Can Cott Corp. Bust Through $20?

Description

Cott Corp. (TSX:BCB)(NYSE:COT) has been here before.

It most recently traded above $20 in December 2017; before that, it was August 2016. On March 1, it retook the $20 mark on the back of better earnings.

The question on the minds of investors, including me, is whether or not the third time's the charm. Except for these three recent times hitting $20, Cott stock hasn't been at these levels since early 2006.

A lot has changed at the company over the last decade; probably the most significant difference is the sale of its beverage manufacturing business for US$1.3 billion to Dutch beverage company **Refresco Group N.V.** — a deal it completed in January after the close of the fiscal year.

No longer is Cott the choice of grocery-store chains looking for a private label carbonated soda brand to offer their customers. Cott's legacy business is now a distant memory; coffee and water delivery services to both businesses and homes are the company's future.

Did Cott deliver enough good news in Q4 2017?

That depends on what you qualify as good news.

I'd first recommended Cott stock in July 2016 based on the work CEO Jerry Fowden was doing to transform the company from an unreliable generator of profits to one that can be counted on to deliver growth to the bottom line.

It's not always apparent that positive change is occurring when quarterly results suggest the opposite is happening. Sometimes, you have to take one step back to take two forward.

Cott took two steps forward March 1 when it announced strong fourth-quarter earnings that included a 5% increase in revenue to US$571 million with adjusted EBITDA of US$70 million, 27% higher than a year earlier. For the entire year, revenue increased 4% on a pro-forma basis to US$2.27 billion, which includes the acquisition of both Eden Springs and S&D Coffee & Tea in 2016 and a 40% increase in adjusted EBITDA to US$296 million.

Cott expects fiscal 2018 revenue of US$2.30 billion and US$115 million in adjusted free cash flow — both healthy increases over 2017.

What's kept Cott's share price from blowing through $20 is an inability to deliver GAAP profits. However, on an operating basis, it broke even in the fourth quarter — US$9.3 million higher than in Q4 2016. For the year, operating income increased 415% to US$49 million and would have squeezed out a US$7 million if not for losses from its discontinued operations.

"I was very pleased with the strong top-line performance and market share expansion across our Route Based Services and Coffee, Tea and Extract Solutions businesses during the quarter," said Fowden in the company's earnings release. "I believe that we have a business that is well positioned for 2018 and beyond."

The debt situation

It's hard to make money when you're paying US$86 million a year in interest on your debt. Take that out of the equation, and Cott might have made 10 times as much on the bottom line.

With the sale of its traditional beverage business to Refresco, Cott will repay the remaining US$250 million on its 10% DS senior secured notes, US$525 of its 5.375% notes and the outstanding balance of US$220 million on its asset-based lending facility.

Once completed, Cott will reduce its total long-term debt by 32% from US$2.3 billion to US$1.6 billion, significantly reducing its financial leverage and boosting the bottom line.

So, given its financial situation combined with a focused plan for growth, I think its very possible for Cott to bust through $20 and hit $30 sometime in the next 12-18 months.

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