

Molson Coors Brewing Company

NASDAQ:TAP

Analyst: James Hannahs

Sector: Consumer Staples

BUY

Price Target: \$113.37

Key Statistics as of 12/09/16

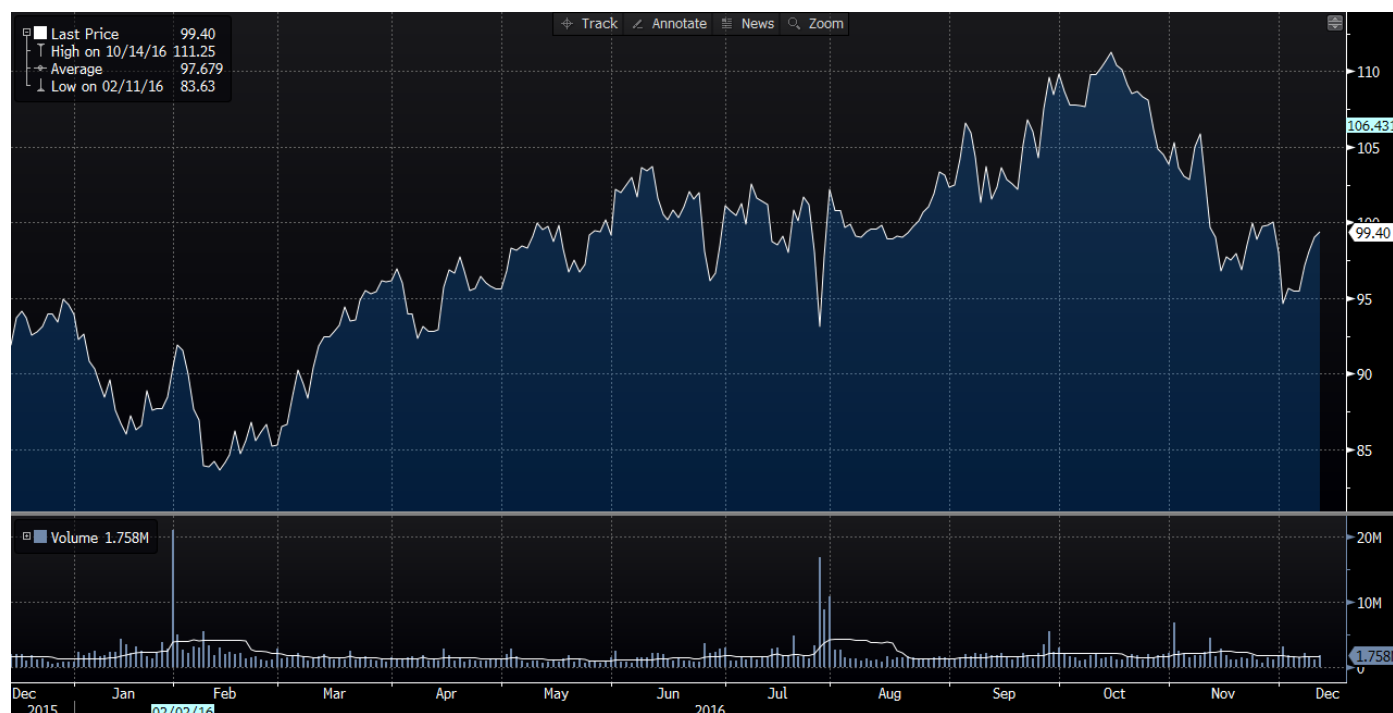
Market Price:	\$98.11
Industry:	Beverages
Market Cap:	\$21.1B
52-Week Range:	\$80.78-112.19
Beta:	.88

Catalysts:

- Short Term: Effects of acquisition with SABMiller's stake in MillerCoors
- Mid Term: Installation of new cost-savings program
- Long Term: Tax benefits over the next decade delivering consistent inflows

Company Description:

Molson Coors Brewing Company (TAP) specializes in producing and selling beer with a rich, credible history. The core products (Coors, Miller, and Molson) began production in 1873, 1854, and 1786 respectively, but the acquired brands date back before the revolution. Since then, the firm has joined the three brews and their respective products to culminate a force to be reckoned with in the beverage industry as they develop innovative products and acquire even more. Their encompassing products diversify their customer base and allow them to become the consumer's "First Choice" simply because of the size of their domestic market share. TAP is also developing their global business with a presence in Asia, Europe, Latin America, the Caribbean, UK, and Canada.



