

Campari

Price EUR8.96

Still one of the best**Fair Value EUR10,7 vs. EUR10,5 (+19%)****BUY**

The stock remains one of our favourites in view of its superior top line growth (good positioning) and improvement in gross margin (growth of global and regional priorities), not entirely wiped out by higher A&P and SG&A expenses. We have cut our 2016 EBIT forecast by 2% but raised our Fair Value to EUR10.7 as we have rolled over our estimates by one year.

ANALYSIS

- **Sales came out well above consensus.** Q3 sales rose 12.8% to EUR436m in reported terms, which was well above expectations (consensus: EUR407m and our estimate: EUR415m). The positive surprise came from the contribution of Grand Marnier (EUR43.8m over the quarter vs an estimate of EUR25m) and a better operating performance than anticipated. Organic sales grew 6.1% (consensus +4.6% and our estimate +5.4%), implying an acceleration vs both Q2 (+3.4%) and Q1 (+7.2%) which was driven by all regions.
 - ✓ **North, Central and Eastern Europe (19% of sales):** The region was the big positive surprise. Sales rose 14.8% on an organic basis in Q3, well above estimates (consensus: +4.3% and our forecast: +9%). The improvement vs Q2 (+12.7%) was driven by Russia (+50.4% in 9M on easy comps) and the other countries (the UK up 63.5% in 9M). Germany confirmed its recovery, with organic sales up 6.3% in 9M driven by Aperol (+13.7%), Frangelico (+56.5%), and Averna (+14.4%).
 - ✓ **Americas (42% of sales):** Organic sales were up 3.1% in Q3 (consensus: +4% and our estimate: +5%). The improvement in Brazil (easy comps and phasing effect) and Jamaica (increased focus on the core business) offset a 1.7% decline in the US arising from the phasing of some raw materials.
 - ✓ **Southern Europe, Middle East, Africa (32% of sales):** Sales grew 4.3% organically over the quarter (+2.7% in Q2), in line with expectations (consensus and our estimate: +4%). Italy slowed in Q3 but other countries in the region accelerated.
 - ✓ **Asia Pacific (7% of sales):** Q3 organic sales increased 8.2% (consensus: +6% and our estimate: +4%) after +2.7% in Q2. This reflected a positive technical effect in Japan and easy comps in Australia and the rest of the countries.
- **Q3 adjusted EBIT was just in line.** It amounted to EUR87.6m (consensus: EUR88m and our estimate: EUR91m), pointing to a margin of 20.1%, down 110bps YoY. This reflected an increase in 1/ marketing investments behind the Wild Turkey campaign with Matthew Mc Conaughey and the new communication platform for the Campari brand and 2/ distribution expenses, especially in the US with the aim to strengthen on-trade capabilities in the wake of the SPML acquisition. This was not completely offset by a positive mix arising from stronger growth in the higher margin global priorities brands (+7.9% in Q3).
- **Outlook.** We revise upwards our 2016 sales estimates by 2% on average to factor in a less unfavourable FX effect and more positive contribution from the SPML acquisition (EUR68m vs EUR50 previously). Our expectation for 5.4% organic sales growth over the year remains unchanged. However, we have cut our EBIT forecast for 2016 by 2% to reflect the increase in A&P expenditures (Campari and Wild Turkey) and SG&A costs (route-to-market in the US and new in-market company in South Africa) in H2. Of note, the group said that the integration of SPML did not reveal any negative surprise.

VALUATION/ NEXT CATALYST

- We have lifted our Fair Value to EUR10.7 as we have rolled over our estimates by one year. The stock has lost 3% over the past three months in a food & beverage market down 5%. The upcoming Italian referendum could place it under pressure. Nevertheless, Campari remains one of our favourite companies in view of its superior top line growth (good positioning) and improvement in gross margin (growth of global and regional priorities), not entirely wiped out by higher A&P and SG&A expenses. At yesterday's share price, the stock is trading at 15.4x EV/EBIT 2017e vs 16.2x for Diageo, 20.3x for Rémy Cointreau and 15.2x for Pernod Ricard // The group will release its 2016 results at the beginning of March 2017

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Bloomberg	CPR.IM
Reuters	CPR.MI
12-month High / Low (EUR)	10.1 / 6.9
Market Cap (EUR)	5,204
Ev (BG Estimates) (EUR)	6,506
Avg. 6m daily volume (000)	1 189
3y EPS CAGR	15.4%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-6.1%	-5.3%	5.2%	12.0%
Food & Bev.	-4.2%	-6.6%	-1.6%	-6.6%
DJ Stoxx 600	-1.4%	-1.9%	1.0%	-8.4%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,657	1,730	1,917	2,020
% change		4.4%	10.8%	5.4%
EBITDA	380	407	468	503
EBIT	332.7	355.2	410.0	442.4
% change		6.8%	15.4%	7.9%
Net income	175.4	171.0	262.5	285.2
% change		-2.5%	53.6%	8.6%

	2015	2016e	2017e	2018e
Operating margin	20.1	20.5	21.4	21.9
Net margin	10.6	9.9	13.7	14.1
ROE	10.1	9.1	13.2	13.0
ROCE	7.0	6.7	10.3	11.1
Gearing	47.3	69.6	56.4	41.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.32	0.35	0.45	0.49
% change	-	10.4%	28.1%	8.6%
P/E	27.9x	25.3x	19.7x	18.2x
FCF yield (%)	3.9%	3.4%	5.4%	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	3.8x	3.3x	3.0x
EV/EBITDA	15.9x	16.0x	13.5x	12.2x
EV/EBIT	18.1x	18.3x	15.4x	13.8x



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