

Coca-Cola Company

Price: 62.25 12/6/2007

Sector: Consumer Non-Cyclical
Industry: Beverages (Non-Alcoholic)

Market Cap (Large): 126298.1
Recommended Price: \$62.25

Analyst: Kristin Murphy



Business Description

The Coca-Cola Company is the world's largest beverage company. It manufactures, distributes, and markets soft-drink concentrates under brand names including Coca-Cola, Sprite, and Fanta. Noncarbonated brands include Minute Maid, Dasani, and Powerade. Coke's offerings encompass 400 brands. The company's products are sold in more than 200 countries through an extensive network of independent and company-owned bottlers. About 72% of 2006 sales were derived outside the United States.

Business Story and Recent Developments

Coca-Cola Company is the market leader, with sales equating to 41% of the market's total volume. It has a strong presence in more than 200 countries. However, Coca Cola faces intense competition in the industry. Specifically, PepsiCo has been quicker to bring to market sports drinks, teas, juices, and waters, which could be a significant threat. As a result, the Coca-Cola Company has acquired the maker of Vitaminwater, which is a move to boost its presence in the enhanced water and energy drink markets. Coke has also repurchased \$1.6 billion of its stock and said it intends to repurchase a total of \$1.75 billion to \$2 billion in stock for the year. For these reasons, I believe that Coke will be able to sustain its market share.

Industry Outlook

In 2011, the United States carbonated soft drinks market is forecast to have a value of \$62.1 billion, which is a decrease of 2.6% since 2006. Even though there is a decrease in the industry, analysts believe that Coca-Cola will be able to continue to prosper because of its expansion into the waters and juice drink markets. Coke reported net income rose to \$1.65 billion, or 71 cents per share. Revenue rose up 19% from a year ago. Coke's growth in worldwide case volumes reached 6% in the quarter.

Financial Highlights

ROA is 15.6%, compared to Industry ROA of 0.2%
ROE is 29.5%, compared to Industry ROE of 22.5%
Quick ratio is 0.8, compared to Industry quick ratio of 0.8
Total debt to equity is 43.5, compared to the Industry ratio of 61.5.

Valuation

Coca-Cola has much higher business efficiencies as demonstrated by the ROA and ROE. It also has a stable financial position as demonstrated by the Quick Ratio and the Debt-to-Equity Ratio. Coca-Cola is currently valued by a P/E of 24.3 which is higher than the industry P/E of 20.4.

Investment Thesis

BUY- Coca-Cola is in a strong competitive position with strong financial performance.

