



The Coca-Cola Company (KO)

Updated July 30th, 2023, by Josh Arnold

Key Metrics

Current Price:	\$62	5 Year CAGR Estimate:	8.3%	Market Cap:	\$270 B
Fair Value Price:	\$61	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	09/16/23 ¹
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.3%	Dividend Payment Date:	10/03/23
Dividend Yield:	3.0%	5 Year Price Target	\$82	Years Of Dividend Growth:	61
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 \$270 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing about \$45 billion in annual revenue. The company also has an exceptional 61-year dividend increase streak, making it a Dividend King.

The company posted second quarter earnings on July 27th, 2023, and results were ahead of expectations on both revenue and earnings, as well as the company adding in higher guidance for the year. Adjusted earnings-per-share came to 78 cents, which was six cents ahead of expectations. Revenue beat estimates by \$250 million at \$12 billion, which was a 6.2% gain from the comparable period a year ago.

Operating margin was 31.6% of revenue, up from 30.7% a year ago, driven primarily by strong topline growth and the bottling operation refranchising effort.

Organic revenue gained nicely, adding 11% during the quarter. Latin America led the way at +25%, while EMEA was up 9%, and North America rose 9% as well. Volume was flat once again, extending the streak of essentially no movement in volume, but price and mix were outstanding once again. Volume weakness was due to water, sports drinks, coffee, tea, and even Coca-Cola seeing declines. These were offset by gains in sparkling flavors and juice, dairy, and plant-based drinks rising in volume.

The company now sees organic revenue growth of 8% to 9% for this year, and for adjusted earnings-per-share to rise between 9% and 11%. We've updated our estimate to \$2.65 in earnings-per-share, a nickel better than prior, as the beat in Q2, and the guidance raise, were both relatively modest.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.90	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.32	\$2.48	\$2.65	\$3.55
DPS	\$1.12	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	\$1.76	\$1.84	\$2.35
Shares²	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,325	4,328	4,330	4,340

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 2023.

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 Estimated date

² 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 and 2022, with more growth forecast for 2023.

We also forecast the dividend rising somewhat slower than earnings, producing a payout of \$2.35 per share by 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	18.2	21.0	23.1	25.7	23.0	21.8	24.1	25.6	23.3	25.6	23.4	23.0
Avg. Yld.	2.7%	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	2.8%	3.0%	2.9%

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today it stands at 23.4. This compares slightly unfavorably to what we see as fair value at 23 times earnings, implying a fractional headwind to total returns moving forward if the valuation normalizes over a 5-year holding period. Meanwhile, Coca-Cola's dividend yield is currently 3% and the payout rises each year, offering a meaningful boost to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	59%	76%	79%	94%	77%	75%	76%	84%	72%	71%	69%	66%

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

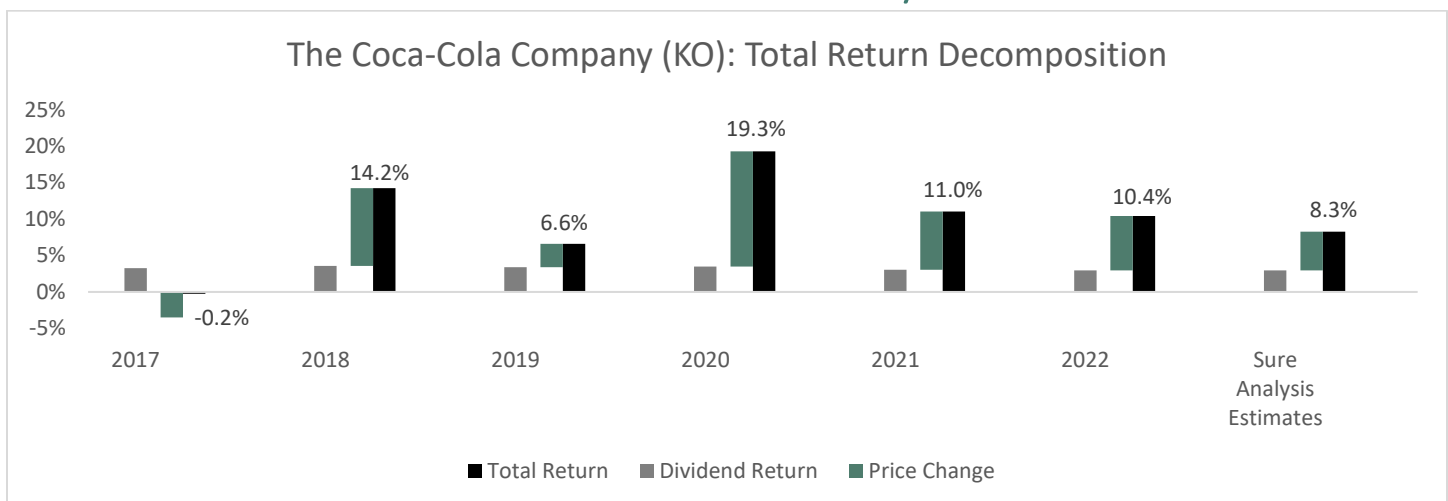
Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation.

