EDISON

Centrale del Latte di Torino

Doubling up

Initiation of coverage

Food & beverages

The merger with Centrale del Latte di Firenze, Pistoia e Livorno (CLF) is set to complete at the end of September: the businesses are highly complementary and the combination will add c 75% to sales, more than double EBITDA, and significantly enhance earnings. The 2016 outlook was subdued and the market in Northern Italy remains tough given the difficult consumer backdrop. We calculate a DCF-based fair value of €3.00 for the combined entity, which offers 8% upside from current levels.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	98.3	0.5	0.30	6.00	N/A	2.2
12/16e	122.0	1.1	6.51	6.00	42.9	2.2
12/17e	186.9	3.1	14.52	6.00	19.2	2.2
12/18e	186.9	3.7	17.07	6.00	16.3	2.2

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

CLF merger significantly expands the company

Centrale del Latte di Torino (CLT) has been acquisitive over the past 20 years, slowly increasing its geographic reach beyond the Turin area and throughout three regions in Northern Italy. The acquisition of CLF is its largest yet and will add Tuscany as a new region. In addition the Mukki brand (owned by CLF) is an attractive proposition and could be rolled out across CLT's existing portfolio, and potentially beyond to international markets to which CLT has started exporting.

Diversification strategy

The management team has been working towards shifting the group's mix away from the liquid milk business, which is seasonal, can be volatile and suffers from low margins. The company has diversified into other fresh food products such as yoghurts, fresh cheeses and prepared salads, which offer higher margins, and the acquisition of CLF is also margin enhancing. In recent years the UHT milk business has grown somewhat at the expense of the fresh milk market as consumers have opted for longer shelf life. Over the last two years the group has begun exporting UHT milk to China, and this could prove an interesting growth opportunity. The fresh milk business will continue to be an important segment within the group, and the farmgate cost of liquid milk will remain a key variable for profitability.

Valuation: Fair value of €3.00

Based on our forecasts, our DCF model points to a fair value of €3.00 per share for the combined entity, or 8% upside from the current share price. We calculate that CLT now trades on 18.1x 2017e P/E and c 8.4x 2017e EV/EBITDA (again on a post-merger basis). This is a premium of c 6.5% on P/E, and a discount of 3.4% on EV/EBITDA, to the average of our peer group of dairy processors. We estimate that the CLF acquisition is significantly earnings-enhancing (c 80% accretion in the first full year).

13 July 2016

Price	**€2.79**
Market cap	**€28m**

Net debt (€m) at 31 December 2015	20.7
Shares in issue	10.0m
Free float	41%
Code	CLT
Primary exchange	STAR (Borsa Italiana)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(1.8)	(4.1)	(21.2)
Rel (local)	1.2	0.2	5.3
52-week high/low		€3.98	€2.58

Business description

Centrale del Latte di Torino produces and distributes fresh and long-life milk (UHT and ESL), and dairy products such as cream, yoghurt and cheese. It has a leading position in milk in the Piedmont region of northern Italy, and it has expanded to the Veneto and Liguria regions.

Next events

H1 results	29 July 2016

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Investment summary

Company description: Not just milk

CLT main focus is milk: it started as a milk supplier/distributor in the Turin area. Over time, however, the company has expanded beyond its initial distribution area, adding the whole Piedmont region, where it is currently market leader, and then two more regions in Northern Italy (Veneto and Liguria). Moreover it has diversified its product offering, adding long-life and extended shelf life (ESL) milk, fresh and long-life cream, yoghurt and fresh cheeses. More recently it has also moved beyond dairy products and added categories such as fresh pasta, eggs and ready-prepared salads.

The company was founded in 1950 but largely remains a family-owned business. The major shareholder is Finanziaria Centrale del Latte di Torino, which is controlled by the founding families, and of which the municipality of Turin owns a 20% stake. Another shareholder is Lavia, which is also owned by one of the founding families. The acquisition of CLF adds an extra region (Tuscany) to the business and is highly complementary. It also adds the Mukki brand, which has strong recognition locally and could be leveraged across the CLT domestic portfolio and internationally.

Valuation: Fair value of €3.00

We calculate a fair value based on our DCF model of €3.00, which represents 8% upside. The main sensitivities to our forecasts and valuation are outlined below. The key event this year is the merger with CLF, which is due to complete on 30 September. In the longer term, the company is trying to diversify away from liquid cow's milk and into fresh produce, which is a more attractive market. The CLF acquisition will be margin enhancing and also significantly EPS enhancing.

As an alternative to our DCF valuation, we look at CLT's key metrics versus the peer group. We calculate that CLT now trades on 18.1x 2017e P/E and 8.4x 2017e EV/EBITDA (again on a post-merger basis), a premium of c 6.5% on P/E, and a discount of 3.4% on EV/EBITDA, to the average of our peer group of dairy processors.

Financials: Cautious 2016 outlook

Management's outlook for FY16 is cautious as the overall market remains subdued. Consumption of fresh milk in Italy has suffered due to the recession, which has put pressure on both pricing and volumes, but also due to a shift in consumption and the increased fashion for dairy-free and vegan diets. Q116 results were in line with the cautious tone set out at the start of the year.

Net debt remains high, at €20.7m at December 2015, and we assume €36.6m debt for the CLF business, thus resulting in a total net debt of €57.3m on a pro forma basis. The new entity will be renamed Centrale del Latte d'Italia (CLI). This equates to c 6x net debt/EBITDA coverage on a pro forma basis for FY16, although it declines to 4.8x for FY17.

Sensitivities: Raw milk pricing is a key variable

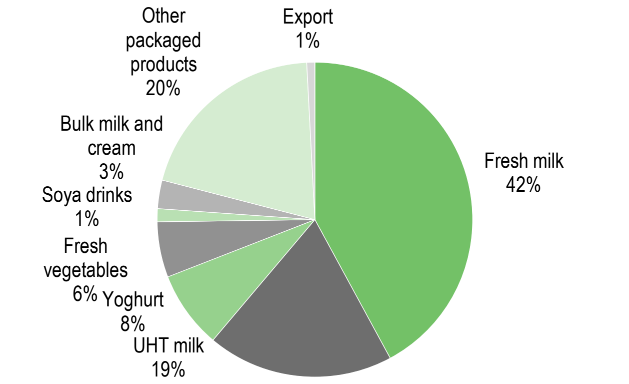
CLT's key sensitivities include:

- Input cost inflation, particularly for raw milk, which is its main raw material.
- The supply/demand balance affecting the achievability of price inflation on finished goods.
- Consumer consumption patterns and the competitive landscape. The economic backdrop has been weak in the domestic Italian market.
- Private label gaining share at the expense of the company's brands.
- Although the CLF business will continue to be run separately and it adds a new region to the business, the merger will take up a significant amount of management time. No hard synergies are expected from the merger, but we believe the enlarged business should be in a better negotiating position with suppliers, given its increased scale.

