

# Schloss Wachenheim AG

Germany / Food &amp; beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q3 2016/17 results

**RATING****PRICE TARGET**

Return Potential

Risk Rating

**ADD****€ 18.60**

9.5%

Medium

## MANAGEMENT RAISES FULL YEAR EBIT AND NET PROFIT GUIDANCE

Q3 16/17 sales fell 1.1% to €56.6m (FBe: €56.3m; Q3 15/16: €57.2m) a private label contract expiries in Germany (which management had flagged well in advance) outweighed strong growth in East Central Europe where SWA's wine and brandy business is flourishing. Q3 16/17 EBIT of €1.6m (FBe: €0.8m; Q3 15/16: €-0.1m) benefited from the absence of €1.2m in exceptional costs in connection with the departure of a member of the management board and restructuring of the sales department which adversely affected the prior year figure. Q3 16/17 EBIT was above our forecast because of a sharp improvement in the gross margin in France (better product mix) and also because of €0.4m in profits on a real estate transaction in the EC Europe segment. Advertising expenditure is set to rise in Germany in the current quarter. But with EBIT up 27.7% and net profit before minorities up 33.9% after nine months of the financial year, management has raised full year guidance from "stable EBIT and net profit before minorities" to "a gentle rise in EBIT and net profit before minorities." We raised our forecasts after the Q2 results to show full year increases in these numbers of 8.5% and 10.8% respectively and so are leaving our forecasts unchanged. We maintain our Add recommendation and price target of €18.60.

### EBIT in Germany up due to lower costs, absence of prior year exceptionals

As expected, business in Germany contracted due to private label contract expiries. Volume fell 12.5% to 15.4m bottles (Q3 15/16: 17.6m bottles). Sales fell less far - by 11.9% to €17.5m (Q3 15/16: €19.9m) because of continued improvement in the product mix. The more favourable product mix also restricted the decline in the gross profit to 9.4% to €7.6m (Q3 15/16: €8.4m). EBIT, which benefited from lower maintenance costs and advertising expenditure as well as a volume-related decline in freight costs, climbed to €0.1m (Q3 15/16: €-0.7m). The prior year number was adversely affected by €1.2m in exceptional costs in connection with the departure of a member of the management board and restructuring of the sales department. (p.t.o.)

### FINANCIAL HISTORY & PROJECTIONS

	2013/14	2014/15	2015/16	2016/17E	2017/18E	2017/19E
Revenue (€m)	308.27	288.68	293.18	293.76	303.24	313.10
Y-o-y growth	0.4%	-6.4%	1.6%	0.2%	3.2%	3.3%
EBIT (€m)	21.46	20.72	20.33	22.05	23.63	24.51
EBIT margin	7.0%	7.2%	6.9%	7.5%	7.8%	7.8%
Net income (€m)	12.55	10.20	10.19	11.02	12.18	12.71
EPS (diluted) (€)	1.58	1.29	1.29	1.39	1.54	1.60
DPS (€)	0.34	0.40	0.43	0.47	0.51	0.55
FCF (€m)	21.50	28.69	2.46	9.26	13.26	12.50
Net gearing	44.7%	28.6%	29.5%	26.2%	21.4%	17.7%
Liquid assets (€m)	2.92	4.00	3.14	2.94	3.03	3.13

### 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 16 May 2017

Closing Price	€ 16.99
Shares outstanding	7.92m
Market Capitalisation	€ 134.52m
52-week Range	€ 13.24 / 17.16
Avg. Volume (12 Months)	2,967

Multiples	2015/16	2016/17E	2017/18E
P/E	13.2	12.2	11.0
EV/Sales	0.6	0.6	0.6
EV/EBIT	8.9	8.2	7.7
Div. Yield	2.5%	2.7%	3.0%

### STOCK OVERVIEW



### COMPANY DATA

As of 31 Mar 2017

Liquid Assets	€ 4.43m
Current Assets	€ 147.38m
Intangible Assets	€ 78.30m
Total Assets	€ 305.89m
Current Liabilities	€ 88.60m
Shareholders' Equity	€ 181.49m

### SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



**EBIT in France up 30.5%** In France volume rose 2.7% to 15.0m bottles (Q3 15/16: 14.6m bottles). Changes in the product mix meant that sales rose by only 1.1% to €21.4m (Q3 15/16: €21.2m) but the gross profit jumped 13.2% to €9.6m (Q3 15/16: €8.5m). Meanwhile, advertising expenses increased by €0.7m in Q3 16/17 and EBIT was 30.5% or €0.5m ahead at €1.9m (Q3 15/16: €1.4m).

