

Centrale del Latte di Torino

FY15-17 BP Points to Margin Increase

Centrale del Latte di Torino - Key estimates and data					
Y/E December		2014A	2015E	2016E	2017E
Revenues	EUR M	100.4	101.2	105.4	108.1
EBITDA	EUR M	5.85	7.23	8.12	8.83
EBIT	EUR M	2.62	3.35	3.96	4.73
Net Income	EUR M	0.79	1.46	1.99	2.56
Dividend ord.	EUR	0	0	0	0
Adj. EPS	EUR	0.08	0.15	0.20	0.26
EV/EBITDA	x	8.1	8.0	7.1	6.6
Adj. P/E	x	38.1	27.9	20.6	16.0

NA: not available; NM: not meaningful; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

- 4Q/FY14A results.** In FY14A the CLT group reported a top line increase, both price and volume driven, achieved in a difficult market context as the small reduction in the milk price in 4Q14A did not offset the overall increase in the milk price in 1H14A. FY14A revenues increased by 2.4% (-2.1% in 4Q14A). The EBITDA margin slightly improved to 20.1% in FY14A vs. 19.9% in FY13A as the group's solid operating cost efficiencies offset the raw material price increase. EBIT increased to EUR 2.6M vs. EUR 1.1M in FY13A as the brands Centrale Latte Rapallo and Latte Tigullio were no longer amortised. FY14A net debt was EUR 17.2M (43% net debt to equity), improving vs. EUR 19.95M in FY13A (49%). The group is to propose a EUR 0.06/share dividend, to be paid on 6 May 2015.
- 2015-17 Business Plan.** CLT, has for the first time, disclosed a strategic 2015-17 BP which is based on a flat raw material milk price assumption and a stable final price for the group products. Key BP data are: a 2014-17 revenue CAGR of 2.5%; EBITDA margin improving from 5.7% in FY14 to 8.1% in FY17 driven by a lower impact from raw material costs, cost efficiencies and a reorganisation of the group's logistics and production activities in Turin and Rapallo; net debt significantly improving from EUR 17.2M in FY14 to EUR 7.9M in FY17 despite a substantial increase in investments of approx. EUR 8M in the three year plan.
- Outlook.** As for the outlook, management expects a stabilisation of raw material milk prices vs. 4Q14A and should support profitability going forward benefiting from the high comparable base (FY14A recorded historically high milk prices).
- Potential Integration with Centrale latte Firenze, Pistoia, Livorno.** No news was given on the final outcome related to the potential industrial integration with Centrale del Latte di Firenze, Pistoia e Livorno, through a merger based on a share swap yet to be defined. The merged entity would be named Centrale del Latte d'Italia (CLI), would be listed on the STAR segment, and would become the third largest milk/cheese player in Italy, with revenues of around EUR 200M.
- Estimates and valuation.** We revised our estimates to incorporate the group's disclosed FY15-17 BP. In FY15E-16E, we lowered our revenues by approx. 3% while we increased our FY15-16 EBITDA by 52% reflecting management's cost efficiencies and restructuring actions. FY15 net profit is now forecast at EUR 1.5M vs. EUR 0.8M previously. We updated our DCF-based valuation to incorporate our FY15E-16E change in estimates and rollover of our estimates to FY17E. Our DCF-based valuation points to a **EUR 4.14/share target price (EUR 3.13/share previously)**.
- Key risks.** In our view, the key risks for the company relate to potentially lower volumes sold as a result of a possible increase in the raw milk price. We also view the increasing competition from private labels as a risk, especially in the fresh milk product category and despite the group's key brand being quite defensive, benefiting from its historic high brand awareness, particularly in Turin.

