

Schloss Wachenheim AG

Germany / Food & beverages

Primary exchange: Frankfurt

Bloomberg: SWA GR

ISIN: DE0007229007

Q1 18/19 results

RATING**PRICE TARGET**

Return Potential

Risk Rating

ADD**€ 22.30**

18.3%

Medium

SOLID Q1; MANAGEMENT OPTIMISTIC ON KEY CHRISTMAS QUARTER

Q1 18/19 sales rose 6.4% to €79.1m (Q1 17/18: €74.4m) but EBIT declined 18.7% to €4.8m (Q1 17/18: €5.9m). The results were impacted by the absence of positive exceptional items which boosted the Q1 17/18 numbers as well as higher personnel and other operating costs. These developments were in line with both our and management expectations. Encouragingly, despite price increases made necessary by an increase in the cost of raw wine due to the below average yield of the 2017 grape harvest, group volume was little changed on the prior year quarter. Against the background of a solid environment for consumer spending, company management is optimistic about the decisive Christmas quarter. Full year 2018/19 guidance is unchanged on the annual report published in September and is for sales growth to outpace a slight rise in volume as well as a stable operating profit and net profit before minorities. We are leaving our forecasts unchanged and maintain our Add recommendation with a price target of €22.30.

6.4% increase in group sales driven by price increases The 6.4% increase in Q1 18/19 sales was driven by the implementation of price increases for many products in all three geographic segments. Despite the price increases, group volume at 52.2m bottles (Q1 17/18: 52.8m bottles) was almost at the level of the prior year quarter. A €0.6m reduction in exceptional profits within other operating income contributed to the decline in operating income. Other factors were an adverse shift in the product mix in France and rising personnel costs in East Central Europe.

EBIT in Germany back in the black in Q1 18/19 after Q1 17/18 loss The number of bottles sold in Germany fell 4.2% to 19.3m bottles (Q1 17/18: 20.1m bottles). Sales volume of the children's party drink, Robby Bubble, declined as customers delayed orders ahead of a change in the product's recipe. Now that the recipe change has been completed, orders are expected to rebound. Sparkling wine volume also declined somewhat during the quarter. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2015/16	2016/17	2017/18	2018/19E	2019/20E	2020/21E
Revenue (€m)	293.18	296.06	324.53	346.65	349.79	363.48
Y-o-y growth	1.6%	1.0%	9.6%	6.8%	0.9%	3.9%
EBIT (€m)	20.33	22.18	23.83	23.65	24.40	25.58
EBIT margin	6.9%	7.5%	7.3%	6.8%	7.0%	7.0%
Net income (€m)	10.19	11.50	11.12	11.46	11.74	12.34
EPS (diluted) (€)	1.29	1.45	1.40	1.45	1.48	1.56
DPS (€)	0.43	0.48	0.50	0.52	0.53	0.56
FCF (€m)	2.46	10.40	8.80	10.53	12.96	12.83
Net gearing	29.5%	25.3%	23.3%	20.5%	17.3%	14.6%
Liquid assets (€m)	3.14	5.70	7.76	3.47	3.50	3.63

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 2017/18 group sales) and number one in France with a 40% market share. Some 35% of group sales are generated in East Central Europe through the 61%-owned subsidiary, Ambra.

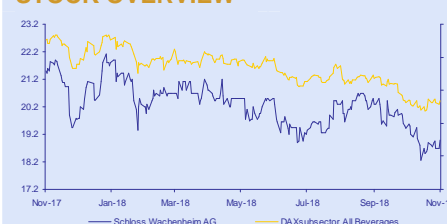
MARKET DATA

As of 14 Nov 2018

Closing Price	€ 18.85
Shares outstanding	7.92m
Market Capitalisation	€ 149.29m
52-week Range	€ 18.25 / 22.10
Avg. Volume (12 Months)	2,521

Multiples	2017/18	2018/19E	2019/20E
P/E	13.5	13.1	12.8
EV/Sales	0.6	0.6	0.6
EV/EBIT	8.3	8.3	8.1
Div. Yield	2.7%	2.8%	2.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Sep 2018

