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Delegat Group
1H21 Preview — Checking the Notes

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Delegat (DGL) will release its 1H21 result on Wednesday, 24 February 2021 — we expect modest earnings growth, with gross margin uplift as DGL cycles the softer 2019 vintage. We look for market performance and outlook comments on result day, with the US being a key market of interest. We expect to see some disruption to channel exposure, with DGL's boost from a lift in off-premise wine sales more than offsetting weakness in on-premise consumption, which DGL is less exposed to. DGL's current FY21E operating NPAT guidance range is NZ$60m to NZ$65m. We expect this range to narrow towards the top end.

NZX Code	DGL
Share price	NZ$14.50
Target price	NZ$15.20
Risk rating	Medium
Issued shares	101.1m
Market cap	NZ$1,466m
Avg daily turnover	9.5k (NZ$112k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	64.1	64.6	74.6	81.1
EPS* (NZc)	63.4	63.9	73.8	80.2
EPS growth* (%)	26.2	0.8	15.4	8.7
DPS (NZc)	17.0	18.0	19.0	21.0
Imputation (%)	100	100	100	100
*Based on normalised profits				

Valuation (x)	20A	21E	22E	23E
PE	22.9	22.7	19.7	18.1
EV/EBIT	18.9	17.7	15.6	14.4
EV/EBITDA	16.1	15.2	13.5	12.6
Price / NTA	3.7	3.3	2.9	2.6
Cash div yld (%)	1.2	1.2	1.3	1.4
Gross div yld (%)	1.6	1.7	1.8	2.0

Key issues to consider at DGL's 1H21 result

- **Market dynamics —** Having cycled a large customer win in the UK, performance in that market will be of interest. DGL predominantly sells through the off-premise channel, which has experienced a boost through COVID-19, with the company likely benefitting from this tailwind. Performance in key growth market North America will be a focus area for investors. Market anecdotes have been supportive of continued growth and recognition for New Zealand wine.
- **Margin expansion —** We expect to see further margin expansion in 1H21, with DGL cycling a weaker 2019 vintage and as COVID-19 related disruption limits promotional spend (e.g. in-store tastings). DGL's 2020 harvest was +7% ahead of the prior year period, which is supportive of lower costs of goods sold per case, driving higher gross margin.
- **Vintage 2021 —** Anecdotes suggest harvest volumes are likely to be soft, which may weigh on FY22E forecasts. Smaller vintages impact volume and reduce margin (fixed growing costs spread across lower volume).
- **Capex catch up —** We expect capex to be elevated in the period, following COVID-19 related delays in the prior six month period. FY21E capex guidance is NZ$52m. Short-term volume guidance is supported by current inventories, however, medium-term growth is linked to winery development and longer-term growth requires further land acquisition.
- **Managing Director —** DGL's Managing Director, John Freeman, recently announced his resignation effective late March. We look for details on the replacement process.

Figure 1. 1H21 result expectations

	1H20	1H21E	% change
Revenue	156.7	162.3	3.6%
EBITDA	61.8	63.7	3.1%
EBIT	53.5	55.5	3.8%
Operating NPAT	**34.4**	**35.9**	**4.4%**
EPS (cps)	34.0	35.5	4.4%
Interim DPS (cps)	-	-	-

Source: Forsyth Barr analysis

Figure 2. FY21 forecast summary

	FY20	FY21E	% change	Consensus
Revenue	304.2	315.0	3.5%	312.3
EBITDA	116.8	121.2	3.7%	119.0
EBIT	95.2	100.6	5.7%	99.1
Operating NPAT	**60.8**	**64.6**	**6.3%**	**64.0**
EPS (cps)	60.1	63.9	6.3%	63.3
DPS (cps)	17.0	18.0	5.9%	18.0

Source: Bloomberg, Forsyth Barr analysis

Delegat Group (DGL)

