

## Coca-Cola Femsa

## Well-hydrated growth in 2024: volume and easing costs are drivers

Reiterate Rating: BUY | PO: 185.00 MXN | Price: 161.74 MXN

## Raise 2024-25 EPS by 2% and PO to P\$185; Buy

We adjust our 2024 and 2025 EPS by +2% and increase our PO to P\$185/US\$109 (from P\$180/US\$105 previously). This incorporates 4Q23 results and 2024 volume guidance of mid-single digit growth. We reiterate our Buy rating on Coca-Cola Femsa (KOF) given an attractive sales growth algorithm of low double-digits, with a balanced performance between volume and pricing. At the EBITDA level, we expect even a stronger growth on lower packaging costs and favorable FX, which should offset sugar price volatility. In our view, solid growth should favor a re-rating of the shares going forward.

## Volume growth to favor operating leverage

As in 2023, a solid volume growth is expected in this year, and it should favor KOF's operating leverage. Similar to KOF's guidance, we expect volume to grow 5.7% in 2024 vs. 7.8% in 2023. We should see improvements in most countries, mainly Mexico, Brazil and Guatemala. Management is focus on recovering market share, promoting non-carbonated soft drinks and increasing per capita consumption. Affordability, digital tools and multi-distribution strategy will be key to foster volume growth. In 2024, 2025 and 2026, capex will be between 8% and 9% of sales because the company will increase production capacity by 15%.

## Lower packaging cost to be supportive of margins

The strong top line growth as well as the decline on PET (polyethylene terephthalate) prices should mitigate the increase on labor costs and higher sugar prices, in our view. We expect EBITDA to grow 15% YoY with a margin expansion of 50bps (to 19.4%), which is in line with consensus, but above the company's expectation of ending up this year with flat margins.

## Growth should be supportive of re-rating

KOF is trading at 7x EV/EBITDA 2024e and 14x P/E 2024e. Adjusted for growth, the Mexican bottler is trading at a discount of 20% and 16%, respectively, against global beverages. KOF's free cash flow yield is 4% vs. 5% of peers' median.

Estimates(Dec) (MXN)	2022A	2023A	2024E	2025E	2026E
EPS	9.06	9.34	11.52	13.26	14.95
EPS Change (YoY)	21.3%	3.1%	23.3%	15.1%	12.7%
DPS	5.43	5.80	6.08	6.54	7.45
ADR EPS (US\$)	4.50	5.26	6.85	7.88	8.89
ADR DPS (US\$)	2.70	3.27	3.62	3.89	4.43
Valuation (Dec)					
P/E	17.9x	17.3x	14.0x	12.2x	10.8x
Dividend Yield	3.4%	3.6%	3.8%	4.0%	4.6%
EV / EBITDA*	9.1x	8.2x	7.2x	6.3x	5.8x
Free Cash Flow Yield*	3.6%	5.7%	4.4%	5.2%	6.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 8.

12 March 2024

## Equity

## Key Changes

(MXN)	Previous	Current
Price Obj.	180.00	185.00
2024E Rev (m)	271,638.9	277,935.3
2025E Rev (m)	300,586.2	306,823.8
2026E Rev (m)	324,149.8	331,592.0
2024E EPS	11.32	11.52
2025E EPS	13.03	13.26
2026E EPS	14.43	14.95
2024E DPS	6.00	6.08

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## Stock Data

Price (Common / ADR)	161.74 MXN / 96.56 USD
Price Objective	185.00 MXN / 109.00 USD
Date Established	12-Mar-2024 / 12-Mar-2024
Investment Opinion	A-1-7 / B-1-7
52-Week Range	126.67 MXN - 183.49 MXN
Market Value (mn)	339,789 MXN
Free Float	95.2%
Average Daily Value	6.68 USD
Shares Outstanding (mn)	2,100.8 / 210.1
BofA Ticker / Exchange	COCSF / MEX
BofA Ticker / Exchange	KOF / NYS
Bloomberg / Reuters	KOFUBL MM / KOFUBLMX
ROE (2024E)	18.2%
Net Dbt to Eqty (Dec-2023A)	27.4%

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**Refer to important disclosures on page 9 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 7.**

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Timestamp: 12 March 2024 06:00AM EDT

