

Pilulka.cz

Lower WACC raises valuation

11 November 2021

Czech Republic

Retail

mn CZK	2020	2021E	2022F	2023F
Sales	1780	2300	2780	3303
% growth	44%	29%	21%	19%
EBITDA	22	20	44	72
EBITDA margin	1,3%	0,9%	1,6%	2,2%
NOPAT	n.a	-4	11	27
CAPEX	28	46	54	64
D&A	19	23	30	38
WACC	n.a.	9,3%	9,3%	9,3%
FCF	-20	-41	-19	-19
Debt	25	26	27	28

This past turbulent year has been marked by a return to normal life and by attempting to leave the lockdowns behind. **This of course weighed on the growth of Czech e-commerce companies, not excluding Pilulka.** Management has therefore lowered its full-year revenue guidance and also withdrawn its guidance for EBITDA margin. On the other hand, these negatives **were outweighed by lower discount rate WACC** which is a key component in valuations of growth companies. Therefore we are **raising the target price from CZK 804 to CZK 968 per share while keeping the SELL recommendation.**

- ◆ Year-over-year growth of quarterly revenue **has slowed down from 56% in 1Q21 to the expected 9% yoy in 4Q21** (calculated from revenue guidance for 2021).
- ◆ **Revenue guidance for 2021 has been lowered** from CZK 2.5bn to CZK 2.3bn (+30% yoy). Management has also **withdrawn its original guidance for EBITDA margin** of 1.6%.
- ◆ Management has **indefinitely postponed regional expansion to Hungary**. Seemingly, the focus will be on the domestic online segment and start-up activities.
- ◆ According to our updated estimates, **the compound annual growth rate (CAGR) of PINK revenue will be around 13% between 2021 and 2030** and reaching CZK 6.8bn in the annual revenues in 2030.
- ◆ We are also updating our **prognosis for EBITDA margin by raising to 6% in 2030** (originally 4.7%) due to the focus on domestic markets and better economies of scale.
- ◆ However, the main benefiting factor for the valuation is **a decrease in WACC from 9.8% to 9.3%** due to lower equity risk premium and country risk premium.
- ◆ **82% of the company's value remains in the terminal period**, which makes the valuation highly susceptible to any changes in WACC.

With these in mind, we are increasing the target price of our DCF model **from CZK 804 to CZK 968 per share** which at the current market price of CZK 1,650 (-41%) corresponds to a **SELL recommendation**.

SELL

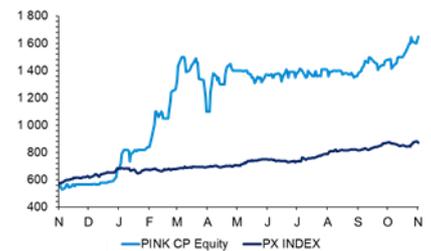
6M Target Price	968 CZK
Previous Target Price	804 CZK
6M Dividend	0 CZK
Current price	1650 CZK
12M Total Return	-41%

ISIN CZ0009009874
Bloomberg PINK CP EQUITY

Market cap CZK 4.13bn
Dil. shares out. 2.5mn
Free float 32%

Performance **1M 3M 12M**
Absolute +11,9% +17,9% +187%
Rel. to PX Index +10,9% +6,2% +129%

12M performance vs. index:



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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%

Recommendation History:

Financials	Recommendation
Erste Bank	6.9.21 (Buy, EUR 41), 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)
Komerční Banka*	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)
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	6.9.21 (Hold, CZK 94), 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)
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	12.4.2021 (BUY, CZK 336), 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), 11.11.21 (SELL; CZK 968)
IT	Recommendation
CD Projekt	12.05.21 (BUY; PLN 217), 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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PINK	-

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