



Molson Coors Brewing Company (TAP)

Updated February 17th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$55	5 Year CAGR Estimate:	10.9%	Market Cap:	\$12.0 B
Fair Value Price:	\$63	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	03/01/20
% Fair Value:	88%	5 Year Valuation Multiple Estimate:	2.7%	Dividend Payment Date¹:	03/15/20
Dividend Yield:	4.1%	5 Year Price Target	\$80	Years Of Dividend Growth:	1
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	39.0%

Overview & Current Events

Molson Coors Beverage Company, previously 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, Molson Canadian, Carling, Blue Moon, Hop Valley, Leinenkugel's, Crispin Cider, and Miller Lite through a joint venture called MillerCoors. The \$12 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 February 12th, 2020 Molson Coors reported Q4 and full year 2019 results for the period ending December 31st, 2019. For the quarter the company generated \$2.49 billion in sales, representing a 2.8% increase compared to Q4 2018. Adjusted net income came in at \$221.5 million compared to \$182.3 million previously, while adjusted earnings-per-share totaled \$1.02 versus \$0.84 in the prior year quarter. For the year Molson Coors generated \$10.58 billion in sales, representing a -1.8% decline compared to 2018, driven by volume declines across all segments. Adjusted earnings-per-share equaled \$985 million, representing a -9.7% decline, partially as a result of asset impairment and restructuring charges and lower volumes. Adjusted earnings-per-share equaled \$4.54 versus \$5.04 in the year ago period.

Molson Coors also updated its 2020 outlook. The company expects sales to be flat to a low-single-digit decrease (from flat to a low-single-digit increase) and free cash flow of \$1.1 billion (unchanged). The company also reiterated that it is committed to continuing to deleverage and maintain a dividend payout ratio of 20% to 25% of trailing EBITDA

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$3.56	\$3.62	\$2.43	\$3.08	\$2.76	\$1.93	\$3.01	\$4.48	\$5.04	\$4.54	\$4.50	\$5.74
DPS	\$1.08	\$1.24	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$1.96	\$2.28	\$2.64
Shares²	187	188	189	192	193	185	224	215	219	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 were downbeat for 2019, as expected, we are moderately encouraged by the outlook over the intermediate-term and forecast 5% annual growth.

¹ Estimate

² In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	12.6	12.2	17.5	16.3	24.3	40.8	32.7	19.9	13.3	12.9	12.3	14.0
Avg. Yld.	2.4%	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.4%	3.4%	4.1%	3.3%

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 14 times earnings as a reasonable starting baseline, taking into account the quality of the business and its potential growth rate. This would imply a moderate valuation upside from this point. In addition, the recent boost in the dividend adds meaningfully to the investment thesis.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	30%	34%	53%	42%	54%	85%	55%	36%	33%	43%	51%	46%

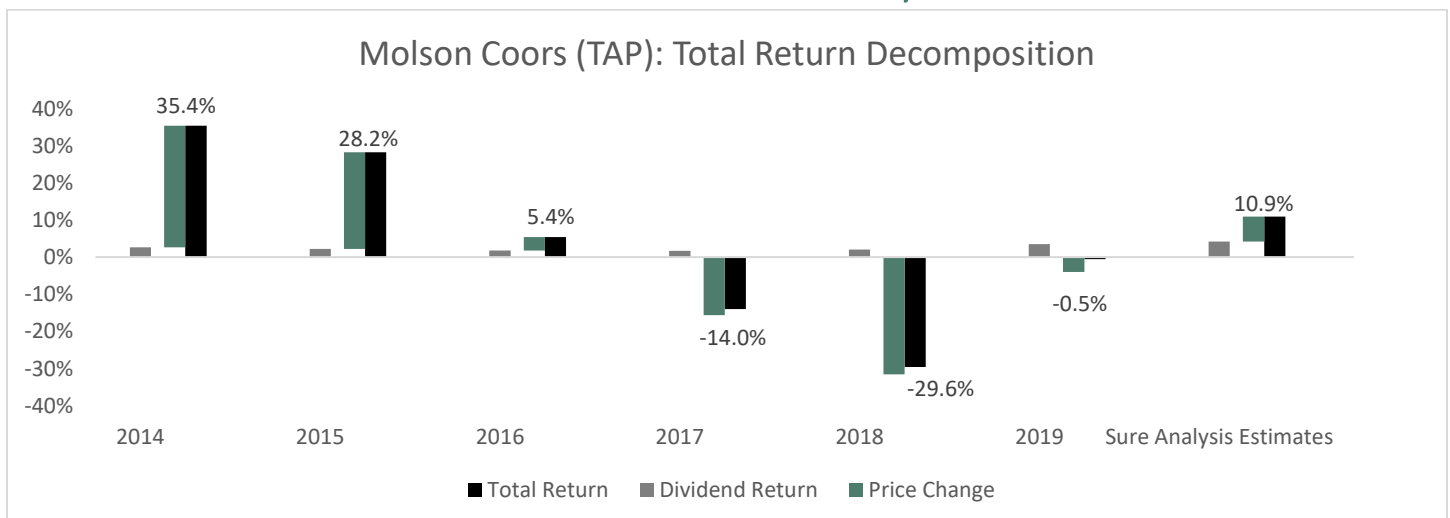
Molson Coors' dividend appears to be in reasonable shape, given the moderate payout ratio. However, the recent 39% dividend hike has normalized the payout. Moving forward we do not anticipate this type of growth.