Company description: Milk and beyond

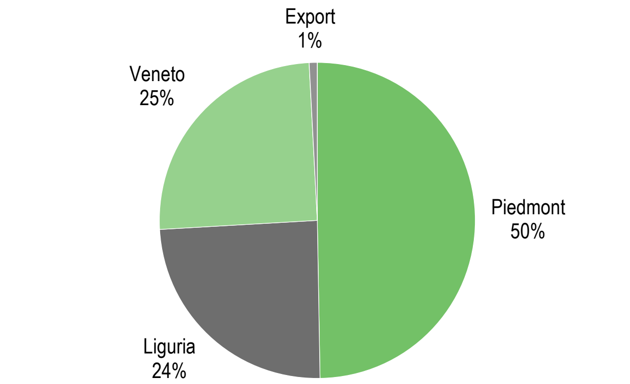
CLT is a regional Italian dairy producer. The company has a strong base in fresh milk, UHT milk and yoghurt. It has also diversified into branded fresh food products, with ranges of eggs, cheese, pasta, vegetables and ready-to-eat salads. CLT started in Turin in 1950 to serve the market in Piedmont, and has since acquired operations in two other northern Italian regions, namely Liguria and Veneto. The planned merger with CLF is set to transform the business by adding a fourth region (Tuscany). We illustrate the breakdown of revenues by category and by geography in Exhibit 1 and 2 below.

Exhibit 1: Group revenue split by category (FY15)



Source: Company data

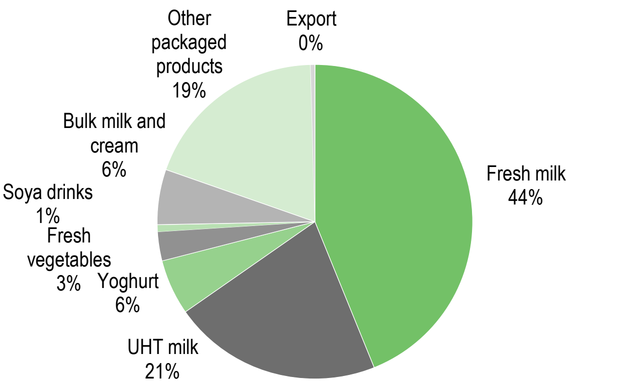
Exhibit 2: Group revenue split by geography (FY15)



Source: Company data

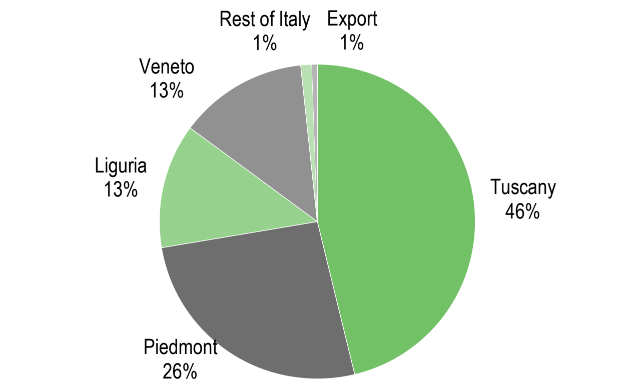
The merger with CLF will almost double CLT's sales. The two businesses are complementary as they both operate regionally in the Italian fresh and UHT dairy segments. We illustrate the pro forma revenue breakdown of the enlarged group in Exhibit 3 and 4.

Exhibit 3: Pro forma revenue split by category (FY15)



Source: Company data, Edison Investment Research estimates

Exhibit 4: Pro forma revenue split by geography (FY15)



Source: Company data, Edison Investment Research estimates

Both CLT and CLF have leadership positions in their respective key markets, thus making them regional champions. CLT has four existing factories, which are all well invested with the latest technology for production, treatment and packaging of its products. CLF has one production site in Florence, which was built in 2005 and is also equipped with the latest technology.

Both CLT and CLF have a base milk business, but have also chosen to diversify into two main categories:

- other fresh dairy products, such as yoghurt, cream and fresh cheese; and
- perishable fresh packaged food products, namely fresh prepared vegetables, salads, fresh pasta and eggs

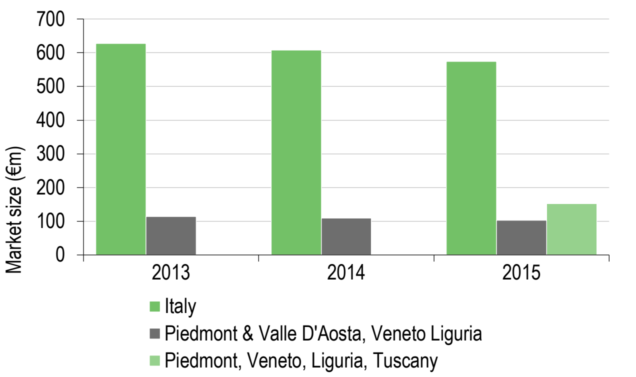
Another common strategy for both CLT and CLF is the creation of their own strong local brands to support their product portfolio. Over the past two years, CLT has set its sights on international expansion: it started exporting UHT milk to China, and recently signed an agreement with a distributor for the UAE, Kuwait, Saudi Arabia and Oman. We believe it should be able to leverage CLF's Mukki brand for export once the merger completes.

CLT has clearly become more acquisitive in an effort to diversify away from the relatively low-growth fresh milk business. CLF is a large acquisition and we expect it will take a few years for the integration to be complete. That said, we believe more acquisitions are likely in future as the business continues to grow and the strategy to diversify and to enhance scale continues.

