



Molson Coors Brewing Company (TAP)

Updated February 12th, 2019 by Bob Ciura

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	12.2%	Volatility Percentile:	51.5%
Fair Value Price:	\$74	5 Year Growth Estimate:	5.0%	Momentum Percentile:	13.2%
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.4%	Growth Percentile:	34.1%
Dividend Yield:	2.8%	5 Year Price Target	\$95	Valuation Percentile:	84.2%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	73.0%

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.

In mid-February (2/12/19) Molson Coors reported fourth-quarter and full-year financial results for 2018. The fourth quarter was a disappointment for Molson Coors. Quarterly revenue of \$2.4 billion declined 5% in constant currency year-over-year, and missed analyst estimates by \$120 million. This was a sizable miss for the quarter. On the plus side, adjusted earnings-per-share of \$0.84 beat expectations by \$0.05 per share. For 2018, adjusted earnings-per-share increased 12.5% to \$5.04. 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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$3.81	\$3.56	\$3.62	\$2.43	\$3.08	\$2.76	\$1.93	\$3.01	\$4.48	\$5.04	\$4.95	\$6.32
DPS	\$0.92	\$1.08	\$1.24	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$2.09
Shares	186	187	188	189	192	193	185	224	215	217	217	217

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 material inflation. Finally, Molson Coors is investing in new product categories to generate growth, such as cannabis. For example, in 2018 the company announced a joint venture with HEXO Corp. to develop non-alcoholic, cannabis-infused beverages for the Canadian market. Analyst estimates call for Molson Coors' earnings-per-share to decline slightly in 2019, with resumed growth thereafter. We expect earnings-per-share to grow at a 5% annual rate over the next five years. Dividends are expected to increase at the same rate through 2023.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	11.3	12.6	12.2	17.5	16.3	24.3	40.8	32.7	19.9	11.1	12.1	15.0
Avg. Yld.	2.1%	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.9%	2.8%	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-

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earnings ratio in the mid-teens. Therefore, we project a price-to-earnings ratio of 15, which would be a significant expansion from the current level of 12.1. A higher price-to-earnings ratio could generate annual returns of 4.4%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

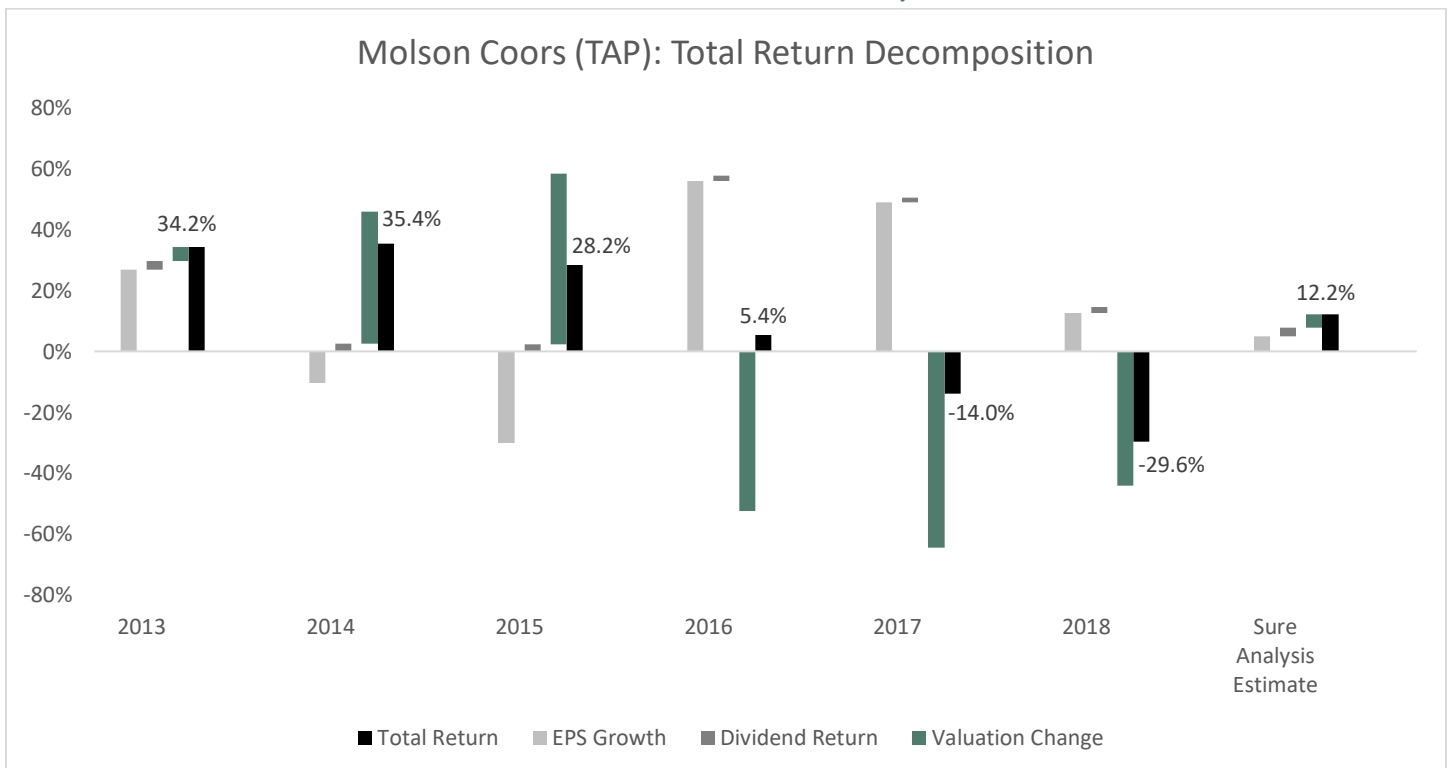
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	24.1%	30.3%	34.3%	52.7%	41.6%	53.6%	85.0%	54.5%	36.3%	32.5%	33.1%	33.1%

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 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. This is how Molson Coors remained highly profitable during the Great Recession of 2008-2009.

Final Thoughts & Recommendation

Molson Coors is struggling to grow sales due to the stagnating beer industry 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. It hopes to accomplish this due to a focus on its strongest brands, and investments in cannabis. Due to the company's strong brand and competitive advantages, we believe a return to revenue growth is possible. Molson Coors 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 12.2% 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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