COMPANY UPDATE

Kri-Kri

Sweet scoop of growth; US entry bolsters outlook

Material profit re-set affirmed; strong profit compounder thanks to international expansion; Buy – KRI has been building on its dominance in the Greek market expanding its foreign footprint (intl sales >50% of the mix in 2024e), thus growing volumes strongly (20% in 2024e) while improving mix (e.g. protein yogurt in European markets, entry into the US through frozen yogurt). The latter is set to unlock additional growth avenues through PL partnerships. Following on from the impressive execution in H1 (EBIT +2% on very tough comps), we have lifted our numbers materially (14-17% at EBIT level in 2024-26e) envisaging EBIT settling at over €40m in 2024e. We model double digit EBIT growth for 2025e and high single digit thereafter, predicated on low-teens volume growth only partly offset by mild gross margin erosion. We envisage EBIT margins stabilizing near the 16% area in the coming years, lower than the ultra-high margins of 18.6% in 2023 but 2pps above the cross-cycle margins of food manufacturers thanks to Kri-Kri's operational efficiency and continued focus on cost control. The sustainable high-single digit EBIT growth seems quite a compelling proposition, with risks to our numbers positively skewed in case of successful penetration in the US. With the stock still at <8.5x 2025e EV/EBITDA, we argue that the current valuation does not capture the very strong earnings profile (10% EBIT CAGR over 2024-27e), thus reiterating our Buy.

Impressive H1'24 results, lifting of guidance – H1'24 revenue increased 16% yoy driven by strong volume growth (c15-20% across the yogurt and ice cream segments), only partially offset by lower pricing (c3%). Despite a c2pps gross margin erosion, EBIT increased 2.2%, reaching €26.9m, materially better than the €1.5m decline we had incorporated in our previous estimates. In light of the strong execution, management raised the FY guidance, calling for 16% EBIT margins on sales >€245m. Effectively, this boils down to FY24 EBIT slightly higher than the record 2023, and some 2.3x the respective 2019 level, a material profit reset vs prior years.

Internally funded augmented investment plan; scope for heftier cash returns – In light of the higher growth prospects, management has revised its capex envelope for the coming years guiding for €50m investments over 2025-2027e in order to double production capacity. These investments are set to be funded through organic OCF, thanks to Kri-Kri's strong cash-generating ability (>70% conversion of EBITDA into OCF over the past 7 years). Further optionality is provided by the robust and debt-free balance sheet, with 2024e net cash at €19m on our numbers. Our model assumes a c36% dividend payout ratio, with KRI building further war chest in the coming years for accretive investments or heftier cash returns.

Valuation: increasing PT to €16.6; High-conviction Buy – As a result of the material profit uplift and the roll-over of our valuation to Nov 2025, we raise our PT to €16.6, effectively valuing KRI at c10x 2025e EV/EBITDA, namely more in symphony with the valuation of foreign peers, as we argue that KRI's superior growth offsets the drawback of the smaller size and liquidity. We reiterate our high-conviction Buy, finding the valuation palatable given the stock is trading at <8.5x 2025e EV/EBITDA, namely c15% discount vs foreign peers despite offering superior growth.

Estimates					
EURm unless otherwise stated	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Revenues	171.9	216.3	250.3	284.4	309.3
Adj. EBITDA	8.9	45.1	45.8	52.2	56.3
Net Profit reported	3.2	32.3	38.0	39.2	41.7
EPS (EUR)	0.10	0.98	1.15	1.19	1.26
DPS (EUR)	0.20	0.35	0.41	0.43	0.45

Valuation					
Year to end December	**2022**	**2023**	**2024e**	**2025e**	**2026e**
P/E	67.0x	10.0x	11.9x	11.5x	10.8x
EV/EBITDA	24.9x	6.7x	9.4x	8.1x	7.3x
EBIT/Interest expense	15.3x	100.4x	96.2x	89.6x	119.3x
Dividend Yield	3.1%	3.6%	3.0%	3.1%	3.3%
ROE	3.9%	35.2%	32.2%	27.3%	24.5%

Recommendation	**BUY**
Target Price	**€ 16.60**
Prior Target Price	**€13.60**
Closing Price (4/11)	€13.65
Market Cap (mn)	€451.3
Expected Return	21.6%
Expected Dividend	3.0%
Expected Total Return	24.6%

Kri-Kri Share Price

Stock Data

Reuters RIC	KRIr.AT
Bloomberg Code	KRI GA
52 Week High (adj.)	€14.55
52 Week Low (adj.)	€8.12
Abs. performance (1m)	4.2%
Abs. performance (YTD)	42.5%
Number of shares	33.1mn
Avg Trading Volume (qrt)	€512k
Est. 3yr EPS CAGR	8.9%
Free Float	27%

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See Appendix for Analyst Certification and important disclosures.

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Investment Summary

One of the leading dairy companies in Greece, with increasing international footprint, value-oriented offering and market leading position in the domestic market thanks to strong branded share and dominance in private label

Kri-Kri is one of the leading Greek dairy producers, specializing in the production and selling of yogurt and ice-cream. The main value driver for the group is the yogurt segment, which accounts for c79% of revenues and is set to be a key value creation pillar given increasing international demand for Greek yogurt and subsequent rise in yogurt exports. The business model is based on the provision of a quality offering at affordable prices, an increasing focus on niche categories underpinned by innovation, an extensive distribution network in Greece (local distributors and supermarket chains) and proximity to raw materials guaranteeing the freshness and quality of products while keeping a lid on production costs. Kri-Kri is also a dominant player in the Greek yoghurt private label (PL) market accounting for the bulk of volumes produced for retailers, thus being insulated from PL competition evident in other markets while enjoying consistent market share gains. Geographically, the portfolio is currently balanced (with c50% of revenues generated from exports) but is set to become increasingly skewed toward international markets as Kri-Kri strengthens its footprint in key markets (e.g. UK, Italy) and taps new markets (e.g. US, France).

Kri-Kri's categories poised for mid-single digit growth on our estimates, underpinned by niches and innovation

In general, the yoghurt market is a segment with tepid volume growth, at least for the mainstream strained category, but offering scope for growth in niches such as kids/infants, protein and lactose-free as consumers become more health conscious and the popularity of yogurt as a stand-alone snack increases. On the other hand, price/mix has scope to be slightly positive, mainly on the back of mix initiatives, and as such our analysis suggests Greek yoghurt internationally can be a mid-single digit category. In Greece, the market looks rather mature but with Kri-Kri having a solid track record of gaining share at the expense of competitors even in the branded category (KRI's branded value share is >16%). As for ice-cream, the market is positioned for c4% growth (value) internationally, but we reckon prospects for Greece are rosier given the outlook for inbound tourism (c2-3% growth through to 2030e), climate conditions (extension of the summer period) and innovation (e.g. Frozen Yogurt).

