

Schloss Wachenheim AG

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

Q3 2022/23 results

RATING
BUY

PRICE TARGET
€ 22.00

Return Potential 39.2%
 Risk Rating Medium

ROBUST Q3 PERFORMANCE PROMPTS GUIDANCE UPGRADE

Q3 22/23 sales rose 16.5% to €82.5m (Q3 21/22: €70.9m) and were 10.1% above our €74.9m forecast. EBIT was in the black at €0.9m (Q3 21/22: €-0.1m) compared with our expectation of a small loss. The better than expected performance was driven by the resilience of volume growth (+1.9%) in the face of price rises which Schloss Wachenheim was forced to implement to cover higher raw material and energy costs. Management have raised full-year guidance (June year-end) and now expect a 10% rise in sales (previously: a slight rise) and EBIT of €25m - €27m (previously: €20.5m - €22.5m). We have raised our own forecasts and now see fair value for the share at €22.00 (previously: €21.00). We maintain our Buy recommendation.

EBIT in Germany rose despite lower volume and sales In Germany price increases contributed to a fall in volume. The number of bottles sold fell 6.8% to 16.5m (Q3 21/22: 17.7m bottles). Volume retreated in both the sparkling wine and still wine retail operations. However, the decline at the still wine retail businesses, Rindchen's Weinkontor GmbH & Co. KG and Vino Weinhandels GmbH, was more pronounced as reduced consumer purchasing power and a post-pandemic shift away from at-home wine consumption had a negative impact. Volume at this business fell 15.8% during the first nine months of the financial year, with Q2 particularly weak. The price rises pushed segment sales 10.5% ahead to €29.5m (Q3 21/22: €26.7m). Gross profit rose 13.2% to €14.2m (Q3 21/22: €12.5m) and benefitted from a favourable shift in the product mix. EBIT came in at €0.4m (Q3 21/22: €-0.1m) helped by higher other operating income, lower freight and logistics costs in connection with the volume decline, and lower advertising costs.

Volume increase in France segment despite price rises Despite price increases SWA succeeded in growing the France segment's volume by 7.0% to 12.2m bottles (Q3 21/22: 11.4m bottles). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2018/19	2019/20	2020/21	2021/22	2022/23E	2023/24E
Revenue (€m)	337.16	338.21	354.58	383.98	424.06	448.72
Y-o-y growth	3.9%	0.3%	4.8%	8.3%	10.4%	5.8%
EBIT (€m)	22.98	18.97	24.42	29.19	26.26	32.45
EBIT margin	6.8%	5.6%	6.9%	7.6%	6.2%	7.2%
Net income (€m)	10.89	7.62	10.43	13.73	9.65	14.57
EPS (diluted) (€)	1.38	0.96	1.32	1.73	1.22	1.84
DPS (€)	0.50	0.40	0.50	0.60	0.60	0.60
FCF (€m)	9.27	0.23	27.35	4.03	13.84	22.35
Net gearing	20.9%	35.9%	26.8%	29.2%	25.4%	18.4%
Liquid assets (€m)	9.53	6.02	7.68	7.13	8.48	8.97

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 2021/22 group sales) and number one in France with a 40% market share. Some 44% of group sales are generated in East Central Europe through the 61%-owned subsidiary, Ambra.

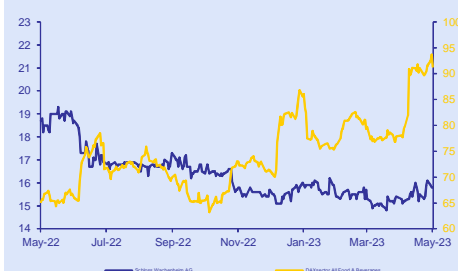
MARKET DATA

As of 10 May 2023

Closing Price	€ 15.80
Shares outstanding	7.92m
Market Capitalisation	€ 125.14m
52-week Range	€ 14.80 / 19.30
Avg. Volume (12 Months)	1,357

Multiples	2021/22	2022/23E	2023/24E
P/E	9.2	13.1	8.6
EV/Sales	0.5	0.5	0.4
EV/EBIT	6.6	7.3	5.9
Div. Yield	3.8%	3.8%	3.8%

