

Britvic

Consumer
26 May 2021

Optimistic about recovery

As expected, Britvic witnessed strong growth during H1 in at-home channels and gained share in GB and Brazil, though restrictions continued to affect performance in the hospitality and on-the-go consumption segments. H1 revenue declined 6.3% on a like-for-like and constant currency basis, while adjusted EBIT was down 15.4% on this basis, and adjusted EPS was down 20%. The interim dividend has been reinstated at 6.5p per share. Management continued to focus on cash and cost efficiency to mitigate the impact of the pandemic as much as possible. Trading has been encouraging in the first weeks of H2 as lockdown measures have been eased in the UK. Planned investment will increase in H2 to capitalize on market opportunities and drive long-term growth. The mix is expected to improve as on-the-go consumption recovers and at-home growth moderates.

H121 results

Reported revenue was down 11.7%, and down 6.3% on a like-for-like and constant currency basis. Adjusted EBIT was down 15.4% on this comparable basis, but down 20.6% on a reported basis, with adjusted EBIT margin down 110bp. Adjusted net debt was £94.3m lower year-on-year. The board has reinstated the interim dividend, following the suspension last year due to the pandemic.

Business demonstrates resilience and agility

Britvic has demonstrated its resilience with its response to the pandemic, and the changing consumer and customer trends that this has brought. Decisive action was taken early to mitigate the adverse effect of the pandemic on its financial performance. The balance sheet, with £587.3m of net debt at end H121, has peaked in terms of net debt/EBITDA and is now on a downward trajectory. There remains ample headroom and liquidity, and the sound financial footing will enable Britvic to invest with confidence in H2 to emerge strongly as the GB on-trade reopens.

Valuation: Discount should narrow

Britvic trades at a consensus FY21e P/E of 20.0x, a c 20% discount to the UK beverages sector (excluding Fever Tree) and a c 10% 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 (US\$m)	Adj EBIT (US\$m)	EPADR (US\$)	DPADR (US\$)	P/E (x)	Yield (%)
09/19	2,187.7	303.2	1.68	0.85	15.7	3.2
09/20	2,000.0	234.8	1.22	0.61	21.6	2.3
09/21e	1,951.9	215.4	1.31	0.68	20.0	2.6
09/22e	2,071.1	263.7	1.62	0.81	16.2	3.1

Source: Refinitiv, company data

Price US\$26.31
Market cap US\$3,510m

Underlying £ price converted at £1.42/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

- The soft drinks segment is relatively resilient and at-home consumption has increased.
- The business has demonstrated its agility by adapting to new consumer habits, eg Rockstar relaunched in H2 and acquisition of Plenish.
- Market leadership status: #1 in branded still soft drinks and #2 in branded carbonated soft drinks in Great Britain, #1 in RTD juice in Brazil.

Bear

- RoW business performance continues to be weak, with out-of-home declines and lockdown restrictions adversely affecting the Irish business in particular, though the closure of the wholesale business should aid future profitability.
- On-trade and on-the-go consumption will take a while to bounce back after the easing of restrictions caused by COVID-19.
- Adjusted net debt/EBITDA was 2.4x at end FY20 and 2.8x at H121. The medium-term range is 1.5–2.5x.

Analysts

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