Schloss Wachenheim AG

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

Q3 18/19 results

RATING	**BUY**
PRICE TARGET	**€ 22.30**
Return Potential	30.0%
Risk Rating	Medium

FULL YEAR GUIDANCE MAINTAINED

Q3 18/19 results showed a 3.9% increase in sales to €66.7m (Q3 17/18: €64.2m) while EBIT declined 42.6% to €0.8m (Q3 17/18: €1.4m). However, Q3 is seasonally the weakest quarter of the year. This year we expect Q3 EBIT to account for 4% of the 2018/19 total (2017/18: 6%) and so the Q3 18/19 move in profitability is not very significant. The main reason for the divergence of sales and EBIT in Q3 18/19 was a 6.3% increase in operating expenses stemming from higher advertising, personnel and sales-related service costs. Management has maintained full year guidance for stable volume, higher sales, and stable EBIT and net profit before minorities. We have made minor downward revisions to our forecasts for the current and subsequent years. But we are leaving our price target of €22.30 unchanged, because from this report on we are using a smoothed net debt figure (average of four most recent quarters) to even out working capital-related seasonal fluctuations in this number. The recommendation remains Buy.

Group volume up 1.9% despite price rises The price of raw wine produced in 2017 was higher than in 2015 and 2016 because of the lower than average yield of the 2017 harvest. Higher priced 2017 raw wine continued to influence SWA's business in Q3 18/19, particularly in Germany. SWA succeeded in growing group volume by 1.9% to 42.7m bottles in Q3 18/19 (Q3 17/18: 41.9m bottles) despite the imposition of price rises to compensate for the costs of raw wine. Volume grew by 12.7% in East Central Europe and cancelled out declines of 0.6% and 3.4% in Germany and France respectively. Sales growth of 3.9% was almost matched by a 3.7% increase in gross profit to €29.5m (Q3 17/18: €28.5m). EBIT was flat in Germany at €-0.4m and close to unchanged in France at €1.1m (Q3 17/18: €1.2m). In East Central Europe EBIT fell back to €0.2m (Q3 17/18: €0.4m) due to rising costs.

Q3 18/19 sales up 6.5% in Germany Volume in Germany fell 0.6% to 15.5m bottles (Q3 17/18: 15.6m bottles) in connection with the price rises to compensate for higher raw wine prices. (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	342.00	344.98	358.38
Y-o-y growth	1.6%	1.0%	9.6%	5.4%	0.9%	3.9%
EBIT (€ m)	20.33	22.18	23.83	23.04	23.57	24.72
EBIT margin	6.9%	7.5%	7.3%	6.7%	6.8%	6.9%
Net income (€ m)	10.19	11.50	11.12	10.91	11.12	11.72
EPS (diluted) (€)	1.29	1.45	1.40	1.38	1.40	1.48
DPS (€)	0.43	0.48	0.50	0.52	0.53	0.56
FCF (€m)	2.46	10.40	8.80	9.27	15.00	13.30
Net gearing	29.5%	25.3%	23.3%	21.2%	17.0%	14.1%
Liquid assets (€ m)	3.14	5.70	7.76	3.42	3.45	3.58

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.

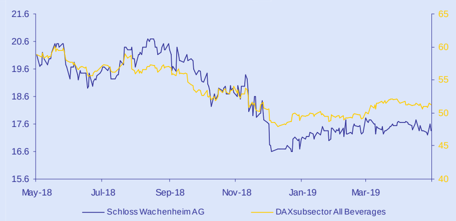
MARKET DATA

As of 20 May 2019

Closing Price	€ 17.15
Shares outstanding	7.92m
Market Capitalisation	€ 135.83m
52-week Range	€ 16.60 / 20.70
Avg. Volume (12 Months)	1,752

Multiples	2017/18	2018/19E	2019/20E
P/E	12.2	12.4	12.2
EV/Sales	0.5	0.5	0.5
EV/EBIT	7.5	7.7	7.6
Div. Yield	2.9%	3.0%	3.1%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2019

Liquid Assets	€ 7.32m
Current Assets	€ 161.94m
Intangible Assets	€ 88.86m
Total Assets	€ 329.63m
Current Liabilities	€ 96.58m
Shareholders' Equity	€ 199.74m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

