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AC

Quarterly report

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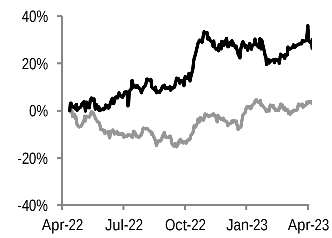
Our favorite bottler surprises

- **Profitability achieved solid progress given favorable pricing initiatives, a better input cost scenario, and operating efficiencies. Reiterating it as one of our top-picks**
- **In view of an improved macroeconomic outlook for Arca's two main regions, which was reflected this quarter, with Mexico standing out from its peers, we have updated our estimates**
- **Incorporating quarter's figures, we raise our target price to MXN 190.00, which would represent a 2023e FV/EBITDA of 8.6x, slightly below the last three years average at 8.8x**

Quarter results were in line with our estimates, surprising positively in profitability. Revenues increased 10.0% y/y (17.9% excluding foreign-exchange effects) mainly driven by pricing initiatives, where in Mexico the average price per unit case advanced 10.9% y/y and in the US 17.8% y/y. Meanwhile, consolidated volume remained resilient +4.2% y/y, driven mainly by growth in personal water and still-beverages categories. Gross profit grew 11.9% y/y, reflecting a gross margin of 45.5% and an 80bp expansion explained by pricing strategies and a less adverse raw material backdrop, supporting our investment thesis for the year. Particularly, profitability stood out in the US with an EBITDA margin expansion of +120bp due to efficiencies in administrative expenses and advertising optimization, followed by Mexico +10bp and counteracting the pressures that continued in South America (-140bp) due to protests in Peru and higher raw material prices. **Results confirm it in our top-picks**: (1) By being able to benefit indirectly in Mexico from higher consumption given the benefits of nearshoring and being better positioned than its competitors (~70% of the activity is concentrated in Ac territories); (2) Economic resilience in the US where demand will be an important growth driver going forward; (3) the expectation of higher earnings due to its distribution strategy and; (4) its operational efficiencies and better scenario for production costs. Besides, valuation remains attractive, where FV/EBITDA multiple decreased from 8.7x to 8.4x. We reiterate BUY.

BUY	
Current Price	$170.51
PT	$190.00
Expected Dividend	$4.00
Dividend (%e)	2.3%
Upside Potential	13.8%
Max – Min 12m	173.8-125.1
Market Cap (US$m)	16,420
Shares Outstanding (m)	1,720.8
Float	25.0%
Daily Turnover ($m)	319.3
Valuation Metrics LTM	
FV/EBITDA	8.4x
P/E	18.2x
MSCI ESG Rating*	A

Relative performance to Mexbol LTM



Financial Statements

	2021	2022	2023E	2024E
Revenue	183,366	207,785	224,556	240,748
Operating Income	25,362	30,587	33,139	36,134
EBITDA	35,405	39,621	43,290	46,882
EBITDA Margin	19.3%	19.1%	19.3%	19.5%
Net Income	12,282	15,503	19,794	22,560
Net Margin	6.7%	7.5%	8.8%	9.4%
Total Assets	258,027	256,300	270,085	272,056
Cash	32,117	27,761	31,396	36,707
Total Liabilities	107,890	108,446	107,663	289,020
Debt	52,529	48,849	50,483	51,311
Common Equity	120,377	117,625	130,470	130,583

Source: Banorte

Valuation and Financial metrics

	2021	2022	2023E	2024E
FV/EBITDA	9.9x	8.7x	7.9x	7.3x
P/E	24.5x	18.9x	14.8x	12.7x
P/BV	2.5x	2.5x	2.5x	2.5x
ROE	10.2%	13.2%	15.2%	17.3%
ROA	4.8%	6.0%	7.3%	8.3%
EBITDA/ interest	15.4x	23.2x	22.9x	22.4x
Net Debt/EBITDA	0.6x	0.5x	0.4x	0.3x
Debt/Equity	0.4x	0.4x	0.4x	0.4x

