

Simonds Farsons Cisk p.l.c.


**Stock Rating**  
 Price target (1Yr)

**Hold**  
**€11.66**

### Update to Price Target and Investment Stance:

We have reviewed our model and upgrade our recommendation on Simonds Farsons Cisk plc (“SFC” or “Group”) from a Sell to a Hold with an updated 12-month price target of €11.66 from our previous target of €9.59.

Our improved price target primarily relates to the adoption of a lower discount rate mainly due to the general decline in interest rates and associated risks of the Group in our income based approach, as well as revised multiples embedded within our market based approach, together with the continued strong financial performance and outlook of the Group.

The current P/E level (22.4x) at which the Group is trading at, is considered to be relatively attractive in comparison to international industry peers. In arriving at our price target, we utilised a P/E ratio of 23x, in which we deem to be in line with the foreign industry average (P/E Carlsberg: 23.4x), therefore we expect the share price to reflect such reality moving forward. This, coupled with the fact that SFC is considered as a defensive stock, solidifies our Hold recommendation given the strong demand we are seeing for this sector.

The increase in our price target is also attributable to the Group’s recent year-on-year improved financial performance and outlook of measured growth, in line with the expectations for a mature company. SFC registered a strong record of accomplishment during H1 2020, whereby EBITDA excluding the impact of IFRS 16 increased by a healthy 5.8%.

The Group is continuing to invest heavily within the food and beverage industry in Malta, which should keep momentum going in the right direction. Albeit we believe that the share price currently reflects all the economic expectations of the Group and is trading at fair value. Upon taking the above factors into consideration, we rate the shares a Hold.

### Update following issuance of 2019 interim financials:

SFC is engaged in the brewing, production, sale and distribution of branded beers and beverages, the importation, wholesale and retail of food and beverages, including wines and spirits, and the operation of franchised food retailing establishments.

During H1 2019 SFC continued with the restoration and rehabilitation project of the Farsons Old Brewhouse, which is expected to cost in the region of €10 million and scheduled to be completed during Q1 2021. As at July 19, the Group also invested in a more environmentally friendly car and truck fleet, together with additional investment in energy-efficient plant.

Country	Malta
Industry	Food and Beverage
Ticker	SFC
Price (as at 25/11/2019)	€11.50
Price Target (1 Year)	↑€11.66 -previous PT €9.59
Upside / Downside to PT	+1.4%
12 Month Cash Dividend	€0.14
12 Month TSR	2.6%

Market Cap	€345million
Shares Outstanding	30million
Free Float	20.7%

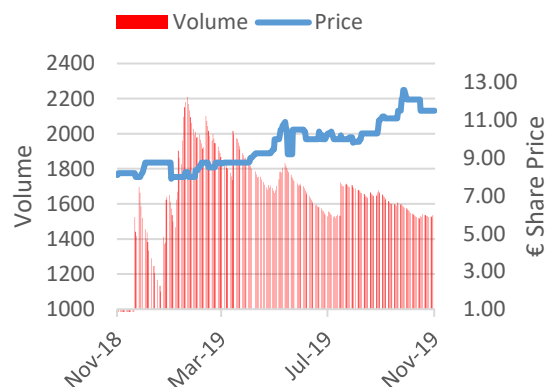
Net Dividend Yield*	1.16%
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Current P/E*	22.4x
Forward P/E**	22.7x

\*Based on the 2019 Last Twelve Months (LTM)  
 \*\* CC estimates

Exchange	Malta Stock Exchange(MSE)
52-week range	€7.90 - €12.60

#### Price and Volume Movement (20 day moving average)



Source: Bloomberg

#### Market Research



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## Valuation

Our one year price target is €11.66. The price target is calculated using a Free Cash Flow to the Firm (“FCFF”) model and a discount rate (WACC) of 6.3%. We substantiated our price target using a Price Earnings (P/E) model with a P/E ratio of 23x.

The applied WACC reflects mainly the Group’s exposure to the Maltese economy together with the high degree of competition experienced within the food and beverage market in Malta. We applied a 2% terminal growth rate, mainly reflecting recent domestic and international economic growth trends.

