



Rating
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North America
United States

Consumer
Beverages

Company
Coca-Cola European Partners

Reuters
CCE.N

Bloomberg
CCE UN

Exchange
NYS

Ticker
CCE

Date
9 August 2018

Results

Price at 8 Aug 2018 (USD)	40.89
Price target	47.00
52-week range	44.34 - 37.21

Quick Take – CCE's 2018 Results

How do we expect the market to react?

CCEP reported better than expected results with volume declines of -4.5% (better than our -5% estimate) amidst a tough year-ago comparison (+4.5%) and sugar taxes in the UK. Overall organic growth was +1% (incl. 2.5 pts of taxes), slightly above our estimate (+0.5%). Gross margins also beat expectations and operating profits were about +1% above both our and Street estimates. Looking forward, CCEP maintained its full-year outlook for the most part, but importantly raised its free cash flow guidance by €50M (due mainly to working capital gains), and indicated a modest acceleration in the timing of synergy savings (80% vs. 75% of the €315 million to €340 target realized by end close of FY18). Broadly, we view both these results and guidance as positive vs. expectations, and would expect to see a favorable market reaction—perhaps signaling a higher return of cash to shareholders (in the absence of a CCBA-related transaction, which remains a background source of “optionality”). Questions on the company’s conference call will likely focus on ongoing retailer disputes in France, feedback regarding the implementation of sugar taxes in GB, input cost pressure (and the ability for CCE to price accordingly), working capital improvement sustainability, synergy realization and cadence, as well as capital allocation priorities.

Conference call at 10AM ET today: 1-888-225-9809 / ID: CCE

How do reported results compare with expectations?

CCE reported 2Q18 EPS of €0.67 vs. DB€ 0.66/Street €0.66, which included a €0.01 benefit from BTLs. Gross margin of 39.5% (DB€: 38.2%/Street: 39.1%) was up +23 bps YoY driven by strong price/mix realization. Operating income of €460 million was +0.9% YoY, in line with our estimate and beat the Street by 1.4%. Organic growth of +1% (DB€: +0.5%/Street: -0.6%) was driven by +6% revenue per case growth (favorable pricing, promotion, and package mix, as well as +2.5 pts from sugary drink taxes) and -4.5% volume decline. The sizeable volume decline resulted from customer disruption in France, unfavorable weather in Iberia, and the impact of sugary drink taxes, notably in Great Britain. Sparkling sales declined 4% (Coke Zero Sugar grew >+7% while Coke Classic was down -HSD), Sparkling Flavors & Energy were flat, and Stills declined -9.5% (Fuze, Vio, Smartwarer all experienced solid volume growth). Consolidated EBIT margins were 15.0% (DB€: 15.2%/Street: 14.8%), helped by synergy benefits and expense management. FCF in the quarter was €486 million, beating our estimate by 15%.

Valuation & Risks

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Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.2	7.2	-6.3
S&P 500 INDEX	3.5	7.0	15.5

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USDm)	19,973.9
Shares outstanding (m)	488.5
Free float (%)	100
Volume (8 Aug 2018)	360,305
Option volume (und. shrs., 1M avg.)	147,653

Source: Deutsche Bank



How has the company's outlook changed?

CCE raised its FCF guidance, accelerated the timing synergies, and reaffirmed all other metrics for FY18:

- Organic growth is still expected to be +LSD (DBe: +4.1%/Street: +3.1%), excluding the impact from incremental soft drink taxes which should add +2-3 pts to revenue growth.
- Operating profit on a comparable, constant currency basis +6%-7% (DBe: +8.2%), including impact from soft drink taxes are expected to increase COGS by +4%.
- EPS growth of +6-7%, implying a range of €2.24-€2.27 (DBe: €2.28/Street: €2.29), including negligible FX impact and tax rate of 25% (in-line with DBe).
- FCF of €900-€950 million (DBe: €910 million/Street: €830 million), vs. previous guide of €850-€900 million.
- Capital expenditures of €525-€575 million (DBe: €569 million) including approximately €75 million related to synergies.
- CCEP continues to expect pre-tax run rate synergies of €315-€340 million by mid-2019, realizing about 80% (previous: 75%) of these savings by year end in 2018. CCEP also expects net debt/Adj. EBITDA to be towards the low end of the targeted 2.5x-3.0x range by the end of FY18 indicating continued return of cash to shareholders.



