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A Financial Analysis and Valuation of Monster Beverage Corp

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Abstract: In the global beverage market, companies such as The Coca-Cola Co.(KO), PepsiCo, Inc.(PEP), Monster Beverage Corp.(MNST), and Keurig Dr Pepper, Inc.(KDP) are highly competitive with their own unique characteristics. The capital market is a platform for investors to engage in investment activities. Investors investing their funds anticipate returns either through dividends or capital gains. The profitability and liquidity ratio of dividend policy have significant effects. Financial performance has had a pivotal role in fulfilling the objective of maximizing the company's overall worth. The escalating worth of the company serves as a testament to the escalating welfare of shareholders, reflected in the profits garnered by investors, apart from dividends, through capital gains accruing from the ownership of shares. This article will analyze the characteristics, financial performance and strategic risks of these companies to provide investors with comprehensive information. MNST is the best performer in terms of short-term debt repayment capacity and liquidity, with strong solvency, low debt ratios and no long-term debt and interest expense. MNST has performed well in terms of profitability, with high profitability ratios and operating margins, showing strong earning potential. In addition, MNST has also performed well in terms of profitability of shareholders' equity. MNST has the highest market ratio, and the market has a certain optimistic attitude towards it. Overall, MNST is an attractive choice due to its high profitability, strong solvency and good market prospects.

Keywords: Monster Beverage Corp., Financial Analysis, Valuation, Risk Assessment

1. Introduction

In today's competitive business environment, Monster Beverage (MNST) is gradually gaining a place in the market thanks to its solid financial position and excellent business model [1]. Monster Beverage is a company focused on energy drinks, being loved by specific consumer groups for its unique taste and high energy content. Monster Beverage focuses on brand image and product innovation, through sponsoring sports events and holding music festivals, and establishes close ties with young, energetic and fashionable consumer groups. Monster Beverage plays an important role in the energy drink market and continues to drive the market.

Monster Beverage Company, with its short-term debt repayment ability, liquidity and solvency outstanding performance, especially the characteristics of low debt ratio and no long-term debt, has laid a solid foundation for the steady development of the company [2]. At the same time, the

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company's excellent performance in profitability and operating profit margin, as well as the relative advantages of shareholder equity profitability and asset utilization efficiency, further enhance its market competitiveness.

Monster Beverage Company's unique business model, including innovative product positioning, unique sales channels and strategies to follow the market trends, makes it stand out in the market, become an industry leader, and win the favor of many investors. However, the development of any enterprise cannot be smooth sailing, and the monster beverage company also faces some risks and challenges in the process of operation. For example, dependence on TCCCC may have a certain impact on the company's future performance, while global events such as the COVID-19 pandemic may also have a negative impact on consumer purchasing power, which in turn can affect the company's financial position.

Nevertheless, Monster Beverage Company, with its strong brand influence and market position, actively respond to various challenges and strive to maintain its competitive advantage. In the future, as the changing market and consumer demand become increasingly diversified, Monster Beverage will continue to innovate and expand the market to achieve more robust and sustainable development.

2. Performance Evaluation

2.1. Liquidity

Table 1: Liquidity ratios of MNST and its competitors.

Company names	MNST	KO	PEP	KDP
Current ratio	4.81	1.13	0.85	0.38
Quick ratio	3.97	0.95	0.68	0.25
Cash ratio	1.98	0.40	0.31	0.03

Data Source: Nasdaq

Fabozzi et al. argues that the current ratio shows the ability of a company to pay its current liabilities by using its current assets [3]. In Table 1, MNST's current ratio is 4.81, which is much higher than that of KO, PEP and KDP, means that MNST's current assets can well cover its current liabilities and have a strong ability to repay short-term debts. KDP's current ratio is only 0.38, which means that its current assets are difficult to cover its current liabilities, and its short-term debt repayment ability is weak.

