

Evaluation of The Coca-Cola Company stock using multiples method and discounted cashflow method

- ❖ April 25, 2023, at close : **\$63.85**
- ❖ 12- Month Target: **\$ 80**
- ❖ Upside: **25%**
- ❖ Recommendation: **BUY**

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Company Overview

- Coca-Cola is a global beverage firm that manufactures and distributes non-alcoholic drinks.
- Worldwide, Coca-Cola employs over 700,000 people and conducts business in over 200 nations and territories.
- One of the most valuable brands in the world is continuously Coca-Cola.

Historical Data

- In 1886, Coca-Cola was established in Atlanta, Georgia.
- The company went public in 1919 on the NYSE, IPO price of **\$40 *per share***. Since then, it has undergone **eleven** 2-for-1 stock splits.
- Coca-Cola is listed globally, such as the London Stock Exchange, the Tokyo Stock Exchange, and the Frankfurt Stock Exchange.



Product Line

COFFEE & TEA

- Costa Coffee
- Honest Tea
- Fuze Tea
- Gold Peak
- illy issimo

JUICES & DAIRY & PLANT-BASED

- Ades
- Minute Maid
- Simply
- Fairlife
- Odwalla
- Innocent

SPARKLING SOFT DRINKS

- Coca-Cola
- Diet Coke
- Sprite
- Fanta
- Appletiser
- Barq's
- Fresca
- Schweppes

WATERS & HYDRATION

- Dasani
- Smartwater
- Vitaminwater
- Topo Chico
- Powerade



SWOT Analysis

Strength

- Strong brand identity
- Unparalleled distribution system
- Acquisitions
- Repositioning portfolio

Threats

- Changing Consumer Preferences
- Environmental Concerns
- Direct and indirect competition
- Lawsuits



Weakness

- Aggressive competition with Pepsi
- Health concerns
- Environmentally Destructive Packaging
- Product diversification

Opportunities

- Developing Healthier Beverages
- Investing in Sustainability
- Expanding into New Markets
- Entry into the Alcoholic Beverage Sector



