

Recovery in Fresh Milk.

2Q/IH06 results.

| 2Q/IH06 results. | | | | | | |
|---------------------|------|------|-------|------|------|-------|
| EUR M | 2Q05 | 2Q06 | yoy % | IH05 | IH06 | yoy % |
| Value of production | 24.1 | 24.5 | 1.9 | 48.5 | 50.0 | 3.0 |
| EBITDA | 2.2 | 2.6 | 20.9 | 5.0 | 5.4 | 6.4 |
| EBITDA margin (%) | 8.9 | 10.6 | | 10.4 | 10.7 | |
| EBIT | 1.1 | 1.6 | 46.0 | 2.9 | 3.2 | 13.8 |
| EBIT margin (%) | 4.5 | 6.4 | | 5.9 | 6.5 | |
| Pre-tax profit | 1.0 | 1.6 | 61.5 | 2.6 | 3.1 | 21.8 |

Source: Company data.

On a six-month basis, value of production increased by 3% to EUR 50M: sales were mainly driven by the fresh milk and yoghurt segments. The latter benefited from the positive trend of new "wellness" products (ie, drinkable probiotic yoghurt) and increased sales by 5%. In the fresh milk segment, sales were up by 4.3% to EUR 21.9M, with a very positive trend in the Veneto (+11.2%) and Piedmont regions (+4.9%). Fresh milk sales were mainly boosted by the new marketing actions taken by the group, such as the launch of new packaging. Other products revenues improved by 3.7% while UHT milk sales declined by 1.7%. Higher energy and transport costs were offset by lower other costs, especially labour (-2.8% yoy). As a result EBITDA improved by 6.4% to EUR 5.4M, with EBITDA margin increasing from 10.4% to 10.7%. Depreciation and amortisation were stable, while EBIT jumped by 13.8% to EUR 3.2M. Pre-tax profit benefited from lower financial costs, jumping by 21.8%. Net debt reached EUR 3.5M from EUR 2.6M at December 2005.

Catalysts.

The group is benefiting from a partial recovery of the fresh milk market. Our estimates point to a 1.8% growth of the top-line with a stable marginality for 2006. Next year the group should complete the new production plant in Vicenza, replacing the two plants in Vicenza and Valdagno and grouping the production of milk and yogurt in one site and rationalising costs. The new plant should have additional capacity for yogurt production thus allowing it to increase sales in other regions and eventually to produce yogurt for third parties (eg, private labels). As for external growth, CLT participated in a competitive bid for a 12% stake in Centrale del Latte di Asti e Alessandria. However, the other shareholders of the company exercised their pre-emptive rights and acquired the stake.

Valuation.

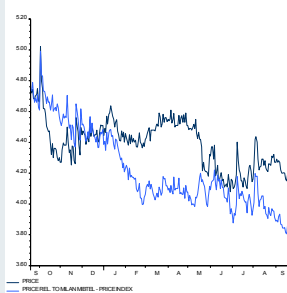
We valued CLT using a DCF model based on the following main assumptions: 1) 7.8% WACC, based on the financial structure at end-2005; 2) a mid-term (2009E-13E) sales growth rate of 1% with an EBITDA margin stable at 10.5%; 3) a perpetuity growth rate of 0%. Our model returns a fair value of EUR 5.16/share.

Italy - Food & Beverages

Corporate Broking Research

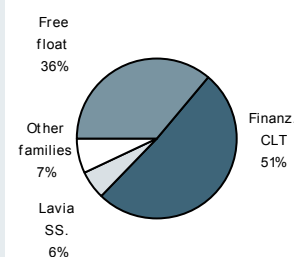
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Price performance, -1Y.



Source: Datastream.

Shareholder structure.



Source: Company data.

