Transcription
Coca Cola İçecek FY23 Results Presentation

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PRESENTATION

Çiçek Özgüneş

Good morning and good afternoon, ladies and gentlemen. Welcome to our FY23 Results Webcast. I'm here with Karim Yahi, our Chief Executive Officer; and Erdi Kurşunoğlu, our Chief Financial Officer. Prepared remarks will be made by Karim and Erdi accompanied by a slide deck. We will then turn the call over to your questions. Please write down your questions on the question box of your web screen anytime you want. We will read them and answer them in order.

Before we begin, please kindly be advised of our cautionary statements. The conference call may contain forward-looking management comments, including projections. These should be considered in conjunction with the cautionary language contained in our earnings release. A copy of our earnings release and financials are available on our website. In addition, in accordance with the decree of Capital Markets Board, our 2023 financials are reported using TAS 29 Financial Reporting in Hyperinflationary Economies. The financial figures in this presentation and all comparative amounts for previous periods have been adjusted according to the changes in the general purchasing power of the Turkish lira in accordance with TAS 29 and are finally expressed in terms of the purchasing power of the Turkish lira as of December 31st, 2023.

However, to supplement the information provided for the first three quarters, which were reported without inflation accounting and to offer insight into our performance relative to our 2023 guidance, we will also present certain items from our financials without inflation adjustment. These unaudited historical figures are clearly identified as such. Any financial figures lacking such clarification are reported in accordance with TAS 29. Also following the call, a full transcript will be made available as soon as possible on our website. Now let me turn the call over to Karim.

Karim Yahi

Thank you Çiçek.

Good morning and good afternoon, everyone. Thank you for joining CCI's webcast.

Before starting, I would like to underline that unless I explicitly mention otherwise, all financial figures I will refer to will be as per inflation accounting.

Looking back at 2023, well, 2023 was not an easy year. We faced difficulties in our operations due to natural disasters, economic challenges and political unrest in neighboring countries. These have taken their toll on the consumer sentiment and volume generation, especially in Türkiye and Pakistan. Geographical diversification enabled balancing the softness in volume in these two countries with double digit volume growth rates in Central Asia and Iraq. Accordingly, as communicated in January, our full year volume was down by 2.6%, although transactions decreased less only by 1.2%. As a result, we have recorded 129 bps y/y increase in the share of immediate consumption packages, reaching 27.3% share on a consolidated basis.

Besides package mix improvement, we are also quite satisfied with our strong performance in energy and adult premium categories throughout the year.

Our commitments to disciplined revenue growth management enabled a new record. We have exceeded the $4 billion mark in consolidated revenue for the first time ever. Our $-based Net Sales Revenue per unit case before inflationary accounting grew by 22% and reached $2.5 NSR/uc, the highest mark reached in the last 10 years.

As I mentioned earlier, through effective revenue growth management, including pricing actions to keep pace with local inflation, mixed management and effective discount management, our Net Sales Revenue reached 101 billion TL with 8.4% year on year growth. Our consolidated EBIT grew 26% and yielded 201 bps margin expansion. When compared with our guidance shared at the beginning of 2023, which was given without the impact of inflation accounting, EBIT margin improvement realized as 300 bps vs. last year reaching 18%, significantly above our guidance for 2023. As a reminder, our guidance was flat to slight expansion in EBIT margin.

Last but not the least, I'm also quite proud to report the highest $ earnings per share in the last 10 years. With an EPS of $1.4, CCI's operating model and its people prove their strength and resilience despite the numerous challenges faced in our geographies.

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As we all witnessed, in 2023 challenges persisted in our operating environment, natural disasters, macroeconomic headwinds and political unrest in neighboring regions impacted consumer purchasing power, willingness to spend and consequently demand generation. Nevertheless, we remained committed to our long-term strategy of creating value via growing selected categories and channels.

Accordingly, in 2023, we have delivered 5% growth in energy category and 11% growth in adult premium category, mostly led by the Schweppes brand. While sparkling category declined by 3.3% year-on-year, Coca Cola™ performance was relatively stronger. The stills category grew by 6.2% on top of 18.7% growth realized in 2022. Finally, the water category declined by 3.5% in line with our strategy to focus on quality growth.

On top of our specific focus on certain categories, on premise and immediate consumption packages share, we have continued our efforts to increase the base for low and no sugar portfolio. As such, low/no sugar portfolio share among total sparkling sales increased by 519 bps year-on-year, reaching 13.3% as of 2023.

