



Vina Concha y Toro SA

CONCHAT:SANT Santiago, Chile

OVERVIEW

Despite restructuring challenges, Concha y Toro continues to produce a market dominant product while expanding their global supply chain.

As per the companies 2018Q3 guidance; the company looks towards further non-recurring costs in upcoming Q4 releases and well into the first half of 2019 in an initiative to accommodate to the scale of expansionary output policy. We remain confident in the company's ability to sustain its profitability and attract a mature grade of investors in 2019 after their July 2018 voluntary ADR de-listing. Throughout 2018 the company has expanded its global product reach to new regions rapidly, but under pressures to gross margin and profitability. As the company prepares to sustain their profit outlooks reexamining elements of the production and distribution process is vital to fulfill scale. The Company's further ambitions lie with expansion into the Asia Pacific region. With over 160 brands in the product portfolio, the region currently represent 15% of the company's exports, however we are expectant of the capitalization to rise to 20% by 2019 Q1.

Investors should be pleased at constant wine magazine reappraisals of traditional wineries, with Latin American wine slowly transitioning to generally accepted standard varieties among wine critics.

Rating: Outperform
Price: 1339.70 CLP
FX Rate (\$:X): 693.24
Adj. Price (\$): 1.93

Market Cap (\$): 151.51 m
Target Price!: 1503.07 CLP

¹Target price for 12 months.

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P/E:	28.6	EV/EBITDA:	26.05	Revenue (m\$)	622.8
EPS (USD):	0.07	Price / BVPS:	1,288.1	Market Cap (m\$)	1,553.75
D/E:	0.95	ROE:	6.5%	EBITDA (m\$)	86.9
Inventory Turnover:	1.42	Profit Margin:	8.7%	Net Asset Value (m\$)	834.4

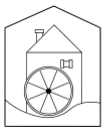
Based on trailing 9M 2018.

Vina Concha Y Toro (CONCHA:SE) Daily Price 1Y + YTD



Please consider the Disclaimer Appendix at the back of this document.

Investors should consider this report as only a single factor in making their investment decision, please conduct your own due diligence.



COMPETITORS

As per Euromonitor report the top 10 wine producers, well-known and established international businesses, are capitalize appx. 12% of the world wine production. The global wine market has experience a shift in focus from traditionally leading producers such as France, Germany, Italy and Spain to so called, “New World” wines, where emerging countries with flavorful territories are taking the prime. The consumer shift comes partly as a result of millennial consumers being of drinking age, and Generation Y consumers’ increasing maturity. While niche wineries and micro-producers are becoming popular, Vino Concha y Toro’s heritage puts the company in direct competition with other conglomerates such as Constellation Brands Inc. (STZ:NYSE), and E&J Gallo Winery (Private). Concha y Toro was the world’s fifth largest producer in 2018. However, with the rise of niche micro-brands comes the rise of unorthodox nationwide producers. 2019 has seen countries such as Azerbaijan, South Africa, and Chile gaining market share.

Blue-Sky / Grey-Sky Scenario

CONCHA Forecast Price (CLP)



DISRUPTIVE TECHNOLOGY

Food science has touched every aspect of beverage production, and while certain sectors must adjust accordingly, it is important to acknowledge the importance of tradition, especially in wine making. While the sector lacks DT risk associated with paradigm shifting technological break-throughs, it has continued to innovate through reliance on several different laboratories including; the [Company] Agricultural and Oenological Laboratory, a Molecular Biology Laboratory, an Experimental Winery and Extension Centre which contribute to making the wine industry more efficient and competitive. The Company has been actively sharing numerous of techniques and experiences with some of the main industry players. There are more that 70 research and development initiatives which they have invested more than \$2,513m. The whole supply chain is included in the research in ensuring table and sustainable technology transfer with no disruptions in the performance of the company

Blue Sky:

We remain optimistic the Vino Concha y Toro will effectively expand their product availability across Asia attributing higher revenue growth in 2019, however our Blue-Sky scenario factors a higher asset performance in the event that the company is able to generate net income growth at higher rates despite restructuring cost constraints.

RISKS

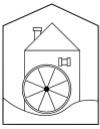
Insofar as production, there is little that can surprise the 130 year old winery. The stock, inclusive of delisted NYSE ADR shares, has been viewed defensively by many analysts, as the producer of economically bad goods acted favorably as a defensive hedge during recessions as the stock demonstrated lower volatility than sector composite averages. In terms of market share threat, while we have not identified any pressing concerns, it is important to consider the effects of rival infant industries in the alcoholic beverage market, particularly beer and craft-beer conglomerates. The Chilean Peso devalued 15.4% in 2018 against the US dollar, which greatly aided Chilean exports attributing to VCO’s revenue growth. In 2019 we are seeing a slight reversal in price-action with the CLP gaining 4% against the US dollar YTD. Our forecasting scenarios foresee a slightly weaker dollar towards the end of 2019, giving investors in Vina Concha y Toro an added value in the exotic denominated equity – while with that in mind we are expected to experience a bit more volatility stemming USD valuations, but ultimately a higher risk premium in Latin American equities.

Grey Sky:

Vina Concha y Toro is in the process of making internal changes that have materialized as non-recurring costs on the company’s Q3 statements. While investors understand the company’s desire to modernize their scale of operations and remove inefficiencies in a quest for higher margin, this process will affect profitability and may dissuade investors in the short-term – ushering a lower price action.

ESG

There is no cutting corners on corporate social responsibility, and ethics in production wine. Vina Concha y Toro recognizes environmental sustainability as an important factor contributing to the growth of their business, and has taken several initiatives in ensuring ecological sustainability throughout all operating regions. In 2017 the company was selected for the European ESG Leaders Award, and adheres to a sustainability framework that facilitates a balance between sustainable growth and shareholder value creation. The Company’s Center for Research and Innovation (CRI) not only conducts extensive scientific research into sustainable winemaking, but also holds workshop and masterclasses at schools and universities around Chile, educating researchers and winemakers of scientific processes that make grape varieties sustainable, and how to manage a vineyard rationally while mitigating environmental damages. The Company’s Native Forest Conservation program has also recently protected 3,270 hectares sclerophyll (vegetation type) forest and scrub in its estates, located in the regions of O’Higgins and Maule, all in accordance with procedures laid out by the National Forestry Corporation (CONAF) of Chile.



Disclaimer

East Mill Capital is a research endeavor serving as a demonstrative tool in confirming the assumptions of the investment thesis. Investment Thesis: Select investments in public emerging markets equity and debt securities are able to yield outsized, risk-adjusted returns that outperform traditional western benchmarks.

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