

Monster Beverage Corp. (MNST)

\$65.34 (As of 01/10/20)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Shares of Monster Beverage have outperformed the industry in the past three months, thanks to continued strength in the energy drinks category. Moreover, the company reported impressive results in third-quarter 2019, fueled by growth at Monster Energy brand's energy drinks internationally and strength in its Reign Total Body Fuel drinks. It is experiencing robust growth in the international markets, which is aiding performance. Its efforts for product innovation and launches also bode well. Further, it is optimistic about the alignment with Coca-Cola's bottlers and is progressing well with the transitioning of the Monster Energy brand to Coke bottlers. However, unfavorable geographic and product mix as well as higher operating expenses are putting pressure on margins. Higher payroll costs and adverse currency are other deterrents.

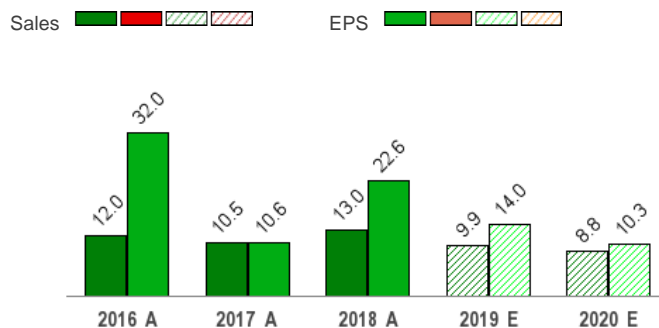
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$66.38 - \$52.23
20 Day Average Volume (sh)	2,222,619
Market Cap	\$35.1 B
YTD Price Change	2.8%
Beta	1.16
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Bottom 22% (198 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.9%
Last Sales Surprise	2.5%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	02/26/2020
Earnings ESP	0.0%
P/E TTM	32.8
P/E F1	29.0
PEG F1	2.0
P/S TTM	8.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,024 E	1,209 E	1,236 E	1,102 E	4,552 E
2019	946 A	1,104 A	1,134 A	997 E	4,184 E
2018	851 A	1,016 A	1,016 A	924 A	3,807 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.50 E	\$0.60 E	\$0.63 E	\$0.54 E	\$2.25 E
2019	\$0.48 A	\$0.53 A	\$0.55 A	\$0.47 E	\$2.04 E
2018	\$0.39 A	\$0.48 A	\$0.50 A	\$0.43 A	\$1.79 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/10/2020. The reports text is as of 01/13/2020.

Overview

Monster Beverage Corporation, headquartered in Corona, CA, is a marketer and distributor of energy drinks and alternative beverages. Incorporated in 1990 in Delaware, Monster Beverage was previously known as Hansen Natural Corporation. In 1992, the company acquired the Hansen Beverage business.

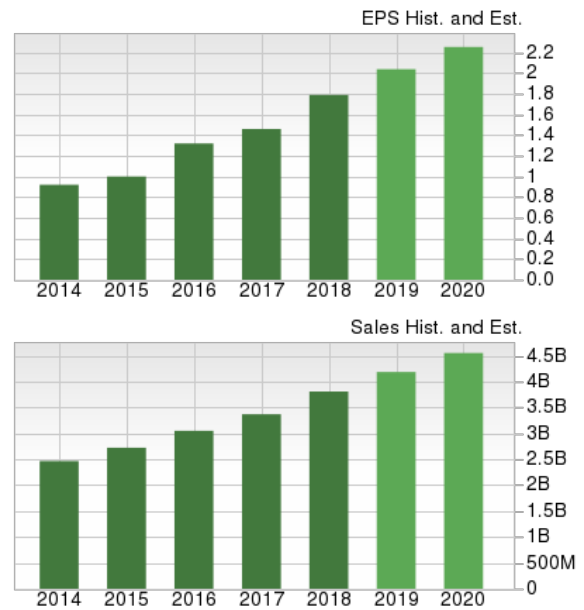
On Jun 12, 2015, Monster Beverage closed a deal with The Coca-Cola Company (TCCC). Per this long-term strategic deal, Coca-Cola acquired an approximate 16.7% equity stake in Monster Beverage. Coca Cola also transferred ownership of global energy drinks business, which includes brands like NOS, Full Throttle, to Monster Beverage. In exchange, Monster Beverage transferred non-energy business to TCCC.

