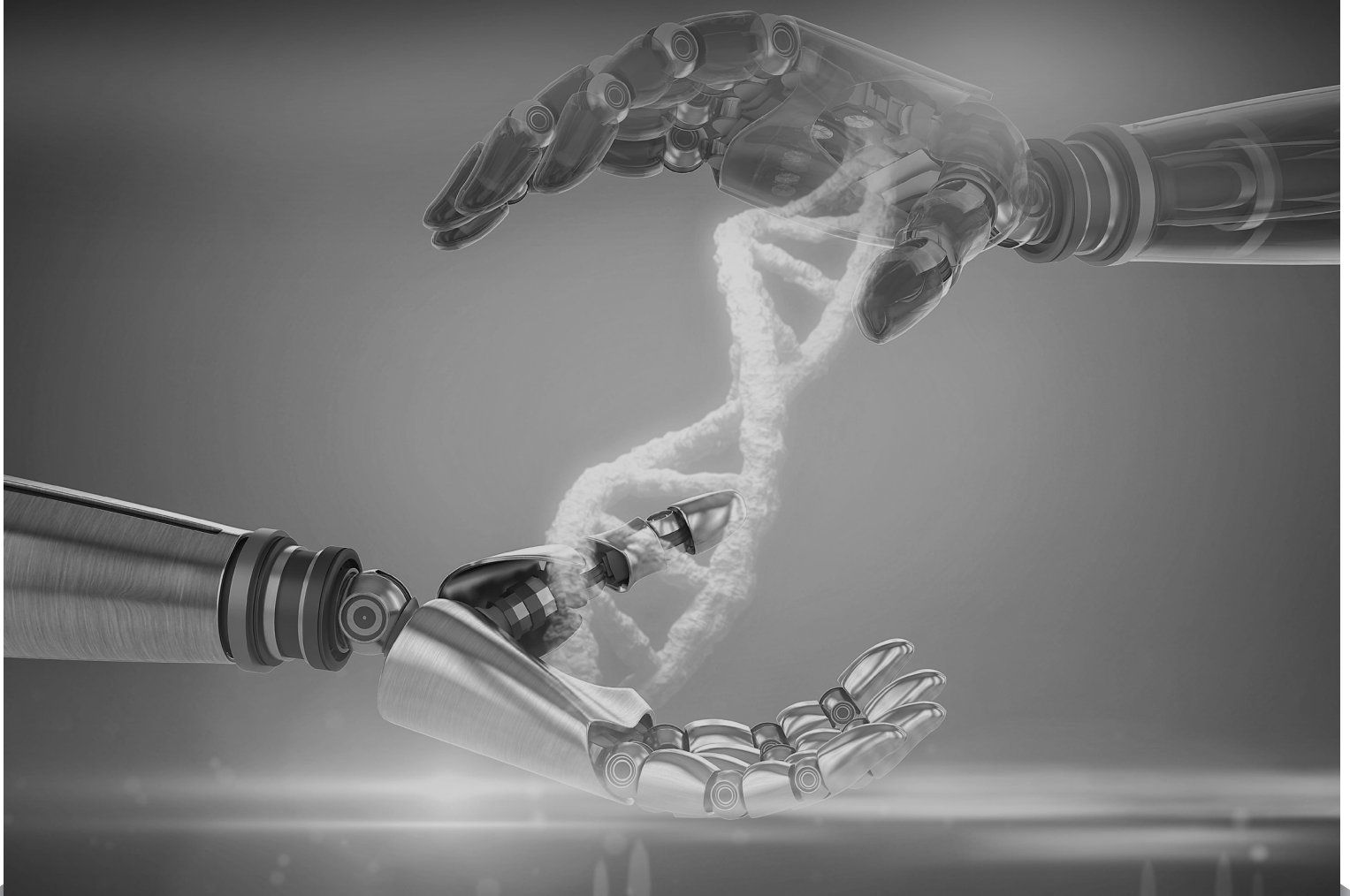




Emerging Stocks Down Under

🗨️ *I'll drink responsibly when there's a brand called "responsibly".* 🗨️

- Earl Dibbles Jr. (b. 1979), Texan country musician



GOOD DRINKS AUSTRALIA

A lucrative opportunity

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A lucrative opportunity

Stocks Down Under rating: ★★★★★

ASX: GDA
Market cap: A\$89.2M

52-week range: A\$0.64 / A\$0.90
Share price: A\$0.70

Today we are looking at Fremantle-based craft brewer Good Drinks Australia (ASX:GDA). This is not just because we like having a glass (or two) of craft beer, it is because we like the opportunity that this company has before it. Although craft beer accounts for a small proportion of the beer market, it is growing while the rest of the beer market is shrinking. Looking at Good Drinks Australia specifically, we like that the company has ample opportunity to share its products with consumers that many of its peers do not.

