

Berentzen-Gruppe (BEZ GY) | Consumer Goods

March 27, 2020

Impact of Covid-19 overrated in recent share price decrease

We confirm our Buy recommendation following the release of FY 2019 results: While FY 2019 financials have been strong, Berentzen also announced that a reliable guidance for FY 2020 is not possible given the impact of Covid-19 on operations. According to the company, all segments are affected by Covid-19, however, especially the fresh juice system segment given that hotels and restaurants are closed and food retailers are not willing to invest in fruit juicers. However, we assume that the decline in sales will remain within reasonable bounds - the decline in sales expected by Berentzen in Q1/20 of between -2% and -4% confirms our view. In addition, we expect the situation regarding Covid-19 to slightly ease in the second half of the year. We therefore assume that sales growth at Berentzen could correspondingly recover in H2/20. Positive in our view is also the fact that despite the challenging environment, Berentzen will keep its dividend proposal unchanged at EUR 0.28 which corresponds to a dividend yield of ~5%. This is made possible by the solid equity ratio (~33%) and net cash position (EUR 12.5m as of FY 2019).

Changes in estimates: We have reduced our estimates for FY 2020 et seq. reflecting the negative impact of Covid-19 on Berentzen's operations

Valuation: We continue to value Berentzen shares based on our DCF valuation (rolled over to FY 2020) and derive a new target price of EUR 7.40. Berentzen shares are trading at ~3x FY 2020 EBITDA. We hence see enough room for a multiple expansion going forward

Fundamentals (in EUR m)	2017	2018	2019	2020e	2021e	2022e
Sales	160	162	167	162	168	172
EBITDA	16	17	18	15	18	19
EBIT	9	10	10	7	10	11
EPS adj. (EUR)	0.27	0.55	0.52	0.29	0.52	0.60
DPS (EUR)	0.22	0.28	0.28	0.14	0.26	0.30
BVPS (EUR)	4.75	5.04	5.24	5.24	5.61	5.96
Net Debt incl. Provisions	-0	2	-3	-3	-8	-11
Ratios	2017	2018	2019	2020e	2021e	2022e
EV/EBITDA	4.7	3.5	3.4	3.1	2.3	2.1
EV/EBIT	8.4	6.2	6.3	6.9	4.2	3.5
P/E adj.	30.2	11.3	13.0	18.8	10.4	8.9
Dividend yield (%)	2.7	4.5	4.1	2.7	4.8	5.6
EBITDA margin (%)	10.2	10.7	11.0	9.5	10.9	11.1
EBIT margin (%)	5.8	6.0	5.9	4.2	6.0	6.5
Net debt/EBITDA	-0.0	0.1	-0.1	-0.2	-0.4	-0.6
ROE (%)	5.7	11.2	10.2	5.4	9.5	10.4
PBV	1.7	1.2	1.3	1.0	1.0	0.9

Sources: Refinitiv, Metzler Research

Buy

 **unchanged**

Price* EUR 5.36

Price target EUR 7.40 (8.8)

* XETRA trading price at the close of the previous day unless stated otherwise in the Disclosures

Market Cap (EUR m)	50
Enterprise Value (EUR m)	47
Free Float (%)	74.4

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	-19.0	-23.0	-20.0
Rel. to Prime All Share	0.4	3.4	-7.6

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2020e	2021e	2022e
Sales	-6.2	-6.2	-6.5
EBIT	-36.9	-15.5	-13.3
EPS	-54.7	-26.5	-22.6

Sponsored Research



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Our investment case in a nutshell

General investment case unchanged despite temporary impact from Covid-19

■ **(1) 2020 affected by Covid-19 but general growth story intact:** Following a strong FY 2019, FY 2020 will clearly be characterized by declining sales driven by the impact of Covid-19. Covid-19 should in our view in particular affect the fresh juice systems segment given that restaurants and hotels are closed and food retailers not willing to invest in fruit juicers at the moment. However, the sales situation should improve again after a stabilization with regard to Covid-19 which we expect in H2/20. We also believe that Berentzen should then be able to accelerate growth momentum again in FY 2021. This growth should, in our view, be driven by all segments. One main driver for the growth should in our view be the Mio Mio brand. Mio Mio is a brand of refreshing soft drinks offered in seven flavours. The most popular is Mio Mio Mate, which is a caffeinated mate-extracted beverage. With annual sales volume growth of above 50% over the last four years, the brand is clearly the highlight of the Berentzen product portfolio in our view. We believe that Mio Mio is still at the beginning of its success story

