Transcription
Coca Cola İçecek 1Q24 Results Presentation

23 May 2024

PRESENTATION

Çiçek Özgüneş

Good morning. Good afternoon, ladies and gentlemen. Welcome to our First Quarter 2024 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 first quarter 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 March 31st, 2024.

However, certain items from our financials are also presented without inflation adjustment for information purposes. In order to give an idea of our performance relative to our 2024 forecasts, which we announced at the beginning of the year, and which we stated were based on the financials without inflation adjustment. These unaudited figures are clearly identified as such. 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, Çicek.

Good morning and good afternoon everyone. Thank you for joining CCI's first quarter results 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.

During the first three months of 2024, despite facing difficulties, CCI continued to generate value, thanks to our strong capabilities, resilient operational framework and the quality of our people.

In the first quarter of 2024, CCI's consolidated volume decreased by 3.2% compared to the previous year, reaching 341 million unit cases, after cycling a 6.3% volume growth in the first quarter of 2023. Excluding the one-month impact of Bangladesh, CCI's volume decline would have been 4.1% on an organic basis. On the other hand, Türkiye, Uzbekistan, and Iraq operations showed strong volume improvements, with year-on-year increases of 5.4%, 22.5%, and 24.3% respectively. However, Pakistan's volume performance was relatively weaker due to ongoing macroeconomic challenges and a high comparative base from the same period last year. As Pakistan had achieved a 13.6% year-on-year growth in the first quarter of 2023.

Within this challenging operating context, we focused on executing well every day. As a result, we had increased by 212 basis points year-on-year the shares of immediate consumption packs, and have strengthened our performance in the traditional channel as its share among all channels improved by 101 basis points year-on-year.

In the first quarter of 2024, we have recorded a consolidated revenue of 27.2 billion TL, showing a 2.9% year-on-year improvement. This was accompanied by a 247 basis points expansion in gross profit margin and a flattish EBIT margin. Excluding the impact of TAS 29, our foreign exchange neutral net sales revenue growth was in the high 30s and our EBIT margin expansion exceeded 100 basis points, indicating that we're on track to meet the targets we have set at the beginning of the year.

I'm also extremely proud to share that we have recorded significant achievements in the first quarter, such as the record breaking $2.6 net sales revenue per unit case, and an impressive

EBIT margin of 16.1% prior to TAS 29 adjustments. These numbers mark the highest levels attained in the first quarters over the last decade, showcasing our ability to deliver strong operational and financial performance despite volatility and uncertainty.

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In the first quarter of 2024, sparkling volume was down by 5.1%, following strong 9.5% year-on-year growth in the first quarter of 2023. On the other hand, Stills volume maintained an impressive momentum, increasing by 11% year-on- year. As a result, the share of Stills category, which includes iced teas, energy drinks and fruit juices grew by 118 basis points year-on-year to 9.2%.

In addition to the improvements in category mix, immediate consumption packages continued its upward trajectory in the first quarter of 2024, with a 212 basis points year-on-year increase, reaching 26.4%. Looking at channels, volume share of the on-premise channel increased by 11 basis points while the share of traditional channel grew by 101 basis points year-on-year, both contributing to high-quality revenue growth.

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In the first quarter, Türkiye saw a 5.4% year-on-year increase in sales volume. This growth was driven by several factors including more assertive consumer marketing efforts in partnership with the Coca-Cola Company, effective trade promotions and earlier occurrence of Ramadan in March compared to the previous year, a low comparative base and improvements in the purchasing power of Turkish consumers following salary adjustments in January.

In the end, we have realized 7.1% growth in Coca-Cola trademark, a 6.4% continued improvement in Adult Sparkling Premium category including Schweppes. Similarly, our Fuse Tea brand has posted a robust performance with 51.5% year-on-year growth.

During the period, Türkiye achieved a 9.5% increase in net sales revenue with net sales revenue per unit case growing by 3.9%. This growth is attributable to effective revenue growth management actions in conjunction with closely monitoring consumer purchasing power and the expansion of Traditional channel share across all our operations.

Apart from smart revenue growth management initiatives, softer than anticipated cost base were the main catalyst in the quarter, paving the way for a 283 basis points year-on-year EBITDA margin improvement.

