

Coca-Cola Icecek

OVERWEIGHT

April 6, 2023

Resilient growth outlook

🔗 **Initiating with an Overweight rating...** Our ex-dividend target price stands at TL322.6/share, pointing to a 12-month return of 57%. Reasons for our recommendation are: i) Solid net sales and EBITDA growth in 2023, ii) tight cost management, iii) ample headroom for new investments. CCI is trading at 2023E EV/EBITDA and P/E multiples of 3.0x and 5.6x, respectively. The stock is trading at 60% and 63% discount to its peers based on 2023E multiples, respectively.

🔗 **Solid net sales and EBITDA growth in 2023...** Thanks to significant price increases and sales volume growth, we expect 73% net sales growth in 2023E. There does not appear to be any deterioration in the growth dynamics on the international side; hence, we expect 10.4% y/y sales volume growth in international operations, led by Pakistan, Kazakhstan, and Uzbekistan. For CCI's domestic business, we expect a 1% y/y growth in 2023. Additionally, increasing demand for sugar-free products and small-package products improved the product mix and supported margins.

🔗 **Dynamic hedging & long-term visibility...** The company was able to manage cost fluctuations in 2022 with tight OPEX management and price adjustments. CCI's 2022 costs consisted of 30% concentrate, 30% packaging, 20% sugar, and 20% overhead costs. With its proactive risk policy, the company hedged 80% for sugar, 90% for aluminum, and 60% for resin. We believe hedged packaging costs and ability to reflect cost increases on prices should moderate cost pressures in 2023. As such, we expect 100bps y/y increase in EBITDA margin to 20.0% in 2023.

🔗 **Ample headroom for new investments...** CCI had a net debt position of TL6,075mn as at end-2022, pointing to a net debt/EBITDA multiple of 0.6x. We expect the decline in net debt/EBITDA to continue in 2023. These low multiples provide an opportunity to achieve inorganic growth by adding new countries to the portfolio.

🔗 **Anadolu Etap & Pakistan operations...** CCI purchased shares of Anadolu Etap and TCCC's Pakistan operations from AEFES at US\$112mn and US\$300mn, respectively. Their contribution is not included in our valuation; however, these acquisitions may have the potential to create long-term value.

🔗 **Key risks...** 1) Decline in sales volumes due to a slowdown in demand, 2) increase in raw material and energy costs beyond expectations, 3) devaluation of local currencies in operating countries.

Price Data

Current Price (TL, 05-Apr-23)	206.00
Current Mcap (TLmn)	52,400
12-mth Target Price (TL/share)	322.60
12-mth Target Mcap (TLmn)	82,060
12-mth Return Potential	57%
Dividend yield	1%

Financials (TL mn)	2021	2022	2023E	2024E
Revenues	21,930	53,530	92,696	121,839
% ch y/y		144	73	31
EBITDA	4,593	10,149	18,523	24,914
% ch y/y		121	83	35
Net Income	2,271	4,331	9,299	13,537
% ch y/y		91	115	46

Margins (%)	2021	2022	2023E	2024E
EBITDA Margin	20.9	19.0	20.0	20.4
Net Margin	10.4	8.1	10.0	11.1
Gross Dividend Yield	3.8	1.8	1.4	3.0

Ratios	2021	2022	2023E	2024E
P/E (TL, x)	9.1	8.3	5.6	3.9
EV/EBITDA (TL, x)	6.0	4.3	3.1	2.1
Net Debt/EBITDA (TL, x)	1.1	0.6	0.2	-0.1
ROE (TL, %)	17.4	21.5	32.3	33.2

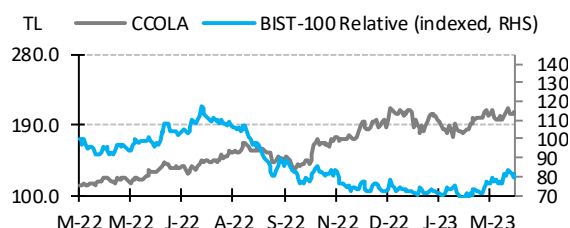
Stock Data

Ticker	CCOLA.IS	CCOLA.TI
Sector		Beverage
# of Shares (mn)		254
3M Av. Trd. Vol. (mn)		US\$4.9
52-week Range	TL113.53 -	TL211.50

Market Data

BIST-100	4,920
TL/US\$	19.2266

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	5%	0%	1%	80%
BIST-100 Relative	12%	12%	13%	-15%

Major Shareholders

Anadolu Efes Biracılık A.Ş.	50.3%
The Coca Cola Export Corp.	20.1%
Free Float	28.3%