Basic figures.

| | |
|---------------------|------------------|
| Current price (EUR) | 4.26 |
| Market cap. (EUR M) | 42.6 |
| No. of shares (M) | 10.00 |
| 52-week range (EUR) | 5.0-4.1 |
| Major shareholder | Finanz. CLT, (%) |
| | 51.0 |
| Free float (%) | 36.2 |
| Reuters | CLT.MI |
| Bloomberg | CLT IM |
| Mibtel | 29110 |

| Performance % | | | |
|---------------|----------|----------------|-------|
| | Absolute | Rel. to Mibtel | |
| -1M | 0.4 | -1M | -1.3 |
| -3M | 2.2 | -3M | -5.4 |
| -12M | -10.4 | -12M | -18.1 |

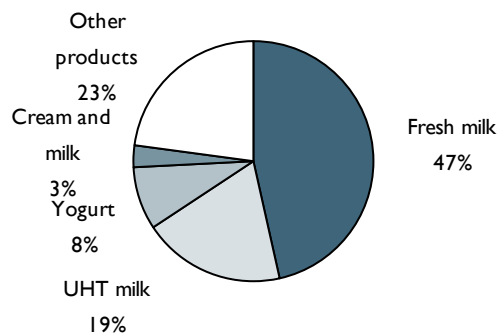
Source: Company data, Datastream.

Centrale del Latte di Torino: At a Glance.

Company description.

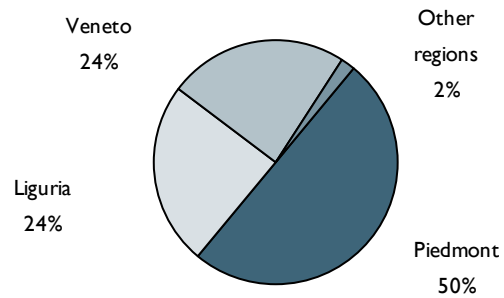
Centrale del Latte di Torino (CLT) is a multi-regional group active in the production and distribution of milk (both fresh and UHT), milk derivatives (yogurt, cheese) and other fresh products (eggs, salads). The group almost exclusively operates in the regions of Piedmont, Veneto and Liguria, where it has leadership positions, especially in the fresh milk segment. In 2000, the group was listed on the Italian stock exchange and is part of the STAR segment.

Revenue by product (1H06).



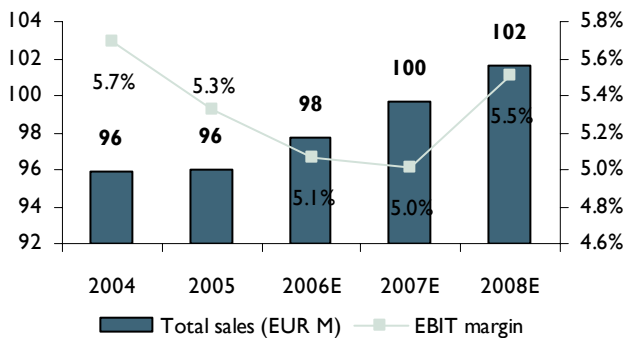
Source: Company data.

Revenue by region (1H06).



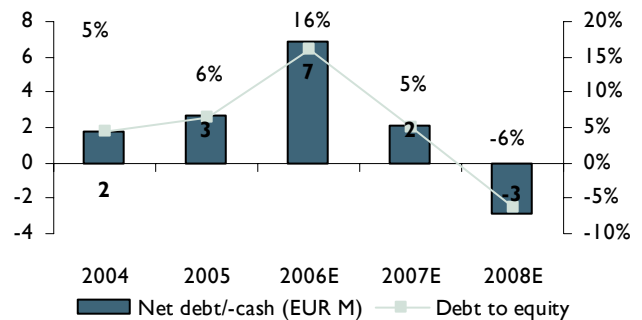
Source: Company data.

Sales and EBIT margin.



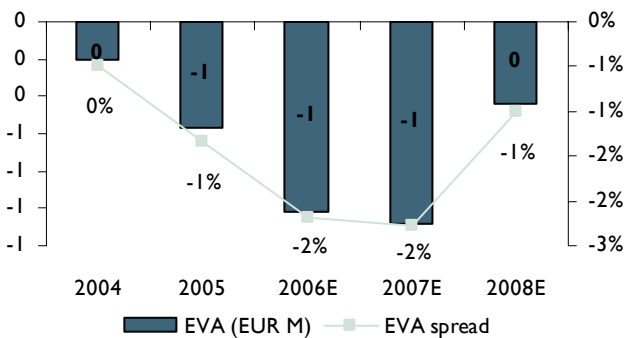
Source: Company data and Banca IMI estimates.

Net financial position and gearing.



