

EQUITY NOTE



3 August 2018

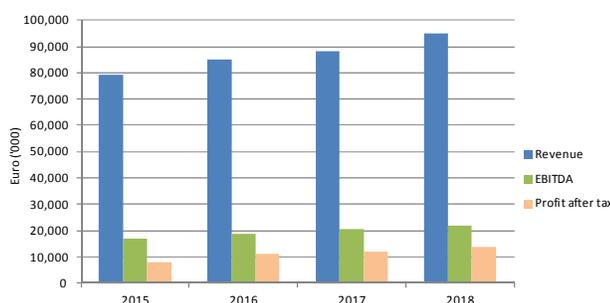
COMPANY DATA

Sector	Food and Beverage
Ticker	SFC MV
ISIN	MT0000070103
Last Price (€)	7.50
Market Cap. (€'000)	225,000
Net Dividend Yield	1.60%
Price/Earnings Ratio	16x
Free-Float	20.68%
2018 Low (€)	6.50
2018 High (€)	8.50

PERFORMANCE OVERVIEW

During the financial year ended 31 January 2018 (FY2018), the Group generated record revenues of €95.0 million (FY2017: €88.1 million), an increase of 8% when compared to the prior year. This had a positive effect on EBITDA (earnings before interest, tax, depreciation and amortisation), which increased by 7% from €20.7 million in FY2017 to €22.1 million. The operating profit margin was maintained at 23%. The Group reported a profit after tax of €13.8 million, an increase of €1.6 million (+13%) over the corresponding year (FY2017: €12.1 million).

SFC Group Operational Performance



COMPANY SUMMARY

Simonds Farsons Cisk p.l.c. (the "Group") is engaged in the brewing, production, sale and distribution of branded beers and beverages, as well as the importation, wholesale and retail of food and beverages including wines and spirits. The Group is also engaged in the operation of franchised food retailing establishments.

MARKET TRENDS AND DEVELOPMENTS

In 2017, the Maltese economy continued to register positive results and tourism hit a new high at almost 2.3 million arrivals. Weather conditions were largely favourable, which positively affected consumption of beers and water. Furthermore, mass public events related to the General Election in May 2017 boosted beverage consumption, particularly beers, to above average levels. The importation & distribution segment and the operation of franchised outlets both registered y-o-y sales growth during 2017.

In contrast, the continued spotlight on the link between obesity and soft drink consumption exerted pressure on consumption, with many consumers shifting to 'healthier' beverages and this trend is likely to persist in the coming years. Moreover, certain ongoing issues such as the use of plastic packaging and its impact on the environment may adversely impact the Group's financial results in future due to additional costs.

OUTLOOK

Looking forward, the Group remains focused on innovation and the production of high quality products in order to retain competitiveness in the local market. In recent years, the

Group has increased its efforts on internationalising the business which is still in the initial stages. After completing a multi-million euro capital expenditure programme in FY2018, the Group will reduce considerably such expenditure and concentrate more on improvements in operating processes and productivity.

SWOT ANALYSIS

Strengths

- The Group has significant experience in the food and beverage industry in Malta through seven decades of operations.
- The Group offers a wide selection of products, including own brands (such as Cisk Lager and Kinnie) as well as world-renowned brands.
- Continual investment in plant, equipment and factory operations has enabled the Group to enhance flexibility and efficiency, and thereby maintain competitiveness in its market.
- A number of acquisitions executed over the years has allowed the Group to grow its product line at a faster rate.

Weaknesses

- Revenue generated by the Group is correlated to the performance of the tourism sector and weather conditions in Malta.
- The Group operates in a highly competitive market and particularly, must compete with internationally-renowned brands. This limits the Group's ability to increase prices as and when operating costs rise.
- The Group principally operates in Malta and thus is highly dependent on the performance of the local economy.
- The Group's ability to maximise the full potential of the recently undertaken capital expenditure programme may be limited given the small size of the Maltese consumer market.

