

SFC: What lies ahead?

Companies focused on manufacturing operations, particularly those catering for the food and beverage market, are expected to be materially impacted by the disruptions brought about by the COVID-19 outbreak in the months ahead. There can be no doubt that the suspension of international travel and the closure of hotels, restaurants, bars and other outlets will have a material impact on both the food and beverages sectors of the Group's business. This uncertainty has been reflected in the recent local equity market sell-off, with SFC's share price dropping to a low point of €8.00 over the past couple of weeks, reflecting a decline of 36.5% from the recent high of €12.60.

In an attempt to protect and preserve the financial strength of the Group, SFC recently confirmed that several measures have been put in place in order to mitigate the impact of the current situation. Such measures mainly include strict costs containment and working capital measures, lower production runs, together with the deferral of a number of capital expenditure programmes.

Despite the COVID-19 situation, SFC is uniquely positioned and benefits from a large market share in terms of the local food and beverage market. Additionally, the Group has a strong credit profile, which should prove to be beneficial if additional financing is required to further combat the current pandemic. Moreover, SFC has a positive track record of outperforming expectations, whereby during the first half of the current financial year¹, excluding the impact of IFRS 16, the Group attained a positive improvement of 5.8% in EBITDA on a comparative basis.

Although a material impact on SFC's FY21 financial performance and possibly beyond is expected, the investments carried out by the Group over recent years have ensured that SFC is well equipped to increase operational efficiency and to respond to the ever-changing local market conditions, especially in a post COVID-19 world, whereby consumer habits are expected to change.

With COVID-19 developments still very fluid, the outlook of the local economy still remains uncertain, especially with the lack of visibility as to when economic normality might resume. In this regard, we do not feel comfortable at current price levels to add positions in the stock until the situation stabilises and the aforementioned restrictions will start to be overturned. It is worth noting however that the Group has strong fundamentals and further downward movement in the share price could provide a good entry point.

H1-20 financial results: Robust financial performance

As per latest results, SFC registered a solid financial performance, with net profit increasing by 4.7% over H1-19. This improvement is attributable to an increase in revenue generation across SFC's all operating segments. During H1-20, SFC continued with the restoration project of the Farsons Old Brewhouse.

Company update:

As per FY20 interim results, the Group resolved to distribute a net interim dividend of €1m or €0.033/share in respect of the current financial year (H1-19: €1m or €0.033/share). The Group typically maintains a dividend pay-out ratio of circa 28-26%, whereby total dividend for FY19 stood at €0.133 per share.

	FY17	FY18	FY19	CAGR/AVG
Revenue (€'m)	88.1	95.0	99.8	6.4%
Net profit (€'m)	12.1	13.8	15.1	11.7%
CC Adj. EPS (€)	0.404	0.459	0.504	11.7%
DPS (€)	0.113	0.120	0.133	8.5%
Dividend pay-out	28.0%	26.2%	26.4%	26.9%

¹ The Group's financial year-end is 31st January

Country	Malta
Industry	Food and Beverage
Ticker	SFC
Price (as at 27/04/2020)	€8.10
Market Cap	€243.0m
Ranking on the MSE	8 th largest market cap
Shares Outstanding	30m
Free Float	20.7%

Net Dividend Yield*	1.6%
Current P/E (FY19)	16.1x

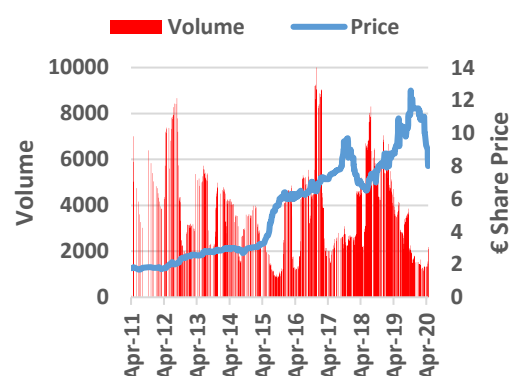
*based on the 2020 last twelve months (LTM)

Company Overview:

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.

Exchange	Malta Stock Exchange (MSE)
5-year range	€3.27 - €12.60

Price and Volume Movement (20 day moving average)



Source: Bloomberg

Market Research



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