Friday Favorites: Monster Beverage (MNST)

Nvidia, Microsoft, Apple, and probably many more names come to mind if asked what the best-performing stock of the last thirty years was. Had you picked one of those names, you would be wrong.

Per CNBC:

> *The best-performing stock of the past three decades is not one of the tech titans you?d assume.*
>
> *Between Feb. 14, 1994, and Wednesday, Monster?s stock appreciated by about 200,000%. That means that if a consumer had invested $1,000 in 1994, the stake would be worth about $2 million today.*

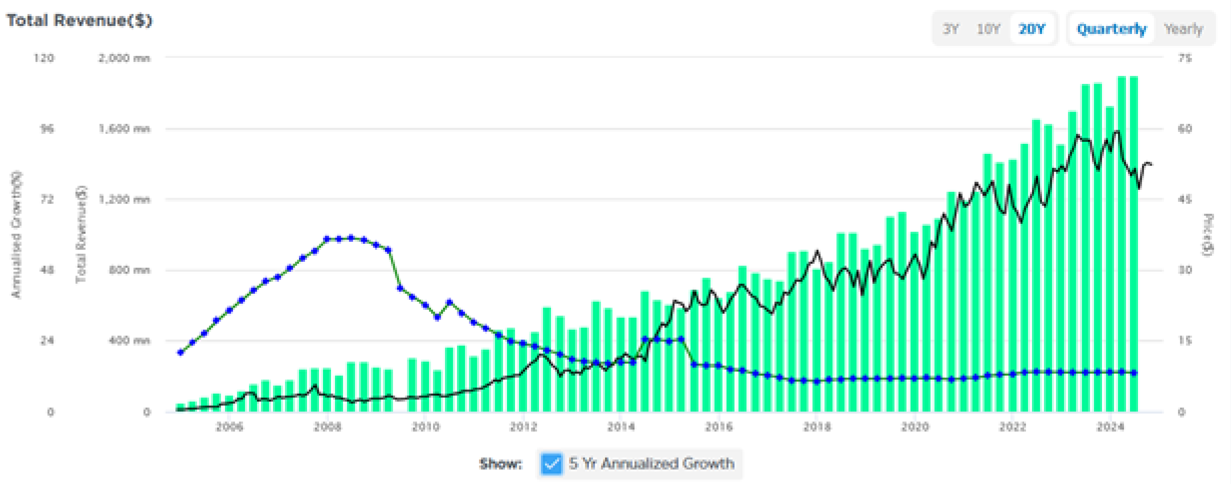
Monster Beverage (MNST) is a holding company of many different drink brands. Their most popular by far is Monster Energy drinks. Coca-Cola now owns about 20% of Monster and is their preferred global distributor. The distribution agreement creates beneficial synergies between the two companies.

Given the incredible growth of MNST shares, we must ask if more gas is left in the tank for shareholders.