■ **(2) Room for margin improvements in all segments:** As the topline, also the profitability will suffer from the impact of Covid-19, mainly lower gross margins. However, in the mid- to long-term, we see in particular room for margin improvement in the fresh-juice system segment. In the past, the company faced problems with regard to the harvesting of oranges which the company sells its customers in addition to the juicers. Crop failures in FY 2018 led to significantly higher prices for the juice oranges which Berentzen did not want to pass on to its customers - this resulted in falling gross margins. In the meantime, the company has optimized and also broadened its supplier network for oranges and should in our view now be able to better absorb possible (future) crop failures

■ **(3) Solid balance sheet and attractive dividends:** In our view, Berentzen has a very solid balance sheet, especially following the repayment of the bond in October FY 2017 leading to annual interest savings of more than EUR 2m. Based on the solid balance sheet structure, the company is able to pay attractive dividend streams to its shareholders even in challenging times with uncertainties around Covid-19. At the last annual general meeting the company announced to pay out at least 50% of its net income in the future. For FY 2019 Berentzen will propose a dividend of EUR 0.28 - this corresponds to a dividend yield of ~5% making the shares appealing especially for long-term oriented value investors

■ **(4) Mio Mio already worth ~EUR 4.3:** We determined a fair value of the Mio Mio brand, which is a clear highlight of Berentzen's product portfolio. The acquisition of Fever-Tree in FY 2012 for ~6x Sales served as a starting point of our analysis. Fever-Tree is a popular producer of drink mixers in particular Tonic Water. While both, Mio Mio and Fever-Tree have a similar growth profile, we value Mio Mio based on a 10% discount given its stronger regional focus. Adjusting the transaction multiple for this discount, we value Mio Mio based on an EV/Sales multiple of ~5x

Review FY 2019 figures & Comment on Guidance

Berentzen does not provide a guidance for FY 2020

Yesterday, Berentzen published its FY 2019 figures including the guidance for FY 2020. Key highlights were the following:

- Berentzen showed a strong finish to FY 2019. Sales (already published in February) grew by 5.0% to EUR 46.8m and were in line with our expectations (M'e: EUR 46.9m) - all segments contributed to the strong growth
- Positive in our view was the margin development in Q4/19 - the EBIT margin increased to 7.9% and was also driven by gross margin improvements. This

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shows that the company is making progress with regard to its strategic transformation

Strong FY 2019 but no guidance for FY 2020

EUR m

	<u>Reported</u>							FY 2019 Guidance	Metzler Q4/19e	Metzler FY 2019e	FY 2020 Guidance	Metzler FY 2020e
	Q4 2018	FY 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	FY 2019					
Sales	44.5	162.2	36.9	42.3	41.4	46.8	167.4	164.7 - 173.4	46.9	167.6	n/a	162.2
Growth y-o-y (in %)	31.1	1.1	1.0	1.2	5.4	5.0	3.2	1.5 - 6.9	5.4	3.3	n/a	-3.1
EBITDA	5.7	17.3	3.7	5.4	3.2	6.1	18.4	17.0 - 18.8	5.7	18.0	n/a	15.4
Margin (in %)	12.9	10.7	10.0	12.7	7.8	13.1	11.0	9.8 - 11.4	12.2	10.7	n/a	9.5
EBIT	3.8	9.8	1.7	3.3	1.1	3.7	9.8	9.0 - 10.0	3.3	9.4	n/a	6.9
Margin (in %)	8.5	6.0	4.7	7.8	2.6	7.9	5.9	5.2 - 6.1	7.1	5.6	n/a	4.2

Source: Metzler Research, company data

However, Berentzen does not provide a guidance for FY 2020:

- Given the current uncertainties regarding Covid-19 and the economic impact on Berentzen's operations, the company has withdrawn its FY 2020 guidance published in the FY 2019 annual report
- According to Berentzen, all segments are affected by Covid-19 - however, especially the Citrocasa business should be affected given that hotels and restaurants are closed and food retailers not willing to invest in fruit juicers at the moment
- According to Berentzen, ~85% of group revenue is generated via food retail stores that are still opened - however, Berentzen is not selling the typical spirits adults drink in their home. Berentzen spirits are most popular among larger groups of younger people celebrating specific events. For this reason, Berentzen is therefore also experiencing a considerable decline in sales of spirits
- For Q1/20, Berentzen expects a decline in revenues of 2% to 4% in combination with a positive EBIT of EUR 1m to EUR 1.2m (Q1/19: EUR 1.7m) - this corresponds to an EBIT margin of 2.8% to 3.4% (Q1/19: 4.7%)

Our view: At the moment, Covid-19 hardly leaves any company untouched. Hence, it is not surprising that Berentzen is also suffering from these effects. However, we assume that the decline in sales will be kept within reasonable bounds - the decline in sales expected by Berentzen in Q1/20 between -2 and -4% confirms our view. We expect to see the most negative impact in the fresh juice system segment given the fact that the company has a larger customer base in the hotel and restaurant business - we expect a decline of ~25% in H1/20. For the spirits segment (M'e: -5%) and the non alcoholic beverage segment (M'e: -3%), the sales decline should be on more moderate levels. In addition, we expect the situation regarding Covid-19 to ease in the second half of the year and therefore assume sales growth to slightly recover in H2/20.

