Tear Sheet:

Coca-Cola HBC AG

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Coca-Cola HBC should continue performing strongly in 2024, after exceeding our expectations in 2023. The strong reported revenue growth of 10.7% to €10.2 billion in 2023 was roughly in line with our forecasts, due to price-mix initiatives in established and developing markets alongside higher volumes in emerging markets. We exclude the estimated contributions from the Russian operations from our credit metrics, given the capital controls that are still in place and Western government-led sanctions on the country prompted by the war in Ukraine. Even without these contributions, S&P Global Ratings' adjusted EBITDA was €1.3 billion, higher than the €1.1 billion we anticipated. The uptick corresponds to an overall margin expansion of 260 basis points, supported by higher prices, easing inflationary pressures, and packaging- and category-mix improvements. Moreover, the group efficiently mitigated foreign exchange (forex) and macroeconomic headwinds, notably in Nigeria and Egypt, and continued to streamline the Egyptian operations. Consequently, our adjusted debt-to-EBITDA ratio (excluding Russian operations) was 1.7x, versus our base-case scenario of 1.9x. Free operating cash flow (FOCF) generation grew to €647 million, higher than our €384 million estimate, as EBITDA growth and stable working capital outflows more than offset higher capital expenditure (capex).

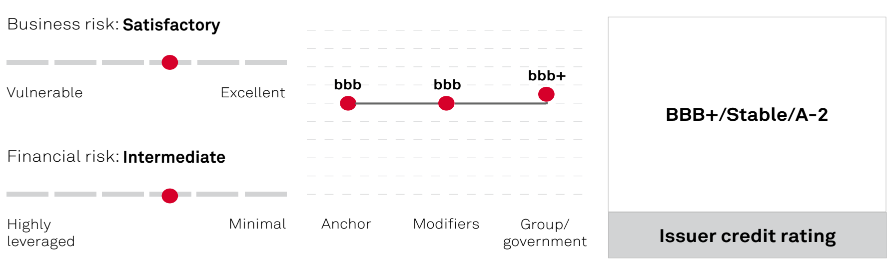
In the first half of 2024, the operating performance remained resilient, with 3.1% reported revenue growth (13.6% on a constant currency basis) that was broad-based (volumes, price, and category mix), which more than offset continued forex headwinds in Nigeria and Egypt and challenging macroeconomic conditions in main markets.

Amid a price stabilization scenario, we see growth in 2024 and 2025, mainly driven by volumes in emerging and developing markets, mix initiatives, and pricing carryover effect. We forecast 4%-7% reported revenue growth in 2024 and 3%-6% in 2025, driven by a balanced contribution of carryover price effect from 2023, volume growth, and better product mix. Mix improvements should continue to drive growth on the back of increasing out-of-home consumption, which underpins sales of single-serve packs; a higher share of priority categories--sparkling, energy, and coffee; and a lower contribution from less-accretive products like water. We expect 2%-3% annual volume growth over 2024-2025, mainly coming from product activations in developing and emerging markets. The growth should offset relatively stagnant established markets (accounting for about of 33% of total sales in 2023), which generally have higher rates of penetration and increasingly cost-conscious consumers. On the other hand, we expect price increase capabilities to become more muted as cost inflation further stabilizes and the company sees pricing pressures in certain developing and established markets. Revenue growth is materially affected by forex swings, which we expect will have a negative effect in 2024 and be roughly neutral in 2025.

We forecast S&P adjusted EBITDA will continue growing to €1.30 billion-€1.35 billion in 2024, assuming broadly stable profitability, with an S&P Global Ratings-adjusted EBITDA margin of about 14.0%. This implies prices will catch up with normalizing commodity and energy costs, but fixed-cost investments will increase to spur growth in priority categories. For 2025, we estimate the EBITDA margin will increase by 30-50 basis points (bps), driving S&P adjusted EBITDA toward €1.4 billion-€1.45 billion as the company continues to streamline the Egyptian operations and cost inflation normalizes. FOCF should remain stable at around €500 million annually as higher EBITDA is offset by higher capex earmarked for capacity expansion, sustainability, and digitalization. Under our base-case scenario, we expect gross capex of about 6.5% of company's sales.