# iQprofile<sup>SM</sup> Coca-Cola Femsa

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

(MXN Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	10.9%	11.7%	13.3%	13.9%	14.3%
Return on Equity	15.4%	15.5%	18.2%	19.2%	19.6%
Operating Margin	13.6%	13.9%	14.3%	14.8%	15.1%
Free Cash Flow	12,240	19,224	14,857	17,507	20,379

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

(MXN Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.7x	2.1x	1.6x	1.6x	1.5x
Asset Replacement Ratio	1.7x	1.7x	1.7x	1.7x	1.7x
Tax Rate	25.0%	30.6%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	30.7%	27.4%	23.7%	19.2%	14.7%
Interest Cover	4.7x	4.8x	5.9x	7.5x	9.2x

## Income Statement Data (Dec)

(MXN Millions)	2022A	2023A	2024E	2025E	2026E
Sales	226,809	247,717	277,935	306,824	331,592
% Change	16.9%	9.2%	12.2%	10.4%	8.1%
Gross Profit	100,333	112,049	127,044	141,657	153,942
% Change	13.6%	11.7%	13.4%	11.5%	8.7%
EBITDA	42,681	46,939	53,868	60,954	66,713
% Change	10.1%	10.0%	14.8%	13.2%	9.4%
Net Interest & Other Income	(4,542)	(4,613)	(3,525)	(3,751)	(3,018)
<b>Net Income (Adjusted)</b>	<b>19,038</b>	<b>19,615</b>	<b>24,198</b>	<b>27,855</b>	<b>31,415</b>
<b>% Change</b>	<b>21.3%</b>	<b>3.0%</b>	<b>23.4%</b>	<b>15.1%</b>	<b>12.8%</b>

## Free Cash Flow Data (Dec)

(MXN Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	19,038	19,615	24,198	27,855	31,415
Depreciation & Amortization	11,836	12,519	14,047	15,503	16,755
Change in Working Capital	(10)	7,211	(345)	(436)	(346)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,044	1,450	581	666	740
Capital Expenditure	(19,669)	(21,571)	(23,624)	(26,080)	(28,185)
<b>Free Cash Flow</b>	<b>12,240</b>	<b>19,224</b>	<b>14,857</b>	<b>17,507</b>	<b>20,379</b>
<b>% Change</b>	<b>-21.6%</b>	<b>57.1%</b>	<b>-22.7%</b>	<b>17.8%</b>	<b>16.4%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(11,408)	(12,185)	(12,773)	(13,738)	(15,643)
Change in Debt	(6,482)	(13,070)	0	0	0

## Balance Sheet Data (Dec)

(MXN Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	40,277	31,060	33,144	36,913	41,649
Trade Receivables	16,318	17,750	20,148	22,242	24,038
Other Current Assets	22,617	18,985	20,562	21,835	22,948
Property, Plant & Equipment	71,205	78,730	88,307	98,884	110,314
Other Non-Current Assets	127,579	126,946	126,946	126,946	126,946
<b>Total Assets</b>	<b>277,995</b>	<b>273,471</b>	<b>289,107</b>	<b>306,820</b>	<b>325,895</b>
Short-Term Debt	8,996	892	892	892	892
Other Current Liabilities	48,963	53,975	57,604	60,535	63,098
Long-Term Debt	71,809	66,843	66,843	66,843	66,843
Other Non-Current Liabilities	16,351	18,056	18,056	18,056	18,056
<b>Total Liabilities</b>	<b>146,120</b>	<b>139,766</b>	<b>143,395</b>	<b>146,326</b>	<b>148,889</b>
<b>Total Equity</b>	<b>131,875</b>	<b>133,705</b>	<b>145,711</b>	<b>160,494</b>	<b>177,005</b>
<b>Total Equity &amp; Liabilities</b>	<b>277,995</b>	<b>273,471</b>	<b>289,107</b>	<b>306,820</b>	<b>325,895</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 8.

## Company Sector

Soft Drinks

## Company Description

Coca Cola FEMSA is the largest bottler for The Coca Cola Company (KO) outside the US, with total sales volumes of around 4bn unit cases, serving more than 375mn people. It manufactures and distributes Coca-Cola products in Argentina, Brazil, Colombia, Costa Rica, Guatemala, Mexico, Nicaragua, Panama and Venezuela. KOF is controlled by FEMSA and KO, according to a shareholders agreement.

## Investment Rationale

We are positive on KOF due to an attractive sales growth algorithm with a balanced performance between volume and pricing. Also, the potential distribution agreements with other spirit/beer, personal care and home product companies, lower packaging costs and favorable FX can favor its operating growth.