**Figure 1: Q3 2016/17 results versus our forecasts**

€m	Q3 16/17A	Q3 16/17E	Δ vs. Q3 16/17E	Q3 15/16A	Δ vs. Q3 15/16A
<b>Sales</b>	<b>56.57</b>	<b>56.32</b>	<b>0.4%</b>	<b>57.23</b>	<b>-1.1%</b>
by region					
Germany	17.50	18.48	-5.3%	19.87	<b>-11.9%</b>
France	21.43	20.99	2.1%	21.20	1.1%
East Central Europe	18.69	17.83	4.9%	17.14	<b>9.1%</b>
Eliminations/other	-1.05	-0.98	n.m.	-0.98	
<b>EBIT</b>	<b>1.58</b>	<b>0.77</b>	<b>105.3%</b>	<b>-0.06</b>	<b>n.m.</b>
margin (%)	2.8%	1.4%	-	n.m.	-
by region					
Germany	0.13	0.10	33.0%	-0.67	n.m.
margin (%)	0.8%	0.5%	-	n.m.	-
France	1.85	1.10	68.5%	1.42	30.5%
margin (%)	8.6%	5.2%	-	0.07	-
East Central Europe	-0.83	-0.50	n.m.	-0.87	n.m.
margin (%)	n.m.	n.m.	-	n.m.	-
Eliminations/other	0.43	0.07	511.4%	0.07	558.5%
<b>Net profit</b>	<b>0.48</b>	<b>0.23</b>	<b>105.3%</b>	<b>-0.39</b>	<b>n.m.</b>
<b>EPS (€)</b>	<b>0.06</b>	<b>0.03</b>	<b>105.3%</b>	<b>-0.05</b>	<b>n.m.</b>

Source: SWA; First Berlin Equity Research estimates

**Strong wine and brandy business drives 9.1% sales growth in EC Europe** Volume in East Central Europe climbed 7.1% to 12.0m bottles (Q3 15/16: 11.2m bottles) helped by increasing business in wine in Poland and in brandy in both Poland and Romania. The shift in the product mix to these items pushed sales ahead by 9.1% to €18.7m (Q3 15/16: €17.1m). Gross profit was up 14.7% at €7.9m (Q3 15/16: €6.9m). However, the improvement in the gross profit did not feed through to EBIT which was almost unchanged at €-0.8m (Q3 15/16: €-0.9m). Q3 16/17 EBIT was negatively impacted by the theft of €0.9m from the subsidiary, Soare Sekt a.s., Brno/Czech Republic. Third parties used false identities to initiate a transfer of this sum to a foreign bank account. Internal and external investigations of this incident were initiated as soon as it became known and legal inquiries as well as examination of the potential for redress are ongoing.

Group Q3 16/17 EBIT also benefited from the payment of a further €0.4m in connection with a Bucharest real estate transaction dating back to 2014/15. The additional payment relates to the fulfilment of a condition precedent.

**Net gearing at modest 25.8% (Q3 15/16: 28.4%)** Cashflow before expenditure on working capital came in at €3.7m (Q3 15/16: €1.4m). The third quarter of SWA's financial year customarily sees a large reduction in working capital as receivables are collected after Christmas. However, the reduction in working capital in Q3 16/17 was smaller at €5.4m (Q3 15/16: €12.9m) than during Q3 15/16 due mainly to a higher increase in inventories and a larger reduction in payables compared with the prior year. Operating cash flow thus came in at €9.6m (Q3 15/16: €14.3m). Free cash flow was €78m (Q3 15/16: €12.5m). €0.2m of this sum (Q3 15/16: €0.2m) was used to pay dividends to minority shareholders. Net debt (including pension liabilities) fell €7.5m to €46.9m (Q3 15/16: fell €12.3m to €48.4m). Net gearing (including pension liabilities) was 25.8% (Q3 15/16: 28.4%).

**We maintain our Add recommendation and price target of €18.60** SWA reduced advertising expenditure in Germany during the first half of the current financial year for strategic reasons. However, a significant increase in spending in comparison with the prior year period is planned for the current quarter.



