



Rating
Buy

North America
United States

Consumer
Beverages

Company
**Coca-Cola European
Partners**

Reuters
CCE.N

Bloomberg
CCE UN

Exchange
NYS

Ticker
CCE

Date
13 September 2018

Company Update

Price at 12 Sep 2018 (USD)	44.83
Price target	49.00
52-week range	44.83 - 37.21

Cash Back, Future Back

Notes from Wiesbaden Capital Markets Day

Yesterday, [reinforcing its confident message from last month](#), CCEP hosted a bullish investor day at which it raised 2018 guidance, provided medium-term financial objectives, initiated a €1.5 billion share repurchase program, announced an intent to raise its dividend payout ratio from 45% to 50%, and reiterated its interest for territory expansion. Overall, CCEP expects to deliver strong FY3Q/ full-year 2018 results and return more cash to shareholders via the buyback and higher dividend payout (beginning in 4Q18). On balance, we come away more positive on CCEP's future direction/prospects (and its alignment with KO), and raise our price target to \$49 (€42 in EUR terms).

While CCEP may face some criticism/skepticism for prioritizing future revenue growth objectives to a greater degree (vs. margin) than might have been anticipated before yesterday (indeed, to a greater degree than we had been modeling), we note that this is consistent with KO's own relative points of emphasis. Moreover, as it was articulated yesterday, the company's strategy struck us as carefully thought-out, and there appears to exist ample flexibility for CCEP to flow through more margin if desired, or if needed in the face of top-line weakness. Importantly, CCEP management (in conjunction with Tim Brett, President of Western Europe for The Coca-Cola Company) credibly emphasized the strong economic and strategic incentives now aligning current CCEP and KO objectives, alleviating a historical point of tension for both companies.

Revenue opportunities, balanced against investment

Looking forward, CCEP enumerated multiple top-line opportunities that should fuel future revenue growth (e.g., packaging innovation, channel expansion, expanded category depth and breadth—each arrived at by envisioning what the future might look like in 2028, and working backwards to identify how CCEP could best maneuver itself to succeed in that environment). In our view, these priorities as articulated seem well-placed, and should help the company both (i) meet diversifying consumer/customer demands, and (ii) mitigate known headwinds (e.g., retailer consolidation, sugar taxes, plastics regulation, etc.). Moreover, though many growth initiatives will require investment (i.e., margin and/or capex to drive new supply chain, sales, or digital marketing capabilities), they also should drive both positive revenue mix and volume growth—balancing out CCEP's historical strength in driving price realization.

Valuation & Risks

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Key changes

Price target	48.00 to 49.00	↑	2.1%
EPS (EUR)	2.28 to 2.29	↑	0.3%
Revenue (EURm)	11,511.6 to 11,542.7	↑	0.3%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	6.2	15.6	6.2
S&P 500 INDEX	1.9	3.6	15.7

Source: Deutsche Bank

Stock option liquidity data

Market Cap (USDm)	21,883.7
Shares outstanding (m)	488.1
Free float (%)	100
Volume (12 Sep 2018)	688,614
Option volume (und. shrs., 1M avg.)	147,653

Source: Deutsche Bank

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Coca-Cola European Partners



We expect CCEP to benefit from a portfolio reflecting a more diverse set of brands and categories (including adult mixers, hot and RTD coffee and tea, energy/hydration, waters and juices, etc.), sold in more premium and more recyclable packaging (more glass, cans, and recycled plastics; smaller immediate consumption form-factors), and skewed more heavily to the away-from-home channel (and the HoReCa channel, or hotels/restaurants/cafés, specifically)—enabled by more digital capabilities, data analytics, and sales force automation.