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During this period, international operations experienced a 7.2% year-on-year decline, following strong growth of 14.7% in the same period last year. While Uzbekistan, Iraq and Azerbaijan demonstrated robust volume performance with increases of 22.5%, 24.3% and 15.4% respectively, the overall slowdown in international volumes was primarily due to Pakistan and Kazakhstan. Both countries were up against a strong comparative base from the previous period from the same period last year and Pakistan continued to face macroeconomic challenges.

On the other hand, our initiatives aimed at enhancing mix yielded favorable outcomes in our international operations as well. We observed a 7% year-on-year increase in energy drinks and a 12.7% increase in iced teas, both belonging to highly profitable category. Immediate consumption share in our international operations surged by 350 basis points to 22.8%, indicating significant growth potential, especially when compared to the 36% average in EMEA countries. Furthermore, the Traditional Trade channel's share of total sales experienced a 71 basis point increase year-on-year.

In the international operations, due to the purchasing power adjustments with TAS 29 of 1Q23 to make it comparable to 1Q24, net sales revenue declined by 0.7%, while without the impact of TAS 29, 67.2% growth is recorded. Special focus on quality mix growth along with dynamic pricing actions delivered robust net sales revenue generation in international operations as well. Thereby yielding a $2.4 net sales revenue per unit case up by 9.9% versus same period last year.

On the other hand, we have recorded 156 basis points EBITDA margin slide year-on-year, mostly due to the ongoing macroeconomic turmoil in Pakistan. Except for Pakistan, margins for Kazakhstan and Iraq, improved materially during the quarter versus same period last year.

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In Kazakhstan, sales volume slowed down by 10.8% year-on-year in 1Q24 on top of 26.1% volume growth realized same period last year. In 1Q24, we have limited summer stocking, a practice that we undertake to keep up with summer demand due to the new greenfield that will be operational in high- season. Limited summer stocking at distributors combined with foreign consumers moving back to their countries and high base of 1Q23 have been the main reasons behind the volume decline. Despite softer volume performance, our volume market share in Sparkling category has increased by 68 basis points year-on- year in 1Q 2024.

Uzbekistan, continued to shine with 22.5% year-on-year volume growth, thanks to the continuous implementation of our CCI execution standard. Since the acquisition of Uzbekistan, we have improved our outlet coverage from 42% to 91% and increased the number of coolers in the market by six times. We are also quite proud of the launch of our new green field plant in Samarkand, which commenced production last week, and therefore are optimistic about Uzbekistan's future.

In the first quarter of 2024, Pakistan continued to face macroeconomic challenges, leading to 22.8% year-on-year decline in sales volume. This decline was compounded by the high base realized in the first quarter of 2024, 2023, when there was a 13.6% year-on-year growth. Despite soft volumes, we have posted a 1.3 percentage point value to market share gain on a 12-month trailing basis versus same period last year, 10 basis point year-on-year increase in the share of on-premise channel and 54 basis points year-on-year improvement in immediate consumption share, all demonstrating our strength in daily execution.

Now, I will leave the floor to Erdi for the financial review.

Erdi Kurşunoğlu

Thank you, Karim.

Moving on to our financial performance. In the first quarter, our net sales revenue increase by 2.9% year-over-year reaching 27.2 billion TL, with our net sales revenue per unit case increasing by 6.3%, mainly driven by strategic revenue growth management efforts.

Consolidated gross margin saw a significant expansion of 247 basis points to 33.2% year-on-year, primarily driven by gains in Türkiye and Kazakhstan. Türkiye witnessed a remarkable increase in gross margin rising by 842 basis points to 33.2%. This growth was fuel by disciplined and dynamic price management, favorable shift in channel mix, and lower cost base. In Kazakhstan, maintaining a stable cost base and implementing pricing adjustments in the first quarter were key factors contributing to the gross margin expansion.

Our consolidated EBIT margin was almost flat versus same period last year and realized as 11.8% while without inflation accounting EBIT margin year-over-year improvement was 101 basis points, tapping 16.1% margin which is the highest first quarter EBIT margin in the last ten years.

