

Schloss Wachenheim AG

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

Q2 2017/18
 results

RATING
PRICE TARGET **ADD**
€ 22.50
 Return Potential 8.7%
 Risk Rating Medium

FAST GROWING POLISH WINE BUSINESS TAKES CENTRE STAGE

Q2 17/18 results showed a 7.1% increase in sales to €108.0m (FBe €109.2m Q2 16/17: €100.8m) and a 4.2% rise in EBIT to €13.5m (FBe €13m; Q2 16/17: €12.9m). Both numbers were close to our forecasts as EBIT benefited from a €0.8m gain on the sale of real estate which cushioned the effect of a production interruption in Germany. Profitability in Germany should rebound to the normal level during the second half of the financial year, while the acquisition of Rindchen's Weinkontor will clearly outweigh the expected further private label contract expiries. We expect full year business development in France to continue to be influenced by a slight negative shift in the product mix and higher depreciation due to the start-up of a new bottling line. East Central Europe is currently the "star" of the group due mainly to the growth of the wine business in Poland. We expect this segment to overtake France in 2017/18 as the generator of the highest EBIT margin within SWA. In the light of performance during the first six months of 2017/18, we now take a more conservative view of the future EBIT margin in the German segment. We have also lowered our EBIT margin forecasts for France to reflect the above-mentioned higher depreciation charge and product mix change. However, we have revised up numbers for East Central Europe to following the strong recent improvement in profitability. On the basis of the changes in our projections, we now see fair value for the SWA shares at €22.50 (previously: €23.60). We maintain our Add recommendation.

2.1% volume rise converts into 7.1% sales growth as product mix improves
 Q2 17/18 results showed a group-wide 2.1% increase in volume to 76.2m bottles (Q2 16/17: 74.6m bottles) supported by rising consumer spending on all of SWA's markets and the acquisition of the German wine merchant, Rindchen, with effect from 1 July 2017. Sales climbed by 7.1% to €108.0m (Q2 16/17: €100.8m) due to a shift in the product mix towards wine in both Germany and East Central Europe. Gross profit climbed 4.2% to €44.5m (Q2 16/17: €42.7m).

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	319.75	334.09
Y-o-y growth	0.4%	-6.4%	1.6%	1.0%	8.0%	4.5%
EBIT (€m)	21.46	20.72	20.33	22.18	22.58	25.05
EBIT margin	7.0%	7.2%	6.9%	7.5%	7.1%	7.5%
Net income (€m)	12.55	10.20	10.19	11.50	11.13	12.60
EPS (diluted) (€)	1.58	1.29	1.29	1.45	1.41	1.59
DPS (€)	0.34	0.40	0.43	0.48	0.50	0.53
FCF (€m)	21.50	28.69	2.46	10.40	-9.28	14.80
Net gearing	44.7%	28.6%	29.5%	25.3%	32.5%	27.6%
Liquid assets (€m)	2.92	4.00	3.14	5.70	3.20	3.34

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.

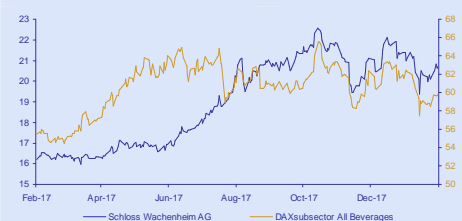
MARKET DATA

As of 23 Feb 2018

Closing Price	€ 20.70
Shares outstanding	7.92m
Market Capitalisation	€ 163.94m
52-week Range	€ 15.95 / 22.55
Avg. Volume (12 Months)	3,253

Multiples	2016/17	2017/18E	2018/19E
P/E	14.3	14.7	13.0
EV/Sales	0.7	0.7	0.7
EV/EBIT	9.8	9.7	8.7
Div. Yield	2.3%	2.4%	2.6%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2017

Liquid Assets	€ 4.62m
Current Assets	€ 189.25m
Intangible Assets	€ 89.83m
Total Assets	€ 356.81m
Current Liabilities	€ 126.08m
Shareholders' Equity	€ 158.17m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



The gross margin declined to 41.2% (Q2 16/17: 42.3%) because of an interruption in production of Robby Bubble in Germany and a deterioration in the product mix in France. Group EBIT rose 4.2% to €13.5m (Q2 16/17: €12.9m) but was helped by a €0.8m gain on the sale of real estate in Germany booked under "other activities". Within the geographic segments a €1.2m rise in EBIT in East Central Europe could not cancel out declines of €0.6m and €0.9m in Germany and France respectively. Despite the increase in EBIT, EPS declined to €0.81 (Q2 16/17: €0.82) due mainly to an increase in the tax charge in connection with a revaluation of deferred taxes following legislative changes in Poland.