In order to more accurately evaluate the short-term solvency of a company, it is necessary to exclude items with poor availability in current assets. MNST has the highest quick ratio of 3.98, indicating that its liquidity position is good. Cash Ratio is the ratio of the most liquid assets to current liabilities, taking into account only the company's cash and cash equivalents. MNST has the highest cash ratio of 1.98, demonstrating its strong cash reserves and liquidity.

According to research by Wulandari et al., the more liquid a company is, the more it will be able to repay its maturing debts [4]. MNST is the best performer in terms of both short-term debt repayment and liquidity, while KDP is the worst performer in these areas. KO and PEP companies are somewhere in between.

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2.2. Solvency

Table 2: Solvency ratios of MNST and its competitors.

Company names	MNST	KO	PEP	KDP
Total Debt Ratio	0.15	0.73	0.82	0.51
Long-Term Debt Ratio	-	0.36	0.37	0.19
Times-interest-earned	-	9.48	14.94	6.56

Data Source: Nasdaq

On the Total Debt Ratio side, MNST has a relatively low ratio of 0.15, meaning the company has relatively little debt and a light debt burden, as Table 2 shown. KO companies had a higher ratio of 0.73. The PEP companies had the highest ratio of 0.82, indicating that the two companies had heavy debt burdens. The debt ratio of KDP companies is 0.08, the lowest among the four companies, indicating that KDP companies have relatively little debt and its financial structure is relatively stable.

In Long-Term Debt Ratio, MNST performed well with no long-term loans and therefore no long-term debt burden. MNST has established a close credit partnership with Comerica Bank, with credit agreements including a revolving credit line of unsecured debt for borrowing up to $100 million. This agreement will last until June 1, 2025, and MNST also has the ability to issue a standby letter of credit of up to US $4 million. In addition, MNST has received a $15 million credit line at the HSBC Shanghai branch. However, according to the latest data, as of December 31,2023, MNST did not borrow with any of the above credit lines and has no outstanding standby letters of credit, further demonstrating its sound financial position and debt management capabilities. The KO company ratio of 0.36 and the PEP company ratio of 0.37 indicates that the two companies have a certain amount of long-term debt. The KDP company ratio is 0.19, indicating that it has relatively little long-term debt and shows a good long-term solvency.

On the Times Interest Earned side, the MNST Company has no loan, so there is no interest. The KO Company ratio is 9.48. The KDP company ratio is 6.56. The ratio of PEP company is 14.94, which is the highest interest guarantee multiple among the four companies, indicating that it has a strong ability to pay the interest.

Based on the above analysis, it can know that MNST company has strong solvency because of its low debt ratio and no long-term debt and interest expense. The KDP company also has a relatively good solvency, with the lowest debt ratio, less long-term debt, and a higher interest guarantee multiple. The solvency of KO companies and PEP companies needs to be paid attention to, especially the PEP companies, which have the highest debt ratio, and although the interest guarantee multiple is also high, they still need to pay close attention to their debt repayment situation.

2.3. Profitability

Table 3: Profitability ratios of MNST and its competitors.

Company names	MNST	KO	PEP	KDP
Profit Margin	0.23	0.23	0.10	0.15
Operating Margin	0.27	0.25	0.13	0.22
Asset Turnover	0.86	0.49	0.99	0.29

Data Source: Nasdaq

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Profitability describes a company's basic performance in terms of profitability efficiency and efficiency, and is a measure of the success and ability of a company [5]. Profitability has its own charm, especially for shareholders or potential investors in a company [6].

From Table 3, the profit margin of MNST and KO is 0.23, indicating that these two companies have strong profitability and can effectively convert sales revenue into net profit. PEP's profit margin of 0.1 is relatively low. KDP's profit margin of 0.15 is in the middle of the range, indicating that its profitability is acceptable but there is still room for improvement.

In terms of operating margin, MNST has an operating margin of 0.27, showing high profitability, indicating its high cost control and operational efficiency. KO's operating margin of 0.25 is slightly lower than that of MNST, but it also shows good profitability. PEP's operating margin of 0.13 is relatively low, which may be related to its higher operating costs or lower sales revenue. KDP's operating margin of 0.22 is in the middle of the range, indicating that its profitability is slightly lower than that of MNST and KO.

