

McGuigan Simeon Wines Limited

03 June 2004

BUY

\$4.66

Vintage 2004 grape harvest up 40%

Event

MGW announced a 40% increase in the Vintage 2004 (V04) grape harvest to a record 245,000 tonnes (t). The intake was a tad above expectations, and included 22,000t processed by the recently acquired Miranda Wines. MGW stated that the quality produced from white and red grapes was "above average to outstanding". MGW's own vineyards yielded a 9% rise above budget.

Implications

The FY04 outlook is for double-digit profit growth. The market remains competitive in both Australia and overseas, especially the extent of the perceived easing of the unsustainable discounting levels to retailers in the UK, as this will no doubt require significant structural changes to the distribution channels. In addition, the competitive market in the US shows little sign of abating. However, MGW's status as one of the lowest cost producers and a re-focus to higher margin brands has enabled it to withstand the volatilities and global downturn in the US and UK wine markets. We have not made any changes to our EPS forecasts.

Investment Opinion

McGuigan-Simeon Wines was formed in June 2002 via the merger of branded wine producer, Brian McGuigan Wines, and wine processor, Simeon Wines. For investors, the attraction is the prospect that MGW can drive improved returns from the SWS assets, as well as improve its product mix and geographic spread via Miranda Wines (acquired September 2003).

Post the merger with Simeon Wines (SWS), MGW's valuation multiples contracted and continue to trade at a discount to its branded domestic peer group, although the gap is narrowing. This reflects the poor earnings track record of SWS and general unease regarding the broader wine outlook. We believe the experience of the MGW management and Board (supported by its track record - further evidenced by the solid FY03 and 1H04 results) can drive improved returns from the SWS assets. The recent purchase of Miranda Wines reduces geographical risk, and augments its position in the sparkling wine and cask segments (the largest with 45% of volumes), where it has traditionally been weak. However, the solid 5% yield, improving returns and continuing double-digit EPS growth are a rarity in this sector. BUY.

Price Chart



Key Data

Code	MGW
Recommendation	BUY
Price	\$4.66
Valuation	\$5.57
Market Cap	\$507.7M
Number of Shares	105M
% of Market	0.0%
% of Sector	0.7%
12 month H/L	\$5.12 - \$3.69
Sector	Consumer Staple

Performance Relative to the All Ords (%)

3 Months	2.2
6 Months	7.9
12 Months	16.1

Performance Relative to the Sectors (%)

3 Months	3.4
6 Months	6.5
12 Months	7.2

Yr to Jun	Rep. Profit (A\$M)	Adj. Profit (A\$M)	EPS (c)	Div (c)	P/E (x)	Yield (%)	Franking (%)	Chg EPS (%)
2002	(47.5)	11.6	24.9	15.0	18.7	3.2	100	33.5
2003	32.2	35.0	36.1	19.5	12.9	4.2	100	44.5
2004	42.5	41.3	40.2	25.8	11.6	5.5	100	11.4
2005	44.7	47.4	45.5	26.0	10.2	5.6	100	13.4

