

Schloss Wachenheim AG

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

Q2 2023/24 results

RATING **BUY**
PRICE TARGET **€ 22.00**
 Return Potential 41.9%
 Risk Rating Medium

CHALLENGING XMAS BUT SWA STICKS TO FY EBIT GUIDANCE RANGE

Although inflation is falling and wage and salary increases are partially compensating for lost consumer purchasing power, the business environment remained challenging for SWA during the Christmas quarter. Group volume fell 6.1% to 73.7m bottles in Q2 23/24 (Q2 22/23: 78.5m bottles) due to price increases which SWA was forced to implement to compensate for higher raw material and energy costs. Sales rose 4.3% to €148.1m (Q2 22/23: €142.0m) but was 3.4% below our forecast of €153.3m. Q2 23/24 EBIT at €16.4m (Q2 22/23: €12.5m) was 11.3% below our expectation. Q2 23/24 EBIT and 22/23 Christmas quarter EBIT were burdened by exceptional costs of €0.3m and €4.4m respectively. Stripping out these items, the Q2 comparison was €16.7m vs €16.9m. In the annual report published last September, SWA guided towards FY 23/24 sales growth of 6-9%, EBIT of €28m-€30m and net profit before non-controlling interests of €19m-€21m. Given that sales were up only 4.5% at the H1 23/24 stage, i.e. after the crucial Christmas quarter, management is now looking for full-year sales growth of 5%. EBIT and net profit guidance remain intact, but SWA has pointed out that these figures are likely to be at the lower end of their respective ranges. We have lowered our sales forecast to reflect new guidance, but our profit estimates are little changed as these were already near the bottom of the guided ranges. We continue to believe that falling inflation will feed through to lower interest rates and improving consumer sentiment over the coming quarters. The decline in the German 10-year bond yield from 2.71% at the time of our last note in mid-November to 2.36% now, cancels out the slight reduction in our sales and profit forecasts. We maintain our Buy recommendation and price target of €22.00.

EBIT flat in Germany despite higher sales, due to higher personnel and advertising costs Volume in Germany fell 3.6% to 24.0m bottles (Q2 22/23: 24.9m bottles) due to price increases which SWA was forced to implement to compensate for higher raw material and energy costs. The volume decline was concentrated on the private label sparkling wine business. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2019/20	2020/21	2021/22	2022/23	2023/24E	2024/25E
Revenue (€m)	338.21	354.58	383.98	425.75	446.92	479.07
Y-o-y growth	0.3%	4.8%	8.3%	10.9%	5.0%	7.2%
EBIT (€m)	18.97	24.42	29.19	27.38	28.02	34.33
EBIT margin	5.6%	6.9%	7.6%	6.4%	6.3%	7.2%
Net income (€m)	7.62	10.43	13.73	10.90	11.30	14.35
EPS (diluted) (€)	0.96	1.32	1.73	1.38	1.43	1.81
DPS (€)	0.40	0.50	0.60	0.60	0.60	0.60
FCF (€m)	0.23	27.35	4.03	12.59	-2.87	12.47
Net gearing	35.9%	26.8%	29.2%	29.4%	32.1%	29.1%
Liquid assets (€m)	6.02	7.68	7.13	7.46	8.94	9.58

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 (32% of 2022/23 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.

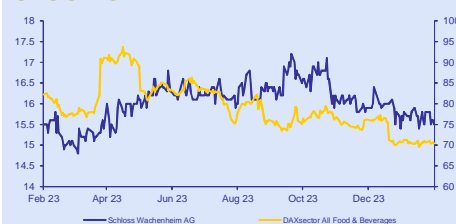
MARKET DATA

As of 23 Feb 2024

Closing Price	€ 15.50
Shares outstanding	7.92m
Market Capitalisation	€ 122.76m
52-week Range	€ 14.80 / 17.20
Avg. Volume (12 Months)	1,053

Multiples	2022/23	2023/24E	2024/25E
P/E	11.3	10.9	8.6
EV/Sales	0.5	0.5	0.4
EV/EBIT	7.8	7.6	6.2
Div. Yield	3.9%	3.9%	3.9%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2023

Liquid Assets	€ 7.24m
Current Assets	€ 263.12m
Intangible Assets	€ 98.08m
Total Assets	€ 485.35m
Current Liabilities	€ 187.89m
Shareholders' Equity	€ 196.96m

