

Berentzen-Gruppe (BEZ GY) | Consumer Goods

June 25, 2020

Termination of contract bottling an opportunity rather than a threat

We confirm our Buy recommendation: This week, Berentzen announced that the contract bottling business for an international beverage group will be terminated from FY 2021 onwards. The group is ending the cooperation due to internal structural measures in the supply chain. In the past, the contract bottling business generated sales of around EUR 12m which will accordingly be lost from FY 2021 onwards. Nevertheless, the impact on earnings should be rather small in our view as contract bottling typically is a low-margin business. Profitability should correspondingly slightly increase. In the medium- to long-term, we even see the discontinuation of the business as positive and fully in line with Berentzen's strategy to become an innovative & integrated beverage specialist with a focus on (high-margin) own brands. Hence, we see the recent news less as a threat but even as an opportunity to push the strategy even faster.

Changes in estimates: We reduce our topline estimates from FY 2021 et seq. - however, we are forecasting a sales impact of less than EUR 12m (esp. from FY 2022 onwards) as we believe that Berentzen will be able to use the freed-up capacities in other ways. The impact on earnings should be rather small in our view leading only to minor adjustments

Valuation: We continue to value Berentzen shares based on our DCF valuation and derive a new target price of EUR 7.3. The shares are trading at ~3x FY 2021 EBITDA which is attractive in our view. The dividend yield of ~5% should also be appealing especially for long-term value investors

Fundamentals (in EUR m)	2017	2018	2019	2020e	2021e	2022e
Sales	160	162	167	161	156	164
EBITDA	16	17	18	15	17	18
EBIT	9	10	10	6	9	10
EPS adj. (EUR)	0.27	0.55	0.52	0.24	0.45	0.55
DPS (EUR)	0.22	0.28	0.28	0.12	0.23	0.27
BVPS (EUR)	4.75	5.04	5.24	5.19	5.53	5.85
Net Debt incl. Provisions	-0	2	-3	-2	-10	-12
Ratios	2017	2018	2019	2020e	2021e	2022e
EV/EBITDA	4.7	3.5	3.4	3.7	2.7	2.4
EV/EBIT	8.4	6.2	6.3	8.8	5.1	4.3
P/E adj.	30.2	11.3	13.0	25.6	13.4	11.1
Dividend yield (%)	2.7	4.5	4.1	2.0	3.7	4.5
EBITDA margin (%)	10.2	10.7	11.0	9.1	11.1	11.2
EBIT margin (%)	5.8	6.0	5.9	3.9	5.9	6.4
Net debt/EBITDA	-0.0	0.1	-0.1	-0.2	-0.6	-0.7
ROE (%)	5.7	11.2	10.2	4.5	8.4	9.6
PBV	1.7	1.2	1.3	1.2	1.1	1.0

Sources: Refinitiv, Metzler Research

Buy

 **unchanged**

Price* EUR 6.08

Price target EUR 7.30 (7.4)

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

Market Cap (EUR m)	57
Enterprise Value (EUR m)	55
Free Float (%)	74.4

Price (in EUR)



Performance (in %)	1m	3m	12m
Share	6.7	14.3	-4.1
Rel. to Prime All Share	1.5	-6.6	-1.9

Sources: Refinitiv, Metzler Research

Changes in estimates (in %)	2020e	2021e	2022e
Sales	0.0	-6.0	-4.4
EBIT	0.0	-4.0	-3.0
EPS	0.0	-5.8	-3.9

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Our investment case in a nutshell

Investment case remains unchanged

- **(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. We also believe that Berentzen should then be able to accelerate growth momentum again in FY 2021 (Note: excl. the impact of the recently discontinued contract bottling business). 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. Margins in the non-alcoholic beverages segment should also increase following the discontinuation of the contract bottling business.
- **(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 per share:** 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.

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

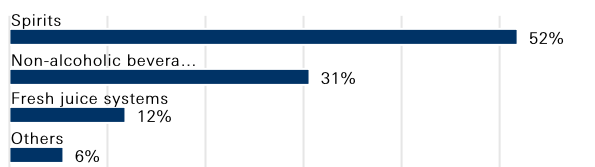
Monolith Investment Management BV (9.9%), MainFirst Bank AG (8.5%), Lazard Frères Gestion SAS (5.1%)

