



The Coca-Cola Company (KO)

Updated October 25th, 2024, by Josh Arnold

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	8.1%	Market Cap:	\$290 B
Fair Value Price:	\$66	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	11/29/24
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.4%	Dividend Payment Date:	12/16/24
Dividend Yield:	2.9%	5 Year Price Target	\$88	Years Of Dividend Growth:	62
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 \$290 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 third quarter earnings on October 23rd, 2024, and results were better than expected on both revenue and profits. The company saw adjusted earnings-per-share of 77 cents, which was two cents better than estimates. Revenue was off fractionally year-over-year to \$11.9 billion, but did beat estimates by \$290 million. Organic revenues were up an impressive 9%. That included 10% growth in price and mix, a 2% decline in concentrate sales, and a 1% gain in case volumes.

Organic revenue was 2.7% better than consensus estimates, led by gains in Latin America (+24%) and North America (+12%). Price and mix were the primary contributors to higher organic revenue, rather than volume.

Consolidated operating margins were 30.7% of revenue, up 100 basis points a year ago. Margins rose in part from the impact of the bottling refranchising initiative, somewhat offset by the impact of currency headwinds. Strong revenue growth was more than enough to offset this, however.

With one quarter remaining in the company's fiscal year, we're looking for \$2.85 in adjusted earnings-per-share, noting that the stronger US dollar is a potentially sizable headwind given the company's mix of international revenue.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.60	\$1.67	\$1.49	\$1.91	\$2.08	\$2.11	\$1.95	\$2.32	\$2.48	\$2.69	\$2.85	\$3.81
DPS	\$1.22	\$1.32	\$1.40	\$1.48	\$1.56	\$1.60	\$1.64	\$1.68	\$1.76	\$1.84	\$1.94	\$2.48
Shares¹	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,325	4,328	4,313	4,300	4,200

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 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 and 2022, with strong growth in 2023.

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.



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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.

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	23.5	23.0
Avg. Yld.	2.9%	3.2%	3.1%	3.2%	3.4%	3.1%	3.3%	3.1%	2.8%	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 23.5. 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 2.9% 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%	68%	65%

