

Pilulka.cz

Recession as the next hurdle

10 October 2022

Czech Republic

Retail

mn CZK	2020	2021E	2022F	2023F
Sales	2380	2693	3185	3967
% growth	34%	13%	18%	25%
EBITDA	29	-7	11	43
EBITDA margin	1,2%	-0,3%	0,3%	1,1%
NOPAT	-14	-37	-25	1
CAPEX	-82	-50	-64	-67
D&A	35	31	38	44
WACC	n.a.	10,6%	10,6%	10,6%
FCF	-57	-36	-28	-3
Debt	21	20	20	30

The year 2022 has been marked by **escalating inflation problems** caused among other things by the Russian invasion of Ukraine. In response, the central banks intensified **the interest rate hiking cycle** to cool the rising prices at least on the demand side of the economy. In addition to the previous woes of e-commerce, **recession and slowing demand** have risen as the next hurdle. Pilulka was not spared this. Worsening dynamics of sales growth paired with higher WACC have thus forced us to **lower the target price from CZK 677 to CZK 597 with a recommendation to SELL**.

- ◆ Czech online retail sales in both nominal and real prices are **still under their long-term trend**.
- ◆ **Revenue guidance for 2022 has been lowered** from CZK 2.8bn to CZK 2.7bn. Year-over-year growth will slow down from last year 34% to current 13%.
- ◆ Management has introduced **the planned expansion to Hungary, Austria and Germany** which should lean on a hybrid model with minimal logistic footprint.
- ◆ We are **returning Hungary into our valuation model**, however with significantly slower sales growth than in our original models. We are waiting for further details for Austria and Germany.
- ◆ The expansion constitutes **additional risk from the viewpoint of its financing**. Management is considering follow-up offering of additional shares in case of insufficient internal funds.
- ◆ According to our updated estimates, **the compound annual growth rate (CAGR) of PINK revenue will be slightly above 12% between 2022 and 2031** reaching CZK 7.7bn in 2031.
- ◆ Valuation is also weighed down by **an increase in WACC from 10.2% to 10.6%** due to higher assumed risk-free rate and higher equity risk premium.

With these in mind, we are decreasing the target price stemming from our DCF model **from CZK 677 to CZK 597 per share** which at the current market price of CZK 770 (-22%) corresponds to a **SELL recommendation**.

SELL

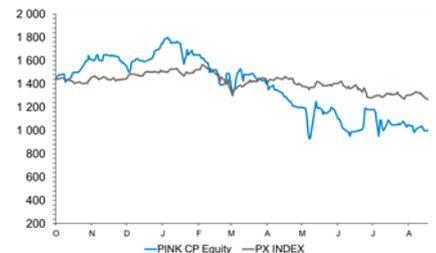
6M Target Price	597 CZK
Previous Target Price	677 CZK
6M Dividend	0 CZK
Current price	770 CZK
12M Total Return	-22%

ISIN CZ0009009874
Bloomberg PINK CP EQUITY

Market cap CZK 1.93bn
Dil. shares out. 2.5mn
Free float 32%

Performance	1M	3M	12M
Absolute	-15,2%	-36,0%	-47,6%
Rel. to PX Index	-18,7%	-33,2%	-40,5%

12M performance vs. index:



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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

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	54,5%	0,00%
ACCUMULATE	9,1%	0,00%
HOLD	9,1%	0,00%
REDUCE	0,0%	0,00%
SELL	9,1%	0,00%
UNDER REV/OTHER	18,2%	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	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 Nyrt.	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	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	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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