Fresh milk & ESL

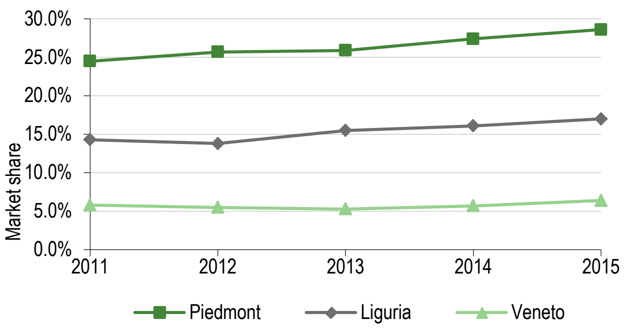
The Italian fresh milk and ESL (extended shelf life) market was worth €574m in 2015 (source: IRI Infoscan Hypermarkets + Supermarkets), but it is very localised, with different players in the different regions. Milk brands tend to be local and tied to each region or province, and indeed consumers are used to buying local milk brands. There has been some degree of consolidation, with Parmalat and Granarolo emerging as the two leading players on a national scale both with c 23% market share, but even they use several local brands in addition to their main brand (eg Centrale del Latte di Roma and Centrale del Latte di Milano respectively). Distribution is also affected by the local nature of the business, with a significant proportion of fresh milk bought on a regular basis, and hence in local shops rather than in supermarkets or hypermarkets. This again tends to favour regional and local brands. While fresh milk typically lasts a few days before souring, ESL milk is microfiltered and lasts up to one month, but still requires refrigeration.

Exhibit 5: Fresh milk and ESL market size



Source: IRI Infoscan Hypermarkets + Supermarkets

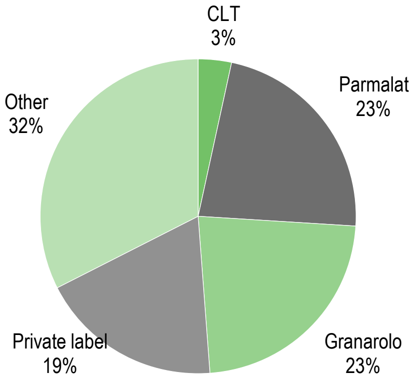
Exhibit 6: Market share by region (fresh milk & ESL)



Source: IRI Infoscan Hypermarkets + Supermarkets

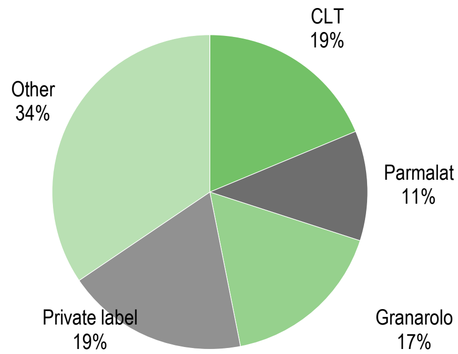
The market has steadily declined over the last few years, mainly as a result of volume declines. The economic crisis in Italy caused consumption to fall across the board in the consumer space, and more recently a fashion for vegan and dairy-free diets has also caused a shift in consumer behaviour which has led to volume declines. CLT has been gaining share in the regions in which it operates, as illustrated in Exhibit 20.

Exhibit 7: Fresh milk and ESL share at national Italian level



Source: IRI Infoscan Hypermarkets + Supermarkets

Exhibit 8: Fresh milk and ESL milk share in Piedmont, Valle d'Aosta, Liguria and Veneto

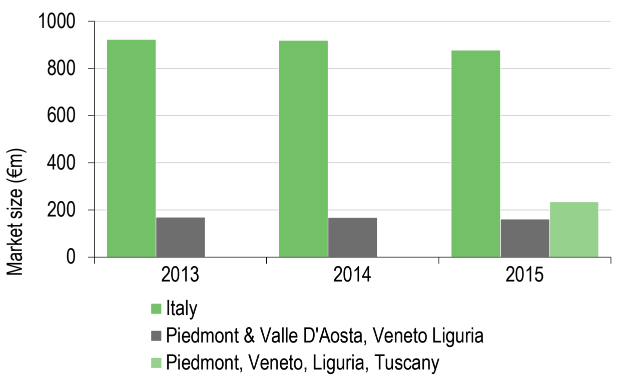


Source: IRI Infoscan Hypermarkets + Supermarkets

UHT milk

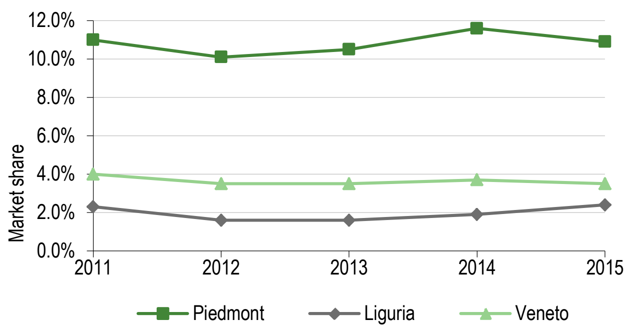
The Italian UHT milk market was worth €878m in 2015 (Source: IRI Infoscan Hypermarkets + Supermarkets). UHT milk is ultra heat-treated and hence is an ambient product with a shelf life of c three months. The ambient nature of the product means it is more widely bought as part of a bigger shopping basket and hence distribution is more skewed towards the mass channel. Promotion is much more prevalent in the UHT segment, though volumes have suffered for the same reasons as fresh milk, namely the economic crisis and the consumer shift away from dairy consumption. CLT's market share has fluctuated somewhat, and this has been caused predominantly by promotional activity in the market.

