

Britvic

Consumer
23 July 2020

Q320 in line with expectations

Britvic's revenues for first nine months of 2020 (9M20) were £1,028m, down 5.1% at constant currency, while Q3 revenue was £329m, down 16.3%, which was in line with company expectations. Britvic gained market share across its business units. As expected, the COVID-19 pandemic caused significant declines in out-of-home consumption, which were partly offset by gains in at-home consumption.

Guidance on COVID-19 impact maintained

Previous company guidance, issued in March, suggested the impact of full COVID-19 restrictions on adjusted EBIT, net of mitigating actions, would be £12–18m per month. Lockdown restrictions started to ease as Britvic entered its crucial summer trading period, but management comments that it is too early to judge the impact this will have on the business, and hence it maintains its previous estimated monthly impact.

Coca-Cola commentary is encouraging

In its Q2 results, Coca-Cola stated that global unit case volume trends have been improving sequentially, from a decline of c 25% in April to a decline of c 10% in June, and unit case volume for July is down mid-single digits, as lockdown restrictions are eased globally. This should provide some comfort, as it suggests the situation for the entire soft drinks sector should be improving for Britvic's crucial summer trading period.

Valuation: Discount should narrow

Britvic trades at a consensus FY21e P/E of 14.5x, a c 40% 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 those discounts should narrow over time with reducing balance sheet leverage, although in the shorter term COVID-19 uncertainty remains the biggest risk for the whole sector.

Consensus estimates

Year end	Revenue (\$m)	Adjusted EBIT (\$m)	EPADR (US\$)	DPADR (US\$)	P/E (x)	Yield (%)
09/18	1914.8	262.3	1.42	0.72	14.3	3.5
09/19	1967.6	272.7	1.51	0.76	13.5	3.7
09/20e	1765.5	197.8	1.05	0.58	19.4	2.9
09/21e	1882.5	250.0	1.40	0.71	14.5	3.5

Source: Refinitiv, company data; Converted at 1.27/US\$. Dividend yield excludes withholding tax. Investors are advised to consult with their tax advisors for exact dividend computations.

Price
US\$20.32
Market cap
US\$2,711m

Underlying £ price converted at £1.27/US\$.
ADR/Ord conversion ratio 2:1

Share price graph



Share details

Code	BTVCY
Listing	OTC
ADRs in issue	133.4m

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

- Soft drinks segment is relatively resilient and at-home consumption has increased.
- Factories and distribution less likely to have supply chains disrupted.
- Market leadership status: number one in branded still soft drinks and number two in branded carbonated soft drinks in Great Britain.

Bear

- French business performance continues to be weak and is likely to remain weak in the near term as proposed changes are complex and timing has been extended due to COVID-19.
- 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 2.1x at end FY19 and 2.5x at end 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.

Analysts

Sara Welford	+44 (0)20 3077 5700
Russell Pointon	+44 (0)20 3077 5700

consumer@edisongroup.com
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