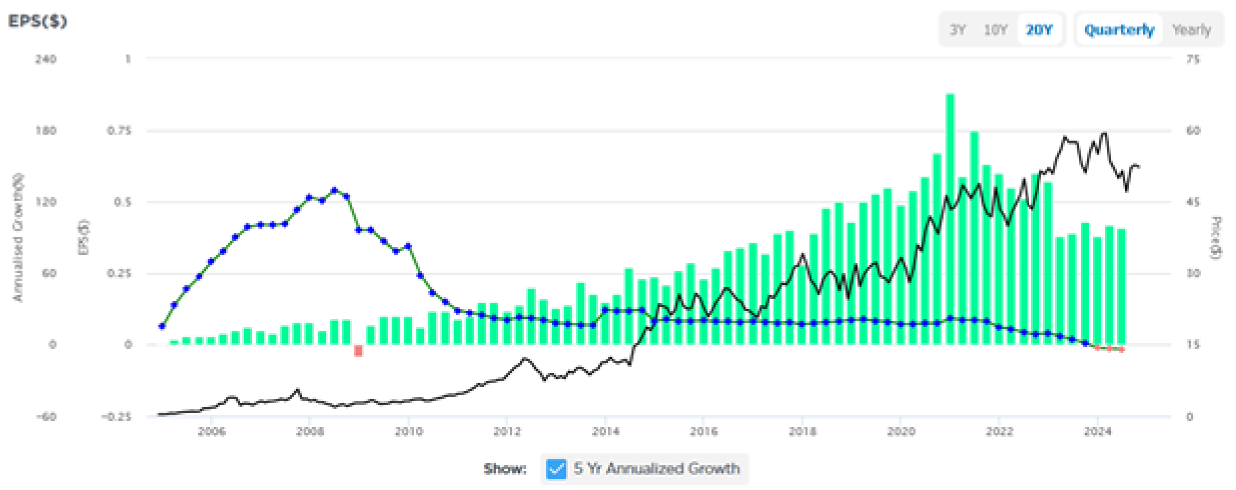
Fundamental

Believe it or not, the energy drink market is outpacing growth in soft drinks. Further bolstering MNST is their recent foray into alcohol ventures. Red Bull is Monsters? primary competitor but only has about half the energy drink market share. While it doesn?t have a monopoly in energy drinks, it certainly has brand loyalty. Moreover, competition from heavyweight companies like Coca-Cola and Pepsi has not been able to steal considerable market share.

The graph below shows the stunning growth in MNST revenues. Equally important, it has maintained a 12-14% 5-year annualized growth rate (dotted blue line) in an industry with limited growth.



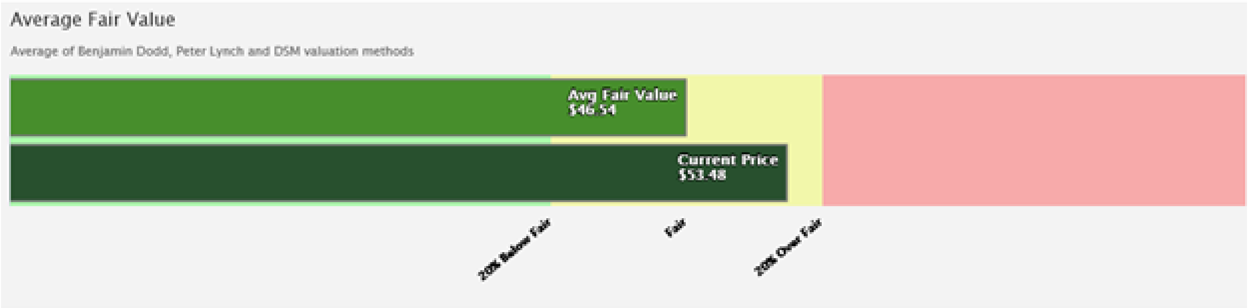
Despite the incredible sales growth, EPS has been unable to keep up. Increased competition and inflation of its input costs have weighed on earnings. It will be interesting to see if EPS will resume its growth with inflation returning to pre-pandemic levels.



Reduced margins reconcile the revenue and EPS growth gap.

With tighter margins, investors are less willing to pay a higher valuation. Its P/E, as shown below, is now near the lowest level in ten years. However, it is still relatively high for a consumer staple company. Its price-to-sales ratio is 7.35, the lowest level in ten years, but still at a high level.

While valuations are not cheap, they are at the low end of recent ranges. The stock is a little rich versus its fair value, as shown below. Based on the valuations, the market is banking on continued high growth.



The two biggest questions for shareholders are:

