

Schloss Wachenheim AG

Germany / Food & beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q2 18/19 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

BUY**€ 22.30**

29.3%

Medium

ON TRACK FOR STABLE PROFITABILITY IN 2018/19

Q2 18/19 sales rose 7.4% to €116.0m (Q2 17/18: €108.0m; FBe: €118.0m while EBIT climbed 8.4% to €14.6m (Q2 17/18: €13.5m FBe: €14.9m). The numbers were close to our expectations despite a volume decline in Germany which neither we nor management had expected despite the implementation of higher prices. Management is now guiding towards stable volume for the full year (previously a slight increase in volume) but continues to expect higher sales and stable EBIT and net profit before minorities. We have made only minor changes to our forecasts and maintain our price target of €22.30. We raise the rating from Add to Buy because the return potential is now over 25%.

Price rises pushed group Q2 18/19 sales up 7.4% Group volume rose 0.5% to 76.6m bottles in Q2 18/19 (Q2 17/18: 76.2m bottles) with a 4.2% volume increase in East Central Europe cancelling out declines of 4.5% and 1.9% in Germany and France respectively. Q2 18/19 sales were largely based on the 2017 grape harvest. The price of raw wine produced in 2017 was higher than in 2015 and 2016 because of the lower than average yield of the 2017 harvest. Price rises across all geographic segments to compensate for higher raw wine prices pushed Q2 18/19 sales up 7.4% to €116.0m (Q2 17/18: €108.0m). EBIT rose 8.4% to €14.6m (Q2 17/18: €13.5m). Both sales and EBIT were close to our expectations (see figure 1 overleaf).

German sales and margins up despite unexpected volume decline Volume in Germany fell 4.5% to 25.7m bottles (Q2 17/18: 26.9m bottles) in connection with the price rises implemented by SWA to compensate for higher raw wine prices. Management concedes that the y-o-y decline in volume in Germany in Q2 17/18 was unexpected. We too had expected a slight y-o-y rise in volume in Germany in Q2 18/19 especially against the background of the production problems which reduced sales of the children's party drink Robby Bubble in Q2 17/18. Although the Q2 18/19 volume decline in Germany was disappointing, segment sales and the gross and EBIT margins were all up y-o-y.

FINANCIAL HISTORY & PROJECTIONS

	2015/16	2016/17	2017/18	2018/19E	2019/20E	2020/21E
Revenue (€m)	293.18	296.06	324.53	341.38	344.33	357.69
Y-o-y growth	1.6%	1.0%	9.6%	5.2%	0.9%	3.9%
EBIT (€m)	20.33	22.18	23.83	23.93	24.38	25.55
EBIT margin	6.9%	7.5%	7.3%	7.0%	7.1%	7.1%
Net income (€m)	10.19	11.50	11.12	11.52	11.74	12.42
EPS (diluted) (€)	1.29	1.45	1.40	1.45	1.48	1.57
DPS (€)	0.43	0.48	0.50	0.52	0.53	0.56
FCF (€m)	2.46	10.40	8.80	5.21	22.44	12.20
Net gearing	29.5%	25.3%	23.3%	23.1%	15.3%	13.0%
Liquid assets (€m)	3.14	5.70	7.76	3.41	3.44	3.58

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 (34% of 2017/18 group sales) and number one in France with a 40% market share. Some 35% of group sales are generated in East Central Europe through the 61%-owned subsidiary, Ambra.

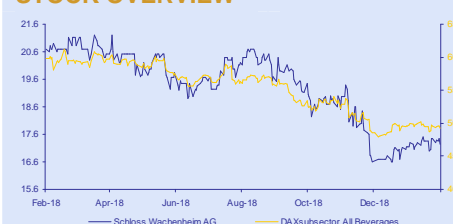
MARKET DATA

As of 22 Feb 2019

Closing Price	€ 17.25
Shares outstanding	7.92m
Market Capitalisation	€ 136.62m
52-week Range	€ 16.60 / 21.20
Avg. Volume (12 Months)	2,053

Multiples	2017/18	2018/19E	2019/20E
P/E	12.3	11.9	11.6
EV/Sales	0.6	0.6	0.6
EV/EBIT	8.3	8.2	8.1
Div. Yield	2.9%	3.0%	3.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2018

