

August 24, 2021

Beverages | Production

Purcari (WINE RO)

Neutral (from Buy)

A Wine in the Making; Downgrade to NEUTRAL

Target price (Return %):	RON16.0 (11%)
Current price:	RON14.4
Market cap:	EUR116.83 million
Avg. daily turnover (RON/EUR):	510,747 / 103,599

- **We downgrade to NEUTRAL with a higher target price RON16.0 and a potential return upside of 11%.** The company could incur higher revenues in 1H 2021 vs 1H 2020 due to higher sales and potential increases in the average selling prices of wines. We will monitor the company's results that should be made public on August 25, 2021.

- **High stakes.** The company announced that it bought a 10% stake in 8Wines.com, an online wine retailer. We consider this investment beneficial as it diversifies Purcari's holdings. Moreover, we believe this niche industry is in a high-growth stage since online ordering is much more convenient for customers and the share of value added of wine has been increasing by value added YoY. We see this trend continuing in the future as well. In addition, a subsidiary of Purcari has received a cash consideration (to be registered only in Q3) as a result of the exit from Glass Container Company.

- **Strong demand leads to strong growth.** An ease in the Covid-19 restrictions over the summer likely fueled higher consumption expenditure at a macroeconomic level and within the wine industry. This real growth combined with increased prices could fuel a growth in revenues for 2021. Even though the summer season is traditionally weaker for the wine industry, we believe Purcari could manage to incur higher revenues in 1H 2021 vs 1H 2020. More specifically, the company could incur sales of RON94.1 million in 1H 2021 and of RON225 million for the whole year, while earnings could reach RON17.9 million in 1H 2021 and RON48.7 million for the whole year.

- **An increase in market share.** The company has a good track record of increasing its market share each year and we estimate the trend will continue in 2021. As such, Purcari could increase its total market share by revenue to 5.5% from 5.3% in 2020.

- **Risks to our call.** We identify excessive inflation as a key risk in terms of the company's revenue generation capability. If the inflation rate would exceed the relative growth of Purcari, then its revenues would diminish in real terms. We do not envision this happening; however, we consider it is important to have it under consideration. Another key risk is represented by the increases in average income. Should it not increase in tandem with the economic growth, then we would see the consumption expenditure drop.

Share Data

52-wk Price low/high (RON)	10.32 / 14.5
Dividend per share (RON)	0.65 (2020)
Shares outstanding	40.000.000

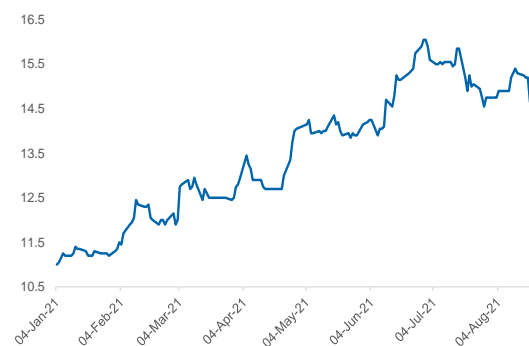
Shareholders (%)

Amboselt Universal Inc.	20.03%
Others	79.96%

Share performance (%)

	YTD	1 m	3 m	6 m	12 m
Absolute	31.8%	-3.7%	-6.5%	20.8%	26.6%
Relative to BET	7.4%	-6.1%	-11.7%	1.1%	-13.0%

Purcari – share price evolution



Source: Bloomberg

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Key highlights	2020	2021E	2022E	2023E	2030E
Total revenue (RON mn)	203	225	243	260	400
Revenue growth (%)	2.3	10.9	7.6	7.3	5.7
EBITDA margin (%)	30	29	29	30	39
Net profit (RON mn)	59.2	48.7	48.8	53.0	86.9
Net profit growth (%)	46.4	(17.7)	0.3	8.6	6.6
P/E	11,8	11,8	10,8	10,0	6,6
P/BV	3,0	2,8	2,7	2,6	2,1
EV/EBITDA	10,7	9,8	8,9	8,1	4,5
ROE (%)	28.7	25.9	23.8	24.6	32.2

Source: Purcari, BRK

Valuation update

We downgrade our recommendation to **NEUTRAL** and increase our target price to **RON16.0 per share with a potential return of 11% from the current price**. The company could incur higher revenues in 1H 2021 than in 2020 due to higher sales and potential increases in the average selling prices of wines. We will closely monitor the company's results that will be published on August 25, 2021.

Figure 1: Purcari DCFE valuation update

RON million	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Net income	48.8	48.9	53.1	57.4	61.8	66.5	71.3	76.3	81.6	86.9	87.9
Plus depreciation	7.9	8.6	9.4	10.2	11.0	11.8	12.6	13.4	14.2	15.0	
Plus increase /minus decrease in long-term debt	-10.1	-7.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5	
Minus increase / Plus decrease in working capital	40.5	-3.2	-3.2	-3.3	-3.4	-3.5	-3.6	-3.6	-3.7	-3.8	-3.8
Minus CAPEX	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	
Equity free cash flow	72.0	31.7	42.8	47.8	52.9	58.3	63.8	69.6	75.5	81.7	84.0
Discount rate	10.9%										
Discount factor	0.95	0.86	0.77	0.70	0.63	0.57	0.51	0.46	0.41	0.37	0.34
Present value of cash flows	68.3	27.2	33.0	33.2	33.2	33.0	32.5	32.0	31.3	30.5	
Sum of present value of cash flows	354.2										
Residual growth	1%										
Present value of residual value	285.3										847.1
Equity value	639.5										
Shares (million)	40										
Equity value per share	16.0										
Current share price	14.4										
Upside	11%										

Source: BRK

Income Statement

Figure 2: Purcari income statement

RON	2021E	1H 2021E	1H 2020	Variation
Revenue	225,978,216	94,189,787	84,892,384	11%
Cost of goods sold	(117,031,593)	(48,654,345)	(44,021,059)	11%
Gross profit	108,946,623	45,535,442	40,871,325	11%
Other operating income	2,259,782	198,470	165,983	20%
Marketing and sales expenses	(23,727,713)	(9,150,461)	(8,876,197)	3%
General and administrative expenses	(27,117,386)	(10,805,999)	(9,858,666)	10%
Other operating expenses	(338,967)	(210,110)	(205,348)	2%
Impairment loss on trade and loan receivables	(2,583,339)	(92,434)	(106,633)	-13%
Operating income	57,439,001	25,474,908	21,990,464	16%
Interest income	5,751,361	107,134	0	N/A
Interest expense	(5,225,228)	(4,208,322)	(4,016,321)	5%
Net finance costs	526,133	(4,101,188)	(4,016,321)	2%
Share of profit of equity-accounted investees	74,542	7,454	482,599	-98%
Earnings before taxes	58,039,675	21,381,174	18,456,742	16%
Taxes	(9,286,348)	(3,420,988)	(2,882,722)	19%
Net earnings	48,753,327	17,960,186	15,574,020	15%

Source: Company data, BRK

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Purcari Wineries	WINE	5, 7, 10, 11

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