

Coca Cola	
Ticker Site BiG	KO
Ticker BiGlobal Trade	KO
Ticker BT24	KO
Ticker BiG Power Trade	KO
P/E Ratio 2019E	23.22
P/BV Ratio	11.73
EV/EBITDA	19.62

Source: Big Research;

Price and Performance (Values in USD)	
Price	48,76
52 week high	50,84
52 week low	41,93
YTD	3,0%
Average daily volume (un)	15 056 482
Market Capitalization (mn)	208 016
Beta	0,68
Dividend	1,56
EPS	1,51

Source: BiG Research;

Analysts Consensus (last 3 months)	
Buy	13
Hold	16
Sell	0

Source: BiG Research;

Financial Data	
Sales (USD mn)	31 856
EBITDA (USD mn)	9 786
Number of Employees	62 600
ROA	7,4%
ROE	36,1%
D/E	2,29
Dividend Yield	3,28%

Source: BiG Research;

Notes:

All quotes were updated in Bloomberg at 15h10 of May 21st, 2019.

Relevant Information:

Use the following link to view our most recent publications:

<https://www.big.pt/InformacaoMercados/TradingIdeas/Index/-1>

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<https://www.big.pt/pdf/Newsletters/nld.pdf>

Analyst:

João Calado, CFA

With the contribution of:

Guilherme Carpinteiro

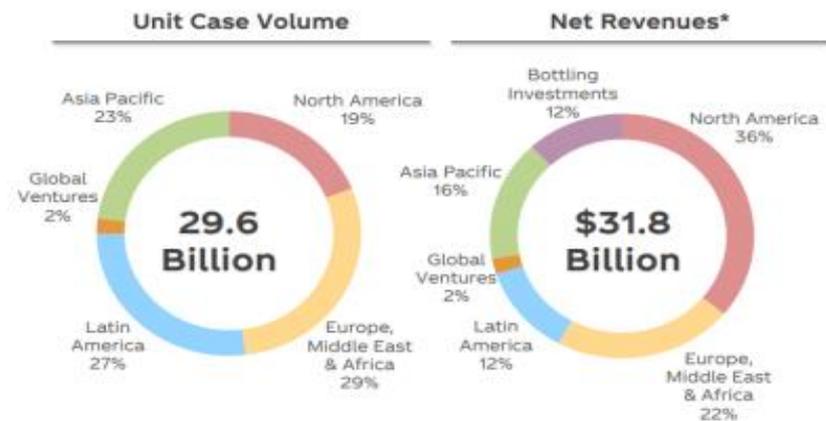
Research:

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The Coca-Cola Co (Ticker: KO)

Description

The Coca-Cola Company is a US multinational founded in 1886 and it's one of the biggest nonalcoholic drinks beverage company in the market. It is best known for its brand Coca-Cola but it owns and markets more than 500 nonalcoholic beverage brands such as Diet Coke, Fanta, and Sprite. It has a large network of distribution which includes bottling partners and more than 20 channels of distribution that allow them to sell their products in more than 200 countries. The Coca-Cola company is focused on offering a wide variety of finished beverage products to meet the different needs of its consumers, having invested in the last years with some acquisitions in different segments such as Tea & Coffee, energy, hydration, and juice, dairy & plant, among others. The company employs 62,600 people and has a market cap of USD 208 bn.

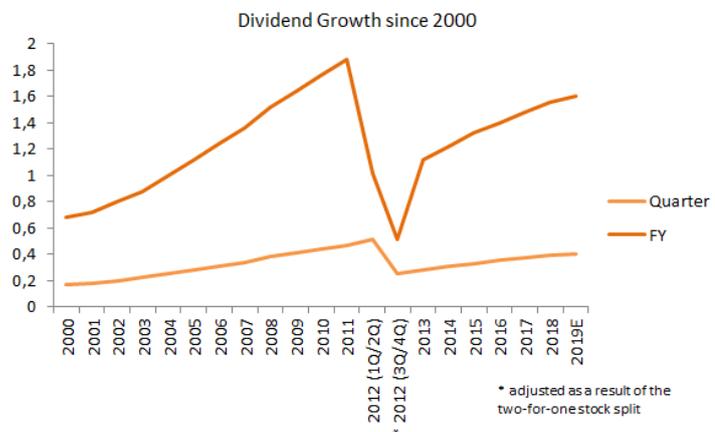


*Comparable (non-GAAP)

