



The Coca-Cola Company (KO)

Updated November 11th, 2021, by Josh Arnold

Key Metrics

Current Price:	\$57	5 Year CAGR Estimate:	7.1%	Market Cap:	\$244 B
Fair Value Price:	\$53	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/30/21
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.5%	Dividend Payment Date:	12/15/21
Dividend Yield:	2.9%	5 Year Price Target	\$71	Years Of Dividend Growth:	59
Dividend Risk Score:	A	Retirement Suitability Score:	A	Last Dividend Increase:	2.4%

Overview & Current Events

Coca-Cola is the world's largest beverage company, as 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 has a market capitalization of \$244 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing more than \$37 billion in annual revenue. The company also has a staggering 59-year dividend increase streak, making it a Dividend King.

Coca-Cola reported third quarter earnings on October 27th, 2021, with results coming in well ahead of expectations on both the top and bottom lines. Total revenue was up 16% year-over-year to \$10 billion and beating the company's comparable revenue from 2019. Organic revenue was up 14%, including an 8% growth rate in concentrate sales, and 6% growth in price and mix. Revenue growth was broad-based with strength in markets where COVID-19 conditions are abating the quickest.

Operating margin was 28.9% of revenue, up from 26.6% year-over-year. The company increased marketing investments versus the prior year, but that was offset largely by strong revenue growth. Coca-Cola reported market share gains in its core nonalcoholic ready-to-drink segment, including gains in both at-home and away-from-home channels. Earnings-per-share came to 65 cents on an adjusted basis, an 18% gain year-over-year. Results were helped along by a three-percentage point gain from currency translation.

Coca-Cola also noted it is acquiring the 85% of BodyArmor that it doesn't already own for a total consideration of \$5.6 billion. The company said it sees significant long-term growth potential and will be managed as a separate business within the company, not folded into its existing portfolio.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$1.85	\$1.97	\$1.90	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.30	\$3.08
DPS	\$0.94	\$1.02	\$1.12	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	\$2.04
Shares¹	4,526	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,315	4,300

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, as we are forecasting for 2021.

Moving forward, we are forecasting 6% annual earnings-per-share growth. Volume had been improving and pricing was strong prior to the COVID-19 pandemic, which could mean low single-digit revenue growth as conditions normalize. 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. All of this combined could produce 6% annual earnings-per-share growth moving forward, and we see a lot of progress in Q3's results. Of course, 2020 earnings were down due to lower away-from-home sales, but we expect the company's earnings to get back on track quickly into 2021 as conditions normalize. The former

¹ Share count in millions

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headwind from the U.S. dollar is now forecast by the company to be a 3% to 4% tailwind as the dollar has weakened of late, which was also seen in Q3 results.

We also see the dividend rising somewhat slower than earnings, producing a payout of \$2.04 per share by 2026.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	11.7	16.6	18.2	21.0	23.1	25.7	23.0	21.8	24.1	25.6	24.8	23.0
Avg. Yld.	2.7%	2.7%	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	2.9%	2.9%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today, it stands at 24.8. This compares unfavorably to what we see as fair value at 23 times earnings, implying a headwind to total returns moving forward if the valuation normalizes over a 5-year holding period. Meanwhile, Coca-Cola's dividend yield is currently 2.9% and the payout rises each year, offering a meaningful boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	51%	52%	59%	76%	79%	94%	77%	75%	76%	84%	73%	66%