SHAREHOLDERS

Günther Reh AG	70.1%
Free float	29.9%



Figure 1: Q2 23/24 results versus our forecasts

€m	Q2 23/24A	Q2 23/24E	Δ	Q2 22/23A	Δ
Sales	148.13	153.29	-3.4%	141.96	4.3%
by region:					
Germany	45.26	47.13	-4.0%	43.23	4.7%
France	26.44	29.36	-10.0%	30.27	-12.7%
East Central Europe	79.07	80.25	-1.5%	71.65	10.4%
Eliminations	-2.64	-3.45	n.a.	-3.20	n.a.
EBIT	16.41	18.49	-11.3%	12.49	31.4%
<i>margin (%)</i>	11.1%	12.1%	-	8.8%	-
by region					
Germany	3.47	2.83	22.5%	3.53	-1.9%
<i>margin (%)</i>	7.7%	6.0%	-	4.6%	-
France	0.99	2.04	-51.7%	-3.42	n.a.
<i>margin (%)</i>	3.7%	7.0%	-	10.0%	-
East Central Europe	12.04	13.64	-11.7%	12.57	-4.2%
<i>margin (%)</i>	15.2%	17.0%	-	10.3%	-
Other/eliminations	-0.09	-0.02	n.a.	-0.20	n.a.
Net profit before non-controlling interests	11.57	13.20	-12.4%	9.47	22.2%
Net profit after non-controlling interests	6.45	7.36	-12.4%	4.42	46.0%
EPS (€)	0.81	0.93	-12.4%	0.56	45.5%

Source: SWA; First Berlin Equity Research estimates

However, volume also declined at the still wine retail businesses, Rindchen's Weinkontor GmbH & Co. KG and Vino Weinhandels GmbH. Overall segment sales climbed 4.7% to €45.3m (Q2 22/23: €43.2m), but sales in the wine retail business were slightly lower. Gross profit edged 3.2% higher to €18.9m (Q2 22/23: €18.2m), but EBIT was flat at €3.5m due to higher personnel and advertising costs.

France segment volume down sharply due mainly to lower export business In France volume fell 24.0% to 13.8m bottles (Q2 22/23: 18.2m bottles). Ca. 85% of the decline was attributable to weaker export business, which had been expected by management. Changes in the product mix as well as price rises implemented to compensate for higher raw material and energy costs restricted the decline in sales to 12.7% to €26.4m (Q2 22/23: €30.3m). Segment gross profit fell 6.0% to €10.2m (Q2 22/23: €10.8m). Reported Q2 23/24 EBIT was €1.0m (Q2 22/23: €-3.4m). However, the Q2 23/24 number included exceptional costs of €0.3m in connection with the transportation of tank and production facilities from Wissembourg to Tournan-en-Brie, and the prior year figure included costs of €4.4m in connection with the restructuring of the segment's production facilities. Clean of these exceptional items, EBIT actually rose to €1.3m (Q2 22/23: €1.0m).

East Central Europe EBIT of €12.0m close to prior year level of €12.6m Volume in East Central Europe climbed 0.3% to 37.6m bottles (Q2 22/23: 37.5m bottles). Volume was lower on the Polish and Czech markets but higher in Romania due mainly to the first-time consolidation of Vitis Prod and Domeniile Dealu Mare (DDM) from 31 July. Vitis Prod is a wine producer while DDM processes grapes and bottles wine. Volume of sparkling wine, spirits and children's party drinks fell, but wine volume, which accounts for over 40% of segment sales, continued to grow.



Sales climbed 10.4% to €79.1m (Q2 22/23: €71.7m) due to price increases to cover higher raw wine and energy costs. Local currency appreciation also contributed to the rise in sales in Euro terms. Gross profit was 5.8% better at €30.4m (Q2 22/23: €28.7m), but higher personnel and other operating costs pushed EBIT 4.2% lower to €12.0m (Q2 22/23: €12.6m).

