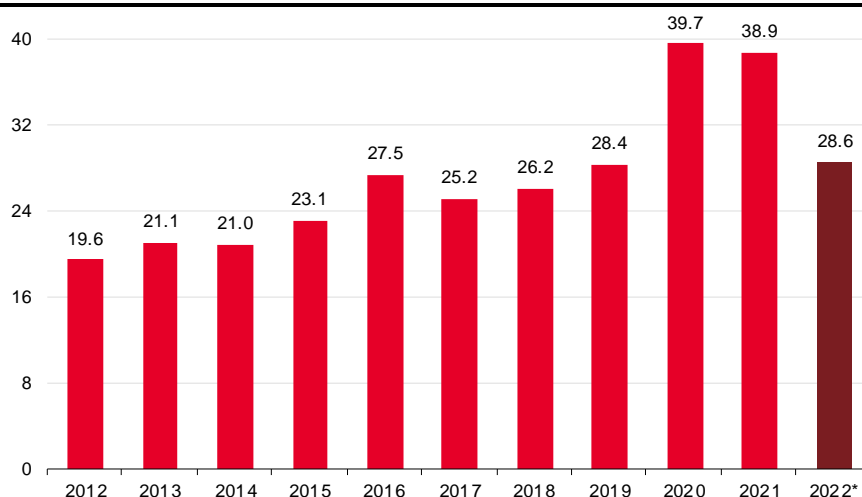
## Trends in the sector

### High demand for small firearms

Despite the downturn in the main market, demand remains massive.

**The US is a key market for Colt, especially its commercial part.** Even when we see a drop in demand, which literally popped up in 2020 and 2021, it **remains very high. Compared to 2019, it's still about +10% higher.** This can be measured by the amount of checks performed before each actual gun purchase, called a NICS background check.

Demand for small arms in the USA (m)

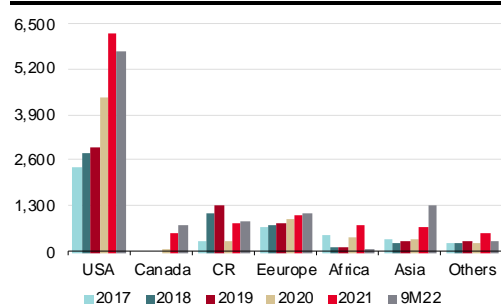


Source: FBI; \* January - November

... but there is also a strong demand in other regions.

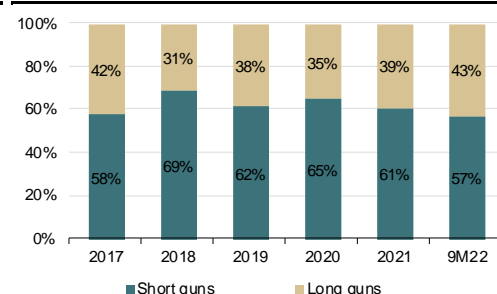
Demand was not only growing overseas, but also in Colt's other markets. According to our estimates, there was about +40% growth in the domestic market (Czech Republic) compared to last year (2021). This is due to the contract with the Czech Army. We estimate an increase in demand in other European markets (aside from the Czech Republic). We also registered growth in the Asian markets. This could be driven by strong demand from both the commercial/civil segment, and the armed forces segment. Of course, the acquisition of Colt itself as of May 2021 has also opened up the Canadian market, where Colt has one of its factories. We expect Canada to account for about 7-8% of total sales.

Regional distribution of sales (CZK m)



Source: Colt

Product mix



The chart shows the breakdown of revenue by country and the representation of long guns and handguns sold in Colt's portfolio.

## Company results

### The year 2022

Growth in firearm sales, outlook for strong Q4.

The latest reported results are for the first 9M of this year. The high number of products sold along with the consolidation of Colt are behind the substantial yoy growth. EBITDA profit increased by 45% to CZK2.3bn on sales up 34% to CZK10.2bn.

The company managed to sell 10.4% (511.4k units) more products. 57% of the total were short guns. To illustrate the high demand in the USA, this market contributes 56% to the total revenue, while Canada contributes another 7.5%.

