

BUBBLE DRINKS

Summary

The inflation in Turkey reached 64.8% by the end of 2023. It is expected that further tightening of the monetary policy will take place in 2024 and the key rate will be adjusted to higher levels. As such, it is crucial for investors to identify market instruments that will help them to defend against inflation hikes and the stock picking process should be executed with additional patience.

In this context one might consider stocks of companies from the food and beverages sector as a proper instrument. These businesses are generally sensitive to inflation due to their reliance on raw materials, wages, energy, and transportation, while increased inputs costs would inevitably squeeze margins and make business unviable, unless passed onto consumers through timely price adjustments.

We identified 2 blue-chip companies from the beverage subsector: AEFES and CCOLA. The choice was based on superiority and sustainability of their KPI's (Revenue growth, margins), attractive valuation multiples (discounted EV/EBITDA, P/E), and secure financial position (Debt ratio, Net Debt/EBITDA, and liquidity). Additional comparison with global industry leaders was held indicating a potential for stock price growth and appreciation in valuation multiples.

Company	Ticker	Country	Market Cap. (USD mn.)	EV / EBITDA	P/E	EBITDA Margin (%)	Net Margin (%)	Net Debt / EBITDA	Revenue Growth (%)	ROA (%)	ROE (%)
Foreign Median				13.43	22.89	20.77	10.13	2.73	9.53	7.18	17.50
Domestic Median				11.47	10.74	20.38	7.09	0.48	70.64	11.39	26.82
Global Beverages Sector Median				12.61	19.20	20.65	9.56	1.92	14.16	7.51	21.72
Foreign											
NESTLE SA	NESN:CH	Switzerland	310,261	16.13	27.28	20.77	10.13	2.82	4.60	7.18	23.67
PEPSICO INC	PEP:USN	USA	229,492	16.38	27.68	17.60	9.05	2.14	9.53	8.72	46.23
DANONE SA	BN:FR	France	45,431	9.66	31.81	18.89	4.61	1.98	10.60	2.84	7.38
COCA-COLA CO	KO:USY	USA	260,270	14.25	24.16	44.66	23.92	1.76	6.35	11.25	43.27
HEINEKEN NV	HEIA:NL	Netherlands	57,415	12.61	20.33	19.36	8.65	3.07	17.08	4.77	13.29
ANHEUSER-BUSCH INBEV SA	ABI:BE	Belgium	113,660		18.06	32.11	10.60		5.31	2.87	8.18
DIAGEO PLC	DGE:GB	UK	79,018	9.59	16.58	48.09	21.82	2.73	10.75	10.11	47.15
MONSTER BEVERAGE CORP	MNST:USN	USA	61,292	29.45	39.15	28.59	22.62		11.24	17.82	21.19
KEURIG DR PEPPER INC	KDP:USN	USA	44,425	15.70	22.89	25.27	13.16	3.70	8.10	3.75	7.70
COCA-COLA FEMSA SAB DE C	KOFUBL:MX	Mexico	4,736	2.35	3.77	20.54	8.81	0.69	10.16	7.84	17.50
ASAHI GROUP HOLDINGS LTD	2502:JPT	Japan	19,000	10.73	16.24	15.37	6.34	4.27	8.86	3.38	7.71
Domestic											
Anadolu Efes	AEFES	Turkey	2,518	3.22	9.33	20.38	5.98	0.48	70.64	5.04	26.82
Ersu Gıda	ERSU	Turkey	16	1650.69	0.00	0.31	-5.89	-0.10	189.02	-5.13	-7.99
Kristal Kola	KRSTL	Turkey	92	28.59	31.96	7.92	7.09	-0.01	106.79	14.25	22.25
Pınar Su	PINSU	Turkey	44	11.47	0.00	15.71	-2.32	1.87	64.37	-2.05	-6.30
Pınar Süt	PNSUT	Turkey	106	15.34	9.76	4.47	4.11	6.37	59.71	4.54	9.18
T.Tuborg	TBORG	Turkey	771	5.24	6.92	32.53	27.18	-0.54	80.09	32.62	69.66
Coca Cola İçecek	CCOLA	Turkey	4,086	7.62	14.54	20.86	10.08	0.60	79.82	11.39	34.32
Orçay Ortaköy Çay Sanayi	ORCAY	Turkey	24	7.35	10.74	28.61	13.02	2.46	56.32	12.74	31.12
Elite Naturel Organik Gıda	ELITE	Turkey	228	21.93	27.84	42.86	33.58	0.13	29.60	35.22	52.04

Source: Trive Analysis

ANADOLU EFES (BIST: AEFES)

Company Overview

AEFES is one of the largest public companies in Turkey's beverages sector. It operates two segments, Beer Group and Soft Drinks, and engages in the production, bottling, distribution, and sale of beer, malt, and non-alcoholic beverages both domestically and internationally. It is also involved in the production and sale of water, fruit juice concentrates, and carbonated soft drinks under the Coca-Cola Company trademark.