The company's credit metrics provide good rating headroom to absorb possible higher discretionary spending in the form of return to shareholder and future acquisitions. Under our current base case, we project leverage will remain at close to 2.0x over 2024 and 2025 (1.7x posted at year-end 2023) as the slated operational improvements absorb the impact of future acquisitions and due to the two-year €400 million share buyback program launched in November 2023. We expect Coca-Cola HBC will continue pursuing acquisitions to support future growth. The focus will be on strengthening its sparkling, energy, and coffee categories while complementing its portfolio with value-enhancing opportunities in adjacent categories, such as Finlandia vodka. The company recently integrated the vodka brand to improve its mixability and on-trade channel sales. We view positively that, for the past few years, Coca-Cola HBC has kept its net reported leverage trending below its publicly stated target of 1.5x-2.0x. This track record underpins our expectations that management will continue to follow a prudent approach in terms of capital allocation policy.

Ratings Score Snapshot



Recent Research

- Coca-Cola HBC Outlook To Stable On Resilient Operating Performance Outside Russia; Ratings Affirmed, May 24, 2023

Company Description

Headquartered in Switzerland, CCH is a branded beverages manufacturer of sparkling drinks, waters, juice, ready-to-drink tea, energy, coffee, and others. The company produces and distributes most of its products under an exclusive license from TCCC (A+/Stable/A-1) for select countries. CCH is the third-largest Coca-Cola bottling company globally by volumes, producing 2.8 billion units per year from 62 manufacturing plants in 29 countries (as of Dec. 31, 2023). In January 2022, the company completed the acquisition of Coca-Cola's Egyptian bottling company. TCCC has suspended its business in Russia due to the fallout of the Russian military conflict with Ukraine; however, CCH continues to operate in the country by selling local brands. CCH in its current form traces back to 2000, when Greece-based Hellenic Bottling Company S.A. merged with Coca-Cola Beverages Ltd.

The company reports its results under three geographical segments:

- Established markets (Austria, Cyprus, Greece, Italy, Northern Ireland, Republic of Ireland, and Switzerland)—22.2% of total volumes, 33.0% of reported revenue, and 39.2% of reported EBIT in 2023.
- Developing markets (Baltics, Croatia, Czech Republic, Hungary, Poland, Slovakia, and Slovenia)—16.6% of total volumes, 20.5% of reported revenue, and 16.0% of reported EBIT in 2023.
- Emerging markets (Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Egypt [from 2022 onward], Kosovo, Moldova, Montenegro, Nigeria, Romania, Russia, Serbia, North Macedonia, and Ukraine)—61.2% of total volumes, 46.5% of reported revenue, and 44.2% of reported EBIT in 2023.

CCH's main markets in 2023 were Russia, Italy, Nigeria, and Egypt, which together accounted for about 47.4% of total volumes. In 2023, CCH reported total net sales revenue (including Russia) of about €10.2 billion (€9.2 billion in 2022) and company reported EBITDA of €1.5 billion (€1.3 billion in 2022).

As of Dec. 31, 2023, TCCC owns approximately 21% of CCH's share capital; Luxembourg-based private investment holding company Kar-Tess Holding holds a further approximately 23%; and the remainder is freely floating on the London and Athens stock exchanges.

Outlook

The stable outlook reflects our view that CCH has sufficient operational and financial flexibility to maintain the ratio of S&P Global Ratings-adjusted net debt to EBITDA at less than 2.0x over the next 24 months. This is despite near-term inflationary and demand headwinds. The company should benefit from its very strong market position in NARTD and presence in a defensive consumer staples category. This should enable it to generate FOCF of about €500 million per year.

Downside scenario

We could lower our ratings on CCH over the next 18-24 months if we saw a sharp decline in the company's profitability coming from higher inflationary and demand pressures than we expect, such that the ratio of adjusted net debt to EBITDA reaches 3.0x with no prospects of rapid improvement. This could also come from critical disruptions to the Russian operations or an unforeseen large debt-funded acquisition.

Upside scenario

We could raise the rating on CCH if we see sustained stronger growth in FOCF growth than we expect, resulting in the FOCF-to-debt ratio being above 25% and ratio of adjusted net debt to EBITDA being 1.5x-2.0x. This scenario could stem from a swift rebound in profitability from an unexpected sharp drop in commodity prices, or CCH navigating current inflationary and demand pressures in key emerging markets better than we expect. An upgrade would also be contingent on the company committing to maintain these ratios on a sustained basis. This would therefore entail an amendment to its stated target policy.