Investment Thesis

Source: Company's data

We believe Coca-Cola Co is a defensive company with a well-established business in a highly competitive market in which it is difficult to innovate when compared to its competitor's products. Furthermore, at this moment, the current company price is expensive. Nevertheless, there are some growth opportunities, especially with the latest acquisitions and refranchising that will allow the company to reach new consumers and expand to new markets. The company also has very good margins and pays a good dividend that increases regularly.



Source: Company's data

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Investment Case

Acquisition of Costa coffee: Costa coffee is a multinational company based in the UK and was the latest acquisition of the Coca-Cola Co in the beginning of 2019 for USD 5.1 bn. With this acquisition, the company focuses on entering in the hot beverages market and that way covering all the major segments of beverages. (see more in M&A section)

Dividend Aristocrat: Coca-Cola Co is a mature business that generates good operating cash flow and has low capex investment needs, only need to invest to ensure the good performance of operations; Thus, the cash flows generated allow the company to have a payout ratio of at least 75%. The company pays dividends since 1920 and during the last 55 year has raised them regularly. In February 2019, the Coca-Cola Co raised its quarterly dividend to USD 0.40 per share, equivalent to USD 1.60 per share in 2019. While increasing its dividends the company is still able to reduce its debt, make acquisitions to expand its brands, and do some buybacks.

Strong brand & diversification: The Coca-Cola brand is present in the market since 1886 and rapidly conquered a high share of the market due to the success of the soft drink. Since then, with the investments in strong branding and marketing the company reinforced its #1 share position in the NARTD (non-alcoholic ready to drink) market. Despite that fact, the company is still investing in different types of non-alcoholic beverages brands to meet every consumer's needs and to create a complete beverage company. With that, the company will increase its market share in different segments and diversify its portfolio. Thus, Coca-Cola Co is expanding to emerging markets where there is a possible growth opportunity in a market with 6.1 bn people and plenty opportunities in the nonalcoholic beverage market.



Source: Company's data



Source: Company's data

Management

James Quincey is the CEO and Chairman. Quincey joined the company in 1996 and since then had several positions in different divisions of the company. By 2015 he was president and COO of all the company's operating units before becoming CEO in 2017. Later in 2019 was nominated Chairman of the board. In 2018 his compensation reached USD 16.7 mn of which USD 1.45 mn is relative to base salary, USD 7.4 mn stock awards, USD 2.2 mn in option awards, USD 5 mn non-equity incentive, and USD 0.5 mi in other compensation.

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Income Statement (USD mn.)	2018	2017
Concentrate operations	20388	18059
Finished product operations	11468	17351
Net operating Revenues	31856	35410
COGS	11 770	13 255
Selling, general & administrative	10 307	12 654
other operating charges	1 079	1 902
Operating Expenses	23156	27811
EBIT	8700	7599
Net Interest cost	237	164
others	113	693
EBT	8350	6742
Taxes	1 623	5 560
Others	(293)	66
Net Income	6434	1248
Earnings per share	1,51	0,29

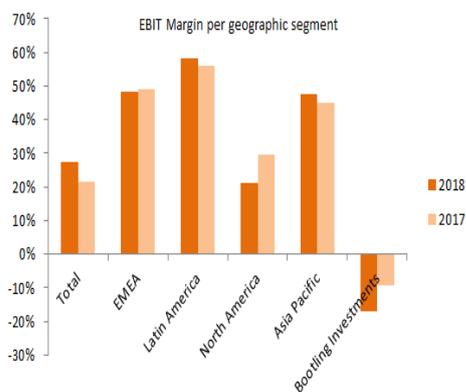
Source: Company's data

Free Cash Flow (USD mn)	2018	2017
Operational Cash Flow	7.320	6.930
Operating Profit	6727	1182
Depreciation and amortization	1086	1260
Interest and dividends Received	(457)	(628)
Taxes	(450)	(1.256)
Change Working Capital	(1.202)	3464
Others	1616	2908
Investment Cash Flow	6.348	(2.254)
Capex	(1.102)	(1.571)
Change in securities	7.188	(602)
Acquisitions	322	12
Others	(60)	(93)
Financial Cash Flow	(10.552)	(7.409)
Debt change	(3.229)	1.089
Share buyback	(1.912)	(3.682)
Dividends	(6.644)	(6.320)
Issuances of stock	1.476	1.595
Others	(243)	(91)
Change in free cash flow	3.116	(2.733)
Cash and equivalents at end	8.926	6.006

