

Coca-Cola Femsa

4Q23: double-digit EBITDA growth on lower costs – Buy

Maintain Rating: BUY | PO: 180.00 MXN | Price: 171.34 MXN

4Q23 EBITDA up 10% YoY, in line with BofAe

KOF delivered strong 4Q23 operating results supported by a positive cost absorption across divisions. Volume grew 6% YoY (1% below ours) due to a positive demand mainly in South America. Revenues increased 8% YoY (1% above ours) favored by a positive price/mix in Mexico & Central America. EBITDA rose 10% YoY with a margin of 19.9%, an expansion of 90bps YoY, on lower packaging costs and favorable hedges. EPU was P\$2.57, down 25% YoY (and 11% below ours) due to FX losses and a higher tax rate (33% vs. ours of 30%). Reiterate Buy.

Mexico & C. América: EBITDA +12% on packaging and FX

In Mexico & Central America, volume was 3% below ours, but still grew a solid 6% YoY driven by a 13% growth in Guatemala. In Mexico, volume rose 5% YoY due to a positive demand in bulk and bottled water. Sales increased 11% YoY (1% above ours) due to a high single-digit growth in pricing in Mexico, which offset FX headwinds from Guatemala. EBITDA was up 12% YoY (1% below ours) with a margin of 20.5% (+10bps) supported by easing PET costs (polyethylene terephthalate) and the strength of the MXN vs. the USD, which offset higher sweetener costs.

South America beat sales/EBITDA estimates by 2-3%

In South America, volume was up 6% (11% above ours) favored by a high single-digit growth in Brazil and Colombia with improvements in all categories. This offset low single-digit declines in Argentina and Uruguay. Top line rose 4% YoY (2% above ours) with better price/mix across all countries offset by FX headwinds (mainly Argentine Peso). EBITDA increased 8% YoY (3% above ours) on lower packaging costs and the appreciation of most currencies vs. the USD, which favored the cost structure.

Reiterate Buy and PO of P\$180

We reiterate Buy on KOF with a PO of P\$180/sh as we expect a high single-digit growth on revenues with a balanced growth between volume and pricing in 2024. We also believe the company will benefit from lower packaging costs, which represent 25% of total. As such, we estimate an EBITDA growth of 11% in 2024, with the stock trading at 7.6x EV/EBITDA and 15x P/E, versus peers at high-teens.

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Stock Data

Price (Common / ADR)	171.34 MXN / 100.70 USD
Price Objective	180.00 MXN / 105.00 USD
Date Established	9-Jan-2024 / 9-Jan-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	126.67 MXN - 183.49 MXN
Market Value (mn)	359,957 MXN
Free Float	95.2%
Average Daily Value	6.97 USD
Shares Outstanding (mn)	2,100.8 / 210.1
BofA Ticker / Exchange	COCSF / MEX
BofA Ticker / Exchange	KOF / NYS
Bloomberg / Reuters	KOFUBL MM / KOFUBLMX
ROE (2023E)	16.5%
Net Dbt to Eqty (Dec-2022A)	30.7%

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KOF 4Q23 results

Exhibit 1: KOF 4Q23 results

Operating growth favored by volume, price and lower costs

P\$m	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
Mexico & Central America							
CSDs Volumes (mn UCs) - Mexico	346	352	-1.7%	377	-8.2%	335	3.2%
Total Volumes (mn UCs)	581	596	-2.6%	633	-8.2%	548	6.1%
Revenues	37,622	37,366	0.7%	39,035	-3.6%	33,792	11.3%
EBITDA	7,704	7,783	-1.0%	8,183	-5.9%	6,903	11.6%
EBITDA mg.	20.5%	20.8%	-0.4 p.p.	21.0%	-0.5 p.p.	20.4%	0.0 p.p.
South America							
Total Volumes (mn UCs)	475	471	0.9%	400	18.9%	447	6.2%
Revenues	28,456	28,049	1.5%	23,818	19.5%	27,417	3.8%
EBITDA	5,444	5,309	2.5%	3,648	49.2%	5,052	7.8%
EBITDA mg.	19.1%	18.9%	0.2 p.p.	15.3%	3.8 p.p.	18.4%	0.7 p.p.
Consolidated (reported)							
Net Revenues	66,078	65,415	1.0%	62,853	5.1%	61,209	8.0%
EBITDA	13,149	13,092	0.4%	11,830	11.1%	11,955	10.0%
EBITDA mg.	19.9%	20.0%	-0.1 p.p.	18.8%	1.1 p.p.	19.5%	0.4 p.p.
Adj. EBITDA	13,149	13,092	0.4%	11,830	11.1%	11,955	10.0%
Adj. EBITDA mg.	19.9%	20.0%	-0.1 p.p.	18.8%	1.1 p.p.	19.5%	0.4 p.p.
Net Income	5,392	6,028	-10.6%	5,380	0.2%	7,144	-24.5%
EPU (P\$/unit)	2.57	2.87	-10.6%	2.56	0.2%	3.40	-24.5%
Adj. Net Income	5,392	6,028	-10.6%	5,380	0.2%	7,144	-24.5%
Adj. EPU (P\$/unit)	2.57	2.87	-10.6%	2.56	0.2%	3.40	-24.5%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Price objective basis & risk

Coca-Cola Femsa (COCSF / KOF)

Our price objective of P\$180/sh (US\$105/ADS) is based on a 50% DCF / 50% 2024E P/E target multiple approach of 16.0x our 24E, in line with its historical average, given resilient performance in Mexico and positive recovery in South America. Our DCF is based on a WACC of 11.6% and a terminal growth rate of 3%.