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In Türkiye, the earthquake all year long challenge of high inflation and therefore lower purchasing power limited our volume generation. Also, in the fourth quarter of the year, political sensitivities around the issues in the Middle East have resulted in some shifts in consumer behavior and had an adverse impact on our business. Nevertheless, we have increased net sales revenue by 25.7% year on year with a robust 32.4% net sales revenue per unit case growth, thanks to right pricing actions and effective mix management.

Apart from smart revenue growth management initiatives, we benefited from effective procurement and hedging. This supported Türkiye's profitability and EBITDA margin expanded by 130 bps year on year.

In the sparkling category, we declined by 7.5% while the stills category continued its strong momentum with 6.7% year on year growth on top of 13.8% growth realized in 2022. Finally, the water category declined by 3.9% year on year while the immediate consumption packs shares within water improved significantly in line with strategic mix focus.

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While Central Asia and Iraq operations contributed quite positively to the volume generation with double digit growth, the macroeconomic challenges in Pakistan diluted the volume performance. Hence, we have declined 1.1% year on year in international volumes in 2023.

On the other hand, due to the purchasing power adjustments with inflationary accounting, NSR declined by 3.3% while without the impact of inflationary accounting, 59.3% growth is recorded. Moreover, immediate consumption packs share improved by 109 bps year on year while on premise channel also grew faster gaining 29 bps share versus last year. Coupled with disciplined cost management, our international operations EBITDA margin improved by 134 bps to 22.7%.

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In Kazakhstan, full year 2023 volume growth was 2.4% year on year, cycling 16% growth while sparkling category was the main driver with 4.7% year on year improvement on top of the 19.7% year on year realized in FY22. Apart from volume growth, we have improved on-premise channel share by 72 bps throughout the year and volume performance was softer in the second half of the year, yet, we have managed to keep our market share in-tact.

Uzbekistan was again the champion for delivering the stronger growth amongst all CCI countries with an impressive 25.8% year on year surge in full year 2023. Post acquisition, we have been implementing our CCI's playbook carefully and therefore setting up the right RTM infrastructure with focused cooler placement. Uzbekistan also delivers 440 bps sparkling market share gain in 2023 along with 185 bps increase in on-premise channel share.

As discussed previously, Pakistan experienced the most difficult macroeconomic disruptions in its history. Accordingly, consumer confidence index dipped to the lowest figures in the second- half of the year since the start of the measurement 11 years ago. The Pakistani Rupee lost around 25% value against the dollar year on year. Inflation reached 75-year high level throughout the year, impacting the consumers' purchasing power negatively. Accordingly, CCI posted 16.4% volume decline in 2023, cycling 13.1% growth a year ago, yet maintaining share in the market which is another testimony to the strength of our execution.

Now I will give the floor to Erdi for the financial review.

Erdi Kurşunoğlu

Thank you, Karim.

Today, once again we are proudly sharing our full year results and we have delivered our quality growth algorithm as another proof point of our continued success in creating shareholder value.

In full year 2023, our EBIT growth realized as 26.2% exceeding our net sales growth of 8.4%. Close monitoring of consumers purchasing power, optimized discount management and right assessment of commodities market movements have paved the way for a strong delivery in our profitability.

As a result, we have generated 214 bps of gross margin improvement year-over-year and 201 bps expansion in EBIT margin. We have also delivered 48.3% year-over-year growth in net income, reaching 20.6 billion TL.

While these figures are in full conformity with inflation accounting, our numbers (without inflation accounting) are also very solid and similarly trending with 300 bps of EBIT margin improvement year-over-year which significantly beats our guidance. Consequently, again without inflation accounting, we have delivered the highest USD-based earnings per share with $1.4 in the last 10 years, which is also up by 34% year-over-year.

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Our determined focus on efficiency continued to yield positive outcomes also in full year 2023. On a per unit case basis, NSR/uc growth was 11.4%, which implies $2.8 of NSR/uc. Without inflation accounting, NSR/uc was $2.5, the highest in the last 10 years. This was achieved by right revenue growth management strategies and mainly through discount and mix management.

With smart procurement measures, we also managed to contain COGS per UC increase much lower than our NSR/uc growth at 7.9%. Successful hedging and pre-buy initiatives made positive contribution to manage COGS per UC during the year.

Subsequently, EBIT/uc growth has surpassed the NSR/uc growth with a solid differential and realized as 29.6% year over year.

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In 2023, operating profit was up by 26.2% compared to the same period of last year. While strong revenue growth management was the main driver of EBIT expansion, controlled COGS and OpEx performance also supported this success as mentioned earlier.

