Constellation Brands Inc. (STZ)

Updated January 5th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$248	**5 Year CAGR Estimate:**	10.7%	**Market Cap:**	$45 B
Fair Value Price:	$254	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	02/07/24
% Fair Value:	97%	**5 Year Valuation Multiple Estimate:**	0.5%	**Dividend Payment Date:**	02/22/24
Dividend Yield:	1.4%	**5 Year Price Target**	$391	**Years Of Dividend Growth:**	8
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Buy

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 third largest beer company in the U.S. importing and selling beer brands such as Corona, Modelo Especial (the #1 Beer in U.S.), Modelo Negra, and Pacifico. 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.

Constellation Brands declared a $0.89 quarterly dividend on April 6th, 2023, which represented an 11% increase.

On January 5th, 2023, Constellation Brands reported third quarter fiscal 2024 results for the period ending November 30th, 2023. (Constellation Brands' fiscal year ends on the last day of February). For the third quarter, the company recorded $2.47 billion in net sales, a 1% increase compared to the same prior year period, missing analysts' expectations by $70 million. Beer sales improved by 4% year-over-year, while wine and spirits sales declined by -8%. Comparable earnings-per-share equaled $3.19 for the quarter, which was a 13% increase compared to Q3 2023, and 19 cents ahead of analyst estimates.

Constellation Brands updated its fiscal 2024 outlook. The company continues to expect adjusted earnings-per-share of $12.00 to $12.20 for the full fiscal year. Additionally, beer sales are anticipated to increase 8% to 9% and wine and spirit sales are expected to be down -7% to -9%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.25	$4.44	$5.43	$6.76	$8.72	$9.28	$9.12	$9.97	$10.20	$10.65	***$12.10***	***$18.62***
DPS	---	---	$1.24	$1.60	$2.08	$2.96	$3.00	$3.00	$3.04	$3.20	***$3.56***	***$4.76***
Shares[1]	196	200	199	195	191	191	195	196	191	185	***184***	***175***

Constellation Brands has put together a terrific record in the last decade, growing earnings-per-share by more than 14% per year. However, it's important to underscore that this was during a time when the company's revenue doubled, and its operating margin grew from 23% to 38%. Both aspects get more difficult to improve over time. Due to this, EPS growth has slowed, and stands at 4% in the trailing five years.

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. Constellation is expecting to invest $4 billion between fiscal 2024 and fiscal 2028 on expanding capacity in Mexico. These investments will support future growth for the company's high-end Mexican beer portfolio. As of Q2 2024, a modular brewery capacity expansion was completed at Obregon.

In 2023, Constellation Brands divested its craft beers business, including Funky Buddha and Four Corners, to focus on its core portfolio. It continues to hold onto its stake in cannabis producer Canopy Growth.

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[1] In millions.

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2020 proved to be a down year amid the COVIC-19 pandemic, but the company rebounded swiftly and strongly, and it continues to achieve record results. Management is expecting strong results this year and we are forecasting 9% annual growth over the intermediate term.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	*Now*	*2029*
Avg. P/E	18.4	20.3	23.6	23.3	22.7	22.2	21.1	18.4	22.7	21.2	***20.5***	***21.0***
Avg. Yld.	---	1.0%	1.0%	1.1%	1.4%	1.6%	1.6%	1.3%	1.3%	1.3%	***1.4%***	***1.2%***

In the 2019 through 2023 stretch, shares of Constellation Brands traded hands on average at 21.1 times earnings. We are using 21.0 times earnings as a starting place. With shares presently trading at 20.5 times our expectation of earnings, this implies the potential for a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	23%	24%	24%	32%	33%	30%	30%	30%	***29%***	***26%***

