

Centrale del Latte di Torino

A More Favourable 2014 Scenario

Centrale del Latte di Torino - Key estimates and data					
Y/E December		2013A	2014E	2015E	2016E
Revenues	EUR M	98.06	107.20	109.10	111.10
EBITDA	EUR M	5.37	5.62	6.15	6.38
EBIT	EUR M	1.13	2.43	3.10	3.50
Net income	EUR M	1.27	1.06	1.43	1.65
Dividend ord.	EUR	0.06	0.00	0.00	0.00
Adj. EPS	EUR	0.03	0.11	0.14	0.17
EV/EBITDA	x	10.86	10.37	9.49	9.15
Adj. P/E	x	NM	36.17	26.84	23.26

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

- 4Q/FY13 results.** Centrale del Latte di Torino (CLT) results continue to reflect a difficult market context, characterised by a decrease in the consumer demand combined with a significant increase in the raw material milk price, up by 7% on average in FY13, which was not offset by higher final product prices. FY13 was also impacted by the integration of Centrale Latte Rapallo with the parent company and by the sale of the 40% Frascheri SpA participation, which generated a EUR 1.6M capital gain. CLT achieved an almost flat revenue growth (-0.4%) to EUR 98M; FY13A EBITDA was EUR 5.3M vs. EUR 6.3M in FY12A; FY13A EBIT reached EUR 1.13M vs. EUR 0.32M in FY12A after the accounting of EUR 0.46M risk provisions. FY13A net profit was EUR 1.27M vs. EUR 0.563M in FY12A. FY13A net debt significantly improved to EUR 19.9M vs. EUR 25.6M in FY12A. The group proposed a EUR 0.06/share dividend.
- Outlook.** As for the outlook, in the first couple of months of 2014, the group has seen some modest signs of a recovery in the market and is recording a positive revenue trend. The milk raw material price is also expected to be more favourable in FY14 with a stable trend vs. FY13A.
- Agreement with China.** The group recently signed an important contract for the supply of UHT and soja milk to a primary distributor in China, Hong Kong and Macao. While in the medium-term, we expect the contract to have little impact as it could generate approx. EUR 2M revenues maximum at regime, but in the long term the export of CLT products could potentially lead to interesting development projects.
- Estimates.** We revised our estimates after the FY13A results. We incorporated a lower amortisation (as the CLR and Latte Tigullio brands are no longer amortised). Overall, we raised our FY14E-15E EBIT by an average 60%. Our FY14E net profit estimate now stands at EUR 1.1M vs. EUR 0.5M previously while in FY15E it is EUR 1.4M vs. EUR 0.7M previously.
- Valuation.** We updated our DCF based valuation to incorporate our new estimates and the FY16E rollover. In our WACC calculation we incorporated the periodical update of our risk free rate which now stands at 3.50% (vs. 4.25% previously used) and our risk premium of 5.50% (vs. 6.0% previously used). We derived a 5.3% WACC (vs. 6.7% previously) based also on a 68% gearing ratio (vs. 55% previously). Our DCF-based valuation points to a **EUR 3.66/share target price** (vs. our previous EUR 1.91/share). The stock has rallied in the last month after the China distribution agreement on potential long term developments in the region, which we have not included in our forecasts.
- 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 an 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

19 March 2014

HOLD

Target Price: EUR 3.66
(from EUR 1.91)

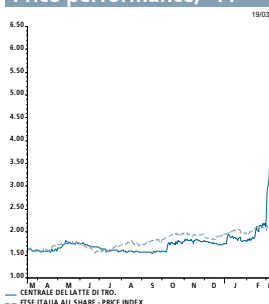
Food & Beverages
Company Update

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Price performance, -1Y



Source: Thomson Reuters

Data priced on 18.03.2014

Target price (€)	3.66
Target upside (%)	-4.64
Market price (€)	3.84
52-week range (€)	6/1.5
Market cap (€M)	38.38
No. of shares (M)	10.00
Free float (%)	28
Major shareholder (%)	A. Artom, 57
Reuters	CLT.MI
Bloomberg	CLT IM
FTSE It All Shares	22421

	Performance %	
	Absolute	Rel. to FTSE All Sh
-1M	86.7	-1M 83.7
-3M	118.8	-3M 102.8
-12M	134.0	-12M 102.0

Source: Intesa Sanpaolo Research estimates and Thomson Reuters

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4Q13/FY13A Results

4Q/FY13A results were achieved in a still difficult market context, characterised by a significant decrease in consumer demand, and confirmed the overall trend recorded in the last few quarters. Furthermore, the group fully incorporated the significant national raw material price upturn that showed a 7% increase in FY13, on average, not offset by higher final prices.

