

Autogrill

Wage Inflation in the US Pinches Margins

We expect weak 1H18E results, penalised by strong wage inflation and an unfavourable sales mix in the US. While we see AGL being able to offset those headwinds in a couple of quarters via list price revisions, based on our preliminary calculations we estimate a potential impact on 2018E-19E EBITDA of 3% and 2%, respectively. At the bottom line level, this translates into an Adj. EPS cut of 8% and 4%, respectively, in 2018E-19E, gross of one-off charges expected to weigh on this year's figures related to the voluntary exit programme in Italy, signed with Unions in March.

Solid top line ahead but...

We see 1H18 sales at EUR 2,097M, down 1.5% affected by adverse FX movements, or up 4% at constant FX. Sales should also benefit from the small acquisition of LeCrobog whose impact (about EUR 14M) should be neutralised by some disposals, as seen with the Jan.-Apr. preliminary sales. In detail, Europe sales should grow by 2% to EUR 799M, with the Italian division up 1.3% thanks to supportive traffic and the positive effects of network restructuring. Healthy air traffic growth in North America should more than offset a sluggish trend in the motorways channel (affected by negative traffic and weak consumer demand) and the progressive exit from the shopping mall business, leading to an organic growth of 5%, or -3.5% on a reported basis due to the negative impact of the FX. Lastly, International remains the fastest growing segment (+15%), expected to expand double-digit on the back of strong lfi (+10%) and new openings (+9%) more than offsetting FX headwinds.

...weak margin in North America

Despite the encouraging top-line growth, we see the underlying EBITDA (i.e. ex. corporate costs and stock option plan) dropping by 7% to EUR 155M (flat at the same FX), with a margin compression of 40bps yoy, reflecting the unfavourable sales mix and, above all, strong wage inflation in the US, driving North America EBITDA margin down by 100bps yoy, or to EUR 97M from EUR 116M in 1H17. On the contrary, we expect a continuous margin progression in Europe, with the EBITDA at EUR 31M (+13% yoy) led by the improved efficiency and sales growth in Italy as well as in the Rest of Europe. Lastly, most of the sales expansion on the International segment should filter through to EBITDA as we expect margins flat yoy at 10.2%.

Preliminary simulations

While awaiting 1H18 figures, we ran a preliminary simulation on 2018-19E forecasts taking into account that AGL manages to recoup the strong salary increase in North America (we assume +5%) from 4Q18 and factoring in some savings expected from the voluntary exit program in Italy from 2019 (about EUR 7M assuming all the targeted 500 people are involved in the program with new hires having a salary 30% below those exiting the group). Within this context, we would have a 2018E-19E EBITDA reduction of 3.2% and 1.7% respectively vs. our current estimates, while the Adj. EPS cut would be 8.4% and 4.4% respectively. The impact at the reported net profit should be magnified by the expected one-offs for the restructuring labour cost streamlining in Italy, which we estimate may cost about EUR 15-20M for the full year with EUR 8-9M booked in 1H18. We highlight that the effect of lower EBITDA in North America may be completely offset should the USD further strengthen in the coming months reaching an avg. 1.15 vs. EUR, which implies a spot rate permanently at 1.08 until the end of the year. While this scenario is theoretically possible given the very volatile trend of the currency, we see it as unlikely at this stage and we thus ran our simulation still adopting our 1.2 EUR/USD FX.

See page 5 for full disclosures and analyst certification

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Date and time of production

BUY

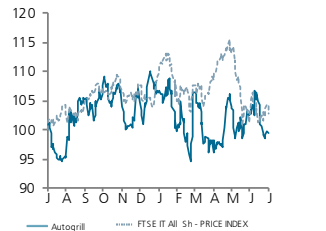
Target Price: U/R

Italy/Travel&Leisure
Calls from Italy Flash

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Price performance, -1Y
11/07/2018



Source: FactSet

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Priced at market close on 11/07/2018*	
Target price (€)	U/R
Target upside (%)	NM
Market price (€)	10.52
52Wk range (€)	11.7/10.0
Market cap (€ M)	2,676.3
No. of shares	254.4
Free float (%)	49.8
Major shr (%)	BENETTON FAMILY
	51.0
Reuters	AGL.MI
Bloomberg	AGL IM
FTSE IT All Sh	23894

Performance %			
Absolute	Rel. to FTSE IT All		
-1M	-3.8	-1M	-2.2
-3M	3.5	-3M	9.4
-12M	-0.5	-12M	-3.0

