

Pilulka.cz

Too far, too fast

31 March 2021

Czech Republic

Retail

mn CZK	2020E	2021F	2022F	2023F
Sales	1801	2495	2977	3379
% growth	36%	39%	19%	14%
EBITDA	28	13	61	95
EBITDA margin	1,6%	0,5%	2,0%	2,8 %
NOPAT	n.a	-5	31	56
CAPEX	29	46	54	64
D&A	n.a	19	22	26
WACC	n.a.	10%	10%	10%
FCF	n.a.	-46	-7	-2
Debt	65	87	104	129

We are initiating a new analytical coverage of the online pharmacy Pilulka with **a target price of CZK 804 and a SELL recommendation**. Even though we are optimistic about the future of Pilulka and an online pharma retail in general, the price of its stock has grown since its IPO from CZK 424 to CZK 1460 (**+240 % in just 6 months**). We consider that to be too quick and the shares to be overvalued. Furthermore, the value of Pilulka is highly dependent on the ability of its management to guide it to a positive and stable profitability.

- ◆ Pilulka focuses on the **online sales of over-the-counter (OTC) pharmaceuticals** in Czech Republic, Slovakia and Romania. An expansion to Hungary is planned for 2021.
- ◆ The company is in its early growth phase and up to 2019 it has been reporting negative operating profits. However, **2020 is supposed to be the first year with positive EBITDA**.
- ◆ In the future, its growth will be **fuelled by regional expansion and online sales of OTC**. A deregulation of prescription medicine (Rx) offers huge although distant and uncertain potential.
- ◆ According to our estimates, **the compound annual growth rate (CAGR) of its revenue will be around 14 % between 2021 and 2030** and reaching CZK 8bn in annual revenues in 2030.
- ◆ We are using **traditional DCF model in our valuations** with weighted average cost of capital (WACC) of 9.8 % serving as a discount rate.
- ◆ Valuation method using peer multiples falls short due to **a lack of comparable publicly traded companies**. The closest European peers Zur Rose and Shop Apotheke are much more matured companies with a significantly larger customer base.
- ◆ Our slightly conservative estimate for revenue growth reflects the fact that **online pharma retailers have a long-term problem with uneven profitability**.
- ◆ Nevertheless, **when it comes to Pilulka's margins we feel optimistic** and we believe its management can keep it profitable.
- ◆ With these in mind, the target price of our DCF model is **CZK 804 per share** which at current market price corresponds with a **recommendation to SELL**.

SELL

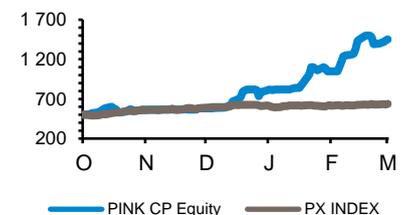
6M Target Price	804 CZK
Previous Target Price	n.a.
6M Dividend	0 CZK
Current price	1460 CZK
12M Total Return	-45%

ISIN CZ0009009874
Bloomberg PINK CP EQUITY

Market cap CZK 3.65bn
Dil. shares out. 2.5mn
Free float 32 %

Performance	1M	3M	12M
Absolute	+42%	+157%	n.a.
Rel. to PX Index	+39%	+151%	n.a.

12M performance vs. index:



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EXECUTIVE SUMMARY

Online pharmacy sector in Czech republic is on a verge of change **due to an increasing penetration of its online sales channel**. While other categories of consumer goods have been on this path for some time now, over-the-counter pharmaceuticals have until now in large part avoided this business model. A very similar story can be drawn in Slovakia, Romania and Hungary.

Pilulka rushes into this environment with a clear goal of grabbing the highest possible market share in these four target countries. In the coming years we can therefore expect **a rapid revenue growth derived from both an online penetration and a regional expansion**. Unfortunately, the market environment is highly competitive and thus we do not believe Pilulka can maintain these growth rates for an extended period of time. We forecast a compound annual growth rate (CAGR) for its revenue to be around 14 % between 2021 and 2030 and for revenue to reach CZK 8bn.

A make or break question for Pilulka's story is **whether management can keep the costs under control** and guide the company to a positive and stable profitability. A quick glance through P&Ls of European online pharmacies illustrates the difficulty of this task. Nevertheless, in this case we remain optimistic and trust the word of management that with 2020 being the first year with positive EBITDA, the EBITDA margin in the coming years will increase all the way to 5 % in 2030.

All in all, we consider Pilulka to be a fundamentally sound company and feel confident and upbeat about its future. However, since its IPO its market price has climbed from CZK 424 to CZK 1460 (240 % increase in just 6 months) **without a meaningful change in its fundamentals**. While it is true that COVID-19 pandemic has accelerated the growth rate of its revenue, we regard this as a temporary effect that is likely to evaporate next year. Therefore, even though we set our 12M target price to CZK 804 (90 % above the original IPO price) **at current market price this corresponds with a recommendation to SELL**.

