



# Molson Coors Beverage Company (TAP)

Updated October 31<sup>st</sup>, 2021, by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$44	<b>5 Year CAGR Estimate:</b>	12.2%	<b>Market Cap:</b>	\$10 B
<b>Fair Value Price:</b>	\$58	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	11/29/21 <sup>1</sup>
<b>% Fair Value:</b>	76%	<b>5 Year Valuation Multiple Estimate:</b>	5.7%	<b>Dividend Payment Date:</b>	12/13/21 <sup>1</sup>
<b>Dividend Yield:</b>	3.1%	<b>5 Year Price Target</b>	\$71	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	N/A

## 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 \$10 billion market cap company has a significant presence outside the U.S. Its international markets include Canada, Europe, Latin America, Asia, and Africa.

On July 15<sup>th</sup>, 2021, Molson Coors reinstated its dividend at \$0.34, after suspending its \$0.57 payout for five quarters.

On October 28<sup>th</sup>, 2021, Molson Coors reported Q3 2021 results for the period ending September 30<sup>th</sup>, 2021. For the quarter the company generated \$2.82 billion in sales, up 2.5% compared to Q3 2020. Net sales were down -1.2% in North America, but up 19.2% in Europe. Reported net income equaled \$453 million or \$2.08 per share compared to \$342.8 million or \$1.58 per share in Q3 2020. On an adjusted basis, earnings-per-share equaled \$1.75 versus \$1.62 prior.

Molson Coors continues to expect sales to increase by a mid-single digit rate for 2021.

## Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>EPS</b>	\$3.62	\$2.43	\$3.08	\$2.76	\$1.93	\$3.01	\$4.48	\$5.04	\$4.54	\$3.92	<b>\$4.15</b>	<b>\$5.05</b>
<b>DPS</b>	\$1.24	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$1.96	\$0.57	<b>\$1.36</b>	<b>\$1.65</b>
<b>Shares<sup>2</sup></b>	188	189	192	193	185	224	215	219	216	217	<b>217</b>	<b>217</b>

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. The company posted down results in 2019 and 2020.

With several top brands, Molson Coors can pass higher costs on to consumers. The company is also aggressively cutting costs in other parts of the business to offset raw material inflation. In addition, Molson Coors is investing in new product categories to generate growth, such as cannabis.

The COVID-19 pandemic has already had a significant impact on the demand for the company's products and this is likely to persist in some form for 2021 as well. As a point of reference, previously roughly a fourth of the company's sales came from on-premise consumption, which continues to be impacted. We are forecasting \$4.15 in earnings-per-share for 2021 to go along with a 4% intermediate term growth rate.

## Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
<b>Avg. P/E</b>	12.2	17.5	16.3	24.3	40.8	32.7	19.9	13.3	12.9	15.3	<b>10.6</b>	<b>14.0</b>
<b>Avg. Yld.</b>	2.8%	3.0%	2.5%	2.2%	2.1%	1.7%	1.8%	2.4%	3.4%	1.4%	<b>3.1%</b>	<b>2.3%</b>

<sup>1</sup> Estimate.

<sup>2</sup> In millions.

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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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 implies the potential for valuation upside. Meanwhile, the reinstated dividend is now playing a part in shareholder returns once again.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	34%	53%	42%	54%	85%	55%	36%	33%	43%	15%	<b>33%</b>	<b>33%</b>