Strong track record of 16% revenue CAGR over 2015-23, on robust volume growth and positive price/mix; we see high single digit volume and sales growth as sustainable in the coming years

Contrary to the case for foreign dairy companies, Kri-Kri has a history of very strong organic growth both in terms of volumes (c57% growth over 2019-2023) and price/mix (positive in most years). Overall, total sales have grown at an impressive 16% CAGR over 2015-23 thanks to c31% average annual growth in exports further underpinned by c9% CAGR in Greece. This compares with the <4% organic sales growth delivered by Danone over the same period, indicative of Kri-Kri's growth momentum and prospects. Looking ahead, following a stellar 2023 with 2-digit volume growth further boosted by pricing/mix (+12%), we model a rolling-off of pricing initiatives taken in the previous 2 years, and, as such anticipate c3.8% price/mix dilution in 2024e. However, this will be offset by c20% volume growth on our estimate, thus leading to a c16% increase in revenues despite the tough comp. Looking further out, we expect Kri-Kri to sustain double digit sales growth in 2025e and stay on a sustainable (at least) high single digit volume growth trajectory in the coming years with stable price/mix, thus ending up with sales growth in the high single digits over 2026-27e. We see further optionality to this path stemming from Kri-Kri's foray into the US market through a frozen yogurt offering (with our estimates including a conservative contribution at the current juncture).

Following a record 2023, we expect partial pricing unwind in 2024; slight margin contraction but 2024e EBIT to remain near record 2023 levels (+0.5%) on the back of robust volume growth

On the profit front, with COGS accounting for >70% of total costs, it becomes evident that KRI is prone to swings in raw material prices. This was indicative in 2022 when the spike in raw milk prices coupled with record energy costs led to a 12ppt erosion in gross margins. The latter more than fully reversed in 2023 (gross margins +15ppts) thanks to the combination of pricing and simultaneous easing of cost inflation, but we expect a partial unwinding in 2024e as price/mix normalizes (2024e gross margins -2ppts). Contrary to our initial estimates of an EBIT decline in 2024e to €35m (-14%), execution has been stellar so far (H1 EBIT +2% yoy), and as such, we have raised our numbers materially (c14% for 2024e EBIT), now anticipating slight yoy growth in 2024 (EBIT €40.5m, +0.5% yoy), with profitability cementing at >2x the level of 2019, corresponding to a material profit reset for the group. We expect 2-digit growth in 2025e on strong volume growth, with the EBIT growth algorithm settling in the high single digits annually in 2026-27e as EBIT margins stay near c16%, at the high end among EU peers, underpinned by cost efficiencies.

Capacity expansion to be funded by internally generated cash flow; solid FCF generation provides optionality and leaves scope for hefty shareholder returns

Kri-Kri has been a consistent cash generator converting >70% of EBITDA into operating cash flow in the previous 7 years. This high cash generation has enabled the company to use internal cash flow to invest in the business, without leveraging the balance sheet. Indicatively, capex/sales has averaged near c8% since 2015 absorbing just part of the operating cashflow, thus leading to €33m total equity FCF over 2015-22, with another €36m delivered in 2023 alone and an extra €11m in 2024e by our math. The cash generative characteristics of the business are validated by sector-leading – within an international context – returns (ROE to be sustained above 20% from 2023 onwards) and an ungeared financial position (net cash c€19m in 2024e). We believe this paves the way for a compelling shareholder remuneration policy in the future, with our assumed c36% payout leaving room for heftier returns to shareholders or more aggressive expansion internationally.

Despite last year's rally, the valuation looks palatable given the superior growth vs peers

Despite the rally over the past year (+67%) and ytd (+47%), Kri-Kri still trades at <8.5x 2025e EV/EBITDA, namely c15% discount vs food manufacturing and dairy peers. This is notwithstanding Kri-Kri's superior growth profile, higher returns, stronger financial position and balance sheet deployment optionality. Our DCF-based valuation, predicated on a 9.7% WACC, generates a PT of €16.6 per share, effectively valuing the group at c10x 2025e EV/EBITDA, in line with its dairy peers as we argue that the superior growth should make up for the drawback of the company's smaller size/liquidity.

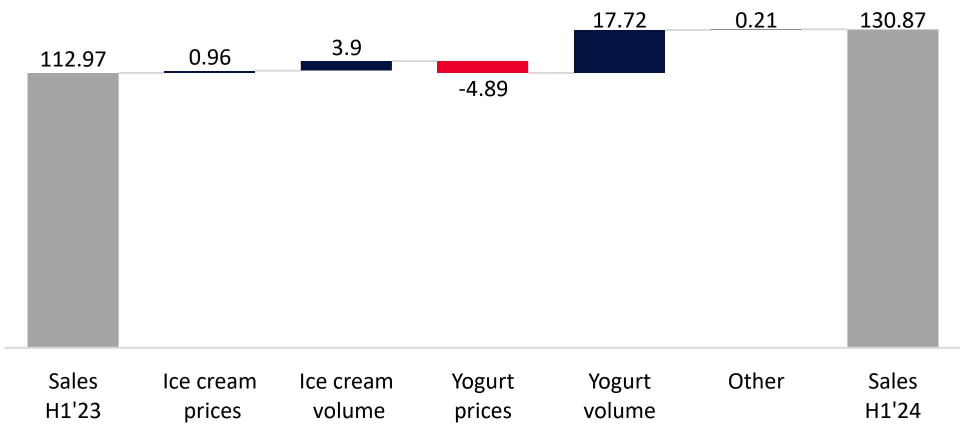
H1'24 overview

Kri-Kri reported strong H1'24 results above our estimates, with top line growth at 15.8% yoy (€130.9m) driven by strong volume growth in both the yogurt and ice cream segments, only partially offset by lower selling prices. In more detail by sector:

Yogurt sales increased by +14.5% in value and +19.7% in volume. In international markets, yogurt sales exhibited strong double-digit growth of +27.8%, exceeding €63m, with exports now accounting for more than 62% of total yogurt sales. In the domestic Greek yogurt market, sales reached €37.8m, decreased by 2.4% in value but up 4.8% in volume. In general, there seems to be a shift of local market towards PL yogurts, which bodes well for Kri-Kri's PL market share (+1.4 points). This dynamic was partly offset by a 1.0ppt loss in the branded yogurt category (Kri at 15.4% share), but with an overall positive effect given KRI's dominance in private label.

In the **ice cream** segment, domestic sales posted a strong 20.1% yoy increase, reaching €21.9m compared to €18.2m in H1'23. This growth was supported by favorable weather, an extended tourist season, expansion of the sales network, and new product launches. That said, management expects ice cream sales growth to decelerate for the remainder of the season.

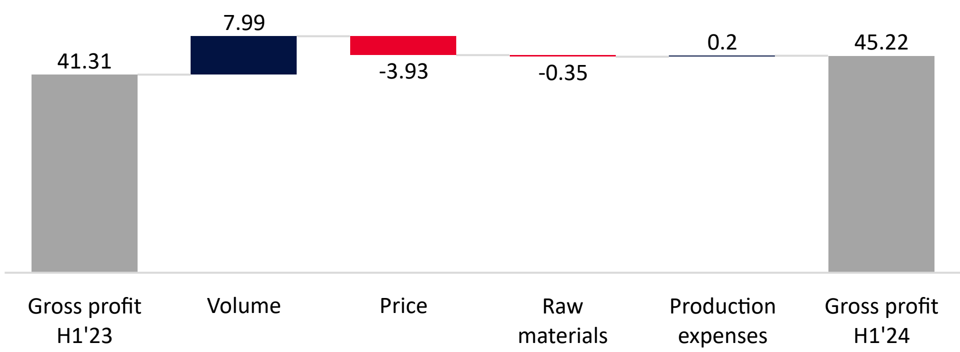
Kri-Kri's sales bridge in €m



Source: Eurobank Equities Research, Company data.