Source: Company's data

Balance Sheet (USD mn.)	2018	2017
Assets	83216	87896
Cash & Equivalents	8926	6006
Short term investments	2025	9352
Marketable securities	5 013	5 317
Goodwill	10263	9401
Receivables	3396	3667
Inventories	2766	2655
Property Plant & Equipment	8232	8203
Equity methods investments	19 407	20 856
Other Assets	23188	22439
Liabilities	64158	68919
Short term Debt	13194	13205
Long term Debt	25364	31182
Payables	8932	8748
Accrued Expenses	378	3298
Other liabilities	16290	12486
Total Shareowner's Equity	19058	18977
Total Equity and Liabilities	83216	87896

Source: Company's data



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Income Statement

The Coca-Cola company's net operating revenues decreased 10% from USD 35 bn in 2017 to approximately USD 32 bn in 2018 due to acquisition of some brands and foreign currency fluctuations in some part. Its revenues from concentrate operations have been increasing throughout the years being the segment that generates more revenue since 2017. Now, this segment represents less than 50% of the net operating revenues (40% against 60% of the finished products operations). EBIT margin rose in 2018, from 21.5%, in 2017, to 27.3% due mostly to a reduction in the selling and distribution costs after some refranchising in 2018.

Free Cash Flow

In 2018, Coca-Cola Co had a positive change in free cash flow of USD 3 bn that was generated by a Net Operational cash flow increase of 6% in 2018 from USD 6.93 bn (2017) to USD 7.32 bn mainly driven by the growth of net income. Investment cash flow inflow was driven by a net cash inflow of USD 7 bn in investments, which are short-term investments such as time deposits with maturity between 3 months and 1 year. The Coca Cola Co has a prudent debt financing policy, and in 2018 reduced its debt by USD 3 bn, mostly because of the payment of USD 30.5 bn (of which USD 27 bn related to commercial paper and short term debt with maturities greater than 90 days), then net by the issuance of debt of USD 27 bn.

Balance Sheet

As for the balance sheet, although The Coca-Cola company has a large amount of long and short term debt, net debt decreased from USD 23 bn to USD 22 bn in 2018 and its net debt/EBITDA is 2.7, which is below its peer's average. Its long term debt has mainly fixed rate and approximately USD 18 bn with maturities until 2023.

Earnings

In the 1Q19 revenues grew 5% to USD 8 bn YoY. Part of that increase was estimated to be related with the inventory that bottlers made regarding the uncertainty about Brexit. The margins improved comparing to prior year; The EBIT margin grew to 29.1% vs 23.7% in the last year. EPS grew 24% to USD 0.38.

Although operating cash rose 14% to USD 699 mn, free cash flow declined 1% to USD 335 mn triggered by increases in Capex, cash tax payments, and currency fluctuations

Guidance

The company expects for the FY19 to keep track of the performance of the 1Q19. Regarding revenues it is expected a 4% growth in organic revenues, a 12% to 13% growth in comparable net revenues (currency neutral) due to acquisitions, and a negative effect of 3% to 4% of currency in comparable net revenues. In the operating income, the company predicts a 10% to 11% growth in operating income (currency neutral) with a positive effect of acquisitions. In the EPS it is expected -1% to 1% growth vs. EPS in 2018. Furthermore, the outlook predicts at least USD 8 bn in cash from operations and expenditure in capex of nearly USD 2 bn. In 2019 the company expects to repurchase shares to balance the issuance of stocks by the employees as part of the stock-based compensation plan. The company also has a target of 2 – 2.5x net debt leverage and a payout ratio target of 75% over time.

