

## Coca-Cola Andina

## Beat 4Q23 on better pricing; Argentina to limit growth in 2024

Reiterate Rating: UNDERPERFORM | PO: 2,000.00 CLP | Price: 2,220.00 CLP

## EBITDA grew 7% YoY, 9% above expectations

Andina delivered better than expected 4Q23 results supported by stronger figures in Brazil and Argentina (which still was weak). Volume was down 1% YoY (vs. 0%e) due to high-single digit declines in Chile and Argentina. Top line declined 2% YoY, but it was 9% above our estimates due to a stronger pricing in Brazil and Argentina. EBITDA rose 7% YoY with a margin of 20.6% (+1.8pp YoY) on lower packaging costs and positive expense absorption. EPS grew 79% YoY on lower interest expenses and lower taxes.

## Demand in Chile was weaker than expected, volume -8%

In Chile, volume dropped 8% YoY (4% below ours) due to lower demand on soft drinks (-10%), which was partly offset by 1% increase in alcoholic beverages. Sales were flat YoY (3% below ours) favored by a positive price/mix. EBITDA grew 6% YoY (3% above ours) on lower packaging costs, which drove margin up to 20% vs. 19% last year.

## Brazil exceeded our top line growth estimates by 16%

Brazil revenues grew 26% YoY (16% above ours) supported by a better volume growth (+11% YoY) and a strong pricing. Volume of alcoholic beverages, which contributes to 2% of total, grew 50% YoY. EBITDA rose 25% YoY with lower input costs offset by high distribution, labor and marketing expenses.

## Argentina better, but still weak; Paraguay positive

Argentina's volume declined 8% YoY (4% below ours) given a lower demand of soft drinks. Sales were down 36% YoY affected by FX, but it was 39% above ours on pricing. EBITDA -16% YoY (76% above ours) on better cost absorption. Thus, margin expanded 4.4pp, to 18.6%. Paraguay beat estimates with sales/EBITDA up 9%/18% YoY.

## Reiterate Underperform; new PO of CL\$2,000/US\$12.5

We raise our PO to CL\$2,000/US\$12.5 (from CL\$1,800/US\$11.3) to incorporate better 4Q23 results, which resulted in a 9% increase in our 2024e EPS. We reiterate our Underperform rating due to challenges in Argentina that should limit its growth in 2024.

Estimates(Dec) (CLP)	2022A	2023A	2024E	2025E	2026E
EPS	145.50	211.27	219.08	227.55	239.50
EPS Change (YoY)	-11.1%	45.2%	3.7%	3.9%	5.3%
DPS	289.80	175.24	186.90	165.25	158.80
ADR EPS (US\$)	1.00	1.51	1.41	1.46	1.54
ADR DPS (US\$)	1.99	1.25	1.20	1.06	1.02
Valuation (Dec)					
P/E	15.3x	10.5x	10.1x	9.8x	9.3x
Dividend Yield	13.1%	7.9%	8.4%	7.4%	7.2%
EV / EBITDA*	6.5x	6.0x	5.8x	5.6x	5.3x
Free Cash Flow Yield*	5.6%	8.9%	4.8%	5.3%	8.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 5.

31 January 2024

## Equity

## Key Changes

(CLP)	Previous	Current
Price Obj.	1,800.00	2,000.00
2024E Rev (m)	2,783,225.5	2,877,184.6
2025E Rev (m)	2,834,211.5	2,906,200.4
2026E Rev (m)	2,956,357.3	3,030,365.2
2024E EPS	200.64	219.08
2025E EPS	222.27	227.55
2026E EPS	232.98	239.50
2024E DPS	174.30	186.90

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## Stock Data

Price (Common / ADR)	2,220.00 CLP / 14.21 USD
Price Objective	2,000.00 CLP / 12.50 USD
Date Established	31-Jan-2024 / 31-Jan-2024
Investment Opinion	A-3-8 / B-3-8
52-Week Range	1,755.10 CLP - 2,380.00 CLP
Market Value (mn)	2,101,405 CLP
Free Float	85.1%
Average Daily Value	4.53 USD
Shares Outstanding (mn)	946.6 / 157.8
BofA Ticker / Exchange	AKOBF / SGO
BofA Ticker / Exchange	AKOB / NYS
Bloomberg / Reuters	ANDINAB CI / ANDINAB.SN
ROE (2024E)	23.0%
Net Dbt to Eqty (Dec-2023A)	67.9%