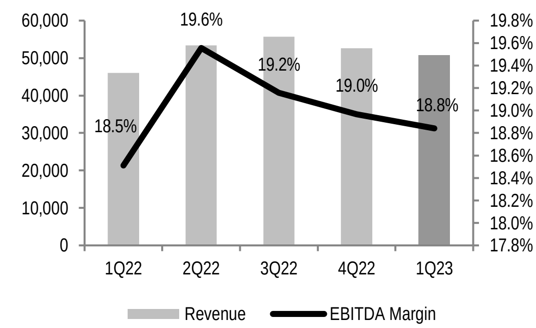
AC – 1Q23 results
MXN, million

Concept	1Q22	1Q23	Var %	1Q23e	Diff % vs Estim.
Revenue	46,065	50,684	10.0%	50,291	0.8%
Operating Income	6,282	7,386	17.6%	6,875	7.4%
Ebitda	8,527	9,550	12.0%	9,277	2.9%
Net Income	3,094	3,731	20.6%	3,564	4.7%
Margins					
Operating Margin	13.6%	14.6%	0.9pp	13.7%	0.9pp
Ebitda Margin	18.5%	18.8%	0.3pp	18.4%	0.4pp
Net Margin	6.7%	7.4%	0.6pp	7.1%	0.3pp
EPS	$1.81	$2.24	>500%	$2.13	5.5%

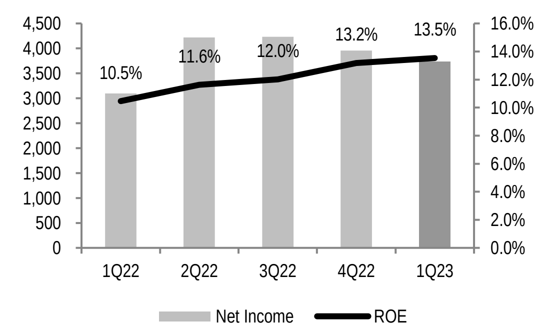
Income Statement					
Year	2022	2022	2023	Change	Change
Quarter	1	4	1	% y/y	% q/q
Net Revenue	46,065	52,635	50,684	10.0%	-3.7%
Cost of goods sold	25,456	28,742	27,627	8.5%	-3.9%
Gross profit	20,608	23,893	23,057	11.9%	-3.5%
General expenses	14,326	16,134	15,672	9.4%	-2.9%
Operating Income	6,282	7,759	7,386	17.6%	-4.8%
Operating Margin	13.6%	14.7%	14.6%	0.9pp	(0.2pp)
Depreciation	2,245	2,224	2,164	-3.6%	-2.7%
EBITDA	8,527	9,983	9,550	12.0%	-4.3%
EBITDA Margin	18.5%	19.0%	18.8%	0.3pp	(0.1pp)
Interes income (expense) net	(920)	(836)	(893)	-3.0%	6.8%
Interest expense	723	766	846	17.0%	10.4%
Interest income	179	490	575	221.0%	17.2%
Other income (expenses)			(164)	N.A.	N.A.
Exchange Income (loss)	(254)	(366)	(458)	80.4%	25.0%
Unconsolidated subsidiaries	80	108	33	-58.9%	-69.6%
Income before taxes	5,442	7,031	6,526	19.9%	-7.2%
Income taxes	1,638	2,315	2,003	22.3%	-13.5%
Discontinued operations					
Consolidated Net Income	3,804	4,716	4,522	18.9%	-4.1%
Minorities	710	760	792	11.6%	4.2%
Net Income	3,093.9	3,956.5	3,730.6	20.6%	-5.7%
Net margin	6.7%	7.5%	7.4%	0.6pp	(0.2pp)
EPS	1.754	2.243	2.115	20.6%	-5.7%
Balance Sheet (Million pesos)					
Total Current Assets	61,388	58,338	59,501	-3.1%	2.0%
Cash & Short Term Investments	34,981	27,761	27,673	-20.9%	-0.3%
Long Term Assets	198,903	197,962	190,460	-4.2%	-3.8%
Property, Plant & Equipment (Net)	68,086	68,317	66,015	-3.0%	-3.4%
Intangible Assets (Net)	59,557	57,914	55,092	-7.5%	-4.9%
Total Assets	260,292	256,300	249,962	-4.0%	-2.5%
Current Liabilities	40,705	42,667	49,203	20.9%	15.3%
Short Term Debt	10,059	7,412	7,866	-21.8%	6.1%
Accounts Payable	29,133	32,737	37,306	28.1%	14.0%
Long Term Liabilities	67,130	65,779	63,428	-5.5%	-3.6%
Long Term Debt	42,066	41,437	39,980	-5.0%	-3.5%
Total Liabilities	107,835	108,446	112,631	4.4%	3.9%
Common Stock	152,456	147,854	147,854	-3.0%	
Preferred Stock	30,197	30,229	28,583	-5.3%	-5.4%
Total Equity	122,259	117,625	119,271	-2.4%	1.4%
Liabilities & Equity	260,292	256,300	260,485	0.1%	1.6%
Net Debt	17,144	21,088	20,172	17.7%	-4.3%
Cash Flow (Million pesos)					
Cash Flow from Operating Activities	9,130	39,552	6,167		
Cash Flow from Investing Activities	(1,417)	(9,669)	(1,738)		
Cash Flow from Financing Activities	(1,897)	(23,511)	(2,046)		
FX effect on cash	3,623	(2,436)	1,954		
Change in Cash Balance	9,130	39,552	6,167		

Source: Banorte, MSE.

