

# KOF

Quarterly Report

April 27, 2021

## Strong hit on Latam's margins

- **KOF reported in line with expectations. Volumes continued rebounding, on the back South and Central America's recovery, albeit FX headwinds took a toll on profitability**
- **Regardless of headwinds ahead for costs, valuation still reflects a wide discount against peers, while company's solid financial structure keeps the door open for M&A, in our view**

**Continuous volume recovery.** Despite rising contagions and more stringent mobility restrictions, economic recovery aided to Coca-Cola Femsa's sustained volume growth. The latter is explained by a solid performance in Argentina (+20.7%), Central America (+10.6%), Colombia (+3.4%) & Brazil (+1.3%) offsetting for weakness in Mexico (-2.6%) and Uruguay (-0.8%), on the back of solid sparkling sales. That said, consolidated volume reached 800.8 million unit cases (+0.9% y/y). Nonetheless, FX headwinds on Latam's operations and a less favorable sales mix hurt revenues, which in turn declined 1.5% y/y to MXN 44.69 billion (Mexico: -1.8%; Latam: -5.6%), offsetting pricing initiatives put in place. Meanwhile, the impact of South American currencies' depreciation on imported goods, coupled with the increase in concentrate cost in Mexico, offset gains on expense efficiencies and favorable hedges. As such, EBITDA fell 3.1% y/y to MXN 8.807 billion (México: +10%; South America: -24.1%) and respective margin eroded 30bps to 19.7%. Finally, net income soared 23.7% y/y to MXN3.156 billion, on the back of a 48.5% lower CFC due to the absence of extraordinary interest charges, related to pre-paid debt one year ago. **Relative valuation still is quite appealing.** KOF trading a 7.0x FV/EBITDA 2021E still implies an excessive discount against peers in developed markets (above 12%), which in our view, does not properly reflect company's recovery outlook and sound financial structure. Moreover, at 1.1x ND/EBITDA we do not rule out possible M&A ahead as to recover Kof's leading position as the largest Coca-Cola's bottler in the system.

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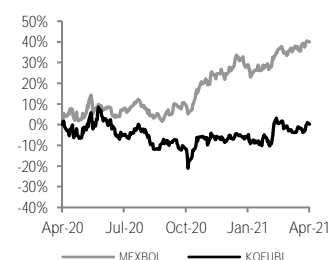
Consumer and Telecom

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|                        |                |
|------------------------|----------------|
| BUY                    |                |
| Current Price          | \$98.09        |
| PT                     | \$114.00       |
| Dividend               | \$5.04         |
| Dividend Yield (%)     | 5.1%           |
| Upside Potential       | 21.4%          |
| ADR Current Price      | US\$49.51      |
| ADR PT                 | US\$56.40      |
| Shares per ADR         | 10             |
| Max - Min LTM (\$)     | 106.81 - 77.00 |
| Market Cap (US\$m)     | 10,387.9       |
| Shares Outstanding (m) | 2,100.8        |
| Float                  | 22%            |
| Daily Turnover \$m     | 112.2          |
| Valuation metrics TTM  |                |
| FV/EBITDA              | 6.8x           |
| P/E                    | 18.9x          |
| MSCI ESG Rating*       | A              |

Relative performance to Mexbol LTM



### Financial Statements

|                   | 2019    | 2020    | 2021E   | 2022E   |
|-------------------|---------|---------|---------|---------|
| Revenue           | 194,660 | 184,272 | 188,640 | 206,627 |
| Operating Income  | 25,437  | 25,207  | 25,476  | 27,902  |
| EBITDA            | 37,180  | 37,380  | 37,579  | 40,470  |
| EBITDA Margin     | 19.1%   | 20.3%   | 19.9%   | 19.6%   |
| Net Income        | 12,100  | 10,306  | 13,895  | 15,364  |
| Net Margin        | 6.2%    | 5.6%    | 7.4%    | 7.4%    |
| Total Assets      | 257,841 | 263,066 | 251,506 | 259,312 |
| Cash              | 20,491  | 43,497  | 37,573  | 40,684  |
| Total Liabilities | 128,154 | 140,609 | 136,980 | 139,348 |
| Debt              | 71,360  | 88,784  | 89,550  | 94,148  |
| Common Equity     | 129,686 | 122,457 | 114,525 | 119,964 |