STOCK OVERVIEW



COMPANY DATA

As of 31 Mar 2023

Liquid Assets	€ 8.58m
Current Assets	€ 218.10m
Intangible Assets	€ 94.34m
Total Assets	€ 420.68m
Current Liabilities	€ 139.03m
Shareholders' Equity	€ 187.51m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%

**Figure 1: Q3 2022/23 results versus our forecasts**

€m	Q3 22/23A	Q3 22/23E	Δ	Q3 21/22A	Δ
Sales	82.53	74.93	10.1%	70.85	16.5%
by region:					
Germany	29.53	27.79	6.3%	26.72	10.5%
France	20.67	19.35	6.8%	17.92	15.4%
East Central Europe	33.76	29.71	13.6%	28.03	20.4%
Eliminations	-1.43	-1.92	n.a.	-1.82	n.a.
EBIT	0.87	-1.16	n.a.	-0.07	n.a.
<i>margin (%)</i>	<i>1.1%</i>	<i>n.a.</i>	<i>-</i>	<i>n.a.</i>	<i>-</i>
by region					
Germany	0.39	-0.56	n.a.	-0.12	n.a.
<i>margin (%)</i>	<i>1.3%</i>	<i>n.a.</i>	<i>-</i>	<i>n.a.</i>	<i>-</i>
France	-1.02	-0.58	n.a.	-0.08	n.a.
<i>margin (%)</i>	<i>n.a.</i>	<i>n.a.</i>	<i>-</i>	<i>n.a.</i>	<i>-</i>
East Central Europe	1.38	0.00	n.a.	0.14	880.1%
<i>margin (%)</i>	<i>4.1%</i>	<i>0.0%</i>	<i>-</i>	<i>0.5%</i>	<i>-</i>
Other/eliminations	0.12	-0.02	n.a.	-0.02	n.a.
Net profit before minorities	-0.08	-1.45	-94.5%	-0.34	-76.2%
Net profit after minorities	-0.50	-1.45	-65.4%	-0.40	24.6%
EPS (€)	-0.06	-0.18	-65.4%	-0.05	26.8%

Source: SWA AG; First Berlin Equity Research estimates

The increase in volume split 60/40 between the domestic market and export markets. Sales jumped 15.4% to €20.7m (Q3 21/22: €17.9m) due to higher product prices and positive changes in the product mix. However, raw material cost increases meant that gross profit was only slightly ahead at €8.1m (Q3 21/22: €7.8m). Segment EBIT was €-1.0m (Q3 21/22: €-0.1m). The decline compared with the prior year figure stemmed from higher advertising and energy costs.

Wine volume continued to grow in East Central Europe Volume in East Central Europe climbed 1.3% to 16.0m bottles (Q3 21/22: 15.8m bottles). Volume of sparkling wine, spirits and cider fell but wine volume, which accounts for nearly 50% of segment sales, continued to grow. Sales climbed 20.4% to €33.8m (Q3 21/22: €28.0m) due to price increases while gross profit was up 23.3% at €14.2m (Q3 21/22: €11.5m) helped by a better product mix. Despite higher personnel, freight, energy and IT costs, EBIT rose to €1.4m (Q3 21/22: €0.1m).

End March 2023 net gearing at 28.2% (March 2022: 28.5%) Q3 22/23 cash flow before changes in working capital climbed 47.8% to €5.3m (Q3 21/22: €3.6m). A decline in the cash inflow from working capital to €2.1m in (Q3 21/22: €3.4m) meant that operating cashflow rose only 5.6% to €7.4m (Q3 21/22: €7.0m). Receivables were the largest single contributor to the reduced cashflow from working capital. These yielded €41.4m in Q3 22/23 compared with €46.7m in Q3 21/22. Cash outflow from investing was €2.4m (Q3 21/22: €8.8m). Last year's figure was comprised mainly of investment in the refurbishment of a bottling plant in Trier. Free cashflow came in at €5.0m (Q3 21/22: €1.8m). Net debt including pension liabilities fell during the quarter by €2.7m to €660m, equivalent to net gearing of 28.2% (Q3 21/22: net debt including pension liabilities of €63.8m and net gearing of 28.5%).

