

# Schloss Wachenheim AG

Germany / Food &amp; beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q1 2016/17 results

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**ADD****€17.60**

13.3%

Medium

## GOOD START TO THE FINANCIAL YEAR; EPS UP 46.2%

Q1 16/17 sales were close to our expectations with sales coming in at €70.0m (FBe: €71.0m; Q1 15/16: €70.2m) but EBIT of €5.0m (FBe: €4.7m; Q1 15/16: €4.2m) was 5.6% above our forecast and 19.3% above the prior year quarter's figure. Volume was down 1.8% at 51.9m bottles (Q1 15/16: 52.9 million bottles). The operating result was better than we expected because EBIT in Germany exceeded our forecast by €0.3m due to lower advertising and building costs. A 66% decline in net financing costs helped push EPS up 46.2% to €0.33 (FBe: €0.29; Q1 15/16: €0.23). Management has not altered the guidance given in the annual report published in September. This is for a slight rise in volume, stable sales and EBIT, and net profit before minorities at the same high level as in 2015/16. Ahead of the Christmas quarter, which customarily accounts for one third of full year sales, we are leaving our forecasts largely unchanged and maintain our Add recommendation and price target of €17.60.

**Sales comparison affected by unusually high retailers' own-label sales** In Germany volume declined 5.7% to 19.9 million bottles. (Q1 15/16: 21.2 million bottles). This development was influenced by the high volume of retailers' own label product sold in the prior year quarter. Retailers' own label volume fell to a more normal level in Q1 16/17. Sales fell 5.9% to €22.6m (Q1 15/16: €24.0m). The shift in the product mix away from own-label product to SWA's own brands restricted the decline in the gross profit to 2.5% to €9.1m (Q1 15/16: €9.4m). The segment's operating loss narrowed to €0.3m (Q1 15/16: €0.9m). The operating result was helped by lower advertising (€0.1m) and building costs (€0.2m) as well as the absence of the prior year quarter's unscheduled €0.2m writedown on old machinery at the Trier site.

**High profitability in France based on market-leading Charles Volner brand** The number of bottles sold in France was flat at 18.2m. Sales fell back slightly by 0.8% to €26.3m (Q1 15/16: €26.5m) due to changes in the product mix, but gross profit rose 2.3% to €10.8m (Q1 15/16: €10.6m). (p.to.)

### 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 14 Nov 2016

Closing Price	€ 15.54
Shares outstanding	7.92m
Market Capitalisation	€ 123.08m
52-week Range	€ 13.22 / 16.04
Avg. Volume (12 Months)	3,067

Multiples	2015/16	2016/17E	2017/18E
P/E	12.1	11.3	10.9
EV/Sales	0.6	0.6	0.6
EV/EBIT	8.6	8.4	8.2
Div. Yield	2.8%	3.0%	3.1%

### STOCK OVERVIEW



### COMPANY DATA

As of 30 Sep 2016

Liquid Assets	€ 2.79m
Current Assets	€ 153.26m
Intangible Assets	€ 78.58m
Total Assets	€ 311.03m
Current Liabilities	€ 101.31m
Shareholders' Equity	€ 175.81m

### SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



Segment EBIT at €4.0m was close to the prior year figure of €4.1m. The improvement in the gross profit did not flow through to EBIT because of higher advertising expenditure (+€0.1m) and depreciation (+€0.1m). However, the EBIT margin at 15.2% was again the highest among the group's three segments. The France segment's high profitability is substantially attributable to its flagship product, Charles Volner, which is the clear leader of the French sparkling wine market (excluding champagne). In December 2015 SWA supported the brand with a nationwide advertising campaign comprising 18,000 billboards. A similar campaign is planned for the 2016 Christmas season.

**Figure 1: Q1 2016/17 results versus our forecasts**

	Q1 16/17A	Q1 16/17E	Δ vs. Q1 16/17E	Q1 15/16A	Δ vs. Q1 15/16A
<b>Sales</b>	<b>70.0</b>	<b>71.0</b>	<b>-1.5%</b>	<b>70.2</b>	<b>-0.3%</b>
by region					
Germany	22.6	23.1	-2.3%	24.0	-5.9%
France	26.3	27.0	-2.7%	26.5	-0.8%
East Central Europe	22.4	22.0	1.7%	20.7	8.1%
Eliminations	-1.3	-1.1		-1.0	
<b>EBIT</b>	<b>5.0</b>	<b>4.7</b>	<b>5.6%</b>	<b>4.2</b>	<b>19.3%</b>
<i>margin (%)</i>	7.1%	6.6%		5.9%	
by region					
Germany	-0.3	-0.6	n.m.	-0.9	n.m.
<i>margin (%)</i>	-1.5%	-2.6%		-3.9%	
France	4.0	4.1	-2.3%	4.1	-1.3%
<i>margin (%)</i>	15.3%	15.2%		15.3%	
East Central Europe	1.3	1.2	7.2%	1.0	22.7%
<i>margin (%)</i>	5.7%	5.5%		5.1%	
Eliminations	0.0	0.0		0.0	
<b>Net profit</b>	<b>2.6</b>	<b>2.3</b>	<b>14.3%</b>	<b>1.8</b>	<b>46.2%</b>
<b>EPS (€)</b>	<b>0.33</b>	<b>0.29</b>	<b>14.3%</b>	<b>0.23</b>	<b>46.2%</b>

