

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:



Ján Hladký
Equity Analyst
+420 221 424 183
hladky@patria.cz

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	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)
-----	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

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)
-------	-----------------------------------------------------------------------------------------------------------------------

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

Patria Finance
Výmolova 353/3
150 27 Prague 5
Czech Republic
+420 221 424 111
Regulated by CNB

Patria – Institutional sales
Výmolova 353/3
150 27 Prague 5
Czech Republic
+420 221 424 151
Regulated by CNB

Patria – Retail sales
Výmolova 353/3
150 27 Prague 5
Czech Republic
+420 221 424 109
Regulated by CNB

Patria - Research
Výmolova 353/3
150 27 Prague 5
Czech Republic
+420 221 424 128
Regulated by CNB

Information for investors of Patria Group

Legal notice concerning the presentation of investment recommendations

This document, investment advice and other economic and investment analysis ("analysis") was prepared by the analytical department of the joint-stock company Patria Finance, a.s. ("Patria Finance"), a licensed securities broker-dealer regulated by the Czech National Bank. Patria Finance is part of Patria Online group ("Patria Online"), part of this group is also Patria Corporate Finance, a.s. (all companies belonging to the Patria Online group companies are referred to as "Patria"). In case the document or analysis was not prepared solely by Patria Finance analysts, such persons are mentioned in such document.

This analysis has been created with the support of Burza cenných papírů Praha, a.s. (Research Support Program).

Valuation:

When preparing the analyses, Patria uses generally accepted valuation methods, namely: (i) discounting future free cash flow (Discounted Cash Flow valuation, DCF), (ii) discounting of future dividends (Dividend Discount Model, DDM), (iii) comparison in a group of comparable companies (Market-Based Valuation, MBV), and (iv) a screening system. Less frequent are some other methods of determining a fair valuation or a target price, such as Residual Income Valuation.

DCF and DDM: the advantage of these methods is that future financial results are calculated; their disadvantage is that such forecast of future financial results is affected by the analyst's own judgment.

MBV: this method is more independent from the analyst's own judgment; however, it is usually based on current financial results which may differ from the future ones.

Screening system: this method is based on two dimensions: (i) assessment of potential growth and (ii) identification of an attractive value of the shares. According to the screening results, individual sectors and titles can be sorted into a two-dimensional space which allows the assessment of their relative attractiveness.

Conflict of interests:

Patria or parties affiliated with Patria (especially Patria Finance group companies) may execute or seek opportunities to execute transactions with companies that are mentioned in particular analyses. Therefore, Patria or parties affiliated with Patria may get into a conflict of interest that could affect the objectivity of given analyses.

Unless otherwise stated in the document, Patria does not have a significant financial interest in any of the instruments or investment strategies presented in the analyses.

Instruments covered in the analyses represent investment tips of Patria's analysts. At a given moment, however, recommendations of Patria's brokers or other employees regarding these instruments may be different, especially with regard to (i) an investment profile of a specific Patria's client to whom Patria provides investment advice, and also (ii) to the current or expected future development on financial and capital markets.

Although this document and the analyses were made in accordance with the rules to avoid conflicts of interest, affiliated entities and individual Patria's departments may realize investment decisions that are inconsistent with recommendations or views expressed in these analyses. Investors should therefore consider this particular analysis only as one of several factors in their investment decision.

By way of its internal rules, Patria prohibits its analysts to undertake personal transactions with investment instruments that are subject to analysis of a given analysts; i.e. it is forbidden to for the analysts to trade on their own account with instruments to which such analysts creates an analysis of investment opportunities. In relation to such investment instruments, the analysts are prohibited to provide investment services (with the exception of making investment recommendations). More information about the conflict of interest restrictions are listed on the website www.patria-direct.cz, in the "Documents" section in a document "Conflicts of Interest".

Information on whether Patria or parties affiliated with Patria (especially Patria Finance group companies):

- (1) Act as a market maker in relation to financial instruments of some of the companies mentioned in the analysis ("issuer");
- (2) Provide liquidity in relation to financial instruments of the issuer;
- (3) Received compensation from the issuer's for investment banking services;
- (4) Have a direct or indirect interest in the issuer's share capital in excess of five percent;
- (5) Owns a net long or short position exceeding the threshold of 0.5% of the total issued share capital of the issuer;
- (6) Have been a leading manager or co-manager of public offerings of financial instruments issued by the issuer in the last twelve months;
- (7) Have an agreement with the issuer relating to the creation and dissemination of investment recommendations; or
- (8) Notified the issuer with the analysis prior to its dissemination, or whether a given analysis was amended as a result of such notification;

are published on a webpage accessible remotely at <http://www.patria.cz/stocks/research/recommendation.html>. This webpage also includes a list of contracts regarding the provision of investment services entered into with the issuer and an overview of changes in the level of investment recommendations and price targets during the past 12 months.

Company	Conflicts of Interest
PINK	-

Patria belongs to a KBC Bank group and, unless otherwise stated in the analysis, Patria is not aware of any potential conflict of interest arising from the participation in this group. Patria created the analysis independently from other members of the group and without any detailed knowledge of specific investment activities and interests of this business group's individual members.

Analysts' compensation:

Analysts are compensated according to various criteria, including the quality and accuracy of their analysis, customer satisfaction, competitive factors and overall Patria's profitability which also includes profits derived from investment banking revenues. No part of the analysts' compensation was, nor will be, directly or indirectly, related to specific recommendations or opinions expressed in given analyses.

Risks and other general information:

Despite Patria based the preparation of a document on reliable external sources, it is not liable for the completeness and accuracy of information used. Such document may be changed without prior notice.

The analyses provide general information only. They do not constitute an offer to buy or sell financial instruments. Financial instruments or strategies mentioned may not be suitable for all investors. Opinions and recommendations do not take into account the situation and personal circumstances of individual clients, their financial situation, knowledge, experience, objectives or needs and thus the analyses are not intended to recommend specific financial instruments or strategies to particular investors.

The analyses are prepared primarily for investors who are expected to make their own investment decisions based on their own assessment of a particular investment suitability in any investment instruments mentioned in a given analysis, especially by appropriately considering the price, possible dangers and risks, their own investment strategy and their own legal, tax and financial situation. An analysis should not be the sole basis for an investment decision.

An investor should seek professional assessment, including tax advice, on the suitability of an investment in any financial instruments, other investments or investment strategies mentioned in a given analysis or recommended in such analysis. Value, price, or income from such assets may change or be affected by movements in exchange rates. As a result of these changes, the investment value of such assets may decline. Successful investments in the past neither indicate nor guarantee favorable results in the future.

Jurisdictions outside the Czech Republic:

The analyses are intended for distribution in the Czech and Slovak Republic, or in other countries of the European Union. Distribution of specific analyses to the public outside the Czech and Slovak Republics may be restricted by law of that particular country. Persons who become the recipients of a given analysis should therefore properly inform themselves about the existence of such restriction. Non-adherence to such restrictions may result in a violation of the laws of the Czech Republic or that particular country.

Member of

