

Company Note

Centrale del Latte d'Italia

A Favourable 1Q20

The commitment to contain costs, together with the favourable market scenario, led to growing revenues and a greater than estimated pre-tax profit in the 20-22 Business Plan.

Event

CLI benefited from the regulatory limitations due to the health emergency, that are still affecting out of home consumption. The key results were: i) revenues of EUR 46.9M (around +8% yoy); ii) EBITDA was EUR 4.4M, vs. EUR 0.9M in 1Q19, with a margin of 9.4% on revenues; iii) EBIT was EUR 1.67M (vs. EUR -1M in 1Q19); iv) pre-tax profit was EUR 1.14M, vs. a loss of EUR 1.4M in 1Q19; v) net debt after IFRS16 slightly improved from EUR 77.6M in 1Q19 to EUR 76.8M.

Outlook/Estimates

The company registered a constant growth in revenues in April and May. Regarding the pandemic, considering CLI's structure of raw material sourcing, management does not expect negative repercussions on the Company supply chain but it is cautious about giving further guidance, due to the unpredictability of the development and impact of Covid19.

Valuation

We positively regard the good 1Q20 results, but awaiting better visibility on the yearly trends, we confirm our current estimates. We recall that Newlat announced a PTO on CLI (probably starting in June), in cash and shares, at a value of around EUR 2.65/sh., at Newlat current prices. We re-ran our DCF model, which returns a fair value of EUR 3.0/share. Considering the risks implicit in the execution of CLI's new plan amid the uncertainty raised by the coronavirus outbreak, **we advise investors to Tender Shares.**

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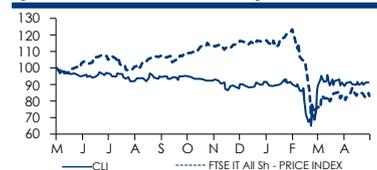
Tender Shares

Tender Shares

Italy/Food Producers & Processors
Update

MTA-STAR

Price Performance
(RIC: CLII.MI, BB: CLI IM)



Centrale del Latte d'Italia - Key Data

Price date (market close)	19/05/2020
Market price (EUR)	2.50
Market cap (EUR M)	35.00
52Wk range (EUR)	2.74/1.79

Price performance %	1M	3M	12M
Absolute	0.0	1.2	-9.1
Rel. to FTSE IT All Sh	0.2	50.3	12.3

Y/E Dec (EUR M)	FY19A	FY20E	FY21E
Revenues	175.2	177.8	181.0
EBITDA	6.46	9.96	13.75
EBIT	-5.30	-2.13	1.95
Net income	-6.51	-3.96	0.10
EPS (EUR)	-0.47	-0.28	0.01
Net debt/-cash	77.30	84.20	78.64
Adj P/E (x)	Neg.	Neg.	NM
EV/EBITDA (x)	17.7	12.0	8.2
EV/EBIT (x)	Neg.	Neg.	57.6
Div ord yield (%)	0	0	0

Source: Company data, FactSet and Intesa Sanpaolo Research estimates

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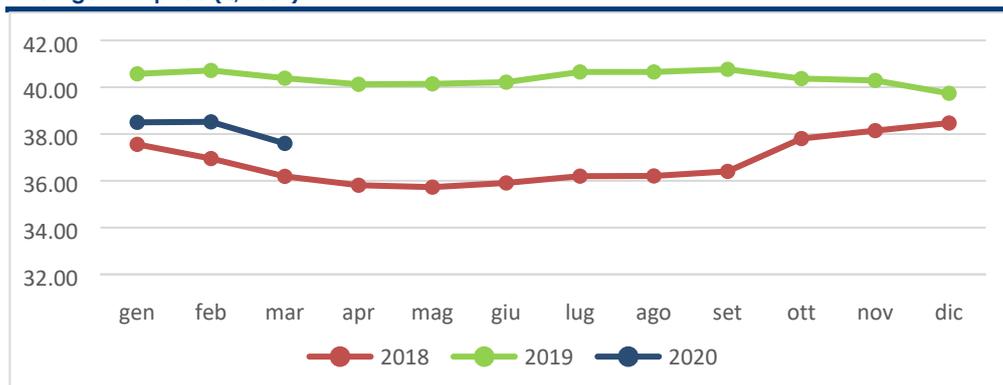
Corporate Broking Research

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1Q20 Results

2020 is the first year that the industrial plan, approved on 10 February, has been implemented, in which management's objective is to return to profitability through the consolidation of the Italian market, the development of new distribution channels, the launch of new innovative products and the strengthening of exports to new markets.