See page 9 for full disclosures and analyst certification

Banca IMI is Specialist to Centrale del Latte di Torino

17 March 2015

HOLD

Target Price: EUR 4.14
(from EUR 3.13)

Italy/Food Producers &
Processors
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Price performance, -1Y



Data priced on 16.03.2015

Target price (€)	4.14
Target upside (%)	1.27
Market price (€)	4.09
52Wk range (€)	4.25/2.41
Market cap (€ M)	40.88
No. of shares	10.00
Free float (%)	96.3
Major shr (%)	A. Artom
Reuters	CLT.MI
Bloomberg	CLT IM
FTSE IT All Sh	24473
Performance %	
Absolute	Rel. to FTSE IT All
-1M	26.5 -1M
-3M	52.3 -3M
-12M	-8.5 -12M
	-18.9

Source: FactSet and Intesa Sanpaolo Research estimates

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Contents

4Q/FY14A Results	3
Earnings Outlook	4
Potential Integration with Centrale latte Firenze, Pistoia, Livorno	5
Valuation	6

4Q/FY14A Results

In 4Q/FY14A the CLT group reported a top line increase, both price and volume driven, achieved in a difficult market context as the small reduction in the milk price in the last few months of 2014 did not offset the overall increase in the 1H14 milk price.

FY14A revenues increased by 2.4% (-2.1% in 4Q14A) driven by a continuing increase in the UHT milk consumption, which was up by 7.6%, driven by sales from the Centrale Latte Vicenza, resulting from commercial policies and private label production, and by 3.3% in cream and milk. On the other hand, CLT reported a 3.6% decrease in fresh milk revenues, a 0.7% decrease in IV gamma products, and a 2.9% drop in yogurt, as these were the most exposed to the lower consumption trend. Overall, the Piedmont region accounted for 50% of total revenues while the remaining 50% was equally split between the Liguria and Veneto regions.

Export contributed EUR 0.9M resulting from the recently signed distribution agreement with China (Nanpufood distributor for China, Macau and Hong Kong), which is proceeding in line with management's target of achieving approx. EUR 1M revenues at regime.

Export to China in line with targets

Centrale del Latte di Torino - FY14A revenue breakdown			
EUR M	FY13A	FY14A	chg %
Fresh milk	43.8	42.2	-3.6
UHT milk	19.3	20.7	7.6
Yogurt	8.1	7.8	-2.9
IV gamma products	4.7	4.7	-0.7
Cream and milk	3.7	3.8	3.3
Other products	18.5	20.3	9.4
Export	NA	0.9	NM
Total	98.1	100.4	2.4

NA: not available; NM: not meaningful; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

The FY14A value-added margin increased to 20.1% vs. 19.9% in FY13A. The FY14A EBITDA margin increased to 5.8% (vs. 5.5% in FY13A) reflecting the group's solid operating cost efficiencies which offset the raw material price increase. FY14A EBIT increased to EUR 2.6M vs. EUR 1.1M in FY13A (in 4Q14A EBIT increased to EUR 1.7M vs. EUR 0.4M in 4Q13A), as the brands Centrale Latte Rapallo and Latte Tigullio were no longer amortised, since they were reclassified with an indefinite useful life. FY14A showed a bottom line at EUR 0.8M (vs. EUR 1.3M in FY13A).

Profitability pressured by higher raw material prices

Centrale del Latte di Torino - 4Q/FY14A results						
EUR M	4Q13A	4Q14A	chg %	2013A	2014A	chg %
Revenues	26.4	25.8	-2.1	98.1	100.4	2.4
Value added	4.7	6.3	34.6	19.5	20.1	3.3
EBITDA	1.26	2.53	101.6	5.4	5.8	8.8
EBIT	0.41	1.74	326.3	1.1	2.6	131.9
Pre-tax profit	1.8	1.5	-18.9	2.1	1.8	-14.0
Net profit	1.7	0.8	-49.4	1.3	0.8	-37.6
Value added margin (%)	17.7	24.3		19.9	20.1	
EBITDA margin (%)	4.8	9.8		5.5	5.8	
EBIT margin (%)	1.5	6.7		1.2	2.6	
Net margin (%)	6.3	3.3		1.3	0.8	

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

FY14A net debt was EUR 17.2M (43% net debt to equity), improving vs. EUR 19.95M in FY13A (49%) reflecting management's ongoing focus on cost savings and investment containment.