Liquid Assets	€ 5.26m
Current Assets	€ 201.16m
Intangible Assets	€ 89.01m
Total Assets	€ 201.16m
Current Liabilities	€ 131.13m
Shareholders' Equity	€ 199.80m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

**Figure 1: Q2 2018/19 results versus our forecasts**

€m	Q2 18/19A	Q2 18/19E	Δ	Q2 17/18A	Δ
Sales	116.0	118.0	-1.7%	108.0	7.4%
by region					
Germany	37.1	39.0	-4.8%	35.5	4.6%
France	30.9	30.0	2.9%	28.5	8.2%
East Central Europe	49.8	51.0	-2.3%	46.1	8.1%
Eliminations	-1.9	-2.0	n.m.	-2.2	n.m.
EBIT	14.6	14.9	-1.9%	13.5	8.4%
margin (%)	12.6%	12.6%		12.5%	
by region					
Germany	3.6	3.0	19.3%	3.1	16.4%
margin (%)	9.6%	7.7%		n.m.	
France	0.6	1.0	-37.8%	0.2	298.7%
margin (%)	2.0%	3.3%		1.9%	
East Central Europe	10.5	10.9	-4.1%	9.5	10.4%
margin (%)	21.0%	21.4%		20.5%	
Other/eliminations	0.0	0.0	n.m.	0.8	n.m.
Net profit	6.8	7.0	-1.9%	6.4	6.4%
EPS (€)	0.87	0.89	-1.9%	0.81	6.4%

Source: SWA; First Berlin Equity Research estimates

Sales were 4.6% ahead at €37.1m (Q2 17/18: €35.5m) while gross profit climbed 13.7% to €15.1m (Q2 17/18: €13.3m). The widening of the gross margin was partially attributable to the Robby Bubble issue in Q2 17/18 which led to writedowns of unsaleable product. EBIT climbed 16.3% to €3.6m (Q2 17/18: €3.1m).

Results in France helped by favourable shift in product mix In France volume fell 1.9% to 20.6m bottles (Q2 17/18: 21.0m bottles). Here too, the volume decline was influenced by price rises. Own-brand product volume rose while the volume of private label products fell. Price rises and a favourable shift in the product mix pushed sales up 8.2% to €30.9m (Q2 17/18: €28.5m). Gross profit was 13.3% ahead at €11.7m (Q2 17/18: €10.3m) equivalent to a margin of 37.9% (Q2 17/18: 36.2%). Segment EBIT at €0.6m (Q2 17/18: €0.2m) was equivalent to a margin of 2.0% (Q2 17/18: 0.5%). Higher personnel and advertising costs meant that the improvement in the gross margin did not come through in full to the EBIT margin.

Volume in East Central Europe up 4.2%, EBIT margin at 21.0% Despite price rises, volume in EC Europe climbed 4.2% to 31.9m bottles (Q2 17/18: 30.6m bottles). Both the sparkling wine and still wine businesses participated in the rise. Sales climbed 8.1% to €49.8m (Q2 17/18: €46.1m) propelled by price rises and by a favourable shift in the product mix. The gross profit rose 8.8% to €22.7m (Q2 17/18: €20.8m) while EBIT climbed 10.4% to €10.5m (Q2 17/18: €9.5m).

The Other Activities segment recorded a breakeven result. In Q2 17/18 the segment's result was €0.8m due to a gain on the sale of a property at Edenkoben in Germany.

End Q2 18/19 net gearing (inc. pension liabilities) at 30.3% Q2 18/19 cash flow before changes in working capital climbed 1.7% to €12.9m (Q2 17/18: €12.6m) but operating cashflow fell to €-0.8m (Q2 17/18: €3.8m). The decline was attributable to higher investment in inventories due to higher raw wine prices. The cash outflow from investing rose to €7.3m (Q2 17/18: €0.7m), in part due to the acquisition at end December 2018 of the outstanding 30% stake in Rindchen's Weinkontor. Dividend payments to SWA shareholders and minority shareholders in the Polish subsidiary, Ambra, amounted to €5.7m (Q2 17/18: €5.6m).



Net debt including pension liabilities rose during the quarter by €13.7m to €60.6m, equivalent to net gearing of 30.3% (Q2 17/18: net debt including pension liabilities of €54.2m and net gearing of 28.3%).