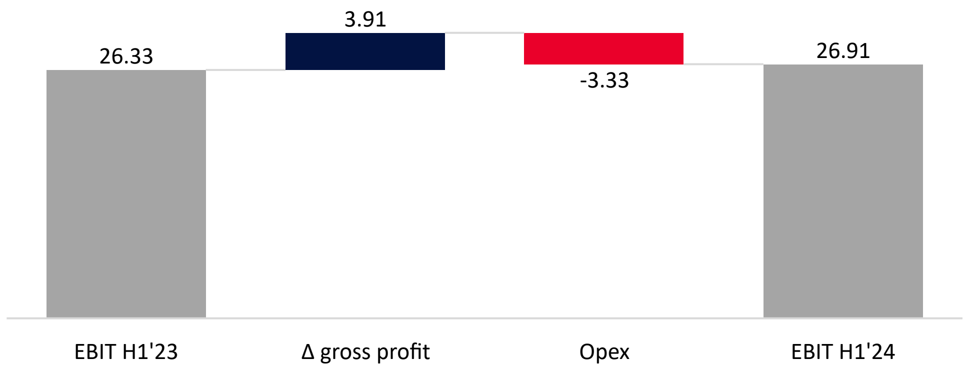
On the margin font, lower price/mix (-3% by our math) led to a modest gross margin contraction of 2.0ppt (to 34.5% vs 36.6% in H1'23). Despite this erosion, gross profit increased by €3.9m thanks to volume growth. Operating profitability increased by €0.6m (2.2% YoY), reaching €26.9m, with an EBIT margin of 20.6%, down from 23.3% in H1'23. **This came in materially better than our projection (€1.5m decline) and indicates a far more robust performance than the outlook embedded in our initial FY24e (c€5m yoy EBIT drop).**

Kri-Kri's gross profit bridge in €m



Source: Eurobank Equities Research, Company data.

Kri-Kri's EBIT bridge in €m



Source: Eurobank Equities Research, Company data.

Net profit settled at €26.3mn, +24% yoy also propelled by tax exemptions.

From a cashflow perspective, the company strengthened its **net cash position** to €21.3m, up from €17m in Q1 and little-changed vs the December 2023 position, despite higher working capital needs for the summer period. As such, FCF was just slightly positive during H1. We remind that H2 cash will be diluted by the €11.6m dividend payment (in Q3).

KRI-KRI | H1'24 results overview

EURm	H1'23	H1'24	yoy	Q2'23	Q2'24	yoy
Revenues	113.0	130.9	15.8%	67.1	78.4	16.9%
- of which Greece	56.8	59.7	5.2%	35.7	38.3	7.3%
- Yogurt	38.8	37.8	-2.4%	21.2	20.1	-5.3%
- Ice cream	18.2	21.9	20.1%	14.5	18.2	25.7%
- of which Int'l	55.2	69.9	26.7%	30.8	39.4	28.0%
- Yogurt	49.5	63.3	27.8%	26.6	34.1	28.3%
- Ice cream	5.7	6.6	17.1%	4.2	5.3	26.1%
- other	1.0	1.2		0.6	0.7	
Gross profit	41.3	45.2	9.4%	26.3	28.6	8.9%
Gross margin	*36.6%*	*34.5%*	-2.0 pps	*39.2%*	*36.5%*	-2.7 pps
Opex	-15.4	-18.8	21.4%	-8.7	-10.5	21.0%
Other income	0.5	0.4		0.2	0.2	
EBIT	26.3	26.9	2.2%	17.8	18.3	2.7%
Net financial expense	-0.2	0.1	-196.2%	-0.1	0.0	-138.3%
PBT	26.2	27.1	3.3%	17.7	18.3	3.5%
- Tax	-5.0	-0.7		-3.2	1.2	
Tax rate	19.1%	2.7%		18.1%	-6.4%	
Net profit	21.2	26.3	24.2%	14.5	19.5	34.4%
D&A (excl. amortization of govt grants)	-2.4	-2.7		-1.2	-1.4	
EBITDA	28.7	29.6	3.2%	19.0	19.7	3.5%
EBITDA margin	*25.4%*	*22.6%*	-2.8 pps	*28.3%*	*25.1%*	-3.2 pps
EURm	**FY'23**	**H1'24**				
Net debt / (cash) incl. fin. assets	-20.8	-21.3				

Source: Company, Eurobank Equities Research

Estimates and main assumptions overview

Following the impressive performance in H1'24, we have revised our numbers, taking into account the insights provided by management regarding their entry into the U.S. market with frozen yogurt products, as well as their expansion strategy in European markets with protein-based products.

Double digit top line growth for 2025e, high single digit growth thereafter

In short, our projections are framed around volume-driven growth in the low teens in 2024-25e and in the high single digits in 2026-27e, supported by Kri-Kri's expanding international footprint and increasing penetration of its private label offerings. Growth in niche segments, such as branded high-protein products, and the company's entry into the U.S. market with frozen yogurt, further underpin this outlook. We expect the price-driven margin gains seen in 2023 to normalize (partially) in 2024e. However, with volume growth continuing unfettered and with input costs (mainly milk) having settled in the last few months, we anticipate a modest EBIT increase of +0.5% in 2024e despite the record profitability cycled in 2023. We expect EBIT growth to return to double digits in 2025, followed by high single-digit growth thereafter, with EBIT margins stabilizing around 16% over 2024-2026e. This would place Kri-Kri at the high end of the margin spectrum among its EU peers, further aided by cost efficiencies.

Main estimates and assumptions

EURm unless otherwise stated	2022	2023	2024e	2025e	2026e	2027e
Yogurt	**135.0**	**173.6**	**199.4**	**227.6**	**247.5**	**267.7**
yoy	***29.5%***	***28.6%***	***14.9%***	***14.1%***	***8.7%***	***8.1%***
Greece	62.4	76.0	75.6	76.4	77.5	79.0
International	72.6	97.5	123.8	151.2	170.0	188.7
Of which Volume	*16.5%*	*15.3%*	*20.0%*	*14.0%*	*8.0%*	*7.0%*
Of which Price/mix	*13.1%*	*13.3%*	*-5.1%*	*0.1%*	*0.7%*	*1.1%*
Ice cream	**35.8**	**40.7**	**48.8**	**54.6**	**59.6**	**65.1**
yoy	***19.7%***	***13.7%***	***19.9%***	***11.9%***	***9.1%***	***9.2%***
Greece	26.9	32.3	39.2	41.8	43.2	44.9
International	9.0	8.4	9.6	12.9	16.3	20.2
Of which Volume	*10.6%*	*2.3%*	*16.0%*	*12.0%*	*10.0%*	*9.5%*
Of which Price/mix	*9.1%*	*11.4%*	*3.9%*	*-0.1%*	*-0.9%*	*-0.3%*
Group Revenues	**171.9**	**216.3**	**250.3**	**284.4**	**309.3**	**335.0**
yoy	***27.7%***	***25.9%***	***15.7%***	***13.6%***	***8.7%***	***8.3%***
Of which Volume	*15.7%*	*13.7%*	*19.6%*	*13.8%*	*8.2%*	*7.3%*
Of which Price/mix	*12.0%*	*12.1%*	*-3.8%*	*-0.2%*	*0.5%*	*1.0%*
Gross Profit	**31.5**	**72.5**	**78.9**	**89.4**	**96.3**	**104.2**
margin	*18.3%*	*33.5%*	*31.5%*	*31.4%*	*31.1%*	*31.1%*
Opex	-27.4	-32.2	-38.4	-43.3	-46.9	-50.4
Opex/sales	*-16.0%*	*-14.9%*	*-15.4%*	*-15.2%*	*-15.1%*	*-15.0%*
EBIT	**4.0**	**40.3**	**40.5**	**46.1**	**49.4**	**53.8**
margin	*2.3%*	*18.6%*	*16.2%*	*16.2%*	*16.0%*	*16.1%*
EBIT growth	*-75.8%*	*900.1%*	*0.5%*	*13.8%*	*7.3%*	*8.8%*