Opportunities

- The Group's management is constantly monitoring major trends in the food and beverage industry worldwide. As such, given its sound financial position, the Group is able to invest in new opportunities as and when they arise.
- Management is presently focused on internationalising the Group's business. If successful, it will enhance positively the financial results of the Group.

Threats

- Ongoing campaigns to reduce consumption of soft drinks may adversely impact the Group's revenues.
- Increase in competition from importers of food and beverages may reduce the Group's market share.
- Costs relating to environmental issues (such as the use of plastic packaging) and other operating costs (including salaries) may increase without a corresponding increase in prices.
- A slowdown in the Maltese economy (particularly from the tourism industry) may adversely affect the Group's financial results.

COMPANY PROFILE

The origins of Simonds Farsons Cisk p.l.c. (the “Company” or “Group”) date back to 1928 when the first locally brewed beer, Farsons Pale Ale was launched in 1928 by L. Farrugia & Sons Limited a few months after the Company’s Hamrun Brewery was completed. A year later, L. Farrugia & Sons merged with H & G Simonds, brewers from Reading in the UK who were engaged in the shipment of regular supplies of beer to the island since 1880. The new company was called Simonds Farsons Limited.

Simonds Farsons Cisk Limited came into being in 1948 as the result of a merger between Simonds Farsons Limited and The Malta Export Brewery which was a competing brewery marketing its Cisk Pilsner beer in Malta and North Africa. Following this merger, it was decided to invest in a new brewery, and construction works started on a site at Mrieħel. Construction of the brewery was carried out under the direction of the Managing Director Mr Lewis V. Farrugia, an architect by profession.

Further enhancements and additions to the brewery were undertaken over the years, extending the facilities to bottling plants for soft drinks as the Group embarked on an expansionary strategy across various segments of the food and beverage industry.

During the last few years, the Group undertook a multi-million euro investment programme to modernise its brewing and beverage production facilities. In FY2017, the Group’s facilities were complemented with an extension of the dedicated logistics centre, featuring a 40% increase in warehousing capacity and the introduction of a shuttle pallet transfer system resulting in more efficient space utilisation. Furthermore, investment for the modernisation of the packaging capabilities was made in a new Keg Plant which comprises new filling machines for kegs and 18.9 litre bottles equipped with two robotic arms.

During FY2017, the Group also concluded the process which led to the spin-off of a substantial part of its property portfolio through the listing of Trident Estates p.l.c. (previously known as Trident Developments Limited) on the Malta Stock Exchange.

SHAREHOLDING STRUCTURE

The issued share capital of the Company amounts to €9,000,000, made up of 30,000,000 ordinary shares of a nominal value of €0.30. As at 16 May 2018, the company’s issued share capital was held by 1,887 shareholders, of which, shareholders holding 5% or more of the share capital included Farrugia Investments Limited (26.50%), M.S.M. Investments Limited (26.50%) and Sciclunas Estates Limited (26.32%).

BUSINESS OVERVIEW

Simonds Farsons Cisk p.l.c. is one of the leading food and beverage companies in Malta with a large and diverse portfolio of brands. The Group reports its productive and commercial operations in three segments, as follows:

(i) **Brewing, production and sale of branded beers and beverages**

‘Brewing, production and sale of branded beers and beverages’ represents the core business of the Group, and comprises all the activities of the parent company - Simonds Farsons Cisk p.l.c. and the operations of two subsidiaries, namely, Farsons Distribution Services Ltd and EcoPure Ltd. This segment generates more than half of the Group’s annual revenue and is a major contributor to the Group’s financial performance and growth. In FY2018, revenue derived from this segment amounted to €52.7 million or 53% of aggregate Group turnover.

(ii) Importation, wholesale and retail of food and beverages, including wines and spirits

In addition to the core business, the Group is engaged in the importation and distribution of a wide range of food and beverage brands. The operations are carried out by Quintano Foods Ltd and Farsons Beverage Imports Company Ltd.

(iii) Operation of franchised food retailing establishments

The Group operates a total of fourteen outlets of internationally-renowned franchises - Pizza Hut™, Burger King™ and KFC™ in Malta through Food Chain Ltd.