Key figures

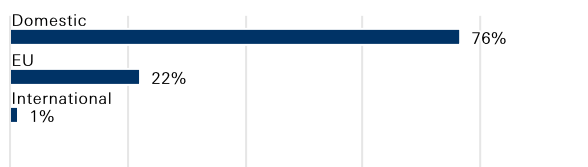
P&L (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
Sales	160	-5.7	162	1.1	167	3.2	161	-3.7	156	-3.1	164	4.7
Gross profit on sales	69	-14.4	72	3.4	75	4.2	71	-5.4	70	-0.4	74	4.9
Gross margin (%)	43.2	-9.3	44.2	2.2	44.6	1.0	43.8	-1.7	45.1	2.7	45.1	0.2
EBITDA	16	-6.3	17	5.6	18	6.0	15	-20.1	17	18.2	18	5.5
EBITDA margin (%)	10.2	-0.7	10.7	4.4	11.0	2.6	9.1	-17.0	11.1	21.9	11.2	0.8
EBIT	9	-12.3	10	6.3	10	0.1	6	-36.6	9	47.7	10	13.7
EBIT margin (%)	5.8	-7.0	6.0	5.1	5.9	-3.0	3.9	-34.1	5.9	52.4	6.4	8.5
Financial result	-4	1.5	-2	40.4	-3	-10.0	-3	-13.5	-3	-0.1	-3	1.7
EBT	5	-19.0	7	41.9	7	-3.1	3	-54.8	6	91.0	8	21.0
Taxes	3	32.2	2	-15.4	2	0.5	1	-54.8	2	91.0	2	21.0
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	2	-54.8	4	91.0	5	21.0
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	2	-54.8	4	91.0	5	21.0
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	0.24	-54.8	0.45	91.0	0.55	21.0
DPS (EUR)	0.22	-12.0	0.28	27.3	0.28	0.0	0.12	-57.7	0.23	91.0	0.27	21.0
Dividend yield (%)	2.7	n.a.	4.5	n.a.	4.1	n.a.	2.0	n.a.	3.7	n.a.	4.5	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	-16.7	14	13.6	15	3.9
Increase in working capital	6	n.a.	8	n.a.	-5	n.a.	2	n.a.	-4	n.a.	2	n.a.
Capital expenditures	8	25.9	7	-16.5	7	6.0	5	-20.5	6	16.9	7	4.7
D+A/Capex (%)	92.3	n.a.	115.7	n.a.	124.1	n.a.	154.3	n.a.	127.3	n.a.	117.2	n.a.
Free cash flow (Metzler definition)	-2	-123.9	-0	96.2	13	n.m.	5	-60.5	12	124.1	6	-48.4
Free cash flow yield (%)	-2.8	n.a.	-0.1	n.a.	20.7	n.a.	9.2	n.a.	20.6	n.a.	10.6	n.a.
Dividend paid	2	24.9	2	-12.0	3	27.2	3	0.0	1	-57.7	2	91.0
Free cash flow (post dividend)	-5	-162.1	-2	52.6	11	596.6	3	-75.4	11	306.1	4	-62.9
Balance sheet (in EUR m)	2017	%	2018	%	2019	%	2020e	%	2021e	%	2022e	%
Assets	143	-24.2	145	1.1	152	4.6	147	-3.3	149	1.3	153	3.2
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	-0.8	52	6.4	55	5.8
Equity/total assets (%)	31.1	n.a.	32.7	n.a.	32.4	n.a.	33.3	n.a.	35.0	n.a.	35.9	n.a.
Net Debt incl. Provisions	-0	97.0	2	n.m.	-3	-211.6	-2	16.0	-10	-348.0	-12	-24.9
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.	-4.6	n.a.	-19.2	n.a.	-22.6	n.a.
Net debt/EBITDA	-0.0	n.a.	0.1	n.a.	-0.1	n.a.	-0.2	n.a.	-0.6	n.a.	-0.7	n.a.

Structure

Revenue by segment 2019



Revenue by region 2019



Sources: Refinitiv, Metzler Research

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Date of dissemination	Metzler recommendation *		Current price **	Price target *	Author ***
	Previous	Current			
Issuer/Financial Instrument (ISIN): Berentzen-Gruppe (DE0005201602)					
19.05.2020	Buy	Buy	5.48 EUR	7.40 EUR	Diedrich, Tom
07.05.2020	Buy	Buy	5.44 EUR	7.40 EUR	Diedrich, Tom
27.03.2020	Buy	Buy	5.36 EUR	7.40 EUR	Diedrich, Tom
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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	Tom Diedrich	Media, Retail	2 39
	Alexander Neuberger	Industrial Technology, Small/Mid Caps	43 66
	Holger Schmidt	Software, Technology, Telecommunications	43 60
	Jochen Schmitt	Financials, Real Estate	43 59
	David Varga	Basic Resources	43 62
	Jürgen Pieper	Automobiles, Senior Advisor	5 29
	Hendrik König	Strategy / Quantitative Research	43 71
	Sergii Piskun	Quantitative Research	2 37
	Eugen Keller	Head of FI/FX Research	3 29
	Juliane Rack	FI/FX Strategy	17 48
	Sebastian Sachs	FI/FX Strategy	5 26
	Thomas Weber	FI/FX Strategy	5 27
	Daniel Winkler	FI/FX Strategy	5 28
Equities	Werner Litzinger	Head of Equities	41 78
Sales	Mustafa Ansary	Head of Equity Sales	3 51
	Eugenia Buchmüller		2 38
	Uwe Hohmann		3 66
	Hugues Jaouen		41 73
	Alexander Kravkov		41 72
	Jasmina Schul		17 66
Trading	Sven Knauer	Head of Equity Trading	2 45
	Kirsten Fleer		2 46
	Stephan Schmelzle		2 47
	Thomas Seibert		2 28
FI/FX	Mario Mattera	Head of FI/FX	6 87
FI Sales	Minush Nori	Head of Fixed Income Sales	6 89
	Sebastian Luther		6 88
	Claudia Ruiu		6 83

company note

	Gloria Traidl		2 80
FI Trading/ALM	Sven Klein	Head of ALM	6 86
	Bettina Koch		2 91
	Susanne Kraus		6 58
	Andreas Tanneberger	Head of Fixed Income Trading	6 85
	Silke Amelung		2 89
	Christian Bernhard		2 66
FX Sales	Thomas Rost	Head of FX	2 92
	Tobias Martin		6 14
	Gideon Tjoe		2 82
	Steffen Völker		2 93
FX Trading	Rainer Jäger		2 76
	Andreas Zellmann		6 10
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CM Advisory	Georgios Tsiourvas		6 82
	Achim Walde		2 75
	Harwig Wild		2 79
CM Operations	Dominik Müller	Head of Operations	2 74
	Christopher Haase		16 17
	Florian Hartel		17 73
	Simon Wesch		3 50