Source: SWA; First Berlin Equity Research estimates

#### **Still wine in Poland and Zarea sparkling wine in Romania drive good East Central Europe result**

The number of bottles sold by the East Central Europe segment climbed 3.8% to 15 million bottles (Q1 15/16: 14.5 million bottles) led by still wine in Poland and the sparkling wine brand, Zarea, in Romania. A favourable shift in the product mix meant that sales increased 8.1% to €22.4m (Q1 15/16: €20.7m). On the other hand, cider category sales declined during Q1 16/17. Segment gross profit climbed to €9.8m (Q1 15/16: €9.2m). EBIT improved less strongly to €1.3m (Q1 15/16: €1.0m) because of higher personnel costs (+€0.2m) and the absence of €0.2m in payments on written-off receivables which helped the prior year quarter numbers. Advertising expenditure, on the other hand, fell by €0.2m.

**End Q1 16/17 net gearing (inc. pension liabilities) at 29.6%** Q1 16/17 cash flow before changes in working capital was €6.1m (Q1 15/16: €4.1m). Operating cash flow amounted to €7.3m (Q1 15/16: €-1.6m). The prior year quarter figure was affected by an inventory build-up ahead of modernisation work at the Trier production plant. The cash outflow from investing at €7.8m was well above the Q1 15/16 figure of €2.9m due to the installation of a new bottling line at the Tournan-en-Brie site in France. Dividend payments to minority shareholders in SWA's Polish subsidiary, Ambra, amounted to €0.7m (Q1 15/16: €0.7m). Net debt including pension liabilities rose during the quarter by €1.3m to €52.1m, equivalent to net gearing of 29.6% (Q1 15/16: net debt including pension liabilities of €52.7m and net gearing of 31.4%).



**We maintain our Add recommendation and price target of €17.60** Management has not altered the guidance given in the annual report published in September. This is for a slight rise in volume, stable sales and EBIT and net profit before minorities at the same high level as in 2015/16. Ahead of the Christmas quarter, which customarily accounts for one third of full year sales, we are leaving our forecasts largely unchanged and maintain our Add recommendation and price target of €17.60.

## 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
<b>NOPLAT</b>	<b>14,957</b>	<b>15,464</b>	<b>15,989</b>	<b>16,534</b>	<b>17,149</b>	<b>17,687</b>	<b>18,015</b>	<b>18,231</b>	<b>18,646</b>	<b>19,070</b>
+ 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	-12,635
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	-2,046
Free cash flows (FCF)	7,765	12,509	11,554	13,014	13,542	14,147	15,064	15,320	16,365	15,524
<b>PV of FCF's</b>	<b>7,383</b>	<b>10,972</b>	<b>9,348</b>	<b>9,713</b>	<b>9,323</b>	<b>8,984</b>	<b>8,824</b>	<b>8,278</b>	<b>8,157</b>	<b>7,138</b>

All figures in thousands	
PV of FCFs in explicit period (2014/15-2024/25)	113,833
PV of FCFs in terminal period	89,000
Enterprise value (EV)	202,833
+ Net cash / - net debt	-52,124
+ Investments / minority interests	-11,268
Shareholder value	139,441

Fair value per share in EUR	17.61
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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%
<b>Fair value per share in EUR</b>	<b>17.61</b>

WACC		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.4%	25.89	26.83	27.95	29.33	31.06	33.30	36.31	
6.9%	23.00	23.70	24.52	25.50	26.72	28.24	30.21	
7.4%	20.54	21.06	21.67	22.39	23.25	24.31	25.64	
7.9%	18.42	18.81	19.27	19.79	20.42	21.17	22.10	
8.4%	16.58	16.88	17.22	17.61	18.06	18.61	19.26	
8.9%	14.97	15.19	15.44	15.73	16.07	16.46	16.93	
9.4%	13.54	13.71	13.90	14.12	14.36	14.65	14.99	
9.9%	12.27	12.40	12.54	12.70	12.88	13.09	13.34	