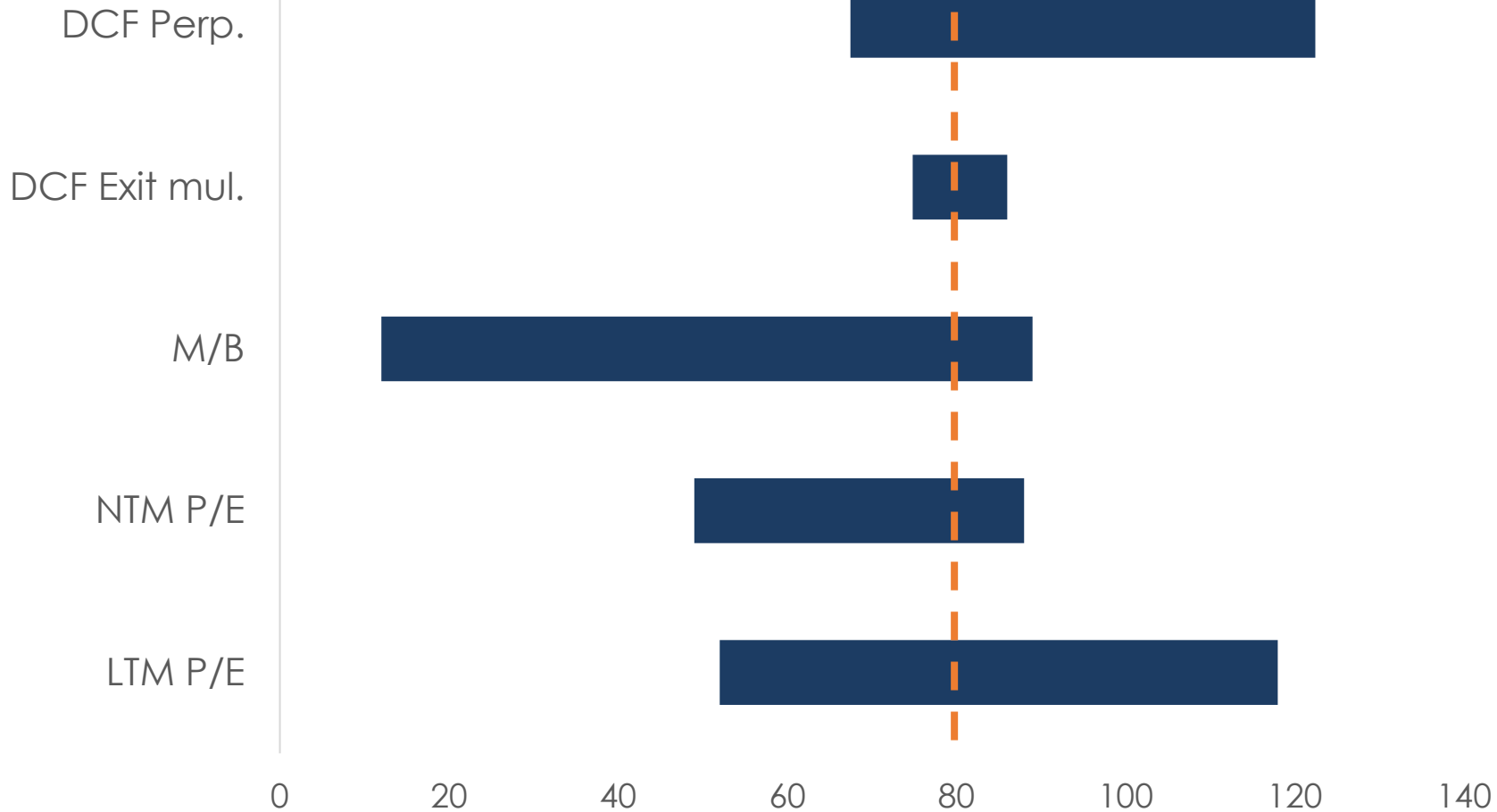
Industry Positioning

Company	Market Cap (in millions)	Main Focus	Product lineups
The Coca-Cola Company (NYSE:KO)	\$276,120.00	non-alcoholic beverages	Carbonated Soft Drinks,Non-Carbonated Soft Drinks,EnergyDrinks, Tea and Coffee,Sports Drinks and Water
PepsiCo, Inc. (NasdaqGS:PEP)	\$255,367.90	food and beverage	Carbonated Soft Drinks,Non-Carbonated Soft Drinks,EnergyDrinks, Tea and Coffee,Snacks and Water
Monster Beverage Corporation (NasdaqGS:MNST)	\$59,301.30	energy drink	Energy Drinks and Non-Energy Beverages
Keurig Dr Pepper Inc. (NasdaqGS:KDP)	\$49,661.60	hot and cold beverages	Tea and Coffee,Juice , Water , Soda,EnergyDrinks

Valuation Summary

UPSIDE
25%

DIV. Yield
5.22%



Comparables Analysis

Aggregated Comparable Company Multiples (*in millions*)

Comparable Company	Stock Price	EPS		<u>Market capitalization</u>	Book Value	<u>P/E ratio</u>		<u>M/B ratio</u>
		LTM	NTM			LTM	NTM	
PepsiCo, Inc. (NasdaqGS:PEP)	\$185.41	\$6.79	\$7.26	\$255,368	\$17,149.00	27.3x	25.5x	14.9x
Monster Beverage Corporation (NasdaqGS:MNST)	\$ 53.07	\$1.12	\$1.50	\$59,301	\$7,025.00	47.4x	35.4x	8.4x
Keurig Dr Pepper Inc. (NasdaqGS:KDP)	\$35.31	\$1.68	\$1.79	\$49,662	\$25,126.00	21.0x	19.7x	2.0x
The Coca-Cola Company (NYSE:KO)		\$2.48	\$2.60		\$25,826.0			