Earnings Outlook

2015-17 Business Plan Disclosure

CLT, has for the first time, disclosed a strategic FY15-17 BP which is based on a flat raw material milk price assumption and a stable final price for the group products. Overall, the key BP data are:

- A 2014-17 revenue CAGR of 2.5% reaching a total of EUR 108.1M revenues of which approx. EUR 2M from exports (mainly to China);
- FY14A EBITDA margin improving from 5.7% to 8.1% in FY17. Key profitability drivers are a lower impact of raw material costs, cost efficiencies and a reorganisation of the group's logistics and production activities in Turin and Rapallo;
- FY14-17 net profit up 49.7% from EUR 0.8M to EUR 2.6M in FY17;
- Net debt significantly improving from EUR 17.2M in FY14 to EUR 7.9M in FY17. The group's solid improvement in the net financial position is expected by management despite a significant increase in investments to approx EUR 8M in the three year plan, (of which EUR 3M are maintenance capex and which are EUR 4M for the Turin plant, EUR 1M for Rapallo, EUR 2.5M for Vicenza and EUR 0.5M for Casteggio).

Centrale del Latte di Torino - 2015-17 Business Plan					
EUR M	2014A	2015	2016	2017	CAGR %
Revenues	100.4	101.2	105.4	108.1	2.5
Value of production	102.5	102.6	106.9	109.7	2.3
EBITDA	5.8	7.2	8.1	8.8	14.8
EBITDA margin (%)	5.7	7.0	7.6	8.1	
EBIT	2.6	3.3	4.0	4.7	21.8
Net profit	0.8	1.5	2.0	2.6	48.0
Net debt	17.2	14.2	11.0	7.9	

A: actual; Source: Company data

Estimates revision

We revised our estimates to incorporate the group's disclosed FY15-17 BP. In FY15E-16E, we lowered our revenues by approx. 3% while we increased our FY15-16 EBITDA by 52% reflecting management cost efficiencies and restructuring actions. FY15 net profit is now forecast at EUR 1.5M vs. EUR 0.8M previously.

Centrale del Latte di Torino - Change in estimates (%)						
EUR M	2015E			2016E		
	Old	New	chg %	Old	New	chg %
Revenues (EUR M)	105.0	101.2	-3.6	108.8	105.4	-3.1
EBITDA (EUR M)	4.9	7.2	46.2	5.2	8.1	56.9
EBITDA margin (%)	4.7	7.1		4.8	7.7	
EBIT (EUR M)	1.9	3.3	76.2	2.3	4.0	72.3
EBIT margin (%)	1.8	3.3		2.1	3.8	
Net profit	0.8	1.5	90.1	1.0	2.0	100.8
Net debt	-19	-14		-18	-11	

A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Potential Integration with Centrale latte Firenze, Pistoia, Livorno

CLT has presented a non-binding project for a potential industrial integration of Centrale Latte Firenze, Pistoia and Livorno (CL.FPL). The CLT project followed a CL.FPL public request of proposals after its Board of Directors were given a mandate to identify a potential industrial strengthening.

The integration with the CL.FPL would occur through a merger based on a share swap yet to be defined. The merged entity would be named Centrale del Latte d'Italia (CLI), would be listed on the STAR segment, and would become the third largest milk/cheese player in Italy, with revenues of around EUR 200M. The industrial rationale would be: 1) commercial and production synergies; 2) higher bargaining power with clients and providers; and 3) a stronger potential expansion in China, where both companies are already present, and in other geographical areas.

According to press articles (Il Sole 24 Ore), there are several groups participating in the Tuscany group's request for industrial proposals. CLT has not disclosed its project details. According to the FY13A financial statement, CL.FPL has EUR 87M revenues (EUR 100M for CLT) and a 6.2% EBITDA margin (approx. in line with CLT)..

No details were disclosed about the swap ratio and on the potential synergies exploitation. We highlight that the integration is to preserve the legal company and management's continuity of Centrale di Firenze. In any case, we positively regard the greater scale of the merged entity, which could become an aggregation pole for other integrations.