End December 2023 net gearing at 35.9% (December 2022: 29.3%) Q2 23/24 cash flow before changes in working capital climbed 1.1% to €19.0m (Q2 22/23: €18.8m). Operating cashflow was stable at €8.0m because working capital consumption was little changed at €11.0m (Q2 22/23: €10.9m). Cash outflow from investing climbed to €4.6m (Q2 22/23: €2.3m). Investment was concentrated on the transfer of production capacity within France from Wissembourg to Tournan-en-Brie, and the modernisation and expansion of production capacity at Bilgoraj in Poland. Free cashflow came in at €3.4m (Q2 22/23: €5.7m). Dividend payments to SWA shareholders and minority shareholders in the Polish subsidiaries amounted to €4.8m and €4.0m respectively (Q2 22/23: €4.8m and €2.4m respectively). SWA's Polish subsidiary, Ambra (61.12% stake) and other SWA subsidiaries raised their dividends for 2022/23. This explains the increase in dividends paid to minority shareholders. Net debt including leasing and pension liabilities rose during the quarter by €8.9m to €89.5m, equivalent to net gearing of 35.9% (Q2 22/23: net debt including pension liabilities of €68.7m and net gearing of 29.3%).

Figure 2: Changes to our forecasts

All figures in €m	2023/24E			2024/25E		
	old	new	Δ	old	new	Δ
Sales	452.14	446.92	-1.2%	484.58	479.07	-1.1%
by region:						
Germany	151.78	150.55	-0.8%	157.85	156.58	-0.8%
France	100.55	97.62	-2.9%	104.57	101.53	-2.9%
East Central Europe	209.52	208.34	-0.6%	232.57	231.26	-0.6%
Eliminations	-9.71	-9.60	-	-10.41	-10.29	-
EBIT	28.17	28.02	-0.5%	34.65	34.33	-0.9%
Margin	6.2%	6.3%	-	7.2%	7.2%	-
by region:						
Germany	4.12	5.53	34.4%	3.95	3.91	-0.8%
margin (%)	2.7%	3.7%	-	2.5%	2.5%	-
France	2.61	2.36	-9.9%	5.23	5.08	-2.9%
margin (%)	2.6%	2.4%	-	5.0%	5.0%	-
East Central Europe	21.53	20.22	-6.1%	25.58	25.44	-0.6%
margin (%)	10.3%	9.7%	-	11.0%	11.0%	-
Eliminations	-0.09	-0.08	n.a.	-0.10	-0.10	n.a.
Net profit before non-controlling interests	19.10	19.03	-0.4%	24.48	24.08	-1.6%
Net profit after non-controlling interests	10.87	11.30	4.0%	14.70	14.35	-2.4%
EPS €	1.37	1.43	4.0%	1.86	1.81	-2.4%

Source: First Berlin Equity Research estimates

Buy recommendation maintained at unchanged price target of €22.00 We have made only small changes to our group forecasts following the Q2 23/24 results. Inflation is now declining and during the coming quarters we expect this to feed through to lower interest rates and improving consumer sentiment. We maintain our Buy recommendation and price target of €22.00.



DCF MODEL

All figures in EUR 000s	2023/24E	2024/25E	2025/26E	2026/27E	2027/28E	2028/29E	2029/30E	2030/31E	2031/32E	2032/33E	2033/34E	2034/35E
Net sales	446,915	479,069	505,492	533,899	564,460	594,426	626,432	660,631	697,190	732,300	765,277	799,975
NOPLAT	22,018	27,164	29,972	32,148	32,147	34,256	36,522	38,958	39,971	42,352	44,563	46,705
+ depreciation & amortisation	-16,806	-17,536	-18,377	-19,277	-20,239	-21,165	-22,148	-23,192	-24,301	-25,342	-26,291	-27,283
Net operating cash flow	38,825	44,701	48,349	51,424	52,386	55,421	58,670	62,149	64,272	67,693	70,854	73,989
- total investments (CAPEX and WC)	-38,622	-29,073	-27,366	-28,564	-29,817	-30,387	-32,139	-34,096	-35,517	-34,547	-33,171	-34,051
Capital expenditures	-25,675	-19,582	-19,497	-20,104	-20,716	-21,403	-22,604	-23,907	-24,625	-24,087	-23,346	-23,714
Working capital	-12,947	-9,491	-7,869	-8,460	-9,102	-8,984	-9,535	-10,189	-10,892	-10,460	-9,824	-10,337
Free cash flows (FCF)	202	15,628	20,983	22,860	22,569	25,034	26,531	28,053	28,755	33,146	37,683	39,938
PV of FCFs	196	13,677	16,628	16,403	14,663	14,727	14,131	13,530	12,557	13,106	13,491	12,947