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**Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.**

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Timestamp: 31 January 2024 06:00AM EST

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

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

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	9.1%	12.0%	11.8%	11.9%	12.1%
Return on Equity	14.3%	23.0%	23.0%	22.7%	22.3%
Operating Margin	12.9%	13.6%	13.8%	14.1%	14.2%
Free Cash Flow	117,018	187,624	101,310	111,659	176,656

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

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.2x	1.9x	1.6x	1.6x	1.6x
Asset Replacement Ratio	1.6x	1.6x	1.9x	1.9x	1.4x
Tax Rate	42.3%	31.3%	35.0%	35.0%	35.0%
Net Debt-to-Equity Ratio	63.8%	67.9%	73.3%	73.2%	65.5%
Interest Cover	5.8x	5.8x	6.6x	6.8x	7.2x

## Income Statement Data (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,659,376	2,760,169	2,877,185	2,906,200	3,030,365
% Change	24.3%	3.8%	4.2%	1.0%	4.3%
Gross Profit	1,028,361	1,084,482	1,119,735	1,126,661	1,178,246
% Change	27.6%	5.5%	3.3%	0.6%	4.6%
EBITDA	462,806	497,112	520,497	533,364	559,911
% Change	20.6%	7.4%	4.7%	2.5%	5.0%
Net Interest & Other Income	(75,753)	(37,645)	(44,093)	(44,063)	(46,451)
<b>Net Income (Adjusted)</b>	<b>137,728</b>	<b>199,979</b>	<b>207,380</b>	<b>215,394</b>	<b>226,704</b>
<b>% Change</b>	<b>-11.1%</b>	<b>45.2%</b>	<b>3.7%</b>	<b>3.9%</b>	<b>5.3%</b>

## Free Cash Flow Data (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	137,728	199,979	207,380	215,394	226,704
Depreciation & Amortization	119,685	120,816	124,160	124,392	129,719
Change in Working Capital	(12,231)	52,582	(3,890)	536	(1,771)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	58,539	6,955	3,835	3,833	3,826
Capital Expenditure	(186,702)	(192,707)	(230,175)	(232,496)	(181,822)
<b>Free Cash Flow</b>	<b>117,018</b>	<b>187,624</b>	<b>101,310</b>	<b>111,659</b>	<b>176,656</b>
<b>% Change</b>	<b>-19.7%</b>	<b>60.3%</b>	<b>-46.0%</b>	<b>10.2%</b>	<b>58.2%</b>
Share / Issue Repurchase	NA	NA	NA	NA	NA
Cost of Dividends Paid	(274,316)	(165,877)	(176,914)	(156,426)	(150,313)
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(CLP Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	554,727	370,969	295,365	250,598	276,940
Trade Receivables	294,832	315,053	352,429	355,983	371,192
Other Current Assets	312,171	295,749	322,484	325,749	336,478
Property, Plant & Equipment	798,221	872,389	978,404	1,086,508	1,138,611
Other Non-Current Assets	1,050,750	1,067,361	1,067,361	1,067,361	1,067,361
<b>Total Assets</b>	<b>3,010,701</b>	<b>2,921,521</b>	<b>3,016,042</b>	<b>3,086,199</b>	<b>3,190,582</b>
Short-Term Debt	341,457	28,980	28,980	28,980	28,980
Other Current Liabilities	607,788	663,891	724,112	731,467	755,634
Long-Term Debt	776,734	967,064	967,064	967,064	967,064
Other Non-Current Liabilities	401,319	340,600	340,600	340,600	340,600
<b>Total Liabilities</b>	<b>2,127,298</b>	<b>2,000,535</b>	<b>2,060,756</b>	<b>2,068,111</b>	<b>2,092,278</b>
<b>Total Equity</b>	<b>883,403</b>	<b>920,986</b>	<b>955,286</b>	<b>1,018,087</b>	<b>1,098,304</b>
<b>Total Equity &amp; Liabilities</b>	<b>3,010,701</b>	<b>2,921,521</b>	<b>3,016,042</b>	<b>3,086,199</b>	<b>3,190,582</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 5.