Price target maintained at €22.30, rating raised from Add to Buy As figure 2 below shows, we have made only minor changes to our forecasts. We maintain our price target of €22.30 but raise the rating from Add to Buy because the return potential is now over 25%.

Figure 2: Changes to our forecasts

All figures in €m	2018/19E			2019/20E			2020/21E		
	old	new	Δ	old	new	Δ	old	new	Δ
Sales	346.65	341.38	-1.5%	349.79	344.33	-1.6%	363.48	357.69	-1.6%
by region:									
Germany	118.19	115.74	-2.1%	117.01	114.58	-2.1%	119.35	116.87	-2.1%
France	105.52	106.26	0.7%	103.41	104.13	0.7%	105.48	106.21	0.7%
East Central Europe	130.04	125.72	-3.3%	136.54	132.01	-3.3%	146.10	141.25	-3.3%
Eliminations	-7.10	-6.34		-7.17	-6.39		-7.45	-6.64	
EBIT	23.65	23.93	1.2%	24.40	24.38	-0.1%	25.58	25.55	-0.1%
Margin	6.8%	7.0%		7.0%	7.1%		7.0%	7.1%	
by region:									
Germany	2.60	3.70	42.2%	2.57	3.66	42.4%	2.63	3.73	41.9%
margin (%)	2.2%	3.2%		2.2%	3.2%		2.2%	3.2%	
France	7.81	7.39	-5.4%	7.65	7.24	-5.3%	7.81	7.39	-5.4%
margin (%)	7.4%	7.0%		7.4%	7.0%		7.4%	7.0%	
East Central Europe	12.74	12.95	1.7%	13.65	13.60	-0.4%	14.61	14.55	-0.4%
margin (%)	9.8%	10.3%		10.0%	10.3%		10.0%	10.3%	
Eliminations	0.50	-0.11		0.52	-0.11		0.54	-0.12	
Net profit after minorities	11.46	11.52	0.6%	11.74	11.74	0.0%	12.34	12.42	0.7%
EPS €	1.45	1.45	0.3%	1.48	1.48	0.0%	1.56	1.57	0.7%

Source: First Berlin Equity Research estimates

DCF MODEL *

All figures in EUR 000s	FY 18/19E	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
Net sales	341,378	344,327	357,693	371,781	384,410	397,577	411,309	425,633	440,579	456,178
NOPLAT	17,705	18,044	18,906	19,486	20,265	19,842	20,629	21,454	22,317	23,222
+ depreciation & amortisation	-9,614	-9,697	-10,073	-10,470	-10,825	-11,196	-11,583	-11,986	-12,407	-12,846
Net operating cash flow	27,319	27,741	28,979	29,955	31,090	31,038	32,212	33,440	34,724	36,068
- total investments (CAPEX and WC)	-21,289	-4,633	-16,324	-21,023	-17,093	-17,268	-16,840	-17,938	-18,563	-19,218
Capital expenditures	-10,322	-10,697	-11,073	-12,470	-12,825	-13,196	-12,583	-13,486	-13,907	-14,346
Working capital	-10,967	6,064	-5,251	-8,553	-4,268	-4,072	-4,257	-4,452	-4,656	-4,872
Free cash flows (FCF)	6,030	23,108	12,654	8,933	13,997	13,770	15,372	15,502	16,161	16,850
PV of FCF's	5,873	20,874	10,602	6,941	10,088	9,205	9,531	8,915	8,620	8,336

All figures in EUR 000s	
PV of FCFs in explicit period (2018/19-2029/30)	114,848
PV of FCFs in terminal period	149,829
Enterprise value (EV)	264,676
+ Net cash / - net debt	-60,558
+ Investments / minority interests	-27,436
Shareholder value	176,682

Fair value per share in EUR 22.31

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	22.31

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.8%	33.85	35.64	37.84	40.62	44.24	49.15	56.17
6.3%	29.57	30.89	32.48	34.43	36.90	40.11	44.47
6.8%	25.99	26.97	28.14	29.54	31.27	33.45	36.29
7.3%	22.96	23.70	24.56	25.58	26.81	28.33	30.25
7.8%	20.36	20.91	21.56	22.31	23.20	24.28	25.61
8.3%	18.11	18.53	19.01	19.56	20.22	20.99	21.93
8.8%	16.14	16.45	16.82	17.23	17.71	18.27	18.94
9.3%	14.40	14.64	14.91	15.22	15.57	15.98	16.46

