

Centrale del Latte d'Italia

FY17 results

Sales improvement

Centrale del Latte d'Italia's (CLI) price increases, implemented during H1, continue to drive revenue growth, with total revenue of €187m in FY17 above our forecast of €181m. Newer initiatives, such as vegetable-based drinks and the export business continue to generate good growth. We have raised our revenue forecasts to reflect the higher FY17 base, but trim our EBITDA forecast as the FY17 figure was below our forecast. Now that the CLF business has been owned for a full year, revenue synergies are coming through and there has been scope for some cost efficiencies. We therefore raise our medium-term EBIT margin growth by 10bp per annum to capture the potential for further cost containment. Our fair value rises to €3.30/share (from €3.25 previously).

Year end	Total revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	119.8	(2.09)	(19.57)	6.00	N/A	1.8
12/17	187.5	(0.03)	(1.63)	6.00	N/A	1.8
12/18e	184.4	0.33	1.54	6.00	215.2	1.8
12/19e	186.2	1.36	6.30	6.00	52.6	1.8

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

Price increases still driving revenue growth

Price increases were implemented on 1 April 2017 to offset some cost inflation and were fully rolled out on 1 June. We believe organic growth was c 6% for FY17, which is impressive. 2017 represents the first full year of ownership of the CLF business and indeed, FY17 EBITDA was affected by one-off costs of €220,000.

Raw material costs rising again

We note raw material costs started to increase again towards the end of FY17. We therefore trim our EBITDA forecast for FY18, which has a sequential effect on subsequent years. Given the level of gearing, the cut is more significant at the EPS level. We believe there is some scope for ongoing cost containment as a result of the merger with CLF: we note that labour costs were down 120bp as a percentage of revenues in FY17, as any retiring personnel are not being replaced. As a result of this, we also raise our medium-term EBIT margin growth to 10bp per annum (from 0bp). We leave our terminal EBIT margin assumption unchanged at 3%.

Valuation: Fair value of €3.30 per share

Our DCF model points to a fair value of €3.30 per share (from €3.25), implying that the stock is fairly valued. We calculate that for FY19e CLI now trades on a P/E of 52.6x and EV/EBITDA of 12.5x, with a dividend yield of 1.8%. The P/E is inflated in part due to the high interest costs as a result of the elevated level of debt in the short term associated with the merger by incorporation with CLF in September 2016. On EV/EBITDA, CLI trades at a premium of c 45% to our peer group of dairy processors.

Food & beverages

19 March 2018

Price €3.29
Market cap €46m

Net debt (€m) at 31 December 2017	62.4
Shares in issue	14.0m
Free float	37%
Code	CLI
Primary exchange	STAR (Borsa Italiana)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(2.4)	(3.1)	13.4
Rel (local)	(2.6)	(5.8)	(0.4)
52-week high/low		€4.34	€2.78

Business description

Centrale del Latte d'Italia 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, Liguria and Tuscany regions.

Next events

AGM	26 April 2018
Q118 results	10 May 2018
H118 results	02 August 2018
9M18 results	30 October 2018

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FY17 results review

CLI's total FY17 value of production (total revenue) of €187.5m compares to €119.8m in FY16. Net revenue/sales came in at €183.4m vs €117.8m in FY16. The majority of the growth was of course due to the merger with CLF. FY17 EBITDA of €7.2m (or €7.5m in underlying terms, as discussed above) compares with €2.9m in FY16, with margins up 150bp to 3.9%. Margin recovery was a feature in FY17 following the implementation of the price increases and also better cost control.

We note that vegetable drinks had a strong performance in FY17 as consumers continue to embrace vegetarian, vegan and generally low-fat diets, while consumers with lactose allergies or intolerances seek alternative products. Export sales also more than doubled, as CLI expanded the number of markets into which it exports and also introduced innovative sales channels.

The group successfully completed a €15m bond issue during the latter part of FY17, which allows it to diversify its sources of debt. We note the terms were attractive, with a 3.25% coupon.

Near-term estimates revisions

We raise our revenue forecasts to reflect the FY17 revenues coming in above our forecast. We trim our margin forecasts in light of milk farmgate prices continuing to increase. Our FY18 EBITDA forecast decreases to €7.8m (from €8.9m) and net income reduces to €0.22m from €0.52m. We illustrate the changes to our key forecasts in Exhibit 1.

