



Constellation Brands Inc. (STZ)

Updated January 12th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$248	5 Year CAGR Estimate:	1.8%	Market Cap:	\$46.5 B
Fair Value Price:	\$194	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	02/08/22
% Fair Value:	128%	5 Year Valuation Multiple Estimate:	-4.8%	Dividend Payment Date:	02/23/22
Dividend Yield:	1.2%	5 Year Price Target	\$254	Years Of Dividend Growth:	6
Dividend Risk Score:	C	Retirement Suitability Score:	F	Last Dividend Increase:	1.3%

Overview & Current Events

Constellation Brands was founded in 1945. The \$46.5 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 6th, 2022, Constellation Brands reported Q3 fiscal year 2022 results for the period ending November 30th, 2021. (Constellation Brands' fiscal year ends the last day of February). For the quarter the company recorded \$2.32 billion in sales, a 4.8% decrease compared to Q2 fiscal year 2021. This result was driven by a -25% decline in wine and spirits sales, partially offset by a 4% increase in beer sales. Adjusted earnings-per-share equaled \$3.42 compared to \$3.16 in the year ago period.

Constellation Brands also updated its fiscal 2022 outlook. The company now expects \$10.50 to \$10.65 in adjusted EPS (from \$10.15 to \$10.45 and \$10.00 to \$10.30 previously). In addition, beer sales are anticipated to increase 10% to 11% and wine and spirit sales are expected to be down -21% to -23%.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.35	\$2.19	\$3.25	\$4.44	\$5.43	\$6.76	\$8.72	\$9.28	\$9.12	\$9.97	\$10.50	\$13.72
DPS	---	---	---	---	\$1.24	\$1.60	\$2.08	\$2.96	\$3.00	\$3.00	\$3.04	\$3.88
Shares¹	194	190	196	200	199	195	191	191	195	196	192.0	185.0

Constellation Brands has put together a terrific record in the last decade, growing earnings-per-share by 17% 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. Due to this, EPS growth has slowed, but is still impressive at 13% in the trailing five years.

In a highly competitive U.S. beer, wine, and spirits 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, Four Corners Brewing 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 5.5% annual growth over the near term.

¹ 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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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	8.7	13.6	18.4	20.3	23.6	23.3	22.7	22.2	21.1	18.4	23.6	18.5
Avg. Yld.	---	---	---	1.00%	1.00%	1.10%	1.40%	1.60%	1.60%	1.30%	1.2%	1.5%

In the 2017 through 2021 stretch, shares of Constellation Brands traded hands on average at 21.5 times earnings. We are using 18.5 times earnings as a starting place, which is closer to the security's average multiple over the past decade. With shares presently trading above 23 times our expectation of earnings, this implies the potential for a real valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	23%	24%	24%	32%	33%	30%	29%	28%

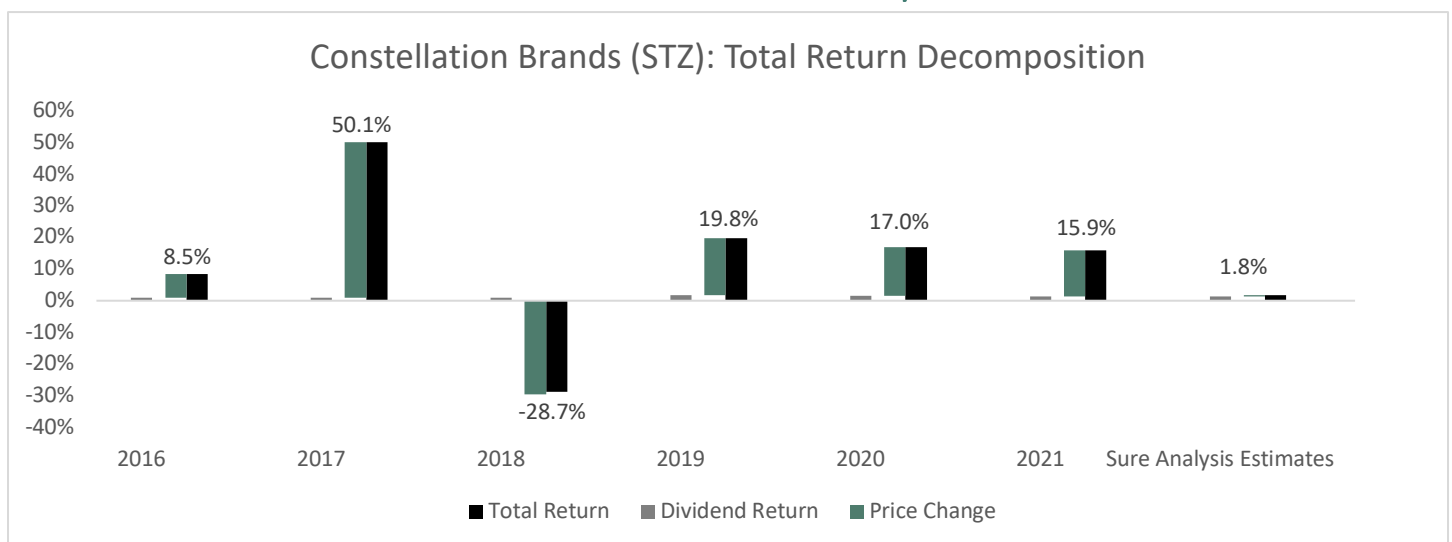
Constellation Brands has several competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it can withstand downturns very well. Alcoholic beverages are generally resistant to recessions. During the Great Recession, Constellation Brands reported earnings-per-share of \$1.68, \$1.44, \$1.60 and \$1.91 during the 2006 through 2009 stretch. Results improved in 2021 as well.