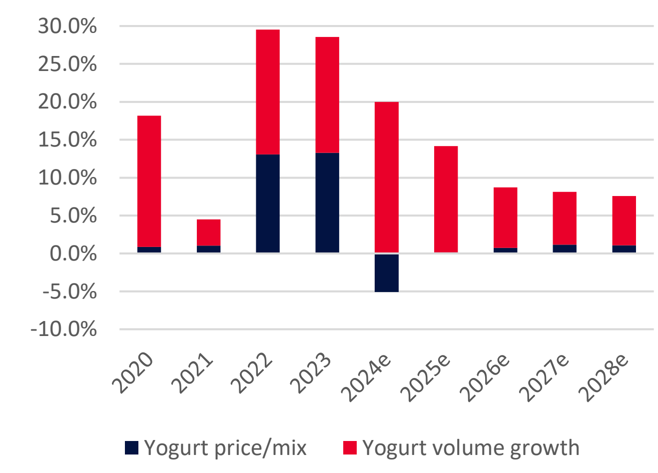
Source: Eurobank Equities Research

As far as revenues are concerned in more detail:

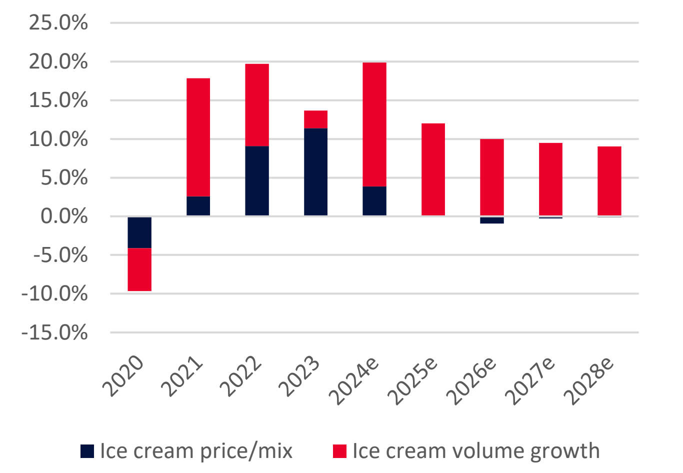
- **Yogurt:** We remind that contrary to the case for international dairy companies, who tend to face high pressures in markets where there is increased private label penetration, Kri-Kri seems to be insulated from intense price decay given its dominance in the private label market (where it accounts for >80% of yoghurt volumes on our numbers). Our assumptions reflect the continuing growth in international sales, fueled by countries such as UK and Italy, with 2024 also boosted by the entry into France. Looking forward, **yogurt international** sales are expected to grow with a CAGR of 15.1% (2024-2027) propelled by expansion of sales in the countries where KRI already has an established footprint, with the recently launched branded protein category further propelling profit margins. Target markets for the latter are UK, Italy, Germany, Belgium and Scandinavia. **In Greece**, the yogurt market is relatively mature, and we model little-changed volumes coupled with a price roll-off in 2024e (c- 4%). As such, we expect the yogurt segment (GR & Int) to deliver a top line CAGR of around 10% for the period 2024-2027, underpinned by Kri-Kri's rising international penetration. Anticipating pricing pressures to fade from 2025 in the home market, we are eyeing stable price/mix in 2025 and moderate growth thereafter.

- **Ice cream:** As indicated by H1'24 results, the group has benefited from sustained growth in inbound tourism and the launch of several new products (noting that ice-cream is currently skewed to the domestic market). Looking ahead, we have incorporated in our numbers the launch of frozen yogurt in US market (already launched in Texas, while there are advanced discussions with major US retailers for private label), with the impact expected to become visible in 2025. We highlight that our projections suggest upside risk and err on the conservative side at the current juncture, with further significant optionality stemming from a potential private label frozen yogurt partnership in the U.S. Our estimates thus include just c€3m extra sales in the US in 2025e, growing c€4m annually beyond this period, which may be understated given the $19b addressable US market. Our projections also exclude potential top-ups stemming from new exports to target markets such as the UK, Japan, and Saudi Arabia. Overall, for KRI's ice cream segment (GR & Int) we project double-digit top-line growth in 2024-25, followed by high single-digit growth through to 2027e, with a relatively stable price mix.

Yogurt growth drivers



Ice cream growth drivers

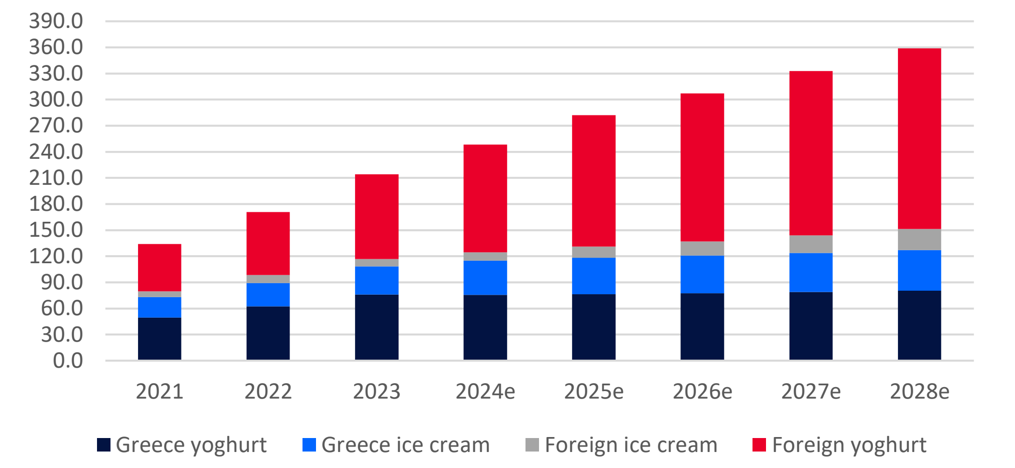


Source: Eurobank Equities Research, Company data.

Overall, international sales are set to surpass domestic sales for the first time in the group's history in 2024e (as indicated by H1'24 results) thanks to rising penetration of Greek style yogurt in Western and Central Europe (Italy, UK, Sweden, Austria), launch of protein yogurt and the ramp-up of new ice cream categories (e.g. frozen yogurt). We expect this trend to strengthen significantly in the coming years, with the company's growth driven primarily by international markets.

Taking all the above into account, we anticipate group revenue growth of c16% in 2024e and 14% in 2025. Post 2026, we envisage revenue growth moderating to a high single digit figure.

Sales mix per product category and geography



Source: Eurobank Equities Research, Company data.