Liquid Assets	€ 9.63m
Current Assets	€ 180.04m
Intangible Assets	€ 89.16m
Total Assets	€ 345.72m
Current Liabilities	€ 107.73m
Shareholders' Equity	€ 194.91m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

Price rises meant that sales climbed 4.0% to €27.1m (Q1 17/18: €26.1m). Segment gross profit climbed 3.9% to €11.5m (Q1 17/18: €11.0m). Nearly all this improvement fed through to EBIT which came in at €0.2m (Q1 17/18: €-0.2m). A €0.2m reduction in maintenance costs was cancelled out by a €0.2m increase in personnel costs. Meanwhile, advertising costs climbed by €0.1m.

Figure 1: Q1 2017/18 results versus our forecasts

€m	Q1 18/19A	Q1 18/19E	Δ	Q1 17/18A	Δ
Sales	79.1	77.3	2.4%	74.4	6.4%
by region					
Germany	27.1	27.0	0.4%	26.1	4.0%
France	27.2	26.0	4.5%	25.2	7.9%
East Central Europe	26.2	25.5	2.8%	24.4	7.3%
Eliminations	-1.3	-1.2	n.m.	-1.3	n.m.
EBIT	4.8	5.2	-7.4%	5.9	-18.7%
margin (%)	6.1%	6.7%		8.0%	
by region					
Germany	0.2	0.0	n.m.	-0.2	n.m.
margin (%)	0.8%	0.0%		n.m.	
France	3.1	3.5	-12.4%	3.6	-15.9%
margin (%)	11.3%	13.5%		1.9%	
East Central Europe	1.5	1.7	-9.2%	2.4	-36.7%
margin (%)	5.9%	6.7%		10.0%	
Other/eliminations	0.0	0.0	n.m.	0.1	n.m.
Net profit	2.5	2.7	-7.4%	2.9	-15.4%
EPS (€)	0.31	0.33	-7.4%	0.37	-15.4%

Source: SWA; First Berlin Equity Research estimates

France segment sales up 7.9% in Q1 18/19 In France a slight rise (+1.1%) in volume to 17.7m bottles (Q1 17/18: 17.5m bottles) was attributable to the domestic market. Sales climbed 7.9% to €27.2m (Q1 17/18: €25.2m) but changes in the product mix meant that the gross profit fell to €10.5m (Q1 17/18: €10.7m). Segment EBIT came in at €3.1m (Q1 16/17: €3.6m). Personnel and advertising costs climbed by €0.2m and €0.1m respectively and the comparison with Q1 17/18 was also affected by the absence of €0.2m in profits on the sale of fixed assets which were booked in the prior year quarter.

East Central Europe result affected by exceptional items, higher personnel costs

Volume in East Central Europe also rose slightly (by under 1%) to 16.5m bottles (Q1 16/17: 16.4m bottles). In this segment too, sales benefited from price rises and climbed 7.3% to €26.2m (Q1 17/18: €24.4m). The gross profit increased 8.0% to €11.4m (Q1 16/17: €10.5m) but EBIT fell €0.9m to €1.5m (Q1 17/18: €2.4m). The decline in EBIT was attributable to a €0.9m rise in other operating expenses to €5.0m (+23.2%), the absence of €0.5m in payments on previously written-off receivables which benefited the Q1 17/18 numbers, and a €0.3m rise in personnel expenses to €4.3m (+8.7%).