Figure 1: Q2 2017/18 results versus our forecasts

€m	Q2 17/18A	Q2 17/18E	Δ vs. Q2 17/18E	Q2 16/17A	Δ vs. Q2 16/17A
Sales	108.0	109.2	-1.1%	100.8	7.1%
by region					
Germany	35.5	36.0	-1.3%	30.7	15.8%
France	28.5	28.2	1.2%	29.3	-2.7%
East Central Europe	46.1	46.3	-0.4%	42.3	9.0%
Eliminations	-2.2	-1.3		-1.5	
EBIT	13.5	13.8	-2.3%	12.9	4.2%
margin (%)	12.5%	12.6%		12.8%	
by region					
Germany	3.1	3.9	-21.1%	3.6	-15.2%
margin (%)	8.7%	10.8%		11.8%	
France	0.2	0.4	-61.0%	1.0	-84.9%
margin (%)	0.5%	1.4%		3.5%	
East Central Europe	9.5	9.3	1.8%	8.2	15.1%
margin (%)	20.5%	20.1%		19.5%	
Other/eliminations	0.8	0.2		0.1	
Net profit	2.6	2.7	-2.6%	2.6	0.0%
EPS (€)	0.81	0.83	-2.6%	0.82	-1.2%

Source: SWA; First Berlin Equity Research estimates

Q2 17/18 in Germany affected by first time consolidation of Rindchen's Weinkontor

Volume in Germany climbed 1.1% to 26.9m bottles (Q2 16/17: 26.6m bottles). Sales jumped by 15.8% to €35.5m (Q2 16/17: €30.7m) because the higher value bottles of wine sold by Rindchen replaced the lower value bottles of sparkling wine sold under private label contracts which continued to expire. However, the sales increase would have been higher still if a technical defect at one of the production lines had not reduced output. Sales of Robby Bubble were most affected by this problem which led to writedowns of unsaleable product and a decline in the gross margin. This meant that gross profit, which rose 2.6% to €13.3m (Q2 16/17: €13.0m), lagged well behind sales while corresponding insurance claims accounted for most of the €1.8m rise in the segment's other operating income to €2.7m (Q2 16/17: €0.9m). Rindchen is more profitable at the gross margin level than SWA's other German business, but also has higher operating costs. In consequence, the small rise in the segments gross margin translated into a decline in the operating profit to €2.8m (Q2 16/17: €3.3m).

SWA mounted customary large-scale Christmas advertising campaign in France

The number of bottles sold in France was stable at 21m bottles. However, sales fell 2.7% to €28.5m (Q2 16/17: €29.3m) due to a negative change in the product mix and the gross profit fell €0.5m to €10.3m (Q2 16/17: €10.8m). As in previous years, during the Christmas holiday period SWA mounted a large scale campaign involving billboards in prominent positions across France to promote its leading brands, in particular the country's no. 1 sparkling wine brand, Charles Volner. Seasonal advertising spending has meant that EBIT for the Christmas quarter has been below the September quarter in each of the past three years.



The recent profitability of the French business supports this view - for each of the past three years, the segment's EBIT margin has been higher than for both the German and East Central European segments. Q2 17/18 EBIT of €0.2m (Q2 16/17: €1.0m) was adversely affected by the lower gross profit and also by a €0.6m rise in depreciation as a consequence of the start-up of a new bottling line at the Tournan-en-Brie site in early calendar 2017.

EBIT up 15.1% in East Central Europe Volume in East Central Europe climbed 7.0% to 30.6m bottles (Q2 16/17: 28.6m bottles) due to growth in wine sales in Poland. Sales were 9.0% ahead at €46.1m (Q2 16/17: €42.3m). The gross profit climbed 10.3% to €20.8m (Q2 16/17: €18.9m) while EBIT was up 15.1% at €9.5m (Q2 16/17: €8.2m).

