

Centrale del Latte d'Italia

H118 results

Steady progress

Despite the continued challenging consumer environment in Italy and across Western Europe during H118, Centrale del Latte d'Italia's (CLI's) business continued to perform well, in part due to the price increases implemented during Q217. Vegetable-based drinks and the export business remained stand-out performers, albeit from a low base, and fresh milk also performed well. We leave our FY18 revenue forecasts unchanged, but we adjust our estimates for the sale of the prepared salads plant. Our EBITDA forecast increases as labour costs are reduced thanks to the new agreement and our fair value nudges up to €3.35 per share (from €3.30).

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	2.0
12/17	187.5	(0.03)	(1.63)	0.00	N/A	N/A
12/18e	184.4	0.55	2.54	4.29	116.5	1.4
12/19e	186.2	1.87	8.71	4.29	34.0	1.4

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

Category performance remains mixed

Fresh milk performed very well, whereas UHT milk continued to decline as strong promotional activity by the competition remained a feature. The yogurt segment continued to suffer from tough competition and the prepared salads segment remained affected by the weak economic backdrop, which had an impact on consumption. Bulk milk and cream is a by-product of dairy processing and is mostly influenced by seasonal supply and demand. Other prepared products continued to perform well. Price increases implemented across the business in H117 have partly driven revenue growth over the past 12 months and we will see the effects of this subside as we cycle a full year of these prices increases.

Prepared salads plant sale

In June, the company announced it had reached a deal with Zerbinati, an Italian producer of chilled prepared meals such as fresh soups and gluten-free burgers: CLI is selling its prepared salads plant in Casteggio in exchange for a distribution agreement whereby CLI will distribute Zerbinati's products in the regions where it operates. We believe the plant was loss making. At present we leave our sales forecasts unchanged as it will take time to leverage the increased product offering, but our labour costs fall. This results in a 2% and 6% increase in EBITDA for 2018 and 2019 respectively.

Valuation: Fair value of €3.35 per share

Our DCF model points to a fair value of €3.35 per share (previously €3.30), implying 16% upside. We calculate that for FY19e CLI now trades on a P/E of 34.0x and EV/EBITDA of 12.8x. On EV/EBITDA, CLI trades at a premium of c 55% to our peer group of dairy processors.

Food & beverages

6 August 2018

Price €2.96

Market cap €41m

Net debt (€m) at 30 June 2018 €70.9

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 0.3 (10.8) 5.8

Rel (local) 0.9 (1.3) 6.7

52-week high/low €4.3 €2.8

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

9M18 results November 2018

FY18 results March 2019

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H118 results review

The consumer environment continued to be extremely tough in Q2 following a difficult Q1. The economic and political climate remained uncertain in Italy following the general election and the length of time it took to install a new government, and consumer confidence was lower across Western Europe.

The fresh milk business continued to recover, whereas the UHT milk business remained under pressure due to strong promotional activity by CLI's much larger competitors. The yoghurt business also had a tough H1 as CLI's business suffered from increased promotional activity by the competition, which caused a loss of volume and market share. Yoghurt accounted for 5% of sales in FY17 so the size of the business is relatively small.

CLI's total H118 value of production (total revenue) of €91.8m compares to €90.2m in H117. Net revenue/sales came in at €90.5m vs €88.0m in H117. H118 EBITDA of €3.4m is a significant improvement versus €2.5m in H117. H1 gross margins were up (18.6% vs 17.6% in H117), mainly driven by the price increases implemented during Q217. EBITDA margins were up 90bp to 3.7% in H118. We leave our underlying forecasts unchanged: during H2 we expect comparatives to become tougher as we start to cycle the price increases implemented during 2017. Our actual EBITDA forecasts move up due to the prepared salads transaction (see below).

Prepared salads plant sale

CLI is selling its prepared salads plant in Casteggio in exchange for a distribution agreement whereby CLI will distribute Zerbinati's products in the regions where it operates. Although the deal was announced in June, it will be effective from 1 September 2018.

As discussed above, we leave our sales forecasts unchanged as it will take time for the benefits of the increased product offering to come through for CLI. Labour costs, however, will fall immediately, as the 26 employees in the Casteggio plant are transferred to Zerbinati ownership. We adjust our FY18 and FY19 estimates accordingly. In addition, raw material costs may also benefit due to Zerbinati's greater scale and hence a lower purchase price for CLI, although we await further details before adjusting our estimates for this.

We illustrate the changes to our forecasts below.

Exhibit 1: Forecast changes									
€000s	FY18e			FY19e			FY20e		
	Old	New	% change	Old	New	% change	Old	New	% change
Total revenue	184,364	184,364	0.0	186,208	186,208	0.0	188,070	188,070	0.0
EBITDA	7,834	8,018	2.4	8,285	8,750	5.6	8,744	9,214	5.4
PBT	353	547	55.0	1,384	1,875	35.4	1,798	2,311	28.5
Net income (reported)	229	355	55.0	900	1,219	35.4	1,169	1,502	28.5
EPS (reported) (€)	0.02	0.03	55.0	0.06	0.09	35.4	0.08	0.11	28.5

Source: Edison Investment Research

Valuation

CLI's share price performance has performed broadly in line with the FTSE MIB on a three-month basis; it has underperformed on a six-month basis and outperformed on a 12-month basis. On 2019 estimates, CLI trades on a P/E of 34.0x and EV/EBITDA of 12.8x.

