

Britvic

Beverages
3 February 2020

A robust beginning to FY20

Britvic's Q1 trading was in line with management expectations, indicating a good start to the year. The company acknowledges that market conditions 'remain challenging', but it is confident of achieving market expectations for the year. Q1 revenue was £369.8m, up 4.9% vs the prior year. This includes a benefit from extra trading days. On a comparable days and constant FX basis, revenues were up 2.6%.

French disposal ongoing, new ESG credit facility

As previously announced, discussions on the potential sale of assets in France are ongoing, and management remains confident that – subject to regulatory approval – the transaction will complete later in 2020. Separately, the company has announced its first sustainability-linked revolving credit facility, which includes a number of KPIs linked to its sustainable business strategy. Meeting KPIs will result in a reduction in margin payable, and Britvic will donate the saving to agreed charities.

Strategy evolution

Britvic's strategy has evolved as consumer tastes and preferences are changing. The strategy builds on previous pillars, and revolves around: (1) focusing on core brands; (2) redefining the role of each market; (3) delivering efficiency to fuel growth while building capability to access new opportunities (potentially through selected M&A); and (4) increased focus on building trust and respect through its 'healthy people, healthy planet' initiative. Britvic's strategy has generated good returns, with a six-year EPS CAGR to FY19 of 9.2% and DPS CAGR of 8.5%, and management believes the business can continue to deliver dependable and profitable growth. Following temporary increased capex to implement the Business Capability Programme (BCP), net debt should begin to normalise while the BCP-enabled cost savings and simplification should underpin long-term growth.

Valuation: Discount should narrow

Britvic trades at a consensus FY20e P/E of 14.8x, a c 35% discount to the UK beverages sector, and a c 25% discount to AG Barr (calendarised), reflecting its geared balance sheet and the fact some of its brands are part-owned by third parties. However, we believe that with sustained earnings and income delivery, and reducing balance sheet leverage, those discounts should narrow.

Consensus estimates

Year end	Revenue (US\$m)	Adjusted EBIT (US\$m)	EPADR (US\$)	DPADR (US\$)	P/E (x)	Yield (%)
09/18	1969.7	269.9	1.55	0.74	15.2	3.1
09/19	2070.2	280.5	1.57	0.79	15.0	3.3
09/20e	2028.9	289.0	1.60	0.88	14.8	3.7
09/21e	2053.1	299.7	1.68	0.86	14.0	3.7

Source: Refinitiv, company data

Price **\$23.57**
Market cap **\$3118m**

Underlying £ price converted at £1.31/US\$.
 ADR/Ord conversion ratio 2:1

Share price graph



Share details

Code **BTVCY**
 Listing **OTC**
 Shares in issue **132.3m**

Business description

Britvic is a soft-drink beverage company with headquarters in the UK. The company participates in the marketing and manufacturing of popular brands including PepsiCo in Great Britain and Ireland. Britvic also has operations in France, Brazil and selected other EU markets.

Bull

- Market leadership status: number one in branded still soft drinks and number two in branded carbonated soft drinks in Great Britain.
- Growing share in an expanding underlying Great Britain market.
- BCP programme has unlocked a continuous improvement mindset and has allowed Britvic to free up some capacity.

Bear

- French business performance continues to be weak and is likely to remain weak in H120 as proposed changes are complex and may take a while to be implemented
- Brands are in part-owned by third parties.
- Adjusted net debt/EBITDA at 2.1x at end FY19 but should reduce further with a medium-term range of 1.5–2.5x.

Analysts

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