

# The Coca Cola Company

## An international acrobat: pricing, brand support a reliable playbook amid volatility

Reiterate Rating: BUY | PO: 68.00 USD | Price: 59.35 USD

### Strong 4Q price makes up for worse FX

4Q organic sales of +12% included +9% contribution from price/mix (BofA +6%e), more than offsetting -400bps of FX drag vs our -200%e ([first take note](#)), noting +3% volume growth would have been in line with BofAe ex -100bps of Middle East disruption drag.

### Balance of price and volume drive organic sales in '24

Latam pricing of +14%, taken almost entirely to offset hyperinflation in Argentina, was already factored into our model, with the upside to pricing coming from virtually every other market. In EMEA, where FX drag of -14pts was -4pts worse than BofAe, pricing of +24pts included +800bps of contribution against hyperinflation and came in well ahead of our +18%e. Likewise pricing of +10% in Asia and +8% in North America were +9pts and +6pts higher than BofAe, respectively. In our view, KO's global pricing ability helps derisk +6-7% topline guide and reassures on margin flex to deliver \$2.80-\$2.82 of EPS.

### Factors to consider in 1Q24

We forecast 1Q organic sales of +8.5% YoY including -1% of volume drag (flat on a unit case basis given one fewer selling day) which factors in unfavorable shipment timing in EMEA and Latam, and a slow start to the year in China against a +10% comp. We expect FX drag will be sequentially flat at -400bps of drag, with -12pts of drag from the expected intraquarter close of the Philippines refranchising deal. As the mechanical benefit from refranchising builds over FY24 we expect gross margin will likewise improve from our flat forecast in 1Q. Our \$0.73 EPS forecast is unchanged.

### Adjusting FY24 organic sales growth and EPS estimates

For the full year, we expect organic sales growth of +7% YoY (+1.5% volume/+5.5% price) which assumes about +2pts of steady-state price bolstered by about +3.5pts of hyperinflationary price. On top of the sequential gross margin build, we also assume a \$75mil step-up in quarterly interest expense beginning in 3Q as KO finances the \$6Bil payment related to the tax ruling. We raise our FY24/25 EPS ests by 1c to \$2.81/\$3.05.

### Reiterate Buy rating, \$68 PO on flex to deliver EPS

We reiterate our Buy rating and \$68 PO, which is still based on a CY25e P/E multiple of 22x, an 8% premium to the S&P Beverages index. This premium stands above KO's 3yr flat relative multiple, warranted in our view by their pricing power.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.48	2.69	2.81	3.05	3.27
GAAP EPS	2.19	2.47	2.81	3.05	3.27
EPS Change (YoY)	6.9%	8.5%	4.5%	8.5%	7.2%
Consensus EPS (Bloomberg)			2.81	2.99	3.21
DPS	1.74	1.82	1.90	1.99	2.08
Valuation (Dec)					
P/E	23.9x	22.1x	21.1x	19.5x	18.1x
GAAP P/E	27.1x	24.0x	21.1x	19.5x	18.1x
Dividend Yield	2.9%	3.1%	3.2%	3.4%	3.5%
EV / EBITDA*	22.3x	20.9x	19.7x	18.3x	17.4x
Free Cash Flow Yield*	3.7%	3.8%	3.6%	4.3%	4.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

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**Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.**

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#### Equity

##### Key Changes

(US\$)	Previous	Current
2024E Rev (m)	47,054.7	45,724.8
2025E Rev (m)	49,764.3	48,777.9
2026E Rev (m)	52,645.3	51,311.1
2024E EPS	2.80	2.81
2025E EPS	3.04	3.05

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#### Stock Data

Price	59.35 USD
Price Objective	68.00 USD
Date Established	15-Dec-2023
Investment Opinion	A-1-7
52-Week Range	51.55 USD - 64.99 USD
Mkt Val (mn) / Shares Out (mn)	255,561 USD / 4,306.0
Free Float	89.8%
Average Daily Value (mn)	818.98 USD
BofA Ticker / Exchange	KO / NYS
Bloomberg / Reuters	KO US / KO.N
ROE (2024E)	50.1%
Net Dbt to Eqty (Dec-2023A)	119.0%
ESGMeter <sup>TM</sup>	High

**ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".**

#### Glossary:

EMEA: Europe, Middle East, Africa

APAC: Asia-Pacific

Latam: Latin America

# iQprofile<sup>SM</sup> The Coca Cola Company

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.9%	13.8%	13.7%	14.5%	15.3%
Return on Equity	45.9%	46.6%	50.1%	55.0%	53.0%
Operating Margin	28.7%	29.1%	30.0%	30.4%	30.6%
Free Cash Flow	9,534	9,747	9,224	11,071	11,804

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.0x	0.9x	1.0x	1.0x
Asset Replacement Ratio	1.2x	1.6x	1.4x	0.9x	1.0x
Tax Rate	19.0%	19.0%	19.2%	19.5%	19.5%
Net Debt-to-Equity Ratio	114.7%	119.0%	153.9%	129.5%	105.9%
Interest Cover	27.0x	20.7x	18.3x	19.5x	21.8x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	43,046	45,784	45,725	48,778	51,311
% Change	11.4%	6.4%	-0.1%	6.7%	5.2%
Gross Profit	25,229	27,319	27,555	29,441	30,967
% Change	8.5%	8.3%	0.9%	6.8%	5.2%
EBITDA	13,605	14,464	15,340	16,523	17,411
% Change	8.3%	6.3%	6.1%	7.7%	5.4%
Net Interest & Other Income	(474)	(783)	(690)	(700)	(660)
<b>Net Income (Adjusted)</b>	<b>10,803</b>	<b>11,660</b>	<b>12,182</b>	<b>13,124</b>	<b>14,003</b>
<b>% Change</b>	<b>7.1%</b>	<b>7.9%</b>	<b>4.5%</b>	<b>7.7%</b>	<b>6.7%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	10,803	11,660	12,182	13,124	14,003
Depreciation & Amortization	1,260	1,128	1,600	1,700	1,700
Change in Working Capital	(605)	(846)	(779)	462	452
Deferred Taxation Charge	(122)	(2)	0	0	0
Other Adjustments, Net	(318)	(341)	(1,578)	(2,654)	(2,709)
Capital Expenditure	(1,484)	(1,852)	(2,201)	(1,561)	(1,642)
<b>Free Cash Flow</b>	<b>9,534</b>	<b>9,747</b>	<b>9,224</b>	<b>11,071</b>	<b>11,804</b>
<b>% Change</b>	<b>-15.3%</b>	<b>2.2%</b>	<b>-5.4%</b>	<b>20.0%</b>	<b>6.6%</b>
Share / Issue Repurchase	(581)	(1,750)	400	400	400
Cost of Dividends Paid	(7,616)	(7,952)	(8,235)	(8,552)	(8,903)
Change in Debt	(958)	1,857	4,500	(2,000)	(2,000)

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	9,519	9,366	9,255	10,173	11,475
Trade Receivables	3,487	3,410	3,216	3,407	3,609
Other Current Assets	9,585	13,956	13,706	14,126	14,344
Property, Plant & Equipment	9,841	9,236	9,837	9,698	9,640
Other Non-Current Assets	60,331	61,735	61,735	61,735	61,735
<b>Total Assets</b>	<b>92,763</b>	<b>97,703</b>	<b>97,749</b>	<b>99,140</b>	<b>100,802</b>
Short-Term Debt	2,772	6,517	6,517	6,517	6,517
Other Current Liabilities	16,952	17,054	15,832	16,904	17,775
Long-Term Debt	36,377	35,547	40,047	38,047	36,047
Other Non-Current Liabilities	10,836	11,105	11,105	11,105	11,105
<b>Total Liabilities</b>	<b>66,937</b>	<b>70,223</b>	<b>73,501</b>	<b>72,573</b>	<b>71,444</b>
<b>Total Equity</b>	<b>25,826</b>	<b>27,480</b>	<b>24,249</b>	<b>26,566</b>	<b>29,358</b>
<b>Total Equity &amp; Liabilities</b>	<b>92,763</b>	<b>97,703</b>	<b>97,749</b>	<b>99,140</b>	<b>100,802</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Soft Drinks

## Company Description

Coca-Cola (KO) is the world's biggest brand and largest manufacturer of soft-drink concentrate and syrups. It enjoys a 50% share of the world's carbonated soft drink (CSD) market (and 44% share of the US market). KO continues to grow its portfolio of non-CSD brands as consumers' diets shift. Over 70% of its profits are derived outside of the US. Key US brands include Coca-Cola trademark, Sprite, Fanta, Minute Maid, Powerade, Dasani and Nestea.