Exhibit 9: UHT milk market size (€m)



Source: IRI Infoscan Hypermarkets + Supermarkets

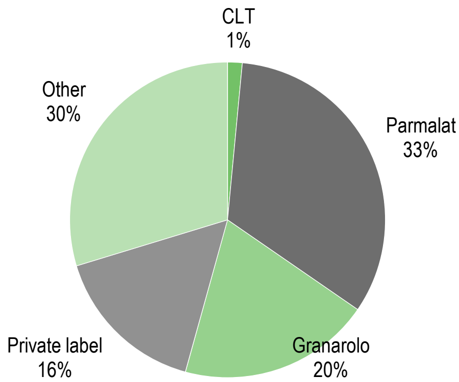
Exhibit 10: Market share by region (UHT milk)



Source: IRI Infoscan Hypermarkets + Supermarkets

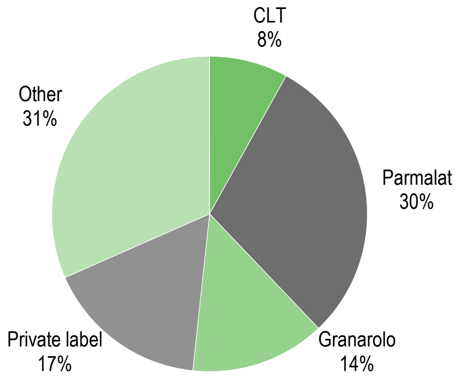
Again, at national level CLT's (and CLI's) market share is very small, but improves at regional level. Parmalat remains very strong even at regional level, and this is due to its brand strength and also the ambient nature of the product, thus consumers find it less compelling to buy a local brand as the product is associated with being more highly processed.

Exhibit 11: UHT milk share at national Italian level



Source: IRI Infoscan Hypermarkets + Supermarkets

Exhibit 12: UHT milk share in Piedmont, Liguria, Tuscany and Veneto



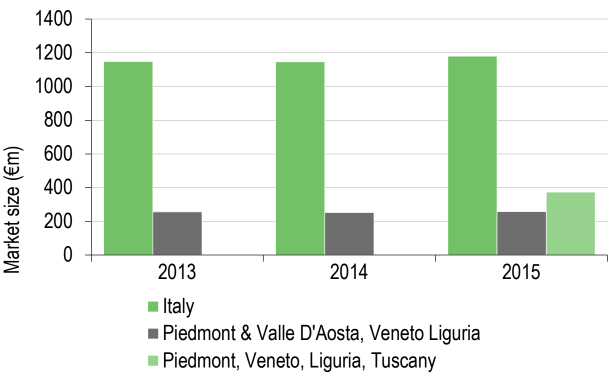
Source: IRI Infoscan Hypermarkets + Supermarkets

In 2014 CLT began exporting UHT milk to China. Volumes remain small, but this could present an interesting growth opportunity. In 2015 CLT signed an agreement with a Dubai-based distributor.

Yoghurt

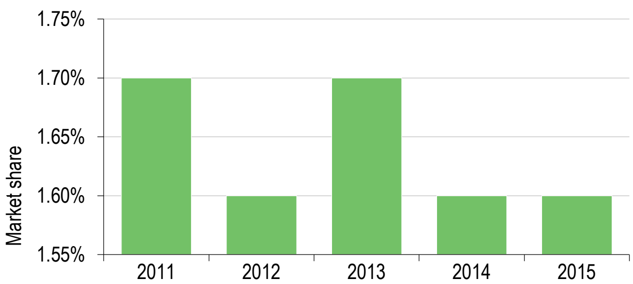
The Italian yoghurt market was worth €1.2bn in 2015 (source: FY15 results presentation). The market is dominated by the major players, with Danone, Muller and Yomo/Granarolo making up 50% of the market. CLT is a small player at both national and regional level, but it has had a stable market share over the past few years.

Exhibit 13: Yoghurt market size



Source: IRI Infoscan Hypermarkets + Supermarkets

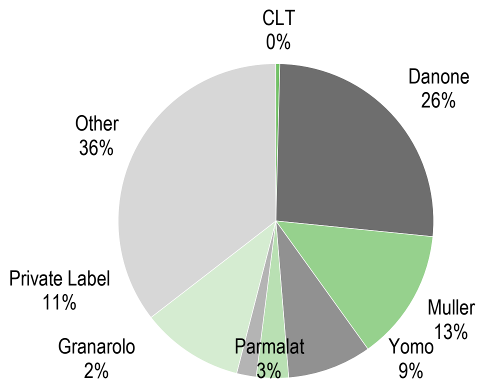
Exhibit 14: Yoghurt market share (Piedmont, Valle d'Aosta, Liguria, Veneto)



Source: IRI Infoscan Hypermarkets + Supermarkets

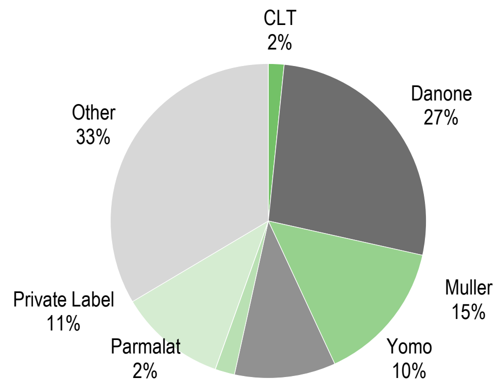
Although CLT's share is small, the company has had some success with new product launches. With deep-pocketed multinational competitors on the scene, CLT cannot compete on the R&D front with new products, but it can react quickly to new launches given its smaller size, and it has been successful in tapping into the market for lactose-free products.

Exhibit 15: Yoghurt market share at national Italian level



Source: IRI Infoscan Hypermarkets + Supermarkets

Exhibit 16: Yoghurt share in Piedmont, Liguria, Tuscany and Veneto



Source: IRI Infoscan Hypermarkets + Supermarkets

Prepared salads

This segment accounted for 6% of sales in 2015 and it encompasses a range of ready-washed, dried and often pre-mixed salads. These products have been developed for the local, more traditional trade mentioned above, where a lot of fresh milk is still bought. These local shops do not have the logistics of the larger food retail chains, and hence rely on more regional fresh produce. Due to the relatively short shelf life of both fresh milk and prepared salads, CLT can leverage some of its fixed costs and has added the prepared salads line to enhance its offering.

Vegetable drinks

CLT launched a soy milk in Q213, and followed this with the launch of a rice milk in Q415. Dairy-free milk is proving successful given the trend in Italy for vegan and dairy-free diets. Although the segment is small, growth has been impressive.

Bulk milk and cream

This segment acts as a byproduct of the fresh packaged milk business: CLT's contracts with its milk suppliers stipulate that CLT will buy all the milk produced by the farmer. This obviously changes daily but the main variation is due to seasonality. In addition, the volume of milk required by the fresh packaged milk business can have its own (separate) seasonal variations. Any excess milk, therefore, is sold on as bulk milk and cream to local businesses, mainly cheese- and butter-making businesses and ice cream shops or factories.