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Figure 1: Q3 2018/19 results versus our forecasts

€m	Q3 18/19A	Q3 18/19E	Δ	Q3 17/18A	Δ
Sales	**66.7**	**67.3**	**-0.9%**	**64.2**	**3.9%**
by region					
Germany	23.0	22.5	2.4%	21.6	6.5%
France	22.0	23.0	-4.4%	22.3	-1.6%
East Central Europe	23.2	23.2	0.1%	21.5	8.1%
Eliminations	-1.6	-1.4	n.m.	-1.3	n.m.
EBIT	**0.8**	**0.9**	**-10.2%**	**1.4**	**-42.6%**
margin (%)	*1.2%*	*1.3%*		*2.2%*	
by region					
Germany	-0.4	-0.2	109.5%	-0.4	16.4%
margin (%)	*-1.8%*	*-0.9%*		*n.m.*	
France	1.1	1.0	7.6%	1.2	-12.3%
margin (%)	*4.9%*	*4.3%*		*5.5%*	
East Central Europe	0.2	0.1	51.0%	0.4	-65.3%
margin (%)	*0.6%*	*0.4%*		*2.0%*	
Other/eliminations	0.0	0.0	n.m.	0.1	n.m.
Net profit	**0.0**	**0.0**	**-10.2%**	**0.4**	**-90.5%**
EPS (€)	**0.01**	**0.01**	**-10.2%**	**0.06**	**-90.5%**

Source: SWA; First Berlin Equity Research estimates

Gross profit (+2.3% to €9.8m) failed to keep pace with sales growth (+6.5% to €23.0m), while EBIT was flat. However, at the nine months stage, gross profit was 7.3% ahead at €36.4m (Q3 17/18: €33.9m), and EBIT was up 35.8% at €3.4m (Q3 17/18: €2.5m) after nine months. This development was partially attributable to production problems in Q2 17/18.

Shift towards own-brand product in France In France volume fell 3.4% to 14.4m bottles (Q3 17/18: 14.9m bottles). A shift in the sales mix from private label to own-brand product meant that the decline in sales was less pronounced at 1.6% to €22.0m (Q3 17/18: €22.3m). The improved product mix pushed gross profit ahead by 1.2% to €9.9m (Q3 17/18: €9.7m) but higher personnel costs meant that EBIT declined 12.3% to €1.1m (Q3 17/18: €1.2m).

EBIT decline in East Central Europe due to higher costs Volume in East Central Europe climbed 12.7% to 14.2m bottles (Q3 17/18: 12.6m bottles). Both the sparkling wine and still wine businesses participated in the rise. Sales climbed 8.1% to €23.2m (Q3 17/18: €21.5m) while gross profit was up 7.3% at €9.9m (Q3 17/18: €9.2m). EBIT declined to €0.2m (Q3 18/19: €0.4m) because of higher advertising, personnel, and sales costs.

End Q3 18/19 net gearing (inc. pension liabilities) at 21.3% Q3 18/19 cash flow before changes in working capital fell 7.3% to €2.7m (Q3 17/18: €3.0m) but operating cashflow jumped 97.1% to €21.2m (Q3 17/18: €10.6m) as SWA collected receivables from the Christmas quarter. Net debt including pension liabilities fell during the quarter by €18.0m to €42.5m, equivalent to net gearing of 21.3% (Q3 17/18: net debt including pension liabilities of €44.8m and net gearing of 23.3%).

We maintain our Buy recommendation and price target of €22.30 Management has maintained full year guidance for stable volume, higher sales, and stable EBIT and net profit before minorities while at the same time pointing out that the final quarter of the current financial year will be influenced by softening consumer demand in Germany and a further decline in private label business in France. We have made minor downward revisions to our full year forecasts for the current and subsequent financial years (see figure 2). But we are leaving our price target of €22.30 unchanged, because from this report on we are using a smoothed net debt figure (most recent four quarters) to even out the large seasonal working capital-related fluctuations in this number. Average net debt (including pension liabilities) for the most recent four quarters is €48.7m compared with €42.5m at end Q3 18/19. The difference between these two figures equates to €0.8 per share. The end Q2 18/19 figure, on which our most recent study of 25 February was based, was €60.6m. Our recommendation remains Buy.