Cash return today, but still room for M&A (or more cash return) tomorrow

While CCEP announced a new €1.5 billion share repurchase program yesterday (up to €500 of which could be spent in 2018), as well as the intention to raise its dividend payout in 4Q18 to 50% from 45% (subject to board approval), we note that pro forma for these initiatives, CCEP's leverage ratio entering 2019 will remain at the low end of its 2.5-3.0x target range—implying ample additional capacity to return further cash to shareholders and/or engage in future M&A. As CCEP emphasized yesterday, it remains highly interested in acquiring additional territory (prioritizing adjacent markets in Western Europe), and as our colleague Andrea Pistacchi recently discussed, [CCH's potential interest in acquiring CCBA](#) (KO's bottler in Africa) could lead CCH to dispose minor territories such as Ireland and/or Austria, two markets that would logically fit into the CCEP portfolio (and that would likely be both EPS accretive to CCEP, if acquired, without requiring CCEP's to exceed its target leverage range¹). In addition, CCEP remains interested in potentially acquiring small brands in Europe (either by itself, or in conjunction with KO), and/or acquiring stakes in technology companies or other service providers that may provide it with a competitive edge in today's evolving retail consumer/landscape.

Estimate Changes and Valuation

Given presumed 3Q/2H18 strength and the initiation of the €1.5 billion share buyback program (partially offset by adverse FX movements and slower assumed 3Q19 growth on a now-tougher compare), we have raised our EPS estimate for FY18 to €2.29 (from €2.28) and for FY19 to €2.53 (from €2.47). Commensurate with these moves and a medium-term outlook that now calls for slightly more top-line growth (offset by slightly slower margin expansion), we are raising our price target to €42 from €41 (to \$49 from \$48 in USD terms). Our price target is DCF-derived, assuming +2-2.5% normalized top-line growth and +3.5-4% normalized EBIT growth. We assume a WACC of 7.5% and a 1.25% terminal growth rate. Our target assumes a USD per EUR rate of \$1.16/€. Downside risks: execution on cost savings initiatives, commodity/cost inflation without pricing offset, higher tax-driven price increases negatively impacting volume and organic growth, consumer migration to healthier soft drink options, stronger EUR vs. GBP, weak macroeconomic trends, deterioration of KO relations, misallocation of capital, and/or elevated cash costs.

¹ We estimate that the acquisition of these two territories at 10-11x EBITDA (€1.1-1.2 billion) would be +LSD-MSD EPS accretive for CCEP, and would still place them within their 2.5-3.0x long-term target leverage range, all else equal.

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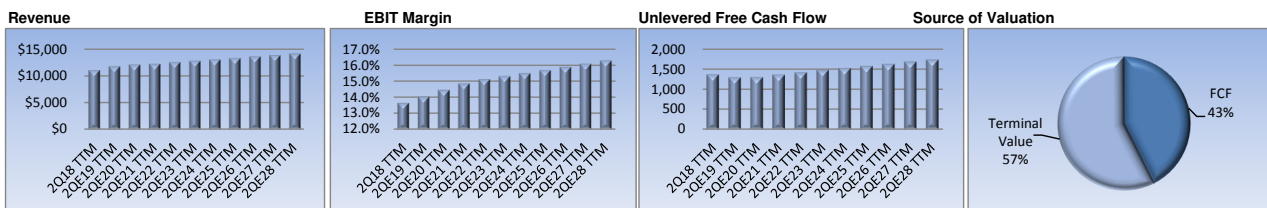
Coca-Cola European Partners



