

Schloss Wachenheim AG

Germany / Food & beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q1 19/20 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 22.20**

25.1%

Medium

WEAK Q1 IN GERMANY BUT OPTIMISM ON KEY CHRISTMAS QUARTER

Schloss Wachenheim's (SWA) Q1 19/20 results showed a 1.0% rise in sales to €80.0m (Q1 18/19: €79.1m; FBe: €81.9m). EBIT at €2m (Q1 18/19: €4.8m; FBe: €4.0m) was below our forecast mainly because of a lower result than we had expected in Germany where performance was hit by the suspension of wine distillate sales as well as the impact of higher raw wine prices. In France sales were down 9.1% due to the expiry of private label contacts but the segment's EBIT margin widened. East Central Europe recorded another strong quarter with sales and EBIT up 10.4% and 27.3% respectively. In view of continued robust consumer spending in all geographic segments, management is optimistic about the important Christmas quarter. Despite the weak first quarter in Germany, SWA has maintained full year 2019/20 guidance which is for a slight increase in volume and sales and stable EBIT and net profit before minorities. Given the likelihood of both a resumption in wine distillate sales in Germany later in the financial year and double digit profit growth from East Central Europe, management guidance should be readily achievable. We maintain our Buy recommendation and leave our price target of €22.20 unchanged.

Suspension of wine distillate sales hit Q1 result in Germany Volume in Germany climbed 2.0% to 19.7m bottles (Q1 18/19: 19.3m bottles). The volume increase was attributable to the first time consolidation of the wine merchant Vino Weinhandels GmbH from 2 August as well as slight organic volume growth. The acquisition of Vino Weinhandels GmbH (previously Pieroth Retail GmbH) pushed sales up 3.1% to €28.0m (Q1 18/19: €27.1m). However, on an organic basis sales fell slightly due to a shift in the product mix. SWA almost completely suspended sales of wine distillate during Q1 19/20 due to a decline in the product's price. Wine distillate is a by-product of SWA's de-alcoholised wine output. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015/16	2016/17	2017/18	2018/19	2019/20E	2020/21E
Revenue (€m)	293.18	296.06	324.53	337.16	351.92	365.75
Y-o-y growth	1.6%	1.0%	9.6%	3.9%	4.4%	3.9%
EBIT (€m)	20.33	22.18	23.83	22.98	22.28	25.49
EBIT margin	6.9%	7.5%	7.3%	6.8%	6.3%	7.0%
Net income (€m)	10.19	11.50	11.12	10.89	9.41	11.60
EPS (diluted) (€)	1.29	1.45	1.40	1.38	1.19	1.47
DPS (€)	0.43	0.48	0.50	0.50	0.50	0.52
FCF (€m)	2.46	10.40	8.80	9.27	8.81	12.77
Net gearing	29.5%	25.3%	23.3%	20.9%	28.2%	26.0%
Liquid assets (€m)	3.14	5.70	7.76	9.53	7.04	7.32

RISKS

Risks to our price target include, but are not limited to: intensification of price pressure in Germany; currency volatility on the group's East Central Europe markets.

COMPANY PROFILE

Schloss Wachenheim AG is one of the world's largest producers of sparkling wine. The company is the number three producer in its home market of Germany (33% of 2018/19 group sales) and number one in France with a 40% market share. Some 38% of group sales are generated in East Central Europe through the 61%-owned subsidiary, Ambra.

MARKET DATA

As of 18 Nov 2019

Closing Price	€ 17.75
Shares outstanding	7.92m
Market Capitalisation	€ 140.58m
52-week Range	€ 15.35 / 19.40
Avg. Volume (12 Months)	1,880

Multiples	2018/19	2019/20E	2020/21E
P/E	12.9	14.9	12.1
EV/Sales	0.6	0.6	0.6
EV/EBIT	9.1	9.4	8.2
Div. Yield	2.8%	2.8%	2.9%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2019

Liquid Assets	€ 7.37m
Current Assets	€ 178.90m
Intangible Assets	€ 93.80m
Total Assets	€ 371.74m
Current Liabilities	€ 121.86m
Shareholders' Equity	€ 166.25m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



