

## Monster Beverage Corporation

NASDAQ: MNST

**Analyst:** Eric Crown

**Sector:** Consumer Goods

**BUY**

Analyst Median Price Target: \$55.00

### Key Statistics as of 12/02/2016

Market Price: \$44.44  
 Industry: Beverages  
 Market Cap: \$25.37B  
 52-Week Range: \$37.69-55.50  
 Beta: 1.57

### Catalysts:

- Potential to be bought out
- Possible adjustment to US tax rate

### Company Description:

Monster Beverage Corporation (MNST) develops, markets, sells and distributes energy drink beverages and “alternative” beverages. The company was formerly known as Hansen Natural Corporation and changed its name to Monster Beverage Corporation in January 2012. Monster Beverage Corporation was founded in 1985 and is headquartered in Corona, California. Monster sales its’ products to full service beverage distributors, retail grocery and specialty chains, wholesalers, club stores, drug chains, mass merchandisers, convenience chains, health food distributors, food service customers, and the military. Monster Beverage Corporation has a robust product portfolio consisting of: Monster Energy, Nalu, Monster Rehab, NOS, Monster Energy Extra Strength Nitrous Technology, Full Throttle, Java Monster, Burn, Muscle Monster, Mother, Mega Monster Energy, Ultra, Punch Monster, Play and Power Play, Juice Monster, Gladiator, M3, Relentless, Übermonster, Samurai, BU, and BPM brands.



## Thesis

Monster Beverage Corporation is a rapidly growing company in an industry that has been performing poorly over the past recent months. MNST is a promising growth stock because the specific subset of the beverage industry they are in is a rapidly growing one. As well they are beginning to expand internationally with promising early results. MNST has a large portfolio of products, and is constantly growing this portfolio by adding consumer driven products. This growth along with existing ties to Coca-Cola (KO) make them a potential acquisition target for KO. All these factors make Monster a very intriguing growth stock with large upside potential.

## Industry Outlook

The beverage industry has been underperforming for the past couple of months. This is because consumers are beginning to be more health conscious and avoid sugary unhealthy soft drinks. However MNST operates in the energy drink sub-sect of the beverage industry. This specific sub-sect has not underperformed as much as the beverage industry as a whole. This is because the clients that buy energy drinks are not as concerned about the health benefits but more the ability of the product to provide an extra boost of energy. This is supported by an analysts at Technavio who estimated that the energy drinks market in the United States will grow at a compound annual growth rate of 11.42% through to 2019. It is my belief that MNST is capitalizing on the energy drinks category growth potential.

## Competitor COMP.

Before digging into the details it is important to get an idea where MNST stands amongst its competitors.

	ROIC/WACC	ROIC W/O GW	EBITA Margin	WACC	Kd	Ke
MNST:	1.69	25.90%	37.90%	10.50%	3%	10.50%
Competitors:	1.48	24%	17.50%	9.80%	4%	11.40%

As can be seen in the table above MNST is more effective at value creation (ROIC/WACC). This shows us that MNST has an edge up on its' competitors. This advantage stems from a higher ROIC which is the result

of an EBITA margin that is much larger than competitors. This being said MNST has a slightly lower WACC than competitors. I would like to see this number be brought down and I believe it will as Monster continues to mature and manages its cost more effectively. The cost of debt and equity are similar to competitors, however once again, I believe with size MNST could bring these down.

## Product Mix

MNST has a pretty robust portfolio of products as can be seen in the company description above. The company has a strong energy drinks portfolio, which will position it well in the market to tap the growth opportunities. Besides energy drinks MNST has a number of sports drinks, juices, dairy based drink, and teas. This diversification will help ensure that MNST is ahead of consumer trends and demands. Wells Fargo analyst Bonnie Herzog believes Mutant, Hydro and Café Monster have the capability to sell like hotcakes, combining to realize more than \$1 billion in sales over a three year period.

## International Growth

MNST currently has a small market share of 15% in the global energy drink market. This means there is ample room for growth potential. A conduit for this growth is the recent partnership with Coca-Cola, under which MNST will have access to cokes international distribution network. This is a huge benefit because coke has a large and established distribution network across the globe. MNST can tap into this to gain quick exposure in international markets, and spark revenue growth. As can be seen on the table on the following page, MNST has grown extremely rapidly, and most of this growth has been domestic. If MNST can translate this growth to the now accessible international markets, there is room for booming growth.