Figure 1: CCEP DCF Analysis

Terminal Value Growth Rate	1.3%
WACC	7.5%

Period	2Q18 TTM	2QE19 TTM	2QE20 TTM	2QE21 TTM	2QE22 TTM	2QE23 TTM	2QE24 TTM	2QE25 TTM	2QE26 TTM	2QE27 TTM	2QE28 TTM
Revenue	\$11,061	\$11,766	\$12,129	\$12,252	\$12,545	\$12,796	\$13,052	\$13,313	\$13,579	\$13,850	\$14,128
Revenue Growth		6.4%	3.1%	1.0%	2.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Operating Margin	13.6%	14.0%	14.5%	14.8%	15.1%	15.3%	15.5%	15.7%	15.9%	16.1%	16.3%
EBIT	1,509	1,651	1,753	1,819	1,896	1,957	2,021	2,086	2,154	2,224	2,297
Tax Rate	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
After-tax EBIT	1,131	1,238	1,314	1,364	1,422	1,468	1,516	1,565	1,616	1,668	1,722
+: D&A	442	497	514	523	534	545	556	567	578	590	602
+: Capital Expenditures	(506)	(601)	(527)	(537)	(535)	(534)	(544)	(555)	(566)	(577)	(589)
+/- : Changes in Working Capital	297	161	(4)	10	(3)	(0)	(0)	(0)	(0)	(0)	(1)
Unlevered Free Cash Flow	1,364	1,295	1,297	1,361	1,417	1,479	1,527	1,576	1,627	1,680	1,734
Terminal Value											28,098
Discounted Cash Flow		1,295	1,207	1,178	1,141	1,108	1,064	1,021	981	942	15,560
Discounted Cash Flow	25,496										
-: Net Debt	(5,650)										
Implied Equity Value	19,846										
Shares Outstanding	472										
Implied Share Price	€ 42										
Implied USD Share Price	\$49										
EBITDA exit											10.6x
Sales CAGR											2.1%
EBIT CAGR											3.7%
Annual margin growth											0.2%



Source: Deutsche Bank estimates and analysis

Forecasts and ratios

Year End Dec 31	2017A	2018E	2019E	2020E
1Q EPS	0.29	0.33A	0.37	0.43
2Q EPS	0.66	0.67A	0.74	0.80
3Q EPS	0.68	0.77	0.84	0.90
4Q EPS	0.49	0.52	0.58	0.60
FY EPS (EUR)	2.12	2.29	2.53	2.74

