



Molson Coors Brewing Company (TAP)

Updated October 31st, 2018 by Bob Ciura

Key Metrics

Current Price:	\$63	5 Year CAGR Estimate:	12.0%	Volatility Percentile:	41.7%
Fair Value Price:	\$78	5 Year Growth Estimate:	5.0%	Momentum Percentile:	12.2%
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Growth Percentile:	30.2%
Dividend Yield:	2.6%	5 Year Price Target	\$100	Valuation Percentile:	78.0%
Dividend Risk Score:	C	Retirement Suitability Score:	D	Total Return Percentile:	62.4%

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 10/31/18 Molson Coors reported third-quarter results for 2018. Revenue of \$2.9 billion increased 2% from the same quarter a year ago and beat analyst expectations by \$10 million. Adjusted earnings-per-share of \$1.84 beat analyst estimates by \$0.25 per share and increased 34% year-over-year. The market responded favorably to Molson Coors' report by sending the stock up 8% after reporting third-quarter results. The return to revenue growth was a good sign for Molson Coors, which had reported flat revenue in the previous quarter. Constant-currency sales increased 2.3% in the U.S., while Europe and the rest-of-world international segment posted 3.8% growth and 4.4% growth, respectively. The high rate of earnings growth was due to revenue growth, cost cuts, and a lower tax rate.

Growth on a Per-Share Basis

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
Shares	183.8	186.1	186.8	187.5	189.0	191.7	193.0	184.5	224.4	215.4	216.6	217.0

One of the major themes that can characterize Molson Coors' financial performance in recent years is the struggling beer industry. Younger generations such as Millennials 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 rise to \$4.89 in 2018, and 5% annual earnings growth to occur 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	12.9	16.0
Avg. Yld.	1.5%	2.1%	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.6%	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. 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 significant expansion from the current level of 12.9. A higher price-to-earnings ratio could generate annual returns of 4.4%.

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.



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Safety, Quality, Competitive Advantage, & Recession Resiliency

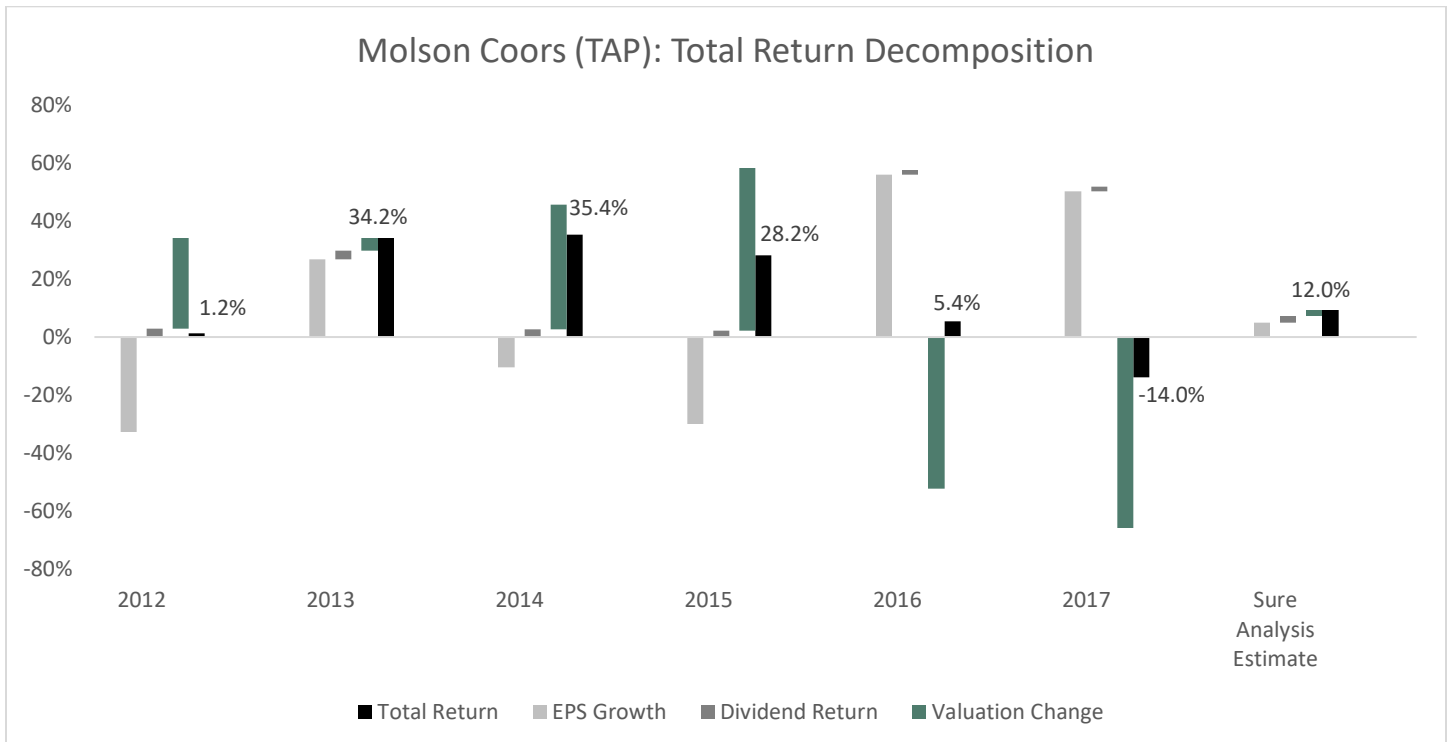
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	18.6%	10.9%	11.4%	11.8%	9.6%	10.7%	11.8%	11.7%	6.5%	15.8%	16.0%	16.0%
Debt/A	41.9%	41.0%	38.2%	38.1%	50.7%	44.6%	43.6%	42.5%	60.4%	55.6%	56.0%	56.0%
Int. Cov.	6.1	9.5	9.3	8.3	4.0	4.9	5.5	4.9	10.8	5.0	5.0	5.0
Payout	27.4%	24.1%	30.3%	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%