Exhibit 1: Old vs new near-term forecasts									
€000s	FY18e			FY19e			FY20e		
	Old	New	% change	Old	New	% change	Old	New	% change
Total revenue	181,903	184,364	1.4	182,812	186,208	1.9	183,726	188,070	2.4
EBITDA	8,852	7,834	(11.5)	9,261	8,285	(10.5)	9,675	8,744	(9.6)
PBT	804	331	(58.8)	1,815	1,356	(25.3)	2,215	1,763	(20.4)
Net income (reported)	523	215	(58.8)	1,180	882	(25.3)	1,439	1,146	(20.4)
EPS (reported), €	0.04	0.02	(58.8)	0.08	0.06	(25.3)	0.10	0.08	(20.4)

Source: Edison Investment Research

Valuation

CLI's share price performance has been broadly in line with the FTSE MIB on a three-month and 12-month basis, although the share price has outperformed on a six-month basis following the announcement of the agreement with Alibaba. On 2019 estimates, CLI trades on a P/E of 52.6x and EV/EBITDA of 12.5x, with a dividend yield of 1.8%. The P/E is inflated due to the high level of debt following the merger, and hence the high interest costs.

On EV/EBITDA, CLI trades at a premium of c 45% to the average of our peer group of dairy processors, although we note that the companies in our peer group are much larger than CLI.

Exhibit 2: Benchmark valuation of CLI relative to peers

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2018e	2019e	2018e	2019e	2018e	2019e
Parmalat	€156.6	17.8	N/A	9.6	N/A	1.7	N/A
Dairy Crest	€5,556.2	25.0	21.4	9.3	8.2	0.6	0.6
Dean Foods	£773.5	14.1	13.5	10.4	10.2	4.3	4.5
Saputo	\$839.6	11.5	10.4	4.9	4.1	4.3	5.3
Peer group average		17.3	15.5	9.1	8.3	2.7	3.1
CLI	€46.3	215.2	52.6	13.2	12.5	1.8	1.8
Premium/(discount) to peer group (%)		1,146.7%	238.2%	45.2%	50.8%	(33.7%)	(40.6%)

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 8 March 2018.

Our DCF is based on our (unchanged) assumptions of a 1.5% terminal growth rate and 3% terminal EBIT margin. Our WACC of 5.8% is based 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 growth rate of 1.5% with a terminal EBIT margin of 3% (which compares to CLT's pre-merger reported EBIT margin of 2.7% in 2014 and 1.6% in 2015).

Exhibit 3: DCF sensitivity (€/share) to terminal growth rate and EBIT margin

		Terminal EBIT margin					
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
Terminal growth	0.0%	1.00	1.55	2.10	2.65	3.19	3.74
	0.5%	1.21	1.82	2.42	3.02	3.63	4.23
	1.0%	1.47	2.14	2.81	3.48	4.15	4.82
	1.5%	1.79	2.54	3.30	4.04	4.79	5.54
	2.0%	2.19	3.05	3.90	4.75	5.60	6.46
	2.5%	2.72	3.70	4.69	5.67	6.66	7.65
	3.0%	3.43	4.59	5.76	6.92	8.09	9.26
	3.5%	4.44	5.86	7.29	8.71	10.13	11.56
	4.0%	6.01	7.83	9.65	11.48	13.30	15.12