*unless otherwise indicated within the report
Source: FactSet and Intesa Sanpaolo
Research estimates

View and Valuation

Also on the back of this morning's stock weakness (-6%) **we reiterate our BUY recommendation on the stock** due to the strong potential in the medium/long term for the group, but we highlight that the expected negative news flow in 1H18 may keep the stock price under pressure. While awaiting the 1H18 results to better assess the impact from increased labour costs going forward and the savings in Italy, **we put our TP Under Review.**

Autogrill - 1H18E preview						
EUR M	1H17A	FY17A	1H18E	1H E/C %	FY18E	FY18C
Sales Europe	783.4	1,686.10	798.6	1.90	1,760.80	
Italy	477.1	1,029.00	483.1	1.30	1,045.40	
RoE	306.3	657	315.5	3.00	715.4	
Sales HMSH	1,345.70	2,908.50	1,298.10	-3.50	2,967.90	
North America	1,117.50	2,396.20	1,035.20	-7.40	2,392.60	
Airports	933.5	1,959.20	872	-6.60	1,970.40	
Motorways	174.5	417.7	156.7	-10.20	403.2	
Others	9.2	19.5	6.5	-29.90	18.9	
International	228.2	512.3	262.9	15.20	575.3	
Group sales	2,129.10	4,594.60	2,096.70	-1.50	4,728.70	4,729.70
EBITDA Europe	27	108.7	30.5	13.00	129.1	
% on sales	3.40	6.40	3.80		7.30	
EBITDA HMSH	139.3	326.5	124.1	-10.90	343.1	
% on sales	10.40	6.40	9.60		11.60	
EBITDA North America	116.3	268.7	97.3	-16.40	276.1	
% on sales	10.40	11.20	9.40		11.50	
EBITDA International	23	57.8	26.8	16.60	67	
% on sales	10.10	11.30	10.20		11.60	
Group Underlying EBITDA	165.6	418.8	154.6	-6.60	444.2	428.9
Corporate Costs and stock option costs	-21.3	-36.3	-19		-28	
Group EBITDA Post HQ costs	144.3	399	135.6	-6.00	444.2	428.9
% on sales	6.80	8.70	6.50		9.40	9.10
EBIT	44.9	185.2	33.4	-25.70	221.2	205.1
on sales	2.10	4.00	1.60		4.70	4.30
PBT	32.3	158.7	21.2	-34.50	195.8	181
Net profit	6	96.2	NM	NM	128.5	116
Adj. net profit	15	106.9	NM	NM	128.5	116
Net debt	644	544	NM	NM	484.6	573

NM: not meaningful; NA: not available; A: actual; E: estimates; C: Bloomberg and Factset consensus; Source: Company data and Intesa Sanpaolo Research

Notes

Sample

Notes

Sample

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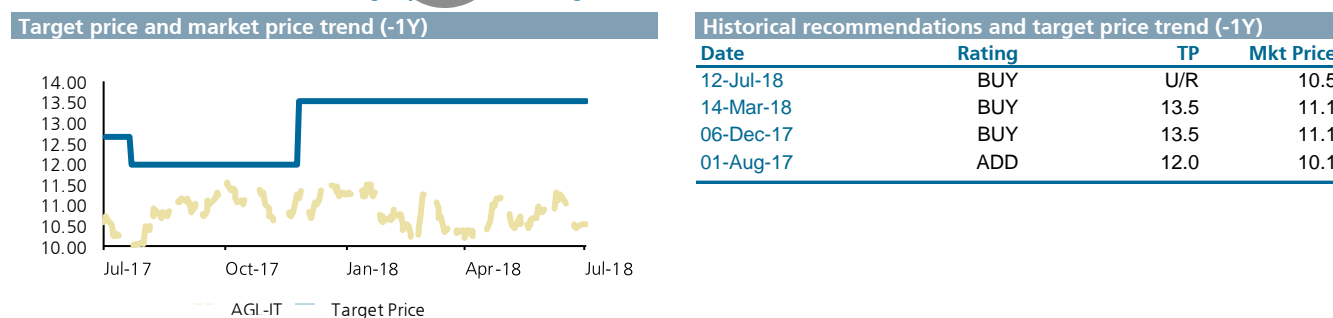
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of which Intesa Sanpaolo's Clients (%) (*)	73	66	33	50	100

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Equity rating key (short-term horizon: 3M)

Equity rating key (short-term horizon: 3M)	
Short-term rating	Definition
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