

8th July 2016

Food & Beverages

Molson Coors

Price USD99.85

Good Call (full report published today)

Fair Value USD110 vs. USD97 (+10%)

BUY vs. NEUTRAL

Bloomberg	TAP US
Reuters	TAP.N
12-month High / Low (USD)	103.7 / 65.2
Market Cap (USDm)	21,435
Ev (BG Estimates) (USDm)	15,470
Avg. 6m daily volume (000)	1,856
3y EPS CAGR	16.7%

As the acquisition of the remaining 58% of MillerCoors becomes more likely and its earnings enhancement becomes more clear, coupled with the continued strong price inflation for beer in the US and Canada, we are increasing our fair value of the company to USD110 and move our recommendation to Buy

- The USD12bn acquisition to gain full control of MillerCoors is a game changer for Molson Coors. Not only is there the immediate EPS accretion with 2017 EPS of USD5.45, which is an increase of 43% from a stand-alone EPS of USD3.81 in 2016e. But the strategic impact is likely to be even bigger. With the acquisition, the company is gaining a fully-integrated stable number two position in the North American market. As a result, the company's free cash flow profile is changing dramatically from on average USD800m p.a. over the past five years (2012-2016e) to nearly USD2bn p.a. from 2017 onwards. This should provide the company with the ammunition to accelerate acquisition-driven growth.
- Existing efficiency plans at MillerCoors and Molson Coors, together with the synergy estimates from the acquisition, should combine into an annual USD150-200m of efficiency improvements (1.3% to 1.7% of net revenue) for the coming 3-4 years. We would expect the company to keep most of these savings in its North American operations helped by the quasi-duopoly shared between Molson Coors and AB InBev. Indeed, despite the global commodity price deflation, beer price inflation in both the US and Canada is currently over 2%.
- The high-end beer segments are highly profitable and growing. However, in the US, MillerCoors's high-end brands are only 10% of its total volumes, whereas it is 1/3rd of the market. Getting full control of the profits generated by import brands Peroni, Pilsner Urquell and Foster's (more money available to motivate distributors) will help and add to the investments behind Blue Moon, Leinenkugel, Redd's, Henry's hard soda and, the recently acquired, Saint Archer craft brewer. On top of this, the company has been rejuvenating its mainstream Miller Lite and Coors Light brands.NEXT

	1 M	3 M	6 M	31/12/15
Absolute perf.	-1.8%	8.2%	10.5%	6.3%
Food & Bev.	0.6%	3.8%	3.5%	-0.4%
DJ Stoxx 600	-7.0%	-1.8%	-7.0%	-11.9%

YEnd Dec. (USDm)	2015	2016e	2017e	2018e
Sales	3,568	3,248	11,503	11,675
% change		-9.0%	NM	1.5%
EBITDA	651	659	2,569	2,714
EBIT	352.2	356.4	1,914	2,059
% change		1.2%	NM	7.6%
Net income	700.4	708.5	1,180	1,290
% change		1.2%	66.5%	9.4%

	2015	2016e	2017e	2018e
Operating margin	9.9	11.0	16.6	17.6
Net margin	19.6	21.8	10.3	11.1
ROE	9.9	7.2	10.9	10.8
ROCE	2.7	2.7	8.9	7.1
Gearing	38.3	-1.9	90.4	72.0

(USD)	2015	2016e	2017e	2018e
EPS	3.76	3.28	5.45	5.97
% change	-	-12.8%	66.5%	9.4%
P/E	26.6x	30.5x	18.3x	16.7x
FCF yield (%)	2.2%	3.4%	6.3%	7.2%
Dividends (USD)	1.64	1.80	1.98	2.18
Div yield (%)	1.6%	1.8%	2.0%	2.2%
EV/Sales	5.3x	4.8x	2.7x	2.6x
EV/EBITDA	29.2x	23.5x	12.2x	11.1x
EV/EBIT	53.9x	43.4x	16.3x	14.6x

VALUATION

- Our fair value of USD110 for Molson Coors is based on a DCF analysis. We employ a consistent method to value the shares of our beverages universe and our fair values are generated using a standardised DCF model. Following this, our valuations are compared against a peer group in order to formulate our final investment view.

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Distribution of stock ratings

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