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Britvic

Consumer

2 December 2020

Adapting to the new normal

As expected, the COVID-19 pandemic caused significant declines in out-of-home consumption, which were partly offset by gains in at-home consumption and market share. Full year revenue declined 6.8% on a constant currency basis, while adjusted EBIT was down 21.9% at constant currency, and adjusted EPS was down 27.8%. A full year dividend of 21.6p was confirmed, following the decision in H1 to prudently suspend the dividend. Management focused on cash and cost efficiency to mitigate the impact of the pandemic as much as possible. During the period, the company extended its carbonates relationship with Pepsi to 2040. The outlook is understandably cautious, given the uncertainty in terms of further restrictions in Britvic's main markets. Nevertheless, management has carefully planned its approach, and the agility demonstrated so far should continue to help Britvic navigate the uncertain environment.

Brazil continues to grow strongly

Brazil witnessed volumes up 13% and revenues up 12.4% in FY20, with strong sales of RTD juices Pure Coco and Fruit Shoot. New pack formats broadened the appeal and affordability of Britvic's offering, and innovation resulted in successful expansion into new categories. Lockdown restrictions during H2 encouraged a consumer switch to at-home consumption and – coupled with management's focus on rejuvenating the category – resulted in increased market share.

Adapting to the new normal

Britvic has responded with agility to the pandemic and the changing consumer and customer trends that this has brought. Decisive action was taken early to mitigate the adverse effect of the pandemic on financial performance, and the fact the dividend has been restored demonstrates management's confidence in the business. The balance sheet, with £520.4m of net debt at end FY20, has enough headroom and liquidity to withstand further restrictions. Extensive modelling has been undertaken and all scenarios indicate headroom on debt covenant tests in FY21, with a peak in H121.

Valuation: Discount should narrow

Britvic trades at a consensus FY21e P/E of 15.5x, a c 50% discount to the UK beverages sector and a c 30% discount to AG Barr, reflecting its geared balance sheet and the fact some of its brands are part-owned by third parties. We believe the discounts should narrow over time as balance sheet leverage falls, though in the shorter term COVID-19 uncertainty remains the biggest risk for the sector.

Consensus estimates

Year end	Revenue (£m)	Adjusted EBIT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
09/19	1,545.0	214.1	59.8	30.0	13.9	3.6
09/20	1,412.4	165.8	43.2	21.6	19.2	2.6
09/21e	1,524.0	196.6	53.4	28.5	15.5	3.4
09/22e	1,594.8	212.2	59.1	30.7	14.0	3.7

Source: Refinitiv, company data

Price	829p
Market cap	£2,204m

Share price graph

Share details

Code	BVIC
Listing	LSE
Shares in issue	265.9m

Business description

Britvic is a soft-drink beverage company with headquarters in the UK. It 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

- The soft drinks segment is relatively resilient and at-home consumption has increased.
- The business has demonstrated its agility by adapting to new consumer habits.
- Market leadership status: number one in branded still soft drinks and number two in branded carbonated soft drinks in Great Britain, now number one in RTD juice in Brazil.

Bear

- RoW business performance continues to be weak, with out-of-home declines and lockdown restrictions adversely affecting the Irish business in particular.
- On-trade and on-the-go consumption will take a while to bounce back after easing of restrictions caused by COVID-19.
- Adjusted net debt/EBITDA was 2.4x at end FY20 and 2.5x at H120. The medium-term range is 1.5–2.5x, although the COVID-19 pandemic is likely to push out any substantial reduction in this metric.

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