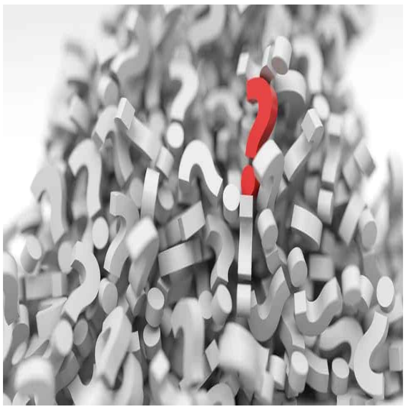

Has Cott Corporation Gone Flat?

Description

Cott Corporation (TSX:BCB)(NYSE:COT) took a nasty dip in the latter part of last year, but it has since started to rebound. The upward movement was stopped in its tracks as a sub-par earnings report slowed the momentum the company had gathered this year. Should you buy shares of Cott on the weakness? Or has the company lost its fizz for good?

Cott is a private supplier of soft drinks to the world. Unlike some of the bigger players in the soda industry, Cott's brands are pretty much unknown to most.

Have you heard of RC Cola, Red Rooster, MacB, or Blue Charge?

Neither have I. These brands are definitely not something to write home about, but Cott has penetrated many markets with its vast portfolio of beverages, and further sales growth from current levels is not completely out of the question.

Recent Q1 EPS and revenue miss stopped the rally in its tracks

Cott reported earnings per share of -$0.13 and a revenue of $896.4 million, both of which missed analyst expectations by $0.06 and $13.38 million, respectively. Despite the underwhelming results, Cott kept its full-year target revenue, which is expected to be over $3.7 billion. I believe the post-earnings sell-off was warranted, but I think the rally will pick up where it left off in the months that follow.

Issues surrounding Cott

Since Cott doesn't have a solid brand to stand by, the company can't really charge a price per can as high as its larger competitors. As a result, margins are thin, and that leaves very little room for error. This makes it a lot easier for the company to lose money in a given quarter, so I'd recommend caution if you're thinking about holding on to Cott for the long term.

The soda industry is facing a huge headwind; consumers are putting down the pop can and opting for healthier alternatives. Soda is full of sugar, and the average consumer knows that the last thing their body needs is more sugar. This is a trend that I believe will continue to weigh on all soda companies, but the ones that diversify away from sugary sodas will be the ones that will survive.

Acquisitions steering Cott in the right direction

Cott is adapting to the changing soda industry and has made smart acquisitions to diversify its portfolio away from sugary soda. The company acquired Eden Springs and S&D Coffee last year, which will help the company gain some stability in volatile times.

Ideally, Cott would be making more acquisitions of non-soda businesses in the months going forward, but there's a considerable amount of debt on its balance sheet. The company needs to get back in the green and pay off some of its debt before it thinks about making another deal.

Cott hasn't turned flat yet. I believe the management team is on the right track with its recent acquisitions, but it'll probably take a few years for Cott to bubble up again. Personally, I'm on the sidelines, as there are better opportunities out there.

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