

Company Update

Buy (maintained)

21 June 2018 – 5:30PM

MARKET PRICE: EUR2.99

TARGET PRICE: EUR4.03 (from EUR3.92)

**Food & Beverage**

**Data**

Shares Outstanding (m):	14.00
Market Cap. (EURm):	41.86
Enterprise Value (EURm):	105.86
Free Float (%):	37.8%
Av. Daily Trad. Vol. (m):	0.01
Main Shareholder:	Finanziaria Centrale del Latte di Torino 37.8%
Reuters/Bloomberg:	CLI.MI CLI IM
52-Week Range (EUR)	2.8 4.3

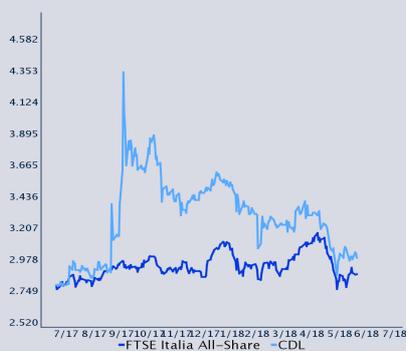
Source: Factset, UbiBanca estimates

**Performance**

	1m	3m	12m
Absolute	-6.6%	-8.3%	6.4%
Rel. to FTSE IT	-1.6%	-5.6%	0.7%

Source: Factset

**Graph area Absolute/Relative 12 M**



Source: Factset

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## Earning enhancing deal

CLI just announced to have reached an agreement for the sale of its “Salads and Fruits” business unit to Zerbinati, a leading company in the production of fresh ready meals and ready-to-eat salads. CLI will continue to distribute its ready-to-eat salads under its brands enlarging its product range thanks to Zerbinati while disposing the plant of Casteggio which has 26 employees (around 5% of CLI’s workforce). In our view, the deal would be earnings enhancing for CLI: 1) the revenues of this business unit (EUR6.3 million in 2017, or 3.4% of consolidated sales) should accelerate thanks to the wider product range granted by Zerbinati, 2) profitability is expected to increase as Zerbinati presents a lower production cost compared with CLI (we estimate a positive impact of around EUR0.4 million in 2019 and EUR0.5 million in 2020), 3) following the disposal, fixed assets should decline, increasing in this way the ROI of CLI, 4) CLI should report a capital gain of around EUR0.3 million in 2018, or around 12% of our 2018 bottom line estimate. The company also reported positive 1Q18 results with revenues up 5.1%, driven by vegetal drinks and export (which began to show the benefits of the partnership with Alibaba), and EBITDA margin at 3.8% vs. 1.6% in 1Q17 while fresh milk prices are now on the upside. Despite the positive momentum, the shares have underperformed the market since the beginning of the year and now offer an attractive entry price to investors. We confirm our positive stance with a new target price of EUR4.03 which implies >30% upside.

- > The deal with Zerbinati should be finalised next September, with visible impact in 2019. We have revised our forecasts increasing our EBITDA estimates by 2.8% in 2019 and by 4.2% in 2020 with a positive impact at bottom line level of 6.7% in 2019 and 9.4% in 2020. We left unchanged our 2018 projections at operating level but increased net profit by 12% to factor in the expected capital gain on the disposal.
- > Consequently, our target price has been increased to EUR4.03 per share (from EUR3.92) implying potential upside of >30%. At our target price, CLI would trade at 12.1x 2018 EV/EBITDA, which is broadly in line the median multiple of our peer sample of dairy product manufacturers (11.5x) and lower than Nestlé (13.6x).