In terms of asset turnover, MNST's asset turnover ratio is 0.86, indicating that it has a high asset utilization efficiency and is able to convert assets into sales revenue relatively quickly. PEP's asset turnover ratio is 0.99, which is slightly higher than that of MNST, demonstrating its excellent asset management capabilities. KO's asset turnover ratio of 0.49 is relatively low, which means that its asset utilization efficiency needs to be improved. KDP's asset turnover ratio of 0.29 is the lowest among the four.

Therefore, MNST Company and KO Company perform well in profit margin and operating margin, showing strong profitability; PEP company is relatively weak in profitability, need to pay attention to its cost control and operational efficiency; KDP company profitability is at the medium level, but the asset turnover rate is low, need to improve asset utilization efficiency.

2.4. Investment

Table 4: Investment ratios of MNST and its competitors.

Company names	MNST	KO	PEP	KDP
ROE	0.20	0.41	0.49	0.08
ROA	0.00	0.00	0.00	0.00
Market-to-book ratio	7.64	9.95	12.23	1.56

Data Source: Nasdaq

From the above information (Table 4), it can be analyzed the profitability, asset utilization efficiency and market performance of these four companies.

ROE (return on equity) represents the rate of return on the company's shareholders' equity, namely the ratio of the company's net profit to shareholders' equity [7]. PEP company has the highest ROE of 0.49, which means that its shareholders have a strong earning ability to invest. The ROE of MNST is 0.2, relatively low, and the ROE of KDP is only 0.08, indicating that the profitability of its shareholder equity is weak.

ROA (return on total assets) represents the company's ability to make profits from all assets, namely the ratio of the company's net profit to total assets. Profitability is measured in terms of return on assets, ROA is a measurement of the company's overall ability to assets available in the company [8]. The ROA of MNST company is 0.17, which is relatively high, showing the good utilization efficiency of its assets. The ROA of PEP companies and KO companies is low, especially the ROA of KDP companies is only 0.04, indicating the low efficiency of their asset utilization.

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In terms of market ratio, KDP companies have the lowest market ratio of 1.56, while PEP companies have the highest market ratio of 12.23, indicating the relatively high market valuation of PEP companies.

In conclusion, PEP companies performed the best in terms of the profitability of shareholders' equity, while KDP companies performed the worst in this respect. MNST is relatively good in asset utilization efficiency, while KDP is also poor performance in this respect. As for the market ratio, MNST company has the highest market ratio, which means that the market has a certain optimistic attitude towards it.

3. Valuation

3.1. Forecast

Table 5: Forecast ratios of MNST and its competitors (2024/3/6).

	KO	PEP	KDP	MNST
Share price	\$59.52	\$162.04	\$29.09	\$57.89
TTM EPS	2.69	7.62	1.79	1.55
NTM EPS	2.82	8.16	1.91	1.82
EPS growth rate	4.8%	7.1%	6.7%	17.4%
Revenue growth rate	23.5%	11.3%	3.8%	11.3%
TTM P/E	22.1	21.3	16.3	37.3
NTM P/E	21.1	19.9	15.2	31.8
PEG	4.6	3.0	2.4	2.1
GP/A	27.9%	49.3%	15.5%	39.2%

Data Source: Nasdaq

As Table 5 shown, KO's revenue growth rate was as high as 23.5%, showing its strong growth momentum. But its earnings per share growth rate is the lowest of the four, at 4.8%, indicating that KO's profitability is relatively low among the four. Moreover, KO's PEG is the highest compared to the other three companies, and the GP/A is not high, which means that the market is not optimistic about the future of other competitors, and the gross profit generated in its assets is relatively low.

PEP's GP/A is as high as 49.3%, which is a very good performance, indicating that PEP can effectively use its assets to generate high gross profits. But it's important to note that its share price is the highest of the four companies, twice the second highest price. Investing in stocks with a high stock price will also be more risky.

