Schloss Wachenheim AG

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

Q2 2021/22 results

RATING	**BUY**
PRICE TARGET	**€ 27.00**
Return Potential	43.6%
Risk Rating	Medium

STRONG PERFORMANCE IN CRUCIAL CHRISTMAS QUARTER

Q2 21/22 sales rose 12.5% to €132.7m (FBe: €127.8m; Q2 20/21: €117.9m) and were 3.9% above our forecast due mainly to very strong organic sales growth (+21%) in East Central Europe. EBIT of €17.6m (FBe: €15.3m; Q1 20/21: €15.6m) was 15.5% above our forecast and benefitted from the recovery of exports from France due to easing of pandemic-related restrictions as well as the above-mentioned very buoyant activity in East Central Europe. The Christmas quarter customarily accounts for over half of SWA's full-year EBIT. On the basis of strong performance during the festive season, management has raised full-year guidance for EBIT to €26m-€28m (previously: €24m-€26m) and for net profit before minorities to €18.5m-€20.5m (previously: €17m-€19m). We expect the impact of the Russian invasion of Ukraine on inflation and consumer sentiment to negatively affect H2 21/22 performance. However, the strength of the H1 numbers suggests to us that SWA will still be able to achieve management's new higher full-year guidance, and so we have revised up our own forecasts. We now see fair value for the SWA share at €27.0 (previously: €26.0) and maintain our Buy recommendation.

Private label sparkling wine sales drove German volume growth The number of bottles sold in Germany rose 2.7% to 27.8m (Q2 20/21: 27.1m) as rising volume of private label sparkling wine outweighed lower volume of SWA's own brands and of wine sold through the retail outlets Rindchen's Weinkontor and Vino Weinhandel. This change in product mix meant that volume outpaced sales, which were up only 0.1% at €43.6m (Q2 20/21: €43.5m). Segment gross profit was also little changed at €18.7m (Q2 20/21: €18.5m) but EBIT fell to €3.3m (Q2 20/21: €4.4m) due mainly to increased personnel costs which stemmed from higher salaries and also the insourcing of the wine retail operation's logistics function. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017/18	2018/19	2019/20	2020/21	2021/22E	2022/23E
Revenue (€ m)	324.53	337.16	338.21	354.58	379.93	406.68
Y-o-y growth	9.6%	3.9%	0.3%	4.8%	7.1%	7.0%
EBIT (€ m)	23.83	22.98	18.97	24.42	26.79	29.87
EBIT margin	7.3%	6.8%	5.6%	6.9%	7.1%	7.3%
Net income (€ m)	11.12	10.89	7.62	10.43	11.92	13.61
EPS (diluted) (€)	1.40	1.38	0.96	1.32	1.50	1.72
DPS (€)	0.50	0.50	0.40	0.50	0.50	0.50
FCF (€m)	8.80	9.27	0.23	27.35	11.97	11.39
Net gearing	23.3%	20.9%	35.9%	26.8%	22.9%	20.0%
Liquid assets (€ m)	7.76	9.53	6.02	7.68	3.80	4.07

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

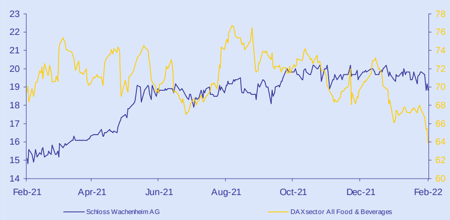
Schloss Wachenheim AG is one of the world's largest producers of sparkling wine. The company is the number three producer in its home market of Germany (37% of 2020/21 group sales) and number one in France with a 40% market share. Some 41% of group sales are generated in East Central Europe through the 61%-owned subsidiary, Ambra.