	2015	2014	2013	2012	2011
<b>Unit Case Volume / Sales (in Thousands)</b>					
Quarter 1	57,779	51,926	47,749	44,396	34,681
Quarter 2	68,037	65,587	61,615	57,525	44,272
Quarter 3	81,274	62,204	59,204	54,611	46,277
Quarter 4	67,531	58,563	52,780	46,386	39,431
Total	274,621	238,280	221,348	202,918	164,661
<b>Net Sales (in Thousands)</b>					
Quarter 1	\$ 626,791	\$ 536,129	\$ 484,223	\$ 454,605	\$ 356,419
Quarter 2	693,722	687,199	630,934	592,640	462,145
Quarter 3	756,619	635,972	590,422	541,940	474,709
Quarter 4	645,432	605,567	540,849	471,517	409,957
Total	\$ 2,722,564	\$ 2,464,867	\$ 2,246,428	\$ 2,060,702	\$ 1,703,230
<b>Average Net Sales Per Case</b>					
Quarter 1	\$ 10.85	\$ 10.32	\$ 10.14	\$ 10.24	\$ 10.28
Quarter 2	10.20	10.48	10.24	10.30	10.44
Quarter 3	9.31	10.22	9.97	9.92	10.26
Quarter 4	9.56	10.34	10.25	10.17	10.40
Total	\$ 9.91	\$ 10.34	\$ 10.15	\$ 10.16	\$ 10.34

MNST has already begin to sell products in Europe, Africa, Asia, and South America. One of the main markets that MNST is focusing on is China. China offers potential for multiple energy drink consumers. MNST has a brand that is very approachable and expectations are it will do well in China. Early reception of MNST products has been very successful in China. MNST launched Monster beginning with Beijing in September and Shanghai and Hunan province in October. Management expect Guangzhou, Shenzhen and potentially other markets to be launched in the fourth quarter and are planning to launch Monster in additional territories in China during 2017. MNST will release its core product (Monster Energy) first in these international markets. Then MNST plans to offer their other products. The potential market in China is a very enticing idea and if MNST can gain brand recognition the growth will be exponential. I believe that this international growth combos with expected industry growth is a two for one in terms of growth potential. Making MNST a very attractive growth stock.

## Potential Buyout Candidate

There are a number of reasons why I believe that MNST will be the potential target of an acquisition. This is a key catalyst because it could lead to large returns. This is a very speculative catalyst and is not guaranteed by any means. However I believe the factors that I will address shortly point towards a buyout. Even without this catalyst MNST is still a very attractive growth stock, making this a “cherry on top”. I think the primary company that would consider adding MNST to their portfolio is Coca-Cola (KO). Coke has expressed prior interest in buying MNST and bought around 16% of MNST’s shares in 2014. This shows there is interest and I believe that the following factors will be enough to make Coke pull the trigger. With the beverage industry performing poorly, and consumers moving away from soft drinks, Cokes growth has suffered significantly. MNST is a rapidly growing company with products that are not as effected by the healthy consumer choices. Adding MNST to their portfolio would provide a source of growth to boost Cokes stagnant performance. Coke and MNST already have established a business relationships with MNST. MNST is now in partnership with Coke using their distribution network. Also Coke bottling helps produce some of MNST products. This is significant because it would be a smooth transition to add MNST to Coke’s portfolio because they already do lots of business together. The last factor is a result of President elect Trump. Big American companies such as Coke do much of their sales overseas. Often they choose to leave their money in these international markets. That’s because

these companies face a higher tax rate if they “repatriate” the money, or bring it back to the United States. If Trump lowers the tax rate as he said he would, Coke could bring this cash to the US. Robert Ottenstein of Evercore ISI wrote that Coke would have about 20 billion dollars worth of cash to bring back to the US. With a market value of 25 billion this extra cash could be the difference of Coke making the acquisition.

## Ownership / Short Interest

Ownership and short interest can help give some hints to the market expectation of a company.