Figure 1: Q1 2019/20 results versus our forecasts

€m	Q1 19/20A	Q1 19/20E	Δ	Q1 18/19A	Δ
Sales	80.0	81.9	-2.4%	79.1	1.0%
by region					
Germany	28.0	29.6	-5.5%	27.1	3.1%
France	24.7	25.0	-1.2%	27.2	-9.1%
East Central Europe	28.9	28.8	0.5%	26.2	10.4%
Eliminations	-1.6	-1.5	n.m.	-1.3	n.m.
EBIT	2.8	4.0	-29.0%	4.8	-41.0%
margin (%)	3.6%	4.9%		6.1%	
by region					
Germany	-1.9	-0.5	285.6%	0.2	n.a.
margin (%)	-6.9%	-1.7%		n.m.	
France	2.9	2.8	3.9%	3.1	-5.2%
margin (%)	11.8%	11.2%		11.3%	
East Central Europe	2.0	1.8	9.2%	1.5	27.3%
margin (%)	6.8%	6.3%		5.9%	
Other/eliminations	-0.1	-0.1	n.m.	0.0	n.m.
Net profit	1.0	1.7	-43.1%	2.5	-61.0%
EPS (€)	0.12	0.21	-43.1%	0.31	-61.0%

Source: SWA; First Berlin Equity Research estimates

Higher raw wine prices (2017 harvest) and the almost complete absence of wine distillate sales outweighed the positive impact of Vino Weinhandels GmbH on segment gross profit which fell to €10.9m (Q1 18/19: €11.5m). EBIT, which came in at €-1.9m (Q1 18/19: €0.2m) was additionally burdened by higher other operating costs and personnel costs. Personnel costs grew faster than sales because of the new staff at Vino Weinhandels GmbH and the switch in July this year from an external marketing service provider to an in-house sales force.

Gross profit up in France despite 9.1% sales decline In France volume fell 10.5% to 15.9m bottles (Q1 18/19: 17.7m bottles) due to the expiry of private label contracts at the end of calendar 2018. Sales fell 9.1% to €24.7m (Q1 18/19: €27.2m). However, sales and volume of own brand products continued to grow and the resulting improvement in the product mix pushed gross profit up to €10.7m (Q1 18/19: €10.5m). EBIT fell slightly to €2.9m (Q1 18/19: €3.1m) due mainly to higher advertising costs.

Double digit sales and profit growth in East Central Europe Volume in East Central Europe climbed 4.9% to 17.3m bottles (Q1 18/19: 16.5m bottles). Sales outpaced volume and rose 10.4% to €28.9m (Q1 18/19: €26.2m) because of an improved product mix. Gross profit was up 8.9% at €12.4m (Q1 18/19: €11.4m) while EBIT jumped 27.3% to €2.0m (Q1 18/19: €1.5m).

Only slight rise in net gearing ex-lease liabilities A €1.5m decline in net profit before minorities to €1.7m (Q1 18/19: €3.2m) and a negative €1.6m swing in "other non-cash items" were the main factors behind a €3.0m fall in net operating cash flow before changes in working capital to €3.2m (Q1 18/19: €6.2m). Working capital consumed cash of €5.1m in Q1 19/20 (Q1 18/19: cash consumption of €5.2m) because of inventory build-up ahead of the seasonally strong Christmas quarter. In consequence, operating cash flow after changes in working capital came in at €-1.9m (€1.0m). Cash outflow from investing rose to €6.8m (Q1 18/19: a cash outflow of €2.1m). Free cash flow came in at €-8.8m (€-1.2m). Cashflow from financing of €6.4m (Q1 18/19: €3.2m) comprised a net increase in debt of €7.6m and dividend payments to minority shareholders of €1.1m.



Net cash outflow was €2.2m (Q1 18/19: net cash inflow of €1.9m). Net debt including pension liabilities was €69.0m at end Q1 19/20 (equivalent to net gearing of 34.4%). At the end of Q1 18/19 these numbers were €46.8m and 24.0% respectively. However, €17m of the Q1 19/20 net debt figure stemmed from the first-time inclusion of lease liabilities in accordance with IFRS 16. Stripping out the lease liabilities from the Q1 19/20 balance sheet, net debt was €52.0m. Calculated on this basis, Q1 19/20 net gearing at 25.9% was only slightly above the prior year figure of 24.0%.

Buy recommendation maintained with an unchanged price target of €22.20 We have adjusted our forecasts following the Q1 19/20 results as shown in figure 2. Management expects that the suspension of wine distillate sales in Germany will only be temporary and so results are expected to improve relative to the weak first quarter during the remainder of the financial year. Nevertheless, EBIT in Germany is unlikely to reach the 2018/19 level of €3.4m. Despite the weak first quarter in Germany, SWA has maintained full year 2019/20 guidance which is for a slight increase in volume and sales and stable EBIT and net profit before minorities. Given the likelihood of both a resumption in wine distillate sales in Germany later in the financial year and double digit profit growth from East Central Europe, management guidance should be readily achievable. The change in our forecast for 2019/20 net profit after minorities is larger than for the corresponding number before minorities because of the shift in the profit mix to East Central Europe. SWA's business in East Central Europe is conducted through the subsidiary Ambra, in which there is a 38.9% minority. We calculate the value of the minority on the basis of the Ambra share price. Given that the Ambra share price is now 3% below the level at which it was trading when we last wrote on SWA, the minority does not negatively impact our valuation. We maintain our Buy recommendation and leave our price target of €22.20 unchanged.

