

KOF

Quarterly Report
May 3, 2019

Results below our expectations

- **KOF reported first-quarter results that missed our expectations but stood in line with those of the consensus, given greater weakness in South America and higher prices in raw materials**
- **Volume rose 1% yoy in view of the incorporation of new territories in Central America and an outstanding performance in Brazil, which offset declines in Mexico, Argentina and Colombia**
- **Despite increments in concentrate cost, PET and an adverse FX effect on South America's profitability, EBITDA margin remained stable at 18.5%**

 www.banorte.com
 @analisis_fundam

Manuel Jiménez

 Director Equity Research
 manuel.jimenez@banorte.com

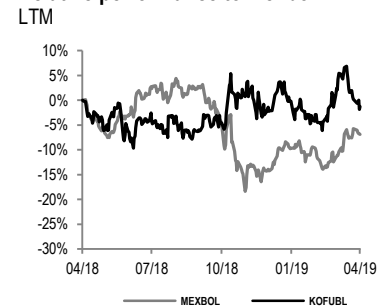
Jorge Izquierdo

 Analyst
 jorge.izquierdo.lobato@banorte.com

HOLD

Current Price	\$120.16
PT 2019	\$137.00
Dividend 2019e	\$3.20
Dividend Yield (%)	2.7%
Upside Potential	16.7%
Max – Min LTM (P\$)	130.07 – 109.9
Market Cap (US\$m)	13,332
Shares Outstanding (m)	2,100
Float	25%
Daily Turnover (P\$ m)	81.9
Valuation metrics TTM	
FV/EBITDA	8.5x
P/E	17.8x

KOF kicks off the year below expectations. In 1Q19, the company generated MXN\$46.2 billion in revenue (-4.2% vs our estimate), up 4.8% vs. 1Q18 (excluding the deconsolidation effect from the Philippines). Unit case volume edged up 1% yoy resulting from a 0.7% increase in Mexico and Central America, added to a 1.6% expansion in South America. Meanwhile, the price strategy implemented by the company translated into a 10.6% surge in Mexico, and Central America, offsetting a 7.5% decrease in South America from the FX effect in said region. EBITDA grew 4.6% yoy to MXN\$8.5 billion, resulting in a flat 18.5% EBITDA margin, as operating efficiencies boosted such indicator in Mexico and Central America by 16.5%, offsetting thus, a 7.4% decline in South America due to currency fluctuations in said region. Finally, net profit posted a 7.3% yoy growth, derived from lower interest expenses, given the company's drop in leverage. After incorporating 1Q19 figures, the FV/EBITDA multiple fell to 8.5x from 8.8x. In our opinion, challenges ahead will limit a company re-rating for the time being.

Relative performance to Mexbol

Financial Statements

	2017	2018	2019E	2020E
Revenue	206,103	182,342	191,174	196,174
Operating Income	25,652	24,673	25,309	26,952
EBITDA	39,938	35,456	37,785	40,037
EBITDA Margin	19.4%	19.4%	19.8%	20.4%
Net Income	-12,977	13,910	12,957	13,872
Net Margin	-6.3%	7.6%	6.8%	7.1%
Total Assets	285,678	263,787	262,517	266,743
Cash	18,767	23,727	18,606	24,814
Total Liabilities	144,968	132,037	129,851	115,182
Debt	88,935	83,418	78,849	64,748
Common Equity	140,710	131,750	132,665	151,561

Source: Banorte

Valuation and Financial metrics

	2017	2018	2019E	2020E
FV/EBITDA	8.4x	8.8x	8.2x	7.0x
P/E	N.A.	17.8x	19.8x	18.2x
P/BV	2.1x	2.0x	1.7x	1.6x
ROE	-9.2%	10.6%	9.8%	9.2%
ROA	-4.5%	5.3%	4.9%	5.2%
EBITDA/ Interest	5.0x	5.4x	7.2x	9.8x
NetDeb/EBITDA	1.7x	1.6x	1.6x	1.0x
Deb/Equity	0.6x	0.6x	0.6x	0.4x

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 "Reporte por debajo de nuestras expectativas" was released on April 29, 2019.