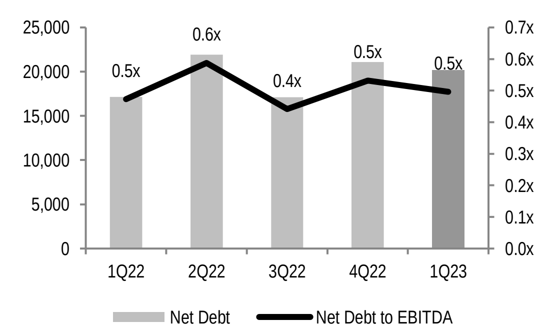
Revenue & EBITDA Margin
MXN, million



Net Income & ROE
MXN, million



Net Debt & Net debt to EBITDA ratio
MXN, million



We remain optimistic about the performance of the beverage industry due to its favorable position in pricing strategies, especially in Mexico, where it has shown that, despite above-inflation increases, demand remains resilient. Meanwhile, given an improved macroeconomic outlook for Arca's two main regions, we've decided to update our estimates and, therefore, raise our price target from MXN 179.00 to MXN 190.00.

The change in our estimates is supported by: (1) The improved GDP outlook for Mexico now at 2.0% y/y vs. 1.5% previously and remembering that Arca's geographic position records higher per capita consumption per state than Kof (~70% of nearshoring activity in Mexico is concentrated in Ac territories). It is important to mention that, although in the US we anticipate a better economic outlook for the country during the first half of the year, we project lower revenues, compared to our previous estimates given the appreciation of the Mexican peso against the dollar. (2) Higher advance in profitability at consolidated level, due to a more beneficial raw material outlook compared to last year, benefiting from both a drop in prices mainly in PET and sweeteners and peso strength (around ~20% of such costs are dollar-denominated).

We continue to highlight the following catalysts for growth in coming years: (1) A broader multi-category portfolio, with new products such as Costa Coffee and alcoholic beverages; (2) Capitalizing on analytical tools, with Yomp, collecting data from market participants and selling this information to other companies such as P&G, coupled with the agreement it made with KO, which opens the possibility of further leveraging its distribution strategy, as well as better pricing from concentrate forward, while its digit apps, *AC digital* and *My Coke,* will continue to drive volume growth in the medium term due to its specialized focus on the traditional channel; and (3) Developing its logistics strategy, using spare truck capacity to distribute a wider range of brands.

We favor its exposure to stronger economies such as the US compared to KOF, although the strength of the peso would mitigate growth. For the US, we foresee a favorable outlook for the first half of the year given that the company has not made any price increases since December, which benefits the recovery of the *on-premise* channel (on-site consumption: restaurants, bars, movie theaters, etc.), supported by improved consumer confidence and a good dynamism in demand. However, it is important to remember that a slowdown in consumption could occur in the second half of the year. As a result, we expect volume growth of 1.5% y/y for 2023, slightly below the estimated GDP of 1.7%. But we anticipate that the company will continue to grow by price, where we expect it to be 200bp above our estimated inflation of 4.3%. Although the region's revenues would be partially offset by a weaker dollar, recalling that the company's dollarized revenues are equivalent to ~36% of consolidated last twelve months.

2023 Estimate Update

Based on the above for our 2023 estimates, we anticipate revenue growth of 8.1% y/y (vs. 9.8% previously), supported by higher volume growth in both Mexico and the US, as well as positive results from pricing strategies.

We also see an improved gross profit outlook, increasing 8.2% y/y (vs. 9.6% previously), with a 45.0% margin and expanding 10bp (vs. 44.7% previously), mainly explained by a decrease in two of its main costs: PET and sugar. Bloomberg consensus anticipates an average price for Brent crude oil (~20% of costs) of US$86.89/barrel in 2023, representing a contraction of 17.3% y/y vs. 2022. For sugar (~28% of costs), an average price in 2023 of US$19.23 is estimated, which would mean a drop of 4.0% y/y vs. 2022.

