Canadians: Double Your Money With This 1 Stock!

Description

Molson (TSX:TPX)(NYSE:TAP) is a global brewer that produces and sells beer and other malt beverages. Its brands include Coors Light, Molson Canadian, Carling, Creemore Springs, to list but a few.

The company's main source of revenue is the United States with other markets including Canada, Central and Eastern Europe, and the United Kingdom with breweries in the US, Canada and Europe.

Molson reports a market capitalization of $15.81 billion with a 52-week low of $67.11 and a 52-week high of $90.09.

Intrinsic price

Based on my calculations using a discounted cash flow (DCF) valuation model, I determined that Molson has an intrinsic value of $142.21 per share.

Assuming less than average industry growth, the intrinsic value would be $137.64 per share and higher than average industry growth would result in an intrinsic value of $147.07 per share.

At the current share price of $70.32, I believe that Molson is substantially undervalued. Investors looking to add a brewery to their RRSP or TFSA should consider buying shares of Molson.

Molson has an enterprise value of $41.3 billion, representing the theoretical price a buyer would pay for all of Molson's outstanding shares plus its debt.

One of the concerning things about Molson is its high leverage with debt at 40.1% of total capital versus equity at 59.9% of total capital.

Financial highlights

For the nine months ended September 30, 2019, the company reported a strong balance sheet with retained earnings of US$7.6 billion, down slightly from US$7.7 billion as at December 31, 2018.

The company has cash and equivalents of US$410 million with US$1.2 billion in current portion of long-term debt and short-term borrowings.

This is not ideal, as the company does not have enough cash on hand to cover its short-term debt obligations, however, Molson reports a US$1.5 billion revolving credit facility with US$1.2 billion available.

Revenues are down materially from US$10.3 billion in 2018 to US$9.9 billion in 2019 (-3.8%) and COGS is down 2.6% for gross profit of US$3.2 billion in 2019 (gross profit margin of 32.6%).

Pre-tax income for the period is US$273 million, down significantly from US$1.3 billion in 2018 (-79%) due to a $US666 million loss from special items in 2019.

Senior management is dedicated to reducing its debt, as is evidenced by a US$1.6 billion pay down of its debt and borrowings in 2019, up from a US$310 million pay down in 2018.

Given that 40.1% of Molson's total capital consists of debt, I commend senior management on implementing a debt reduction strategy, as this will reduce interest payments which allows the company to dedicate more cash to growing the business.

Further, the company is a dividend paying entity with a current dividend yield of 3.69%, which is achieved by a $0.7572 quarterly dividend payment.

Capital expenditure spending is relatively flat year over year, with PP&E addition of US$491 million in 2018 and US$457 million in 2019. This indicates that the company is spending money on its growth.

Foolish takeaway

Investors looking to buy shares of a brewery should consider buying shares of Molson. The company reports positive retained earnings complemented by a debt reduction strategy that will eventually unlock significant value for its shareholders.

This is offset by decreasing revenues and net income. However, I still believe that Molson's current share price of $70.32 trades at a steep discount to its intrinsic value of $142.21 per share. RRSP and TFSA investors should buy shares today.

CATEGORY

1. Investing

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

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