



# The Coca-Cola Company (KO)

Updated November 1<sup>st</sup>, 2022, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$60	<b>5 Year CAGR Estimate:</b>	7.8%	<b>Market Cap:</b>	\$263 B
<b>Fair Value Price:</b>	\$58	<b>5 Year Growth Estimate:</b>	6.0%	<b>Ex-Dividend Date:</b>	11/30/22
<b>% Fair Value:</b>	104%	<b>5 Year Valuation Multiple Estimate:</b>	-0.8%	<b>Dividend Payment Date:</b>	12/15/22
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$77	<b>Years Of Dividend Growth:</b>	60
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	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 \$263 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing over \$42 billion in annual revenue. The company also has an exceptional 60-year dividend increase streak, making it a Dividend King.

Coca-Cola reported third quarter earnings on October 25<sup>th</sup>, 2022, and results were better than expected on both the top and bottom lines. Earnings-per-share on an adjusted basis came to 69 cents, which was a nickel better than expected. Revenue was up 11% year-over-year to \$11.1 billion, which was also \$600 million better than estimates. Further, the company guided for 14% to 15% in organic revenue growth this year.

Global unit case volume was up 4% in Q3. Organic sales were up 16%, which was almost double the expected 9.8% gain. The Europe, Middle East & Africa region saw a 20% organic sales gain, Latin America was up 18%, and North America was up 14%.

Operating margin was 29.5% of sales, down from 30.0% in the year-ago period. This was due to the impact of the BodyArmor acquisition, higher operating costs, and an increase in marketing investments. The company also noted currency headwinds given most of its revenue is from outside the US.

We now see \$2.50 in earnings-per-share for this year following very strong Q3 results, as well as bullish guidance from management.

## 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>\$2.50</b>	<b>\$3.35</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>\$1.76</b>	<b>\$2.25</b>
<b>Shares<sup>1</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, 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.

<sup>1</sup> Share count in millions

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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	<b>24.0</b>	<b>23.0</b>
Avg. Yld.	2.7%	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	<b>2.9%</b>	<b>2.9%</b>

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today it stands at 24. This compares slightly 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%	<b>70%</b>	<b>67%</b>