On EV/EBITDA, CLI trades at a premium of c 55% to the average of our peer group of dairy processors; 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	€5,277.9	22.8	21.1	7.7	7.2	0.7	0.4
Dairy Crest	£757.7	13.0	12.1	9.6	9.1	4.9	5.0
Dean Foods	\$876.0	12.3	11.8	5.4	5.1	4.0	4.5
Saputo	\$16,679.7	19.2	N/A	11.9	N/A	1.6	N/A
Peer group average		16.8	15.0	8.6	7.2	2.8	3.3
CLI	€40.3	113.4	33.1	12.8	11.7	1.5	1.5
Premium/(discount) to peer group (%)		575.8	120.5	48.1	63.9	(46.6)	(55.0)

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 2 August 2018.

Our DCF is based on our (unchanged) assumptions of a 1.5% terminal growth rate and 3% terminal EBIT margin. Our WACC of 5.9% is based on an equity risk premium of 4.5%, a borrowing spread of 5% and beta of 0.9. Our fair value moves up to €3.35 per share from €3.30 in light of our changes to estimates as we have incorporated the sale of the prepared salads plant, as discussed above. Below, we show a sensitivity analysis to these assumptions and note that the current share price is discounting a terminal growth rate of 1.0% 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%	1.12	1.66	2.20	2.74	3.27	3.81
	0.5%	1.33	1.92	2.51	3.10	3.69	4.28
	1.0%	1.58	2.23	2.89	3.54	4.19	4.85
	1.5%	1.89	2.62	3.35	4.08	4.81	5.54
	2.0%	2.27	3.10	3.93	4.76	5.58	6.41
	2.5%	2.77	3.72	4.68	5.63	6.59	7.54
	3.0%	3.43	4.56	5.68	6.81	7.93	9.06
	3.5%	4.38	5.74	7.11	8.47	9.84	11.20
4.0%	5.82	7.55	9.28	11.01	12.74	14.47	

Source: Edison Investment Research

Exhibit 4: Financial summary

	€000s	2014	2015	2016	2017	2018e	2019e	2020e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
Revenue		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	8,018	8,750	9,214
Normalised operating profit		2,752	1,554	(1,254)	864	2,105	3,416	3,827
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	2,105	3,416	3,827
Net Interest		(811)	(678)	(692)	(996)	(1,665)	(1,648)	(1,622)
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)	(25)	547	1,875	2,311
Profit Before Tax (reported)		1,803	603	11,459	(309)	547	1,875	2,311
Reported tax		(1,012)	(87)	556	47	(191)	(656)	(809)
Profit After Tax (norm)		809	30	(2,153)	(229)	355	1,219	1,502
Profit After Tax (reported)		791	517	12,015	(261)	355	1,219	1,502
Minority interests		0	0	0	0	0	0	0
Discontinued operations		0	0	0	0	200	0	0
Net income (normalised)		809	30	(2,153)	(229)	355	1,219	1,502
Net income (reported)		791	517	12,015	(261)	555	1,219	1,502
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)	0.03	0.09	0.11
EPS - diluted normalised (€)		0.08	0.00	(0.20)	(0.02)	0.03	0.09	0.11
EPS - basic reported (€)		0.08	0.05	1.09	(0.02)	0.04	0.09	0.11
Dividend (€)		0.06	0.06	0.06	0.00	0.04	0.04	0.04
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	4.3	4.7	4.9
Normalised Operating Margin		2.7	1.6	-1.0	0.5	1.1	1.8	2.0
BALANCE SHEET								
Fixed Assets		64,185	64,540	129,773	132,731	132,517	132,769	133,024
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	110,617	110,883	111,152
Investments & other		808	992	2,954	2,393	2,393	2,393	2,393
Current Assets		36,689	41,122	60,457	78,611	74,282	75,054	76,111
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	21,204	21,583	22,241
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	63,453	64,071	64,974
Minority interests		0	0	0	0	0	0	0
Shareholders' equity		40,464	40,810	63,542	63,097	63,453	64,071	64,974
CASH FLOW								
Op Cash Flow before WC and tax		5,845	4,851	2,905	7,245	8,018	8,750	9,214
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	(191)	(656)	(809)
Net operating cash flow		6,515	1,560	(11,661)	8,480	8,058	8,212	8,523
Capex		(2,107)	(3,914)	(4,095)	(9,849)	(5,900)	(5,586)	(5,642)
Acquisitions/disposals		0	0	0	0	200	0	0
Net interest		(811)	(678)	(692)	(996)	(1,665)	(1,648)	(1,622)
Equity financing		0	0	0	0	0	0	0
Dividends		(600)	(600)	(600)	0	0	(600)	(600)
Other		2,293	5,031	(1,131)	21,436	0	0	0
Net Cash Flow		5,291	1,399	(18,178)	19,071	693	378	659
Opening net debt/(cash)		19,950	17,189	20,654	60,230	62,383	66,653	66,275
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	66,653	66,275	65,616

Source: Company data, Edison Investment Research

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