Figure 2: Changes to our forecasts

All figures in €m	2019/20E			2020/21E		
	old	new	Δ	old	new	Δ
Sales	351.38	351.92	0.2%	365.02	365.75	0.2%
by region:						
Germany	126.75	124.96	-1.4%	129.29	127.46	-1.4%
France	96.36	95.09	-1.3%	98.28	96.99	-1.3%
East Central Europe	134.80	138.41	2.7%	144.23	148.10	2.7%
Eliminations	-6.53	-6.54		-6.78	-6.79	
EBIT	23.08	22.28	-3.5%	24.16	25.49	5.5%
Margin	6.6%	6.3%		6.6%	7.0%	
by region:						
Germany	3.30	0.65	-80.2%	3.49	3.19	-8.7%
margin (%)	2.6%	0.5%		2.7%	2.5%	
France	7.03	6.69	-4.9%	7.17	6.82	-4.8%
margin (%)	7.3%	7.0%		14.6%	7.0%	
East Central Europe	12.81	14.99	17.0%	13.56	15.55	14.7%
margin (%)	9.5%	10.8%		9.4%	10.5%	
Eliminations	-0.06	-0.06		-0.06	-0.07	
Net profit before minorities	16.25	15.31	-5.8%	17.19	17.72	3.1%
Net profit after minorities	11.11	9.41	-15.3%	11.72	11.60	-1.0%
EPS €	1.40	1.19	-15.3%	1.48	1.47	-1.0%

Source: First Berlin Equity Research estimates



DCF MODEL

All figures in EUR 000s	FY 19/20E	FY 20/21E	FY 21/22E	FY 22/23E	FY 23/24E	FY 24/25E	FY 25/26E	FY 26/27E	FY 27/28E	FY 28/29E	FY 29/30E
Net sales	351,921	365,754	380,339	393,390	407,003	421,203	436,021	451,487	467,633	484,494	502,105
NOPLAT	16,485	18,866	18,752	19,537	19,708	20,535	21,403	22,312	23,267	24,269	25,320
+ depreciation & amortisation	-11,270	-11,713	-12,181	-12,599	-13,034	-13,489	-13,964	-14,459	-14,976	-15,516	-16,080
Net operating cash flow	27,756	30,579	30,933	32,135	32,743	34,024	35,366	36,772	38,243	39,785	41,400
- total investments (CAPEX and WC)	-17,932	-16,840	-16,443	-16,812	-16,959	-17,010	-17,586	-18,188	-18,817	-19,476	-20,164
Capital expenditures	-15,166	-13,300	-12,711	-13,078	-13,462	-13,361	-13,779	-14,214	-14,669	-15,144	-15,640
Working capital	-2,765	-3,540	-3,733	-3,734	-3,497	-3,648	-3,807	-3,974	-4,148	-4,332	-4,525
Free cash flows (FCF)	9,824	13,739	14,489	15,323	15,784	17,014	17,781	18,584	19,426	20,309	21,235
PV of FCF's	9,264	12,016	11,754	11,529	11,014	11,012	10,674	10,347	10,032	9,727	9,434

All figures in EUR 000s	
PV of FCFs in explicit period (2019/20-2029/30)	116,804
PV of FCFs in terminal period	159,826
Enterprise value (EV)	276,630
Average net debt (most recent four quarters)	-66,332
Investments / minority interests	-34,387
Shareholder value	175,912

Fair value per share in EUR	22.20
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WACC	7.8%
Cost of equity	9.7%
Pre-tax cost of debt	3.0%
Tax rate	30.0%
After-tax cost of debt	2.1%
Share of equity capital	70.0%
Share of debt capital	30.0%

Fair value per share in EUR	22.20
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WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.8%	32.57	34.89	37.74	41.33	46.01	52.36	61.43
6.3%	28.34	30.11	32.25	34.88	38.21	42.53	48.39
6.8%	24.79	26.17	27.80	29.78	32.21	35.28	39.27
7.3%	21.77	22.86	24.13	25.64	27.46	29.70	32.54
7.8%	19.18	20.04	21.04	22.20	23.60	25.28	27.35
8.3%	16.92	17.61	18.41	19.33	20.41	21.69	23.24
8.8%	14.94	15.51	16.14	16.88	17.73	18.72	19.90
9.3%	13.20	13.66	14.17	14.76	15.43	16.22	17.13



