

FeverTree Drinks PLC

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Bull vs Bear: Is FeverTree losing its fizz?

FeverTree Drinks PLC (LON:FEVR) shares lost some of their sparkle this morning, but the numbers were still stupendous. The bears say it is running out of steam, the bulls that it is barely scratching the surface.

Who's right? We weigh the arguments.

READ: FeverTree falls flat as interims underwhelm READ: The Naked Fund Manager's guide to behavioural finance The bull argument Growth still unbelievable

Growing revenues by almost 75%, doubling adjusted underlying earnings and earnings per share and achieving sales growth in its largest market by 118% is very impressive.

Many investors have picked on the seemingly less-than-bullish tone used in the outlook for this year, when the company said it had enjoyed an "encouraging" start to 2017.

On the surface it doesn't sound as upbeat as recent updates, but FeverTree used the exact same phrase this time last year, and look how that panned out...

The company has a history of under-promising in its outlook statement and outperforming in subsequent updates and reports.

Not all about the UK

Although it's unlikely to be an easy task (not impossible, though) to beat the stonking sales growth enjoyed in the UK last year, FeverTree's home market accounts for less than half of total sales.

The real focus should be on the acceleration of growth abroad, in the huge, relatively untapped markets of Europe and the US. FeverTree's presence grew last year, but at nowhere near the rate it enjoyed in the UK.

Sales in Europe grew 24% on a constant currency basis in 2016, while sales across the pond and in the rest of the world gained 36% and 88% respectively.

Those figures, particularly in Europe and the US, should be easy pickings for FeverTree in 2017, especially given the partnerships signed with Target in the States and Rewe in Germany recently.

If FeverTree can crack those foreign markets, like it says it can, then the potential for the company is massive.

Beefing up its offering and partners

To try and target those lucrative markets above, FeverTree announced that it is working on a new range of ginger beers.

Americans tend to prefer dark spirits as opposed to gin and vodka, hence the move to expand the range, while FeverTree also brought out its Madagascan cola towards the end of 2016.

Price: 2153

Market Cap: £2.5 billion

1 Year Share Price Graph



Share Information

Code: FEVR

Listing: AIM

52 week High Low
3290 1697.02

Sector: Retail

Website: www.fever-tree.com

Company Synopsis:

Fever-Tree is the world's leading supplier of premium carbonated mixers for alcoholic spirits by retail sales value, with distribution to approximately 50 countries internationally. Based in the UK, the brand was launched in 2005 by Charles Rolls and Tim Warrillow to provide high quality, natural mixers which could accompany the growing demand for premium spirits.

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The company also introduced its popular 150ml can range last year which opened it up to the travel sector, another big market.

It signed a new deal with British Airways in 2016, while Easyjet PLC (LON:EZJ) also came on board, showing that Fevertree isn't just for those who travel lying down.

Rumours are always circulating about Fevertree's product pipeline, but it did confirm in the results that it would look to build on the success of its can range.

The bear argument Difficult to sustain UK growth

One of the most striking figures in this morning's interims was the 118% year-on-year sales growth recorded in the UK.

That's spectacular growth in its home, and largest, market. Unfortunately the downside to that is it will be difficult to match or beat that in the coming year, which is what investors will be looking for.

Given the stagnating wages in real terms, a G & Premium T is one of the first things to go when things get tight.

Any drop-off in UK growth is likely to have a significant impact on overall revenue growth, which in turn will be punished by the market given the premium valuation.

Poor growth abroad

The UK growth was better than many had expected, but sales in Europe and USA - the two supposedly big potential markets - underwhelmed.

Investors would've hoped for a bit more growth than the 24% and 36% Fevertree generated in both territories respectively.

With UK growth likely to slow in the coming few years and Europe and USA not looking like picking up the slack, it doesn't bode well for overall growth.

Where's the bullish outlook gone?

Fevertree is famed for its bullish statements, after which upgrades normally follow.

There was none of that today though, instead it simply said trading had been "encouraging" so far in 2017.

Is that a sign that growth isn't what it once was? Perhaps.

For Fevertree to carry on trading at over 100-times earnings, investors need to be constantly reassured that the growth that's priced into its valuation is continuing.

At the moment, the consensus among analysts is for Fevertree to generate a pre-tax profit of £37.5mIn on sales of little over £120mIn this year, not the kind of figures it needs to sustain its share price.

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