## Stock Data

Average Daily Volume	649,629
Shares / ADR	10.00

## Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	109.00
2024E EPS	6.73	6.85
2025E EPS	7.75	7.88
2026E EPS	8.58	8.89
2024E DPS	3.57	3.62

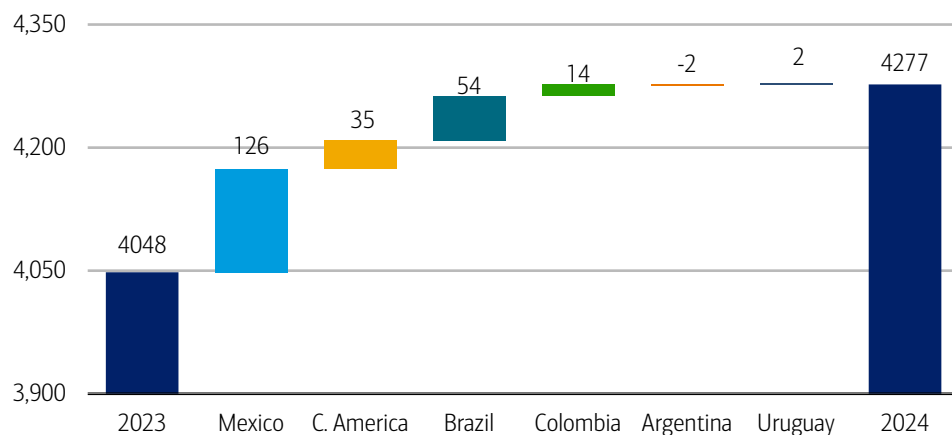
# Reiterate Buy with PO of P\$185

## Volume growth is priority

KOF's management is centered on growing volume across all countries, although they are aware about the challenge that represents Argentina in the short term given the weak macroeconomic environment. The company wants to take advantage of the resilient consumption dynamics seen in markets like Mexico, Brazil, Guatemala and Colombia. Affordability and digitalization will be key to foster volume growth. Also, the company is not expected to be aggressive on pricing to favor demand.

### Exhibit 1: KOF – volume performance 2024

All countries, except Argentina, should contribute to volume improvement in 2024



Source: BofA Global Research estimates

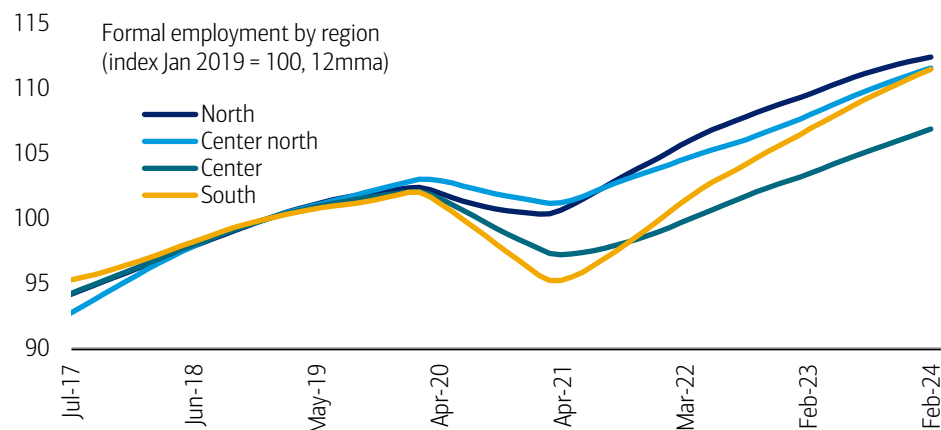
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### Mexico: market share recovery to favor volume...investments too

In Mexico, we expect volume improvement to be partly driven by a stronger market share. In the last few years, KOF lost approximately 5pp of market share. In 2023, it recovered 1pp after growing 9% on volume. Management wants to regain the missing 4pp in the next few years. We also expect KOF to benefit from the investments (nearshoring/government) done in the south of the country, which has helped job creation in the region to pick up. Social programs and the expenditure around the electoral process will also favored consumption. We anticipate Mexico volume to grow 6% in 2024 vs. 9% in 2023.

### Exhibit 2: Mexico – Formal employment by region

The South of Mexico has benefited from a higher investment.



