

Pilulka.cz

Expansion does not come free

05 June 2023

Czech Republic

Retail

mm CZK	2022	2023E	2024E	2025E
Sales	2447	2618	3061	3713
% growth	3%	7%	17%	21%
EBITDA	-1	-1	26	69
EBITDA margin	0,0%	-0,1%	0,9%	1,9%
NOPAT	-48	-67	-25	9
CAPEX	-77	-52	-46	-48
D&A	53	67	53	63
WACC	n.a.	12,5%	12,5%	12,5%
FCF	-115	-53	-38	21
Debt	85	84	83	82

A costly foreign expansion and a slowing revenue growth have **forced Pilulka to come to the market for an additional funds**. Through the SPO it is offering 500k new shares in the price range of CZK 450 to CZK 550 per share. However, **it is not approaching investors in its best shape**. Revenue has barely reached CZK 2,5bn (+3%), falling behind official guidance. Negative surprise came not only from the main Czech market, but also from the still developing Romania. The expansion to Austria and Hungary demanded a considerable investment, pushed down margins and delayed positive profitability. Therefore, we are **yet again lowering the target price from CZK 597 to CZK 393 per share while switching the recommendation from SELL to REDUCE**.

- ◆ Pilulka is offering 500k new shares in its SPO **in the price range of CZK 450 to CZK 500 per share**.
- ◆ We are assuming that while the company will subscribe all 500k shares, it will only do so **at the low end of the price range i.e., at CZK 450 per share**.
- ◆ Year 2022 was hit by several **negative macroeconomic factors** such as shift of consumption from goods to services or a wave of inflation.
- ◆ Diversification of sales away from the OTC medicine also contributed to **their low last year's growth (+3% yoy)**, with Czech and Romanian markets being especially underwhelming.
- ◆ Profitability has worsened due to the increasing costs, **however EBITDA of CZK -800k has surpassed our expectations (CZK -7mm)**.
- ◆ The company has launched **an expansion to Austria and Hungary** in 2022, we remain more than management about their ramp up.
- ◆ We are currently expecting **the CAGR of PINK revenue to be around 10% between 2023 and 2032** reaching CZK 6.3bn in 2032.
- ◆ Our discount rate **WACC for the whole period is set at 12.5%**.
- ◆ Funds from SPO should be sufficient for the foreseeable future, **we are not expecting additional funding rounds**.

With these in mind, we are lowering the target price of our DCF model **from CZK 597 to CZK 393 per share** which at the current market price of CZK 450 (-13%) corresponds to a **REDUCE recommendation**.

REDUCE

6M Target Price **393 CZK**

Previous Target Price 597 CZK

6M Dividend 0 CZK

Current price 450 CZK

6M Total Return **-13%**

ISIN CZ0009009874

Bloomberg PINK CP EQUITY

Market cap CZK 1,13bn

Dil. shares out. 2,52mn

Free float 100%

Performance **1M** **3M** **12M**

Absolute -9,8% -28,6% -62,2%

Rel. to PX Index -7,4% -26,7% -70,0%


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DISCLAIMER

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

Due to external factors and in exceptional cases, Patria allows the use of ratings such as Accept the Offer, Black Out, No Recommendation or Suspended.

Patria will provide periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information.

Stock rating	% of covered universe	% of covered universe with investment banking relationship during last year
BUY	60%	0,00%
ACCUMULATE	20%	0,00%
HOLD	0%	0,00%
REDUCE	20%	0,00%
SELL	0%	0,00%

Recommendation History:

Financials

Erste Bank	2.9.22 (Buy; EUR 37), 6.9.21 (Buy; EUR 41), 26.8.20 (Buy; EUR 26), 2.4.20 (Under review), 17.10.17 (Accum; EUR 39), 14.3.16 (Accum; EUR 26.5), 21.9.15 (Buy; EUR 30), 30.4.15 (Buy; EUR 28), 26.1.15 (Buy; EUR 24)
Komerční Banka	2.9.22 (Buy, CZK 866), 6.9.21 (Buy, CZK 934), 24.5.21 (Buy, CZK 833), 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*), 23.11.15 (Buy, CZK 1 170*), 30.4.15 (Hold; CZK 1 120*)
Moneta	2.9.22 (Accum, CZK 85), 6.9.21 (Hold, CZK 92), 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 Ny rt.	2.4.20 (Under review), 8.1.20 (Akum, HUF 15,500), 26.6.19 (Akum, HUF 12,501)

* zohledněn split 1:5 (pře počítáno)

Utilities

CEZ	29.3.22 (Buy; CZK 1317), 23.2.21 (Under review), 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)
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Consumer Staples

Philip Morris	30.9.20 (Under review), 8.10.19 (Accum; CZK 15 200), 13.10.15 (Hold; CZK 11 850), 17.2.15 (Hold; CZK 11 000), 17.10.14 (Buy; CZK 11 000), 19.9.14 (Accum; CZK 11 000),
Pilulka	5.6.23 (Reduce; CZK 393); 10.10.22 (Sell; CZK 597); 19.5.22 (Sell; CZK 677); 11.11.21 (Sell; CZK 968); 30.3.21 (Sell; CZK 804)

IT

Avast	1.2.21 (Suspended), 22.9.20 (Hold, GBp 496), 26.2.20 (Accum, GBp 478), 3.10.19 (Buy; GBp 440), 24.9.18 (Buy; GBp 333)
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The company disclosures can be consulted on our website <http://www.patria.cz/stocks/research/recommendation.html>

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PINK	-

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