▲ Main Brands & Operations

The Coca-Cola company owns many companies in the Nonalcoholic drinks Beverage sector. The company identifies its main operations as concentrate operations and finished products operations. Nevertheless, since it owns several brands in different segments, it is possible to identify them in these given categories:



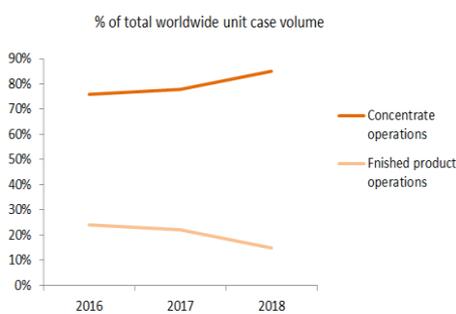
Sparkling soft drinks: In this segment some of the brands included are: Coca-Cola; Diet Coke/Coca-Cola Light; Coca-Cola Zero sugar; Fanta; Schweppes; Sprite; Thums up. Coca-Cola is the most famous product being sold since 1886 when the company was founded. Since then, it has developed other brands within Coca-Cola (Zero sugar, diet) in order to respond to the costumers' demand of healthier drinks. Regarding Schweppes, the Coca-Cola company, besides in the US, only owns this brand in certain countries.

Hydration: This segment varies from different types of water such as premium water and flavored water, enhanced water, and sport drinks (mostly energy drinks). Some of the brands are Aquarius, Dasani Glacéau smartwater, Glacéau vitaminwater, Ice Dew, I LHOAS, and Powerade.

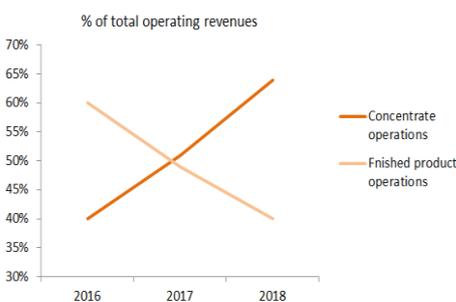
Juice, dairy and plant-based beverages: Some of these brands are AdeS, Dell Valle, innocent, Minute Maid, Minute Maid Pulpy, Simply, and ZICO.

Tea and Coffee: Most of the brands of this segment are from tea products; However, It is important to highlight Costa coffee as the recent acquisition of The Coca-Cola company to enter in the coffee market. Some of the other brands are Yataka, FUZE TEA, Georgia, Gold Peak, and HONEST TEA.

Source: Company's data



Source: Company's data



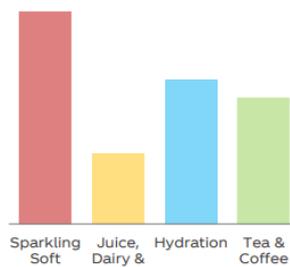
Source: Company's data

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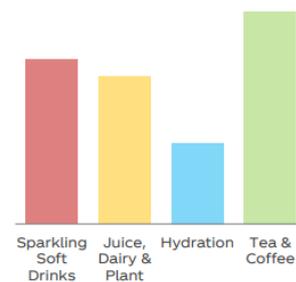
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Gross Margin by Category Cluster*



Gross Profit Dollars Per Case by Category Cluster*



Source: Company's data

As mentioned above, the company manufactures and operations are the following ones:

Concentrate operations (64% of operating revenues): This segment refers to the manufacture and sell of beverage concentrate. These are concentrates, syrups, beverage bases, source water, powder/ minerals, and sometimes sweeteners (depending on the product) that the Coca-Cola company sells to their bottling partners that later will transform it in finished beverages, package them in containers (such as cans or plastic bottles) using the Coca-Cola Co trademarks, and then sell to retailers. This segment represented in 2018 64% of the total net operating revenues (of all geographies operating segment revenues), about 25% more than in 2017 (51% of total net operating revenues). This segment also accounts for 85% of total worldwide unit case volume in 2018, a 9% increase from 2017. These operations are included in the geographic segment of the company

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Finished Products operations (36% of operating revenues): These operations sell to retailers, distributors, or wholesalers a wide variety of finished nonalcoholic beverage such as sparkling soft drinks and others described in the product segments above. These operations are usually linked with the bottling investments segment, since they consist primarily of company-owned bottling and distribution operations. This segment represented in 2018 36% of the total net operating revenue, less 27% than in 2017. Regarding the unit case volume, finish product operations account for 15% of the total worldwide unit case volume, a 32% decrease from 2017.