Source: BofA Global Research, IMSS, Ministry of Labor

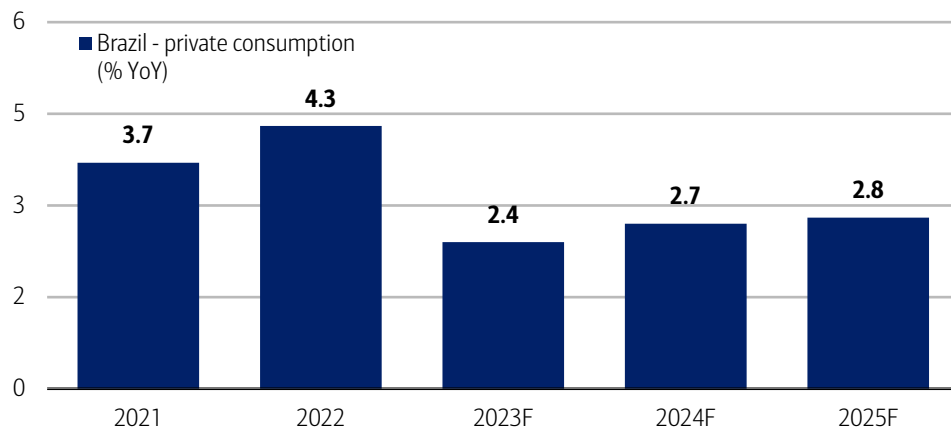
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### Brazil: soft drinks' demand backed up by private consumption

In Brazil, soft drinks' demand should be supported by a positive performance of private consumption, which is even expected to improve in 2024. Private consumption decelerated to 2.4% in 2023 vs. 4.3% in 2022. This year it is expected to increase 2.7%. KOF is focused on improving Brazil's per capita consumption (PCC), which is one of the lowest among its territories. In the last five years, Brazil's PCC grew 2.4% (CAGR 18-23). In 2024, we expect Brazil volume to grow 5% YoY vs. 6% last year.

#### Exhibit 3: Brazil – private consumption evolution

The strength of private consumption should favor soft drinks' demand



Source: BofA Global Research estimates

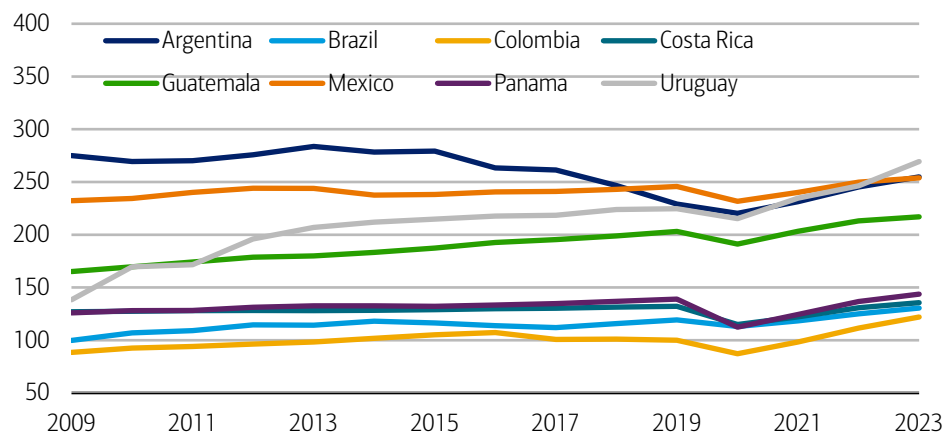
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### Push for higher per capita consumption

Affordability and digitalization will be key for KOF to keep pushing for a higher per capita consumption across markets, mainly Brazil, Colombia and Guatemala. In Guatemala, volume on average has grown 15% between 2021 and 2023. We expect the double-digit growth to continue in 2024. Regarding Colombia, volume was up 11% CAGR 2020-2023. This year we expect volume to be up mid-single digit after the government established an excise tax in sugary drinks starting in November 2023.