Thesis







TAP is on the threshold of a new future for their company. Combining three major beers and the long list of benefits from the acquisition of SABMiller's stake in MillerCoors will catapult TAP into an entirely new arena in terms of cash-flows, market share, and growth. The acquisition will open the door of an entirely new base of cash-flows with Miller brand revenue streams and an increased share from Coors sales. With the additional revenue and product streams, TAP broadly expanded shares into previously tough areas indicating that Miller sales will bring tailwind in the future. Additional cash flows thanks to tax benefits will drop to the bottom line within the company, allowing an additional \$275 m inflow per year over the next fifteen. This will help boost their ROIC and with a forecasted reduced WACC, growth will be increasing. In terms of value, TAP is trading at its lowest multiple since 2008 as 2017 forecasts a doubled figure.

Industry Outlook

Analysts suggest the future health within the beverage industry will depend on the actions of President-Elect Trump concerning trade and the overall macro environment. Companies like Constellation Brands (STZ), which are a competitor to TAP, depend on foreign subsidiaries for trade. Mexico, a major geographic segment for STZ and the source of operations for Jose Cuervo (upcoming IPO), may be on the top-of-the-list for Trump's implementations of strict tax codes. This will no-doubt have adverse impacts on markets. Also, Trump's strict immigration policy could result in the deportation of millions of undocumented immigrants. This will increase the cost of manufacturing on the agricultural front for US based firms.

Generally, stocks within the industry fell 1% YTD through November, settling behind MSCI World Index of 3%. Specifically, companies' bottom lines are taking the biggest hit as a surging dollar offsets profitability for manufacturers sourcing raw materials on home soil. With these FX components affecting global volume levels, beverage companies around the world were taking the hit until 3Q, when 10% median growth in earnings was reported.

Despite the uncertainties in the market, TAP reported an increase in after-tax income thanks to impairment charges and gains from selling a Vancouver brewery. The greatest silver-lining is that although the industry may be effected from Trump's policies, the market position of the brews that TAP has a hold of is promising:

Market Position *	#2	#2
Brand Position/ Brand *	#2 	#2 
	#4 	#3 
Market	 USA	 Canada

Also, the additional \$275 million per year doesn't sound bad either, as guidance suggests they can use that to offset macro-economic factors effecting sales.

Guidance and Strategic Movements

With an entirely new management team and the credentials of two major brands, there's no secret that TAP is moving into uncharted territory with qualified pilots. Mark Hunter, the new President, CEO and Director, alongside Stewart Glendinning and Gavin Hattersley from MillerCoors, have the passion and motivation to bring TAP into their new future.

TAP detailed their performance and forward looking perspectives into 2017 within their 3Q earnings call. As expected, it focused on the list of benefits coming from the acquisition and the effects on the company's bottom line. With an entirely new product line, TAP suggests a few key movements within the products themselves are going to help their momentum. The Miller High Life segment (coined "The Champagne of Beers") along with others within TAP's portfolio will go through a revitalization process to enhance their respective brands. The classic High Life slogan is

making a return to solidify the nostalgic baby-boomer clientele. Other brands like Steel Reserve, Milwaukee's Best, and Keystone Light will undergo repackaging and new ad-campaigns.

TAP's First Choice campaign strives to be just that: the consumer's first choice. This decision comes down to preference and shelf space within grocery stores and other outlets. Their expansive product line consisting of mostly pilsners and light beers aids them in doing just that. Where some concern arises is in the arena of craft brews, as investors see major players such as The Boston Beer Co. (SAM) suffer from the dynamic of the market. TAP has limited exposure to the craft beer market with their segment, Blue Moon, which remains the top selling beer within that field today. Besides their market position, retailers are strategically shelving a limited supply of craft beers, as the market seems to be responding to a consumer switch back into American lights and IPAs.

TAP's guidance into 2017 outlined a cost savings plan of a total \$550m over the next three years as the companies assimilate and develop synergies. The cost of delivering said synergies will be weighted towards the final years of the plan, but will benefit the cost-of-goods-sold line throughout the beginning stages. TAP suggests the savings will come from global procurement changes within the North American supply chain. The effects of this plan will transition down to the bottom line of the income statement, and when combined with an ultimately lower interest expense, profitability growth is definitely expected.

Competitive Financials

Correlating with industry trends, TAP's financials were affected by LFY's slow growth, low global volume, and output towards the acquisition. With the overall macro factors starting to set in, less uncertainty should navigate the dynamic of the market in favor of the company. Global volume was affected by the timing of July 4th since it ended up on a Monday, the least preferred date in the eyes of beer companies. Major competitors like ABI InBev reported the adverse effects of the holiday as well. As far as liquidity output, TAP's interest expense will be declining into the continuing period as they pay off the loan needed to acquire MillerCoors, another benefit to the bottom line.

