

# Centrale del Latte d'Italia

FY18 results

Steady performance in a tough environment

Centrale del Latte d'Italia (CLI) had a good year in FY18, with total revenue up 1.2% and EBITDA margins up 40bp. The economic and consumer environment in Italy remains challenging. The export business continues to be a standout performer, albeit relatively small. We leave our underlying forecasts unchanged and our fair value remains €3.35 per share.

Year end	Total revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	182.2	(0.03)	(1.63)	0.00	N/A	N/A
12/18	183.1	(0.13)	(1.91)	0.00	N/A	N/A
12/19e	182.1	1.53	7.11	0.00	39.4	N/A
12/20e	183.9	1.96	9.08	0.00	30.8	N/A

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

## Performance continues to be mixed

Fresh milk performed very well in H118 but took a sudden turn during Q3 as overall consumption in the market declined. Despite management actions in the form of marketing initiatives to mitigate the problems, the downward trend continued in Q4. Conversely, UHT milk had a tricky initial nine months of the year but recovered in Q4. The yogurt segment also saw an improved performance as tough competition eased off. Overall, CLI's Q4 turnover was up 1.2%, in line with the FY18 performance, despite the challenging consumer and economic environment across the entire food and beverage space.

## Export and vegetable drinks growing rapidly

The prepared salads segment bounced back during Q4. The prepared salads plant was sold in exchange for a distribution agreement with Zerbinati, effective as of 1 September, which is starting to bear fruit. Bulk milk and cream is a by-product of dairy processing and is mostly influenced by seasonal supply and demand, but was up in the quarter. The export business continued to grow, albeit from a low base, and accounted for c 2% of turnover for the year. Vegetable-based drinks also continued to witness strong growth thanks to increased consumer demand for dairy alternatives. The division's turnover grew 8.8% in FY18.

## Valuation: Fair value of €3.35 per share

Our DCF model points to a fair value of €3.35 per share (unchanged), implying c 20% upside. We calculate that for FY19e, CLI now trades on a P/E of 39.4x and EV/EBITDA of 12.0x. On FY19e EV/EBITDA, CLI trades at a premium of c 10% to our peer group of dairy processors.

## Food & beverages

21 March 2019

**Price** €2.80

**Market cap** €39m

Net debt (€m) at 31 December 2018 73.8

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	1.5	3.0	(15.0)
Rel (local)	(4.0)	(9.0)	(9.8)

52-week high/low €3.40 €2.64

## 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 30 April

Q119 results 14 May

H119 results 12 September

9m 2019 results 13 November

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## FY18 results review

CLI's total FY18 value of production (total revenue) of €183.1m compares to €182.2m in FY17. Net revenue/sales came in at €180.3m vs €178.2m in FY17. FY18 EBITDA of €7.7m compares with €7.2m in FY17, with margins up 40bp to 4.3%. Margin recovery was a feature in both FY17 and FY18 after the implementation of price increases and better cost control.

We note that vegetable drinks remained on a growth trajectory through FY18 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 introduced innovative sales channels, such as its first Chinese virtual flagship store on Tmall, Alibaba's largest B2C e-commerce platform.

## Management changes

The board has announced two nominations:

- Edoardo Pozzoli (aged 36), current corporate director, is nominated to the new position of director general to smooth the transition to the younger generation of family ownership.
- Giuseppe Bodrero (aged 50) is nominated CFO and investor relations officer, with effect from 15 April 2019. He was previously CFO of Gruppo Caffarel (Italia), a division of Lindt. Incumbent CFO Vittorio Vaudagnotti will retire from the company.

## Near-term estimate revisions

We leave our underlying forecasts unchanged. We trim our revenue forecasts: the adoption of IFRS 15 has caused the base to fall, but our underlying growth assumption remains unchanged at +1% for FY19 and FY20. We see upside to our forecast, given the positive momentum in the export business and the opening of new online and mobile channels during Q418. Our FY19 EBITDA forecast decreases to €8.5m (from €8.8m) but our underlying gross margin change remains +10bp. Due to the leverage in the business, the cut to PBT is more significant. We illustrate the changes to our key forecasts in Exhibit 1.