In what follows, we lay out the key assumptions underpinning our model. In more detail:

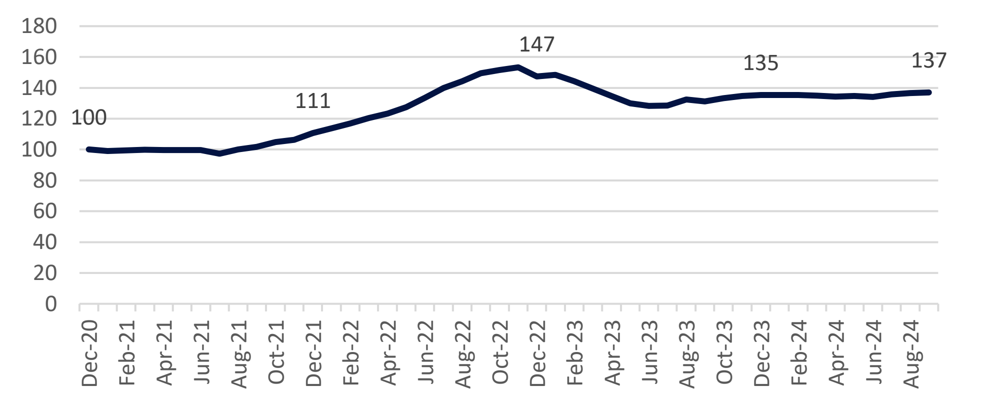
1. Slight compression of gross profit margins due to input costs pressures

We incorporate a modest uptick in input costs during the forecast period coupled with little-changed price/mix, resulting in a slight gross margin contraction. That said, we stress that thanks to positive product mix, which will see rising participation of products with higher margins (such as protein yogurt and ice cream), we do see scope for margin expansion post 2025, depending on the input cost environment and the extent of growth in these two product categories.

On the cost structure front, Kri-Kri's costs mainly comprise raw material, staff, energy, and transportation costs. Naturally, group expenses are closely correlated with fluctuations in raw material prices (i.e. milk prices), which can imprint themselves on the cost base either directly (higher input costs) or indirectly (higher transportation, energy costs).

In the chart below, we display the trajectory of raw milk prices in Greece in the last few years. As can be seen, raw milk cost inflation started to become evident in the aftermath of COVID (2021) and accelerated markedly in the next 2 years. During the last year, prices seem to have returned to normalized levels, some c10% off peak levels, although they do remain cc37% higher than the 2020 mark. Looking ahead, we have assumed an uptick in raw material prices, on average >1% yoy.

Historical GR Price Series of Cow's raw milk in EUR/100 kg (rebased to 100)



Source: Eurobank Equities Research, European Commission – Agriculture and rural development

Considering the above, we have modeled a slight gross margin contraction for the period 2025-2028e by approximately 0.3pps yoy with respective gross profit margin for FY'24 at 31.5% following the 33.5% in 2023.

2. Opex outlook

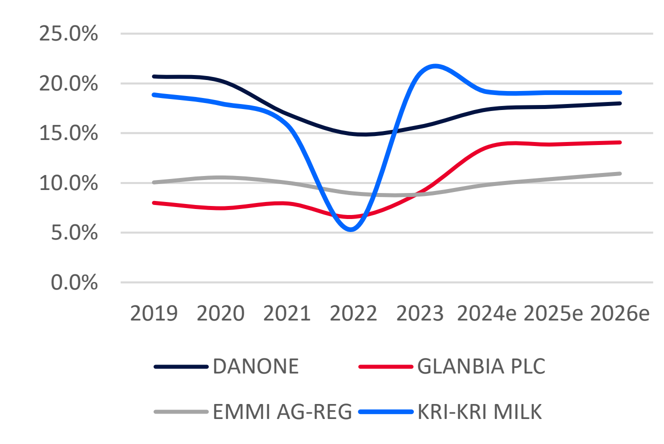
In terms of profitability, we note that during H1'24, the 2pps yoy margin dilution at gross margin level resulted in a 2.7pps contraction in EBIT margins, which however stayed at ultra-high levels, namely at 20.6%. The opex/sales ratio settled just c0.65pps higher yoy in the same period, testament to the tight cost monitoring. As such, in 2024e, we are looking for opex/sales (excl. D&A) settling near 14.6%, just 40bps higher than 2023 levels due to higher staff and transportation costs. We expect this ratio to gradually decrease to 14.0% thanks to the positive pendulum of operating leverage.

More specifically regarding trends in opex, staff costs have increased as a result of two factors, namely: 1) the increase of employees from 462 in Dec 2022 to 511 in Dec 2023; 2) wage inflation and the one-off bonus of €1.5m to employees and breeders. As far as the transportation costs are concerned, the latter is set to tick further higher due to the increase in exports as percentage of total sales.

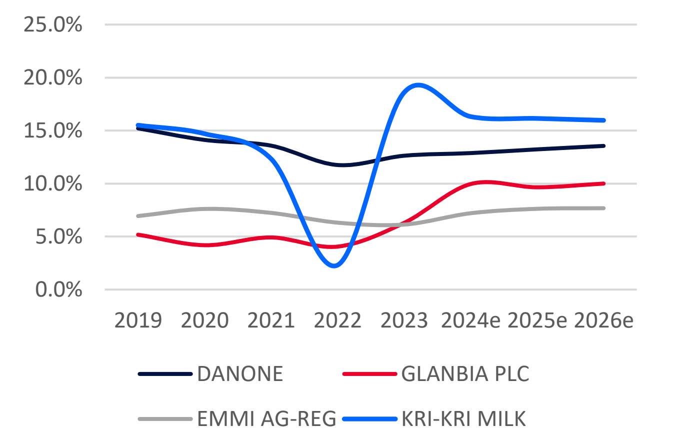
We expect the above to result in EBIT margins being sustained near the 16% mark over 2024-27e, down from the extraordinary levels of >18% in 2023, but higher than prior to 2019 levels and above the respective margins generated by KRI's foreign peers as we show below.

In more detail, it is worth stressing that Kri-Kri's operating margins, compared to those of international peers, have gone from the lowest in 2022 to the highest in 2023, as a result of the combination of solid volume growth, pricing and abating cost pressures. This is evident in the charts below where we show that Kri-Kri's 2024e margins are set to remain best-in-class, superior even to Danone. We note that the latter has rather low margins at its dairy (c9% at EBIT level) and water business (c9%) but enjoys hefty margins at its specialized nutrition segment (c20%). Looking ahead, our forecasts for Kri-Kri envisage EBIT margins near the 16% level, 2pps above the cross-cycle margins of food manufacturers thanks to Kri-Kri's operational efficiency and continued focus on cost control, which ought to support elevated margins in a period of growing volumes as the company presses ahead with its foreign expansion.

EBITDA margins



EBIT margins



Source: Eurobank Equities Research, Company data, Bloomberg.

3. Capital expenditures / cash flows

Augmented capex bill, but investments funded through internally generated cash flow

Regarding capital expenditures, after investing around €100m over the past decade, management had initially guided for an additional €30m in investments by 2025, primarily to expand yogurt production capacity (where several lines are near full utilization). However, given the new avenue of growth related to frozen yogurt in the U.S., management has revised its capex budget announcing an investment plan totaling €50m for the 2025-2027 period, aimed at doubling capacity in both yogurt and ice cream production.