* the explicit period of our model runs until 2029/30E but for reasons of space we only show forecasts out to 2027/28E



INCOME STATEMENT

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Revenues	288,684	293,175	296,062	324,527	341,378	344,327	357,693
Change in inventories	1,320	-3,678	257	3,341	0	0	0
Cost of materials	-167,567	-167,105	-169,778	-190,920	-196,292	-197,299	-204,243
Gross Profit	122,437	122,392	126,541	136,948	145,086	147,028	153,450
Other operating income	6,260	4,872	4,582	7,994	6,500	6,556	6,811
Personnel expenses	-41,363	-43,326	-43,593	-50,249	-54,620	-55,092	-57,231
Depreciation	-7,857	-7,665	-7,844	-9,171	-9,614	-9,697	-10,073
Other operating expenses	-58,760	-55,944	-57,505	-61,694	-63,426	-64,411	-67,409
Operating Income (EBIT)	20,717	20,329	22,181	23,828	23,926	24,384	25,548
Associates	451	78	-6	-1	0	0	0
Net interest income	-1,994	-964	-1,102	-1,554	-1,325	-1,144	-867
Pretax profit (EBT)	19,174	19,443	21,073	22,273	22,601	23,240	24,681
Taxes	-5,332	-5,897	-5,361	-5,900	-5,876	-6,042	-6,417
Net profit before minorities	13,842	13,546	15,712	16,373	16,724	17,197	18,264
Minorities	-3,646	-3,361	-4,211	-5,258	-5,201	-5,460	-5,842
Net attributable profit	10,196	10,185	11,501	11,115	11,523	11,737	12,422
EPS (€)	1.29	1.29	1.45	1.40	1.45	1.48	1.57
EBITDA	28,574	27,994	30,025	32,999	33,539	34,080	35,621
Ratios							
Gross margin	42.4%	41.7%	42.7%	42.2%	42.5%	42.7%	42.9%
EBIT margin on revenues	7.2%	6.9%	7.5%	7.3%	7.0%	7.1%	7.1%
EBITDA margin on revenues	9.9%	9.5%	10.1%	10.2%	9.8%	9.9%	10.0%
Net margin on revenues	4.8%	4.6%	5.3%	5.0%	4.9%	5.0%	5.1%
Tax rate	27.8%	30.3%	25.4%	26.5%	26.0%	26.0%	26.0%
Expenses as % of revenues							
Personnel costs	-14.3%	-14.8%	-14.7%	-15.5%	-16.0%	-16.0%	-16.0%
Depreciation	-2.7%	-2.6%	-2.6%	-2.8%	-2.8%	-2.8%	-2.8%
Other operating expenses	-20.4%	-19.1%	-19.4%	-19.0%	-18.6%	-18.7%	-18.8%
Y-Y Growth							
Revenues	-6.4%	1.6%	1.0%	9.6%	5.2%	0.9%	3.9%
Operating income	-3.5%	-1.9%	9.1%	7.4%	0.4%	1.9%	4.8%
Net profit before minorities	-15.6%	-2.1%	16.0%	-100.0%	2.1%	2.8%	6.2%