\* 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	FY16/17E	FY 17/18E
<b>Revenues</b>	<b>306,962</b>	<b>308,275</b>	<b>288,684</b>	<b>293,175</b>	<b>298,250</b>	<b>306,694</b>
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
<b>Gross Profit</b>	<b>119,626</b>	<b>122,434</b>	<b>122,437</b>	<b>122,392</b>	<b>123,774</b>	<b>126,665</b>
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
<b>Operating Income (EBIT)</b>	<b>20,913</b>	<b>21,459</b>	<b>20,717</b>	<b>20,329</b>	<b>20,773</b>	<b>21,477</b>
Associates	-480	131	451	78	79	82
Net interest income	-3,366	-3,559	-1,994	-964	-1,029	-951
<b>Pretax profit (EBT)</b>	<b>17,067</b>	<b>18,031</b>	<b>19,174</b>	<b>19,443</b>	<b>19,823</b>	<b>20,608</b>
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
<b>Net attributable profit</b>	<b>9,709</b>	<b>12,551</b>	<b>10,196</b>	<b>10,185</b>	<b>10,893</b>	<b>11,322</b>
<b>EPS (€)</b>	<b>1.23</b>	<b>1.58</b>	<b>1.29</b>	<b>1.29</b>	<b>1.38</b>	<b>1.43</b>
<b>EBITDA</b>	<b>28,896</b>	<b>29,105</b>	<b>28,574</b>	<b>27,994</b>	<b>28,021</b>	<b>28,930</b>
<b>Ratios</b>						
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%
<b>Expenses as % of revenues</b>						
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%
<b>Y-Y Growth</b>						
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
<b>Assets</b>						
<b>Current assets, total</b>	<b>169,940</b>	<b>162,655</b>	<b>153,779</b>	<b>150,179</b>	<b>152,453</b>	<b>156,770</b>
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
<b>Non-Current Assets, total</b>	<b>148,852</b>	<b>149,030</b>	<b>146,963</b>	<b>151,237</b>	<b>157,469</b>	<b>158,094</b>
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
<b>Total Assets</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>309,922</b>	<b>314,864</b>
<b>Shareholders' equity &amp; debt</b>						
<b>Current Liabilities, total</b>	<b>128,523</b>	<b>118,631</b>	<b>108,708</b>	<b>95,236</b>	<b>95,106</b>	<b>93,798</b>
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
<b>Long term liabilities, total</b>	<b>45,176</b>	<b>34,318</b>	<b>25,841</b>	<b>34,159</b>	<b>32,865</b>	<b>30,330</b>
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
<b>Shareholders' equity</b>	<b>119,534</b>	<b>130,589</b>	<b>137,525</b>	<b>143,173</b>	<b>149,723</b>	<b>154,993</b>
Minority interests	25,559	28,147	28,668	28,848	32,228	35,743
<b>Total shareholders' equity &amp; debt</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>309,922</b>	<b>314,864</b>
<b>Ratios</b>						
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
<b>Net profit before minorities</b>	<b>12,011</b>	<b>16,393</b>	<b>13,842</b>	<b>13,546</b>	<b>14,273</b>	<b>14,838</b>
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
<b>Operating cash flow</b>	<b>2,460</b>	<b>28,396</b>	<b>33,347</b>	<b>15,606</b>	<b>20,404</b>	<b>20,136</b>
CAPEX	-5,781	-7,383	-8,849	-14,050	-13,134	-8,053
Fixed asset sales	360	484	4,194	904	0	0
<b>Investing cash flow</b>	<b>-5,421</b>	<b>-6,899</b>	<b>-4,655</b>	<b>-13,146</b>	<b>-13,134</b>	<b>-8,053</b>
<b>Free cash flow</b>	<b>-2,961</b>	<b>21,497</b>	<b>28,692</b>	<b>2,460</b>	<b>7,271</b>	<b>12,084</b>
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
<b>Financing cash flow</b>	<b>4,935</b>	<b>-22,121</b>	<b>-27,661</b>	<b>-3,406</b>	<b>-7,430</b>	<b>-11,999</b>
Change in cash	1,974	-624	1,031	-946	-160	84
Consolidation; exchange rate effects	102	-102	43	93	0	0
<b>Liquid funds, start of the year</b>	<b>1,571</b>	<b>3,647</b>	<b>2,921</b>	<b>3,995</b>	<b>3,142</b>	<b>2,982</b>
<b>Liquid funds, end of the year</b>	<b>3,647</b>	<b>2,921</b>	<b>3,995</b>	<b>3,142</b>	<b>2,982</b>	<b>3,067</b>
<b>Free cash flow per share (€)</b>	<b>-0.37</b>	<b>2.71</b>	<b>3.62</b>	<b>0.31</b>	<b>0.92</b>	<b>1.53</b>
<b>Y-Y growth</b>						
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	1 March 2016	€13.46	Buy	€17.60
31	17 May 2016	€13.87	Buy	€17.60
32	27 September 2016	€15.09	Add	€17.60
33	Today	€15.54	Add	€17.60

**Authored by: Simon Scholes, Analyst**

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