



## Unusual Call Buy in Coca Cola FEMSA

Ticker/Price: KOF (\$62.75)

### Analysis:

**Coca Cola FEMSA (KOF)** unusual activity on 2/4 as 1800 August \$60 calls bought to open \$5.10 to \$5.90, and later in the day 500 February \$60 calls bought \$2.90 to \$3.30. Call activity was around 50X daily average and becomes the only notable open interest in the name. KOF is a name that made a parabolic move 2009-2013 peaking near \$165 and has since pulled back steadily and since 2018 been forming a monthly basing pattern while RSI is putting in higher lows showing a bullish divergence. A move above \$68 would free shares up for a move back to \$80 or higher. The \$3.35B company is a franchise bottler of Coca-Cola beverages in Mexico, South American and Central America. KOF shares currently trade 8.1X EV/EBITDA, 16.8X Earnings, and 2X Book with a 2.95% dividend yield, a value name. Forecasts expect EBITA growth of 9% in FY20, among its highest annual rate of growth in the last eight years while revenues seen rising 7%. KOF serves 257M customers with 49 plants and 275 distribution centers. It has a leadership position in water and driving it low and no-sugar footprint. KOF has seen an impressive turnaround in its Brazilian business which is posting solid volume growth. It has undergone multiple efficiency programs and is now digitizing processes. Analysts have an average target of \$72 on shares and short interest very low at 0.2% of the float near multi-year lows. Analysts have been out positive recently with BAML upgrading to Buy in November, Citi upgrading to Buy on 1/7, and Goldman upgrading to Buy on 1/22. Goldman sees a stronger contribution from Brazil and very attractive valuation. KOF won a case in November allowing it to continue distribution Heineken in Brazil until March 2022 which gives it plenty of time to prepare for an exit, beer representing 8% of KOF sales. BAML notes "We think KOF should benefit from Brazil's economic recovery, which we believe represents an upside risk to our estimates. We expect Brazil's revenues to grow 12% (CAGR 19-21e) as revenue management and positive execution at the point of sale should support stronger volumes and better price/mix. Also, we think the company should benefit from the positive performance of Heineken beer, which has grown 23% (CAGR17-19e)." Bill & Melinda Gates Trust holds KOF as the 10<sup>th</sup> largest position.

### Hawk Vision:



**Hawk's Perspective:** KOF is an attractive value/yield name and also a long monthly base with clear upside, a good looking buy versus the 50 MA.

Confidence Ranking: \$\$