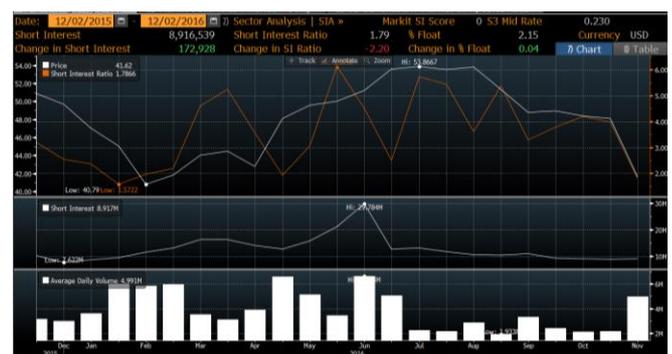


Institutional - Based on Current Filings			Insider - Based on Last 6 Months				
	11/27/16	Curr. Change		11/27/16	Curr. Change		
51) Institutional	72.82	72.45	-0.37	2) % of Shares Held	2.13	2.13	0.00
10) % of Shares Held	98.60	98.09	-0.51	20) % of Insider Positions	0	0	0.00
30) # of Institutions	873	869	-0.46%	30) # of Insiders	11	11	0.00%
30) # of Buyers	229	232	+1.31%	30) # of Buyers Opn Mkt	0	0	0.00
10) # of Sellers	350	347	-0.86%	30) # of Sellers Opn Mkt	0	0	0.00
30) # of New Buyers	115	113	-1.74%	30) # of Shrs Bought Opn Mkt	0	0	0.00
10) # of Selloffs	88	86	-2.27%	30) # of Shrs Sold Opn Mkt	0	0	0.00
30) Chg in Inst Positions	-3.00	-3.20	-0.17	30) Avg Opn Mkt Buy Price	0	0	0.00
				30) Avg Opn Mkt Sell Price	0	0	0.00

Top Geographic Ownership (%)			Ownership Type (%)				
	11/27/16	Curr. Change		11/27/16	Curr. Change		
53) Geographic	90.95	91.02	+0.07	4) Investment Advisor	59.17	59.49	+0.32
10) UNITED STATES	2.16	2.17	+0.01	4) Corporation	24.29	24.38	+0.09
10) Unknown	1.75	1.76	+0.01	4) Hedge Fund Manager	6.91	6.97	+0.06
10) BRITAIN	1.42	1.29	-0.13	4) Individual	2.16	2.16	0.00
10) JAPAN	0.68	0.71	+0.03	4) Bank	2.02	2.03	+0.01
10) FRANCE	0.61	0.61	0.00	4) Pension Fund	1.82	1.83	+0.01
10) CANADA	0.58	0.58	0.00	4) Government	1.56	1.43	-0.13
10) NORWAY	0.56	0.56	0.00	4) Holding Company	1.17	1.17	0.00
10) SWITZERLAND	0.30	0.31	+0.01	4) Insurance Company	0.79	0.42	-0.37
10) LUXEMBOURG							

There are two things that jump out from this ownership summary. The first is the high corporation holding of 24%. This is a nice reminder of the interest that Coke has in MNST. The other thing is the institutional holdings. The number of buyers has increased and the short interest is going down, as can be seen on the following visual.



A low short interest is always a promising sign. It shows that there is a good amount of expected upside and that the downside is somewhat limited. A short ratio of 1.79% is extremely low and is more support for a buy.

## Financials

MNST Beverage Corp		Periodicity: Annuals										Currency: USD			
Key Stats		I/S		C/F		Ratios		Segments		Add		ESG		Custom	
Adj Highlights		GAAP Highlights		Earnings		Enterprise Value		Multiples		Per Share		Stock Value			
Billions of USD	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	09/30/2016	12/31/2016	12/31/2017 Est	12/31/2008	12/31/2009	12/31/2010	12/31/2011
12 Months Ending	1,008.7	1,408.1	1,601.9	1,608.9	1,799.6	1,872.2	2,024.8	2,122.4	2,200.0	2,291.3	3,022.2	1,303.2	1,383.2	1,463.2	1,543.2
Net Income	285.9	346.8	399.5	421.9	471.9	512.2	541.6	573.8	600.6	614.7	798.3	1,147.3	1,176.3	1,205.3	1,234.3
EPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS - Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EPS - Total Debt	1.0	0.2	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Enterprise Value	2,743.7	3,036.7	4,002.4	7,259.4	8,440.0	10,691.9	17,012.2	27,394.0	24,449.5						
Revenue, Adj	1,011.8	1,413.3	1,303.9	1,703.2	2,060.7	2,266.4	2,464.9	2,722.6	2,941.3	3,022.2	3,303.2	1,303.2	1,383.2	1,463.2	1,543.2
Growth % YoY	14.3	38.6	14.1	30.6	21.6	9.0	9.2	10.5	7.9	11.9	11.3				
Gross Profit, Adj	338.8	432.3	460.2	494.1	500.7	517.9	539.8	570.2	597.7	608.1	761.1	1,081.1	1,081.1	1,081.1	1,081.1
Margin %	33.5	30.5	28.9	29.2	28.0	23.2	22.2	20.9	20.3	20.3	22.9	22.9	22.9	22.9	22.9
EBITDA, Adj	157.1	243.2	259.6	271.9	271.2	271.2	271.2	271.2	271.2	271.2	271.2	271.2	271.2	271.2	271.2
Margin %	15.5	17.2	16.3	16.3	15.3	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Net Income, Adj	188.0	211.2	212.5	205.7	199.5	197.2	197.2	197.2	197.2	197.2	197.2	197.2	197.2	197.2	197.2
Margin %	18.7	15.0	13.3	12.1	11.1	9.1	8.7	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2
EPS, Adj	0.9	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Growth % YoY	-26.5	103.5	5.2	33.6	21.6	7.7	6.4	7.1	15.0	21.2	22.6				
Cash From Operations	199.5	156.2	229.0	332.8	287.7	342.0	385.4	398.0	380.0						
Capital Expenditures	-6.7	-23.6	-12.5	-25.6	-42.9	-40.8	-28.0	-35.6	-66.2						
Free Cash Flow	192.8	132.6	216.5	307.1	244.7	291.1	357.4	362.4	313.8						

