Fast-Growing Undervalued Consumer Stock
**Molson Coors Beverage Company (TAP)** is one of the world’s largest beverage companies, producing the highly recognized Coors, Molson, Miller and Blue Moon brands of beers as well as numerous local, craft and specialty beers. About two-thirds of its revenues come from the United States, where it holds a 21% market share. Canada-based Molson (founded in 1786) and Colorado-based Coors (founded in 1873) combined in a 2005 merger of equals. After a series of transactions, by 2016 the company had consolidated all of the Molson, Coors, Miller Brewing and other operations under one roof.

Enthusiasm for its post-consolidation prospects drove TAP shares to over 110 in October 2016. However, ongoing market-share weakness and uninspiring revenue and profit growth dampened investor interest. The shares ground lower and then tumbled to as low as 33 in the wake of the pandemic.

Molson Coors is a remarkably steady company. In each of the past three years, the company generated revenues of around $10 billion and cash operating profits of about $2.2 billion. Free cash flow has held steady at close to $1 billion as well. While elevated after the 2016 consolidation, the company’s debt burden has been whittled down to a reasonable 3.1x cash operating profits.

To help expand its market opportunity, Molson Coors is launching new products in the Above premium and non-beer segments. The company’s new Above premium brands, like Topo Chico Hard Seltzer (the fastest-growing hard seltzer brand in the United States, and co-marketed with Coca-Cola) and Vizzy show tremendous promise. The ZOA energy drink, supported by marketing featuring the actor Dwayne “The Rock” Johnson, is also growing rapidly. As many consumers continue to have plenty of spending power, these segments should benefit. If other consumers trade down from premium beers due to the slowing economy and rising inflation, its core Coors Light and Miller Lite brands are well positioned to capture market share.

The company demonstrated its resilience with healthy 18% revenue growth in the first quarter, as its brands were supported by a pandemic-weakened year-ago period along with strong pricing and solid underlying demand. Profits rebounded as well, even as Molson Coors is boosting its marketing spending to support its new brands. Its cost-control programs added incremental profits while also boosting its operational efficiency, making Molson Coors a higher quality company.
The company’s management is shareholder friendly. After pausing its dividend during the pandemic, Molson Coors reinstated its quarterly payout and then recently raised it to $0.38/share, providing investors with an attractive 2.6% dividend yield.

Molson Coors shares remain undervalued. Based on 2022 estimates, the shares trade at a modest 9.5x EV/EBITDA, well below its peers and most consumer staples stocks.

The company reports second-quarter earnings on August 2. Investors will be watching for Molson Coors’ ability to continue to increase its pricing and volumes, as well as maintain its overall cost and profit guidance in the face of rising marketing spending for the second half of the year. Overall, the shares look attractive.