

# Treasury Wine Estates (ASX: TWE)

## A company in an earnings upgrade cycle

Treasury Wines Estates (TWE) is one of the world's largest wine companies, listed on the Australian stock exchange. It is focused on four principal regions across the world: Australia, the Americas, Europe and Asia. It has access to more than 14,000 planted hectares of vineyards in some of the world's most sought-after winemaking regions. The wine is sold in more than 70 countries.

Figure 1: Some of the popular brands in the stable



### Why we like it

Current management has, in our view, transformed TWE from an agricultural company lacking in focus to a global consumer company intent on pursuing a premium pricing strategy with its strong portfolio of brands. In addition, it is now supported by a more efficient production and distribution model.

The bold acquisition of global spirits company Diageo's US wine portfolio in 2015 accelerated this strategy and also the earnings growth profile of the company. The global diversification of grape supply and wine production has somewhat reduced the unavoidable agricultural risk inherent in the business.

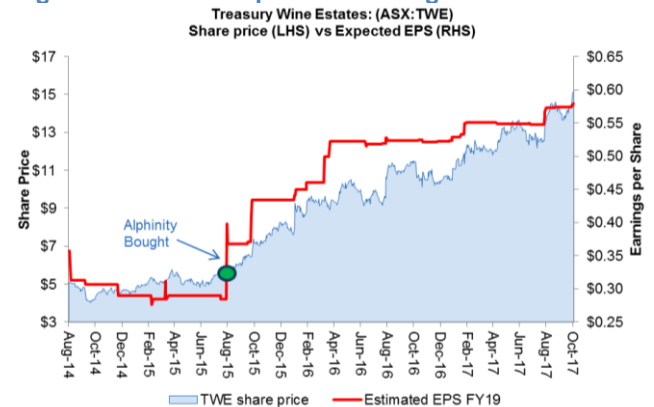
We expect that the significant investments in premium and luxury wine inventory from some excellent recent vintages to support sales and margins in coming years. A weaker \$A, should that eventuate, is not a core part of our investment thesis but it would be a bonus.

### Entering an earnings upgrade cycle

Figure 2 shows the share price performance of TWE and consensus earnings estimates. Having monitored the business for a number of years, the first meaningful earnings surprise delivered in August 2015 was the catalyst for us to buy into the company. In that result we could see a number of drivers that made us conclude that the business was entering an earnings upgrade cycle. This was cemented by the Diageo acquisition a few months

afterwards. The share price had been drifting higher into the result but our fundamental analysis showed that there was still plenty of valuation upside.

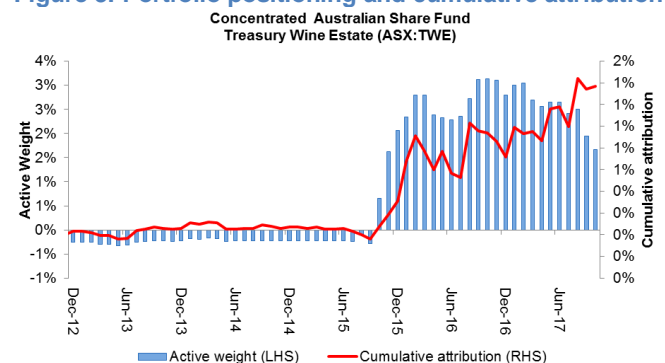
Figure 2: TWE Share price vs earnings estimates



Source: Bloomberg, Alphinity

This thesis has since proven correct. Since late 2015 market analysts have consistently been upgrading their expectations for future earnings and, although the share price has gone up considerably, the forward multiple on which the company trades has not changed materially.

Figure 3: Portfolio positioning and cumulative attribution



Source: Alphinity

### When to sell?

We have recently been reducing our overweight position in TWE into the rising share price as it approaches our valuation. Considering the ongoing earnings momentum we remain overweight, albeit with a reduced position

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