Net gearing modest at 24.0% (Q1 17/18: 27.9%)

Although net profit before minorities declined by 20.3% to €3.2m (Q1 17/18: €4.0m), a positive €1.3m swing in "other non-cash items" meant that operating cash flow before changes in working capital rose 12.2% to €6.2m (Q1 17/18: €5.5m). Working capital consumed cash of €5.2m in Q1 18/19 (Q1 17/18: cash consumption of €0.8m) because of inventory build-up ahead of the seasonally strong Christmas quarter and because inventory this year is based on higher-priced 2017 raw wine. In consequence, operating cash flow after changes in working capital came in at €1.0m (€4.7m). Cash outflow from investing fell to €2.1m (Q1 17/18: a cash outflow of €8.4m). The Q1 17/18 figure contains the payment for the majority stake in Rindchens Weinkontor. Free cash flow came in at €-1.2m (€-3.8m). Dividend payments to minorities at €0.8m were close to the Q1 17/18 level. Net debt including pension liabilities rose by €2.1m during Q1 18/19 to €46.8m (equivalent to net gearing of 24.0%). At the end of Q1 17/18 these numbers were €51.9m and 27.9% respectively.



Forecasts, Add recommendation and price target of €22.30 unchanged We are leaving our forecasts unchanged ahead of the key Christmas quarter. We maintain our Add recommendation and price target of €22.30.

DCF MODEL *

All figures in EUR 000s	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	FY 27/28E
Net sales	346,647	349,792	363,478	377,906	390,826	404,299	418,352	433,015	448,318	464,291
NOPLAT	17,503	18,053	18,930	19,861	20,672	20,207	21,025	21,883	22,782	23,724
+ depreciation & amortisation	-9,762	-9,850	-10,236	-10,642	-11,006	-11,385	-11,781	-12,194	-12,625	-13,075
Net operating cash flow	27,265	27,904	29,166	30,504	31,678	31,592	32,806	34,077	35,407	36,799
- total investments (CAPEX and WC)	-15,975	-14,289	-15,793	-31,376	-18,162	-18,389	-18,022	-19,184	-19,878	-20,605
Capital expenditures	-10,470	-10,850	-11,236	-12,642	-13,006	-13,385	-12,781	-13,694	-14,125	-14,575
Working capital	-5,505	-3,438	-4,557	-18,734	-5,156	-5,004	-5,241	-5,490	-5,753	-6,030
Free cash flows (FCF)	11,290	13,615	13,374	-872	13,516	13,203	14,785	14,893	15,529	16,194
PV of FCFs	10,771	12,048	10,976	-664	9,543	8,646	8,980	8,390	8,114	7,848

All figures in EUR 000s	
PV of FCFs in explicit period (2018/19-2029/30)	99,587
PV of FCFs in terminal period	144,920
Enterprise value (EV)	244,507
+ Net cash / - net debt	-46,844
+ Investments / minority interests	-21,055
Shareholder value	176,608

Fair value per share in EUR	22.30
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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	22.30

WACC

	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.8%	34.24	35.80	37.72	40.15	43.30	47.58	53.70
6.3%	29.98	31.09	32.44	34.10	36.20	38.93	42.63
6.8%	26.41	27.22	28.18	29.33	30.76	32.56	34.90
7.3%	23.40	23.98	24.66	25.48	26.46	27.67	29.20
7.8%	20.81	21.24	21.73	22.30	22.98	23.80	24.82
8.3%	18.58	18.88	19.23	19.64	20.11	20.67	21.35
8.8%	16.63	16.85	17.09	17.37	17.70	18.08	18.53
9.3%	14.92	15.07	15.24	15.43	15.65	15.90	16.20

* the explicit period of our model runs until 2029/30E but for reasons of space we only show forecasts out to 2027/28E