Exhibit 1: Old vs new near-term forecasts						
€000s	2019e			2020e		
	Old	New	% change	Old	New	% change
Revenue	186,208	182,128	(2.2)	188,070	183,950	(2.2)
EBITDA	8,750	8,453	(3.4)	9,214	8,906	(3.3)
PBT	1,875	1,531	(18.3)	2,311	1,955	(15.4)
Net income (reported)	1,219	995	(18.4)	1,502	1,271	(15.4)
EPS (reported), €	0.09	0.07	(21.0)	0.11	0.09	(17.5)

Source: Edison Investment Research

## Valuation

On 2020 estimates, CLI trades on a P/E of 30.8x and EV/EBITDA of 11.4x. The peer group average P/E is inflated by Dean Foods' high figure and we note CLI trades at a premium to its other dairy peers, due to its high level of debt following the merger.

On FY19e EV/EBITDA, CLI trades at a premium of c 12% 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 (%)	
		2019e	2020e	2019e	2020e	2019e	2020e
Valsoia	€151.0	21.2	N/A	11.7	N/A	2.3	N/A
Dairy Crest	£983.7	17.9	16.9	13.2	12.5	3.6	3.7
Dean Foods	\$274	-10.2	52.7	7.1	5.3	0.8	0.8
Saputo	\$17,249	26.7	22.1	N/A	N/A	1.5	1.6
<b>Peer group average</b>		<b>13.9</b>	<b>30.6</b>	<b>10.7</b>	<b>8.9</b>	<b>2.1</b>	<b>2.0</b>
CLI	€39.2	39.4	30.8	12.0	11.4	0.0	0.0
<b>Premium/(discount) to peer group (%)</b>		<b>183.1%</b>	<b>0.9%</b>	<b>12.5%</b>	<b>28.2%</b>	<b>N/A</b>	<b>N/A</b>

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 15 March 2019.

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. Below, we show a sensitivity analysis to these assumptions and note the current share price is discounting a terminal growth rate of 1.5% with a terminal EBIT margin of 2.6% (which compares to Centrale del Latte di Torino's pre-merger reported EBIT margin of 2.7% in 2014 and 1.6% in 2015, and CLI's reported margin of 0.6% for 2018).

**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%	1.16	1.68	2.21	2.74	3.27	3.79
	0.5%	1.36	1.94	2.52	3.09	3.67	4.25
	1.0%	1.60	2.24	2.88	3.52	4.16	4.80
	1.5%	1.90	2.62	3.35	4.05	4.76	5.48
	2.0%	2.27	3.08	3.90	4.71	5.52	6.33
	2.5%	2.76	3.69	4.62	5.56	6.49	7.43
	3.0%	3.40	4.50	5.60	6.70	7.80	8.90
	3.5%	4.32	5.65	6.98	8.31	9.64	10.97
	4.0%	5.70	7.39	9.07	10.75	12.44	14.12