FINANCIAL REVIEW

The following table provides the historical financial performance of the Group for the financial years ended 31 January 2015 to 2018. The financial information has been extracted from the Group's Annual Reports relating to the above-mentioned financial years. The projected financial information for FY2019 detailed below has been extracted from the financial analysis summary dated 16 July 2018. **Projections relate to events in the future based on assumptions which the Group's directors believe to be reasonable.**

Simonds Farsons Cisk p.l.c.

Condensed Consolidated Income Statement

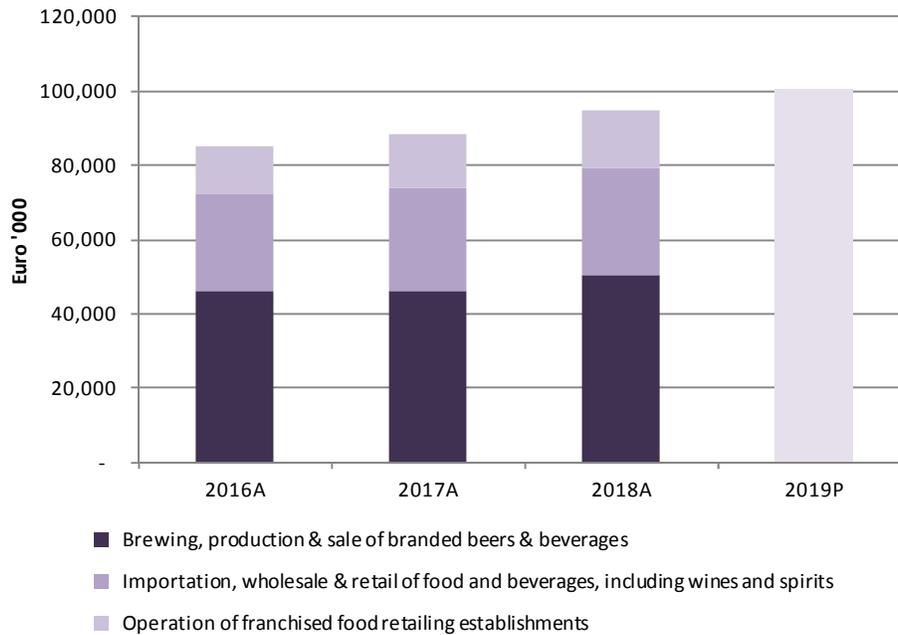
for the financial year 1 February to 31 January

	2016A	2017A	2018A	2019P
	€'000	€'000	€'000	€'000
Revenue	84,918	88,119	94,980	100,673
<i>Brewing, production & sale of branded beers & beverages</i>	46,239	46,146	50,494	n/a
<i>Importation, wholesale & retail of food and beverages, including wines and spirits</i>	26,282	27,516	28,960	n/a
<i>Operation of franchised food retailing establishments</i>	12,397	14,457	15,526	n/a
Cost of Sales	(51,924)	(53,683)	(57,920)	(61,157)
Gross Profit	32,994	34,436	37,060	39,516
Selling and distribution costs	(10,170)	(10,712)	(10,332)	(11,554)
Administrative expenses	(11,078)	(10,851)	(12,066)	(14,011)
Other operating expenses	(271)	(21)	-	-
EBIT¹	11,475	12,852	14,662	13,951
Finance Income	14	5	-	-
Finance Costs	(1,377)	(1,470)	(1,207)	(1,211)
Profit before tax	10,112	11,387	13,455	12,740
Taxation	869	471	949	500
Profit for the year from continuing operations	10,981	11,858	14,404	13,240
Discontinued operations:				
Profit for the year from discontinued operations	242	274	(642)	-
Profit for the year	11,223	12,132	13,762	13,240
Key Accounting Ratios				
EBITDA ²	18,680	20,662	22,111	22,437
Operating profit margin (EBITDA/revenue)	22%	23%	23%	22%
Interest cover (times) (EBITDA/net finance cost)	13.71	14.10	18.32	18.53
Net profit margin (Profit after tax/revenue)	13%	14%	14%	13%
Earnings per share from continuing operations (€) (Profit after tax/current no. of shares)	0.366	0.395	0.480	0.441

¹ EBIT - Earnings before Interest and Tax.

