Schloss Wachenheim AG

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

Q1 2017/18 results

RATING	**ADD**
PRICE TARGET	**€ 23.60**
Return Potential	9.8%
Risk Rating	Medium

STRONG START TO THE FINANCIAL YEAR; EBIT UP 19.4%

Schloss Wachenheim's Q1 17/18 numbers showed a strong start to its financial year (ends 30 June) with sales and EBIT up 6.3% and 19.4% respectively. Sales in Germany benefited from the acquisition of the wine merchant, Rindchen, and strong organic growth in wine sales in Poland. The rise in EBIT was mostly attributable to the latter market. We continue to expect volume to benefit from a positive consumer climate on all of SWA's markets during 2017/18. Meanwhile, the favourable shift in SWA's product mix entailed by the Rindchen acquisition, wine sales growth in Poland and increasing sales of own brands should push the EBIT margin higher this year. We are leaving our forecasts unchanged ahead of the key Christmas quarter and maintain our Add recommendation and price target of €23.60.

East Central European sales and volume up over 9% Q1 17/18 sales rose 6.3% to €74.4m (Q1 16/17: €70.0m; FBe: €76.1m) while EBIT climbed 19.4% to €5.9m (Q1 16/17: €5.0m; FBe: €6.1m). The increase in sales was driven by the consolidation of the German wine merchant, Rindchens Weinkontor, from 1 July (expected 2017/18 sales contribution: €20m) and also by a 9.2% rise in East Central European segment sales stemming from the growth of the Polish wine market. The number of bottles sold across the group rose 1.7% to 52.8m (Q1 16/17: 51.9m). East Central Europe (+9.1%) accounted for most of the growth in this figure. In Germany (+1.0%) the additional volume from Rindchen was largely cancelled out by expected further private label contract expiries in sparkling wine. Changes in the product mix meant that group sales grew more strongly than volume and also pushed gross profit up by 8.4% to €32.2m (Q1 16/17: €29.7m). The 19.4% rise in EBIT to €5.9m was helped by an increase in other operating income stemming from profits on the sale of fixed assets in France and payments relating to receivables in East Central Europe which had already been written off. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013/14	2014/15	2015/16	2016/17	2017/18E	2018/19E
Revenue (€ m)	308.27	288.68	293.18	296.06	325.02	342.64
Y-o-y growth	0.4%	-6.4%	1.6%	1.0%	9.8%	5.4%
EBIT (€ m)	21.46	20.72	20.33	22.18	24.97	26.36
EBIT margin	7.0%	7.2%	6.9%	7.5%	7.7%	7.7%
Net income (€ m)	12.55	10.20	10.19	11.50	12.66	13.32
EPS (diluted) (€)	1.58	1.29	1.29	1.45	1.60	1.68
DPS (€)	0.34	0.40	0.43	0.48	0.53	0.55
FCF (€m)	21.50	28.69	2.46	10.40	-7.27	12.51
Net gearing	44.7%	28.6%	29.5%	25.3%	31.1%	27.2%
Liquid assets (€ m)	2.92	4.00	3.14	5.70	3.25	3.43

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 (31% of 2016/17 group sales) and number one in France with a 40% market share. Some 36% of group sales are generated in Eastern Central Europe through the 61%-owned subsidiary, Ambra.

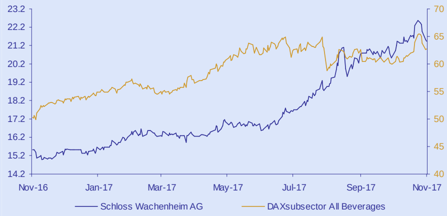
MARKET DATA

As of 16 Nov 2017

Closing Price	€ 21.50
Shares outstanding	7.92m
Market Capitalisation	€ 170.28m
52-week Range	€ 14.98 / 22.55
Avg. Volume (12 Months)	3,105

Multiples	2016/17	2017/18E	2018/19E
P/E	14.8	13.4	12.8
EV/Sales	0.8	0.7	0.6
EV/EBIT	10.0	8.9	8.4
Div. Yield	2.2%	2.5%	2.6%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2017