Average milk price (€/100 l)



Source: Elaboration on ISMEA data

The company benefited from the regulatory limitations due to the health emergency, that are still affecting out of home consumption. CLI recorded a strong growth at both the top line and in margins thanks to a careful management of costs and a reduction in the milk price. The key points of the results were:

- **Revenue rose by around 8% yoy to EUR 46.9M**, (EUR 43.4M in 1Q19), thanks to the growth of home consumption, which largely offset the decrease of the HoReCa distribution channel due to the Covid-19 lockdown; export accounted for 2.5% of revenues;

CLI – 1Q20A results

EUR M	1Q19A	1Q20A	yoy %
Fresh milk	17.9	18.3	2.0
UHT milk	11.0	13.0	18.1
Yogurt	1.8	2.0	14.8
IV gamma products	1.4	0.9	-36.9
Cream and milk	1.0	1.2	11.7
Other packaged products	8.7	9.3	6.2
Vegetable drinks	0.7	1.2	74.5
Export	1.0	1.2	22.0
Revenues	43.4	46.9	8.1
EBITDA	0.9	9.4	370.1
EBITDA margin (%)	2.2	3.7	
EBIT	-1.0	1.7	NM
Net profit/loss before tax	-1.4	1.1	NM
Net debt/-cash	77.6	76.8	-1.0

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

- **EBITDA was EUR 4.4M**, vs. EUR 0.9M in 1Q19, with a margin of 9.4% on revenues;
- **EBIT was EUR 1.67M** vs. EUR -1M in 1Q19;
- **Pre-tax profit was EUR 1.14M**, vs. a loss of EUR 1.4M in 1Q19;
- **Net debt after IFRS16 slightly improved** from EUR 77.6M in 1Q19 to EUR 76.8M, thanks to the management of payables and receivables.

Looking at costs, we highlight that:

- Services were stable yoy, with a weighting on revenue at 24.5%, a 200bps improvement yoy;
- Raw material and consumables were in line with those of 1Q19, with a weighting on revenues decreasing from 58.1% to 53.7%, thanks to the lower milk price with respect to 1Q19;
- Labour costs decreased slightly to EUR 6.1M (-6.2%), with a weighting on revenue of 13% vs. 15% in 1Q19.

CLI – costs breakdown

EUR M	1Q19A	1Q20A	chg %
Services	11.5	11.5	0.0
Raw materials and consumables	25.2	25.2	0.0
Cost of labour	6.5	6.1	-6.2
Other	0.7	0.7	0.0
Weighting on revenue (%)			
Services	26.5	24.5	
Raw materials and consumables	58.1	53.7	
Cost of labour	15.0	13.0	
Other	1.6	1.5	

A: actual; Source: Company data

Outlook

According to management, the Company registered a constant growth in revenues also in April and May. Regarding the pandemic, considering CLI's structure of raw material sourcing, management does not expect negative repercussions on the Company supply chain. In addition, all the plants are operating regularly. However, management is cautious about giving further guidance, due to the unpredictability of the development and impact of Covid19.

Newlat tender offer

On 1 April, Finanziaria Centrale del Latte di Torino, the main shareholder of Centrale del Latte d'Italia (CLI) with a 46.24% share, disposed its entire stake to Newlat, for a price per share of EUR 1 cash, plus 0.33 Newlat shares per 1 CLI share owned.

Newlat will launch a public tender offer at the same conditions, probably starting in June.

Finanziaria Centrale del Latte di Torino reinvested in Newlat aiming to hold a 5.3% stake.

Valuation

We re-ran our usual DCF model on CLI, incorporating our estimates. We used a 4.9% WACC, incorporating a risk-free rate of 1.5%, an equity risk premium of 7.5% (7% previously) and a gearing of 57.5%.

CLI - WACC calculation

	%
Gross debt rate	2.5
Tax rate	24
Net debt rate	1.9
Beta levered*	1.00
Gearing	57.5
Beta relevered*	1.00
Risk-free rate	1.50
Equity risk premium	7.50
WACC	4.9

Source: Intesa Sanpaolo Research estimates and *Bloomberg

Moreover, we used a 1% terminal value growth and LT EBIT is calculated by assuming capex equal to depreciation.

Our DCF model update returns a EUR 3.0/share fair value. Considering the risks implicit in the execution of CLI 's new plan amid the uncertainty raised by the coronavirus spread, we advise investors to **Tender Shares**.