Promotion of the alcohol-free sparkling product, "Light Live" in various media and formats will be a key component of this campaign. Although advertising in Germany is set to rise this quarter, with EBIT up 27.7% at €19.5m (Q3 15/16: €153m) and net profit before minorities up 33.9% at €13.5m (Q3 15/16: €10.0m) after nine months, management has raised full year guidance from "stable EBIT and net profit before minorities" to "a gentle rise in EBIT and net profit before minorities." We raised our forecasts after the Q2 results to show full year increases in these numbers of 8.5% and 10.8% respectively and so are leaving our forecasts unchanged. We maintain our Add recommendation and price target of €18.60.

## 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	293,757	303,237	313,102	322,231	331,678	340,903	349,865	357,197	364,705	372,395
<b>NOPLAT</b>	<b>15,879</b>	<b>17,014</b>	<b>17,648</b>	<b>18,232</b>	<b>17,707</b>	<b>18,277</b>	<b>18,139</b>	<b>18,562</b>	<b>18,995</b>	<b>19,439</b>
+ depreciation & amortisation	-7,138	-7,369	-7,608	-7,830	-8,060	-8,284	-8,502	-8,680	-8,862	-9,049
Net operating cash flow	23,017	24,383	25,256	26,063	25,767	26,561	26,641	27,242	27,857	28,488
- total investments (CAPEX and WC)	-13,077	-10,612	-12,359	-11,376	-11,694	-11,856	-12,897	-12,722	-11,954	-12,691
Capital expenditures	-13,024	-7,969	-9,608	-8,830	-9,060	-9,284	-10,502	-10,680	-9,862	-10,549
Working capital	-53	-2,643	-2,751	-2,545	-2,634	-2,572	-2,396	-2,042	-2,091	-2,142
Free cash flows (FCF)	9,940	13,771	12,897	14,687	14,073	14,705	13,744	14,520	15,903	15,797
<b>PV of FCF's</b>	<b>9,842</b>	<b>12,577</b>	<b>10,865</b>	<b>11,414</b>	<b>10,089</b>	<b>9,724</b>	<b>8,383</b>	<b>8,170</b>	<b>8,255</b>	<b>7,563</b>

All figures in thousands	
PV of FCFs in explicit period (2016/17-2029/30)	123,294
PV of FCFs in terminal period	89,373
Enterprise value (EV)	212,668
+ Net cash / - net debt	-46,861
+ Investments / minority interests	-18,498
Shareholder value	147,309

Fair value per share in EUR 18.60

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>18.60</b>

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.4%	27.13	27.93	28.90	30.09	31.58	33.50	36.09
6.9%	24.25	24.83	25.52	26.34	27.36	28.63	30.28
7.4%	21.80	22.22	22.71	23.29	23.99	24.85	25.93
7.9%	19.68	19.98	20.34	20.75	21.23	21.82	22.54
8.4%	17.84	18.06	18.31	18.60	18.94	19.34	19.82
8.9%	16.23	16.38	16.56	16.76	16.99	17.27	17.59
9.4%	14.80	14.91	15.03	15.17	15.33	15.51	15.73
9.9%	13.53	13.60	13.68	13.78	13.88	14.00	14.14