All figures in EUR 000s	
PV of FCFs in explicit period (2023/24-2034/35)	156,055
PV of FCFs in terminal period	161,604
Enterprise value (EV)	317,659
Average net debt (most recent four quarters)	-76,762
Investments / minority interests	-66,627
Shareholder value	174,270
Fair value per share in EUR	22.00

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	22.00

WACC	Terminal growth rate						
	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%
8.9%	28.92	29.91	31.03	32.32	33.81	35.54	37.60
9.4%	25.66	26.47	27.37	28.40	29.58	30.93	32.52
9.9%	22.77	23.43	24.17	24.99	25.93	27.00	28.24
10.4%	20.20	20.74	21.33	22.00	22.76	23.61	24.59
10.9%	17.89	18.33	18.82	19.36	19.97	20.66	21.44
11.4%	15.80	16.17	16.57	17.02	17.51	18.07	18.69
11.9%	13.92	14.22	14.55	14.92	15.32	15.77	16.28



INCOME STATEMENT

All figures in €000s	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24E	FY 24/25E
Revenues	338,212	354,584	383,975	425,753	446,915	479,069
Change in inventories	240	-1,959	3,307	12,856	0	0
Cost of materials	-192,653	-198,789	-220,798	-259,676	-259,211	-275,465
Gross Profit	145,799	153,836	166,484	178,933	187,704	203,604
Other operating income	5,117	4,323	4,027	5,065	4,916	5,270
Personnel expenses	-56,274	-60,225	-61,505	-64,801	-71,506	-76,651
Depreciation	-14,401	-15,151	-15,841	-17,087	-16,806	-17,536
Restructuring France	0	0	0	-4,446	-1,200	0
Other operating expenses	-61,272	-58,359	-63,980	-70,288	-75,087	-80,361
Operating Income (EBIT)	18,969	24,424	29,185	27,376	28,020	34,325
Associates	0	77	317	236	335	200
Net interest income	-1,818	-1,509	-1,807	-3,156	-4,141	-4,097
Pretax profit (EBT)	17,151	22,992	27,695	24,456	24,214	30,428
Taxes	-4,160	-5,339	-6,480	-5,432	-5,187	-6,348
Net profit before non-controlling interests	12,991	17,653	21,215	19,024	19,027	24,080
Non-controlling interests	-5,376	-7,227	-7,484	-8,119	-7,731	-9,729
Net profit after non-controlling interests	7,615	10,426	13,731	10,905	11,296	14,352
EPS (€)	0.96	1.32	1.73	1.38	1.43	1.81
EBITDA	33,370	39,575	45,026	44,463	44,827	51,862
Ratios						
Gross margin	43.1%	43.4%	43.4%	42.0%	42.0%	42.5%
EBITDA margin on revenues	9.9%	11.2%	11.7%	10.4%	10.0%	10.8%
EBIT margin on revenues	5.6%	6.9%	7.6%	6.4%	6.3%	7.2%
Net margin on revenues	3.8%	5.0%	5.5%	4.5%	4.3%	5.0%
Tax rate	24.3%	23.2%	23.4%	22.2%	21.4%	20.9%
Expenses as % of revenues						
Personnel costs	-16.6%	-17.0%	-16.0%	-15.2%	-16.0%	-16.0%
Depreciation	-4.3%	-4.3%	-4.1%	-4.0%	-3.8%	-3.7%
Other operating expenses	-18.1%	-16.5%	-16.7%	-16.5%	-16.8%	-16.8%
Y-Y Growth						
Revenues	0.3%	4.8%	8.3%	10.9%	5.0%	7.2%
Operating income	-17.4%	28.8%	19.5%	-6.2%	2.4%	22.5%
Net profit before non-controlling interests	-18.8%	35.9%	20.2%	-10.3%	0.0%	26.6%