MARKET DATA

As of 24 Feb 2022	
Closing Price	€ 18.80
Shares outstanding	7.92m
Market Capitalisation	€ 148.90m
52-week Range	€ 14.80 / 20.20
Avg. Volume (12 Months)	2,402

Multiples	2020/21	2021/22E	2022/23E
P/E	14.6	12.8	11.2
EV/Sales	0.6	0.6	0.5
EV/EBIT	8.8	8.0	7.2
Div. Yield	2.7%	2.7%	2.7%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2021	
Liquid Assets	€ 9.79m
Current Assets	€ 219.27m
Intangible Assets	€ 95.55m
Total Assets	€ 419.56m
Current Liabilities	€ 154.05m
Shareholders' Equity	€ 181.81m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

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Figure 1: Q2 21/22 results versus our forecasts

€m	Q2 21/22A	Q1 21/22E	Δ	Q2 20/21A	Δ
Sales	**132.7**	**127.8**	**3.9%**	**117.9**	**12.5%**
by region					
Germany	43.6	46.0	-5.3%	43.5	0.1%
France	25.8	25.1	2.9%	22.4	15.3%
East Central Europe	66.0	59.5	11.0%	54.6	21.0%
Eliminations	-2.7	-2.8	n.a.	-1.7	n.a.
EBIT	**17.6**	**15.3**	**15.5%**	**15.6**	**12.7%**
margin (%)	*13.3%*	*11.9%*	-	*13.2%*	-
by region					
Germany	3.3	4.1	-19.2%	4.4	-24.2%
margin (%)	*7.7%*	*9.0%*	-	*10.1%*	-
France	2.5	1.0	146.5%	0.8	223.5%
margin (%)	*9.5%*	*4.0%*	-	*3.4%*	-
East Central Europe	11.7	10.1	15.9%	10.4	12.2%
margin (%)	*17.8%*	*17.0%*	-	*19.1%*	-
Other/eliminations	0.1	0.1	n.a.	0.0	n.a.
Net profit before minorities	13.6	11.8	15.5%	11.3	20.2%
Net profit after minorities	8.6	7.5	15.5%	7.1	22.0%
EPS (€)	**1.09**	**0.95**	**15.5%**	**0.89**	**22.0%**

Source: SWA; First Berlin Equity Research estimates

Export-led volume growth in France In France, volume jumped 14.9% to 17.3m bottles (Q2 20/21: 15.1m bottles) while sales rose 15.3% to €25.8m (Q2 20/21: €22.4m). Volume in France moved ahead slightly but the main growth driver was a recovery in the export business as pandemic-related restrictions eased. Exports account for around one third of segment volume. The most important markets are Russia, followed by the USA, Japan and Africa. The segment gross margin widened to 41.2% (Q2 20/21: 39.2%) while EBIT more than trebled to €2.5m (Q2 20/21: €0.8m).

21% organic sales growth in East Central Europe In East Central Europe, volume rose 15.9% to 40.3m bottles (Q2 20/21: 34.8m bottles) and sales increased 21.0% to €66.0m (Q2 20/21: €54.6m). Poland is the segment's most important market, accounting for 75% of sales, followed by Romania, the Czech Republic and Slovakia. A shift in the product mix (sparkling wine was among the fastest growing products on all markets) meant that sales outpaced volume. However, the gross margin narrowed slightly to 41.7% (Q2 20/21: 42.7%) and higher advertising, freight and personnel costs also squeezed the EBIT margin. EBIT came in at €11.7m (Q2 20/21: €10.4m) equating to a margin of 17.8% (Q2 20/21:19.1%).

End December 2021 net gearing at 27.5% (December 2020: 33.7%) Q2 20/21 cash flow before changes in working capital climbed 14.6% to €18.5m (Q2 20/21: €16.2m). Operating cashflow jumped 47.4% to €10.6m (Q2 20/21: €7.2m) due to the impact of higher payables and other current liabilities. Cash outflow from investing was little changed at €2.1m (Q2 20/21: €2.1m). Free cashflow came in at €8.4m (€5.1m). Dividend payments to SWA shareholders and minority shareholders in the Polish subsidiaries amounted to €8.0m (Q2 20/21: €5.3m). Net debt including pension liabilities rose during the quarter by €1.3m to €61.9m, equivalent to net gearing of 27.5% (Q2 20/21: net debt including pension liabilities of €71.0m and net gearing of 33.7%).