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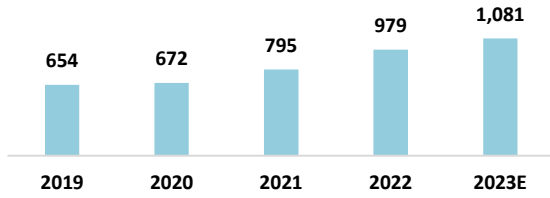
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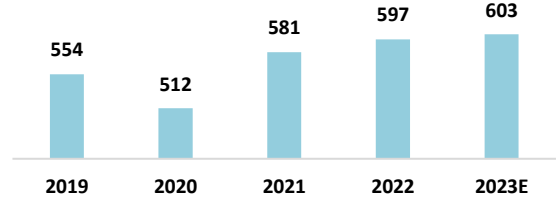
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Coca-Cola Icecek in a nutshell

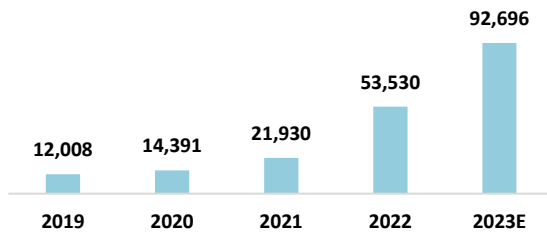
International Volume



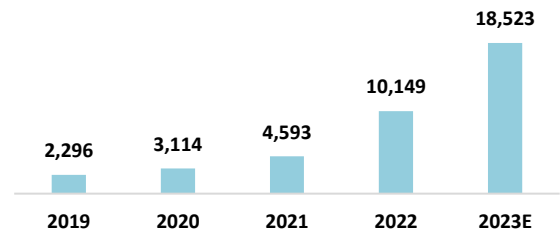
Domestic Volume



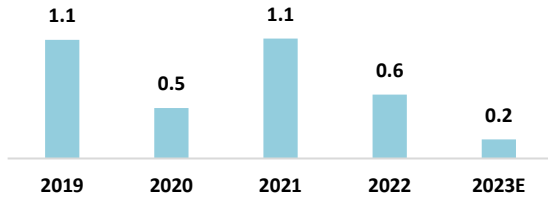
Revenues



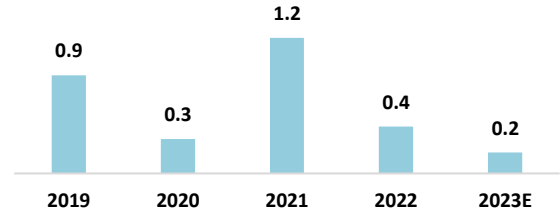
EBITDA



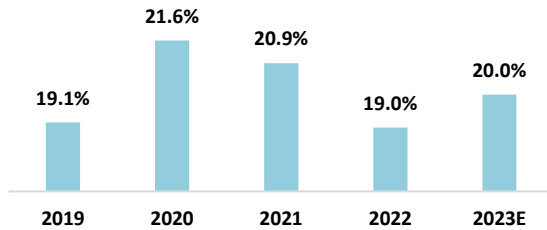
Net debt/EBITDA



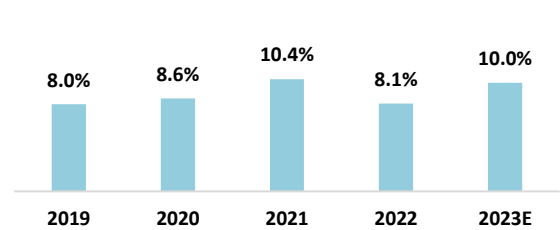
Net debt/Cash



EBITDA Margin



Net Margin



Source: Company Data, Tera Estimates

VALUATION

We value CCI based on DCF analysis and reach a 12-month target price of TL322.60 per share, indicating a 57% upside potential. In our analysis, we assume constant 20.4% WACC derived from a risk-free rate of 20.0%, equity risk premium of 5.5% and beta of 0.76.