Below is a list of comps used to assess comparisons across the industry.

- 1) Anheuser-Busch InBev (BUD)
- 2) The Boston Beer Co. (SAM)
- 3) Constellation Brands (STZ)

BUD may be a reach for a comp because of its massive market cap of over 200B, but the products are essentially comparable. Bud Light, one of their largest products by volume, is within the same caliber of Coors Light and Miller Lite. SAM is mostly craft beer, but the company's credentials are similar to TAP. STZ has a wider product base including spirits and wines, but a relatively similar market cap and consumer base. Refer to Exhibit A for profitability measures:

Exhibit A:

Name	Gross Margin TTM	EBITDA Margin TTM	Operating Margin	Profit Margin TTM
Average	49.65%	31.86%	25.61%	15.04%
(10) MOLSON COORS BREWING...	39.62%	36.82%	26.14%	19.98%
(10) ANHEUSER-BUSCH INBEV ...	61.05%	38.14%	31.53%	13.90%
(10) BOSTON BEER COMPANY L...	51.07%	19.83%	16.30%	9.06%
(10) CONSTELLATION BRANDS ...	46.86%	32.63%	28.49%	17.24%

The latest figures indicate that TAP is lagging only in the field of Gross Margin. Recall the guiding measures from the earnings call, where Hunter reinforced the cash-savings program, mostly benefitting COGS. With the new program, TAP can still produce innovative products while still maintaining a more competitive gross margin. Throughout the rest of the statement, we see that TAP boasts the best profit margin, allowing themselves to maintain operating costs as we expect them to decrease with lower interest expense and speculation around tax rate decreases under the Trump administration.

Exhibit B focuses more on the gap between operations and profitability, specifically in the debt area. Refer below for D/E figures:

Exhibit B:

Name	Debt/EBITDA TTM	Net Debt/EBITDA TTM	Debt/EV	Debt/Capital	EBITDA/Interest Expense
Average	4.51	1.45	0.14	34.04%	8.65
(10) MOLSON COORS BREWING...	7.82	-0.07	0.14	29.37%	10.30
(10) ANHEUSER-BUSCH INBEV ...	6.74	2.89	0.20	51.97%	9.02
(10) BOSTON BEER COMPANY L...	0.00	-0.43	0.00	0.11%	--
(10) CONSTELLATION BRANDS ...	3.48	3.40	0.22	54.70%	6.65

The main focus of this exhibit is the Debt/Capital rate, the lowest among major competitors with the exception of SAM, which borders incomparable. The

Boston based company's lack of debt is probably smart given its slowdown throughout the year. TAP plans to deleverage soon as the remainder of the debt is paid down. BUD and STZ are trekking in dangerous territory as BUD has been down 15% YoY and STZ may be considered overpriced based on high multiples. They will be greatly affected by looming trade deals and the uncertainty of NAFTA with Mexico.

Exhibit 3 outlines major growth ratios as it analyzes ROIC, WACC, and the quotient of the two:

Exhibit 3:

ROC /WACC					
		History	LFY		
TAP		0.40	0.37		
Competitors		1.29	1.05		

ROIC			WACC		
		History	LFY		
TAP		4.0%	3.8%	TAP	
Competitors		12.8%	10.3%	Competitors	
				History	LFY
				10.7%	10.4%
				10.0%	9.8%

We see an industry wide decrease in both ROIC and WACC, as companies attempt to deleverage in the wake of weak global volumes. However, as sentiment improves, TAP had seen the lowest decrease across the board, where the competition seems to be destroying value. With the acquisition aiding sales, we expect to see TAP rise above and deliver figures beyond what we've seen with them.

TAP also plans to break out \$350m of CapEx, an action that will greatly enhance its ability to increase ROIC, another step to optimize growth. Although we have seen a temporary lull in sales by dollars and volume, we expect the effects of the acquisition to offset this in the future. With tax benefits from the transaction being able to offset adverse impacts of macroeconomic factors, TAP is proving itself resilient against any foreseeable headwinds in the future.

The PE ratio is the lowest we've seen this year, and with the growth measures in place, we expect this to climb into the arena above forty. Transaction adjusted EPS is expected to climb to \$6.11 by 2017, a generous increase from the current figure of \$5.42, which is already up 4% YoY.