Therefore, by assuming a scenario of lower production costs, a better outlook for the Mexican peso, and operating efficiencies, we anticipate EBITDA growth of 9.3% y/y (vs. 12.5% previously), reflecting an expansion in the respective margin of 21bp to 19.3%.

Finally, we expect a 27.5% y/y increase in net income, which is explained by operating performance and a much lower foreign exchange loss compared to the previous year (-72.0% y/y) derived from a possible 4.3% y/y peso appreciation against the US dollar by the end of 2023.

Broken down by region

Mexico

	2023e	% YoY	2024e	% YoY
Beverage volume	1,352	2.6%	1,383	2.0%
Average Price per MUC	67.71	8.0%	70.76	4.5%
Net Sales	91,698	10.8%	92,955	6.6%
EBITDA	22,589	11.2%	24,239	7.0%
EBITDA Margin	24.7%	0.1pp	25.4%	0.1pp

US

	2023e	% YoY	2024e	% YoY
Beverage volume	454	1.5%	354	1.2%
Average Price per MUC	172.9	6.2%	181.5	5.0%
Net Sales	78,618	7.8%	80,325	6.0%
EBITDA	11,950	8.4%	12,737	6.6%
EBITDA Margin	15.2%	0.1pp	15.3%	0.1pp

South America

	2023e	% YoY	2024e	% YoY
Beverage volume	632	5.0%	665	2.5%
Net Sales	42,107	9.0%	45,896	9.0%
EBITDA	8,236	9.0%	9,041	9.8%
EBITDA Margin	19.6%	0.0pp	19.7%	0.1pp

Consolidated figures

	2023e	% YoY	2024e	% YoY
Net Sales	224,556	8.1%	241,840	7.8%
EBITDA	43,290	9.3%	47,049	8.7%
EBITDA Margin	19.3%	0.2pp	19.5%	0.2pp

*Millions of pesos, except volume (millions of unit cases) and price (average price per unit)

We highlight Ac's dividend distribution

Arca's dividend distribution has been ahead of Coca Cola Femsa, which in the last two years has paid extraordinary dividends, returning ~80% of net income to its shareholders. The company has already distributed this year a cash dividend of 39% of net income, equivalent to MXN 3.50 per share; however, given the company's policy of no mergers and acquisitions this year, the company could distribute an extraordinary dividend at year-end of ~ MXN 4.00 per share. Which in total would be equivalent to a yield of 2.3% on the current price.

Valuation and target price

We set a target price of MXN 190.00, with a BUY recommendation. We are updating our discounted free cash flow (DCF) valuation model, considering a discount rate (WACC) of 11.1%, assuming a cost of debt of 7.0% and a cost of capital (CAPM) of 12.3%. Likewise, for the latter we consider a risk-free rate of 9.0% (year-end yield to maturity of the 10-year Mbono), decreasing from the previous estimate of 9.7%, while maintaining a beta of 0.6. Similarly, we lower the market risk premium by 5.5% compared to the previous 6.0% due to: (1) Mexico's improved GDP growth outlook, excelling vs. the US for the second consecutive year; (2) greater investor confidence, which has translated into higher investment due to strategies that increasingly underpin the benefits of nearshoring; and (3) the end of the restrictive cycle by Banxico.

As for terminal value, we assume a FV/EBITDA multiple of 8.5x, slightly unchanged from the current multiple of 8.4x and improving vs. 7.9x used in our previous calculation. In our view, this multiple is justified due to: (1) the improvement in profitability going forward; (2) a better outlook for the Mexican economy; (3) a better positioning relative to its peers, indirectly benefiting from higher consumption due to nearshoring benefits; (4) the economic resilience of the US, where consumption continues to be an important growth driver; and (5) the expectation of better earnings going forward given the timing of its proposed distribution strategy and organic growth.

Based on the above, we obtain a target price per share of MXN 190.00 (vs. MXN 179 previously), which would represent a 2023e FV/EBITDA multiple of 8.6x and 2024e of 8.1x, being below the average of the last three years at 8.8x. Our price target offers a yield of 13.8% over the current price, so we reiterate our BUY recommendation.