Finally, net profit was recorded as 2.7 billion TL in 1Q24 versus 3.2 billion TL last year. The decrease in net profit is mostly attributable to increased interest expenses and taxes year-over-year. Without inflation accounting, our net profit grew by 53.1% in Turkish Lira terms, reaching 1.6 billion TL.

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On a per unit case basis, our net sales revenue growth was up by 6.3% in TL terms, reaching 79.8 TL, while in US dollar terms, it has reached $2.58. Net sales revenue per unit case before inflation accounting was realized at $2.55, which is the highest in the last ten years implying a growth of 9% in dollar terms.

With proactive and smart procurement measures and keeping on manufacturing overhead costs under good control, we managed to contain our cost of goods sold per unit case increase much lower than our net sales revenue per unit case growth, at a modest level of 2.5%. Successful hedging and pre-buy initiatives made significant positive contribution to managing our cost of goods sold per unit case during the quarter.

Nevertheless, OpEx margin slightly increased in 1Q24 versus same period last year, resulting in an EBIT per unit case improvement which is slightly lower than our net sales revenue per unit case growth. The exchange rate increase in the first 3 months of 2024 is much higher than same period last year, which increased the share of USD-based expenses such as IT to rise materially y/y. Moreover, Bangladesh and Anadolu Etap Icecek's consolidation in 1Q24 also resulted in slightly higher OpEx margin versus 1Q23.

Nevertheless, effective revenue growth management initiatives as well as disciplined cost control helped us to deliver flattish EBIT margin in quarter one, year-over-year.

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We continued to win with our proactive approach in raw material procurement and once again we managed to gain good visibility as to the majority of our 2024 needs.

In markets where sugar can be hedged, namely Iraq and Jordan, we covered 100% of our sugar need for 2024. For the other markets, we mostly completed our pre buys and right now our sugar coverage for 2024 corresponds to 74% for 2024 and 25% for 2025.

Similarly, for aluminium and resin, we have covered 70% and 89% of 2024 needs respectively. In addition, we already have 40% coverage of our aluminum needs for 2025.

Looking at our commodity exposure for 2024 and 2025, we are comfortable at the current hedge rates and our coverage. However, we will continue to monitor markets closely, and are ready to add further coverage if needed.

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In 1Q24, our operating profit in absolute terms was up by 1.8% compared to the same period last year, while our EBIT margin was near flat.

As a result, we reported a 3.2 billion TL EBIT in quarter 1Q'24 with 11.8% EBIT margin. Excluding the impact of inflation accounting, EBIT margin reached 16.1% with 101 basis points year-over-year improvement, which is the highest first quarter EBIT margin in the last ten years.

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Moving on to the balance sheet. As a result of our tight financial policy, our balance sheet health remains to be strong and flexible.

Our net debt is $597 million which is only 1.0 of our EBITDA. This is slightly up from 0.8x of 2023-end, mainly due to Bangladesh acquisition and seasonality, as cash flow generation from operations remain relatively weaker in the first quarters of the year.

Our short FX position after net investment hedge is at a level of as thin as $1 million.

Thanks to our proactive debt management, the average maturity of our debt is 3 years and 42% of our current debt is scheduled to be paid between 2027 and 2030. This creates for us an additional comfort zone to manage and plan our liquidity in the globally tight monetary conditions. Our upcoming Eurobond payment in September 2024 will be partially repaid with our existing cash resources and partially will be refinanced through bank loans.

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

Now, back to Karim for his closing remarks, and thank you.

Karim Yahi

Thank you, Erdi.

For the closing remarks, I would like to refer to our CCI playbook, which is our clear winning formula.

We often get the question about how we manage to deliver strong results in volatile economies. As I had previously shared with you in earlier webcasts, our playbook is our key to capture opportunities and create sustainable value in the countries where we operate. As we operate in relatively low per capita NARTD consuming geographies, a well put playbook is our main enabler to both improve per capital, per capita commercial beverages consumption, and to deliver financial and operational results for our shareholders.

Today, I'd like to share a deeper approach in explaining the first item in our playbook, investing ahead of demand. And in the upcoming quarterly webcast, I would like to take the opportunity to explain the other success enablers in our playbook one-by-one. So, let's talk about investing ahead of demand.