INCOME STATEMENT

All figures in €000s	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20E	FY 20/21E
Revenues	288,684	293,175	296,062	324,527	337,159	351,921	365,754
Change in inventories	1,320	-3,678	257	3,341	107	0	0
Cost of materials	-167,567	-167,105	-169,778	-190,920	-191,505	-199,891	-207,382
Gross Profit	122,437	122,392	126,541	136,948	145,761	152,030	158,371
Other operating income	6,260	4,872	4,582	7,994	3,981	4,155	4,319
Personnel expenses	-41,363	-43,326	-43,593	-50,249	-53,303	-56,307	-58,521
Depreciation	-7,857	-7,665	-7,844	-9,171	-9,447	-11,270	-11,713
Other operating expenses	-58,760	-55,944	-57,505	-61,694	-64,016	-66,330	-66,962
Operating Income (EBIT)	20,717	20,329	22,181	23,828	22,976	22,278	25,494
Associates	451	78	-6	-1	-27	0	0
Net interest income	-1,994	-964	-1,102	-1,554	-1,291	-1,595	-1,548
Pretax profit (EBT)	19,174	19,443	21,073	22,273	21,658	20,683	23,946
Taxes	-5,332	-5,897	-5,361	-5,900	-5,657	-5,377	-6,226
Net profit before minorities	13,842	13,546	15,712	16,373	16,001	15,305	17,720
Minorities	-3,646	-3,361	-4,211	-5,258	-5,111	-5,898	-6,117
Net attributable profit	10,196	10,185	11,501	11,115	10,890	9,407	11,603
EPS (€)	1.29	1.29	1.45	1.40	1.38	1.19	1.47
EBITDA	28,574	27,994	30,025	32,999	32,423	33,548	37,207
Ratios							
Gross margin	42.4%	41.7%	42.7%	42.2%	43.2%	43.2%	43.3%
EBIT margin on revenues	7.2%	6.9%	7.5%	7.3%	6.8%	6.3%	7.0%
EBITDA margin on revenues	9.9%	9.5%	10.1%	10.2%	9.6%	9.5%	10.2%
Net margin on revenues	4.8%	4.6%	5.3%	5.0%	4.7%	4.3%	4.8%
Tax rate	27.8%	30.3%	25.4%	26.5%	26.1%	26.0%	26.0%
Expenses as % of revenues							
Personnel costs	-14.3%	-14.8%	-14.7%	-15.5%	-15.8%	-16.0%	-16.0%
Depreciation	-2.7%	-2.6%	-2.6%	-2.8%	-2.8%	-3.2%	-3.2%
Other operating expenses	-20.4%	-19.1%	-19.4%	-19.0%	-19.0%	-18.8%	-18.3%
Y-Y Growth							
Revenues	-6.4%	1.6%	1.0%	9.6%	3.9%	4.4%	3.9%
Operating income	-3.5%	-1.9%	9.1%	7.4%	-3.6%	-3.0%	14.4%
Net profit before minorities	-15.6%	-2.1%	16.0%	-100.0%	-2.3%	-4.3%	15.8%