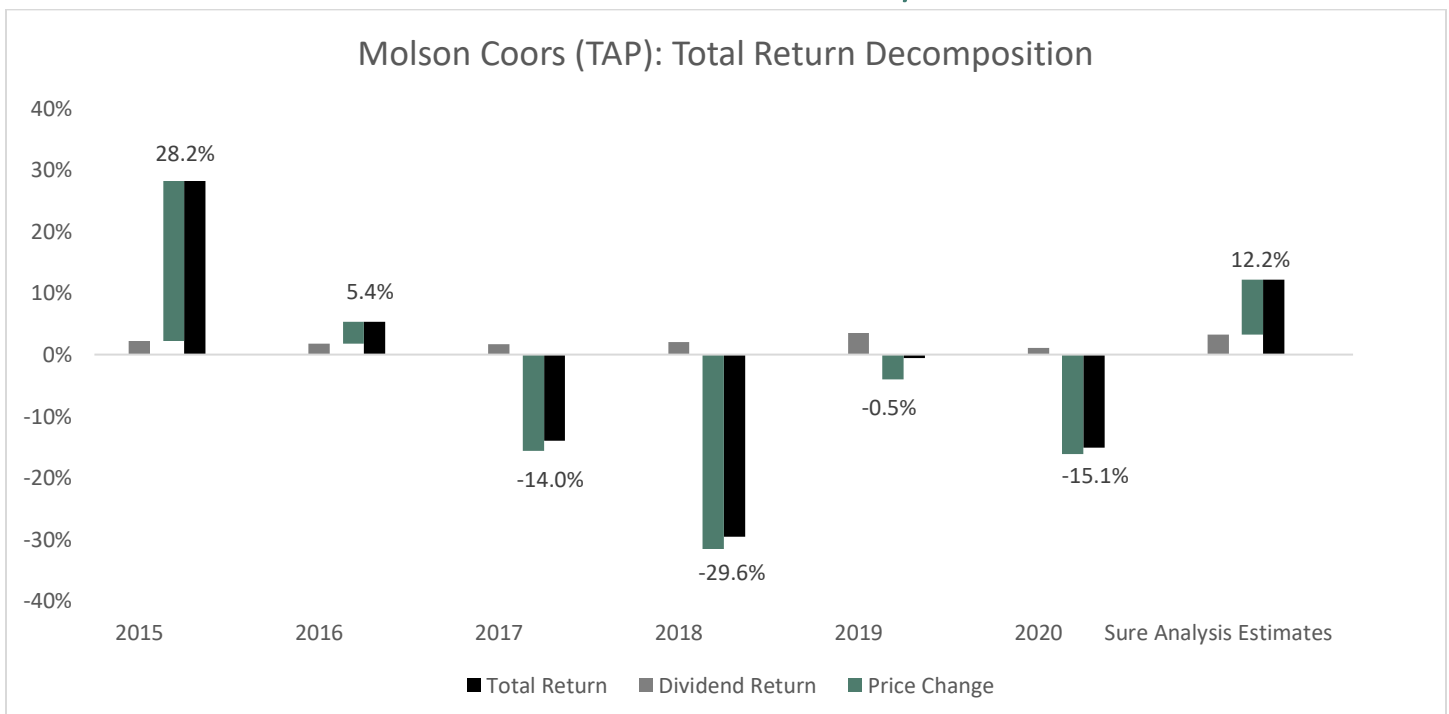
The board elected to suspend the dividend after the first quarter of 2020, which was not welcome news for income investors, especially after significantly increasing the payment in 2019. The payout was reinstated in the second half of 2021, but at a ~40% lower rate. The abrupt change in policy makes us more cautious on the dividend going forward.

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. In addition, Molson Coors can withstand recessions very well. Beer is a recession-resistant product, with Molson Coors remaining highly profitable during the Great Recession of 2008-2009. That being said, the current crisis is different and has hurt short-term demand and results.

## Final Thoughts & Recommendation

Shares are up 34% in the last year. Molson Coors was struggling to grow sales due to the stagnating beer industry prior to the pandemic and now is facing an even tougher challenge. However, the industry is resilient. Total return potential comes in at 12.2% per annum stemming from 4% growth, the newly reinstated 3.1% dividend yield and the potential for a valuation tailwind. Shares earn a buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3516	3917	4206	4146	3568	4885	11003	10770	10579	9654
Gross Profit	1467	1564	1661	1653	1436	1886	4766	4185	4201	3768
Gross Margin	41.7%	39.9%	39.5%	39.9%	40.2%	38.6%	43.3%	38.9%	39.7%	39.0%
SG&A Exp.	1019	1126	1194	1164	1038	1597	3052	2803	2728	2437
D&A Exp.	217	273	321	313	314	388	813	858	859	922
Operating Profit	448	438	467	489	398	289	1714	1382	1473	1331
Operating Margin	12.7%	11.2%	11.1%	11.8%	11.1%	5.9%	15.6%	12.8%	13.9%	13.8%
Net Profit	676	443	567	514	395	1594	1566	1117	242	-949
Net Margin	19.2%	11.3%	13.5%	12.4%	11.1%	32.6%	14.2%	10.4%	2.3%	-9.8%
Free Cash Flow	633	761	874	1028	441	785	1267	1680	1304	1121
Income Tax	99	155	84	69	62	1454	-205	225	234	302

## Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	12424	16212	15580	13980	12276	29342	30247	30110	28860	27330
Cash & Equivalents	1079	624	442	625	431	561	419	1058	523	770
Acc. Receivable	530	608	573	489	408	654	728	736	706	550
Inventories	229	242	235	226	179	593	592	592	616	664
Goodwill & Int.	6039	9688	9244	7947	6729	22282	22702	22037	21287	19710
Total Liabilities	4734	8221	6950	6094	5213	17720	17060	16374	15187	14710
Accounts Payable	269	490	600	618	560	1298	1569	1617	1568	1733
Long-Term Debt	1962	4668	3800	3170	2937	12073	11314	10488	9038	8228
Total Equity	7648	7967	8605	7863	7043	11419	12978	13507	13419	12360
D/E Ratio	0.26	0.59	0.44	0.40	0.42	1.06	0.87	0.78	0.67	0.67

## Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	5.4%	3.1%	3.6%	3.5%	3.0%	7.7%	5.3%	3.7%	0.8%	-3.4%
Return on Equity	8.8%	5.7%	6.8%	6.2%	5.3%	17.3%	12.8%	8.4%	1.8%	-7.4%
ROIC	7.0%	4.0%	4.5%	4.4%	3.8%	9.5%	6.5%	4.6%	1.0%	-4.4%
Shares Out.	188	189	192	193	185	224	215	219	217	217
Revenue/Share	18.86	21.54	22.83	22.28	19.14	22.89	50.82	49.72	48.78	44.53
FCF/Share	3.39	4.19	4.75	5.53	2.37	3.68	5.85	7.75	6.01	5.17

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

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