We plan and invest in production facilities and coolers on the back of a well analyzed demand planning, so that we are fully ready to serve our consumers when demand picks up.

In order to better serve the consumers in our 12 countries, improve per capita consumption and create sustainable value, our production capacity must be readily present to fuel growth. That is why infrastructure investment generally corresponds to 47% of our total capital expenditures. Today, I'm proud to share with you that we have reached a total of 33 plants in the 12 countries where we're operating, all yielding to a total capacity of more than 2 billion unit cases. I'm also quite happy to inform you that we have delivered on our guidance to launch two greenfields ahead of the high season this year as we had the pleasure of opening our brand new plants in Uzbekistan and Kazakhstan last week.

Similarly, as we focus on increasing outlet penetration, creating transactions and generating quality revenue, we are keen about placing more coolers in our markets. As such, cooler investments make up 21% of our total CapEx. Historically, overall CCI has 6.3% CapEx over net sales revenue ratio, while we expect to have a higher ratio this year due to the new greenfield. Looking ahead, we will continue to invest in the future of our countries to increase per capita growth over time and deliver results simultaneously for our shareholders.

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

Question and Answers

Melda Öztoprak

Thank you, Karim. Our first question comes from Max Nekrasov. What is the situation in Pakistan in the second quarter so far? Do you expect volumes to turn positive later this year?

Karim Yahi

Thank you for the question. General elections were ahead in February, and the new cabinet has been established in March. In addition, Pakistan seeks another long-term IMF program that will unleash hard currency flow. Although, we are confident in the ability of the country to return to economic growth, and we remain positive about the opportunity Pakistan offers, all these positive development have not yet translated in the short term in improving consumer confidence, and our volumes continue to remain soft.

So looking ahead, we will continue to focus on executing in the market. We are committed to the future of Pakistan. And Pakistan, like our other markets, like typical emerging markets, bring volatility along with their growth potential. And within this context, we invest in these markets with a long-term commitment. Quarterly setbacks happen, and will continue to happen in the future, yet, what matters for us is to make sure that in the long-term we deliver growth and value for our shareholders.

Melda Öztoprak

Thank you. Second question is, are there currently any plans to issue a new Eurobond after the 2024 maturity?

Erdi Kurşunoğlu

Thank you for the question. No, we don't have a plan to issue a new Eurobond in 2024.

Melda Öztoprak

Thank you. Next question. Actually, we have four questions in this one, and therefore I will divide it. First one is, could you please explain the decline in international EBITDA? Was Pakistan the main driver of this?

Erdi Kurşunoğlu

Yes, Pakistan was the main driver of this.

Melda Öztoprak

Second question is, could you please provide any color on Pakistan and what are your expectations for the year, in terms of demand. We just explained that. The third question is, what is the long term EBITDA that you use to calculate net leverage ratio of 12 months?

Erdi Kurşunoğlu

We hinted also flat margins in our guidance as well.

Melda Öztoprak

Fourth question is, do you plan to provide guidance which will take into account inflationary accounts?

Erdi Kurşunoğlu

Not for now. As you all know, the calculation of inflation accounting and all the assumptions are too detailed. I mean, it requires month-on-month inflation assumptions and we do have these planned internally, but for now, we don't want to go out with a guidance including inflation accounting.

Melda Öztoprak

We have no further questions, let's wait for another minute. If you want to ask any questions, please use the Q&A chat box provided. Next question. Can you please explain the importance of shifting volumes to IC? How does IC impact volumes and margins relative to non-IC?

Karim Yahi

Thank you for the question. So, in our business in non-alcoholic way to drink beverages, IC, or immediate consumption and FC, or future consumption are the way we look at pack sizes. So, in other terms, immediate consumption are more smaller packs generally and FC or future consumptions are bigger packs. So immediate consumption is essential as they are smaller packs, they help with a few things. They help with recruitment of new consumers. They help with undergo consumption, they help with on-premise consumption. As on the other side of the pack mix, portfolio future consumption or FC packs help with frequency consumption, family occasions and overall bigger volume creation.