As of the most recent report, Constellation Brands held \$361 million in cash and cash equivalents, \$3.4 billion in current assets (44% of which was inventory) and \$25.5 billion in total assets against \$2.2 billion in current liabilities and \$13.9 billion in total liabilities. Long-term debt stood at \$10.1 billion.

Final Thoughts & Recommendation

Shares are up 8.8% in the last one year period, and 66% in the last five years. 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 1.8% total return potential stemming from 5.5% growth and a 1.2% starting dividend yield offset by a valuation headwind. Shares earn a hold rating, but the valuation is high today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	2,654	2,796	4,868	6,028	6,548	7,321	7,580	8,116	8,344	8,615
Gross Profit	1,062	1,108	1,992	2,579	2,942	3,519	3,813	4,080	4,152	4,466
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	1,078	1,177	1,392	1,533	1,668	1,622	1,665
D&A Exp.	104	115	155	202	180	238	294	333	327	294
Operating Profit	525	523	1,097	1,500	1,765	2,127	2,280	2,412	2,530	2,801
Operating Margin	19.8%	18.7%	22.5%	24.9%	27.0%	29.0%	30.1%	29.7%	30.3%	32.5%
Net Profit	445	388	1,943	839	1,055	1,529	2,303	3,436	-12	1,998
Net Margin	16.8%	13.9%	39.9%	13.9%	16.1%	20.9%	30.4%	42.3%	-0.1%	23.2%
Free Cash Flow	716	494	603	362	522	789	874	1,360	1,825	1,942
Income Tax	89	129	259	343	441	550	23	686	-967	511

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	7,110	7,638	14,302	15,093	16,965	18,602	20,539	29,232	27,323	27,105
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	1,375	1,481	1,744	1,827	1,852	1,955	2,084	2,130	1,374	1,291
Goodwill & Int. Ass.	3,499	3,594	9,378	9,389	10,542	11,298	11,388	11,287	10,476	10,526
Total Liabilities	4,434	4,778	9,321	9,212	10,273	11,718	12,547	16,394	14,849	13,176
Accounts Payable	131	209	295	286	429	560	592	617	558	460
Long-Term Debt	3,130	3,305	7,021	7,297	8,081	9,238	10,187	13,617	12,185	10,442
Shareholder's Equity	2,676	2,860	4,981	5,771	6,560	6,891	7,975	12,551	12,132	13,599
LTD/E Ratio	1.17	1.16	1.41	1.26	1.23	1.34	1.28	1.08	1.00	0.77

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
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%	22.7%	31.0%	33.5%	-0.1%	15.5%
ROIC	7.7%	6.5%	21.4%	6.7%	7.5%	9.9%	13.4%	15.4%	0.0%	8.2%
Shares Out.	194	190	196	200	199	195	191	191	195	196
Revenue/Share	12.72	14.69	24.64	29.96	32.13	35.87	37.76	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.

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