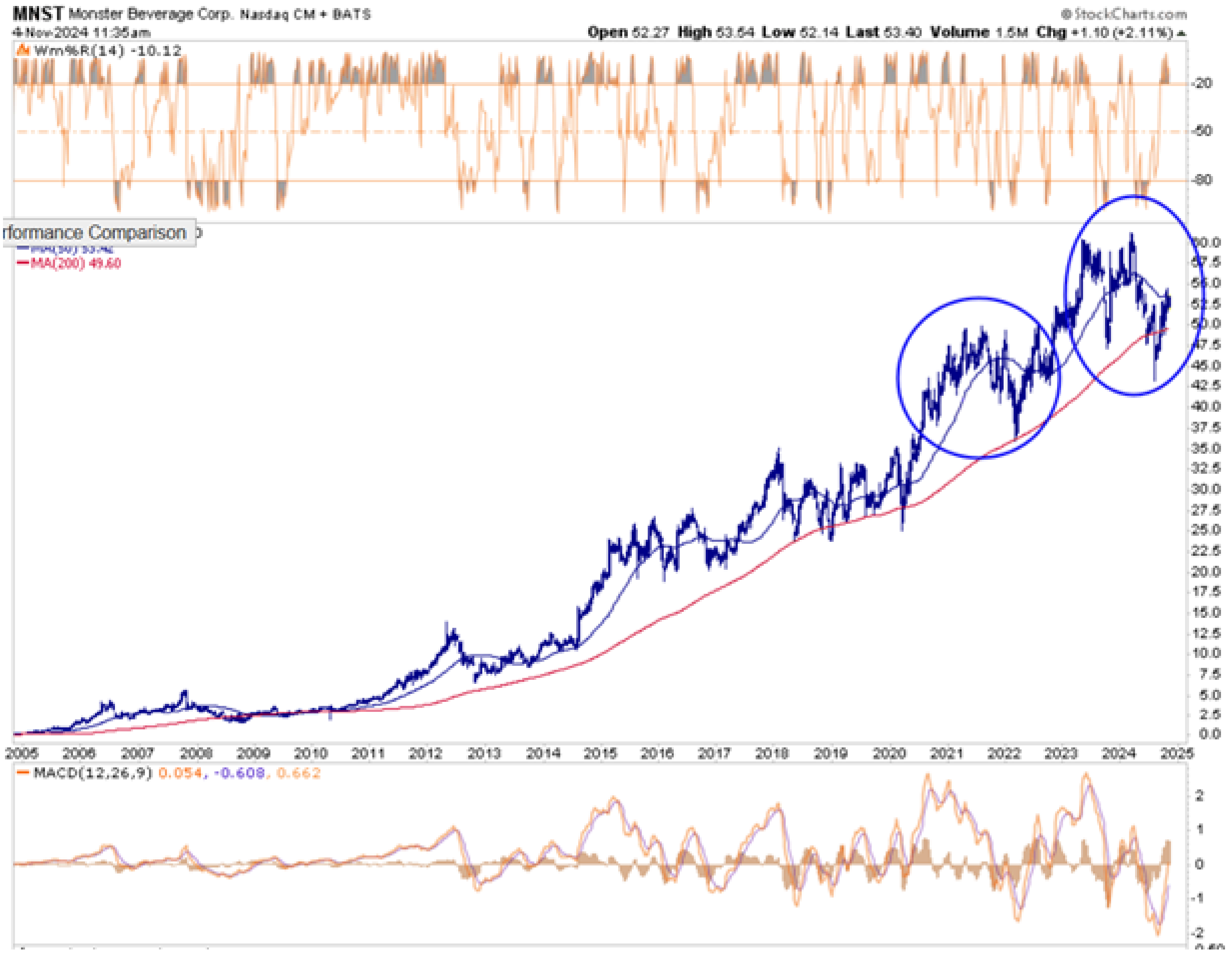
Can MNST maintain its moat and continue to dominate the energy drink sector?

Can MNST gain revenue and market share in the highly competitive alcohol sector?

Technical

MNST got hit hard on earnings in early August but has since recovered. Its stock price sits in the middle to the lower end of its two-year range. The MACD appears to be rolling over as the RSI. However, the 20dma is likely to rise above 200dma, while the 50dma is on a similar trajectory. A dip to the 50dma ($51) should provide some support and potentially be a good buying opportunity for those inclined.

The longer-term graph is more promising than the more immediate short-term graph above. The 200 WMA has proven to be a good support for the stock for the last 20 years. Moreover, its MACD is on a strong buy signal with lots of upward potential. Lastly, the circles highlight that the recent performance is like that of 2020-2022. Might the recent dip propel it to nearly double once again?



Disclosure

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