**Figure 2: Changes to company guidance**

€m	New Guidance	Old Guidance	Δ %
Volume	stable vs. 21/22	slight decline vs. 21/22	n.a.
Sales	10%	slight rise	n.a.
EBIT	25 - 27	20.5 - 22.5	20.9%
Net profit before minorities	17 - 19	14.5 - 16.5	16.1%

Source: SWA AG

Price target raised from €21.00 to €22.00. Buy recommendation maintained Figure 2 above shows changes to company guidance following the better than expected Q3 22/23 results. We have adjusted our forecasts to incorporate the new guidance (see figure 3 below), and have also made upward adjustments to our numbers for subsequent years. Our 22/23 EBIT forecast for the France segment incorporates a €4.4m restructuring charge taken in Q2 22/23 (transfer of production capacity from Wissembourg to Tournan-en-Brie). We now see fair value for the Schloss Wachenheim share at €22.00 (previously: €21.00) and maintain our Buy recommendation.

Figure 3: Changes to our forecasts

All figures in €m	2022/23E			2023/24E		
	old	new	Δ	old	new	Δ
Sales	414.15	424.06	2.4%	431.29	448.72	4.0%
by region:						
Germany	141.88	144.32	1.7%	144.72	148.65	2.7%
France	101.44	103.68	2.2%	103.47	107.83	4.2%
East Central Europe	181.86	186.68	2.7%	194.59	203.48	4.6%
Eliminations	-11.04	-10.62	-	-11.49	-11.24	-
EBIT	22.41	26.26	17.1%	30.20	32.45	7.4%
Margin	5.4%	6.2%	-	7.0%	7.2%	-
by region:						
Germany	4.91	6.16	25.4%	2.89	3.72	28.4%
margin (%)	3.5%	4.3%	-	2.0%	2.5%	-
France	0.32	-0.70	-318.5%	7.24	7.55	4.2%
margin (%)	0.3%	-0.7%	-	7.0%	7.0%	-
East Central Europe	17.46	20.94	20.0%	20.43	21.37	4.6%
margin (%)	9.6%	11.2%	-	10.5%	10.5%	-
Eliminations	-0.37	-0.18	n.a.	-0.41	-0.19	n.a.
Net profit before minorities	15.58	18.15	16.5%	21.62	23.24	7.5%
Net profit after minorities	8.49	9.65	13.6%	13.33	14.57	9.3%
EPS €	1.07	1.22	13.6%	1.68	1.84	9.3%

Source: First Berlin Equity Research estimates



DCF MODEL

All figures in EUR 000s	2022/23E	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E	2028/29E	2029/30E	2030/31E	2031/32E	2032/33E
Net sales	424,064	448,724	472,646	498,329	525,921	555,584	584,693	615,764	648,946	684,398	718,480
NOPLAT	20,595	25,450	27,186	29,059	31,085	32,159	34,209	36,409	38,771	39,787	42,101
+ depreciation & amortisation	-16,493	-17,004	-17,438	-18,261	-19,140	-20,081	-20,987	-21,948	-22,968	-24,052	-25,070
Net operating cash flow	37,088	42,454	44,624	47,319	50,225	52,240	55,196	58,357	61,740	63,839	67,171
- total investments (CAPEX and WC)	-20,728	-17,835	-38,040	-32,514	-32,240	-33,966	-33,926	-35,533	-37,231	-39,025	-38,518
Capital expenditures	-10,449	-12,203	-22,041	-25,030	-24,200	-25,322	-25,444	-26,479	-27,562	-28,695	-28,587
Working capital	-10,279	-5,632	-16,000	-7,484	-8,040	-8,644	-8,482	-9,054	-9,669	-10,330	-9,931
Free cash flows (FCF)	16,360	24,618	6,583	14,806	17,984	18,274	21,270	22,824	24,509	24,814	28,653
PV of FCFs	16,139	21,991	5,325	10,845	11,928	10,975	11,567	11,240	10,930	10,020	10,477

All figures in EUR 000s	
PV of FCFs in explicit period (2022/23-2034/35)	152,585
PV of FCFs in terminal period	138,792
Enterprise value (EV)	291,377
Average net debt (most recent four quarters)	-66,790
Investments / minority interests	-50,630
Shareholder value	173,957

Fair value per share in EUR 21.96

WACC	10.4%
Cost of equity	12.6%
Pre-tax cost of debt	5.0%
Tax rate	23.0%
After-tax cost of debt	3.9%
Share of equity capital	75.0%
Share of debt capital	25.0%