Price target raised to €27.0 (previously: €26.0) and Buy recommendation maintained

SWA faces several challenges during the second half of the current financial year. In the wake of events in Ukraine, sanctions may weaken the economy in Russia, which is one of the group's most important export markets. In addition, the impact of the Russian invasion of Ukraine on already elevated energy prices may weaken consumer sentiment across all of the company's markets. Furthermore, the 2021 grape harvest was less plentiful than in 2019 and 2020 and raw wine prices have risen. During H2 21/22 SWA will implement price increases in order to pass these higher costs on to customers. Management has ample experience with raw wine price fluctuations and has successfully dealt with them in the past. However, the combined impact of rising prices for SWA's products and the reduction in consumers' disposable incomes due to energy price and general inflation is likely to negatively affect H2 21/22 performance. Nevertheless, the strength of the East Central Europe and France segments' H1 performance suggests to us that SWA will still be able to achieve management's new higher full-year guidance, so we have revised up our own forecasts. We now see fair value for the SWA share at €27.0 (previously: €26.0) and maintain our Buy recommendation.

Figure 2: Changes to our forecasts

	2021/22E			2022/23E		
All figures in €m	**old**	**new**	**Δ**	**old**	**new**	**Δ**
Sales	**376.84**	**379.93**	***0.8%***	**402.84**	**406.68**	***1.0%***
by region:						
Germany	135.79	132.36	*-2.5%*	142.58	137.66	*-3.5%*
France	88.75	88.93	*0.2%*	94.07	94.27	*0.2%*
East Central Europe	161.21	167.40	*3.8%*	175.72	184.14	*4.8%*
Eliminations	-8.92	-8.76	-	-9.53	-9.38	-
EBIT	**25.95**	**26.79**	***3.2%***	**28.77**	**29.87**	***3.8%***
Margin	*6.9%*	*7.1%*	-	*7.1%*	*7.3%*	-
by region:						
Germany	3.43	1.88	*-45.4%*	3.56	2.75	*-22.8%*
margin (%)	2.5%	1.4%	-	2.5%	2.0%	-
France	5.26	6.30	*19.7%*	6.11	6.60	*7.9%*
margin (%)	5.9%	7.1%	-	6.5%	7.0%	-
East Central Europe	17.48	18.71	*7.1%*	19.33	20.62	*6.7%*
margin (%)	10.8%	11.2%	-	11.0%	11.2%	-
Eliminations	-0.22	-0.10	*n.a.*	-0.26	-0.11	*n.a.*
Net profit before minorities	**18.88**	**19.51**	***3.3%***	**21.09**	**21.98**	***4.2%***
Net profit after minorities	**11.79**	**11.92**	***1.1%***	**13.24**	**13.61**	***2.8%***
EPS €	**1.49**	**1.50**	***1.1%***	**1.67**	**1.72**	***2.8%***