Upside risks to our PO are: 1) better market share recovery in Mexico, 2) stronger volume growth in South America, 3) stronger pricing, 4) potential agreements to distribute spirits, personal care and home products.

Downside risks to our PO are: 1) raw materials volatility, 2) FX depreciation risks in Argentina, Brazil, Colombia, 3) further increase of concentrate prices, 4) potential trade down

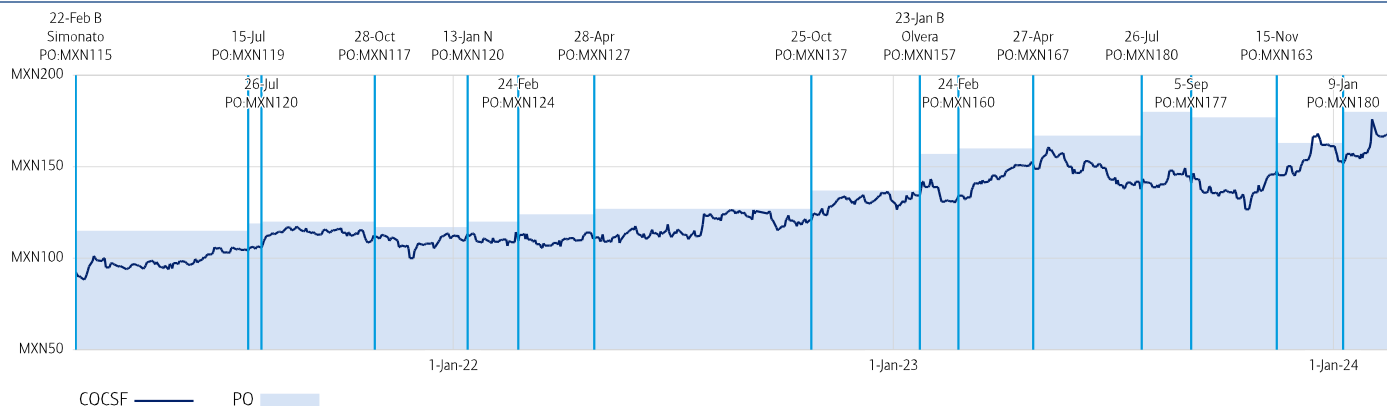
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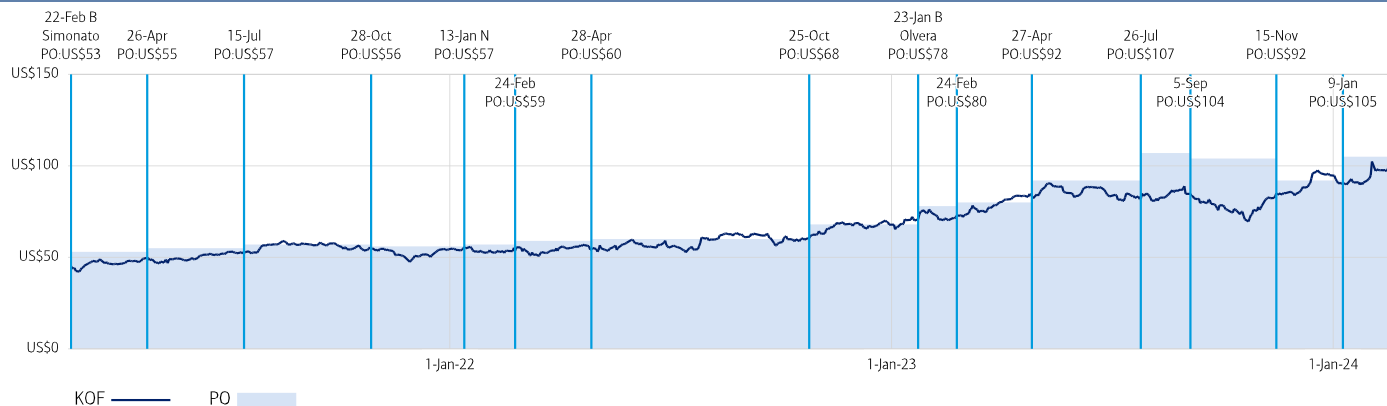
Coca-Cola Femsa (COCSF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coca-Cola Femsa (KOF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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