

Current Price: €189

Target Price: €197

Investment Rating: HOLD

Spadel Group: Company Overview

Spadel Group is a Belgium-based beverage company renowned for its premium mineral water and flavored soft drink offerings. Headquartered in Brussels, the company has built its reputation around iconic brands like Spa and Bru, which are household names in Belgium, France, and other parts of Europe. Spadel specializes in producing high-quality natural mineral waters, sourced from protected springs, and offers a variety of flavored soft drinks that cater to health-conscious consumers. The company has a strong focus on sustainability, with eco-friendly production practices and packaging initiatives aligning with increasing consumer demand for environmentally responsible products. Listed on the Euronext Brussels stock exchange under the ticker symbol SPA, Spadel continues to be a compelling player in the European beverage industry.

Investment Recommendation: HOLD Spadel Shares

Reasons Supporting the Recommendation:

1. **Strong Market Position in Premium Mineral Water:** Spadel's flagship brands, Spa and Bru, enjoy strong brand recognition and loyalty in their core markets of Belgium and France. Their focus on high-quality, natural mineral water sourced from protected springs ensures consistent demand in the growing premium water segment. However, market saturation in Western Europe limits significant upside growth potential in the short term.
2. **Commitment to Sustainability:** Spadel's focus on sustainability, including eco-friendly production processes and recyclable packaging, aligns with modern consumer preferences for environmentally responsible products. This positioning strengthens its brand equity and appeals to a growing segment of eco-conscious consumers, ensuring resilience against regulatory pressures and shifting market trends, but also adds added cost of good pressure.

- 3. Regional Market Concentration:** While Spadel dominates its local markets, its limited geographical diversification poses a risk. Unlike global competitors, its growth is heavily reliant on Western Europe, which is a mature market with slow revenue growth rates. The company's regional focus supports stable revenue but caps its growth potential, making it less suitable for aggressive growth-oriented investors.

Conclusion: Spadel is a low-risk, stable investment suitable for income-focused or long-term investors. While its strong brand and commitment to sustainability provide a reliable foundation, limited geographical diversification and market saturation in core regions temper growth prospects. As a result, holding Spadel shares is a prudent choice for those seeking steady returns without significant volatility.

Revenue

Over the past five years, the European flavored mineral water market has experienced significant growth, driven by increasing consumer demand for healthier beverage alternatives and innovative product offerings. In 2023, the market was valued at approximately €6.47 billion, and the average analyst prediction regarding the forecast CAGR for the entire European flavored mineral water market up to 2030 comes out to **7.23%**.¹²³⁴⁵

This expansion is attributed to two main factors: 1. Health-Conscious Consumer Trends: A growing shift from sugary sodas to healthier options has propelled the demand for flavored waters, as consumers seek beverages that offer hydration with added flavors and minimal calories.⁶ 2. Product Innovation: The introduction of diverse flavors and functional

¹ <https://virtuemarketresearch.com/report/europe-flavored-water-market>

² <https://www.marketdataforecast.com/market-reports/europe-flavored-water-market>

³ <https://www.grandviewresearch.com/horizon/outlook/flavored-water-market/europe>

⁴ <https://www.kbvresearch.com/europe-flavored-water-market/>

⁵ <https://www.futuremarketinsights.com/reports/flavored-water-market>

⁶ <https://www.marketdataforecast.com/market-reports/europe-flavored-water-market>

additives has attracted a broader consumer base, enhancing market appeal and driving sales.⁷

The key question to consider is: Which company or companies will secure the largest shares of this expanding market? What competitive advantages does Spadel possess, and how can it outperform major industry players such as Pepsi and Coca-Cola?