In addition, results are compared with FY12A, which has been reclassified for: 1) the 40% Frascheri Spa consolidation with the equity method (vs. the pro-quota consolidation previously); and 2) the IAS 19 application, with the modification of interest expenses related to the discounted personnel pension fund.

Overall, FY13A revenues decreased by 0.4% to EUR 98.1M. In FY13, CLT reported a 2.6% decrease in fresh milk revenues, a 2.0% increase in UHT and 2.3% drop in yogurt, as these were the most exposed to the lower consumption trend. On the other hand, CLT showed a 3.9% increase in IV gamma products, +0.1% in cream and milk and +4.2% in other products.

Centrale del Latte di Torino – 4Q/FY13A revenue breakdown			
EUR M	FY12A	FY13A	% chg
Fresh milk	44.9	43.8	-2.6
UHT milk	18.9	19.3	2.0
Yogurt	8.3	8.1	-2.3
IV gamma products	4.9	4.7	-3.9
Cream and milk	3.7	3.7	0.1
Other products	17.8	18.5	4.2
Total	98.5	98.1	-0.4

A: actual; Source: Company data

FY13 EBITDA decreased by 16% to EUR 5.4M and the EBITDA margin decreased to 5.5% vs. 6.5% in FY12A, reflecting a stable operating cost trend thanks to the group's cost efficiencies.

Operating costs

EBIT rose to EUR 1.1M in FY13A (vs. EUR 0.3M in FY12A) contrasting the negative EBITDA trend, as the brands CLR (Centrale Latte Rapallo) and Latte Tigullio are no longer amortised, since they were reclassified as indefinite useful life. The FY13A net profit was EUR 1.3M vs. a EUR 0.6M net loss in FY12A.

FY13A net debt of EUR 19.9M (49% net debt to equity) significantly improved vs. EUR 25.6M in FY12A (65%), reflecting management's ongoing focus on cost savings and containment in investments.

FY13 net debt improved

Centrale del Latte di Torino – 4Q/FY13A results						
EUR M	4Q12A	4Q13A	% chg	2012A	2013A	% chg
Revenues	25.8	26.4	2	98.5	98.1	0
Value added	5.0	4.7	-7	20.3	19.5	-4
EBITDA	1.60	1.26	-21	6.4	5.4	-16
EBIT	-0.39	0.41	NM	0.3	1.1	260
Pre-tax profit	-0.5	1.8	NM	-0.7	2.1	NM
Net profit	0.0	1.7	NM	-0.6	1.3	NM
Value added margin %	19.5	17.7		20.7	19.9	
EBITDA margin %	6.2	4.8		6.5	5.5	
EBIT margin %	-1.5	1.5		0.3	1.2	
Net margin %	0.1	6.3		-0.6	1.3	

NM: not meaningful; A: actual; Source: Company data

Earnings Outlook and Valuation

Estimates revision

We revised our FY14E-16E estimates after the FY13A results to incorporate a lower expected amortisation (as the CLR and Latte Tigullio brands are no longer amortised). We raised our FY14E-15E EBIT by approx. 60% on average. Our FY14E net profit estimate now stands at EUR 1.1M vs. EUR 0.5M previously while in FY15E it is EUR 1.4M vs. EUR 0.7M previously.

Key brands no longer amortised

Centrale del Latte di Torino – Estimates revision (2014E-15E)

EUR M	2014E			2015E		
	OLD	NEW	% chg	OLD	NEW	% chg
Revenues	107.2	107.2	0.0	109.1	109.1	0.0
EBITDA	5.6	5.6	0.0	6.1	6.1	0.0
EBITDA margin %	5.2	5.2		5.6	5.6	
EBIT	1.5	2.4	61.9	1.9	3.1	63.2
EBIT margin %	1.4	2.3		1.7	2.8	
Net profit	0.5	1.1	121.0	0.7	1.4	107.2

NM: not meaningful; Source: Intesa Sanpaolo Research estimates

DCF model

We updated our DCF based valuation to incorporate our FY14E-15E change in estimates and the rollover to FY16E.

We incorporated upwards change in estimates

In our WACC calculation we incorporated the periodical update of our risk free rate which now stands at 3.50% (vs. 4.25% previously used) and of our risk premium at 5.50% (vs. 6.0% previously used). We derived a 5.3% WACC (vs. 6.7% previously) based also on a 68% gearing ratio (vs. 55% previously).

