

Marlborough Wine Estates

Food & beverages

5 March 2019

Half-year preliminary results

Marlborough Wine Estates Group (MWE) has a strategy of growing its sales of bottled wines, both in New Zealand and internationally. The global market is strong and the popularity of quality NZ wine is growing. The company is seeing significant increases in New Zealand bottled wine revenues, as well as healthy increases in China and other overseas markets. Its success to date in growing market share has been encouraging and it intends to build further on this strong momentum.

Strong revenue growth, operating result held

Total revenue grew by 47% to NZ\$1.4m and gross margin was up 6.6 percentage points at 19.9%. As MWE progresses to reposition away from its previous focus on the Chinese market, it is succeeding in opening new marketing and distribution channels. This is necessarily accompanied by an increase in costs, but nevertheless EBIT was slightly improved at -NZ\$0.6m, and the net loss before tax was held level at -NZ\$0.8m.

Underlying business improvement

Revenue growth was driven by a doubling in bottled wine sales, more than compensating for slightly lower bulk wine sales. This reflects greater customer reach and brand awareness, particularly in the NZ bottled wine sector, resulting from successful strategies to grow the domestic market. There were also healthy increases in China and other overseas markets.

First-half progress on key operating milestones

MWE is tracking well against its key operating milestones (KOMs) on international wine sales at NZ\$0.8m to date against a full-year target of NZ\$1.5m. Against an upgraded NZ\$1.0m target for NZ bottled wine sales, it has so far achieved NZ\$0.5m. NZ bottled wine sales are growing strongly, reflecting increased availability, range and marketing success.

Valuation: Little comparability

MWE's shares trade on an FY18 EV/Revenue multiple of 18.5x, substantially higher than its larger and better-established peers, which trade on an average 2.7x multiple for FY19e. However, it should be noted that MWE is at an earlier stage in its life cycle, and in addition is in the process of repositioning its market focus.

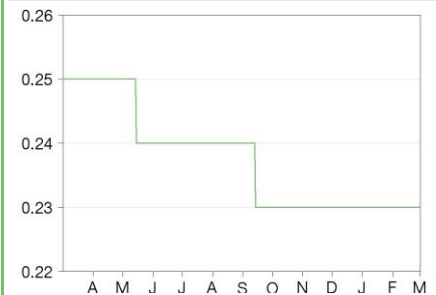
Historical performance

Year end	Revenue (NZ\$000s)	NPAT (NZ\$000s)	EPS (c)	DPS (c)	P/E (x)	Yield (%)
06/15*	1,840	590	0.2	0.0	N/A	N/A
06/16**	7,424	(481)	(0.2)	0.0	N/A	N/A
06/17	3,822	(717)	(0.2)	0.0	N/A	N/A
06/18	3,985	(316)	(0.1)	0.0	N/A	N/A

Source: MWE. Note: *March to June 2015. FY15 NPAT includes fair value adjustment of +NZ\$1.1m. **FY16 NPAT excludes capital raising costs. FY17 and FY18 are normalised.

Price **NZ\$0.23**
Market cap **NZ\$68m**

Share price performance



Share details

Code MWE
Listing NXT
Shares in issue 290.9m

Business description

Marlborough Wine Estates Group owns and operates six vineyard blocks located in the Awatere Valley in the Marlborough wine district of the South Island of New Zealand (NZ). It sells bottled and bulk wine to NZ and international markets, as well as bulk grapes to wine producers.

Bull

- Potential for developing international markets building on the Marlborough region's global reputation for quality.
- Option to improve earnings by converting more of the grape harvest into bottled wine for local and export sales.
- Improvements in vineyard management and extensions in planting areas should improve grape production volumes and yields.

Bear

- Maintenance of premium pricing is dependent on the quality of the product.
- Increased competition and regulatory barriers in Chinese markets.
- Development of international markets is still at an early stage.

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Marlborough Wine Estates coverage is provided through the NXT Research Scheme

Preliminary H119 results

MWE has reported constant EPS performance, despite being in the process of major change in its market structure.

Exhibit 1: H118 versus H117

NZ\$m	H118	H119
Sales	0.9	1.4
Cost of sales	(0.8)	(1.1)
Gross profit	0.1	0.3
Gross profit margin	13.3%	19.9%
Statutory EBITDA	(0.5)	(0.5)
Adjusted EBITDA	(0.5)	(0.5)
EBIT	(0.7)	(0.6)
NPBT adjusted	(0.8)	(0.8)
NPAT adjusted	(0.6)	(0.8)
EPS adjusted (NZ\$)	(0.002)	(0.002)

Source: MWE

Total revenue grew by 47% to NZ\$1.4m and gross margin was up 6.6pp at 19.9%. Increased emphasis in sales and marketing into new channels and regions has necessarily entailed higher operating costs. Operating expenses for the period increased year-on-year by 31% to NZ\$0.84m. As a result, EBITDA was held steady at -NZ\$0.5m, as was the loss before tax at -NZ\$0.8m.

