

Centrale del Latte di Torino

2Q/1H15 Results

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	7.1	6.3	5.8
Adj. P/E	x	38.1	23.4	17.3	13.4

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

- 2Q/1H15A results.** CLT's 1H15 results were in line with expectations. The top line was weak due to the still poor consumer trend in Italy. However, the stable raw material milk price and cost efficiencies translated into a profitability improvement. The key items of the 1H15 results were: 1) revenues decreased by 4.7% in 1H15 to EUR 48.8M, particularly impacted by fresh milk (-4.1%) and UHT milk (-12.8%); 2) 1H15 EBITDA increased by 26.1% to EUR 3.1M with the EBITDA margin reaching 6.2% vs. 4.7% in 1H14A; and 3) net debt was stable at EUR 17.2M vs. FY14A.
- Outlook.** Management confirmed a gradual recovery in 2H15, due to an improvement in consumption and a stable raw material milk price, which should support profitability going forward. We highlight that the recently disclosed 2015-17 BP envisages broadly stable revenues in FY15 and +4.6% in FY16 and +2.6% in FY17. The EBITDA margin is expected to expand from 5.8% in FY14 to 8.1% in FY17.
- On the integration with Centrale del Latte Firenze, Pistoia e Livorno.** On June 19th CLFPL's shareholders voted in favour of CLT's offer for the industrial integration with Centrale del Latte di Firenze, Pistoia e Livorno, through a merger based on a yet to be defined share swap. The merged entity would be named Centrale del Latte d'Italia (CLI), listed on the STAR segment, and would become the third-largest milk/cheese player in Italy, with revenues of around EUR 200M.
- 2015-17 Business Plan.** CLT's latest 2015-17 BP is based on a flat raw material milk price assumption and stable final prices for the group products. Key BP targets are: 1) a 2014-17 revenue CAGR of 2.5% and the EBITDA margin improving from 5.7% in FY14 to 8.1% in FY17, driven by a lower impact from raw material costs; 2) cost efficiencies and a reorganisation of the group's logistics and production activities in Turin and Rapallo; and 3) net debt improving from EUR 17.2M in FY14 to EUR 7.9M in FY17.
- Valuation.** Following 1H15 results, we simply fine-tuned our 2015E-17E estimates, which are in line with the group's disclosed FY15-17 BP. We believe CLT's valuation hinges on the potential integration with Centrale Latte FPL, details of which are yet to be disclosed. Our DCF-based valuation points to a **EUR 3.76/share target price (EUR 4.14/share previously)**. **We confirm our HOLD recommendation.**
- 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

7 August 2015

HOLD

Target Price: EUR 3.76
(from EUR 4.14)

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



Data priced on 05.08.2015

Target price (€)	3.76
Target upside (%)	9.62
Market price (€)	3.43
52Wk range (€)	4.17/2.41
Market cap (€ M)	34.30
No. of shares	10.00
Free float (%)	96.3
Major shr (%)	A. Artom 57.0
Reuters	CLT.MI
Bloomberg	CLT IM
FTSE IT All Sh	25645

Performance %

	Absolute	Rel. to FTSE IT All
-1M	3.5	-1M -3.0
-3M	-6.3	-3M -11.8
-12M	15.6	-12M -4.1

Source: FactSet and Intesa Sanpaolo Research estimates

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Contents

2Q/1H15 Results	3
Valuation	3

2Q/1H15 Results

CLT's 1H15 results were in line with expectations and were achieved in a highly competitive market context. The company reported a weak top line due to the still poor consumer trend in Italy. However, the stable raw material milk price and cost efficiencies translated into a profitability improvement. The key items of the 1H15 results were:

Total sales decreased by 4.7% to EUR 48.8M, particularly impacted by fresh milk (-4.1%) and UHT milk (-12.8%), which showed the effect of a decrease in promotional activities. All other categories showed a decreasing trend (yoghurt -4.6%, and other products -3.7%), but IV gamma products (+17%) benefited from the entry into additional retail channels and cream and milk was also positive (+4.7%). Overall, the Piedmont region accounted for 52% of total revenues while 23% was from Liguria and 25% from the Veneto region.

Centrale del Latte di Torino - 1H15 revenue breakdown			
EUR M	1H14A	1H15A	chg %
Fresh milk	21.6	20.7	-4.1
UHT milk	10.7	9.3	-12.8
Yogurt	4.1	3.9	-4.6
IV gamma products	2.4	2.8	17.0
Cream and milk	2.0	2.1	4.7
Other products	10.1	9.7	-3.7
Export	0.4	0.3	-17.8
Total sales	51.2	48.8	-4.7

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

The 1H15 value-added margin increased to 21.5% vs. 18.7% in 1H14A. **EBITDA increased by 26.1%** to EUR 3.1M with the EBITDA margin reaching 6.2% vs. 4.7% in 1H14A reflecting the group's solid operating cost efficiencies, which offset the revenue decrease. 1H15 EBIT increased to EUR 1.3M vs. EUR 0.8M in 1H14A. 1H15A showed a bottom line at EUR 0.3M (vs. EUR 0.1M in 1H14A).

Net debt was stable at EUR 17.2M vs. FY14A reflecting management's ongoing focus on cost savings and investment containment.

