

Monster Beverage Corp. (MNST)

\$60.51 (As of 04/09/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Shares of Monster Beverage have increased and outperformed the industry in the past six months, thanks to continued strength in the energy drinks category. Moreover, the company reported impressive results in fourth-quarter 2019, primarily fueled by growth at Monster Energy brand's energy drinks internationally and strength in its Reign Total Body Fuel drinks. The company 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 remain concerns. Also, unfavorable currency fluctuations are worrisome.

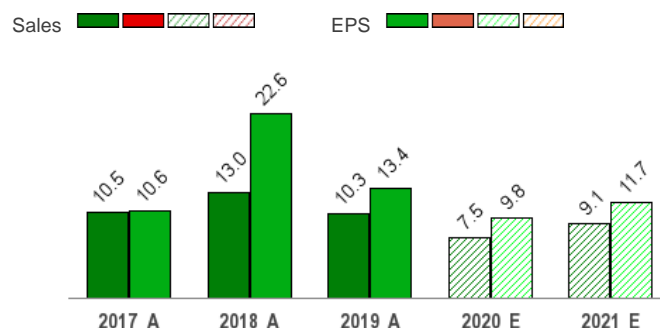
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$70.52 - \$50.06
20 Day Average Volume (sh)	4,802,295
Market Cap	\$32.5 B
YTD Price Change	-4.8%
Beta	1.03
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Beverages - Soft drinks
Zacks Industry Rank	Bottom 40% (152 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.2%
Last Sales Surprise	2.0%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	05/07/2020
Earnings ESP	-2.8%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,112 E	1,312 E	1,353 E	1,212 E	4,926 E
2020	1,019 E	1,189 E	1,226 E	1,118 E	4,515 E
2019	946 A	1,104 A	1,134 A	1,017 A	4,201 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.67 E	\$0.71 E	\$0.60 E	\$2.49 E
2020	\$0.49 E	\$0.59 E	\$0.63 E	\$0.54 E	\$2.23 E
2019	\$0.48 A	\$0.53 A	\$0.55 A	\$0.47 A	\$2.03 A

*Quarterly figures may not add up to annual.

P/E TTM	29.8
P/E F1	27.1
PEG F1	1.9
P/S TTM	7.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/09/2020. The reports text is as of 04/13/2020.

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.

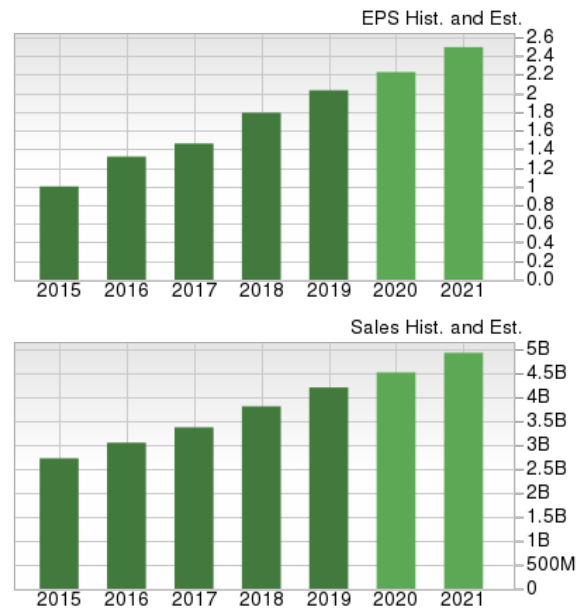
On Jun 12, 2015, Monster Beverage closed a deal with The Coca-Cola Company (TCCC). Per this long-term strategic deal, Coca-Cola acquired an approximate 16.7% equity stake in Monster Beverage. Coca Cola also transferred ownership of global energy drinks business, which includes brands like NOS, Full Throttle,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

Monster Beverage reports results under three operating segments:

Monster Energy Drinks (92.9% of net sales in FY19): 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 (6.5%): The Strategic Brands segment includes brands acquired from the "TCCC Transaction". Monster Beverage observes the same business model with acquired brands as their previous owner.

Other (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).



Reasons To Buy:

▲ **Sturdy Energy Drinks Category Aids Stock:** Shares of Monster Beverage have gained 7% in the past six months compared with the industry's 8.8% decline. The company has been experiencing continued strength in its energy drinks category, which is driving performance. In fourth-quarter 2019, net sales in the Monster Energy Drinks segment rose 11.7%. Apparently, the company's top line in the quarter rose 10.1% mainly fueled by robust growth in 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 of 2019. 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. 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.

▲ **Solid International Presence:** Monster Beverage has a solid international presence and remains on track to enhance its global footprint to expand market share. The company's 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, EMEA, 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 grew 16.5% in fourth-quarter 2019 and represented about 31% of total sales. In the fourth quarter, net sales in respective local currencies improved 12.8% in EMEA, 47.9% in Asia Pacific and 16.2% in Latin America and the Caribbean.