² EBITDA - Earnings before Interest, Tax & Amortisation.

Analysis of Group Revenue



Note: Segmental information for the projected year ending 31 January 2019 has not been published by the Group.

Revenue and gross profit: In FY2018, revenue generated by the Group amounted to €95.0 million, an increase of €6.9 million (+8%) when compared to the same period in 2017. Likewise, gross profit increased y-o-y by 8% from €34.4 million in FY2017 to €37.1 million in FY2018, thus retaining the same gross profit margin of 39.0%. The Group registered growth across all its three principal business segments, particularly from its largest segment - 'brewing, production & sale of branded beers & beverages', which increased in FY2018 by €4.3 million (+9.42%) from a year earlier. The positive performance of the afore-mentioned segment is due to a combination of factors including, the expansion of the Maltese economy, further growth in the tourism sector, favourable weather conditions (especially during the peak summer months) and various mass public events linked to the 2017 General Election which boosted beverage consumption, primarily beers, to above average levels. Production efficiencies achieved through the new bottling and packaging facilities and sales in foreign markets also contributed to improve revenues of the Group.

EBITDA: Earnings before interest, taxation, depreciation and amortisation increased by €1.4 million (+7%) in FY2018 from €20.7 million in FY2017 to €22.1 million in FY2018. The Group reported an EBITDA margin of 23% in each of FY2017 and FY2018, which is a marginal improvement from 22% derived in FY2016 and reflects production efficiencies and cost savings achieved following the capital expenditure embarked upon in recent years.

Financing costs: The Group was granted a net interest subsidy amounting to €509,000 (2017: €311,000) from Malta Enterprise in relation to investment loans of €13.7 million. This, together with the reduction in coupon rate between the new bond issue and the one redeemed, led to a reduction in finance costs of €263,000.

Net Profit: The positive performance of the Group in FY2018 (as explained hereinabove) was also reflected in the Group's profit for the year from continuing operations which increased y-o-y by €2.5 million (+21%), from €11.9 million in FY2017 to €14.4 million. Apart from generating higher revenues coupled with a cost-containment strategy, the Group benefited from a net tax credit of €0.9 million during the year (FY2017: tax credit of €0.5 million).

Discontinued operations: The results relating to the property management segment have been presented as 'discounted operations' following the approval of the Group's management in the third quarter of 2015 to re-organise the corporate structure of the Group, and to 'spin-off' the Group's property interests from the other business activities into a separate and distinct public company (Trident Estates p.l.c.). The Board approved the actual 'spin-off' on 20 December 2017.

Dividends: An interim dividend of €1,000,000 was distributed to shareholders on 18 October 2017 and a final net dividend of €2,600,000 was paid on 22 June 2018 (in aggregate €3,600,000 or €0.12 per share). The dividend cover (being the ratio of net profit over the dividend paid to shareholders) is equal to 3.82x and net dividend yield (being net dividend divided by the market capitalisation of the Group) is 1.6%.

Outlook: Total revenue is projected to increase to €100.7 million in FY2019, a y-o-y increase of €5.7 million (+6%), mainly reflecting local market trends and Group's strategy to increment the export segment. Notwithstanding the cost savings accruing to the Group as a result of the recent capital expenditure, EBITDA is expected to increase only marginally by €0.3 million in FY2019, primarily due to projected increases in selling & distribution costs and administrative expenses. As such, EBITDA margin is expected to marginally decline to 22% from 23% registered in FY2018. Overall, the Group's net profit for FY2019 is expected to decline by €0.6 million, from €13.8 million in FY2018 to €13.2 million.

Management's outlook for the future is positive and will undertake further investments to maximise its growth as and when such opportunities arise. Moreover, the Group will continue to pursue its development strategy by focusing on its two main pillars of growth, being innovation and exports.

Simonds Farsons Cisk p.l.c.

