

# KOF

Quarterly Report

October 29, 2020

## Despite lower volumes, it expanded margins

- **Kof's report exceeded expectations in terms of profitability, reflecting a more favorable raw materials environment, operating efficiencies, and a tax recovery benefit in Brazil**
- **The sequential recovery in volumes and profitability improvements demonstrate the company's resilience and execution capabilities, which are favorable in an environment as the current one**

**Lower PET costs and reduced expenses drove profitability.** Consolidated volume declined 4.1% y/y to 807.9 million unit cases (Mexico -6.9%; South America: +0.9), highlighting Brazil's solid performance (+6.5% y/y). Revenues declined 4.6% y/y to MXN 46.734 billion (including non-operating income of MXN 1.486 billion from tax recovery in Brazil), as price initiatives helped to partially offset the impact of a less favorable mix, as well as an adverse FX conversion effect in South America. Meanwhile, a benign commodity price environment, favorable hedging, and operating efficiencies offset higher concentrate costs and the impact on dollarized inputs from the depreciation of its functional currencies, driving EBITDA up 0.1% y/y to MXN 10.076 billion, and EBITDA margin by 90bps to 21.6% (Mexico and CA: +200bps; South America: -60bps). Finally, net income fell 38.8% y/y to MXN 2.463 billion, impacted by a virtual charge of MXN 1.598 billion for asset impairment in Panama and Brazil. Excluding the recovery in Brazil, sales would have fallen 7.1%.

**Attentive to the increase in concentrate cost.** At the results conference, the company announced that it had agreed to an increase in the concentrate cost with The Coca-Cola Company, similar to the previous one and effective as of July. We should remember that the concentrate represents ~38% of cost of sales, so profitability could come under pressure, although this will depend on the recovery in volumes and the strategies for reducing costs and expenses.

www.banorte.com  
@ analisis\_fundam

### Consumer and Telecom

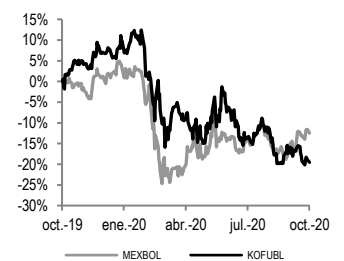
**Valentín Mendoza**  
Senior Strategist, Equity  
valentin.mendoza@banorte.com

**Juan Barbier, CFA**  
Analyst  
juan.barbier@banorte.com

#### BUY

Current Price	\$86.29
<b>PT 2020</b>	<b>\$116.00</b>
Dividend 2020e	\$2.43
Dividend Yield (%)	2.8%
Upside Potential	37.2%
ADR current price	US\$41.30
PT2020 ADR	US\$52.73
# Shares per ADR	10
Max - Min LTM (\$)	122.00 - 84.71
Market Cap (US\$m)	8,676.5
Shares Outstanding (m)	2,100.8
Float	22%
Daily Turnover US\$m	64.7
<b>Valuation metrics TTM</b>	
FV/EBITDA	6.4x
P/E	20.1x
<b>MSCI ESG Rating*</b>	<b>A</b>

#### Relative performance to Mexbol LTM



#### Financial Statements

	2018	2019	2020E	2021E
Revenue	196,113	194,660	187,005	199,781
Operating Income	25,279	25,437	23,036	25,509
EBITDA	36,924	37,180	35,769	39,335
EBITDA Margin	18.8%	19.1%	19.1%	19.7%
Net Income	14,002	12,100	10,878	13,201
Net Margin	7.1%	6.2%	5.8%	6.6%
Total Assets	263,787	257,841	271,821	271,623
Cash	23,727	20,491	34,866	39,102
Total Liabilities	132,037	128,154	145,769	143,579
Debt	81,804	71,360	90,647	88,684
Common Equity	131,750	129,686	126,052	128,044