Priced as at 22 Feb 2021 (NZ$)	**14.50**

12-month target price (NZ$)*	**15.20**
Expected share price return	4.8%
Net dividend yield	1.3%
Estimated 12-month return	6.1%

Spot valuations (NZ$)	
1. DCF	15.12
2. Comparative multiples	14.00
3. n/a	n/a

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	1.31
WACC	6.8%
Terminal growth	2.0%

DCF valuation summary (NZ$m)	
Total firm value	1,837
(Net debt)/cash	(227)
Less: Capitalised operating leases	(81)
Value of equity	1,529

Profit and Loss Account (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Sales revenue	278.0	304.2	315.0	341.3	378.7
Normalised EBITDA	**98.9**	**112.0**	**116.9**	**130.9**	**140.2**
Depreciation and amortisation	(20.5)	(21.6)	(20.6)	(21.2)	(21.2)
Normalised EBIT	**83.3**	**95.2**	**100.6**	**113.8**	**122.8**
Net interest	(12.4)	(10.8)	(10.8)	(10.2)	(10.2)
Associate income	0	0	0	0	0
Tax	20.1	23.6	25.1	29.0	31.5
Minority interests	0	0	0	0	0
Normalised NPAT	**50.8**	**64.1**	**64.6**	**74.6**	**81.1**
Abnormals/other	0	0	0	0	0
Reported NPAT	**46.8**	**64.1**	**64.6**	**74.6**	**81.1**
Normalised EPS (cps)	50.2	63.4	63.9	73.8	80.2
DPS (cps)	17.0	17.0	18.0	19.0	21.0

Valuation Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EV/EBITDA (x)	17.6	15.4	14.5	12.9	12.1
EV/EBIT (x)	20.9	18.1	16.9	14.9	13.8
PE (x)	28.9	22.9	22.7	19.7	18.1
Price/NTA (x)	4.2	3.7	3.3	2.9	2.6
Free cash flow yield (%)	1.7	3.9	2.3	3.3	4.2
Net dividend yield (%)	1.2	1.2	1.2	1.3	1.4
Gross dividend yield (%)	1.6	1.6	1.7	1.8	2.0

Capital Structure	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Interest cover EBIT (x)	6.7	8.8	9.3	11.1	12.0
Interest cover EBITDA (x)	8.0	10.4	10.8	12.8	13.7
Net debt/ND+E (%)	43.1	37.2	33.5	28.4	22.4
Net debt/EBITDA (x)	2.7	2.1	1.9	1.5	1.2

Growth Rates	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Revenue (%)	8.7	9.4	3.5	8.4	11.0
EBITDA (%)	10.4	13.2	4.4	12.0	7.1
EBIT (%)	11.8	14.3	5.7	13.2	7.9
Normalised NPAT (%)	13.1	26.2	0.8	15.4	8.7
Normalised EPS (%)	13.1	26.2	0.8	15.4	8.7
Ordinary DPS (%)	30.7	0.0	5.9	5.6	10.5

Key Ratios	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Return on assets (%)	10.5	11.6	11.6	12.7	13.3
Return on equity (%)	14.2	15.8	14.3	14.7	14.3
Return on funds employed (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	35.6	36.8	37.1	38.4	37.0
EBIT margin (%)	30.0	31.3	31.9	33.4	32.4
Capex to sales (%)	10.9	8.9	16.5	9.7	5.3
Capex to depreciation (%)	148	126	252	156	94
Imputation (%)	100	100	100	100	100
Pay-out ratio (%)	34	27	28	26	26