Source: Banorte

### Valuation and Financial metrics

|                  | 2019  | 2020  | 2021E | 2022E |
|------------------|-------|-------|-------|-------|
| FV/EBITDA        | 7.1x  | 6.9x  | 7.0x  | 6.6x  |
| P/E              | 17.0x | 20.0x | 14.8x | 13.4x |
| P/BV             | 1.7x  | 1.8x  | 1.9x  | 1.8x  |
| ROE              | 9.3%  | 8.2%  | 11.7% | 13.1% |
| ROA              | 4.7%  | 3.9%  | 5.5%  | 5.9%  |
| EBITDA/ interest | 5.4x  | 4.7x  | 6.5x  | 6.7x  |
| Net Debt/EBITDA  | 1.4x  | 1.2x  | 1.4x  | 1.3x  |
| Debt/Equity      | 0.6x  | 0.7x  | 0.8x  | 0.8x  |

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## KOF – Results 1Q21

MXN, million

| Concept          | 1Q20   | 1Q21   | Var %  | 1Q21e  | Diff% vs Estim. |
|------------------|--------|--------|--------|--------|-----------------|
| Revenue          | 45,348 | 44,690 | -1.5%  | 46,390 | -3.7%           |
| Operating Income | 5,728  | 5,899  | 3.0%   | 6,063  | -2.7%           |
| Ebitda           | 9,086  | 8,807  | -3.1%  | 8,984  | -2.0%           |
| Net Income       | 2,552  | 3,156  | 23.7%  | 3,190  | -1.1%           |
| <b>Margins</b>   |        |        |        |        |                 |
| Operating Margin | 12.6%  | 13.2%  | 0.6pp  | 13.1%  | 0.1pp           |
| Ebitda Margin    | 20.0%  | 19.7%  | -0.3pp | 19.4%  | 0.3pp           |
| Net Margin       | 5.6%   | 7.1%   | 1.4pp  | 6.9%   | 0.2pp           |
| EPS              | \$1.21 | \$1.50 | 23.7%  | \$1.52 | -1.1%           |

## Income Statement (Million pesos)

| Year                          | 2019    | 2020    | 2020    | Change  | Change  |
|-------------------------------|---------|---------|---------|---------|---------|
| Quarter                       | 4       | 3       | 4       | % y/y   | % q/q   |
| Net Revenue                   | 45,348  | 49,116  | 44,690  | -1.5%   | -9.0%   |
| Costs of goods sold           | 24,634  | 27,177  | 24,768  | 0.5%    | -8.9%   |
| Gross profit                  | 20,714  | 21,939  | 19,922  | -3.8%   | -9.2%   |
| General expenses              | 14,536  | 14,375  | 13,793  | -5.1%   | -4.0%   |
| Operating Income              | 5,728   | 7,229   | 5,899   | 3.0%    | -18.4%  |
| Operating Margin              | 12.6%   | 14.7%   | 13.2%   | 0.6pp   | (1.5pp) |
| Depreciation                  | 3,358   | 2,769   | 2,908   | -13.4%  | 5.0%    |
| EBITDA                        | 9,086   | 9,998   | 8,807   | -3.1%   | -11.9%  |
| EBITDA Margin                 | 20.0%   | 20.4%   | 19.7%   | (0.3pp) | (0.6pp) |
| Interest Income (Expense) net | (2,196) | (1,777) | (1,131) | -48.5%  | -36.3%  |
| Interest expense              | 3,070   | 1,543   | 1,471   | -52.1%  | -4.7%   |
| Interest income               | 288     | 203     | 163     | -43.5%  | -19.7%  |
| Other income (expense)        | 100     | (91)    | 162     | 62.4%   | N.A.    |
| Foreign exchange gain (loss)  | 486     | (346)   | 14      | -97.0%  | N.A.    |
| Unconsolidated subsidiaries   | (59)    | (123)   | (16)    | -73.1%  | -87.0%  |
| Income before taxes           | 3,473   | 5,452   | 4,752   | 36.8%   | -12.8%  |
| Income taxes                  | 1,122   | 1,997   | 1,660   | 47.9%   | -16.9%  |
| Discontinued operations       |         |         |         |         |         |
| Consolidated Net Income       | 2,491   | 3,378   | 3,106   | 24.7%   | -8.0%   |
| Non-controlling interest      | (61)    | 201     | (49)    | -19.2%  | N.A.    |
| Net Income                    | 2,552   | 3,177   | 3,156   | 23.7%   | -0.7%   |
| Net Margin                    | 5.6%    | 6.5%    | 7.1%    | 1.4pp   | 0.6pp   |
| EPS                           | 1.215   | 1.512   | 1.502   | 23.7%   | -0.7%   |