#### 9M22 results

miles. CZK	9M21	9M22	Change
Revenue	7 602	10 220	34,4 %
EBITDA	1 613	2 341	45,1 %
<i>Margins</i>	21,2 %	22,9 %	1.7 pp
EBIT	902	1 487	64,9 %
Net profit	1 120	1 461	30,4 %

Source: Colt

FY Goals: FY Goals:  
Revenues CZK14-14.6bn  
EBITDA CZK3-3.3bn

Management's full-year projection is to achieve sales of CZK14-14.6bn and EBITDA of CZK3-3.3bn. Compared to reported results, the pace of execution is 71.5% for revenue and 74.5% for EBITDA. This means that to meet the target, Colt should deliver CZK4.1bn in revenue and CZK810m in EBITDA for the last quarter of the year. In comparison, for 3Q22 alone, revenues were CZK3.2bn and EBITDA was CZK546m CZK. This suggests a strong final quarter.

We expect the company to make several delayed deliveries, most likely for the armed forces sector in Europe.

#### KB's estimates of Colt's results for the full year 2022

CZKm	2021	2022 (KB estimate)	Change
Revenue	10,689	14,035	31.3%
EBITDA	2,169	3,066	41.4%
<i>margin</i>	20.3%	21.8%	1.6pp
EBIT	1,011	1,983	96.1%
Net profit	1,161	1,855	59.8%

Source: Colt, Economic and Strategy Research, Komerční banka

In our calculations, we estimate that Colt will sell about 680,000 firearms this year. In the first nine months, it was 511,000. Total sales should increase by 31% yoy to CZK14.04bn. EBITDA is estimated at CZK3.1bn and margin at 22%. Colt should thus meet its full-year guidance.

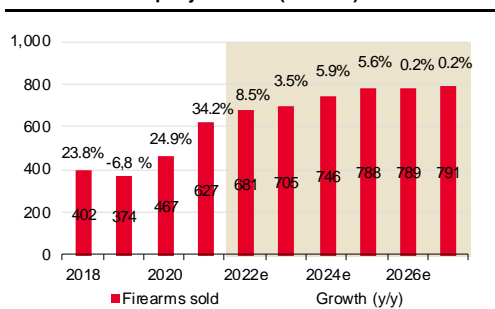
### Long-term forecasts

The rapid growth of products sold ...

In our projections, we expect an increase in firearms sales. In the 2022-2027 period, we expect the number of units sold to increase to nearly 800k from the 680k Colt is expected to sell this year. A substantial increase is seen in 2021 when Colt consolidates. Also contributing to the overall growth will be the execution of the contract with the Czech Army, which is underway now. Production at the Czech factory in Uherský Brod should increase from about 440k units

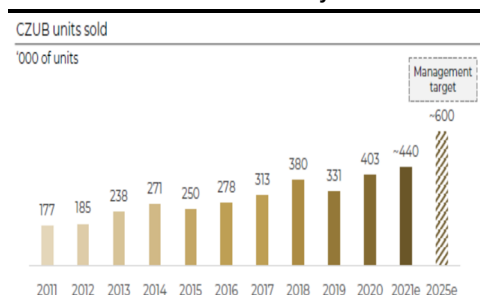
(2021) to 600k in 2025<sup>1</sup>. We estimate the overall average annual growth rate (CAGR) in the number of firearms sold over 2022-2027 to be 3.1%.

#### Sales volume projections (k units)



Source: Colt, Economic and Strategy Research, Komerční banka

#### Products sold from the factory in CZUB

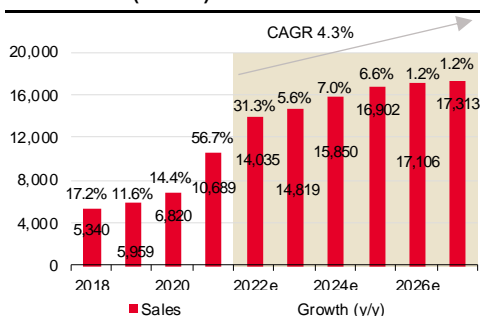


Source.

... means growth in total sales.

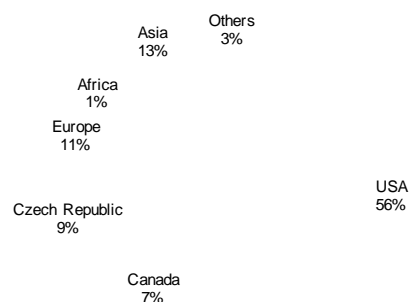
Last year, sales reached CZK10.7bn. This year it should be CZK14.04bn and in the last year (2027) of the monitored period CZK17.3bn. This corresponds to an average growth of 4.3% (CAGR). The majority of revenues should continue to be generated in overseas markets, but we expect Europe to grow in importance. Ytd, Colt has generated 63% of its total revenue from overseas (US & Canada). European (non-Czech) markets generate about 11%, while the Czech Republic alone generates less than 9% and Asian markets another 13%.