Monster Beverage reports results under three operating segments:

Monster Energy Drinks Segment (94.5% of net sales in 3Q19): Monster Energy Drinks Segment includes the former Direct Store Delivery segments, excluding Peach Tea brand. This segment comprises mostly Monster Energy brand products.

Strategic Brands Segment (5%): The Strategic Brands segment includes brands acquired from TCCC. Monster Beverage observes the same business model with acquired brands as their previous owner.

Other Segment (0.5%): The Other segment includes the former warehouse segment and the Peach Tea brand. The segment also includes products acquired from the AFF Transaction that are sold to independent third-parties. On Apr 1, 2016, the company acquired the concentrate and flavor business of American Fruits and Flavors (AFF) for \$690 million in cash. This acquisition has benefited the company in terms of expansion and securing the supply of flavors for a reasonable cost.



Reasons To Buy:

▲ **Sturdy Energy Drinks Category Aid Stock:** Shares of Monster Beverage have gained 15.6% in the past three months compared with the industry's 2.5% growth. The company has been experiencing continued strength in its energy drinks category, which is driving performance. In third-quarter 2019, net sales in the Monster Energy Drinks segment rose 13.5%. Apparently, the company's top line in the quarter rose 11.6% mainly fueled by growth of the Monster Energy brand's energy drinks internationally and strength in its high-performance energy drink — Reign Total Body Fuel — which was launched in the first quarter. We note that the company offers a wide range of energy drinks brands such as Monster Energy, Java Monster, Cafe Monster, Espresso Monster, among others. The addition of Coca-Cola's energy drink brands to Monster Beverage's portfolio (included in the Strategic Brands segment) has strengthened its position in the global energy drinks market. Moving ahead, management is optimistic about strength in the energy drinks category with the Monster Energy brand growing significantly. Also, the product launches across the Monster family will drive the company's overall top and bottom lines.

Monster Beverage is gaining from its robust energy drinks' portfolio as well as product launches and innovations. Strength in the Monster brand is expected to continue driving performance.

▲ **Transition to Coca-Cola Bottlers:** Monster Beverage is on track with the "TCCC Transaction" — a deal signed with Coca-Cola in 2015. Under this deal, Coca-Cola and its bottling partners act as Monster Beverage's preferred distribution partner globally, thereby ensuring greater reach for the company's products. Earlier, the Monster Energy brand was distributed worldwide through the Anheuser-Busch InBev SA/NV distributors. The company completed the strategic alignment with Coca-Cola system bottlers in the United States, with the allotment of the Kalil Bottling Group's distribution territories (Southwestern United States) in March 2019. Additionally, the company transitioned the distribution of Monster Energy drinks from Big Geyser's territory, which is located in the New York metro markets, to Liberty Coca-Cola in April 2019. In third-quarter 2019, it launched or transitioned the Monster Energy brand to Coca-Cola bottlers in the Dominican Republic, El Salvador and Honduras. Monster Beverage is planning for additional launches and transitions for the fourth quarter.

▲ **Solid International Presence:** Monster Beverage has a solid international presence and remains on track to enhance its global footprint to expand market share. The aforementioned transition to Coca-Cola bottlers has significantly aided the company's international presence. Notably, Monster Beverage has been expanding international operations in various markets including China, India, EME, Africa and the Middle Eastern countries. These developing and emerging markets have a high growth potential due to their relatively low per capita consumption. Another factor is the burgeoning middle-class population, with rising income levels, which has been driving the demand for convenient, trendy and affordable food and beverages in these countries. Evidently, net sales to customers outside the United States rallied 34.2% in third-quarter 2019. This contributed about 34% to total sales, up from 28% in the year-ago quarter. Going forward, management expects to launch Monster Energy brand's energy drinks in various international markets. Additionally, it plans to introduce Predator in selected markets in Eastern Europe and Africa in the fourth quarter.

