



Can a Beer Called Banquet come to the Aid of Molson Coors?

Description

The **Molson Coors Brewing Company** ([NYSE:TAP](#)) and its Canadian subsidiary, **Molson Coors Canada, Inc.** ([TSX:TPX.B](#)) are known for iconic brews such as Molson Canadian, Coors Light, Carling, Blue Moon, Keystone and thanks to a joint venture with SABMiller, the company added the Miller line to its portfolio. However, there is one mystical brew that always seems to have beer drinkers going out of their way for more — Coors Banquet beer.

So why the name Banquet? According to legend, miners in the late 1800s threw celebratory banquets and Coors was the beer of choice because of its superior craftsmanship. Of course this is a rumor being spread by Molson Coors, but it sounds good.

I remember being a young lad growing up in the U.S. east of the Mississippi River where the absence of this beer was a mystery to everyone. Supposedly, due to the lack of pasteurization and preservatives, the beer required more expensive refrigerated transportation to prevent spoilage. Our only promise to get our hands on this golden brew from the Rockies was the hope that Snowman and the Bandit were able to outrun Sheriff Justice.

While Coors finally crossed the mighty Mississippi as early as 1981, I had the distinction of living in the state which was the very last to have a case legally cross its borders for resale. By that time my taste buds had moved on, but I digress.

Canadians are wild for a beer called Banquet

Now it is Canada's turn to be introduced to this this beer with the funny name. Many Canadian beer drinkers have been clamoring for Coors Banquet and even started a Facebook page titled [Bring Coors Banquet to Canada](#).

It would appear the results of the rollout have been impressive. According to a press release by the company, demand was tested by bringing 16,000 cans to bars in Calgary during the Stampede this past summer. The supply was expected to last 10 days, but was gone in 48 hours. This was just a precursor to what turned out to be strong demand with some retailers calling it one of the biggest successes in years according to the company.

Now for the third quarter highlights

Despite volume weakness, Molson Coors was able to improve on several metrics during the third quarter including a nearly 8% increase in after-tax earnings. The company also saw margins expand 20 basis points to 41.6%, EBITDA grow 0.6% to \$464.3 million, free cash flow increase \$1.8 million to \$756.8 million and net debt reduced by 10.5% to \$3.48 billion.

That was the good news. Unfortunately, like many large brewers, the company continues to see poor consumer demand. Nowhere is this more evident than in the Great White North. While the company has seen good demand in Canada for its above-premium beers including the aforementioned Coors Banquet, Canadians appear to be losing a taste for the company's market leading Coors Light brand as volumes and market share declined. The only other bright spots in an otherwise cold Canadian market were in the brewers craft brands as well as a market share increase by the popular Molson Canadian brand.

The European market was slightly better as sales volume increased a modest 0.7% as the cost of goods sold declined by 0.2%. This combined with favorable exchange rates allowed the company to show an underlying pretax income increase of 5.7% for the European business.

The MillerCoors joint venture continued to show strong results on the bottom line thanks to a strong pricing environment, cost reductions and a better brand mix. The joint venture recorded an 11.7% increase in underlying net income to \$363.8.

In other international markets, the company produced strong growth in Mexico and Latin America along with higher pricing in China. However, weakness in the Ukraine and Russia license markets put a damper on the overall international business.

Consolidated underlying net sales slipped 2% to \$1.17 billion and underlying after tax income per share (non-GAAP) was up 5.8% to \$1.45 per share which beat the analyst consensus estimate of \$1.39 per share by 4.3%.

Final thoughts

As a whole, it was not a bad quarter for Molson Coors and investors have been rewarded as the stock is up substantially from the multi-year lows experienced just one year ago. However, the Canadian market continues to be a thorn in the side of the brewer and was certainly a focus of analyst's on the conference call.

Given Canada is right in the brewers backyard and accounts for a big chunk of total sales, it is important that the company protect its turf. The warm welcome received by the release of Coors Banquet could be the first step to light a fire under the Coors Light brand as the fanfare around the

Coors trademark should improve. However a spat with SABMiller over a license agreement where Molson Coors distributes labels such as Miller Lite in Canada could further dampen sales if SABMiller is victorious in court. Additionally, it is uncertain what impact the tension created by this squabble will put on the highly successful MillerCoors joint venture in the States.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAP (Molson Coors Beverage Company)

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