## Balance Sheet (Million pesos)

|                                   |         |         |         |        |        |
|-----------------------------------|---------|---------|---------|--------|--------|
| Total Current Assets              | 73,560  | 72,440  | 73,964  | 0.6%   | 2.1%   |
| Cash & Short Term Investments     | 39,433  | 43,497  | 48,425  | 22.8%  | 11.3%  |
| Long Term Assets                  | 208,065 | 190,627 | 187,802 | -9.7%  | -1.5%  |
| Property, Plant & Equipment (Net) | 63,120  | 59,460  | 57,992  | -8.1%  | -2.5%  |
| Intangible Assets (Net)           | 85,191  | 80,540  | 79,130  | -7.1%  | -1.8%  |
| Total Assets                      | 281,625 | 263,066 | 261,766 | -7.1%  | -0.5%  |
| Current Liabilities               | 60,694  | 42,844  | 48,910  | -19.4% | 14.2%  |
| Short Term Debt                   | 14,162  | 5,577   | 4,606   | -67.5% | -17.4% |
| Accounts Payable                  | 39,352  | 28,225  | 37,517  | -4.7%  | 32.9%  |
| Long Term Liabilities             | 93,112  | 97,765  | 99,168  | 6.5%   | 1.4%   |
| Long Term Debt                    | 78,776  | 83,207  | 85,572  | 8.6%   | 2.8%   |
| Total Liabilities                 | 153,806 | 140,609 | 148,078 | -3.7%  | 5.3%   |
| <b>Stockholders' Equity</b>       | 127,818 | 122,457 | 113,689 | -11.1% | -7.2%  |
| Non-controlling interest          | 6,504   | 5,583   | 5,258   | -19.2% | -5.8%  |
| Total Equity                      | 121,315 | 116,874 | 108,431 | -10.6% | -7.2%  |
| Liabilities & Equity              | 281,625 | 263,066 | 261,766 | -7.1%  | -0.5%  |
| Net Debt                          | 53,505  | 45,287  | 41,754  | -22.0% | -7.8%  |

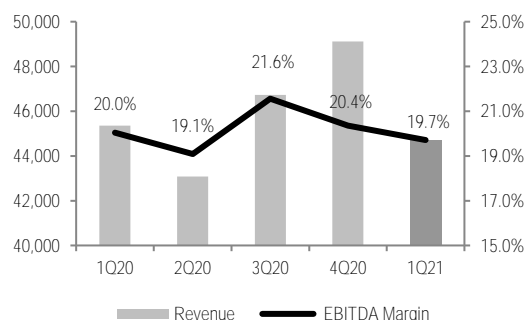
## Cash Flow

|                              |           |            |           |
|------------------------------|-----------|------------|-----------|
| CF from Operating Activities | 7,511.1   | 9,500.3    | 7,147.7   |
| CF from Investing Activities | (2,155.8) | (5,365.6)  | (1,397.4) |
| CF from Financing Activities | 9,813.1   | (14,401)   | (1,304.5) |
| FX effect on cash            | 3,773.8   | (4,292.8)  | 482.0     |
| Change in Cash Balance       | 18,942.3  | (14,559.4) | 4,927.8   |

Source: Banorte, MSE.

