

KOF

Quarterly Report

February 27, 2019

Profitability was pressured by KOF_4Q18

- We rate KOF's 4Q18 results as neutral, in line with market expectations at operating level, confirming pressure on margins. Net profit outperformed estimates
- EBITDA margin presented an 80bp contraction to stand at 20.4% vs. 20%e, due to higher PET costs and thus concentrated as an adverse FX effect in Mexico, Colombia and Brazil
- KOF received US\$ 715 million from the sale of Philippines. Part of those resources was used to pay off debt, hence the ND/EBITDA ratio stood at 1.6x vs. 1.9x in 3Q18. We reiterate a HOLD recommendation

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PET and FX fluctuations pressured profitability. In 4Q18, KOF concluded the sale of its Philippines operations for a total of US\$ 715 million. During the quarter, part of these resources was used to pay off debt derived from recent acquisitions in Panama and Guatemala. The ND/EBITDA ratio fell to 1.6x vs. 1.9x in 3Q18. The company reported year-on-year volume increments in Central America (27%), Colombia (3.1%) and Brazil (4.5%), which offset declines in Mexico (-0.9%) and Argentina (-27%). In this sense, the company generated MXN 50.1 billion in consolidated revenue, up 2% vs. 4Q17 due to a hike in prices above inflation in most regions. Furthermore, higher PET costs and an adverse FX effect produced increments in the cost of sales and operating expenses of 2.3% and 2.6%, respectively. At EBITDA level, a 2% drop was reported and a 0.8pp erosion in the corresponding margin to stand at 20.4%. Net profit rose to MXN 5,541 million (vs. a MXN 24.2 billion loss in 4Q17), due to a MXN 2.7 billion gain related to the sale of operations in the Philippines.

HOLD	
Current Price	\$117.50
PT 2019	\$137.00
Dividend 2019e	\$3.20
Dividend Yield (%)	2.7%
Upside Potential	19.3%
Max - Min LTM (P\$)	131.07 - 109.9
Market Cap (US\$m)	13,663
Shares Outstanding (m)	2,100
Float	25%
Daily Turnover (P\$ m)	77.4
Valuation metrics TTM	
FV/EBITDA	8.8x
P/E	17.9x

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	8.7x	7.4x
P/E	N.A.	17.8x	20.1x	17.9x
P/BV	2.0x	2.0x	2.1x	1.7x
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
Net Debt/EBITDA	1.7x	1.6x	1.6x	1.0x
Debt/Equity	0.6x	0.6x	0.6x	0.4x

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Document for distribution among public

KOF –Results 4Q18

MXN million

Concept	4Q17*	4Q18	Var %	4Q18e	Diff% vs Estim.
Revenue	55,275	50,166	-9.2%	52,979	-5.3%
Operating Income	7,585	7,342	-3.2%	7,634	-3.8%
Ebitda	11,311	10,215	-9.7%	10,603	-3.7%
Net Income	-24,245	5,541	N.A.	4,093	35.4%
Margins					
Operating Margin	13.7%	14.6%	0.9pp	14.4%	0.2pp
Ebitda Margin	20.5%	20.4%	-0.1pp	20.0%	0.4pp
Net Margin	-43.9%	11.0%	54.9pp	7.7%	3.3pp
EPS	-\$11.54	\$2.64	N.A.	\$1.95	35.3%

Income Statement (Million pesos)

Year	2017	2018	2018	Change	Change
Quarter	4	3	4	% yoy	% qoq
Net Revenue	55,275.1	44,148.1	50,165.6	-9.2%	13.6%
Costs of goods sold	30,211.9	23,911.4	27,149.1	-10.1%	13.5%
Gross profit	25,063.3	20,236.7	23,016.6	-8.2%	13.7%
General expenses	16,864.7	14,255.6	15,164.9	-10.1%	6.4%
Operating Income	7,584.6	5,777.5	7,342.0	-3.2%	27.1%
Operating Margin	13.7%	13.1%	14.6%	0.9pp	1.5pp
Depreciation	3,725.6	2,714.1	2,873.0	-22.9%	5.9%
EBITDA	11,310.7	8,491.6	10,215.0	-9.7%	20.3%
EBITDA Margin	20.5%	19.2%	20.4%	(0.1pp)	1.1pp
Interest Income (Expense) net	(1,084.0)	(1,322.2)	(2,149.0)	98.2%	62.5%
Interest expense	2,001.3	1,833.9	2,063.0	3.1%	12.5%
Interest income	251.5	275.9	293.0	16.5%	6.2%
Other income (expense)	149.9	175.6	(8.3)	N.A.	N.A.
Foreign exchange gain (loss)	515.9	60.2	(370.7)	N.A.	N.A.
Unconsolidated subsidiaries	(10.4)	(51.2)	(64.9)	>500%	26.8%
Income before taxes	(22,497.9)	4,393.9	4,603.3	N.A.	4.8%
Income taxes	1,314.0	1,381.7	1,385.9	5.5%	0.3%
Discontinued operations		409.7	2,790.3		
Consolidated Net Income	(23,811.9)	2,602.4	427.1	N.A.	-83.6%
Non-controlling interest	433.6	155.8	466.6	7.6%	199.6%
Net Income	(24,245.5)	3,266.1	5,541.1	N.A.	69.7%
Net Margin	-43.9%	7.4%	11.0%	54.9pp	3.6pp
EPS	(11.541)	1.555	2.638	N.A.	69.7%