▲ **Product Innovations & Launches to Drive Top Line:** Product innovation plays a significant role in the company's success. There is consistent demand for new products that are tasty as well as healthy. Monster Beverage regularly introduces new flavors of existing products, while removing non-performing products. In the third quarter, it launched Predator, its affordable energy brand, in Botswana and Slovakia. Moreover, the company has completed the rollout of Monster Ultra Violet and Monster Mango in China. Furthermore, it continued rolling out Monster brand across India and initiated the launch of Ultra Violet in the third quarter. Moving ahead, management plans to continue Ultra's expansion in the fourth quarter, apart from rolling out Mango Loco to suit consumer taste in India. Notably, Monster Pipeline Punch was launched in various countries across EMEA and is currently available in 15 markets in the region. Moreover, the company is progressing well with the launch of Espresso Monster across EMEA and plans to rollout Salted Caramel Espresso variant in eight EMEA markets in the fourth quarter and 2020.

In the United States, Monster Beverage launched Monster Mule Ginger Brew, Mango Magic, Reign Orange Creamsicle, Monster MAXX and Monster MAXX Red-Red with zero sugar. In October, it rolled out Java Monster Farmers Oats and two flavors in Reign brand — Strawberry Sublime and Mango Magic. In the next year, it will discontinue its Cafe Monster line of products and reposition the Espresso Monster line in the United States. In Canada, it launched Monster Pacific Punch and Monster Mule in the third quarter. Moving ahead, management expects to roll out several products in Asia Pacific in the upcoming months, which includes the relaunch of Pipeline Punch in Japan in spring 2020. Management remains optimistic about the prospects of its brands and product launches. These are likely to drive top-line growth and increase profitability.

▲ **Healthy Financials & Share Buybacks Boost Returns:** Apart from boasting a healthy balance sheet, Monster Beverage undertakes shareholder-friendly actions via share repurchases. It ended the third quarter with cash and cash equivalents of \$717.6 million compared with \$637.5 million as of Dec 31, 2018. Moreover, the company bought back 4.3 million shares for \$254.3 million, excluding broker commissions. As of Nov 6, 2019, it had \$36.6 million remaining to be bought back under the share repurchase plan authorized in February 2019. Further, management authorized a new buyback program for purchasing shares up to additional \$500 million.

Reasons To Sell:

- ▼ **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Monster Beverage looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 32.8x, which is above the median level of 31x and below the high level of 36.1x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 25.5x for the industry and 20.4x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **High Costs Hurt Margins:** Increased costs along with unfavorable product mix and increased freight costs have been exerting pressure on the company's margins for a while. In third-quarter 2019, the company's gross margin contracted 40 basis points (bps) thanks to negative geographic and product sales mix. This was partly offset by gains from increased prices and lower input costs. Further, operating expenses rose 3.5% year over year in the third quarter. Payroll expenses, as a percentage of sales, increased 30 bps in the quarter. Higher payroll costs stemmed from headcount growth, domestically and internationally.
- ▼ **Unfavorable Foreign Currency:** Monster Beverage's significant international presence exposes it to foreign currency risks, which have been hurting its performance. Apparently, the top line in third-quarter 2019 was partly negated by unfavorable currency that hurt gross and net sales by \$15.1 million and \$12.2 million, respectively. Further, net sales at the Monster Energy Drinks and Strategic Brands segments were adversely impacted by roughly \$10.8 million and \$1.4 million, respectively, from currency.
- ▼ **Industry Headwinds & Stiff Competition:** Apart from higher costs, changes in consumer tastes and preferences are major concern in the beverage industry. Health-conscious consumers are opting for better and healthier beverage alternatives like ready-to-drink tea and bottled water. The shift in consumers' preferences is impacting the volumes of soda beverages and energy drinks. Furthermore, Monster Beverage faces tough competition from other energy drink companies and shifting consumers' tastes. All these factors might exert pressure on the company's top and bottom lines.

Higher operating expenses coupled with negative geographic and product sales mix have been exerting pressure on Monster Beverage's margins. Payroll costs increased 30 bps in third quarter.

Last Earnings Report

Monster Beverage Beats Q3 Earnings & Sales Estimates

Monster Beverage reported impressive earnings and sales numbers in third-quarter 2019. Its top and bottom lines not only outpaced the Zacks Consensus Estimate but also improved on a year-over-year basis.