Figure 2: Changes to our forecasts

All figures in €m	2018/19E old	2018/19E new	2018/19E Δ	2019/20E old	2019/20E new	2019/20E Δ	2020/21E old	2020/21E new	2020/21E Δ
Sales	**341.38**	**342.00**	***0.2%***	**349.79**	**344.98**	***-1.4%***	**363.48**	**358.38**	***-1.4%***
by region:									
Germany	115.74	117.81	*1.8%*	117.01	116.63	*-0.3%*	119.35	118.96	*-0.3%*
France	106.26	104.66	*-1.5%*	103.41	102.56	*-0.8%*	105.48	104.61	*-0.8%*
East Central Europe	125.72	126.20	*0.4%*	136.54	132.51	*-3.0%*	146.10	141.78	*-3.0%*
Eliminations	-6.34	-6.67		-7.17	-6.72		-7.45	-6.98	
EBIT	**23.93**	**23.04**	***-3.7%***	**24.40**	**23.57**	***-3.4%***	**25.58**	**24.72**	***-3.4%***
Margin	*7.0%*	*6.7%*		*7.0%*	*6.8%*		*7.0%*	*6.9%*	
by region:									
Germany	*3.70*	3.18	*-14.1%*	*2.57*	3.15	*22.4%*	*2.63*	3.21	*22.0%*
margin (%)	3.2%	2.7%		2.2%	2.7%		2.2%	2.7%	
France	*7.39*	6.97	*-5.8%*	*7.65*	6.83	*-10.8%*	*7.81*	6.96	*-10.9%*
margin (%)	7.0%	6.7%		7.4%	6.7%		7.4%	6.7%	
East Central Europe	*12.95*	12.95	*0.0%*	*13.65*	13.65	*0.0%*	*14.61*	14.60	*0.0%*
margin (%)	10.3%	10.3%		10.0%	10.3%		10.0%	10.3%	
Eliminations	*-0.11*	-0.05		*0.52*	-0.05		*0.54*	-0.06	
Net profit after minorities	**11.52**	**10.91**	***-5.3%***	**11.74**	**11.12**	***-5.3%***	**12.42**	**11.72**	***-5.6%***
EPS €	**1.45**	**1.38**	***-5.0%***	**1.48**	**1.40**	***-5.3%***	**1.57**	**1.48**	***-5.7%***

Source: First Berlin Equity Research estimates

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	**341,998**	**344,979**	**358,378**	**372,499**	**385,157**	**398,355**	**412,119**	**426,477**	**441,459**	**457,095**
NOPLAT	**17,050**	**17,440**	**18,292**	**18,861**	**19,631**	**19,190**	**19,967**	**20,780**	**21,633**	**22,527**
+ depreciation & amortisation	-9,631	-9,715	-10,092	-10,490	-10,846	-11,218	-11,606	-12,010	-12,432	-12,872
Net operating cash flow	26,681	27,155	28,385	29,351	30,477	30,408	31,572	32,790	34,065	35,399
- total investments (CAPEX and WC)	-16,640	-11,487	-14,563	-18,873	-19,489	-16,914	-16,460	-17,531	-18,128	-18,751
Capital expenditures	-12,339	-10,715	-11,092	-11,490	-11,846	-13,218	-12,606	-13,510	-13,932	-14,372
Working capital	-4,301	-772	-3,471	-7,383	-7,643	-3,696	-3,855	-4,021	-4,196	-4,379
Free cash flows (FCF)	10,042	15,668	13,821	10,478	10,988	13,494	15,112	15,259	15,937	16,648
PV of FCF's	**9,959**	**14,412**	**11,792**	**8,292**	**8,065**	**9,186**	**9,541**	**8,936**	**8,656**	**8,386**

All figures in EUR 000s	
PV of FCFs in explicit period (2018/19-2029/30)	113,206
PV of FCFs in terminal period	142,187
Enterprise value (EV)	255,393
Average net debt (most recent four quarters)	-48,667
Investments / minority interests	-29,809
Shareholder value	176,917
Fair value per share in EUR	22.34