Centrale del Latte di Torino - 2Q/1H15 results						
EUR M	2Q14A	2Q15A	chg %	1H14A	1H15A	chg %
Revenues	25.9	24.9	-4	51.8	49.3	-4.7
Value added	4.7	5.0	6	9.7	10.6	9
EBITDA	1.1	1.1	3	2.4	3.1	26
EBIT	0.4	0.2	-37	0.76	1.31	71
Pre-tax profit	0.2	0.1	-55	0.4	0.9	NM
Net profit	-0.2	0.3	NM	0.1	0.3	NM
Value added margin %	18.3	20.1		18.7	21.5	
EBITDA margin %	4.2	4.5		4.7	6.2	
EBIT margin %	1.4	0.9		1.5	2.7	
Net margin %	-0.6	1.3		0.1	0.7	
Tax rate %				85.2	65.2	

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

Earnings outlook

Management confirmed a gradual recovery in 2H15, due to an improvement in consumption and a stable raw material milk price, which should support profitability going forward. We highlight that the recently-disclosed 2015-17 BP envisages broadly stable revenues in FY15 and +4.6% in FY16 and +2.6% in FY17. The EBITDA margin is expected to expand from 5.8% in FY14 to 8.1% in FY17. Following 1H15 results, we simply fine-tuned our 2015E-17E estimates, which are in line with the group's disclosed FY15-17 BP.

DCF model

We updated our DCF-based valuation after fine-tuning our FY15E-17E estimates. Our key 2014A-25E DCF assumptions are: a 5.7% WACC (5.6% previously) based on a 37% gearing ratio, unchanged 2.0% risk-free rate and 5.50% risk premium, a 2.4% sales CAGR, a 2% perpetual growth rate and a 4.0% EBIT margin.

EUR 3.76/share target price

Our DCF-based valuation points to a **EUR 3.76/share target price (EUR 4.14/share previously)**.

Centrale del Latte di Torino - WACC calculation		CLT – DCF key assumptions (%)	
Gearing ratio %	37	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)	0.95	EBIT 2014A-25E CAGR	7.4
Required return %	7.3	Tax rate 2014A-25E avg.	47
WACC %	5.7	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	35
Enterprise value	58
Net cash/-debt	-20
Equity value	38
Number of shares (M)	10.0
Equity value per share (EUR)	3.76

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	
4.7%	4.2	4.8	5.6	6.8	8.7	
5.2%	3.5	4.0	4.5	5.3	6.5	
5.7%	3.0	3.3	3.76	4.3	5.1	
6.2%	2.6	2.9	3.2	3.6	4.1	
6.7%	2.3	2.5	2.7	3.0	3.4	

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In the table below, we show the 2015E-16E peers' multiples in terms of EV/sales, EV/EBITDA and P/E, taken from Factset consensus estimates. CLT trades at a discount in terms of EV/EBITDA and is broadly in line with the FY15E-16E PE peers' average.

Multiples comparison								
x	Price	Mkt cap	EV/sales		EV/EBITDA		PE	
	EUR	EUR M	2015	2016	2015	2016	2015	2016
Dean Foods Co.	3.43	34	0.31	0.30	7.00	6.83	19.5	17.7
Associated British Foods PLC	16.73	1,715	1.98	1.85	17.48	16.31	33.0	31.6
Dairy Crest	46.49	25,626	0.73	0.70	9.70	8.74	14.9	14.4
Saputo	8.46	811	1.27	1.21	12.61	11.20	21.3	18.2
Emmi AG	22.00	12,359	0.60	0.57	7.23	6.73	17.5	16.3
Parmalat S.p.A.	303.24	1,731	0.60	0.53	8.13	6.98	21.5	19.6
Average			0.91	0.86	10.36	9.46	21.3	19.6
CLT*	3.43	34	0.51	0.49	7.12	6.34	23.4	17.3
Premium/-discount %			-44	-43	-31	-33	10	-12

Priced at 5 August 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 3.76	Ord 3.43	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	34.30	34.30	34.30
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	51.5	51.5	51.5
Stock market ratios (x)			2013A	2014A	2015E	2016E	2017E
Adj. P/E			55.1	38.1	23.4	17.3	13.4
P/CFPS			3.1	7.5	6.4	5.6	5.1
P/BVPS			0.41	0.75	0.82	0.78	0.74
Payout (%)			47	0	0	0	0
Dividend yield (% ord)			3.6	0	0	0	0
FCF yield (%)			72.5	10.4	7.9	10.1	11.6
EV/sales			0.38	0.47	0.51	0.49	0.48
EV/EBITDA			6.8	8.1	7.1	6.3	5.8
EV/EBIT			32.6	18.1	15.4	13.0	10.9
EV/CE			0.61	0.82	0.91	0.94	0.96
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; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

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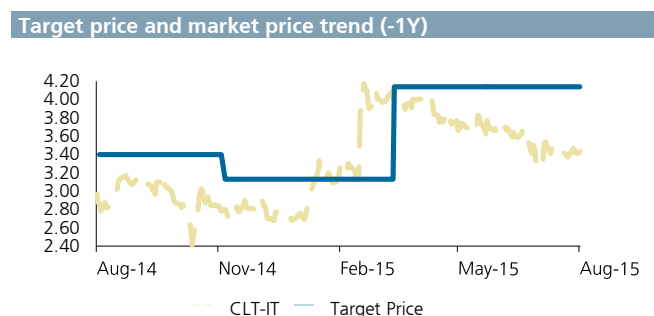
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Equity rating key (long-term horizon: 12M)	
Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
REDUCE	If the target price is 10%-20% lower than the market price
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Historical recommendations and target price trends (long-term horizon: 12M)

Historical recommendations and target price trend (-1Y)

Date	Rating	TP	Mkt Price
17-Mar-15	HOLD	4.14	4.02
07-Nov-14	HOLD	3.13	2.78

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

Intesa Sanpaolo Research Rating Distribution (at August 2015)					
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Total Equity Research Coverage %	34	36	30	1	0
of which Intesa Sanpaolo's Clients % (*)	76	66	62	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

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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
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