Source: Banorte

#### Valuation and Financial metrics

	2018	2019	2020E	2021E
FV/EBITDA	6.6x	6.4x	6.8x	6.0x
P/E	12.8x	15.0x	16.9x	13.7x
P/BV	1.6x	1.6x	1.6x	1.6x
ROE	10.3%	9.3%	8.5%	10.4%
ROA	5.3%	4.7%	4.0%	4.9%
EBITDA/ interest	4.9x	5.4x	4.2x	4.9x
Net Debt/EBITDA	1.6x	1.4x	1.6x	1.3x
Debt/Equity	0.6x	0.6x	0.7x	0.7x

This document is provided for the reader's convenience only. The translation from the original Spanish version was made by Banorte's staff. Discrepancies may possibly arise between the original document in Spanish and its English translation. For this reason, the original research paper in Spanish is the only official document. The Spanish version was released before the English translation. The original document entitled "Pese menores volúmenes, expandió márgenes" was released on October 26, 2020. Document for distribution among public

## KOF – Results 3Q20

MXN, million

Concept	3Q19	3Q20	Var %	3Q20e	Diff% vs Estim.
Revenue	48,699	46,734	-4.0%	44,751	4.4%
Operating Income	7,012	7,120	1.5%	6,143	15.9%
Ebitda	10,069	10,076	0.1%	9,239	9.0%
Net Income	4,027	2,463	-38.8%	3,260	-24.5%
<b>Margins</b>					
Operating Margin	14.4%	15.2%	0.8pp	13.7%	1.5pp
Ebitda Margin	20.7%	21.6%	0.9pp	20.6%	0.9pp
Net Margin	8.3%	5.3%	-3.0pp	7.3%	-2.0pp
EPS	\$1.92	\$1.17	-38.8%	\$1.55	-24.5%

### Income Statement (Million pesos)

Year	2019	2020	2020	Change	Change
Quarter	3	2	3	% y/y	% q/q
<b>Net Revenue</b>	<b>48,699</b>	<b>43,075</b>	<b>46,734</b>	<b>-4.0%</b>	<b>8.5%</b>
Costs of goods sold	27,032	24,000	25,367	-6.2%	5.7%
Gross profit	21,667	19,075	21,367	-1.4%	12.0%
General expenses	14,703	13,630	14,216	-3.3%	4.3%
<b>Operating Income</b>	<b>7,012</b>	<b>5,130</b>	<b>7,120</b>	<b>1.5%</b>	<b>38.8%</b>
<b>Operating Margin</b>	<b>14.4%</b>	<b>11.9%</b>	<b>15.2%</b>	<b>0.8pp</b>	<b>3.3pp</b>
Depreciation	3,057	3,091	2,956	-3.3%	-4.4%
<b>EBITDA</b>	<b>10,069</b>	<b>8,221</b>	<b>10,076</b>	<b>0.1%</b>	<b>22.6%</b>
<b>EBITDA Margin</b>	<b>20.7%</b>	<b>19.1%</b>	<b>21.6%</b>	<b>0.9pp</b>	<b>2.5pp</b>
<b>Interest Income (Expense) net</b>	<b>(1,430)</b>	<b>(1,268)</b>	<b>(1,421)</b>	<b>-0.6%</b>	<b>12.1%</b>
Interest expense	1,786	1,625	1,701	-4.8%	4.7%
Interest income	365	269	298	-18.5%	10.7%
Other income (expense)	(47)	80	117	N.A.	46.3%
Foreign exchange gain (loss)	38	8	(135)	N.A.	N.A.
Unconsolidated subsidiaries	(31)	(84)	(14)	-55.7%	-83.5%
<b>Income before taxes</b>	<b>5,582</b>	<b>3,862</b>	<b>5,699</b>	<b>2.1%</b>	<b>47.6%</b>
Income taxes	1,439	969	1,320	-8.3%	36.2%
Discontinued operations					
<b>Consolidated Net Income</b>	<b>4,125</b>	<b>1,920</b>	<b>2,579</b>	<b>-37.5%</b>	<b>34.3%</b>
Non-controlling interest	98	(195)	116	18.3%	N.A.
<b>Net Income</b>	<b>4,027</b>	<b>2,115</b>	<b>2,463</b>	<b>-38.8%</b>	<b>16.5%</b>
<b>Net Margin</b>	<b>8.3%</b>	<b>4.9%</b>	<b>5.3%</b>	<b>(3.0pp)</b>	<b>0.4pp</b>
<b>EPS</b>	<b>1.917</b>	<b>1.007</b>	<b>1.172</b>	<b>-38.8%</b>	<b>16.5%</b>