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	22.34

Terminal growth rate

WACC	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
5.8%	33.12	34.82	36.92	39.56	43.00	47.65	54.32
6.3%	29.12	30.37	31.88	33.74	36.09	39.15	43.29
6.8%	25.76	26.69	27.80	29.14	30.79	32.87	35.58
7.3%	22.91	23.62	24.44	25.42	26.60	28.05	29.89
7.8%	20.47	21.00	21.62	22.34	23.20	24.23	25.51
8.3%	18.35	18.75	19.22	19.75	20.38	21.13	22.03
8.8%	16.50	16.80	17.15	17.55	18.01	18.56	19.20
9.3%	14.86	15.10	15.36	15.66	16.00	16.39	16.86

** 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 €000s	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**	**341,998**	**344,979**	**358,378**
Change in inventories	1,320	-3,678	257	3,341	0	0	0
Cost of materials	-167,567	-167,105	-169,778	-190,920	-196,649	-197,673	-204,634
Gross Profit	**122,437**	**122,392**	**126,541**	**136,948**	**145,349**	**147,306**	**153,744**
Other operating income	6,260	4,872	4,582	7,994	6,500	6,557	6,811
Personnel expenses	-41,363	-43,326	-43,593	-50,249	-54,720	-55,197	-57,340
Depreciation	-7,857	-7,665	-7,844	-9,171	-9,631	-9,715	-10,092
Other operating expenses	-58,760	-55,944	-57,505	-61,694	-64,458	-65,384	-68,403
Operating Income (EBIT)	**20,717**	**20,329**	**22,181**	**23,828**	**23,041**	**23,567**	**24,719**
Associates	451	78	-6	-1	0	0	0
Net interest income	-1,994	-964	-1,102	-1,554	-1,265	-1,134	-952
Pretax profit (EBT)	**19,174**	**19,443**	**21,073**	**22,273**	**21,776**	**22,433**	**23,767**
Taxes	-5,332	-5,897	-5,361	-5,900	-5,662	-5,833	-6,179
Net profit before minorities	13,842	13,546	15,712	16,373	16,115	16,601	17,588
Minorities	-3,646	-3,361	-4,211	-5,258	-5,200	-5,481	-5,865
Net attributable profit	**10,196**	**10,185**	**11,501**	**11,115**	**10,914**	**11,120**	**11,723**
EPS (€)	**1.29**	**1.29**	**1.45**	**1.40**	**1.38**	**1.40**	**1.48**
EBITDA	**28,574**	**27,994**	**30,025**	**32,999**	**32,672**	**33,282**	**34,812**
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%	6.7%	6.8%	6.9%
EBITDA margin on revenues	9.9%	9.5%	10.1%	10.2%	9.6%	9.6%	9.7%
Net margin on revenues	4.8%	4.6%	5.3%	5.0%	4.7%	4.8%	4.9%
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%	-18.8%	-19.0%	-19.1%
Y-Y Growth							
Revenues	-6.4%	1.6%	1.0%	9.6%	5.4%	0.9%	3.9%
Operating income	-3.5%	-1.9%	9.1%	7.4%	-3.3%	2.3%	4.9%
Net profit before minorities	-15.6%	-2.1%	16.0%	-100.0%	-1.6%	3.0%	5.9%