**Financials**

	2017	2018E	2019E	2020E
Revenues (EURm)	183.45	189.91	200.28	210.64
EBITDA (EURm)	7.24	9.91	12.18	13.59
EBITDA margin (%)	3.9%	5.1%	6.0%	6.3%
EBIT (EURm)	0.66	3.36	5.37	6.64
EPS (EUR)	-0.02	0.14	0.23	0.30
CFPS (EUR)	0.55	0.70	0.79	0.82
DPS (EUR)	0.00	0.04	0.07	0.10

Source: Company Data, UBI Banca Estimates

**Ratios**

	priced on 20 June 2018			
	2017 *	2018E	2019E	2020E
P/E(x)	nm	21.3	12.9	10.0
P/CF(x)	7.0	4.9	4.2	3.8
P/BV(x)	0.7	0.6	0.6	0.6
Dividend Yield	0.0%	1.3%	2.3%	3.3%
EV/EBITDA(x)	15.4	10.7	8.5	7.5
Debt/Equity (x)	1.0	0.9	0.8	0.8
Debt/EBITDA (x)	8.6	5.8	4.5	3.9

Source: UBI Banca Estimates \* Based on 2017 average price

Figure 1 – 1Q18 results

CLI reported an impressive sales growth in 1Q18 (+5.1% vs. +3.0% in 4Q17) while the EBITDA margin reached 3.8% (vs. 1.6% in 1Q17) confirming the ability of the management to extract synergies from the merger with CLT, the improvement in the product mix (strong growth for vegetal drinks and export) and the positive impact of higher selling prices.

(EURm)	1Q17A	1Q18A	% Chg.
Sales	43.37	45.59	5.1%
Value of production	44.36	46.07	3.8%
<b>EBITDA</b>	<b>0.70</b>	1.73	146.4%
<b>% margin</b>	<b>1.6%</b>	3.8%	
<b>EBIT</b>	<b>-0.92</b>	-0.01	nm
Pre tax	-1.18	-0.44	nm
Net debt/(cash)	64.71	69.13	6.8%

Source: Company data

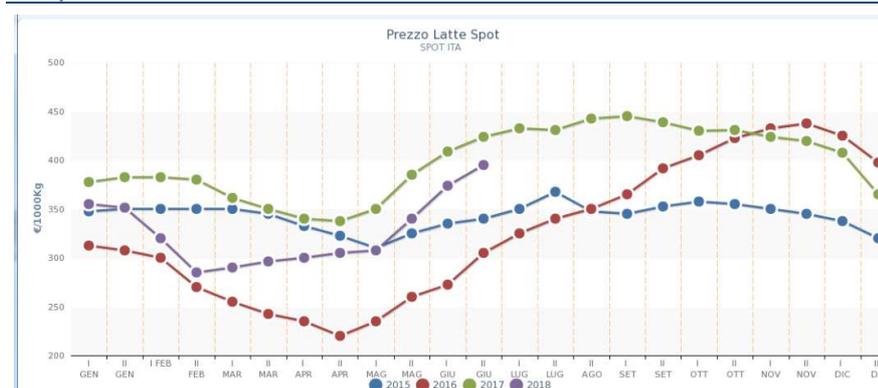
Figure 2 – 1Q18 sales by product

(EURm, %)	1Q17A	1Q18A	% change
Fresh milk	19.1	19.2	0.2%
UHT milk	9.7	9.4	-2.6%
Yogurt	2.0	1.8	-7.5%
Salads	1.5	1.3	-12.4%
Vegetal drinks	0.5	0.8	50.3%
Other products	8.9	10.9	21.7%
Bulky milk	1.3	1.2	-6.4%
Export	0.4	1.0	176.8%
<b>Total sales</b>	<b>43.4</b>	<b>45.6</b>	<b>5.1%</b>

Source: Company data

Figure 3 – Spot price of milk in Italy: a four-year comparison

After the slowdown in the first weeks of the year, the Italian fresh milk spot price has started to recover and now is 6.8% below last year (to EUR0.395 per litre vs. EUR0.424). We highlight that CLI typically signs quarterly agreements with 150 farmers and sometimes purchases raw milk on the spot market. In this way, the company is partially protected from fluctuations in the price of raw milk, increasing its margin when the raw milk price rises but experiencing lower profitability if the raw milk price declines.



Source: Assolatte

Figure 4 – Old vs. New estimates

Our growth projections are above the forecast trend for CLI's core market, due to our expectations of strong growth in revenues from vegetable drinks and exports which was already evident in 1Q18. We slightly increased our 2019-20 sales estimates to factor in the deal with Zerbinati and took into account the higher profitability generated by this agreement (from 2019). On 2018, we incorporated a capital gain of EUR0.3 million for the sale of the salad and fruit business unit. Our bottom line forecast increases by 9.4% on average in 2018-20.