BALANCE SHEET

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Assets							
Current assets, total	153,779	150,179	155,088	172,510	180,127	173,074	179,793
Cash and cash equivalents	3,995	3,142	5,700	7,760	3,414	3,443	3,577
Other receivables and short-term assets	5,277	5,973	5,508	7,349	7,731	7,797	8,100
Trade accounts and notes receivables	54,379	54,784	56,362	58,697	63,155	61,979	64,385
Inventories	90,128	86,280	87,518	98,704	105,827	99,855	103,731
Non-Current Assets, total	146,963	151,237	157,123	165,328	166,572	167,581	168,621
Property, plant and equipment	59,148	64,447	72,431	70,292	71,000	72,000	73,000
Goodwill + intangible assets	79,041	78,508	78,557	89,145	89,145	89,145	89,145
<i>of which:</i>							
Goodwill	5,690	5,541	5,711	12,328	12,328	12,328	12,328
Rights on brands, licenses	73,351	72,967	72,846	76,817	76,817	76,817	76,817
Other financial assets	8,186	7,733	5,654	5,403	5,403	5,403	5,403
Deferred taxes + prepaid expenses	588	549	481	488	1,024	1,033	1,073
Total Assets	300,742	301,416	313,906	337,838	346,699	340,655	348,414
Shareholders' equity & debt							
Current Liabilities, total	108,708	95,236	97,782	104,645	108,157	99,738	99,171
Current provisions	3,219	3,415	3,020	3,846	3,501	3,495	3,595
Short-term financial debt	33,164	27,198	28,221	25,265	24,233	16,845	14,885
Trade payables	37,173	35,248	37,434	41,423	44,379	43,041	42,923
Prepayments, deferred charges & other liabilities	35,152	29,375	29,107	34,111	36,045	36,356	37,768
Long term liabilities, total	25,841	34,159	32,443	41,626	34,198	27,149	25,597
Long-term financial debt	15,253	23,607	20,982	24,470	23,470	16,315	14,417
Pension accruals and similar liabilities	3,077	3,155	2,970	2,750	2,915	3,090	3,275
Other long-term debt	2,177	557	804	4,919	1,024	1,033	1,073
Deferred taxes	5,334	6,840	7,687	9,487	6,789	6,710	6,832
Shareholders' equity	137,525	143,173	152,431	158,571	166,146	170,111	174,147
Minority interests	28,668	28,848	31,250	32,996	38,197	43,657	49,500
Total shareholders' equity & debt	300,742	301,416	313,906	337,838	346,699	340,655	348,414
Ratios							
Current ratio (x)	1.41	1.58	1.59	1.65	1.67	1.74	1.81
Quick ratio (x)	0.59	0.67	0.69	0.71	0.69	0.73	0.77
Financial leverage (including pension liabilities)	28.6%	29.5%	25.3%	23.3%	23.1%	15.3%	13.0%
Book value per share (€)	17.36	18.08	19.25	20.02	20.98	21.48	21.99
Net debt (including pension liabilities)	47,499	50,818	46,473	44,725	47,204	32,807	29,000
Return on equity (ROE)	6.3%	6.0%	6.5%	5.9%	5.8%	5.6%	5.7%



CASH FLOW STATEMENT

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Net profit before minorities	13,842	13,546	15,712	16,373	16,724	17,197	18,264
Depreciation and amortisation	7,857	7,665	7,844	9,171	9,614	9,697	10,073
Change in working capital	12,267	-5,295	-662	-3,128	-10,967	6,064	-5,251
Other	-619	-310	1,775	-1,659	165	175	185
Operating cash flow	33,347	15,606	24,669	20,757	15,535	33,133	23,271
CAPEX	-8,849	-14,050	-14,838	-15,049	-10,322	-10,697	-11,073
Fixed asset sales	4,194	904	565	3,095	0	0	0
Investing cash flow	-4,655	-13,146	-14,273	-11,954	-10,322	-10,697	-11,073
Free cash flow	28,692	2,460	10,396	8,803	5,214	22,436	12,198
Change in financial liabilities	-22,741	2,388	-1,602	-479	-2,032	-14,542	-3,859
Dividends to shareholders	-2,693	-3,168	-3,406	-3,802	-3,960	-4,118	-4,198
Dividends to subsidiaries of minorities	-2,227	-2,753	-2,657	-2,920	-3,568	-3,746	-4,008
Other	0	127	0	209	0	0	0
Financing cash flow	-27,661	-3,406	-7,665	-6,992	-9,560	-22,407	-12,065
Change in cash	1,031	-946	2,731	1,811	-4,346	29	134
Consolidation; exchange rate effects	43	93	-173	249	0	0	0
Liquid funds, start of the year	2,921	3,995	3,142	5,700	7,760	3,414	3,443
Liquid funds, end of the year	3,995	3,142	5,700	7,760	3,414	3,443	3,577
Free cash flow per share (€)	3.62	0.31	1.31	1.11	0.66	2.83	1.54
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Y-Y growth							
Operating cash flow	17.4%	-53.2%	58.1%	-15.9%	-25.2%	113.3%	-29.8%
Free cash flow	33.5%	-91.4%	322.6%	-15.3%	-40.8%	330.3%	-45.6%
Financial cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	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...38	↓	↓	↓	↓
39	16 May 2018	€20.50	Add	€22.50
40	27 September 2018	€20.10	Add	€22.30
41	15 November 2018	€18.85	Add	€22.30
42	Today	€17.25	Buy	€22.30

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The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

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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