### Balance Sheet (Million pesos)

<b>Total Current Assets</b>	<b>62,008</b>	<b>70,459</b>	<b>87,433</b>	<b>41.0%</b>	<b>24.1%</b>
Cash & Short Term Investments	30,230	41,473	58,057	92.0%	40.0%
<b>Long Term Assets</b>	<b>200,690</b>	<b>201,441</b>	<b>196,670</b>	<b>-2.0%</b>	<b>-2.4%</b>
Property, Plant & Equipment (Net)	59,406	61,275	59,906	0.8%	-2.2%
Intangible Assets (Net)	85,378	83,521	84,173	-1.4%	0.8%
<b>Total Assets</b>	<b>262,698</b>	<b>271,900</b>	<b>284,103</b>	<b>8.1%</b>	<b>4.5%</b>
<b>Current Liabilities</b>	<b>56,286</b>	<b>58,082</b>	<b>57,359</b>	<b>1.9%</b>	<b>-1.2%</b>
Short Term Debt	17,170	17,739	14,839	-13.6%	-16.4%
Accounts Payable	31,581	32,325	34,392	8.9%	6.4%
<b>Long Term Liabilities</b>	<b>76,712</b>	<b>87,935</b>	<b>102,362</b>	<b>33.4%</b>	<b>16.4%</b>
Long Term Debt	60,734	74,856	89,565	47.5%	19.6%
<b>Total Liabilities</b>	<b>132,998</b>	<b>146,017</b>	<b>159,721</b>	<b>20.1%</b>	<b>9.4%</b>
Stockholders' Equity	129,700	125,883	124,382	-4.1%	-1.2%
Non-controlling interest	6,659	5,829	5,594	-16.0%	-4.0%
<b>Total Equity</b>	<b>123,041</b>	<b>120,054</b>	<b>118,788</b>	<b>-3.5%</b>	<b>-1.1%</b>
<b>Liabilities &amp; Equity</b>	<b>262,698</b>	<b>271,900</b>	<b>284,103</b>	<b>8.1%</b>	<b>4.5%</b>
<b>Net Debt</b>	<b>47,673</b>	<b>51,122</b>	<b>46,347</b>	<b>-2.8%</b>	<b>-9.3%</b>

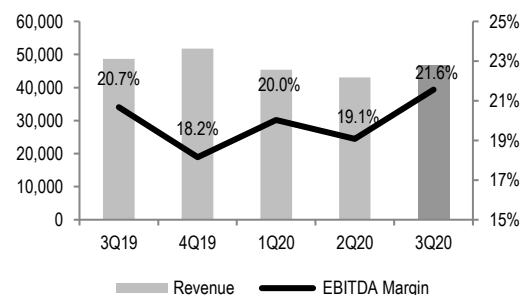
### Cash Flow

CF from Operating Activities	9,265.8	10,627.2	7,508.2
CF from Investing Activities	(2,392.2)	(1,422.1)	(1,564.3)
CF from Financing Activities	(380.7)	(6,250)	11,253.9
FX effect on cash	251.6	(915.2)	(614.4)
<b>Change in Cash Balance</b>	<b>6,744.5</b>	<b>2,040.1</b>	<b>16,583.4</b>

Source: Banorte, MSE.

