



## Why I'm Sticking With Molson Coors (TSX:TPX.B) Stock Despite it Being Down Almost 10% Since the Beginning of August

### Description

**Molson Coors** ([TSX:TPX.B](#))([NYSE:TAP](#)) stock has declined by 9.7% since the beginning of August following a [rally that saw shares gain as much as 22%](#) between May and the start of the summer.

But despite the recent weakness, I'll be sticking with my Molson shares, as I continue to have a good deal of confidence that [the stock remains considerably undervalued](#).

In my opinion, Molson has been unfairly punished by the market following its acquisition of the rights to SAB Miller's U.S. Miller Coors portfolio for US\$12 billion in 2015.

Granted, so far that deal has looked like a bit of a "bust"; since it was closed, North American beer markets have struggled to stay afloat.

Traditional beer brands like Coors Light, Budweiser, Millers, and Canadian have been awash with competition from upstart craft brewers that have been successful in tapping into their market shares, so to speak, stealing brew bucks out of the wallets of beer drinkers.

And that couldn't really come at a worse time for Molson, which is now busy trying to pay down the debt it took on to finance the Miller Coors purchase and has as a result had to suspend any forthcoming dividend increases.

But TAP stock still yields 2.57%, and while that's still more than the current yield on 10-year Government of Canada bonds, some are wary that the company has overextended itself with the Miller purchase and, as a result, no longer has the financial flexibility it once did to make such types of transformative acquisitions.

However, the reality is that following a string of merger and acquisition activity that swelled over the brewing industry in recent years, the result today is a market that is heavily concentrated in less than a handful of names, including Molson, **Anheuser Busch Inbev**, **Heinekin N.V.**, and you could even add **Boston Beer Company** to that list as well.

Barring some unforeseen event, there probably isn't a lot of jockeying left to do among the major beer brewers, and Molson is more than likely just fine where it sits today as one of North America's largest beer brewers.

Sure, it's true that craft beers have been gaining popularity in recent years, and maybe this is a trend that many pundits didn't see coming. But this trend is, by now, nothing new. One has to expect is that at least some of this is at least being "priced in" to current expectations and some (including me) might argue that the trend might actually be over-hyped compared to the underlying reality.

Why's that?

Well, for one, as a beer drinker myself, I can't help but notice that now we are a few years into the emergence of craft breweries, those breweries appear to be foraying into distant niches of the market with their innovative experiments for new flavours of the foamy suds.

Cider beers gained popularity several years ago to be followed in kind by "radler," or grapefruit beers, but when brewers start coming out with flavours like "maple bacon coffee beer" and "peanut butter banana," one has to wonder if perhaps they've run out of options, maybe they've been getting high on their own supply, or maybe it's a little of both.

### Bottom line

Regardless of whether the craft brew market has already reached a saturation point or not, the fact remains that smaller upstart operators still don't have the budget necessary to compete on advertising the same way that multi-billion-dollar corporations like Molson, AB Inbev, and others do.

Meanwhile, if you're one of those that wonders if maybe the emergent trend towards liberalizing cannabis laws globally could threaten the beer industry, you may want to consider the headlines that were made a day after **Tesla** CEO Elon Musk smoked a blunt live on a YouTube podcast.

While pot may in fact become legal in several international markets over the next several years — at least as far as medicinal applications go for now — old habits die hard, and it's tough to envision a scenario where Molson Coors, which currently trades at a trailing price-to-earnings ratio of under 11 times, is not a significantly bigger company in three, five, and 10 years from now.

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jphillips

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