INCOME STATEMENT

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Revenues	288,684	293,175	296,062	324,527	346,647	349,792	363,478
Change in inventories	1,320	-3,678	257	3,341	0	0	0
Cost of materials	-167,567	-167,105	-169,778	-190,920	-199,322	-200,431	-207,546
Gross Profit	122,437	122,392	126,541	136,948	147,325	149,361	155,932
Other operating income	6,260	4,872	4,582	7,994	6,500	6,559	6,816
Personnel expenses	-41,363	-43,326	-43,593	-50,249	-55,464	-55,967	-58,157
Depreciation	-7,857	-7,665	-7,844	-9,171	-9,762	-9,850	-10,236
Other operating expenses	-58,760	-55,944	-57,505	-61,694	-64,947	-65,707	-68,774
Operating Income (EBIT)	20,717	20,329	22,181	23,828	23,652	24,396	25,582
Associates	451	78	-6	-1	0	0	0
Net interest income	-1,994	-964	-1,102	-1,554	-1,246	-1,125	-981
Pretax profit (EBT)	19,174	19,443	21,073	22,273	22,407	23,271	24,601
Taxes	-5,332	-5,897	-5,361	-5,900	-5,826	-6,051	-6,396
Net profit before minorities	13,842	13,546	15,712	16,373	16,581	17,221	18,205
Minorities	-3,646	-3,361	-4,211	-5,258	-5,118	-5,483	-5,867
Net attributable profit	10,196	10,185	11,501	11,115	11,463	11,738	12,337
EPS (€)	1.29	1.29	1.45	1.40	1.45	1.48	1.56
EBITDA	28,574	27,994	30,025	32,999	33,414	34,247	35,818
Ratios							
Gross margin	42.4%	41.7%	42.7%	42.2%	42.5%	42.7%	42.9%
EBIT margin on revenues	7.2%	6.9%	7.5%	7.3%	6.8%	7.0%	7.0%
EBITDA margin on revenues	9.9%	9.5%	10.1%	10.2%	9.6%	9.8%	9.9%
Net margin on revenues	4.8%	4.6%	5.3%	5.0%	4.8%	4.9%	5.0%
Tax rate	27.8%	30.3%	25.4%	26.5%	26.0%	26.0%	26.0%
Expenses as % of revenues							
Personnel costs	-14.3%	-14.8%	-14.7%	-15.5%	-16.0%	-16.0%	-16.0%
Depreciation	-2.7%	-2.6%	-2.6%	-2.8%	-2.8%	-2.8%	-2.8%
Other operating expenses	-20.4%	-19.1%	-19.4%	-19.0%	-18.7%	-18.8%	-18.9%
Y-Y Growth							
Revenues	-6.4%	1.6%	1.0%	9.6%	6.8%	0.9%	3.9%
Operating income	-3.5%	-1.9%	9.1%	7.4%	-0.7%	3.1%	4.9%
Net profit before minorities	-15.6%	-2.1%	16.0%	-100.0%	1.3%	3.9%	5.7%



BALANCE SHEET

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Assets							
Current assets, total	153,779	150,179	155,088	172,510	175,974	178,445	184,518
Cash and cash equivalents	3,995	3,142	5,700	7,760	3,466	3,498	3,635
Other receivables and short-term assets	5,277	5,973	5,508	7,349	7,850	7,921	8,231
Trade accounts and notes receivables	54,379	54,784	56,362	58,697	64,130	65,586	67,243
Inventories	90,128	86,280	87,518	98,704	100,528	101,440	105,409
Non-Current Assets, total	146,963	151,237	157,123	165,328	166,588	167,597	168,638
Property, plant and equipment	59,148	64,447	72,431	70,292	71,000	72,000	73,000
Goodwill + intangible assets	79,041	78,508	78,557	89,145	89,145	89,145	89,145
of which:							
Goodwill	5,690	5,541	5,711	12,328	12,328	12,328	12,328
Rights on brands, licenses	73,351	72,967	72,846	76,817	76,817	76,817	76,817
Other financial assets	8,186	7,733	5,654	5,403	5,403	5,403	5,403
Deferred taxes + prepaid expenses	588	549	481	488	1,040	1,049	1,090
Total Assets	300,742	301,416	313,906	337,838	342,562	346,042	353,156
Shareholders' equity & debt							
Current Liabilities, total	108,708	95,236	97,782	104,645	106,748	103,173	102,341
Current provisions	3,219	3,415	3,020	3,846	3,555	3,551	3,653
Short-term financial debt	33,164	27,198	28,221	25,265	21,528	18,965	16,692
Trade payables	37,173	35,248	37,434	41,423	45,064	43,724	43,617
Prepayments, deferred charges & other liabilities	35,152	29,375	29,107	34,111	36,601	36,933	38,378
Long term liabilities, total	25,841	34,159	32,443	41,626	31,699	29,324	27,475
Long-term financial debt	15,253	23,607	20,982	24,470	20,851	18,368	16,167
Pension accruals and similar liabilities	3,077	3,155	2,970	2,750	2,915	3,090	3,275
Other long-term debt	2,177	557	804	4,919	1,040	1,049	1,090
Deferred taxes	5,334	6,840	7,687	9,487	6,894	6,817	6,942
Shareholders' equity	137,525	143,173	152,431	158,571	166,000	169,948	173,876
Minority interests	28,668	28,848	31,250	32,996	38,114	43,597	49,464
Total shareholders' equity & debt	300,742	301,416	313,906	337,838	342,562	346,042	353,156
Ratios							
Current ratio (x)	1.41	1.58	1.59	1.65	1.65	1.73	1.80
Quick ratio (x)	0.59	0.67	0.69	0.71	0.71	0.75	0.77
Financial leverage (including pension liabilities)	28.6%	29.5%	25.3%	23.3%	20.5%	17.3%	14.6%
Book value per share (€)	17.36	18.08	19.25	20.02	20.96	21.46	21.95
Net debt (including pension liabilities)	47,499	50,818	46,473	44,725	41,828	36,925	32,500
Return on equity (ROE)	6.3%	6.0%	6.5%	5.9%	5.8%	5.6%	5.6%



