



## Molson Coors Brewing Co.: An Attractive Stock to Own

### Description

Liquor stocks are a favourite among investors seeking steady [income and growth](#). An attractive play on liquor is Canada's largest alcohol-brewing company **Molson Coors Brewing Co.** ([TSX:TPX.B](#))([NYSE:TAP](#)). The stock has been plagued by weakness in recent months, which now sees it down by 24% over the last year, despite delivering some incredible 2017 results. This has created an attractive opportunity for investors seeking an attractively valued stock with some defensive characteristics and steady growth.

### Now what?

In 2016, Molson Coors completed the needle-moving US\$12 billion takeover of Miller Coors, which brewing giant SABMiller needed to offload to meet regulatory requirements for its tie-up with **Anheuser-Busch InBev**. The completion of that deal saw Molson Coors recapture its U.S. business at an opportune time.

It transformed Molson Coors into the world's third-largest brewer by enterprise value and gave it full control of its brands in the U.S. US\$111 billion beer market. That leaves Molson Coors in a solid position to benefit from greater economic growth in the U.S. triggered by Trump's fiscal stimulus.

The complicated acquisition caused the brewer's 2017 net income to grow by almost five times the US\$295 million reported in 2016 to US\$1.4 billion. That came on the back of a 4% year-over-year increase in EBITDA and a 0.8% increase of its EBITDA margin to an impressive 22.7%.

Trump's tax cuts, where the corporate rate was slashed from 35% to 21%, should give Molson Coors's earnings a healthy boost. This sees the company predicting that its long-term effective tax rate will fall to somewhere between 20% and 24%.

According to data from America's Beer Distributors, as of the end of 2017 Molson Coors held a 24% share of the U.S. beer market, while, disappointingly, that represents a decline of 5% compared to 2016.

There are a range of factors that should see the market improve — key being the successful bedding

down of the Miller Coors acquisition and the company's focus on expanding its portfolio of craft beers in the U.S. and Canada. While beer consumption growth remains relatively flat, the craft beer market segment is expanding at a rapid pace, and the expansion of this portfolio will expand market share and boost the brewer's earnings. That will be further assisted by Molson Coors's initiatives aimed at reinvigorating its stable of existing brands in Canada as well as the U.S. while improving quality and distribution.

Molson Coors has released some positive guidance, indicating that its performance during 2018 will improve. The company is expecting a 10% year-over-year increase in underlying free cash flow and a further US\$210 million in cost savings, which will boost margins and, ultimately, its bottom line.

### **So what?**

Molson Coors's acquisition of Miller Coors, its solid market share, strong international presence, and promising 2018 guidance make it an appealing stock to own — even more so after considering the 24% decline in its shares over the last year, which leaves it [attractively valued](#). While investors wait for the earnings to grow, they will be rewarded by its regular dividend, which yields 2%.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:TAP (Molson Coors Beverage Company)
2. TSX:TPX.B (Molson Coors Canada Inc.)

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