

# Britvic

**ADR research**
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## Q3 trading statement: Still(s) crazy

Britvic (BVIC) has successfully managed two potential threats – the Soft Drinks Levy (SDIL) and the industry CO<sub>2</sub> 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 program 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<sub>2</sub> 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<sub>2</sub> 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

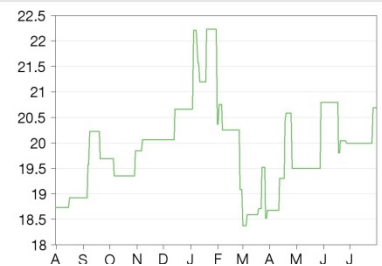
| Year end | Revenue (US\$m) | EBITDA (US\$m) | PTP (US\$m) | EPADR (US\$) | DPADR (US\$) | EV/EBITDA (x) | P/E (x) | Gross Yield (%) |
|----------|-----------------|----------------|-------------|--------------|--------------|---------------|---------|-----------------|
| 09/16    | 1,878.4         | 302.0          | 207.2       | 1.29         | 0.64         | 11.6          | 16.0    | 3.0             |
| 09/17    | 2,022.1         | 323.0          | 216.2       | 1.39         | 0.70         | 10.9          | 14.9    | 3.3             |
| 09/18e   | 1,966.7         | 336.8          | 216.1       | 1.42         | 0.72         | 10.4          | 14.6    | 3.4             |
| 09/19e   | 2,050.6         | 355.1          | 239.1       | 1.51         | 0.76         | 9.9           | 13.7    | 3.6             |

Source: Britvic, Bloomberg. Earnings, dividends translated and restated per ADR by Edison

**Price**
**US\$20.69**
**Market cap**
**US\$2,736m**

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

#### ADR price performance



#### Share details

|              |        |
|--------------|--------|
| Code         | BTVCY  |
| Listing      | OTC    |
| DRs in issue | 132.2m |

#### 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 program in rationalizing 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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