Source: Edison Investment Research

**Exhibit 4: Financial summary**

	€000s	2015	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		98,319	119,762	182,183	183,138	182,128	183,950	185,789
Cost of Sales		(78,796)	(98,652)	(148,642)	(148,894)	(147,360)	(148,649)	(149,950)
Gross Profit		19,523	21,110	33,541	34,244	34,768	35,300	35,839
EBITDA		4,851	2,905	7,245	7,739	8,453	8,906	9,367
Normalised operating profit		1,554	(1,254)	864	1,128	3,233	3,633	4,041
Amortisation of acquired intangibles		0	0	0	0	0	0	0
Exceptionals		145	(355)	(202)	(279)	0	0	0
Share-based payments		0	0	0	0	0	0	0
Reported operating profit		1,699	(1,609)	661	849	3,233	3,633	4,041
Net Interest		(678)	(692)	(996)	(1,327)	(1,776)	(1,752)	(1,722)
Joint ventures & associates (post tax)		(418)	(143)	107	74	74	74	74
Exceptionals		0	13,903	(81)	0	0	0	0
Profit Before Tax (norm)		458	(2,089)	(25)	(125)	1,531	1,955	2,394
Profit Before Tax (reported)		603	11,459	(309)	(404)	1,531	1,955	2,394
Reported tax		(87)	556	47	803	(536)	(684)	(838)
Profit After Tax (norm)		30	(2,153)	(229)	(267)	995	1,271	1,556
Profit After Tax (reported)		517	12,015	(261)	398	995	1,271	1,556
Minority interests		0	0	0	0	0	0	0
Discontinued operations		0	0	0	0	0	0	0
Net income (normalised)		30	(2,153)	(229)	(267)	995	1,271	1,556
Net income (reported)		517	12,015	(261)	398	995	1,271	1,556
Basic average number of shares outstanding (m)		10	11	14	14	14	14	14
EPS - basic normalised (€)		0.00	(0.20)	(0.02)	(0.02)	0.07	0.09	0.11
EPS - diluted normalised (€)		0.00	(0.20)	(0.02)	(0.02)	0.07	0.09	0.11
EPS - basic reported (€)		0.05	1.09	(0.02)	0.03	0.07	0.09	0.11
Dividend (€)		0.06	0.06	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		(4.1)	21.8	52.1	0.5	(0.6)	1.0	1.0
Gross Margin (%)		19.9	17.6	18.4	18.7	19.1	19.2	19.3
EBITDA Margin (%)		4.9	2.4	4.0	4.2	4.6	4.8	5.0
Normalised Operating Margin		1.6	(1.0)	0.5	0.6	1.8	2.0	2.2
<b>BALANCE SHEET</b>								
Fixed Assets		64,540	129,773	132,731	142,807	143,050	143,296	143,545
Intangible Assets		11,539	19,484	19,521	19,644	19,627	19,610	19,593
Tangible Assets		52,010	107,335	110,817	120,434	120,694	120,957	121,222
Investments & other		992	2,954	2,393	2,730	2,730	2,730	2,730
Current Assets		41,122	60,457	78,611	67,468	67,743	69,168	70,880
Stocks		3,541	7,698	9,114	9,971	9,869	9,955	10,042
Debtors		14,370	28,209	31,449	30,114	30,415	30,719	31,026
Cash & cash equivalents		12,192	9,521	25,475	13,028	9,604	10,640	11,957
Other		11,019	15,030	12,573	14,355	17,855	17,855	17,855
Current Liabilities		(35,004)	(68,199)	(77,372)	(67,870)	(67,393)	(67,794)	(68,198)
Creditors		(24,247)	(42,910)	(46,223)	(46,275)	(45,798)	(46,199)	(46,603)
Tax and social security		(357)	(697)	(914)	(964)	(964)	(964)	(964)
Short term borrowings		(10,401)	(24,592)	(30,234)	(20,631)	(20,631)	(20,631)	(20,631)
Other		0	0	0	0	0	0	0
Long Term Liabilities		(29,847)	(58,489)	(70,874)	(78,683)	(78,683)	(78,683)	(78,683)
Long term borrowings		(22,446)	(45,159)	(57,624)	(66,195)	(66,195)	(66,195)	(66,195)
Other long term liabilities		(7,402)	(13,330)	(13,250)	(12,487)	(12,487)	(12,487)	(12,487)
Net Assets		40,810	63,542	63,097	63,722	64,718	65,988	67,544
Minority interests		0	0	0	0	0	0	0
Shareholders' equity		40,810	63,542	63,097	63,722	64,718	65,988	67,544
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		4,851	2,905	7,245	7,739	8,453	8,906	9,367
Working capital		(1,942)	(30)	1,547	(1,438)	(675)	10	10
Exceptional & other		(1,262)	(15,092)	(359)	(840)	74	74	74
Tax		(87)	556	47	803	(536)	(684)	(838)
Net operating cash flow		1,560	(11,661)	8,480	6,264	7,316	8,306	8,613
Capex		(3,914)	(4,095)	(9,849)	(16,210)	(5,464)	(5,518)	(5,574)
Acquisitions/disposals		0	0	0	(1)	0	0	0
Net interest		(678)	(692)	(996)	(1,327)	(1,776)	(1,752)	(1,722)
Equity financing		0	0	0	0	0	0	0
Dividends		(600)	(600)	0	0	0	0	0
Other		5,031	(1,131)	21,437	291	0	0	0
Net Cash Flow		1,399	(18,178)	19,072	(10,984)	77	1,035	1,317
Opening net debt/(cash)		17,189	20,654	60,230	62,383	73,798	77,222	76,186
FX		0	0	0	0	0	0	0
Other non-cash movements		(4,865)	(21,397)	(21,225)	(432)	(3,500)	0	0
Closing net debt/(cash)		20,654	60,230	62,383	73,798	77,222	76,186	74,869

Source: Edison Investment Research, company data

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