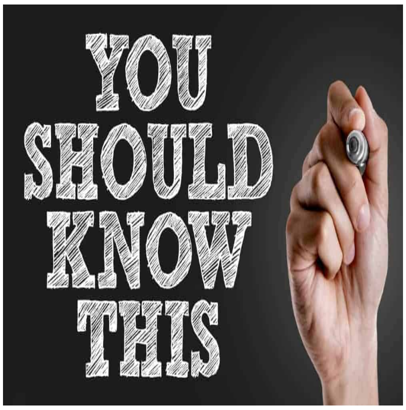

Scoop up This Unfairly Beaten-Up Stock Before It's Too Late!

Description

Sometimes investors unfairly punish a stock because of tepid short-term results. All they see are current numbers; they just can't focus on anything else.

This creates a massive opportunity for long-term investors. These folks can come in when the price is low and secure a very good price for their investment. Then short-term results improve and the stock soars.

I believe such an opportunity is presenting itself in one of Canada's most iconic brands, **Molson Coors Brewing Company** (TSX:TPX.B)(NYSE:TAP). Let's take a closer look.

The opportunity

Investors have undoubtedly heard of Molson Coors' two namesake brands, but the company is about much more than Molson and Coors beers. Especially after its big 2016 acquisition of Miller products in the United States.

These days, the company's brands include Carling, Rickard's, Blue Moon/Belgian Moon, Keystone, and Pilsner. Investors should also note that Molson Coors has various deals to bottle and distribute various brands in both the North American and European markets that is doesn't own.

The short-term issue temporarily depressing shares is beer volumes are down. There are various reasons for this, including the legalization of marijuana in Canada and a good number of U.S. states, the rise of micro breweries, and concerns about the long-term health consequences of beer. 2018 saw overall brand volume fall by 1.9% versus the previous year.

This has created an opportunity to buy Molson Coors shares on the cheap. In 2018, the company generated US$1.4 billion in free cash flow. This converts to just under $1.9 billion in local currency. The company has a market cap of $16.6 billion on the TSX. That gives us a price-to-free cash flow multiple of 8.8, which is incredibly cheap. Especially for a well-regarded consumer products company, a sector that usually trades for a premium.

How Molson Coors turns around

The company isn't taking this weakness in its business lying down, of course. It has implemented various plans to help turn itself around.

Let's start with the cost-cutting program, which has been in place since the Miller acquisition in 2016. The company cut US$500 million worth of costs from its operations in 2017-18 and plans an additional US$200 million worth of savings in 2019. Further cost savings of US$450 million are planned for 2020-22.

This cash has already been earmarked to pay back the debt accumulated from the big 2016 deal, creating balance sheet flexibility that will give the company freedom to pay increased dividends, buy back undervalued shares, or make further acquisitions. After peaking at more than five times earnings, the company plans to get its debt-to-EBITDA ratio down to 3.75 in 2019.

Molson Coors will undoubtedly pursue further acquisitions in the so-called above premium brand space, the part of the beer sector that is seeing nice growth these days. But it must be careful not to overpay for brands with little brand recognition outside of their main markets. Perhaps a better plan would be to focus on buying back undervalued shares and increase the dividend, two moves that should attract value investors back to the stock.

Upside potential

I believe that Molson Coors could easily generate US$2 billion in free cash flow annually after 2020, once we consider the impact from its cost cutting program, interest savings from paying off debt, and price hikes to customers. At this point, the company could easily dedicate US$1 billion annually to buying back shares, which would send a big message to the market.

At current exchange rates, this would translate into $2.7 billion of free cash flow. If the stock trades at 12 times free cash flow — which is still cheap — the company's TSX-listed shares would rebound to approximately $150 each. That's upside potential in the neighbourhood of 100%.

Remember, that doesn't give the company any credit for a share buyback, something I think could happen in a big way starting in 2020.

The bottom line

I believe Molson Coors is on the verge of becoming one of the TSX's best-performing stocks. Investors aren't giving the company's turnaround enough credit, and it will have all sorts of options available to create value once it gets the balance sheet in a little better shape. In the meantime, investors can collect a 2.8% dividend as they wait.

But don't delay; who knows when the market will finally realize this opportunity exists?

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