Valuation

DCF model

We updated our DCF-based valuation to incorporate the our FY15E-16E change in estimates in line with the group's disclosed BP.

Our key 2014A-25E DCF assumptions are: a 5.6% WACC (6.2% previously) based on a 33% gearing ratio, 2.0% risk free rate (vs. 3.0% used in our previous report) and 5.50% risk premium; a 2.4% sales CAGR, a 2% perpetual growth rate and a 4.0% EBIT margin (2.8% previously used).

Our DCF-based valuation points to a **EUR 4.14/share target price (EUR 3.13/share previously)**. **EUR 4.14/share target price**

Centrale del Latte di Torino - WACC calculation		CLT – DCF key assumptions (%)	
Gearing ratio %	33	Sales 2014A-25E CAGR	2.4
Risk-free rate %	2.00	Perpetual growth rate	2.0
Risk premium %	5.50	EBIT margin 2014A-25E avg	4.0
Beta*(x)	0.9	EBIT 2014A-25E CAGR	7.4
Required return %	7.0	Tax rate 2014A-25E avg.	47
WACC %	5.6	Capex to sales 2014A-25E avg.	2
		Working capital to sales 2014A-25E	0

Source: *Bloomberg, Intesa Sanpaolo Research estimates

Source: Intesa Sanpaolo Research estimates

Centrale del Latte di Torino - DCF valuation (EUR M)	
Forecast cash flows	23
Terminal value	37
Enterprise value	61
Net cash/-debt	-20
Equity value	41
Number of shares (M)	10.0
Equity value per share (EUR)	4.14

Source: Intesa Sanpaolo Research estimates

Centrale del Latte di Torino – Sensitivity analysis						
EUR/share	Growth rate%					
Discount rate%	1.0	1.5	2.0	2.5	3.0	
4.6%	4.6	5.3	6.2	7.6	9.8	
5.1%	3.9	4.4	5.0	5.9	7.2	
5.6%	3.3	3.7	4.14	4.8	5.6	
6.1%	2.8	3.1	3.5	3.9	4.5	
6.6%	2.5	2.7	3.0	3.3	3.7	

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In the table below, we s the 2015E-16E peers' multiples in terms of EV/sales, EV/EBITDA and P/E, taken from Factset consensus estimates. In terms of EV/EBITDA, CLT now trades in line vs. 2015E and FY16E peers' average.

Multiples comparison								
x	Price EUR	Mkt cap	EV/sales		EV/EBITDA		PE	
			2015E	2016E	2015E	2016E	2015E	2016E
Dean Foods Co.	4.09	41	0.28	0.27	6.80	6.27	19.3	15.0
Associated British Foods PLC	14.60	1,449	1.83	1.69	16.00	14.05	29.9	25.7
Dairy Crest Group PLC	42.65	24,130	0.57	0.55	7.31	6.66	11.5	11.1
Saputo Inc.	6.49	635	1.37	1.35	12.48	12.02	20.2	18.2
Emmi AG	25.84	13,644	0.61	0.58	7.58	6.92	18.6	17.0
Parmalat S.p.A.	323.82	1,846	0.67	0.57	8.44	7.69	20.8	18.5
Average			0.89	0.83	9.77	8.93	20.0	17.6
CLT	4.09	41	0.57	0.55	8.03	7.15	27.9	20.6
Premium/-discount %			-35	-34	-18	-20	39	17