Local brands in the European flavored mineral water market maintain an edge because they leverage cultural familiarity, authenticity, and sustainability narratives. European consumers value products with a strong connection to the region and high-quality natural ingredients. Although big players like Coca-Cola (e.g., with Dasani and Glacéau Smartwater) and PepsiCo (e.g., with Bubly) have made inroads, they have struggled to dominate due to the entrenched loyalty and premium positioning of local players in the flavored mineral water market. The dominance of local alternatives over big soft drink companies like Coca-Cola and Pepsi in the European flavored mineral water market can be attributed to three key factors:

1. Cultural and Regional Preferences: Europeans have a long tradition of consuming natural mineral waters, and local brands are often deeply ingrained in regional culture. Companies like Spadel (with Spa and Bru) and San Pellegrino benefit from strong local connections and consumer trust, making it challenging for multinational corporations to displace them.

2. Focus on Natural and Premium Branding: European consumers associate many local brands with high-quality, natural spring water. This aligns with the growing demand for authenticity and sustainability, which is harder for large multinational companies like Coca-Cola and Pepsi, often perceived as mass-market beverage producers, to replicate.

3. Stringent Regulatory and Sourcing Requirements: The European Union has strict regulations for natural mineral water designation, requiring specific sourcing and production standards. Local producers that own and operate protected springs have a competitive edge, as they control unique water sources that cannot easily be replicated by larger competitors.

⁷ <https://virtuemarketresearch.com/report/europe-flavored-water-market>

For these key reasons we believe that Spadel will continue to grow proportionally to flavored mineral water's expansion in the European market, and will continue to be unencumbered by Pepsi and Coke's attempts to dominate the market. We then compared the revenue growth rate of Spadel in the past ten years to the CAGR of the flavored mineral water market in Europe in the past ten years, and then proportionally matched future revenue growth of Spadel to analysts' predicted CAGR for the flavored mineral water market in Europe up until 2030.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income	€ 235	€ 250	€ 259	€ 297	€ 346	€ 311	€ 283	€ 300	€ 332	€ 364
% growth		6%	4%	15%	17%	-10%	-9%	6%	11%	10%

Spadel's average annual growth rate since 2014 is **4.89%**. The CAGR for the European flavored mineral water market over the past ten years is approximately **6.27%**.⁸ Spadel's revenue growth rate is approximately **77.97%** of the European flavored mineral water market's CAGR. Then, for analysts' forecast CAGR of 7.23% for the entire European flavored mineral water market, Spadel's revenue growth for the next six years up to 2030 is **5.64%**.

A couple of reasons for the lower than consensus forecast for market rate is the fact that Spadel serves a saturated market, in Belgium and France. While there seem to be some efforts from management on expansion (see annual report, 2023 page 10), Spadel serves a lower growth market than some of its competitors (the Belgian market had a -3% decline in 2023 and continued to struggle in 2024)⁹

Additionally, brands such as Devin continue to struggle in their expansion territories (such as Bulgaria) as noted by the CEO, leading to further efforts to rebuild that platform and launch additional projects such as SPA Fountain and Zyla in these markets. It will take time for Spadel to capture/ recapture market share in these regional markets, therefore leading to them to capture less market share over the next 5 years.