#### Exhibit 4: Soft drinks – per capita consumption performance

KOF is focused on raising the per capita consumption of key countries like Brazil, Colombia and Guatemala



Source: BofA Global Research, Euromonitor

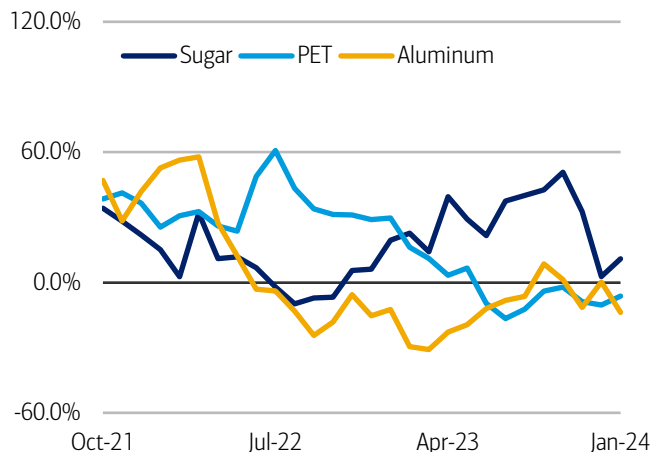
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## Costs at bay

Together with the strong top line growth, we expect KOF to benefit from lower PET costs to achieve better margins. We expect EBITDA to grow 15% in 2024 with a margin expansion of 50bps. We expect packaging costs, which have a greater contribution on total costs (25%), to help mitigate the volatility on sugar prices (14%).

### Exhibit 5: KOF – main raw material costs performance (% YoY)

PET costs have been down for 7 months; sugar prices are volatile

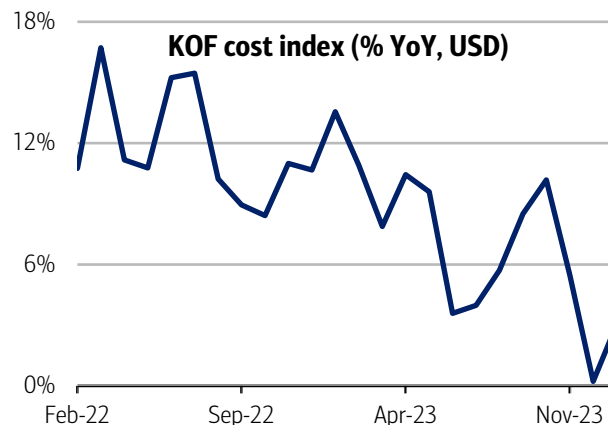


Source: BofA Global Research, Bloomberg

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### Exhibit 6: KOF cost index\*

KOF should benefit from a strong top line and lower input costs



\*Cost index: packaging 25%, sugar 14%, fructose 6%

Source: BofA Global Research, Bloomberg

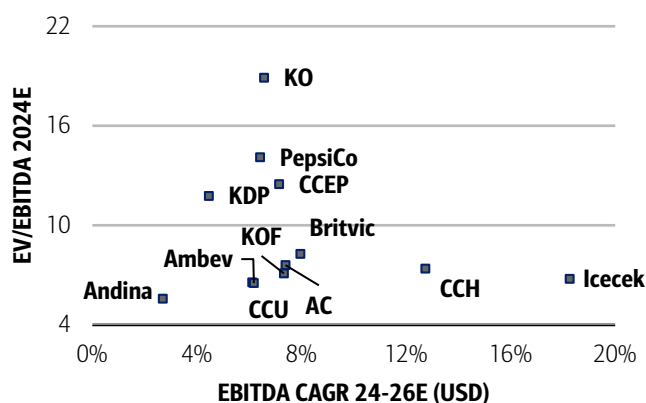
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## Better growth than peers suggest re-rating

KOF is trading at 7.1x EV/EBITDA 2024e, which represents a discount of 9% vs. global beverages' median. Adjusted for growth, the discount is of 20%. On P/E 2024e, the Mexican bottler trades at 14x, in line vs. international peers' median. In terms of PEG, KOF trades at a discount of 16%.

### Exhibit 7: Beverages – EV/EBITDA fwd vs. EBITDA CAGR 24-26e

KOF trades at a discount of 9%

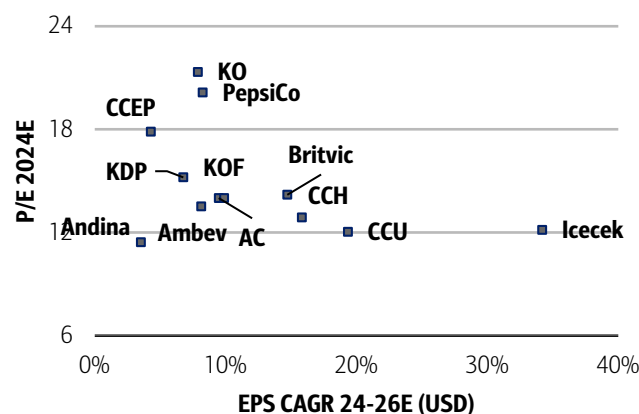


Source: BofA Global Research, Bloomberg

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### Exhibit 8: Beverages – P/E fwd vs. EPS CAGR 24-26e

