

Britvic

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BVIC

GBP £7.55

Core

LOW

Shooting for the US & India

Following our look at non-alcoholic beverages (mainly soft drinks) last week Britvic has announced solid interim results. The group also revealed progress in taking the Fruit Boost children's drink into the US and India. With a broad product portfolio, operating momentum and an attractive valuation we rate the shares as a buy.

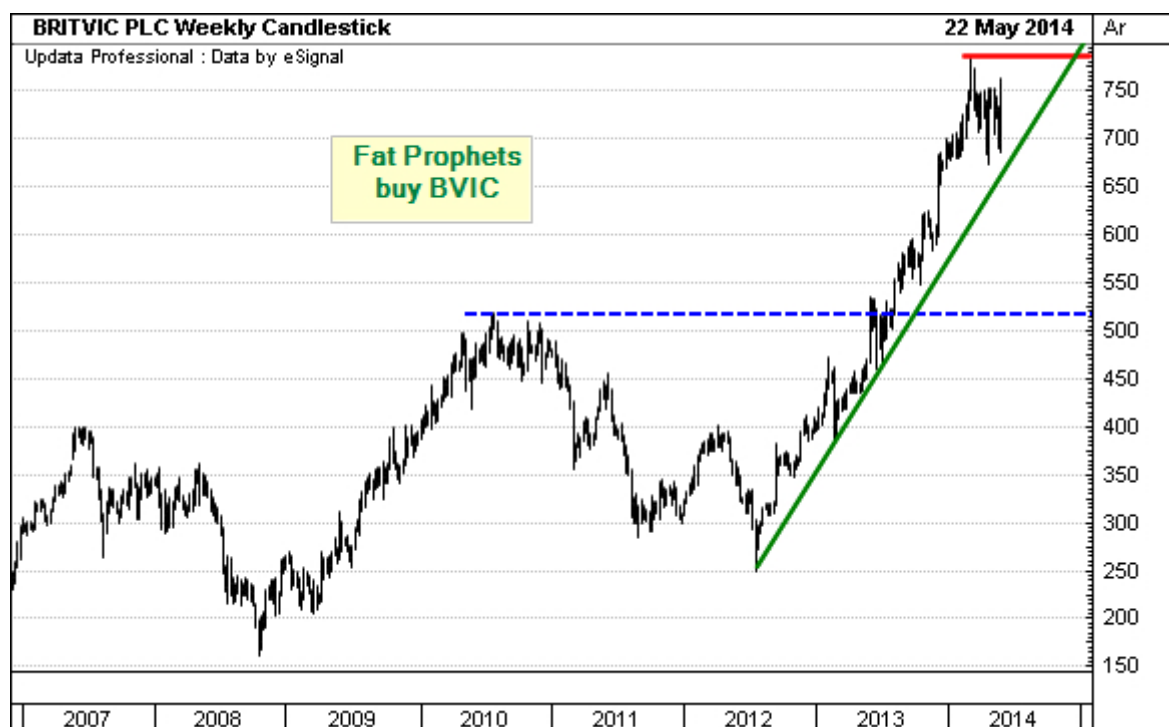
In our review of non-alcoholic beverages last week we noted that demand for non-alcoholic drinks is forecast to be 5.8% a year from 2014 to 2017. This is faster demand growth than for food, home care and personal care products.

Accordingly, non-alcoholic drinks are an attractive part of the consumer staples space for investors to consider. Non-alcoholic drinks are mainly soft drinks which are defined as water with a flavoring agent and typically also include a sweetener.

However, natural products like mineral water and fresh fruit juices have also been seeing solid growth. The UK has four listed non-alcoholic drink groups which we covered last week and are Coca-Cola HBC, Britvic, AG Barr and Nichols.



Turning to the charts the outlook is very constructive in our view, and we expect further gains over the longer term. Following a break-out in the middle of 2013 the shares have continued to move higher, hitting 784.95p at the end of February 2014. Since then the shares have moved sideways but this week's move above the 50-day moving average suggests the corrective stage is over. With a moderate RSI reading we would therefore expect a continuation of the longer-term uptrend.



Non-alcoholic drink Trends

In our review of the non-alcoholic drinks last week we noted that sugary drinks (typically fizzy or carbonated) have seen a health backlash. This is as the high sugar content has led to increased rates of obesity and diabetes.

Makers of carbonated drinks do offer diet (or low sugar/calorie) versions to attract health conscious consumers. However, the artificial sweeteners used for these products typically contain aspartame which may have negative health effects.