Source: Deutsche Bank estimates, company data



Financial Models

Figure 2: CCEP quarterly income statement

	Recast for M&A accounting in 4Q17										0.9%												
	2017					2018E						2019E											
	FY16	1Q	2Q	3Q	4Q	FY17	1Q	2Q	3QE	4QE		FY18E	1QE	2QE	3QE	4QE	FY19E	FY20E					
INCOME STATEMENT	Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec		Mar	Jun	Sep	Dec									
Total Net Sales	10,865	2,382	3,047	2,964	2,662	11,055	2,378	3,057	3,231	2,877	11,543	2,494	3,164	3,279	2,951	11,888	12,176						
Cost of Goods Sold	6,595	1,499	1,852	1,770	1,618	6,739	1,462	1,851	1,937	1,763	7,013	1,564	1,925	1,957	1,799	7,246	7,408						
Gross Profit	4,270	883	1,195	1,194	1,044	4,316	916	1,206	1,293	1,114	4,529	929	1,239	1,323	1,151	4,642	4,767						
Gross margin	39.3%	37.1%	39.2%	40.3%	39.2%	39.0%	38.5%	39.5%	40.0%	38.7%	39.2%	37.3%	39.2%	40.3%	39.0%	39.0%	39.2%						
Change in bps	114 bps	-148 bps	16 bps	15 bps	-8 bps	-26 bps	145 bps	23 bps	-25 bps	-50 bps	20 bps	-125 bps	-30 bps	30 bps	30 bps	-19 bps	11 bps						
Selling and distribution exp	1,707	494	543	550	537	2,124	505	565	583	586	2,239	498	569	592	597	2,256	2,299						
S&D ratio	15.7%	20.7%	17.8%	18.6%	20.2%	19.2%	21.2%	18.5%	18.1%	20.4%	19.4%	20.0%	18.0%	18.1%	20.2%	19.0%	18.9%						
S&D ratio change in bps	734 bps	952 bps	636 bps	15 bps	-132 bps	350 bps	50 bps	66 bps	-50 bps	20 bps	19 bps	-125 bps	-50 bps	0 bps	-15 bps	-42 bps	-10 bps						
General and admin exp	1,204	177	196	175	166	714	172	181	178	168	699	169	173	176	168	686	685						
G&A ratio	11.1%	7.4%	6.4%	5.9%	6.2%	6.5%	7.2%	5.9%	5.5%	5.8%	6.1%	6.8%	5.5%	5.4%	5.7%	5.8%	5.6%						
G&A ratio change in bps	-621 bps	-1157 bps	-749 bps	-77 bps	53 bps	-462 bps	-20 bps	-51 bps	-40 bps	-40 bps	-41 bps	-45 bps	-45 bps	-15 bps	-15 bps	-29 bps	-14 bps						
Income from operations - comparable	1,359	212	456	469	341	1,478	239	460	532	360	1,591	262	497	555	387	1,700	1,784						
Operating Margin	12.5%	8.9%	15.0%	15.8%	12.8%	13.4%	10.1%	15.0%	16.5%	12.5%	13.8%	10.5%	15.7%	16.9%	13.1%	14.3%	14.6%						
Chg. in OM	1 bps	57 bps	129 bps	77 bps	71 bps	86 bps	115 bps	8 bps	65 bps	-30 bps	42 bps	45 bps	65 bps	45 bps	60 bps	52 bps	35 bps						
Interest expense (net)	130	24	27	27	21	99	21	24	25	26	96	28	28	28	28	114	115						
Ann. interest rate on Tot. Debt	2.0%	1.5%	1.7%	1.8%	1.5%	1.7%	1.4%	1.7%	1.8%	1.8%	1.7%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%						
Other (income) expense, net	8	0	0	2	(1)	1	0	0	1	1	2	0	0	1	1	2	2						
Profit before income taxes - comparable	1,221	188	429	440	321	1,378	218	436	506	333	1,493	233	468	526	357	1,585	1,667						
Pretax Margin	11.2%	7.9%	14.1%	14.8%	12.1%	12.5%	9.2%	14.3%	15.7%	11.6%	12.9%	9.4%	14.8%	16.0%	12.1%	13.3%	13.7%						
Taxes - comparable	304	48	106	108	81	343	56	109	127	83	375	58	117	131	89	396	417						
tax rate (comparable)	24.9%	25.5%	24.7%	24.5%	25.2%	24.9%	25.7%	25.0%	25.0%	25.0%	25.1%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%						
