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Britvic

Beverages

1 August 2018

Still(s) crazy

Britvic (BVIC) has successfully managed two potential threats – the Soft Drinks Levy (SDIL) and the industry CO_2 shortage – to confirm modest earnings growth prospects for FY18. The recent heatwave might otherwise have driven outperformance. But with redirected marketing driving double-digit stills growth, the position was held. Looking forward, as BVIC's business capability programme completes and benefits start to flow, more meaningful earnings growth may narrow the discount to peers.

Resilient performance in Q3

Three factors complicated Q3: the SDIL (from April), CO_2 shortages and the heatwave. BVIC managed these resiliently, with Q3 total revenue growth of 3.4%, taking the year to date to 4.2% (H1: 4.5%). On an ex-SDIL basis Q3 declined 0.6%. That was led by GB sales +1.9% with outstanding stills growth of 11.7%, where, responding to the CO_2 issue, marketing was switched from carbonates, -2.9%. Regions mainly grew strongly: Ireland +6.6% ex-SDIL, Brazil +10.2%, international (mainly US) +8.7%. France declined 15.0%, on strong comps and poor weather.

Market share growth in major brands

Within carbonates, Pepsi continued to gain share, led by the no-sugar Pepsi Max. Meanwhile, buoyed by the marketing switch, stills showed strong growth for both Robinsons, which has been re-establishing share, and J2O. A range of H2 activation actions, highlighted at interim, are being executed effectively in wider regions. Management, which has guided to a net zero profit effect from SDIL, should be able to give a clearer analysis of any net impact at the year end.

Modest growth expectations confirmed

BVIC guides to full-year performance in line with consensus. FY18 is a transition year for BVIC's business capability programme (FY16-19), which should deliver long-term benefits including supply efficiencies. A 3.4% yield is twice covered and supported by net debt leverage guided at 2.1–2.3x.

Valuation: FY19e growth may compress discount

BVIC trades at a FY18e P/E of 14.9x, a 31.8% discount to the All-Share Beverages current year index and a 28.8% discount to AG Barr, reflecting its relatively geared balance sheet and relatively slow near-term earnings growth. However, with FY18 now effectively confirmed, market attention should switch to the higher-growth FY19 forecast (PBT +10.7%, EPS +6.3%), which could see those discounts narrow.

Consensus estimates

Year end	Revenue (£m)	EBITDA* (£m)	PTP* (£m)	EPS* (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
09/16	1431.3	230.1	157.9	49.3	24.5	11.8	16.3	3.0
09/17	1540.8	246.1	164.7	52.9	26.5	11.0	15.2	3.3
09/18e	1498.5	256.6	164.6	54.0	27.4	10.6	14.9	3.4
09/19e	1562.5	270.6	182.2	57.4	28.9	10.0	14.0	3.6

Source: Britvic, Bloomberg. Note: *Adjusted.

Price	804.0p
Market cap	£2,126m

Share price graph

Share details

Code	BVIC.L
Listing	LSE
Shares in issue	264.4m

Business description

Headquartered in the UK, Britvic is a soft-drink beverage company. The company participates in the marketing and manufacturing of popular brands including PepsiCo in Great Britain and Ireland. Through a number of acquisitions, Britvic has expanded its operations into Ireland, France and, more recently, Brazil.

Bull

- Market leadership status: number one in branded still soft drinks and number two in branded carbonated soft drinks in Great Britain
- Growing market share in an expanding underlying Great Britain market
- Further benefits of business capability programme in rationalising supply chain still lie ahead

Bear

- Full effects of Soft Drinks Industry Levy on sugar in soft drinks still to emerge, creating some uncertainty
- Mixed volume progress in Europe and International regions
- Net debt leverage currently towards top of medium-term target range of 1.5–2.5x. However, on reducing capex, leverage should fall through FY19 to consensus forecast of 1.7x in FY20.

Analysts

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