CASH FLOW STATEMENT

All figures in T€	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19E	FY 19/20E	FY 20/21E
Net profit before minorities	13,842	13,546	15,712	16,373	16,581	17,221	18,205
Depreciation and amortisation	7,857	7,665	7,844	9,171	9,762	9,850	10,236
Change in working capital	12,267	-5,295	-662	-3,128	-5,505	-3,438	-4,557
Other	-619	-310	1,775	-1,659	165	175	185
Operating cash flow	33,347	15,606	24,669	20,757	21,003	23,808	24,069
CAPEX	-8,849	-14,050	-14,838	-15,049	-10,470	-10,850	-11,236
Fixed asset sales	4,194	904	565	3,095	0	0	0
Investing cash flow	-4,655	-13,146	-14,273	-11,954	-10,470	-10,850	-11,236
Free cash flow	28,692	2,460	10,396	8,803	10,533	12,958	12,833
Change in financial liabilities	-22,741	2,388	-1,602	-479	-7,356	-5,046	-4,474
Dividends to shareholders	-2,693	-3,168	-3,406	-3,802	-3,960	-4,118	-4,198
Dividends to subsidiaries of minorities	-2,227	-2,753	-2,657	-2,920	-3,511	-3,762	-4,025
Other	0	127	0	209	0	0	0
Financing cash flow	-27,661	-3,406	-7,665	-6,992	-14,827	-12,926	-12,696
Change in cash	1,031	-946	2,731	1,811	-4,294	31	137
Consolidation; exchange rate effects	43	93	-173	249	0	0	0
Liquid funds, start of the year	2,921	3,995	3,142	5,700	7,760	3,466	3,498
Liquid funds, end of the year	3,995	3,142	5,700	7,760	3,466	3,498	3,635
Free cash flow per share (€)	3.62	0.31	1.31	1.11	1.33	1.64	1.62
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Y-Y growth							
Operating cash flow	17.4%	-53.2%	58.1%	-15.9%	1.2%	13.4%	1.1%
Free cash flow	33.5%	-91.4%	322.6%	-15.3%	19.7%	23.0%	-1.0%
Financial cash flow	n.a.	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...37	↓	↓	↓	↓
38	28 February 2018	€20.75	Add	€22.50
39	16 May 2018	€20.50	Add	€22.50
40	27 September 2018	€20.10	Add	€22.30
41	Today	€18.85	Add	€22.30

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

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Legally required information regarding

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

can be accessed through the following internet link: <http://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Lurgiallee 12, 60439 Frankfurt

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