Britvic 06/12/2018 **FAT-UK-761**

BVIC GBP £8.50 Core **LOW** S

Fat Prophets take Profits

Britvic (LON.BVIC) has had a 'sweet' 2018 with management navigating the headwinds of the sugar tax and the lack of fizz (CO_2 shortage) well and ending the fiscal on a positive note with growth in both top- and bottom-lines. However, the growth prospects onwards look to be priced in thus we believe this sugar rush is over and believe it's best to exit from the position and watch the headwinds play out from the sidelines.

What's new?

In our last coverage of the stock back in August (FAT-UK-745), we took a look at the company's 3rd quarter trading update which showed that the Soft Drinks Industry Levy (SDIL, i.e. sugar tax) had a 'unique' effect contrary to traditional economic theory where a tax would reduce consumption.

It, in fact, led to 'buoyed' results, noted by Britvic executives, and built on a solid 1H18 period, though to be fair, Britvic does have non-sugary drinks in its portfolio which also gained strength while the standard Cola performed fairly well.

The public response to the sugar tax was nevertheless surprising enough as researchers from Nielsen, a data analytics company, noted that a majority (~62%) of shoppers didn't change their consumption while only 1% noted they will stop drinking sugary drinks vs the 11% before the tax was introduced. It seems that the sugar rush is hard to let go.

Considering the public's love for sugar (and carbonated drinks) held on, Britvic's shares have also continued to trend up and in fact reached multi-year highs following the company's release of its FY18 results – we will review below – which showed that management did navigate headwinds well.

However, in light of those developments, we don't see much upside on the shares considering that the company is in its transition year for its 'business capability programme' but its impact is already priced in, in fact 'City' (or consensus) estimates for earnings of 57.2p per share in FY19 is only 1.6% higher than the FY18 result showing that there's not much improvement expected.

Thus, we believe it's the most opportune time to take profits and exit while ahead.

Brief Results Review

Starting from the top and **revenues for the FY18 were up 5.1% year-on-year (+2.7% organic) to £1.5036 billion** despite the aforementioned headwinds from the sugar tax and the shortage of Carbon Dioxide (CO_2) due to management's efforts of promoting aggressively and the resilience of its brands.

CEO Simon Litherland commented on the period saying that they "… have delivered a strong performance in a challenging environment. I am delighted that we have grown our stills brands, demonstrating that our investment in innovation and marketing is beginning to pay off".

On a divisional basis, the **GB Carbonate** business made comeback after the CO_2 disruption and gaining the lead on rival Coca-Cola. Notably, the standard Cola category only saw modest volume decline despite the 'sugar tax' while Pepsi MAX led the way in terms of growth. Overall volume here increased 1.0% while revenues increased 4.9%, a tad faster due to price hikes leading to 100 basis point improvement in margins.

The **GB Stills** unit benefitted from the 'sugar tax' with other customers switching over with Robinons and J20 exhibiting robust volume growth (+2.9% yoy). Revenues also trended well (+4.2% yoy) while margins were flat due to increased Advertising & Promotional expense as well as some COGS (cost of goods sold) inflation.

Overall, the **UK** had a decent year-on-year result with overall volumes up 1.5% to 1.641 billion litres and revenues 8.1% higher to £891.3 million. Contributions (gross profit) increased 6.3% to £368.3 million. Notable developments include market value and volume gains as illustrated in the graphic below:

FY	Market Volume	+2.6%		+7.6%		(2.1)%	+0.4%
	Market Value	+6.9%	Ex-Levy +5.7%	+10.8%	Ex-Levy +9.4%	0.0%	(0.1)%

GB take-home market data is supplied by Nielsen and runs to 29 September 2018. ROI take-home market data is supplied by Nielsen and runs to 9 September 2018. French market data is supplied by IRI and runs to 16 September 2018. Brazil concentrates market data is supplied by Nielsen and runs to 30 September 2018

Source: 29 November 2018 Company Presentation

France, on the other hand had a difficult year with a fall in private label volumes leading to an overall drop of 6.4% to 263 million litres. Management noted that this was due to the business cutting out unprofitable contracts. There was also the impact of weather on Branded syrups while Fruit Shoot struggled against intensifying competition.

As a result, France revenue fell 4.3% to £269.2 million while gross profit also fell slightly 0.6% to £81.4 million all due to lower volumes. Margins, however, improved 70 basis points to 32.8% as management culled unprofitable private label contracts. Market volume declined while value was flat.

