CAMPARI

BEVERAGES

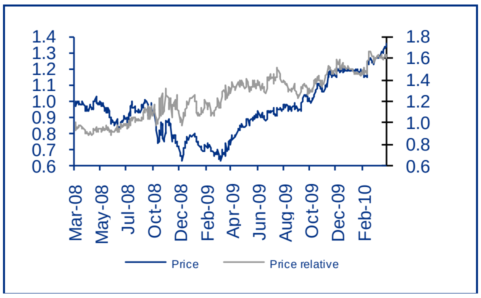
F09 PREVIEW: TOUGH Q4, ROSY OUTLOOK

Rating	BUY
Target price (€)	**9.00**
Current price	8.32
Market cap (€m)	2,390
EV (€m)	2,836
Sector	Beverages
Bloomberg	CPR IM
52-wk Range	4.45 - 8.39

Our F09 EPS forecast is 3.5% below consensus due to a one-off non-cash €20m tax charge. As a non-cash item this should not impact the shares but does, nonetheless, risk leaving the market disappointed first thing on Wednesday. We also perceive some risk around Q4 sales in the US given Campari's strong shipments in Q3 and the fact that Q4 market depletions were lacklustre. Nonetheless we see a strong outlook for Campari in 2010 in Europe, the US and Brazil, and the shares stand at a discount to the spirits sector average.

- Campari saw strong growth in Q3 2009, which was surprising given that it was up against the strongest quarter it recorded in 2008. The market, like us, had expected a poor sales growth figure in Q3, but in fact growth recovered rapidly. (See the table on page 2). There were three notable features to Q3:
    - Campari was emphatic that destocking globally has ended so shipments matched consumer off-take for the first time in several quarters.
    - The USA rebounded to +8.4% organic sales growth.
    - Mix improved.
- Since Campari reported Q3 on 11 November, there have been numerous data points on the US spirits market, pointing to a weak November, a strong December, a weak January (extreme snow) and a strong February. The upshot of this is a promising outlook (2 of the last 3 months have been good), but it suggests the possibility of a weak Q4 09.
- It is **possible** that Campari "bucked the trend" in Q4. Campari is only the no.11 supplier of spirits in the USA with a 2% volume and value share, so it might have been insulated from some of the negative trends. In particular, SKYY vodka sells at a discount to many other premium packaged vodkas, and is therefore gaining share. Nonetheless there is a clear risk that Q4 will see a weaker trend for Campari in the US market, and if consumer off take for its brands in November and December was slow, we see some risk of destocking.
- Brazil offers strong prospects for rebound in 2010. The table on page 2 shows that against very soft comps in Q1 and H1, Brazil was still down very sharply in 2009. However Q3 had a very tough comp and despite that the rate of decline moderated, rather than accelerating. With the excise tax increase now behind it, we expect rapid recovery in 2010.
- Despite strong outperformance since our initiation, the shares remain cheap, on Cal 11 P/E of 13.2x vs spirits sector average of 13.7x and Cal 11 EV/EBITDA of 8.7x vs spirits sector average of 10.3x

€m	Matrix 09E	Consensus 09E	2008A
Divisional split			
Sales			
Spirits	**747**		664
Wine	**150**		158
Soft drinks	**98**		103
Other	**14**		18
Sales	**1008**	1021	942
EBITDA	**254**	257	218
EBITA			
Spirits	**324**		266
Wine	**34**		33
Soft drinks	**36**		38
Other	**2**		4
Operating costs	**(163)**		(146)
EBITA	**234**	233	199
Pre-tax profit	**202**	204	180
Net profit	**142**	148	134
EPS (c)	**49.0**	50.8	46.0



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MATRIX

30 MARCH 2010

CORPORATE CAPITAL

Our forecasts are below consensus in 2009, above in 2010

Our forecasts are below consensus for 2009 although we are above consensus for 2010. The difference for 2009 lies in the tax charge where we have accounted for €20m non-cash tax on goodwill amortisation. It would appear that some analysts have not factored this in. This leaves our net profit and EPS around 3.5% below consensus but as the difference is a non-cash item, and we are in line with consensus further up the P&L, this does not affect our view of the shares. For 2010 we are slightly more bullish than consensus, with EPS around 2% above consensus.

