Molson Coors (TAP)

Updated August 1st, 2018 by Bob Ciura

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	9.3%	**Volatility Percentile:**	63.2%
Fair Value Price:	$78	**5 Year Growth Estimate:**	5.0%	**Momentum Percentile:**	6.2%
% Fair Value:	91%	**5 Year Valuation Multiple Estimate:**	2.0%	**Valuation Percentile:**	86.4%
Dividend Yield:	2.3%	**5 Year Price Target**	$100	**Total Return Percentile:**	72.3%

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 8/1/18, Molson Coors reported second-quarter results for 2018. Net sales of $3.09 billion were flat with the same quarter a year ago. Adjusted earnings-per-share of $1.88 increased 10.6%, and beat analyst expectations by $0.05 per share. The market responded favorably to Molson Coors' report by sending the stock up 5% on August 1st. Stagnant revenue is a concern, and is due to the slowing North American beer industry. Constant-currency sales fell 3.1% in the U.S. and 6.3% in Canada last quarter, two very important markets. Fortunately, sales increased 4.3% in Europe and 5.1% in the rest-of-world international segment to balance out the weakness in North America. Importantly, the company is still growing earnings through lower marketing spend, supply chain cost reductions, and a lower tax rate.

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 beer industry. Molson Coors' worldwide beer volume declined 2.4% last quarter. Younger generations such as millenials are consuming more wine and liquors, while beer consumption is dropping. Growth that does still occur in the beer industry is localized within the craft beer segment, where Molson Coors has been slow to enter but is catching up.

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. The company is also aggressively cutting costs in other parts of the business to offset raw materials inflation. We expect earnings-per-share to $4.89 in 2018, and 5% annual earnings growth 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	***14.5***	***16.0***
Avg. Yld.	1.5%	2.1%	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	***2.3%***	***2.3%***

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 14.5. A higher price-to-earnings ratio could generate annual returns of 2.0%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

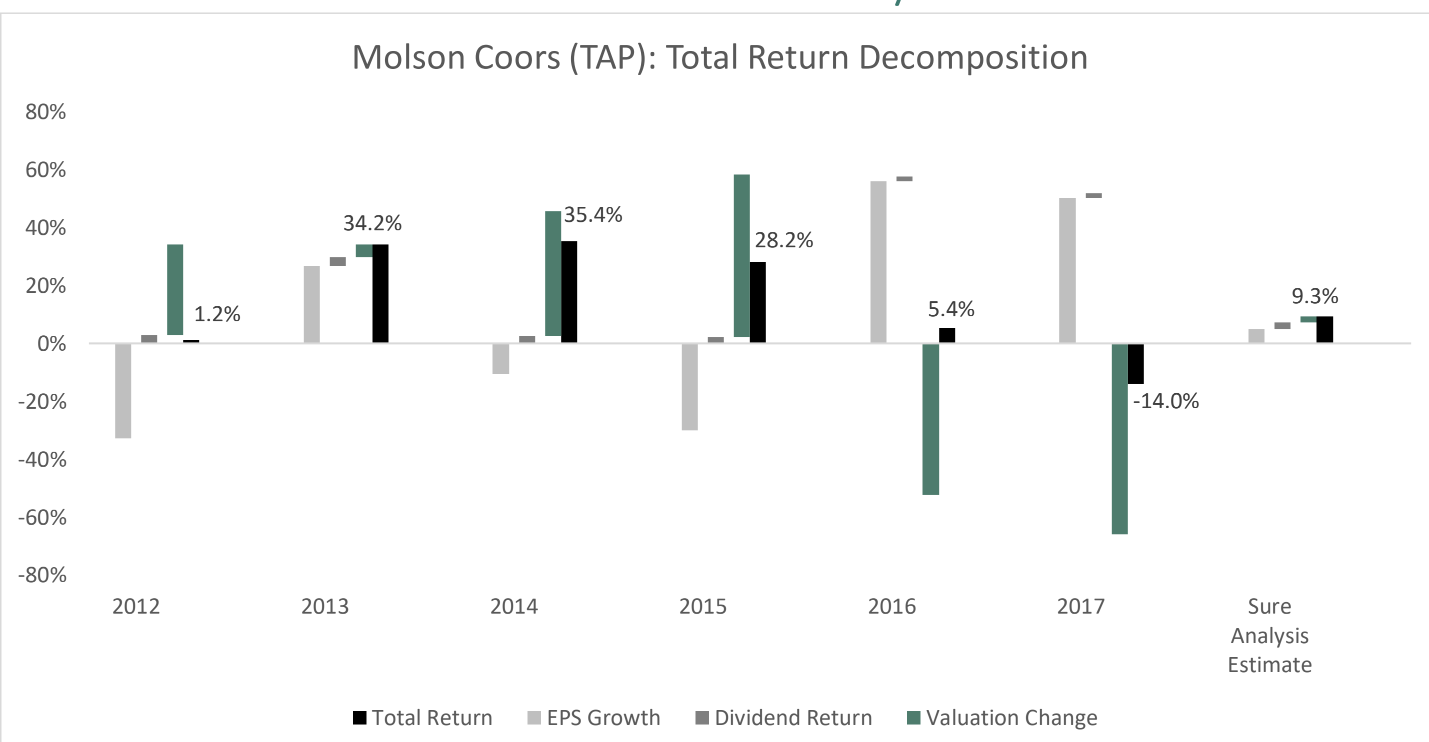
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.6%	10.9%	11.4%	11.8%	9.6%	10.7%	11.8%	11.7%	6.5%	15.8%	***16.0%***	***16.0%***
Debt/A	41.9%	41.0%	38.2%	38.1%	50.7%	44.6%	43.6%	42.5%	60.4%	55.6%	***56.0%***	***56.0%***
Int. Cov.	6.1	9.5	9.3	8.3	4.0	4.9	5.5	4.9	10.8	5.0	***5.0***	***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. 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 highly-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 economies of scale. To be sure, the beer industry is highly competitive, and is being disrupted by smaller craft brewers. But the larger operators like Molson Coors can simply acquire smaller competitors to retain its market share and growth. 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.

Final Thoughts & Recommendation

Molson Coors is struggling to grow sales, due to the industry decline in North America. The company continues to grow earnings through margin improvements, share repurchases, and a lower tax rate, but sooner or later it needs to return to revenue growth. Due to the company's strong brand and competitive advantages, we believe a return to revenue growth is possible. 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 rate Molson Coors as a buy, with expected returns of 9.3% per year over the next five years.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.