Immediate consumption, as I mentioned, are essentially in our business as this is how we recruit consumers. And overall, they also carry a higher net sales revenue per unit case versus the total portfolio and versus future consumption. Hence the impact overall on profitability when they increase.

Melda Öztoprak

Thank you. Next question from Pascal Mora. Can you please disclose the contribution of Bangladesh over one month, both in terms of turnover and profitability?

Erdi Kurşunoğlu

Thank you for the question. We consolidated one month of Bangladesh into our 1Q financials. We don't disclose that separately, but the volume contribution is low single-digits within the total volume contribution. And if you take the profitability of Bangladesh in terms of EBIT margin, it's lower than CCI average.

Melda Öztoprak

Next question, does management maintain its earlier 2024 guidance for mid-single digit volume growth?

Karim Yahi

Within the current context, we realize that we are facing economic risks and therefore volume risks. Yet, we are just closing 1Q, which is the lowest volume contributed in the full-year, and now we are focusing on the high season, Q2 and Q3. And before we do anything regarding guidance for volume, we need first to see how the high season ends. And right now, we are focusing on executing well in the markets and we are focusing on creating the best performance in the markets in the high season, and we will update you as we move forward.

Melda Öztoprak

Next question. How are volumes in Bangladesh?

Erdi Kurşunoğlu

I think we alluded to this question. The total contribution of Bangladesh is like low single-digits in our total, and we don't disclose that number separately.

Melda Öztoprak

Do you expect a normalization in working capital in the quarters ahead?

Erdi Kurşunoğlu

Thank you for the question, but in terms of net working capital, 1Q23 to 1Q24, we made a significant reduction already from 7.6% to 3.7%. So we spoke about summer stocking and optimizing of that, where we already see a good level which we plan to maintain throughout the year. So, I can say that it's normalized, and we expect to continue with the same levels the rest of the year.

Melda Öztoprak

Any guidance or color for the next quarters?

Erdi Kurşunoğlu

No further guidance other than what we have provided. And in terms of volume, the question was asked and Karim provided that. So nothing further in terms of guidance for the rest of the year.

Melda Öztoprak

What are your expectations regarding Kazakhstan performance in the rest of the year? And what long-term growth do you see there?

Karim Yahi

Right now, Kazakhstan is a strong contributor in our business. Obviously, it represents the highest per capita market that we have, both in terms of industry as well as our share of the industry. And as such, it remains a very strong contributor to our overall business. And yet Kazakhstan, as explained earlier is going through some rebasing of the business, coming from different things. So, coming from again, populations moving back to their countries following the some disruption in the region due to the war. And also cycling a very high base, and last but not least, facing one of the worst natural disasters that the country has ever experienced. So within this context, we have to be focused on doing the right things in the country, executing well in the country. We continue to see Kazakhstan as a very strong contributor for us. And then that will be the prime focus of the upcoming quarters.

It's to execute well, recover what we could not do in the beginning of the year due to the flood, recover what could not be done also because of the movements of population and the rebasing of the economy.

But overall, we are continuing to see strong potential in Kazakhstan, and that is why we have opened a new green field in Kazakhstan a week ago.

Melda Öztoprak

Can we say that the boycott effect is over for CCI?

Karim Yahi

Thank you for the question. Look, we operate in an environment and in countries where the war in the Middle East has an immediate impacts. Either because it is a neighboring country or because communities are affected. For us, what is important to focus on is what we can control and influence. And what we can control and influence is what we execute every day in the market.

We focus on selling our products to customers. We work with the Coca-Cola company on creating the right programs, so that we can bring in more consumers. And that is our focus. Right now in our geography, yes, there are sensitivities and there are this pressure because of the war in the Middle East. At the same time, there is also pressure from the macroeconomic environment and the ongoing inflation, and as I mentioned, we need to focus on the latter, and that is how we bring our products to the market, how we work to bring in more consumers, how do we implement our revenue growth management actions and ultimately, how we create value for our shareholders.

Melda Öztoprak

Again, if you would like to ask a question, please share via Q&A chat box. We have another question that was similar to the last one, therefore, I'm not reading it.

We have no further questions. Thank you for joining CCI's first quarter webcast. Goodbye.