

10th May 2016

Food & Beverages

# Campari

Price EUR8.77

## Strong improvement in profitability

Fair Value EUR9,7 vs. EUR9,3 (+11%)

BUY

Q1 organic sales growth came in at 7.2%, almost 4% above expectations, driven by the Americas (6.9% vs consensus: +4.8%), Southern Europe/Middle East/Africa (4.8% vs consensus: +2%), and North/Central and Eastern Europe (+13.3% vs consensus: +3.4%). EBIT pre one-offs reached EUR53.9m, up 21% in reported terms and 20% in organic, and 16% above consensus estimates. The group benefited from a very favourable mix with strong growth in the highly profitable global priorities (+11.9%), especially Campari (+21.4%) and Aperol (+24.7%). We have lifted our organic sales growth estimate for 2016 to 5.3% vs 4.3% previously. More importantly, we have increased the pace of recovery in the group's EBIT margin in coming years. We now stand at 21.4% in 2016 and 22.5% in 2017, vs previous estimates of 21.1% and 22.2% respectively. Our Fair Value is adjusted to EUR9.7.

### ANALYSIS

- Organic sales growth was 7.2% in Q1, almost 4% above expectations.** Campari continued to benefit from its good geographic exposure (underexposure to emerging markets) and portfolio positioning (overexposure to bitters). But **the group was also helped by the earlier Easter time compared with 2015 and an increase in shipments to the US. Management said that the underlying trend is +4.5%.** In reported terms, sales were stable at EUR327.4m due to 1/ the end to certain distribution agreements/sales of non-core businesses (-3.4%) and 2/ FX headwinds (-3.8%), and were roughly in line with the consensus (EUR324m). **EBIT margin rose 290bp to 16.5%. EBIT pre one-offs reached EUR53.9m**, up 21% in reported terms and 20% in organic, and **16% above consensus estimates. The mix was very favourable** thanks to 1/ strong growth in the highly profitable global priorities (+11.9%), especially Campari (+21.4%) and Aperol (+24.7%) and 2/ the smaller weight of the low-margin Jamaican sugar business (sales were nil vs EUR9m last year).
- The beat was driven by all regions. Only Asia Pacific came out roughly in line with forecasts. Americas (41% of group's sales): organic sales grew 6.9% over the quarter vs consensus at +4.8%. This was driven by the US (59% of the region's sales), up 14.8% on the back of higher shipments (expected to reverse in the next quarters) and bulk whisky sales. The underlying trend was said to be much closer to 4.5-5%. Organic sales growth in Argentina (8% of the region's sales) also exceeded expectations at +87.6% and was said to be 50% driven by volumes.** In contrast, Jamaica (11% of the division's sales) and Brazil (4% of the division's sales) were unsurprisingly weak. The former was impacted by a poor sugar business while the latter dropped sharply after the inventory build-up ahead of the excise duty hike at the beginning of December. **Southern Europe/Middle East/Africa (34% of group's sales): This division posted 4.8% organic sales growth vs consensus at +2%. Italy (77% of the region's sales) grew 2.4%** driven by the aperitifs portfolio. **Although this performance was helped by the Easter effect, it confirms the improvement in the Italian spirits market and brings confidence that the group will reach its growth target for the country over the year.** Sales in the rest of the region rose 14% organically thanks to France and South Africa. **North/Central and Eastern Europe (18% of group's sales):** Organic sales rose 13.3% vs consensus at +3.4%. Germany (55% of the division's sales) was up 10.6%. According to Nielsen, Aperol rose mid single digit in Q1 in the country while it was flat in 2015. Despite the tough macro and increasing credit risk, Russia (7% of the division's sales) returned to positive territory (+27.7%) on easy comps. **Asia Pacific (7% of group's sales):** This division posted 5.8% organic sales growth in Q1. The very strong performance in Australia (+21.5%) was partly offset by a decline in other markets (-27.3%) due to a shipment phasing in Japan.
- Change in estimates.** We have notched up our organic sales growth estimate for 2016 to 5.3% vs 4.3% previously. More importantly, **we have increased the pace of recovery in the group's EBIT margins in coming years.** We now stand at 21.4% in 2016 and 22.5% in 2017, vs previous estimates of 21.1% and 22.2% respectively.

### VALUATION/ NEXT CATALYST

- Our DCF now points to a Fair Value of EUR9.7.** At yesterday's share price, the stock is trading at 17.4x EV/EBIT 2016e and 14.7x EV/EBIT 2017e, respectively 6% and 13% below the peer average // The tender offer for SPML is expected to start in about two weeks, according to management

Bloomberg	CPR.IM
Reuters	CPR.MI
12-month High / Low (EUR)	8.8 / 6.4
Market Cap (EUR)	5,091
Ev (BG Estimates) (EUR)	6,315
Avg. 6m daily volume (000)	1,722
3y EPS CAGR	14.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	0.2%	22.1%	14.7%	9.6%
Food & Bev.	0.0%	3.2%	-4.5%	-3.9%
DJ Stoxx 600	0.4%	7.7%	-11.3%	-8.9%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,657	1,697	1,859	1,967
% change		2.4%	9.5%	5.8%
EBITDA	380	414	473	514
EBIT	332.7	363.0	417.4	455.2
% change		9.1%	15.0%	9.1%
Net income	175.4	206.6	253.1	279.6
% change		17.8%	22.5%	10.5%

	2015	2016e	2017e	2018e
Operating margin	20.1	21.4	22.5	23.1
Net margin	10.6	12.2	13.6	14.2
ROE	10.1	11.1	12.5	12.6
ROCE	7.0	8.2	10.0	11.0
Gearing	47.3	65.5	52.4	38.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.32	0.36	0.44	0.48
% change	-	11.2%	22.5%	10.4%
P/E	27.4x	24.6x	20.1x	18.2x
FCF yield (%)	3.9%	4.3%	5.2%	6.2%
Dividends (EUR)	0.09	0.09	0.10	0.10
Div yield (%)	1.0%	1.0%	1.1%	1.1%
EV/Sales	3.6x	3.7x	3.3x	3.0x
EV/EBITDA	15.6x	15.3x	13.0x	11.6x
EV/EBIT	17.8x	17.4x	14.7x	13.1x



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