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

Final Thoughts & Recommendation

Shares are up 4% 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 10.9% annual total return potential, as a result of 5% growth, a 4.1% starting dividend yield and a valuation tailwind. We are reiterating our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3254	3516	3917	4206	4146	3568	4885	11003	10770	10579
Gross Profit	1442	1467	1564	1661	1653	1436	1886	4766	4185	4201
Gross Margin	44.3%	41.7%	39.9%	39.5%	39.9%	40.2%	38.6%	43.3%	38.9%	39.7%
SG&A Exp.	1013	1019	1126	1194	1164	1038	1597	3052	2803	2728
D&A Exp.	202	217	273	321	313	314	388	813	858	859
Operating Profit	430	448	438	467	489	398	289	1714	1382	1473
Operating Margin	13.2%	12.7%	11.2%	11.1%	11.8%	11.1%	5.9%	15.6%	12.8%	13.9%
Net Profit	708	676	443	567	514	395	1594	1566	1117	242
Net Margin	21.7%	19.2%	11.3%	13.5%	12.4%	11.1%	32.6%	14.2%	10.4%	2.3%
Free Cash Flow	572	633	761	874	1028	441	785	1267	1680	1304
Income Tax	139	99	155	84	69	62	1454	-205	225	234

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	12698	12424	16212	15580	13980	12276	29342	30247	30110	28860
Cash & Equivalents	1218	1079	624	442	625	431	561	419	1058	523
Acc. Receivable	571	530	608	573	489	408	654	728	736	706
Inventories	247	229	242	235	226	179	593	592	592	616
Goodwill & Int.	6144	6039	9688	9244	7947	6729	22282	22702	22037	21287
Total Liabilities	4855	4734	8221	6950	6094	5213	17720	17060	16374	15187
Accounts Payable	228	269	490	600	618	560	1298	1569	1617	1568
Long-Term Debt	1961	1962	4668	3800	3170	2937	12073	11314	10488	9038
Total Equity	7799	7648	7967	8605	7863	7043	11419	12978	13507	13419
D/E Ratio	0.25	0.26	0.59	0.44	0.40	0.42	1.06	0.87	0.78	0.67

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	5.7%	5.4%	3.1%	3.6%	3.5%	3.0%	7.7%	5.3%	3.7%	0.8%
Return on Equity	9.5%	8.8%	5.7%	6.8%	6.2%	5.3%	17.3%	12.8%	8.4%	1.8%
ROIC	7.6%	7.0%	4.0%	4.5%	4.4%	3.8%	9.5%	6.5%	4.6%	1.0%
Shares Out.	187	188	189	192	193	185	224	215	219	217
Revenue/Share	17.38	18.86	21.54	22.83	22.28	19.14	22.89	50.82	49.72	48.78
FCF/Share	3.05	3.39	4.19	4.75	5.53	2.37	3.68	5.85	7.75	6.01

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

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