BALANCE SHEET

All figures in €000s	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**	**170,194**	**171,677**	**178,345**
Cash and cash equivalents	3,995	3,142	5,700	7,760	3,420	3,450	3,584
Other receivables and short-term assets	5,277	5,973	5,508	7,349	7,745	7,812	8,116
Trade accounts and notes receivables	54,379	54,784	56,362	58,697	61,560	62,096	64,508
Inventories	90,128	86,280	87,518	98,704	97,470	98,319	102,138
Non-Current Assets, total	**146,963**	**151,237**	**157,123**	**165,328**	**168,574**	**169,583**	**170,623**
Property, plant and equipment	59,148	64,447	72,431	70,292	73,000	74,000	75,000
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	1,026	1,035	1,075
Total Assets	**300,742**	**301,416**	**313,906**	**337,838**	**338,768**	**341,260**	**348,968**
Shareholders' equity & debt							
Current Liabilities, total	**108,708**	**95,236**	**97,782**	**104,645**	**102,832**	**99,895**	**100,504**
Current provisions	3,219	3,415	3,020	3,846	3,507	3,502	3,602
Short-term financial debt	33,164	27,198	28,221	25,265	22,175	18,570	16,057
Trade payables	37,173	35,248	37,434	41,423	41,040	41,397	43,005
Prepayments, deferred charges & other liabilities	35,152	29,375	29,107	34,111	36,110	36,425	37,840
Long term liabilities, total	**25,841**	**34,159**	**32,443**	**41,626**	**32,219**	**28,834**	**26,747**
Long-term financial debt	15,253	23,607	20,982	24,470	21,477	17,986	15,552
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	1,026	1,035	1,075
Deferred taxes	5,334	6,840	7,687	9,487	6,801	6,723	6,845
Shareholders' equity	**137,525**	**143,173**	**152,431**	**158,571**	**165,521**	**168,854**	**172,175**
Minority interests	28,668	28,848	31,250	32,996	38,196	43,677	49,542
Total shareholders' equity & debt	**300,742**	**301,416**	**313,906**	**337,838**	**338,768**	**341,260**	**348,968**
Ratios							
Current ratio (x)	1.41	1.58	1.59	1.65	1.66	1.72	1.77
Quick ratio (x)	0.59	0.67	0.69	0.71	0.71	0.73	0.76
Financial leverage (including pension liabilities)	28.6%	29.5%	25.3%	23.3%	21.2%	17.0%	14.1%
Book value per share (€)	17.36	18.08	19.25	20.02	20.90	21.32	21.74
Net debt (including pension liabilities)	47,499	50,818	46,473	44,725	43,147	36,197	31,301
Return on equity (ROE)	6.3%	6.0%	6.5%	5.9%	5.5%	5.3%	5.4%

CASH FLOW STATEMENT

All figures in €000s	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**	**16,115**	**16,601**	**17,588**
Depreciation and amortisation	7,857	7,665	7,844	9,171	9,631	9,715	10,092
Change in working capital	12,267	-5,295	-662	-3,128	-4,301	-772	-3,471
Other	-619	-310	1,775	-1,659	165	175	185
Operating cash flow	**33,347**	**15,606**	**24,669**	**20,757**	**21,610**	**25,718**	**24,394**
CAPEX	-8,849	-14,050	-14,838	-15,049	-12,339	-10,715	-11,092
Fixed asset sales	4,194	904	565	3,095	0	0	0
Investing cash flow	**-4,655**	**-13,146**	**-14,273**	**-11,954**	**-12,339**	**-10,715**	**-11,092**
Free cash flow	**28,692**	**2,460**	**10,396**	**8,803**	**9,271**	**15,003**	**13,302**
Change in financial liabilities	-22,741	2,388	-1,602	-479	-6,083	-7,095	-4,947
Dividends to shareholders	-2,693	-3,168	-3,406	-3,802	-3,960	-4,118	-4,198
Dividends to susbidiaries of minorities	-2,227	-2,753	-2,657	-2,920	-3,568	-3,760	-4,023
Other	0	127	0	209	0	0	0
Financing cash flow	**-27,661**	**-3,406**	**-7,665**	**-6,992**	**-13,611**	**-14,974**	**-13,168**
Change in cash	1,031	-946	2,731	1,811	-4,340	30	134
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**	**3,420**	**3,450**
Liquid funds, end of the year	**3,995**	**3,142**	**5,700**	**7,760**	**3,420**	**3,450**	**3,584**
Free cash flow per share (€)	**3.62**	**0.31**	**1.31**	**1.11**	**1.17**	**1.89**	**1.68**
Y-Y growth							
Operating cash flow	17.4%	-53.2%	58.1%	-15.9%	4.1%	19.0%	-5.1%
Free cash flow	33.5%	-91.4%	322.6%	-15.3%	5.3%	61.8%	-11.3%
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...39	↓	↓	↓	↓
40	27 September 2018	€20.10	Add	€22.30
41	15 November 2018	€18.85	Add	€22.30
42	25 February 2018	€17.25	Buy	€22.30
43	Today	€17.15	Buy	€22.30

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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.

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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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