

Masi Agricola (MASI.IM)

Sector: Consumer goods / Beverages

Initial Coverage: Italian wine excellence

April 29th, 2016

Investment summary

- Masi Agricola is a winery rooted in Valpolicella Classica, which produces and distributes quality wines anchored to the values of the Venetian territory. Today Masi is leader in the production of Amarone, which produces the widest and qualified range in the international market.
- In November 2015, the Vaio Armaron Serego Alghieri 2008, Amarone Classico Masi, was found to be the first Venetian label to enter the most prestigious wines rank in the world, the "Top 10" by Wine Spectator, finishing in eighth place.
- Since June 30th 2015 Masi is listed on the Italian Stock Exchange, AIM market. The IPO price was fixed equal to 4.60€ per share, they were placed at institutional investors 6.4 million shares and the IPO proceeds amounted to approx. 20M€.

Latest results

- In the FY2015 Masi financial results showed a positive trend in terms of turnover, the revenues increased 2% compared to FY2014 and amounted to 60.9M€ driven by growth in the Americas (+10% yoy) and in top wines category (+12% yoy). The Ebitda reduced to 16.8M€ (18M€ in FY2014) representing 28% of revenues due to a decrease of the gross margin (in 2014 it benefited from a positive non-recurring effect), an increase in costs for services mainly due to higher advertising and promotion costs.
- The NFP at December 31st 2015 was positive (cash) for 3.1M€, debt for 18.6M€ at 31/12/2014, as a result of the capital increase made to the listing.

Valuation

- Masi has good market positioning, strong brand reputation and high margins; with the proceeds of IPO intends to improve the brand experience and acquire new land for the grapes cultivation to strengthen the profitability.
- Company valuation is based on 3-year financial plan, related cash flow projections and TV computed using *Twice's* SGA P/E, the model returns a fair value of 5.10€ per share.

Risks

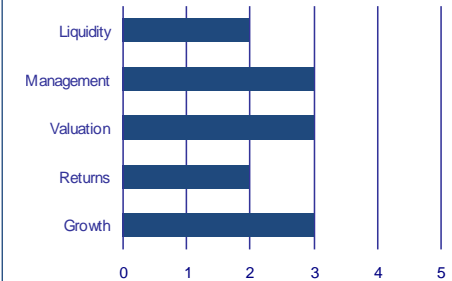
- Company turnover and profitability depend on exchange rates trend, grapes price trend and special regional market situations.

Forecast	15A	16E	17E	18E
Sales (€M)	60.9	62.2	64.1	66.6
EBIT (€M)	11.5	10.3	11.1	12.6
EPS (€)	0.19	0.24	0.26	0.30
Valuation	15A	16E	17E	18E
SHARE PRICE	4.59	4.45	5.45	5.74
EV/EBITDA	8.6	8.9	10.2	10.0
P/E	23.9	18.2	20.6	19.2
Dividend yield	2.0%	1.6%	1.5%	2.1%

Key Data

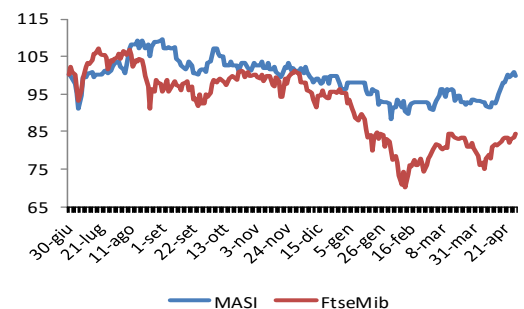
Price (€)	4.5
Market cap (€M)	142.9
Equity Value (€M)	163.5
Fair Value (€)	5.10
P/E LTM	n.a.
P/E TTM	23.1

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	MASI.IM
N° of shares (M)	32.2
Free float	20.5%
Main shareholder	Boscaini family (73.5%)
Daily trading volume	13,668 shares