Balance Sheet (Million pesos)

Total Current Assets	55,657.0	78,886.2	57,490.6	3.3%	-27.1%
Cash & Short Term Investments	18,766.9	18,474.9	23,726.8	26.4%	28.4%
Long Term Assets	230,021.1	199,917.5	206,296.7	-10.3%	3.2%
Property, Plant & Equipment (Net)	75,827.3	58,329.5	61,942.4	-18.3%	6.2%
Intangible Assets (Net)	98,014.5	90,116.3	93,074.8	-5.0%	3.3%
Total Assets	285,678.1	278,803.7	263,787.3	-7.7%	-5.4%
Current Liabilities	55,594.5	52,009.3	45,523.2	-18.1%	-12.5%
Short Term Debt	17,168.1	11,443.4	12,484.1	-27.3%	9.1%
Accounts Payable	31,352.9	26,508.3	25,831.7	-17.6%	-2.6%
Long Term Liabilities	89,373.2	95,675.7	86,513.9	-3.2%	-9.6%
Long Term Debt	71,767.2	81,023.1	70,934.2	-1.2%	-12.5%
Total Liabilities	144,967.7	147,685.0	132,037.1	-8.9%	-10.6%
Common Stock	140,710.4	131,118.7	131,750.2	-6.4%	0.5%
Non-controlling interest	433.6	155.8	466.6	7.6%	199.6%
Total Equity	122,569.0	115,189.6	124,942.7	1.9%	8.5%
Liabilities & Equity	285,678.1	278,803.7	263,787.3	-7.7%	-5.4%
Net Debt	69,590.1	72,800.8	58,958.0	-15.3%	-19.0%

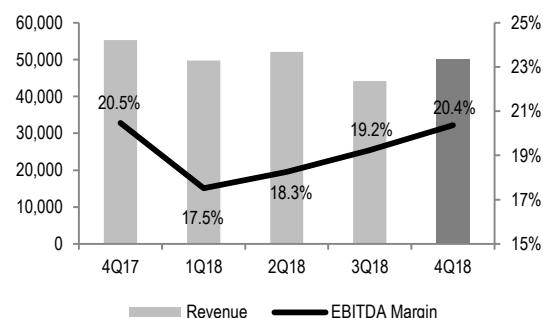
Cash Flow

CF from Operating Activities	10,448.2	383.1	15,910.6
CF from Investing Activities	(9,086.5)	(2,337.2)	3,396.6
CF from Financing Activities	(2,531.0)	(2,016.5)	(14,557.4)
Change in Cash Balance	(1,439.2)	(4,994.5)	5,251.9