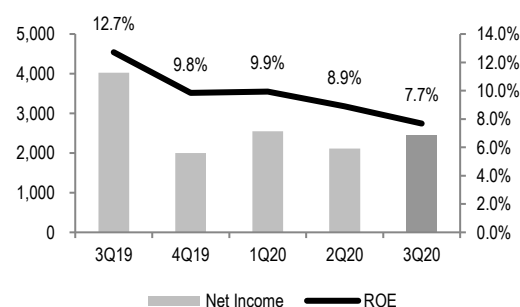
## Revenue & EBITDA Margin

MXN, million



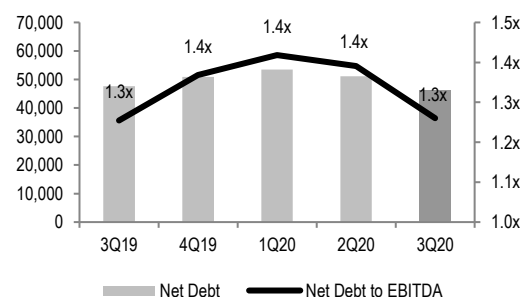
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



## Performance by Region

Mexico & Central America					
	3Q19	2Q20	3Q20	% y/y	% q/q
Volume	535.7	521.6	498.6	-6.9%	-4.4%
Price*	\$ 52.53	\$ 52.46	\$ 53.72	2.3%	2.4%
Revenue	\$ 28,166	\$ 27,380	\$ 26,807	-4.8%	-2.1%
EBITDA	\$ 5,922	\$ 6,482	\$ 6,175	4.3%	-4.7%
EBITDA Margin	21.0%	23.7%	23.0%	2.0pp	-0.6pp

South America					
	3Q19	2Q20	3Q20	% y/y	% q/q
Volume	306.4	259.1	309.3	0.9%	19.4%
Price*	\$ 62.50	\$ 60.13	\$ 59.69	-4.5%	-0.7%
Revenue	\$ 20,533	\$ 15,695	\$ 19,927	-3.0%	27.0%
EBITDA	\$ 4,147	\$ 1,739	\$ 3,899	-6.0%	124.2%
EBITDA Margin	20.2%	11.1%	19.6%	-0.6pp	8.5pp

Consolidated					
	3Q19	2Q20	3Q20	% y/y	% q/q
Volume	842.1	780.7	807.9	-4.1%	3.5%
Price*	\$ 52.09	\$ 50.56	\$ 51.17	-1.8%	1.2%
Revenue	\$ 48,699	\$ 43,075	\$ 46,734	-4.0%	8.5%
EBITDA	\$ 10,069	\$ 8,221	\$ 10,075	0.1%	22.5%
EBITDA Margin	20.7%	19.1%	21.6%	0.9pp	2.5pp

\*Average Price per unit case

## Certification of Analysts.

We, Gabriel Casillas Olivera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentin 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.

## Relevant statements.

In accordance with current laws and internal procedures manuals, analysts are allowed to hold long or short positions in shares or securities issued by companies that are listed on the Mexican Stock Exchange and may be the subject of this report; nonetheless, equity analysts have to adhere to certain rules that regulate their participation in the market in order to prevent, among other things, the use of private information for their benefit and to avoid conflicts of interest. Analysts shall refrain from investing and holding transactions with securities or derivative instruments directly or through an intermediary person, with Securities subject to research reports, from 30 calendar days prior to the issuance date of the report in question, and up to 10 calendar days after its distribution date.

## Compensation of Analysts.

Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

## Last-twelve-month activities of the business areas.

**Grupo Financiero Banorte S.A.B. de C.V.**, through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.

Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.

## Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

## Securities holdings and other disclosures.

As of the end of last quarter, Grupo Financiero Banorte S.A.B. of C.V. has not held investments, directly or indirectly, in securities or derivative financial instruments, whose underlying securities are the subject of recommendations, representing 1% or more of its investment portfolio of outstanding securities or 1 % of the issuance or underlying of the securities issued.

None of the members of the Board of Grupo Financiero Banorte and Casa de Bolsa Banorte, along general managers and executives of an immediately below level, have any charges in the issuers that may be analyzed in this document.

The Analysts of Grupo Financiero Banorte S.A.B. of C.V. do not maintain direct investments or through an intermediary person, in the securities or derivative instruments object of this analysis report.

## Guide for investment recommendations.

	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.