Priced at 13 March 2015; Source: Factset and *Intesa Sanpaolo Research estimates

Centrale del Latte di Torino - Key data							
Rating	Target price (EUR/sh)	Mkt price (EUR/sh)	Sector		Free float (%)	Reuters Code	
HOLD	Ord 4.14	Ord 4.09	Food Producers & Processors		96.3	CLT.MI	
Values per share (EUR)			2013A	2014A	2015E	2016E	2017E
No. ordinary shares (M)			10.00	10.00	10.00	10.00	10.00
No. NC saving/preferred shares (M)			0.00	0.00	0.00	0.00	0.00
Total no. of shares (M)			10.00	10.00	10.00	10.00	10.00
Market cap			16.83	30.17	40.88	40.88	40.88
Adj. EPS			0.03	0.08	0.15	0.20	0.26
CFPS			0.55	0.40	0.53	0.61	0.67
BVPS			4.1	4.0	4.2	4.4	4.6
Dividend ord			0.06	0	0	0	0
Dividend SAV Nc			0	0	0	0	0
Income statement (EUR M)			2013A	2014A	2015E	2016E	2017E
Sales			98.06	100.4	101.2	105.4	108.1
EBITDA			5.37	5.85	7.23	8.12	8.83
EBIT			1.13	2.62	3.35	3.96	4.73
Pre-tax income			2.10	1.80	2.42	3.15	4.02
Net income			1.27	0.79	1.46	1.99	2.56
Adj. net income			0.31	0.79	1.46	1.99	2.56
Cash flow (EUR M)			2013A	2014A	2015E	2016E	2017E
Net income before minorities			1.3	0.8	1.5	2.0	2.6
Depreciation and provisions			4.2	3.2	3.9	4.2	4.1
Others/Uses of funds			0	0	0	0	0
Change in working capital			2.9	1.4	0.1	0.0	0.0
Operating cash flow			8.4	5.4	5.4	6.2	6.7
Capital expenditure			-0.8	-2.1	-2.7	-2.7	-2.7
Financial investments			4.6	-0.2	0	0	0
Acquisitions and disposals			0	0	0	0	0
Free cash flow			12.2	3.1	2.7	3.5	4.0
Dividends			0	-0.6	0	0	0
Equity changes & Other non-operating items			-6.5	0.2	0	0	0
Net cash flow			5.7	2.8	2.7	3.5	4.0
Balance sheet (EUR M)			2013A	2014A	2015E	2016E	2017E
Net capital employed			60.7	57.7	56.4	55.0	53.5
of which associates			0	0	0	0	0
Net debt/-cash			20.0	17.2	14.5	11.0	7.1
Minorities			0	0	0	0	0
Net equity			40.6	40.5	41.9	43.9	46.5
Minorities value			0	0	0	0	0
Enterprise value			36.8	47.4	58.1	58.1	58.1
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			55.1	38.1	27.9	20.6	16.0
P/CFPS			3.1	7.5	7.6	6.7	6.1
P/BVPS			0.41	0.75	0.98	0.93	0.88
Payout (%)			47	0	0	0	0
Dividend yield (% ord)			3.6	0	0	0	0
FCF yield (%)			72.5	10.4	6.6	8.5	9.7
EV/sales			0.38	0.47	0.57	0.55	0.54
EV/EBITDA			6.8	8.1	8.0	7.1	6.6
EV/EBIT			32.6	18.1	17.3	14.6	12.3
EV/CE			0.61	0.82	1.0	1.1	1.1
D/EBITDA			3.7	2.9	2.0	1.4	0.80
D/EBIT			17.7	6.6	4.3	2.8	1.5
Profitability & financial ratios (%)			2013A	2014A	2015E	2016E	2017E
EBITDA margin			5.5	5.8	7.1	7.7	8.2
EBIT margin			1.2	2.6	3.3	3.8	4.4
Tax rate			39.5	56.1	39.5	36.9	36.3
Net income margin			1.3	0.8	1.4	1.9	2.4
ROCE			1.9	4.5	5.9	7.2	8.8
ROE			3.2	2.0	3.6	4.6	5.7
Interest cover			1.8	3.2	3.6	4.9	6.7
Debt/equity ratio			49.1	42.5	34.6	25.1	15.2
Growth (%)			2014A	2015E	2016E	2017E	
Sales			2.4	0.8	4.1	2.6	
EBITDA			8.8	23.7	12.3	8.8	
EBIT			NM	27.8	18.4	19.3	
Pre-tax income			-14.0	34.3	30.2	27.5	
Net income			-37.6	84.8	35.8	28.8	
Adj. net income			NM	84.8	35.8	28.8	

