

Coca-Cola Europacific Partners plc

Manilla Coke

Reiterate Rating: BUY | PO: 80.00 USD | Price: 71.69 USD

4Q overview and early FY24 setup

4Q23 sales of €4.52bil was €24mm shy of our estimate, reflecting organic sales growth of +7% as Europe volume growth of +2% lapped German distribution disruption offsetting volume weakness in Indonesia. In FY24, we note the following items making for easy comps: 1) Poor weather in Europe should help 3Q; 2) lapping exit of bulk water; 3) lapping SKU rationalization in Indonesia. Additional pricing on top of carryover pricing and mix benefits from revenue growth management tools should help deliver on EPS.

Modeling for the Philippines transaction

CCEP announced that their joint acquisition of the Philippines bottler (CCBPI) closed last week, with FY24 guidance of +4% organic sales and +7% operating profit growth based on pro forma combined CCEP assuming a Jan. 1 deal close. CCBPI sales were €1.74bil in 2023 and we assume +5.5% growth YoY. Standalone CCBPI FY23 gross margin of 20.9% implies about -140bps of dilution vs legacy CCEP, and operating margin of 6.0% implies about -60bps of dilution. With only one month remaining in Q1 since the deal closed, we model +4% organic growth in the APS segment, but back out -19% to account for the two months ex-CCBPI in the base. We also forecast APS operating margin of 11.7% in 1H vs 11.2% in 2H to reflect less dilutive impact given two fewer months of CCBPI. Assuming a 24% tax rate, we estimate about €67mil of non-controlling interest given CCEP's 60/40 ownership. We forecast 1Q sales of €4.45bil, up 3% vs our prior estimate.

Tweaking estimates

We forecast FY24 +4% organic sales growth on a pro forma basis, less about -130bps of drag from timing of CCBPI ownership, still a +7.7% increase to sales vs prior. We forecast EPS of €3.85 down €0.10 vs our last estimate given about €55mil of incremental interest expense and a higher tax rate of 25% up from 23%.

Reiterate Buy rating, raising PO to \$80 from \$75

We reiterate our Buy rating and raise our PO to \$80, implying +1x to our target P/E multiple to 19x FY25E (18x prior). We are assuming a EURUSD forecast of 1.09 (1.05 prior). At a 15% discount to non-alcoholic beverage peers, we believe our undemanding target multiple is justified by better sales/volume momentum with CCBPI in tow and visibility on profit expansion levers from here.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS	3.39	3.74	3.85	4.15	4.35
GAAP EPS	3.27	3.80	4.00	4.15	4.35
EPS Change (YoY)	19.8%	10.3%	2.9%	7.8%	4.8%
Consensus EPS (Bloomberg)			4.01	4.33	4.72
DPS	1.72	1.84	1.93	2.08	2.17
Valuation (Dec)					
P/E	19.8x	17.4x	17.2x	15.9x	15.2x
GAAP P/E	20.5x	17.1x	16.5x	15.9x	15.2x
Dividend Yield	2.6%	2.8%	2.9%	3.1%	3.3%
EV / EBITDA*	14.1x	12.9x	11.6x	9.5x	10.1x
Free Cash Flow Yield*	7.5%	6.6%	5.9%	5.5%	8.7%

* For full definitions of *IQmethod*SM measures, see page 4.

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Timestamp: 27 February 2024 05:05AM EST

27 February 2024

Equity

Key Changes

(EUR)	Previous	Current
Price Obj.	US\$75.00	US\$80.00
2024E Rev (m)	19,181.8	20,667.8
2025E Rev (m)	19,733.3	21,402.3
2026E Rev (m)	20,285.0	22,021.4
2024E EPS	3.95	3.85
2025E EPS	4.17	4.15
2026E EPS	4.37	4.35
2024E DPS	1.97	1.93

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Stock Data

Price	71.69 USD
Price Objective	80.00 USD
Date Established	27-Feb-2024
Investment Opinion	B-1-7
52-Week Range	53.53 USD - 71.71 USD
Mkt Val (mn) / Shares Out (mn)	32,762 USD / 457.0
Free Float	33.6%
Average Daily Value (mn)	119.66 USD
BofA Ticker / Exchange	CCEP / NAS
Bloomberg / Reuters	CCEP US / CCEP.OQ
ROE (2024E)	21.6%
Net Dbt to Eqty (Dec-2023A)	125.1%
ESGMeter™	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".

iQprofileSM Coca-Cola Europacific Partners plc

iQmethodSM – Bus Performance*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.0%	8.1%	8.4%	8.6%	8.9%
Return on Equity	21.2%	22.3%	21.6%	21.6%	21.6%
Operating Margin	12.3%	12.4%	12.8%	12.8%	12.9%
Free Cash Flow	2,329	1,994	1,778	1,664	2,619

iQmethodSM – Quality of Earnings*

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.9x	1.6x	1.6x	1.4x	1.7x
Asset Replacement Ratio	0.8x	1.2x	1.3x	0.7x	0.7x
Tax Rate	22.2%	24.1%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	141.8%	125.1%	114.7%	95.3%	81.5%
Interest Cover	18.8x	14.2x	13.9x	14.4x	15.8x

Income Statement Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Sales	17,320	20,046	20,668	21,402	22,021
% Change	25.8%	15.7%	3.1%	3.6%	2.9%
Gross Profit	6,232	7,090	7,317	7,663	7,995
% Change	20.8%	13.8%	3.2%	4.7%	4.3%
EBITDA	2,853	3,131	3,462	4,230	3,975
% Change	15.7%	9.7%	10.6%	22.2%	-6.0%
Net Interest & Other Income	(114)	(174)	(190)	(190)	(180)
Net Income (Adjusted)	1,551	1,715	1,767	1,906	1,995
% Change	19.9%	10.6%	3.1%	7.9%	4.7%