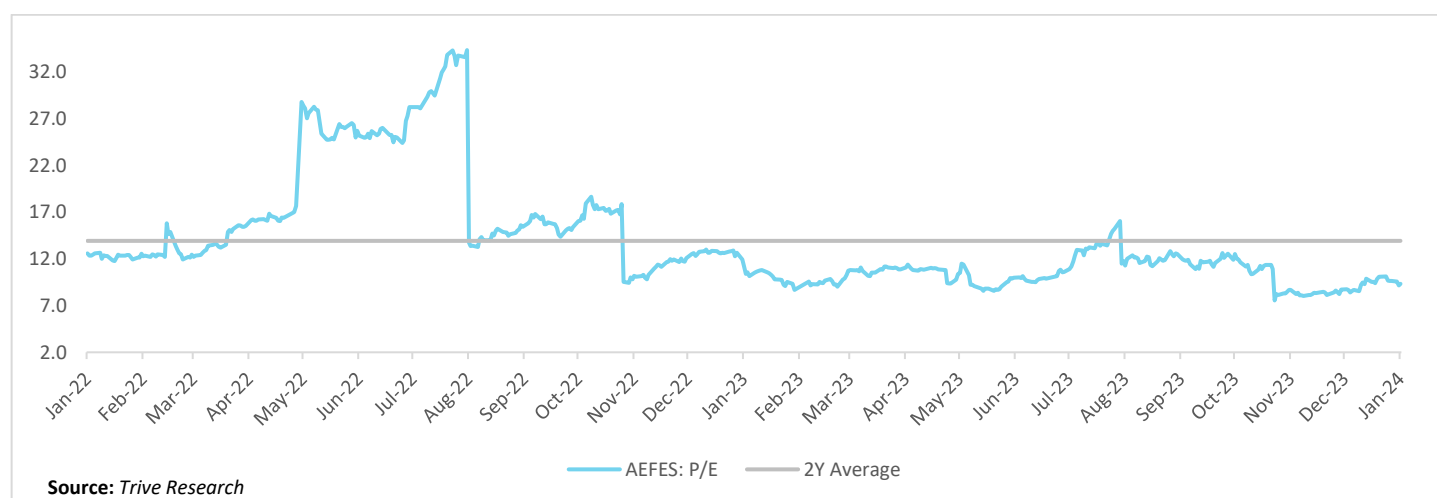
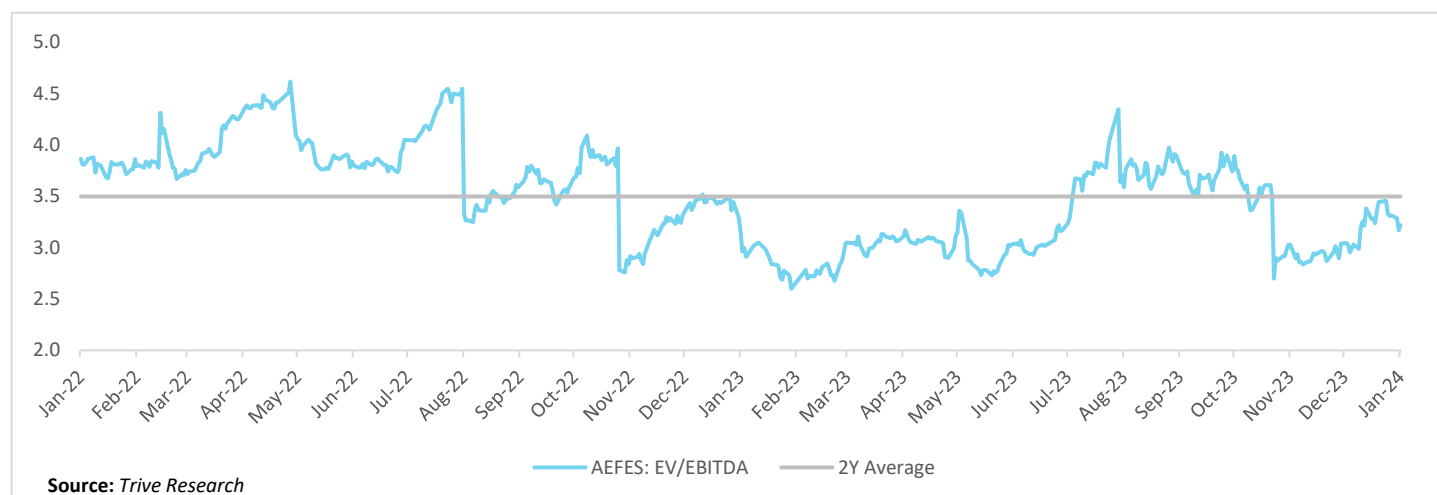
Update

