

Ambra

Reuters: AMB.WA Bloomberg: AMB PW

FMCG sector

18/01/2017 08:26

Reinstating growth

Buy maintained, 12M TP up to PLN12.5 per share

We uphold our Buy recommendation and increase our 12-month Target Price to PLN12.5. The industry's current surroundings are, in our view, positive for Ambra and we believe that growth in table wine consumption in all the non-discount channels is likely to last longer, boding well for the company's results. Ambra is currently trading at a normalised PE16/17E of 10x and a normalised EV/EBITDA of 5x, which imply huge double-digit discounts vs the pees. In our view, this is unjustified taking into account the restored growth profile (3Y sales CAGR at 6%). Ambra can also be distinguished from other WSE companies by its good FCF yield (5.4% in 2016/17E). Ambra generates a stable OCF (avg. conversion ratio at 0.8x), which, along with the limited CAPEX, enables it to pay hefty dividends with the DY16/17E at 6.6%.

Equity story: The wine market has been growing at an avg. rate of 5.5% y/y since 2013, driven by growing consumption of wine in Poland (3.5l per capita vs Germany's 25l). On the other hand, before 2015, much of this growth was consumed by discount stores, whose share rose to 34% (+3p.p. y/y) of the total wine distribution in Poland. This has been negative for Ambra, which is mainly present in other-than-discount retail chains, such as: hyper- and supermarkets. However, since the beginning of 2016, this unfavourable trend was unexpectedly reversed, becoming visible in Ambra's quarterly sales volumes that jumped 9% y/y in 1-3Q15/16 compared with just 4% in 2015. The reviving sales of table wines also have a positive impact on ASP (+5% y/y in 1Q16/17) as the sales mix is shifting towards the more expensive range. In our view, this positive trend should persist in the coming quarters, boding well for Ambra's top-line growth. This, paired with slightly higher (+30bps y/y) gross margin and control over operating costs y/y, should lead to a more notable normalised net profit improvement in the coming years (CAGR'15/16-18/19E at 9.6% vs -3.6% in 2012/13-15/16).

2Q16/17 preview. We expect a good 2Q16/17, which is a high-season for Ambra. We took in that Ambra should have improved sales 8% y/y to PLN182mn on better sales mix (rising ASP 5% y/y) and better volume (3% y/y). Gross margin should be a tick higher (+13bps) due to lower marketing leading to gross profit growth of 9% y/y. Opex control should lead to similar growth of EBITDA, which is expected to come in at PLN37mn (+8% y/y). On the other hand, we expect slightly higher minorities' share (PLN4mn) on the back of better results in Romania. Overall, net profit should come in at PLN23mn (+4% y/y)

Forecasts for 2016/17. We expect Ambra to report sales of PLN449mn (+6% y/y) in 2016/17E mainly on the back of rising volumes of wine sales, better sales mix and further development of the cider segment. We also expect slightly better y/y gross margin to stand at 33.1%, which, along with OPEX control and optimisation of marketing spending, should lead to EBITDA margin improvement by 48bps to 10.9%. All in all, we expect EBITDA adj. at PLN49mn (+11% y/y) and the net profit at PLN20mn (+17% y/y) in 2016/17E.

Valuation. Our DCF model for Ambra's business points to a 12M Target Price of PLN12.5 per share in a 12-month horizon, offering a 59% upside vs the current share price. Comparable valuation points to PLN18.8.

Ambra: Financial summary

PLNm	2015/16	2016/17E	2017/18E	2018/19E	2019/20E
Sales	424	449	473	499	525
EBITDA	44	49	52	53	55
EBIT	34	36	39	40	41
Net profit	17	20	22	23	24
P/E (x)	12.9	10.0	9.3	8.9	8.5
EV/EBITDA (x)	5.3	4.9	4.6	4.5	4.4

Source: Company data, BZ WBK Brokerage research

Recommendation	Buy
Portfolio weight	-
Price (PLN, 13 January 2017)	7.96
Target price (PLN, 12-month)	12.5
Market cap. (PLN m)	199
Free float (%)	29%
Number of shares (m)	25.0
Average daily turnover (shares, 3M)	0.2
EURPLN	4.37
USDPLN	4.11



The price relative chart measures performance against the WIG index. On 13/01/2017, the WIG index closed at 53,498.