## Company Sector

Soft Drinks

## Company Description

Embotelladora Andina is the third largest Coke bottler in LatAm and, after Polar acquisition (concluded in Sep/2012), became the seventh largest independent bottler in the world, with annual sales volumes of approximately 730mn. The company is a leading bottler in Chile, Argentina, Paraguay, and Brazil, with a franchise territory that includes most of the state of Rio de Janeiro. Coke owns a 7.5% equity stake. B shares/ADSs have limited voting rights, but are entitled to a 10% dividend premium.

## Investment Rationale

We are cautious on Andina due to economic challenges in Argentina. We also expect margin recovery to be limited as higher sugar prices should offset the potential benefit from lower packaging costs. CLP weakness could add further pressure on costs.

## Stock Data

Average Daily Volume	1,909,221
Shares / ADR	6.00

## Key Changes

(US\$)	Previous	Current
Price Obj.	11.30	12.50
2024E EPS	1.29	1.41
2025E EPS	1.43	1.46
2026E EPS	1.50	1.54
2024E DPS	1.12	1.20

# Andina 4Q23 results

## Exhibit 1: Andina 4Q23 results

Brazil and Argentina delivered better figures than expected

CLPmn	4Q23A	4Q23E	A/E	3Q23A	QoQ	4Q22A	YoY
<b>Chile</b>							
Total Volumes (mn UCs)	83	87	-4.4%	70	19.2%	91	-8.3%
Revenues	332,474	341,715	-2.7%	276,771	20.1%	332,666	-0.1%
EBITDA	66,340	64,568	2.7%	39,176	69.3%	62,858	5.5%
EBITDA mg.	20.0%	18.9%	1.1 p.p.	14.2%	5.8 p.p.	18.9%	1.1 p.p.
<b>Brazil</b>							
Total Volumes (mn UCs)	89	86	3.5%	70	26.1%	80	10.7%
Revenues	243,604	210,724	15.6%	181,272	34.4%	192,836	26.3%
EBITDA	49,284	49,549	-0.5%	33,638	46.5%	39,558	24.6%
EBITDA mg.	20.2%	23.5%	-3.3 p.p.	18.6%	1.7 p.p.	20.5%	-0.3 p.p.
<b>Argentina</b>							
Total Volumes (mn UCs)	54	55	-3.6%	44	20.5%	58	-8.4%
Revenues	129,595	93,497	38.6%	159,472	-18.7%	202,411	-36.0%
EBITDA	24,169	13,766	75.6%	24,175	0.0%	28,789	-16.0%
EBITDA mg.	18.6%	14.7%	3.9 p.p.	15.2%	3.5 p.p.	14.2%	4.4 p.p.
<b>Paraguay</b>							
Total Volumes (mn UCs)	23	23	-0.9%	18	24.6%	22	5.1%
Revenues	69,230	65,206	6.2%	54,147	27.9%	63,418	9.2%
EBITDA	22,662	20,980	8.0%	15,590	45.4%	19,136	18.4%
EBITDA mg.	32.7%	32.2%	0.6 p.p.	28.8%	3.9 p.p.	30.2%	2.6 p.p.
<b>Net Revenues</b>	<b>773,552</b>	<b>710,430</b>	<b>8.9%</b>	<b>670,333</b>	<b>15.4%</b>	<b>789,934</b>	<b>-2.1%</b>
<b>EBITDA</b>	<b>159,070</b>	<b>145,307</b>	<b>9.5%</b>	<b>110,591</b>	<b>43.8%</b>	<b>148,257</b>	<b>7.3%</b>
EBITDA mg.	20.6%	20.5%	0.1 p.p.	16.5%	4.1 p.p.	18.8%	1.8 p.p.
Net Income	80,740	44,210	82.6%	63,709	26.7%	45,194	78.7%
EPS (CLP/share)	85.30	46.71	82.6%	67.30	26.7%	47.74	78.7%
<b>Adj. Net Income</b>	<b>80,740</b>	<b>44,210</b>	<b>82.6%</b>	<b>63,709</b>	<b>26.7%</b>	<b>45,194</b>	<b>78.7%</b>
Adj. EPS (CLP/share)	85.30	46.71	82.6%	67.30	26.7%	47.74	78.7%