Until 2017 the finished product operations segment generated more net operating income than concentrate products, a trend that has been changing since 2017 and growing throughout the years due to the refranchising of some company-owned bottlers, which reduced the amount of the finished product operations since they were directly linked to the bottling investment operations. The agreement with bottler partners consists in an authorization to produce, package (in authorized containers), distribute, and sell the trademarks of Coca-Cola under the obligation to buy to the Coca-Cola company or company-owned all the concentrates and syrups. These refranchising activities decreased net revenues in 2018, when compared with 2015. However, this will increase margins by 760 bps (to 30.8%) and increase ROIC by 500 bps (to 21.7%).

▲ M&A

The Coca-Cola Co has invested in a large portfolio, having used that strategy to diversify the types of beverages it offers to its consumers. Now, the company owns more than 500 nonalcoholic beverages brands in different segments such as sparkling soft drinks, water, enhanced water, juice, coffee, tea, and energy drinks. In 2019 the company completed such acquisitions:

Costa Coffee: With the acquisition of Costa Coffee, the company completed its goal of entering in the hot beverages market and in that way covering all the major segments of beverages. The coffee market is a USD 0.5 trillion market and is in expansion. The acquisition will increase the Coca-Cola Co addressable market to USD 1.5 trillion, and generate a growth of 6% in revenue with the expansion to the hot beverage segment. Costa Coffee has a strong consumer proposition and operates in 30 countries with the UK being their strongest market, in which Costa sells their products mainly in stores, such as coffee shops, and vending machines. The business has been growing 12% in the recent years. The operations of Costa coffee are going to belong to the Global ventures segment, which is a new segment created in order to manage the results of Costa coffee, innocent juices and smoothies, and Dogadan tea. It will also manage the fees from the distribution agreement with Monster beverages.

Chi ltd: In January 2019, Coca-Cola Co completed the acquisition of the remaining 60% stake of Chi Ltd, a company founded in Nigeria in 1980, by USD 260 mn of cash. This company is one of the leading companies in the African market in the expansion of the beverage categories including juices, value-added dairy and iced tea. This acquisition is one more bet of Coca-Cola Co in the growth opportunity of emerging markets, in this case, the African market.

Monster Beverage Corporation: In 2015 Coca-Cola Co and Monster Beverage Corporation closed a strategic partnership in which Coca-Cola Co bought an approximate 16.7% stake in Monster. As part of the deal both companies transferred a part of each business. Monster transferred ownership of its non-energy business and Coca-Cola Co transferred ownership of its energy drinks business. The agreement also aimed to complete distribution agreements in the US and Canada and entering in long term agreements. The Coca-Cola Co made a net cash payment of nearly USD 2.15 bn to Monster.

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Relative Valuation

Name	Country	Market Cap (mn)	Currency	P/E 2019	P/E 2020E	EV/EBITDA	EV/Sales	Div. Yield	NetDebt/EBITDA	Cash Ratio	Current Ratio	Margin EBITDA
PEPSICO INC	UNITED STATES	182 650	USD	23,6	21,8	15,3	3,0	2,8%	2,2	0,4	1,0	19,9%
KEURIG DR PEPPER INC	UNITED STATES	41 034	USD	24,0	20,9	23,5	5,6	-	6,7	0,0	0,4	23,6%
MONSTER BEVERAGE CORP	UNITED STATES	34 501	USD	30,7	27,5	20,9	7,4	-	-0,6	1,6	3,0	35,2%
DANONE	FRANCE	48 931	EUR	18,6	16,9	12,1	2,1	2,7%	2,9	0,5	1,0	17,6%
NESTLE SA-REG	SWITZERLAND	304 309	CHF	22,9	21,0	15,2	2,9	0,0%	1,7	0,2	1,0	19,3%
CONSTELLATION BRANDS INC-A	UNITED STATES	39 171	USD	23,7	20,9	16,1	5,7	1,5%	4,7	0,0	1,2	35,2%
MONDELEZ INTERNATIONAL INC-A	UNITED STATES	75 450	USD	21,0	19,5	22,4	3,5	1,9%	4,6	0,1	0,5	15,7%
UNILEVER N V -NY SHARES	BRITAIN	174 623	USD	21,4	19,5	10,1	2,8	3,0%	1,4	0,2	0,8	28,1%
COCA-COLA CO/THE	UNITED STATES	208 101	USD	23,2	21,6	19,6	7,3	3,2%	2,7	0,5	1,0	37,0%
Average exc. Coca-Cola Co				23,2	21,0	17,0	4,1	1,49%	3,0	0,4	1,1	24%