In 3Q Net Sales hit TRY 49.79bn, showing 67% y/y growth. Over the past three quarters, the EBITDA margin has been on an upward trajectory, reaching 24.5%. The net profit soared by 127% y/y, reaching TRY 4.7bn, while the net margin improved to 9.5%. AEFES holds a Net Debt/EBITDA ratio of 0.48x, with ample cash and cash equivalents covering most of total debt.

On Monday, 8th of January, AEFES published FY2023 Volume Results as well as 2024 Outlook. The report indicated flat performance on the total volumes sold (-0.5% change), largely affected by 21.8% drop Coca-Cola Icecek volumes sold in Turkey. In 2024, AEFES expects consolidated sales volume growth to be at low-to-mid single digit.

Relative Valuation

AEFES's stock roughly doubled (~100%) in 2023, reaching the level of TRY 137.00 per share. Despite that, AEFES is trading at the TTM EV/EBITDA and P/E multiples of 3.22x and 9.33x, which are significantly below the comparable companies' median multiples both on the domestic and foreign markets (details in the peers table). On top of that, current multiples are even below their own 2Y average figures of 3.50x and 13.93x.



COCA-COLA ICECEK (BIST: CCOLA)

Company Overview

CCOLA is a subsidiary of Anadolu Efes (~50% ownership), operates as a bottler and distributor of alcohol-free beverages in Turkey, Pakistan, Central Asia, and the Middle East. It produces, distributes, and sells sparkling and still beverages under the Coca-Cola Company brand names (~20% ownership), including Cappy, Sen Sun, Powerade, Monster, Burn, Gladiator, Fuse tea, Damla, and Costa Coffee, and Schweppes.

