Should Investors Guzzle Up Cott Corp.?

Description

Are you an investor on the lookout for a new stock to quench your thirst? (No more terrible drink metaphors ahead; I promise.) Here's one for you to consider: **Cott Corp.** (TSX:BCB)(NYSE:COT). The company had a good third quarter when you look at revenues. Is this the time to buy this Canadian beverage manufacturer?

Cott pivots its business

Cott, whose products have historically included soft drinks, juice, flavoured waters, energy drinks, iced teas, and a little booze, announced a bold move earlier this year to sell off its traditional beverage business. The sale is expected to close by the end of the year. Soft drinks have become the devil in the public battle to reduce sugar consumption. Cott has (likely wisely) decided to focus on the coffee/tea/water side of its business instead. We talked more about the issue in this recent Fool article.

Cott's third-quarter results

The company announced third-quarter results on November 9. Revenues for continuing businesses saw a large bump to $581 million, up 22% from 2016's Q3 results of $477 million. Gross profit increased 18% to 293 million from $248 million the year before. However, earnings per share came in at $0.08, $0.11 below analysts' expectations. EPS also surprised badly in Q2 2017, again coming in over 50% lower than expected.

One major factor weighing on these results is the pending sale. Generally accepted accounting principles state that reported results cannot include the parts of business up for sale, even if the sale has not closed. Therefore, results from the traditional beverage are not included here, which certainly affects the numbers.

Cott by the numbers

The company is carrying a huge debt-to-net-equity ratio of 4.01. This means the company has four times more debt than equity — never a good sign. Its return-on-equity number is in negative territory — also a bad number.

The stock price has been moving steadily higher this year and now trades near its 52-week high of $21.94. So, the stock currently isn't on sale.

Bottom line

Recent earnings results haven't been good, but these are affected by accounting requirements. Revenues are high for the remaining business, but the company is wading in debt. It remains to be seen how well the company will do with its new focus on healthier drinks. You will have to decide for yourself if you want to gamble that these changes will mean improved results for Cott Corp in the future.

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