

**MBWS**

Price EUR16.30

**BIG 3.0 does not remove doubts about profitable organic growth**

Fair Value EUR18 vs. EUR17,1 (+10%)

**NEUTRAL**

We revise upwards our sales target for 2018 from EUR480m to EUR542m as we integrate the group's guidance for Sobieski Trade (sales of EUR148m in 2018). We have only notched up our EBITDA forecast for 2018 slightly from EUR58m to EUR62m as this activity has very low profitability. We think **BIG 3.0 does not remove doubts about profitable organic growth**. We maintain our Neutral recommendation. Our Fair Value is adjusted upwards to EUR18.

**ANALYSIS**

- BIG 3.0.** MBWS has updated its strategic plan for 2018 for the second time. **EBITDA margin guidance has been revised downwards from 15% to 12%**. The EBITDA objective is roughly unchanged vs BIG 2.0 at EUR68-77m vs EUR67-75m previously. But the sales target was adjusted upwards from EUR450-500m to EUR590-660m. **The sales upgrade is mainly related to Sobieski Trade, the non-core wholesale business in Poland. Contrary to what was indicated in BIG 2.0, MBWS has decided not to sell it. This is completely in line with the scenario we elaborated in our initiation dated 23rd November.** We think that the company may have wanted to guarantee its access to the traditional trade in Poland which represents 50% of the market in a context where its main competitor has been purchased by the first country's wholesaler Eurocash. **The group indicated Sobieski Trade should grow by 17% on average between 2015 and 2018. We think this is mainly due to the group's new distribution contract for Coca-Cola products in Poland. The distribution of third-party brands is an activity with a very low profitability, which explains why EBITDA guidance at the group level is basically unchanged vs the previous strategic plan.** From a capital allocation standpoint, MBWS said that it will resume dividend distribution in the mid term (maybe as soon as 2017) and considers bolt-on acquisitions to strengthen its route-to-market or add a new category (rum is the preferred target). The CEO said he has the possibility to leverage the net debt to EBITDA ratio as high as 2.5x.

**BIG 3.0 vs BIG 2.0**

	MBWS FP
Bloomberg	MBWS.FP
Reuters	MBWS.PA
12-month High / Low (EUR)	20.3 / 14.9
Market Cap (EURm)	462
Ev (BG Estimates) (EURm)	-16,004
Avg. 6m daily volume (000)	53.90
3y EPS CAGR	99.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.9%	-0.7%	-5.5%	-19.3%
Food & Bev.	0.1%	-7.0%	-5.4%	-7.3%
DJ Stoxx 600	4.6%	2.9%	4.1%	-2.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	451,050	442,430	486,171	542,515
% change		-1.9%	9.9%	11.6%
EBITDA	11,219	19,157	35,588	62,552
EBIT	5,093	12,565	28,879	55,011
% change		146.7%	129.8%	90.5%
Net income	5,484	-4,297	19,924	46,260
% change		NM	NS	132.2%

	2015	2016e	2017e	2018e
Operating margin	3.2	2.8	5.9	10.1
Net margin	1.2	-1.0	4.1	8.5
ROE	NM	NM	NM	NM
ROCE	6.9	-0.9	-1.1	-1.3
Gearing	-34.7	-7.3	-17.2	-30.4

(EUR)	2015	2016e	2017e	2018e
EPS	0.21	-0.15	0.71	1.64
% change		NM	NS	132.2%
P/E	78.8x	NS	23.1x	9.9x
FCF yield (%)	NM	0.4%	6.4%	12.2%
Dividends (EUR)	0.00	0.00	0.00	0.00
Div yield (%)	NM	NM	NM	NM
EV/Sales	NS	0.0x	NS	NS
EV/EBITDA	NS	NS	NS	NS
EV/EBIT	NS	NS	NS	NS