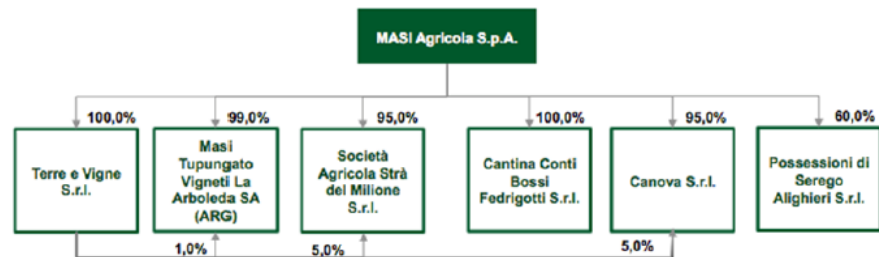


Share Price perf (%)	3M	6M	IPO
Absolute	7.9%	-2.0%	-0.04%
Rel. to FtseMib	3.6%	14.3%	15.5%

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Business Description

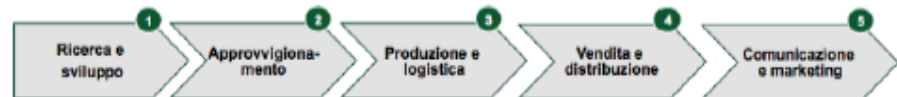
Masi Agricola is a winery rooted in Valpolicella Classica, which produces and distributes quality wines anchored to the values of the Venetian territory. Thanks to the use of native grapes and indigenous methods, Masi is one of the Italian wines producers best known in the world. Today Masi is leader in the production of Amarone, which produces the widest and qualified range in the international market. The Group has a strong and growing international vocation: it is present in nearly 100 countries, with an export quota higher than 90% of total sales.



Masi's mission statement is the production of quality wines, using grapes and methods native to the Venetian regions, with constant technological updates. The group is characterized by a strong commitment to innovation; in the mid-1980s the company created the Masi Technical Group (MTG) with the innovative idea of forming a team of experts dedicated to programs of quality control and research through regular meetings, tasting, technical analysis and experimentation. The MTG has helped rewrite the history of *Appassimento* technique, by creating a new category of wines from the Venetian with Campofiorin, and a modernized style of Amarone.

Key Strategic Assumption

Masi oversees the entire production chain, product strategies and communicative activity are closely related.



The group produces and sells 32 wine labels, divided into three categories based on the Italian retail price:

- *Top Wines*, average price higher than 25€
- *Premium Wines*, average price between 25 and 10 €
- *Classic Wines*, average price between 10 and 5 €

During the IPO, the company presented its strategy for future growth based on three pillars:

1. **Extension of wines offer** related to the territories and to the techniques of the Venetian, even through **acquisitions**;
2. **Organic growth** by strengthening its presence in the markets where it operates;
3. Achievement of a more **direct contact with the end consumer**, reinforcing **brand identity**, internationally recognized.

FINANCIALS

Income statement (€M)	15A	16E	17E	18E
Sales	60.9	62.2	64.1	66.6
COGS	21.1	23.0	23.7	24.6
Gross Profit	39.7	39.2	40.4	41.9
EBITDA	16.8	15.8	17.1	18.6
Depreciation, Amortization	5.4	5.5	6.0	6.0
EBIT	11.5	10.3	11.1	12.6
Net Financial Results	-1.3	0.0	0.1	0.0
Income tax	-3.4	-2.5	-2.7	-3.0
Net result	6.2	7.8	8.5	9.6
EPS (€)	0.19	0.24	0.26	0.30
DPS (€)	0.09	0.07	0.08	0.12

Balance sheet (€M)	15A	16E	17E	18E
LONG LIVED ASSETS	64.1	67.6	73.6	79.6
WC	39.8	42.3	42.9	44.2
CAPITAL EMPLOYED	103.9	109.9	116.5	123.8
EQUITY	105.2	110.6	116.6	122.4
MINORITY INTEREST	0.0	0.0	0.0	0.0
PROVISIONS	1.1	1.1	1.1	1.1
PENSIONS (e.g. TFR)	0.8	0.8	0.8	0.8
NET DEBT	-3.1	-2.5	-1.9	-0.3
CAPITAL INVESTED	103.9	109.9	116.5	123.8

Margin (%)	15A	16E	17E	18E
Gross Margin	65.3%	63.0%	63.0%	63.0%
EBITDA Margin	27.7%	25.4%	26.7%	27.9%
EBIT Margin	18.8%	16.6%	17.4%	18.9%
Net Margin	10.2%	12.6%	13.3%	14.4%

