Constellation Brands Inc. (STZ)

Updated January 7th, 2021 by Eli Inkrot

Key Metrics

Current Price:	$230	**5 Year CAGR Estimate:**	1.3%	**Market Cap:**	$45 B
Fair Value Price:	$178	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	02/08/21
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Dividend Payment Date:**	02/23/21
Dividend Yield:	1.3%	**5 Year Price Target**	$227	**Years Of Dividend Growth:**	4
Dividend Risk Score:	C	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	1.4%

Overview & Current Events

Constellation Brands was founded in 1945. The $45 billion market cap company produces and distributes alcoholic beverages including beer, wine and spirits. With over 100 brands in its portfolio, it is the No. 3 beer company in the U.S. importing and selling beer brands such as Corona, Modelo Especial, Modelo Negra, and Pacifico, along with craft beer brands including Funky Buddha Brewery. In addition, Constellation has many wine brands including Robert Mondavi and Kim Crawford, as well as spirits brands including SVEDKA Vodka, Casa Noble Tequila, and High West Whiskey. The company also has a stake in cannabis company Canopy Growth.

On January 7th, 2021 Constellation Brands reported Q3 fiscal year 2021 results for the period ending November 30th, 2020. (Constellation Brands' fiscal year ends the last day of February.) For the quarter the company recorded $2.438 billion in net sales, representing a 21.9% increase compared to Q3 2020 as beer sales were up 28% and Wine and Spirits were up 10%. Comparable operating income equaled $835 million, a 30% increase. Earnings-per-share totaled $3.09 on a comparable basis or $3.16 excluding Canopy Growth, representing a 32% improvement.

In addition, Constellation Brands provided a fiscal 2021 outlook, anticipating $10.30 to $10.55 in earnings-per-share on a reported basis and $9.80 to $10.05 on a comparable basis. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.91	$2.35	$2.19	$3.25	$4.44	$5.43	$6.76	$8.72	$9.28	$9.12	***$9.90***	***$12.64***
DPS	---	---	---	---	---	$1.24	$1.60	$2.08	$2.96	$3.00	***$3.00***	***$3.83***
Shares[1]	210	194	190	196	200	199	195	191	191	195	***195***	***195***

Note: Constellation Brands completed fiscal 2020, but we are displaying earnings closer to the actual calendar year.

Constellation Brands has put together a terrific record in the last decade, growing earnings-per-share by over 19% per year. However, it's important to underscore that this was during a time when the company's revenue more than doubled and its net profit margin went from under 10% to over 22%. Both of these aspects get more difficult to improve.

In a highly competitive U.S. beer, wine, and sprits market, Constellation Brands has differentiated itself with a focus on what the company describes as "premiumization" trends. This means the company is pursuing growth in the high-end of the beer, wine, and spirits categories. It is also expanding into new product categories to appeal to changing consumer preferences. An example of this is the August 2017 acquisition of Funky Buddha, which included a portfolio of craft beers to add exposure to the high-growth craft beer segment of the U.S. beer market. In 2018, Constellation Brands acquired Four Corners Brewing, and recently Constellation Brands invested $4 billion in cannabis producer Canopy Growth, giving it a 38% ownership stake. More recently, the company announced a minority stake in Booker Vineyard.

There is uncertainty related to the COVID-19 pandemic, especially with regard to demand from restaurants and bars. It is not yet clear how fast this segment will recover. Pairing this unknown against the strong history of the company and its growth avenues available we expect 5% earnings improvement over the intermediate term coming off a higher base.

[1] In millions.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Avg. P/E	9.5	8.7	13.6	18.4	20.3	23.6	23.3	22.7	22.2	21.1	***23.2***	***18.0***
Avg. Yld.	---	---	---	---	---	1.0%	1.0%	1.1%	1.4%	1.6%	***1.3%***	***1.7%***

In the last six years, shares of Constellation Brands have routinely traded hands at or above 20 times earnings. We are using 18 times earnings as a starting place, which is closer to the security's average multiple over the past decade. With shares presently trading over 23 times our expectation of earnings, this implies the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	---	23%	24%	24%	32%	33%	***30%***	***30%***