End Q2 17/18 net gearing (inc. pension liabilities) at 28.3% Q2 17/18 cash flow before changes in working capital climbed 14.5% to €12.6m (Q2 16/17: €11.0m) but operating cashflow fell 13.9% to €3.8m (Q2 16/17: €4.5m) The decline was attributable to higher investment in inventories due to higher raw wine prices as a result of the lower yield of the 2017 grape harvest in comparison with 2015 and 2016. Free cashflow climbed 55.3% to €3.8m (Q2 16/17: €2.4m) due to a decline in the cash outflow from investing to €0.7m (Q2 16/17: an outflow of €2.1m). Dividend payments to SWA shareholders and minority shareholders in the Polish subsidiary, Ambra, amounted to €5.6m (Q2 16/17: €4.8m). Net debt including pension liabilities rose during the quarter by €2.3m to €54.2m, equivalent to net gearing of 28.3% (Q2 16/17: net debt including pension liabilities of €54.4m and net gearing of 30.3%).

Price target lowered to €22.50 (previously; €23.60); Add recommendation maintained

We expect the positive trend in consumer spending on SWA's major markets to remain supportive of its business over the next few quarters. In Germany the problems with the production of Robby Bubble were resolved during the Christmas quarter. Profitability should rebound to the normal level during the second half of the financial year while the acquisition of Rindchen will clearly outweigh the expected further contract expiries in the private label business. We expect full year business development in France to continue to be influenced by a slight negative shift in the product mix and higher depreciation due to the start-up of a new bottling line at the Tournan-en-Brie site. East Central Europe is currently the "star" of the group due mainly to the growth of the wine business in Poland. We expect this segment to overtake France in 2017/18 as the generator of the highest EBIT margin in the group. Figure 2 overleaf shows changes to our forecasts. In the light of results for the first six months of 2017/18, we now take a more conservative view of the future EBIT margin in the German segment. We have also lowered our EBIT margin forecasts for France to reflect a higher depreciation charge and the slightly adverse change in the product mix. Meanwhile we have revised up our margin forecasts for East Central Europe to reflect the strong recent improvement in profitability. On the basis of the changes in our projections, we now see fair value for the SWA share at €22.50 (previously; €23.60). We maintain our Add recommendation.



Figure 2: Changes to our forecasts

All figures in €m	2017/18E			2018/19E		
	old	new	% change	old	new	% change
Sales	325.02	319.75	-1.6%	342.64	334.09	-2.5%
by region:						
Germany	112.18	111.86	-0.3%	117.78	115.22	-2.2%
France	103.21	97.42	-5.6%	106.30	99.37	-6.5%
East Central Europe	115.21	116.31	1.0%	124.43	125.61	0.9%
Eliminations	-5.58	-5.84		-5.88	-6.10	
EBIT	24.97	22.58	-9.6%	26.36	25.05	-5.0%
Margin	7.7%	7.1%		7.7%	7.5%	
by region:						
Germany	4.49	2.95	-34.4%	4.71	3.46	-26.6%
margin (%)	4.0%	2.6%		4.0%	3.0%	
France	9.29	7.60	-18.1%	9.57	7.95	-16.9%
margin (%)	9.0%	7.8%		9.0%	8.0%	
East Central Europe	10.95	11.73	7.2%	11.82	13.31	12.6%
margin (%)	9.5%	10.1%		9.5%	10.6%	
Eliminations	0.25	0.30		0.26	0.33	
Net profit after minorities	12.66	11.13	-12.1%	13.32	12.60	-5.4%
EPS €	1.60	1.41	-12.1%	1.68	1.59	-5.4%