▲ **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 fourth-quarter 2019, it launched Java Monster Farmer's Oats and two new Reign Total Body Fuel high performance energy drinks in the United States. Internationally, the company added various Monster Energy brand energy drinks, as well as Espresso Monster to its portfolio and launched Monster HydroSport Super Fuel in Germany, the Republic of Ireland and the United Kingdom during the fourth quarter. Also, Monster Beverage launched Reign Total Body Fuel high performance energy drinks in Puerto Rico, the Republic of Ireland and the United Kingdom and is planning further introductions in other international markets in 2020. Going forward, management expects to launch Monster Energy brand's energy drinks in various international markets in 2020. Additionally, it is on track with the launch of the Predator brand in other international markets in 2020.

▲ **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 fourth quarter with cash and cash equivalents of \$798 million compared with \$637.5 million as of Dec 31, 2018. Moreover, the company bought back 4.1 million shares for \$229.6 million, excluding broker commissions. As of Feb 27, 2020, it had around \$536.6 million remaining under the company's previously authorized share repurchase plan.

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 29.81, which is below the median level of 31.2 and the high level of 34.9 scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 22.78 for the industry and 17.3 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 fourth-quarter 2019, the operating margin contracted 200 bps to 31.2%. Operating expenses rose 19.5% year over year to \$293.7 million in the fourth quarter, while as a percentage of sales, it increased 230 bps to 28.9%. Moreover, selling expenses, as a percentage of net sales, increased 100 bps to 12.3%.
- ▼ **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 fourth-quarter 2019 was partly negated by unfavorable currency that hurt gross and net sales by \$10.9 million and \$9.1 million, respectively. Further, net sales at the Monster Energy Drinks and Strategic Brands segments were adversely impacted by roughly \$8.5 million and \$0.6 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.

Monster Beverage is grappling with unfavorable currency fluctuations. In the fourth quarter, net sales at the Monster Energy Drinks and Strategic Brands segments were adversely impacted by currency.

Last Earnings Report

Monster Beverage Q4 Earnings Top Estimates, Rise Y/Y

Monster Beverage reported impressive earnings and sales numbers in fourth-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 in 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 of 2019.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	2.04%
EPS Surprise	2.17%
Quarterly EPS	0.47
Annual EPS (TTM)	2.03

Q4 Highlights

Monster Beverage's earnings of 47 cents per share rose 9.3% year over year and outpaced the Zacks Consensus Estimate by a penny.

Net sales of \$1,017.2 million improved 10.1% year over year and surpassed the Zacks Consensus Estimate of \$996.9 million. Moreover, gross sales (net of discounts and returns) rose 10.3% to \$1,172.6 million. We note that top-line growth was negated by unfavorable currency fluctuations, which hurt net and gross sales by \$9.1 million and \$10.9 million, respectively.

Additionally, net sales to customers outside the United States totaled \$319.5 million, up 16.5% year over year. This represented about 31% of total sales in fourth-quarter 2019, up from 30% in the year-ago quarter.

Segmental Performance

Monster Energy Drinks: The segment's net sales rose 11.7% year over year to \$953.2 million. Robust gains from the sale of Monster Energy and Reign Total Body Fuel brands were partly offset by a negative impact of \$8.5 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 10.1% to \$59.2 million in the fourth quarter. Currency headwinds hurt the segment's results by \$0.6 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 3.9% year over year to \$4.9 million.

Costs & Margins

The company's fourth-quarter 2019 gross margin expanded 30 basis points (bps) to 60%. 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 19.5% year over year to \$293.7 million, while as a percentage of sales the same increased 230 bps to 28.9%. However, selling expenses, as a percentage of net sales, increased 100 bps to 12.3%. Meanwhile, distribution costs, as a percentage of net sales, declined 20 bps to 3.5%.

Operating income of \$317 million grew 3.4% year over year. Moreover, the operating margin contracted 200 bps to 31.2% in the reported quarter.

Other Financials

Monster Beverage ended the fourth quarter with cash and cash equivalents of \$798 million, and total stockholders' equity of \$4,171.3 million.

In the reported quarter, the company bought back 4.1 million shares for \$229.6 million, excluding broker commissions. As of Feb 27, 2020, it had around \$536.6 million remaining under the company's previously authorized share repurchase plan.

Strategies on Track

Monster Beverage remains committed to product launches and innovation to boost growth. In fourth-quarter 2019, it launched Java Monster Farmer's Oats and two new Reign Total Body Fuel high performance energy drinks in the United States. Internationally, the company added various Monster Energy brand energy drinks, as well as Espresso Monster to its portfolio and launched Monster HydroSport Super Fuel in Germany, the Republic of Ireland and the United Kingdom during the fourth quarter.

Also, Monster Beverage launched Reign Total Body Fuel high performance energy drinks in Puerto Rico, the Republic of Ireland and the United Kingdom and is planning further introductions in other international markets in 2020. It also launched the Predator brand in other international markets and plans to expand further in 2020.

Recently, the company launched Monster Energy brand energy drinks in Israel. It also plans to introduce new products in 2020.