Source: BofA Global Research estimates, company report

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## Old vs. new estimates

### Exhibit 2: Andina – old vs. new estimates

We adjust our estimates to incorporate 4Q23 results

		2024E	2025E	2026E
<b>Net Revenues (CLPmn)</b>	<b>New Estimates</b>	<b>2,877,185</b>	<b>2,906,200</b>	<b>3,030,365</b>
	Old Estimates	2,783,226	2,834,211	2,956,357
	Change	3.4%	2.5%	2.5%
<b>EBITDA (CLPmn)</b>	<b>New Estimates</b>	<b>520,497</b>	<b>533,364</b>	<b>559,911</b>
	Old Estimates	501,844	519,564	544,828
	Change	3.7%	2.7%	2.8%
<b>EBITDA Margin</b>	<b>New Estimates</b>	<b>18.1%</b>	<b>18.4%</b>	<b>18.5%</b>
	Old Estimates	18.0%	18.3%	18.4%
	Change	0.05 pp	0.02 pp	0.04 pp
<b>Net Income (CLPmn)</b>	<b>New Estimates</b>	<b>207,380</b>	<b>215,394</b>	<b>226,704</b>
	Old Estimates	189,918	210,395	220,532
	Change	9.2%	2.4%	2.8%
<b>EPS (CLP)</b>	<b>New Estimates</b>	<b>219</b>	<b>228</b>	<b>239</b>
	Old Estimates	201	222	233
	Change	9.2%	2.4%	2.8%
<b>Net Debt (CLPmn)</b>	<b>New Estimates</b>	<b>700,679</b>	<b>745,446</b>	<b>719,104</b>
	Old Estimates	757,788	794,225	766,137
	Change	-7.5%	-6.1%	-6.1%

Source: BofA Global Research estimates

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## Price objective basis & risk

### Coca-Cola Andina (AKOBF / AKOB)

Our price objective of CL\$2,000/share (US\$12.5/ADR) is based on a 50%/50% blend of a DCF model, using a WACC of 12.2% and 3% terminal growth rate, and a 2024E P/E target multiple of 13x, in line with the historical discount vs. Mexican bottlers. Our WACC of 12.2% is the average of the WACCs in each of the countries where Andina operates, being 9.5% for Chile, 20.0% for Argentina, and 10.8% for Brazil.

Upside risks to our PO are: 1) stronger volume growth across all territories, 2) flexibility to increase prices above local inflation, 3) smaller-than-expected depreciation of the ARS, BRL and CLP, 5) higher dividends

Downside risks to our PO are: 1) deterioration of the political environment in Argentina, 2) higher sugar prices, 3) FX volatility, 4) higher taxes in Brazil and 5) smaller dividends.

## 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
	Bimbo	GRBMF	BIMBOA MM	Fernando Olvera
	Coca-Cola Femsa	KOF	KOF US	Fernando Olvera
	Coca-Cola Femsa	COCFS	KOFUBL MM	Fernando Olvera
	Cosan	CSAIF	CSAN3 BZ	Isabella Simonato
	Cosan	CSAN	CSAN US	Isabella Simonato
	Gruma	GPAGF	GRUMAB MM	Fernando Olvera
	Marfrig	MRRTF	MRFG3 BZ	Isabella Simonato
	Raizen	XUXIF	RAIZ4 BZ	Isabella Simonato
<b>NEUTRAL</b>				
	CCU	XLUDF	CCU CI	Fernando Olvera
	CCU - ADR	CCU	CCU US	Fernando Olvera
	JBS	JBSAF	JBSS3 BZ	Isabella Simonato
	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