Tender Shares

CLI - DCF calculation (2020E-22E)

EUR M	2020E	2021E	2022E	LT
EBIT	-2.1	2.0	5.3	6.2
Tax	0.0	0.0	-0.8	-1.1
Depreciation	12.1	11.8	11.8	
NOPAT	10.0	13.7	16.3	5.2
WC	-5.0	-0.3	0.1	
Capex	-10.0	-6.0	-6.0	
FCF	-5.1	7.4	10.4	5.2
Discounted FCF	-4.8	6.7	9.0	4.3
WACC (%)	4.9			
TV growth (%)	1.0			
Sum	10.9			
TV	108.8			
EV	119.6			
Debt 2019A	77.3			
Equity	42.4			
Shares	14.0			
Fair value (EUR/sh)	3.0			

Source: Intesa Sanpaolo Research estimates

Centrale del Latte d'Italia – Key Data

Rating	Mkt price (EUR/sh)	Sector			Free float (%)
Tender Shares	Ord 2.50	Food Producers &			47.9
Values per share (EUR)	2018A	2019A	2020E	2021E	2022E
No. ordinary shares (M)	14.00	14.00	14.00	14.00	14.00
Total no. of shares (M)	14.00	14.00	14.00	14.00	14.00
Market cap (EUR M)	42.70	37.13	35.00	35.00	35.00
Adj. EPS	0.03	-0.47	-0.28	0.01	0.19
CFPS	0.50	0.29	0.58	0.85	1.0
BVPS	4.6	4.1	3.8	3.8	4.0
Dividend ord	0	0	0	0	0
Income statement (EUR M)	2018A	2019A	2020E	2021E	2022E
Revenues	180.3	175.2	177.8	181.0	184.2
EBITDA	7.79	6.46	9.96	13.75	17.13
EBIT	0.85	-5.30	-2.13	1.95	5.33
Pre-tax income	-0.41	-6.78	-3.96	0.13	3.51
Net income	0.40	-6.51	-3.96	0.10	2.67
Adj. net income	0.40	-6.51	-3.96	0.10	2.67
Cash flow (EUR M)	2018A	2019A	2020E	2021E	2022E
Net income before minorities	0.4	-6.5	-4.0	0.1	2.7
Depreciation and provisions	6.9	11.8	12.1	11.8	11.8
Others/Uses of funds	0	0	0	0	0
Change in working capital	-2.0	7.1	-5.0	-0.3	0.1
Operating cash flow	5.3	12.4	3.1	11.6	14.6
Capital expenditure	-16.5	-10.9	-10.0	-6.0	-6.0
Financial investments	0	0	0	0	0
Acquisitions and disposals	0	0	0	0	0
Free cash flow	-11.2	1.5	-6.9	5.6	8.6
Dividends	-0.1	0	0	0	0
Equity changes & Other non-operating items	0	-5.1	0	0	0
Net cash flow	-11.3	-3.6	-6.9	5.6	8.6
Balance sheet (EUR M)	2018A	2019A	2020E	2021E	2022E
Net capital employed	137.4	134.4	137.3	131.8	125.9
of which associates	0	0	0	1.0	2.0
Net debt/-cash	73.7	77.3	84.2	78.6	70.1
Minorities	0	0	0	0	0
Net equity	63.7	57.1	53.1	53.2	55.9
Minorities value	0	0	0	0	0
Enterprise value	116.4	114.4	119.2	112.6	103.1
Stock market ratios (x)	2018A	2019A	2020E	2021E	2022E
Adj. P/E	NM	Neg.	Neg.	NM	13.1
P/CFPS	6.1	9.1	4.3	2.9	2.4
P/BVPS	0.67	0.65	0.66	0.66	0.63
Payout (%)	0	0	0	0	0
Dividend yield (% ord)	0	0	0	0	0
FCF yield (%)	-26.3	4.1	-19.7	15.9	24.5
EV/sales	0.65	0.65	0.67	0.62	0.56
EV/EBITDA	14.9	17.7	12.0	8.2	6.0
EV/EBIT	NM	Neg.	Neg.	57.6	19.3
EV/CE	0.85	0.85	0.87	0.85	0.82
D/EBITDA	9.5	12.0	8.5	5.7	4.1
D/EBIT	86.9	Neg.	Neg.	40.2	13.1
Profitability & financial ratios (%)	2018A	2019A	2020E	2021E	2022E
EBITDA margin	4.3	3.7	5.6	7.6	9.3
EBIT margin	0.5	-3.0	-1.2	1.1	2.9
Tax rate	NM	4.0	NM	24.0	24.0
Net income margin	0.2	-3.7	-2.2	0.1	1.4
ROCE	0.6	-3.9	-1.6	1.5	4.2
ROE	0.6	-10.8	-7.2	0.2	4.9
Interest cover	0.6	-3.3	-1.2	1.1	2.9
Debt/equity ratio	115.7	135.4	158.5	147.8	125.4
Growth (%)	2019A	2020E	2021E	2022E	
Sales	-2.9	1.5	1.8	1.8	
EBITDA	-17.0	54.0	38.2	24.6	
EBIT	NM	59.8	NM	NM	
Pre-tax income	NM	41.6	NM	NM	
Net income	NM	39.2	NM	NM	
Adj. net income	NM	39.2	NM	NM	

