

## Fat Prophets take profits

Shares in Australia's fifth largest winemaker, Australian Vintage (ASX: AVG), have been fairly flat since our take profits recommendation two months ago. In our last report we covered the company's strong interim results which showed that the vintner had benefitted from an unusually strong harvest domestically amidst weaker global supply. Sales in Europe were particularly strong, though we believe this to be an outlier and that the looming Brexit may reverse these gains.

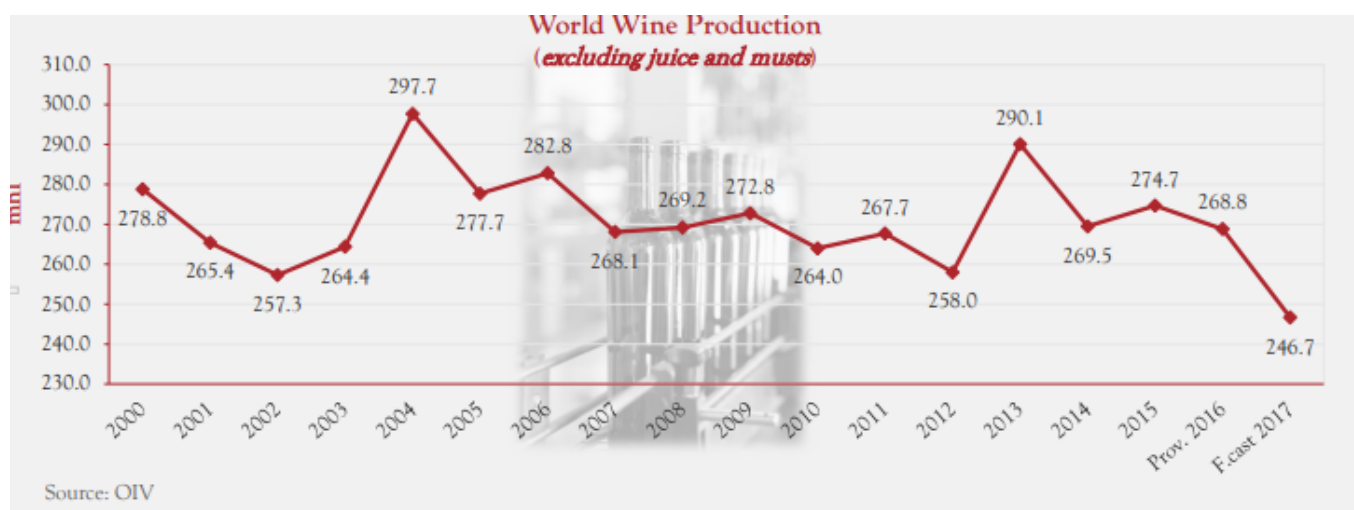


Image Source: Company Presentation

**We recommended banking a 55% gain on the shares in March.** We noted that Australian vintners have benefitted from a particularly difficult season in Europe, with the continent facing an extremely cold spring leading to massive shortfalls in production, and the lowest annual vintage since 1982. Across the Atlantic, the California 2017 wildfire season was particularly bad, and significantly impacted the end harvest. This meant that global wine production in 2017 hit its lowest level in 56 years, with output expected to be down by 8% to 247 million hectolitres, or about 2.9 billion fewer bottles produced.

This is very much a tailwind for wine producers, but had also been factored into share prices, leaving room for slippage as wine producing conditions normalise, or should there be a headwind elsewhere. As it turns out an emerging headwind has potentially come from China, and following comments by management at much larger peer Treasury Wine Estates.

Shares in Treasury Wine Estates have come under pressure, after the company last week indicated some 'issues' are being faced in China. This has also been amidst talk of a supply glut. Management confirmed that shipments from Australia were being delayed by new verification requirements. These new requirements would it appear to only apply to Australian Country of Origin wines.

It remains to be seen whether this is a 'permanent' issue or a 'temporary' state of affairs. This is though clearly relevant to Australian Vintage, which has been pursuing growth in China. This also comes on top of the company seeing a slow-down in sales to Asia at the half year. These were up 12% year-on-year despite an alliance with YesMyWine. Sector sales to China were up 63% year-on-year, implying market share loss.

The Asia segment has also detracted from earnings as management increased investment in the region to promote sales growth. This is not an ideal situation if there is any truth to the suggestions of a supply glut for Australian wine in China,



Turning to the charts and prices this year have pushed upward from the long-term uptrend line, and dynamic support. After such a strong rally some consolidation is potentially on the cards, and with overhead resistance around the \$0.66 mark.



Given that adverse weather in the Northern Hemisphere has effectively done the company a favour, we believe this is even more reason to believe that the shares may have run their course, and as climactic conditions normalise. The impact of the Brexit can also not be discounted, with the UK/Europe region accounting for around 40% of AVG's turnover. Added to this, the shares are currently trading on 34 times 2018 forecast earnings.

**Accordingly, we recommend that Members take remaining profits on Australian Vintage shares around current prices. We will be removing the stock from the Fat Prophets Portfolio.**

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Physical Metals, J Sainsbury, JKK Oil & Gas, John Wood Group, Kazakhmys, Legal & General, Lloyds, Low and Bonar, Market Vectors Junior Gold Miners, Market Vectors Oil Services, Market Vectors Vietnam, Marstons, Medusa Mining, Mitchells & Butlers, Mitsubishi Tokyo Financial, Mitsubishi UFJ, National Grid, Nippon Telegraph and Telephone, Panasonic, Paragon Group of Companies, Petra Diamonds, Petrofac, Petropavlovsk, PICC Property & Casualty, PPHE Hotel Group, Randgold Resources, Rank Group, Reckitt Benckiser, Royal Dutch Shell, Solgold, Sony Corporation, Standard Chartered, STV Group, Sylvania Platinum, Tata Motors, Tencent, Tertiary Minerals, Teva Pharmaceutical, Toyota Motor, Tullow Oil, Unilever, Vedanta Resources, Vodafone, Walt Disney, Zillow.

## Snapshot AVG

### Australian Vintage

**Latest Closing Price: \$0.62**

Australian Vintage Limited is a leading Australian wine company. Championing a fully-integrated wine business model, the breadth of our capabilities extends to vineyards, boutique and bulk wine production, packaging, marketing and distribution. As one of the largest vineyard owners and managers in Australia, with grape supply capacity extends through some of Australia's most captivating and diverse wine regions including the Hunter and Barossa Valleys; the Murray-Darling, Langhorne Creek and Limestone Coast regions; as well as Griffith, Cowra and the Adelaide Hills.

Wines produced by Australian Vintage are recognised and rewarded the world over. The company wine portfolio encompasses both branded, bulk and private label wine, which are distributed in key market around the world.

**Market Capitalisation:\$172.26m**

	FY1	FY2
Price to Earnings	34.2	23.7
Dividend Yield (%)	2.1	3.3
Return on Equity (%)	2.5	4.0
EV/EBITDA	13.6	10.8

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