



Molson Coors (TAP)

Updated June 25th, 2018 by Bob Ciura

Key Metrics

Current Price: \$70	5 Year CAGR Estimate: 9.7%	Volatility Percentile: 61.8%
Fair Value Price: \$79	5 Year Growth Estimate: 5.0%	Momentum Percentile: 9.8%
% Fair Value: 89%	5 Year Valuation Multiple Estimate: 2.3%	Total Return Percentile: 67.0%
Dividend Yield: 2.4%	5 Year Price Target: \$100	Valuation Percentile: 81.5%

Overview & Current Events

Molson Coors Brewing Company was founded in 1873. Since then, it has grown into one of the largest U.S. brewers, with a variety of brands including Coors Light, Coors Banquet, Molson Canadian, Carling, Blue Moon, Hop Valley, Crispin Cider, and Miller Lite through a joint venture called MillerCoors. Molson Coors has a significant presence outside the U.S. Its core international markets include Canada, Europe, Latin America, Asia, and Africa.

On 5/2/18 Molson Coors reported first-quarter results for 2018. Net sales of \$2.33 billion decreased by 4.8% from the same quarter a year ago. Lower volumes were partially offset by higher pricing. Worldwide volume declined 3%, led by the U.S. and Canada. Adjusted earnings-per-share declined 40%, but this was due to non-recurring items including a new revenue recognition standard. Still, it was a relatively disappointing quarter for Molson Coors. The company noted general softness in the U.S. beer market, where volume declines outpaced the overall rate of decline last quarter. Last year was not exactly a banner performance, as net sales increased just 0.3% in 2017.

Per-Share Growth

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	\$2.77	\$3.81	\$3.56	\$3.62	\$2.43	\$3.08	\$2.76	\$1.93	\$3.01	\$4.52	\$4.89	\$6.24
DPS	\$0.76	\$0.92	\$1.08	\$1.24	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$2.09

One of the major themes that can characterize Molson Coors' financial performance in recent years is the struggling U.S. beer industry. According to the Beer Institute and National Beer Wholesalers Association, beer consumption fell 1.1% in 2017. Younger generations such as Millennials are consuming more wine and liquors, while beer consumption is dropping. And, within the beer industry, large brewers are under pressure from smaller craft brewers. Molson Coors has a relatively small group of craft beers in its portfolio, which is a big reason for its sluggish financial performance.

Separately, the recent tariffs passed by the Trump administration could be a negative catalyst for Molson Coors' earnings moving forward. Tariffs on aluminum imports from the European Union, Canada, and Mexico, are likely to elevate Molson Coors' production costs. Fortunately, with several top brands, Molson Coors could choose to pass these higher costs on to consumers to avoid the hit to the company's margins.

Average analyst consensus is for the company to grow earnings-per-share to \$4.89 in 2018, as the company benefits from tax reform and share repurchases. Given the challenging industry dynamics, we expect a relatively modest 5% annual earnings growth rate for Molson Coors over the next five years. Dividends are expected to increase at the same rate through 2023.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	18.0	11.3	12.6	12.2	17.5	16.3	24.3	40.8	32.7	19.9	14.3	16.0
Avg. Yld.	1.5%	2.1%	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.4%	2.4%

In the past 10 years, Molson Coors stock traded for a price-to-earnings ratio of 20.6. The valuation soared in 2015 and 2016, due to a rising share price. For example, the stock climbed to nearly \$120 at its peak in 2016, before declining to its current level of \$70. Prior to the run-up in valuation, Molson Coors stock consistently traded for a price-to-earnings

ratio in the mid-teens. Therefore, we project a price-to-earnings ratio of 16, which would be a modest expansion from the current level of 14.3. A higher price-to-earnings ratio would generate annual returns of 2.3%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.6%	10.9%	11.4%	11.8%	9.6%	10.7%	11.8%	11.7%	6.5%	15.8%	16.0%	16.0%
Debt/A	41.9%	41.0%	38.2%	38.1%	50.7%	44.6%	43.6%	42.5%	60.4%	55.6%	56.0%	56.0%
Int. Cov.	6.1	9.5	9.3	8.3	4.0	4.9	5.5	4.9	10.8	5.0	5.0	5.0
Payout	27.4%	24.1%	30.3%	34.3%	52.7%	41.6%	53.6%	85.0%	54.5%	36.3%	33.5%	33.5%
Std. Dev.	10.0%	9.6%	5.1%	5.3%	5.0%	4.6%	5.8%	7.0%	5.4%	3.8%	4.0%	4.0%

Despite its growth challenges, Molson Coors is still a high-quality company. It has a manageable level of debt, as well as high interest coverage. As a result, the balance sheet is not high on the list of concerns. In addition, Molson Coors has a highly secure dividend, with a payout ratio around 33% of earnings. This leaves room for future dividend increases.

Molson Coors still has many competitive advantages. It has a number of popular brand, including Coors Light which was the #2 selling beer brand in the U.S. last year. Molson Coors has an extensive production and distribution network, providing the company with strong profitability and cash flow. Another attractive quality of Molson Coors' business is that it can withstand recessions very well. Beer is a recession-resistant product; consumers tend to drink as much (or more) beer when the economy is in a downturn. This is how Molson Coors grew earnings-per-share at such a high rate from 2008-2010.

Final Thoughts & Recommendation

Molson Coors is in a difficult period, as the U.S. beer industry is struggling. This has weighed on the company's growth. But it should continue to grow over the long-term. Molson Coors generated \$1.5 billion of free cash flow last year. Its high cash flow generation allows the company to invest in new products, or simply acquire smaller competitors to buy future growth. Molson Coors is not a high-growth stock, but it has a reasonable valuation and a dividend yield above the S&P 500 average. We expect Molson Coors to generate annual earnings growth of 5% per year, 2.3% annual returns from valuation changes, and a 2.4% dividend yield. We expect total returns just shy of 10% per year moving forward.

Total Return Breakdown by Year