Source: First Berlin Equity Research estimates

DCF MODEL

All figures in EUR 000s	2021/22E	2022/23E	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E	2028/29E	2029/30E	FY 30/31E	FY 31/32E
Net sales	**379,930**	**406,683**	**429,259**	**452,535**	**477,542**	**504,426**	**533,346**	**561,708**	**591,998**	**624,364**	**658,961**
NOPLAT	**20,626**	**22,998**	**24,359**	**26,472**	**28,352**	**30,388**	**29,996**	**30,847**	**32,866**	**35,036**	**37,366**
+ depreciation & amortisation	-15,986	-17,112	-18,062	-19,042	-20,094	-21,225	-22,442	-23,635	-24,910	-26,272	-27,727
Net operating cash flow	36,612	40,111	42,421	45,514	48,446	51,613	52,438	54,482	57,776	61,307	65,094
- total investments (CAPEX and WC)	-23,666	-27,854	-32,121	-35,548	-37,827	-40,289	-42,950	-43,747	-46,390	-49,223	-52,261
Capital expenditures	-18,802	-21,060	-28,018	-29,725	-31,572	-33,565	-35,716	-36,653	-38,813	-41,127	-43,608
Working capital	-4,864	-6,793	-4,104	-5,822	-6,255	-6,724	-7,234	-7,094	-7,576	-8,095	-8,654
Free cash flows (FCF)	12,946	12,257	10,300	9,966	10,619	11,324	9,488	10,735	11,387	12,085	12,833
PV of FCF's	**12,615**	**11,072**	**8,625**	**7,737**	**7,642**	**7,555**	**5,868**	**6,155**	**6,053**	**5,955**	**5,862**

All figures in EUR 000s	
PV of FCFs in explicit period (2021/22-2034/35)*	107,064
PV of FCFs in terminal period	209,714
Enterprise value (EV)	316,778
Average net debt (most recent four quarters)	-59,084
Investments / minority interests	-43,854
Shareholder value	213,839
Fair value per share in EUR	**27.00**

WACC	**7.9%**
Cost of equity	9.7%
Pre-tax cost of debt	3.0%
Tax rate	23.0%
After-tax cost of debt	2.3%
Share of equity capital	70.0%
Share of debt capital	30.0%
Price target in EUR	**27.00**

WACC \ Terminal growth rate	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
6.4%	40.66	41.74	43.04	44.64	46.65	49.27	52.79
6.9%	35.00	35.68	36.49	37.47	38.67	40.19	42.15
7.4%	30.25	30.66	31.14	31.71	32.40	33.25	34.31
7.9%	26.22	26.44	26.70	27.00	27.36	27.79	28.32
8.4%	22.77	22.86	22.96	23.08	23.23	23.39	23.60
8.9%	19.79	19.79	19.79	19.79	19.79	19.79	19.78
9.4%	17.20	17.13	17.06	16.98	16.89	16.78	16.65

*for layout purposes the model shows numbers only to 2031/32 but runs until 2034/35

INCOME STATEMENT

All figures in €000s	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22E	FY 22/23E
Revenues	**296,062**	**324,527**	**337,159**	**338,212**	**354,584**	**379,930**	**406,683**
Change in inventories	257	3,341	107	240	-1,959	0	0
Cost of materials	-169,778	-190,920	-191,505	-192,653	-198,789	-214,280	-231,809
Gross Profit	**126,541**	**136,948**	**145,761**	**145,799**	**153,836**	**165,649**	**174,874**
Other operating income	4,582	7,994	3,981	5,117	4,323	4,632	4,958
Personnel expenses	-43,593	-50,249	-53,303	-56,274	-60,225	-65,000	-68,500
Depreciation	-7,844	-9,171	-9,447	-14,401	-15,151	-15,986	-17,112
Other operating expenses	-57,505	-61,694	-64,016	-61,272	-58,359	-62,509	-64,352
Operating Income (EBIT)	**22,181**	**23,828**	**22,976**	**18,969**	**24,424**	**26,786**	**29,868**
Associates	-6	-1	-27	0	77	0	0
Net interest income	-1,102	-1,554	-1,291	-1,818	-1,509	-1,452	-1,327
Pretax profit (EBT)	**21,073**	**22,273**	**21,658**	**17,151**	**22,992**	**25,335**	**28,541**
Taxes	-5,361	-5,900	-5,657	-4,160	-5,339	-5,827	-6,565
Net profit before minorities	15,712	16,373	16,001	12,991	17,653	19,508	21,977
Minorities	-4,211	-5,258	-5,111	-5,376	-7,227	-7,591	-8,367
Net attributable profit	**11,501**	**11,115**	**10,890**	**7,615**	**10,426**	**11,916**	**13,610**
EPS (€)	**1.45**	**1.40**	**1.38**	**0.96**	**1.32**	**1.50**	**1.72**
EBITDA	**30,025**	**32,999**	**32,423**	**33,370**	**39,575**	**42,773**	**46,980**