Free Cash Flow Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,564	1,738	1,834	1,906	1,995
Depreciation & Amortization	715	653	827	1,498	1,135
Change in Working Capital	381	194	218	(670)	1,270
Deferred Taxation Charge	(369)	(471)	0	0	0
Other Adjustments, Net	641	692	(67)	0	(970)
Capital Expenditure	(603)	(812)	(1,033)	(1,070)	(810)
Free Cash Flow	2,329	1,994	1,778	1,664	2,619
% Change	39.4%	-14.4%	-10.8%	-6.4%	57.4%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(763)	(841)	(884)	(953)	(998)
Change in Debt	(1,223)	(465)	(500)	(500)	(500)

Balance Sheet Data (Dec)

(EUR Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,387	1,419	1,814	2,025	3,147
Trade Receivables	2,605	2,670	2,671	2,820	2,778
Other Current Assets	2,551	2,516	2,550	3,230	2,697
Property, Plant & Equipment	5,201	5,344	5,543	5,115	4,909
Other Non-Current Assets	17,569	17,305	17,305	17,305	17,305
Total Assets	29,313	29,254	29,883	30,495	30,835
Short-Term Debt	1,336	1,300	1,300	1,300	1,300
Other Current Liabilities	5,977	5,978	6,231	6,390	7,085
Long-Term Debt	10,571	10,096	10,096	9,596	9,346
Other Non-Current Liabilities	3,982	3,904	3,904	3,904	3,904
Total Liabilities	21,866	21,278	21,531	21,190	21,635
Total Equity	7,417	7,976	8,352	9,305	9,200
Total Equity & Liabilities	29,283	29,254	29,883	30,495	30,835

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Soft Drinks

Company Description

Coca-Cola Europacific Partners plc (CCEP) is the combination of the soft drink bottling operations of the former Coca-Cola European Partners and Coca-Cola Amatil (CCL). The company produces and distributes beverages across Europe and Asia Pacific and is recognized as the world's largest Coca-Cola bottler based on net sales.

Investment Rationale

Our Buy rating reflects our views that shares of CCEP could outperform peers given our expectation for strong topline and earnings growth over the next three years. Improving business conditions in Europe and Asia Pacific should lead to a solid rebound in revenues and a major rebound in the higher margin away from home channel. Earnings growth will be supported by what we view as achievable cost saving plans and merger related synergies.

Stock Data

Average Daily Volume 1,669,141

Price objective basis & risk

Coca-Cola Europacific Partners plc (CCEP)

Our \$80 PO is based on 19x our FY25 EPS_e (we are assuming a EURUSD forecast of 1.09). The 19x target multiple is warranted in our view by the addition of the Philippines territory, giving CCEP access to a large, fast-growing market, where structurally lower margins are ripe for improvement that could drive upside vs our estimates. Our target multiple still implies a 15% discount to the S&P500 Beverage Index. We are confident in CCEP's ability to continue strides made in de-levering the balance sheet given its high cash conversion rate and attractive profit runway over the medium term.

Downside risks to our PO: 1) Unable to unlock revenue and profit opportunities in Australia. 2) CCEP unable to pay down debt and remains highly levered. 3) Currency risk. 4) Markets unable to recover from COVID-19 related restrictions.

Upside risks to our PO: 1) CCEP discovers additional synergies. 2) Faster than expected debt pay down.

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
BUY				
	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
NEUTRAL				
	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



US - Consumables Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

UNDERPERFORM

	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	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 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

RSTR

	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

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

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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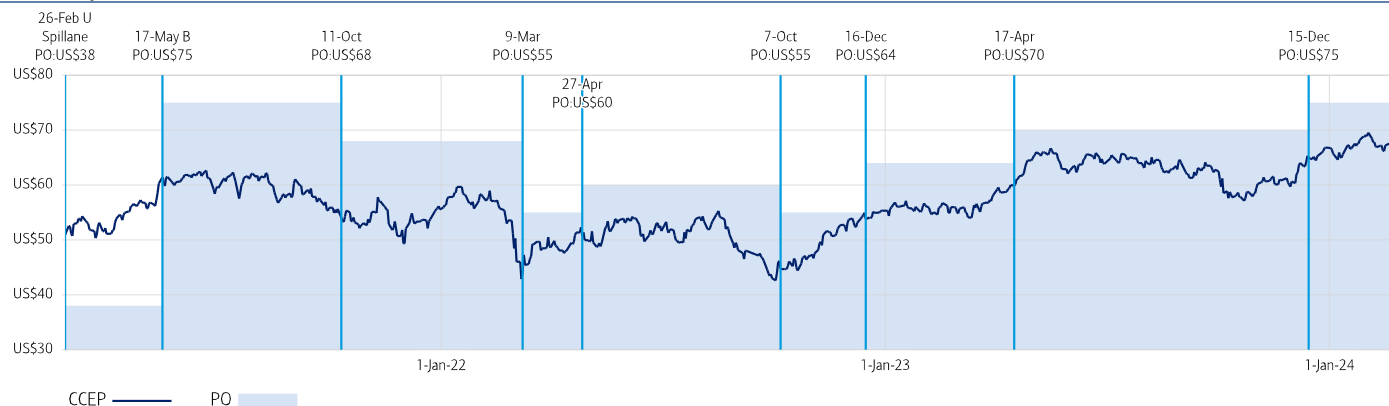
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Important Disclosures

Coca-Cola Europ (CCEP) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 ^{R1}	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 ^{R1}	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%

^{R1} 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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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