Comparables Analysis

Subject Company Valuation Summary

Descriptive	Stock Price		Market Capitalization	
<u>Statistic</u>	<u>LTM P/E</u>	<u>NTM P/E</u>		<u>Per share price</u>
PepsiCo, Inc. (NasdaqGS:PEP)	\$68	\$63	\$384,578	\$88.89
Monster Beverage Corporation (NasdaqGS:MNST)	\$118	\$88	\$218,009	\$50.39
Keurig Dr Pepper Inc. (NasdaqGS:KDP)	\$52	\$49	\$51,045	\$11.80
Average	\$79.12	\$66.67	\$217,878	\$50.36
Median	\$67.72	\$63.34	\$218,009	\$50.39



DCF Model Assumptions

- Revenue estimates have been taken from CapitalIQ.
- Coca-Cola maintains its 2023 capital structure, with a Debt-equity ratio of 15.3%.
- Depreciation & Amortization % remains at 2022 levels throughout the projection period.
- Days Sales outstanding, Days Inventory held, Days Payable outstanding, Deferred revenue, Accrued liabilities & other current liabilities remain at 2022 levels throughout the projection period.
- Exit multiple after the projection period is 20x EBITDA.
- The perpetual growth rate is estimated at 2.5%.
- The marginal tax rate is assumed to be 21%.
- The Market risk premium is assumed to be 5%.



Component	Rate
Risk Free rate	3.8%
Equity Premium	5.0%
Levered Beta	0.54
Cost of Equity	6.4%
Pre-Tax cost of Debt	4.0%
Marginal Tax rate	21.0%
After tax cost of Debt	3.2%
WACC	6.0%



DCF Sensitivity Analysis

Implied Enterprise Value Sensitivity Analysis						
		Terminal Multiple				
		18.0x	19.0x	20.0x	21.0x	22.0x
WACC	5.0%	363,300	379,999	396,698	413,397	430,096
	5.5%	355,505	371,812	388,119	404,426	420,733
	6.0%	347,922	363,848	379,774	395,700	411,626
	6.5%	340,545	356,101	371,657	387,213	402,768
	7.0%	333,368	348,564	363,759	378,955	394,151
		Perpetuity Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	5.0%	422,297	484,294	571,089	701,282	918,270
	5.5%	369,955	415,686	476,660	562,025	690,071
	6.0%	329,248	364,232	409,213	469,186	553,149
	6.5%	296,684	324,215	358,628	402,873	461,867
	7.0%	270,043	292,202	319,285	353,138	396,664



DCF Sensitivity Analysis

Implied Enterprise Value / 2023E EBITDA Sensitivity Analysis

		Terminal Multiple				
		18.0x	19.0x	20.0x	21.0x	22.0x
WACC	5.0%	20.4x	21.3x	22.3x	23.2x	24.2x
	5.5%	20.0x	20.9x	21.8x	22.7x	23.6x
	6.0%	19.5x	20.4x	21.3x	22.2x	23.1x
	6.5%	19.1x	20.0x	20.9x	21.8x	22.6x
	7.0%	18.7x	19.6x	20.4x	21.3x	22.1x
		Perpetuity Growth Rate				
		1.5%	2.0%	2.5%	3.0%	3.5%
WACC	5.0%	23.7x	27.2x	32.1x	39.4x	51.6x
	5.5%	20.8x	23.4x	26.8x	31.6x	38.8x
	6.0%	18.5x	20.5x	23.0x	26.4x	31.1x
	6.5%	16.7x	18.2x	20.1x	22.6x	25.9x
	7.0%	15.2x	16.4x	17.9x	19.8x	22.3x



Conclusion

- KO is expected to remain one of the strongest players in the industry.
- Innovative & diversified product lines provide a huge upside to the firm.
- Solid brand reputation and future earnings estimates led us to believe that the company is undervalued.
- The company has shown relative strength in all phases of an economic cycle. Thus, we assign a BUY recommendation to the stock.

