

Campari

Price EUR7.51

The wind in its sails

Fair Value EUR8,4 vs. EUR7,1 (+12%)

BUY vs. SELL

We think that Campari currently has the wind in its sails thanks to its portfolio. In 2016, this should enable the group to continue to post strong organic sales growth (+4.3% expected after +3% in 2015) and EBIT margin improvement (+70bps to 20.8%). In addition, its deleverage makes big acquisitions possible. We have upgraded our EPS estimates by 8% on average for the next three years and lifted our Fair Value from EUR7.1 to EUR8.4

ANALYSIS

- 2015 results.** Campari's Q4 net sales rose 2.5% to EUR512m (consensus: EUR515m and our estimate: EUR514m). **Organic sales growth over the quarter stood at 4.2% (consensus: +2.1% and our estimate: +2.5%), far faster than the 9M trend (+2.5%).** The performance in the **Americas (42% of group's sales)** was inflated by some positive technical effects: an easy comparison base in Canada related to a change in distribution in Q4 2014 and trade loading in Brazil before an excise duty hike at the beginning of December 2015. Organic sales in the region grew 11% in Q4. **Southern Europe, Middle East and Africa (32% of group's sales)** returned into positive territory, with organic sales up 1.4% in Q4 after -2.8% in Q3. This was driven by an improvement in Italy and continued growth of the seeding markets ie Spain, France and South Africa. In **North, Central and Eastern Europe (19% of group's sales)**, Q4 sales dropped 6.3% organically (-0.6% in Q3), due to Russia (10% of the region's sales) which was down 33% in Q4. **Asia Pacific (7% of group's sales)** increased 17.3% organically in Q4 thanks to a pick-up in Australia. **2015 EBIT pre one-offs amounted to EUR332.7m (consensus: EUR328m and our estimate: EUR323m), up 11.6% reportedly and 6.1% on an organic basis.** The group benefited from: 1/ a positive sales mix arising from both geography and portfolio, 2/ the reversal of overlapping production costs in the United States, and 3/ favourable input cost movements. The reported margin rose 100bps to 20.1%. The company has proposed a dividend of EUR0.09, up 12.5% vs last year.
- More good news in 2016.** We think that Campari currently has the wind behind it thanks to its portfolio. **Bitters account for c.30% of the group's sales vs around 2% for the competitors. This category is currently growing high single-digit.** Campari has shown strong innovative capabilities with Aperol Spritz. **The Aperol brand (10% of the group's sales) grew 11.8% organically in 2015, with a very impressive performance in some seeding markets: France (+96%), Spain (+119%), the UK (+233%)...It stabilised in 2015 in Germany.** The company has plans for Aperol and Campari on this market in 2016. **Campari is also the only European spirit group to have a strong bourbon brand, i.e Wild Turkey (8% of the group's sales).** This brand grew 8.8% organically in 2015 and should accelerate in 2016. There is no need to point out the fact that bourbon is one of the best performing categories in the key US market. **We expect 4.3% organic sales growth in 2016 (+3.5% previously), ahead of the 2015 trend (+3%).** This acceleration should be driven by 1/ Southern Europe/Middle East/Africa which should benefit from a return to growth in Italy (low single digit expected following a flattish performance in 2015) and continued good momentum in the seeding markets and 2/ North/Central/Eastern Europe with less drag coming from Russia (high single digit drop expected in 2016 vs -41% in 2015). **The EBIT margin should continue to increase in 2016 (+70bps to 20.8% vs 19.8% previously) thanks to the positive sales mix arising from growth in the global priorities and especially the aperitifs (Aperol and Campari) and Wild Turkey.** The group has also indicated that the cash tax rate in 2016 fall to 23% due to the geographical mix. **Overall our EPS estimates are revised upwards by 8% on average over the next three years.** EPS should increase by 12% each year on average between 2015 and 2018. **Another positive element is the likely return to the the group's strategy of generating half of its growth through perimeter effects.** Net debt declined EUR152m to EUR825.8m in 2015, exceeding our expectations (EUR888m) and implying a net debt/EBITDA ratio of 2.2x vs 2.9x in 2014. It can rise until 3.5x and even 4.25 for a limited period of time (18 months). Management said that acquisitions will be bigger in terms of size than Forty Creek and Fratelli Averna. We think they should be well received by the market as the group's track record is good (Aperol, Wild Turkey, SKYY...).

