# 3 Reasons to Continue to Own Monster Beverage

By Investopedia |


Among the primary reasons for investors to consider holding on to stock in Monster Beverage Corporation (Nasdaq: MNST) are its strong financial position, the market expansion offered through its recent partnership agreement with Coca-Cola Co. (NYSE: KO) and the general growing marketplace demand for energy drinks.

## Monster Beverage

Based in Corona, California, and formerly known as Hansen Natural Corporation, Monster Beverage Corporation is a holding company that operates through a number of subsidiaries to manufacture and market energy drinks, soft drinks and fruit drinks. Among its brands are Monster Energy, Hubert's Lemonade, Hansen's Natural Soda and Peace Tea. Although Monster only became widely known during the upswing in the popularity of energy drinks since the turn of the century, the original Hansen Natural Corporation was a successful health drink business operating in California as far back as the 1930s.

The company manufactures and distributes a full line of energy drinks, alternative soft drinks, drink mixers such as tonic water and club soda, fruit drinks, and a line of fruit drinks made specifically for children.

In the growing energy drink market, estimated as of 2015 to be worth approximately $35 billion annually, Monster Energy ranks just behind first-place Red Bull, with Red Bull commanding approximately 42% of market share and Monster at around a 39% market share.

Although energy drinks have been linked to a number of health risks, including possible heart conditions and psychiatric problems, such concerns have not dampened the double-digit annual growth in the energy drink market.

Monster's stock price virtually doubled between 2014 and 2015. Primary among the reasons for the stock's success is the partnership agreement that Monster made in 2014 with Coca-Cola.

### A Partnership That Opens Doors to New Markets

Monster and Coca-Cola put together a partnership deal in 2014, finalized in 2015, that appears to be a massive win-win for both companies in the highly competitive soft beverage industry. Coke received a 16.5% equity stake in Monster, in exchange for roughly $2 billion in cash and transfer of ownership of Coke's existing energy drinks, including the Burn and Relentless brands, to Monster. In return, Monster transferred ownership of its non-energy drink lines, such as Hansen's Natural Sodas, to Coke.

In return for making Coca-Cola its preferred distributor, Monster obtains access to Coca-Cola's vast global distribution network. This will mean gaining increased distribution in existing markets, such as the United Kingdom and Japan, and brand-new access to potentially huge emerging markets, such as China. This vast opening to new markets worldwide is projected by many market analysts to boost Monster's revenues and profit exponentially, and possibly to catapult Monster past its main competitor, Red Bull, into the number-one spot in the energy drink market.

### Impressive Financials

From a purely financial standpoint, Monster looks extremely impressive, showing the kind of cash flow, equity and profitability ratios that would make the owners of any corporation happy. The company already had approximately $1.2 billion in cash and short-term investments before receiving the massive $2 billion cash infusion from its deal with Coca-Cola. Being so flush with cash puts Monster in a position to spend large amounts of capital on advertising and marketing, as well as on developing new products, all without having to take on any financing. The company's net margin of 15% is almost four times the industry average of 3.6%. Its 2016 earnings per share growth is projected to be approximately 25%, which should make investors very happy and bring more equity investment to Monster.

Monster has zero debt, and a correspondingly impressive quick ratio of 2.5, indicating the company has more than ample liquidity to handle current expenses.

### A Growth Industry

The energy drink market is projected to continue to outpace the annual 3% average growth rate for soft drinks overall. Industry estimates for market growth range between 9 and 18% for the next five years. Odds are that Monster will be at the top end of that range, if not higher.