BALANCE SHEET

All figures in €000s	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20E	FY 20/21E
Assets							
Current assets, total	153,779	150,179	155,088	172,510	175,357	177,548	184,527
Cash and cash equivalents	3,995	3,142	5,700	7,760	9,531	7,038	7,315
Other receivables and short-term assets	5,277	5,973	5,508	7,349	7,861	7,969	8,283
Trade accounts and notes receivables	54,379	54,784	56,362	58,697	53,563	55,908	58,106
Inventories	90,128	86,280	87,518	98,704	104,402	106,632	110,823
Non-Current Assets, total	146,963	151,237	157,123	165,328	170,751	192,969	196,678
Property, plant and equipment	59,148	64,447	72,431	70,292	75,744	98,000	101,668
Goodwill + intangible assets	79,041	78,508	78,557	89,145	88,862	88,862	88,862
<i>of which:</i>							
Goodwill	5,690	5,541	5,711	12,328	12,426	12,426	12,426
Rights on brands, licenses	73,351	72,967	72,846	76,817	76,436	76,436	76,436
Other financial assets	8,186	7,733	5,654	5,403	5,051	5,051	5,051
Deferred taxes + prepaid expenses	588	549	481	488	1,094	1,056	1,097
Total Assets	300,742	301,416	312,211	337,838	346,108	370,517	381,205
Shareholders' equity & debt							
Current Liabilities, total	108,708	95,236	97,782	104,645	109,987	109,998	111,596
Current provisions	3,219	3,415	3,020	3,846	4,425	3,573	3,676
Short-term financial debt	33,164	27,198	28,221	25,265	28,099	27,037	25,411
Trade payables	37,173	35,248	37,434	41,423	44,185	42,231	43,890
Prepayments, deferred charges & other liabilities	35,152	29,375	29,107	34,111	33,278	37,158	38,619
Long term liabilities, total	25,841	34,159	32,443	41,626	34,197	47,939	47,743
Long-term financial debt	15,253	23,607	20,982	24,470	20,886	37,097	36,556
Pension accruals and similar liabilities	3,077	3,155	2,970	2,750	2,763	2,929	3,105
Other long-term debt	2,177	557	804	4,919	1,063	1,056	1,097
Deferred taxes	5,334	6,840	7,687	9,487	9,485	6,858	6,985
Shareholders' equity	137,525	143,173	152,431	158,571	165,950	170,707	173,877
Minority interests	28,668	28,848	31,250	32,996	35,974	41,872	47,989
Total shareholders' equity & debt	300,742	301,416	313,906	337,838	346,108	370,517	381,205
Ratios							
Current ratio (x)	1.41	1.58	1.59	1.65	1.59	1.61	1.65
Quick ratio (x)	0.59	0.67	0.69	0.71	0.65	0.64	0.66
Financial leverage (including pension liabilities)	28.6%	29.5%	25.3%	23.3%	20.9%	28.2%	26.0%
Book value per share (€)	17.36	18.08	19.25	20.02	20.95	21.55	21.95
Net debt (including pension liabilities)	47,499	50,818	46,473	44,725	42,217	43,024	40,088
Return on equity (ROE)	6.3%	6.0%	6.5%	5.9%	5.5%	4.5%	5.3%



CASH FLOW STATEMENT

All figures in €000s	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20E	FY 20/21E
Net profit before minorities	13,842	13,546	15,712	16,373	16,001	15,305	17,720
Depreciation and amortisation	7,857	7,665	7,844	9,171	9,447	11,270	11,713
Change in working capital	12,267	-5,295	-662	-3,128	1,230	-2,765	-3,540
Other	-619	-310	1,775	-1,659	345	166	176
Operating cash flow	33,347	15,606	24,669	20,757	27,023	23,976	26,069
CAPEX	-8,849	-14,050	-14,838	-15,049	-18,092	-15,166	-13,300
Fixed asset sales	4,194	904	565	3,095	337	0	0
Investing cash flow	-4,655	-13,146	-14,273	-11,954	-17,755	-15,166	-13,300
Free cash flow	28,692	2,460	10,396	8,803	9,268	8,810	12,769
Change in financial liabilities	-22,741	2,388	-1,602	-479	-750	-3,212	-4,248
Dividends to shareholders	-2,693	-3,168	-3,406	-3,802	-3,960	-3,960	-3,960
Dividends to subsidiaries of minorities	-2,227	-2,753	-2,657	-2,920	-2,601	-4,131	-4,284
Other	0	127	0	209	0	0	0
Financing cash flow	-27,661	-3,406	-7,665	-6,992	-7,311	-11,302	-12,492
Change in cash	1,031	-946	2,731	1,811	1,957	-2,493	277
Consolidation; exchange rate effects	43	93	-173	249	-186	0	0
Liquid funds, start of the year	2,921	3,995	3,142	5,700	7,760	9,531	7,038
Liquid funds, end of the year	3,995	3,142	5,700	7,760	9,531	7,038	7,315
Free cash flow per share (€)	3.62	0.31	1.31	1.11	1.17	1.11	1.61
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Y-Y growth							
Operating cash flow	17.4%	-53.2%	58.1%	-15.9%	30.2%	-11.3%	8.7%
Free cash flow	33.5%	-91.4%	322.6%	-15.3%	5.3%	-4.9%	44.9%
Financial cash flow	n.a.						

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	19 July 2007	€10.00	Hold	€10.75
2...41	↓	↓	↓	↓
42	25 February 2019	€17.25	Add	€22.30
43	21 May 2019	€17.15	Add	€22.30
44	24 September 2019	€16.55	Buy	€22.20
45	Today	€17.75	Buy	€22.20

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Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

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- key sources of information in the preparation of this research report
- valuation methods and principles
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