



# The Coca-Cola Company (KO)

Updated February 12<sup>th</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$60	<b>5 Year CAGR Estimate:</b>	7.2%	<b>Market Cap:</b>	\$265 B
<b>Fair Value Price:</b>	\$56	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	02/28/22 <sup>1</sup>
<b>% Fair Value:</b>	106%	<b>5 Year Valuation Multiple Estimate:</b>	-1.2%	<b>Dividend Payment Date:</b>	03/15/22
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$75	<b>Years Of Dividend Growth:</b>	59
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	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 \$265 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing about \$42 billion in annual revenue. The company also has an exceptional 59-year dividend increase streak, making it a Dividend King.

Coca-Cola reported fourth quarter and full-year earnings on February 10<sup>th</sup>, 2022, and results were well ahead of estimates on both the top and bottom lines. Earnings-per-share on an adjusted basis came to 45 cents, four cents ahead of expectations. Revenue was \$9.5 billion, up nearly 11% year-over-year, and beating estimates by \$570 million. The company reported organic revenues having a 9% gain year-over-year, including a 10% increase in pricing and mix, which was offset slightly by a -1% decline in volume. Organic sales in EMEA shot up 17%, while North America saw a very strong 14% gain. Asia-Pacific saw a -3% decline in organic sales. Hydration, sports, coffee, and tea grew 12% for the quarter, and nutrition, juice, dairy, and plant-based beverages were up 11%. The core sparkling soft drinks segment was up 8%, so strength was broad-based.

Operating margin was 22.1% of revenue versus 27.3% a year ago on an adjusted basis, which was driven by significant marketing investments. In addition, the fourth quarter had six fewer days, and the timing of concentrate shipments negatively impacted results.

Management says the company should produce free cash flow of \$10.5 billion this year, as capital expenditures are expected to be minimal. We forecast \$2.45 in earnings-per-share as an initial estimate for 2022.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$1.97	\$1.90	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.32	<b>\$2.45</b>	<b>\$3.28</b>
<b>DPS</b>	\$1.02	\$1.12	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	<b>\$1.68</b>	<b>\$2.04</b>
<b>Shares<sup>2</sup></b>	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,325	<b>4,325</b>	<b>4,325</b>

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 2022.

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 this combined could produce 6% annual earnings-per-share growth moving forward. Of course, 2020 earnings were down due to lower away-from-home sales, but earnings rebounded sharply higher in 2021.

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

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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.



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## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	16.6	18.2	21.0	23.1	25.7	23.0	21.8	24.1	25.6	23.3	24.5	23.0
Avg. Yld.	2.7%	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	2.8%	2.7%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today, it stands at 24.5. 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 2.8% and the payout rises each year, offering a meaningful boost to total returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	59%	76%	79%	94%	77%	75%	76%	84%	72%	69%	62%