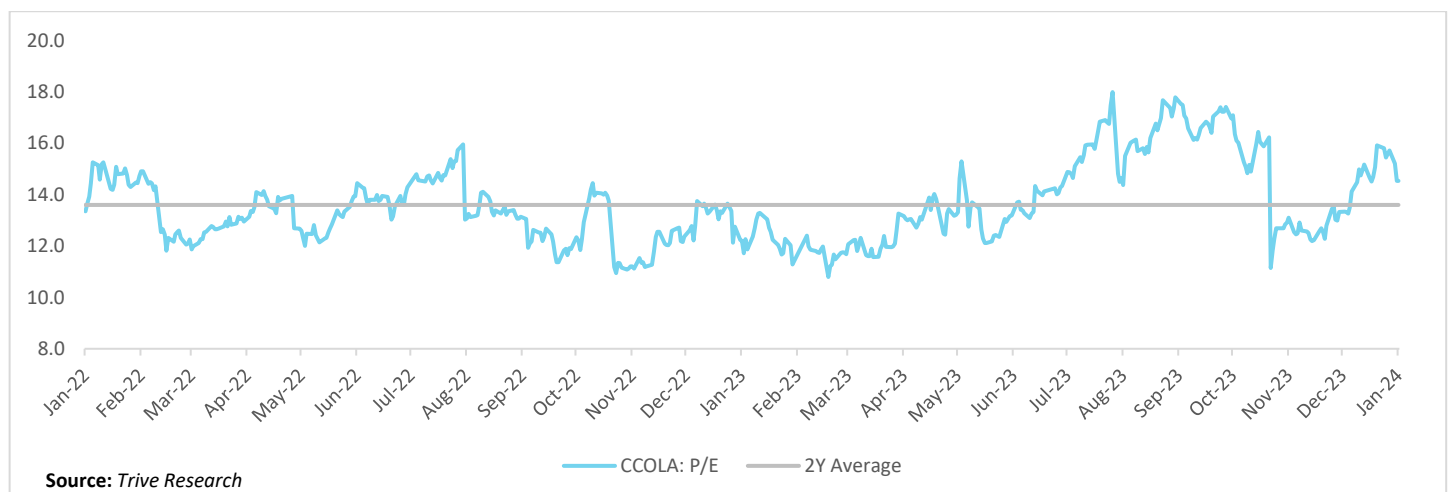
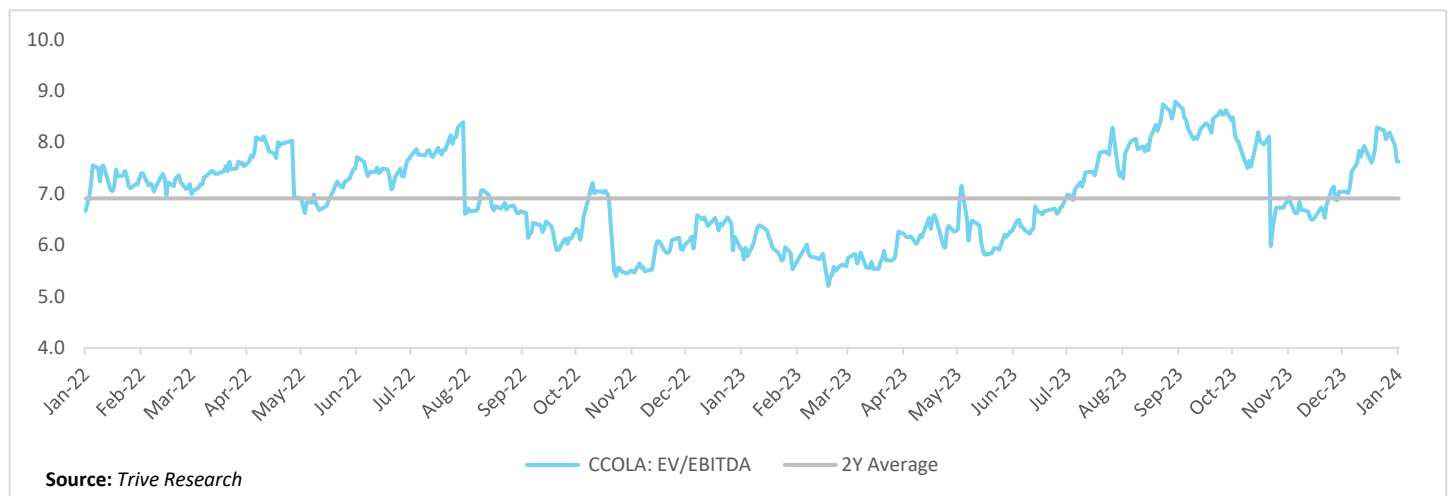
Update

In 3Q Revenue reached TRY 31.73bn in 3Q, 82% y/y. Quarterly EBITDA margin, currently standing at 24.1%, consistently grew since 4Q22. Net profit amounted to TRY 4.33bn, demonstrating a robust y/y growth of 137.9%, and a Net Margin of 13.6%. On the liabilities side, the company's Net Debt/EBITDA ratio reverted to 0.60x, indicating a strong financial standing and liquidity.

