3rd August 2016

Food & Beverages

Campari

Price EUR9.68

Bloomberg	CPR IM
Reuters	CPR.MI
12-month High / Low (EUR)	9.7 / 6.4
Market Cap (EURm)	5,622
Ev (BG Estimates) (EURm)	6,846
Avg. 6m daily volume (000)	1,459
3y EPS CAGR	14.6%

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.3%	15.2%	21.2%	21.0%
Food & Bev.	-0.1%	4.6%	0.5%	0.1%
DJ Stoxx 600	1.0%	-1.7%	0.3%	-8.3%

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	30.2x	27.2x	22.2x	20.1x
FCF yield (%)	3.6%	3.9%	4.7%	5.6%
Dividends (EUR)	0.09	0.09	0.10	0.10
Div yield (%)	0.9%	0.9%	1.0%	1.0%
EV/Sales	3.9x	4.0x	3.6x	3.3x
EV/EBITDA	17.0x	16.5x	14.1x	12.6x
EV/EBIT	19.4x	18.9x	16.0x	14.2x

A strong set of results

Fair Value EUR9.7 (0%) **BUY**

Yesterday Campari reported another strong set of results. Q2 sales rose 3.4% organically, ahead of expectations (consensus: +2.6% and our estimate: +2.7%). This was a satisfying performance considering the reversal of positive one-off events in Q1. H1 EBIT margin rose 140bp to 19.7% (consensus and our estimate: 19.4%) reflecting a favourable sales mix. Management said that going forward A&P expenditure and SG&A costs should increase but this should be mitigated by the positive mix and the cost synergies extracted fom the SPML acquisition. We think the overall impact is roughly neutral. We maintain our estimates and our Fair value of EUR9.7.

ANALYSIS

- **Strong organic sales growth despite the reversal of Q1 positive one-off events.** The group posted 3.4% organic sales growth in Q2, ahead of expectations (consensus: +2.6% and our estimate: +2.7%). This was a satisfying performance considering the reversal of the Q1 positive one-off events, especially the timing of Easter and shipment phasing in the US. On a reported basis, Q2 sales declined 3.2% to EUR416.5m (consensus: EUR415m and our estimate: EUR413m) due to FX headwinds, the disposal of non-core assets in Italy and Jamaica and the termination of some distribution agreements.
- **EBIT margin up 140bp, reflecting positive mix.** H1 2016 EBIT increased 5.6% to EUR146.4m (consensus: EUR143m and our estimate: EUR144m), implying a margin of 19.7%, up 140bp in reported terms and 50bp on an organic basis. The favourable sales mix prompted by stronger growth in higher margin brands (in H1: global priorities up 9.0% and regional priorities up 10.2%) and countries (strong growth in the US and Western Europe and decline in Brazil) more than offset increasing A&P expenditures and SG&A costs.
- **Trends by region.** In the **Americas** (40% of group's sales), organic sales rose 0.2% in Q2, strongly decelerating vs Q1 (+6.9%) due to the reversal of the Q1 positive shipment phasing effect in the US. Jamaica continued to drop due to the sugar business. **Southern Europe/Middle East/Africa (35% of group's sales)** also slowed, with organic sales up 2.7% in Q2 after +4.8% in Q1. The weakness of short aperitifs dragged down the performance of Italy. Momentum in the rest of the region remained sustained, driven by by France, Spain, and South Africa. The performance by **North, Central, and Eastern Europe** (19% of group's sales) was a positive surprise. Sales increased 12.7% in Q2 on an organic basis, roughly in line with Q1 (+13.3%). Growth in Germany remained strong thanks to an improvement by Aperol and Russia benefited from an easy comparison base. Finally, in **Asia Pacific** (6% of group's sales), Q2 organic sales were up 2.7% after +5.8% in Q1, reflecting the phasing of the co-packing business in Australia.
- **Outlook.** We make no change to our 2016 organic sales growth assumption (+5.3%). This takes into account a better outlook for Russia and Germany offset by a deterioration in Brazil. Management said that both A&P expenditure (especially for Wild Turkey) and SG&A costs (inflation in emerging countries and enhancement of the on-premise capabilities ahead of Grand Marnier) should increase going forward but this should be offset by the positive sales mix and the cost synergies extracted from the SPML acquisition. These cost synergies are not expected to materialise before H2 2017. Overall we think the impact should be broadly neutral at the EBIT level. We still expect EBIT margin to increase 140bp to 21.4%.

VALUATION

- Our DCF points to a Fair Value of EUR9.7.

NEXT CATALYST

- 9M 2016 results due on 8th November

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