

Britvic

COVID-19 update

Britvic has issued an update on the impact of the coronavirus. Prior to recent developments, trading was broadly in line with expectations. The recently announced government-mandated measures, however, will significantly affect consumption in outlet and on-the-go. The company has undertaken extensive modelling. Assuming the current conditions persist across its key markets, management's best estimate is that the impact on the group is a reduction in EBITA of £12–18m per calendar month. Britvic also updated on its financial position, with headroom available versus its lending covenants.

Modelling the effects of COVID-19

The COVID-19 situation is clearly unprecedented and it is still too early to determine its full effects given the duration of the restrictions is unknown at this stage. Britvic has undertaken extensive modelling, but of course that could also prove to be inaccurate. For example, Britvic has anticipated some minor potential disruption to its supply chain, but any enforced closure of its major production or distribution sites is not included. As discussed above, the company estimates a £12–18m EBITA impact per calendar month. This compares to current consensus adjusted EBIT of £222m for FY20.

Financial headroom

Britvic has also provided an update on its financial position: net debt/EBITDA was 2.1x at end FY19 versus covenants at 3.5x. EBITDA/net interest expense was 14x for FY19 versus covenants at 3x. Britvic believes its relationship with a broad banking group and its position as a longstanding issuer in the private placement market could provide access to c £1bn of facilities, which will help absorb the impact of the coronavirus.

Valuation

Britvic's share price has been under pressure since the COVID-19 pandemic came to the fore in the UK, with a 30% fall between 5 and 20 March. The latest announcement has led to a further fall of c 6%. Consensus is broadly unchanged since our last note in January, suggesting the risk to the numbers is on the downside. The company's relatively higher leverage and its comparatively higher fixed costs mean it is less resilient to a sudden demand shock than some of its better-capitalised peers.

Consensus estimates

Year end	Revenue (\$m)	Adjusted EBIT (\$m)	EPADR (US\$)	DPADR (US\$)	P/E (x)	Yield (%)
09/18	1638.9	224.5	1.22	0.61	12.5	4.0
09/19	1684.1	233.4	1.29	0.65	11.8	4.3
09/20e	1683.1	241.4	1.32	0.67	11.6	4.4
09/21e	1704.0	247.5	1.40	0.71	10.9	4.6

Source: Refinitiv, company data

Beverages

26 March 2020

Price **\$15.21**
Market cap **\$2,011m**

ADR/Ord conversion ratio 2:1

Share price graph



Share details

Code **BTVCY**
 Listing **OTC**
 ADRs in issue **132.3m**

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 could be less affected.
- Factories and distribution less likely to be asked to shut down as classified as part of the food chain, albeit soft drinks are more discretionary.
- Market leadership status: number one in branded still soft drinks and number two in branded carbonated soft drinks in Great Britain.

Bear

- On-trade and on-the-go consumption will fall to zero due to restrictions caused by COVID-19.
- Supply chain could be affected by COVID-19 pandemic.
- Adjusted net debt/EBITDA was 2.1x at end FY19. 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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