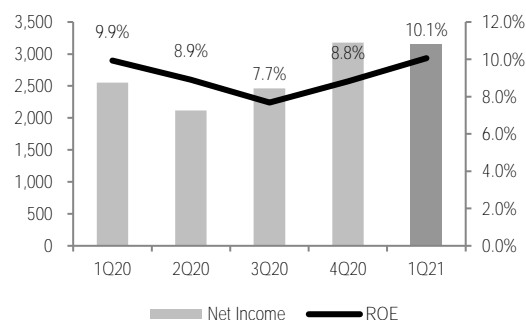
## Revenue & EBITDA Margin

MXN, million



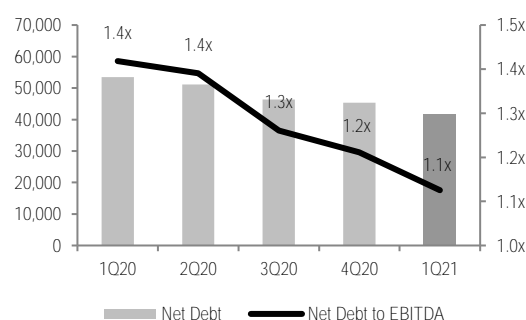
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



## Performance by Region

| Mexico & Central America |           |           |           |       |        |
|--------------------------|-----------|-----------|-----------|-------|--------|
|                          | 1Q20      | 4Q20      | 1Q21      | % y/y | % q/q  |
| Volume                   | 476.4     | 495.0     | 471.4     | -1.0% | -4.8%  |
| Price*                   | \$ 53.55  | \$ 54.63  | \$ 55.10  | 2.9%  | 0.9%   |
| Revenue                  | \$ 25,524 | \$ 27,073 | \$ 25,980 | 1.8%  | -4.0%  |
| EBITDA                   | \$ 5,604  | \$ 6,612  | \$ 6,163  | 10.0% | -6.8%  |
| EBITDA Margin            | 22.0%     | 24.4%     | 23.7%     | 1.8pp | -0.7pp |

| South America |           |           |           |        |        |
|---------------|-----------|-----------|-----------|--------|--------|
|               | 1Q20      | 4Q20      | 1Q21      | % y/y  | % q/q  |
| Volume        | 317.1     | 407.2     | 329.3     | 3.8%   | -19.1% |
| Price*        | \$ 51.00  | \$ 47.05  | \$ 44.00  | -13.7% | -6.5%  |
| Revenue       | \$ 19,824 | \$ 22,043 | \$ 18,710 | -5.6%  | -15.1% |
| EBITDA        | \$ 3,483  | \$ 3,385  | \$ 2,645  | -24.1% | -21.9% |
| EBITDA Margin | 17.6%     | 15.4%     | 14.1%     | -3.4pp | -1.2pp |

| Consolidated  |           |           |           |        |        |
|---------------|-----------|-----------|-----------|--------|--------|
|               | 1Q20      | 4Q20      | 1Q21      | % y/y  | % q/q  |
| Volume        | 793.6     | 902.3     | 800.8     | 0.9%   | -11.3% |
| Price*        | \$ 52.56  | \$ 51.17  | \$ 49.83  | -5.2%  | -2.6%  |
| Revenue       | \$ 45,348 | \$ 49,116 | \$ 44,690 | -1.5%  | -9.0%  |
| EBITDA        | \$ 9,086  | \$ 9,998  | \$ 8,807  | -3.1%  | -11.9% |
| EBITDA Margin | 20.0%     | 20.4%     | 19.7%     | -0.3pp | -0.6pp |

\*Average Price per unit case

## Certification of Analysts.

We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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|             | Reference   |
|-------------|---|
| <b>BUY</b>  | When the share expected performance is greater than the MEXBOL estimated performance. |
| <b>HOLD</b> | When the share expected performance is similar to the MEXBOL estimated performance.   |
| <b>SELL</b> | When the share expected performance is lower than the MEXBOL estimated performance.   |

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## History of PT and ratings

| Stock   | Date       | Recommendation | PT       |
|---------|------------|----------------|----------|
| KOF UBL | 18/12/2020 | Buy            | \$114.00 |
| KOF UBL | 27/07/2020 | Buy            | \$116.00 |
| KOF UBL | 14/11/2019 | Buy            | \$129.00 |
| KOF     | 18/01/2019 | Hold           | \$137.00 |

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