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

Source: First Berlin Equity Research estimates



## INCOME STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E	FY 18/19E
<b>Revenues</b>	<b>306,962</b>	<b>308,275</b>	<b>288,684</b>	<b>293,175</b>	<b>293,757</b>	<b>303,237</b>	<b>313,102</b>
Change in inventories	9,165	-8,503	1,320	-3,678	0	0	0
Cost of materials	-196,501	-177,338	-167,567	-167,105	-171,848	-178,000	-186,296
<b>Gross Profit</b>	<b>119,626</b>	<b>122,434</b>	<b>122,437</b>	<b>122,392</b>	<b>121,909</b>	<b>125,237</b>	<b>126,806</b>
Other operating income	6,322	5,176	6,260	4,872	4,882	5,039	5,203
Personnel expenses	-39,568	-39,988	-41,363	-43,326	-44,050	-45,150	-45,600
Depreciation	-7,983	-7,646	-7,857	-7,665	-7,138	-7,369	-7,608
Other operating expenses	-57,484	-58,517	-58,760	-55,944	-53,549	-54,126	-54,290
<b>Operating Income (EBIT)</b>	<b>20,913</b>	<b>21,459</b>	<b>20,717</b>	<b>20,329</b>	<b>22,054</b>	<b>23,631</b>	<b>24,511</b>
Associates	-480	131	451	78	-102	0	0
Net interest income	-3,366	-3,559	-1,994	-964	-1,103	-992	-852
<b>Pretax profit (EBT)</b>	<b>17,067</b>	<b>18,031</b>	<b>19,174</b>	<b>19,443</b>	<b>20,849</b>	<b>22,639</b>	<b>23,659</b>
Taxes	-5,056	-1,638	-5,332	-5,897	-5,838	-6,339	-6,624
Net profit before minorities	12,011	16,393	13,842	13,546	15,011	16,300	17,034
Minorities	-2,302	-3,842	-3,646	-3,361	-3,994	-4,122	-4,328
<b>Net attributable profit</b>	<b>9,709</b>	<b>12,551</b>	<b>10,196</b>	<b>10,185</b>	<b>11,018</b>	<b>12,178</b>	<b>12,706</b>
<b>EPS (€)</b>	<b>1.23</b>	<b>1.58</b>	<b>1.29</b>	<b>1.29</b>	<b>1.39</b>	<b>1.54</b>	<b>1.60</b>
<b>EBITDA</b>	<b>28,896</b>	<b>29,105</b>	<b>28,574</b>	<b>27,994</b>	<b>29,192</b>	<b>31,000</b>	<b>32,119</b>
<b>Ratios</b>							
Gross margin	39.0%	39.7%	42.4%	41.7%	41.5%	41.3%	40.5%
EBIT margin on revenues	6.8%	7.0%	7.2%	6.9%	7.5%	7.8%	7.8%
EBITDA margin on revenues	9.4%	9.4%	9.9%	9.5%	9.9%	10.2%	10.3%
Net margin on revenues	3.9%	5.3%	4.8%	4.6%	5.1%	5.4%	5.4%
Tax rate	29.6%	9.1%	27.8%	30.3%	28.0%	28.0%	28.0%
<b>Expenses as % of revenues</b>							
Personnel costs	-12.9%	-13.0%	-14.3%	-14.8%	-15.0%	-14.9%	-14.6%
Depreciation	-2.6%	-2.5%	-2.7%	-2.6%	-2.4%	-2.4%	-2.4%
Other operating expenses	-18.7%	-19.0%	-20.4%	-19.1%	-18.2%	-17.8%	-17.3%
<b>Y-Y Growth</b>							
Revenues	4.6%	0.4%	-6.4%	1.6%	0.2%	3.2%	3.3%
Operating income	5.0%	2.6%	-3.5%	-1.9%	8.5%	7.2%	3.7%
Net profit before minorities	12.3%	36.5%	-15.6%	-2.1%	10.8%	-100.0%	4.5%



## BALANCE SHEET

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17E	FY 17/18E	FY 18/19E
<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>150,157</b>	<b>155,002</b>	<b>160,045</b>
Cash and cash equivalents	3,647	2,921	3,995	3,142	2,938	3,032	3,131
Other receivables and short-term assets	11,985	8,131	5,277	5,973	5,875	6,065	6,262
Trade accounts and notes receivables	52,224	60,314	54,379	54,784	54,893	56,664	58,508
Inventories	102,084	91,289	90,128	86,280	86,451	89,241	92,145
<b>Non-Current Assets, total</b>	<b>148,852</b>	<b>149,030</b>	<b>146,963</b>	<b>151,237</b>	<b>157,455</b>	<b>158,084</b>	<b>160,113</b>
Property, plant and equipment	58,230	58,911	59,148	64,447	69,400	70,000	72,000
Goodwill + intangible assets	79,073	78,893	79,041	78,508	79,441	79,441	79,441
<i>of which:</i>							
Goodwill	5,339	5,393	5,690	5,541	5,541	5,541	5,541
Rights on brands, licenses	73,734	73,500	73,351	72,967	73,900	73,900	73,900
Other financial assets	10,735	10,528	8,186	7,733	7,733	7,733	7,733
Deferred taxes + prepaid expenses	814	698	588	549	881	910	939
<b>Total Assets</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>307,612</b>	<b>313,086</b>	<b>320,159</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>93,196</b>	<b>91,742</b>	<b>91,067</b>
Current provisions	3,619	3,324	3,219	3,415	3,073	3,141	3,211
Short-term financial debt	54,529	46,304	33,164	27,198	25,371	21,761	18,841
Trade payables	39,175	37,115	37,173	35,248	35,318	36,458	37,644
Prepayments, deferred charges & other liabilities	31,200	31,888	35,152	29,375	29,433	30,383	31,372
<b>Long term liabilities, total</b>	<b>45,176</b>	<b>34,318</b>	<b>25,841</b>	<b>34,159</b>	<b>32,007</b>	<b>29,162</b>	<b>26,932</b>
Long-term financial debt	34,254	24,854	15,253	23,607	22,022	18,888	16,353
Pension accruals and similar liabilities	2,556	2,796	3,077	3,155	3,344	3,545	3,758
Other long-term debt	1,529	2,247	2,177	557	558	576	595
Deferred taxes	6,837	4,421	5,334	6,840	6,083	6,153	6,226
<b>Shareholders' equity</b>	<b>119,534</b>	<b>130,589</b>	<b>137,525</b>	<b>143,173</b>	<b>149,568</b>	<b>155,218</b>	<b>160,868</b>
Minority interests	25,559	28,147	28,668	28,848	32,842	36,964	41,292
<b>Total shareholders' equity &amp; debt</b>	<b>318,792</b>	<b>311,685</b>	<b>300,742</b>	<b>301,416</b>	<b>307,612</b>	<b>313,086</b>	<b>320,159</b>
<b>Ratios</b>							
Current ratio (x)	1.32	1.37	1.41	1.58	1.61	1.69	1.76
Quick ratio (x)	0.53	0.60	0.59	0.67	0.68	0.72	0.75
Financial leverage (including pension liabilities)	60.4%	44.7%	28.6%	29.5%	26.2%	21.4%	17.7%
Book value per share (€)	15.09	16.49	17.36	18.08	18.88	19.60	20.31
Net debt (including pension liabilities)	87,692	71,033	47,499	50,818	47,800	41,161	35,821
Return on equity (ROE)	6.9%	8.3%	6.3%	6.0%	6.2%	6.5%	6.4%



