

Strong trading start to the year – cheers!

24 May 2022

Today's AGM statement from the Artisanal Spirits Company (ASC) reports a strong start to the 2022 financial year for both sales revenue and global membership numbers, which grew by above 30% and by 25% year-on-year respectively. While the second half of the year will face tougher comparisons, the company expects full year sales revenue to match current consensus expectations. We leave our revenue forecasts unchanged at £21.6m in FY2022

Revenue increased by above 30% in the four months to end-April compared with a year earlier. This growth reflects a strong spike in membership numbers towards the end of FY2021 and many of the new members having had little chance to make significant purchases of the company's Scotch Malt Whisky Society's products in that trading period. Artisanal Spirits reported positive current trading momentum at the time of its FY2021 full-year results released on 29th March 2022 which we commented on in our report "[Serving up a strong growth outlook in 2022.](#)"

Rapid growth in membership numbers underpins the longer-term value of the business. As a membership focused company which offers both specialised tasting venues and supporting literature, ASC enjoys strong customer loyalty as well as the prospect of strong repeat business. So far in FY2022 membership increased by 6% compared with 3% at the time of the FY2021 results. It is up 25% year-on-year to just over 35,000. Membership increased by 18% in FY2021 as a whole.

ASC also reports good progress at the company's multi-purpose supply chain facility Masterton Bond. The site is expected to be fully operational in the current financial year and should contribute to the group's already strong margins. Our forecasts are for gross margins to increase from 61.5% to 62.6% in FY2022. Furthermore, the company's emphasis on talent and organisational development appears to have been rewarded with an overall Employee Engagement Index score of 81 from a recent staff survey – a mark well above UK and global averages.

Artisanal Spirits will face a tougher year-on-year comparison in the second half of FY2022 because sales growth will no longer be lapping low Q1 2021 sales in UK venues and Europe which were hampered by COVID-19 restrictions – notably lockdown closures. Separately, while the Chinese government implemented a zero tolerance approach to COVID-19 overall business in the region remained robust and made encouraging progress in the company's view.

Despite the strong start, we leave our FY2022 forecasts unchanged at this stage of the year for all of sales revenue, gross profits, and EBITDA. We remain confident in the company's ability – as a membership organisation and purveyor of premium, single cask Scotch malt whisky to sustain its organic growth over the longer term.

Ratings leave shares looking undervalued

We continue to argue that fair value for the business is 150p per share, well above the recent close. At 150p the FY2022 EV/sales ratio would still be only 5.5x, remaining well beneath that of the Artisanal Spirits Company's two identifiable peer groups: distilled spirits and luxury goods. We discuss valuation thoroughly in the March 2022 report mentioned above.

Company Data

EPIC	ART
Price (last close)	78p
52 weeks Hi/Lo	121p/75p
Market cap	£49m
ED Fair Value/share	150p

Share Price since IPO, p



Source: ADVFN

Description

The Scotch Malt Whisky Society (SMWS) is focused on providing premium single cask spirits. With an average whisky cask yielding around 250 bottles each time, each release is by its very nature a limited edition with exclusive characteristics.

ASC's objective is to bring together spirits from some of the world's best spirits producers, add value by managing the maturation process and provide exclusive access to a vast and unique range of outstanding single cask Scotch malt whisky and other spirits to SMWS's global membership.

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Key financials

Yr to 31 Dec	2020A	2021A	2022E	2023E	2024E	2025E
Revenue (£m)	15.0	18.2	21.6	24.8	28.6	32.7
Revenue growth	2.6%	21.4%	18.3%	15.1%	15.3%	14.2%
EV/sales (x)	4.2	3.4	2.9	2.5	2.2	1.9

Source: ED estimates, company historic data

Investment case

Today's AGM statement is consistent with the overall long term investment case for The Artisanal Spirits Company. Through ownership of the Scotch Malt Whisky Society, the company is well placed to benefit from the powerful global trend to drink 'less but better' alcoholic beverages.

We reiterate our view that ASC's growth will be fuelled by three important metrics: **growth in membership numbers, increases in average spend per member, and the potential to expand gross margins significantly.**

ASC has its own strategic targets. As well as developing membership, it is keen to enhance the e-commerce channel, further improve margins through increased value creation, and to establish new and complementary brands.

These four drivers are important not only because they reflect clear growth ambitions, but also because they are consistent with the "DNA" of the company. **ASC can embrace Scotch whisky heritage and ensure integrity of its product offering while adopting modern business techniques** to ensure that it operates its e-commerce platform at best practice.

AGM statement

Key figures

Today's AGM statement is relatively brief and focused numerically on sales revenue and the membership count.

The figures can be summarised as follows:-

Sales revenue growth year-on-year to end-April	+30%
Global membership growth year-on-year to end-April	+25%
Global membership growth since year-end	+6%

Confidence in current consensus market expectations

We maintain our forecast for FY2022 sales revenue at £21.6m, which is what the company believes to be the current consensus market expectations and would represent 18% growth compared with FY2021's reported figure of £18.2m. Our other income statement forecasts are also unchanged.

Fair value

As well as a fair value of 150p / share when assessed relative to quoted comparable stocks, we reiterate the significant inherent value within ASC due to SMWS' membership as a recurring source of business, and therefore welcome the growth in membership numbers reported.



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