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Patria uses an absolute rating system including terms such as Buy, Accumulate, Hold, Reduce and Sell (see definitions below).

Stock rating	Definition
BUY	Expected total return (including dividends) of 10% or more over a 6-month period
ACCUMULATE	Expected total return (including dividends) between 0% and 15% over a 6-month period
HOLD	Expected total return (including dividends) between -5% and 5% over a 6-month period
REDUCE	Expected total return (including dividends) between -15% and 0% over a 6-month period
SELL	Expected total return (including dividends) of -10% or worse over a 6-month period

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Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	50,0%	0,00%
ACCUMULATE	8,3%	0,00%
HOLD	16,7%	0,00%
REDUCE	0,0%	0,00%
SELL	8,3%	0,00%

Recommendation History:

Financials	Recommendation
Erste Bank	26.8.20 (Buy, EUR 26), 2.4.20 (Under review), 15.1.19 (Buy; EUR 36), 26.11.18 (Buy; EUR 39), 17.10.17 (Accum; EUR 39) 14.3.16 (Accum; EUR 26.5)
Komerční Banka*	3.6.20 (Buy, CZK 715), 2.4.20 (Under review), 30.4.19 (Accum, CZK 990), 28.6.18 (Accum, CZK 980), 8.11.16 (Reduce, CZK 820), 3.11.16 (under review), 14.3.16 (Buy; CZK 1 140)
Vienna Insurance Group	1.9.16 (Hold, EUR 18.5), 22.10.15 (U/R), 19.9.14 (Hold; EUR 39.5), 19.8.13 (Accum; EUR 42.5), 28.1.13 (Hold; EUR 37.5), 7.12.12 (Hold; EUR 40)
Moneta	4.6.20 (Buy, CZK 72), 2.4.20 (Under review), 22.11.19 (Buy, CZK 86), 25.3.19 (Buy, CZK 83), 2.5.18 (Buy, CZK 86.8), 6.5.16 (Buy, CZK 83)
OTP Bank Nyrt.	2.4.20 (Under review), 8.1.20 (Accum, HUF 15,500), 26.6.19 (Accum, HUF 12,501)
* split 1:5	
Telecoms	Recommendation
O2CR	27.4.20 (BUY, CZK 259), 11.3.19 (ACCUMULATE, CZK 249), 15.6.18 (Hold, CZK 250), 6.2.17 (Buy, CZK 286), 28.7.16 (Buy, CZK 265), 23.2.16 (Buy, CZK 301), 22.10.15 (U/R), 17.10.14 (Reduce; CZK 230)
Utilities	Recommendation
CEZ	8.4.20 (Buy; CZK 545), 12.7.18 (Reduce; CZK 526), 17.3.17 (Reduce; CZK 395), 15.10.15 (Accum; CZK 555), 10.4.14 (Hold; CZK 625), 23.3.14 (Hold; CZK 600), 12.2.14 (Hold; CZK 600)
Consumer Staples	Recommendation
Philip Morris	30.9.20 (Under Review), 8.10.19 (Accumulate; CZK 15 200), 13.10.15 (Hold; CZK 11 850), 17.2.15 (Accum; CZK 11 000), 17.10.14 (Buy; CZK 11 000), 19.9.14 (Accum; CZK 11 000), 11.9.13 (Hold; CZK 11 000)
Pegas Nonwovens	9.2.16 (Accum; CZK 800), 30.9.15 (Suspended), 15.5.15 (Accum; CZK 800), 14.3.14 (Accum; CZK 664), 20.1.14 (Hold; CZK 560)
Pilulka	30.3.21 (SELL; CZK 804)
IT	Recommendation
CD Projekt	21.12.20 (BUY; PLN 303), 15.1.20 (Sell; PLN 229), 18.12.2019 (Under Review), 15.05.19 (Sell; PLN 159), 28.6.18 (Hold; PLN 149), 18.4.18 (Buy; PLN 133)
Avast	22.9.20 (HOLD GBp 496), 26.2.20 (Accumulate GBp 478), 3.10.19 (Buy; GBp 440), 24.9.18 (Buy; GBp 333)
Consumer Cyclical	Recommendation
CETV	6.11.2019 (Hold; USD 4.58), 13.8.19 (Reduce; USD 4.22), 19.2.19 (Accumulate: USD 3.7), 19.11.13 (Sell; USD 1.9), 1.11.13 (Sell; USD 1.9), 3.5.13 (Sell; USD 3.1), 8.3.13 (Sell; USD 4.6), 1.12.12 (Sell; USD 5.3)

The company disclosures can be consulted on our website <http://www.patria.cz/stocks/research/recommendation.html>

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