Not only is MNST an enticing growth stock with upside potential, it also has very sound financials. The first line of interest is the total debt. MNST has a total debt of near zero. This is a good sign because they are not over levered and can perform well and generate enough cash without the use of debt. The earnings margins are high across the board which results in a large amount of cash retained from operations. This cash is held to acquire smaller beverage companies as can be seen in 2016 where the cash equivalents went down. Good margins, no debt, and cash generation; these are all good sign that the expected future growth will translate into value creation.

## Summary

Overall MNST is a very enticing growth play. With international growth prospects and a rapidly growing sub-industry MNST is in position for rapid growth. A purchase price of \$44.44 MNST is a good price historically to buy in at. The potential of a buy out in the near future could mean large returns. With limited downside illustrated by the low short interest, I believe now is an ideal time to BUY shares.

**Monster Beverage Corporation (MNST)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**NEUTRAL**

Analysis by Eric Crown

Current Price:

\$44.44

Intrinsic Value

\$37.32

Target 1 year Return: -6.01%

12/2/2016

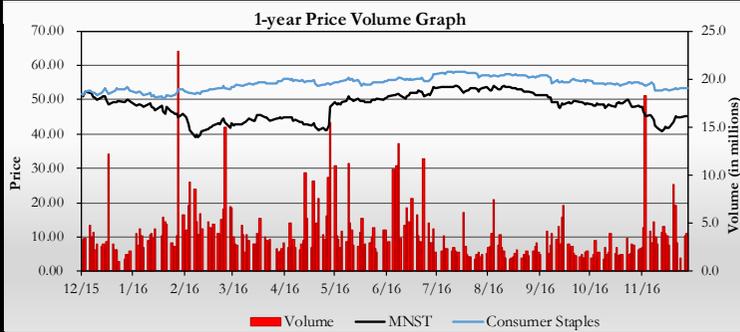
Divident Yield:

0.1%

Target Price

\$41.74

Probability of Price Increase: 29.2%

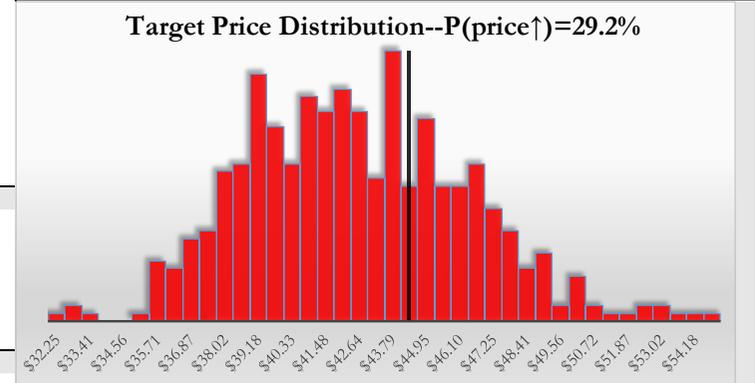


Description	
Monster Beverage Corporation, through its subsidiaries, develops, markets, sells, and distributes energy drink beverages and its concentrates in the United States and internationally.	
General Information	
Sector	Consumer Staples
Industry	Beverages
Last Guidance	November 3, 2015
Next earnings date	February 25, 2017
Estimated Country Risk Premium	7.88%
Effective Tax rate	25%
Effective Operating Tax rate	15%

