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Treasury Wine sees red and blasts 'false and misleading' claims



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Australia's biggest wine company Treasury Wine Estates has blasted claims about its performance by a Hong Kong-based equities research firm as "false and misleading", declaring it would refer the matter to the Australian Securities and Investments Commission.

Treasury released a hard-hitting statement to the ASX on Thursday defending itself, in response to a new report by GMT Research.

The GMT Research note said Treasury "may have inflated profits by up to 50 per cent over the last two years through the use of acquisition accounting to write-down inventories and establish other liabilities.

"Weak operating cash flow with a widening divergence from cash profits raises additional concerns that profits are being manipulated. Tell-tale signs include rising receivables and inventories which suggest possible channel-stuffing and deferral of overheads," GMT Research said.

"The winding down of benefits from acquisition accounting may have left a hole in earnings; if we are correct, there is 35 per cent downside" to the share price, it claimed.

The report recommended that particular attention should be paid to the strength of Treasury's operating cash flow in its results, as well as its level of receivables.

The company (TWE) confirms that the claims made by GMT Research are false and misleading.

Treasury Wine Estates statement to the ASX

"We think investors should avoid the stock. Poor results may lead us to downgrade to sell or short. Conversely, a strong underlying cash performance may help allay our concerns," GMT said.

In the wake of the controversial report shares in Treasury were down sharply in early trade on Thursday, falling as much as 7.7 per cent to \$15.28.

But after that drop, and after Treasury's feisty response later in the morning, the stock recovered to close up one cent at \$16.57.

"The company (TWE) confirms that the claims made by GMT Research are false and misleading. TWE will announce its preliminary financial results for the 2019 fiscal year on 15 August and at that time will discredit claims made in this report," Treasury said.



Treasury Wine Estates, the owner of Penfolds, is seeing red over a controversial research report on the wine business by a Hong Kong firm. PHOTO:JUSTIN MCMANUS

"TWE notes it has already provided guidance on key metrics including P&L, balance sheet, and cash conversion and has no further comment. The Company is referring this matter to the Australian Securities and Investments Commission (ASIC)."

GMT Research has not publicly released its report, noting that it is regulated in Hong Kong and not Australia. But the research was circulating widely on trading desks on Thursday.

Nigel Stevenson, the report's author, said the firm was regulated by Hong Kong's Securities and Futures Commission.

"We make all our money from paying subscribers who are institutional investors and do not take any positions ourselves in the stocks we write about," he said.

"Our report on Treasury Wine was published confidentially to our subscribers on 7 August. In the report, we set out our considered and frank view on the company and its financials. We note Treasury Wine's response to our report but do not intend to comment further at this time," Mr Stevenson said.

He said GMT Research subscribers were institutional investors, including hedge funds who take short positions and other fund managers would be shareholders in the company. Treasury has been a darling of the Australian stockmarket in recent years, with its stock price more than quadrupling since October 2014.

However, the GMT report is not the first time it has been targeted by offshore investors. US hedge fund manager Bayberry Capital [delivered a scathing assessment](#) of the company at a high profile New York investor conference.

According to Bloomberg, the consensus among analysts is for the company to report a full year underlying profit of \$441 million next week.

Morgans analyst Belinda Moore questioned the timing of the GMT report, noting it coincided with "the release of the new 2019 Penfolds collection, and Penfolds has once again shown that it does have pricing power, by pushing through higher prices with this 2019 collection".

Ms Moore stressed that she had not seen or read the GMT report, but said she did not agree with the assertions attributed to GMT about Treasury that she had seen in media reports.

The focus on Treasury comes shortly after a new report by Rabobank said [Australian wine was the "clear winner"](#) among imported wines in the Chinese market.

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