An alternative sweetener is the stevia plant which is gaining traction in a range of products. The US FDA has slowed down the adoption of stevia in the US, though, which may be on account of the powerful sugar lobby.

Pure fruit drinks are a natural alternative to high-sugar fizzy drinks but can also be high in sugar.

Accordingly, brands like Innocent have been criticized for promoting fruit juices as healthy without highlighting their sugar content.

An apparent compromise for consumers are still drinks space which typically contains less sugar than carbonated drinks. These are flavoured to add to their appeal and include prominent still drink brands like Robinsons.

Britvic: a still drinks leader set for international growth

Britvic has a diversified portfolio which includes still drinks like Ballogowen (mineral water), Robinsons, J2O, Drench and Fruit Shoot. In the first half of Britvic's financial year still drinks contributed £82.9m of Great Britain profits while carbonated drinks contributed £104.8m and still drinks are a large part of the group's French business.

By contrast Coca-Cola HBC has 63% of its volume is from sparkling beverages with a 330ml Coke having 139 calories. A 330ml Irn-Bru can (AG Barr's key brand) has 141 calories and a 330ml can of Vimto (Nichols key brand) has 122 calories.

This creates the risk that these groups will suffer if the shift to healthy drinks continues or if there is a tax on sugary drinks. Irn-Bru and Vimto are idiosyncratic brands and, with them set against Coca-Cola and Pepsi, they are likely to have limited international success.

By contrast, Britvic's Robinsons brand is associated with Wimbledon and has a traditional "British feel" which should appeal overseas. Robinsons squash actually started at the Wimbledon tennis championships in 1935 with the invention of Robinsons Lemon Barley Water.

We therefore view Britvic as the most attractive UK soft drinks group for investors as it is well placed to offset the backlash against sugary drinks and has strong potential for international growth.

Robinsons at Wimbledon



Source: Google images

A good example of Britvic's overseas ambition is the current roll-out of Robinsons Fruit Shoot across the US and the imminent launch in India. This is a children's drink which will help introduce the Robinsons brand across new markets.

Britvic's strategy and ambitions

Britvic will become one of the world's most admired soft drinks businesses



Being the benchmark integrated branded soft drinks business in GB & Ireland



Fully exploiting global opportunities in Kids, Family and Adult



Creating a simple focused operating model



Being trusted and respected in our communities

Source: Britvic presentation

Britvic in focus

Britvic splits up its markets geographically with Great Britain (GB) the dominant driver of profits. In H1 GB carbonates (fizzy drinks) made a profits contribution of £104.8m (up 4.6%) while GB stills (drinks) was £82.9m (up 1.8%).

The next largest market is France which gave an H1 contribution of £30.3m which was up 12.2% in constant currency terms (13.5% actual). Britvic acquired the Fruite French soft drinks company for £202m in 2010.

Fruite's key brands include Teisseire (dilutable squash) which sponsors the Tour de France and Pressade fruit juices. Part of the acquisition rationale was to launch Fruit Shoot in France and we note that the product is now the market leader in France.

Britvic's market positions

Great Britain

#1 Stills supplier

#2 Carbonates supplier

#1 supplier to pubs and clubs market

#2 supplier to take-home market

Ireland

#1 Stills supplier

#2 Carbonates supplier

#1 supplier to pubs and clubs market

#2 supplier to take-home market

France

#1 Syrups supplier

Ireland was the third biggest profit contributor at £21m in H1 which was down 13.9% in constant currency terms (13.2% actual). This was due to the difficult market conditions in the country.

Lastly, the International division made only a £10.7m contribution but this was up 17.6% in constant currency terms (9.1% actual). This is the area that should hold significant promise for Britvic going forward.

The international opportunity is huge

Large and attractive markets

- Kids juice drinks market c.\$10bn globally
- Liquid dilutes market c.\$11bn and c\$10bn for powder
- Desirable for emerging middle class consumers

Strong brand attributes and heritage

- Fruit Shoot - "Appealing to kids and welcomed by parents"
- Robinsons and Teisseire – established category leaders
- Strong technology to produce superior products

Attractive space to operate in

- Less competitive space in which to operate
- Stills category offers new growth opportunities in many markets
- "Better for you" agenda

Positive feedback from consumers retailers & bottling partners

- Positive consumer reception in other markets
- Offers local partners new category growth opportunities
- Economic models established

Source: Britvic presentation

Britvic's international roll-out: Fruit Shoot's of growth

The leading brand the group is taking forward is Robinsons Fruit Shoot which is seeing a vigorous marketing push. The brand is set to be available nationally in the US and will also be launched with a partner in India soon.