VALUATION

- Our Fair Value is revised upwards to EUR8.4, reflecting the change in EPS estimates and the stronger than expected balance sheet. At yesterday's share price, the stock is trading at 14.9 EV/EBIT 2016e and 13.8x EV/EBIT 2017, 14% and 15% below the peer average.** On 12th November, we downgraded the stock on valuation grounds. Since then, its has increased 1% vs DJ Stoxx (Diageo: 10%, Rémy Cointreau: +13% and Pernod Ricard: +3%). We think the risk-return

Bloomberg	CPR IM
Reuters	CPR.MI
12-month High / Low (EUR)	8.4 / 6.1
Market Cap (EUR)	4,359
Ev (BG Estimates) (EUR)	5,185
Avg. 6m daily volume (000)	1 675
3y EPS CAGR	12.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.4%	-10.3%	14.8%	-6.2%
Food & Bev.	-3.3%	-7.3%	10.2%	-3.4%
DJ Stoxx 600	-0.8%	-11.8%	-4.0%	-7.4%

YEnd Dec. (EURm)	2014	2015	2016e	2017e
Sales	1,560	1,657	1,643	1,718
% change		6.2%	-0.8%	4.6%
EBITDA	338	390	391	415
EBIT	298.2	332.7	341.5	363.0
% change		11.6%	2.7%	6.3%
Net income	129.0	175.4	193.0	220.6
% change		36.0%	10.0%	14.3%

	2014	2015	2016e	2017e
Operating margin	19.1	20.1	20.8	21.1
Net margin	8.3	10.6	11.7	12.8
ROE	8.2	10.1	10.4	11.0
ROCE	5.3	7.0	7.7	8.8
Gearing	61.9	48.6	-39.3	-33.7

(EUR)	2014	2015	2016e	2017e
EPS	0.27	0.30	0.33	0.38
% change	-	14.0%	10.0%	14.3%
P/E	28.3x	24.8x	22.6x	19.7x
FCF yield (%)	4.1%	4.6%	4.5%	5.3%
Dividends (EUR)	0.08	0.09	0.09	0.10
Div yield (%)	1.1%	1.2%	1.2%	1.3%
EV/Sales	3.4x	3.1x	3.1x	2.9x
EV/EBITDA	15.8x	13.3x	13.0x	12.1x
EV/EBIT	17.9x	15.6x	14.9x	13.8x



profile is now much more attractive and **we upgrade the stock to Buy**.

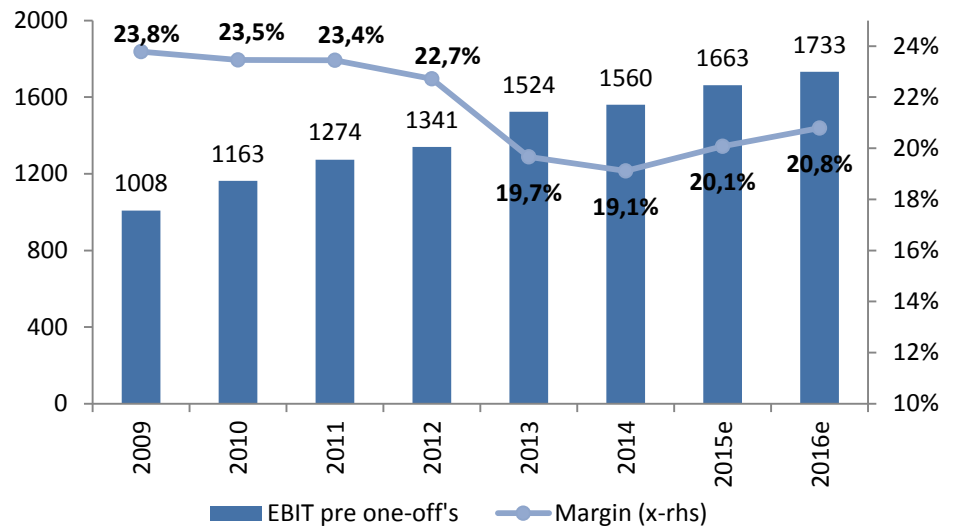
NEXT CATALYSTS

- Q1 2016 results due on 9th May

Organic sales growth

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	2016
Group	4,2%	1,7%	2,1%	4,1%	3,0%	4,3%
Americas	4,8%	2,3%	8,9%	10,8%	7,0%	4,7%
Southern Europe, Middle East and Africa	6,0%	3,8%	-2,8%	1,2%	1,9%	3,6%
North, Central and Eastern Europe	-1,5%	-4,1%	-0,6%	-6,4%	-3,7%	4,4%
Asia Pacific	7,2%	2,8%	-3,9%	17,4%	6,4%	5,0%

EBIT pre one-offs



Source: Campari, Bryan, Garnier & Co

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