TL mn	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	92,696	121,839	138,443	157,354	178,901	203,456	231,446	263,362
EBITDA	18,523	24,914	28,303	32,162	36,559	41,569	47,280	53,790
Tax	-3,146	-4,285	-4,869	-5,535	-6,293	-7,156	-8,141	-9,264
CAPEX	-8,343	-10,966	-8,999	-10,228	-11,629	-13,225	-15,044	-17,119
Chg in NWC	-1,853	-712	-5	79	187	-48	20	109
FCF	5,181	8,952	14,430	16,479	18,825	21,140	24,115	27,517
Revenue Growth, y/y	73.2%	31.4%	13.6%	13.7%	13.7%	13.7%	13.8%	13.8%
EBITDA Growth, y/y	82.5%	34.5%	13.6%	13.6%	13.7%	13.7%	13.7%	13.8%
EBITDA Margin	20.0%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%
FCF Margin	5.6%	7.3%	10.4%	10.5%	10.5%	10.4%	10.4%	10.4%
WACC	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%	20.4%
Terminal growth rate	5.0%							
Enterprise Value	73,175							
Adj. Net Debt	6,075							
Minorities	310							
Exp. Div. Payment	720							
Target Mcap	66,070							
12M TP	322.60							
Upside	57%							

CCOLA Target Price (TL/share)			
Terminal growth rate			
%	5.0	8.0	10.0
WACC +1%	302.4	317.1	331.3
WACC	322.6	341.5	360.2
WACC -1%	345.8	370.4	395.5

Strong earnings growth in 2023-2025... We foresee a 37% CAGR in revenues until 2025, mostly driven by international operations. We foresee that CCI will continue to generate revenue growth above inflation, going forward. The company hedged 80% for sugar, 90% for aluminum, and 60% for resin. We believe hedged costs and price increases will support margins. We expect a 100bps y/y increase in EBITDA margin for 2023. We forecast net earnings to rise by 46% y/y in 2024 and 20% y/y in 2025.

	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	10,623	12,008	14,391	21,930	53,530	92,696	121,839	138,443
COGS	-7,096	-7,827	-9,319	-14,213	-36,156	-62,252	-81,236	-92,302
Gross Profit	3,527	4,181	5,072	7,717	17,374	30,444	40,603	46,140
OPEX	-2,298	-2,580	-2,876	-4,225	-9,046	-14,714	-19,178	-21,794
EBIT	1,229	1,601	2,196	3,492	8,328	15,729	21,425	24,346
Depreciation	633	695	918	1,100	1,822	2,794	3,488	3,957
EBITDA	1,863	2,296	3,114	4,593	10,149	18,523	24,914	28,303
Net Other Inc.	39	-84	-53	-59	-321	-467	-622	-762
Net Inv. Income	-9	3	-85	-83	219	319	425	520
Equity Pick-up	-1	0	-3	-4	-3	-3	-3	-3
Net Fin. Income	-713	-335	-289	225	-1,319	-1,892	-1,866	-1,041
PBT	546	1,185	1,766	3,572	6,903	13,686	19,359	23,060
Tax	-194	-246	-448	-1,151	-2,262	-4,062	-5,480	-6,405
Net Income	321	966	1,233	2,271	4,331	9,299	13,537	16,296
Revenue Growth	26.6%	13.0%	19.8%	52.4%	144.1%	73.2%	31.4%	13.6%
Gross Margin	27.2%	18.5%	21.3%	52.1%	125.1%	75.2%	33.4%	13.6%
EBIT Margin	11.6%	13.3%	15.3%	15.9%	15.6%	17.0%	17.6%	17.6%
EBITDA Margin	17.5%	19.1%	21.6%	20.9%	19.0%	20.0%	20.4%	20.4%
Net Margin	3.0%	8.0%	8.6%	10.4%	8.1%	10.0%	11.1%	11.8%

Source: Company Data, Tera Estimates

CCI has announced volume growth of 8.1% for 2022 (including consolidation of Uzbekistan operations). For 2023E, we expect 10.4% expansion in international sales volume and 1% expansion in domestic sales volume. We foresee a 6.3% CAGR in sales volume until 2025, mostly driven by international side.

Volume Split	2018	2019	2020	2021	2022	2023E	2024E	2025E
Turkey	650.0	554.0	512.0	581.0	597.0	603.0	615.0	627.3
Pakistan	335.0	308.9	324.9	380.8	432.0	470.9	513.3	544.1
Kazakhstan	122.3	139.3	139.9	160.3	190.0	205.2	221.6	234.9
Others	211.0	214.4	212.0	228.9	216.0	235.4	256.6	279.6
Uzbekistan			79.0	107.5	142.0	170.4	187.4	206.2
Total	1318.3	1216.6	1267.8	1458.5	1577.0	1684.9	1793.9	1892.1
growth	7.6%	-0.8%	2.1%	17.5%	8.1%	6.8%	6.5%	5.5%
INT VOLUME	668	663	756	877	980	1082	1179	1265

Tera Yatirim Stock Ratings

Rating	Definition
OVERWEIGHT	The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months.
MARKETWEIGHT	The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months.
UNDERWEIGHT	The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months.

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