#### Total sales (CZKm)



Source: Colt, Economic and Strategy Research, Komerční banka

#### Geographical breakdown of sales (9M22)



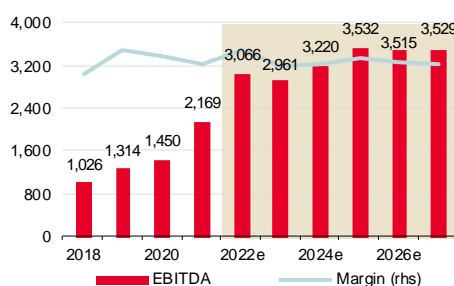
EBITDA margin should be above 20%.

EBITDA should reach CZK3.5bn in the last year of our period (2027). This means an average annual growth of 2.9%. This year we estimate EBITDA at CZK3.1bn, which corresponds to yoy growth of +41.4%. This growth is due in part to the higher number of firearms sold and also to the increase in unit price. The EBITDA margin should be 21.8%. For the rest of the period, it should be above 20%. On the occasion of the 9M22 report, management estimated a sharp rise in energy costs. This year it should be CZK300m after CZK77m booked last year. Next year, this item should rise to CZK500m. Still, Colt should be subject to the government's energy price cap, as the company made its original estimates before the price cap was announced. However, it should be noted that energy costs accounted for 2.1% of total OPEX in 9M22. Given the predicted ceiling, we expect this ratio to be roughly the same. A major aspect of operating costs is materials. Its share of costs is about 47%.

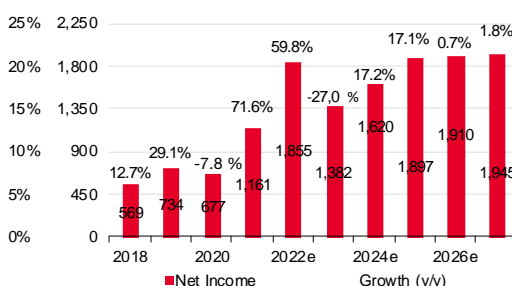
As for net profit, it is expected to grow by 59.8% yoy to CZK1.86bn this year. The high growth is due to the adjustment for costs related to the acquisition of Colt. It should have reached CZK1.94bn in 2027.

<sup>1</sup> Colt 9M21 presentation, p. 11

EBITDA profit projection (CZKm)



Net profit (CZKm)



Source: Colt Economic and Strategy Research, Komerční banka

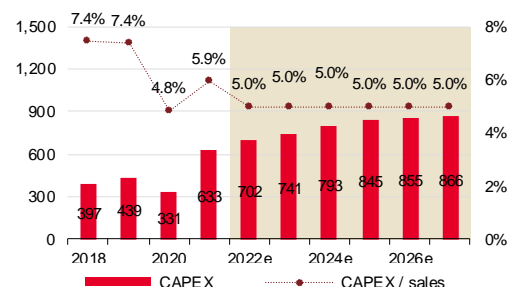
## Capital expenditure (CAPEX) and leverage

CAPEX is expected to reach 5% of total revenue.

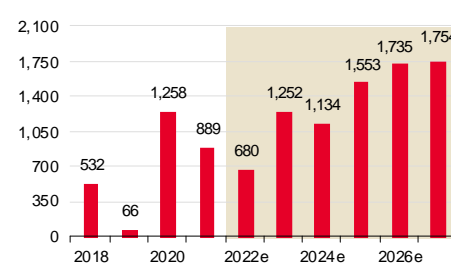
Colt has invested less than 5% in 2020 and 5.9% in 2021 of total sales. This year, it should be no more than 5% or CZK700-730m. In the coming years, we estimate CAPEX at 5% of revenues. Capital expenditures should relate to plant upgrades and investments in machinery, buildings and tools.

The difference between operating cash flow and investment was expected to be strong with an upward trend. This means that Colt will generate enough cash to carry out its investment plans. The charts below demonstrate the estimated capital expenditure and the difference between OFC and CAPEX.