Source: BiG Research

Coca-Cola Co has several multiples in line with its peer average. The P/E multiple is the same as the peer's average. Its margin EBITDA is 37% vs. 24% of peer and has a lower net debt/EBITDA (2.7 vs. 3.0). It also has a dividend yield much higher than its competitors, 3.2% vs. 1.49% of the peer's average.

Risks

Health concerns: Nowadays, health concerns are being more and more discussed with the increasing worry about obesity, and excess consumption of caloric sugar-sweetened drinks. As a result, the demand for healthier products in the beverage market is also increasing. Furthermore, governments are taking measures to reduce the quantity of sugar in products such as increases in taxes for sugar-sweetened beverages. Given that a majority of its products are soft drinks with high levels of sugar-sweetened concentrates, developing new beverages would lead to a decrease of revenues in several soft drink and others, and an increase in costs.

Innovation: Also as a consequence of the concerns about healthy consuming habits, the demand for healthier products and alternatives in the beverage market is also increasing. Consumers demand different types of beverages so, in a market with several competition from well established companies, innovation of products is a major concern to respond to the needs and keep its brands' relevance. This is a major risk if Coca-Cola Co fails in its innovations since it is a mature company that has a steady growth and so is very dependent on innovation to expand.

Exposure to currency effects: The Coca-Cola Co is highly exposed to currency since it is present and is expanding into several emerging countries using different types of currency other than USD. Therefore, currency fluctuations have an impact on net operating revenues and each year the company's has decreased revenues partially due to currency headwinds.

Rating		
Agency	Rating	Outlook
S&P	A+	STABLE
Moody's	A1	STABLE
Fitch	A	STABLE

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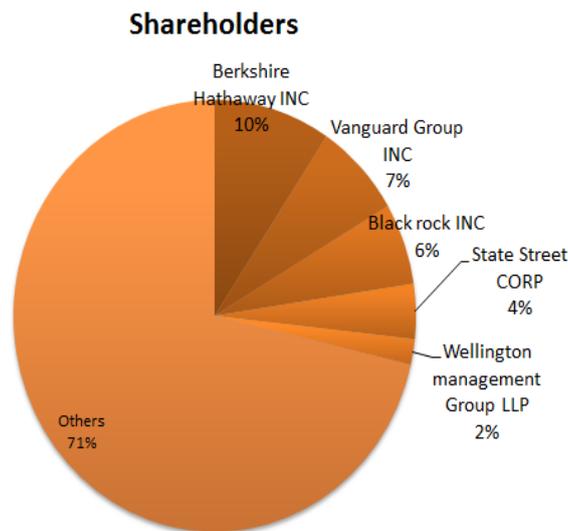
Graph



Source: BiG Global Trade

Calendar

30th July 2019 - 2Q19 results



Source: Company's data

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 - Buy, expected absolute return above 15%;
 - Accumulate, expected absolute return between +5% and +15%;
 - Keep/Neutral, expected absolute return between -5% and +5%;
 - Reduce, expected absolute return between -5% and -15%;
 - Sell, expected absolute return below -15%;
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PSI20 Notes in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Accumulate/Buy	2	66,7%
Keep/Neutral	1	33,3%
Reduce/Sell	0	0,0%
Total	3	100,0%

Source: BiG Research

Trading Ideas in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	9	56,3%
Stop Loss	7	43,8%
In Place	0	0,0%
Total	16	100,0%

Pair Trades in the last 12 months as of 31st of December of 2018:

	Number of Recommendations	%
Profit Taking	0	0%
Stop Loss	0	0%
In Place	0	0%
Total	0	0%

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