Fruit Shoot marketing

Fruit Shoot promotion with global phenomenon Angry Birds and sponsored TV on Nickelodeon

- Strong engagement with target audience
- Motivating kids to learn new skills in fun and interactive ways

Fruit Shoot tie-in with Tour de France

- Major sampling campaign at event stages in France and GB
- Branded floats and prominent feature & display



Source: Britvic presentation

In the US a second manufacturing site for Fruit Shoot will start in June and we note that **US sales almost doubled year-on-year**. An agreement to stock the drink with the 7-eleven convenience chain has also been reached.

Fruit Shoot achieves national distribution in USA



- Fruit Shoot now national in USA
 - Increased footprint with PAB into states including California
 - New distribution agreement with major independent bottler Admiral Beverages Corporation (ABC)
 - Other independent bottlers now taking Fruit Shoot into their territories
- Second manufacturing site in St Louis starts production in June
- National listing in 7-ELEVEN stores secured
- Sales nearly doubled YOY, despite the prolonged poor winter weather in the USA



Source: Britvic presentation

India is also exciting opportunity with a launch set for the middle of this year which will initially target 10 major cities. India has a population of over 1 billion people and also has a young demographic which makes it attractive.

On-track in India for a mid-2014 launch

- In-market team is now established
- Supply chain model now operational
 - Sustainable capacity through dedicated production line with Pepsi co-packer
 - Flavour house partner and procurement chain established
 - Commercial production on-track
- Major consumer campaign aligned to Diwali festival
- Target of 10 major cities / c.100k outlets
- 4 flavours available in single-serve format
 - Mango, Apple & Pear, Strawberry & Raspberry and Apple & Blueberry



Source: Britvic presentation

Product development

Developments at other brands include Drench which is a still fruit flavoured drink and has stevia as the sweetener. The Ballygowen mineral water has also been recently launched in the UK.

Product innovation

“Refreshed” Juicy Drench to better meet needs of 30+ year olds in soft drinks

- New pack design
- No artificial colours, sweeteners or flavours and 30% less sugar



J2O Pear Gold returns for the summer

- Only 85 calories per bottle



Squash'd launch allows consumers to enjoy Robinsons out of home

- Defining this new sub-category
- Bringing new consumers into both soft drinks as well as squash



Source: Britvic presentation

Another recent launch has been the super concentrate form of Robinsons which allows it to be more easily taken out of the home. J2O (a still fruit drink) is also seeing new flavours and has a lower calorie count than fizzy drink cans from competitors.

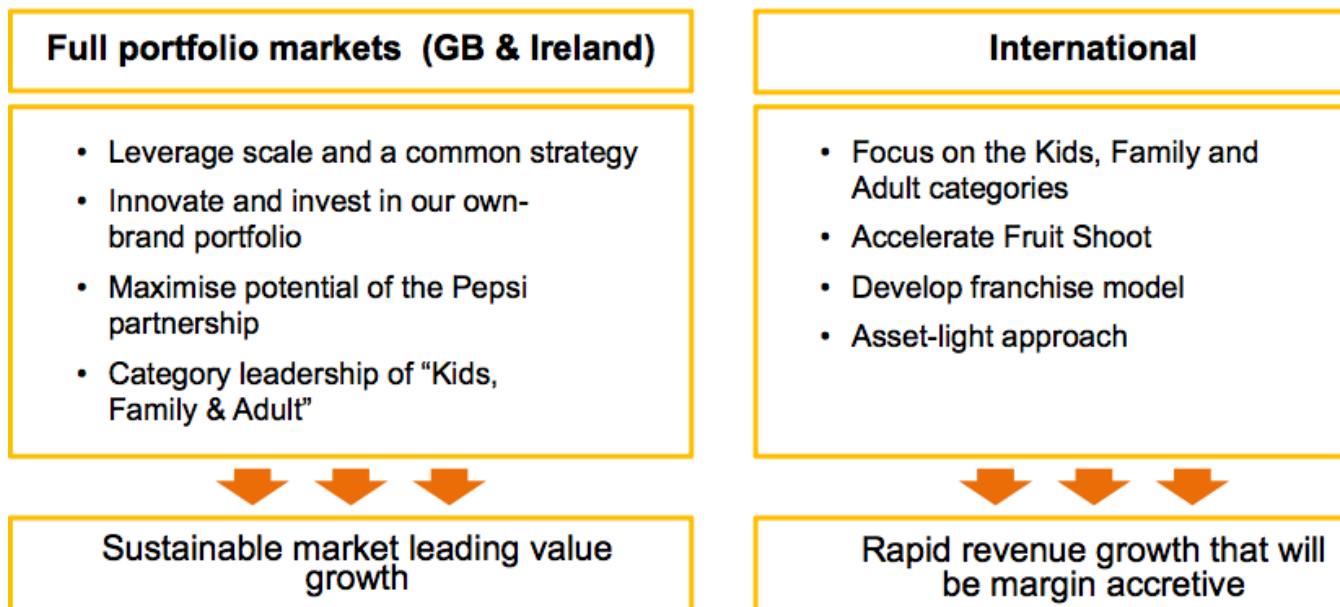
Management & Strategy: going international

