

Schloss Wachenheim AG

Germany / Food & beverages
 Primary exchange: Frankfurt
 Bloomberg: SWA GR
 ISIN: DE0007229007

2015/16 Annual Report

RATING	ADD
PRICE TARGET	€17.60
Return Potential	16.6%
Risk Rating	Medium

SOLID OPERATIONAL PERFORMANCE; DIVIDEND RAISED BY 7.5%

Schloss Wachenheim's (SWA) sales for the year ending 30 June climbed 1.6% to €293.2m (FBe: €293.0m; 2014/15: €288.7m) and were close to our forecasts in all three geographic segments. EBIT at €20.3m (FBe: €19.0m 2014/15: €20.7m) was 6.9% above our forecast due to better Q4 performance in Germany and East Central Europe than we had expected. Management will propose a 7.5% increase in the dividend to €0.43 (2014/15: €0.40) at the AGM on 17 November. France and East Central Europe reported increased EBIT during 2015/16 but in Germany price and product mix effects caused declines in gross profit and EBIT of €0.6m and €1.0m respectively. We have made only small changes to our forecasts for the group following the release of the annual report and continue to see fair value for the SWA share at €17.60. In view of recent share price appreciation, we lower our recommendation from Buy to Add.

Sales, EBIT, EPS and dividend all above our forecasts SWA reported a 5.0% rise in bottles sold to 221.6m (2014/15: 211.1m bottles) for the full year 2015/16. Germany and East Central Europe saw the biggest volume increases at 10.4% and 5.0% respectively. In France volume fell back slightly due to declining exports. Group sales climbed by 1.6% to €293.2m (2014/15: €288.7m). Sales did not keep pace with volume growth mainly because of price effects and product mix changes in Germany. Gross profit was stable at €122.4m with France (+€0.4m) and East Central Europe (+€0.3m) compensating for a €0.6m decline in Germany caused by the aforementioned price and product mix effects. EBIT retreated by €0.4m to €20.3m (2014/15: €20.7m) due to unplanned personnel costs in connection with the departure of a member of the management board and the restructuring of the sales department as well as the absence of last year's €1.5m in gains on the sale of properties in Bucharest, Romania and in Zaječí in the Czech Republic. However, lower interest rate hedging costs, lower interest rates, a lower contribution from associates as well as lower minorities meant that SWA was able to report stable EPS of €1.29. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2012/13	2013/14	2014/15	2015/16	2016/17E	2017/18E
Revenue (€m)	306.96	308.27	288.68	293.18	298.25	306.69
Y-o-y growth	4.6%	0.4%	-6.4%	1.6%	1.7%	2.8%
EBIT (€m)	20.91	21.46	20.72	20.33	20.77	21.48
EBIT margin	6.8%	7.0%	7.2%	6.9%	7.0%	7.0%
Net income (€m)	9.71	12.55	10.20	10.19	10.89	11.32
EPS (diluted) (€)	1.23	1.58	1.29	1.29	1.38	1.43
DPS (€)	0.30	0.34	0.40	0.43	0.46	0.48
FCF (€m)	-2.96	21.50	28.69	2.46	7.27	12.08
Net gearing	60.4%	44.7%	28.6%	29.5%	27.1%	22.8%
Liquid assets (€m)	3.65	2.92	4.00	3.14	2.98	3.07

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 2015/16 group sales) and number one in France with a 40% market share. Some 34% of group sales are generated in Eastern Central Europe through the 61%-owned subsidiary, Ambra.

MARKET DATA

As of 26 Sep 2016

Closing Price	€ 15.09
Shares outstanding	7.92m
Market Capitalisation	€ 119.51m
52-week Range	€ 12.70 / 16.04
Avg. Volume (12 Months)	3,540

Multiples	2015/16	2016/17E	2017/18E
P/E	11.7	11.0	10.6
EV/Sales	0.6	0.6	0.6
EV/EBIT	8.4	8.2	7.9
Div. Yield	2.8%	3.0%	3.2%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 3.14m
Current Assets	€ 150.18m
Intangible Assets	€ 78.51m
Total Assets	€ 301.42m
Current Liabilities	€ 95.24m
Shareholders' Equity	€ 143.17m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



As figure 1 below shows, sales, EBIT, net income and the dividend were all above our forecasts.