Figure 1: CCE 2Q18 Highlights

Coca Cola European Partners (CCE) - 2Q18 Earnings Snapshot

€ in millions, except per share data

INCOME STATEMENT

	2Q18	2Q17	chg.	DB Est.	Delta	Street	Delta
Organic growth	1.0%	7.5%	-651 bps	0.5%	100 bps	-0.6%	160 bps
Net Sales	€ 3,057	€ 3,047	0.3%	€ 3,032	0.8%	€ 3,061	(0.1%)
Cost of Goods Sold	1,851	1,852	(0.1%)	1,873	(1.2%)	1,863	(0.6%)
Gross Profit	1,206	1,195	0.9%	1,159	4.1%	1,198	0.6%
Operating Expenses	746	739	0.9%	699	6.7%	744	0.2%
Operating Income	460	456	0.9%	460	0.0%	454	1.3%
Net Interest Expense	24	27	(11.1%)	26	(8.7%)	25	(3.4%)
Other (income) expense, net	0	0	NM	1	(100.0%)	(0)	(100.0%)
Pretax Income	436	429	1.6%	432	0.8%	429	1.6%
Taxes	109	106	2.8%	108	0.8%	113	(3.6%)
Net Income (continuing ops)	327	323	1.2%	324	0.8%	316	3.4%
EPS (Recurring, Euro)	€ 0.67	€ 0.66	1.2%	€ 0.66	0.9%	€ 0.66	1.9%
EPS (Recurring, Dollar)	\$ 0.80	\$ 0.73	9.6%	\$ 0.79	0.9%	\$ 0.78	1.9%
Diluted Shares Outstanding	489	489	0.0%	489	(0.0%)	482	1.5%

MARGIN ANALYSIS

	2Q18	2Q17	chg.	DB Est.	Delta	Street	Delta
Gross Margin	39.5%	39.2%	23 bps	38.2%	123 bps	39.1%	31 bps
Operating Expense Ratio	24.4%	24.3%	15 bps	23.1%	135 bps	24.3%	9 bps
Operating Margin	15.0%	15.0%	8 bps	15.2%	-12 bps	14.8%	21 bps
Pretax Margin	14.3%	14.1%	18 bps	14.3%	0 bps	14.0%	24 bps
Tax Rate	25.0%	24.7%	29 bps	25.0%	0 bps	26.4%	-135 bps
Net Margin	10.7%	10.6%	10 bps	10.7%	0 bps	10.3%	37 bps

	Year over year comparisons			vs. DBE			
	2Q18	2Q17	Growth	2Q18	Delta	1H18	1Q18
Cash Flows							
CFFO	599	281	113.2%	565	6.1%	621	22
Capex	113	99	14.1%	143	(21.2%)	220	107
Free Cash Flow	486	182	167.0%	421	15.4%	401	(85)

SALES DERIVATION (Actual)

	Volume	Price/Mix	Other	Organic	FX	Acq/Div	Sales
Total	(4.5%)	3.0%	2.5%	1.0%	(0.5%)	0.0%	0.3%

SALES DERIVATION (DBE)

	Volume	Price/Mix	Other	Organic	FX	Acq/Div	Sales
Total	(5.0%)	3.0%	2.5%	0.5%	(1.0%)	0.0%	(0.5%)

Source: FactSet, Company filings, Deutsche Bank estimates and analysis



Appendix 1

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*Other information available upon request