NM: not meaningful; NA: not available; Neg.: negative; A: actual; E: estimates; Source: Company data and Intesa Sanpaolo Research

Company Snapshot

Company Description

Centrale del Latte d'Italia SpA produces, treats, processes and sells treated milk, food and dairy products. The company product portfolio includes milk, vegetable drinks, yogurt, soya, cheeses, pasta & pesto, eggs, fresh salads, meat, kitchen line, dessert, and gluten-free. Its brands include Tapporosso, Tigullio, Piemonte, Fior di Bio, Fiordovo, Flora Plus, Alta Quota, I Freschidilatte. The company was founded in 1950 and is headquartered in Turin, Italy.

Key data

Mkt price (EUR)	2.50	Free float (%)	47.9
No. of shares	14.00	Major shr	Fin. CLT
52Wk range (EUR)	2.74/1.79	(%)	40.1
Reuters	CLII.MI	Bloomberg	CLII.M
Performance (%)	Absolute		Rel. FTSE IT All Sh
-1M	0.0	-1M	0.2
-3M	1.2	-3M	50.3
-12M	-9.1	-12M	12.3

Key Risks

Company specific risks:

- Increase in the raw milk price;
- Increasing competition from private labels;
- Execution of the merger process;
- Price pressure from large distributors.

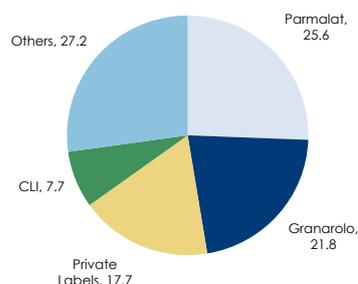
Sector generic risks:

- Adverse milk price movements;
- Weaker than expected milk demand;
- Consumer consumption patterns.

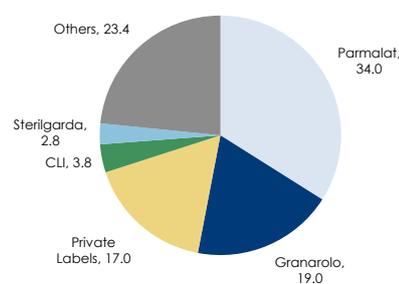
Estimates vs. consensus

EUR M (Y/E Dec)	2019A	2020E	2020C	2021E	2021C	2022E	2022C
Sales	175.2	177.8	NM	181.0	NM	184.2	NM
EBITDA	6.46	9.96	NM	13.75	NM	17.13	NM
EBIT	-5.30	-2.13	NM	1.95	NM	5.33	NM
Pre-tax income	-6.78	-3.96	NM	0.13	NM	3.51	NM
Net income	-6.51	-3.96	NM	0.10	NM	2.67	NM
EPS	-0.47	-0.28	NM	0.01	NM	0.19	NM

Fresh Milk market shares (Italy, %)



UHT Milk market shares (Italy, %)



Source: Company data, Intesa Sanpaolo Research estimates and FactSet consensus data (priced at market close of 19/05/2020)

Our Mid Corporate Definition

Italy is characterised by a large number of non-listed and listed micro, small and medium-sized companies. Looking at the revenues of these Italian companies, around 5,000 companies have revenues ranging from EUR 50M-EUR 1,500M based on Intesa Sanpaolo elaborations. We define these companies as 'Mid Corporate'. Looking more specifically at Italian listed companies, we include in our Mid Corporate segment all STAR companies and those with a market capitalisation below EUR 1Bn.