Figure 1: Full year 2015/16 results versus our forecasts

	FY 15/16A	FY 15/16E	Δ vs. FY 15/16E	FY 14/15A	Δ vs. FY 14/15A
Sales	293.2	293.0	0.1%	288.7	1.6%
by region					
Germany	100.8	101.5	-0.6%	99.9	0.9%
France	98.0	97.8	0.3%	98.2	-0.1%
East Central Europe	98.8	97.8	1.0%	95.0	3.9%
Eliminations	-4.4	-4.8		-4.4	
EBIT	20.3	19.0	6.9%	20.7	-1.9%
<i>margin (%)</i>	<i>6.9%</i>	<i>6.5%</i>		<i>7.2%</i>	
by region					
Germany	2.3	1.9	18.1%	3.3	-30.3%
<i>margin (%)</i>	<i>2.3%</i>	<i>1.9%</i>		<i>3.3%</i>	
France	9.7	9.5	2.2%	8.9	8.8%
<i>margin (%)</i>	<i>9.9%</i>	<i>9.7%</i>		<i>9.1%</i>	
East Central Europe	8.1	7.4	9.8%	7.1	13.5%
<i>margin (%)</i>	<i>8.2%</i>	<i>7.5%</i>		<i>7.5%</i>	
Eliminations	0.2	0.2		1.3	
Net profit	10.2	9.7	4.7%	10.2	-0.1%
EPS (€)	1.29	1.23	4.7%	1.29	0.0%
DPS (€)	0.43	0.42	2.4%	0.40	7.5%

Source: SWA; First Berlin Equity Research estimates

SWA gained market share in sparkling wine in Germany in 2015/16 In Germany volume climbed by 10.4% to 89.2m bottles (2014/15: 80.7m bottles) mainly due to strong development of the domestic sparkling wine business. Sparkling wine accounts for around 60% of bottles sold by SWA in Germany. The company was able to expand its volume in this product area against the background of a slightly shrinking market. SWA maintained its position as market leader in the alcohol-free sparkling segment. Light Live is SWA's most important product in this area. In recent years SWA has augmented its product offering with flavours such as Light Live hūgo and Light Live sprizz. In 2016, SWA added a tropical flavour, Light Live Mango, to its range. Light Live volumes were stable in 2015/16. Management continues to see great potential in this product area and expects that it will remain a focal point of its marketing strategy. Meanwhile, Robby Bubble maintained its dominant position in the children's party drink segment. Robby Bubble is sold in 0.75 litre glass bottles as well as in a 0.5 litre PET bottle, which according to the annual report is becoming increasingly popular. Prior to Christmas 2015, SWA also marketed a seasonal Robby Bubble children's punch designed to be drunk hot or cold. Robby Bubble volume climbed 6% in 2015/16. Both the Light Live and Robby Bubble product ranges were supported by TV advertising campaigns in 2015/16.

Price and product mix effects caused a €0.6m decline in gross profit in Germany The price reorientation in Q4 14/15, as well as a shift in the product mix towards retailers' own-label products meant that sales growth of 0.9% to €100.8m (2014/15: €99.9m) was well below volume growth of 10.4%. These price and product mix effects also occasioned a €0.6m decline in gross profit in Germany. EBIT in Germany retreated by €1m as the €1.2m in unplanned personnel costs mentioned above were not fully compensated by a €1.0m reduction in TV advertising costs.

Volume in France up after stripping out the export business The France segment's volume fell by 1.6% to 68.5m bottles (2014/15: 69.6m bottles) due to weakness in the export business. Russia, in particular, continues to suffer from the effects of low oil and gas prices as well as the low ruble. Management tells us that after stripping out the export business, volume in France itself moved ahead. Volume growth in branded products outweighed declining volume in retailers' own-label products.