KDP's revenue growth rate of 3.8% was the lowest among the four, which may indicate that its products have entered a period of recession, and it is difficult to maintain market share, and business profits are starting to slide. At the same time, its GP/A is only 15.5%, which is also the lowest among the four companies, which further indicates that KDP's development prospects are not as optimistic as the other three competitors.

Finally, let's take a look at MNST. Its EPS growth rate of 17.4% are the highest of the four, showing its strong profitability. Its revenue growth rate was on par with PEP's at 11.3%, showing a healthy growth trend. Its GP/A is 39.2%, which is slightly lower than that of PEP companies, but much higher than that of KO companies and KDP companies, indicating that MNST companies are performing well in gross profit and asset utilization.

The net asset value per share, a component of the overall net asset value, serves as an indicator of a fund's or a company's worth on a per-share basis. Notably, a higher net asset value per share translates to a higher present value of assets per share, which shareholders generally prefer as it suggests greater potential value. This metric serves as a foundation for determining stock prices and, to a certain extent, represents the company's overall worth. Moreover, companies rely on their net assets to generate profits and mitigate risks [9]. Based on the above analysis, the advantages of MNST Company are mainly reflected in the following aspects: first, its yield per share is very high, which shows strong profitability and provides high returns for investors; second, its revenue growth rate is not the highest, indicating the stable revenue growth and the potential for continuous growth; finally, its gross margin is also at a high level except for total assets, indicating that the company can effectively utilize assets and increase the gross margin. These advantages make MNST more attractive in these four stocks.

3.2. Strategy & Risks

MNST has always strived to occupy a leading position in the energy drink market. By launching new products and building strong ties with young, energetic and fashionable consumer groups, they target people who pursue healthy and active lifestyles, and enhance brand image and product innovation by sponsoring events such as sporting events and music festivals. In addition to focusing on its own product line, Monster Beverages is also expanding its global market to expand its brand presence and increase sales.

In terms of operational and industry risks, MNST has reduced the diversification of its distributors and is now dependent on TCCC's domestic and international distribution platforms. The company and TCCC have extensive business arrangements and, therefore, the company's future performance is largely dependent on the success of its relationship with TCCC.

In terms of market competition, the company's competitive products are mainly focused on the carbonated drinks and energy drink market, especially with energy drink brands such as Red Bull. Research by Moro-Visconti et al. shows that increasing customer satisfaction and brand image can significantly increase purchasing decisions [10]. As a result, Monster Beverages must continue to introduce new products and increase brand awareness to increase customer satisfaction and market share, and meet the challenges of competitors.

On the issue of globalization, other financial uncertainties in major markets and unstable geopolitical conditions or events in certain markets, including international conflicts, terrorism, government changes, or changes in international relations, may undermine global consumer confidence and reduce their purchasing power. For example, the COVID-19 pandemic has led to slowing global economic growth. Under difficult economic conditions, consumers may seek to reduce spending by abandoning MNST purchases or switching to low-priced products from other companies, which may reduce MNST companies' profitability and negatively impact their overall financial performance.

With the change of social taste preferences, and with the improvement of people's living standards, more people pay more attention to healthy diet, and they may be more inclined to choose low-sugar, low-fat, and high-fiber drinks. This shift in taste has led to lower demand in the traditional beverage market, with major investors concerned about the company's future profitability and market position, which could lead to a drop in the share price.

4. Conclusion

In evaluating the four companies, MNST, KDP, KO and PEP, MNST performed well in terms of short-term debt servicing, liquidity and solvency, especially its low debt ratio and lack of long-term debt, which made it financially sound. At the same time, MNST and KO lead in profitability and operating margin, while MNST's shareholder equity profitability and asset utilization efficiency are also relatively good.

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MNST has won the hearts of investors with its high earnings per share, stable revenue growth rate, and efficient asset utilization. Its unique business model, including innovative product positioning, unique sales channels, and strategies to keep up with market trends, sets it apart from the competition. However, there are certain operational risks associated with MNST, such as its dependence on TCCC, which may affect future performance, and the negative impact of global events such as the pandemic on consumer purchasing power, which in turn may affect the financial position of companies such as MNST.

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