Looking next door at **Ireland**, volumes inched up 2.2% to 221.3 million litres though revenues accelerated at a faster 12.5% pace to £174 million from favourable product mix. This in turn also increased margins by 70 basis points to 32.8% and gross profit surged 15.1% year-on-year to £57.1 million. The company made the most headway in market in Ireland marking double digit gains in value and a solid 7.6% gain in volume share.

Across the Atlantic and into **Brazil**, the region saw a recovery in the 2H18 with volumes making up declines in the first half now up 13.0% to 210.6 million litres however this didn't translate directly to revenues which saw a 2.8% decline to £120.1 million due to unfavourable currency translation. Gross profit, though, improved up 6.9% to £24.8 million due to currency impact and lower raw material costs. Margins likewise surged 180 basis points to 20.6%.

The other **International** segment saw growth as the company ramped up expansion into the US which more than offset declines in Asia and the Middle East. Overall volumes increased 5.5% to 43.8 million litres while revenues increased 5.8% to £49 million. Increasing scale also improved margins by 590 basis points to 20.8% and gross profit surged 47.8% year-on-year to £10.2 million.

Looking at group level profitability, Adjusted EBIT increased 5.4% year-on-year to £206 million. EBIT margins, on a statutory basis, were flat as the acquisition costs and bad debt one-offs had an impact according to management.

Adjusted earnings per share increased 6.4% to 56.3p beat average consensus expectations of 54.1p. The interim dividend was also hiked 6.4% to 28.2p and beat expectations 27.5p.

A STRONG FINANCIAL PERFORMANCE

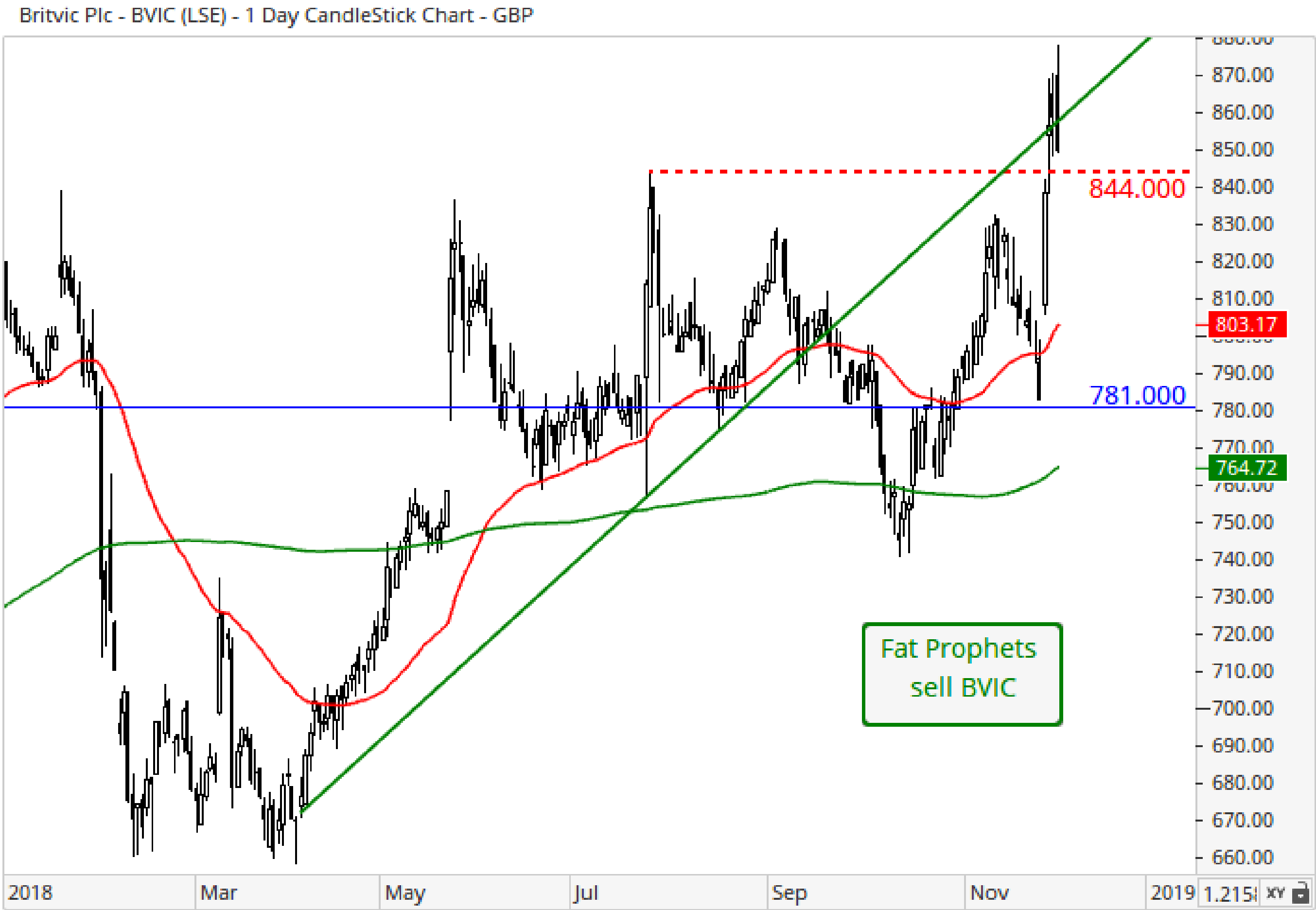
Metric		Reported %	Organic %
Revenue	£1,503.6m	+5.1%	+2.7%
Adjusted EBIT	£206.0m	+5.4%	+4.0%
Adjusted EBIT Margin	13.7%	-	+10bps
Adjusted EPS	56.3p	+6.4%	-
DPS	28.2p	+6.4%	-
Adjusted Net Debt/EBITDA	2.2x	2.0x	(0.2)x