Price target in EUR 21.96

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
8.9%	29.37	29.95	30.61	31.37	32.24	33.25	34.46
9.4%	26.35	26.79	27.29	27.86	28.50	29.25	30.13
9.9%	23.67	24.01	24.39	24.81	25.30	25.85	26.49
10.4%	21.29	21.55	21.83	21.96	22.51	22.92	23.38
10.9%	19.16	19.36	19.57	19.81	20.07	20.37	20.71
11.4%	17.25	17.40	17.55	17.73	17.92	18.13	18.38
11.9%	15.53	15.63	15.75	15.87	16.01	16.16	16.33

*for layout purposes the model shows numbers only to 2032/33 but runs until 2034/35



INCOME STATEMENT

All figures in €000s	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23E	FY 23/24E
Revenues	337,159	338,212	354,584	383,975	424,064	448,724
Change in inventories	107	240	-1,959	3,307	0	0
Cost of materials	-191,505	-192,653	-198,789	-220,798	-245,957	-255,773
Gross Profit	145,761	145,799	153,836	166,484	178,107	192,951
Other operating income	3,981	5,117	4,323	4,027	4,665	4,936
Personnel expenses	-53,303	-56,274	-60,225	-61,505	-63,610	-67,309
Depreciation	-9,447	-14,401	-15,151	-15,841	-16,493	-17,004
Other operating expenses	-64,016	-61,272	-58,359	-63,980	-76,413	-81,125
Operating Income (EBIT)	22,976	18,969	24,424	29,185	26,255	32,450
Associates	-27	0	77	317	150	175
Net interest income	-1,291	-1,818	-1,509	-1,807	-3,272	-2,991
Pretax profit (EBT)	21,658	17,151	22,992	27,695	23,133	29,634
Taxes	-5,657	-4,160	-5,339	-6,480	-4,987	-6,393
Net profit before minorities	16,001	12,991	17,653	21,215	18,146	23,242
Minorities	-5,111	-5,376	-7,227	-7,484	-8,497	-8,668
Net attributable profit	10,890	7,615	10,426	13,731	9,649	14,573
EPS (€)	1.38	0.96	1.32	1.73	1.22	1.84
EBITDA	32,423	33,370	39,575	45,026	42,749	49,454
Ratios						
Gross margin	43.2%	43.1%	43.4%	43.4%	42.0%	43.0%
EBITDA margin on revenues	9.6%	9.9%	11.2%	11.7%	10.1%	11.0%
EBIT margin on revenues	6.8%	5.6%	6.9%	7.6%	6.2%	7.2%
Net margin on revenues	4.7%	3.8%	5.0%	5.5%	4.3%	5.2%
Tax rate	26.1%	24.3%	23.2%	23.4%	21.6%	21.6%
Expenses as % of revenues						
Personnel costs	-15.8%	-16.6%	-17.0%	-16.0%	-15.0%	-15.0%
Depreciation	-2.8%	-4.3%	-4.3%	-4.1%	-3.9%	-3.8%
Other operating expenses	-19.0%	-18.1%	-16.5%	-16.7%	-18.0%	-18.1%
Y-Y Growth						
Revenues	3.9%	0.3%	4.8%	8.3%	10.4%	5.8%
Operating income	-3.6%	-17.4%	28.8%	19.5%	-10.0%	23.6%
Net profit before minorities	-2.3%	-18.8%	35.9%	20.2%	-14.5%	28.1%



