Constellation Brands Inc. (STZ)

Updated June 30th, 2021, by Eli Inkrot

Key Metrics

Current Price:	$236	**5 Year CAGR Estimate:**	1.2%	**Market Cap:**	$46 B
Fair Value Price:	$183	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	08/09/21
% Fair Value:	129%	**5 Year Valuation Multiple Estimate:**	-5.0%	**Dividend Payment Date:**	08/24/21
Dividend Yield:	1.3%	**5 Year Price Target**	$233	**Years Of Dividend Growth:**	6
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	1.3%

Overview & Current Events

Constellation Brands was founded in 1945. The $46 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 April 7th, 2021, Constellation Brands declared a $0.76 quarterly dividend after paying the same $0.75 quarterly dividend for eight consecutive quarters.

On June 30th, 2021, Constellation Brands reported Q1 fiscal year 2022 results for the period ending May 31st, 2021 (Constellation Brands' fiscal year ends the last day of February.) For the quarter the company recorded $2.03 billion in sales, a 3.2% increase compared to Q1 fiscal year 2021. This result was driven by a 14% increase in beer sales, partially offset by a -22% decline in wine sales, due to divestitures. Adjusted earnings-per-share equaled $2.33 compared to $2.30 in the year ago period.

Constellation Brands also updated its fiscal 2022 outlook. The company now expects $10.00 to $10.30 in adjusted EPS (from $9.95 to $10.25). In addition, beer sales are anticipated to increase 7% to 9%, wine sales are expected to be down -22% to -24% and $360 million to $370 million in interest expense is projected.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$2.35	$2.19	$3.25	$4.44	$5.43	$6.76	$8.72	$9.28	$9.12	$9.97	***$10.15***	***$12.95***
DPS	---	---	---	---	$1.24	$1.60	$2.08	$2.96	$3.00	$3.00	***$3.04***	***$3.88***
Shares[1]	194	190	196	200	199	195	191	191	195	196	***193***	***185***

Note: Constellation Brands completed fiscal 2021, 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 18% 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 12% to over 22%. Both aspects get more difficult to improve over time.

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. Recent acquisitions include Funky Buddha in 2017, Four Corners Brewing in 2018 and a partial stake in cannabis producer Canopy Growth.

Last year proved to be a solid year for Constellation Brands amid a difficult operating environment with COVID-19 lockdowns. Management is expecting an uptick in results this year and we are forecasting 5% annual growth.

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[1] In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	8.7	13.6	18.4	20.3	23.6	23.3	22.7	22.2	21.1	18.4	***23.2***	***18.0***
Avg. Yld.	---	---	---	---	1.0%	1.0%	1.1%	1.4%	1.6%	1.6%	***1.3%***	***1.7%***

In the 2014 through 2019 stretch, shares of Constellation Brands 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 near 23 times our expectation of earnings, this implies the potential for a valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	---	---	23%	24%	24%	32%	33%	30%	***30%***	***30%***

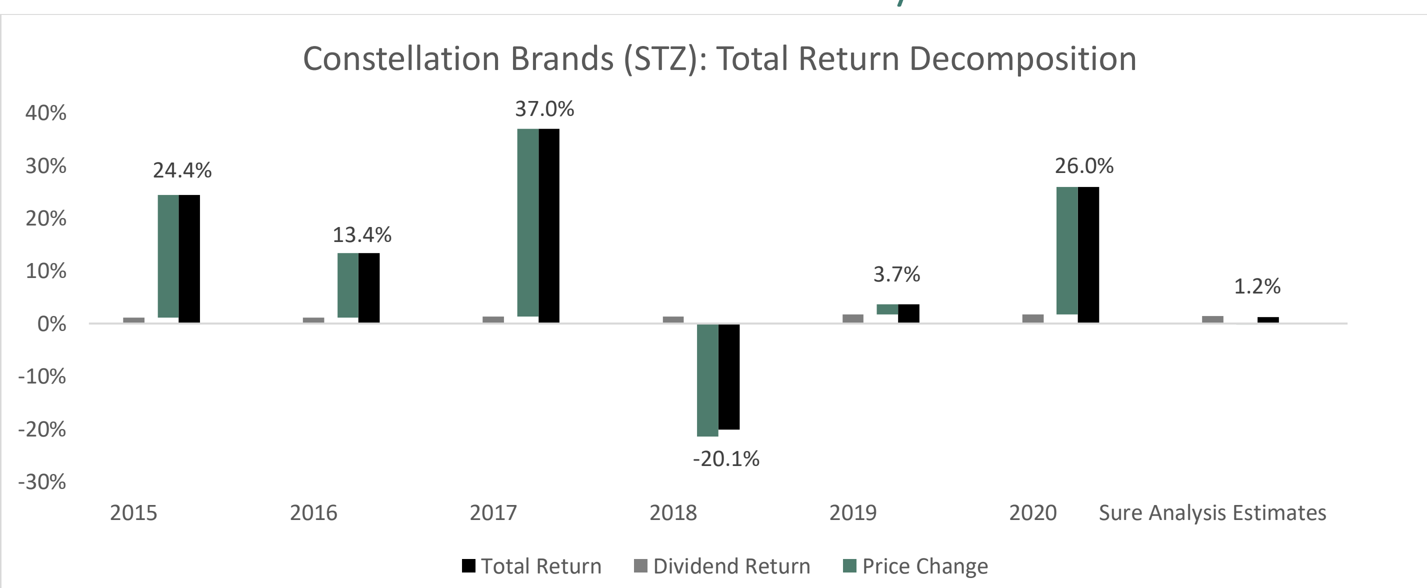
Constellation Brands has several competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it 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.