McGuigan Simeon Wines

Recommendation¹: BUY

12M Target: \$5.57

Company risk²: ★★☆☆☆

Share Price risk²: ★★☆☆☆

Ethical rating³: ★★☆☆☆

Year end Jun. All figures in A\$M

Profit & loss summary	2002A	2003A	2004F	2005F	Ratio analysis	2002A	2003A	2004F	2005F
Operating revenue	100.4	290.5	346.2	388.1	Revenue growth (%)	29.5	189.4	19.2	12.1
Invest & other income	0.1	1.1	0.0	0.0	EBITDA growth (%)	30.2	281.7	14.5	7.6
EBITDA	18.3	69.8	80.0	86.1	EPS growth (%)	33.5	44.5	11.4	13.4
Depreciation/Amort	(0.7)	(13.3)	(14.7)	(15.2)	EBITDA/Sales margin (%)	18.2	24.0	23.1	22.2
EBIT	17.6	56.5	65.2	70.9	EBIT/Sales margin (%)	17.6	19.4	18.8	18.3
Net Interest	(1.0)	(10.3)	(9.4)	(5.7)	Tax rate (%)	30.2	30.0	30.7	31.3
Pre-tax profit	16.6	46.2	55.9	65.2	Net debt/equity (%)	54.9	65.4	25.4	17.3
Tax expense	(5.0)	(13.9)	(17.1)	(20.4)	Net debt/net debt + equity (%)	35.5	39.5	20.3	14.8
Minorities/Assoc./Prefs	0.0	(0.1)	(0.1)	(0.1)	Net interest cover (x)	16.9	5.5	6.9	12.5
NPAT	11.6	32.2	38.6	44.7	Payout ratio (%)	60.1	54.1	64.1	57.1
Non recurring items	(59.1)	0.0	4.0	0.0	Capex to deprec'n (%)	308.2	247.6	254.5	259.3
Reported profit	(47.5)	32.2	42.5	44.7	NTA per share (\$)	1.84	2.24	2.64	2.84
NPAT add Goodwill & Pref	0.0	2.8	2.8	2.8	ROA (%)	8.9	10.4	12.0	13.3
Adjusted profit	11.6	35.0	41.3	47.4	ROE (%)	12.4	12.4	12.8	13.6
Cashflow summary	2002A	2003A	2004F	2005F	Multiple analysis	2002A	2003A	2004F	2005F
EBITDA	18.3	69.8	80.0	86.1	Market cap (\$M)		507.7		
Working capital changes	(10.0)	(56.5)	17.4	9.0	Net debt (\$M)		167.9		
Interest and tax	(6.1)	(14.6)	(18.7)	(25.2)	Peripheral assets (\$M)		(0.0)		
Other operating items	(6.4)	(8.7)	18.3	2.4	Enterprise value (\$M)		675.6		
Operating cashflow	(4.2)	(10.0)	97.0	72.3	EV/EBIT (x)	38.3	12.0	10.4	9.5
Required capex	(2.0)	(18.9)	(23.0)	(24.6)	EV/EBITDA (x)	36.9	9.7	8.4	7.9
Maintainable cashflow	(6.2)	(29.0)	73.9	47.7	EV/EBITDA All Ind (x)	8.8	7.9	7.3	6.8
Dividends	(3.8)	0.0	(9.1)	(25.0)	EV/EBITDA rel All Ind (x)	4.2	1.2	1.2	1.2
Acq/Disp	0.0	4.0	0.0	0.0	P/E (x)	18.7	12.9	11.6	10.2
Other investing items	0.4	(3.1)	(0.1)	0.0	P/E rel All Ind (x)	0.8	0.7	0.7	0.7
Free cashflow	(9.5)	(28.0)	64.7	22.7	P/E rel All Ind ex banks (x)	0.7	0.7	0.7	0.7
Equity	1.4	4.3	0.8	0.1	P/E sector (x)	20.3	19.1	16.6	14.4
Debt inc/(red'n)	4.4	24.9	(100.1)	(22.8)	P/E rel sector (x)	0.9	0.7	0.7	0.7
Balance sheet	2002A	2003A	2004F	2005F	Assumptions	2002A	2003A	2004F	2005F
Cash & deposits	2.7	0.8	3.0	0.0	GDP growth (%)	4.65	2.97	3.02	2.73
Inventories	108.3	125.9	120.0	120.0	Interest Rates (%)	4.70	5.38	5.50	5.50
Trade debtors	87.0	125.0	120.0	120.0	Inflation (%)	2.98	2.64	2.74	3.03
Other curr assets	6.2	4.2	10.3	10.7	US\$/A\$ (\$)	0.54	0.62	0.75	0.77
Total current assets	204.1	255.9	253.3	250.7	GBP/A\$ (\$)	0.36	0.38	0.42	0.42
Prop., plant & equip.	170.1	130.3	140.4	152.8					
Non-curr intangibles	54.6	51.8	51.0	48.2					
Non-curr investments	4.5	1.9	3.2	3.1					
Other non-curr assets	38.1	127.0	85.2	87.0					
Total assets	471.3	566.9	533.2	541.8					
Trade creditors	79.7	91.9	90.0	101.2					
Curr borrowings	12.0	2.6	2.6	2.6					
Other curr liabilities	27.9	11.3	20.0	27.9					
Total current liab.	119.5	105.8	112.6	131.7					
Borrowings	114.9	175.1	81.8	56.0					
Other non-curr liabilities	10.8	15.6	18.7	15.8					
Total liabilities	245.2	296.5	213.1	203.6					
Minorities/Convertibles	0.0	(0.0)	(0.0)	(0.0)					
Shareholders equity	226.1	270.5	320.0	338.3					

Notes: 1. The recommendation system rates stocks on a 12 month, absolute basis based on the total return (capital and dividends). BUY denotes an expectation of 15% or more total return; SELL 5% or less; HOLD within the range of 5-15%. ACCEPT OFFER relates to a situation where there is a public offer for shares and our view is to accept that offer. COMM means this research has been commissioned and Aegis has received a fee for publication and therefore it contains no recommendation.

2. The risk ratings are on a 12 month perspective, where five stars denotes low risk and one star denotes high risk. Company risk takes into account expected financial, strategic and execution risks associated with the company. Share price risk is a measure of the expected volatility of the price and other trading factors.

3. The Ethical rating rates a company on an ethical investment basis where five stars denote very good and one star a poor rating. The score is based on four key factors: areas of operating, environmental, corporate governance and social factors. For more information see www.aer.com.au

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