Charles Volner sparkling wine extended its market leadership in France The most important of SWA's branded products on the French market, Charles Volner, extended its lead in its market segment and achieved a new volume record. The favourable shift in the product mix was the main reason why sales outpaced volume, falling only 0.1% to €98.0m (2014/15: €98.2m) and gross profit moved ahead by €0.4m to €39.8m (2014/15: €39.4m). EBIT climbed by €0.8m to €9.7m (2014/15: €8.9m).

Still wine was the main driver of volume growth in East Central Europe Volume in East Central Europe climbed 5.0% to 68.2m bottles (2014/15: 64.9m bottles). Still wine, which accounts for around 30% of segment volume and more than 40% of sales, was the main driver of this development. Wine consumption per head in Poland remains well below the European average and so the outlook for further growth is good. However, volume of the cider drink, Cydr Lubelski, which has been the segment's most successful new product introduction in recent years, was 7.5% below the 2014/15 level. SWA introduced new variants of Cydr Lubelski in 2015/16 and surveys show that the product's brand recognition is higher than ever. Against this background, SWA remain confident about Cydr Lubelski's future development and plan to continue supporting it with extensive advertising campaigns.

Sales in Romania up over 20% in local currency East Central Europe segment sales rose by 3.9% to €98.8m (2014/15: €95.0m), but this number was influenced by currency fluctuations. Adjusted for currency, sales increased by around 6% and reflected the positive shift in the product mix towards wine. Results also benefited from strong growth in Romania, which after Poland (ca. 75% of segment sales), is the segment's second most important market with around 15% of sales. Sales in Romania were up over 20% in local currency, led by the sparkling wine brand, Zarea. In the Czech Republic local currency sales fell nearly 10% following a reduction in the scope of the product range while in Slovakia sales rose by more than 20%. Gross profit in East Central Europe moved ahead by €0.3m to €42.3m (2014/15: €42.0m) but the margin narrowed to 42.8% (2014/15: 44.2%) due to higher procurement costs in consequence of FX effects. Segment EBIT moved ahead by €1.0m to €8.1m (2014/15: €7.1m) because of savings in operating expenses.

Net gearing (including pension liabilities) broadly stable at 29.5% (2014/15: 28.6%) Gross operating cash flow (before expenditure on working capital) at €20.9m (2014/15: €21.1m) was close to last year's figure. In 2014/15 working capital yielded cash of €12.3m due to a decline in both raw wine and end product prices. Both these items were broadly stable in 2015/16 and so working capital expenditure returned to a more normal level of €5.3m. This means that net operating cash flow (after expenditure on working capital) was €15.6m (2014/15: €33.3m). Cash outflow from investing rose to €13.1m in 2015/16 (2014/15: €4.7m). The 2014/15 figure was lowered by proceeds from the sale of property in the Czech Republic and Romania. The focus of investment activity in 2015/16 was new bottling equipment at the Trier and Tournan-en-Brie sites. Free cashflow was €2.5m (2014/15: €28.7m). Dividends consumed €5.9m of cash (2014/15: €4.9m) and net debt including pension liabilities rose by €3.3m to €50.8m (2014/15: €47.5m) equivalent to net gearing of 29.5% (2014/15: 28.6%).

We maintain our €17.60 price target but lower the recommendation from Buy to Add Figure 2 overleaf shows changes to our forecasts by geographic segment for 2016/17E and for the first time shows forecasts for 2017/18E. SWA's management has stated in the annual report that changes in the product mix are likely to keep this year's sales at around the 2015/16 level. Against this background, we have reduced our forecast for 2016/17 sales growth in Germany from 1.5% to 0.5%. We also take a more conservative stance on the 2016/17 EBIT margin in Germany and lower our forecast from 3.0% to 2.5%. However, we have raised our 2016/17E EBIT margin forecast for East Central Europe from 7.6% to 8.0% following strong performance in 2015/16.