Net Income - comparable	917	140	323	332	240	1,035	162	327	380	250	1,118	175	351	394	268	1,188	1,250						
Net Margin	8.4%	5.9%	10.6%	11.2%	9.0%	9.4%	6.8%	10.7%	11.7%	8.7%	9.7%	7.0%	11.1%	12.0%	9.1%	10.0%	10.3%						
CORE EPS																							
Diluted shares	487.8	488.0	489.0	489.0	489.0	488.8	489.0	489.0	490.0	484.6	488.1	477.6	472.3	467.1	462.0	469.7	456.7						
Pro Forma EPS	€ 1.88	€ 0.29	€ 0.66	€ 0.68	€ 0.49	€ 2.12	€ 0.33	€ 0.67	€ 0.77	€ 0.52	€ 2.29	€ 0.37	€ 0.74	€ 0.84	€ 0.58	€ 2.53	€ 2.74						
Dividends per share	€ 0.00	€ 0.17	€ 0.21	€ 0.21	€ 0.21	€ 0.80	€ 0.26	€ 0.26	€ 0.26	€ 0.29	€ 1.07	€ 0.31	€ 0.31	€ 0.31	€ 0.31	€ 1.26	€ 1.36						
Diluted EPS																							
Diluted IFRS EPS	€ 1.43	€ 0.27	€ 0.60	€ 0.62	(€ 0.08)	€ 1.41	€ 0.33	€ 0.60	€ 0.77	€ 0.52	€ 2.22	€ 0.37	€ 0.74	€ 0.84	€ 0.58	€ 2.53	€ 2.74						
EBITDA																							
EBIT	1,359	212	456	469	341	1,478	239	460	532	360	1,591	262	497	555	387	1,700	1,784						
D&A (from Cash Flow Statement)	414	141	118	78	111	448	128	125	113	115	482	135	133	118	119	505	521						
EBITDA	1,773	353	574	547	452	1,926	367	585	645	475	2,073	397	630	673	506	2,205	2,304						
EBITDA Margin	16.3%	14.8%	18.8%	18.4%	17.0%	17.4%	15.4%	19.1%	20.0%	16.5%	18.0%	15.9%	19.9%	20.5%	17.1%	18.6%	18.9%						
% SEASONALITY																							
Sales	100.0%	21.5%	27.6%	26.8%	24.1%	100.0%	20.6%	26.5%	28.0%	24.9%	100.0%	21.0%	26.6%	27.6%	24.8%	100.0%	100.0%						
Gross Profit	100.0%	20.5%	27.7%	27.7%	24.2%	100.0%	20.2%	26.6%	28.6%	24.6%	100.0%	20.0%	26.7%	28.5%	24.8%	100.0%	100.0%						
Operating profit	100.0%	14.3%	30.9%	31.7%	23.1%	100.0%	15.0%	28.9%	33.4%	22.6%	100.0%	15.4%	29.2%	32.6%	22.8%	100.0%	100.0%						
% Growth																							
Total Net Sales	(1.0%)	(0.3%)	5.5%	(1.5%)	3.3%	1.7%	(0.2%)	0.3%	9.0%	8.1%	4.4%	4.9%	3.5%	1.5%	2.6%	3.0%	2.4%						
Cost of goods	(2.9%)	2.1%	5.2%	(1.8%)	3.4%	2.2%	(2.5%)	(0.1%)	9.5%	9.0%	4.1%	7.0%	4.0%	1.0%	2.1%	3.3%	2.2%						
Gross profit	1.9%	(4.1%)	5.9%	(1.2%)	3.1%	1.1%	3.7%	0.9%	8.3%	6.7%	4.9%	1.5%	2.7%	2.3%	3.4%	2.5%	2.7%						
SG&A	85.7%	84.3%	64.0%	(0.7%)	(3.1%)	24.4%	2.2%	4.1%	6.1%	9.1%	5.4%	(1.3%)	0.7%	1.5%	1.8%	0.7%	1.9%						
EBITDA	(2.9%)	36.8%	11.9%	(4.3%)	5.1%	8.7%	4.0%	1.9%	18.1%	5.2%	7.6%	8.2%	7.6%	4.3%	6.4%	6.4%	4.5%						
Operating profit	(0.9%)	6.5%	15.4%	3.5%	9.3%	8.8%	12.7%	0.9%	13.5%	5.5%	7.7%	9.6%	8.0%	4.3%	7.5%	6.9%	4.9%						
Pretax income	1.7%	12.6%	20.5%	4.0%	16.7%	12.9%	16.0%	1.6%	15.0%	3.8%	8.4%	7.1%	7.4%	3.8%	7.3%	6.1%	5.2%						
Net income	10.3%	9.4%	19.2%	4.7%	19.4%	12.9%	15.7%	1.2%	14.3%	4.1%	8.1%	8.1%	7.4%	3.8%	7.3%	6.3%	5.2%						
IFRS EPS	(34.9%)	5.6%	32.2%	(7.5%)	(432.7%)	(1.3%)	23.4%	(0.3%)	25.0%	(730.2%)	57.8%	10.7%	24.1%	8.9%	12.6%	13.9%	8.2%						
Pro forma EPS	10.6%	9.2%	18.9%	4.5%	19.2%	12.6%	15.5%	1.2%	14.1%	5.0%	8.2%	10.7%	11.2%	8.9%	12.6%	10.4%	8.2%						