## 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	FY 18/19E
<b>Net profit before minorities</b>	<b>12,011</b>	<b>16,393</b>	<b>13,842</b>	<b>13,546</b>	<b>15,011</b>	<b>16,300</b>	<b>17,034</b>
Depreciation and amortisation	7,983	7,646	7,857	7,665	7,138	7,369	7,608
Change in working capital	-18,579	5,991	12,267	-5,295	-53	-2,643	-2,751
Other	1,045	-1,634	-619	-310	189	201	213
<b>Operating cash flow</b>	<b>2,460</b>	<b>28,396</b>	<b>33,347</b>	<b>15,606</b>	<b>22,286</b>	<b>21,226</b>	<b>22,104</b>
CAPEX	-5,781	-7,383	-8,849	-14,050	-13,024	-7,969	-9,608
Fixed asset sales	360	484	4,194	904	0	0	0
<b>Investing cash flow</b>	<b>-5,421</b>	<b>-6,899</b>	<b>-4,655</b>	<b>-13,146</b>	<b>-13,024</b>	<b>-7,969</b>	<b>-9,608</b>
<b>Free cash flow</b>	<b>-2,961</b>	<b>21,497</b>	<b>28,692</b>	<b>2,460</b>	<b>9,262</b>	<b>13,258</b>	<b>12,496</b>
Change in financial liabilities	8,735	-17,625	-22,741	2,388	-3,412	-6,745	-5,454
Dividends to shareholders	-1,822	-2,376	-2,693	-3,168	-3,406	-3,684	-4,072
Dividends to subsidiaries of minorities	-1,978	-2,120	-2,227	-2,753	-2,649	-2,734	-2,871
Other	0	0	0	127	0	0	0
<b>Financing cash flow</b>	<b>4,935</b>	<b>-22,121</b>	<b>-27,661</b>	<b>-3,406</b>	<b>-9,466</b>	<b>-13,163</b>	<b>-12,397</b>
Change in cash	1,974	-624	1,031	-946	-204	95	99
Consolidation; exchange rate effects	102	-102	43	93	0	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>2,938</b>	<b>3,032</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>2,938</b>	<b>3,032</b>	<b>3,131</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>1.17</b>	<b>1.67</b>	<b>1.58</b>
<b>Y-Y growth</b>							
Operating cash flow	-66.9%	1054.3%	17.4%	-53.2%	42.8%	-4.8%	4.1%
Free cash flow	n.a.	n.a.	33.5%	-91.4%	276.5%	43.1%	-5.7%
Financial cash flow	58.9%	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...31	↓	↓	↓	↓
32	27 September 2016	€15.09	Buy	€17.60
33	15 November 2016	€15.54	Add	€17.60
34	28 February 2017	€16.36	Add	€18.60
35	Today	€16.99	Add	€18.60

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- valuation methods and principles
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