Market Data	
Market Capitalization	\$25,374.11
Daily volume (mil)	3.08
Shares outstanding (mil)	570.97
Diluted shares outstanding (mil)	609.17
% shares held by institutions	74%
% shares held by investments Managers	55%
% shares held by hedge funds	9%
% shares held by insiders	1.26%
Short interest	1.56%
Days to cover short interest	2.75
52 week high	\$55.50
52-week low	\$37.69
Levered Beta	0.73
Volatility	34.61%

Past Earning Surprises		
Quarter ending	Revenue	EBITDA
9/30/2015	-1.80%	7.42%
12/31/2015	-13.01%	-14.73%
3/31/2016	-1.49%	2.48%
6/30/2016	-0.40%	-7.53%
9/30/2016	-5.97%	-13.35%
Mean	-4.53%	-5.14%
Standard error	2.3%	4.4%

Peers	
Dr Pepper Snapple Group, Inc.	
Coca-Cola Bottling Co. Consolidated	
Pepsico, Inc.	
Constellation Brands, Inc.	
National Beverage Corp.	

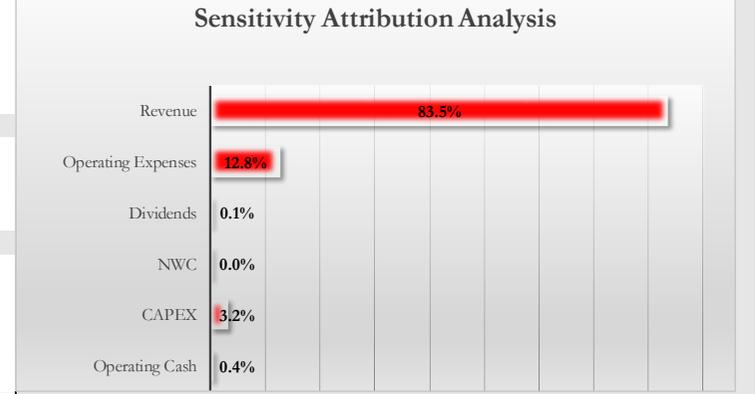


Management	Position	Total compensations growth	Total return to shareholders
Sacks, Rodney	Chairman, Chief Executive Of	72.45% per annum over 5y	13.99% per annum over 5y
Schlossberg, Hilton	Vice Chairman, President, Ch	72.76% per annum over 5y	13.99% per annum over 5y
Hall, Mark	Chief Marketing Officer and	23.75% per annum over 5y	13.99% per annum over 5y
Kelly, Thomas	Senior Vice President of Fin	13.99% per annum over 5y	13.99% per annum over 5y
	0 0	N/M	N/M
	0 0	N/M	N/M

Profitability	MNST (LTM)	MNST (5 years historical average)	Industry (LTM)
ROIC	123.1%	66.63%	14.71%
NOPAT Margin	38%	21.61%	18.8%
Revenue/Invested Capital	3.23	3.08	0.78
ROE	34.4%	43.32%	17.58%
Adjusted net margin	38%	21.54%	16.1%
Revenue/Adjusted Book Value	0.90	2.01	1.09

Invested Funds	MNST (LTM)	MNST (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	15.7%	44.3%	23%
Estimated Operating Cash/Total Capital	8.9%	13.4%	N/A
Non-cash working Capital/Total Capital	12.5%	9.9%	9%
Invested Capital/Total Capital	31.4%	34.9%	72%

Capital Structure	MNST (LTM)	MNST (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.00	0.00	0.23
Cost of Existing Debt	5.99%	12.59%	3.13%
Estimated Cost of new Borrowing	6.14%	11.61%	3.13%
CGFS Risk Rating	D	D	CCC
Unlevered Beta (LTM)	0.73	0.90	0.58
WACC	9.81%	10.49%	8.24%



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



Period	Revenue growth	Valuation NOPAT margin	ROIC/WACC
Base Year	9.6%	38.1%	12.54
9/30/2017	14.0%	31.9%	9.17
9/30/2018	13.0%	32.2%	7.68