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Company	Ticker	Recent price*	Disclosure
Coca-Cola European Partners	CCE.N	40.89 (USD) 8 Aug 2018	1, 2, 7, 14, 15

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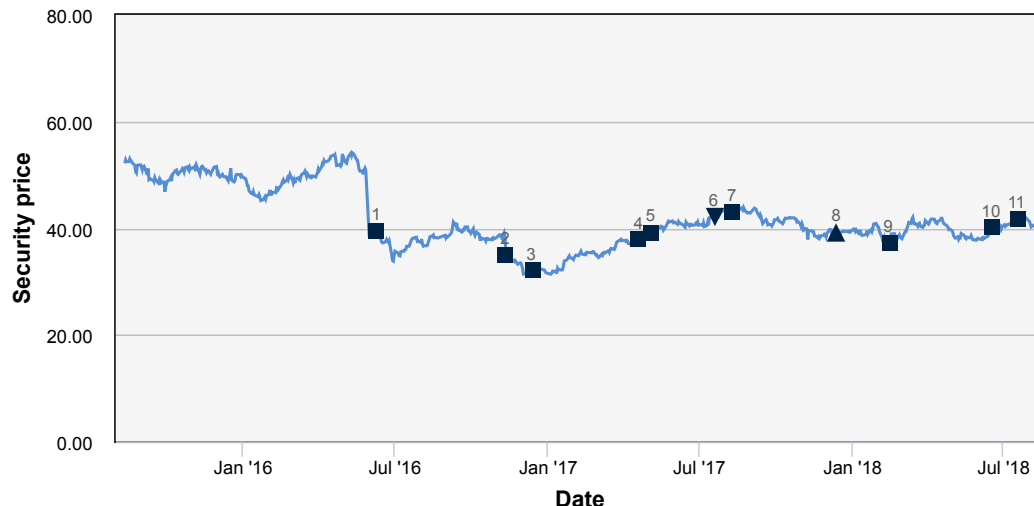
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Historical recommendations and target price. Coca-Cola European Partners (CCE.N)

(as of 08/08/2018)



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Buy
Hold
Sell
Not Rated
Suspended Rating

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1.	06/10/2016	Buy, Target Price Change USD 47.00 William Schmitz**	7.	08/10/2017	Hold, Target Price Change USD 46.00 Faiza Alwy
2.	11/11/2016	Buy, Target Price Change USD 43.00 William Schmitz**	8.	12/13/2017	Upgraded to Buy, Target Price Change USD 43.00 Stephen Powers
3.	12/13/2016	Buy, Target Price Change USD 37.00 William Schmitz**	9.	02/15/2018	Buy, Target Price Change USD 46.00 Stephen Powers
4.	04/20/2017	Buy, Target Price Change USD 42.00 Faiza Alwy	10.	06/18/2018	Buy, Target Price Change USD 45.00 Stephen Powers
5.	05/05/2017	Buy, Target Price Change USD 44.00 Faiza Alwy	11.	07/19/2018	Buy, Target Price Change USD 47.00 Stephen Powers
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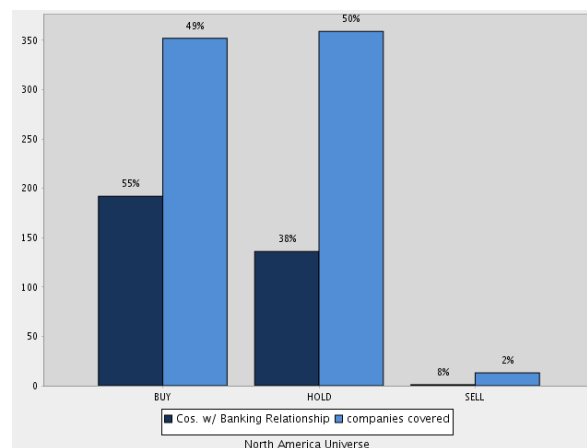
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