As a result, we reported TL 14.5 billion EBIT in 2023 with 14.3% margin.

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As Karim mentioned, our full year results presented in this webcast and in our earnings release are in full conformity with Capital Market Board degree on Financial Reporting in Hyperinflationary Economies.

Therefore, on this slide we have presented some of our figures without inflation accounting so that we can provide more clarity as to our performance versus our guidance for 2023. Kindly note that these figures without inflation accounting are unaudited.

Starting with the P&L, we have delivered 70% net sales revenue growth with a robust 75% year over year improvement in net sales revenue per unit case in TL terms. EBIT has reached TL 16.3 billion with 104.2% year over year growth and yielding 300 bps year over year margin expansion.

Moving on to some balance sheet items, to be specific to some DCF items, inflation accounting impacted inventories the most. However, since our average inventory days is not very high, the impact is not too significant. Total balance of inventory changed from 12.2 billion TL to 13 billion TL due to inflation accounting adjustment.

CapEx to NSR was 6.1% with inflation accounting and 6.3% without.

Lastly, free cash flow without inflation accounting was 2.5 billion TL which is in line with our guidance provided earlier.

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As a result of our tight financial discipline, our balance sheet remains to be strong and flexible.

Our net debt is 504 million US Dollars, which is only 0.8 times our EBITDA.

Our short FX position after Net Investment Hedge is at a comfortable level of 63 million US Dollars.

Thanks to our proactive debt management, the average maturity of our debt is 3.2 years with 42% of our current debt is scheduled to be paid from 2027 to 2030. This creates an additional comfort zone to manage and plan our liquidity under current tight global monetary conditions. The upcoming Eurobond payment in September 2024 will be partially repaid with existing cash and partially refinanced through bank loans.

We will continue to be prudent in financial management to maintain a healthy balance sheet and strong liquidity position.

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Now let's have a look into 2024 outlook regarding our procurement initiatives. We are quite satisfied with our approach in procurement strategy and once again we managed to gain a good visibility as to the majority of our 2024 raw material needs.

In markets where sugar can be hedged, namely Iraq and Jordan, we covered 100% of our sugar need for 2024. And for the other markets, we mostly completed our pre-buys and right now our total sugar coverage corresponds to 70% of 2024 sugar need in those markets.

Similarly, for aluminium and resin, we have covered 70% and 86% of 2024 needs now respectively.

Looking at our commodity exposure for 2024, we are comfortable with our current hedge levels and rates. We will continue to monitor markets closely to add further coverage if needed.

Once again, thank you for joining this webcast and now back to Karim for his closing remarks.

Karim Yahi

Thank you, Erdi. Finally, we have just recently completed and announced the acquisition of Coca-Cola Bangladesh Beverages, in line with our aspiration to capture meaningful opportunities through inorganic growth. We are very excited and pleased to add another promising geography to CCI. Bangladesh offers amazing growth opportunities and fits well with CCI's expertise of operating in developing markets with low NARTD consumption.

Bangladesh population is approximately 170 million people. And with this, Bangladesh is the 8^{th} most populated country in the world. According to IMF estimates, the real GDP growth is anticipated to be 6.7% on an annual compounded basis in the next 5 years, compared to 4% of emerging market average. Median age is only at 28 years old and urbanization is accelerating.

Bangladesh is divided into two regions from the Coca-Cola Company's franchise perspective. CCBB that we have acquired serves nearly 2/3s of the population and both regions operate on an exclusive basis as per the license agreement with TCCC.

As a result of the country dynamics, the NARTD market offers significant growth opportunity. The NARTD market has posted 10% CAGR in the last three years and reached 410 million unit cases. According to global data forecast, the industry has a 12% CAGR growth potential until 2032.

Per capita consumption is one of the lowest, even in the peer countries group. To make a comparison to our largest markets, the 46 servings per capita NARTD consumption in Bangladesh is 134 in Pakistan and 557 in Türkiye.

Bangladesh has the potential to immediately contribute to CCI's growth, thanks to our winning operational capabilities and effective RTM in Frontier Markets.

Now we will be happy to answer your questions that you shared via the O&A chat-box.

Question and Answers

Melda Öztoprak

Hello, everyone. Let's start with the first question. With Türkiye making up less than a third of earnings and declining in share, the hyperinflation accounting and effects volatility, would you consider reporting your results in USD instead of Turkish Lira?

Erdi Kurşunoğlu

Thank you for the question. We don't have a plan as such and we will continue to report in Turkish Lira.