Source: Company filings, Deutsche Bank estimates and analysis

13 September 2018

Beverages

Coca-Cola European Partners



Appendix 1

Important Disclosures

*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Coca-Cola European Partners	CCE.N	44.83 (USD) 12 Sep 2018	1, 2, 7, 14, 15

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Other information is sourced from Deutsche Bank, subject companies, and other sources. For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <https://research.db.com/Research/Disclosures/CompanySearch>. Aside from within this report, important risk and conflict disclosures can also be found at <https://research.db.com/Research/Topics/Equities?topicId=RB0002>. Investors are strongly encouraged to review this information before investing.

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Analyst Certification

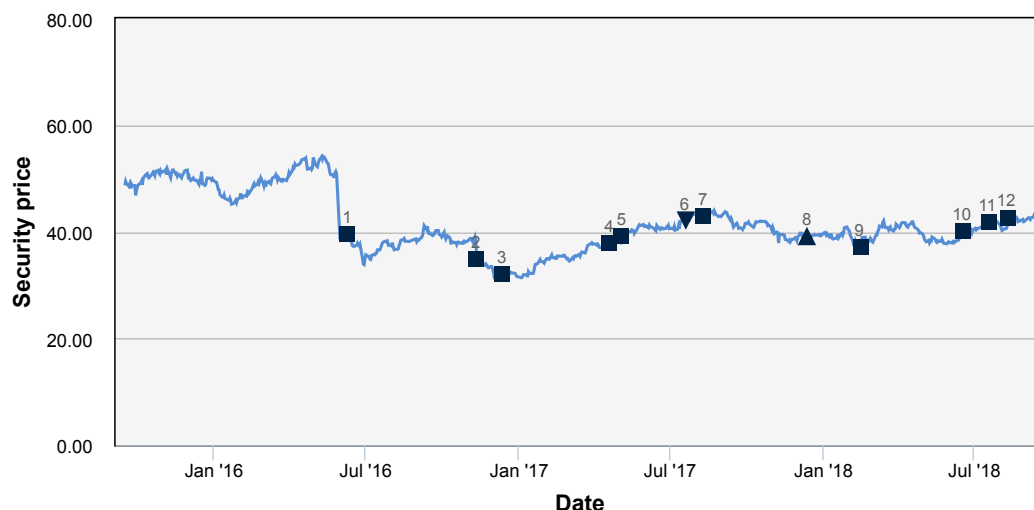
The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Steve Powers

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Coca-Cola European Partners



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

(as of 09/12/2018)



Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

** Analyst is no longer at Deutsche Bank

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
6.	07/20/2017	Downgraded to Hold, Target Price Change USD 44.00 Faiza Alwy	12.	08/10/2018	Buy, Target Price Change USD 48.00 Stephen Powers

Equity Rating Key

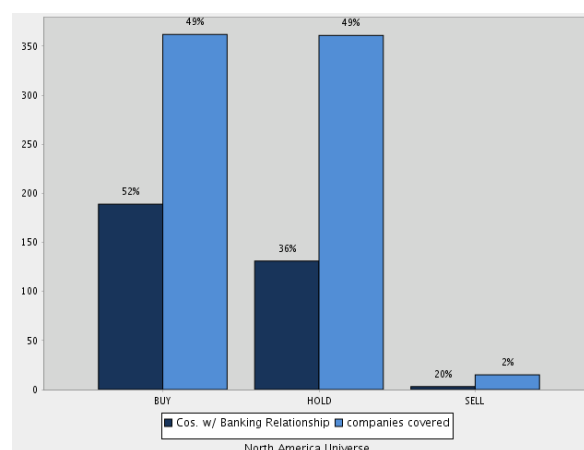
Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Newly issued research recommendations and target prices supersede previously published research.

Equity rating dispersion and banking relationships



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Additional Information

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