Our 2016/17E net profit and EPS forecasts decrease slightly despite the small increase in our overall EBIT forecast, as we now assume a tax rate of 28% (previously: 26%). We continue to see fair value for the SWA share at €17.60, but in view of recent share price appreciation have lowered the recommendation from Buy to Add.

Figure 2: Changes to our forecasts

All figures in €m	2016/17E			2017/18E
	old	new	% change	new
Sales	298.57	298.25	-0.1%	306.69
by region:				
Germany	102.98	101.32	-1.6%	102.34
France	99.71	99.71	0.0%	103.19
East Central Europe	100.74	101.72	1.0%	105.79
Eliminations	-4.86	-4.50		-4.63
EBIT	20.64	20.77	0.6%	21.48
Margin	6.9%	7.0%	-	7.0%
by region:				
Germany	3.06	2.53	-17.2%	2.56
margin (%)	3.0%	2.5%		2.5%
France	9.67	9.87	2.1%	10.22
margin (%)	9.7%	9.9%		9.9%
East Central Europe	7.70	8.14	5.7%	8.46
margin (%)	7.6%	8.0%		8.0%
Eliminations	0.21	0.23		0.24
Net profit after minorities	10.95	10.89	-0.5%	11.32
EPS €	1.38	1.38	-0.5%	1.43

Source: First Berlin Equity Research estimates



DCF MODEL *

All figures in T EUR	FY 16/17E	FY 17/18E	FY 18/19E	FY 19/20E	FY 20/21E	FY 21/22E	FY 22/23E	FY 23/24E	FY 24/25E	FY 25/26E
Net sales	298,250	306,694	315,429	324,466	333,815	342,924	351,752	358,996	366,411	374,004
NOPLAT	14,957	15,464	15,989	16,534	17,149	17,687	18,015	18,231	18,646	19,070
+ depreciation & amortisation	-7,248	-7,453	-7,665	-7,885	-8,112	-8,333	-8,548	-8,724	-8,904	-9,088
Net operating cash flow	22,204	22,916	23,654	24,418	25,261	26,020	26,562	26,955	27,550	28,159
- total investments (CAPEX and WC)	-14,439	-10,407	-12,101	-11,404	-11,719	-11,873	-11,498	-11,635	-11,185	-10,765
Capital expenditures	-13,134	-8,053	-9,665	-8,885	-9,112	-9,333	-10,548	-10,724	-9,904	-10,588
Working capital	-1,306	-2,355	-2,436	-2,520	-2,607	-2,540	-951	-912	-1,281	-176
Free cash flows (FCF)	7,765	12,509	11,554	13,014	13,542	14,147	15,064	15,320	16,365	17,394
PV of FCF's	7,304	10,853	9,247	9,608	9,222	8,887	8,729	8,189	8,069	7,911
All figures in thousands										
PV of FCFs in explicit period (2014/15-2024/25)	113,517									
PV of FCFs in terminal period	88,249									
Enterprise value (EV)	201,766									
+ Net cash / - net debt	-50,818									
+ Investments / minority interests	-11,641									
Shareholder value	139,307									
Fair value per share in EUR	17.59									
WACC										
WACC	8.4%									
Cost of equity	10.2%									
Pre-tax cost of debt	4.5%									
Tax rate	30.0%									
After-tax cost of debt	3.2%									
Share of equity capital	70.0%									
Share of debt capital	30.0%									
Fair value per share in EUR	17.59									
Terminal growth rate										
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%		
6.4%		25.88	26.81	27.94	29.32	31.06	33.31	36.33		
6.9%		22.98	23.68	24.50	25.50	26.71	28.24	30.22		
7.4%		20.52	21.04	21.65	22.37	23.24	24.31	25.65		
7.9%		18.40	18.79	19.25	19.78	20.41	21.17	22.10		
8.4%		16.55	16.85	17.19	17.59	18.05	18.60	19.26		
8.9%		14.94	15.16	15.42	15.72	16.06	16.45	16.93		
9.4%		13.51	13.68	13.87	14.09	14.35	14.64	14.98		
9.9%		12.24	12.37	12.51	12.68	12.86	13.08	13.32		