Rec.	Date	Price on issue date	12m TP	Performance absolute	Performance rel. (p.p)
Buy	11/3/16	7.5	11.9	4.9%	-7.1
Buy	1/27/16	6.9	10.7	8.7%	-2.1
Buy	2/13/15	8.6	13.7	-19.3%	-1.9
Buy	12/11/14	8.3	12.0	2.6%	3.0

Main shareholders	% of votes
Schloss Wachenheim	61.1%
Aviva BZWBK pension fund	10.0%

Company description

Ambra is the leading wine distributor and producer in Poland. The company is recently expanding into growing category of 'cider'

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Valuation

DCF

Fig. 22. Ambra: Forecast changes for 2016/17-18/19E

PLNmnr	2016/17E			2017/18E			2018/19E		
	new	old	% chng	new	old	% chng	new	old	% chng
Sales	449	449	0%	473	474	0%	499	501	-1%
EBITDA	49	47	4%	52	49	7%	53	49	8%
EBIT	36	34	5%	39	35	10%	40	36	11%
net profit	20	19	4%	22	20	10%	23	20	12%

Source: Company data, BZ WBK Brokerage research

Fig. 23. Ambra: 2Q16/17 preview

	3Q'14/15	4Q'14/15	1Q15/16	2Q15/16	3Q15/16	4Q15/16	1Q16/17	2Q16/17E	y/y	q/q
Sales	65	80	87	169	75	94	97	182	8.2%	87.9%
EBITDA	-5	2	7	35	-1	5	8	37	7.7%	350.1%
EBITDA margin	-7.5%	1.9%	8.3%	20.6%	-1.6%	4.8%	8.5%	20.5%	-9	1193
EBIT	-8	-2	4	32	-4	2	5	34	7.7%	521.4%
EBIT margin	-12.0%	-2.0%	5.1%	18.8%	-5.3%	1.9%	5.7%	18.7%	-9	1306
Net profit	-6	-1	0	22	-4	0	3	23	4.5%	805.8%
Net margin	-9.9%	-1.7%	0.4%	13.2%	-6.0%	-0.4%	2.7%	12.8%	-45	1014

Source: Company data, BZ WBK Brokerage research

Fig. 24. Ambra: Valuation changes

PLN	New	Previous	Change
DCF valuation	12.5	11.9	5.3%
Comparable valuation (based on 2016-2018E)	18.8	16.4	14.6%

Source: BZ WBK Brokerage estimates

Fig. 25. Ambra: WACC calculation

Risk-free rate	3.4%
Unlevered beta	1.0
Levered beta	1.2
Equity risk premium	5.0%
Cost of equity	9.2%
Risk-free rate	3.4%
Debt risk premium	1.0%
Tax rate	19.0%
After tax cost of debt	3.6%
%D	17%
%E	83%
WACC	8.2%

Source: Company data, BZ WBK Brokerage research

Fig. 26. Ambra: DCF analysis

PLNmn	2016/17E	2017/18E	2018/19E	2019/20E	2020/21E	2021/22E	2022/23E	2023/24E	2023/24E	2024E/25E
Net sales	449	473	499	525	554	584	615	649	684	721
EBIT	36	39	40	41	42	43	44	44	45	45
Cash taxes on EBIT	6	7	7	7	8	8	8	8	8	8
NOPAT	30	32	33	34	35	35	36	36	37	37
Depreciation	13	14	14	14	14	14	14	14	14	14
Change in operating WC	5	5	5	6	6	7	7	7	8	8
Capital expenditure	15	14	14	15	16	16	17	17	17	17
Free cash flow	23	26	26	26	26	26	26	26	26	26
WACC	8.2%									
PV FCF 2016/17-2024/25E	171									
Terminal growth	1.0%									
Terminal Value (TV)	360									
PV TV	163									
Total EV	334									
Net debt	39									
minorities	7									
Equity value	288									
Number of shares (m)	25									
Value per share (PLN, 1 Jan 2016)	11.4									
Month	7									
Current value per share (PLN)	11.5									
12M Target price (PLN)	12.5									
Revenue growth	5.9%	5.3%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.5%
EBIT growth	6.3%	6.7%	3.1%	3.1%	3.0%	1.7%	1.5%	1.3%	1.2%	1.0%
NOPAT growth	7.6%	6.6%	3.1%	3.1%	3.0%	1.7%	1.5%	1.4%	1.2%	1.0%
FCF growth	5.0%	17.3%	0.0%	-0.1%	-0.3%	0.0%	-0.2%	-0.4%	-0.7%	-0.9%
EBIT margin	8.0%	8.1%	8.0%	7.8%	7.6%	7.4%	7.1%	6.8%	6.5%	6.3%
Nopat margin	6.6%	6.7%	6.5%	6.4%	6.3%	6.0%	5.8%	5.6%	5.4%	5.1%
Capex/Revenues	3.3%	2.9%	2.9%	2.9%	2.9%	2.8%	2.7%	2.6%	2.5%	2.4%
Change in WC/Revenues	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.2%	1.2%

