



SALES GROWTH TOPS THE LEAGUE; EBITA RAISED DESPITE HIGHER AMP

The market did not like Campari's F09 report six weeks ago, viewing it as a top line and EPS "miss", compounded by a lower-than-expected AMP investment. Today Campari's reputation is restored, with a 63% increase in AMP in Q1 and, despite this sharp increase in costs, beating EBITA consensus by 8%. The latest quarterly figures show that the industry has recovered rapidly from the recession, and Campari's position is towards the top of the league, for this quarter at least. We upgraded our FY forecast 6 weeks ago; we upgrade modestly again now and see further upside risk. We raise our TP from €4.75 to €5.50 and reiterate our BUY rating.

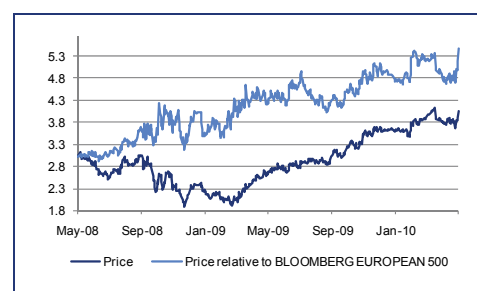
- **An 8% beat:** Campari posted a very strong Q1 with sales up 14.5% organic, EBITDA up 18.7% organic and EBIT before one-offs up 19% organic. The sales number beat consensus by 8.2%; the EBITDA by 6.9% and the EBIT by 7.6%. This beat on the EBITDA line was despite a 62% increase in AMP investment, which rose from 12.9% of sales in Q1 09 to 17.1% in Q1 10.
- **Reputation restored:** The AMP increase is important as Campari's shares suffered 6 weeks ago when it reported FY 09 and the market was disappointed by its level of AMP investment. FY 10 guidance has not changed and we continue to expect a 50bp increase as a percentage of sales for the full year. If the top line continues to perform strongly we see upside potential to this.
- **Campari now rises to the top of the industry growth league table.** The consumer recession and timing of destocking make a one-year comparison confusing. We therefore believe that investors are best served by comparing this quarter with the same quarter two years ago. It is clear from this that the industry has recovered strongly, and Campari has exceeded the pack. Campari's organic sales are +10.3% on Q1 08, compared with Diageo's +5%, Pernod Ricard +4% and Moët-Hennessy -2%. The only company to beat Campari is Rémy Cointreau which (after making various adjustments) we estimate to have been +29%, but the reasons behind this were very company-specific and will likely prove to be short term in nature.
- **We upgrade our sales and EBIT forecasts modestly** but we see further upside risk to our new numbers. We upgrade our F10 EBITA by €3m and pre-tax profit by €1m. We also upgrade our F11 EBITA by €3m and pre-tax profit by €1m. Adjusted for the 2 for 1 share split our EPS forecasts are largely unchanged. However we have assumed a very considerable slowdown at Campari in the next three quarters and we therefore see further upside risk to our new forecasts.

Rating	BUY
Target price (€)	5.50
Current price (€)	4.10
Market cap (€m)	2,384
EV (€m)	2,932
Sector	Beverages
Bloomberg	CPR IM
52-wk range (€)	2.60-4.20

Year-end Dec (€m)	2009A	2010E	2011E
Sales	1,009	1,105	1,161
COGS	(436)	(471)	(489)
Gross profit	573	633	671
Operating costs	(309)	(346)	(360)
EBITDA	265	287	311
EBITA	239	259	282
Interest	(30)	(37)	(34)
Pre-tax profit	210	222	248
Exceptionals	(12)	0	0
Tax	(61)	(69)	(75)
Normalised net profit	148	153	173
EPS (€)	0.26	0.26	0.30
P/E (x)	16.1	15.6	13.8
EV/EBITDA (x)	11.4	10.2	9.0
ROIC (%)	11.4	10.8	11.5

Research

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Company	Disclosure
Campari (CPR)	None

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