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Britvic

Beverages

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Managing events for sustained returns

In FY18 the UK sugar levy (SDIL) and CO_2 shortage took the shine off a potentially landmark summer. Nevertheless, Britvic (BVIC) delivered good EPS growth of 6.4% on revenue up 5.1%. A five-year track record of 10% EPS CAGR, with debt within target, indicates earnings quality. Looking ahead, as the business capability programme ends, bringing planned returns, further growth and lower leverage may narrow the wide discount to peers.

Strong brands grow absolute value and share

GB stills revenue grew 4.2% y-o-y: Robinson's is back in growth. Squash is the number one gainer on post SDIL switching, and Fruit Creations the number one soft drink launch in the last two years (Nielsen). J_2O resumed growth on higher marketing, in-store action and success with the Spritz variant. Low/no sugar brands (7UP, Tango, R Whites, Purdey's, Lipton) grew strongly. Pepsi, led by MAX, grew value share +120bp despite CO_2 distortions. Only Fruit Shoot declined on competition and fewer price promotions. Meanwhile, brand innovation hit a record 7.1% of revenue.

Regions: Domestic weighting to growth

GB carbonates grew revenue (ex-SDIL) 10% and contribution 7.4% to £251.7m. Stills revenue grew 4.2% with Robinsons and J_2O offsetting Fruit Shoot's decline, and contribution 4.1% up at £116.6m. France's contribution slipped 0.6% at £81.4m, but Ireland's grew 15.1% including Ballygowan, MiWadi, Counterpoint and FY17's East Coast acquisition. International grew contribution 48% to £10.2m, and more significantly, Brazil by 6.9% to £24.8m. Adjusted net debt was £575.5m, up £72.6m on deferred consideration, but leverage is 2.2x, within the target 2.0–2.5x.

Strategy: Good shareholder returns

Strategy has four pillars, to: generate profitable growth in core markets; realise global opportunities; step-change business capability; and build trust and respect. This has generated good returns with a five-year EPS CAGR of 9.8% and DPS CAGR of 8.9%.

Valuation: FY19e growth may compress discount

BVIC trades at FY19e P/E of 13.7x, a 34% discount to the All-Share Beverages 12-month index and a 39% discount to AG Barr (calendarised), reflecting its geared balance sheet, partial ownership structure and steady earnings growth. However, with sustained earnings and income delivery, those discounts may narrow.

Consensus estimates

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
09/17*	1430.5	246.1	164.7	52.9	26.5	11.0	15.2	3.3
09/18	1503.6	259.6	175.2	56.3	28.2	10.4	14.3	3.5
09/19e	1563.0	269.9	183.2	58.9	29.6	10.0	13.7	3.7
09/20e	1601.0	283.2	198.5	62.4	31.3	9.6	12.9	3.9

Source: Britvic, I/B/E/S. Note: *Adjusted.

Price	**806p**
Market cap	**£2,133m**

Share price graph

Share details

Code	BVIC.L
Listing	LSE
Shares in issue	264.7m

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 share in an expanding underlying Great Britain market.
- Further benefits of business capability programme in rationalising supply chain still lie ahead in FY19.

Bear

- Mixed volume progress in Europe and International regions.
- Brands are in part owned by third parties.
- Net debt leverage of 2.2x, while in medium-term target range of 2–2.5x, may appear high. However, on reducing capex, leverage should fall through FY19 to consensus forecast of 1.7x in FY20.

Analysts

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