Ratios							
Gross margin	42.7%	42.2%	43.2%	43.1%	43.4%	43.6%	43.0%
EBITDA margin on revenues	10.1%	10.2%	9.6%	9.9%	11.2%	11.3%	11.6%
EBIT margin on revenues	7.5%	7.3%	6.8%	5.6%	6.9%	7.1%	7.3%
Net margin on revenues	5.3%	5.0%	4.7%	3.8%	5.0%	5.1%	5.4%
Tax rate	25.4%	26.5%	26.1%	24.3%	23.2%	23.0%	23.0%
Expenses as % of revenues							
Personnel costs	-14.7%	-15.5%	-15.8%	-16.6%	-17.0%	-17.1%	-16.8%
Depreciation	-2.6%	-2.8%	-2.8%	-4.3%	-4.3%	-4.2%	-4.2%
Other operating expenses	-19.4%	-19.0%	-19.0%	-18.1%	-16.5%	-16.5%	-15.8%
Y-Y Growth							
Revenues	1.0%	9.6%	3.9%	0.3%	4.8%	7.1%	7.0%
Operating income	9.1%	7.4%	-3.6%	-17.4%	28.8%	9.7%	11.5%
Net profit before minorities	16.0%	-100.0%	-2.3%	-18.8%	35.9%	10.5%	12.7%

BALANCE SHEET

All figures in €000s	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22E	FY 22/23E
Assets							
Current assets, total	**155,088**	**172,510**	**175,357**	**179,512**	**179,147**	**185,838**	**198,924**
Cash and cash equivalents	5,700	7,760	9,531	6,015	7,680	3,799	4,067
Other receivables and short-term assets	5,508	7,349	7,861	6,854	9,093	9,743	10,429
Trade accounts and notes receivables	56,362	58,697	53,563	51,427	53,753	57,595	61,651
Inventories	87,518	98,704	104,402	115,216	108,621	114,701	122,778
Non-Current Assets, total	**158,818**	**165,328**	**170,751**	**193,261**	**198,884**	**201,259**	**205,287**
Property, plant and equipment	72,431	70,292	75,744	92,659	97,513	98,022	100,044
Goodwill + intangible assets	78,557	89,145	88,862	93,469	96,082	98,388	100,314
Other financial assets	5,654	5,403	5,051	3,795	3,709	3,709	3,709
Deferred taxes + prepaid expenses	481	488	1,094	1,822	1,580	1,140	1,220
Long term assets for sale	1,695	0	0	1,516	0	0	0
Total Assets	**313,906**	**337,838**	**346,108**	**372,773**	**378,031**	**387,097**	**404,212**
Shareholders' equity & debt							
Current Liabilities, total	**97,782**	**104,645**	**109,987**	**117,850**	**115,034**	**116,535**	**120,943**
Current provisions	3,020	3,846	4,425	5,661	7,422	7,873	8,343
Short-term financial debt	28,221	25,265	28,099	40,319	28,849	24,269	22,265
Trade payables	37,434	41,423	44,185	41,498	44,734	47,932	51,307
Prepayments, deferred charges & other liabilities	29,107	34,111	33,278	30,372	34,029	36,461	39,029
Long term liabilities, total	**32,443**	**41,626**	**34,197**	**50,704**	**48,003**	**40,591**	**39,270**
Long-term financial debt	20,982	24,470	20,886	36,705	34,121	29,757	27,852
Pension accruals and similar liabilities	2,970	2,750	2,763	2,396	2,405	2,549	2,702
Other long-term debt	804	4,919	1,063	1,590	1,095	1,173	1,256
Deferred taxes	7,687	9,487	9,485	10,013	10,382	7,111	7,460
Shareholders' equity	**152,431**	**158,571**	**165,950**	**167,773**	**174,547**	**181,933**	**187,593**
Minority interests	31,250	32,996	35,974	36,446	40,447	48,038	56,406
Total shareholders' equity & debt	**313,906**	**337,838**	**346,108**	**372,773**	**378,031**	**387,097**	**404,212**
Ratios							
Current ratio (x)	1.59	1.65	1.59	1.52	1.56	1.59	1.64
Quick ratio (x)	0.69	0.71	0.65	0.55	0.61	0.61	0.63
Financial leverage (including pension liabilities)	25.3%	23.3%	20.9%	35.9%	26.8%	22.9%	20.0%
Book value per share (€)	19.25	20.02	20.95	21.18	22.04	22.97	23.68
Net debt (including pension liabilities)	46,473	44,725	42,217	73,405	57,695	52,776	48,752
Return on equity (ROE)	6.5%	5.9%	5.5%	3.7%	5.0%	5.4%	5.7%