Discounted free cash flow

FREE CASH FLOW

	2023e	2024e	2025e	2026e	2027e	2028e	2029e	TV
(+) EBITDA	43,290	46,882	48,758	50,708	52,584	54,530	56,547	
(-) Working Capital	(648)	6,875	(975)	(1,014)	(1,052)	(1,091)	(1,131)	
(-) Capex	(14,500)	(12,037)	(12,399)	(12,770)	(13,154)	(13,548)	(13,955)	
(-) Taxes	(9,221)	(10,167)	(10,239)	(10,649)	(11,043)	(11,451)	(11,875)	
(=) Free Cash Flow	18,921	31,552	25,145	26,275	27,336	28,440	29,587	
(+) Perpetuity	0	0	0	0	0	0	0	499,878
(=) FCFF	18,921	31,552	25,145	26,275	27,336	28,440	29,587	499,878

Risk Free Rate	9.0%	(+) FCF's Present Value	118,490
		(+) Perpetuity Present Value	239,620
Market Risk Premium	5.5%	**= Enterprise Value**	**358,111**
Beta	0.6	(+) Other investments	
CAPM	**12.3%**	(-) Net Debt	(20,172)
		(-) Minority interest	
Cost of debt	7.0%	**(=) Equity Value**	**337,938**
Tax rate	30%	Shares Outstanding	1,764
Net Debt Cost	**4.9%**		
Debt / Capital	16.0%	Price target $	**190.00**
		Current Price	164.63
WACC	**11.1%**	Upside Potential	15.4%
Perpetuity	4.9%		
EBITDA multiple	8.5x		

Source: Banorte

Relative valuation

Firm	Equity Value (US$m)	Enterprise Value (US$m)	P/VB	P/E			FV/EBITDA			Dividend
				LTM	2022E	2023E	LTM	2022E	2023E	Yield
COCA-COLA FEMSA SAB DE CV	17,471	20,060	2.8x	15.8x	15.2x	13.3x	8.4x	7.5x	6.7x	3.8%
ARCA CONTINENTAL SAB DE CV	16,420	19,199	2.5x	18.2x	14.8x	12.7x	8.4x	7.9x	7.3x	4.1%
COCA-COLA CONSOLIDATED INC	5,349	5,907	5.0x	12.5x			7.0x			0.4%
EMBOTELLADORA ANDINA-PREF B	2,194	3,142	2.1x	14.0x	10.4x	9.1x	6.3x	5.2x	4.9x	8.1%
COCA-COLA EMBONOR SA-B	595	913	1.1x	6.0x			4.3x			9.9%
Average American Bottlers	*8,406*	*9,844*	*2.7x*	*13.3x*	*13.5x*	*11.7x*	*6.9x*	*6.9x*	*6.3x*	
Median American Bottlers	*5,349*	*5,907*	*2.5x*	*14.0x*	*14.8x*	*12.7x*	*7.0x*	*7.5x*	*6.7x*	
COCA-COLA EUROPEAN PARTNERS	29,265	36,761	3.6x	16.3x	16.2x	15.0x	12.7x			2.3%
COCA-COLA HBC AG-DI	7,135	9,452	3.1x	24.0x	15.9x	14.2x	9.9x	8.3x	7.7x	2.9%
COCA-COLA ICECEK AS	3,090	3,538	3.0x	13.9x	8.2x	5.7x	3.2x	4.2x		1.2%
ANADOLU EFES BIRACILIK VE	1,946	4,215	1.5x	11.0x	8.1x	5.0x	4.9x	3.4x		1.7%
Average Europe Bottlers	*10,359*	*13,491*	*2.8x*	*16.3x*	*12.1x*	*10.0x*	*7.6x*	*5.3x*	*7.7x*	
Median Europe Bottlers	*5,113*	*6,833*	*3.0x*	*15.1x*	*12.0x*	*9.9x*	*7.4x*	*4.2x*	*7.7x*	
COCA-COLA BOTTLERS JAPAN HOL	2,235	2,955	0.5x				11.5x	9.0x	7.7x	3.5%
HOKKAIDO COCA-COLA BOTTLING	236	178	0.8x	56.5x			8.7x			1.0%
HAAD THIP PUBLIC CO LTD	200	214	1.8x	15.7x	11.0x	9.6x	8.4x	6.9x	6.2x	5.7%
SWIRE PACIFIC LTD	10,342	25,656	0.3x	23.5x	9.4x	8.3x	12.8x	10.9x	10.1x	5.0%
Average Asia/Oceania	*3,253*	*7,250*	*0.9x*	*31.9x*	*10.2x*	*8.9x*	*10.4x*	*8.9x*	*8.0x*	
Median Asia/Oceania	*1,235*	*1,584*	*0.7x*	*23.5x*	*10.2x*	*8.9x*	*10.1x*	*9.0x*	*7.7x*	
Average Global Bottlers	*7,174*	*8,878*	*2.1x*	*20.7x*	*12.6x*	*10.9x*	*7.9x*	*7.1x*	*7.4x*	
Median Global Bottlers	*2,663*	*3,876*	*2.2x*	*15.7x*	*11.0x*	*9.6x*	*8.7x*	*7.9x*	*7.6x*	
ARCA CONTINENTAL SAB DE CV	16,420	19,199	2.5x	18.2x	14.8x	12.7x	8.4x	7.9x	7.3x	4.1%
Premium(+)/Discount(-) vs Average			16.2%	-12.1%	17.5%	16.7%	7.0%	10.9%	-0.8%	

