

# KOF

Quarterly Report

October 28, 2021

## Volume growth continues

- **Contrasting quarter, with weak performance in Mexico, but strong volumes in South and Central America, while profitability was affected by extraordinary items in Brazil**
- **Despite the challenges in the Brazilian beer business, the outlook remains positive, leveraged by the digital strategy, diversification, healthy financial structure, and an attractive valuation**

**Revenue growth from higher volumes despite profitability pressures.** The company reported a 3.4% y/y increase in revenues to MXN 48.316 billion (Mexico and CA: +7.3%; South America: -1.9%), as a result of a 5.8% y/y rise in volume to 854.5 million unit cases, with Colombia, Brazil, Argentina and Central America driving the growth, in contrast to virtually unchanged volume in Mexico due to the effect of bad weather. This was partially offset by unfavorable FX effects and a 31% y/y decrease in beer revenues in Brazil. Meanwhile, EBITDA declined to MXN 9.32 billion (-7.5% y/y), representing a margin contraction of 2.3pp to 19.3%, as a result of lower extraordinary income in Brazil related to tax recovery. Excluding this effect, EBITDA would have increased ~2.8% y/y due to higher revenues and raw material hedging strategies. Finally, net income grew 38.8% y/y to MXN 3.419 billion, on an easy comparable base after 3Q20 expenses from the sale of Estrella Azul in Panama and the impairment in Leao Alimentos, in addition to a FX gain vs. the loss recorded a year ago.

**We will be revising our estimates for 2022.** Pending further details on the beer distribution transition process in Brazil (5.6% of consolidated revenues as of 3Q21), we believe the company has an attractive valuation at 7.2x FV/EBITDA (vs. 8.1x L3Y average), a good outlook due to its positive diversification, digital strategy, ability to develop strategic alliances and take care of its financial structure (1.0x ND/EBITDA).

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BUY	
Current Price	\$111.29
PT	\$114.00
Dividend	\$5.04
Dividend (%)	4.5%
Upside Potential	2.4%
ADR Current Price	US\$54.88
ADR PT	US\$56.11
Shares per ADR	10
Max – Min LTM (\$)	117.34 – 77.30
Market Cap (US\$m)	11,561.5
Shares Outstanding (m)	2,100.8
Float	22%
Daily Turnover US\$m	69.1
Valuation metrics LTM	
FV/EBITDA	7.2x
P/E	17.9x
MSCI ESG Rating*	A

Relative performance to Mexbol LTM



### Financial Statements

	2019	2020	2021E	2022E
Revenue	194,660	184,272	191,686	199,261
Operating Income	25,437	25,253	26,327	27,706
EBITDA	37,180	37,427	37,967	40,152
EBITDA Margin	19.1%	20.3%	19.8%	20.2%
Net Income	12,100	10,306	12,849	13,737
Net Margin	6.2%	5.6%	6.7%	6.9%
Total Assets	257,841	263,066	267,241	268,270
Cash	20,491	43,497	46,694	47,119
Total Liabilities	128,154	140,609	146,093	143,257
Debt	71,360	88,784	86,516	88,403
Common Equity	129,686	122,457	121,149	125,013

Source: Banorte

### Valuation and Financial metrics

	2019	2020	2021E	2022E
FV/EBITDA	7.9x	7.7x	7.4x	7.1x
P/E	19.5x	22.9x	18.3x	17.1x
P/BV	1.9x	2.0x	2.1x	2.0x
ROE	9.3%	8.2%	10.5%	11.2%
ROA	4.7%	3.9%	4.8%	5.1%
EBITDA/interest	5.4x	4.7x	6.6x	6.7x
Net Debt/EBITDA	1.4x	1.2x	1.0x	1.0x
Debt/Equity	0.6x	0.7x	0.7x	0.7x