Liquid Assets	€ 4.15m
Current Assets	€ 159.44m
Intangible Assets	€ 89.63m
Total Assets	€ 328.52m
Current Liabilities	€ 107.44m
Shareholders' Equity	€ 185.69m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

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In Germany growth in wine volume cancelled out a decline in sparkling wine volume The number of bottles sold in Germany rose 1.0% to 20.1m (Q1 16/17: 19.9m). Sales jumped by 15.5% as higher value bottles of wine sold by Rindchen replaced the lower value bottles of sparkling wine sold under private label contracts. The shift in the product mix towards wine pushed the gross profit up 20.5% to €11.0m (Q1 16/17: €9.1m). However, additional costs stemming from Rindchen meant that EBIT was up only slightly at €-0.2m (Q1 16/17: €-0.3m) despite declines of €0.1m in both freight and advertising costs.

Figure 1: Q1 2016/17 results versus our forecasts

	Q1 17/18A	Q1 17/18E	Δ vs. Q1 17/18E	Q1 16/17A	Δ vs. Q1 16/17A
Sales	**74.4**	**76.1**	**-2.2%**	**70.0**	**6.3%**
by region					
Germany	26.1	26.1	-0.1%	22.6	15.5%
France	25.2	27.1	-7.1%	26.3	-4.1%
East Central Europe	24.4	24.2	0.9%	22.4	9.2%
Eliminations	-1.3	-1.3		-1.3	
EBIT	**5.9**	**6.1**	**-2.9%**	**5.0**	**19.4%**
margin (%)	*8.0%*	*8.0%*		*7.1%*	
by region					
Germany	-0.2	0.0	n.m.	-0.3	n.m.
margin (%)	*-0.9%*	*0.0%*		*-1.5%*	
France	3.6	4.1	-10.3%	4.0	-9.0%
margin (%)	*14.5%*	*15.0%*		*15.3%*	
East Central Europe	2.4	1.9	26.0%	1.3	89.7%
margin (%)	*10.0%*	*8.0%*		*5.7%*	
Eliminations	0.1	0.1		0.0	
Net profit	**2.6**	**2.7**	**-2.6%**	**2.6**	**0.0%**
EPS (€)	**0.37**	**0.38**	**-2.6%**	**0.33**	**11.5%**

Source: SWA; First Berlin Equity Research estimates

Exports from France performed well amid 4.1% decline in segment sales In France a 4.1% volume decline to 17.5m bottles (Q1 16/17: 18.2m bottles) was attributable to the domestic market. Sales also fell 4.1% to €25.2m (Q1 16/17: €26.3m) but changes in the product mix meant that the gross profit fell only 1.5% to €10.7m (Q1 16/17: €10.8m). Segment EBIT came in at €3.6m (Q1 16/17: €4.0m). Advertising expenditure climbed €0.3m but this was largely cancelled out by €0.2m in profits on the sale of fixed assets. While overall segment sales fell, exports from France continued to perform well.

Wine sales booming in Poland Volume in East Central Europe climbed 9.1% to 16.4m bottles (Q1 16/17: 15.0m bottles) due to growth in wine sales in Poland. Sales were 9.2% ahead at €24.4m (Q1 16/17: €22.4m). The gross profit climbed 7.8% to €10.5m (Q1 16/17: €9.8m) while EBIT was up 89.7% at €2.4m (Q1 16/17: €1.3m). Besides the higher gross profit, EBIT also benefited by around €0.5m from increases in other income, mainly due to the receivable payments mentioned above.

End Q1 17/18 net gearing (inc. pension liabilities) at 27.9% Despite a 20.9% increase in net profit before minorities, Q1 17/18 cash flow before changes in working capital fell 10.7% to €5.5m (Q1 16/17: €6.1m). Working capital consumed funds of €0.8m in Q1 17/18. In Q1 16/17 it released funds of €1.2m. In consequence, operating cashflow came in at €4.7m (Q1 16/17: €7.3m). Cashflow from investing was €-8.4m (Q1 16/17: €-7.8m). The main item in this year's number was a payment in connection with the investment in Rindchen. In Q1 16/17 a new bottling line was installed at the Tournan-en-Brie site in France. Dividend payments to minority shareholders in SWA's Polish subsidiary, Ambra, amounted to €0.8m (Q1 16/17: €0.7m). Net debt including pension liabilities rose during the quarter by €5.4m to €51.9m, equivalent to net gearing of 27.9% (Q1 16/17: net debt including pension liabilities of €52.1m and net gearing of 29.6%).

