



The Coca-Cola Company (KO)

Updated July 29th, 2022, by Josh Arnold

Key Metrics

Current Price:	\$64	5 Year CAGR Estimate:	6.0%	Market Cap:	\$277 B
Fair Value Price:	\$56	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/15/22
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.5%	Dividend Payment Date:	10/03/22
Dividend Yield:	2.8%	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 \$277 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 second quarter earnings on July 26th 2022, and results were better than expected on both the top and bottom lines. Adjusted earnings-per-share came to 70 cents, which was three cents ahead of expectations. Revenue was up almost 12% year-over-year, rising to \$11.3 billion, and beating estimates by \$730 million.

Organic revenue was up 16%, including 12% growth in price and mix, as well as 4% growth in concentrate sales. Concentrate sales were 4% behind unit case volume, which rose 8%, and was due to the timing of concentrate shipments.

Operating margin was 30.7% of revenue on an adjusted basis, down 100bps from the second quarter of last year. Margin compression was due to strong topline growth that was more than offset by the impact of the BODYARMOR purchase, higher operating costs, and an increase in marketing investments. Currency headwinds persist as well given the very strong dollar and Coca-Cola's highly international revenue base.

Earnings-per-share came to 70 cents on an adjusted basis, up 4% year-over-year. That included a massive 9% negative impact from currency translation.

Free cash flow was \$4.1 billion, down \$1.0 billion year-over-year. The company also updated guidance to organic revenue growth of 12% to 13%, and adjusted EPS growth of 5% to 6%.

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	\$2.25
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

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 29th, 2022, by Josh Arnold

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 \$2.25 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	26.1	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%	3.0%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today it stands at 26.1. 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%	69%

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

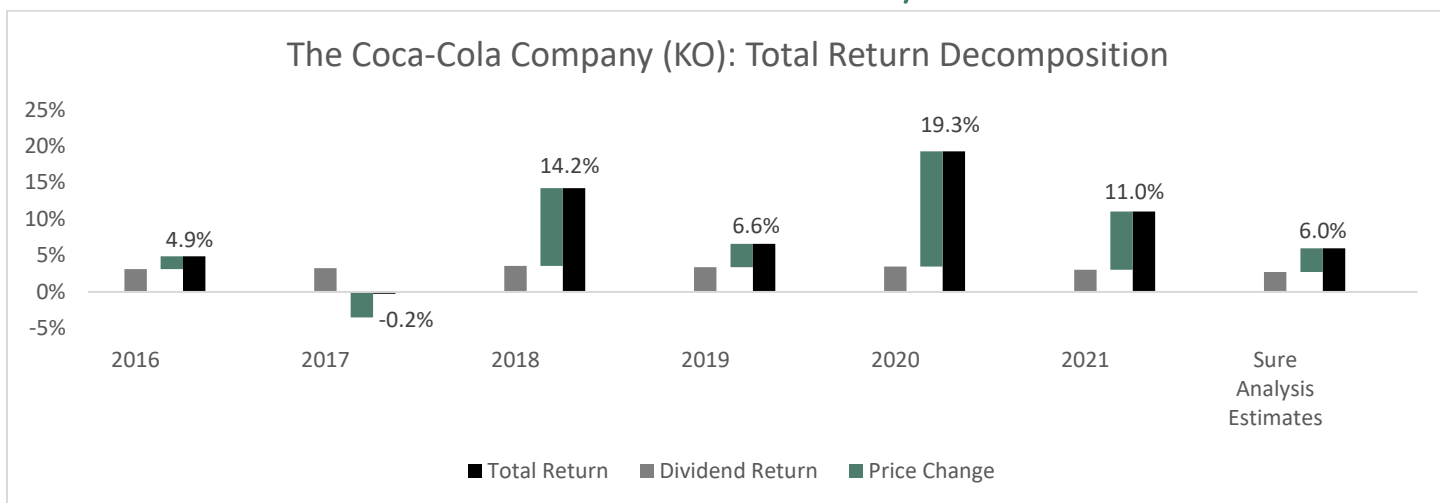
Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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% 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 second quarter results.

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 29th, 2022, by Josh Arnold

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
LTD/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.

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.