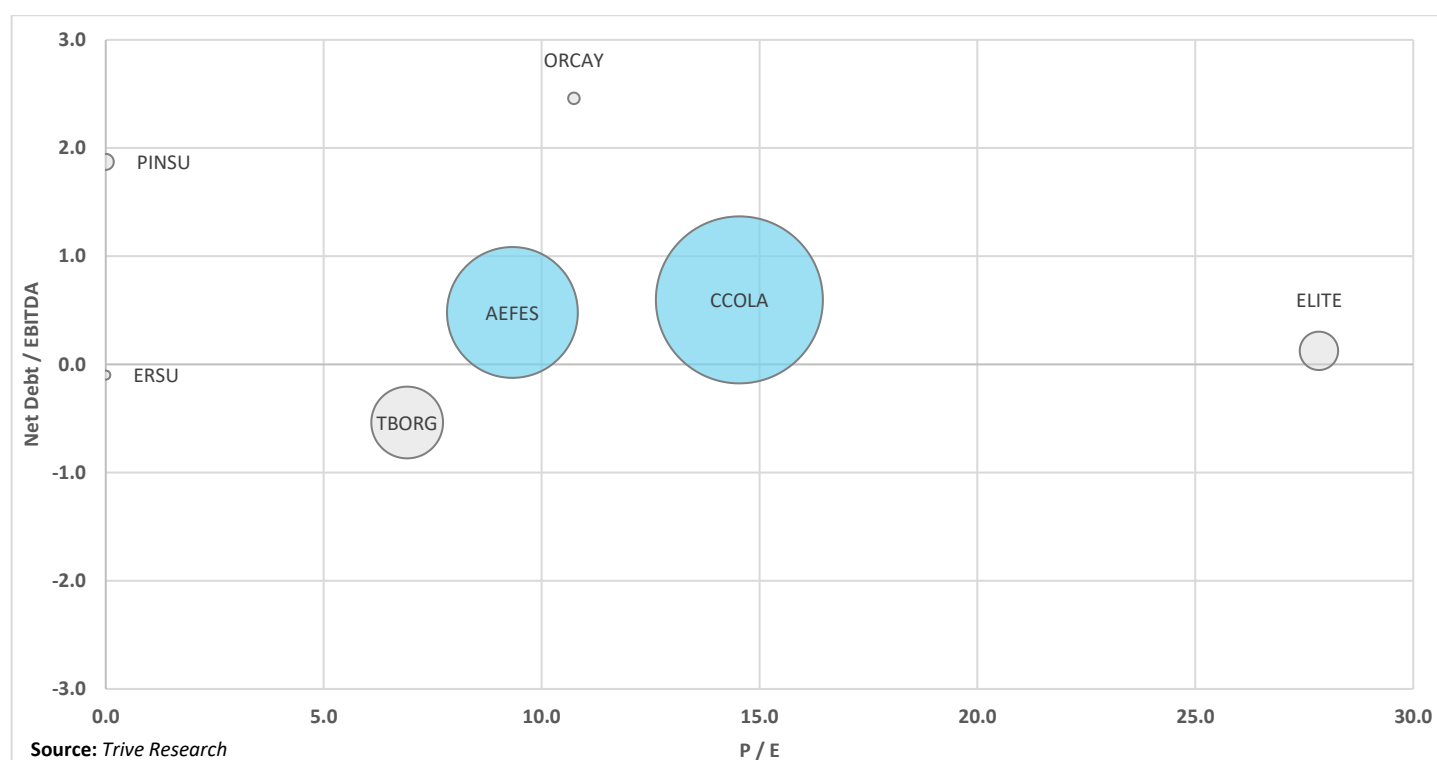
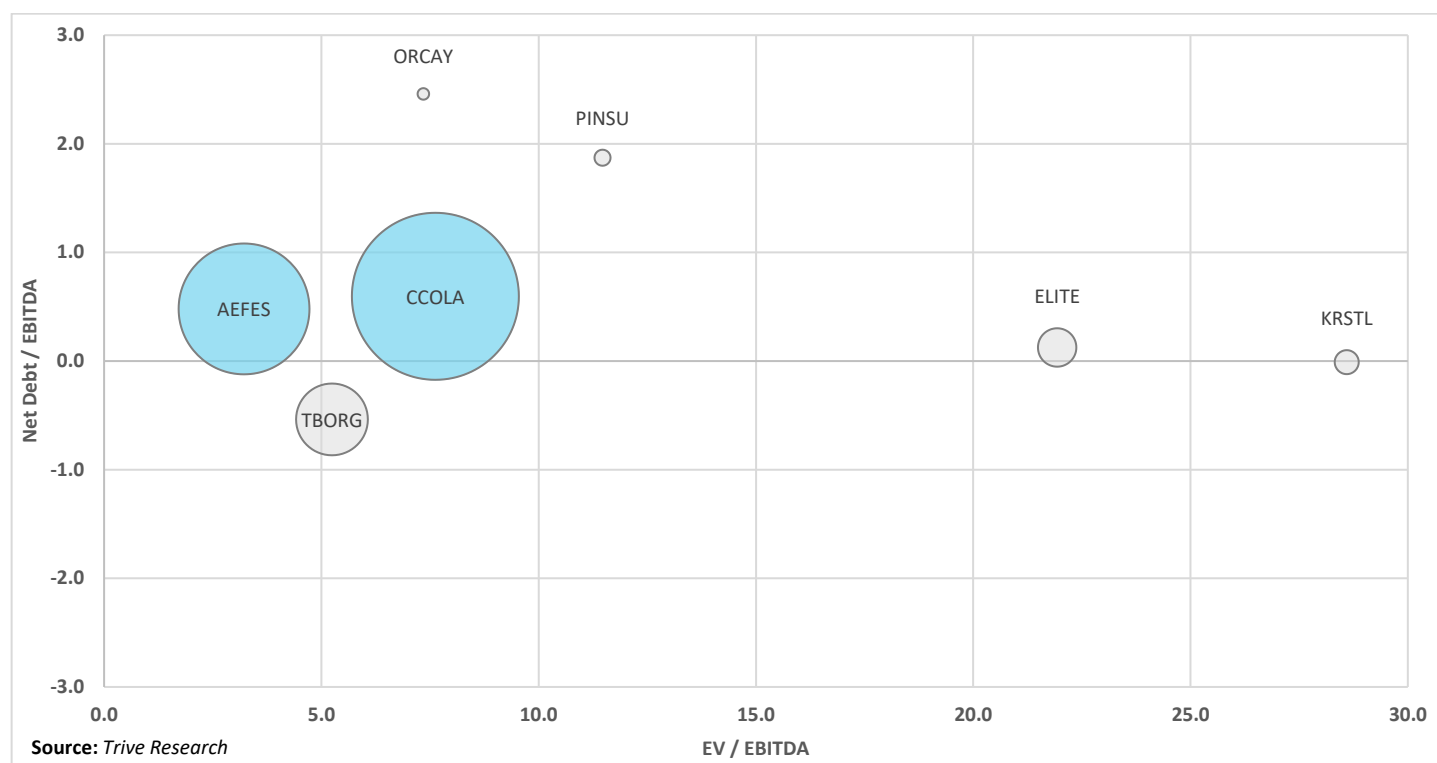
Recently, CCOLA provided 2023 Volume Announcement and 2024 Guidance, mentioning that 2024 inflation expectations remain relatively high. Company expects a mid-single digit volume growth in 2024, it was also mentioned that the dynamic pricing and cost management will allow company to grow revenue ahead of volume and grow operating profit ahead of revenue in 2024. On top of that, it is expected that 2 new plants in Uzbekistan and Kazakhstan will become operational in 2024.