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## KOF – Results 3Q21

MXN, million

Concept	3Q20	3Q21	Var %	3Q21e	Diff% vs Estim.
Revenue	46,734	48,316	3.4%	48,736	-0.9%
Operating Income	7,120	6,476	-9.0%	6,515	-0.6%
Ebitda	10,076	9,320	-7.5%	9,448	-1.4%
Net Income	2,463	3,419	38.8%	3,237	5.6%
<b>Margins</b>					
Operating Margin	15.2%	13.4%	-1.8pp	13.4%	0.1pp
Ebitda Margin	21.6%	19.3%	-2.3pp	19.4%	-0.1pp
Net Margin	5.3%	7.1%	1.8pp	6.6%	0.5pp
EPS	\$1.17	\$1.63	38.8%	\$1.53	6.5%

### Income Statement (Million pesos)

Year	2020	2021	2021	Change	Change
Quarter	3	2	3	% y/y	% q/q
Net Revenue	46,734	47,786	48,316	3.4%	1.1%
Costs of goods sold	25,367	25,226	26,499	4.5%	5.0%
Gross profit	21,367	22,560	21,817	2.1%	-3.3%
General expenses	14,216	15,189	15,530	9.2%	2.2%
Operating Income	7,120	7,248	6,476	-9.0%	-10.6%
Operating Margin	15.2%	15.2%	13.4%	(1.8pp)	(1.8pp)
Depreciation	2,956	2,759	2,843	-3.8%	3.1%
EBITDA	10,076	10,007	9,320	-7.5%	-6.9%
EBITDA Margin	21.6%	20.9%	19.3%	(2.3pp)	(1.7pp)
Interest Income (Expense) net	(1,421)	(1,323)	(1,030)	-27.6%	-22.2%
Interest expense	1,701	1,463	1,613	-5.2%	10.2%
Interest income	298	194	202	-32.0%	4.6%
Other income (expense)	117	117	75	-35.8%	-36.1%
Foreign exchange gain (loss)	(135)	(171)	305	N.A.	N.A.
Unconsolidated subsidiaries	(14)	(43)	73	N.A.	N.A.
Income before taxes	3,899	5,936	5,170	32.6%	-12.9%
Income taxes	1,320	2,268	1,697	28.5%	-25.2%
Discontinued operations					
Consolidated Net Income	2,579	3,668	3,473	34.7%	-5.3%
Non-controlling interest	116	352	54	-53.6%	-84.7%
Net Income	2,463	3,316	3,419	38.8%	3.1%
Net Margin	5.3%	6.9%	7.1%	1.8pp	0.1pp
EPS	1.172	1.579	1.628	38.8%	3.1%

### Balance Sheet (Million pesos)

Total Current Assets	87,433	75,046	79,259	-9.3%	5.6%
Cash & Short Term Investments	58,057	46,786	50,088	-13.7%	7.1%
Long Term Assets	196,670	190,039	189,830	-3.5%	-0.1%
Property, Plant & Equipment (Net)	59,906	58,424	59,076	-1.4%	1.1%
Intangible Assets (Net)	84,173	80,540	79,440	-5.6%	-1.4%
Total Assets	284,103	265,085	269,089	-5.3%	1.5%
Current Liabilities	57,359	47,979	48,426	-15.6%	0.9%
Short Term Debt	14,839	3,702	3,223	-78.3%	-12.9%
Accounts Payable	34,392	37,094	38,286	11.3%	3.2%
Long Term Liabilities	102,362	97,520	97,918	-4.3%	0.4%
Long Term Debt	89,565	82,104	83,528	-6.7%	1.7%
Total Liabilities	159,721	145,500	146,344	-8.4%	0.6%
<b>Stockholders' Equity</b>	124,382	119,585	122,745	-1.3%	2.6%
Non-controlling interest	5,594	6,131	5,917	5.8%	-3.5%
Total Equity	118,788	113,454	116,828	-1.7%	3.0%
Liabilities & Equity	284,103	265,085	269,089	-5.3%	1.5%
Net Debt	46,347	39,020	36,663	-20.9%	-6.0%

