



The Coca-Cola Company (KO)

Updated May 23rd, 2022, by Josh Arnold

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	6.9%	Market Cap:	\$264 B
Fair Value Price:	\$56	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	06/14/22
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	07/01/22
Dividend Yield:	2.9%	5 Year Price Target	\$75	Years Of Dividend Growth:	60
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$264 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 60-year dividend increase streak, making it a Dividend King.

Coca-Cola reported first quarter earnings on April 25th, 2022, with both earnings and revenue handily beating expectations. Adjusted earnings-per-share were 64 cents, six cents ahead of estimates. Revenue was up almost 17% year-over-year to \$10.5 billion, and beat expectations by \$670 million.

The 16% revenue growth number was due to a 7% gain in pricing and mix, as well as an 11% growth rate in concentrate volume. Coca-Cola said it gained share in both at-home and away-from-home channels in terms of volumes during the quarter.

Europe/Middle East/Africa led the way in terms of geographic strength, posting a 22% jump in organic sales. North America saw a 14% gain.

Unit case volume was up 8% during the quarter, with broad-based growth in all operating segments. Growth was seen in both developed and developing markets, and management said results were helped by cycling the impact of the pandemic from the prior year's results.

Operating margin was 32.5% of revenue, up sharply from 30.2% a year ago. The gain was driven by strong revenue growth, partially offset by an increase in marketing investments versus the prior year. In addition, the BodyArmor acquisition and currency translation were headwinds to margins.

Our estimate of earnings-per-share is \$2.45 for this year following Q1 results.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.97	\$1.90	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.32	\$2.45	\$3.28
DPS	\$1.02	\$1.12	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	\$1.76	\$2.14
Shares¹	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,325	4,325	4,325

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

¹ Share count in millions

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course, 2020 earnings were down due to lower away-from-home sales, but earnings rebounded sharply higher in 2021, with more growth forecast for 2022.

We also forecast the dividend rising somewhat slower than earnings, producing a payout of \$2.14 per share by 2027.

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	24.9	23.0
Avg. Yld.	2.7%	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	2.9%	2.8%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today, it stands at 24.9. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	59%	76%	79%	94%	77%	75%	76%	84%	72%	72%	65%

The payout ratio has been in the mid-70% range for the past few years but is below that now with rising earnings.

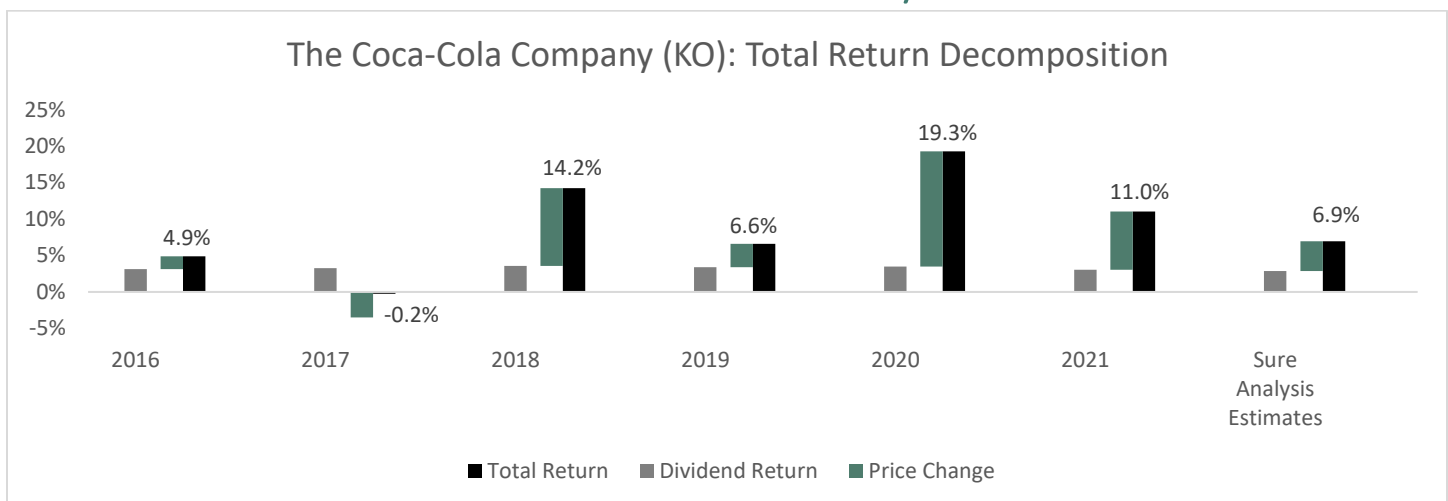
Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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 6.9% 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 first quarter results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	48017	46854	45998	44294	41863	35410	31856	37,266	33,014	38,655
Gross Profit	28964	28433	28109	26812	25398	22154	20086	22,647	19,581	23,298
Gross Margin	60.3%	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%	60.3%
SG&A Exp.	17738	17310	17218	16427	15262	12496	10307	12,103	9,731	12,144
D&A Exp.	1982	1977	1976	1970	1787	1260	1086	1,365	1,536	1452
Operating Profit	10779	10228	9708	10240	9750	9427	8700	10,086	9,850	11,039
Op. Margin	22.4%	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%	28.6%
Net Profit	9019	8584	7098	7351	6527	1248	6434	8,920	7,747	9,771
Net Margin	18.8%	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%	25.3%
Free Cash Flow	7865	7992	8209	7975	6534	5431	6280	8,417	8,667	11,258
Income Tax	2723	2851	2201	2239	1586	5560	1623	1,801	1,981	2621

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	86174	90055	92023	89996	87270	87896	83216	86,381	87,296	94,354
Cash & Equivalents	8442	10414	8958	7309	8555	6006	8926	6,480	6,795	9,684
Acc. Receivable	4759	4873	4466	3941	3856	3667	3396	3,971	3,144	3,512
Inventories	3264	3277	3100	2902	2675	2655	2766	3,379	3,266	3,414
Goodwill & Int.	27337	27611	26372	24132	21128	16636	17270	26,766	28,550	34,613
Total Liabilities	53006	56615	61462	64232	64050	68919	64158	65,283	66,012	69,494
Accounts Payable	1969	1933	2089	2795	2682	2288	8932	11,312	11,145	4,602
Long-Term Debt	32610	37079	41745	44116	45709	47685	43555	42,763	42,793	42,761
Total Equity	32790	33173	30320	25554	23062	17072	16981	18,981	19,299	22,999
D/E Ratio	0.99	1.12	1.38	1.73	1.98	2.79	2.56	2.25	2.22	1.86

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.9%	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%	10.8%
Return on Equity	28.0%	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%	46.2%
ROIC	14.3%	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%	14.8%
Shares Out.	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,340
Revenue/Share	10.47	10.39	10.34	10.06	9.59	8.19	7.41	8.64	7.64	8.91
FCF/Share	1.72	1.77	1.84	1.81	1.50	1.26	1.46	1.95	2.00	2.59

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

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