



# The Coca-Cola Company (KO)

Updated August 4<sup>th</sup>, 2024, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$69	<b>5 Year CAGR Estimate:</b>	8.4%	<b>Market Cap:</b>	\$299 B
<b>Fair Value Price:</b>	\$66	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	09/13/24
<b>% Fair Value:</b>	105%	<b>5 Year Valuation Multiple Estimate:</b>	-1.0%	<b>Dividend Payment Date:</b>	10/01/24
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$92	<b>Years Of Dividend Growth:</b>	62
<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 \$299 billion and its brands account for about 2 billion servings of beverages worldwide every day, producing about \$46 billion in annual revenue. The company also has an exceptional 62-year dividend increase streak, making it a Dividend King.

Coca-Cola posted second quarter earnings on July 23<sup>rd</sup>, 2024, and results were much better than expected. Adjusted earnings-per-share beat estimates by three cents at 84 cents per share. Revenue was up 3.3% year-over-year to \$12.4 billion, which was a staggering \$650 million ahead of estimates. Revenue included 9% growth in price and mix, and 6% growth in concentrate sales; unit case volume was up 2%. The organic revenue growth rate of 15% was paced by the 28% gain in Latin America, and 30% gain in EMEA.

North America unit case volume fell 1% as growth in juice, dairy, and plant-based beverages was more than offset by weakness in water, sports, coffee, tea, and Coca-Cola.

Consolidated operating income grew 10%, which included a 16-point currency headwind. Adjusted operating margin was 32.8% of revenue, up 120 basis points from the prior year.

The company sees adjusted organic revenue growth of 9% to 10%, and for EPS to be between \$2.82 and \$2.85. We've updated our estimate to \$2.85 accordingly.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.32	\$2.48	\$2.69	<b>\$2.85</b>	<b>\$4.00</b>
<b>DPS</b>	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	\$1.76	\$1.84	<b>\$1.94</b>	<b>\$2.48</b>
<b>Shares<sup>1</sup></b>	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,325	4,328	4,313	<b>4,300</b>	<b>4,200</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 has begun to pick up again in earnest.

Moving forward, we are forecasting 7% 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 7% 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 and 2022, with strong growth in 2023.

We also forecast the dividend rising somewhat slower than earnings, producing a payout of \$2.48 per share by 2029, which should be enough to keep the stock yielding about twice that of the S&P 500.

<sup>1</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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.0	23.1	25.7	23.0	21.8	24.1	25.6	23.3	25.6	21.9	<b>24.2</b>	<b>23.0</b>
Avg. Yld.	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	2.8%	3.1%	<b>2.8%</b>	<b>2.7%</b>

Coca-Cola's price-to-earnings ratio has been rather volatile in the past decade and today it stands at 24.2. This compares unfavorably to what we see as fair value at 23 times earnings, implying a small 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	76%	79%	94%	77%	75%	76%	84%	72%	71%	68%	<b>68%</b>	<b>62%</b>

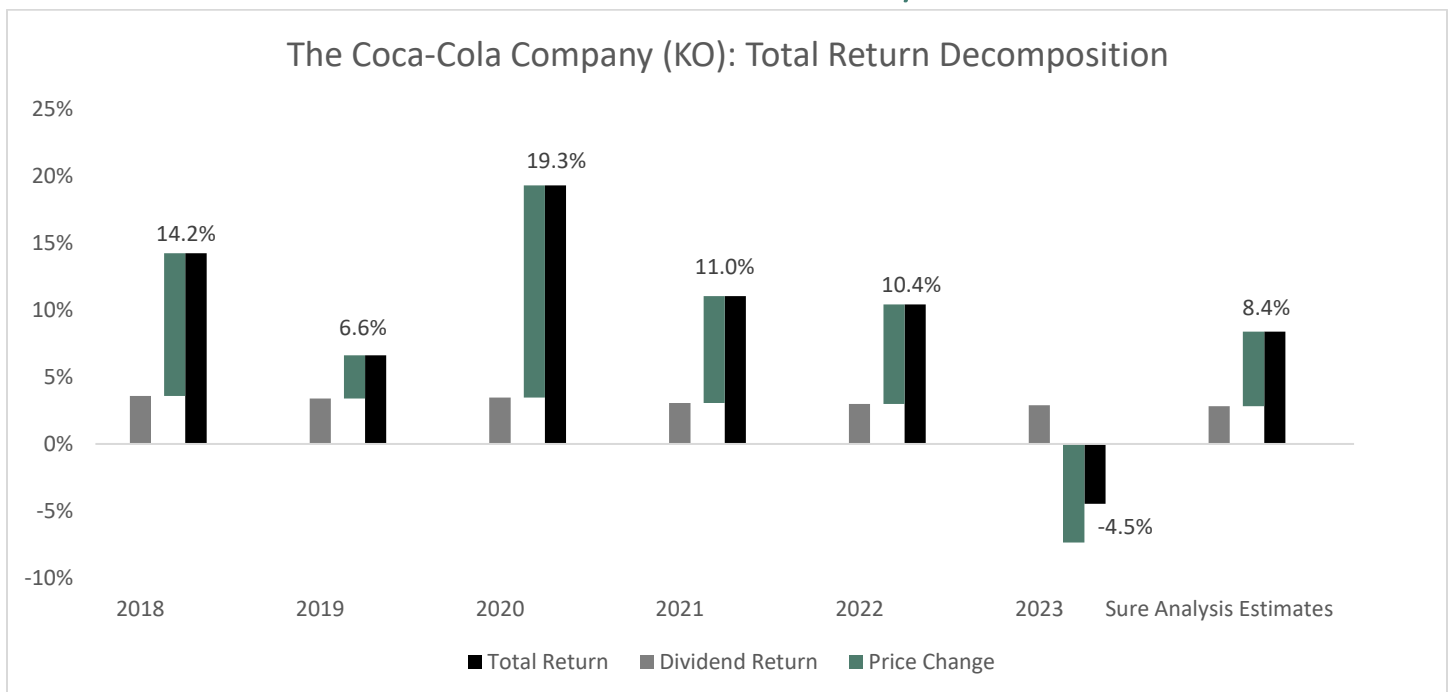
The payout ratio has been in the mid-70% range for the past few years but is below that now with rising earnings. Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation, as we saw again in 2023.