	BIG 2.0 2018 Group	BIG 3.0 2018 branded business	BIG 3.0 Other businesses	BIG 3.0 2018 Group
<b>Scope</b>	Group excluding Sobieski Trade	Pillar and local brands and branded wines	Sobieski Trade and private label	Group including Sobieski Trade and private label
<b>Sales</b>	€450m - €500m	€360m - €400m	€230m - €260m	€590m - €660m
<b>EBITDA</b>	€67m - €75m	€61m - €69m	€7m - €8m	€68m - €77m
<b>EBITDA margin</b>	15%	17%	3%	12%

Source: MBWS

- Streamlining component of the strategic plan mostly finalised.** The group has sold off the retail activities Galeria Alkoholii, some real estate properties in France and Poland and the Polish mineral water producer Augustowianka. These sales generated cash proceeds of EUR30m, of which EUR13m was received during this year and EUR17m will be received in 2017. Some real estate assets and production equipment in Poland remain to be sold, which should bring an additional EUR5m in cash over the 2017-2018 period. **The total EUR35m in cash proceeds fell slightly short of the EUR40m objective set in BIG 2.0 as the group decided not to sell Sobieski Trade.** The restructuring of Sobieski Trade will contribute EUR3.5m of EBITDA in 2016. This activity is now at break-even.
- Optimisation on track.** The new route to market is now in place and the reduction in procurement



costs is achieved, specifically via the agreement for the supply of Scotch Whisky with La Martiniquaise Bardinet. The ongoing initiatives notably concern the improvement of commercial excellence (category management in France and Poland) and the simplification of operations with SKU rationalisation and recipe reformulations. The industrial footprint has been modernised, with the exception of the distillation capacity in Poland which will be finalised by year end-2017. **Optimisation should have a positive EBITDA impact of EUR5m in 2016 and EUR20m in 2017-2018 (of which EUR8m in 2018 related to the distillation capacity in Poland). Overall this is in line with the EUR25m target given in BIG 2.0.**

- **Focus on growth.** MBWS has stated that growth will be its no. 1 priority going forward. This should generate between EUR28 and EUR37m of EBITDA out to 2018 (basically unchanged vs BIG 2.0). The company said that most of the wines and spirits market growth will be driven by the mainstream segment in the markets in which it operates. **The branded business (61% of sales) will be key** to seize this opportunity. It will now be separated from the Other businesses which comprise Sobieski Trade (21% of sales) and the private labels activity (18%). The pillar brands account for 50% of the branded sales and now are six ie William Peel, Krupnik, Sobieski, Marie Brizard, Fruits and Wines and Cognac Gautier. CEO indicated that the pillar brands should post a sales CAGR of 14%. The main growth drivers will be Gautier (+48% in volume), Marie Brizard (+26%), Sobieski (+14%) and Fruits & Wines (+13%). MBWS has announced that going forward it will report its results along four geographic clusters for the branded business for which it will provide volume, revenue and EBITDA details. Over the 2015-2018 period MBWS expects Western Europe/Middle East & Africa (32% of sales in 2015) to grow 4%, Central & Eastern Europe (21% of sales) +16%, Americas +25% (6% of sales) and Asia Pacific (1% of sales) +41%. **The strengthening of the route to market should play a huge part in this performance, as well as the increase in A&P expenditures behind pillar brands. They should reach 8% of sales vs 6% currently.**
- **Estimates.** The group has reiterated its 2016 guidance for EBITDA of around EUR20m, excluding the impact of IFRS Standard #2. Most of the growth vs 2015 should come from optimisation (EUR5m). Streamlining should also contribute (EUR3.5m). As a reminder, H1 EBITDA was basically zero as the group stepped up its A&P expenditure and increased its salary expenses with several recruitments during the course of 2015. The group indicated it expects EUR450m in terms of sales in 2016 (our estimate: EUR442m). **We revise upwards our sales target for 2018 from EUR480m to EUR542m as we integrate the group's guidance for Sobieski Trade (sales of EUR148m in 2018). Our EBITDA forecast for 2018 was only slightly revised upwards from EUR58m to EUR62m as this activity has very low profitability. We still have some doubts about the potential for profitable organic growth.**

#### VALUATION

- We maintain our Neutral recommendation. Our Fair Value is adjusted to EUR18.

#### NEXT CATALYST

- MBWS will release its Q4 sales on 7th February

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