



Molson Coors Brewing Company (TAP)

Updated May 1st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$60	5 Year CAGR Estimate:	11.4%	Volatility Percentile:	50.3%
Fair Value Price:	\$72	5 Year Growth Estimate:	5.0%	Momentum Percentile:	38.3%
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.7%	Growth Percentile:	35.9%
Dividend Yield:	2.7%	5 Year Price Target	\$92	Valuation Percentile:	84.0%
Dividend Risk Score:	B	Retirement Suitability Score:	C	Total Return Percentile:	69.1%

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, a \$13 billion market cap company, has a significant presence outside the U.S. Its core international markets include Canada, Europe, Latin America, Asia, and Africa.

On May 1st, 2019 Molson Coors reported Q1 2019 results for the period ending March 31st, 2019. For the quarter the company reported \$2.3 billion in sales, representing a 1.2% decrease compared to Q1 2018. This was driven by volume declines and foreign currency, without which Molson Coors would have reported a 0.6% increase in sales. Adjusted Net Income came in at \$112.7 million, compared to \$104.3 million previously, driven by positive net pricing and cost savings. Adjusted earnings-per-share came in at \$0.52 compared to \$0.48 in the prior year period.

Molson Coors also provided a 2019 outlook. The company anticipates underlying cash flow of \$1.4 billion, plus or minus 10%, along with \$700 million in capital spending and \$300 million in interest expense. The company also said that it is committed to continuing to deleverage and reinstitute a dividend payout ratio of 20% to 25% of trailing EBITDA.

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	\$4.80	\$6.13
DPS	\$0.92	\$1.08	\$1.24	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64
Shares	186	187	188	189	192	193	185	224	215	217	217	217

One of the major themes that has characterized Molson Coors' financial performance in recent years is the struggling beer industry. Younger generations are consuming more wine and liquors while traditional 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, tariffs on aluminum imports from the European Union, Canada, and Mexico, could 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. While results are expected to be downbeat this year, we are moderately encouraged by the outlook over the intermediate-term and forecast 5% annual growth.

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	13.3	12.5	15.0
Avg. Yld.	2.1%	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.4%	2.7%	1.8%

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In the past decade shares of Molson Coors have traded hands at an average price-to-earnings ratio of about 20 times earnings. However, this has included many instances where earnings fell and the share price held up much better, along with periodic bouts of extreme valuation. We view 15 times earnings as a reasonable starting baseline, taking into account the quality of the business and its potential growth rate. This would imply a fair amount of valuation upside from this point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	24%	30%	34%	53%	42%	54%	85%	55%	36%	33%	34%	27%

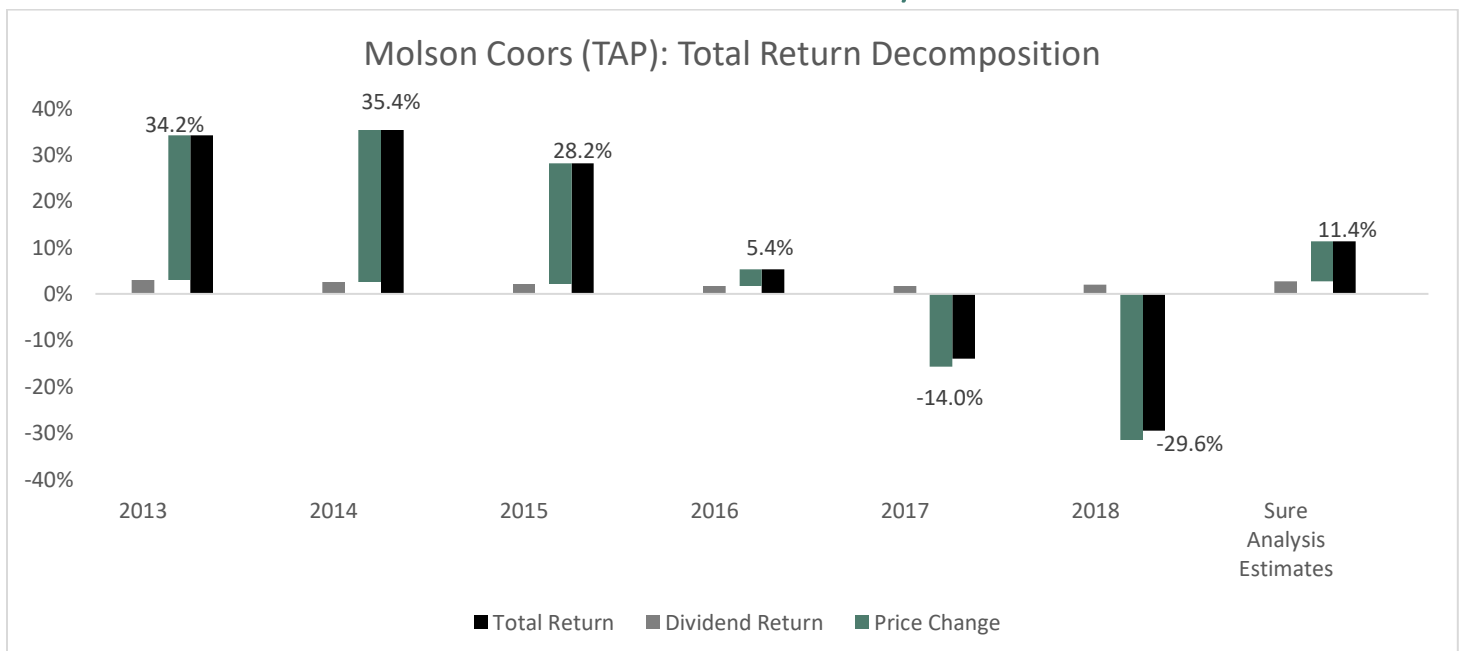
Molson Coors' dividend appears to be in reasonable shape, given the moderate payout ratio and management's indication that it will keep this ratio low.