CAPEX / Sales (CZKm)



OCF - CAPEX (CZKm)



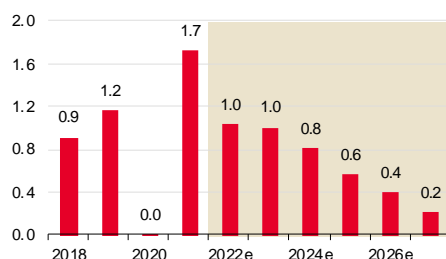
Source: Colt, Economic and Strategy Research, Komerční banka

Debt increased after the acquisition of Colt. It should decline in the coming years.

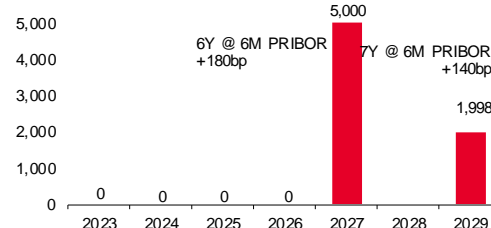
The company's debt increased to 1.7x net debt/EBITDA in 2021, the year of the Colt acquisition. At the end of 9M22, it fell to 1.2x. Given the company's strong cash generating ability, debt should continue to decline to around 0.2x in the coming years.

However, Colt should play an active role in M&A. We expect that some type of acquisition will be announced sooner or later. This could have an impact on debt, which could increase. In any case, Colt has plenty of room to grow due to its low leverage. We would see an increase somewhere between 2-3x as a comfort level.

Debt (net debt / EBITDA)



Maturity profile (CZKmn)



Source: Colt, Economic and Strategy Research, Komerční banka

## M&A activities

Active player in the field of M&amp;A.

Colt is a very active player on the acquisition front. This is evidenced by the purchase of Colt itself last year and the completion of the acquisition of 75% of Spuhr and Dalby, in which Colt now controls 100%, this year.

We don't believe that Colt's appetite for acquisitions has been sated yet. Companies in the industry, manufacturers of ammunition, optics or other equipment may become future targets.

Beyond its low debt and ability to generate strong cash flow, there are other factors pointing to Colt's plans for further acquisitions. Cash conversion is at a high level, slightly below 60%. In addition, Colt is considering EUR1bn (approx. CZK24.3bn) revenue and EUR200m EBITDA (approx. CZK4.9bn) among its targets for 2025. By comparison, it expects revenues of CZK14-14.6bn and EBITDA of CZK3-3.3bn this year. Such growth is very ambitious and, in our view, cannot be achieved organically. This suggests that Colt will announce further acquisitions in the coming years.

## Dividend policy

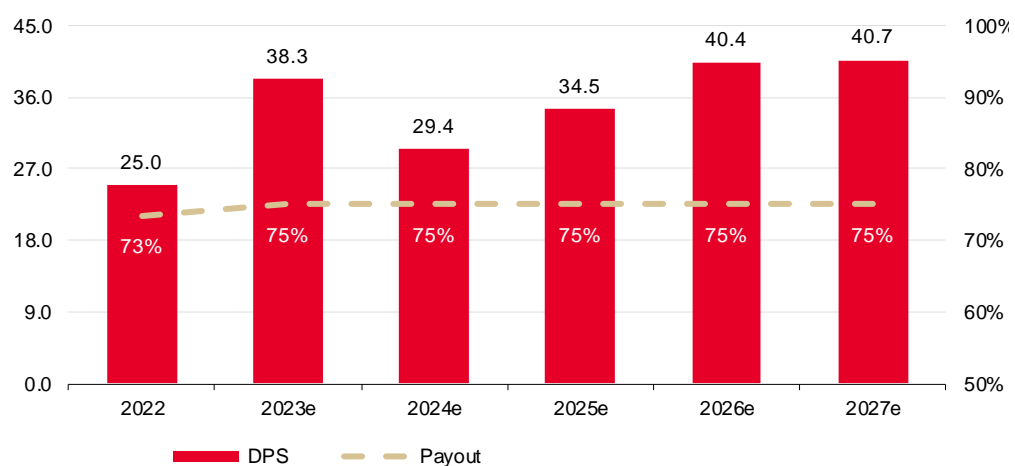
Colt plans to distribute 50% of profits to shareholders.

Colt's management plans to distribute **at least 50% of consolidated net income** to its shareholders in the **form of dividends**. It was also mentioned on the 9M22 conference call that net profit could be adjusted for certain non-cash items.

This year, i.e. out of last year's profit (2021), Colt paid out CZK25 per share, which corresponds to a 73% payout ratio. Given that the company will generate enough cash, we estimate that the dividend distribution could be roughly the same in the coming years. In our projections, we expect the payout ratio to be 75% of net income.