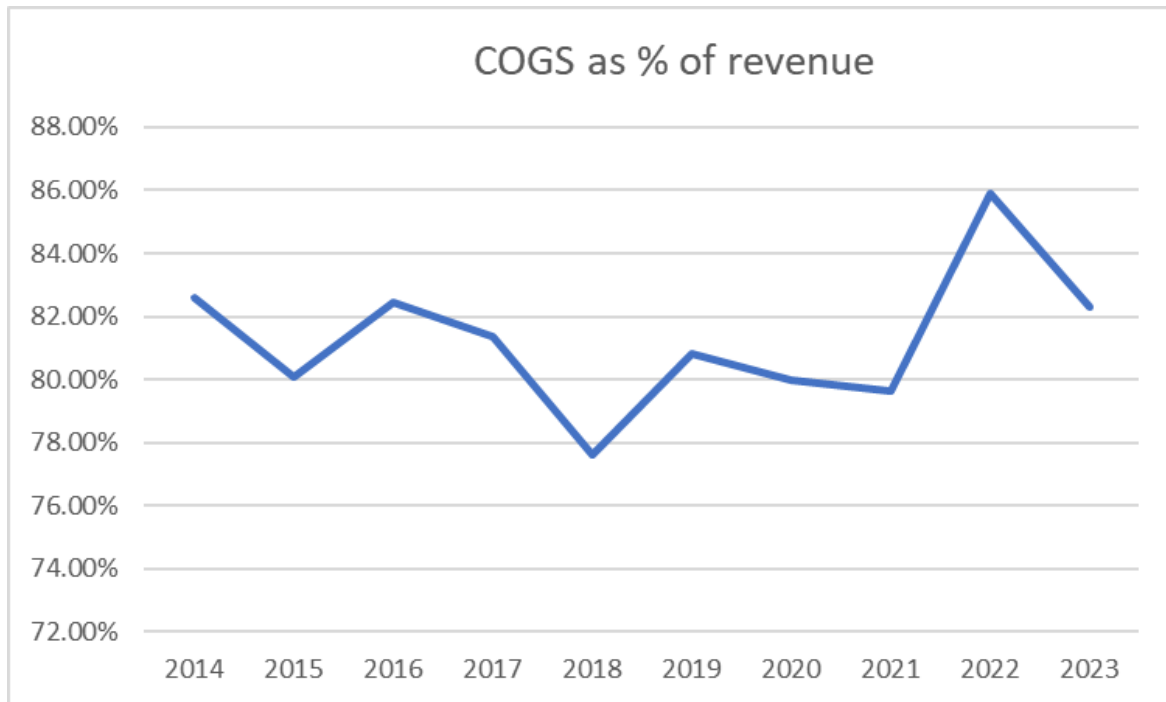
Overall, with a strong brand, but a struggling Belgian economy and challenges for expanding brands, we believe Spadel will achieve revenue growth of 5.64% average annually.

⁸ <https://www.statista.com/statistics/620210/annual-packaged-water-consumption-in-the-european-union/>

⁹ https://www.spadel.com/sites/default/files/2024-05/240424_SPADEL_Annual-Report-2023_EN.pdf

COGS

COGS makes up a significant portion of revenue and has been relatively stable, albeit upward trending. The past 5 years average, 81.27%, was larger than the previous 5, 80.83%.



COGS is made up of 3 main components for this firm: raw materials and consumables, misc. goods and services, and employee expenses. Note: Since this company reports in Belgium and adheres to IFRS standards, they don't report employee expense separately in SG&A, hence the low SG&A number and the relatively larger COGS value.

	2020	2021	2022	2023
Raw Materials	€ 58	€ 60	€ 87	€ 86
Misc. Goods	€ 105	€ 115	€ 130	€ 139
Employee Expenses	€ 64	€ 64	€ 68	€ 75
Raw Materials % growth		4%	45%	-1%
Misc. Goods % growth		10%	13%	7%
Employee Expenses % growth		0%	7%	10%
Raw Materials % cogs	26%	25%	31%	29%
Misc. Goods % cogs	46%	48%	46%	46%
Employee Expenses % cogs	28%	27%	24%	25%

The main component is misc. goods and services, representing nearly 46% of cogs). This is mostly comprised of R&D and PPE upgrades/maintenance. We anticipate this will flatline relative to revenue growth, as it has for the past 4 years.