Figure 1: Campari Quarterly Sales Growth, Historic and Forecast (Forecast in Bold Italics)

%	Q1	Q2	H1	Q3	Q4	H2	FY
F08	1.3	4.7	3	11.5	-6.5	2.5	2.75
F09	-4.2	-1.8	-3	2	***8***	***5***	***1***

Source: Campari, Matrix forecasts

Figure 1: Quarterly Data – Campari

(%)	Q1 07	H1 07	9M 07	FY 07	Q1 08	H1 08	9M 08	FY 08	Q1 08	H1 08	9M 08
Group											
Revenue	11.3	10.7	8.2	7.1	1.3	3.0	5.8	2.7	-4.2	-3.0	-1.3
CAMP					3.7	5.3	7.1	2.8	0.5	2.2	5.1
Trading profit	6.3	7.9	4.9	7.1							
EBITA						**4.1**	**7.4**	**2.4**		**0.8**	**3.8**
Group sales											
Italy	8.2	8.0	5.8	5.2	4.4	2.8	1.3	-1.5	1.5	1.3	1.3
Europe	20.3	18.3	11.4	10.6	7.5	5.6	10.7	8.3	-6.2	2.2	1.7
USA	9.4	9.8	7.1	4.9	-7.0	1.3	4.8	5.9	-12.7	-15	-6.8
Brazil	27.6	11.0	8.4	11.8	-23.7	-11.7	20.5	-3.6	-49.2	-20	-18.0
Rest of world	14.9	11.4	15.0	8.2	8.7	16.8	3.2	5.1	7.3	2.9	1.6
Spirits	**8.5**	**10.2**	**7.3**	**6.3**	**-1.6**	**2.2**	**5.7**	**2.4**	**-1.7**	**-2.2**	**1.6**
Campari	10.7	10.6	2.3	3.5	1.4	4.8	10.2	2.0	-3.5	-6.6	-7.0
SKYY	21.5	13.3	14.5	11.1	-2.3	8.5	11.0	11.1	8.2	0.5	6.4
Brazilian brands	38.4	9.2	8.7	9.4	-20.3	-15.8	15.3	-0.5	-66.1	-20	-15.8
Aperol	10.8	23.7	19.6	21.8	11.6	12.0	19.3	13.3	22.6	32.0	38.7
Cynar	18.8	4.8	4.4	11.9	-9.3	-8.5	-3.9		18.2		
Ouzo 12	4.2	1.2	8.3	2.7							
Camparisoda	-14.8	2.6	0.0	-1.3	2.8	-1.1	-6.8	-6.3	5.3	2.5	1.7
Glen Grant & Old Smuggler				22.2	-15.5	-0.6	-0.5	-4.6	-6.9	-3.2	1.5
X Rated									10.0	7.2	6.4
Wine	**30.1**	**20.2**	**15.5**	**12.5**	**3.7**	**6.2**	**8.8**	**4.4**	**-10.5**	**-3.7**	**-8.6**
Cinzano vermouth	70.0	43.2	18.8	18.7	9.7	5.6	17.1	9.5	-34.4	-16	-21.9
Cinzano wines	35.8	25.3	20.2	12.7	9.3	4.8	8.0	1.5	-1.4	8.1	-3.1
Sella & Mosca	7.8	4.6	5.8	6.8	2.2	5.3	0.7		-12.6	-6.8	-6.1
Ricadonna									114	25.8	20.9
Soft drinks	**11.0**	**5.3**	**5.0**	**3.5**	**12.8**	**1.8**	**2.0**	**0.6**	**-6.6**	**-2.7**	**-5.1**
Crodino	16.7	5.5	7.8	6.1	14.1	6.5	6.6	4.1	-1.3	2.0	-2.6
Lemonsoda	8.2	8.2	5.1	1.1	14.2	-1.6	-1.1	0.0			

Source: Campari

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