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 disproportionately impacted Coca-Cola's results, even into 2021. This, however, appears to have ended.

Final Thoughts & Recommendation

Our estimates of 6% earnings growth and a 0.3% valuation headwind, combined with the company's 3% dividend yield give expected total returns of 8.3% per year over the next five years. Coca-Cola could work for investors that are seeking a recession-resistant, higher-yielding consumer staple, and shares are now trading very near fair value. We're reiterating Coca-Cola at a hold rating following second quarter results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	46854	45998	44294	41863	35410	31856	37,266	33,014	38,655	43,004
Gross Profit	28433	28109	26812	25398	22154	20086	22,647	19,581	23,298	25,004
Gross Margin	60.7%	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%	60.3%	58.1%
SG&A Exp.	17310	17218	16427	15262	12496	10307	12,103	9,731	12,144	12,880
D&A Exp.	1977	1976	1970	1787	1260	1086	1,365	1,536	1452	1,260
Operating Profit	10228	9708	10240	9750	9427	8700	10,086	9,850	11,039	10,909
Op. Margin	21.8%	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%	28.6%	25.4%
Net Profit	8584	7098	7351	6527	1248	6434	8,920	7,747	9,771	9,542
Net Margin	18.3%	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%	25.3%	22.2%
Free Cash Flow	7992	8209	7975	6534	5431	6280	8,417	8,667	11,258	9,534
Income Tax	2851	2201	2239	1586	5560	1623	1,801	1,981	2621	2,115

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	90055	92023	89996	87270	87896	83216	86,381	87,296	94,354	92,763
Cash & Equivalents	10414	8958	7309	8555	6006	8926	6,480	6,795	9,684	9,519
Acc. Receivable	4873	4466	3941	3856	3667	3396	3,971	3,144	3,512	3,487
Inventories	3277	3100	2902	2675	2655	2766	3,379	3,266	3,414	4,233
Goodwill & Int.	27611	26372	24132	21128	16636	17270	26,766	28,550	34,613	33,631
Total Liabilities	56615	61462	64232	64050	68919	64158	65,283	66,012	69,494	66,937
Accounts Payable	1933	2089	2795	2682	2288	8932	11,312	11,145	4,602	15,749
Long-Term Debt	37079	41745	44116	45709	47685	43555	42,763	42,793	42,761	39,149
Total Equity	33173	30320	25554	23062	17072	16981	18,981	19,299	22,999	24,105
LTD/E Ratio	1.12	1.38	1.73	1.98	2.79	2.56	2.25	2.22	1.86	1.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	9.7%	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%	10.8%	10.2%
Return on Equity	26.0%	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%	46.2%	40.5%
ROIC	12.6%	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%	14.8%	14.4%
Shares Out.	4,402	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,340	4,350
Revenue/Share	10.39	10.34	10.06	9.59	8.19	7.41	8.64	7.64	8.91	9.89
FCF/Share	1.77	1.84	1.81	1.50	1.26	1.46	1.95	2.00	2.59	2.19

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

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