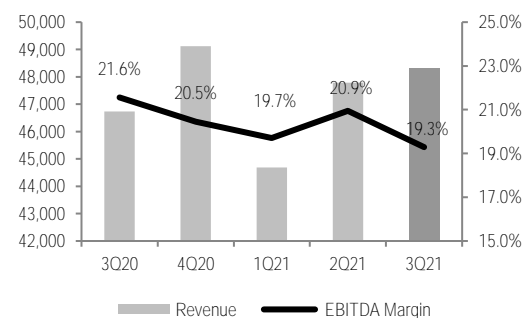
### Cash Flow

CF from Operating Activities	7,508.2	10,929.6	7,594.6		
CF from Investing Activities	(1,564.3)	(2,060.6)	(3,662.6)		
CF from Financing Activities	11,253.9	(9,725)	(1,861.7)		
FX effect on cash	(614.4)	(783.9)	1,232.1		
Change in Cash Balance	16,583.4	(1,639.4)	3,302.4		

Source: Banorte, MSE.

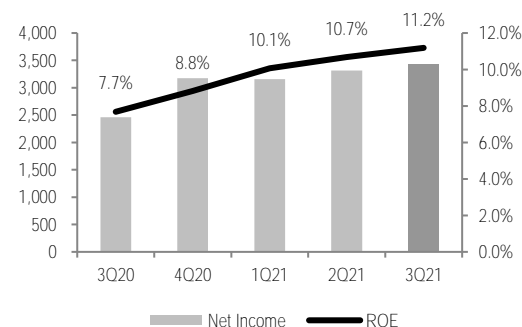
## Revenue & EBITDA Margin

MXN, million



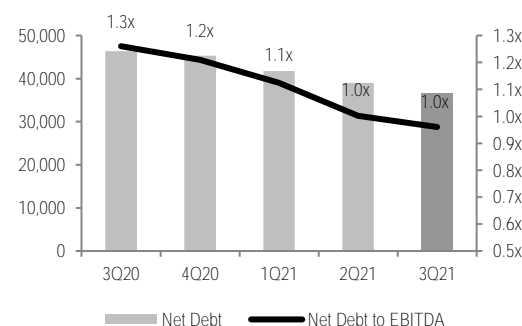
## Net Income & ROE

MXN, million



## Net Debt & Net Debt to EBITDA ratio

MXN, million



## Performance by Region

### Mexico & Central America

	3Q20	2Q21	3Q21	% y/y	% q/q
Volume	498.6	545.8	509.0	2.1%	-6.7%
Price	53.7	55.4	56.5	5.1%	1.9%
Revenue	26,807	30,262	28,760	7.3%	-5.0%
EBITDA	6,175	6,821	6,062	-1.8%	-11.1%
EBITDA Margin	23.0%	22.5%	21.1%	-2.0pp	-1.5pp

### South America

	3Q20	2Q21	3Q21	% y/y	% q/q
Volume	309.3	305.6	345.5	11.7%	13.0%
Price	47.0	45.3	45.2	-3.9%	-0.1%
Revenue	19,927	17,524	19,556	-1.9%	11.6%
EBITDA	3,899	3,186	3,258	-16.5%	2.2%
EBITDA Margin	19.6%	18.2%	16.7%	-2.9pp	-1.5pp

### Consolidated

	3Q20	2Q21	3Q21	% y/y	% q/q
Volume	807.9	851.4	854.5	5.8%	0.4%
Price	51.2	51.8	52.9	3.5%	2.2%
Revenue	46,734	47,786	48,316	3.4%	1.1%
EBITDA	10,075	10,007	9,320	-7.5%	-6.9%
EBITDA Margin	21.6%	20.9%	19.3%	-2.3pp	-1.7pp

\*MXN million, except Volume (million units) and price (average per unit case)

## Certification of Analysts.

We, 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, Alik Daniel García Alvarez, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo 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	Rating	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 UBL	18/01/2019	Hold	\$137.00

## MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD			AVERAGE		LEADER	

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

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