KOF trades in line with peers



Source: BofA Global Research, Bloomberg

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## Old vs. new estimates

We raise our 2024-25 EPS by 2%, respectively, to incorporate 4Q23 results as well as Management's guidance of growing volume mid-single digit in 2024. We expect revenues to grow 12% in 2024 with a balance performance between volume and price. Most countries should contribute to such growth. The main challenge will be in Argentina given the macro. The solid top line, together with lower packaging, should be supportive of better margins in our view. This should offset higher labor costs and sugar price volatility.

### Exhibit 9: KOF – old vs. new estimates

We adjust estimates to incorporate a mid-single digit growth on volume in 2024, similar to guidance

		2024E	2025E	2026E
<b>Net Revenues (P\$mn)</b>	<b>New Estimates</b>	<b>277,935</b>	<b>306,824</b>	<b>331,592</b>
	Old Estimates	271,639	300,586	324,150
	Change	2.3%	2.1%	2.3%
<b>EBITDA (P\$mn)</b>	<b>New Estimates</b>	<b>53,868</b>	<b>60,954</b>	<b>66,713</b>
	Old Estimates	52,565	59,029	64,337
	Change	2.5%	3.3%	3.7%
<b>EBITDA margin</b>	<b>New Estimates</b>	<b>19.4%</b>	<b>19.9%</b>	<b>20.1%</b>
	Old Estimates	19.4%	19.6%	19.8%
	Change	0.03 pp	0.22 pp	0.27 pp
<b>Net Income (P\$mn)</b>	<b>New Estimates</b>	<b>24,198</b>	<b>27,855</b>	<b>31,415</b>
	Old Estimates	23,780	27,378	30,325
	Change	1.8%	1.7%	3.6%
<b>EPS (P\$)</b>	<b>New Estimates</b>	<b>11.52</b>	<b>13.26</b>	<b>14.95</b>
	Old Estimates	11.32	13.03	14.43
	Change	1.8%	1.7%	3.6%
<b>Net Debt (P\$mn)</b>	<b>New Estimates</b>	<b>34,591</b>	<b>30,822</b>	<b>26,086</b>
	Old Estimates	30,441	27,451	23,534
	Change	13.6%	12.3%	10.8%

Source: BofA Global Research estimates

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## Price objective basis & risk

### Coca-Cola Femsa (COCSF / KOF)

Our price objective of P\$185/sh (US\$109/ADS) is based on a 50% DCF / 50% 2024E P/E target multiple approach of 16.0x our 24E, in line with its historical average, given resilient performance in Mexico and positive recovery in South America. Our DCF is based on a WACC of 11.6% and a terminal growth rate of 3%.

Upside risks to our PO are: 1) better market share recovery in Mexico, 2) stronger volume growth in South America, 3) stronger pricing, 4) potential agreements to distribute spirits, personal care and home products.

Downside risks to our PO are: 1) raw materials volatility, 2) FX depreciation risks in Argentina, Brazil, Colombia, 3) further increase of concentrate prices, 4) potential trade down

## Analyst Certification

We, Fernando Olvera and Isabella Simonato, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### Latin America - Agribusiness, Food & Beverage Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	3tentos	XTTUF	TTEN3 BZ	Isabella Simonato
	Adecoagro	AGRO	AGRO US	Isabella Simonato
	AmBev	ABEV	ABEV US	Isabella Simonato
	AmBev	AVBPF	ABEV3 BZ	Isabella Simonato
	Arca Continental	EMBVF	AC* MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCSF	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
<b>NEUTRAL</b>				
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	M. Dias Branco	XDMIF	MDIA3 BZ	Isabella Simonato
	Minerva	MRVSF	BEEF3 BZ	Isabella Simonato
	Sao Martinho	SRTOF	SMT03 BZ	Isabella Simonato
	SLC Agricola	SLCJF	SLCE3 BZ	Isabella Simonato
<b>UNDERPERFORM</b>				
	BRF	BRFS	BRFS US	Isabella Simonato
	BRF	BRFFF	BRFS3 BZ	Isabella Simonato
	Camil Alimentos	XSREF	CAML3 BZ	Isabella Simonato
	Coca-Cola Andina	AKOBF	ANDINAB CI	Fernando Olvera
	Coca-Cola Andina-ADR	AKOB	AKO/B US	Fernando Olvera
	Cuervo	BCCLF	CUERVO* MM	Fernando Olvera
	SQM	SQM	SQM US	Isabella Simonato