This year's payout of CZK25 per share represents a gross yield of 4.5%. In future years, the gross yield could climb to a solid 7%.

Dividend projection (CZK per share)



Source: Colt, Economic and Strategy Research, Komerční banka

The ability to pay a dividend can be affected by several factors. These include, for example, M&A. Colt appears to be very active in this area and it is likely that some acquisitions will occur. This, of course, could affect the dividend, as well as factors such as the company's leverage or outlook.



## Valuation

### Peer comparison approach

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

As a complementary method to the Colt valuation, we chose relative comparison. Unfortunately, the number of companies in the same sector is not large. Note that the individual companies in our sample differ substantially from one another, especially in terms of size, **product mix and geographical footprint**. We consider **peer comparison as a supplementary method**.

	P/E	P/E	P/E	P/S	P/S	EV/	EV/	EV/	EV/	EV/	Div.	Div.	Div.
	akt.	2022	2023	akt.	2022	Sales	Sales	EBITDA	EBITDA	EBITDA	výnos	výnos	výnos
	akt.	2022	2023	akt.	2022	akt.	2022	akt.	2022	2023	akt.	2022	2023
Colt CZ Group SE	10.3	10.7	13.2	1.4	1.3	1.6	1.5	7.5	7.5	7.6	4.6	4.7	4.5
Sturm Ruger & Co Inc	8.7	10.8	12.7	1.5	1.7	1.2	1.3	6.1	5.3	5.8	3.0	4.6	2.9
Smith & Wesson Brands Inc	4.6	9.6	9.3	0.7	0.8	0.9	0.8	4.2	4.7	3.8	n/a	n/a	n/a
Taurus Armas SA	2.5	n/a	n/a	0.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>SEKTOROVÝ MEDIÁN</b>	<b>4.6</b>	<b>10.2</b>	<b>11.0</b>	<b>0.7</b>	<b>1.3</b>	<b>1.0</b>	<b>1.1</b>	<b>5.2</b>	<b>5.0</b>	<b>4.8</b>	<b>3.0</b>	<b>4.6</b>	<b>2.9</b>
Colt vs sektor	122.1%	4.7%	20.3%	90.0%	3.4%	51.4%	37.3%	46.3%	50.8%	60.3%	50.8%	1.6%	53.2%

Source: Bloomberg, Economic and Strategy Research, Komerční banka

Colt multiples are somewhat higher compared to the closest peers. We believe that this is justified by a healthier financial profile, growth potential, strong cash generation and dividend payment.

### Discounted cash flow

We used the DCF method to value Colt. We set the target price at CZK652.

We used the discounted free cash flow to value Colt. The DCF valuation assumes cost of capital (WACC) in the range of 9.1-9.6% for the respective years in the first phase and 9.6% for the terminal phase. The terminal growth rate is assumed at 2%. Based on the discounted cash flow method presented in the table below, we obtain a valuation for **Colt of CZK652 per share**. This suggests a growth potential of +16.2%.

### Discounted cash flow (DCF) valuation

	2023e	2024e	2025e	2026e	2027e	LT
<b>Calculation of the required rate of return</b>						
<b>WACC</b>	<b>9.1%</b>	<b>8.3%</b>	<b>8.5%</b>	<b>9.1%</b>	<b>9.6%</b>	<b>9.6%</b>
CoE	10.5%	9.9%	9.9%	10.1%	10.1%	10.1%
Premium - liquidity	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Beta	0.834	0.834	0.834	0.834	0.834	0.834
Risk-free	4.0%	3.3%	3.4%	3.6%	3.6%	3.6%
Equity risk premium	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
Country risk premium	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Cost of debt	5.9%	3.9%	3.1%	3.1%	3.1%	3.1%
<b>Discounted cash flow model (CZKm)</b>						
<b>EBITDA</b>	<b>2,961</b>	<b>3,220</b>	<b>3,532</b>	<b>3,515</b>	<b>3,529</b>	
Taxes paid	-486	-570	-667	-672	-684	
WC change	-87	-335	-91	97	100	
CAPEX	-741	-793	-845	-855	-866	
<b>FCFF</b>	<b>1,648</b>	<b>1,523</b>	<b>1,929</b>	<b>2,084</b>	<b>2,079</b>	
<b>Discounted FCFF</b>	<b>1,510</b>	<b>1,289</b>	<b>1,505</b>	<b>1,490</b>	<b>1,356</b>	
Sum of discounted FCFF	7,152					
Terminal value	18,260					
Long-term growth	2%					
<b>Enterprise value</b>	<b>25,411</b>					
Net debt	3,180					
<b>Equity value</b>	<b>22,231</b>					
<b>Fair value / Target price (CZK)</b>	<b>652</b>					

Source: Economic and Strategy Research, Komerční banka

The chart below shows how our valuation is sensitive to two major factors: the discount rate (WACC) in the terminal phase and the terminal growth rate.