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.

## Final Thoughts & Recommendation

Our estimates of 7% earnings growth and a 1% valuation headwind, combined with the company's 2.8% dividend yield give expected total returns of 8.4% 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 over fair value. We're reiterating the stock at a hold rating, noting the stock is still offering robust total returns after Q2 results.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	45998	44294	41863	35410	31856	37,266	33,014	38,655	43,004	45,754
<b>Gross Profit</b>	28109	26812	25398	22154	20086	22,647	19,581	23,298	25,004	27,234
<b>Gross Margin</b>	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%	60.3%	58.1%	59.5%
<b>SG&amp;A Exp.</b>	17218	16427	15262	12496	10307	12,103	9,731	12,144	12,880	7,930
<b>D&amp;A Exp.</b>	1976	1970	1787	1260	1086	1,365	1,536	1452	1,260	1,128
<b>Operating Profit</b>	9708	10240	9750	9427	8700	10,086	9,850	11,039	10,909	13,016
<b>Op. Margin</b>	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%	28.6%	25.4%	28.4%
<b>Net Profit</b>	7098	7351	6527	1248	6434	8,920	7,747	9,771	9,542	10,714
<b>Net Margin</b>	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%	25.3%	22.2%	23.4%
<b>Free Cash Flow</b>	8209	7975	6534	5431	6280	8,417	8,667	11,258	9,534	9,747
<b>Income Tax</b>	2201	2239	1586	5560	1623	1,801	1,981	2621	2,115	2,249

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	92023	89996	87270	87896	83216	86,381	87,296	94,354	92,763	97,703
<b>Cash &amp; Equivalents</b>	8958	7309	8555	6006	8926	6,480	6,795	9,684	9,519	9,366
<b>Acc. Receivable</b>	4466	3941	3856	3667	3396	3,971	3,144	3,512	3,487	3,410
<b>Inventories</b>	3100	2902	2675	2655	2766	3,379	3,266	3,414	4,233	4,424
<b>Goodwill &amp; Int.</b>	26372	24132	21128	16636	17270	26,766	28,550	34,613	33,631	33,223
<b>Total Liabilities</b>	61462	64232	64050	68919	64158	65,283	66,012	69,494	66,937	70,223
<b>Accounts Payable</b>	2089	2795	2682	2288	8932	11,312	11,145	4,602	15,749	5,590
<b>Long-Term Debt</b>	41745	44116	45709	47685	43555	42,763	42,793	42,761	39,149	42,064
<b>Total Equity</b>	30320	25554	23062	17072	16981	18,981	19,299	22,999	24,105	25,941
<b>LTD/E Ratio</b>	1.38	1.73	1.98	2.79	2.56	2.25	2.22	1.86	1.62	1.62

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%	10.8%	10.2%	11.3%
<b>Return on Equity</b>	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%	46.2%	40.5%	40.2%
<b>ROIC</b>	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%	14.8%	14.4%	15.9%
<b>Shares Out.</b>	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,340	4,350	4,339
<b>Revenue/Share</b>	10.34	10.06	9.59	8.19	7.41	8.64	7.64	8.91	9.89	10.54
<b>FCF/Share</b>	1.84	1.81	1.50	1.26	1.46	1.95	2.00	2.59	2.19	2.25

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

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