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Beverages

6 May 2002

Australian wine shipment update

Summary

- Australian domestic wine shipments rose 2% in March vs pcp to 3.6M cases. This was disappointing given: the weak yoy comparative, Easter falling in March, and increased domestic competition.
- We believe the flat domestic wine shipment data reflects that consumers are directing their discretionary dollar to purchase household and recreational goods rather than hospitality and services (including wine).
- Bottled wine shipments remain weak — a concern for both large and small producers. For the large producers domestic sales provide the foundation for their international growth, while many small producers are wholly reliant on the domestic market.
- Export volume growth has maintained the robust momentum witnessed 1H02. ABS shipment data recorded a 33% increase in total export volumes in March 2002 to 4M cases. The UK and key North American and Scandinavian markets all experienced strong double-digit volume growth.
- Australia is now shipping more wine internationally than in the domestic market.

Keypoints — March 2002

Australian domestic wine shipments (original data) rose 2% in March to 3.6M cases — assisted by positive volume growth from bottled white and red table wine, red soft pack and sparkling wine. We had anticipated stronger, high -single-digit growth this month given: weak yoy comparatives (Mar 01 grew -2% vs pcp), an early Easter (29 Mar -1 Apr), and increased domestic competition, driven by SRP.

YTD (Jul 01 - Mar 02) wine shipment growth remains flat vs pcp (32.3M cases), and below our forecast growth (+2%). Interestingly this weakness is paralleled in the weak growth trend witnessed in hospitality and services retail turnover (as per ABS 8501.0). YTD consumers' discretionary spend appears to be directed towards household goods, recreational goods, and clothing and soft goods — despite aggressive price promotion. We question whether our FY02 target will be achieved given 4Q01's robust +13.5% volume growth.

The momentum witnessed in February bottled table wine shipments (+16% vs pcp) stalled in March, with shipments rising only 2.5% vs pcp. This was a disappointing outcome given the weak growth in the comparative period (-1%). This slower growth was common to both white (+2% vs pcp) and red (+3% vs pcp) styles. Given the promotional offers currently available (eg Rosemount's 16 bottles for the price of 12, plus cooler), we had anticipated strongervolume growth from this category in March.

Southcorp's re-entry into the soft pack market did not stimulate volume growth in March. Total soft pack volumes rose 4% vs pcp. The positive growth was driven by a 15% lift in red soft pack. White soft pack volumes fell 1% vs pcp. Soft pack volumes have risen 3% YTD (Jul 01 - Mar 02) vs pcp, which is ahead of our +1.3% forecast and the five-year historic trend (+2.3%). We currently attribute this to the increased breadth of varietal offer and packaging sizes, rather than the increased competition as SRP has only just launched its Lindemans and Queen Adelaide 3 litre offerings.

Sparkling wine continues to slowly regain the volume growth lost following the Millennium inventory overhand and the introduction of GST. Total sparkling shipments rose 2% in March vs pcp, although growth remains negative YTD (-5.7%). The strong growth in ready -to-drink (RTD) beverages, particularly amongst female 18 –25 year olds, has constrained growth in bulk -fermented sparkling wines (ie those retailing sub A\$7.00). Southcorp is the primary producer affected in that category.

The ABS made no revisions in March to historic domestic Australian wine sales data.

In March Australian wine producers exported 4.0M cases, which represents a lift of 33% using ABS comparative data (+18% using AWEC data). YTD (Jul 01 –Mar 02) export volume growth is tracking around 20%. North American shipments were strong in March with US shipment volumes rising 70% vs pcp and Canada +34%. The strong lift in March US shipment data echoes the acceleration in category volume growth recorded by AC Nielsen over the March quarter. For the 13 weeks to 13 April 2002 the Australian category grew 26.3%, which is nearly double the 14.7% growth rate recorded for the 13 weeks to 19 Jan 2002.

Other strong growth markets included: Netherlands +115% vs pcp, Denmark +37% and UK +9%. Shipment volumes into the UK have retained momentum YTD (Jul 01 –Mar 02), rising 17% vs pcp (FY01 volume growth +18%). We believe this reflects Australian producer early recognition that premium wine has evolved into a fast moving consumer good (FCMG) in the UK, and producers' willingness to work with retailers and deliver the requisite promotional support. This is relevant, as UK retailers have identified wine as a growth category with the potential to drive profit growth above GDP. Shipment growth to the UK is currently tracking ahead of our 15.5% target.

For the first time in seven months, import volumes fell 6% vs pcp, which was driven by an 11% fall in table wine imports. YTD (Jul 01 –Mar 02) total imports have risen 13% vs pcp. Retailer feedback suggests some consumers of super premium wines are switching from Australian super premiums to imports, with a preference for Italian wines. This switch will place added pressure on small producers that rely on the domestic super premium market. Super premium sales growth has slowed over the past 12 months and many producers are holding excess inventory from the high volume V01 harvest.

TABLE1:AUSTRALIANANDIMPORTEDDOMESTICWINESHIPMENTGROWTH

June year ended	1999	2000	2001	F02YTD growth	2002E	2003E	2004E	2005E	CAGR 1996-01	CAGR 2001-05E
Case volumes(m)										
Tablewine – bottled(1)	13.0	14.8	16.1	12.4	16.9	18.2	19.4	20.8		
Tablewine – softpack(2)	18.1	18.7	19.5	14.9	19.7	20.0	19.9	19.9		
Sparklingwine	3.6	3.6	3.4	2.7	3.3	3.4	3.4	3.4		
Fortifiedwine	2.7	2.6	2.5	1.6	2.3	2.3	2.2	2.1		
Domestic sales of Austwine	38.7	41.0	42.9	32.3	43.8	45.2	46.4	47.7		
Imported wine(3)	2.7	2.2	1.4	1.3	1.3	1.3	1.4	1.5		
Shipment growth										
Tablewine – bottled(1)	10.6%	13.5%	8.9%	1.8%	5.3%	7.2%	7.0%	7.0%	11.4%	6.6%
Tablewine – softpack(2)	-2.4%	3.5%	4.2%	2.9%	1.3%	1.2%	-0.1%	0.0%	2.3%	0.6%
Sparklingwine	5.0%	-0.1%	-5.9%	-5.7%	-2.0%	0.5%	0.5%	0.5%	0.3%	-0.1%
Fortifiedwine	-2.7%	-3.9%	-3.5%	-5.7%	-5.0%	-3.0%	-3.0%	-3.0%	-3.0%	-3.5%
Domestic sales of Austwine	2.8%	6.0%	4.6%	0.1%	2.1%	3.2%	2.6%	2.8%	4.5%	2.7%
Imported wine(3)	-5.2%	-19.3%	-34.8%	12.9%	-5.0%	0.0%	6.0%	6.0%	-8.8%	1.6%

NOTES:

- 1.F00bottledshipmentgrowthartificiallyliftedbyABS'inclusionofCellarmaster'sownwines.Unabletoadjusthistoricdata.
- 2.F00softpackgrowthassistedbysomeproducersmovingbacktouseofAustralianreds.During1997and1998 redsoftpackwassupplementedbySpanishandChileanreds.
- 3.Includestablewine,sparkling&other.GrowthforecastsarebasedonAustsupplyscenarioandASSIRT'sAUDrateforecasts

Source: ABSCatNo8504.0andASSIRTEquitiesResearch

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