Melda Öztoprak

Second question comes from J.P. Morgan, Hanzade. Thank you.

Do you continue to see demand weakness in your operating countries during boycotts against US products? Second, how has been demand environment evolving in Pakistan since the beginning of the year? Third, what would be your guidance under IAS 29? Four, how should we interpret sizable pressure on Turkish margins in IAS 29 versus IFRS? Would this suggest that under normalized inflation and raw material cost inflation, Turkish operations may have lower margins than its previous 12-15% points EBITDA margin?

Karim Yahi

I'm going to thank you for the questions. I'm going to take number one and number two and Erdi will take number three and number four. So number one about our operating geographies. So first, from a macroeconomic standpoint, it is important to note that in 2024, inflation is slowing down in our operating geography. And that is important to note because it gives us the opportunity to rebalance revenue generation so that we do not only depend on list pricing, but can also effectively manage the mix; category mix, channel mix, pack mix as well as our trade discounts and optimize its level.

So the objective for us in 2024 is to rebalance our revenue generation, again leveraging the fact that inflation is overall slowing down in dollar terms and therefore giving us the opportunity to recreate a more balanced revenue generation with volume growth, mix management and trade optimization.

Question number two about Pakistan. Pakistan is a land of opportunities for us. Our 23,000 people in the country are focused on growing the business and we are supporting them by continuing to invest. Positive news coming from Pakistan. From a macro context standpoint, the new government has been announced. Appointments of ministers have been announced as well. And we see positive developments as we now look for IMF to support the country as it was previously announced and international investors to continue investing in the country. All this to say that we observe right now a stabilization in the country which will allow us to recreate growth with our customers to satisfy our consumers.

As a matter of fact, we have now launched a very ambitious plan during Ramadan with a launch of two-liter Coca-Cola for 200 Pakistani Rupees, so catching a magic price point of 200 Pakistani Rupees. And this offering entails a 500-milliliter free product. Hence, creating growth with consumers and partnering with customers. So, to answer your question, we see stability around the corner in Pakistan and we are here to continue winning in the marketplace to offer the consumers what they want and to partner with our customers to create growth.

Erdi Kurşunoğlu

Thank you, Karim. Let me continue with the third and fourth question on this. As to our guidance for 2024, inflation accounting is new for all of us and we are all trying to digest this in with full implications. Therefore, at the moment we refrain from providing a guidance with inflation accounting for now, which means our guidance from early gen is still intact and valid. And the last question as regards to Turkish margins, yeah, we're keeping our guidance at this point published early January, no further comments on this one.

Melda Öztoprak

Thank you. Next question. Congrats for strong results. Coca-Cola FEMSA lacks behind in terms of population where sales are made. Coca-Cola FEMSA's market value is 20 billion dollars and its sales are $73 million. Although the dynamics of geographies in which they operate may differ as the largest third bottler in the same ecosystem, do you find these figures possible for CCI? What could be the main reason of size gap? Thank you.

Karim Yahi

Thank you. That's a great question. My friends from FEMSA are doing a great job. Very clear. It's a formidable bottler. Just to give some perspective on their key countries, if you look at Mexico which represents a sizable portion of its performance, Mexico has an NARTD per capita above 1,000. In comparison, CCI on average has 400 per capita. And again with a wide range of realities going from 40 per capita or the 10 servings per capita in Bangladesh, as I shared earlier, up to Kazakhstan with a 200 plus per capita for the Coca Cola NARTD share. So I would say that we have plenty of opportunities in our geographies because of the low per capita that the categories have. And as CCI, we are committed to develop the market. It means grow per capita over time, at the same time implement the right strategies through revenue management, through route to market in order to at the same time create revenue and create value. So for us, we are committed to developing the market and grow per capita as well as create value over time. It's just that the realities of our markets, as I explained, we operate in lower per capita markets versus our colleagues from FEMSA.

Melda Öztoprak

Next question comes from Evgenia. Thank you for the presentation. I have several questions. One, could you please share your guidance for '24? Two, how much EBITDA do you expect Bangladesh to generate on an annual basis?

Erdi Kurşunoğlu

Thank you for the question. For the first part, again, our guidance for 2024 from early January still holds with mid-single digit volume growth, low 40s percentage, FX neutral, NSR growth and EBIT margin flat versus previous year. And for Bangladesh, we can't comment on Bangladesh specifically and Bangladesh is quite small at the moment within our total for now.

Melda Öztoprak

Next question comes from Matias. Can you comment on cooler investments across different markets?