The CEO of Britvic is Simon Litherland who was at Diageo for 20 years before joining Britvic in 2011. He was appointed in May 2013 as CEO and set out a plan to expand and simplify the business and to implement a new strategy.

We also note that the former Diageo marketing executive Matthew Barwell has been appointed chief marketing officer at Britvic. This should help Britvic in its international marketing efforts and in achieving better value for marketing buck.

Britvic new strategy

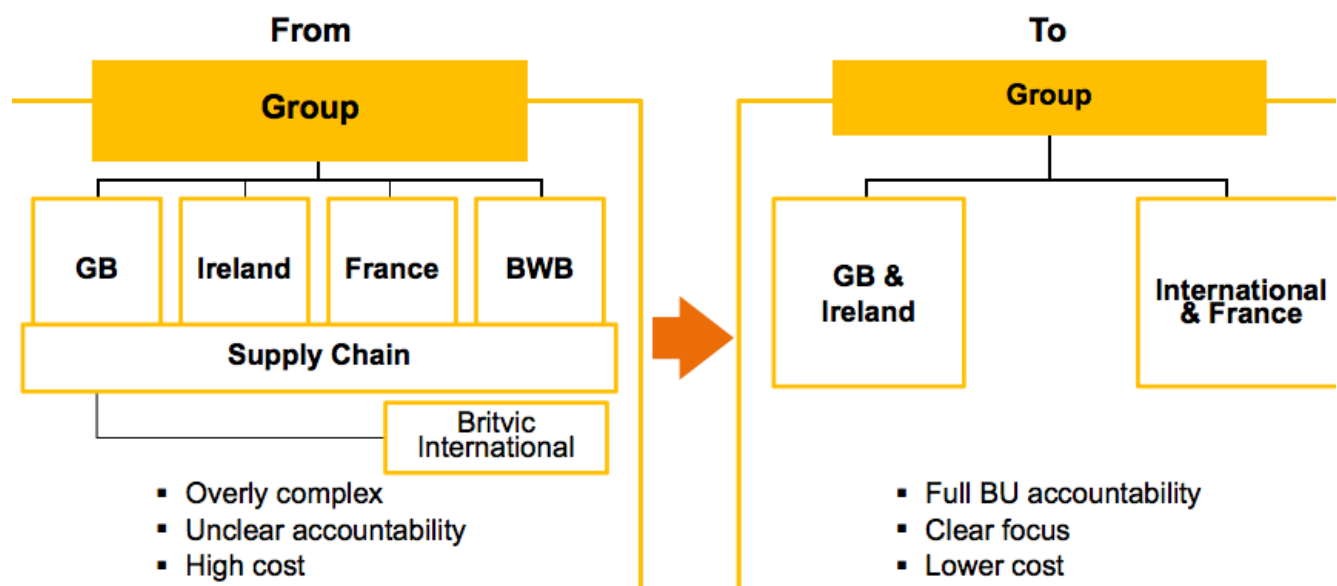
Our new strategy has two distinct legs



Source: Britvic presentation

Britvic New organisational structure

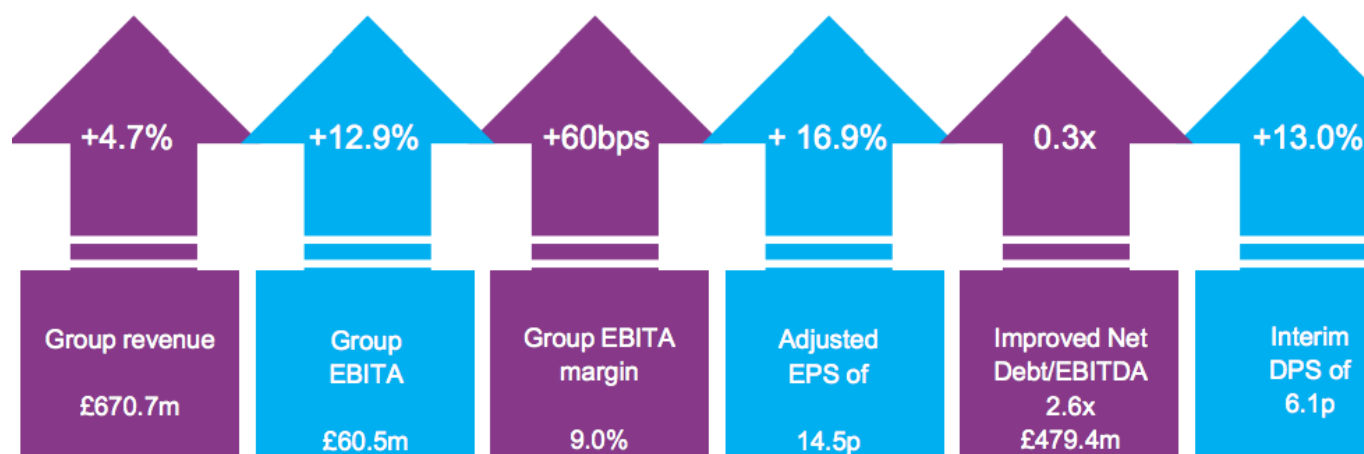
Transitioning to a simplified organisational model



Source: Britvic presentation

Financial results and balance sheet

The 28-weeks to the 13th April 2014 saw the group report solid progress in terms of revenue and profits. Earnings per share rose by 16.9% and the group lifted the dividend by 13% to 6.1p a share.



Source: Britvic presentation

Britvic also lifted advertising and promotion (A&P) spending in the first half to support volume growth. H1 A&P spend was up 40.5% to £30.9m which made it 4.7% of revenue versus 3.5% the year before.

The balance sheet saw adjusted net debt fall by 4.8% from the year before to £480m. This meant a net debt to EBITDA ratio of 2.6X versus 2.9X a year ago which shows improving financial strength.

Currently the coupon profile of existing debt is at a rate of 5.5-6%. As debt matures the group is able to re-finance at lower rates which will continue to lower the interest cost.

Summary and valuation

The interim results have seen the shares rally with the forecast P/E ratio now 18X for the year to September 2014. However, this falls to 16X for the following year and then 14.1X for the year after that.

These multiples compare favorably to the other two soft drink players in the UK which are AG Barr and Nichols. Britvic is also at a lower rating than Coca-Cola and Pepsi which are on 19.5X and 19X forecast 2014 earnings.