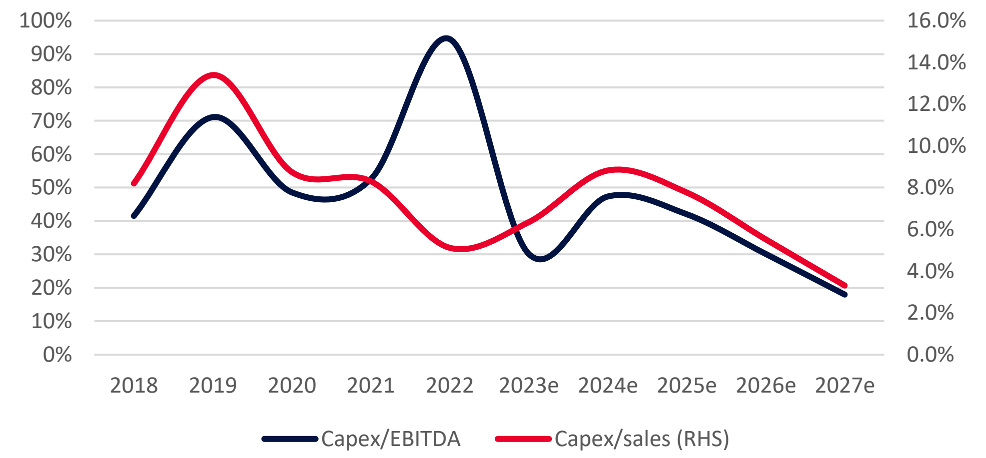
Overall, we anticipate capex in 2024 to be quite elevated at c€22m, or c9% of sales, with a similar amount penciled in for 2025e. We see capex gradually decreasing both in nominal terms and as % of sales to 5.5% in 2026e (€17m), 3.3% in 2027e (€11m), and leveling off at a more typical c2% thereafter, aligning with the sector's cross-cycle average. We emphasize that the entire capex will be funded through internal resources, given the comfortable net cash position and strong operating cash flow generation. We expect Kri to end 2024 with net cash of c€19m.

Besides production-related capex, we remind that Kri-Kri also installed a 1MW biogas unit in 2021 and a 1MW photovoltaic park in 2022, which together cover 25% of the company's energy needs. Management also plans to apply for an additional 2MW of photovoltaic capacity to further reduce energy costs.

Very strong cash flow generation profile

In terms of overall cash flow generation, we expect the combination of healthy working capital dynamics and robust profitability to help Kri-Kri comfortably fund its capex plans, thus ending up with FCFE of €11-22m in 2024-25e following €36m in 2023, with further step-up in 2026e.

Capex % of EBITDA (LHS) and % of sales (RHS)



Source: Eurobank Equities Research, Company data.

4. Dividends

On the dividend front, for this year we anticipate a higher dividend amount of €0.41/ share (vs €0.35 in FY'23). Looking ahead we have assumed a similar payout, namely near 36%, with shareholder remuneration based on progressive distribution (i.e. dividend payments growing in sync with earnings).

5. Summary of changes

Taking all these factors into account, we have lifted materially (mid-teens at EBIT level) our estimates for Kri-Kri, primarily reflecting the impact of frozen yogurt sales in the U.S. and increased exports of branded protein yogurt in Europe. We have also recalibrated our model incorporating higher capex, given the planned €50m investment program for the period (2025-2027e).

In more detail, for FY'24 we raised our top-line growth forecast by c8%, driven by higher volumes both in yogurt and ice cream sectors. We have increased even more our 2025-26e anticipating rising contribution from sales of frozen yogurt in the US and increasing penetration of protein yogurt in Europe. These feed through to a c14-17% increase in our EBIT estimates. In terms of bottom line, our net profit estimates have also increased by c€5m during the forecast horizon.

Kri-Kri estimates

	New estimates			Previous estimates			% change		
EURm	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**	**2024e**	**2025e**	**2026e**
Turnover	250.3	284.4	309.3	232.4	256.9	278.1	7.7%	10.7%	11.2%
EBIT	40.5	46.1	49.6	35.5	39.2	42.6	14.1%	17.4%	16.5%
Net income	38.0	39.2	41.9	32.8	34.5	37.0	15.6%	13.7%	13.3%

Source: Eurobank Equities Research

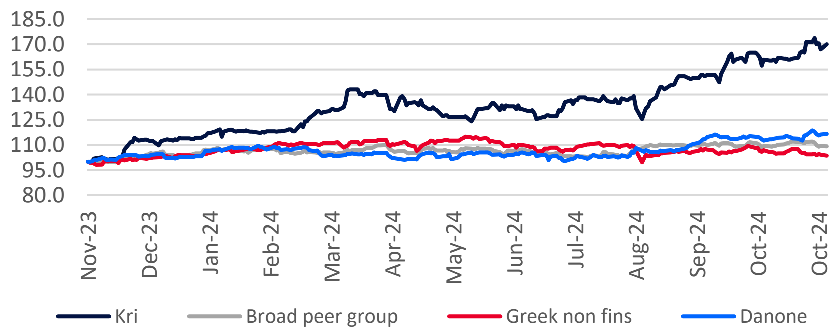
Share price performance and valuation

Stock price performance

Record price in the light of record profits

Kri-Kri has had an impressive performance this year, with the stock price popping 47% ytd thanks to the strong operating momentum (which eclipsed management's expectations at the start of the year, leading to a material upgrade to the 2024e guidance), despite sales pricing presures in the industry. As a result, the stock is now hovering at all-time highs mirroring the stellar results set to be delivered in 2024e, with EBIT primed for growth vs the 2023 record, compared with our expectation for a mild decline at the beginning of the year.

1-year performance (rebased to 100)



Source: Eurobank Equities Research, Bloomberg.

As far as valuation is concerned, we have looked at the track record of companies involved in food manufacturing in general ("broad" peer group) and dairy companies in particular. Food manufacturers have historically traded at an average of c12x EV/EBITDA, ranging from c10x to c13x depending on growth prospects and policy conditions. Dairy peers, which constitute a more focused group, have traded at a similar valuation in the long-run (just slightly lower at c11.8x), but withing a wider trading range reflecting subdued volume growth, lower pricing power and inferior margins than other staple companies.

In Kri-Kri's case, there is limited forward-looking valuation track record since the stock has not been widely covered. Using actual EBITDA figures and average market cap data during each year, the stock seems to have usually traded within a 5-8x EV/EBITDA range, materially lower than its peers, indicative of the information gap created by the lack of coverage. Overall, despite the shares more than doubling since their September 2022 lows, the valuation remains quite palatable in our view, still at <8.5x 2025e EV/EBITDA, namely a c15% discount vs dairy peers.

In the table below, we look in more detail at the current valuation of Kri-Kri and several peers, including food companies as well as dairy names (e.g. Danone, Glanbia, and Emmi). As can be seen, indeed Kri-Kri trades at a significant discount across traditional metrics such as PE and EV/EBITDA, while enjoying a healthier balance sheet (net cash) and offering dividend yield similar to that of peers plus the optionality for even heftier returns.