And updated risk free rate and risk premium

Our other key 2013-24E DCF assumptions are: a 2.0% sales CAGR and a 2% perpetual growth rate; a 2.9% EBIT margin (vs. 2.4% previously used) implying a 2013A-24E EBIT CAGR at 4.9% vs. 1.9% previously used.

Our DCF-based valuation points to a **EUR 3.66/share target price** (vs. our previous EUR 1.91/share).

EUR 3.66/share target price

Centrale del Latte di Torino - WACC calculation

Gearing ratio %	68
Risk-free rate %	3.50
Risk premium %	5.50
Beta*(x)	0.45
Required return %	6.0
WACC %	5.3

Source: *Bloomberg, Intesa Sanpaolo Research estimates

CLT – DCF key assumptions (%)

Sales 2013A-24E CAGR	2.0
Perpetual growth rate	2.0
EBIT margin 2013A-24E avg	2.9
EBIT 2013A-24E CAGR	4.9
Tax rate 2013A-24E avg.	47
Capex to sales 2013A-24E avg.	2
Working capital to sales	3.8

Source: Intesa Sanpaolo Research estimates

Centrale del Latte di Torino - DCF valuation (EUR M)

Forecast cash flows	14
Terminal value	43
Enterprise value	57
Net cash/-debt	-20
Equity value	37
Number of shares (M)	10.0
Equity value per share (EUR)	3.66

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	
4.3%	4.1	5.0	6.2	8.1	11.4	
4.8%	3.3	3.9	4.7	5.8	7.6	
5.3%	2.7	3.1	3.66	4.4	5.5	
5.8%	2.2	2.5	2.9	3.4	4.2	
6.3%	1.7	2.0	2.3	2.7	3.2	

Source: Intesa Sanpaolo Research estimates

Multiples comparison

In the table below, we report the 2014E-15E peers' multiples in terms of EV/sales, EV/EBITDA and PE that operate in the group's reference sector, taken from Factset consensus estimates. In terms of EV/EBITDA, CLT now trades at an approx. 14% premium vs. the 2014E and 2015E peers' average.

Multiples comparison								
x	Price EUR	EV	EV/sales		EV/EBITDA		PE	
			2014E	2015E	2014E	2015E	2014E	2015E
Dean Foods Co.	10.90	2,122	0.25	0.25	6.48	5.65	19.2	12.6
Associated British Foods PLC	33.41	23,168	1.66	1.55	13.65	13.00	27.5	25.4
Dairy Crest Group PLC	5.90	870	0.62	0.60	7.42	6.60	12.3	10.8
Saputo Inc.	36.96	12,297	1.31	1.29	11.58	11.14	17.8	16.7
Emmi AG	253.19	1,948	0.58	0.54	7.09	6.51	15.2	13.9
Parmalat S.p.A.	2.54	3,550	0.65	0.63	7.90	7.56	20.1	19.3
Average			0.84	0.81	9.02	8.41	18.7	16.5
CLT	3.84	64	0.54	0.53	10.37	9.49	36.2	26.8
Premium/-discount %			-36	-34	15	13	94	63