BALANCE SHEET

All figures in €000s	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23E	FY 23/24E
Assets						
Current assets, total	175,357	179,512	179,147	203,784	225,484	237,477
Cash and cash equivalents	9,531	6,015	7,680	7,133	8,481	8,974
Other receivables and short-term assets	7,861	6,854	9,093	8,610	9,329	9,872
Trade accounts and notes receivables	53,563	51,427	53,753	59,335	65,530	69,341
Inventories	104,402	115,216	108,621	128,706	142,143	149,291
Non-Current Assets, total	170,751	193,261	198,884	204,833	198,337	193,786
Property, plant and equipment	75,744	92,659	97,513	103,845	99,231	94,232
Goodwill + intangible assets	88,862	93,469	96,082	95,225	93,795	93,993
Other financial assets	5,051	3,795	3,709	3,889	4,039	4,214
Deferred taxes + prepaid expenses	1,094	1,822	1,580	1,874	1,272	1,346
Long term assets for sale	0	1,516	0	0	0	0
Total Assets	346,108	372,773	378,031	408,617	423,821	431,263
Shareholders' equity & debt						
Current Liabilities, total	109,987	117,850	115,034	132,501	142,436	140,869
Current provisions	4,425	5,661	7,422	6,562	8,700	9,114
Short-term financial debt	28,099	40,319	28,849	36,238	34,134	26,362
Trade payables	44,185	41,498	44,734	55,158	60,917	64,459
Prepayments, deferred charges & other liabilities	33,278	30,372	34,029	34,543	38,685	40,935
Long term liabilities, total	34,197	50,704	48,003	49,715	43,855	38,393
Long-term financial debt	20,886	36,705	34,121	34,849	32,488	26,526
Pension accruals and similar liabilities	2,763	2,396	2,405	2,150	2,279	2,416
Other long-term debt	1,063	1,590	1,095	1,138	1,310	1,386
Deferred taxes	9,485	10,013	10,382	11,578	7,778	8,066
Shareholders' equity	165,950	167,773	174,547	183,479	186,111	191,913
Minority interests	35,974	36,446	40,447	42,922	51,419	60,087
Total shareholders' equity & debt	346,108	372,773	378,031	408,617	423,821	431,263
Ratios						
Current ratio (x)	1.59	1.52	1.56	1.54	1.58	1.69
Quick ratio (x)	0.65	0.55	0.61	0.57	0.59	0.63
Financial leverage (including pension liabilities)	20.9%	35.9%	26.8%	29.2%	25.4%	18.4%
Book value per share (€)	20.95	21.18	22.04	23.16	23.49	24.22
Net debt (including pension liabilities)	42,217	73,405	57,695	66,104	60,420	46,329
Return on equity (ROE)	5.5%	3.7%	5.0%	6.2%	4.2%	6.0%



CASH FLOW STATEMENT

All figures in €000s	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23E	FY 23/24E
Net profit before minorities	16,001	12,991	17,653	21,215	18,146	23,242
Depreciation and amortisation	9,447	14,401	15,151	15,841	16,493	17,004
Change in working capital	1,230	-13,229	10,867	-14,422	-10,279	-5,632
Other	345	-1,204	-1,015	-716	-21	-38
Operating cash flow	27,023	12,959	42,656	21,918	24,339	34,575
CAPEX	-18,092	-13,183	-18,165	-18,389	-10,449	-12,203
Fixed asset sales	337	458	2,862	500	0	0
Investing cash flow	-17,755	-12,725	-15,303	-17,889	-10,449	-12,203
Free cash flow	9,268	234	27,353	4,029	13,890	22,372
Change in financial liabilities	-750	2,883	-19,377	3,603	-4,465	-13,735
Dividends to shareholders	-3,960	-3,960	-3,168	-3,960	-4,752	-4,752
Dividends to subsidiaries of minorities	-2,601	-2,950	-3,048	-4,382	-3,325	-3,392
Other	0	0	0	0	0	0
Financing cash flow	-7,311	-4,027	-25,593	-4,739	-12,542	-21,878
Change in cash	1,957	-3,793	1,760	-710	1,348	493
Consolidation; exchange rate effects	-186	277	-95	163	0	0
Liquid funds, start of the year	7,760	9,531	6,015	7,680	7,133	8,481
Liquid funds, end of the year	9,531	6,015	7,680	7,133	8,481	8,974
Free cash flow per share (€)	1.17	0.03	3.45	0.51	1.75	2.82
<hr/>						
Y-Y growth						
Operating cash flow	30.2%	-52.0%	229.2%	-48.6%	11.0%	42.1%
Free cash flow	5.3%	-97.5%	11589.3%	-85.3%	244.7%	61.1%
Financial cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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.

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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.

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...51	↓	↓	↓	↓
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	25 February 2022	€18.80	Buy	€27.00
56	17 May 2022	€18.50	Buy	€25.00
57	28 September 2022	€16.50	Buy	€22.00
58	15 November 2022	€15.40	Buy	€22.00
59	27 February 2023	€15.50	Buy	€21.00
60	Today	€15.80	Buy	€22.00

INVESTMENT HORIZON

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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

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