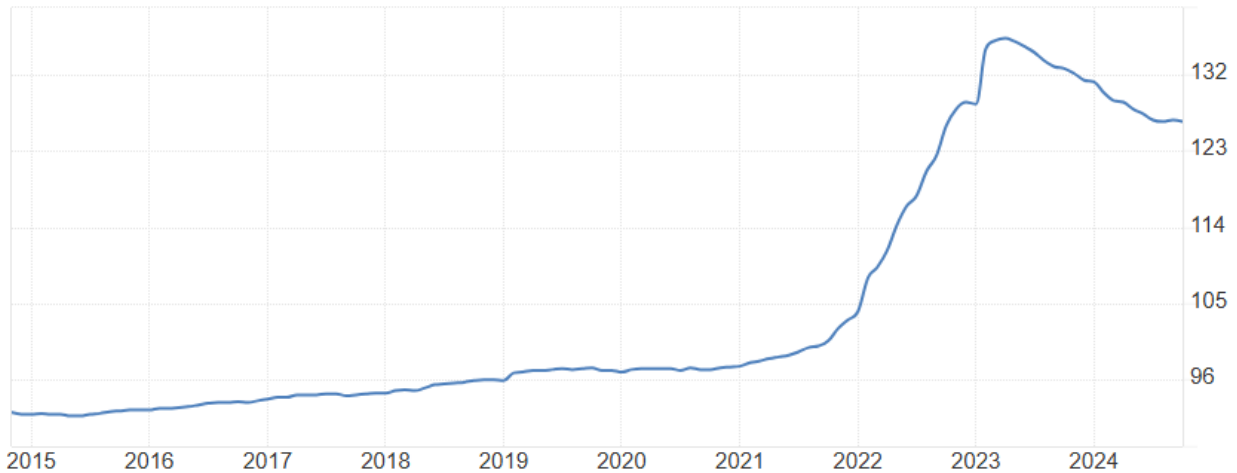
Raw materials price has slowed recently, but there is expected volatility ahead in the glass packaging industry¹⁰, as the energy market continues to be affected by ongoing conflict¹¹. Another factor could be the American trade restrictions - a major source of European glass is imported from America, and a disruption to the volume of imports could have a market-wide pricing pressure¹². This will potentially cause further inflationary pressure on these prices. As such, we anticipate these prices to continue to rise for the foreseeable future, causing these raw material prices (primarily glass) to outpace revenue growth.

Glass prices:

¹⁰ <https://www.mordorintelligence.com/industry-reports/europe-glass-packaging-market>

¹¹ <https://www.spglobal.com/ratings/en/research/articles/230622-europe-s-utilities-face-a-power-price-cliff-from-2026-12767724>

¹² <https://www.mordorintelligence.com/industry-reports/europe-glass-packaging-market>



As seen above, a major change in glass prices over the past two years have been rising energy prices, leading to higher manufacturing costs, and transatlantic shipping costs, which are expected to continue to rise. ¹³ Glass prices have been notably sticky, so while energy prices fall, glass prices may take longer to bake in price changes. ¹⁴

Employee expenses have also been growing at 4.2% over the past year and is anticipated to continue to climb as European wages are projected to continue to rise. ¹⁵¹⁶

As a result, due to the flat nature of the misc. goods and services market, and the raw materials and employee expenses growth, we anticipate the overall COGS growth rate to start at the 2023 levels of 82.27% and grow towards 85.9% (their peak levels in 2022).