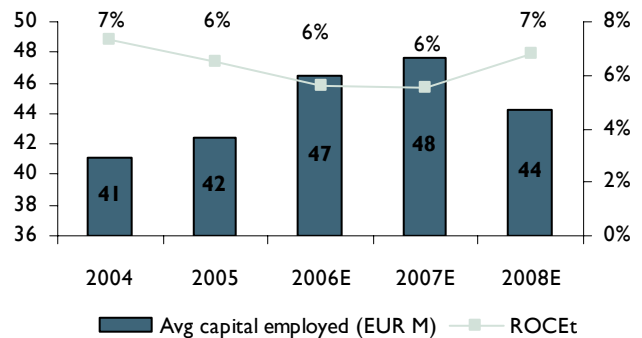
Source: Company data and Banca IMI estimates.

Value creation.



Source: Company data and Banca IMI estimates.

Return on capital employed.



Source: Company data and Banca IMI estimates.

Centrale del Latte di Torino: Valuation.

DCF model.

| DCF assumption (%). | |
|-------------------------------|------------|
| 2006E-13E CAGR of revenue | 1.3 |
| 2006E-13E CAGR of EBITDA | 1.9 |
| 2013E EBITDA margin | 10.5 |
| 2006E-13E CAGR of OpFCF | 9.1 |
| WACC calculation | |
| Risk-free rate (10 year bond) | 4.5 |
| Risk premium | 4.0 |
| Beta (x) | 0.9 |
| Cost of equity | 8.1 |
| Tax shielded cost of debt | 3.4 |
| Financial structure (D/E+D) | 6.0 |
| WACC | 7.8 |

Source: Banca IMI estimates.

IMTG model.

| EPS IMTG calculation (%). | |
|---|-------------|
| First stage (2006E-08E) CAGR of EPS | 4.9 |
| Steady stage (2015E onwards) EPS growth | 2.0 |
| First stage (2005-08E) payout ratio | 26.0 |
| Discount rate (cost of equity) | 8.1 |
| Current P/E (x) | 21.6 |
| EPS IMTG - (2009E-14E) | 22.3 |
| EPS IMTG - at fair value | 26.7 |

Source: Banca IMI estimates.

| DCF valuation (EUR M). | |
|-------------------------------|--------------|
| Perpetual g of OpFCF (%) | 0.00 |
| Terminal value | 58.67 |
| PV of TV | 32.14 |
| PV of OpFCF | 24.56 |
| Enterprise value | 56.69 |
| NFP 2005 | -2.64 |
| Minorities | -2.41 |
| Equity value | 51.64 |
| No. of shares (M) | 10.0 |
| Fair value (EUR/share) | 5.16 |
| Vs. market price (%) | 21.0 |

Source: Banca IMI estimates.

| IMTG sensitivity. | | | | | |
|-------------------|----------------|------|-------------|------|------|
| % | Cost of equity | | | | |
| | P/E (x) | 7.1 | 7.6 | 8.1 | 8.6 |
| 24.6 | 20.3 | 22.8 | 25.2 | 27.6 | 29.8 |
| 23.1 | 18.9 | 21.4 | 23.8 | 26.1 | 28.3 |
| 21.6 | 17.4 | 19.9 | 22.3 | 24.5 | 26.7 |
| 20.1 | 15.9 | 18.3 | 20.6 | 22.8 | 25.0 |
| 18.6 | 14.2 | 16.6 | 18.9 | 21.1 | 23.2 |

Source: Banca IMI estimates.

Centrale del Latte di Torino: Financials.

Centrale del Latte di Torino - Key figures (2004-08E).