Source: Company data, BZ WBK Brokerage research

Fig. 27. Ambra: Comparable valuation

Name	P/E			EV/EBITDA			FCF yield			DY		
	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E	2016E	2017E	2018E
'Brands'												
COCA-COLA	21	21	19	17	17	16	29.1%	32.0%	35.9%	4.2%	4.6%	4.9%
PEPSICO	21	20	18	14	13	12	42.1%	56.4%	60.5%	4.7%	5.1%	5.3%
MONSTER	35	29	25	21	18	15	19.2%	17.8%	25.0%	2.4%	3.3%	3.8%
DR PEPPER	20	19	18	12	12	11	34.5%	39.7%	44.2%	5.4%	5.8%	6.1%
LOTTE	20	19	18	9	8	8	5.0%	3.8%	3.9%	-1.1%	0.3%	5.5%
median	21	20	18	14	13	12	29.1%	32.0%	35.9%	4.2%	4.6%	5.3%
'Distr.&bottlers'												
ARCA	19	18	15	10	8	7	14.2%	15.6%	14.9%	3.7%	5.4%	6.7%
COCA-COLA ICECEK	29	19	15	10	8	7	5.6%	8.1%	10.8%	2.8%	3.0%	4.3%
FOMENTO	26	23	20	8	7	6	9.9%	10.8%	11.6%	4.5%	2.7%	4.7%
EMBOTELLADORA	27	22	20	6	5	5	10.7%	10.5%	12.4%	6.9%	7.4%	9.2%
REFRESCO	14	12	11	8	7	6	11.9%	15.2%	16.0%	7.0%	8.0%	8.6%
BRITVIC	12	12	12	9	9	9	76.3%	57.1%	46.1%	1.7%	3.0%	4.4%
median	23	18	15	8	7	7	11.3%	13.0%	13.7%	4.1%	4.2%	5.7%
'Alco. beverages'												
ABI	28	21	19	17	13	12	16.7%	11.9%	16.3%	3.4%	4.3%	4.0%
CARLSBERG	21	18	16	8	7	7	8.3%	9.1%	10.0%	6.3%	6.7%	7.6%
HEINEKEN	19	18	16	11	10	9	14.5%	13.6%	13.4%	3.7%	4.1%	5.2%
DIAGEO	25	21	19	18	16	15	31.4%	26.1%	28.2%	3.6%	4.3%	4.8%
PERNOD RICARD	20	19	18	14	14	13	7.0%	10.1%	10.5%	4.2%	4.8%	5.1%
median	21	19	18	14	13	12	14.5%	11.9%	13.4%	3.7%	4.3%	5.1%
	2015/16	2016/17E	2017/18E	2015/16	2016/17E	2017/18E	2015/16	2016/17E	2017/18E	2015/16	2016/17E	2017/18E
Ambra	12	10	9	5	5	5	7.3%	8.2%	8.6%	5.7%	5.3%	7.1%
prem./disc. to 'Brands'	-45%	-49%	-49%	-61%	-62%	-62%						
prem./disc. to 'Bottlers'	-49%	-45%	-38%	-37%	-34%	-31%						
prem./disc. to 'Alco'	-45%	-47%	-47%	-63%	-63%	-63%						