Forecasts, Add recommendation and price target of €23.60 unchanged Following a strong start to SWA's financial year, we are leaving our forecasts unchanged ahead of the key Christmas quarter. We maintain our Add recommendation and price target of €23.60.

DCF MODEL*

All figutes in T EUR	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	FY 26/27E
Net sales	**325,016**	**342,635**	**357,873**	**371,532**	**384,533**	**396,085**	**404,364**	**412,842**	**421,527**	**430,423**
NOPLAT	**17,977**	**18,979**	**19,944**	**19,962**	**20,806**	**20,967**	**21,464**	**21,357**	**21,861**	**22,379**
+ depreciation & amortisation	-7,540	-7,949	-8,303	-8,620	-8,921	-9,189	-9,381	-9,578	-9,779	-9,986
Net operating cash flow	25,517	26,929	28,247	28,581	29,727	30,156	30,845	30,935	31,641	32,365
- total investments (CAPEX and WC)	-32,121	-13,671	-13,821	-8,840	-9,762	-10,388	-13,563	-8,684	-13,481	-13,741
Capital expenditures	-17,785	-8,446	-9,303	-9,620	-9,921	-11,189	-11,381	-10,578	-11,279	-11,486
Working capital	-14,337	-5,225	-4,519	780	159	801	-2,182	1,894	-2,202	-2,256
Free cash flows (FCF)	-6,604	13,258	14,426	19,741	19,965	19,768	17,282	22,251	18,159	18,623
PV of FCF's	**-6,304**	**11,737**	**11,845**	**15,034**	**14,102**	**12,950**	**10,501**	**12,540**	**9,492**	**9,029**

All figures in thousands	
PV of FCFs in explicit period (2016/17-2029/30)	127,443
PV of FCFs in terminal period	134,410
Enterprise value (EV)	261,854
+ Net cash / - net debt	-51,880
+ Investments / minority interests	-22,988
Shareholder value	186,986
Fair value per share in EUR	23.61

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	23.61

		Terminal growth rate						
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
WACC	5.8%	34.36	36.29	38.65	41.64	45.53	50.80	58.34
	6.3%	30.23	31.68	33.42	35.57	38.29	41.83	46.61
	6.8%	26.76	27.86	29.18	30.76	32.72	35.18	38.39
	7.3%	23.80	24.66	25.66	26.85	28.29	30.06	32.30
	7.8%	21.26	21.93	22.70	23.61	24.69	25.99	27.60
	8.3%	19.04	19.57	20.18	20.88	21.70	22.67	23.85
	8.8%	17.10	17.52	18.00	18.54	19.18	19.92	20.80
	9.3%	15.38	15.72	16.09	16.52	17.02	17.59	18.26

** the explicit period of our model runs until 2029/30E but for reasons of space we only show forecasts out to 2026/27E*

INCOME STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18E	FY 18/19E
Revenues	**306,962**	**308,275**	**288,684**	**293,175**	**296,062**	**325,016**	**342,635**
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	-169,778	-184,934	-193,589
Gross Profit	**119,626**	**122,434**	**122,437**	**122,392**	**126,541**	**140,082**	**149,046**
Other operating income	6,322	5,176	6,260	4,872	4,582	5,030	5,303
Personnel expenses	-39,568	-39,988	-41,363	-43,326	-43,593	-45,150	-45,600
Depreciation	-7,983	-7,646	-7,857	-7,665	-7,844	-7,540	-7,949
Other operating expenses	-57,484	-58,517	-58,760	-55,944	-57,505	-67,454	-74,440
Operating Income (EBIT)	**20,913**	**21,459**	**20,717**	**20,329**	**22,181**	**24,968**	**26,360**
Associates	-480	131	451	78	-6	0	0
Net interest income	-3,366	-3,559	-1,994	-964	-1,102	-1,198	-1,304
Pretax profit (EBT)	**17,067**	**18,031**	**19,174**	**19,443**	**21,073**	**23,770**	**25,057**
Taxes	-5,056	-1,638	-5,332	-5,897	-5,361	-6,655	-7,016
Net profit before minorities	12,011	16,393	13,842	13,546	15,712	17,114	18,041
Minorities	-2,302	-3,842	-3,646	-3,361	-4,211	-4,450	-4,720
Net attributable profit	**9,709**	**12,551**	**10,196**	**10,185**	**11,501**	**12,664**	**13,321**
EPS (€)	**1.23**	**1.58**	**1.29**	**1.29**	**1.45**	**1.60**	**1.68**
EBITDA	**28,896**	**29,105**	**28,574**	**27,994**	**30,025**	**32,508**	**34,309**