Bottled wine sales double

Exhibit 2: Analysis of sales

NZ\$000	H118	H119	+/- %	FY18
Bulk grape sales	0	0	N/A	2,213.3
Bulk wine sales	509.9	480.3	-5.8%	987.0
Bottled wine sales	433.8	867.5	100.0%	784.7
Other sales	0.0	43.2	N/A	-
Total	943.7	1,390.9	47.4%	3,985.0

Source: MWE

The revenue increase was driven by a straight doubling in bottled wine sales, which more than compensated for slightly lower bulk wine sales. This reflects greater customer reach and brand awareness in the New Zealand bottled wine sector, as a result of actions to implement marketing strategies to grow the domestic market. MWE launched its products into the Wellington and South Island regions in July 2018 and its products are now available at almost all major centres in NZ, with outlet numbers still in growth.

MWE's bulk wine business has been steady with five containers of bulk wine sold and shipped to the US in HY19, the same number as in H118.

Growth in all geographies

On a geographical basis, the success of bottled wine sales is reflected in a 188% increase in New Zealand revenues, while there were healthy increases in China and other overseas markets, for example Australia where the first shipments have been made:

Exhibit 3: Geographical sales split

NZ\$000	Dec-17	% of total	Dec-18	% of total	+/- y-o-y	Y/e Jun 18
New Zealand	188	19.9%	540	40.1%	188%	2,612
United States	480	50.9%	480	35.6%	0%	985
China	183	19.4%	209	15.5%	14%	296
Others	93	9.8%	118	8.8%	27%	92
Total	944	100.0%	1,348	100.0%	43%	3,985

Source: MWE

First-half results against key operating milestones

Against its key operating milestones (KOMs), MWE has had an encouraging start.

Exhibit 4: Progress against key operating milestones			
		H119 actual	FY19 target
Gross harvest (tonnes)		0	1,800
Bulk grape sales (tonnes)		0	1,200
International Wine Sales Revenue (NZ\$)		807,315	1,500,000
NZ bottled wine sales (NZ\$)		540,433	1,000,000*

Source: MWE. Note: *Reset on 31 January 2019, up from NZ\$610,000.

There was good progress on both international wine sales and NZ bottled wine sales. NZ bottled wine sales are growing strongly, reflecting product availability at most major centres, combined with the wide range of highly rated white and red wines, and marketing success in improving brand awareness and reputation.

The KOMs relating to the gross harvest and bulk grape sales are not applicable in the first half (since the harvest is in the second).

Development perspective opens up

MWE's core strategy is to continue growing sales of bottled wines. Management aims to gradually allocate more of its production to this market category. Its success to date in growing market share has been encouraging and it intends to build further on this strong momentum.

Internationally, MWE continues a strategy of increasing market presence, and is working to explore new distribution networks and sales channels in Europe, the UK, Canada and elsewhere.

Promising 2019 vintage and incremental planting outlook

The outlook is positive. The 2019 vintage looks promising so far and MWE expects to harvest at least 1,800 tonnes of high-quality grapes. The harvest is expected to start by the end of March.

In addition, MWE is developing its vineyards and has started planting Pinot Noir grapes in its Donaldson and Hammond blocks. Marlborough Pinot Noir is proving to be an important export for New Zealand and is growing steadily in popularity. MWE intends to plant initially in excess of 11ha of Pinot Noir, and further plantings of both Pinot Noir and Pinot Gris are planned for the next two to three years. The first Pinot Noir crop should be harvested in the 2021 vintage.

Valuation: Limited comparability

As a valuation reference for MWE, we review market valuations for comparable companies. There are two listed peers in the NZ/Australian market. Both companies are well established, are substantially larger than MWE and are therefore of limited relevance.

Exhibit 5: Peer group valuation								
Company	Currency	Market cap (m)	2019e P/E (x)	2020e P/E (x)	2019e EV/EBIT (x)	2020e EV/EBIT (x)	2019e EV/Revenue (x)	2020e EV/Revenue (x)
Australian Vintage	A\$	139	17.2	13.7	13.1	10.8	0.8	0.7
Delegat Group	NZ\$	1010	19.7	17.7	15.3	14.0	4.6	4.3
Average			18.5	15.7	14.2	12.4	2.7	2.5

Source: Bloomberg. Note: Prices at 28 February 2019. Both companies have a 30 June year end.

Their shares trade on an average FY19e EV/Revenue multiple of 2.7x, substantially lower than the 18.5x FY18 EV/Revenue multiple on which MWE is currently trading. However, it should be noted that MWE is at an earlier stage in its life cycle, and in addition is in the process of repositioning its market focus.

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