Source: BZ WBK Brokerage research, Bloomberg

Financial summary

Fig. 28. Ambra: Income statement forecasts

PLNm	2014/15	2015/16	2016/17E	2017/18E	2018/19E
Sales	397	424	449	473	499
COGS	262	285	301	318	336
Gross profit	135	139	149	155	163
OPEX	108	107	112	117	123
POS	28	32	37	39	40
other income	7	2	-1	0	0
EBIT	34	34	36	39	40
D&A	12	11	13	14	14
EBITDA	46	45	49	52	53
normalized EBITDA*	41	44	49	52	53
financials, net	2	3	2	2	2
PBT	32	31	34	36	38
tax	7	6	6	7	7
minorities	6	7	8	8	8
net profit	19	18	20	22	23
normalized net profit*	16	17	20	22	23
gross profit	34.1%	32.8%	33.1%	32.8%	32.6%
EBITDA	10.5%	10.4%	10.9%	11.0%	10.7%
EBITDA adj. margin	10.5%	10.4%	10.9%	11.0%	10.7%
Pre-tax margin	8.0%	7.4%	7.6%	7.7%	7.6%
net margin	4.8%	4.2%	4.5%	4.6%	4.5%
net margin adj.	3.9%	4.1%	4.5%	4.6%	4.5%
sales growth	0.9%	6.9%	5.9%	5.3%	5.4%
gross profit growth	2.4%	2.6%	6.9%	4.5%	4.7%
EBITDA growth	12.8%	-1.8%	8.4%	6.3%	2.5%
EBITDA adj. growth	-2.1%	6.7%	10.8%	6.3%	2.5%
EBIT growth	13.2%	-0.6%	6.3%	6.7%	3.1%
net profit growth	-27.0%	-6.0%	12.3%	7.9%	4.5%
net profit adj. growth	-14.8%	10.3%	16.7%	7.9%	4.5%

Source: Company data, BZ WBK Brokerage research, *adj. by write-offs on receivables, other operating incomes and any tax shields

Fig. 29. Ambra: Balance sheet forecasts

PLNm	2014/15	2015/16	2016/17E	2017/18E	2018/19E
Current assets	209	224	237	250	263
cash and equivalents	8	10	11	11	11
accounts receivable	96	105	111	117	123
inventories	101	107	114	120	126
other assets	4	2	2	2	2
Fixed assets	187	188	190	190	190
PPE	102	103	105	105	106
intangibles	17	16	16	16	16
goodwill	44	44	44	44	44
Investments & other	25	24	24	24	24
Total assets	395	412	427	440	453
Current liabilities	119	112	132	137	142
bank debt	40	25	40	40	40
accounts payable	79	87	92	97	102
finance lease	0	0	0	0	0
other current liabilities	0	0	0	0	0
Long-term liabilities	16	28	16	16	16
bank debt	12	24	12	12	12
finance lease	0	0	0	0	0
other long-term liabilities	4	4	4	4	4
Equity	233	240	247	255	264
common stock	25	25	25	25	25
other capital	188	197	202	208	216
net profit	19	18	20	22	23
Minority Interest	28	32	32	32	32
Negative goodwill	0	0	0	0	0
Total liabilities and equity	395	412	427	440	453
Net debt	44	39	41	41	41
Net debt/EBITDA	1.0	0.9	0.8	0.8	0.8

Source: Company data, BZ WBK Brokerage research

Fig. 30. Ambra: Cash flow statement forecasts

PLNm	2014/15	2015/16	2016/17E	2017/18E	2018/19E
Cash flow from operations	54	24	25	28	29
Net profit	19	18	20	22	23
Depreciation and amortisation	12	11	13	14	14
Provisions	0	0	0	0	0
Changes in WC, o/w	23	-7	-7	-7	-8
inventories	15	-6	-6	-6	-6
receivables	-1	-9	-6	-6	-6
payables	10	8	5	5	5
Other, net	0	2	0	0	0
Cash flow from investment	0	-12	-15	-14	-14
Additions to PPE and intangibles	-9	-13	-15	-14	-14
Change in long-term investments	10	1	0	0	0
Other, net	-1	0	0	0	0
Cash flow from financing	-53	-10	-10	-14	-14
Change in long-term borrowing	-8	12	-12	0	0
Change in short-term borrowing	-33	-15	15	0	0
Change in equity and profit distribution	-1	2	0	0	0
Dividends paid	-11	-13	-13	-14	-14
Other, net	0	4	0	0	0
Net change in cash and equivalents	0	2	1	1	0

Source: Company data, BZ WBK Brokerage research