* the explicit period of our model runs until 2029/30E but for reasons of space we only show forecasts out to 2025/26E



INCOME STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
Revenues	306,962	308,275	288,684	293,175	298,250	306,694
Change in inventories	9,165	-8,503	1,320	-3,678	0	0
Cost of materials	-196,501	-177,338	-167,567	-167,105	-174,476	-180,030
Gross Profit	119,626	122,434	122,437	122,392	123,774	126,665
Other operating income	6,322	5,176	6,260	4,872	4,956	5,097
Personnel expenses	-39,568	-39,988	-41,363	-43,326	-44,050	-45,150
Depreciation	-7,983	-7,646	-7,857	-7,665	-7,248	-7,453
Other operating expenses	-57,484	-58,517	-58,760	-55,944	-56,659	-57,681
Operating Income (EBIT)	20,913	21,459	20,717	20,329	20,773	21,477
Associates	-480	131	451	78	79	82
Net interest income	-3,366	-3,559	-1,994	-964	-1,029	-951
Pretax profit (EBT)	17,067	18,031	19,174	19,443	19,823	20,608
Taxes	-5,056	-1,638	-5,332	-5,897	-5,551	-5,770
Net profit before minorities	12,011	16,393	13,842	13,546	14,273	14,838
Minorities	-2,302	-3,842	-3,646	-3,361	-3,380	-3,515
Net attributable profit	9,709	12,551	10,196	10,185	10,893	11,322
EPS (€)	1.23	1.58	1.29	1.29	1.38	1.43
EBITDA	28,896	29,105	28,574	27,994	28,021	28,930
Ratios						
Gross margin	39.0%	39.7%	42.4%	41.7%	41.5%	41.3%
EBIT margin on revenues	6.8%	7.0%	7.2%	6.9%	7.0%	7.0%
EBITDA margin on revenues	9.4%	9.4%	9.9%	9.5%	9.4%	9.4%
Net margin on revenues	3.9%	5.3%	4.8%	4.6%	4.8%	4.8%
Tax rate	29.6%	9.1%	27.8%	30.3%	28.0%	28.0%
Expenses as % of revenues						
Personnel costs	-12.9%	-13.0%	-14.3%	-14.8%	-14.8%	-14.7%
Depreciation	-2.6%	-2.5%	-2.7%	-2.6%	-2.4%	-2.4%
Other operating expenses	-18.7%	-19.0%	-20.4%	-19.1%	-19.0%	-18.8%
Y-Y Growth						
Revenues	4.6%	0.4%	-6.4%	1.6%	1.7%	2.8%
Operating income	5.0%	2.6%	-3.5%	-1.9%	2.2%	3.4%
Net profit before minorities	12.3%	36.5%	-15.6%	-2.1%	5.4%	4.0%



