

In Vino Veritas

“In wine, there is truth”

Treasury Wines is a global leader in premium wines with Penfolds as its flagship brand. The company generates more than 75% of profit offshore. It is no surprise that when China imposed import restrictions on Australian wine in late 2020, wine exports to China and Treasury’s earnings were both significantly impacted (see chart below).



Source: Wine Australia, Sintra Capital

Over-reliance on a single trading partner is always a risk and this forced management to focus on growing earnings into other international markets such as the US and UK. The success of this diversification will likely see earnings in FY2024 surpass the prior FY2019 peak, with minimal contribution from China. Earnings are also expected to grow at more than 10% p.a. into the foreseeable future.

But what about China? Based on recent press speculation and political goodwill we consider it highly likely that China’s tariff on Australian wine will be removed. To satisfy the high Chinese demand for premium wine, Treasury will likely benefit from rising sale prices in the short-term. Combined with the increased volumes as production ramps up, we believe Treasury’s earnings have the potential to more than double over the next 5 years. Treasury Wines currently trades on a 1-year forward PE of 23x (excluding China) which is broadly in-line with global peers, while offering superior earnings growth.

We see significant upside from current levels and Treasury Wines is a core holding of the Sintra Global Fund.