

3rd August 2016

Food & Beverages

Molson Coors

Price USD100.79

Steady results

Fair Value USD110 (+9%)

BUY

Bloomberg	TAP US
Reuters	TAP.N
12-month High / Low (USD)	103.7 / 65.2
Market Cap (USDm)	21,647
Ev (BG Estimates) (USDm)	15,682
Avg. 6m daily volume (000)	1,890
3y EPS CAGR	16.7%

Molson Coors second quarter results were in line with expectations. For the first half, the company's volumes are unchanged with net sales up 1.2% constant currency while underlying after-tax income was flat yoy. With AB InBev scheduled to acquire SABMiller on 11th October, we expect that Molson Coors will be able to fully integrate MillerCoors from mid October.

For the quarter, Molson Coors reported figures very much in line with expectations with worldwide beer volumes decreasing by 0.8%, net sales up 1.9% constant currency and (mainly due to significant advertising investments across all regions) underlying after-tax income down 9.2% to USD239.5m. For the first half, volumes were unchanged, net sales were up 1.2% constant currency and underlying after-tax income was flat yoy.

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.0%	4.2%	10.1%	7.3%
Food & Bev.	-0.1%	4.6%	0.5%	0.1%
DJ Stoxx 600	1.0%	-1.7%	0.3%	-8.3%

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	26.8x	30.8x	18.5x	16.9x
FCF yield (%)	2.2%	3.4%	6.3%	7.1%
Dividends (USD)	1.64	1.80	1.98	2.18
Div yield (%)	1.6%	1.8%	2.0%	2.2%
EV/Sales	5.4x	4.8x	2.7x	2.6x
EV/EBITDA	29.5x	23.8x	12.3x	11.2x
EV/EBIT	54.6x	44.0x	16.5x	14.7x

ANALYSIS

- In the second quarter of the year, MillerCoors (US subsidiary 42% owned) domestic sales-to-wholesalers volume (STWs) decreased 4.4% and the price/mix went up by 0.7%. Negative operating leverage from the decline in volumes more than offset the impact from cost savings programmes resulting in an underlying operating profit decline of 3.8%. However, with the domestic sales-to-retailers volume (STRs) declining only 1.7% the underlying trend is much better.
- In Canada, Molson Coors Canada sales volume decreased 0.8% in the second quarter (STRs decreased by only 0.1%). Net sales per hectolitre increased 1.2% in local currency, driven primarily by positive pricing. However because of significantly higher brand investments (and some input cost inflation, partially offset by the results of cost savings initiatives), underlying pre-tax income decreased 21.3% in the quarter.
- Europe sales volume increased 1.6%, driven by the addition of the Staropramen and Rekorderlig brands in the UK this year. Europe net sales per hectolitre increased 1.3% in local currency, on the back of a positive brand and geographic mix, partially offset by negative net pricing in the quarter. Europe underlying pre-tax income decreased 10.0% in the quarter, due higher brand investments and amortisation expenses, lower net pension benefit, the termination of the Heineken contract brewing arrangement in the UK, and unfavourable foreign currency movements, partially offset by higher sales volume and cost savings.
- The International underlying pre-tax loss improved due to volume growth in Latin America and Japan and a favourable sales mix, as well as lower price promotions and overhead expenses due to the substantial restructuring of our China business last year, which resulted in a \$3.6 million price promotion expense a year ago. Foreign currency movements negatively impacted underlying pre-tax results by \$0.3 million in the second quarter. Total International sales volume, decreased 9.3%, driven by the enactment of total alcohol prohibition in Bihar, India, the transfer of Staropramen in the UK to the Europe segment, along with the volume impact of the China restructuring.

VALUATION

- Our Fair Value of USD110 is based on a risk-free rate of 1.6%, a risk premium of 7% and a beta of 0.95
- At 18.5x 2017e EPS (i.e. after the full integration of MillerCoors), the stock is one of the cheapest brewers.

NEXT CATALYSTS

- Expected integration of MillerCoors from 11th October 2016 onwards

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