BALANCE SHEET

All figures in €000s	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24E	FY 24/25E
Assets						
Current assets, total	179,512	179,147	203,784	232,287	244,814	262,336
Cash and cash equivalents	6,015	7,680	7,133	7,457	8,938	9,581
Other receivables and short-term assets	6,854	9,093	8,610	6,214	6,523	6,992
Trade accounts and notes receivables	51,427	53,753	59,335	64,370	67,570	72,339
Inventories	115,216	108,621	128,706	154,246	161,783	173,423
Non-Current Assets, total	193,261	198,884	204,833	212,434	220,881	223,222
Property, plant and equipment	92,659	97,513	103,845	110,405	119,773	122,163
Goodwill + intangible assets	93,469	96,082	95,225	95,701	95,201	94,858
Other financial assets	3,795	3,709	3,889	4,230	4,565	4,765
Deferred taxes + prepaid expenses	1,822	1,580	1,874	2,098	1,341	1,437
Long term assets for sale	1,516	0	0	0	0	0
Total Assets	372,773	378,031	408,617	444,721	465,695	485,558
Shareholders' equity & debt						
Current Liabilities, total	117,850	115,034	132,501	152,177	165,053	170,396
Current provisions	5,661	7,422	6,562	8,333	9,077	9,633
Short-term financial debt	40,319	28,849	36,238	44,543	54,665	52,164
Trade payables	41,498	44,734	55,158	61,953	61,808	66,255
Prepayments, deferred charges & other liabilities	30,372	34,029	34,543	37,348	39,502	42,344
Long term liabilities, total	50,704	48,003	49,715	51,360	45,626	45,721
Long-term financial debt	36,705	34,121	34,849	31,832	34,160	33,627
Pension accruals and similar liabilities	2,396	2,405	2,150	1,936	2,052	2,175
Other long-term debt	1,590	1,095	1,138	5,291	1,380	1,479
Deferred taxes	10,013	10,382	11,578	12,301	8,034	8,439
Shareholders' equity	167,773	174,547	183,479	191,718	197,819	202,515
Minority interests	36,446	40,447	42,922	49,466	57,197	66,926
Total shareholders' equity & debt	372,773	378,031	408,617	444,721	465,695	485,558
Ratios						
Current ratio (x)	1.52	1.56	1.54	1.53	1.48	1.54
Quick ratio (x)	0.55	0.61	0.57	0.51	0.50	0.52
Financial leverage (including pension liabilities)	35.9%	26.8%	29.2%	29.4%	32.1%	29.1%
Book value per share (€)	21.18	22.04	23.16	24.20	24.97	25.56
Net debt (including pension liabilities)	73,405	57,695	66,104	70,854	81,939	78,385
Return on equity (ROE)	3.7%	5.0%	6.2%	4.7%	4.6%	5.5%



CASH FLOW STATEMENT

All figures in €000s	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24E	FY 24/25E
Net profit before minorities	12,991	17,653	21,215	19,024	19,027	24,080
Depreciation and amortisation	14,401	15,151	15,841	17,087	16,806	17,536
Change in working capital	-13,229	10,867	-14,422	-16,962	-12,947	-9,491
Other	-1,204	-1,015	-716	7,276	-84	-77
Operating cash flow	12,959	42,656	21,918	26,425	22,803	32,049
CAPEX	-13,183	-18,165	-18,389	-14,314	-25,675	-19,582
Fixed asset sales	458	2,862	500	930	0	0
Investing cash flow	-12,725	-15,303	-17,889	-13,834	-25,675	-19,582
Free cash flow	234	27,353	4,029	12,591	-2,872	12,467
Change in financial liabilities	2,883	-19,377	3,603	-4,414	12,450	-3,034
Dividends to shareholders	-3,960	-3,168	-3,960	-4,752	-4,752	-4,752
Dividends to subsidiaries of minorities	-2,950	-3,048	-4,382	-3,152	-3,209	-4,038
Other	0	0	0	0	0	0
Financing cash flow	-4,027	-25,593	-4,739	-12,318	4,488	-11,824
Change in cash	-3,793	1,760	-710	723	1,616	643
Consolidation; exchange rate effects	277	-95	163	-399	0	0
Liquid funds, start of the year	9,531	6,015	7,680	7,133	7,457	8,938
Liquid funds, end of the year	6,015	7,680	7,133	7,457	8,938	9,581
Free cash flow per share (€)	0.03	3.45	0.51	1.59	-0.36	1.57
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Y-Y growth						
Operating cash flow	-52.0%	229.2%	-48.6%	20.6%	-13.7%	40.5%
Free cash flow	-97.5%	11589.3%	-85.3%	212.5%	-122.8%	-534.1%
Financial cash flow	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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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.

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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...54	↓	↓	↓	↓
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	11 May 2023	€15.80	Buy	€22.00
61	26 September 2023	€16.40	Buy	€22.00
62	13 November 2023	€16.80	Buy	€22.00
63	Today	€15.50	Buy	€22.00

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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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