Growth (%)	15A	16E	17E	18E
Sales growth	1.9%	2.1%	3.1%	3.9%
EBIT growth	15.8%	10.1%	-7.9%	13.2%
Net growth	19.0%	27.0%	8.4%	12.9%

Cash Flow statement (€M)	15A	16E	17E	18E
Cash Flow	11.5	13.3	14.5	15.6
+/- Var. Working Capital	1.7	-2.5	-0.6	-1.3
Operating Cash Flow	13.3	10.8	13.9	14.3
Op. Cash Flow / Sales	21.8%	17.4%	21.7%	21.4%
Capex	-8.3	-9.0	-12.0	-12.0
FCF	5.0	1.8	1.9	2.3
FCF / Sales	8.2%	2.9%	3.0%	3.4%

Stock data	15A	16E	17E	18E
Number of Shares (M)	32.2	32.2	32.2	32.2
Share price	4.59	4.45	5.45	5.74
Market cap (€M)	147.6	142.9	175.3	184.7

Ratios	15A	16E	17E	18E
ROCE after tax	6.6%	5.6%	5.7%	6.1%
ROE	5.9%	7.1%	7.3%	7.8%
Capital Turnover	0.6	0.6	0.6	0.5
Net Debt / EBITDA	-0.1	-0.1	-0.1	0.0
Gearing	-2.2%	-1.6%	-1.0%	0.3%
WC / Sales	65.3%	68.1%	66.9%	66.4%
Amortization / Sales	8.8%	8.8%	9.4%	9.0%
Capex / Sales	13.6%	14.5%	18.7%	18.0%
EPS growth	n.a.	27.0%	8.4%	12.9%
PEG	n.a.	68.0	246.3	148.5

Valuation	15A	16E	17E	18E
EV/Sales	2.4	2.3	2.7	2.8
EV/EBITDA	8.6	8.9	10.2	10.0
EV/EBIT	12.7	13.7	15.7	14.7
P/E	23.9	18.2	20.6	19.2
P/B	1.4	1.3	1.5	1.5
EV/CE	1.4	1.3	1.5	1.5
FCF Yield	3.4%	1.3%	1.1%	1.2%
Dividend yield	2.0%	1.6%	1.5%	2.1%

Source: Company data, Twice estimates

Valuation

We valued the Company based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. The model points out a 5.10€ fair value.

With regards to the 3 years business plan we made the following assumptions:

- Revenues will increase single digit in the years plan, in line with Company's historical trend. The CAGR 2016 - 2018 will be equal to 3.5%.
- Masi has a historically high level of profitability, we forecast that the Group will be able to confirm these values during the year plan.
- The company stated during the IPO that intends to invest the proceeds in the purchase of new vineyards and strengthening the brand by opening direct stores. We expect investments of approx. 9M€ per year.
- The Company is able to generate a positive operating cash flows that roughly balance the cash used for the investments.
- The Company aims to reach a dividend payout equal to approx. 50% in the following years.

Cash Flow	FY 2016	FY 2017	FY 2018
Sales	62.2	64.1	66.6
<i>Sales growth</i>	2.1%	3.1%	3.9%
EBIT	10.3	11.1	12.6
<i>Margin</i>	16.6%	17.4%	18.9%
Taxes	2.5	2.7	3.0
<i>Tax rate</i>	24.0%	24.0%	24.0%
Net Result	7.8	8.5	9.6
Depreciation	5.5	6.0	6.0
<i>% of sales</i>	8.8%	9.4%	9.0%
Capex	-9.0	-12.0	-12.0
<i>% of sales</i>	-14.5%	-18.7%	-18.0%
Var. Working Capital	-2.5	-0.6	-1.3
Dividends	2.4	2.6	3.8
Free Cash Flow after dividends	-0.5	-0.6	-1.6

NET RESULT 2018	9.6
<i>SGA PE</i>	19.0
TV actualized	155.7
Dividends actualized	7.8
Equity value (€M)	163.4
Number of Shares (M)	32.2
Equity value per share (€)	5.1
<i>Upside</i>	14.3%

Sensitivity analysis		Net result CAGR 2015-2018				
		4.2%	9.0%	15.8%	17.4%	21.2%
Mkt premium	3.9%	3.3				5.6
	2.0%		5.9		7.7	
	3.5%			5.1		
	3.8%		4.0		5.0	
	4.7%	3.0				4.8