The cheap multiples, the growth potential from the acquisition, its reinforcing market share of core products, and its geographic presence (with more to come) reinforce the fact that it is undervalued at \$98.11. If those factors aren't enough cushion for you, the target price of about \$114 should give you some comfort.

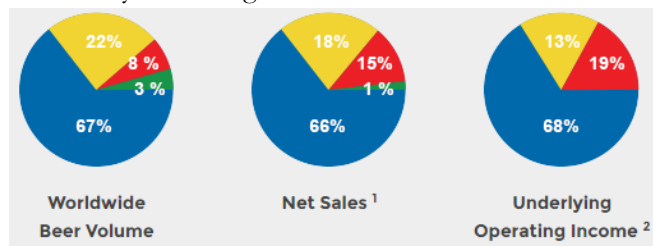
Entry level: \$98.00

Target: \$113.37

Target 1 Yr. Return: 19%

Conclusion

TAP has incredible opportunities in front of them that clear the way for growth. Not only will they have an impact on North American markets, but also overseas where they can strengthen their international brands.



Core segments within the company have experienced higher market shares QoQ (Coors on its 8th consecutive, Miller on its 6th). The acquisition opens up new areas such as Canada, where Miller products can now be put on shelves, which was previously off-limits.

Molson Coors Brewing Company (TAP)

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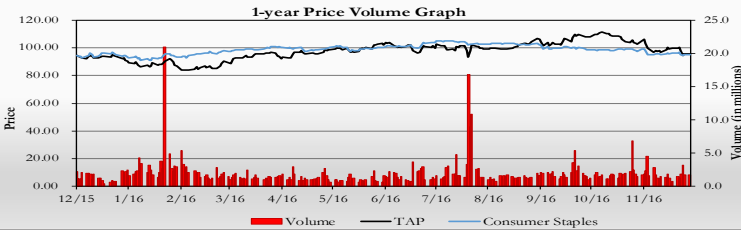
NEUTRAL

Analysis by James Hannahs
12/12/2016

Current Price: **\$98.11**
Dividend Yield: **3.3%**

Intrinsic Value: **\$106.58**
Target Price: **\$113.37**

Target 1 year Return: 18.89%
Probability of Price Increase: 96.8%

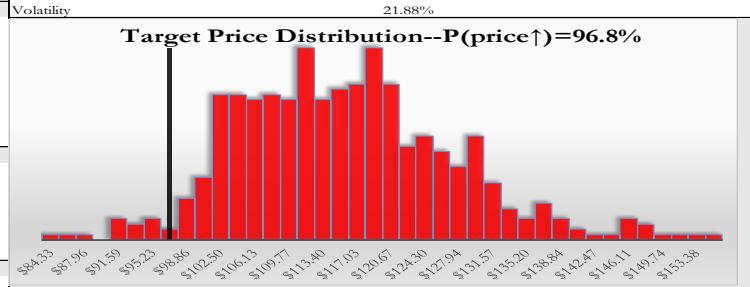


Description	
Molson Coors Brewing Company manufactures and sells beer and other beverage products.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	February 14, 2017
Estimated Country Risk Premium	8.83%
Effective Tax rate	24%
Effective Operating Tax rate	26%

Market Data	
Market Capitalization	\$21,073.34
Daily volume (mil)	1.60
Shares outstanding (mil)	214.87
Diluted shares outstanding (mil)	205.90
% shares held by institutions	82%
% shares held by investments Managers	61%
% shares held by hedge funds	16%
% shares held by insiders	0.50%
Short interest	1.79%
Days to cover short interest	1.97
52 week high	\$112.19
52-week low	\$80.78
Levered Beta	0.88
Volatility	21.88%

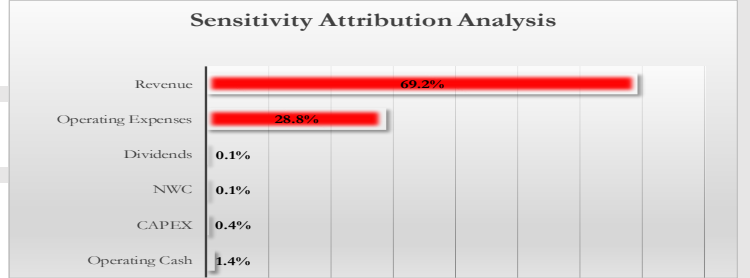
Past Earning Surprises	
Quarter ending	Revenue
9/30/2015	-4.94%
12/31/2015	-0.71%
3/31/2016	0.66%
6/30/2016	0.40%
9/30/2016	-4.58%
Mean	-1.83%
Standard error	1.2%

