

# Constellation Brands (NYSE: STZ)

Sector: Consumer Staples



Constellation  
Brands

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$247.33	\$220.74	\$229.50	\$146.99	30.5	\$42.9 B	0.88%	0.1

## Business Description

Constellation Brands is a global producer and market of beer, wines and spirits. They have a wide variety of brands and also has the right to brew and market Mexican Beers, such as Corona and Modelo. They are the number one multi-category supplier, the number one high-end beer company and the number one imported beer company in the U.S. Additionally, they are the leading premium wine company in the world. They currently operate two breweries in Mexico and operate across 20,000 acres of vineyards to produce their wine.

## Industry Trends

In the beverage alcohol industry, there recently has been a trend towards premium beers, including imported and craft beers. Constellation Brands is well positioned in this market due to their two most recent craft brewery acquisitions: Funky Buddha Brewery & Ballast Point. There also has been a trend in consuming healthier beverages, as consumers become more health conscious. To tailor to these consumers, Constellation Brands has extended their Corona brand to develop "Corona Premier". This beer has less carbohydrates and less calories than Corona Light that is currently being sold on the market. A fast-growing legal drinking age demographic are Hispanics growing at about 3% annually until 2025. This is expected to boost the imported Mexican beer demand.

## Investment Thesis

Constellation Brands has a wide arrange of premium beers, wines, and spirits. With the increasing trend towards premium beverages, this company has a great product portfolio to select from. This company is able to detect consumer trends early on such as the heightened appeal of craft beers. They have positioned themselves well in these growing markets and are able to sustain high operating margins across all three categories they produce. They continue to add to their existing product mix through acquisitions, which are experiencing high double digit growth. Lastly, their ability to innovate and differentiate their products helps to appeal towards younger generations and allows for margin expansion.

## Corporate Social Responsibility

Constellation Brands prides itself on three main categories of CSR: giving back, social responsibility, and sustainability. To give back, they participate in a program called Nourishing Neighbors. Through this program, they have collected over 84,000 pounds of food and over \$100,000 to be used for donations during 2016. Constellation Brands also is a proud member of the Foundation for Advancing Alcohol Responsibility, which fights to eliminate drunk driving and underage drinking. Lastly, they practice sustainable practices such as reusing 26% of incoming water at their breweries, which is one of the best rates in the industry.

## Valuation Assumptions

WACC: 6.1%  
Terminal FCF Growth Rate: 2.1%  
Upside: 12.8%  
Sources: Bloomberg, Annual reports

## Key Financials

Current stock price: \$220.74  
Intrinsic Value: \$247.33

## 5-Year Stock Performance



## Competitive Advantages and Analysis

Constellation Brands boasts the competitive advantages of being the number one leader across the imported beers segment that's gaining more popularity among consumers. While the industry category achieves growth slightly above 2%, Constellation brands expects their business to grow between 9 to 11% with the acquisition of two craft breweries and key brands like Modelo and Pacifico increasing distributions. As the largest multi-category player in the industry, the company can adjust their product portfolio across beer, spirits, and wine to accommodate changes in consumer tastes. Their Constellation Ventures arm also lends to early detection and visibility of blockbuster brands ripe for acquisition. Compared to peers, the company's financial leverage lies below main competitors such as Anheuser-Buch and Molson Coors allowing Constellation Brands to take on important acquisitions or look for better financing.

Over competitors, Constellation Brands recently secured a new brewery capacity in Mexicali to expand the supply of their imported beer. Among their highest cost components is glass manufacturing which the company has taken positive measures to increase production at its lowest cost supplier and add two new furnaces.

Finally, the company continues to spend in marketing to create brand equity across categories. Their efforts in wine and spirits are to invest in a small selection of focus brands which are starting to see double digit growth and margin expansion simply from digital media, television ads, and higher consumer awareness. Their competitive advantages also lie in continual product innovation and premiumization from launching new products such as the Michelada, Corona Premier, or Black Box to meet consumer preferences.

## Risks

Identified risks include a change in consumer tastes given the industry offers a wide variety. Most of this risk can be mitigated as Constellation Brands is the largest multi-category player and can shift marketing and resources to brands that are in popular demand. A second risk consists of commodity risk across the cost of their inputs such as grapes. The company currently hedges about 56% of their commodities and has over 20,000 acres of vineyards to lower costs if prices increase drastically. Finally, new trade agreements may impact their imports coming to the U.S., but management has stated that costs could be shifted across borders especially the purchase of natural gas that powers their breweries in low cost nations. Furthermore, any shocks to trade would send the price of the Mexican Peso down and ultimately lower cost of goods produced.

Report Prepared By:

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Marissa Esposito and Joaquin Sanchez on 1/30/2018