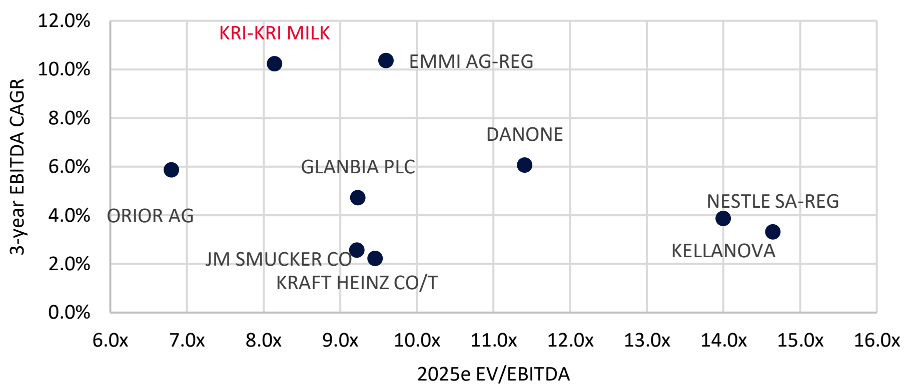
Peer group valuation

		PE		EV/EBITDA		Dividend yield		Net debt/EBITDA
Stock	**Mkt Cap**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**	**2026e**	**2025e**
DANONE	44,959	17.5x	16.2x	11.4x	10.7x	3%	4%	1.7x
GLANBIA PLC	3,983	11.5x	10.7x	9.2x	8.7x	3%	3%	0.4x
EMMI AG-REG	4,717	17.5x	16.2x	9.6x	8.9x	2%	2%	1.7x
KELLANOVA	25,507	20.5x	19.6x	14.0x	13.5x	3%	3%	2.2x
JM SMUCKER CO	11,107	10.7x	10.1x	9.5x	9.2x	4%	4%	3.2x
KRAFT HEINZ CO/T	37,057	10.8x	10.3x	9.2x	9.0x	5%	5%	2.6x
ORIOR AG	297	11.0x	10.6x	6.8x	6.4x	6%	6%	2.2x
NESTLE SA-REG	227,152	17.7x	16.6x	14.6x	13.8x	4%	4%	2.8x
Median		**14.5x**	**13.4x**	**9.5x**	**9.1x**	**4%**	**4%**	**2.2x**
Kri-Kri	**451**	**11.5x**	**10.8x**	**8.1x**	**7.3x**	**3%**	**3%**	**-0.5x**
Premium / (Discount) vs peers		***-21%***	***-19%***	***-15%***	***-20%***	***-12%***	***-12%***	

Source: Eurobank Equities Research, BBG

Given that the range of valuation multiples may also reflect differences in companies' growth profile, we have also examined the valuation of the broad peer group in conjunction with the 3-year profit outlook (2025-27e). **As can be seen, Kri-Kri's valuation looks compelling considering it also enjoys the strongest growth profile amid its international peer group.**

Kri-Kri and peer group – 2025e valuation vs 2-year expected growth



Source: Eurobank Equities Research, Bloomberg.

Valuation

We value Kri-Kri using a DCF, which we roll over to November 2025. Our base case yields a 12-month price target of €16.6/share, predicated on the following assumptions:

- Sales CAGR of c10% over 2024-2028e driven mainly by increasing exports.
- EBITDA CAGR of c10% over 2024-2028e, underpinned by the positive pendulum of operating leverage and cost efficiencies which will offset a mild gross margin erosion.
- We use a long-term growth rate of 1% based on a reinvestment rate of c15% and a perpetual incremental ROIC in the mid to high single digits, assuming that the competitive intensity will increase in the future and Kri-Kri's competitive advantage will fade in the long run.
- We end up with an implied FCF EBITDA cash conversion (FCF/EBITDA) of 50-60% on average over the forecast period, a level we consider feasible given the track record.

- We use a 9.7% WACC, which we believe captures the relative risk profile of the business vis-à-vis the rest of our coverage universe while also considering factors such as stock liquidity.

DCF										
EURmn unless otherwise stated	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**	**2033E**	**2034E**
NOPAT	38.9	41.2	43.4	44.8	48.3	51.5	54.4	57.1	59.5	61.5
Reinvestment	(16.9)	(11.4)	(4.7)	(0.1)	(1.6)	(2.3)	(3.0)	(3.5)	(4.0)	(4.4)
Unlevered Free Cash Flow	**21.9**	**29.8**	**38.7**	**44.7**	**46.7**	**49.2**	**51.5**	**53.6**	**55.5**	**57.1**
Sum of PV of FCF	287.2									
PV of terminal value	264.0									
Enterprise Value	**551.2**									
Net debt	19.4									
Other claims (net)	(0.6)									
Equity value	**570.0**									
no. of shares	33.1									
Per share (year end)	17.2 €									
12-month per share ex div	**16.6 €**									

Source: Eurobank Equities Research

Our PT effectively places Kri-Kri on c10x 2025e EV/EBITDA, in line with the dairy peer group on 2025 numbers but with superior growth prospects.

A basic sensitivity on a combination of WACC and terminal growth rates is presented in the table below. As can be seen, flexing our WACC and perpetuity growth inputs by 0.5% each yields a fair value range between c€15.3 and c€18.2 per share, effectively pointing to a very compelling risk-reward skew.

DCF Sensitivity of our calculated group fair value per share to the WACC and LT growth assumptions						
				WACC		
		10.7%	**10.2%**	**9.7%**	**9.2%**	**8.7%**
Terminal growth	**2.0%**	15.7	16.6	17.7	18.9	20.3
	1.5%	15.2	16.1	17.1	**18.2**	19.5
	1.0%	14.9	15.7	**16.6**	17.6	18.8
	0.5%	14.5	**15.3**	16.1	17.1	18.1
	0.0%	14.2	14.9	15.7	16.6	17.6

Source: Eurobank Equities Research.

