

Colt CZ Group SE

Weak U.S. commercial market, revised guidance, merger offer with Vista Outdoor

Buy

Price 23.11.23	CZK 540
12m target	CZK 652
Upside to TP	20.7%
Dividend	CZK 30
Total return	26.3%

Sector stance
Overweight

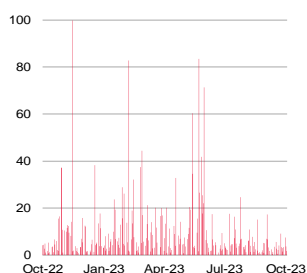
Investment type
Growth story

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC CZG.PR	Bloom CZG CP
52-week range	528 - 608
Market cap. (CZKb)	18.8
Market cap. (EURb)	0.8
Free float (%)	19
Performance (%) 1m	3m
Share	12m
Rel. to PX Index	-7.1 -6.1 -13.4

Source: Bloomberg

The latest analysis and report:

https://bit.ly/Colt_Dec22_EN
https://bit.ly/Colt_swissAA_EN
https://bit.ly/Colt_1Q23_EN
https://bit.ly/Colt_2Q23_EN
https://bit.ly/Colt_e3Q23_EN

Colt results for 3Q23

CZKm	3Q22	3Q23	y/y	KB	Cons.	9M22	9M23	y/y	KB	Cons.
Sales	3,171	3,050	-3.8%	3,662	3,662	10,220	9,911	-3.0%	10,522	10,522
EBITDA	421	409	-2.9%	481		2,146	1,707	-20.5%	1,779	
margin	13.3%	13.4%	0.1pps	13.1%		21.0%	17.2%	-3.8pps	16.9%	
adj. EBITDA	546	471	-13.8%	561	566	2,341	1,935	-17.3%	2,025	2,030
margin	17.2%	15.4%	-1.8pps	15.3%	15.5%	22.9%	19.5%	-3.4pps	19.2%	19.3%
EBIT	184	199	8.5%	298	297	1,487	1,124	-24.4%	1,222	1,222
Net Profit	223	491	120.2%	243		1,328	1,538	15.8%	1,289	
adj. Net Profit	278	284	2.2%	301	370	1,461	1,482	1.5%	1,496	1,565

Source: Colt, Economic & Strategy Research, Komerční banka

Colt CZ's quarterly results declined yoy. EBITDA decreased by 13.8% yoy to CZK471m on sales of CZK3.1bn (-3.8%). The figures are 16.7% below consensus. The recovery of the US commercial market is slower than expected. Colt's management has revised its full-year targets.

Colt also announced an offer to Vista Outdoor shareholders. It values Vista at \$30 per share, a premium of +16.5% to yesterday's closing price. It includes a \$900m buyback funded by \$600m of new equity and \$300m of debt. The leverage of the new company would be about 1.8x. Vista shareholders would own approximately 55% of the new company. Colt currently owns 2.4% of Vista. Colt's majority shareholder and CEO owns the other stakes. Together they control 5.7% of Vista Outdoor. Please note that about a month ago, Czechoslovak Group signed an agreement with Vista Outdoor to purchase its Sporting Products ammunition division. We expect the proposal to be approved by the shareholders of both companies.

Colt reported a slight decline in revenues of 3.8% yoy to CZK3.1bn in 3Q23. One of the reasons is weak demand in Colt's main market, the US commercial sector. Revenues there were down 16% yoy. This was offset by revenue growth in Europe (+93%) and Canada (+51%). Sales also increased in the Czech Republic (+16%) due to continued deliveries to the Czech Army. Sales also increased in Africa (+74%), mainly due to deliveries to the M&LE. For the same reason, however, sales in Asia were down (-60%) as last year's contracts were not repeated. The total number of firearms sold was 134th. This was below our estimate (150th). Lower sales and cost inflation led to a 13.8% yoy decline in EBITDA to CZK471m. Net profit amounts to CZK284m (+2.2% yoy).

Leverage (debt/EBITDA) increased to 1.81x from 1.2x at the end of 2022.

