A Fizzy, Risky Stock Idea

Alyce Lomax| July 6, 2011

My Rising Stars portfolio embraces companies that pursue sustainable business practices, renewable resources, and social responsibility. Carbonated drinks might not seem like a natural fit with these lofty ideals, but one company I'm watching might manage to cater to consumers' collective sweet tooth while still making the world a sweeter place.

Beyond SodaStream's (Nasdaq: SODA) recent skyrocketing performance, the company's business model incorporates an eco-friendly hook. The more people use its machines to make their own sodas at home, the fewer empty containers those thirsty consumers will send to landfills. The company aims to "create a world free from bottles," claiming that it has "saved the world from over 1 billion plastic bottles" since January 2009.

Environmentally aware consumers already know about the evils of wastefulness and the particular perils of plastic. Shareholder activist As You Sow recently urged giants Coke (NYSE: KO) , PepsiCo (NYSE: PEP) , and Nestle to create better packaging-recycling policies. Despite consumers' increased efforts to recycle their refuse, about 40 million tons of packaging still gets landfilled or burned in the U.S. As You Sow notes that products and packaging make up 44% of U.S. greenhouse gas emissions.

SodaStream sounds like an exciting stock idea. Still, I'm haunted by another upstart soft drink play that disappointed investors' fizzy expectations. Jones Soda once enjoyed major cool cred -- but topped out at nearly $30 in April 2007. Now it's just a sad penny stock. Hansen Natural (Nasdaq: HANS) has fared far better, but in this difficult industry, consumer tastes can be fickle.

It's cheeky and bold to go for a hefty piece of the market dominated by beverage giants like Coke, Pepsi, and Dr. Pepper/Snapple (NYSE: DPS) . SodaStream's got its sights set high -- but do investors have their sights set too high?

SodaStream trades at a nosebleed 74 times trailing earnings. By comparison, Pepsi's trading at just 19 times earnings, and Coke's price-to-earnings ratio is a measly 13. If SodaStream's current popularity and growth potential simply reflect just another passing fad, investors who buy in now have a lot to lose.

Bottom line: SodaStream's on my watch list because of its business's compelling elements, including its urge to save the world from plastic bottles. But for now, I'm staying on the sidelines. As long as the price is this fizzy, this stock is risky. Share your thoughts in the comments box below.

Look deeper into SodaStream shares' recent pop.

Will selling through Best Buy give SodaStream a jolt?

This article is part of our Rising Stars Portfolio series, where we give some of our most promising stock analysts cold, hard cash to manage on the Fool's behalf. We'd like you to track our performance and benefit from these real-money, real-time free stock picks.

The Motley Fool owns shares of Coca-Cola and PepsiCo. Motley Fool newsletter services have recommended buying shares of Hansen Natural, Coca-Cola, SodaStream International, and PepsiCo. Motley Fool newsletter services have recommended creating a diagonal call position in PepsiCo.