Karim Yahi

Yes, thank you for the question. Well, coolers are a critical growth CapEx investment for us. So the way we look at it to summarize, over the years, our shareholders have always been committed to invest ahead of demand. And what does it mean? It means that overall, when you look at over 15 years of CAGR, we typically invest between 6% to 8% of our revenue into CapEx. And in this CapEx, you have different categories of CapEx. You're going to have greenfield for manufacturing plants, you're going to have new lines and you're going to have coolers. Roughly the way we look at it is, we dedicate a third of our total CapEx to coolers so that we can grow in the marketplace ahead of demand and then grow the per capita on the other side with our colleagues from the Coca-Cola Company, so then we can then bring the consumers to the stores, so that the consumers can meet our beverages in the coolers and create transactions every day. So that's the way we look at it. So a third of our total CapEx go into coolers, give or take on average and we dedicate 6% to 8% of CapEx to revenue every year on average.

Melda Öztoprak

Next question comes from Eugenia. What are the main investment projects planned for 2024?

Karim Yahi

Great question again. We are committed to investments always. What we have right now planned is quite straightforward. We do have some greenfields planned. We do have some line investments planned. And so when it comes to greenfields, we're planning to have two new greenfields in Kazakhstan and Uzbekistan. So you're going to see that coming up before the season in 2024. We're planning to also have some new line investments in Türkiye, planning some new greenfield also in Azerbaijan, planning for further greenfield, this time for a little bit longer, but we started a process in Iraq. So all in all, a significant year of investment in 2024 again completely in line with our winning playbook to invest ahead of demand and to create capacity ahead of demand. And again, back to the earlier question about having like 6% to 8% of revenue dedicated to CapEx over the years.

Melda Öztoprak

Follow up question from Eugenia. Could you please share any details regarding your net leverage ratio targets?

Erdi Kurşunoğlu

We don't have a specific target on this. And we are comfortable to be below 2 times net to EBITDA. And currently, as I mentioned earlier, we're sitting at 0.8 times.

Melda Öztoprak

Just a reminder, if you have any questions, please kindly share with us through the O&A chat-box. Next question comes from Muharrem Gülsever. Would you agree that 2.5 dollars per unit case net sales revenue would be a ceiling for CCI universe with the current micro dynamics?

Karim Yahi

Thank you. It's a good challenge. I don't think it is a feeling. I think it is a step in the right direction. Again, the way we plan and the way we execute is very disciplined. We first look at what is the cost of goods sold per unit case inflation. Then we look at how can we create growth in the market place between volume generation, revenue and pricing on the shelves as well as mix management and trade optimization. 2.5 dollars per unit case is a good threshold, but it is certainly not the end of the journey.

Melda Öztoprak

If you have any questions, please share with us through the O&A chat-box. Next question comes from Mathias. Given the change in accounting rules, are coolers now better reflected or closer to intrinsic value on your balance sheet?

Erdi Kurşunoğlu

Good question. I mean, that's the one of the kind of advantages of inflation accounting to bring obviously fixed assets also to closer and to more realistic value. And we can also say the same for coolers, of course.

Melda Öztoprak

Next question comes from Cemal Demirtaş from Ata Invest. How do you see the outlook in first half of 2024, both in Türkiye and international markets? Any short- term color on price and demand trends please.

Erdi Kurşunoğlu

Thank you. That's a great question. As you may imagine, it's something that we track everyday. So to answer your question, a little bit relates with the previous questions on a similar topic. Again in our geographies, when you look at the cost of goods sold driven by inflation, we observe a slowdown in 2024 compared with 2023. That slowdown is happening in front of our eyes and it gives us the opportunity to rebalance our revenue generation. One thing that we need to reestablish for us is to recreate volume growth so that we can benefit from these lower inflation rates and that is going to be our focus for 2024.

Melda Öztoprak

Next question comes from Pascal. You talked about your 2024 guidance. Can you please give us a sense about your FX and inflation assumption to get to this guidance?

Erdi Kurşunoğlu

Thank you. We do not have a guidance with inflation accounting, as this will require us or any company to have an inflation forecast for 2024 and I'm sure most of the companies work with several inflation assumptions, not just one.

Melda Öztoprak

Would you consider coming back to the market to finance your investment projects. Do you have a need for additional funding?

Erdi Kurşunoğlu

At the moment, there is no need for additional funding. Our balance sheet is strong enough and set for all the plans for and within 2024.

Melda Öztoprak

No more questions left at this point. Thank you for joining CCI's webcast. Goodbye.