Cott Corp. Shares Have Soared ~45% YTD: Is There More Room to Run?

Description

Cott Corp. (TSX:BCB)(NYSE:COT) shares are up ~37% since my original buy recommendation earlier this year. The stock took a nasty plunge following the secular downturn of sodas and sugary beverages. Such beverages have been on the downtrend for quite a while now with many consumers opting for healthier alternatives, like lightly flavoured carbonated water.

Management at Cott knew that soda was going to be a dead end, and the company has since reinvented itself, not as a sugary soda supplier, but as a company with interests in healthy beverages like tea, coffee, and water (both the flat and carbonated variety). There's no question that the company was quick to adapt, and as a result, shares rebounded from the dip experienced in the latter half of 2016.

Selling its legacy business to Refresco for US$1.3 billion was a sign that the changes were here to stay, and although it appears Cott is making a lateral move, I believe it may soon return to its roots in the soda business, but not in the way you'd think.

Innovation in the coffee, tea, and water space?

Cott's latest innovation, the AquaCafé, is an all-in-one solution for everyday beverages and is a must-have for the office kitchen. The beverage system is capable of dispensing coffee, tea, and water (hot and cold), using Accu-Temp and Stay-Cool technologies. There's only one type of beverage that's missing though; it's carbonated water.

Several years ago, Cott partnered with **SodaStream International Ltd.** (NYSE:SODA) to co-develop flavours for SodaStream's carbonation system. Back then, Cott was primarily a soda company, but going forward, it looks like Cott may clash swords with SodaStream should a carbonated beverage dispensing system be in the works. This is only speculation now, but given the direction that Cott is headed, such a move would make a lot of sense, especially since it's attempting to adapt to changes in consumer trends.

Debt is being reduced with more tuck-in acquisitions on the horizon

Cott has done a great job of reducing its debt load over the last few years, bringing its debt-to-equity ratio down to 1.77 as of the latest quarter from 3.2 from the first quarter of this year. With a healthier balance sheet and a new growth trajectory, I expect Cott will continue to make small tuck-in acquisitions, as it looks to solidify its position in the coffee, tea, and water space.

There's still a considerable amount of debt on the balance sheet, but I suspect it'll come down over the coming years as cash flows from M&A start to come into effect.

The stock has enjoyed a nice rally this year, so I'd probably recommend waiting for a meaningful pullback before pulling the trigger on a company that looks to be heading back in the right direction.

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