Full-year guidance: Management has revised its full-year guidance. Total revenues are expected to reach CZK15.2-15.5bn and EBITDA CZK3.0-3.3bn (previously CZK16.0-16.4bn and CZK3.2-3.4bn). This is in line with the pessimistic scenario of the original target from the beginning of the year. This is due to the slower recovery of the US commercial market and probably also to the postponement of some orders to next year. But it also suggests that in 4Q23 Colt should achieve revenues of CZK5.4bn and EBITDA of CZK1.7bn. This would imply very strong results indeed in 4Q23, in line with historical levels.



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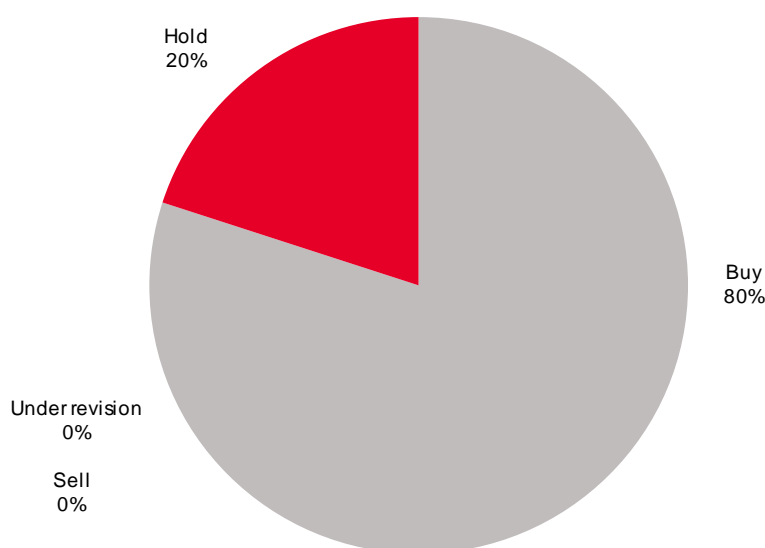
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The chart below shows the structure of grades of valid investment recommendations of equity research of KB Economic & Strategy Research (8 recommendations).

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	Buy	Hold	End	End
Target price	CZK1,034	CZK652	CZK313	CZK102.8	CZK18,349	of coverage	of coverage
Date	07.09.2023	16.12.2022	29.05.2023	19.10.2023	03.03.2023	07.09.2022	25.02.2022
Price on the day of the publication	CZK923	CZK559	CZK244	CZK84	CZK17,200	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	Buy	Buy	Buy
Target Price	CZK1,393	CZK645	CZK381	CZK104.6	CZK18,183	GBp600	CZK362
Date	07.06.2022	17.01.2022	12.05.2022	05.09.2022	11.02.2022	11.02.2021	26.03.2021
Recommendation	In revision	In revision	In revision	Buy	Buy	Buy	Buy
Target Price	In revision	In revision	In revision	CZK109.7	CZK16,512	GBp466	CZK293
Date	10.05.2022	31.03.2021	15.02.2022	31.08.2021	20.11.2020	30.08.2019	08.01.2020
Recommendation	Buy	Buy	Buy	In revision	Buy	In revision	Buy
Target Price	CZK905	CZK357	CZK367	In revision	CZK18,308	In revision	CZK298
Date	10.12.2021	27.11.2020	12.01.2021	07.05.2021	03.12.2018	14.08.2019	12.12.2018
Recommendation	Buy		In revision	Buy	Buy	Buy	Hold
Target Price	CZK621		In revision	CZK97	CZK17,546	GBp342	CZK270
Date	23.07.2020		26.11.2020	29.10.2019	22.08.2017	15.06.2018	18.08.2017
Valuation methods	DFCF	DFCF	DFCF	DFCF DDM ERM	DDM	DFCF	DFCF DDM
Frequency of rec. (per year)	once	once	once	once	once	once	once
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no
KB direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec.	no	no	no	no	no	no	no
Relationships of Komerční banka with particular issuers							
KB Management or co- management of public offerings in the past 12 month	no	yes	no	no	no	no	no
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