€'000s unless otherwise stated	FY 2017	FY 2018	FY2019	2020LTM <sup>1</sup>	FY2020F <sup>2</sup>	FY2021P
Revenue	88,119	94,980	99,798	101,829	103,700	106,811
Adjusted cost of sales	(48,151)	(52,807)	(54,867)	(56,509)	(57,111)	(58,824)
<b>Gross Profit</b>	<b>39,968</b>	<b>42,173</b>	<b>44,931</b>	<b>45,320</b>	<b>46,589</b>	<b>47,987</b>
Adjusted selling and distribution expenses	(9,263)	(8,895)	(9,985)		(10,464)	(10,778)
Adjusted admin expenses (exl. Dep & Amort)	(10,022)	(11,167)	(11,726)	(20,900)	(12,237)	(12,604)
Other operating expenses	(21)	-	-		-	-
<b>EBITDA</b>	<b>20,662</b>	<b>22,111</b>	<b>23,220</b>	<b>24,420</b>	<b>23,889</b>	<b>24,605</b>
Depreciation & amortisation	(6,698)	(6,900)	(7,348)	(8,649)	(7,730)	(8,049)
Inventory depreciation adjustment	(1,112)	(549)	(538)		(538)	(538)
<b>EBIT</b>	<b>12,852</b>	<b>14,662</b>	<b>15,334</b>	<b>15,771</b>	<b>15,621</b>	<b>16,018</b>
Finance Income	5	-	-	-	-	-
Finance Costs	(1,470)	(1,207)	(1,239)	(1,332)	(1,168)	(1,046)
<b>Profit Before Tax</b>	<b>11,387</b>	<b>13,455</b>	<b>14,095</b>	<b>14,439</b>	<b>14,452</b>	<b>14,972</b>
Income tax expense	471	949	1,036	980	750	750
<b>Profit Available to Ordinary Equity holders</b>	<b>11,858</b>	<b>14,404</b>	<b>15,131</b>	<b>15,419</b>	<b>15,202</b>	<b>15,722</b>
(Loss)/ profit - discontinued operations	274	(642)	-	-	-	-
<b>Profit for the year</b>	<b>12,132</b>	<b>13,762</b>	<b>15,131</b>	<b>15,419</b>	<b>15,202</b>	<b>15,722</b>
<i>Earnings Per Share</i>	<i>0.404</i>	<i>0.459</i>	<i>0.504</i>	<i>0.514</i>	<i>0.507</i>	<i>0.524</i>

Ratio Analysis	FY 2017	FY 2018	FY2019	2020LTM	FY2020P	FY2021P
Revenue Growth (YoY)	2.4%	7.8%	5.1%	2.0%	3.9%	3.0%
EBIT Margin	14.6%	15.4%	15.4%	15.5%	15.1%	15.0%
EBITDA Margin	23.4%	23.3%	23.3%	24.0%	23.0%	23.0%
Net Margin	13.8%	14.5%	15.2%	15.1%	14.7%	14.7%

Source: Financial Statements / CC Estimates

## Investment Thesis Variables Update

- **Revenue** – During H1 2020, revenue increased by 4% in comparison to the previous corresponding period, resulting in an increase in turnover of 2% to €101.8 million as per 2019 LTM results. This increase is mainly attributable to an improvement in revenue generation across SFC’s all operating segments.

As at July 2019, the ‘brewing, production and sales of beer and branded beverages’ remained the largest contributor towards the Group’s revenue (54%), with an increase of 4.8% over H12019. Moreover, the

<sup>1</sup> LTM 2020 figures are calculated by adding the interim results (H1) of 2020 with the audited results of FY 2019, less H1 2019.

<sup>2</sup> Our forecasted figures do not take into account the implications brought about by IFRS16, where most leases have been capitalised as from 1<sup>st</sup> January 2019.

operation of the franchised food retailing establishments maintained the steady growth experienced in recent years with an increase in turnover of 8.6%. This growth was registered across the 14 outlets operated by Food Chain Ltd. Additionally, the 'beverage and food importation' segment registered an increase of 1.2% in turnover over H1 2019.

In line with management's expectations, we anticipate the Group's overall revenue to amount to €103.7 million during FY2020. Thereafter, we expect revenue to increase by 3% on a yearly basis.

- **Operating expenses** – These mainly consist of cost of sales, selling & distribution costs together with administrative expenses. Cost of goods sold incurred as per 2019 LTM 2019 increased by 3.0% to €56.5 million, in line with the increase in revenue during H1 2020. We expect cost of goods sold to increase to €57.1 million in 2020 and to €58.8 million in 2021, reflecting the increase in revenue which is anticipated to be generated by the Group going forward.