Document for distribution among public

KOF –Results 1Q19

MXN million

Concept	1Q18*	1Q19	Var %	1Q19e	Diff% vs Estim.
Revenue	49,713	46,248	-7.0%	48,278	-4.2%
Operating Income	5,883	5,714	-2.9%	6,154	-7.1%
Ebitda	8,706	8,541	-1.9%	9,351	-8.7%
Net Income	2,414	2,590	7.3%	3,190	-18.8%
Margins					
Operating Margin	11.8%	12.4%	0.5pp	12.7%	-0.4pp
Ebitda Margin	17.5%	18.5%	1pp	19.4%	-0.9pp
Net Margin	4.9%	5.6%	0.7pp	6.6%	-1.0pp
EPS	\$1.15	\$1.23	7.3%	\$1.52	-18.8%

Income Statement (Million pesos)

Year	2018	2018	2019	Change	Change
Quarter	1	4	1	% yoy	% qoq
Net Revenue	49,712.9	50,165.6	46,247.7	-7.0%	-7.8%
Costs of goods sold	27,796.2	27,149.1	25,355.4	-8.8%	-6.6%
Gross profit	21,916.7	23,016.6	20,892.3	-4.7%	-9.2%
General expenses	15,934.2	15,164.9	14,846.5	-6.8%	-2.1%
Operating Income	5,882.6	7,342.0	5,713.7	-2.9%	-22.2%
Operating Margin	11.8%	14.6%	12.4%	0.5pp	(2.3pp)
Depreciation	2,823.0	2,873.0	2,826.2	0.1%	-1.6%
EBITDA	8,705.6	10,215.0	8,540.0	-1.9%	-16.4%
EBITDA Margin	17.5%	20.4%	18.5%	1.0pp	(1.9pp)
Interest Income (Expense) net	(2,072.7)	(2,149.0)	(1,593.4)	-23.1%	-25.9%
Interest expense	2,011.9	2,063.0	1,734.9	-13.8%	-15.9%
Interest income	413.7	293.0	248.9	-39.8%	-15.0%
Other income (expense)	(245.8)	(8.3)	5.0	N.A.	N.A.
Foreign exchange gain (loss)	(228.6)	(370.7)	(112.4)	-50.8%	-69.7%
Unconsolidated subsidiaries	(60.2)	(64.9)	12.0	N.A.	N.A.
Income before taxes	3,737.2	4,603.3	4,079.3	9.2%	-11.4%
Income taxes	1,196.3	1,385.9	1,330.9	11.3%	-4.0%
Discontinued operations		2,790.3		N.A.	N.A.
Consolidated Net Income	2,540.9	427.1	2,748.4	8.2%	>500%
Non-controlling interest	127.1	466.6	158.0	24.3%	-66.1%
Net Income	2,413.8	5,541.1	2,590.4	7.3%	-53.3%
Net Margin	4.9%	11.0%	5.6%	0.7pp	(5.4pp)
EPS	1.149	2.638	1.234	7.4%	-53.2%

Balance Sheet (Million pesos)

Total Current Assets	55,197.5	57,490.6	53,788.9	-2.6%	-6.4%
Cash & Short Term Investments	19,549.2	23,726.8	23,615.4	20.8%	-0.5%
Long Term Assets	220,561.6	206,296.7	205,307.2	-6.9%	-0.5%
Property, Plant & Equipment (Net)	71,244.5	61,942.4	60,411.3	-15.2%	-2.5%
Intangible Assets (Net)	94,473.8	93,074.8	92,015.8	-2.6%	-1.1%
Total Assets	275,759.0	263,787.3	259,096.1	-6.0%	-1.8%
Current Liabilities	59,713.8	45,523.2	56,493.6	-5.4%	24.1%
Short Term Debt	16,178.0	12,484.1	18,608.2	15.0%	49.1%
Accounts Payable	36,195.8	25,831.7	31,481.1	-13.0%	21.9%
Long Term Liabilities	87,099.7	86,513.9	77,119.6	-11.5%	-10.9%
Long Term Debt	70,066.8	70,934.2	61,946.7	-11.6%	-12.7%
Total Liabilities	146,813.4	132,037.1	133,613.214	-9.0%	1.2%
Common Stock	128,945.6	131,750.2	125,482.9	-2.7%	-4.8%
Non-controlling interest	127.1	466.6	6,808.4	>500%	>500%
Total Equity	112,408.0	124,942.7	118,674.4	5.6%	-5.0%
Liabilities & Equity	275,759.0	263,787.3	259,096.1	-6.0%	-1.8%
Net Debt	64,091.5	58,958.0	56,939.4	-11.2%	-3.4%