| | | | | | |
|---|-------------|-------------|--------------|--------------|--------------|
| Price (EUR) | 4.26 | | | | |
| No. of shares (M) | 10.0 | | | | |
| Market capitalisation (EUR M) | 42.6 | | | | |
| Enterprise value (EUR M) | 47.2 | | | | |
| Values per share (EUR) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EPS | 0.18 | 0.20 | 0.20 | 0.18 | 0.23 |
| Adj. EPS | 0.18 | 0.20 | 0.20 | 0.18 | 0.23 |
| CEPS | 0.62 | 0.64 | 0.67 | 0.69 | 0.76 |
| BVPS | 3.68 | 3.88 | 4.02 | 4.16 | 4.34 |
| DPS | 0.03 | 0.05 | 0.05 | 0.05 | 0.06 |
| Payout (%) | 16.84 | 24.64 | 25.32 | 27.23 | 25.58 |
| Stock market ratios (x) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EV/sales | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| EV/EBITDA | 4.7 | 4.9 | 4.8 | 4.6 | 4.3 |
| EV/EBIT | 8.7 | 9.2 | 9.5 | 9.5 | 8.4 |
| EV/FCF | 8.8 | NM | NM | 9.1 | 8.5 |
| P/E | 23.9 | 21.0 | 21.6 | 23.2 | 18.2 |
| Adj. P/E | 23.9 | 21.1 | 21.6 | 23.2 | 18.2 |
| P/CE | 6.9 | 6.6 | 6.3 | 6.1 | 5.6 |
| P/BV | 1.2 | 1.1 | 1.1 | 1.0 | 1.0 |
| Dividend yield (%) | 0.7 | 1.2 | 1.2 | 1.2 | 1.4 |
| Free cash flow yield (%) | 11.3 | -1.1 | -7.8 | 10.9 | 11.7 |
| Income statement (EUR M) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Value of production | 95.9 | 96.0 | 97.7 | 99.7 | 101.6 |
| EBITDA | 10.0 | 9.6 | 9.8 | 10.2 | 10.9 |
| EBIT | 5.5 | 5.1 | 4.9 | 5.0 | 5.6 |
| Pre-tax profit | 4.8 | 4.7 | 4.5 | 4.5 | 5.2 |
| Net income | 1.8 | 2.0 | 2.0 | 1.8 | 2.3 |
| Adj. net income | 1.8 | 2.0 | 2.0 | 1.8 | 2.3 |
| Balance sheet (EUR M) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Net fixed assets | 44.9 | 47.9 | 53.2 | 50.1 | 46.9 |
| Net working capital | 2.5 | 2.2 | 2.5 | 2.7 | 2.9 |
| Other L/T liabilities | -6.3 | -6.3 | -6.5 | -6.8 | -7.2 |
| Net invested capital | 41.0 | 43.8 | 49.3 | 45.9 | 42.6 |
| Net debt/-cash | 1.8 | 2.6 | 6.8 | 2.2 | -2.9 |
| Shareholders' equity | 36.8 | 38.8 | 40.2 | 41.6 | 43.4 |
| Minorities | 2.4 | 2.4 | 2.2 | 2.2 | 2.0 |
| Cash flow (EUR M) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Cash income | 6.0 | 6.3 | 6.6 | 6.9 | 7.4 |
| Change in NWC and provisions | 1.2 | 0.3 | -0.2 | 0.2 | 0.2 |
| Total capex | -1.9 | -7.1 | -10.0 | -2.0 | -2.0 |
| Free cash flow | 5.4 | -0.5 | -3.7 | 5.2 | 5.5 |
| Capital increase | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividend payment | -0.3 | -0.3 | -0.5 | -0.5 | -0.5 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Change in NFP | 5.1 | -0.8 | -4.2 | 4.7 | 5.0 |
| Profitability and financial ratios (%) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EBITDA margin | 10.5 | 10.0 | 10.0 | 10.2 | 10.7 |
| EBIT margin | 5.7 | 5.3 | 5.1 | 5.0 | 5.5 |
| Net margin | 1.9 | 2.1 | 2.0 | 1.8 | 2.3 |
| ROI | 0.0 | 12.0 | 10.6 | 10.5 | 12.7 |
| ROE | 0.0 | 5.4 | 5.0 | 4.5 | 5.5 |
| D/E | 4.6 | 6.4 | 16.1 | 4.9 | -6.3 |
| Growth (%) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Sales | 16.8 | 0.1 | 1.8 | 2.0 | 2.0 |
| EBITDA | -4.0 | -4.1 | 1.8 | 4.1 | 7.1 |
| EBIT | 8.6 | -6.4 | -3.2 | 0.9 | 12.2 |
| Net income | 22.2 | 13.9 | -2.7 | -7.0 | 27.7 |

Source: Company data and Banca IMI estimates.