Source: Factset and *Intesa Sanpaolo Research estimates

Centrale del Latte di Torino - Key figures

Sector	Food & Beverages	Mkt price EUR/Share	Ordinary		Rating
REUTERS CODE	CLT.MI	Target price EUR/Share	3.84		HOLD
Values per share (EUR)	2012A	2013A	2014E	2015E	2016E
No. ordinary shares (M)	10.00	10.00	10.00	10.00	10.00
No. NC saving/preferred shares (M)	-	-	-	-	-
Total no. of shares (M)	10.00	10.00	10.00	10.00	10.00
Adj. EPS	-0.06	0.03	0.11	0.14	0.17
CFPS	0.55	0.55	0.43	0.45	0.45
BVPS	3.94	4.06	4.11	4.25	4.42
Dividend Ord	-	0.06	-	-	-
Dividend SAV Nc	-	-	-	-	-
Income statement (EUR M)	2012A	2013A	2014E	2015E	2016E
Sales	98.5	98.1	107.2	109.1	111.1
EBITDA	6.4	5.4	5.6	6.1	6.4
EBIT	0.3	1.1	2.4	3.1	3.5
Pre-tax income	-0.7	2.1	1.9	2.6	3.0
Net income	-0.6	1.3	1.1	1.4	1.7
Adj. net income	-0.6	0.3	1.1	1.4	1.7
Cash flow (EUR M)	2012A	2013A	2014E	2015E	2016E
Net income before minorities	-0.6	1.3	1.1	1.4	1.7
Depreciation and provisions	6.1	4.2	3.2	3.0	2.9
Change in working capital	0.5	2.9	-1.4	-1.1	-0.6
Operating cash flow	6.0	8.4	2.8	3.3	3.9
Capital expenditure	-2.0	-2.0	-2.0	-2.0	-2.0
Other (uses of Funds)	0.0	0.0	0.0	0.0	0.0
Free cash flow	4.0	6.4	0.8	1.3	1.9
Dividends and equity changes	-0.2	0.0	-0.6	0.0	0.0
Net cash flow	3.8	6.4	0.2	1.3	1.9
Balance sheet (EUR M)	2012A	2013A	2014E	2015E	2016E
Net capital employed	65.0	60.7	60.8	60.9	60.7
of which associates	-	-	-	-	-
Net debt/-cash	25.7	20.0	19.7	18.4	16.5
Minorities	-	-	-	-	-
Net equity	39.4	40.6	41.1	42.5	44.2
Market cap	38.4	38.4	38.4	38.4	38.4
Minorities value	-	-	-	-	-
Enterprise value (*)	64.1	58.3	58.1	56.8	54.9
Stock market ratios (x)	2012A	2013A	2014E	2015E	2016E
Adj. P/E	-68.2	NM	36.2	26.8	23.3
P/CEPS	7.0	7.0	9.0	8.6	8.5
P/BVPS	1.0	0.9	0.9	0.9	0.9
Dividend yield (% ord)	0.0	1.6	0.0	0.0	0.0
Dividend yield (% sav)	-	-	-	-	-
EV/sales	0.7	0.6	0.54	0.52	0.49
EV/EBITDA	9.13	10.86	10.37	9.49	9.15
EV/EBIT	204.0	51.7	23.92	18.31	15.67
EV/CE	1.0	1.0	0.96	0.93	0.90
D/EBITDA	4.0	3.7	3.50	2.99	2.58
D/EBIT	81.8	17.7	8.11	5.93	4.71
Profitability & financial ratios (%)	2012A	2013A	2014E	2015E	2016E
EBITDA margin	6.5	5.5	5.2	5.6	5.7
EBIT margin	0.3	1.2	2.3	2.8	3.2
Tax rate	13.9	39.5	45.0	45.0	45.0
Net income margin	-0.6	1.3	1.0	1.3	1.5
ROE	-1.4	3.1	2.6	3.4	3.7
Debt/equity ratio	0.7	0.5	0.5	0.4	0.4
Growth (%)		2013A	2014E	2015E	2016E
Sales		-0.4	9.3	1.8	1.8
EBITDA		-15.9	4.7	9.3	3.7
EBIT		259.6	115.1	27.6	12.9
Pre-tax income		420.5	-8.0	34.8	15.4
Net income		325.4	-16.4	34.8	15.4
Adj. net income		154.2	247.4	34.8	15.4

NM: not meaningful; (*) EV = Mkt cap+ Net Debt + Minorities Value - Associates A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Notes

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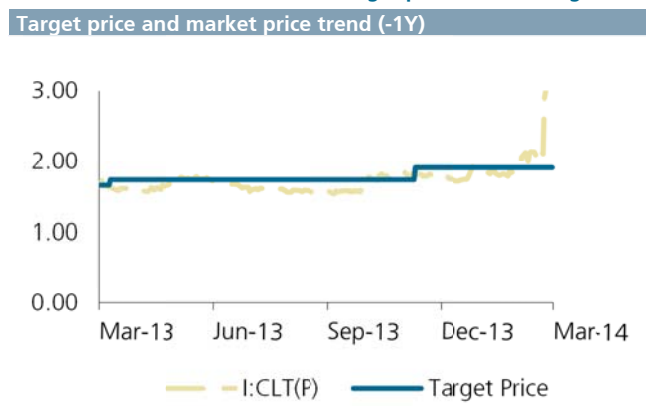
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Long-term rating	Definition
BUY	If the target price is 20% higher than the market price
ADD	If the target price is 10%-20% higher than the market price
HOLD	If the target price is 10% below or 10% above the market price
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Historical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

Historical recommendations and target price trend (-1Y)				
Date	Rating	TP	Mkt Price	
8-Nov-12	HOLD	1.66	1.62	
19-Mar-13	HOLD	1.74	1.66	
5-Aug-13	HOLD	1.74	1.60	
19-Nov-13	HOLD	1.91	1.75	

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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
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 has a conflict of interest inasmuch as it plans to solicit investment banking business or intends to seek compensation from the Company in the next three months.
- 2 Banca IMI is a specialist relative to securities issued by CENTRALE DEL LATTE DI TORINO & C. S.p.A.

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