## Investment Rationale

Best in class, clear strategic direction and a good balance between investment markets versus markets that are contributing profit growth have KO delivering good results now and position it well in a recovery. Downside risks to our investment thesis and price objective are emerging market volatility, currency translation, and commodity cost volatility.

## Stock Data

Average Daily Volume 13,799,237

## Quarterly Earnings Estimates

	2023	2024
Q1	0.68A	0.73E
Q2	0.78A	0.81E
Q3	0.74A	0.77E
Q4	0.49A	0.50E

## Price objective basis & risk

### The Coca Cola Company (KO)

Our \$68 PO is based on a target CY25e P/E multiple of 22x. Our target multiple implies an 8% premium to non-alcoholic beverage peers, warranted in our view by balanced and resilient organic sales growth supported by their scale and incidence pricing model which has proven to be a tested topline growth lever.

Upside risks to our PO: 1) Strong growth in developed and emerging markets. 2) Weaker US dollar vs. other currencies. 3) Improvement in free cash flow conversion.

Downside risks to our PO: 1) Volatility in developed and emerging markets. 2) EPS headwinds from a stronger dollar. 3) Consumer concerns about sugar and calories.

## Analyst Certification

I, Bryan D. Spillane, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
<b>NEUTRAL</b>				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA
<b>UNDERPERFORM</b>				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane



**US - Consumables Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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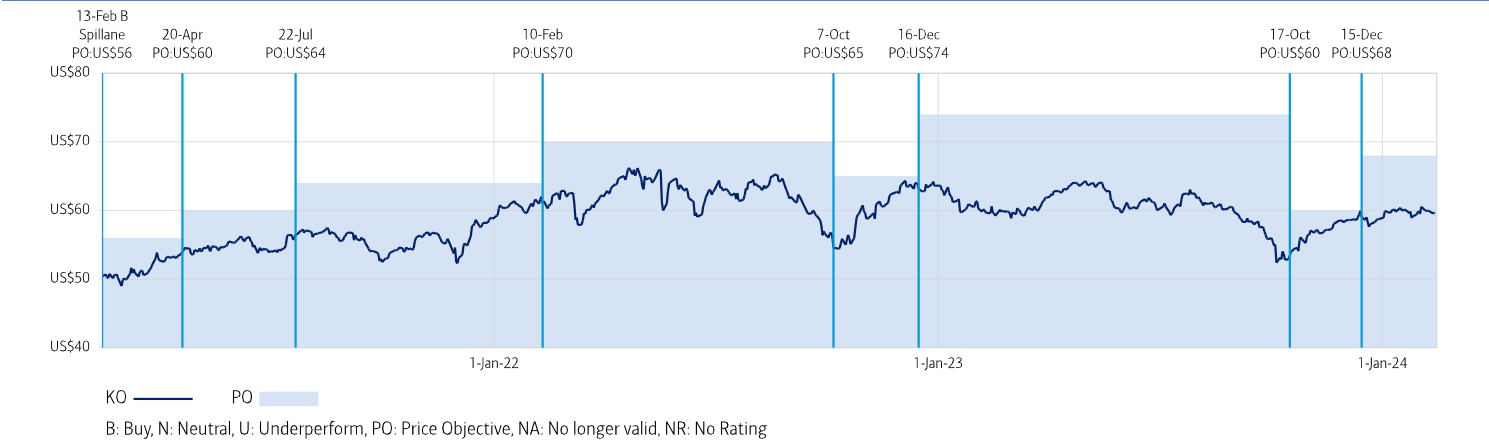
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Coca Cola (KO) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Beverages - Soft Drinks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	11	78.57%	Buy	6	54.55%
Hold	0	0.00%	Hold	0	0.00%
Sell	3	21.43%	Sell	1	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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