As of the most recent report, Constellation Brands held $504 million in cash, $3.3 billion in current assets (42% of which was inventory) and $26.2 billion in total assets against $2.1 billion in current liabilities and $13.6 billion in total liabilities. Long-term debt stood at $9.9 billion against underlying annual earnings power of roughly $2 billion.

Final Thoughts & Recommendation

Shares are up 6% since our last report. Constellation Brands has generated incredible returns for shareholders since 2011. A significant portion of the returns were fueled by an expanding valuation and earnings growth, both of which are less certain today. We are forecasting 1.2% 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 valuation; 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2654	2796	4868	6028	6548	7332	7585	8116	8344	8615
Gross Profit	1062	1108	1992	2579	2942	3529	3817	4080	4152	4466
Gross Margin	40.0%	39.6%	40.9%	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%	51.8%
SG&A Exp.	538	585	895	1078	1177	1392	1533	1668	1622	1665
D&A Exp.	104	115	155	162	180	238	294	333	327	294
Operating Profit	525	523	1097	1500	1765	2137	2285	2412	2530	2801
Operating Margin	19.8%	18.7%	22.5%	24.9%	27.0%	29.1%	30.1%	29.7%	30.3%	32.5%
Net Profit	445	388	1943	839	1055	1535	2319	3436	-12	1998
Net Margin	16.8%	13.9%	39.9%	13.9%	16.1%	20.9%	30.6%	42.3%	-0.1%	23.2%
Free Cash Flow	716	494	603	362	522	789	874	1360	1825	1942
Income Tax	89	129	259	343	441	554	12	686	-967	511

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	7110	7638	14302	15093	16965	18602	20539	29232	27323	27100
Cash & Equivalents	86	332	64	110	83	177	90	94	81	461
Accounts Receivable	438	472	626	599	733	737	776	847	865	785
Inventories	1375	1481	1744	1827	1852	1955	2084	2130	1374	1291
Goodwill & Int. Ass.	3499	3594	9378	9389	10542	11298	11388	11287	10476	10530
Total Liabilities	4434	4778	9321	9212	10273	11718	12476	16394	14849	13180
Accounts Payable	131	209	295	286	429	560	592	617	558	460
Long-Term Debt	3130	3305	7021	7297	8081	9238	10187	13617	12185	10440
Shareholder's Equity	2676	2860	4981	5771	6560	6891	8046	12551	12132	13600
D/E Ratio	1.17	1.16	1.41	1.26	1.23	1.34	1.27	1.08	1.00	0.77

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	6.2%	5.3%	17.7%	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%	7.3%
Return on Equity	17.0%	14.0%	49.6%	15.6%	17.1%	22.8%	31.0%	33.4%	-0.1%	15.5%
ROIC	7.7%	6.5%	21.4%	6.7%	7.5%	9.9%	13.5%	15.4%	0.0%	8.2%
Shares Out.	194	190	196	200	199	195	191	196	195	195
Revenue/Share	12.72	14.69	24.64	29.96	32.13	35.92	37.78	41.51	43.54	44.11
FCF/Share	3.43	2.60	3.05	1.80	2.56	3.86	4.35	6.96	9.52	9.94

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