Selling & distribution costs together with administrative expenses incurred during H1 2020 collectively decreased by 8.1% over H1 2019. Such decline is mainly attributable to several efficiency oriented measures implemented by the Group over recent years. We expect the latter to collectively amount to €22.7 million during FY 2020. It is pertinent to note that we have excluded the implications of IFRS 16 given the limited information presented in the interim financial statements.

- **EBITDA** – EBITDA for H1 2020 amounted to €12.3 million, implying an improvement of 10.8% or €1.2 million over H1 2019. The uplift during this period arose from the improved results and cash flow together with the impact of the implementation of IFRS 16. Excluding the impact of IFRS 16, the Group attained a positive improvement of 5.8% over the previous first half of the year. We anticipate EBITDA to further improve to €23.9 million during FY2020.
- **Depreciation** - Annual depreciation charge is incurred on the Group's land and buildings, assets in the course of construction and on plant, machinery and equipment. In line with the Group's planned capital expenditure for the coming years, we expect annual depreciation to increase to €7.7 million in FY 2020 and to €8.0 million in FY 2021. Given that our valuation excludes the implications of IFRS 16, low levels of depreciation are forecasted.
- **Inventory write-down adjustment** – The Group provides for an annual charge to write down the costs over the useful life of its inventory.
- **Finance costs** – Finance costs incurred as per 2019 LTM results relate to interest payable on bank loans and overdrafts and on the Group's €20 million bond. We expect the Group to incur finance costs amounting to €1.2 million in 2020 and €1 million in 2021. Lower levels of finance costs are forecasted in line with the exclusion of IFRS 16 from our valuation.
- **Taxation** – The Group is subject to a corporate tax rate of 35% on its profit before tax. In line with the investment tax credits in which SFC is entitled to, we expect the Group to receive €0.8 million in tax income during FY 2020.
- **Net Profit** – Net profit increased from €15.1 million in FY 2019 to €15.4 million as per 2020 LTM. This translates to an EPS of €0.504 in 2018 compared to an EPS of €0.514 as per LTM results. We expect SFC's net profit to remain at this level and amount to €15.2 million during FY 2020.