Share price chart



Source: Tradingview

Over two decades of operational history

Good Drinks Australia was founded in 2002 by Bill Hoedemaker, John Hoedemaker and Peter Nolin. It was then known as Gage Roads Brewing, named after the strip of the Indian Ocean that separates Rottnest Island from mainland Western Australia. For a 7-year period between 2009 and 2016, the company was 25% owned by Woolworths. Woolworths' tenure as a shareholder gave the company prominence, along with finance to purchase a 100 hectolitre brewhouse at Fremantle. The downside of the partnership was that the company's sales were heavily concentrated on West Coast bottle shops belonging to the supermarket giants.

But these days, GDA no longer has that problem. The company is the exclusive provider of draught and packaged products to Perth's Optus Stadium and it also operates a handful of venues across Australia. The most notable venue is at Fremantle in Western Australia where the company has transformed Fremantle Harbour's 'A Shed' into a 1,500-person capacity venue. Although the pandemic reduced sales at Optus Stadium, it provided the opportunity for the company to undertake its Fremantle project, given the dour conditions in the WA tourism and hospitality sectors at the time. And now that major events and tourism are free of pandemic restrictions, the company is well positioned for the future.

A lucrative opportunity

The market for beer generally may not appear lucrative at first glance. The market is ultra-competitive - with hundreds of small breweries scattered across Australia – and consumption has stagnated over recent decades, on a per capita basis. This has occurred even though the Australian population has doubled in the last five decades, and other types of alcohol (wine, spirits and cider) have grown on a per capita basis.

The picture looks rosier if you just look at craft brewers, however. Although craft brewing is a competitive market, it is going in the opposite direction to the rest of the beer market. Australian consulting company Savvy estimated that craft beer revenues grew 17.7% in 2019 (the last COVID-free year) and increased its share of total beer revenue by 14.1%. The past few years have been impacted by COVID and by closures of hospitality venues initially, followed by a slow recovery as the nation adjusted to 'living with the virus'.

Online sales meant that the craft beer industry was able to mitigate the pandemic's impact in 2020 and 2021. And several craft brewers have followed GDA's lead by establishing their own venues. But few other craft brewers are as fortunate as Good Drinks Australia to have an exclusive deal with a venue, such as Optus Stadium, and to have such an iconic venue as Fremantle Harbour's A Shed.

Revenues and sales volumes are growing, but earnings are declining

Good Drinks Australia was able to grow its revenues to \$70m in FY22 (the 12 months to 30 June 2022), representing 29% growth. Volumes of beer sold grew by 13%, from 17.1mL (million litres) to 19.3mL. The company completed FY22 as the fourth largest brewing business in Australia behind Asahi (Carlton United), Kirin (Lion) and Coopers. It declared itself 'the fastest growing, full scale brewing business in Australia' in its annual report.

On the flip side, GDA's FY22 EBITDA and net profit fell by 22% and 54% respectively from the previous year - to \$8.4m and \$2m respectively. There's only one analyst covering Good Drinks Australia, who expects \$122.9m in revenue (up 76% from FY22) and \$12.7m EBITDA (up 51%). These numbers value the company at 9.3x EV/EBITDA and 19.6x P/E for FY23.

Needs to grow hospitality sales

With the pandemic nearly behind us, we think we can firmly rule it out as a risk for Good Drinks Australia investors. We think the biggest risks are competition and slower growth in the hospitality segment. Despite the capital the company has invested in its hospitality distribution channels, the hospitality segment remains a very small share of the company's performance (just 1% of sales volume and 18.4% of revenues). Notwithstanding that the hospitality segment is profitable (with \$1m in EBITDA), we think investors might become restless if this segment does not start to make a more meaningful contribution to the company's performance. Another risk is the prospect of the company having to raise capital, given its modest \$5.6m cash balance on 30 June. In our view, the company could avoid that so long as it meets consensus estimates.

In the end, we have decided to award Good Drinks Australia four stars. We will admit that we might be somewhat biased to the company, given we are fans of the company's craft beer. But taking our pub hats off and putting our analyst hats back on, we like the market opportunity that the company has before it – both in the craft beer market and specifically in the hospitality segment – and think the company can capitalise in the months ahead.



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