#### Sensitivity analysis of DCF valuation

		WACC				
LT Growth		8.6%	9.1%	9.6%	10.1%	10.6%
	1.0%	652	616	585	557	532
	1.5%	693	652	616	585	557
	2.0%	739	693	<b>652</b>	616	585
	2.5%	794	739	693	652	616
	3.0%	858	794	739	693	652

Source: Economic and Strategy Research, Komerční banka

## Risk factors

**Any event that would result in a production outage** would affect the company's operations.

**Rising costs.** The inability to effectively manage costs could have an adverse impact on the company's performance and/or competitiveness. For example, a very tight labour market in the Czech Republic could lead to an unexpected rapid increase in personnel costs.

**Loss of qualified staff.** Colt relies on highly qualified employees. An outflow of its skilled workforce and an inability to replace them could adversely affect the company's future operations.

**FX risk.** A large proportion of sales are generated in USD and EUR.

**Highly competitive market.** As mentioned above, the small arms market remains crowded and highly competitive. An inability to compete in terms of product or price could affect the company's business performance.

**Effects of changes in regulations.** The production, sale, use and handling of firearms is subject to strict controls. An unexpected adverse change in legislation could negatively affect the company's performance.

## Financial statements - annual

### Profit and loss account

CZKmn	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
<b>INCOME STATEMENT</b>										
Sales	5,340	5,959	6,820	10,689	14,035	14,819	15,850	16,902	17,106	17,313
Other Operating Income	49	102	68	62	78	82	88	94	95	96
Changes in Inventories of Finished Goods and Works in Progress	2	52	-380	167	1,130	1,000	200	200	200	200
Own Work Capitalized	104	105	124	140	148	178	190	203	205	208
Raw Materials and Consumables Used	-2,491	-2,886	-2,736	-5,113	-7,507	-7,706	-7,608	-8,113	-8,211	-8,310
Services	-814	-820	-1,095	-1,765	-1,876	-2,085	-2,061	-2,197	-2,224	-2,251
Personnel Costs	-1,046	-1,081	-1,299	-2,088	-2,837	-3,009	-3,100	-3,193	-3,290	-3,355
Depreciation and Amortization	-365	-371	-393	-790	-888	-863	-834	-817	-810	-805
Other Operating Expenses	-118	-117	-123	-190	-301	-318	-340	-362	-367	-371
<b>Operating Profit</b>	<b>661</b>	<b>944</b>	<b>1,056</b>	<b>1,011</b>	<b>1,983</b>	<b>2,098</b>	<b>2,386</b>	<b>2,715</b>	<b>2,705</b>	<b>2,724</b>
Interest Income	13	17	17	50	336	155	162	176	201	226
Interest Expense	-47	-86	-77	-205	-517	-607	-607	-607	-608	-608
Other Financial Income	247	74	1	32	280	319	321	324	321	322
Other Financial Expenses	-160	-88	-66	-169	-20	-259	-262	-266	-262	-263
Others, net		52	-80	211	86					
Pre-tax	714	912	851	931	2,149	1,706	1,999	2,342	2,358	2,401
<b>Profit for the Period</b>	<b>569</b>	<b>734</b>	<b>677</b>	<b>1,161</b>	<b>1,855</b>	<b>1,382</b>	<b>1,620</b>	<b>1,897</b>	<b>1,910</b>	<b>1,945</b>
