



Molson Coors Beverage Company (TAP)

Updated November 7th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$51	5 Year CAGR Estimate:	8.0%	Market Cap:	\$11 B
Fair Value Price:	\$55	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/02/22 ¹
% Fair Value:	93%	5 Year Valuation Multiple Estimate:	1.4%	Dividend Payment Date:	12/15/22 ¹
Dividend Yield:	3.0%	5 Year Price Target	\$66	Years Of Dividend Growth:	2
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Hold

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 \$11 billion market cap company has a significant presence outside the U.S. Its international markets include Canada, Europe, Latin America, Asia, and Africa.

On February 23rd, 2022, the company announced a 12% increase to the quarterly dividend to \$0.38 per share.

On November 1st, 2022, Molson Coors reported third quarter results for the period ending September 30th, 2022. For the quarter, the company generated net sales of \$2.9 billion, a 4.0% increase compared to Q3 2021. Net sales were up 6.8% in North America, but down 6.4% in Europe, the Middle East and Africa, and Asia-Pacific. Reported net income equaled \$216 million or \$0.99 per share compared to \$453 million or \$2.08 per share in Q3 2021. On an adjusted basis, earnings-per-share equaled \$1.32 versus \$1.75 prior. The company repurchased 740,000 shares in the first nine months of 2022.

Molson Coors continues to expect net sales to increase by a mid-single digit rate for 2022, on a constant currency basis.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$2.43	\$3.08	\$2.76	\$1.93	\$3.01	\$4.48	\$5.04	\$4.54	\$3.92	\$4.15	\$3.90	\$4.74
DPS	\$1.28	\$1.28	\$1.48	\$1.64	\$1.64	\$1.64	\$1.64	\$1.96	\$0.57	\$0.68	\$1.52	\$1.85
Shares²	189	192	193	185	224	215	219	216	217	217	216	210

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 but returned to YoY growth in 2021.

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 2022 as well, but much improved due to fewer on-premises restrictions. As a point of reference, previously roughly a fourth of the company's sales came from on-premises consumption, which continues to be impacted. We are forecasting \$3.90 in earnings-per-share for 2022 to go along with a 4% intermediate term growth rate.

¹ Estimate.

² In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.5	16.3	24.3	40.8	32.7	19.9	13.3	12.9	15.3	22.4	13.1	14.0
Avg. Yld.	3.00%	2.50%	2.20%	2.10%	1.70%	1.80%	2.40%	3.40%	1.40%	1.10%	3.0%	2.8%

In the past decade, shares of Molson Coors have traded hands at an average price-to-earnings ratio of about 21 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, considering the quality of the business and its potential growth rate. This implies the potential for valuation upside. Meanwhile, the current 3.0% dividend yield is higher than the 5-year and 10-year average of about 2.1%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	53%	42%	54%	85%	54%	37%	33%	43%	15%	16%	39%	39%