Recent News

Monster Beverage Announces \$500M Share Repurchase Plan - Mar 13, 2020

Monster Beverages' board has approved a new share repurchase plan worth \$500 million. The company has \$536.6 million remaining under its previous share repurchase program as of Mar 11, 2020.

Valuation

Monster Beverage shares are down 4.8% in the year-to-date period but up 11.9% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 11.2% and 15.2% in the past year, respectively. Over the past year, the Zacks sub-industry and the sector are down 2.7% and 10.3%, respectively.

The S&P 500 index is down 13.7% in the year-to-date period and 4.6% in the past year.

The stock is currently trading at 25.75X forward 12-month earnings, which compares to 21.73X for the Zacks sub-industry, 18.24X for the Zacks sector and 18.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.78X and as low as 23.27X, with a 5-year median of 31.33X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64 price target reflects 27.2X 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	25.72	21.73	18.24	18.11
	5-Year High	42.78	23.2	22.37	19.34
	5-Year Low	23.27	18.37	16.49	15.19
	5-Year Median	31.33	21.44	19.66	17.45
P/S F12M	Current	6.91	4.3	8.85	3.07
	5-Year High	10.5	5.31	11.16	3.44
	5-Year Low	6.24	3.64	8.1	2.54
	5-Year Median	8.07	4.48	9.89	3.01
EV/EBITDA TTM	Current	21.23	17.71	32.82	10.17
	5-Year High	36.08	20.88	45.11	12.87
	5-Year Low	17.77	12.21	27.13	8.27
	5-Year Median	24.03	17.56	38.38	10.78

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 40% (152 out of 253)



Top Peers

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

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	MNST Neutral	X Industry	S&P 500	KDP Neutral	KO Neutral	PEP Neutral
VGM Score	D	-	-	C	D	D
Market Cap	32.49 B	111.76 M	19.66 B	37.79 B	210.22 B	185.68 B
# of Analysts	7	1.5	13	8	9	8
Dividend Yield	0.00%	0.00%	2.18%	2.23%	3.35%	2.86%
Value Score	D	-	-	D	F	C
Cash/Price	0.05	0.12	0.06	0.00	0.06	0.03
EV/EBITDA	21.04	5.90	11.72	16.58	17.30	16.24
PEG Ratio	1.90	3.46	2.04	1.62	3.89	3.60
Price/Book (P/B)	7.80	3.07	2.66	1.62	9.95	12.53
Price/Cash Flow (P/CF)	27.75	10.82	10.44	15.58	20.05	18.26
P/E (F1)	27.13	20.27	17.51	19.62	23.98	23.32
Price/Sales (P/S)	7.73	0.87	2.12	3.40	5.75	2.76
Earnings Yield	3.69%	4.56%	5.65%	5.10%	4.16%	4.29%
Debt/Equity	0.00	0.45	0.70	0.55	1.30	1.96
Cash Flow (\$/share)	2.18	0.31	7.01	1.72	2.44	7.32
Growth Score	B	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	19.63%	5.35%	10.92%	-23.83%	0.87%	5.35%
Proj. EPS Growth (F1/F0)	9.64%	-2.73%	-1.14%	12.19%	-3.16%	3.64%
Curr. Cash Flow Growth	9.91%	9.45%	5.93%	26.76%	4.40%	-2.46%
Hist. Cash Flow Growth (3-5 yrs)	18.17%	2.10%	8.55%	22.17%	-1.10%	1.04%
Current Ratio	3.50	1.30	1.24	0.35	0.76	0.86
Debt/Capital	0.00%	31.61%	42.36%	35.55%	56.60%	66.22%
Net Margin	26.37%	0.24%	11.64%	11.28%	24.38%	10.89%
Return on Equity	27.63%	6.73%	16.74%	7.50%	44.39%	54.16%
Sales/Assets	0.84	0.84	0.54	0.22	0.42	0.88
Proj. Sales Growth (F1/F0)	7.49%	0.00%	0.45%	3.18%	-0.07%	2.90%
Momentum Score	F	-	-	D	C	C
Daily Price Chg	0.41%	0.41%	2.48%	0.94%	2.47%	0.77%
1 Week Price Chg	-3.85%	0.00%	-4.40%	-2.38%	2.38%	3.43%
4 Week Price Chg	5.44%	0.00%	11.26%	16.83%	3.90%	15.86%
12 Week Price Chg	-9.82%	-23.17%	-20.02%	-2.75%	-13.76%	-4.28%
52 Week Price Chg	10.52%	-39.31%	-11.31%	-0.04%	4.90%	9.83%
20 Day Average Volume	4,802,295	190,388	3,931,994	4,780,757	30,294,790	9,383,378
(F1) EPS Est 1 week change	0.00%	0.00%	-0.12%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.32%	-5.88%	-5.78%	-1.79%	-9.13%	-2.62%
(F1) EPS Est 12 week change	-1.27%	-10.54%	-7.64%	-1.62%	-8.92%	-3.50%
(Q1) EPS Est Mthly Chg	-3.53%	-2.41%	-10.13%	-2.41%	-13.64%	-2.33%

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	B
Momentum Score	F
VGM Score	D

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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