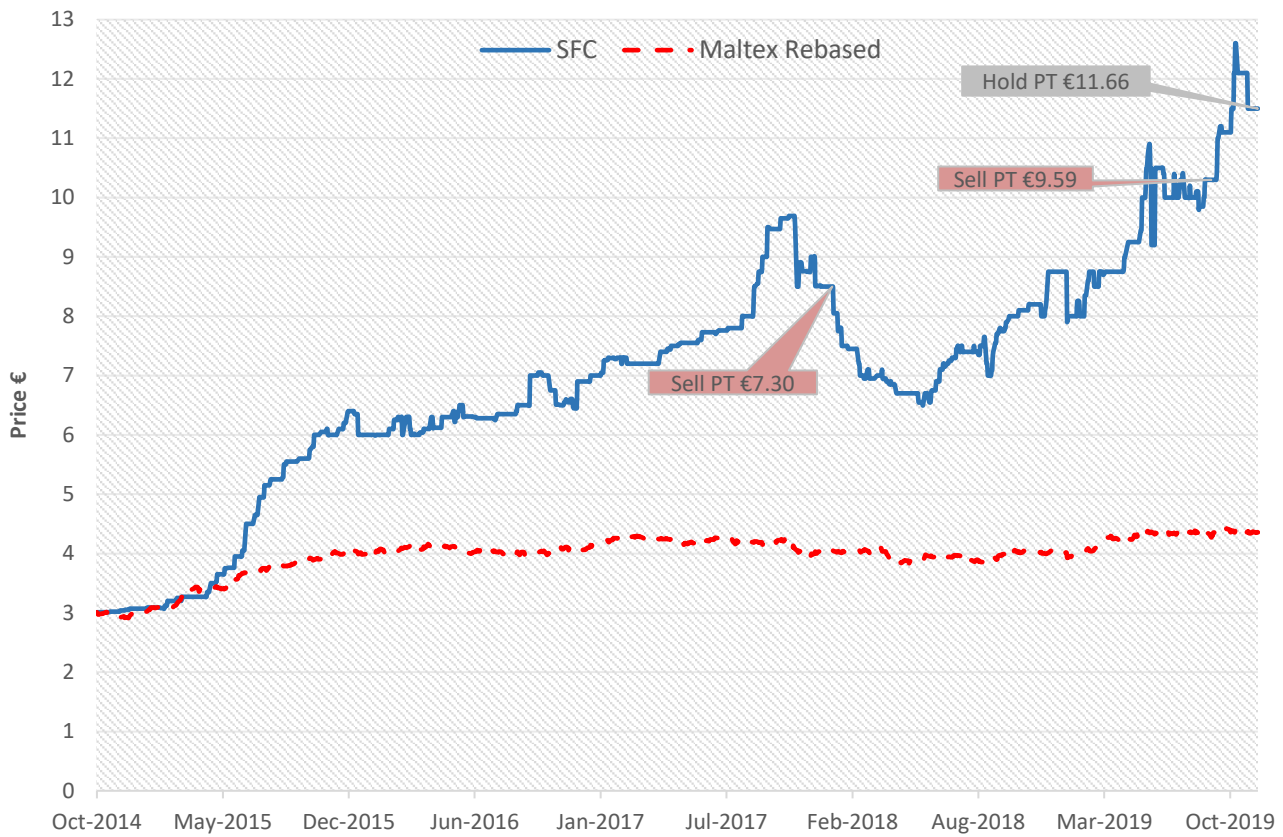
## Key Financial Indicators

For the years ending 31st January	2017 €'000	2018 €'000	2019 €'000	2020 LTM €'000
<b>Income Statement</b>				
Revenue	88,119	94,980	99,798	101,829
<i>Growth in Revenue (YoY)</i>	2.4%	7.8%	5.1%	2.0%
EBITDA	20,662	22,111	23,220	24,420
EBITDA Margin (EBITDA / Revenue)	23.4%	23.3%	23.3%	24.0%
Operating Income (EBIT)	12,852	14,662	15,334	15,771
Operating (EBIT) Margin (EBIT / Revenue)	14.6%	15.4%	15.4%	15.5%
Net Income	12,090	13,720	15,091	15,419
Net Margin (Net Income / Revenue)	13.7%	14.4%	15.1%	15.1%
Earnings per Share (EPS)	0.40	0.46	0.50	0.51
<i>Growth in EPS (YoY)</i>	8.9%	13.5%	10.0%	2.2%
Sustainable Growth Rate in Dividends	7.5%	9.2%	10.8%	10.4%
<b>Balance Sheet</b>				
Cash and Cash Equivalents	768	3,720	7,578	-
Inventories	14,569	15,165	13,652	n/a
Current Assets	64,948	163,528	170,996	48,817
Non-Current Assets	117,993	127,100	127,553	136,449
Total Assets	182,941	290,628	298,549	185,266
Current Liabilities	26,434	32,444	26,637	32,117
Non-Current Liabilities	33,236	34,452	36,086	41,479
Total Liabilities	59,670	66,896	62,723	73,596
Total Financial Debt	35,963	42,834	40,695	n/a
Total Equity	123,271	96,632	108,273	111,670
Net Debt	35,195	39,114	33,117	n/a
Shares Outstanding	30,000	30,000	30,000	30,000
<b>Cash flow</b>				
Cash Flow from Operating Activities (CFO)	13,135	20,893	16,200	18,076
Capex	(20,070)	(15,204)	(6,602)	n/a
Free Cash Flow (FCF)	(6,935)	5,689	9,598	n/a
Cash Flow from Investing Activities	(19,714)	(21,407)	(6,587)	(10,254)
Cash Flow from Financing Activities	4,091	(656)	(1,402)	(6,501)
<b>Ratios</b>				
<b>Profitability</b>				
Return on Common Equity (Net Income / Common Equity)	10.4%	12.5%	14.7%	14.0%
Return on Assets (Net Income / Total Assets)	6.6%	4.7%	5.1%	8.3%
<b>Solvency</b>				
Gearing Ratio Level 1 (Net Debt / Total Equity)	28.6%	40.5%	30.6%	n/a
Gearing Ratio Level 2 (Total Liabilities / Total Assets)	32.6%	23.0%	21.0%	39.7%
Net Debt / EBITDA	1.7	1.8x	1.4x	n/a
Current Ratio (Current Assets / Current Liabilities)	2.46	5.0x	6.4x	1.5x
Quick Ratio (Acid Test Ratio)	1.91	4.6x	5.9x	n/a
Interest Coverage Ratio (EBITDA)	14.1	18.3x	18.7x	18.3x
Cash from Operations / EBIT	102%	1.4x	1.1x	1.1x

