

# Britvic

**Consumer**
**2 June 2020**

## H120 results

FY20 started well, with value share gains in GB, Ireland and Brazil. As expected, lockdown has affected out-of-home and on-the-go consumption in particular. Conversely, sales of at-home consumption packs have increased significantly, thus leading to an adverse mix effect. GB and Ireland have been the most affected markets for Britvic, as they have a greater exposure to the out-of-home channel. The company is maintaining its guidance of a likely monthly impact from the COVID-19 pandemic of £12–18m adjusted EBIT, though its scenarios seem very conservative.

## H120 results

There was a planned change in the reporting period, which affects reported growth rates, as H120 is 26 weeks vs 28 weeks in H119. Reported revenue was down 9.1%, but up 1.4% on a like-for-like and constant-currency basis. Adjusted EBIT was up 9.4% on this comparable basis, but down 9.6% on a reported basis, with adjusted EBIT margin up 80bps on a comparable basis. The dividend was deferred to later in the year for prudence, when the impact of COVID-19 will be clearer.

## COVID-19 update

Britvic had issued a statement on 23 March with a COVID-19 update, in which it shared a sensitivity analysis and attempted to quantify the monthly impact on the business of a full lockdown in its markets. It suggested this would be £12–18m on adjusted EBIT, depending on the scenario. The company is now sharing further details: the scenarios included an assumption that a level of restriction on movement would continue until March 2021, and that only a small proportion of out-of-home outlets reopen during this time. In addition, it assumed the busiest trading period in FY20 was affected. As lockdowns are eased across Britvic's key markets and the level of trading restrictions reduces, we expect the monthly EBIT impact should also be lower. Of course, management has already taken the necessary mitigating actions to protect profit and cash flow, such as reducing A&P, stopping all non-essential and non-committed capex, and tightly managing working capital.

## Valuation: Discount should narrow

Britvic trades at a consensus FY20e P/E of 15.9x, a c 40% discount to the UK beverages sector and a c 30% discount to AG Barr (calendarised), 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)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
09/18	1,503.6	206.0	56.3	28.2	13.1	3.8
09/19	1,545.0	214.1	59.8	30.0	12.3	4.1
09/20e	1,420.7	160.6	46.2	23.4	15.9	3.2
09/21e	1,501.0	192.4	55.6	28.9	13.2	3.9

Source: Refinitiv, company data

**Price** 733p  
**Market cap** £1,956m

### Share price graph



### Share details

Code BVIC  
 Listing LSE  
 Shares in issue 266.8m

### 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 may 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

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