Source: SWA; First Berlin Equity Research estimates

DCF MODEL *

All figures in EUR 000s	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	319,747	334,094	350,284	364,956	378,993	391,639	401,059	410,714	420,612	430,757
NOPLAT	16,711	18,540	19,799	20,987	21,940	22,785	23,372	23,974	24,592	25,227
+ depreciation & amortisation	-7,418	-7,751	-8,127	-8,467	-8,793	-9,086	-9,305	-9,529	-9,758	-9,994
Net operating cash flow	24,130	26,291	27,925	29,454	30,733	31,871	32,677	33,503	34,351	35,221
- total investments (CAPEX and WC)	-32,475	-10,464	-13,928	-12,723	-13,913	-14,798	-14,070	-13,363	-14,163	-14,472
Capital expenditures	-16,503	-9,407	-9,127	-9,467	-9,793	-11,086	-11,305	-10,529	-11,258	-11,494
Working capital	-15,972	-1,057	-4,801	-3,256	-4,120	-3,712	-2,765	-2,834	-2,905	-2,978
Free cash flows (FCF)	-8,346	15,827	13,997	16,731	16,820	17,073	18,607	20,140	20,187	20,749
PV of FCF's	-8,133	14,306	11,735	13,009	12,130	11,420	11,544	11,589	10,774	10,271

All figures in EUR 000s	
PV of FCFs in explicit period (2017/18-2029/30)	127,725
PV of FCFs in terminal period	133,120
Enterprise value (EV)	260,846
+ Net cash / - net debt	-54,158
+ Investments / minority interests	-28,136
Shareholder value	178,552

Fair value per share in EUR 22.54

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 22.54

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.8%	33.86	35.55	37.62	40.25	43.66	48.28	54.90
6.3%	29.70	30.94	32.45	34.30	36.63	39.67	43.79
6.8%	26.21	27.14	28.24	29.58	31.22	33.29	35.99
7.3%	23.23	23.93	24.76	25.73	26.91	28.37	30.20
7.8%	20.67	21.20	21.82	22.54	23.41	24.45	25.73
8.3%	18.44	18.84	19.31	19.85	20.49	21.24	22.16
8.8%	16.48	16.79	17.15	17.55	18.03	18.58	19.24
9.3%	14.74	14.98	15.26	15.56	15.92	16.33	16.81

* 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	319,747	334,094
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	-181,936	-188,763
Gross Profit	119,626	122,434	122,437	122,392	126,541	137,811	145,331
Other operating income	6,322	5,176	6,260	4,872	4,582	4,949	5,171
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	-7,418	-7,751
Other operating expenses	-57,484	-58,517	-58,760	-55,944	-57,505	-67,608	-72,097
Operating Income (EBIT)	20,913	21,459	20,717	20,329	22,181	22,583	25,053
Associates	-480	131	451	78	-6	-10	0
Net interest income	-3,366	-3,559	-1,994	-964	-1,102	-1,515	-1,644
Pretax profit (EBT)	17,067	18,031	19,174	19,443	21,073	21,058	23,409
Taxes	-5,056	-1,638	-5,332	-5,897	-5,361	-5,475	-6,086
Net profit before minorities	12,011	16,393	13,842	13,546	15,712	15,583	17,323
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	11,133	12,603
EPS (€)	1.23	1.58	1.29	1.29	1.45	1.41	1.59
EBITDA	28,896	29,105	28,574	27,994	30,025	30,001	32,804
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%	7.1%	7.5%
EBITDA margin on revenues	9.4%	9.4%	9.9%	9.5%	10.1%	9.4%	9.8%
Net margin on revenues	3.9%	5.3%	4.8%	4.6%	5.3%	4.9%	5.2%
Tax rate	29.6%	9.1%	27.8%	30.3%	25.4%	26.0%	26.0%
Expenses as % of revenues							
Personnel costs	-12.9%	-13.0%	-14.3%	-14.8%	-14.7%	-14.1%	-13.6%
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%	-21.1%	-21.6%
Y-Y Growth							
Revenues	4.6%	0.4%	-6.4%	1.6%	1.0%	8.0%	4.5%
Operating income	5.0%	2.6%	-3.5%	-1.9%	9.1%	1.8%	10.9%
Net profit before minorities	12.3%	36.5%	-15.6%	-2.1%	16.0%	-100.0%	11.2%