Source: 29 November 2018 Company Presentation

Going forward, management spoke in broad terms about their outlook in 2019 highlighting their awareness of rising uncertainty. It should be noted though that they're making adjustments on their trading updates going forward with it becoming "simplified" and that the focus should be on "long-term strategic goals".

This is not to say that management has something to hide, but we believe they are more privy to 'going-on's' in the business and this may augur lumpy reporting periods. That said, we do note that growth has already been priced in and **we reiterate our view to SELL the stock and move on**.

Turning to the charts, and on the daily, the underlying upward trendline (in green) has remained largely in place this year, and has been recaptured after a correction which unfolded in September. Should this latest upward move fail, prices could easily fall back to support at 781p.



On the monthly chart, the overall dynamic has been positive since 2009, however a range has evolved between 519p (the 50% Fibonacci retracement) and 788p from early 2014 to 2017. This was successfully pierced this year, and prices are now looking to surmount the 127.2% Fibonacci retracement at 860p. From a monthly perspective, a failed test could see prices back at 788p, the top of the previous range.

Britvic Plc - BVIC (LSE) - 1 Month CandleStick Chart - GBP

Summary

Britvic ended FY18 on a strong note with management navigating the period well despite headwinds in the form of the sugar tax and the CO_2 shortage earlier in the year. However, it seems that the market has already priced in next year's growth with expectations of only a 1.6% upside to this year's result thus we believe it's best to part ways while gains are still on the table.

Accordingly, we recommend Members SELL their holdings in Britvic (LSE.BVIC), and coverage of the stock will cease immediately.

LVMH, MGM China, Mitsubishi Corp., Mitsubishi UFJ, Mitsui Fudosan, Mizuho Financial Group, Nintendo, Nippon Telegraph and Telephone, Nissha Printing Co., Nomura Holdings, Panasonic, PICC Property & Casualty, Powerhouse Energy, PPHE Hotel Group, Randgold Resources, Reliance Industries, Resona Holdings, Riverstone, Royal Dutch Shell, Sands China, Societe Generale, Sony Corporation, SPDR Gold Trust ETF, Square Enix, Sumitomo Chemical, Sumitomo Mitsui Financial Group, Tata Motors, TE Connectivity, Telepizza, Tencent, THK Co., Toyota Motor, VanEck Vectors Junior Gold Miners ETF, Volkswagen, Walt Disney, Wynn Macau, Wynn Resorts, XTD, Yaskawa Electric, Zillow. These may change without notice and should not be taken as recommendations.

Snapshot BVIC

Britvic

Latest Closing Price: £8.4968

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:£2.25b

	FY1	FY2
Price to Earnings	14.5	13.5
Dividend Yield (%)	3.4	3.7
Price to Book	5.8	4.8
EV/EBITDA	10.7	10.1