Source: Banorte, MSE. *4Q17 figures include operations of Philippines

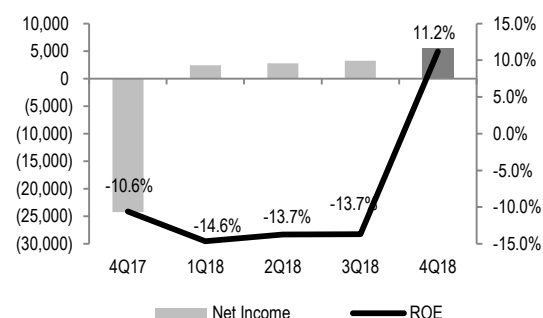
Revenue & EBITDA Margin

MXN, million



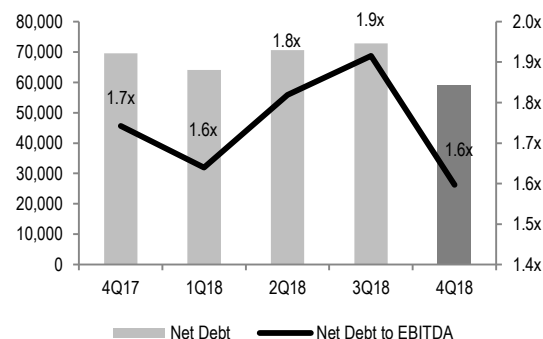
Net Income & ROE

MXN, million



Net Debt & Net Debt to EBITDA ratio

MXN, million



Mexico and Central America maintains solid performance, South America is affected by adverse economic conditions in Argentina.

During the quarter, KOF reported MXN 25.4 billion in revenue from the business division in México and Central America, representing an annual 8.7% year-on-year increase and a 51% contribution to total revenue. The increment in the average price per unit of this division stood above inflation. Moreover, the business division in South America yielded MXN 24.7 billion in revenue, down an annual 4%. Brazil, contributing 70% of revenue to the South American division, was the only country of this segment to report an increase in the average price per unit above inflation. The development and improvement of KOF's data analysis platform has allowed the generation of efficient strategies in price, packaging and promotions in regions such as Brazil and México. Finally, the performance of operations in Argentina has been seriously undermined by a much lower consumer purchasing power due to the hyperinflation experienced in such country. Against this backdrop, sales volume and revenue in Argentina fell 27% and 45%, respectively. The company has presented a contingency plan to reduce costs and restructure operations and is currently undergoing talks with the Argentinian government to take appropriate measures. We will closely monitor any development in order to incorporate any change into our projections.

Pressured profitability due to higher costs and expenses. During the quarter, the cost of sales and operating expenses rose 2.3% and 2.6% year-on-year, respectively. Such increment is explained, mostly by higher PET costs (containers made out of PET constitute approximately 20% of the cost of sales), higher cost of concentrate in Mexico and an increase in cost of dollar-denominated commodities caused by the depreciation of the Mexican peso, the Brazilian real and the Colombian peso. It is important to point out that part of the FX effect was offset due to hedging transactions. Finally, EBITDA declined 2% to MXN 10.2 billion, in line with our MXN 10.6 billion estimate, posting thus a 0.8pp EBITDA margin contraction, standing at 20.4%. (vs. our 20% estimate).

FX losses and higher financial expenses. The company reported a 1.5% year-on-year increase of financial expenses from additional financing contracting during 2Q18 to expand its operations in Guatemala and Uruguay. Further, KOF was affected by a FX loss equaling MXN 371 million, which unfavorably compares with a MXN 505 million, gain in 4Q17. Such loss was caused by the appreciation of the Mexican peso applied to the cash position in dollars, which includes revenue from the sale of operations in the Philippines. Against this context, the comprehensive financing cost posted a 97% year-on-year increase, standing at MXN 2.1 billion vs. MXN 1.0 billion in 4Q17.

Extraordinary result from the sale of operations in the Philippines boosted net profit. During the quarter, KOF's net profit stood at MXN 5.5 billion, 35% above our estimate. The company's net profit was boosted by an extraordinary gain equaling MXN 2.7 billion derived from the sale of operations in the Philippines. This result is very favorable as it compares to the MXN 24.2 billion net loss reported in 4Q17. It should be noted that such loss reported in 4Q17 was due to accounting changes performed due to the deconsolidation of operations in Venezuela.

Slight drop in leverage levels. During 4Q18, KOF reported a 1.9% reduction in total debt, to stand at MXN 81.8 billion, while net debt fell MXN 6.5 billion over 4Q17. Debt reduction was due to a US\$ 445 million payment from a mature Yankee bond in 2018. However, leverage levels were offset by new bank loans in Mexico and Uruguay. Considering the latter, cash from the sale of operations in the Philippines and cash Flow produced during the year, the ND/EBITDA ratio stood at 1.6x vs. 1.9x in 3Q18.

Difficult environment in Colombia. The company mentioned that the new tax across the entire production chain of beer and sugary beverages will negatively impact sale volumes. In order to face this difficult setting, KOF will be restructuring its operations during the first half of the year. During January, there was an average price increase of around 6%. Therefore, we estimate a 5% drop in sales volume in this region during 2019.

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.

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	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>

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PT and recommendation history

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

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