

## 06\_09\_24\_1st Quarter report for Monster Beverage (MNST)

Percentage change in Sales from year ago quarter 11.8%

Percentage change in Earnings per Share from year ago quarter 10.5%

Is company meeting our target sales & earnings estimates? yes

Pre-tax Profit on sales trend? (up, even, down) down

Return on equity trends? (up, even, down) slightly down, but a healthy 23.2%

Debt? (up, even, down) even, 0 debt

Current PE is 33.1.

Where does it fall in my estimated High/low range of PE's? mid-range (40 high-27 low)

Signature PE = 33 (median PE) (31.1 now average PE)

Club cost basis for this stock is \$33.14 Current price is \$52.69  
(as of 1/6/24)

Current fair value: Morningstar: \$52 CFRA: \$65 (12 mo target price)

My SSG Total Return High P/E 16.3% Projected Average Return is 12.4%

### **What will drive future growth** (From Sept 30, 2023 10-K Report, Management Discussion & Analysis)

Expansion both geographically and in its product line. Further, it protects its profit margins by reducing its supply chain and making/bottling products closer to the locations of their geographically distributed customers.

Geographic Growth. Solid growth worldwide: North America (US, Canada, and Mexico), South America (Argentina, Brazil, Chile), Europe, Africa, and the Far East (Monster brands are market leaders in Japan and South Korea, with substantial expansion in China) .

Product Line Growth. 32+ brands, including coffee and tea drinks, new health-related drinks, new flavors, new sugar-free drinks, plant-based drinks, alcoholic drinks, and acquisition of product, "Bang Energy"

2023 Acquisition and Shorter Supply Chains. Incorporation of new, "Bang Energy" and its production facility in Phoenix, AZ.

Pricing Increases on products

Bottling and Distribution by Coca-Cola. Coca-Cola owns 19% of Monster Beverage and handles much of its bottling and distribution system.

### **From Analyst Reports:**

#### **Value Line April 12 2024** (Timeliness =4)

- Monster Beverage Corp. realized 4th Q and full-year sales growth above 14% and 13% respectively. "... **higher pricing helped to drive the performance**. . . . Investors do not seem too enthused as MNST stock has moved up little since January." Heightened demand in all beverage categories. Innovation is a key expansion strategy. Monster's core energy drink lineup should continue to gain in popularity and the addition of alcohol beverages with the acquisition of *CANarchy*. Broader market improvements should work in the company's favor. This stock is an **untimely** selection for the year ahead... patient investors may be well rewarded since capital appreciation potential over the 2027-2029 haul is above average. Patient investors should consider these high-quality shares.

- **Morningstar May 9, 2024 (3 stars—1 star above January report)**  
 Monster has earned its perch in this attractive category through innovations that resonate with consumers and effective marketing that keeps its core brand top of mind. The long-term alliance with wide-moat Coca-Cola, effective since 2015, further advances Monster’s competitive standing, affording the firm impressive distribution breath and product availability that is hard to match by rivals. As such, we award a narrow economic moat rating for Monster (*Coke has scrapped its own lackluster energy drink division*)
- **Bulls Say:**
  - Strong demand & Monster’s strong innovation pipeline bodes well for high single-digit, top-line, growth. Well-positioned to capitalize on energy drink demand ...and expand consumption occasions, and adding “better-for-you” options including Zero Sugar versions and plant-based drinks. Also reaching more untapped consumers in VAST emerging markets—Latin America and Eastern Europe via the Coke system. Rolling out **Predator** and **Fury** brands at **more affordable price points to tap consumers, “not as well-heeled as the traditional MNST demographic.**
- **Bears Say:**
  - Regulatory scrutiny, PepsiCo has stepped up rival investments, ...uphill battle to advance low-single digit volume share in Asia-Pacific (35% of Global Demand) given stiff competition from Red Bull’s sister co.
- **Fair Value and Profit Drivers**
  - Maintaining \$52/share FV after its 1st Q results. Valuation implies a 26X adjusted 2025 earnings . **Our 8% revenue CAGR forecast over the next 10 years** is driven by expectation for increased in volume expansion- at mid-single digit rate each year and pricing (2%-3% annually. Also expect newly acquired craft beer brands and other malt beverages in pipeline to ramp up sales at double-digit rates.

**CFRA May 2024 (4-Stars—Buy)**

- We estimate net sales will rise about 11% in 2024 and 10% in 2025 after increasing 13% in 2023 and 14% in 2022, driven by new product launches, price increases, volume growth in existing markets, and international expansion on increased distribution...
- We forecast adjusted EPS of \$1.90 in 2024 and \$2.10 in 2025 versus \$1.54 in 2023. MNST does not pay a dividend but recently resumed share repurchases.. On June 10, 2024 bought back about \$3 billion in shares. MNST has a history of generating robust free cash flow and possesses a strong balance sheet, with no debt and \$56B in cash at the end of Q1 2024.
- Our Buy rating reflects a valuation we consider attractive at current levels. We also think a rough patch of spotty execution is behind it, with both top-line growth and margin expansion likely to drive improvement. We ..view faster growing nature of energy drinks and international growth as positives. Gross margins improved in 2023 as inflationary pressures eased, particularly costs related to transportation and distribution, aluminum and packaging, and ingredients.
- Our 12-month target of \$65 (up \$5 from previous report) represents a 2025 P/E of 31.0x, a discount to MNST’s mean 10-year forward P/E of 36.2x but higher than peers. **MNST likely to grow faster than peers.**

Additional comments: N/A

Recommend: Buy More   X  , Hold   X  -for MicNova, Challenge with a better investment \_\_\_\_\_, Sell