Ratios							
Gross margin	39.0%	39.7%	42.4%	41.7%	42.7%	43.1%	43.5%
EBIT margin on revenues	6.8%	7.0%	7.2%	6.9%	7.5%	7.7%	7.7%
EBITDA margin on revenues	9.4%	9.4%	9.9%	9.5%	10.1%	10.0%	10.0%
Net margin on revenues	3.9%	5.3%	4.8%	4.6%	5.3%	5.3%	5.3%
Tax rate	29.6%	9.1%	27.8%	30.3%	25.4%	28.0%	28.0%
Expenses as % of revenues							
Personnel costs	-12.9%	-13.0%	-14.3%	-14.8%	-14.7%	-13.9%	-13.3%
Depreciation	-2.6%	-2.5%	-2.7%	-2.6%	-2.6%	-2.3%	-2.3%
Other operating expenses	-18.7%	-19.0%	-20.4%	-19.1%	-19.4%	-20.8%	-21.7%
Y-Y Growth							
Revenues	4.6%	0.4%	-6.4%	1.6%	1.0%	9.8%	5.4%
Operating income	5.0%	2.6%	-3.5%	-1.9%	9.1%	12.6%	5.6%
Net profit before minorities	12.3%	36.5%	-15.6%	-2.1%	16.0%	-100.0%	5.4%

BALANCE SHEET

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18E	FY 18/19E
Assets							
Current assets, total	**169,940**	**162,655**	**153,779**	**150,179**	**155,088**	**175,055**	**184,545**
Cash and cash equivalents	3,647	2,921	3,995	3,142	5,700	3,250	3,426
Other receivables and short-term assets	11,985	8,131	5,277	5,973	5,508	6,047	6,374
Trade accounts and notes receivables	52,224	60,314	54,379	54,784	56,362	68,253	71,953
Inventories	102,084	91,289	90,128	86,280	87,518	97,505	102,791
Non-Current Assets, total	**148,852**	**149,030**	**146,963**	**151,237**	**158,818**	**169,538**	**170,088**
Property, plant and equipment	58,230	58,911	59,148	64,447	72,431	71,503	72,000
Goodwill + intangible assets	79,073	78,893	79,041	78,508	78,557	89,711	89,711
of which:							
Goodwill	5,339	5,393	5,690	5,541	5,711	5,711	5,711
Rights on brands, licenses	73,734	73,500	73,351	72,967	72,846	84,000	84,000
Other financial assets	10,735	10,528	8,186	7,733	7,349	7,349	7,349
Deferred taxes + prepaid expenses	814	698	588	549	481	975	1,028
Total Assets	**318,792**	**311,685**	**300,742**	**301,416**	**313,906**	**344,593**	**354,633**
Shareholders' equity & debt							
Current Liabilities, total	**128,523**	**118,631**	**108,708**	**95,236**	**97,782**	**112,805**	**114,195**
Current provisions	3,619	3,324	3,219	3,415	3,020	3,366	3,513
Short-term financial debt	54,529	46,304	33,164	27,198	28,221	34,896	32,098
Trade payables	39,175	37,115	37,173	35,248	37,434	42,902	45,228
Prepayments, deferred charges & other liabilities	31,200	31,888	35,152	29,375	29,107	31,640	33,356
Long term liabilities, total	**45,176**	**34,318**	**25,841**	**34,159**	**32,443**	**36,571**	**34,946**
Long-term financial debt	34,254	24,854	15,253	23,607	20,982	25,945	23,865
Pension accruals and similar liabilities	2,556	2,796	3,077	3,155	2,970	3,148	3,337
Other long-term debt	1,529	2,247	2,177	557	804	883	930
Deferred taxes	6,837	4,421	5,334	6,840	7,687	6,595	6,814
Shareholders' equity	**119,534**	**130,589**	**137,525**	**143,173**	**152,431**	**159,517**	**165,071**
Minority interests	25,559	28,147	28,668	28,848	31,250	35,700	40,420
Total shareholders' equity & debt	**318,792**	**311,685**	**300,742**	**301,416**	**313,906**	**344,593**	**354,633**
Ratios							
Current ratio (x)	1.32	1.37	1.41	1.58	1.59	1.55	1.62
Quick ratio (x)	0.53	0.60	0.59	0.67	0.69	0.69	0.72
Financial leverage (including pension liabilities)	60.4%	44.7%	28.6%	29.5%	25.3%	31.1%	27.2%
Book value per share (€)	15.09	16.49	17.36	18.08	19.25	20.14	20.84
Net debt (including pension liabilities)	87,692	71,033	47,499	50,818	46,473	60,739	55,874
Return on equity (ROE)	6.9%	8.3%	6.3%	6.0%	6.5%	6.7%	6.6%