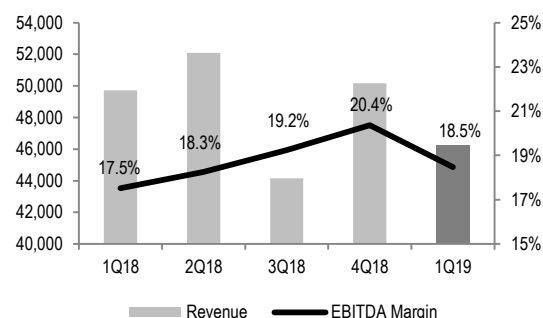
Cash Flow

CF from Operating Activities	4,844.4	15,910.6	8,367.3
CF from Investing Activities	(1,644.7)	3,396.6	(1,295.6)
CF from Financing Activities	(1,271.6)	(14,557)	(5,584.4)
Change in Cash Balance	782.4	5,251.9	442.4

Source: Banorte, MSE. *1Q18 figures include operations of Philippines

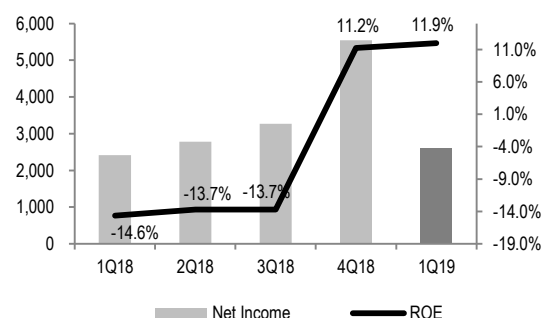
Revenue & EBITDA Margin

MXN, million



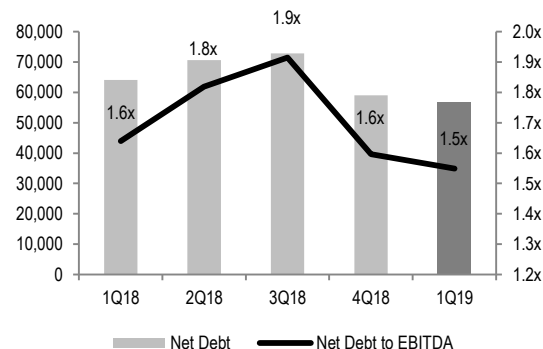
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



In a comparable basis, volume rose 1% yoy. During the first quarter of the year, KOF transported 796.1 million unit cases, equaling an annual 1% increase. Mexico and Central America reported a 0.7% yoy expansion in sales volume, as such indicator in Central America rose 25.5%, which is explained by the integration of new territories in Guatemala and a significant increase in Costa Rica, which made up for a 1.9% volume decline in Mexico. As for the South American division, such region presented a 1.6% year-on-year growth in sales volume, resulting from an outstanding performance in Brazil (+9.1% yoy), in addition to the incorporation of new territories in Uruguay. These were able to partially offset the declining effect in Argentina (-32.7%) and Colombia (-9.4%), which are explained by the difficult macroeconomic situation and the impact from the implementation of the new value added tax, respectively.

Prices increased above inflation. As for average price per unit case, the business division in Mexico and Central America underwent a 10.6% increment, above inflation. On the other hand, in South America, prices in Mexican pesos fell 7.5% hit by a negative FX effect, while in Brazil, Argentina and Colombia, the company increased average prices above inflation levels.

In a comparable basis, revenue escalated by 4.8%. KOF reported MXN\$46.2 billion in revenue, up 4.8% yoy. As for revenue in Mexico and Central America, it stood at MXN\$24.8 billion (+11.4%) contributing with 54% of the company's consolidated indicator. Furthermore, the South American division generated MXN\$21.4 billion in revenue, posting an annual 1.9% decline.

