



The Coca-Cola Company (KO)

Updated July 26th, 2019 by Josh Arnold

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	3.5%	Volatility Percentile:	2.1%
Fair Value Price:	\$40	5 Year Growth Estimate:	6.0%	Momentum Percentile:	72.8%
% Fair Value:	133%	5 Year Valuation Multiple Estimate:	-5.5%	Growth Percentile:	53.2%
Dividend Yield:	3.0%	5 Year Price Target	\$53	Valuation Percentile:	16.9%
Dividend Risk Score:	B	Retirement Suitability Score:	B	Total Return Percentile:	19.4%

Overview & Current Events

Coca-Cola is the world's largest beverage company. It owns or licenses more than 500 unique non-alcoholic brands. Since the company's founding in 1886, it has spread to more than 200 countries worldwide. It currently has a market capitalization of \$227 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing roughly \$37 billion in annual revenue.

Coca-Cola reported Q2 earnings on 7/23/19 and results were strong, building on good results from Q1. Total revenue rose 6% to \$10 billion in Q2 as organic revenue contributed all of the gain. Concentrate sales volume was up 4% while price and mix continued to contribute to growth, this time adding 2% to the top line.

Coca-Cola continues to benefit from reformulated or new products, validating the company's recent efforts to boost innovation to drive growth. The CEO said nearly a quarter of the company's total revenue in Q2 came from new or reformulated beverages, which is up significantly from 15% two years ago. That improves growth but also reduces reliance upon legacy products that have stagnated in recent years.

Coca-Cola Zero Sugar continues its torrid growth, as Q2 was the seventh quarter in succession where it posted double-digit volume growth. In addition, Coca-Cola is taking full advantage of its Costa business in the UK as it adds coffee drinks around the world, bolstering its ready-to-drink sales channel.

Operating margin came to 30.3%, which was down slightly from 30.6% on an adjusted basis last year. Currency headwinds and acquisition costs offset underlying margin expansion.

Earnings-per-share came to \$0.63 on an adjusted basis, up 4% from the year-ago period. Excluding currency impacts, comparable earnings-per-share rose 13% as a 9% headwind subtracted from growth. We're reiterating our estimate of \$2.10 in earnings-per-share for this year following Q2 results as the company's updated guidance didn't include a change to the earnings forecast.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$1.46	\$2.53 ¹	\$1.85	\$1.97	\$1.90	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.10	\$2.81
DPS	\$0.82	\$0.88	\$0.94	\$1.02	\$1.12	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$2.00
Shares	4,606	4,584	4,526	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,230	4,000

Coca-Cola has experienced some years of stagnation in earnings-per-share, which declined from \$1.97 in 2012 and only reclaimed that high in 2018. However, now that the bulk of revenue declines have been absorbed from the bottling refranchising initiative, Coca-Cola's earnings growth should pick up in the coming years, 2019 notwithstanding.

Moving forward, we are forecasting 6% annual earnings-per-share growth. Volume has been improving and pricing has remained strong, which could mean low single-digit revenue growth. In addition, job cuts and other productivity measures produced very strong margin growth in 2017 and 2018, and we see this as a long-term tailwind. Finally, Coca-Cola remains committed to buying back its stock. All of this combined could produce 6% annual earnings-per-share

¹ Large one-time gain due to sale of Norwegian and Swedish bottling operations.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



The Coca-Cola Company (KO)

Updated July 26th, 2019 by Josh Arnold

growth moving forward. We also see the dividend rising at roughly the rate of earnings, producing a payout of \$2.00 per share by 2024, up from the current \$1.60.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	14.6	10.7	11.7	16.6	18.2	21.0	23.1	25.7	23.0	21.8	25.3	19.0
Avg. Yld.	3.3%	3.0%	2.7%	2.7%	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.0%	3.7%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today, it stands at 25.3. This compares unfavorably to what we see as fair value at 19 times earnings, implying a 5.5% annualized headwind to total returns moving forward if the valuation normalizes over a 5-year holding period. Meanwhile, Coca-Cola's dividend yield is currently at 3.0% and the payout rises each year, offering a meaningful boost to total returns. We see the dividend rising more quickly than the stock price so the yield could move up gradually over time to 3.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	56%	35%	51%	52%	59%	76%	79%	94%	77%	75%	76%	71%