Relative Valuation

CCOLA's stock is currently trading with EV/EBITDA multiple of 7.62x, which is also below domestic and global Beverage Sector medians. At the same time, the P/E of 14.54x is on its high level, however, still below the global sector median. We believe that the CCOLA is a unique and credible business which stands out on Turkish beverages market due to its streamlined processes, quality standards, and well-known brand name. Lastly, CCOLA demonstrate superior returns on Assets and Equity both on domestic and global landscape.



Market Mapping



Financial Highlights

Highlights, 9M23	AEFES	CCOLA
Quarterly Operations (TRY mn)		
Revenue	49,790	31,734
Gross Profit	20,975	11,933
EBITDA	12,190	7,655
Net Profit	4,732	4,327
CAPEX / Revenue	5.4%	5.1%
D&A / Revenue	3.0%	2.3%
Quarterly Margins		
Gross Margin	42.1%	37.6%
EBITDA Margin	24.5%	24.1%
Net Profit Margin	9.5%	13.6%
Quarterly Growth, Q/Q		
Revenue	31.0%	36.4%
Gross Profit	38.6%	46.7%
EBITDA	46.8%	52.7%
Net Profit	64.7%	81.2%
Quarterly Growth, Y/Y		
Revenue	67.3%	82.3%
Gross Profit	82.9%	102.5%
EBITDA	83.0%	105.3%
Net Profit	127.3%	137.9%
TTM Operations (TRY mn)		
Revenue	134,810	83,321
Gross Profit	53,102	29,202
EBITDA	27,468	17,377
Net Profit	8,066	8,398
CAPEX / Revenue	6.2%	5.8%
D&A / Revenue	3.7%	2.8%
TTM Margins		
Gross Margin	39.4%	35.0%
EBITDA Margin	20.4%	20.9%
Net Profit Margin	6.0%	10.1%
TTM Growth, Y/Y		
Revenue	70.6%	79.8%
Gross Profit	83.3%	90.5%
EBITDA	84.1%	89.1%
Net Profit	153.9%	114.6%
Indebtedness		
Total Debt	52,404	32,244
ST Debt / Total Debt	38.4%	44.8%
LT Debt / Total Debt	61.6%	55.2%
Total Debt / Total Assets	26.8%	33.6%
Cash & Cash Equivalents	41,403	21,883
Net Debt	13,191	10,362
Net Debt / EBITDA	0.48	0.60
Liquidity		
Current ratio	1.23	1.39
Quick ratio	0.85	0.95
Cash ratio	0.57	0.61

Source: Trive Analysis

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