Consolidated Statement of Financial Position

as at	31 Jan'16	31 Jan'17	31 Jan'18	31 Jan'19
	Actual	Actual	Actual	Projection
	€'000	€'000	€'000	€'000
ASSETS				
Non-current assets				
Property, plant & equipment	89,983	110,889	117,475	120,064
Other assets	7,625	7,104	9,625	10,528
	<u>97,608</u>	<u>117,993</u>	<u>127,100</u>	<u>130,592</u>
Current assets				
Inventories, trade & other receivables	30,829	32,885	32,703	32,484
Current tax assets	133	29	5	5
Cash and short term deposits	2,445	768	3,720	1,417
Total current assets	33,407	33,682	36,428	33,906
Non-current assets held for sale	31,558	31,266	-	-
	<u>64,965</u>	<u>64,948</u>	<u>36,428</u>	<u>33,906</u>
Total assets	<u>162,573</u>	<u>182,941</u>	<u>163,528</u>	<u>164,498</u>
EQUITY				
Capital and reserves				
Share capital and reserves	62,186	67,441	57,914	57,914
Retained earnings	47,273	55,830	38,718	48,554
	<u>109,459</u>	<u>123,271</u>	<u>96,632</u>	<u>106,468</u>
LIABILITIES				
Non-current liabilities				
Borrowings	23,807	31,581	33,188	29,888
Other non-current liabilities	2,321	1,655	1,264	404
	<u>26,128</u>	<u>33,236</u>	<u>34,452</u>	<u>30,292</u>
Current liabilities				
Bank loans and overdrafts	3,026	4,382	9,646	4,766
Trade & other current liabilities	21,076	19,915	22,798	22,972
Total current liabilities	24,102	24,297	32,444	27,738
Liabilities attributable to non-current assets held for sale	2,884	2,137	-	-
	<u>26,986</u>	<u>26,434</u>	<u>32,444</u>	<u>27,738</u>
Total liabilities	<u>53,114</u>	<u>59,670</u>	<u>66,896</u>	<u>58,030</u>
Total equity and liabilities	<u>162,573</u>	<u>182,941</u>	<u>163,528</u>	<u>164,498</u>

	31 Jan'16	31 Jan'17	31 Jan'18	31 Jan'19
Key Accounting Ratios				
Liquidity ratio (times) <i>(Current assets/current liabilities)</i>	1.39	1.39	0.97	1.22
Gearing ratio <i>(Total net debt/net debt and shareholders' equity)</i>	18%	22%	29%	24%
Return on equity <i>(Profit after tax/shareholders' equity)</i>	10%	10%	15%	12%
Return on capital employed <i>(EBITDA/total assets less current liabilities)</i>	13%	13%	17%	16%
Return on assets <i>(Profit after tax/total assets)</i>	7%	6%	9%	8%

Property, plant & equipment principally comprise the brewery and related operational and warehousing facilities, and other Group property. PPE has increased by €27.5 million during the reviewed historical years, from €90.0 million in FY2016 to €117.5 million in FY2018, which is primarily reflective of the investment undertaken by the Group explained elsewhere in this report.

Non-current assets held for sale refers to assets held by Trident Estates p.l.c. (previously, Trident Developments Limited). In December 2017, the Group concluded the process which led to the spin-off of its property portfolio through the listing on the Malta Stock Exchange of the afore-mentioned company.

Capital and reserves declined from €123.3 million in FY2017 to €96.6 million in FY2018, following the dividend distribution 'in kind' of €37.2 million.