CASH FLOW STATEMENT

All figures in €000s	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22E	FY 22/23E
Net profit before minorities	**15,712**	**16,373**	**16,001**	**12,991**	**17,653**	**19,508**	**21,977**
Depreciation and amortisation	7,844	9,171	9,447	14,401	15,151	15,986	17,112
Change in working capital	-662	-3,128	1,230	-13,229	10,867	-4,864	-6,793
Other	1,775	-1,659	345	-1,204	-1,015	144	153
Operating cash flow	**24,669**	**20,757**	**27,023**	**12,959**	**42,656**	**30,775**	**32,449**
CAPEX	-14,838	-15,049	-18,092	-13,183	-18,165	-18,802	-21,060
Fixed asset sales	565	3,095	337	458	2,862	0	0
Investing cash flow	**-14,273**	**-11,954**	**-17,755**	**-12,725**	**-15,303**	**-18,802**	**-21,060**
Free cash flow	**10,396**	**8,803**	**9,268**	**234**	**27,353**	**11,973**	**11,389**
Change in financial liabilities	-1,602	-479	-750	2,883	-19,377	-8,944	-3,910
Dividends to shareholders	-3,406	-3,802	-3,960	-3,960	-3,168	-3,960	-3,960
Dividends to susbidiaries of minorities	-2,657	-2,920	-2,601	-2,950	-3,048	-2,950	-3,251
Other	0	209	0	0	0	0	0
Financing cash flow	**-7,665**	**-6,992**	**-7,311**	**-4,027**	**-25,593**	**-15,854**	**-11,121**
Change in cash	2,731	1,811	1,957	-3,793	1,760	-3,881	268
Consolidation; exchange rate effects	-173	249	-186	277	-95	0	0
Liquid funds, start of the year	**3,142**	**5,700**	**7,760**	**9,531**	**6,015**	**7,680**	**3,799**
Liquid funds, end of the year	**5,700**	**7,760**	**9,531**	**6,015**	**7,680**	**3,799**	**4,067**
Free cash flow per share (€)	**1.31**	**1.11**	**1.17**	**0.03**	**3.45**	**1.51**	**1.44**

Y-Y growth							
Operating cash flow	58.1%	-15.9%	30.2%	-52.0%	229.2%	-27.9%	5.4%
Free cash flow	322.6%	-15.3%	5.3%	-97.5%	11589.3%	-56.2%	-4.9%
Financial cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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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.

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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...46	↓	↓	↓	↓
47	27 February 2020	€15.55	Buy	€20.30
48	15 May 2020	€12.40	Buy	€18.90
49	28 September 2020	€15.70	Buy	€20.00
50	18 November 2020	€15.30	Buy	€20.00
51	19 February 2021	€14.80	Buy	€21.00
52	17 May 2021	€16.60	Buy	€22.00
53	28 September 2021	€19.40	Buy	€25.00
54	15 November 2021	€20.20	Buy	€26.00
55	Today	€18.80	Buy	€27.00

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