



## STRONG MIX, STRONG MARGINS, UPGRADE TO TARGET PRICE

Stripping out the one-off cost of the bridging loan for Wild Turkey, EPS were in line with consensus, not the modest “miss” reported. We upgrade our sales forecast and slightly downgrade our margin forecast for 2010 and 2011. This leads to a small upgrade at EBIT level, although higher interest and tax rates means our 2010 and 2011 EPS fall 6%. We nonetheless upgrade our TP to €9.50 due to an upgrade to our DCF valuation and we retain a BUY rating.

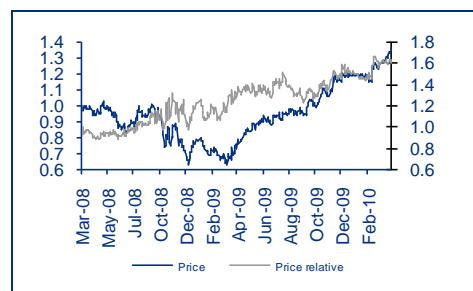
- Results better than they appear:** Sales of €1008m were slightly below consensus but exactly in line with our forecast, reflecting our anticipation of a weaker Q4 in the US in particular. Campari reported net profit at the bottom end of the range but stripping out the €7.7m one-off financing costs of the bridging loan for Wild Turkey, net profit was in line with consensus. We therefore view this result as a “HIT”, not a “MISS”, as the market has viewed them.
- Investment case – we raise our 2010 and 2011 revenue forecasts:** Like Diageo, the bad year and the bad news is now over. Most of Campari’s markets are showing strong growth in Q1 10, and although this might not be maintained for the full year, it means the reported Q1 performance will be strong. The Wild Turkey acquisition is clearly beating expectations; Brazil is on track to grow by more than 50% in Q1 (after a 49% drop in Q1 09 when excise taxes were raised); and the US market is seeing some recovery.
- However, costs are rising:** AMP is rising by 50-100bp of sales which causes some margin dilution in our forecast. There are also €11m additional SG&A costs in Australia this year as the internal sales function is constructed (although these are offset by higher revenues as the distribution margin is captured). The interest rate rises from 5.4% in 09 to 6.3% in 10 and the tax rate will stay high at 22%, as it was in 2009. Overall our EBIT numbers nudge upwards but our EPS comes down by 6% in 2010 and 2011.
- Raising the TP:** Our DCF value is now €15.17. Whilst we do not expect this level of valuation to be met any time soon, we do believe the shares deserve to stand at a modest premium to the sector, and our €9.50 TP (up from €9) puts them on a blended rate of a 10% PE premium and a 10% EV/EBITDA premium.

Rating	BUY
Target price (€)	9.50
Current price (€)	7.96
Market cap (€m)	2,422
EV (€m)	2,938
Sector	Beverages
Reuters/Bloomberg	CPR IM
52-wk range	4.57-8.39

Year-end Dec (€m)	2009A	2010E	2011E
Sales	1,008	1,099	1,155
Gross profit	573	630	668
EBITDA	265	284	308
EBITA	239	256	279
Interest/financial charges	(30)	(35)	(32)
Pre-tax profit (excl one-offs)	210	221	247
Tax	(61)	(69)	(74)
Net profit (excl one-offs)	148	152	172
EPS (excl one-offs)	0.51	0.52	0.59
P/E	16.0	15.6	13.8
EV/EBITDA	11.4	10.3	9.1

Research

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Company	Disclosure
Campari (CPR)	None

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