The top-line performance was mainly fueled by robust growth for the Monster Energy brand's energy drinks internationally coupled with strength in its high-performance energy drink, Reign Total Body Fuel, launched in the first quarter.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	2.54%
EPS Surprise	1.85%
Quarterly EPS	0.55
Annual EPS (TTM)	1.99

Q3 Highlights

Monster Beverage's earnings of 55 cents per share rose 14% year over year and outpaced the Zacks Consensus Estimate by a penny.

Net sales of \$1,133.6 million improved 11.6% year over year and surpassed the Zacks Consensus Estimate of \$1,106 million. Moreover, gross sales (net of discounts and returns) rose 11.3% to \$1,318.3 million.

In the United States, advance purchases due to expectations of price increase, effective Nov 1, 2018, benefited net and gross sales by nearly \$16 million and \$18 million, respectively. However, top-line growth was partly negated by unfavorable currency, which hurt net and gross sales by \$12.2 million and \$15.1 million, respectively.

Additionally, net sales to customers outside the United States totaled \$379.8 million, up 34.2% year over year. This represented about 34% of total sales in third-quarter 2019, up from 28% in the year-ago quarter.

Segmental Performance

Monster Energy Drinks: The segment's net sales rose 13.5% year over year to \$1.06 billion. Robust gains from the sale of Monster Energy and Reign Total Body Fuel brands were partly offset by a negative impact of \$10.8 million from adverse currency rates.

Strategic Brands: Apart from its affordable energy drink brands, the segment includes a range of energy drink brands acquired from The Coca-Cola Company. The segment's net sales declined 10.9% to \$66.3 million in the third quarter. Currency headwinds hurt the segment's results by \$1.4 million.

Other: Net sales at the segment, which includes some products of American Fruits & Flavors sold to independent third parties (AFF Third-Party Products), fell 10.6% year over year to \$5.9 million.

Costs & Margins

The company's third-quarter 2019 gross margin contracted 40 basis points (bps) to 59.4%. Gross margin was mainly impacted by negative geographic and product sales mix, partly offset by gains from increased prices and lower input costs.

Operating expenses rose 3.5% year over year to \$277.6 million. However, selling expenses, as a percentage of net sales, dipped 10 bps to 11.1%. Meanwhile, distribution costs, as a percentage of net sales, declined 80 bps to 3.3%.

Operating income of \$395.4 million grew 16.4% year over year. Moreover, the operating margin expanded 150 bps to 34.9% in the reported quarter.

Other Financials

Monster Beverage ended the third quarter with cash and cash equivalents of \$717.6 million, and total stockholders' equity of \$4,108 million.

In the reported quarter, the company bought back 4.3 million shares for \$254.3 million, excluding broker commissions. As of Nov 6, 2019, it had \$36.6 million remaining to be bought back under the share repurchase plan authorized in February 2019.

Further, management authorized a new buyback program for purchasing shares up to additional \$500 million.

Strategies on Track

Monster Beverage remains committed to product launches and innovation to boost growth. Further, the company is making progress with the transitioning of the Monster Energy brand to Coke bottlers. In third-quarter 2019, it launched or transitioned its Monster Energy brand to Coca-Cola bottlers in the Dominican Republic, El Salvador and Honduras. Monster Beverage is planning for additional launches and transitions for the fourth quarter. Going forward, it plans for further launches in the international markets.

Valuation

Monster Beverage shares are up 20.6% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 14.5% and 17.2% in the past year, respectively.

The S&P 500 index is up 25.6% in the past year.

The stock is currently trading at 28.88X forward 12-month earnings, which compares to 23.03X for the Zacks sub-industry, 19.7X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.78X and as low as 23.34X, with a 5-year median of 31.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$69 price target reflects 30.5X forward 12-month earnings.

