

MORNING NEWS MIDCAPS

EQUITY RESEARCH

02 August 2012

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Buy

Target price change

Q4 sales better than expected

Q4 sales exceeded expectations (+8%), thanks above all to the Field Seeds division which is still performing well. The rebound in the Vegetable Seeds division seems to have been confirmed. Buy rating reiterated with a target price raised from €90 to €103.

- Vilmorin delivered Q4 12 sales** of €321m (organic growth: -0.5%), **beating the consensus by 8%** thanks above all to a **smaller-than-expected decline in the Field Seeds division's sales**. Management reiterated its **adjusted 2012 operating margin target of around 11%** (including research spending of €165m). **We remain positive** on Vilmorin based on its **valuation** (12m PE of 16.8x, in line with the 5-year average), which does not fully reflect **its defensive profile, the favourable backdrop for farming** (continued growth in the amount of land cultivated for field seeds and inflation in raw material prices) and the group's **medium-term growth profile**. **We have raised our target price**, calculated from the average between a DCF valuation and a peer comparison based on cycle-high multiples (12m PE of 19x, EV/EBIT of 13.5x), **from €90 to €103**.
- We have trimmed our 2011/12 EPS estimates by 1%. The upward revision to our adjusted operating profit forecast for 2011/12e (+2%) is more than offset by an adjustment to our interest expense forecast. **Our 2012/13 and 2013/14 EPS estimates, meanwhile, have been raised by ~5%**. They factor in a rebound in the vegetable seeds market (2012/14e organic growth of +5%), which seems to have been confirmed, and continued vigorous momentum in the Field Seeds division (2012/14e organic growth of +6.5%).
- We had expected the Field Seeds division to slow down sharply** following an excellent Q3 12 performance bolstered by an early commercial season, **but the organic sales decline came to just 5.2% in Q4 12**. Management said this solid performance was attributable to volume growth in Europe, price hikes across all regions and an improved mix in North America. **The Vegetable Seeds division confirmed the rebound observed in Q3 12, delivering 4.1% organic growth in Q4 12** despite less favourable comparables. Sales in the Garden Products business showed an organic decline of 2.7%.
- Management was **reassuring about the impact of the drought currently spreading through the USA**. The risk of a poor maize harvest could be offset by off-season production in the southern hemisphere.

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Price	08/01/2012	€92.89
Target	↗	€103.00
Upside		10.9%

Performance	1m	12m	1 Jan
Absolute	11.1%	22.2%	26.1%
Sector	7.1%	24.1%	18.1%
DJS Small200	3.2%	-3.8%	9.6%

Market capitalisation	€1.6bn
Free float	27.7%
Limagrain	72.3%
Daily volume	€431k

on 30/6	2012e	2013e	2014e
EPS (€)	4.90	5.46	5.95
Revision	-1.5%	2.6%	8.2%
Change	21.4%	11.4%	8.9%

P/E (x)	19.0	17.0	15.6
P/CF (x)	7.1	6.6	6.2
EV/EBIT (x)	14.0	12.8	11.9
EV/EBITDA (x)	7.3	6.7	6.3
Net yield	1.8%	2.0%	2.3%
FCF yield	-0.4%	2.6%	3.0%