SG&A

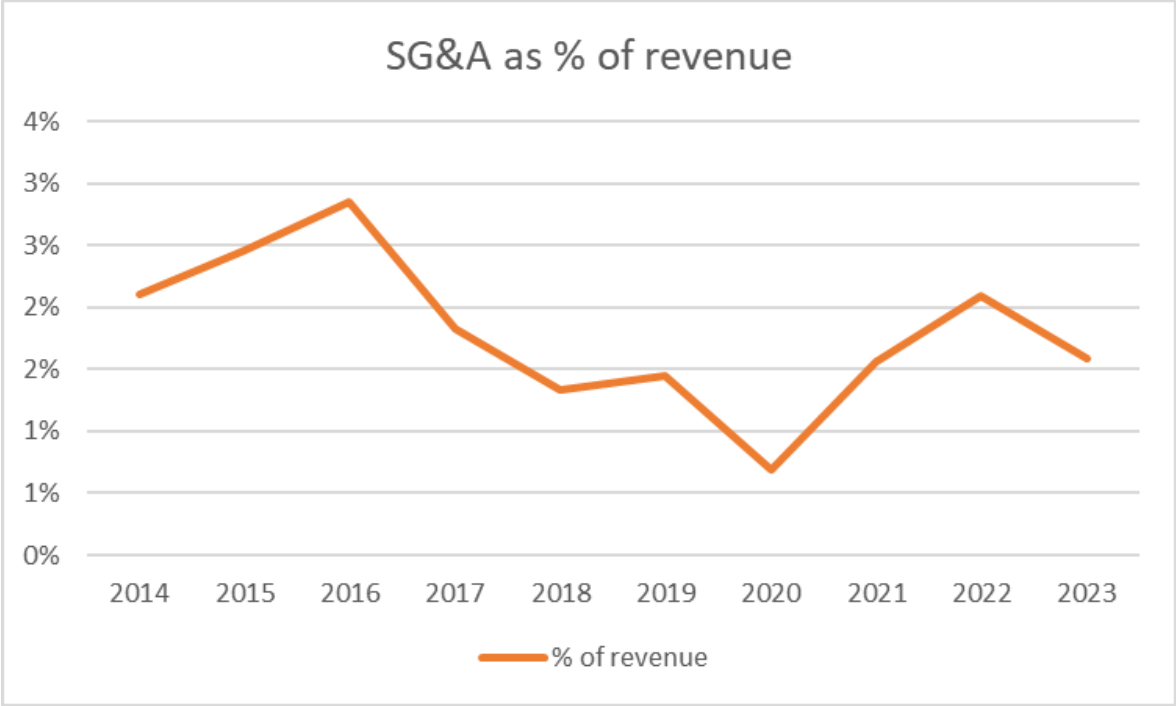
SG&A has remained steady over the course of the past 10 years for Spadel, (dropping during the Covid period). The 5-year average (excluding 2020) was 1.60%, and we anticipate this to continue to trend upwards towards pre-Covid levels as the firm continues to target more regional expansion. Therefore, we grew from 1.60% to the pre-Covid average of 2.15% evenly over the 5-year period. (0.11% per year).

¹³ <https://www.foodtimes.eu/food-system-en/glass-packaging-growing-demand-but-also-rising-production-prices/>

¹⁴ <https://www.meiningers-international.com/wine/inside/glass-prices-remain-high-while-bottlers-hoard-stocks>

¹⁵ <https://tradingeconomics.com/euro-area/wage-growth>

¹⁶ <https://www.hiringlab.org/uk/blog/2024/07/10/wage-growth-in-europe-remains-high/#:~:text=Wage%20growth%20appears%20to%20be,of%202%25%20to%202.5%25.>

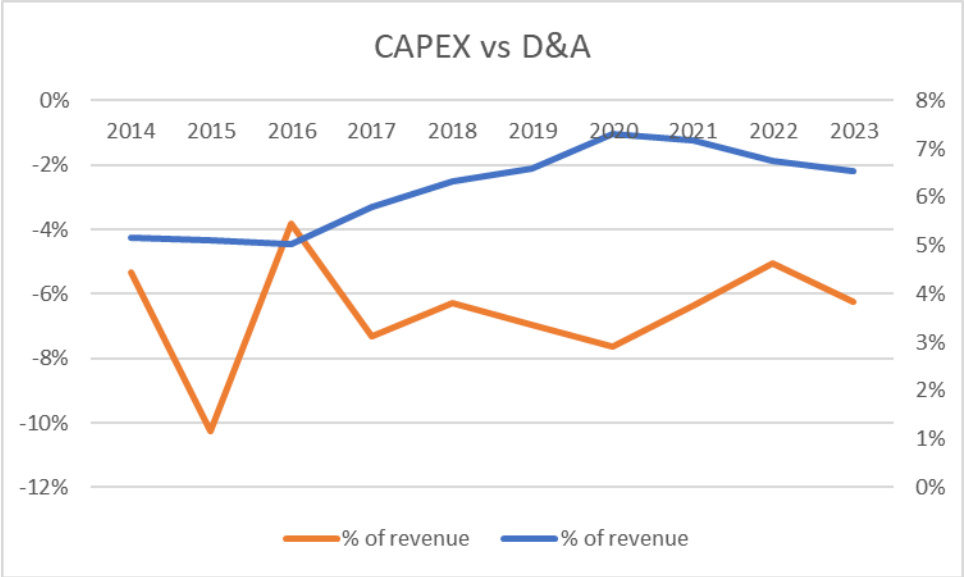


Tax Rate

Spadel’s average tax rate over the past 10 years has been 25%, and changes in Belgian tax law for corporations⁶ (and the increased 2023 rate) caused us to use the Belgian corporate tax rate of 25% provided by Damodaran⁷ as a proxy, consistent with the 10 year average.