Other packaged products

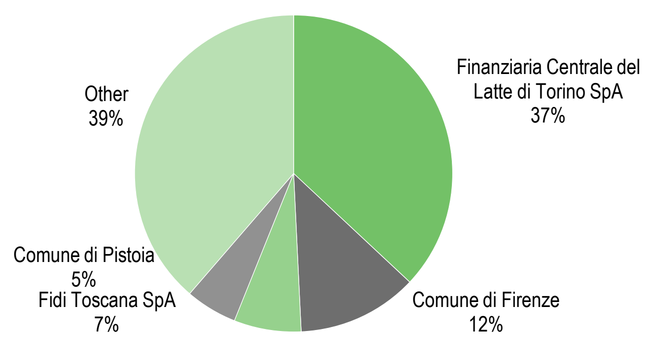
This includes a diverse range of fresh products, spanning from fresh cheese to eggs, packaged fresh pasta and pesto sauces, eggs and pre-sliced and packaged cured meats. The strategy here is the same as for the prepared salads segment, so the products have been developed for the local shops. The segment accounted for 20% of sales in 2015.

CLI – a new champion

In December 2015, CLT announced its intention to merge with CLF to create a new entity known as Centrale del Latte d'Italia (CLI), which will also be listed on the STAR segment of the MTA, and will become the third-largest dairy/cheese player in Italy. The key terms are as follows:

- The share swap ratio is one new ordinary share of CLT for 6.1965 CLF shares. CLT will increase its share capital from €20.6m to €28.8m by issuing 4,000,020 new shares of €2.06 nominal. The transaction will not involve cash, nor adjustment factors. Following the transaction, CLT will be renamed Centrale del Latte d'Italia.
- Following the transaction, Azienda Mukki (the operating company of CLF; Mukki is CLF's main consumer brand) will be placed within a new company, which will be fully owned by CLI, and which will be headquartered in Florence. This is to guarantee the stability of employment levels at the production site for CLF. The CLF business is fully complementary to CLT and hence cost synergies are minimal (see below). The production site at CLF will therefore continue to operate as before.
- In terms of timing, the deadline for the transaction is 30 September 2016. We illustrate the shareholder structure post-merger in Exhibit 17.

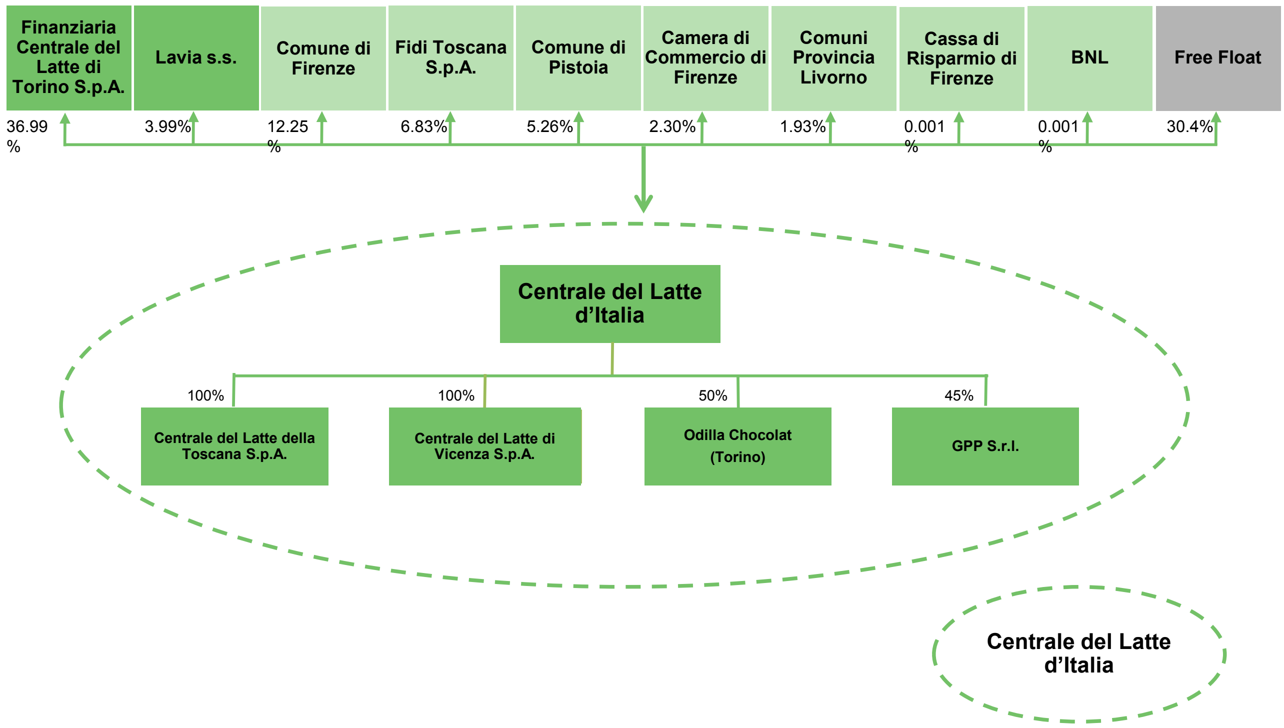
Exhibit 17: Shareholder structure post-merger



Source: Company data

- The structure of the group will also change, and we illustrate the new structure below

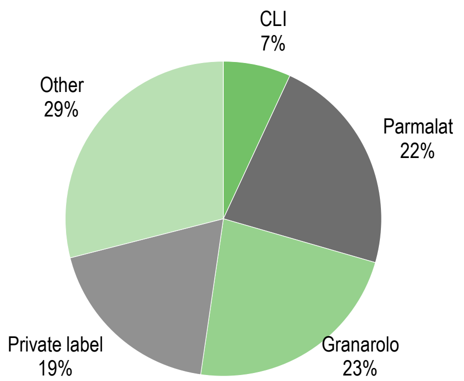
Exhibit 18: New company structure



Source: Company data

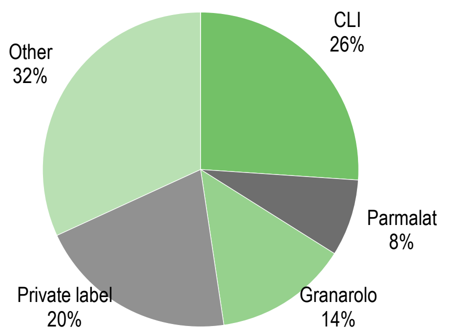
The merger between CLT and CLF is highly complementary. The two businesses are very local in their own territories, but operate in similar channels. While at the national level, milk market shares are significantly lower than the larger competitors such as Parmalat and Granarolo, at the regional level both CLT and CLF have leading shares.