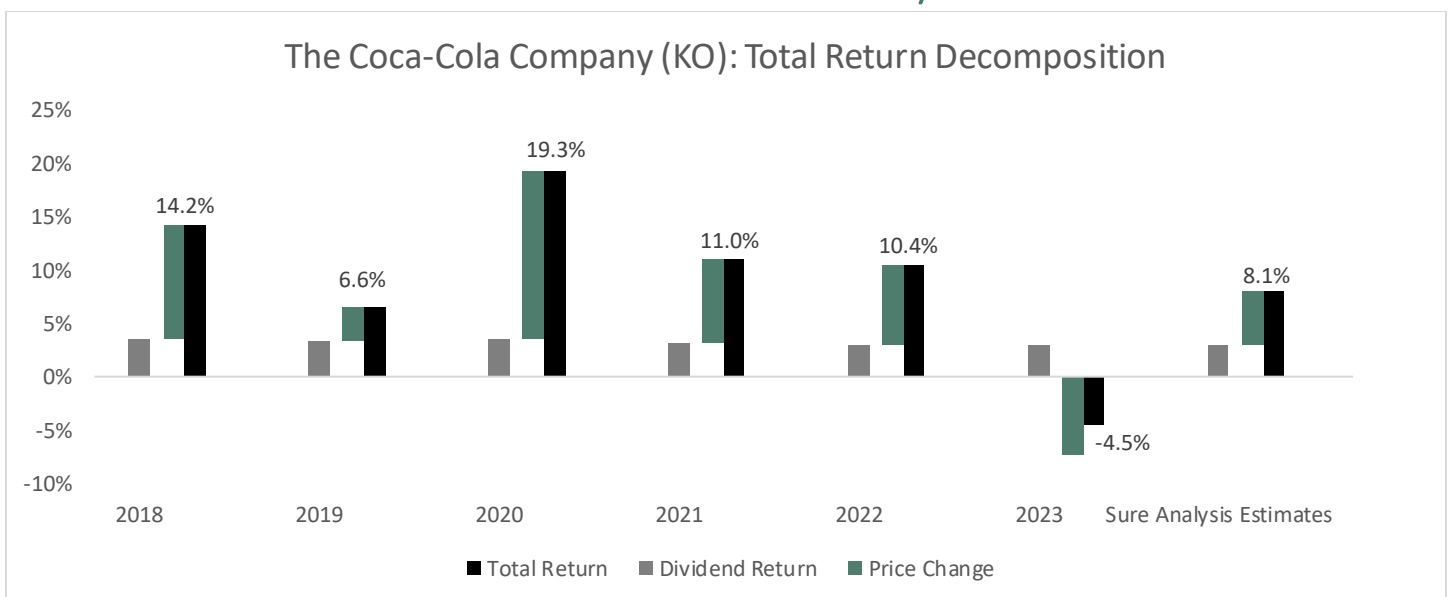
The payout ratio has been in the mid-70% range for the past few years but is below that now with rising earnings. Dividend growth will remain a priority for management, and we see the payout as safe, with room to grow, particularly with generally improving free cash flow generation, as we saw again in 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 6% earnings growth and a 0.4% valuation headwind, combined with the company's 2.9% dividend yield, give expected total returns of 8.1% 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 trading near fair value. We're reiterating the stock at a hold rating, noting the stock is still offering robust total returns after Q3 results.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	45998	44294	41863	35410	31856	37,266	33,014	38,655	43,004	45,754
Gross Profit	28109	26812	25398	22154	20086	22,647	19,581	23,298	25,004	27,234
Gross Margin	61.1%	60.5%	60.7%	62.6%	63.1%	60.8%	59.3%	60.3%	58.1%	59.5%
SG&A Exp.	17218	16427	15262	12496	10307	12,103	9,731	12,144	12,880	7,930
D&A Exp.	1976	1970	1787	1260	1086	1,365	1,536	1452	1,260	1,128
Operating Profit	9708	10240	9750	9427	8700	10,086	9,850	11,039	10,909	13,016
Op. Margin	21.1%	23.1%	23.3%	26.6%	27.3%	27.1%	29.8%	28.6%	25.4%	28.4%
Net Profit	7098	7351	6527	1248	6434	8,920	7,747	9,771	9,542	10,714
Net Margin	15.4%	16.6%	15.6%	3.5%	20.2%	23.9%	23.5%	25.3%	22.2%	23.4%
Free Cash Flow	8209	7975	6534	5431	6280	8,417	8,667	11,258	9,534	9,747
Income Tax	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
Total Assets	92023	89996	87270	87896	83216	86,381	87,296	94,354	92,763	97,703
Cash & Equivalents	8958	7309	8555	6006	8926	6,480	6,795	9,684	9,519	9,366
Acc. Receivable	4466	3941	3856	3667	3396	3,971	3,144	3,512	3,487	3,410
Inventories	3100	2902	2675	2655	2766	3,379	3,266	3,414	4,233	4,424
Goodwill & Int.	26372	24132	21128	16636	17270	26,766	28,550	34,613	33,631	33,223
Total Liabilities	61462	64232	64050	68919	64158	65,283	66,012	69,494	66,937	70,223
Accounts Payable	2089	2795	2682	2288	8932	11,312	11,145	4,602	15,749	5,590
Long-Term Debt	41745	44116	45709	47685	43555	42,763	42,793	42,761	39,149	42,064
Total Equity	30320	25554	23062	17072	16981	18,981	19,299	22,999	24,105	25,941
LTD/E Ratio	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
Return on Assets	7.8%	8.1%	7.4%	1.4%	7.5%	10.5%	8.9%	10.8%	10.2%	11.3%
Return on Equity	22.4%	26.3%	26.9%	6.2%	37.8%	49.6%	40.5%	46.2%	40.5%	40.2%
ROIC	9.9%	10.3%	9.4%	1.8%	10.0%	14.1%	12.1%	14.8%	14.4%	15.9%
Shares Out.	4,366	4,324	4,288	4,259	4,250	4,314	4,323	4,340	4,350	4,339
Revenue/Share	10.34	10.06	9.59	8.19	7.41	8.64	7.64	8.91	9.89	10.54
FCF/Share	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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