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

## Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

**The information contained hereby has been obtained from sources that we consider to be reliable, but we make no representation as to its accuracy or completeness. The information, estimations and recommendations included in this document are valid as of the issue date, but are subject to modifications and changes without prior notice; Grupo Financiero Banorte S.A.B. of C.V. does not commit to communicate the changes and also to keep the content of this document updated. Grupo Financiero Banorte S.A.B. of C.V. takes no responsibility for any loss arising from the use of this report or its content. This document may not be photocopied, quoted, disclosed, used, or reproduced in whole or in part without prior written authorization from Grupo Financiero Banorte S.A.B. of C.V.**

## History of PT and ratings

Stock	Date	Rating	PT
KOF UBL	27/07/2020	Buy	\$116.00
KOF UBL	14/11/2019	Buy	\$129.00
KOF	18/01/2019	Hold	\$137.00

## MSCI ESG Rating scale

CCC	B	BB	BBB	<b>A</b>	AA	AAA
LAGGARD			AVERAGE		LEADER	

\*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

<b>Research and Strategy</b>			
Gabriel Casillas Olvera	IRO and Chief Economist	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611
<b>Economic Research and Financial Market Strategy</b>			
Alejandro Padilla Santana	Executive Director of Economic Research and Financial Markets Strategy	alejandro.padilla@banorte.com	(55) 1103 - 4043
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251
<b>Economic Research</b>			
Juan Carlos Alderete Macal, CFA	Director of Economic Research	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Francisco José Flores Serrano	Senior Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Katía Celina Goya Ostos	Senior Economist, Global	katia.goya@banorte.com	(55) 1670 - 1821
Luis Leopoldo López Salinas	Economist, Global	luis.lopez.salinas@banorte.com	(55) 1103 - 4000 x 2707
<b>Market Strategy</b>			
Manuel Jiménez Zaldívar	Director of Market Strategy	manuel.jimenez@banorte.com	(55) 5268 - 1671
<b>Fixed income and FX Strategy</b>			
Santiago Leal Singer	Senior Strategist, Fixed Income and FX	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalía Orozco Vélez	Strategist, Fixed Income and FX	leslie.rozco.velez@banorte.com	(55) 5268 - 1698
<b>Equity Strategy</b>			
Marissa Garza Ostos	Director of Equity Strategy	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Senior Strategist, Equity	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Senior Strategist, Equity	valentin.mendoza@banorte.com	(55) 1670 - 2250
Víctor Hugo Cortes Castro	Senior Strategist, Technical	victorh.cortes@banorte.com	(55) 1670 - 1800
Eridani Ruibal Ortega	Analyst	eridani.ruibal.ortega@banorte.com	(55) 1103 - 4000 x 2755
Juan Barbier Arizmendi, CFA	Analyst	juan.barbier@banorte.com	(55) 1670 - 1746
<b>Corporate Debt</b>			
Tania Abdul Massih Jacobo	Director of Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior Analyst, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Analyst, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248
<b>Economic Studies</b>			
Delia María Paredes Mier	Executive Director of Economic Studies	delia.paredes@banorte.com	(55) 5268 - 1694
Miguel Alejandro Calvo Domínguez	Senior Analyst, Economic Studies	miguel.calvo@banorte.com	(55) 1670 - 2220
<b>Wholesale Banking</b>			
Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(81) 8319 - 6895
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.ceballos@banorte.com	(55) 5268 - 9996
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Frigolet Vázquez Vela	Head of Sólida Banorte	alejandro.frigolet.vazquezvela@banorte.com	(55) 5268 - 1656
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Carlos Alberto Arciniega Navarro	Head of Treasury Services	carlos.arciniega@banorte.com	(81) 1103 - 4091
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
Lizza Velarde Torres	Executive Director of Wholesale Banking	lizza.velarde@banorte.com	(55) 4433 - 4676
Oswaldo Brondo Menchaca	Head of Specialized Banking Services	oswaldo.brondo@banorte.com	(55) 5004 - 1423
Raúl Alejandro Arauzo Romero	Head of Transactional Banking	raul.arauzo@banorte.com	(55) 5261 - 4910
René Gerardo Pimentel Ibarrola	Head of Corporate Banking	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Víctor Antonio Roldan Ferrer	Head of Commercial Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454