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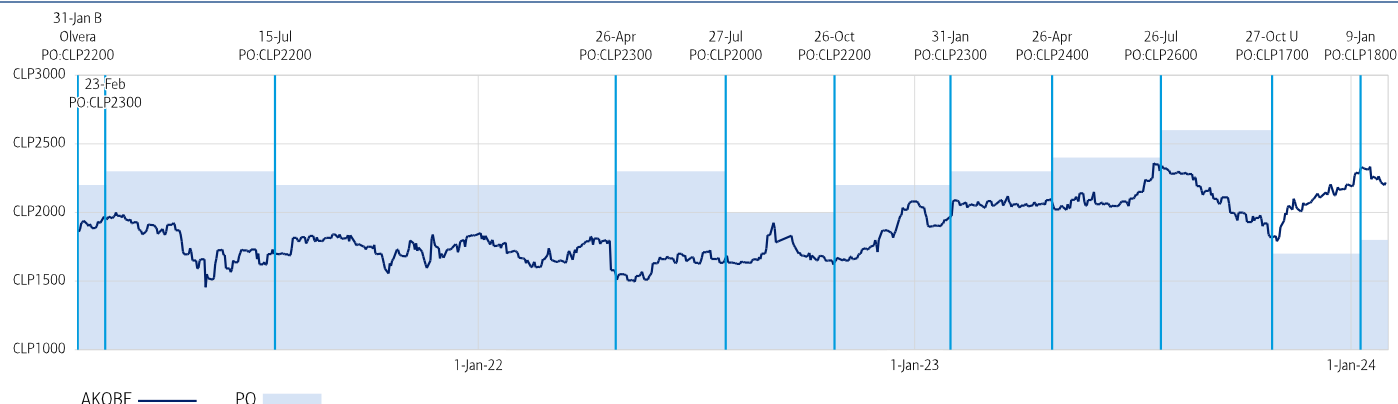
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# Disclosures

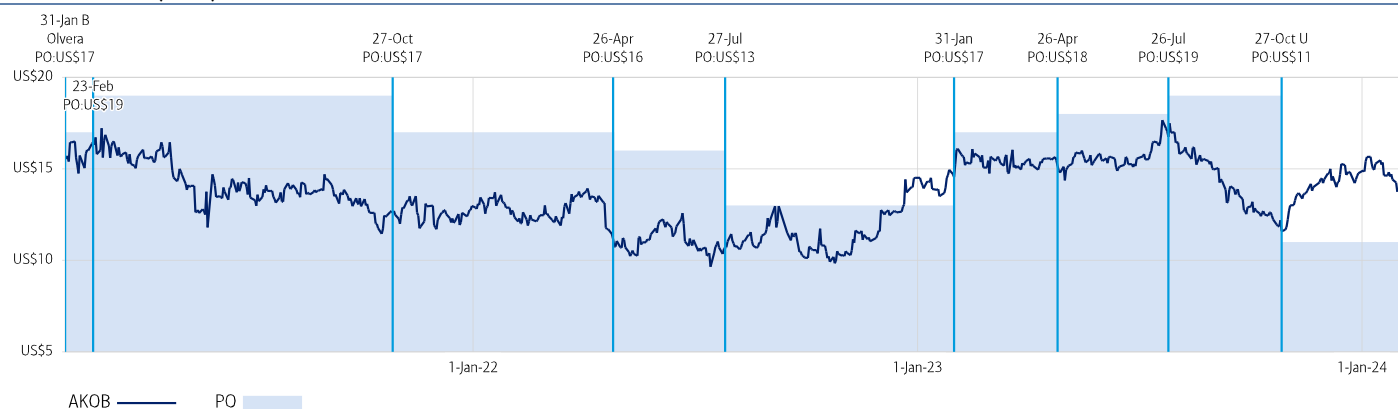
## Important Disclosures

### Coca-Cola Andina (AKOBF) 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 Andina-ADR (AKOB) 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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