<b>EBITDA</b>	<b>1,026</b>	<b>1,314</b>	<b>1,450</b>	<b>2,169</b>	<b>3,066</b>	<b>2,961</b>	<b>3,220</b>	<b>3,532</b>	<b>3,515</b>	<b>3,529</b>
<b>BALANCE SHEET</b>										
Total Non-Current Assets	3,361	3,174	3,948	9,057	9,215	9,089	9,047	9,074	9,115	9,171
Total Current Assets	4,125	4,375	4,829	7,957	9,966	10,314	10,922	11,792	12,297	12,814
<b>Total Assets</b>	<b>7,486</b>	<b>7,549</b>	<b>8,776</b>	<b>17,013</b>	<b>19,181</b>	<b>19,403</b>	<b>19,969</b>	<b>20,865</b>	<b>21,412</b>	<b>21,985</b>
<b>Total Equity</b>	<b>3,309</b>	<b>3,469</b>	<b>4,523</b>	<b>5,242</b>	<b>6,552</b>	<b>6,645</b>	<b>7,245</b>	<b>7,944</b>	<b>8,448</b>	<b>8,977</b>
Total Non-Current Liabilities	2,673	2,584	2,926	6,892	9,070	9,114	9,161	9,211	9,263	9,317
Total Current Liabilities	1,504	1,496	1,328	4,879	3,560	3,644	3,563	3,711	3,701	3,691
<b>Total Liabilities</b>	<b>4,176</b>	<b>4,080</b>	<b>4,254</b>	<b>11,771</b>	<b>12,629</b>	<b>12,758</b>	<b>12,724</b>	<b>12,922</b>	<b>12,964</b>	<b>13,008</b>
<b>Total Liabilities and Equity</b>	<b>7,486</b>	<b>7,549</b>	<b>8,776</b>	<b>17,013</b>	<b>19,181</b>	<b>19,403</b>	<b>19,969</b>	<b>20,865</b>	<b>21,412</b>	<b>21,985</b>
<b>CASH FLOW</b>										
Profit before tax	752	932	851	931	2,125	1,706	1,999	2,342	2,358	2,401
Depreciation	407	413	393	790	888	863	834	817	810	805
Other non-cash items	-50	95	180	226	177	450	443	429	404	380
Change in working capital	40	-679	456	-128	-1,016	-87	-335	-91	97	100
Interest paid, net	-28	-59	-79	-39	-181	-453	-446	-432	-406	-382
Income tax paid	-191	-198	-214	-257	-612	-486	-570	-667	-672	-684
<b>Net cash flow from operating activities</b>	<b>929</b>	<b>505</b>	<b>1,588</b>	<b>1,523</b>	<b>1,381</b>	<b>1,993</b>	<b>1,926</b>	<b>2,398</b>	<b>2,590</b>	<b>2,619</b>
<b>Cash flow from investing activities</b>	<b>-386</b>	<b>-435</b>	<b>-399</b>	<b>-4,978</b>	<b>-702</b>	<b>-741</b>	<b>-793</b>	<b>-845</b>	<b>-855</b>	<b>-866</b>
Dividends paid	-260	-574	-332	-261	-853	-1,306	-1,036	-1,215	-1,423	-1,432
<b>Cash flow from financing activities</b>	<b>479</b>	<b>-536</b>	<b>373</b>	<b>4,671</b>	<b>-853</b>	<b>-1,305</b>	<b>-1,035</b>	<b>-1,214</b>	<b>-1,422</b>	<b>-1,432</b>
Change in cash	1,022	-466	1,563	1,215	-173	-52	98	340	313	322

Source: Colt, Economic and Strategy Research, Komerční banka

**Financial data**

	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e
<b>RATIOS (%)</b>										
EBITDA margin	19.2	22.1	21.3	20.3	21.8	20.0	20.3	20.9	20.5	20.4
Operating margin	12.4	15.8	15.5	9.5	14.1	14.2	15.1	16.1	15.8	15.7
Net margin	10.6	12.3	9.9	10.9	13.2	9.3	10.2	11.2	11.2	11.2
EBIT/Interest (x)	19.4	13.7	17.8	6.5	11.0	4.6	5.4	6.3	6.7	7.1
Net debt/Equity (x)	0.3	0.4	0.0	0.7	0.5	0.5	0.4	0.3	0.2	0.1
Net debt/EBITDA (x)	0.9	1.2	0.0	1.7	1.0	1.0	0.8	0.6	0.4	0.2
ROE	17.3	21.2	15.0	22.1	28.3	20.8	22.4	23.9	22.6	21.7
ROA	7.6	9.7	7.7	6.8	9.7	7.1	8.1	9.1	8.9	8.8
ROCE	1.5	1.5	2.0	1.0	0.9	1.0	1.0	1.1	1.2	1.3
Dividend payout	51	98	45	37	73	75	75	75	75	75

