



Why Molson Coors (TSX:TPX.B) Stock Jumped 10% on its Q3 Earnings Report

Description

Molson Coors Canada ([TSX:TPX.B](#))([NYSE:TAP](#)) stock jumped 10% after beating earnings on October 31 prior to market opening.

That will be a welcome relief to Molson shareholders, as TAP stock has [struggled to find ground](#) throughout much of 2018.

Even following the post-earnings rally, TAP shares remain down just shy of 20% for the year and remain well below their all-time high of \$142 on the TSX Index from 2016.

But the brewer's third-quarter earnings report pointed to several reasons for optimism, which could be signalling that it may be time to start getting behind the stock again.

One reason was that Molson was successful in retiring \$400 million of its 2.25% notes using available cash on hand. The company has made it a priority to de-leverage its balance sheet after the Miller Coors acquisition a couple of years ago.

At the end of the third quarter, Molson had total debt of US\$10.6 billion and cash of US\$750.1 million for net debt of US\$9.8 billion.

Management at the world's seventh-largest alcohol brewer says it is still committed to maintaining its investment-grade rating with plans on track to get to four times leverage by the end of the current fiscal year and a 3.75 times leverage ratio by the middle of next year.

At that time, its plans are to reinstate its former dividend policy, which would see its board of directors the annual payout to somewhere in the range of 20-25% of annual EBITDA (earnings before interest, taxes, depreciation, and amortization).

Keep in mind that right now Molson is only paying out about 13% or so of its EBITDA as a dividend, as most of those earnings are being used to prioritize debt repayments.

Continued growth fueled by its cost savings program and synergies realized from the Miller Coors

acquisition could pave the way for significant dividend increases going forward and might suggest that the stock's current 2.54% dividend yield is actually understating the real value present in the company at its current price.

Bottom line

Even after its post-earning spike, Molson stock is trading at some of its lowest levels in years.

Trading equal to its reported book value, it could be a candidate for value investors looking for low price-to-book valuations. However, keep in mind that Molson also has over US\$8 billion of goodwill recorded on its books along with another US\$14 billion in intangible assets, so that reported book value is a little less "tangible" than what some would likely want to see.

Yet the stock is also trading at a forward price-to-earnings ratio of under 13 times.

That measure sits well below the historical averages for the TAP shares, and given that it operates in a fairly [recession-proof](#) industry, Molson Coors could be a good one to be holding on to for right now.

Fool on.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date

2025/09/09

Date Created

2018/11/15

Author

jphillips

default watermark