(EURm)	2017A	2018E		2019E		2020E	
		Old	New	Old	New	Old	New
Total Sales	183.45	189.91	189.91	200.17	200.28	210.44	210.64
% change			0.0%		0.1%		0.1%
<b>EBITDA</b>	<b>7.24</b>	<b>9.91</b>	<b>9.91</b>	<b>11.85</b>	<b>12.18</b>	<b>13.04</b>	<b>13.59</b>
% change			0.0%		2.8%		4.2%
EBIT	0.66	3.36	3.36	5.10	5.37	6.15	6.64
% change			0.0%		5.3%		7.9%
<b>Net result</b>	<b>(0.26)</b>	<b>1.75</b>	<b>1.96</b>	<b>3.03</b>	<b>3.24</b>	<b>3.81</b>	<b>4.17</b>
% change			12.0%		6.7%		9.4%
EPS	(0.02)	0.13	0.14	0.22	0.23	0.27	0.30
% change			12.0%		6.7%		9.4%
Net Debt/(Cash)	62.38	58.66	57.45	56.66	55.19	55.18	53.31
<b>EBIT margin</b>	<b>0.4%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>2.4%</b>	<b>2.6%</b>	<b>2.8%</b>	<b>3.1%</b>
<b>EBITDA margin</b>	<b>3.9%</b>	<b>5.1%</b>	<b>5.1%</b>	<b>5.8%</b>	<b>6.0%</b>	<b>6.1%</b>	<b>6.3%</b>

Source: Company data, UBI Banca estimates

Figure 5 – Valuation summary

The simple average of our DCF and the relative valuations gives a target price of EUR4.03 (vs. EUR3.92 before) implying potential upside of >30% which supports our positive stance.

(EUR)	Weight	14-Mar 18	Delta	
DCF Valuation	3.69	33.3%	3.68	0.2%
Relative Valuation Dairy producers	4.14	33.3%	3.83	8.1%
Relative Valuation Large multinationals (30% discount)	4.27	33.3%	4.24	0.8%
<b>Target price</b>	<b>4.03</b>		<b>3.92</b>	<b>3.0%</b>
Current price	2.99		3.24	-7.7%
Potential upside	34.9%		20.8%	

Source: UBI Banca estimates

Figure 6 – Implicit multiples based on our EUR4.03 target price

(x)	2018E	2019E	2020E
P/E	28.66 x	17.39 x	13.51 x
EV/EBITDA	12.13 x	9.68 x	8.55 x
EV/EBIT	35.84 x	21.97 x	17.50 x
EV/Sales	0.62 x	0.58 x	0.54 x
P/BV	0.87 x	0.83 x	0.79 x
EV/ Capital employed	5.77 x	5.11 x	4.91 x

Source: UBI Banca estimates

**Income Statement**

(EURm)	2017	2018E	2019E	2020E
Value of production	187.48	194.07	204.55	215.05
EBITDA	7.24	9.91	12.18	13.59
EBITDA margin	3.9%	5.1%	6.0%	6.3%
EBIT	0.66	3.36	5.37	6.64
EBIT margin	0.4%	1.7%	2.6%	3.1%
Net financial income /expense	-1.00	-0.85	-0.75	-0.68
Associates & Others	0.03	0.30	0.00	0.00
Profit before taxes	-0.31	2.81	4.62	5.95
Taxes	0.05	-0.84	-1.39	-1.79
Minorities & discontinuing ops	0.00	0.00	0.00	0.00
Net Income	-0.26	1.96	3.24	4.17

Source: Company data, UBI Banca estimates

**Balance Sheet**

(EURm)	2017	2018E	2019E	2020E
Net working capital	6.63	5.34	4.58	4.26
Net Fixed assets	132.10	132.12	134.45	137.07
M/L term funds	-13.25	-13.83	-14.42	-15.02
Capital employed	125.48	123.64	124.61	126.31
Shareholders' equity	63.10	64.84	67.37	70.21
Minorities	0.00	0.00	0.00	0.00
Shareholders' funds	63.10	64.84	67.37	70.21
Net financial debt/(cash)	62.38	58.80	57.24	56.10