Exhibit 19: Fresh and ESL milk share at national Italian level



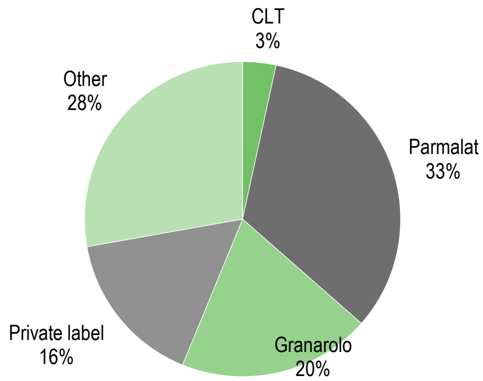
Source: Company data based on IRI Infoscan (hypermarkets and supermarkets)

Exhibit 20: Fresh and ESL milk share in Piedmont, Liguria, Tuscany and Veneto



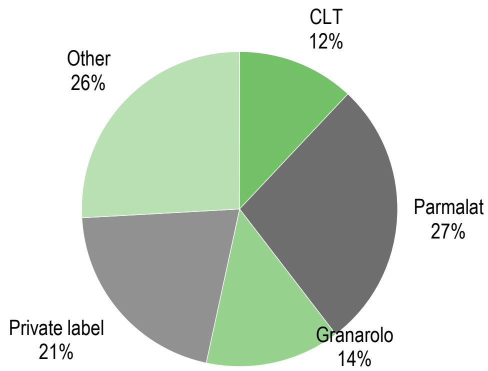
Source: Company data based on IRI Infoscan (hypermarkets and supermarkets)

Exhibit 21: UHT milk share at national Italian level



Source: IRI Infoscan Hypermarkets + Supermarkets

Exhibit 22: UHT milk share in Piedmont, Liguria, Tuscany and Veneto



Source: IRI Infoscan Hypermarkets + Supermarkets

The rationale and key benefits of the merger are set out below:

- It will create the third-largest dairy/cheese player in Italy, with leading market positions in Northern Italy. CLT and CLF have complementary positions in nearby regions, with no overlap. CLT has a strong business in Piedmont, Liguria and Veneto, and CLF is rooted in Tuscany.
- The intention is to retain separate corporate structures for the businesses, allowing continuity of management and preserving employment levels and relationships with local suppliers.
- Cost synergies are likely to be limited, as current employment levels and contracts with local agricultural suppliers are going to continue. Management expects the synergies to be on the distribution and commercial side, as follows:
  - The greater scale of the business should lead to improved negotiating power with CLI's customers.
  - Given the complementary positions of the two entities, there will be revenue synergies by increasing the distribution reach of each product, and in particular there will be a more complete product range due to the addition of the Mukki portfolio. The Mukki range is likely to be the main beneficiary of the expanded distribution network, as it will be distributed throughout the existing CLT network.

- The export channel (albeit small at present) could also benefit from a greater offering, and CLF's Mukki products could be exported to China.
- R&D and product innovation will benefit from the group's enlarged scale.

Sensitivities

CLT's key sensitivities include:

- **Raw material pricing:** The group's main raw material is raw milk and as a commodity this fluctuates. The company draws up annual agreements with its suppliers. The milk price is negotiated with the milk producers at the start of the "dairy year", which runs from 1 April to 31 March. Prices are typically set quarterly, although there are some exceptions and some purchases (7%) are made on the spot market. CLT has good relationships with its farmers, which it values, and hence when the spot milk price falls, CLT does not gain all the benefit of the lower raw material cost as it does not believe in squeezing the farmers unreasonably. Conversely, when the spot milk price rises, therefore, CLT is slightly cushioned against sudden rises.
- **Supply/demand balance:** This affects the achievability of price inflation on its finished goods. In recent years consumer demand in the domestic Italian market has been weak due to the fragile economic backdrop, and even defensive staples such as fresh milk have been affected. There is always the danger that private label could gain share at the expense of the company's brands.
- **Consumer consumption patterns and competitive landscape:** Again the economic backdrop has been weak in the domestic Italian market, but CLT has witnessed positive trends in its branded segment. In addition, the company correctly identified the consumer trend toward alternative and vegetable drinks, and is hence witnessing strong growth in this area.

Valuation

CLT's recent share price performance has been stable and it has outperformed relative to the FTSE MIB on a three-month, six-month and 12-month basis. On 2017 estimates (ie on a pro forma post-merger basis), CLI trades at 18.1x P/E and 8.4x EV/EBITDA, with a 2.3% dividend yield. This is a premium of c 6.5% on P/E, and a discount of 3.4% on EV/EBITDA, to the average of our peer group of dairy processors.

Exhibit 23: Benchmark valuation of CLI relative to peers

		P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
	Market cap (m)	2016e	2017e	2016e	2017e	2016e	2017e
Valsoia	€200.6	19.2	17.4	10.1	9.3	1.6	1.7
Parmalat	€4,396.5	26.6	21.0	8.5	7.1	0.9	1.0
Dairy Crest	£811.6	15.1	14.2	10.8	10.1	4.1	4.3
Dean Foods	$1,730.7	12.1	12.4	5.2	5.2	1.9	2.0
Saputo	$15,373.0	22.1	19.8	13.2	12.0	1.5	1.6
Peer group average		**19.0**	**17.0**	**9.6**	**8.7**	**2.0**	**2.1**
CLI (post-merger)	€36.8	40.4	18.1	14.1	8.4	2.3	2.3
Premium/(discount) to peer group		**112.6%**	**6.5%**	**46.9%**	**-3.4%**	**15%**	**9.5%**

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 12 July 2016.

We use DCF analysis to value the shares, and we calculate a fair value of €3.00, or 8% upside from the current level. Given the impending merger with CLF, our valuation is based on the combined entity. We have assumed no cost synergies, which is in line with company guidance. For the sake of prudence we have assumed no revenue synergies and we have based our CLF forecasts on the information that is currently available.