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	175,415	179,944
Cash and cash equivalents	3,647	2,921	3,995	3,142	5,700	3,197	3,341
Other receivables and short-term assets	11,985	8,131	5,277	5,973	5,508	5,949	6,216
Trade accounts and notes receivables	52,224	60,314	54,379	54,784	56,362	67,147	70,160
Inventories	102,084	91,289	90,128	86,280	87,518	99,122	100,228
Non-Current Assets, total	148,852	149,030	146,963	151,237	158,818	168,364	170,062
Property, plant and equipment	58,230	58,911	59,148	64,447	72,431	70,344	72,000
Goodwill + intangible assets	79,073	78,893	79,041	78,508	78,557	89,711	89,711
<i>of which:</i>							
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	959	1,002
Total Assets	318,792	311,685	300,742	301,416	313,906	343,778	350,007
Shareholders' equity & debt							
Current Liabilities, total	128,523	118,631	108,708	95,236	97,782	112,787	112,161
Current provisions	3,619	3,324	3,219	3,415	3,020	3,312	3,426
Short-term financial debt	54,529	46,304	33,164	27,198	28,221	36,142	32,111
Trade payables	39,175	37,115	37,173	35,248	37,434	42,207	44,100
Prepayments, deferred charges & other liabilities	31,200	31,888	35,152	29,375	29,107	31,127	32,524
Long term liabilities, total	45,176	34,318	25,841	34,159	32,443	37,376	34,762
Long-term financial debt	34,254	24,854	15,253	23,607	20,982	26,871	23,874
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	868	907
Deferred taxes	6,837	4,421	5,334	6,840	7,687	6,488	6,644
Shareholders' equity	119,534	130,589	137,525	143,173	152,431	157,915	162,663
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	343,778	350,007
Ratios							
Current ratio (x)	1.32	1.37	1.41	1.58	1.59	1.56	1.60
Quick ratio (x)	0.53	0.60	0.59	0.67	0.69	0.68	0.71
Financial leverage (including pension liabilities)	60.4%	44.7%	28.6%	29.5%	25.3%	32.5%	27.6%
Book value per share (€)	15.09	16.49	17.36	18.08	19.25	19.94	20.54
Net debt (including pension liabilities)	87,692	71,033	47,499	50,818	46,473	62,963	55,981
Return on equity (ROE)	6.9%	8.3%	6.3%	6.0%	6.5%	5.9%	6.4%



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	15,583	17,323
Depreciation and amortisation	7,983	7,646	7,857	7,665	7,844	7,418	7,751
Change in working capital	-18,579	5,991	12,267	-5,295	-662	-15,972	-1,057
Other	1,045	-1,634	-619	-310	1,775	178	189
Operating cash flow	2,460	28,396	33,347	15,606	24,669	7,208	24,206
CAPEX	-5,781	-7,383	-8,849	-14,050	-14,838	-16,503	-9,407
Fixed asset sales	360	484	4,194	904	565	18	0
Investing cash flow	-5,421	-6,899	-4,655	-13,146	-14,273	-16,485	-9,407
Free cash flow	-2,961	21,497	28,692	2,460	10,396	-9,278	14,799
Change in financial liabilities	8,735	-17,625	-22,741	2,388	-1,602	13,810	-7,027
Dividends to shareholders	-1,822	-2,376	-2,693	-3,168	-3,406	-3,802	-3,960
Dividends to subsidiaries of minorities	-1,978	-2,120	-2,227	-2,753	-2,657	-3,233	-3,668
Other	0	0	0	127	0	0	0
Financing cash flow	4,935	-22,121	-27,661	-3,406	-7,665	6,775	-14,656
Change in cash	1,974	-624	1,031	-946	2,731	-2,503	143
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	3,197
Liquid funds, end of the year	3,647	2,921	3,995	3,142	5,700	3,197	3,341
Free cash flow per share (€)	-0.37	2.71	3.62	0.31	1.31	-1.17	1.87
Y-Y growth							
Operating cash flow	-66.9%	1054.3%	17.4%	-53.2%	58.1%	-70.8%	235.8%
Free cash flow	n.a.	n.a.	33.5%	-91.4%	322.6%	-189.2%	-259.5%
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...34	↓	↓	↓	↓
35	17 May 2017	€16.99	Add	€18.60
36	28 September 2017	€20.79	Add	€23.60
37	17 November 2017	€21.50	Add	€23.60
38	Today	€20.70	Add	€22.50

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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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