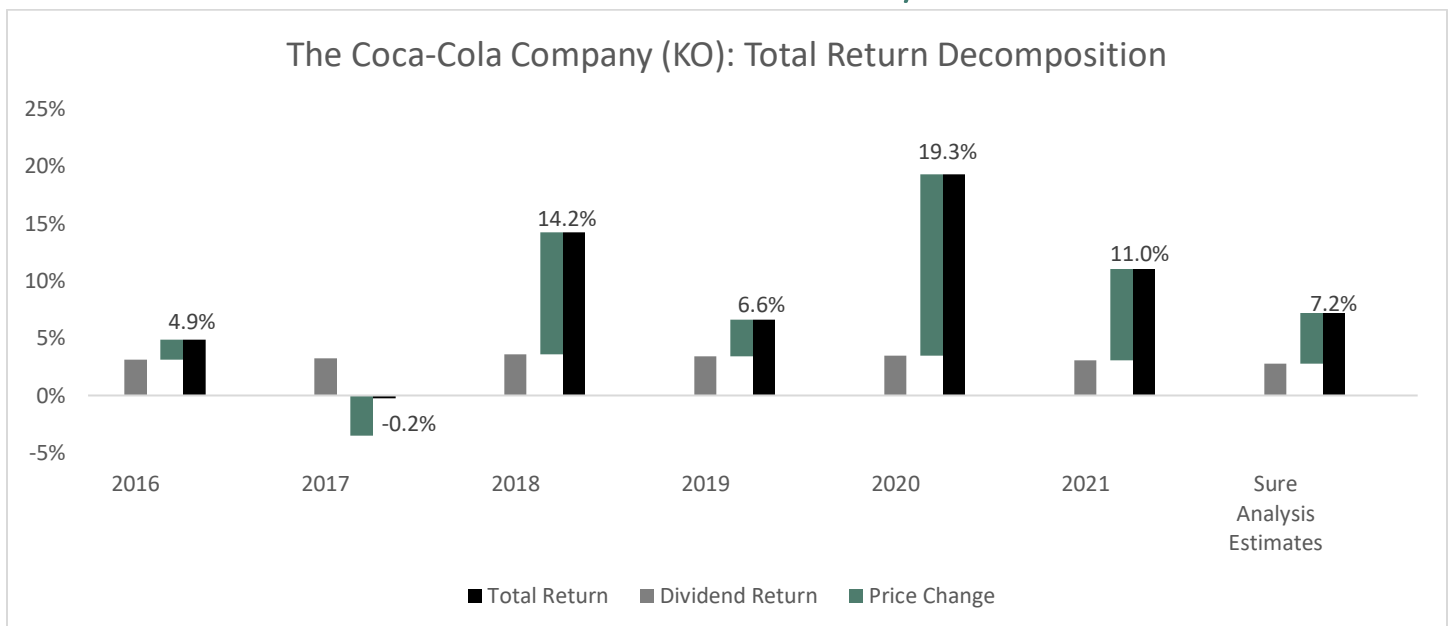
The payout ratio has been in the mid-70% range for the past few years but is below that now with rising earnings. Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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 7.2% 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 fourth 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
<b>Revenue</b>	46542	48017	46854	45998	44294	41863	35410	31856	37,266	33,014
<b>Gross Profit</b>	28327	28964	28433	28109	26812	25398	22154	20086	22,647	19,581
<b>Gross Margin</b>	60.9%	60.3%	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%
<b>SG&amp;A Exp.</b>	17422	17738	17310	17218	16427	15262	12496	10307	12,103	9,731
<b>D&amp;A Exp.</b>	1954	1982	1977	1976	1970	1787	1260	1086	1,365	1,536
<b>Operating Profit</b>	10173	10779	10228	9708	10240	9750	9427	8700	10,086	9,850
<b>Op. Margin</b>	21.9%	22.4%	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%
<b>Net Profit</b>	8584	9019	8584	7098	7351	6527	1248	6434	8,920	7,747
<b>Net Margin</b>	18.4%	18.8%	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%
<b>Free Cash Flow</b>	6554	7865	7992	8209	7975	6534	5431	6280	8,417	8,667
<b>Income Tax</b>	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
<b>Total Assets</b>	79974	86174	90055	92023	89996	87270	87896	83216	86,381	87,296
<b>Cash &amp; Equivalents</b>	12803	8442	10414	8958	7309	8555	6006	8926	6,480	6,795
<b>Acc. Receivable</b>	4920	4759	4873	4466	3941	3856	3667	3396	3,971	3,144
<b>Inventories</b>	3092	3264	3277	3100	2902	2675	2655	2766	3,379	3,266
<b>Goodwill &amp; Int.</b>	27669	27337	27611	26372	24132	21128	16636	17270	26,766	28,550
<b>Total Liabilities</b>	48053	53006	56615	61462	64232	64050	68919	64158	65,283	66,012
<b>Accounts Payable</b>	2172	1969	1933	2089	2795	2682	2288	8932	11,312	11,145
<b>Long-Term Debt</b>	28568	32610	37079	41745	44116	45709	47685	43555	42,763	42,793
<b>Total Equity</b>	31635	32790	33173	30320	25554	23062	17072	16981	18,981	19,299
<b>D/E Ratio</b>	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
<b>Return on Assets</b>	11.2%	10.9%	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%
<b>Return on Equity</b>	27.4%	28.0%	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%
<b>ROIC</b>	14.9%	14.3%	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%
<b>Shares Out.</b>	4,526	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323
<b>Revenue/Share</b>	10.02	10.47	10.39	10.34	10.06	9.59	8.19	7.41	8.64	7.64
<b>FCF/Share</b>	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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