BALANCE SHEET

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
Assets						
Current assets, total	169,940	162,655	153,779	150,179	152,453	156,770
Cash and cash equivalents	3,647	2,921	3,995	3,142	2,982	3,067
Other receivables and short-term assets	11,985	8,131	5,277	5,973	5,965	6,134
Trade accounts and notes receivables	52,224	60,314	54,379	54,784	55,732	57,310
Inventories	102,084	91,289	90,128	86,280	87,774	90,259
Non-Current Assets, total	148,852	149,030	146,963	151,237	157,469	158,094
Property, plant and equipment	58,230	58,911	59,148	64,447	69,400	70,000
Goodwill + intangible assets	79,073	78,893	79,041	78,508	79,441	79,441
<i>of which:</i>						
Goodwill	5,339	5,393	5,690	5,541	5,541	5,541
Rights on brands, licenses	73,734	73,500	73,351	72,967	73,900	73,900
Other financial assets	10,735	10,528	8,186	7,733	7,733	7,733
Deferred taxes+ prepaid expenses	814	698	588	549	895	920
Total Assets	318,792	311,685	300,742	301,416	309,922	314,864
Shareholders' equity & debt						
Current Liabilities, total	128,523	118,631	108,708	95,236	95,106	93,798
Current provisions	3,619	3,324	3,219	3,415	3,120	3,177
Short-term financial debt	54,529	46,304	33,164	27,198	26,244	23,018
Trade payables	39,175	37,115	37,173	35,248	35,858	36,873
Prepayments, deferred charges & other liabilities	31,200	31,888	35,152	29,375	29,883	30,730
Long term liabilities, total	45,176	34,318	25,841	34,159	32,865	30,330
Long-term financial debt	34,254	24,854	15,253	23,607	22,779	19,979
Pension accruals and similar liabilities	2,556	2,796	3,077	3,155	3,344	3,545
Other long-term debt	1,529	2,247	2,177	557	567	583
Deferred taxes	6,837	4,421	5,334	6,840	6,176	6,223
Shareholders' equity	119,534	130,589	137,525	143,173	149,723	154,993
Minority interests	25,559	28,147	28,668	28,848	32,228	35,743
Total shareholders' equity & debt	318,792	311,685	300,742	301,416	309,922	314,864
Ratios						
Current ratio (x)	1.32	1.37	1.41	1.58	1.60	1.67
Quick ratio (x)	0.53	0.60	0.59	0.67	0.68	0.71
Financial leverage (including pension liabilities)	60.4%	44.7%	28.6%	29.5%	27.1%	22.8%
Book value per share (€)	15.09	16.49	17.36	18.08	18.90	19.57
Net debt (including pension liabilities)	87,692	71,033	47,499	50,818	49,384	43,475
Return on equity (ROE)	6.9%	8.3%	6.3%	6.0%	6.2%	6.1%



CASH FLOW STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E
Net profit before minorities	12,011	16,393	13,842	13,546	14,273	14,838
Depreciation and amortisation	7,983	7,646	7,857	7,665	7,248	7,453
Change in working capital	-18,579	5,991	12,267	-5,295	-1,306	-2,355
Other	1,045	-1,634	-619	78	189	201
Operating cash flow	2,460	28,396	33,347	15,606	20,404	20,136
CAPEX	-5,781	-7,383	-8,849	-14,050	-13,134	-8,053
Fixed asset sales	360	484	4,194	904	0	0
Investing cash flow	-5,421	-6,899	-4,655	-13,146	-13,134	-8,053
Free cash flow	-2,961	21,497	28,692	2,460	7,271	12,084
Change in financial liabilities	8,735	-17,625	-22,741	2,388	-1,783	-6,025
Dividends to shareholders	-1,822	-2,376	-2,693	-3,168	-3,406	-3,642
Dividends to subsidiaries of minorities	-1,978	-2,120	-2,227	-2,753	-2,242	-2,332
Other	0	0	0	127	0	0
Financing cash flow	4,935	-22,121	-27,661	-3,406	-7,430	-11,999
Change in cash	1,974	-624	1,031	-946	-160	84
Consolidation; exchange rate effects	102	-102	43	93	0	0
Liquid funds, start of the year	1,571	3,647	2,921	3,995	3,142	2,982
Liquid funds, end of the year	3,647	2,921	3,995	3,142	2,982	3,067
Free cash flow per share (€)	-0.37	2.71	3.62	0.31	0.92	1.53
Y-Y growth						
Operating cash flow	-66.9%	1054.3%	17.4%	-53.2%	30.7%	-1.3%
Free cash flow	n.a.	n.a.	33.5%	-91.4%	195.6%	66.2%
Financial cash flow	58.9%	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...29	↓	↓	↓	↓
30	20 November 2015	€15.08	Add	€17.90
31	1 March 2016	€13.46	Buy	€17.60
32	17 May 2016	€13.87	Buy	€17.60
33	Today	€15.09	Add	€17.60

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

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