Source : Natixis

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EQUITY MARKETS

Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2010	2011	2012e	2013e	2014e	CAGR 11/14
Turnover	1,063.8	1,191.5	1,337.9	1,416.1	1,488.6	7.7%
Field seeds	519.7	598.4	728.7	779.7	826.5	11.4%
Vegetable seeds	454.3	509.8	527.2	553.6	578.5	4.3%
Home garden	88.3	81.9	80.7	81.5	82.3	0.2%
Unallocated costs	1.5	1.4	1.3	1.3	1.3	-2.4%
Adjusted operating profit	109.3	126.5	145.1	158.0	169.3	10.2%
Field seeds	35.8	39.8	55.4	62.4	67.8	19.4%
Vegetable seeds	77.5	80.2	83.3	89.1	94.9	5.8%
Home garden	2.6	6.5	6.4	6.5	6.7	0.9%
Unallocated costs	-6.6	0.0	0.0	0.0	0.0	
Adjusted operating margin	10.3%	10.6%	10.8%	11.2%	11.4%	
Field seeds	6.9%	6.7%	7.6%	8.0%	8.2%	
Vegetable seeds	17.1%	15.7%	15.8%	16.1%	16.4%	
Home garden	2.9%	7.9%	7.9%	8.0%	8.1%	
Unallocated costs	-440.0%	-	-	-	-	
Profit & loss statement (€m)	2010	2011	2012e	2013e	2014e	CAGR 11/14
Revenues	1,063.8	1,191.5	1,337.9	1,416.1	1,488.6	7.7%
<i>Change</i>	<i>6.3%</i>	<i>12.0%</i>	<i>12.3%</i>	<i>5.8%</i>	<i>5.1%</i>	
Organic growth	4.6%	9.6%	11.0%	5.8%	5.1%	
EBITDA	200.9	272.9	279.0	299.7	318.3	5.3%
<i>Change</i>	<i>2.4%</i>	<i>35.8%</i>	<i>2.2%</i>	<i>7.5%</i>	<i>6.2%</i>	
EBIT	109.3	126.5	145.1	158.0	169.3	10.2%
<i>Change</i>	<i>1.3%</i>	<i>15.7%</i>	<i>14.7%</i>	<i>8.9%</i>	<i>7.1%</i>	
Adjusted EBIT	109.3	126.5	145.1	158.0	169.3	10.2%
<i>Change</i>	<i>1.3%</i>	<i>15.7%</i>	<i>14.7%</i>	<i>8.9%</i>	<i>7.1%</i>	
Operating margin	10.3%	10.6%	10.8%	11.2%	11.4%	
Financial items	-12.2	-21.4	-18.0	-16.5	-15.0	
Pre-tax profit on ordinary activities	97.1	105.1	127.1	141.5	154.3	13.7%
Exceptional items	-12.1	30.2	0.0	0.0	0.0	
Corporate tax	-27.8	-38.7	-36.4	-40.5	-44.1	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	0.5	0.6	0.6	0.6	0.6	
Minority interests	-6.0	-6.3	-6.9	-7.6	-8.4	
Net profit on divested activities	2.5	0.0	0.0	0.0	0.0	
Reported net profit	54.2	90.9	84.3	94.0	102.4	4.0%
<i>Change</i>	<i>-7.9%</i>	<i>67.7%</i>	<i>-7.2%</i>	<i>11.4%</i>	<i>8.9%</i>	
Adjusted net profit	60.4	69.2	84.3	94.0	102.4	14.0%
<i>Change</i>	<i>14.0%</i>	<i>14.5%</i>	<i>22.0%</i>	<i>11.4%</i>	<i>8.9%</i>	
Cash flow statement (€m)	2010	2011	2012e	2013e	2014e	CAGR 11/14
Cash flow from operations	164.0	184.7	225.2	243.3	259.7	12.0%
Net Investments	-153.1	-148.0	-161.5	-174.0	-186.2	8.0%
Decrease (Increase) in WCR	-44.6	-22.0	-70.7	-27.2	-25.3	
Free cash flow	-33.7	14.7	-7.1	42.2	48.3	48.6%
Acquisitions	-19.8	0.0	0.0	0.0	0.0	
Dividend	-25.5	-35.0	-29.3	-32.7	-36.6	1.5%
Capital increase	203.6	-	-	-	-	
Divestments	-	-	-	-	-	
Miscellaneous	5.3	-15.0	0.0	0.0	0.0	
Increase (Decrease) in cash	129.9	-35.3	-36.4	9.4	11.6	
Net debt	247.8	283.1	306.4	296.9	285.3	
Gearing	23.7%	25.5%	27.9%	25.4%	23.0%	

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- 1/ Peer comparison method: valuation multiples for the company in question are compared with those of a sample of companies in the same sector, or with a similar financial profile. The sample average acts as a valuation benchmark, to which the analyst can, where necessary, apply discounts or premiums resulting from his/her perception of the company's specific features (legal status, growth outlook, profitability, etc.).
- 2/ NAV method: Net asset value is an assessment of the market value of the assets on a company's balance sheet using the method that the analyst deems most relevant.
- 3/ Sum of the parts method: this method involves valuing each of the company's businesses separately using the most appropriate valuation methods for each, and then adding them together.
- 4/ DCF method: the discounted cash flow method involves assessing the current value of cash that a company will generate in the future. The analyst draws up cash flow projections based on his/her assumptions and models. The discount rate used is the average weighted cost of capital, which equates to the company's cost of debt and the theoretical cost of equity as estimated by the analyst, and weighted by the proportion of each of these two components in the company's financing.
- 5/ Method based on transaction multiples: with this valuation method, the company's multiples are compared with those seen in transactions involving groups with a similar business profile.
- 6/ Dividend discount method: with this method, the analyst establishes the present value of dividends to be paid to shareholders by the company, using a projection of dividend payments and an appropriate discount rate (generally the economic cost of equity).
- 7/ EVA method: with the Economic Value Added method, the analyst determines the additional level of profitability generated annually by a company on its assets relative to its cost of capital (difference also known as value creation). This additional profitability can then be discounted over the coming years using a rate corresponding to the weighted average cost of capital, and the resulting amount is added to the net asset value.

* Up to 04/30/2010, Natixis ratings covered the next six months and were as follows:

Buy	upside of 15% to market and high-quality fundamentals.
Add	upside of 0-15% and/or high risk.
Reduce	downside of 0-15%.
Sell	downside of more than 15% and/or high risks on business and financial fundamentals.

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Reduce	13.45%	0.00%

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