CASH FLOW STATEMENT

All figures in T€	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18E	FY 18/19E
Net profit before minorities	**12,011**	**16,393**	**13,842**	**13,546**	**15,712**	**17,114**	**18,041**
Depreciation and amortisation	7,983	7,646	7,857	7,665	7,844	7,540	7,949
Change in working capital	-18,579	5,991	12,267	-5,295	-662	-14,337	-5,225
Other	1,045	-1,634	-619	-310	1,775	178	189
Operating cash flow	**2,460**	**28,396**	**33,347**	**15,606**	**24,669**	**10,496**	**20,954**
CAPEX	-5,781	-7,383	-8,849	-14,050	-14,838	-17,785	-8,446
Fixed asset sales	360	484	4,194	904	565	18	0
Investing cash flow	**-5,421**	**-6,899**	**-4,655**	**-13,146**	**-14,273**	**-17,767**	**-8,446**
Free cash flow	**-2,961**	**21,497**	**28,692**	**2,460**	**10,396**	**-7,271**	**12,508**
Change in financial liabilities	8,735	-17,625	-22,741	2,388	-1,602	11,638	-4,878
Dividends to shareholders	-1,822	-2,376	-2,693	-3,168	-3,406	-3,802	-4,198
Dividends to susbidiaries of minorities	-1,978	-2,120	-2,227	-2,753	-2,657	-3,015	-3,257
Other	0	0	0	127	0	0	0
Financing cash flow	**4,935**	**-22,121**	**-27,661**	**-3,406**	**-7,665**	**4,821**	**-12,332**
Change in cash	1,974	-624	1,031	-946	2,731	-2,450	176
Consolidation; exchange rate effects	102	-102	43	93	-173	0	0
Liquid funds, start of the year	**1,571**	**3,647**	**2,921**	**3,995**	**3,142**	**5,700**	**3,250**
Liquid funds, end of the year	**3,647**	**2,921**	**3,995**	**3,142**	**5,700**	**3,250**	**3,426**
Free cash flow per share (€)	**-0.37**	**2.71**	**3.62**	**0.31**	**1.31**	**-0.92**	**1.58**
Y-Y growth							
Operating cash flow	-66.9%	1054.3%	17.4%	-53.2%	58.1%	-57.5%	99.6%
Free cash flow	n.a.	n.a.	33.5%	-91.4%	322.6%	-169.9%	-272.0%
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...33	↓	↓	↓	↓
34	28 February 2017	€16.36	Add	€18.60
35	17 May 2017	€16.99	Add	€18.60
36	28 September 2017	€20.79	Add	€23.60
37	Today	€21.50	Add	€23.60

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INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

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