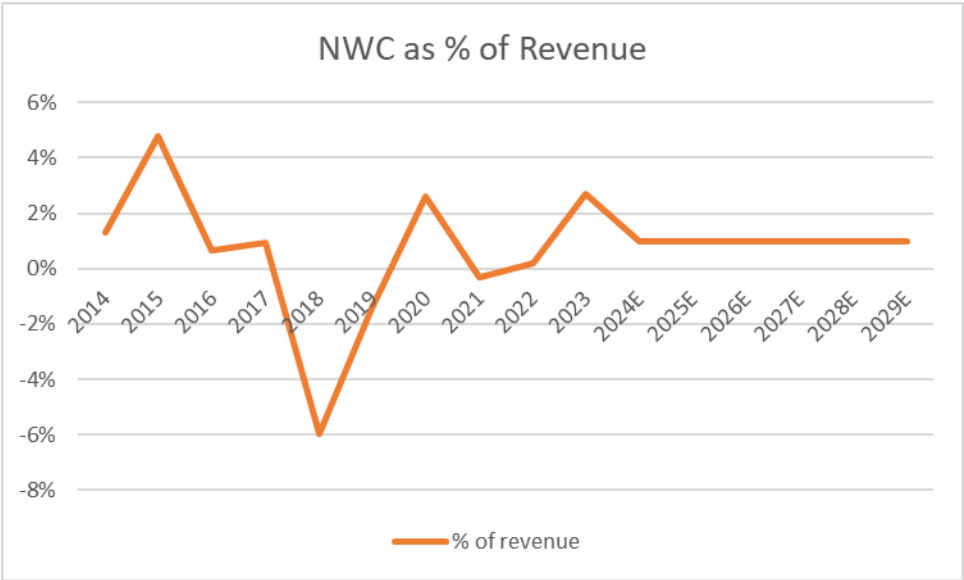
CAPEX & D&A

As Spadel continues to grow, their CAPEX (and D&A) continues to increase. Over the past 5 years, CAPEX has been growing at a relatively stable rate of 6% a year for the past 5 years. We expect this high level of CAPEX to continue, at 6% of revenue. Management continues to cite expansion into international markets, including Germany, as a top priority. (Annual Report) Consequently, D&A will also continue to grow at 7%.