Molson Coors has a manageable level of debt, and high interest coverage. A dividend payout ratio around 33% of earnings leaves room for future dividend increases. Molson Coors still has many competitive advantages. It has a number of popular brands, 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. In a competitive beer market, the larger operators like Molson Coors can simply acquire smaller brewers to retain its market share. 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 12.0% per year over the next five years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	4774	3032	3254	3516	3917	4206	4146	3568	4885	11003
Gross Profit	1934	1306	1442	1467	1564	1661	1653	1436	1898	4786
Gross Margin	40.5%	43.1%	44.3%	41.7%	39.9%	39.5%	39.9%	40.2%	38.8%	43.5%
SG&A Exp.	1333	901	1013	1019	1126	1194	1164	1038	1590	3032
D&A Exp.	273	208	202	217	273	321	313	314	388	813
Operating Profit	600	405	430	448	438	467	489	398	308	1753
Operating Margin	12.6%	13.3%	13.2%	12.7%	11.2%	11.1%	11.8%	11.1%	6.3%	15.9%
Net Profit	379	720	708	676	443	567	514	395	1993	1414
Net Margin	7.9%	23.8%	21.7%	19.2%	11.3%	13.5%	12.4%	11.1%	40.8%	12.9%
Free Cash Flow	181	700	572	633	761	874	1028	441	785	1267
Income Tax	96	-15	139	99	155	84	69	62	1055	-53

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	10387	12021	12698	12424	16212	15580	13980	12276	29342	30247
Cash & Equivalents	216	734	1218	1079	624	442	625	431	561	419
Acc. Receivable	433	514	571	530	608	573	489	408	654	728
Inventories	207	243	247	229	242	235	226	179	593	592
Goodwill & Int.	5221	6010	6144	6039	9688	9244	7947	6729	22282	22702
Total Liabilities	4347	4928	4855	4734	8221	6950	6094	5213	17720	16812
Accounts Payable	153	193	228	301	490	600	618	560	1298	1569
Long-Term Debt	1752	1713	1961	1962	4668	3800	3170	2937	12073	11314
Total Equity	6055	7080	7799	7648	7967	8605	7863	7043	11419	13226
D/E Ratio	0.29	0.24	0.25	0.26	0.59	0.44	0.40	0.42	1.06	0.86

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	3.2%	6.4%	5.7%	5.4%	3.1%	3.6%	3.5%	3.0%	9.6%	4.7%
Return on Equity	5.7%	11.0%	9.5%	8.8%	5.7%	6.8%	6.2%	5.3%	21.6%	11.5%
ROIC	4.4%	8.7%	7.6%	7.0%	4.0%	4.5%	4.4%	3.8%	11.8%	5.8%
Shares Out.	183.8	186.1	186.8	187.5	189.0	191.7	193.0	184.5	224.4	215.4
Revenue/Share	25.74	16.31	17.38	18.86	21.54	22.83	22.28	19.14	22.89	50.82
FCF/Share	0.98	3.76	3.05	3.39	4.19	4.75	5.53	2.37	3.68	5.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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