Our DCF is based on our assumptions of 1.5% terminal growth rate and 3% terminal EBIT margin. Our WACC of 5.8% is predicated on an equity risk premium of 4.5%, a borrowing spread of 5% and beta of 0.9. Below, we show a sensitivity analysis to these assumptions and note that the current share price is discounting a terminal EBIT margin of 2.7% (which compares to CLT's reported EBIT margin of 2.7% in 2014 and 1.6% in 2015) with a terminal growth rate of c 1.5%.

Exhibit 24: DCF sensitivity (€/share) to terminal growth rate and EBIT margin

		Terminal EBIT margin					
		2.00%	2.50%	3.00%	3.50%	4.00%	4.50%
Terminal growth	0.00%	1.11	1.60	2.09	2.58	3.07	3.56
	0.50%	1.26	1.80	2.34	2.88	3.42	3.96
	1.00%	1.44	2.04	2.63	3.23	3.83	4.43
	1.50%	1.66	2.33	3.00	3.67	4.34	5.01
	2.00%	1.93	2.69	3.46	4.22	4.98	5.74
	2.50%	2.29	3.17	4.05	4.93	5.81	6.69
	3.00%	2.77	3.81	4.85	5.89	6.93	7.97
	3.50%	3.45	4.72	5.99	7.26	8.53	9.79
	4.00%	4.51	6.13	7.75	9.37	10.99	12.61

Source: Edison Investment Research estimates

Financials

For the standalone CLT business, we forecast 1.1% revenue CAGR translating into 5.6% EBITDA CAGR and 21.2% net profit CAGR 2015-2018. Our financial forecasts include the CLF acquisition but CLT's management has so far given no financial guidance on the merger and the data available are not complete. The estimates are entirely our own: we have assumed very little growth between 2014 (the last available accounts) and 2016, which is consistent with the trend in the prior years. We have assumed sales of €84m for the CLF business in both 2016 and 2017, and EBITDA of €5.6m, in line with the reported 2014 figures (on an IFRS basis).

P&L: Raw materials cause volatility

Our standalone CLT revenue forecasts are conservative. We model relatively high growth of 4% in 2016, partly driven by a bounceback following a weak 2015, and also spurred by export growth of UHT milk into new markets such as UAE and Kuwait, and new product launches such as 250ml formats of milk and cream targeting single households. We forecast a significant slowdown in subsequent years to give the 1.1% CAGR, as we see milk and basic dairy products as a stagnating category with stable or slightly declining volumes and pricing driven mainly by the movement of the underlying commodity.

We forecast some improvement in the underlying CLT gross margin and EBIT margin as we expect the latter to recover following a disappointing 2015. We forecast EBIT margin progression for the overall entity as CLF's business had EBIT margins of 3.4% in 2014 (vs CLT's 2.7%), with margin then settling at our 3% terminal EBIT margin assumption (see our DCF valuation section above: we run a 10-year DCF and hence our terminal EBIT margin is in 2026).

We expect the net finance costs to remain broadly flat on an ex-CLF basis over the forecast period to 2018, though of course the additional debt taken on from CLF will add to the finance costs. Management has indicated that capex levels are likely to remain elevated as the Turin plant is modernised and some investment is made into the Vicenza factory. We forecast the operating cash flow will go towards capex, and hence debt will increase slightly due to the dividend payments. In the longer term, however, we expect capital expenditure to normalise at much lower levels, given the business has relatively low top-line growth and is not overly capital intensive.

We expect the tax rate to be 35% in underlying terms. It is bound to vary year-on-year depending on any exceptionals and also subject to rebates, but we believe the long term rate will be c35%.

Fluctuating commodity costs are an issue for all food manufacturers, and this is particularly the case for food that is relatively unprocessed such as fresh milk. Earnings are therefore likely to be more volatile due to changes in the raw milk price. We currently forecast a flat dividend.

Cash flow: Plant modernisation dents cash flow near term

As alluded to above, the Turin plant is due to be modernised. The plant was earmarked for closure, with the view of building an entirely new factory on a different site, but following the announcement of the merger with CLF, that decision has been reversed and instead the existing factory will be modernised. In addition some investment is being made to automate the packaging lines in the Vicenza factory. This results in elevated levels of capital expenditure in the medium term, with management expecting these to normalise again by 2020. This will depress FCF generation in the medium term and we forecast net debt to increase marginally over the period.

Balance sheet: Adequate maturity profile

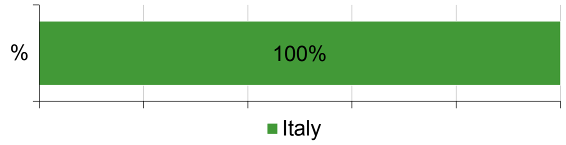
Although CLT has a relatively high level of debt vs its market cap (c 40%), within the consumer staples universe it is an efficient capital structure. The debt maturity profile is adequate, with 26% of debt maturing within one year as of 31 December 2015 and 12% of debt with a term over five years.