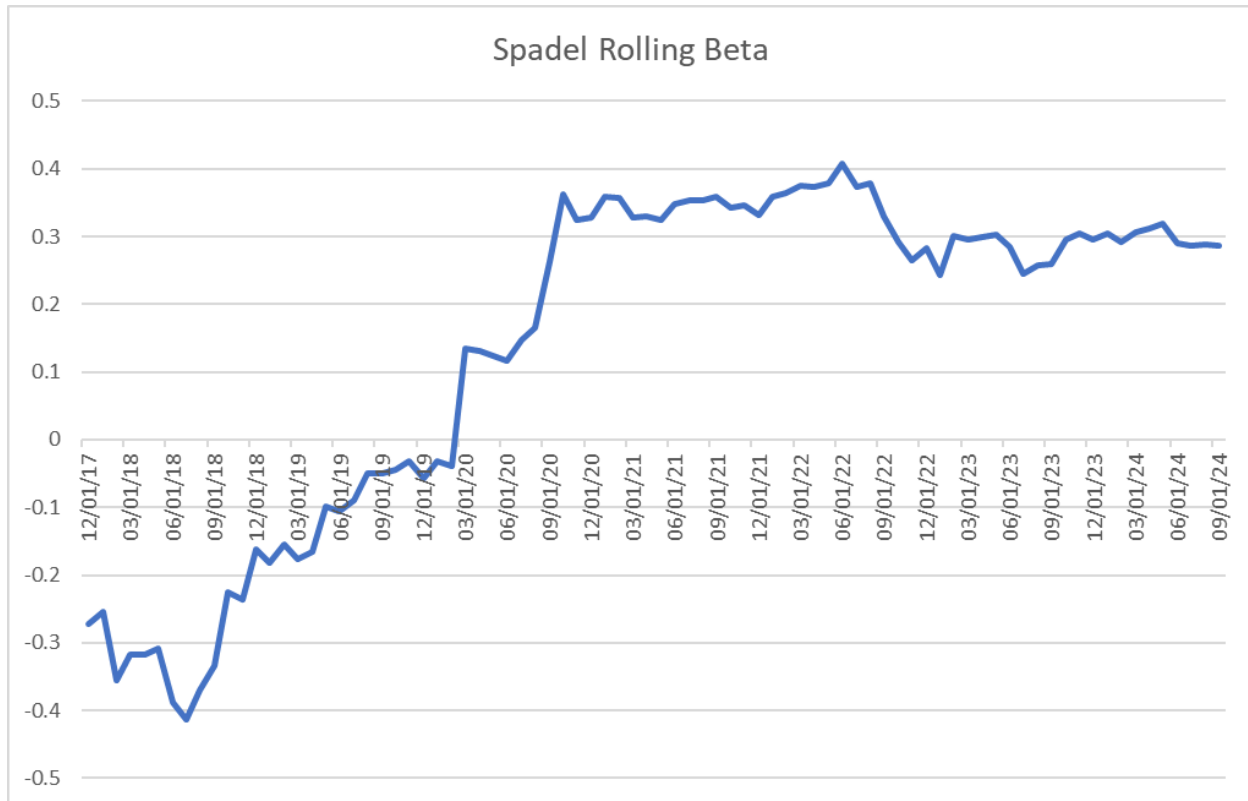
Net Working Capital

Changes in Net Working Capital have been relatively constant over recent year as a % of revenue, with the exception of 2018 (paid down a lot of receivables).



As such, we projected the firms NWC to continue at the 5 year average of 0.76% of revenue.

Rolling Beta



We computed the rolling beta by taking the monthly return of Spadel starting from 2014 (IPO date), the Belgian 3-month treasury return as the risk-free rate, and the MSCI Europe as our broad market index returns. We found that beta has been below one, averaging about 0.3 for the past few years. Therefore, we used 0.3 as our beta when computing our WACC as we anticipate this to continue over the next 5 years.

Note: The Belgian 3-month treasury had a negative yield from 2014~2020, and therefore, our company's beta may be lower (negative) as a result.

WACC

To estimate our WACC, we used several assumptions:

1. Our equity risk premium of 5.48% for Europe (Damodaran) ¹⁷
2. Our Beta of 0.3 (computed above)
3. Current risk-free rate of 2.814% (3-month Belgian Bond)

¹⁷ https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html

- a. Also assumed as our cost of debt
 4. Debt to Enterprise ratio of 0.05 (current 5 yr avg levels)¹⁸

	2019	2020	2021	2022	2023
Debt to EV Ratio	0.06	0.07	0.05	0.04	0.04

This leads to a computed WACC of 4.34%.

