

March 8, 2021

Beverages | Production

Purcari (WINE RO)

Buy (Maintained)

A Ripe Price; Keep BUY

Target price (Return %):	RON30.3 (19%)
Current price:	RON25.6
Market cap:	EUR97.7 million
Avg. daily turnover (RON/EUR):	488.175 / 100.241

- **We keep BUY with a higher target price of RON30.3, from RON28.1 with a potential return of 19%.** Purcari has reported good results for 2020 with revenues up by approximately 2% year over year (YoY), increases in the Purcari brand of around 10%, and Crama Ceptura of 11%. Bostavan registered a decrease of 2% while Bardar was 24% lower.
- **The profitable stake.** As a result of selling the stake in GCC and subtracting the interest payments, Purcari reported a net financial income of RON24.0 million, an EBT of RON71.7 million, and a net income of RON60.4 million with an earnings per share of RON2.90. After accounting for the Moldavian Leu (MDL) depreciation, the company's reported comprehensive income was of RON47.3 million, which is closely in line with our previous estimates.
- **2021 is set to rebound for Moldova and Asia.** Should the restrictive measures take a lighter hold on the economy, the company could see strong rebounds in both Moldova and regions in Asia which accounted for around 23% and 7% of the revenues in 2019. These two channels have taken a hard hit as sales went down by 38% in Moldova and 44% in Asia. Thus, a rebound in these two regions could translate into higher revenues for the company.
- **Double production capacity for winemaking.** Purcari has recently finished upgrading the winemaking plant to 10 million bottles per year, which means a twofold increase in production capacity. Combined with a CAPEX/sales ratio of 10% and the scheduled irrigation systems, the company can capitalize and consolidate the wine sector both domestically and internationally. Currently, we expect the wine market to grow at a compound annual growth rate (CAGR) of 11.2% by 2025 and 6.2% by 2030, with market values of RON6.0 billion by 2025 and RON8.7 billion by 2030.
- **A focus on distribution and product diversity.** As reported by the company, Purcari is looking into consolidating its position through diversifying its product portfolio and signing contracts with reputable distributors in Benelux, and in Czech Republic. Moreover, the company is expanding in the online environment through a well-known international wine mobile app and a Romanian retailer. In addition, the company has launched more products, among which we mention a tailored HoReCa brand and an online-only brand.

Share Data

52-wk Price low/high (RON)	17.2 / 26.5
Dividend per share (RON)	0.95 (2019)
Shares outstanding	20.000.000

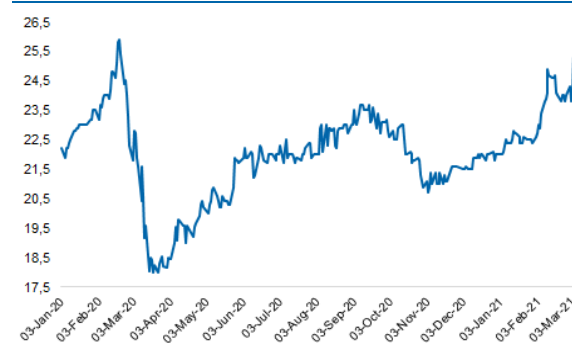
Shareholders (%)

Amboselt Universal Inc.	20.03%
Others	79.96%

Share performance (%)

	YTD	1 m	3 m	6 m	12 m
Absolute	16.4%	9.4%	9.30%	19.0%	16.9%
Relative to BET	9.3%	10.5%	-1.3%	2.25%	7.5%

Purcari – share price evolution



Source: Bloomberg

Key highlights	2019	2020	2021E	2022E	2023E
Total revenues (RON mn)	199	203	220	234	240
Revenue growth	18%	2%	8%	7%	2%
EBITDA margin	33%	29%	27%	25%	24%
Net profit (RON mn)	40	60	41	45	47
Net profit growth	-3%	49%	-33%	11%	5%
P/E	12.6	8.8	12.6	11.3	10.8
P/BV	2.7	2.2	1.8	1.6	1.4
EV/EBITDA	8.6	9.7	9.2	8.6	8.2
ROE	23%	27%	15%	15%	14%

Source: Purcari, BRK

Onshore expert – business valuation

Adrian Ciocoi, CFA, has reviewed this report as the onshore expert, under a partnership agreement with BRK Financial Group.

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Valuation update

We keep BUY with a higher target price of RON30.3 from RON28.1, with a potential return of 19% from the current price. The company has shown resilience in fending off the current pandemic that affected the worldwide consumption of many goods and services.

Thus, we see the company's free cash flow of RON5.1 million in 2021 and RON21.3 million in 2021. We keep our discount rate (COE: CAPM) of 8.78%, derived from a 3.2% "risk-free rate", which is the equivalent of a Romanian 10-year bond yield, an 8.46% equity risk premium, and 1.06x beta (the current level for emerging markets). We also keep our 1% terminal growth rate.

Therefore, we upgrade our intrinsic equity value per share to RON30.3, which is approximately 19% higher than the current price of RON25.6, as of March 5, 2021. Our derived target price implies a 2021 P/E of 12.6x.

Price (Mar 5, 2021) **RON25.6**
Price target **RON30.3**

Why BUY? On a fundamental basis, we believe Purcari could successfully rebound two of its most affected regions, consolidate the domestic market and make good use of the new winemaking plant.

Best case **RON35.9**

The share price could reach RON 35.9 since the wine market is in a high-growth stage that Purcari could capitalize on.

Worst case **RON24.5**

The company would have a downside of 4% and reach RON24.5 even if the company lost a part of its market share.

Figure 1: Purcari DCFE valuation update

	2021	2022	2023	2024	2025	2026	•••	2030	
Net income	40.5	45.1	47.3	51.4	56.1	66.4		90.8	91.7
Plus depreciation	11.2	11.8	12.4	12.9	13.5	13.9		15.6	
Plus Increase / Minus decrease in long-term debt	(15.8)	(3.8)	(3.1)	(4.7)	(1.6)	(5.5)		(13.9)	
Minus Increase / Plus decrease in working capital	(7.8)	(8.8)	(4.3)	(8.8)	(10.3)	(23.2)		(15.3)	(2.1)
Minus CAPEX	(23.1)	(23.1)	(23.1)	(23.1)	(23.1)	(23.1)		(23.1)	
FCFE	5.1	21.3	29.1	27.8	34.6	28.6		54.1	89.6
CAPM	8.78%								
Discount Factor	0.92	0.85	0.78	0.71	0.66	0.60		0.43	0.40
Present value of cash flows	4.7	18.0	22.6	19.8	22.7	17.3		23.3	
Sum of present value of cash flows	207.0								
Residual growth rate	1.00%								
Present value of residual value	399.7								
Equity value	606.8								
Shares (mn)	20								
Equity value per share	30.3								
Current price as of Mar 5, 2021	25.6								
Estimated upside	19%								

Source: BRK

Potential stock split

The company proposed a 2:1 stock split on March 4, 2021. This decision will be voted at the Extraordinary General Shareholders Meeting.

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Company	Ticker	The explanatory note applies number:
Purcari	WINE	5, 7, 10, 11

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