Source: Audited Financial Statements

**Historical 1 Year Price Target**

Reference	Date	Price	Price Target	Analyst	Recommendation
SFC	26.11.2019	€11.50	€11.66	Simon Psaila & Andrew Fenech	Hold
SFC	02.09.2019	€10.30	€9.59	Simon Psaila & Andrew Fenech	Sell
SFC	08.01.2018	€8.50	€7.30	Simon Psaila & Elisabetta Gaudiano	Sell



Source: Audited Financial Statements

## Glossary and Definitions

Income Statement	
Revenue	Total revenue generated by the Group/Company from its principal business activities during the financial year.
EBITDA	EBITDA is an abbreviation for earnings before interest, tax, depreciation and amortisation. It reflects the Group's/Company's earnings purely from operations.
Operating Profit (EBIT)	EBIT is an abbreviation for earnings before interest and tax.
Depreciation and Amortisation	An accounting charge to compensate for the decrease in the monetary value of an asset over time and the eventual cost to replace the asset once fully depreciated.
Net Finance Costs	The interest accrued on debt obligations less any interest earned on cash bank balances and from intra-group companies on any loan advances.
Net Income	The profit made by the Group/Company during the financial year net of any income taxes incurred.
Profitability Ratios	
EBITDA Margin	EBITDA as a percentage of total revenue.
Operating (EBIT) Margin	Operating margin is the EBIT as a percentage of total revenue.
Net Margin	Net income expressed as a percentage of total revenue.
Return on Common Equity	Return on common equity (ROE) measures the rate of return on the shareholders' equity of the owners of issued share capital, computed by dividing the net income by the average common equity (average equity of two years financial performance).
Return on Assets	Return on assets (ROA) is computed by dividing net income by total assets.
Earnings per Share (EPS)	Earnings per share (EPS) is the amount of earnings per outstanding share of a Group's/Company's share capital. It is computed by dividing net income by total shares outstanding as at the statement of financial position date.
Dividends Ratios	
Dividend per Share	Dividend per Share is the amount of dividends per outstanding share of a Group's/Company's share capital. It is computed by dividing net dividends by total shares outstanding as at the statement of financial position date.
Sustainable Growth Rate in Dividends	This ratio indicates the sustainable growth rate of dividends given the profitability of the Group/Company and the respective level of dividends distribution.
Dividends Yield as at year-end	This ratio indicates how much a Group/Company pays out in dividends each fiscal year relative to its share price. It is computed by the dividing the Dividend per Share by the share price as at year-end.
Cash Flow Statement	
Free Cash Flows (FCF)	The amount of cash the Group/Company has after it has met its financial obligations. It is calculated by taking Cash Flow from Operating Activities less the Capex of the same financial year.
Balance Sheet	
Total Debt	All debt obligations inclusive of long and short-term debt.
Net Debt	Total debt of a Group/Company less any cash and cash equivalents.
Shares Outstanding	Outstanding shares refer to the Group/Company stock currently held by all its shareholders.
Financial Strength Ratios	
Current Ratio	The Current ratio (also known as the Liquidity Ratio) is a financial ratio that measures whether or not a company has enough resources to pay its debts over the next 12 months. It compares current assets to current liabilities.
Quick Ratio (Acid Test Ratio)	The quick ratio measures a Group's/Company's ability to meet its short-term obligations with its most liquid assets. It compares current assets (less inventory) to current liabilities.
Interest Coverage Ratio	The interest coverage ratio is calculated by dividing EBITDA of one period by cash interest paid of the same period.
Gearing Ratio	The gearing ratio indicates the relative proportion of shareholders' equity and debt used to finance total assets.
Gearing Ratio Level 1	Is calculated by dividing Net Debt by Total Equity.
Gearing Ratio Level 2	Is calculated by dividing Total Liabilities by Total Assets.
Net Debt / EBITDA	The Net Debt / EBITDA ratio measures the ability of the Group/Company to repay its debt through EBITDA generation.
Cash from Operations / EBIT	This ratio measures the ability of the Group/Company to convert its earnings into cash.

## Explanation of Equity Research Ratings

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**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, we do not recommend either a Buy or Sell. Current shareholders should consider buying on dips and selling on peaks.

Newly issued research recommendations and target prices supersede previously published research.

## Disclaimer

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