The table below shows summary valuation data for MNST

Valuation Multiples - MNST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.88	23.03	19.7	18.88
	5-Year High	42.78	23.23	22.38	19.34
	5-Year Low	23.34	18.46	16.66	15.17
	5-Year Median	31.91	21.39	19.71	17.44
P/S F12M	Current	7.7	4.58	9.88	3.5
	5-Year High	10.5	5.23	11.13	3.5
	5-Year Low	6.42	3.59	8.09	2.54
	5-Year Median	8.03	4.41	9.87	3
EV/EBITDA TTM	Current	23.25	21.31	40.3	12.12
	5-Year High	35.51	21.38	44.94	12.86
	5-Year Low	19.34	12.15	31.54	8.48
	5-Year Median	24.26	17.21	38.25	10.67

As of 01/10/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (198 out of 254)



Top Peers

Coca-Cola European Partners PLC (CCEP)	Neutral
Coca-Cola Amatil Ltd. (CCLAY)	Neutral
Cott Corporation (COT)	Neutral
Coca-Cola Company (The) (KO)	Neutral
Coca Cola Femsa S.A.B. de C.V. (KOF)	Neutral
New Age Beverage Corporation (NBEV)	Neutral
PepsiCo, Inc. (PEP)	Neutral
National Beverage Corp. (FIZZ)	Underperform

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	MNST Neutral	X Industry	S&P 500	KDP Neutral	KO Neutral	PEP Neutral
VGM Score	C	-	-	B	D	D
Market Cap	35.13 B	435.12 M	24.03 B	39.22 B	237.92 B	187.59 B
# of Analysts	7	2	13	8	9	8
Dividend Yield	0.00%	0.00%	1.78%	2.15%	2.88%	2.84%
Value Score	D	-	-	D	D	D
Cash/Price	0.04	0.06	0.04	0.00	0.06	0.03
EV/EBITDA	25.05	7.11	14.04	30.65	24.72	16.11
PEG Ratio	2.04	2.03	2.02	1.32	3.78	3.24
Price/Book (P/B)	8.55	3.93	3.32	1.71	11.50	13.19
Price/Cash Flow (P/CF)	33.86	13.91	13.52	20.50	23.57	18.15
P/E (F1)	29.04	20.24	18.82	20.04	24.75	22.65
Price/Sales (P/S)	8.55	1.38	2.63	3.57	6.88	2.84
Earnings Yield	3.44%	4.42%	5.31%	4.99%	4.03%	4.42%
Debt/Equity	0.00	0.37	0.72	0.57	1.50	2.08
Cash Flow (\$/share)	1.93	0.81	6.94	1.36	2.36	7.41
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	19.48%	5.32%	10.56%	-20.17%	0.38%	5.32%
Proj. EPS Growth (F1/F0)	10.58%	11.24%	7.49%	13.91%	6.77%	7.93%
Curr. Cash Flow Growth	19.52%	11.67%	14.83%	66.49%	5.17%	5.77%
Hist. Cash Flow Growth (3-5 yrs)	24.17%	1.98%	9.00%	18.36%	-2.49%	1.98%
Current Ratio	3.31	1.25	1.23	0.35	0.92	0.95
Debt/Capital	0.00%	31.84%	42.99%	36.46%	59.99%	67.57%
Net Margin	26.58%	0.33%	11.08%	10.13%	22.41%	18.78%
Return on Equity	28.23%	7.19%	17.16%	7.27%	45.21%	55.00%
Sales/Assets	0.85	0.85	0.55	0.22	0.40	0.86
Proj. Sales Growth (F1/F0)	8.79%	4.27%	4.20%	2.78%	4.43%	4.27%
Momentum Score	A	-	-	A	C	C
Daily Price Chg	1.70%	0.00%	-0.33%	0.04%	0.34%	-0.19%
1 Week Price Chg	-0.46%	-0.17%	-0.30%	-0.10%	-1.19%	-1.39%
4 Week Price Chg	4.98%	0.24%	1.71%	-3.13%	2.57%	-1.93%
12 Week Price Chg	15.52%	-1.41%	6.05%	1.01%	3.23%	-1.77%
52 Week Price Chg	22.68%	-0.47%	22.39%	6.09%	17.97%	24.39%
20 Day Average Volume	2,222,619	244,732	1,580,816	1,667,845	9,981,321	3,717,601
(F1) EPS Est 1 week change	0.19%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.19%	0.00%	0.00%	-0.36%	0.00%	-0.04%
(F1) EPS Est 12 week change	0.00%	-1.08%	-0.50%	-0.45%	-1.08%	-0.04%
(Q1) EPS Est Mthly Chg	0.50%	0.00%	0.00%	0.00%	0.00%	-0.31%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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