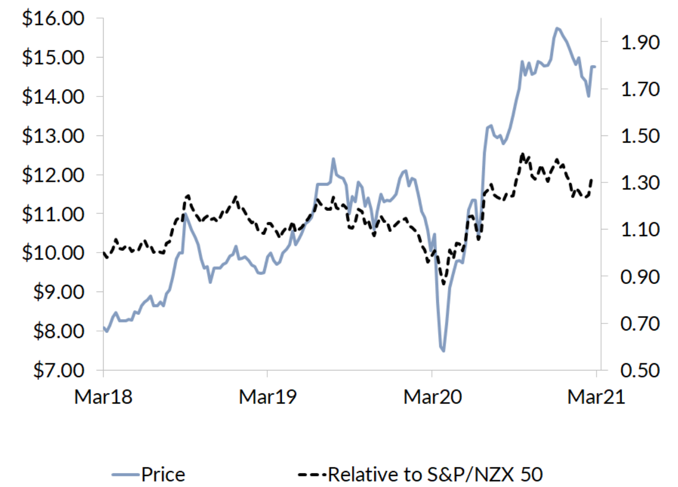
Cash Flow (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
EBITDA	**98.9**	**112.0**	**116.9**	**130.9**	**140.2**
Working capital change	(4.6)	3.1	4.8	(10.2)	(16.4)
Interest & tax paid	(29.7)	(27.7)	(36.0)	(39.2)	(41.8)
Other	(9.2)	(3.0)	0	0	0
Operating cash flow	**55.4**	**84.3**	**85.8**	**81.5**	**82.0**
Capital expenditure	(30.4)	(27.2)	(52.0)	(33.0)	(20.0)
(Acquisitions)/divestments	(0.3)	(0.4)	0	0	0
Other	(1.8)	(7.0)	(3.3)	(3.3)	(3.2)
Funding available/(required)	**22.9**	**49.7**	**30.5**	**45.2**	**58.8**
Dividends paid	(15.2)	(17.2)	(18.2)	(19.2)	(21.2)
Equity raised/(returned)	0	0	0	0	0
(Increase)/decrease in net debt	**6.3**	**23.5**	**12.3**	**26.0**	**37.6**

Operating Performance	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Wine Trading Profit and Loss (NZ$m)					
Wine Sales	**278.0**	**304.2**	**315.0**	**341.3**	**378.7**
COGS	139.6	152.9	154.9	163.3	179.0
Wine Trading Gross Profit	**138.4**	**151.3**	**160.1**	**178.0**	**199.7**
Operating Costs	34.7	34.5	38.9	43.0	55.6
Wine Trading EBITDA	**103.7**	**116.8**	**121.2**	**135.0**	**144.1**
Depreciation: Wine Trading	20.5	21.6	20.6	21.2	21.2
Wine Trading EBIT	**83.3**	**95.2**	**100.6**	**113.8**	**122.8**
Interest, Tax	32.5	34.4	36.0	39.2	41.8
Wine Trading NPAT	**50.8**	**60.8**	**64.6**	**74.6**	**81.1**
Case Sales ('000s)					
UK/Ireland & Europe:	896	1,101	1,134	1,157	1,180
USA/Canada:	1,332	1,438	1,553	1,739	1,879
NZ, AU, AsiaPac:	780	738	659	677	782
Total Case Sales ('000)	**3,008**	**3,277**	**3,346**	**3,573**	**3,840**
Case Pricing (NZ$)					
Average "Price" per Case (NZ$)	92.4	92.8	94.1	95.5	98.6
Average "COGS" per Case (NZ$)	46.4	46.7	46.3	45.7	46.6

Balance Sheet (NZ$m)	**2019A**	**2020A**	**2021E**	**2022E**	**2023E**
Working capital	166.6	171.5	171.0	185.3	205.6
Fixed assets	525.2	537.7	573.4	589.3	591.9
Intangibles	5.0	5.4	5.4	5.4	5.4
Right of use asset	61.1	58.5	55.7	53.0	50.4
Other assets	1.1	3.7	3.7	3.7	3.7
Total funds employed	**758.9**	**776.9**	**809.1**	**836.7**	**857.0**
Net debt/(cash)	270.3	239.5	227.3	201.3	163.7
Lease liability	86.4	84.1	82.2	80.3	78.5
Other liabilities	45.4	48.7	48.7	48.7	48.7
Shareholder's funds	356.7	404.6	451.0	506.4	566.2
Minority interests	0	0	0	0	0
Total funding sources	**758.9**	**776.9**	**809.1**	**836.7**	**857.0**

* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Jim & Rose Delegat	66.1%
K & M Douglas Trust	10.0%

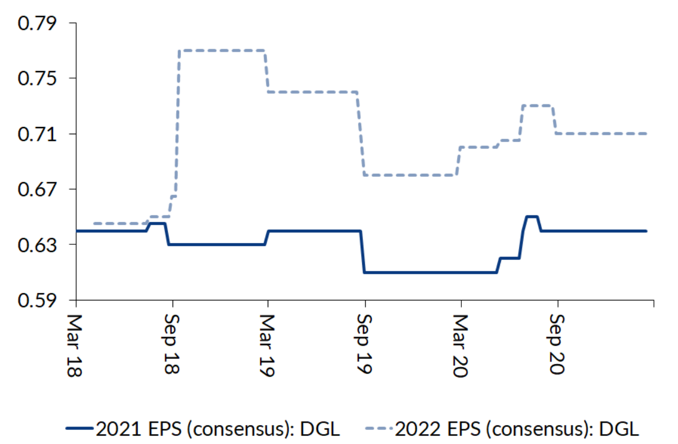
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld
(metrics re-weighted to reflect DGL's balance date - June)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
Delegat Group	**DGL NZ**	**NZ$14.50**	**NZ$1,466**	**22.7x**	**19.7x**	**14.6x**	**13.0x**	**17.0x**	**15.0x**	**1.3%**
TREASURY WINE ESTATES	TWE AT	A$11.91	A$8,592	31.5x	27.8x	15.5x	14.5x	20.8x	19.4x	2.4%
CONSTELLATION BRANDS INC-A	STZ US	US$227.50	US$44,156	22.7x	20.9x	17.6x	16.5x	19.9x	18.5x	1.4%
PERNOD RICARD SA	RI FP	€164.75	€43,144	29.5x	25.7x	19.8x	17.8x	22.7x	20.4x	1.9%
HEINEKEN NV	HEIA NA	€86.62	€49,893	<0x	23.8x	15.4x	12.5x	51.4x	19.0x	1.7%
SCALES *	SCL NZ	NZ$4.80	NZ$682	21.2x	19.0x	9.5x	8.6x	13.4x	11.9x	4.5%
COMVITA *	CVT NZ	NZ$3.25	NZ$227	21.2x	17.2x	11.5x	10.5x	20.6x	17.3x	1.5%
			Compco Average:	**25.2x**	**22.4x**	**14.9x**	**13.4x**	**24.8x**	**17.7x**	**2.2%**
EV = Current Market Cap + Actual Net Debt			**DGL Relative:**	**-10%**	**-12%**	**-2%**	**-3%**	**-32%**	**-16%**	**-41%**

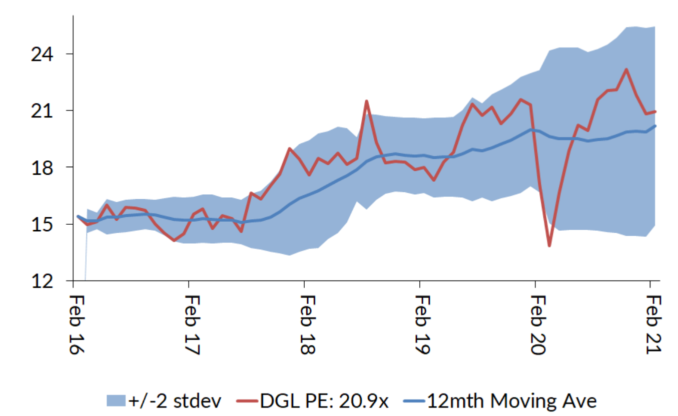
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (DGL) companies fiscal year end

Figure 6. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)



Source: Forsyth Barr analysis

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