NM: not meaningful; NA: not available; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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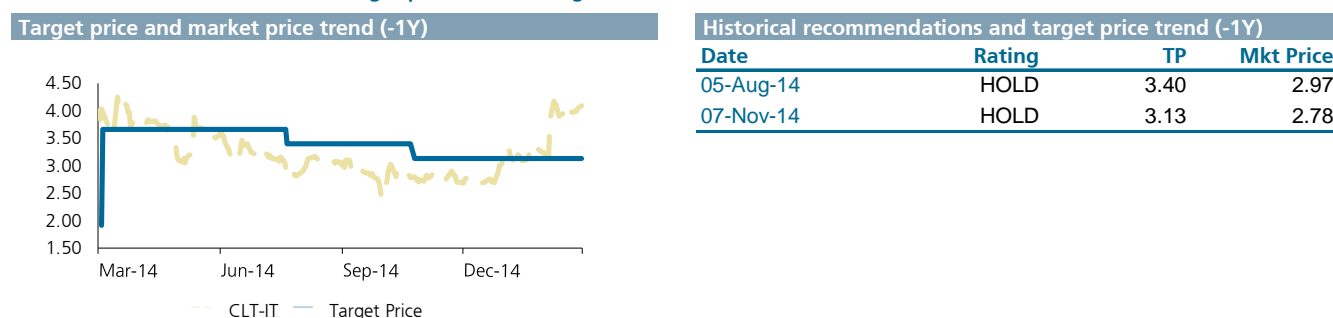
Valuation methodology (long-term horizon: 12M)

The Intesa Sanpaolo SpA Equity Research Department values the companies for which it assigns recommendations as follows: We obtain a fair value using a number of valuation methodologies including: discounted cash flow method (DCF), dividend discount model (DDM), embedded value methodology, return on allocated capital, break-up value, asset-based valuation method, sum-of-the-parts, and multiples-based models (for example PE, P/BV, PCF, EV/Sales, EV/EBITDA, EV/EBIT, etc.). The financial analysts use the above valuation methods alternatively and/or jointly at their discretion. The assigned target price may differ from the fair value, as it also takes into account overall market/sector conditions, corporate/market events, and corporate specifics (ie, holding discounts) reasonably considered to be possible drivers of the company's share price performance. These factors may also be assessed using the methodologies indicated above.

Equity rating key: (long-term horizon: 12M)

In its recommendations, Intesa Sanpaolo SpA uses an "absolute" rating system, which is not related to market performance and whose key is reported below:

Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances, including when Intesa Sanpaolo is acting in an advisory capacity in a merger or strategic transaction involving the company.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)**Equity rating allocations (long-term horizon: 12M)**

Intesa Sanpaolo Research Rating Distribution (at February 2015)					
Number of companies considered: 93	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage %	52	24	25	0	0
of which Intesa Sanpaolo's Clients % (*)	77	68	43	0	0

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and Investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
LONG	Stock price expected to rise or outperform within three months from the time the rating was assigned due to a specific catalyst or event
SHORT	Stock price expected to fall or underperform within three months from the time the rating was assigned due to a specific catalyst or event

Company specific disclosures

Banca IMI discloses interests and conflicts of interest, as defined by: Articles 69-quater and 69-quinquies, of Consob Resolution No.11971 of 14.05.1999, as subsequently amended and supplemented; the NYSE's Rule 472 and the NASD's Rule 2711; the FSA Policy Statement 04/06 "Conflicts of Interest in Investment Research – March 2004 and the Policy Statement 05/03 "Implementation of Market Abuse Directive", March 2005. The Intesa Sanpaolo Group maintains procedures and organisational mechanisms (Information barriers) to professionally manage conflicts of interest in relation to investment research. We provide the following information on Intesa Sanpaolo Group's conflicts of interest:

- 1 The Intesa Sanpaolo Group plans to solicit investment banking business or intends to seek compensation from Centrale del Latte di Torino in the next three months
- 2 Banca IMI acts as Specialist relative to securities issued by Centrale del Latte di Torino

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