Source: Company data, UBI Banca estimates

**Cash Flow Statement**

(EURm)	2017	2018E	2019E	2020E
NFP Beginning of Period	60.23	62.38	58.80	57.24
Group Net Profit	-0.29	1.75	3.08	3.82
Minorities	0.00	0.00	0.00	0.00
D&A	6.37	6.56	6.75	6.89
Change in Funds & TFR	0.00	0.00	0.00	0.00
Gross Cash Flow	6.08	8.30	9.84	10.71
Change In Working Capital	1.55	1.29	0.77	0.32
Other	0.00	0.00	0.00	0.00
Operating Cash Flow	7.63	9.59	10.60	11.03
Net Capex	-9.46	-6.01	-8.49	-8.91
Other Investments	0.00	0.00	0.00	0.00
Free Cash Flow	-1.83	3.59	2.11	2.12
Dividends Paid	0.00	0.00	-0.56	-0.98
Other & Chg in Consolid. Area	-0.35	0.00	0.00	0.00
Chg in Net Worth & Capital Incr.	0.00	0.00	0.00	0.00
Change in NFP	-2.18	3.59	1.55	1.14
NFP End of Period	62.41	58.80	57.24	56.10

Source: Company data, UBI Banca estimates

**Financial Ratios**

(%)	2017	2018E	2019E	2020E
ROE	-0.5%	2.7%	4.6%	5.4%
ROI	0.3%	1.6%	2.5%	3.0%
Net Fin. Debt/Equity (x)	1.0	0.9	0.8	0.8
Net Fin. Debt/EBITDA (x)	8.6	5.9	4.8	4.3
Interest Coverage	0.6	3.2	5.2	6.4
NWC/Sales	3.5%	2.7%	2.2%	1.9%
Capex/Sales	5.0%	3.0%	4.0%	4.0%
Pay Out Ratio	0.0%	32.1%	31.8%	36.6%

Source: Company data, UBI Banca estimates

**Per Share Data**

(EUR)	2017	2018E	2019E	2020E
EPS	-0.02	0.14	0.23	0.30
DPS	0.00	0.04	0.07	0.10
Op. CFPS	0.55	0.70	0.79	0.82
Free CFPS	-0.13	0.28	0.20	0.20
BVPS	4.51	4.65	4.84	5.07

Source: Company data, UBI Banca estimates

**Stock Market Ratios**

(x)	2017 *	2018E	2019E	2020E
P/E	nm	21.3	12.9	10.0
P/OpCFPS	5.6	4.3	3.8	3.7
P/BV	0.7	0.6	0.6	0.6
Dividend Yield (%)	0.0%	1.3%	2.3%	3.3%
Free Cash Flow Yield (%)	-4.2%	9.4%	6.7%	6.8%
EV (EURm)	111.73	105.86	103.53	101.72
EV/Sales	0.6	0.5	0.5	0.5
EV/EBITDA	15.4	10.7	8.5	7.5
EV/EBIT	169.3	31.5	19.3	15.3
EV/Capital Employed	0.9	0.9	0.8	0.8

Source: Company data, UBI Banca estimates

\* Based on 2017 average price

**Growth Rates**

(%)	2017	2018E	2019E	2020E
Growth Group Net Sales	56.5%	3.5%	5.4%	5.1%
Growth EBITDA	149.4%	36.9%	22.9%	11.5%
Growth EBIT	0.0%	408.4%	60.0%	23.6%
Growth Net Profit	0.0%	0.0%	64.8%	28.7%

Source: Company data, UBI Banca estimates

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*Hold: if the target price is 10% below or 10% above the market price, over the next 12 months.*

*Sell: if the target price is 10% lower than the market price, over the next 12 months.*

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Date	Rating	Target Price (EUR)	Market Price (EUR)
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14 March 2018	Buy	3.92	3.24