## 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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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 & Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

### Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

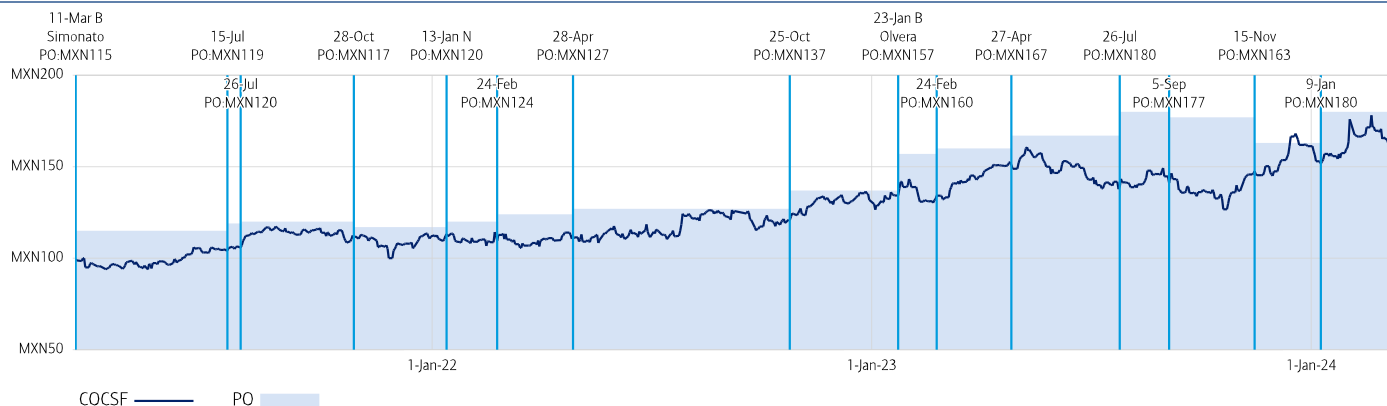
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# Disclosures

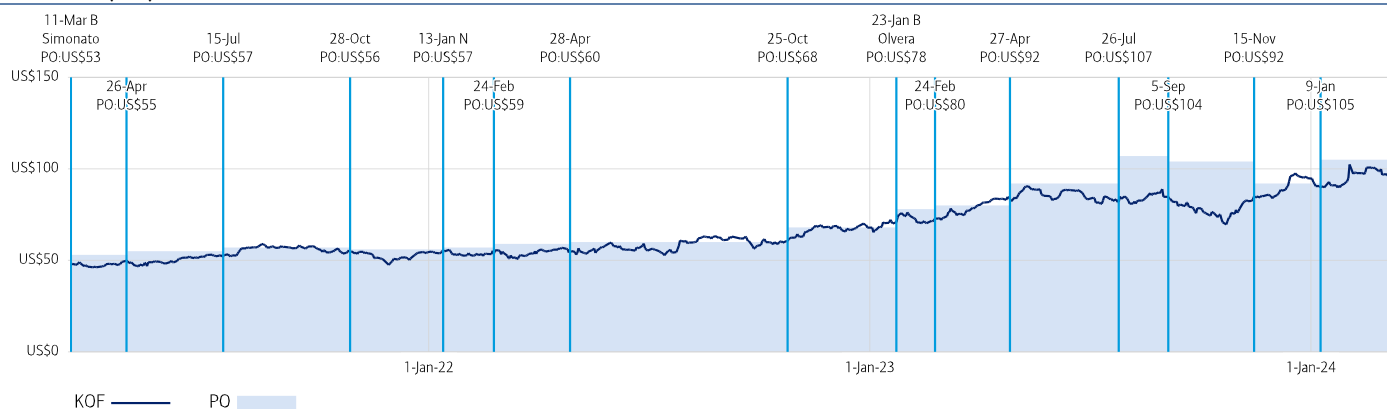
## Important Disclosures

### Coca-Cola Femsa (COCSF) 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.

### Coca-Cola Femsa (KOF) 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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