Conference Call Highlights

- **Capex Guidance FY 2020:** Originally, the company planned capital expenditures of EUR 6.5m to EUR 7m. However, given the current uncertainties and the fact that Berentzen has a strong continuous focus to protect cash, capital expenditures will correspondingly be lower in FY 2020
- **Current supply situation:** At the moment, Berentzen has no supply shortfalls with regard to raw materials. A risk might be that the most important raw material alcohol will be more and more required to produce disinfectants etc. Berentzen is already supporting regional hospitals and pharmacies with alcohol and also cooperates with companies that produce disinfection products
- **Dividend FY 2019:** Berentzen still stands to its promise to propose a dividend of EUR 0.28 at the next Annual General Meeting (AGM) despite the challenging situation. The dividend of EUR 0.28 corresponds to a payout ratio of 53% and a dividend yield of ~5%

Valuation

New target price of EUR 7.4

We continue to value Berentzen shares based on our DCF analysis and derive a new target price of EUR 7.4:

- We rolled over our DCF model to FY 2020 - FY 2027
- Our WACC slightly increases to 10%, also reflecting the current uncertainty regarding Berentzen's operating performance in FY 2020
- WACC is based on the following input factors: Risk-free rate of 1.0%, market risk premium of 6.5% and a Beta of 1.5

DCF valuation derives a new target price of EUR 7.4

Company	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	TV-year	
Revenue	167	162	168	172	177	181	183	185	185		
Y-o-y (in %)	3.2	-3.1	3.3	2.9	2.5	2.2	1.5	1.0	0.0		
EBIT	10	7	10	11	12	13	13	13	13		
Margin (in %)	5.9	4.2	6.0	6.5	6.9	7.0	7.0	7.0	7.0		
Taxes	3	2	3	4	4	4	4	4	4		
D&A	9	9	8	8	8	8	8	8	7		
Gross cash flow	15	13	15	16	16	16	16	17	16		
Capex	7	6	7	7	7	8	8	8	9		
Change in NWC	5	-1	1	-2	-2	-1	-3	-3	-3		
Free cash flow	13	6	9	7	7	8	6	6	5	51	
Present value FCF	-	6	7	5	5	5	3	3	2	24	
Implied equity value and fair value per share										Assumptions	
Enterprise value (beg. FY 2020)				67						Beta	1.5
Net debt (incl. pensions)				-3						Risk-free rate (%)	1.0
Equity value				70						Risk premium (%)	6.5
Fair value share price				7.4						WACC (%)	10.0

Source: Metzler Research

company note

Key Data

Company profile

CEO: Oliver Schwegmann

CFO: Ralf Bruehoefner

Haselünne, Germany

Berentzen, headquartered in Haselünne (Germany) is a leading beverage company in Germany and one of the oldest producers of spirits with a history going back to 1758. The business activities of the company include the production and distribution of spirits, non-alcoholic beverages, fresh juice systems as well as tourist and event activities at the Berentzen-Hof in Haselünne

Major shareholders

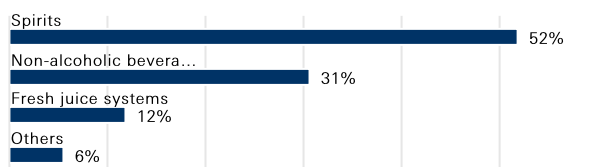
Monolith Investment Management BV (9.9%), MainFirst Bank AG (8.5%), Lazard Frères Gestion SAS (5.1%)