Key Metrics

Coca-Cola HBC AG--Key Metrics*

Mil. €	2023a	2024e	2025f
Revenue growth (%)	11.0	4.0-6.0	3.0-5.0
EBITDA margin (%)	14.3	About 14.0	14.0-14.5
Free operating cash flow (FOCF)	647.8	About 500	About 500
Debt to EBITDA (x)	1.7	1.8-2.0	1.8-2.0
FFO to debt (%)	47.4	43.0-45.0	40.0-42.0
FOCF to debt (%)	30.1	20.0-22.0	17.0-19.0
EBITDA interest coverage (x)	14.6	15.0-17.0	16.0-18.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

Coca-Cola HBC AG--Forecast summary

Period ending	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027
(Mil. EUR)	2020a	2021a	2022a	2023a	2024e	2025f	2026f	2027f
Revenue	6,132	7,168	8,095	8,988	9,476	9,902	10,359	10,835
Gross profit	2,711	2,936	2,541	2,875	3,019	3,191	3,361	3,538
EBITDA (reported)	1,050	1,137	1,204	1,467	1,540	1,631	1,714	1,799
Plus: Operating lease adjustment (OLA) rent	--	--	--	--	--	--	--	--
Plus/(less): Other	10	5	(258)	(184)	(212)	(219)	(226)	(233)
EBITDA	1,060	1,141	945	1,283	1,328	1,412	1,488	1,567
Less: Cash interest paid	(65)	(46)	(59)	(76)	(80)	(84)	(85)	(81)
Less: Cash taxes paid	(183)	(142)	(150)	(185)	(212)	(227)	(240)	(254)
Plus/(less): Other	--	--	--	--	--	--	--	--
Funds from operations (FFO)	812	953	737	1,022	1,036	1,101	1,163	1,231
EBIT	660	785	654	971	828	889	941	995
Interest expense	76	71	80	88	80	85	85	82
Cash flow from operations (CFO)	806	1,047	966	1,163	1,084	1,088	1,135	1,195
Capital expenditure (capex)	419	507	441	515	588	612	658	722
Free operating cash flow (FOCF)	387	541	525	648	496	477	476	473
Dividends	226	234	260	287	344	350	350	350
Share repurchases (reported)	--	--	--	43	179	179	--	--

Coca-Cola HBC AG--Forecast summary								
Discretionary cash flow (DCF)	161	307	265	318	(27)	(52)	126	123
Debt (reported)	2,741	2,777	3,214	3,214	3,215	3,220	3,220	3,220
Plus: Lease liabilities debt	184	160	206	210	210	210	210	210
Plus: Pension and other postretirement debt	41	(4)	--	--	--	--	--	--
Less: Accessible cash and liquid Investments	(1,284)	(1,559)	(1,581)	(1,446)	(1,244)	(940)	(810)	(681)
Plus/(less): Other	91	140	168	134	165	165	165	165
Debt	1,773	1,514	2,008	2,113	2,346	2,655	2,785	2,914
Equity	2,633	3,117	3,386	3,187	3,351	3,555	3,979	4,448
FOCF (adjusted for lease capex)	333	499	434	561	445	432	432	429
Interest expense (reported)	74	69	80	88	80	85	85	82
Capex (reported)	419	507	523	611	698	729	784	855
Cash and short-term investments (reported)	1,309	1,618	1,784	1,829	1,572	1,268	1,139	1,010
Adjusted ratios								
Debt/EBITDA (x)	1.7	1.3	2.1	1.6	1.8	1.9	1.9	1.9
FFO/debt (%)	45.8	62.9	36.7	48.4	44.2	41.5	41.8	42.3
FFO cash interest coverage (x)	13.5	21.8	13.4	14.5	14.0	14.1	14.7	16.1
EBITDA interest coverage (x)	14.0	16.2	11.8	14.6	16.5	16.7	17.4	19.1
CFO/debt (%)	45.5	69.2	48.1	55.0	46.2	41.0	40.7	41.0
FOCF/debt (%)	21.8	35.7	26.1	30.7	21.1	18.0	17.1	16.2
DCF/debt (%)	9.1	20.3	13.2	15.0	(1.1)	(2.0)	4.5	4.2
Lease capex-adjusted FOCF/debt (%)	18.8	32.9	21.6	26.6	18.9	16.3	15.5	14.7
Annual revenue growth (%)	(12.7)	16.9	12.9	11.0	5.4	4.5	4.6	4.6
Gross margin (%)	44.2	41.0	31.4	32.0	31.9	32.2	32.4	32.7
EBITDA margin (%)	17.3	15.9	11.7	14.3	14.0	14.3	14.4	14.5
Return on capital (%)	14.7	17.4	13.0	18.2	15.0	14.9	14.5	14.1
Return on total assets (%)	8.3	9.6	7.0	9.7	8.2	8.6	8.8	9.0
EBITDA/cash interest (x)	16.4	24.9	16.0	16.9	16.6	16.8	17.5	19.3
EBIT interest coverage (x)	8.7	11.1	8.2	11.0	10.3	10.5	11.0	12.2
Debt/debt and equity (%)	40.2	32.7	37.2	39.9	41.2	42.8	41.2	39.6
Debt fixed-charge coverage (x)	14.0	16.2	11.8	14.6	16.5	16.7	17.4	19.1
Debt/debt and undepreciated equity (%)	40.2	32.7	37.2	39.9	41.2	42.8	41.2	39.6

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. EUR--euro.

