

DESK NOTE

13.01.2025

Constellation Brands, Inc. (STZ US) – *Sell OFF*

is mostly overdone and inconsistent with strong fundamentals. Bottom fish it now!

Conclusive Summary: Despite a small EPS and revenue miss in Q3 FY25, Constellation's performance reflects a strong foundation in its beer business (82% of revenue), with continued growth in premium brands (Modelo and Pacifico). While there are challenges within the wine and spirits portfolio, the company's strategic shift towards higher-end products and innovation within the beer segment provides a solid path forward. Company's cautious adjustment to the 25FY outlook appears prudent given the macroeconomic headwinds and consumer behavior trends and seems well balanced with the 25FY operating cash flow target raised by 3.5% and FCF by 17%. The company's capital allocation strategy of modular expansion approach and a bias towards capital return to stockholders supports long-term growth while managing near-term uncertainties. We consider current correction in the stock as an overreaction to a seasonal trough (traditionally weak 3rd and 4th qrs.) and rate STZ as a **"momentum" buy with 46% potential** on 12-month horizon and a near-term exit target at **\$200**.

Competitive Position: Despite temporary value-seeking consumer behavior, STZ's beer business still outperformed the broader beverage alcohol industry, according to Circana Track (market research firm) channels, with notable growth in dollar sales. Year-to-date FCF rose 13%, and margins should increase in the future as the new advertising marketing campaign concludes.

Valuation: Based on DCF analysis and market multiples, STZ's 12-month blended target price is estimated at \$263.39, offering a 46% upside from the recommended entry point of \$180. The most obvious risk to this estimate is the potential for Mexican tariffs under Trump, although such tariffs may not be a popular move among U.S. voters. As such, we consider this risk to be relatively low in the long term.

Ticker: STZ US

Previous day close price: \$181.83

Price range (52w): \$ 179.55 - \$274.87

Target price (12m): \$263 (+46% upside from recommended buy price)

Buy price: \$180

Reason for note: Q3FY25 report

Recommendation: ***Buy@ \$180***

Description: Constellation Brands (\$32.86B market cap) is the largest provider of alcoholic beverages in the U.S. across the beer, wine, and spirits categories, with 82% of its revenue generated from Mexican beer imports under prominent brands like Modelo, Pacifico and Corona. The remainder of its business includes select wine and spirits brands, areas in which the company has been actively trimming its portfolio in recent years. Due to its exclusive rights to the Mexican beer brands in the U.S., the company has minimal exposure to international markets. Constellation also holds a 26% stake in Canopy Growth, a medicinal and recreational cannabis producer based in Canada, and operates a 50/50 joint venture with glass manufacturer Owens-Illinois in Mexico. Dividend yield 1.8%.

Valentin Zhurba, vz@dprginvestment.com

Tel: +357 223 22030

Multiple (Historical 5 year avg.)		Factor	Target EV	Net Debt	Target MCap	Shares	Target Price
EV/EBITDA	15	4,231	63,468	11,505	51,963	180.7	\$287.56
EV/Sales	5.8	10,776	62,504	11,505	50,998	180.7	\$282.22
P/E	19	13.7			47,125	180.7	\$260.79
Avg. Multiple Price							\$276.86
DCF Price							\$249.92
Avg. Multiple & DCF Price							\$263.39

APPROVED

Private and Confidential. For Designated Party only.

Disclaimer: This document is issued by DPRG IM LTD (HE433850), a Cyprus Investment Firm authorized and regulated by the Cyprus Securities and Exchange Commission (CySEC) to offer certain investment and ancillary services and activities under the provisions of the Investment Services, the Exercise of Investment Activities, the Operation of Regulated Markets, and Other Related Matters Law of 2017, Law 87(I)/2017, as subsequently amended or replaced from time to time (the "Law"), with CIF license number (license number to be added upon authorization). The information contained herein is for informational purposes only and does not constitute an offer to buy or sell any financial instrument, nor should it be considered as personalized investment advice. Investments involve significant risks, including the potential loss of the initial investment. Past performance is not indicative of future results. DPRG IM LTD and its affiliates may hold positions in the financial instruments mentioned herein, which may create potential conflicts of interest. The company adheres to strict compliance policies to manage such conflicts and ensure transparency. For further details, please contact compliance@dprginvestment.com or +357 22322030.