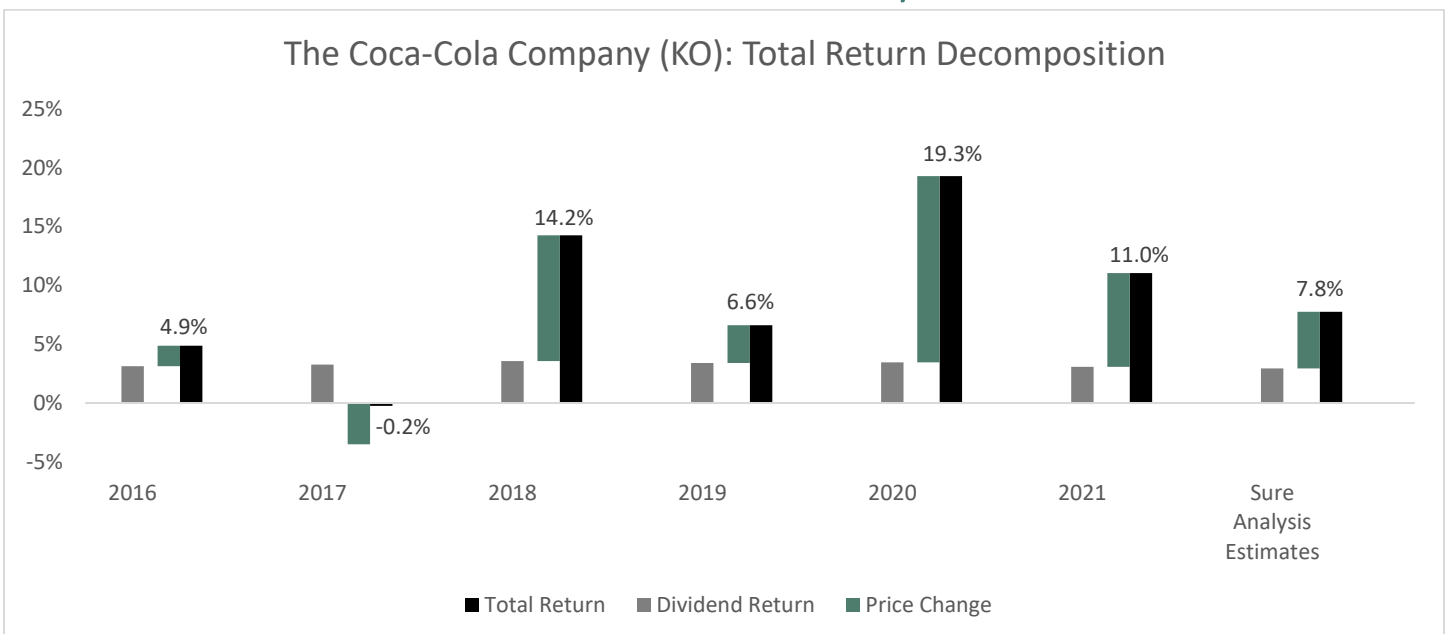
The payout ratio has been in the mid-70% range for the past few years but is below that now with rising earnings. Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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 0.8% valuation headwind, combined with the company's 2.9% dividend yield give expected total returns of 7.8% 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	48017	46854	45998	44294	41863	35410	31856	37,266	33,014	38,655
<b>Gross Profit</b>	28964	28433	28109	26812	25398	22154	20086	22,647	19,581	23,298
<b>Gross Margin</b>	60.3%	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%	60.3%
<b>SG&amp;A Exp.</b>	17738	17310	17218	16427	15262	12496	10307	12,103	9,731	12,144
<b>D&amp;A Exp.</b>	1982	1977	1976	1970	1787	1260	1086	1,365	1,536	1452
<b>Operating Profit</b>	10779	10228	9708	10240	9750	9427	8700	10,086	9,850	11,039
<b>Op. Margin</b>	22.4%	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%	28.6%
<b>Net Profit</b>	9019	8584	7098	7351	6527	1248	6434	8,920	7,747	9,771
<b>Net Margin</b>	18.8%	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%	25.3%
<b>Free Cash Flow</b>	7865	7992	8209	7975	6534	5431	6280	8,417	8,667	11,258
<b>Income Tax</b>	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
<b>Total Assets</b>	86174	90055	92023	89996	87270	87896	83216	86,381	87,296	94,354
<b>Cash &amp; Equivalents</b>	8442	10414	8958	7309	8555	6006	8926	6,480	6,795	9,684
<b>Acc. Receivable</b>	4759	4873	4466	3941	3856	3667	3396	3,971	3,144	3,512
<b>Inventories</b>	3264	3277	3100	2902	2675	2655	2766	3,379	3,266	3,414
<b>Goodwill &amp; Int.</b>	27337	27611	26372	24132	21128	16636	17270	26,766	28,550	34,613
<b>Total Liabilities</b>	53006	56615	61462	64232	64050	68919	64158	65,283	66,012	69,494
<b>Accounts Payable</b>	1969	1933	2089	2795	2682	2288	8932	11,312	11,145	4,602
<b>Long-Term Debt</b>	32610	37079	41745	44116	45709	47685	43555	42,763	42,793	42,761
<b>Total Equity</b>	32790	33173	30320	25554	23062	17072	16981	18,981	19,299	22,999
<b>LTD/E Ratio</b>	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
<b>Return on Assets</b>	10.9%	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%	10.8%
<b>Return on Equity</b>	28.0%	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%	46.2%
<b>ROIC</b>	14.3%	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%	14.8%
<b>Shares Out.</b>	4,469	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,340
<b>Revenue/Share</b>	10.47	10.39	10.34	10.06	9.59	8.19	7.41	8.64	7.64	8.91
<b>FCF/Share</b>	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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