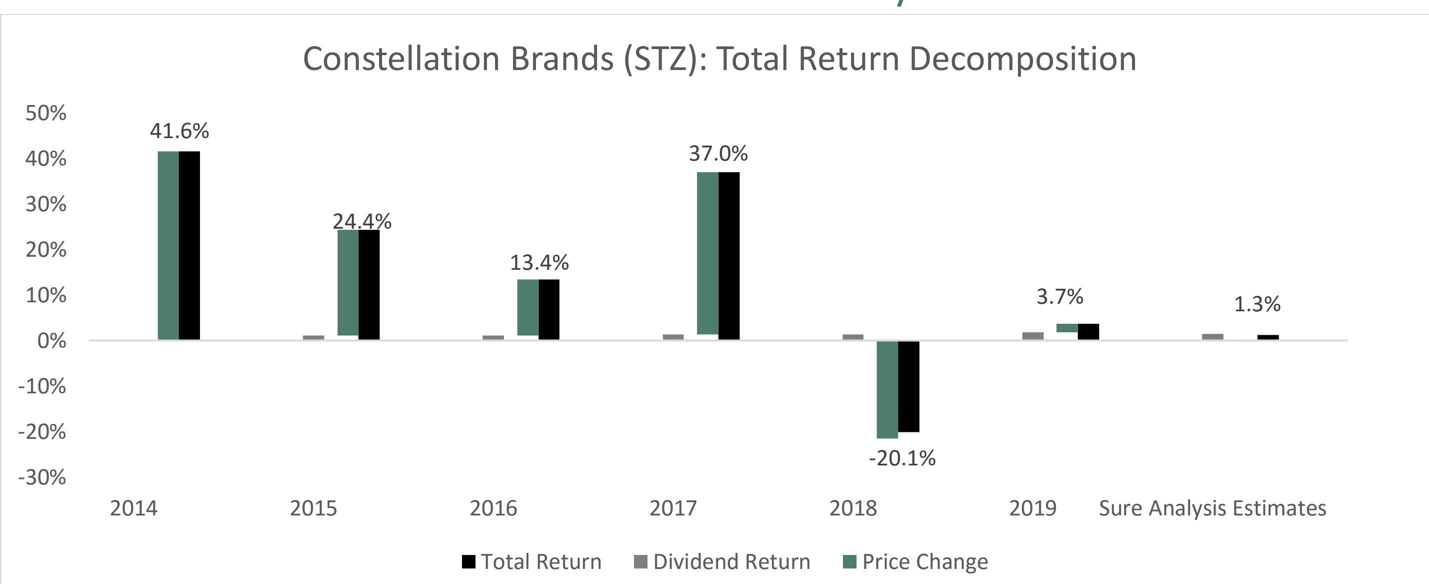
Constellation Brands has a number of competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it can withstand downturns very well. Alcoholic beverages are generally resistant to recessions. During the last recession, Constellation Brands reported earnings-per-share of $1.68, $1.44, $1.60 and $1.91 during the 2006 through 2009 stretch. We expect resilience during this crisis.

As of the most recent report, Constellation Brands held $153 million in cash, $3.5 billion in current assets (40% of which was inventory) and $27.6 billion in total assets (38% of which was goodwill and intangible assets) against $2.0 billion in current liabilities and $14.0 billion in total liabilities. Long-term debt stood at $10.4 billion against underlying annual earnings power of roughly $1.9 billion.

Final Thoughts & Recommendation

Shares are up 24% since our last report. Constellation Brands has generated incredible returns for shareholders since 2011. Much of the returns were fueled by an expanding valuation and earnings growth, both of which are less certain today. We are forecasting 1.3% total return potential stemming from 5% growth and a 1.3% starting dividend yield offset by a valuation headwind. We are not enthused by the higher valuation and shares earn a sell rating.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	3332	2654	2796	4868	6028	6548	7332	7585	8116	8344
Gross Profit	1190	1062	1108	1992	2579	2942	3529	3817	4080	4152
Gross Margin	35.7%	40.0%	39.6%	40.9%	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%
SG&A Exp.	641	538	585	895	1078	1177	1392	1533	1668	1622
D&A Exp.	125	104	115	155	162	180	238	294	333	327
Operating Profit	549	525	523	1097	1500	1765	2137	2285	2412	2530
Operating Margin	16.5%	19.8%	18.7%	22.5%	24.9%	27.0%	29.1%	30.1%	29.7%	30.3%
Net Profit	560	445	388	1943	839	1055	1535	2319	3436	-12
Net Margin	16.8%	16.8%	13.9%	39.9%	13.9%	16.1%	20.9%	30.6%	42.3%	-0.1%
Free Cash Flow	531	716	494	603	362	522	789	874	1360	1825
Income Tax	-9	89	129	259	343	441	554	12	686	-967

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	7168	7110	7638	14302	15093	16965	18602	20539	29232	27323
Cash & Equivalents	9	86	332	64	110	83	177	90	94	81
Accounts Receivable	417	438	472	626	599	733	737	776	847	865
Inventories	1369	1375	1481	1744	1827	1852	1955	2084	2130	1374
Goodwill & Int. Ass.	3506	3499	3594	9378	9389	10542	11298	11388	11287	10476
Total Liabilities	4616	4434	4778	9321	9212	10273	11718	12476	16394	14849
Accounts Payable	129	131	209	295	286	429	560	592	617	558
Long-Term Debt	3236	3130	3305	7021	7297	8081	9238	10187	13617	12185
Shareholder's Equity	2552	2676	2860	4981	5771	6560	6891	8046	12551	12132
D/E Ratio	1.27	1.17	1.16	1.41	1.26	1.23	1.34	1.27	1.08	1.00

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.3%	6.2%	5.3%	17.7%	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%
Return on Equity	21.8%	17.0%	14.0%	49.6%	15.6%	17.1%	22.8%	31.0%	33.4%	-0.1%
ROIC	9.2%	7.7%	6.5%	21.4%	6.7%	7.5%	9.9%	13.5%	15.4%	0.0%
Shares Out.	210	194	190	196	200	199	195	191	196	195
Revenue/Share	15.59	12.72	14.69	24.64	29.96	32.13	35.92	37.78	41.51	43.54
FCF/Share	2.48	3.43	2.60	3.05	1.80	2.56	3.86	4.35	6.96	9.52

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