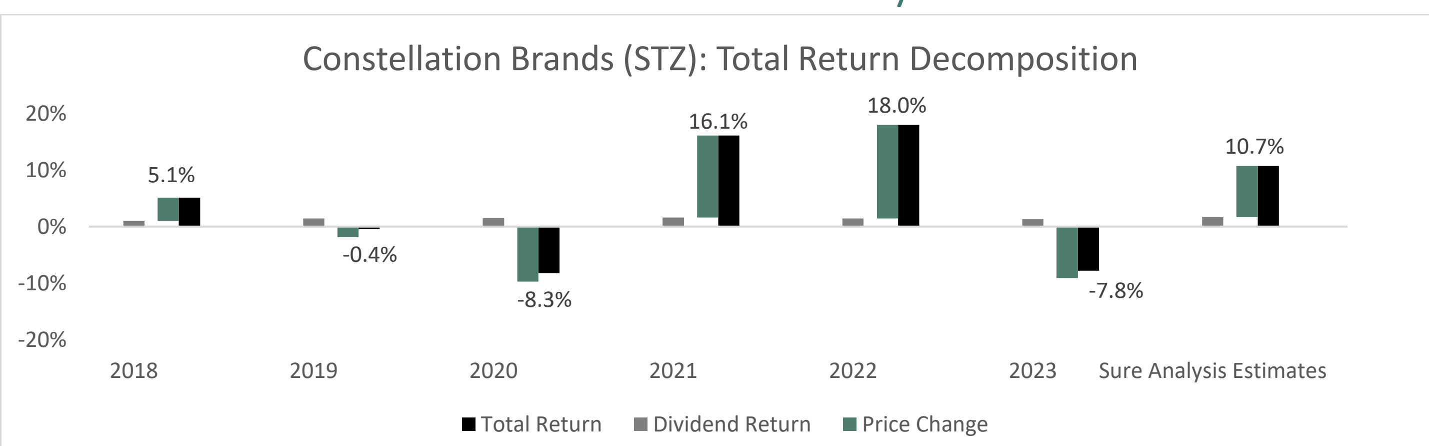
Constellation Brands has several competitive advantages. Its long list of strong brands gives the company pricing power. Its strong distributor network provides an effective route-to-market for the company's strategy in premium categories. Another benefit of Constellation Brands' business is that it 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 and 2022 as well following the COVID pandemic.

As of the most recent report, Constellation Brands held $79 million in cash and cash equivalents, $3.6 billion in current assets (56% of which was inventory) and $25.1 billion in total assets against $3.4 billion in current liabilities and $15.3 billion in total liabilities. Long-term debt stood at $10.3 billion.

Final Thoughts & Recommendation

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 10.7% total return potential stemming from 9.0% EPS growth, a 1.4% starting dividend yield, and a potential valuation tailwind. Shares earn a buy 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4,868	6,028	6,548	7,321	7,580	8,116	8,344	8,615	8,821	9,453
Gross Profit	1,992	2,579	2,942	3,519	3,813	4,080	4,152	4,466	4,707	4,769
Gross Margin	40.9%	42.8%	44.9%	48.1%	50.3%	50.3%	49.8%	51.8%	53.4%	50.4%
SG&A Exp.	895	1,078	1,177	1,392	1,533	1,668	1,622	1,665	1,711	1,926
D&A Exp.	155	202	180	238	294	333	327	294	337	384
Operating Profit	1,097	1,500	1,765	2,127	2,280	2,412	2,530	2,801	2,996	2,843
Operating Margin	22.5%	24.9%	27.0%	29.0%	30.1%	29.7%	30.3%	32.5%	34.0%	30.1%
Net Profit	1,943	839	1,055	1,529	2,303	3,436	-12	1,998	-40	-71
Net Margin	39.9%	13.9%	16.1%	20.9%	30.4%	42.3%	-0.1%	23.2%	-0.5%	-0.8%
Free Cash Flow	603	362	522	789	874	1,360	1,825	1,942	1,679	1,722
Income Tax	259	343	441	550	23	686	-967	511	309	422

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	14302	15093	16,965	18,602	20,539	29,232	27,323	27,105	25,856	24,660
Cash & Equivalents	64	110	83	177	90	94	81	461	199	134
Accounts Receivable	626	599	733	737	776	847	865	785	899	902
Inventories	1,744	1,827	1,852	1,955	2,084	2,130	1,374	1291	1,573	1,899
Goodwill & Int. Ass.	9,378	9,389	10,542	11,298	11,388	11,287	10,476	10,526	10,618	10,650
Total Liabilities	9,321	9,212	10,273	11,718	12,547	16,394	14,849	13,176	13,808	15,930
Accounts Payable	295	286	429	560	592	617	558	460	899	942
Long-Term Debt	7,021	7,297	8,081	9,238	10,187	13,617	12,185	10,442	10,417	12,460
Shareholder's Equity	4,981	5,771	6,560	6,891	7,975	12,551	12,132	13,599	11,732	8,414
LTD/E Ratio	1.41	1.26	1.23	1.34	1.28	1.08	1.00	0.77	0.89	1.48

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	17.7%	5.7%	6.6%	8.6%	11.8%	13.8%	0.0%	7.3%	-0.2%	-0.3%
Return on Equity	49.6%	15.6%	17.1%	22.7%	31.0%	33.5%	-0.1%	15.5%	-0.3%	-0.7%
ROIC	21.4%	6.7%	7.5%	9.9%	13.4%	15.4%	0.0%	8.2%	-0.2%	-0.3%
Shares Out.	196	200	199	195	191	191	195	196	191	193
Revenue/Share	24.64	29.96	32.13	35.87	37.76	41.51	43.54	44.11	46.27	49.09
FCF/Share	3.05	1.80	2.56	3.86	4.35	6.96	9.52	9.94	8.80	8.94

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