Key figures

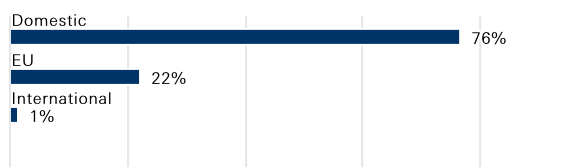
P&L (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
Sales	160	-5.7	162	1.1	167	3.2	162	-3.1	168	3.3	172	2.9
Gross profit on sales	69	-14.4	72	3.4	75	4.2	71	-4.3	76	6.7	79	3.0
Gross margin (%)	43.2	-9.3	44.2	2.2	44.6	1.0	44.1	-1.2	45.5	3.3	45.6	0.1
EBITDA	16	-6.3	17	5.6	18	6.0	15	-15.9	18	18.1	19	5.4
EBITDA margin (%)	10.2	-0.7	10.7	4.4	11.0	2.6	9.5	-13.2	10.9	14.3	11.1	2.4
EBIT	9	-12.3	10	6.3	10	0.1	7	-29.9	10	45.9	11	11.8
EBIT margin (%)	5.8	-7.0	6.0	5.1	5.9	-3.0	4.2	-27.7	6.0	41.2	6.5	8.6
Financial result	-4	1.5	-2	40.4	-3	-10.0	-3	-13.5	-3	0.1	-3	1.1
EBT	5	-19.0	7	41.9	7	-3.1	4	-45.6	7	80.7	8	17.2
Taxes	3	32.2	2	-15.4	2	0.5	1	-45.6	2	80.7	3	17.2
Tax rate (%)	51.1	n.a.	30.5	n.a.	31.6	n.a.	31.6	n.a.	31.6	n.a.	31.6	n.a.
Net income	3	-42.4	5	101.6	5	-4.6	3	-45.6	5	80.7	6	17.2
Minority interests	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Net Income after minorities	3	-42.4	5	101.6	5	-4.6	3	-45.6	5	80.7	6	17.2
Number of shares outstanding (m)	9	-0.1	9	0.0	9	0.0	9	0.0	9	0.0	9	0.0
EPS adj. (EUR)	0.27	-42.1	0.55	101.3	0.52	-4.6	0.29	-45.6	0.52	80.7	0.60	17.2
DPS (EUR)	0.22	-12.0	0.28	27.3	0.28	0.0	0.14	-49.1	0.26	80.7	0.30	17.2
Dividend yield (%)	2.7	n.a.	4.5	n.a.	4.1	n.a.	2.7	n.a.	4.8	n.a.	5.6	n.a.
Cash Flow (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
Gross Cash Flow	12	-17.8	14	22.6	15	6.4	13	-13.1	15	13.5	16	4.0
Increase in working capital	6	n.a.	8	n.a.	-5	n.a.	1	n.a.	-1	n.a.	2	n.a.
Capital expenditures	8	25.9	7	-16.5	7	6.0	6	-15.5	7	20.6	7	2.9
D+A/Capex (%)	92.3	n.a.	115.7	n.a.	124.1	n.a.	147.0	n.a.	116.7	n.a.	110.6	n.a.
Free cash flow (Metzler definition)	-2	-123.9	-0	96.2	13	n.m.	6	-53.9	9	40.2	7	-20.4
Free cash flow yield (%)	-2.8	n.a.	-0.1	n.a.	20.7	n.a.	12.2	n.a.	17.1	n.a.	13.6	n.a.
Dividend paid	2	24.9	2	-12.0	3	27.2	3	0.0	1	-49.1	2	80.7
Free cash flow (post dividend)	-5	-162.1	-2	52.6	11	596.6	4	-67.1	7	107.1	4	-39.0
Balance sheet (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
Assets	143	-24.2	145	1.1	152	4.6	148	-2.7	152	2.9	156	2.9
Goodwill	6	0.0	6	0.0	6	0.0	6	0.0	6	0.0	6	0.0
Shareholders' equity	45	-1.4	47	6.3	49	3.8	49	0.1	53	7.1	56	6.2
Equity/total assets (%)	31.1	n.a.	32.7	n.a.	32.4	n.a.	33.4	n.a.	34.7	n.a.	35.8	n.a.
Net Debt incl. Provisions	-0	97.0	2	n.m.	-3	-211.6	-3	-16.8	-8	-162.3	-11	-34.3
thereof pension provisions	10	-6.3	10	-5.3	10	-0.9	10	0.0	10	0.0	10	0.0
Gearing (%)	-0.4	n.a.	5.0	n.a.	-5.4	n.a.	-6.3	n.a.	-15.4	n.a.	-19.4	n.a.
Net debt/EBITDA	-0.0	n.a.	0.1	n.a.	-0.1	n.a.	-0.2	n.a.	-0.4	n.a.	-0.6	n.a.

Structure

Revenue by segment 2019



Revenue by region 2019



Sources: Refinitiv, Metzler Research

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Recommendation history

Recommendations for each financial instrument or issuer - mentioned in this document - published by Metzler in the past twelve months

Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Berentzen-Gruppe (DE0005201602)					
04.02.2020	Buy	Buy	7.60 EUR	8.80 EUR	Diedrich, Tom
25.10.2019	Buy	Buy	6.56 EUR	8.50 EUR	Diedrich, Tom
29.08.2019	n.a.	Buy	6.10 EUR	8.50 EUR	Diedrich, Tom

* Effective until the price target and/or investment recommendation is updated (FI/FX recommendations are valid solely at the time of publication)

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*** All authors are financial analysts

Berentzen-Gruppe

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