Despite pressures from higher costs in raw materials and an adverse effect in South America, profitability remained stable. During the first quarter of the year, the company reported a 3.3% yoy increase in gross profit, standing at MXN\$20.8 billion, presenting a 60bp gross margin contraction to 45.2%. The main elements that influenced such reduction were the following: (1) higher costs of concentrate in Mexico and Brazil; (2) higher PET prices across most regions; and (3) a depreciation in the average exchange rate of most currencies applied to dollar-denominated raw materials costs. However, lower maintenance and shipping costs in Mexico and Central America were able to offset the previous effect, boosting the region's EBITDA margin by 0.8pp to 19.2%. Consequently, EBITDA grew 16.5% to MXN\$4.7 billion. In addition, in South America, certain operating efficiencies helped to partially outweigh the previously-mentioned effects, in such a way that EBITDA fell 7.4% to MXN\$3.7 billion, equaling a 1pp margin contraction to 17.6%.

In this context, consolidated EBITDA came in at MXN\$8.5 billion (+4.6% yoy), missing our MXN\$9.3 billion estimate by 8.7%. The latter is explained by a greater volume downturn in Colombia and Argentina, as well as by higher-than-expected costs in raw materials. Hence, the corresponding margin remained stable at 18.5%. Finally, it should be mentioned that KOF's figures were modified this quarter from the implementation of **IRFS**

16 standards. Thus, by excluding such effect, EBITDA would have totaled MXN\$8.4 billion with an 18.2% margin. vs. the reported 18.5%.

Lower financial expenses benefited the company's net profit. KOF reported a 13.8% year-on-year drop in paid interests, stemming from lower leverage levels. In this sense, net profit rose 7.3% yoy to close at MXN\$2.5 billion.

Leverage levels. During 1Q19, KOF paid MXN\$4.7 billion in bilateral bank debt, which was due in October of 2019. Furthermore, the level of cash and cash equivalents remained steady vs. 4Q18. Considering the latter, the company's ND/EBITDA ratio stood at 1.5x vs. 1.6x in 4Q18.

Performance charts by region

Mexico y Central America					
	1Q18	Margin	1Q19	Margin	% yoy
Volume	474.9		478		0.7%
Price*	\$ 46.89		\$ 51.86		10.6%
Revenue	\$ 22,277	100%	\$ 24,823	100%	11.4%
EBITDA	\$ 4,096	18.4%	\$ 4,772	19.2%	16.5%

South America					
	1Q18	Margin	1Q19	Margin	% yoy
Volume	313		318.1		1.6%
Price*	\$ 57.98		\$ 53.65		-7.5%
Revenue	\$ 21,845	100%	\$ 21,425	100%	-1.9%
EBITDA	\$ 4,068	18.6%	\$ 3,768	17.6%	-7.4%

Consolidated (1Q18 includes Philippines)					
	1Q18	Margin	1Q19	Margin	% yoy
Volume	907.8		796.1		-12.3%
Price*	\$ 50.69		\$ 52.57		3.7%
Revenue	\$ 49,713	100%	\$ 46,248	100%	-7.0%
EBITDA	\$ 8,706	17.5%	\$ 8,541	18.5%	-2.0%

Consolidated (1Q18 excludes Philippines)					
	1Q18	Margin	1Q19	Margin	% yoy
Volume	787.9		796.1		1.0%
Price*	\$ 51.30		\$ 52.57		2.5%
Revenue	\$ 44,122	100%	\$ 46,248	100%	4.8%
EBITDA	\$ 8,164	18.5%	\$ 8,541	18.5%	4.6%

*Average Price per unit case

Certification of Analysts.

We, Gabriel Casillas Olvera, Delia Maria Paredes Mier, Alejandro Padilla Santana, Manuel Jiménez Zaldívar, Tania Abdul Massih Jacobo, Katia Celina Goya Ostos, Juan Carlos Alderete Macal, Víctor Hugo Cortes Castro, Marissa Garza Ostos, Miguel Alejandro Calvo Domínguez, Hugo Armando Gómez Solís, Gerardo Daniel Valle Trujillo, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Santiago Leal Singer, Francisco José Flores Serrano, Francisco Duarte Alcocer and Leslie Thalía Orozco Vélez, 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 Ixe 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
BUY	<i>When the share expected performance is greater than the MEXBOL estimated performance.</i>
HOLD	<i>When the share expected performance is similar to the MEXBOL estimated performance.</i>
SELL	<i>When the share expected performance is lower than the MEXBOL estimated performance.</i>

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.

PT and recommendation history

Stock	Date	Rating	PT
KOFL	18/01/2019	Hold	\$137.00

GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
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
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454