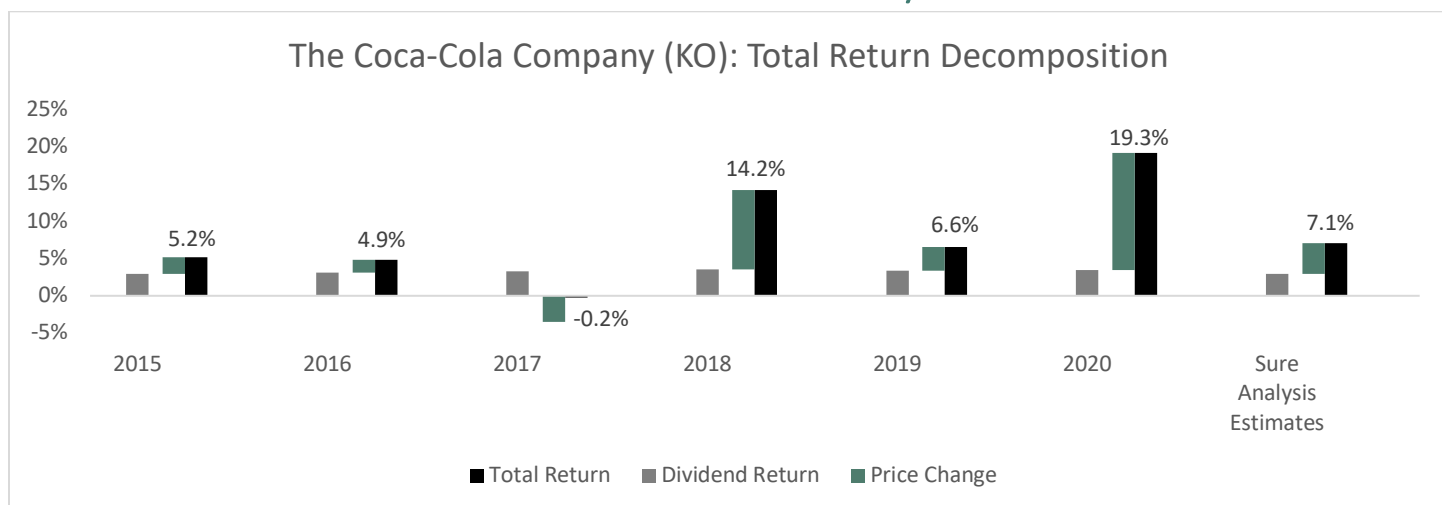
The payout ratio has been in the mid-70% range for the past few years and is there once again. Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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. The difference with the 2020 recession is that public venues have been closed, which has disproportionately impacted Coca-Cola's results, even into 2021. This, however, is abating.

Final Thoughts & Recommendation

Our estimates of 6% earnings growth and a valuation headwind, combined with the company's dividend yield give expected total returns of 7.1% per year over the next five years. Coca-Cola could work for investors that are seeking a recession-resistant, higher-yielding consumer staple, but shares are still in excess of our estimate of fair value. We're reiterating Coca-Cola at a hold rating following third quarter results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	46542	48017	46854	45998	44294	41863	35410	31856	37,266	33,014
Gross Profit	28327	28964	28433	28109	26812	25398	22154	20086	22,647	19,581
Gross Margin	60.9%	60.3%	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%
SG&A Exp.	17422	17738	17310	17218	16427	15262	12496	10307	12,103	9,731
D&A Exp.	1954	1982	1977	1976	1970	1787	1260	1086	1,365	1,536
Operating Profit	10173	10779	10228	9708	10240	9750	9427	8700	10,086	9,850
Op. Margin	21.9%	22.4%	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%
Net Profit	8584	9019	8584	7098	7351	6527	1248	6434	8,920	7,747
Net Margin	18.4%	18.8%	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%
Free Cash Flow	6554	7865	7992	8209	7975	6534	5431	6280	8,417	8,667
Income Tax	2812	2723	2851	2201	2239	1586	5560	1623	1,801	1,981

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	79974	86174	90055	92023	89996	87270	87896	83216	86,381	87,296
Cash & Equivalents	12803	8442	10414	8958	7309	8555	6006	8926	6,480	6,795
Acc. Receivable	4920	4759	4873	4466	3941	3856	3667	3396	3,971	3,144
Inventories	3092	3264	3277	3100	2902	2675	2655	2766	3,379	3,266
Goodwill & Int.	27669	27337	27611	26372	24132	21128	16636	17270	26,766	28,550
Total Liabilities	48053	53006	56615	61462	64232	64050	68919	64158	65,283	66,012
Accounts Payable	2172	1969	1933	2089	2795	2682	2288	8932	11,312	11,145
Long-Term Debt	28568	32610	37079	41745	44116	45709	47685	43555	42,763	42,793
Total Equity	31635	32790	33173	30320	25554	23062	17072	16981	18,981	19,299
D/E Ratio	0.90	0.99	1.12	1.38	1.73	1.98	2.79	2.56	2.25	2.22

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.2%	10.9%	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%
Return on Equity	27.4%	28.0%	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%
ROIC	14.9%	14.3%	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%
Shares Out.	4,526	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323
Revenue/Share	10.02	10.47	10.39	10.34	10.06	9.59	8.19	7.41	8.64	7.64
FCF/Share	1.41	1.72	1.77	1.84	1.81	1.50	1.26	1.46	1.95	2.00

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

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