This is despite the attractive positioning of Britvic in still drinks as opposed to high sugar fizzy drinks. The group also has good growth prospects as it takes its Robinsons brand abroad initially through the Robinsons Fruit Shoot product.

The current forecast dividend yield is attractive at 2.7% for the year to September 2014 and increases to 3% the following year and then 3.2% the year after (2.1X covered in each year). With regard to the interim dividend the ex-dividend date for the 6.1p payment is the 28th May 2014.

Although the group has seen volatility in the past we have rate the stock as low risk as it is becoming increasingly diversified. Market share changes and competitive pressures are the key threats but Britvic looks well placed given its new leadership and ramp up in advertising spending.

A further risk is that new management is too ambitious and fails in its international expansion efforts. However, to mitigate this Britvic looks for partners in new markets, adopts a franchise model and is cautious on which markets it enters.

Accordingly, we recommend Britvic as a buy for all members. Given the recent rally in the shares buying over time is a prudent strategy.

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Snapshot BVIC

Britvic

Latest Closing Price: £7.55

Britvic PLC (Britvic) and its subsidiaries, together, operate in the soft drinks manufacturing and distribution industry, principally in the United Kingdom, Republic of Ireland and France. The Company's portfolio brands include Robinsons, Tango, J2O, drench, MiWadi, Ballygowan, Teisseire and Fruite. In addition, in Great Britain and Ireland, it produces and sells a number of PepsiCo's soft drinks brands, including Pepsi, 7UP and Mountain Dew Energy, under an agreements with PepsiCo.

Market Capitalisation:£1.8bn

	FY1	FY2
Price to Earnings	18.1	15.9
Dividend Yield (%)	2.7	2.9
Price to Book	26.4	15
Return on Equity (%)	106	78.5