Exhibit 25: Financial summary

€000s	2013	2014	2015	2016e	2017e	2018e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue	99,967.0	102,558.0	98,318.9	121,975.3	186,945.1	186,945.1
Cost of Sales	(80,923.4)	(82,415.2)	(78,796.3)	(97,266.4)	(148,327.2)	(148,140.3)
Gross Profit	19,043.7	20,142.8	19,522.6	24,708.9	38,617.8	38,804.8
EBITDA	4,910.6	5,844.8	4,850.6	6,656.6	11,136.9	11,510.8
Normalised operating profit	1,379.1	2,751.7	1,553.8	1,976.1	4,869.2	5,361.1
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	(249.9)	(134.0)	145.0	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	1,129.1	2,617.6	1,698.8	1,976.1	4,869.2	5,361.1
Net Interest	(674.5)	(810.7)	(678.0)	(874.2)	(1,742.7)	(1,684.3)
Joint ventures & associates (post tax)	(3.9)	(4.2)	(417.6)	0.0	0.0	0.0
Exceptionals	1,646.2	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (norm)	2,346.8	1,936.7	458.2	1,101.9	3,126.4	3,676.8
Profit Before Tax (reported)	2,096.9	1,802.7	603.2	1,101.9	3,126.4	3,676.8
Reported tax	(827.0)	(1,011.6)	(86.6)	(385.7)	(1,094.3)	(1,286.9)
Profit After Tax (norm)	2,042.5	809.4	30.3	716.2	2,032.2	2,389.9
Profit After Tax (reported)	1,269.9	791.1	516.6	716.2	2,032.2	2,389.9
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	2,042.5	809.4	30.3	716.2	2,032.2	2,389.9
Net income (reported)	1,269.9	791.1	516.6	716.2	2,032.2	2,389.9
Basic average number of shares outstanding (m)	10	10	10	11	14	14
EPS - basic normalised (€)	0.20	0.08	0.00	0.07	0.15	0.17
EPS - diluted normalised (€)	0.20	0.08	0.00	0.07	0.15	0.17
EPS - basic reported (€)	0.13	0.08	0.05	0.07	0.15	0.17
Dividend (€)	0.06	0.06	0.06	0.06	0.06	0.06
Revenue growth (%)	N/A	2.6	(-4.1)	24.1	53.3	0.0
Gross Margin (%)	19.0	19.6	19.9	20.3	20.7	20.8
EBITDA Margin (%)	4.9	5.7	4.9	5.5	6.0	6.2
Normalised Operating Margin	1.4	2.7	1.6	1.6	2.6	2.9
BALANCE SHEET						
Fixed Assets	65,063.6	64,184.5	64,540.0	129,672.6	129,200.2	129,032.7
Intangible Assets	11,776.9	11,706.2	11,538.8	18,371.3	18,203.9	18,036.5
Tangible Assets	52,652.3	51,670.9	52,009.6	106,009.6	105,704.6	105,704.6
Investments & other	634.4	807.5	991.7	5,291.7	5,291.7	5,291.7
Current Assets	35,646.7	36,689.3	41,122.1	61,438.7	60,475.4	62,135.3
Stocks	3,473.1	3,437.8	3,540.6	8,070.6	6,665.0	6,656.6
Debtors	16,210.3	15,719.7	14,370.1	32,097.9	27,737.7	27,737.7
Cash & cash equivalents	7,822.1	10,050.8	12,192.4	7,251.3	12,053.9	13,722.1
Other	8,141.3	7,480.9	11,018.9	14,018.9	14,018.9	14,018.9
Current Liabilities	(34,211.0)	(33,231.9)	(35,004.4)	(66,687.8)	(68,399.9)	(68,342.4)
Creditors	(23,402.2)	(23,743.5)	(24,246.7)	(43,930.2)	(45,642.3)	(45,584.7)
Tax and social security	(333.3)	(467.7)	(356.9)	(356.9)	(356.9)	(356.9)
Short term borrowings	(10,475.4)	(9,020.8)	(10,400.7)	(22,400.7)	(22,400.7)	(22,400.7)
Other	0.0	0.0	0.0	0.0	0.0	0.0
Long Term Liabilities	(25,775.9)	(27,178.1)	(29,847.5)	(67,296.9)	(62,956.9)	(62,956.9)
Long term borrowings	(17,297.0)	(18,218.6)	(22,446.0)	(39,446.0)	(39,446.0)	(39,446.0)
Other long term liabilities	(8,478.9)	(8,959.5)	(7,401.5)	(27,850.9)	(23,510.9)	(23,510.9)
Net Assets	40,723.4	40,463.7	40,810.3	57,126.6	58,318.8	59,868.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	40,723.4	40,463.7	40,810.3	57,126.6	58,318.8	59,868.7
CASH FLOW						
Op Cash Flow before WC and tax	4,910.6	5,844.8	4,850.6	6,656.6	11,136.9	11,510.8
Working capital	1,714.6	1,810.8	(1,942.2)	(3,722.2)	4,138.0	(49.1)
Exceptional & other	31.0	(128.7)	(1,262.2)	0.0	0.0	0.0
Tax	(827.0)	(1,011.6)	(86.6)	(385.7)	(1,094.3)	(1,286.9)
Net operating cash flow	5,829.2	6,515.3	1,559.6	2,548.7	14,180.6	10,174.8
Capex	(780.5)	(2,107.1)	(3,913.8)	(4,513.1)	(5,795.3)	(5,982.2)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0	0.0
Net interest	(674.5)	(810.7)	(678.0)	(874.2)	(1,742.7)	(1,684.3)
Equity financing	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(200.0)	(600.0)	(600.0)	(600.0)	(840.0)	(840.0)
Other	(5,922.6)	2,293.5	5,031.4	0.0	0.0	0.0
Net Cash Flow	(1,748.4)	5,290.9	1,399.1	(3,438.5)	5,802.6	1,668.2
Opening net debt/(cash)	25,676.0	19,950.2	17,188.6	20,654.3	54,595.4	49,792.8
FX	0.0	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	7,474.2	(2,529.3)	(4,864.8)	(30,502.6)*	(1,000.0)	0.0
Closing net debt/(cash)	19,950.2	17,188.6	20,654.3	54,595.4	49,792.8	48,124.6

Source: Edison Investment Research, company data. Note: IFRS revaluation of CLF assets not reflected. *In €28,000 net debt on merger.

EDISON

Contact details	Revenue by geography
Via Filadelfia 220 10137 Torino Italy +39 011 3240200 http://centralelatte.torino.it	

Management team

Chairman: Luigi Luzzatti	Executive Vice Chairman and Managing Director: Riccardo Pozzoli
Luigi Luzzatti has been executive chairman of CLT since May 1999 and one of the previous owners of Centro Latte Rapallo.	Riccardo Pozzoli was chairman of CLT from 1985 to 2000 and has been vice-chairman since 2000. He is a member of one of the founding families.
CFO: Vittorio Vaudagnotti	**Investor Relations: Edoardo Pozzoli**
Vittorio Vaudagnotti is CFO, director of administration & control and head of IR.	Edoardo Pozzoli is corporate director and also head of IR.

Principal shareholders (post-merger)	(%)
Finanziaria Centrale del Latte di Torino SpA	36.99
Comune di Firenze	12.25
Fidi Toscana SpA	6.83
Comune di Pistoia	5.26
Lavia	3.99
Camera di Commercio di Firenze	2.30
Comuni Provincia di Livorno	1.93

Companies named in this report

Parmalat (PLT IM), Dairy Crest (DCG LN), Dean Foods (DF), Saputo (SAP CN), Valsoia (VLS IM)

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