Historical Financials

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Income	€ 235	€ 250	€ 259	€ 297	€ 346	€ 311	€ 283	€ 300	€ 332	€ 364
% growth		6%	4%	15%	17%	-10%	-9%	6%	11%	10%
COGS	€ 194	€ 200	€ 214	€ 242	€ 269	€ 252	€ 227	€ 239	€ 286	€ 300
% of revenue	82.60%	80.09%	82.46%	81.37%	77.61%	80.84%	79.96%	79.62%	85.90%	82.27%
Gross Profit	€ 41	€ 50	€ 45	€ 55	€ 78	€ 60	€ 57	€ 61	€ 47	€ 65
% of revenue	17%	20%	18%	19%	22%	19%	20%	20%	14%	18%
SG&A	€ 5	€ 6	€ 7	€ 5	€ 4	€ 4	€ 2	€ 4	€ 7	€ 5
% of revenue	2.1%	2.4%	2.8%	1.8%	1.2%	1.4%	0.7%	1.5%	2.0%	1.5%
EBIT	€ 24	€ 31	€ 26	€ 33	€ 53	€ 36	€ 35	€ 37	€ 18	€ 36
% of revenue	10%	13%	10%	11%	15%	11%	13%	12%	6%	10%
Tax	€ 7	€ 10	€ 8	€ 5	€ 14	€ 8	€ 8	€ 9	€ 4	€ 6
	30%	32%	33%	15%	27%	23%	22%	26%	24%	17%
NOPAT	€ 17	€ 21	€ 17	€ 28	€ 39	€ 27	€ 28	€ 27	€ 14	€ 30
% of revenue	7%	9%	7%	9%	11%	9%	10%	9%	4%	8%
D&A	€ 12	€ 12	€ 13	€ 17	€ 20	€ 20	€ 19	€ 20	€ 22	€ 23
% of revenue	5%	5%	5%	6%	6%	6%	7%	7%	7%	6%
Capex	€ 12	€ 25	€ 10	€ 21	€ 20	€ 21	€ 20	€ 18	€ 16	€ 22
% of revenue	5%	10%	4%	7%	6%	7%	7%	6%	5%	6%
Change in NWC	€ 3	€ 12	€ 2	€ 3	€ (19)	€ (4)	€ 7	€ (1)	€ 1	€ 9
% of revenue	1%	5%	1%	1%	-5%	-1%	2%	0%	0%	3%
UFCF	€ 14	€ (3)	€ 19	€ 21	€ 58	€ 31	€ 20	€ 30	€ 19	€ 22
% of revenue	6%	-1%	7%	7%	17%	10%	7%	10%	6%	6%

¹⁸ Factset

Full Model:

	2024E	2025E	2026E	2027E	2028E	2029E
Income	€ 385	€ 407	€ 429	€ 454	€ 479	€ 506
% growth	6%	6%	6%	6%	6%	6%
COGS	€ 317	€ 337	€ 358	€ 380	€ 404	€ 429
% of revenue	82%	83%	83%	84%	84%	85%
Gross Profit	€ 68	€ 70	€ 72	€ 74	€ 75	€ 77
% of revenue	18%	17%	17%	16%	16%	15%
SG&A	€ 6	€ 7	€ 8	€ 9	€ 10	€ 11
% of revenue	2%	2%	2%	2%	2%	2%
EBIT	€ 37	€ 36	€ 36	€ 35	€ 35	€ 33
% of revenue	10%	9%	8%	8%	7%	7%
Tax	€ 9	€ 9	€ 9	€ 9	€ 9	€ 8
	25%	25%	25%	25%	25%	25%
NOPAT	€ 28	€ 27	€ 27	€ 27	€ 26	€ 25
% of revenue	7%	7%	6%	6%	5%	5%
D&A	€ 25	€ 27	€ 28	€ 29	€ 31	€ 33
% of revenue	7%	7%	7%	6%	6%	7%
Capex	€ 25	€ 26	€ 28	€ 29	€ 31	€ 33
% of revenue	7%	7%	7%	7%	7%	7%
Change in NWC	€ 5	€ 6	€ 6	€ 6	€ 7	€ 7
% of revenue	1%	1%	1%	1%	1%	1%
UFCF	€ 22	€ 22	€ 21	€ 20	€ 19	€ 18
% of revenue	6%	5%	5%	4%	4%	4%
	*Divided 2024 CF in half					
	Terminal Value			PV of Cash Flows	€	96
	2029E UCF	€	18	PV of TV	€	630
	Long-term growth rate		2%	Total Enterprise Value	€	726
	TV		€ 630	- Net Debt	€	(90)
				Total Implied Equity Value	€	816
	WACC		4.34%	# of outstanding share		4
				Implied Share Price	€	197