Financial Summary

Coca-Cola HBC AG--Financial Summary

Period ending	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022	Dec-31-2023

Coca-Cola HBC AG--Financial Summary

Reporting period	2018a	2019a	2020a	2021a	2022a	2023a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	6,657	7,026	6,132	7,168	8,095	8,988
EBITDA	1,029	1,116	1,060	1,141	945	1,283
Funds from operations (FFO)	863	833	812	953	737	1,022
Interest expense	59	77	76	71	80	88
Cash interest paid	50	72	65	46	59	76
Operating cash flow (OCF)	801	860	806	1,047	966	1,163
Capital expenditure	439	473	419	507	441	515
Free operating cash flow (FOCF)	362	387	387	541	525	648
Discretionary cash flow (DCF)	135	(739)	161	307	265	318
Cash and short-term investments	888	1,532	1,284	1,559	1,581	1,446
Gross available cash	891	1,532	1,284	1,559	1,581	1,446
Debt	909	1,850	1,773	1,514	2,008	2,113
Common equity	3,116	2,700	2,633	3,117	3,386	3,187
Adjusted ratios						
EBITDA margin (%)	15.5	15.9	17.3	15.9	11.7	14.3
Return on capital (%)	16.6	17.1	14.7	17.4	13.0	18.2
EBITDA interest coverage (x)	17.4	14.5	14.0	16.2	11.8	14.6
FFO cash interest coverage (x)	18.4	12.6	13.5	21.8	13.4	14.5
Debt/EBITDA (x)	0.9	1.7	1.7	1.3	2.1	1.6
FFO/debt (%)	95.0	45.0	45.8	62.9	36.7	48.4
OCF/debt (%)	88.1	46.5	45.5	69.2	48.1	55.0
FOCF/debt (%)	39.8	20.9	21.8	35.7	26.1	30.7
DCF/debt (%)	14.9	(40.0)	9.1	20.3	13.2	15.0

Environmental, Social, And Governance

Similar to other beverage bottling companies, CCH has moderate exposure to environmental risks related to plastic packaging waste, water scarcity, and health concerns. Governments are increasingly enforcing more stringent recycling rules, which could mean higher operating costs for CCH if it has to pay to collect and recycle plastic waste. For instance, in 2018 the EU introduced the first region-wide plastics strategy to achieve 100% recyclable plastic packaging by 2030 and reduce consumption of single-use plastics. Excluding Egyptian operations, CCH is committed to collecting and recycling 75% of primary packaging by 2025 (56% in 2023). It also aims to increase the share of recycled PET (or that from renewable sources) to 35% by 2025 and 50% by 2030 (16% in 2023). Changing consumer tastes and stricter health regulations on sugar content in drinks are risks for its sparkling beverages business. Therefore, CCH continues to invest in the expansion of its no- and low-sugar content drinks. The company is currently investing in own in-house production lines for recycled PET bottle preforms from hot-washed PET flakes. While COVID-19 has hindered progress in achieving some of its targets, notably for primary packaging collection and use of recycled PET, we believe that CCH is taking proactive steps in the environmental aspects of sustainability.

As a beverage bottler, CCH could also face rising operating costs to source water and face rising tensions with local communities as natural resources become scarcer. The company is aiming to reduce water usage by 20% by 2025 in plants located in high-risk areas such as Nigeria, Russia, Greece, Cyprus, and Armenia.

Our assessment of CCH's management and governance as satisfactory is supported by the consistency of the business strategy, a strong track record of improving profitably in volatile emerging markets, and its balanced board composition.

Rating Component Scores

Foreign currency issuer credit rating	**BBB+/Stable/A-2**
Local currency issuer credit rating	**BBB+/Stable/A-2**
Business risk	**Satisfactory**
Country risk	Moderately High
Industry risk	Low
Competitive position	Satisfactory
Financial risk	**Intermediate**
Cash flow/leverage	Intermediate
Anchor	**bbb**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011