<b>DATA PER SHARE (CZK)</b>										
EPS	19.1	24.6	20.7	34.4	54.4	39.3	46.0	53.9	54.3	55.2
Book value	110.0	115.9	138.2	155.4	192.1	188.8	205.8	225.7	240.0	255.0
Free cash flow	16.1	5.5	41.7	34.1	21.6	46.8	43.3	54.8	59.2	59.1
Gross dividend	8.5	18.8	11.0	7.5	25.0	38.3	29.4	34.5	40.4	40.7

<b>MARKET VALUATION</b>										
P/E (x)			14.2	14.8	12.0	16.6	14.2	12.1	12.0	11.8
Price/Operating cash flow (x)			6.0	11.3	16.1	11.5	11.9	9.6	8.9	8.8
Price/free cash flow (x)			7.0	14.9	30.2	13.9	15.1	11.9	11.0	11.0
Price/book value (x)			2.1	3.3	3.4	3.5	3.2	2.9	2.7	2.6
Price/sales (x)			1.4	1.6	1.6	1.5	1.4	1.4	1.3	1.3
Dividend yield (%)			3.7	1.5	3.8	5.9	4.5	5.3	6.2	6.2
EV/revenues (x)			1.4	2.0	1.8	1.8	1.6	1.5	1.4	1.4
EV/EBITDA (x)			6.6	9.6	8.3	8.8	7.9	7.1	6.9	6.7
EV/IC (x)			1.4	2.0	1.9	1.9	1.8	1.7	1.6	1.5

Source: Colt, Economic and Strategy Research, Komerční banka

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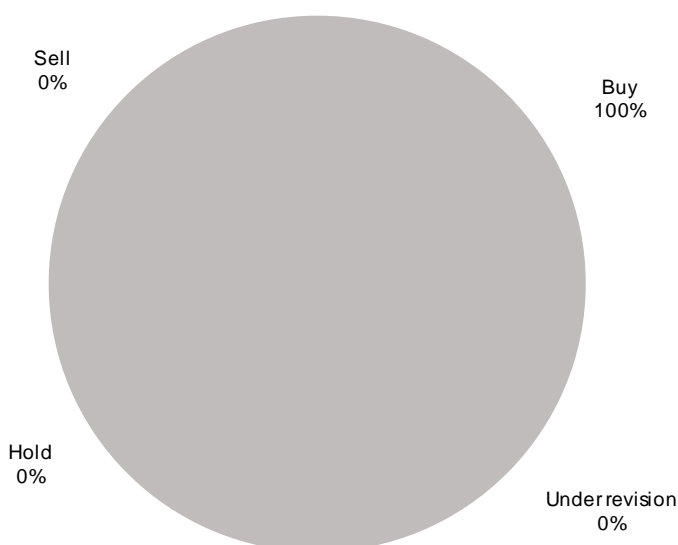
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The chart below shows the structure of the grades of valid investment recommendations of KB Economic and Strategic Research equity analysts (8 recommendations).

#### 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
<b>Overview of last investment research and recommendations related to stocks of particular issuers</b>							
Recommendation	Buy	Buy	Buy	Buy	Buy	End	End
Target price	CZK 1 393	CZK 652	CZK 381	CZK 104.6	CZK 18183	of coverage	of coverage
Date	07.06.2022	16.12.2022	12.05.2022	05.09.2022	11.02.2022	07.09.2022	25.02.2022
Price on the day of the publication	CZK 1 154	CZK 559	CZK 293	CZK 73.2	CZK 16760	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	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	CZK 645	In revision	CZK 109.7	CZK 16 512	GBp 600	CZK 362
Date	10.05.2022	17.01.2022	15.02.2022	31.08.2021	20.11.2020	11.02.2021	26.03.2021
Recommendation	Buy	In revision	Buy	In revision	Buy	Buy	Buy
Target Price	CZK 905	In revision	CZK 367	In revision	CZK 18308	GBp 466	CZK 293
Date	10.12.2021	31.03.2021	12.01.2021	07.05.2021	03.12.2018	30.08.2019	08.01.2020
Recommendation	Buy	Buy	In revision	Buy	Buy	In revision	Buy
Target Price	CZK 621	CZK 357	In revision	CZK 97	CZK 17546	In revision	CZK 298
Date	23.07.2020	27.11.2020	26.11.2020	29.10.2019	22.08.2017	14.08.2019	12.12.2018
Recommendation	Buy		Buy	Buy	Hold	Buy	Hold
Target Price	CZK 717		CZK 482	CZK 97	CZK 13500	GBp 342	CZK 270
Date	10.06.2019		04.07.2019	07.03.2019	25.05.2017	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