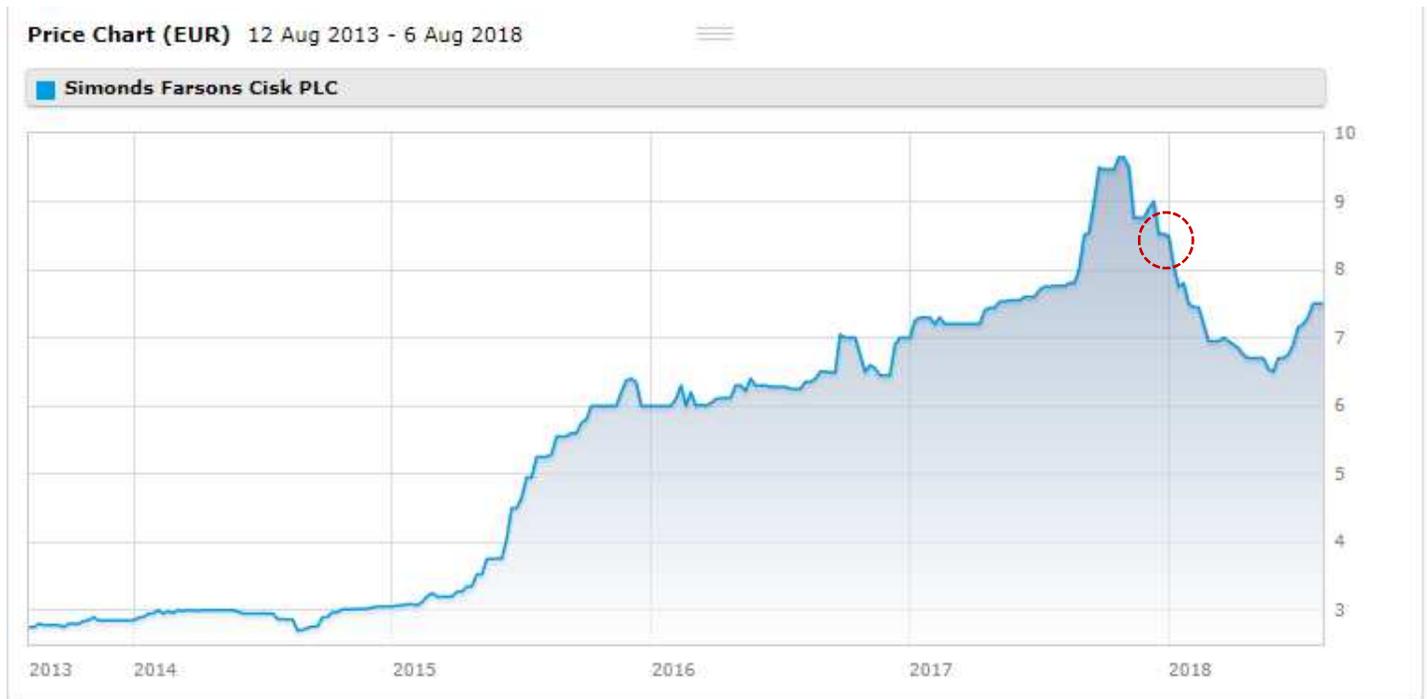
Net debt increased from €35.2 million in FY2017 to €39.1 million in FY2018, which funds were mainly utilised to finance the ongoing capital expenditure programme of the Group. As a consequence, the gearing ratio of the Group increased from 22% in FY2017 to 29% in FY2018.

Projection FY2019 – Total assets as at 31 December 2019 are projected to amount to €164.5 million, marginally higher than FY2018's figure of €163.5 million. Net debt is expected to decrease from €39.1 million in FY2018 to €33.2 million in FY2019, reflective of projected net cash inflows from operating activities together with an anticipated decline in capital expenditure during the said financial year. Capital and reserves are projected to increase by €9.8 million (+10%) from 96.6 million in FY2018 to €106.5 million in FY2019.

PRICE PERFORMANCE

On 27 June 2017, the Group approved the spin-off of SFC's shareholding in Trident Estates plc. Following the announcement, SFC shares started to trade on a forward-delivery basis reaching a peak of €9.70 per share, probably as new investors wanted to gain exposure ahead of the actual spin-off. On 20 December 2017, the Group distributed a non-cash dividend of €37.2 million equivalent to €1.2403 per share to Simonds Farsons Cisk shareholders. On the ex-div date, being 20 December 2017, SFC share price traded at €8.52 per share with a market capitalisation of over €255 million.

As at 3 August 2018, the share price closed at €7.50 with a market capitalisation of €225.0 million.



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