Group Financial Statements

EURmn					
Group P&L	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Sales	**171.9**	**216.3**	**250.3**	**284.4**	**309.3**
Opex	-163.0	-171.2	-204.6	-232.2	-253.0
Adj. EBITDA	**8.9**	**45.1**	**45.8**	**52.2**	**56.3**
% change	*-57.7%*	*409.1%*	*1.5%*	*14.0%*	*7.9%*
EBITDA margin	*5.2%*	*20.9%*	*18.3%*	*18.4%*	*18.2%*
EBIT	**4.0**	**40.3**	**40.5**	**46.1**	**49.4**
Financial income (expense)	-0.2	0.0	-0.1	-0.2	-0.1
Exceptionals/other income	0.0	0.0	0.0	0.0	0.0
PBT - reported	**3.8**	**40.3**	**40.3**	**45.9**	**49.3**
Income tax	-0.7	-8.0	-2.4	-6.6	-7.6
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Net Profit - reported	**3.2**	**32.3**	**38.0**	**39.2**	**41.7**
EPS - adjusted (EUR)	**0.10**	**0.98**	**1.15**	**1.19**	**1.26**
DPS (EUR)	**0.20**	**0.35**	**0.41**	**0.43**	**0.45**
Group Cash Flow Statement	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Adj. EBITDA	8.9	45.1	45.8	52.2	56.3
Change in Working Capital	-3.4	2.0	-10.7	-1.3	-1.6
Net Interest	-0.2	0.1	-0.1	-0.2	-0.1
Tax	-1.3	1.8	-2.4	-6.6	-7.6
Other	0.4	0.5	0.9	0.3	0.3
Operating Cash Flow	**4.4**	**49.5**	**33.5**	**44.4**	**47.4**
Capex	-8.8	-13.7	-22.1	-22.1	-17.1
Other investing	0.1	0.1	0.0	0.0	0.0
Net Investing Cash Flow	**-8.7**	**-13.7**	**-22.1**	**-22.1**	**-17.1**
Dividends	-6.6	-6.6	-11.6	-13.6	-14.1
Other (incl. capital repayment of leases)	-0.8	-0.4	-1.8	-1.3	-1.3
Net Debt (cash)	**8.0**	**-20.9**	**-18.9**	**-26.3**	**-41.3**
Free Cash Flow (adj.)	**-4.5**	**35.6**	**11.1**	**22.1**	**30.1**
Group Balance Sheet	**2022**	**2023**	**2024e**	**2025e**	**2026e**
Tangible Assets	73.9	82.0	99.3	115.9	126.6
Intangible Assets	0.2	0.2	0.2	0.2	0.2
Other Long-term assets	0.7	0.8	0.8	0.8	0.8
Non-current Assets	**74.8**	**83.0**	**100.3**	**116.8**	**127.6**
Inventories	15.3	17.3	21.0	24.1	26.4
Trade Receivables	28.7	26.9	32.7	37.9	41.9
Other current assets	2.1	0.0	0.0	0.0	0.0
Cash & Equivalents	7.2	33.3	33.9	38.6	50.6
Current assets	**53.3**	**77.5**	**87.7**	**100.6**	**118.9**
Total Assets	**128.1**	**160.5**	**188.0**	**217.4**	**246.5**
Shareholder funds	78.9	104.7	131.1	156.7	184.4
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
Total Equity	**78.9**	**104.7**	**131.1**	**156.7**	**184.4**
Long-term debt	6.8	10.2	9.7	9.2	8.8
Other long-term liabilities	10.5	11.3	10.9	10.6	10.2
Long Term Liabilities	**17.2**	**21.5**	**20.6**	**19.8**	**19.0**
Short-term debt	7.9	1.7	4.8	2.5	0.0
Trade Payables	20.2	21.9	25.2	28.5	30.8
Other current liabilities	3.8	10.7	6.3	10.0	12.4
Current liabilities	**32.0**	**34.3**	**36.3**	**40.9**	**43.2**
Equity & Liabilities	**128.1**	**160.5**	**188.0**	**217.4**	**246.5**
Key Financial Ratios	**2022**	**2023**	**2024e**	**2025e**	**2026e**
P/E	67.0x	10.0x	11.9x	11.5x	10.8x
P/BV	2.7x	3.1x	3.4x	2.9x	2.4x
EV/EBITDA	24.9x	6.7x	9.4x	8.1x	7.3x
EBIT/Interest expense	15.3x	100.4x	96.2x	89.6x	119.3x
Net Debt (cash)/EBITDA	0.8x	-0.5x	-0.4x	-0.5x	-0.7x
Dividend Yield	3.1%	3.6%	3.0%	3.1%	3.3%
ROE	3.9%	35.2%	32.2%	27.3%	24.5%
Free Cash Flow yield	-2.1%	11.0%	2.5%	4.9%	6.7%
Payout Ratio	208.3%	35.9%	35.9%	35.9%	35.9%

Source: Eurobank Equities Research

Company description

KRI is one of Greece's largest yoghurt and ice cream producers, with core operations in making ice cream, yogurt, and fresh milk. The company has been expanding its geographical footprint in recent years and currently exports its products to >40 countries generating c50% of its sales from abroad (from <20% in 2015). More than 75% of its sales come from dairy products, with the rest from ice-cream.

Risks and Sensitivities

•**Macro:** KRI's top line is dependent, to an extent, on the consumer environment, and, on that basis, a potential deterioration in consumer dynamics in key markets (Greece, UK, Italy) could weigh on volume growth.

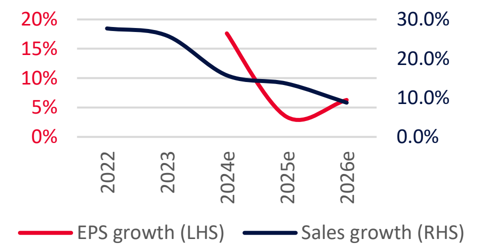
•**Industry structure:** Intense competition from both local and global competitors could result in the group losing market share or could weigh on pricing, thus curtailing top line growth. It could also result in the need for increased promotional activity.

•**Input costs:** With >70% of costs stemming from raw materials, a key risk has to do with an abrupt spike in commodity prices, as was evident in 2021 and 2022. This is especially true as there is usually a lag between cost inflation and pricing actions.

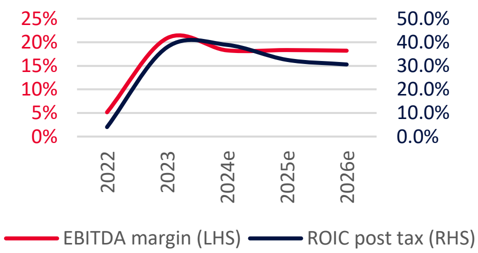
•**Capital allocation:** Given the low volume growth prospects of the whole industry, market share gains could start waning thus posing challenges for volume growth, which KRI might decide to tackle through M&A. Although there is ample scope from a balance sheet perspective, there is uncertainty as to the extent to which there will be value creation from such M&A moves.

•**Sensitivity:** We estimate that a 1% change in volumes drives a c2-3% change in group EBIT, while a 1% move in price/mix results in a 3-4% variation in EBIT.

Sales and EPS growth



Profitability and returns



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This report has been written by analysts Stamatios Draziotis (CFA) and Christiana Armpounioti.

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Stamatios Draziotis (CFA) and Christiana Armpounioti do not have a significant financial interest in one or more of the financial instruments which are the subject of this report or a significant conflict of interest with respect to the subject companies mentioned in this report a) that are accessible or reasonably expected to be accessible to the persons involved in the preparation of this report or b) known to persons who, although not involved in the preparation of this report, had or could reasonably be expected to have access to this report prior to its dissemination to customers or the public.

Planned Frequency of Updates:

Eurobank Equities Investment Firm S.A. provides updates on Kri-Kri based on the terms of the agreement between Eurobank Equities Investment Firm S.A. and EBRD and at least but not limited to bi-annually or after the publication of the financial statements of Kri-Kri.

12-month Rating History of Kri-Kri

Date	Rating	Stock price	Target price
05/11/2024	Buy	€ 13.65	€ 16.60
21/02/2024	Buy	€ 10.10	€ 13.60

Eurobank Equities Investment Firm S.A. Rating System:

Stock Ratings	Coverage Universe		Investment Banking Clients		Other Material Investment Services Clients (MISC) - as of 15th Oct 2024	
	Count	Total	Count	Total	Count	Total
Buy	24	67%	4	17%	11	46%
Hold	4	11%	1	25%	2	67%
Sell	0	0%	0	0%	0	0%
Restricted	1	3%	0	0%	1	100%
Under Review	2	6%	0	0%	2	100%
Not Rated	5	14%	2	40%	2	40%
Total	**36**	**100%**				

Coverage Universe: A summary of historic ratings for our coverage universe in the last 12 months is available here.

Analyst Stock Ratings:

Buy:	Based on a current 12-month view of total shareholder return (percentage change in share price to projected target price plus projected dividend yield), we recommend that investors buy the stock.
Hold:	We adopt a neutral view on the stock 12-months out and, on this time horizon, do not recommend either Buy or Sell.
Sell:	Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.
Restricted:	Under Eurobank Group policy and / or regulations which do not allow ratings
Under Review:	Our estimates, target price and recommendation are currently under review
Not Rated:	Refers to Sponsored Research reports