EBITDA	
9/30/2015	-44.52%
12/31/2015	-48.29%
3/31/2016	-68.65%
6/30/2016	-55.94%
9/30/2016	-48.98%
Mean	-53.27%
Standard error	4.3%



Management	
Management	Position
Hunter, Mark	Chief Executive Officer, Pre
Walker, Samuel	Global Chief Legal and Corpo
Glendinning, Stewart	Chief Executive Officer of M
Hattersley, Gavin	Chief Executive Officer of M
Joubert, Tracey	Global Chief Financial Offic
Tabolt, Brian	Chief Accounting Officer and

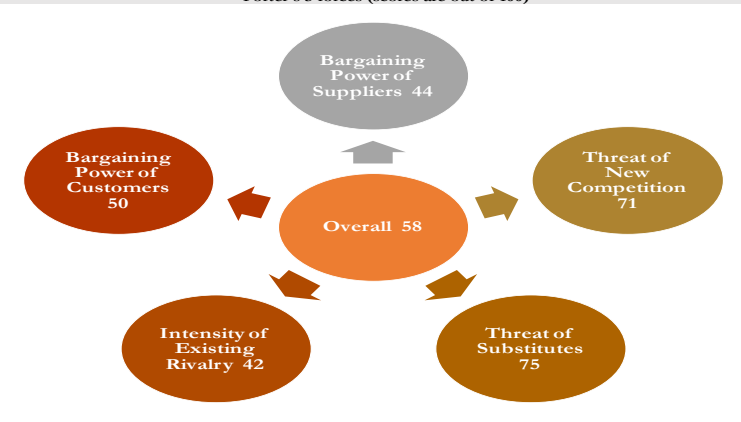
Total compensations growth	
Hunter, Mark	14.37% per annum over 5y
Walker, Samuel	-0.9% per annum over 5y
Glendinning, Stewart	-3.31% per annum over 5y
Hattersley, Gavin	22.63% per annum over 3y
Joubert, Tracey	N/M
Tabolt, Brian	N/M



Profitability	
Profitability	TAP (LTM)
ROIC	25.5%
NOPAT Margin	9%
Revenue/Invested Capital	2.81
ROE	39.2%
Adjusted net margin	6%
Revenue/Adjusted Book Value	6.15

Total return to shareholders	
Hunter, Mark	-1.54% per annum over 5y
Walker, Samuel	-1.54% per annum over 5y
Glendinning, Stewart	-1.54% per annum over 5y
Hattersley, Gavin	21% per annum over 3y
Joubert, Tracey	N/M
Tabolt, Brian	N/M

Porter's 5 forces (scores are out of 100)



Valuation	
Period	Revenue growth
Base Year	-7.1%
9/30/2017	102.5%
9/30/2018	17.3%
9/30/2019	1.0%
9/30/2020	0.7%
9/30/2021	5.7%
9/30/2022	5.4%
9/30/2023	5.1%
9/30/2024	4.9%
9/30/2025	4.6%
9/30/2026	4.3%
Continuing Period	4.0%

Valuation	
Period	Invested Capital
Base Year	\$819.25
9/30/2017	\$590.06
9/30/2018	\$1,309.19
9/30/2019	\$865.00
9/30/2020	\$1,223.27
9/30/2021	\$1,135.10
9/30/2022	\$3,153.64
9/30/2023	\$4,008.75
9/30/2024	\$3,997.36
9/30/2025	\$3,966.86
9/30/2026	\$4,241.35
Continuing Period	

Valuation	
Period	NO PAT margin
Base Year	9.1%
9/30/2017	21.1%
9/30/2018	15.6%
9/30/2019	14.9%
9/30/2020	15.6%
9/30/2021	16.6%
9/30/2022	16.9%
9/30/2023	17.3%
9/30/2024	17.6%
9/30/2025	17.8%
9/30/2026	18.1%
Continuing Period	18.3%

Valuation	
Period	Net Claims
Base Year	-\$1,883.24
9/30/2017	-\$767.96
9/30/2018	-\$317.60
9/30/2019	-\$582.02
9/30/2020	-\$961.33
9/30/2021	-\$1,317.40
9/30/2022	-\$1,664.15
9/30/2023	-\$2,091.03
9/30/2024	-\$2,601.29
9/30/2025	-\$3,197.61
9/30/2026	-\$3,882.02
Continuing Period	