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Equity Rating Key (long-term horizon: 12M)

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
REDUCE	If the target price is 10%-20% lower than the market price
SELL	If the target price is 20% lower than the market price
RATING SUSPENDED	The investment rating and target price for this stock have been suspended as there is not a sufficient fundamental basis for determining an investment rating or target. The previous investment rating and target price, if any, are no longer in effect for this stock.
NO RATING	The company is or may be covered by the Research Department but no rating or target price is assigned either voluntarily or to comply with applicable regulations and/or firm policies in certain circumstances.
TARGET PRICE	The market price that the analyst believes the share may reach within a one-year time horizon
MARKET PRICE	Closing price on the day before the issue date of the report, as indicated on the first page, except where otherwise indicated

Historical recommendations and target price trends (long-term horizon: 12M)

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Target price and market price trend (-1Y)**Historical recommendations and target price trend (-1Y)**

Date	Rating	TP (EUR)	Mkt Price (EUR)
31-Mar-20	Tender Shares		2.6
02-Oct-19	HOLD	2.6	2.6

Equity rating allocations (long-term horizon: 12M)**Intesa Sanpaolo Research Rating Distribution (at May 2020)**

Number of companies considered: 103	BUY	ADD	HOLD	REDUCE	SELL
Total Equity Research Coverage relating to last rating (%)	58	21	19	1	0
of which Intesa Sanpaolo's Clients (%) (*)	82	59	50	0	0

(*) Companies on behalf of whom Intesa Sanpaolo and the other companies of the Intesa Sanpaolo Group have provided corporate and investment banking services in the last 12 months; percentage of clients in each rating category

Valuation methodology (short-term horizon: 3M)

Our short-term investment ideas are based on ongoing special market situations, including among others: spreads between share categories; holding companies vs. subsidiaries; stub; control chain reshuffling; stressed capital situations; potential extraordinary deals (including capital increase/delisting/extraordinary dividends); and preys and predators. Investment ideas are presented either in relative terms (e.g. spread ordinary vs. savings; holding vs. subsidiaries) or in absolute terms (e.g. preys).

The companies to which we assign short-term ratings are under regular coverage by our research analysts and, as such, are subject to fundamental analysis and long-term recommendations. The main differences attain to the time horizon considered (monthly vs. yearly) and definitions (short-term 'long/short' vs. long-term 'buy/sell'). Note that the short-term relative recommendations of these investment ideas may differ from our long-term recommendations. We monitor the monthly performance of our short-term investment ideas and follow them until their closure.

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

Intesa Sanpaolo S.p.A. and the other companies belonging to the Intesa Sanpaolo Banking Group (jointly also the "Intesa Sanpaolo Banking Group") have adopted written guidelines "Modello di Organizzazione, Gestione e Controllo" pursuant to Legislative Decree 8 June, 2001 no. 231 (available at the Intesa Sanpaolo website, webpage http://www.group.intesasanpaolo.com/scripts/sir0/si09/governance/eng_wp_governance.jsp, along with a summary sheet, webpage <https://www.bancaimi.com/en/bancaimi/chiamo/documentazione/normative>) setting forth practices and procedures, in accordance with applicable regulations by the competent Italian authorities and best international practice, including those known as Information Barriers, to restrict the flow of information, namely inside and/or confidential information, to prevent the misuse of such information and to prevent any conflicts of interest arising from the many activities of the Intesa Sanpaolo Banking Group which may adversely affect the interests of the customer in accordance with current regulations.

In particular, the description of the measures taken to manage interest and conflicts of interest – related to Articles 5 and 6 of the Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No. 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest as subsequently amended and supplemented, the FINRA Rule 2241, as well as the Financial Conduct Authority Conduct of Business Sourcebook rules COBS 12.4 - between the Intesa Sanpaolo Banking Group and issuers of financial instruments, and their group companies, and referred to in research products produced by analysts at Intesa Sanpaolo S.p.A. is available in the "Rules for Research " and in the extract of the "Corporate model on the management of inside information and conflicts of interest" published on the website of Intesa Sanpaolo S.p.A.

At the Intesa Sanpaolo website, webpage <https://group.intesasanpaolo.com/en/research/RegulatoryDisclosures/archive-of-intesa-sanpaolo-group-s-conflicts-of-interest> you can find the archive of disclosure of interests or conflicts of interest of the Intesa Sanpaolo Banking Group in compliance with the applicable laws and regulations.

Furthermore, we disclose the following information on the Intesa Sanpaolo Banking Group's conflicts of interest.

- One or more of the companies of the Intesa Sanpaolo Banking Group plan to solicit investment banking business or intends to seek compensation from Centrale del Latte d'Italia in the next three months
- Banca IMI acts as Specialist relative to securities issued by Centrale del Latte d'Italia

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