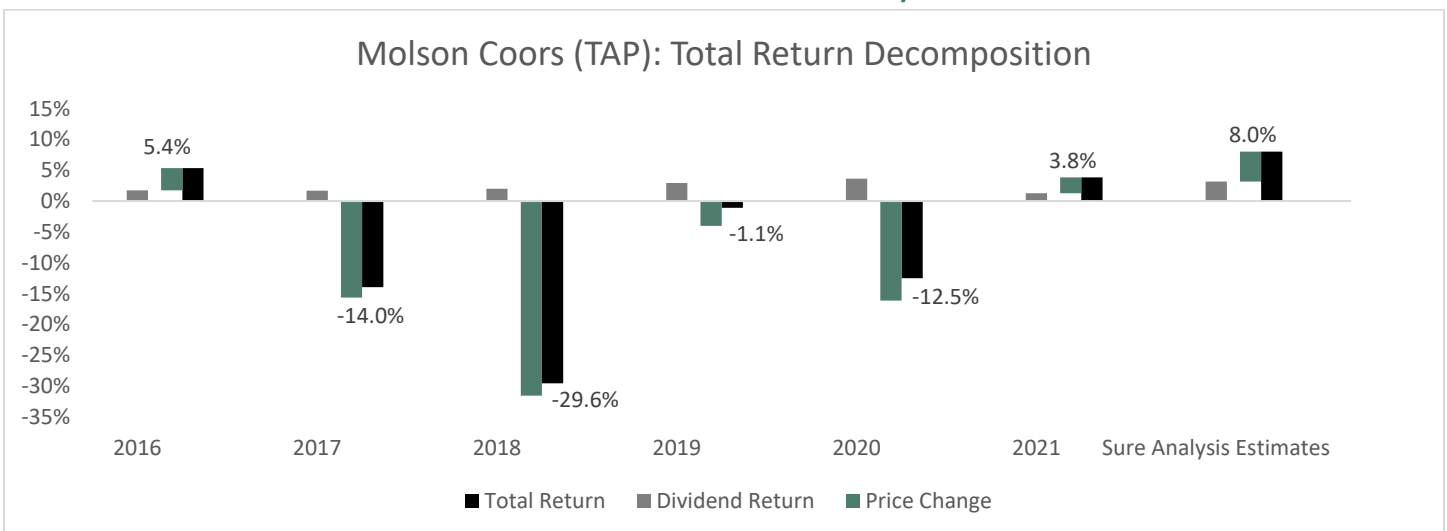
The board elected to suspend the dividend after the first quarter of 2020, which was not welcome news for income investors, especially after significantly increasing the payment in 2019. The payout was reinstated in the second half of 2021, but at a ~40% lower rate. The abrupt change in policy makes 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. in 2021. 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 8% year-to-date, which compares favorably to the overall broader market. Molson Coors was struggling to grow sales due to the stagnating beer industry prior to the pandemic and now growth is resuming following the pandemic low point. The industry is resilient. Total return potential comes in at 8.0% per annum stemming from 4% growth, the 3.0% dividend yield, and the potential for a valuation tailwind. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,917	4,206	4,146	3,568	4,885	11,003	10,770	10,579	9,654	10,280
Gross Profit	1,564	1,661	1,653	1,436	1,886	4,766	4,185	4,201	3,768	4,053
Gross Margin	39.9%	39.5%	39.9%	40.2%	38.6%	43.3%	38.9%	39.7%	39.0%	39.4%
SG&A Exp.	1,126	1,194	1,164	1,038	1,597	3,052	2,803	2,728	2,437	2,555
D&A Exp.	273	321	313	314	388	813	858	859	922	786
Operating Profit	438	467	489	398	289	1,714	1,382	1,473	1,331	1,499
Operating Margin	11.2%	11.1%	11.8%	11.1%	5.9%	15.6%	12.8%	13.9%	13.8%	14.6%
Net Profit	443	567	514	395	1,594	1,566	1,117	242	-949	1,006
Net Margin	11.3%	13.5%	12.4%	11.1%	32.6%	14.2%	10.4%	2.3%	-9.8%	9.8%
Free Cash Flow	761	874	1,028	441	785	1,267	1,680	1,304	1,121	1,051
Income Tax	155	84	69	62	1454	-205	225	234	302	231

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	16,212	15,580	13,980	12,276	29,342	30,247	30,110	28,860	27,331	27,619
Cash & Equivalents	624	442	625	431	561	419	1,058	523	770	637
Acc. Receivable	608	573	489	408	654	728	736	706	550	663
Inventories	242	235	226	179	593	592	592	616	664	805
Goodwill & Int.	9,688	9,244	7,947	6,729	22,282	22,702	22,037	21,287	19,707	19,439
Total Liabilities	8,221	6,950	6,094	5,213	17,720	17,060	16,374	15,187	14,710	13,955
Accounts Payable	490	600	618	560	1,298	1,569	1,617	1,687	1,733	2,098
Long-Term Debt	4,668	3,800	3,170	2,937	12,073	11,314	10,488	9,038	8,228	7,162
Total Equity	7,967	8,605	7,863	7,043	11,419	12,978	13,507	13,419	12,365	13,417
LTD/E Ratio	0.59	0.44	0.40	0.42	1.06	0.87	0.78	0.67	0.67	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.1%	3.6%	3.5%	3.0%	7.7%	5.3%	3.7%	0.8%	-3.4%	3.7%
Return on Equity	5.7%	6.8%	6.2%	5.3%	17.3%	12.8%	8.4%	1.8%	-7.4%	7.8%
ROIC	4.0%	4.5%	4.4%	3.8%	9.5%	6.5%	4.6%	1.0%	-4.4%	4.8%
Shares Out.	189	192	193	185	224	215	219	216	217	217
Revenue/Share	21.54	22.83	22.28	19.14	22.89	50.82	49.72	48.78	44.53	47.24
FCF/Share	4.19	4.75	5.53	2.37	3.68	5.85	7.75	6.01	5.17	4.83

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

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