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

Shares are more or less unchanged since our last report. Molson Coors is struggling to grow sales due to the stagnating beer industry in North America. The company can continue to grow earnings through margin improvements and share repurchases, but sooner or later it needs to return to revenue growth. It hopes to accomplish this with a focus on its strongest brands, and investments in cannabis. We forecast 11.4% annual total return potential, as a result of 5% growth, a 2.7% starting dividend yield and a 3.7% valuation tailwind. We are reiterating our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3032	3254	3516	3917	4206	4146	3568	4885	11003	10770
Gross Profit	1306	1442	1467	1564	1661	1653	1436	1886	4766	4185
Gross Margin	43.1%	44.3%	41.7%	39.9%	39.5%	39.9%	40.2%	38.6%	43.3%	38.9%
SG&A Exp.	901	1013	1019	1126	1194	1164	1038	1597	3052	2803
D&A Exp.	208	202	217	273	321	313	314	388	813	858
Operating Profit	405	430	448	438	467	489	398	289	1714	1382
Operating Margin	13.3%	13.2%	12.7%	11.2%	11.1%	11.8%	11.1%	5.9%	15.6%	12.8%
Net Profit	720	708	676	443	567	514	395	1594	1566	1117
Net Margin	23.8%	21.7%	19.2%	11.3%	13.5%	12.4%	11.1%	32.6%	14.2%	10.4%
Free Cash Flow	700	572	633	761	874	1028	441	785	1267	1680
Income Tax	-15	139	99	155	84	69	62	1454	-205	225

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	12021	12698	12424	16212	15580	13980	12276	29342	30247	30110
Cash & Equivalents	734	1218	1079	624	442	625	431	561	419	1058
Acc. Receivable	514	571	530	608	573	489	408	654	728	736
Inventories	243	247	229	242	235	226	179	593	592	592
Goodwill & Int.	6010	6144	6039	9688	9244	7947	6729	22282	22702	22037
Total Liabilities	4928	4855	4734	8221	6950	6094	5213	17720	17060	16374
Accounts Payable	193	228	269	490	600	618	560	1298	1569	1617
Long-Term Debt	1713	1961	1962	4668	3800	3170	2937	12073	11314	10488
Total Equity	7080	7799	7648	7967	8605	7863	7043	11419	12978	13507
D/E Ratio	0.24	0.25	0.26	0.59	0.44	0.40	0.42	1.06	0.87	0.78

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	6.4%	5.7%	5.4%	3.1%	3.6%	3.5%	3.0%	7.7%	5.3%	3.7%
Return on Equity	11.0%	9.5%	8.8%	5.7%	6.8%	6.2%	5.3%	17.3%	12.8%	8.4%
ROIC	8.7%	7.6%	7.0%	4.0%	4.5%	4.4%	3.8%	9.5%	6.5%	4.6%
Shares Out.	186	187	188	189	192	193	185	224	215	217
Revenue/Share	16.31	17.38	18.86	21.54	22.83	22.28	19.14	22.89	50.82	49.72
FCF/Share	3.76	3.05	3.39	4.19	4.75	5.53	2.37	3.68	5.85	7.75

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

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