Source: Edison Investment Research

Exhibit 4: Financial summary

31-December	€'000s	2014	2015	2016	2017e	2018e	2019e	2020e
INCOME STATEMENT								
Total revenue (value of production)*		102,558	98,319	119,762	187,478	184,364	186,208	188,070
Cost of Sales		(82,415)	(78,796)	(98,652)	(153,937)	(150,287)	(151,604)	(152,932)
Gross Profit		20,143	19,523	21,110	33,541	34,077	34,604	35,138
EBITDA		5,845	4,851	2,905	7,245	7,834	8,285	8,744
Normalised operating profit		2,752	1,554	(1,254)	864	1,920	2,951	3,356
Amortisation of acquired intangibles		0	0	0	0	0	0	0
Exceptionals		(134)	145	(355)	(202)	0	0	0
Share-based payments		0	0	0	0	0	0	0
Reported operating profit		2,618	1,699	(1,609)	661	1,920	2,951	3,356
Net Interest		(811)	(678)	(692)	(996)	(1,696)	(1,701)	(1,700)
Joint ventures & associates (post tax)		(4)	(418)	(143)	107	107	107	107
Exceptionals		0	0	13,903	(81)	0	0	0
Profit Before Tax (norm)		1,937	458	(2,089)	(106)	331	1,356	1,763
Profit Before Tax (reported)		1,803	603	11,459	(309)	331	1,356	1,763
Reported tax		(1,012)	(87)	556	47	(116)	(475)	(617)
Profit After Tax (norm)		809	30	(2,153)	(310)	215	882	1,146
Profit After Tax (reported)		791	517	12,015	(261)	215	882	1,146
Minority interests		0	0	0	0	0	0	0
Discontinued operations		0	0	0	0	0	0	0
Net income (normalised)		809	30	(2,153)	(310)	215	882	1,146
Net income (reported)		791	517	12,015	(261)	215	882	1,146
Basic average number of shares outstanding (m)		10	10	11	14	14	14	14
EPS - basic normalised (€)		0.08	0.00	(0.20)	(0.02)	0.02	0.06	0.08
EPS - diluted normalised (€)		0.08	0.00	(0.20)	(0.02)	0.02	0.06	0.08
EPS - basic reported (€)		0.08	0.05	1.09	(0.02)	0.02	0.06	0.08
Dividend (€)		0.06	0.06	0.06	0.06	0.06	0.06	0.06
Revenue growth (%)		2.6	(4.1)	21.8	56.5	(1.7)	1.0	1.0
Gross Margin (%)		19.6	19.9	17.6	17.9	18.5	18.6	18.7
EBITDA Margin (%)		5.7	4.9	2.4	3.9	4.2	4.4	4.6
Normalised Operating Margin		2.7	1.6	-1.0	0.5	1.0	1.6	1.8
BALANCE SHEET								
Fixed Assets		64,185	64,540	129,773	132,731	132,717	132,969	133,224
Intangible Assets		11,706	11,539	19,484	19,521	19,507	19,493	19,479
Tangible Assets		51,671	52,010	107,335	110,817	110,817	111,083	111,352
Investments & other		808	992	2,954	2,393	2,393	2,393	2,393
Current Assets		36,689	41,122	60,457	78,611	73,102	73,297	73,758
Stocks		3,438	3,541	7,698	9,114	8,898	8,976	9,055
Debtors		15,720	14,370	28,209	31,449	31,606	31,922	32,241
Cash & cash equivalents		10,051	12,192	9,521	25,475	20,024	19,825	19,888
Other		7,481	11,019	15,030	12,573	12,573	12,573	12,573
Current Liabilities		(33,232)	(35,004)	(68,199)	(77,372)	(77,437)	(77,842)	(78,251)
Creditors		(23,744)	(24,247)	(42,910)	(46,223)	(46,288)	(46,694)	(47,103)
Tax and social security		(468)	(357)	(697)	(914)	(914)	(914)	(914)
Short term borrowings		(9,021)	(10,401)	(24,592)	(30,234)	(30,234)	(30,234)	(30,234)
Other		0	0	0	0	0	0	0
Long-term Liabilities		(27,178)	(29,847)	(58,489)	(70,874)	(65,910)	(65,910)	(65,910)
Long-term borrowings		(18,219)	(22,446)	(45,159)	(57,624)	(57,624)	(57,624)	(57,624)
Other long term liabilities		(8,960)	(7,402)	(13,330)	(13,250)	(8,286)	(8,286)	(8,286)
Net Assets		40,464	40,810	63,542	63,097	62,472	62,514	62,820
Minority interests		0	0	0	0	0	0	0
Shareholders' equity		40,464	40,810	63,542	63,097	62,472	62,514	62,820
CASH FLOW								
Op Cash Flow before WC and tax		5,845	4,851	2,905	7,245	7,834	8,285	8,744
Working capital		1,811	(1,942)	(30)	1,547	124	12	11
Exceptional & other		(129)	(1,262)	(15,092)	(359)	107	107	107
Tax		(1,012)	(87)	556	47	(116)	(475)	(617)
Net operating cash flow		6,515	1,560	(11,661)	8,480	7,949	7,928	8,245
Capex		(2,107)	(3,914)	(4,095)	(9,849)	(5,900)	(5,586)	(5,642)
Acquisitions/disposals		0	0	0	0	0	0	0
Net interest		(811)	(678)	(692)	(996)	(1,696)	(1,701)	(1,700)
Equity financing		0	0	0	0	0	0	0
Dividends		(600)	(600)	(600)	0	(840)	(840)	(840)
Other		2,293	5,031	(1,131)	21,436	0	0	0
Net Cash Flow		5,291	1,399	(18,178)	19,071	(487)	(199)	63
Opening net debt/(cash)		19,950	17,189	20,654	60,230	62,383	67,833	68,032
FX		0	0	0	0	0	0	0
Other non-cash movements		(2,529)	(4,865)	(21,397)	(21,224)	(4,964)	0	0
Closing net debt/(cash)		17,189	20,654	60,230	62,383	67,833	68,032	67,969

Source: Edison Investment Research, company accounts. *Note: Total revenue as defined by the company: revenue from sales and services plus changes in inventories and other revenue and income.

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