Source: Bloomberg (27/04/23).

Certification of Analysts.

We, Alejandro Padilla Santana, Juan Carlos Alderete Macal, Alejandro Cervantes Llamas, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Katia Celina Goya Ostos, Francisco José Flores Serrano, José Luis García Casales, Víctor Hugo Cortes Castro, José Itzamna Espitia Hernández, Carlos Hernández García, Leslie Thalía Orozco Vélez, Hugo Armando Gómez Solís, Yazmín Selene Pérez Enríquez, Cintia Gisela Nava Roa, Miguel Alejandro Calvo Domínguez, Daniela Olea Suárez, José De Jesús Ramírez Martínez, Gerardo Daniel Valle Trujillo, Luis Leopoldo López Salinas, Isaías Rodríguez Sobrino, Paola Soto Leal, Daniel Sebastián Sosa Aguilar and Andrea Muñoz Sánchez, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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Analysts' compensation is based on activities and services that are aimed at benefiting the investment clients of Casa de Bolsa Banorte and its subsidiaries. Such compensation is determined based on the general profitability of the Brokerage House and the Financial Group and on the individual performance of each analyst. However, investors should note that analysts do not receive direct payment or compensation for any specific transaction in investment banking or in other business areas.

Last-twelve-month activities of the business areas.

Grupo Financiero Banorte S.A.B. de C.V., *through its business areas, provides services that include, among others, those corresponding to investment banking and corporate banking, to a large number of companies in Mexico and abroad. It may have provided, is providing or, in the future, will provide a service such as those mentioned to the companies or firms that are the subject of this report. Casa de Bolsa Banorte or its affiliates receive compensation from such corporations in consideration of the aforementioned services.Over the course of the last twelve months, Grupo Financiero Banorte S.A.B. C.V., has not obtained compensation for services rendered by the investment bank or by any of its other business areas of the following companies or their subsidiaries, some of which could be analyzed within this report.*

Activities of the business areas during the next three months.

Casa de Bolsa Banorte, Grupo Financiero Banorte or its subsidiaries expect to receive or intend to obtain revenue from the services provided by investment banking or any other of its business areas, by issuers or their subsidiaries, some of which could be analyzed in this report.

Securities holdings and other disclosures.

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Guide for investment recommendations.

	Reference
BUY	*When the share expected performance is greater than the MEXBOL estimated performance.*
HOLD	*When the share expected performance is similar to the MEXBOL estimated performance.*
SELL	*When the share expected performance is lower than the MEXBOL estimated performance.*

Even though this document offers a general criterion of investment, we urge readers to seek advice from their own Consultants or Financial Advisors, in order to consider whether any of the values mentioned in this report are in line with their investment goals, risk and financial position.

Determination of Target Prices

For the calculation of estimated target prices for securities, analysts use a combination of methodologies generally accepted among financial analysts, including, but not limited to, multiples analysis, discounted cash flows, sum-of-the-parts or any other method that could be applicable in each specific case according to the current regulation. No guarantee can be given that the target prices calculated for the securities will be achieved by the analysts of Grupo Financiero Banorte S.A.B. C.V, since this depends on a large number of various endogenous and exogenous factors that affect the performance of the issuing company, the environment in which it performs, along with the influence of trends of the stock market, in which it is listed. Moreover, the investor must consider that the price of the securities or instruments can fluctuate against their interest and cause the partial and even total loss of the invested capital.

History of PT and ratings

Stock	Date	Rating	PT
AC	04/27/23	BUY	$190.00
AC	10/26/22	BUY	$179.00
AC	09/19/22	BUY	$156.42

MSCI ESG Rating scale

CCC	B	BB	BBB	A	AA	AAA
LAGGARD		AVERAGE			LEADER	

*MSCI ESG Rating is an indicator that evaluates companies in Environment, Social and Governance (ESG) metrics.

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