Innovus Capita

Equity Research Report on Coca-Cola

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(NYSE:KO)

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1 INDUSTRY ANALYSIS

The global soft drinks industry is a significant market, with the top four players holding a substantial market share. In 2020, the market value of the global soft drinks industry was **USD 872,411.37** million, and it is projected to grow by **3.19%** from 2024 to 2027, reaching a market volume of **US\$1.0 trillion** in 2027. The industry is dominated by major players such as Coca-Cola, PepsiCo, Nestle, and Keurig Dr Pepper2. The market comprises various categories, including packaged water, carbonates, juice, nectars, still drinks, squash/syrups, fruit powders, iced/RTD tea drinks, iced/RTD coffee drinks, sports drinks, and energy drinks.

The performance of the industry is influenced by factors such as market demand, supply dynamics, technological advancements, and changing consumer preferences. The industry's growth and decline vary by region, with the UK market, for example, experiencing a decline since 2018.

Overall, the global soft drinks industry is characterized by significant market concentration, dynamic product categories, and projected growth in the coming years.



FIGURE 1: SOFT DRINKS



2 COMPANY ANALYSIS

The Coca-Cola Company, established in 1886, is a global beverage industry leader, operating in over 200 countries and offering a diverse portfolio of over 500 brands. The company's product range includes sparkling beverages, still beverages, juice drinks, water, enhanced waters, ready-to-drink teas and coffees, and energy drinks. Coca-Cola's large advertising budget provides a competitive advantage by facilitating new product introductions, brand promotion, and increased sales. The company has faced challenges related to market saturation and changing consumer preferences, particularly regarding health and wellness concerns.

Despite its historical success, the company has encountered difficulties since the late 1990s, leading to questions about its future performance. Coca-Cola has been exploring opportunities to venture into new product markets, such as the alcohol market and the snacks market, leveraging its expertise in beverage production. The company has also been investing in sugar reduction, e-commerce, artificial intelligence, health & wellness, and ESG themes.

Overall, The Coca-Cola Company's extensive global presence, iconic brand, and diverse product portfolio position it as a significant player in the global beverage industry, while it continues to navigate challenges and explore new opportunities for growth and innovation.



FIGURE 2: COCA-COLA LOGO



3 SWOT ANALYSIS

The Coca-Cola Company, founded in 1886, is a global leader in the beverage industry, operating in more than 200 countries and offering over 500 brands. Here is a brief company analysis based on the provided search results:

Strengths:

- Iconic Brand: Coca-Cola is one of the most recognized and widely distributed brands globally, with a market presence in over 200 countries.
- Large Advertising Budget: The company's substantial advertising budget provides a competitive advantage, enabling the introduction of new products, brand promotion, and increased sales.
- Diverse Product Portfolio: The company's product portfolio includes sparkling beverages, still beverages, juice drinks, water, enhanced waters, ready-to-drink teas and coffees, and energy drinks.

Weaknesses:

- Dependence on Beverage Markets: Few beverage markets offer significant growth opportunities, necessitating the exploration of other product markets.
- Vulnerability to Changing Consumer Preferences: The company faces the challenge of adapting to evolving consumer preferences, particularly regarding health and wellness concerns.

Opportunities:

- Expansion into New Markets: There are opportunities for the company to venture into other product markets, such as the alcohol market and the snacks market, leveraging its expertise in beverage production.
- Healthy Drinks Segment: There is potential for expansion in the healthy drinks segment, presenting an opportunity for Coca-Cola to introduce more health-oriented beverages to its portfolio.

Threats:

- Market Saturation: The beverage industry is highly competitive and saturated, posing a threat to the company's market share and growth potential.
- Regulatory Pressures: Increasing regulatory scrutiny and changing consumer preferences toward healthier options pose threats to the company's traditional product offerings.



IN SUMMARY

The Coca-Cola Company's strengths lie in its iconic brand, extensive global presence, and diverse product portfolio. However, it faces challenges related to market saturation, changing consumer preferences, and dependence on traditional beverage markets. The company has opportunities to expand into new product segments and capitalize on the growing demand for healthier beverage options.



4 VALUATION USING DIVIDEND DISCOUNT MODEL

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Dividend last quarter (2023)	\$0.46
Dividend (2023)	\$1.84
Short-term Growth rate	3.20%
Long-term Growth rate	3.00%
Beta	0.58
Risk Free Rate	3.82%
Market Rate of Return	12.78%
Cost of Equity	9.02%

Year	2023	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast	2029 Forecast
Dividend	\$1.84	\$1.90	\$1.96	\$2.02	\$2.09	\$2.15	\$2.22
Terminal Value						\$36.87	
Dividend + Terminal Value		\$1.90	\$1.96	\$2.02	\$2.09	\$39.03	
Present value	\$31.77						
Intrinsic Share Price	\$31.77						
Current Share Price	\$58.71						
Downside	-45.88%						
Price Target	\$41.10						



5 INVESTMENT RISKS

Based on the provided sources, the following investment risks for The Coca-Cola Company (KO) can be identified:

- 1. Water Scarcity and Quality: Water scarcity and poor quality could negatively impact the company's costs and capacity, as water is a main ingredient in substantially all of its products.
- 2. **Debt and Financial Risks:** High levels of debt can pose a risk to the company, affecting its financial stability and flexibility. Risks related to debt, funding, financing, and interest rates are important considerations for investors.
- 3. **Regulatory and Legal Risks:** The company is exposed to various legal and regulatory risks, including litigation, compliance, environmental regulation, and data privacy. These risks can lead to legal liabilities and financial implications.
- 4. **Market Saturation and Changing Consumer Preferences:** The beverage industry is highly competitive and saturated, and changing consumer preferences towards healthier alternatives pose significant challenges to the company's traditional product offerings.
- 5. Environmental Risks: Risks associated with environmental factors, such as the increasing risk of additional sugar, beverage, and single-use plastics taxes, as well as concerns around the impact of climate change, can affect the company's operations and financial performance.



6 **DISCLAIMER**

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