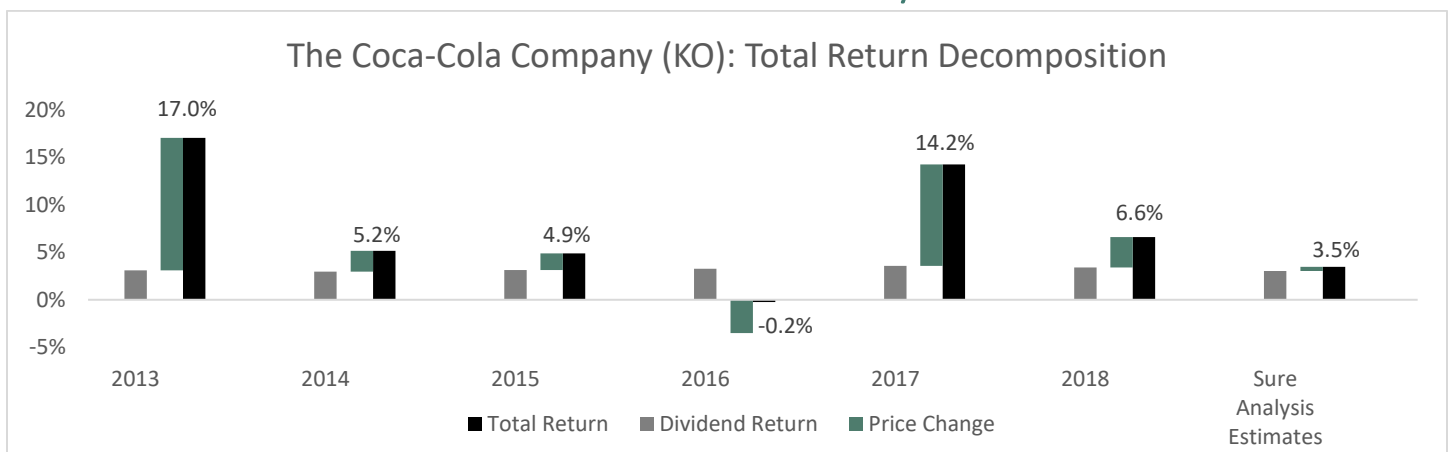
The payout ratio has been in the mid-70% range for the past few years and we believe it will remain around there, or slightly lower, in the coming years. Dividend growth will remain a priority for management and we see the payout as safe, with room to grow in the coming years.

Coca-Cola's competitive advantages include its unparalleled suite of beverage brands as well as its efficient global distribution network. Coca-Cola is also extremely resistant to recessionary environments, having increased its earnings-per-share during and after the financial crisis.

Final Thoughts & Recommendation

Coca-Cola's expected total returns are in the mid-single-digits, driven mostly by projected earnings growth and an ample dividend. Continued margin expansion is key to earnings growth and the company is well on its way on that front. Our estimates of 6% earnings growth and a 5.5% annualized valuation headwind combined with the company's 3% dividend yield give expected total returns of just 3.5% per year over the next five years. Coca-Cola could work for investors that are seeking a recession-resistant, high-yielding consumer staple, but shares are trading well in excess of our estimate of fair value today. We're reiterating our sell rating.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



The Coca-Cola Company (KO)

Updated July 26th, 2019 by Josh Arnold

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	30990	35119	46542	48017	46854	45998	44294	41863	35410	31856
Gross Profit	19902	22426	28327	28964	28433	28109	26812	25398	22154	20086
Gross Margin	64.2%	63.9%	60.9%	60.3%	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%
SG&A Exp.	11358	13194	17422	17738	17310	17218	16427	15262	12496	10307
D&A Exp.	1236	1443	1954	1982	1977	1976	1970	1787	1260	1086
Operating Profit	8231	8413	10173	10779	10228	9708	10240	9750	9427	8700
Op. Margin	26.6%	24.0%	21.9%	22.4%	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%
Net Profit	6824	11787	8584	9019	8584	7098	7351	6527	1248	6434
Net Margin	22.0%	33.6%	18.4%	18.8%	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%
Free Cash Flow	6193	7317	6554	7865	7992	8209	7975	6534	5431	6280
Income Tax	2040	2370	2812	2723	2851	2201	2239	1586	5560	1623

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	48671	72921	79974	86174	90055	92023	89996	87270	87896	83216
Cash & Equivalents	7021	8517	12803	8442	10414	8958	7309	8555	6006	8926
Acc. Receivable	3758	4430	4920	4759	4873	4466	3941	3856	3667	3396
Inventories	2354	2650	3092	3264	3277	3100	2902	2675	2655	2766
Goodwill & Int.	12828	26909	27669	27337	27611	26372	24132	21128	16636	17270
Total Liabilities	23325	41604	48053	53006	56615	61462	64232	64050	68919	64158
Accounts Payable	1410	1887	2172	1969	1933	2089	2795	2682	2288	8932
Long-Term Debt	11859	23417	28568	32610	37079	41745	44116	45709	47685	43555
Total Equity	24799	31003	31635	32790	33173	30320	25554	23062	17072	16981
D/E Ratio	0.48	0.76	0.90	0.99	1.12	1.38	1.73	1.98	2.79	2.56

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	15.3%	19.4%	11.2%	10.9%	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%
Return on Equity	30.1%	42.2%	27.4%	28.0%	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%
ROIC	20.3%	25.6%	14.9%	14.3%	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%
Shares Out.	4,606	4,584	4,526	4,469	4,402	4,366	4,324	4,288	4,259	4,250
Revenue/Share	6.65	7.53	10.02	10.47	10.39	10.34	10.06	9.59	8.19	7.41
FCF/Share	1.33	1.57	1.41	1.72	1.77	1.84	1.81	1.50	1.26	1.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.