

MORNING NEWS MIDCAPS

EQUITY RESEARCH

08 October 2010

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Buy

Analysts' meeting

A lot on the horizon!

The group held an analyst meeting yesterday and confirmed acceleration in performances and bright prospects for margin gain. If the trend for commodities continues, this could be a record year. Buy rating maintained.

- **Our €90 to based on a DCF is unchanged. The share's 5% fall yesterday offer a buy window:** it is now trading at 11.6x 11/12 EV/EBIT, i.e. a discount on its historic average (12.4x). Vilmorin will benefit from the rise in cereal prices, while commodity hikes are likely to impact certain agro companies. This makes the stock all the more attractive.
- We are revising our EPS by -5.3% in 2010/11 and -3.6% in 2011/12, mainly to factor in a lower base in 2009/10.
- The group has announced that it expects 7% organic growth in 2011/11, thanks to a firm rise in vegetable seeds (5-10%), while this division already saw steep growth rates last year, and a rebound for field seeds (5-8%), which were hit by the fall in commodities prices last year. **We factor in 7.3% growth, which could be overshoot given the very low base in field seeds,** notably for wheat which fell 20% last year.
- **We believe that the operating margin target of 'over 10%' is on the cautious side:** R&D spending is likely to remain more or less at the same level as a percentage of sales (around 15.5%), unlike in 2009/10 where this had an impact on the operating margin of 70 bp. This should enable the group to reap the benefits of pricing power following the increase in cereal prices (wheat and corn). We forecast the 2010/11 operating margin at a minimum of 10.9%. Our 2010/11 EBIT estimate of €126m (implying a 15% increase compared to 2009/10), is above the consensus estimate (€122m, i.e. +11%). Consequently, we believe that this figure will be upgraded.
- It is worth noting **that the season has got off to a good start both in vegetable and field seeds.** Vilmorin, which has confirmed that it won market share in 2009/10 in the US and in the rest of the world (except in Europe, where it maintained its positions), is optimistic about its capacity to achieve a similar performance this year.

Analyst(s)

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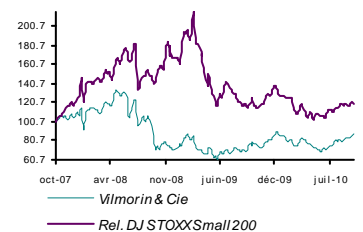
Price	10/07/2010	€75.50
Target		€90.00
Upside		19.2%

Performance	1m	12m	1 Jan
Absolute	1.1%	4.7%	-6.8%
Sector	-1.8%	25.9%	10.5%
DJS Small200	3.7%	14.5%	11.0%

Market capitalisation	€1.3bn
Free float	27.7%
Limagrain	72.3%
Daily volume	€5m

on 30/6	2010e	2011e	2012e
EPS (€)	3.54	4.35	5.01
Revision	-9.1%	-5.3%	-3.6%
Change	-5.5%	22.8%	15.3%

P/E (x)	21.3	17.4	15.1
P/CF (x)	7.5	6.3	5.8
EV/EBIT (x)	15.3	13.0	11.6
EV/EBITDA (x)	7.9	6.5	6.0
Net yield	1.9%	2.6%	3.0%
FCF yield	-0.9%	5.8%	3.4%



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EQUITY MARKETS

Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2008	2009	2010e	2011e	2012e	CAGR 09/12
Turnover	896.9	1,000.4	1,062.3	1,154.8	1,213.7	6.7%
Field seeds	502.5	499.0	519.7	560.7	594.3	6.0%
Vegetable seeds	394.4	409.7	454.3	505.8	531.1	9.0%
Home garden	0.0	91.7	88.3	88.3	88.3	-1.3%
Reported operating profit	115.2	107.9	109.3	125.8	140.2	9.1%
Field seeds	47.5	42.5	35.8	41.1	48.5	4.5%
Vegetable seeds	70.5	68.8	77.5	88.6	95.7	11.6%
Home garden	0.0	3.2	2.6	2.6	2.6	-6.7%
	-2.8	-6.6	-6.6	-6.6	-6.6	0.0%
Reported operating margin	12.8%	10.8%	10.3%	10.9%	11.6%	
Field seeds	9.5%	8.5%	6.9%	7.3%	8.2%	
Vegetable seeds	17.9%	16.8%	17.1%	17.5%	18.0%	
Home garden	-	3.5%	2.9%	2.9%	2.9%	
Profit & loss statement (€m)	2008	2009	2010e	2011e	2012e	CAGR 09/12
Turnover	896.9	1,000.4	1,062.3	1,154.8	1,213.7	6.7%
<i>Change</i>	<i>-4.4%</i>	<i>11.5%</i>	<i>6.2%</i>	<i>8.7%</i>	<i>5.1%</i>	
Organic growth	13.5%	1.4%	2.2%	7.3%	5.1%	
EBITDA	202.5	196.1	213.2	251.7	272.6	11.6%
<i>Change</i>	<i>15.7%</i>	<i>-3.2%</i>	<i>8.7%</i>	<i>18.0%</i>	<i>8.3%</i>	
EBIT	115.2	107.9	109.3	125.8	140.2	9.1%
<i>Change</i>	<i>21.3%</i>	<i>-6.3%</i>	<i>1.3%</i>	<i>15.1%</i>	<i>11.5%</i>	
Adjusted EBIT	115.2	107.9	109.3	125.8	140.2	9.1%
<i>Change</i>	<i>33.0%</i>	<i>-6.3%</i>	<i>1.3%</i>	<i>15.1%</i>	<i>11.5%</i>	
Operating margin	12.8%	10.8%	10.3%	10.9%	11.6%	
Financial items	-30.1	-20.8	-12.2	-10.2	-6.9	
Pre-tax profit on ordinary activities	85.1	87.2	97.1	115.6	133.3	15.2%
Exceptional items	0.0	0.0	-12.1	0.0	0.0	
Corporate tax	-19.2	-20.0	-27.8	-34.7	-40.0	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	1.7	-1.1	0.5	0.5	0.5	
Minority interests	-6.8	-7.2	-6.0	-6.5	-6.8	
Net profit on divested activities	-16.5	0.0	2.5	0.0	0.0	
Reported net profit	44.3	58.9	54.2	74.9	87.0	13.9%
<i>Change</i>	<i>-19.2%</i>	<i>32.8%</i>	<i>-7.9%</i>	<i>38.2%</i>	<i>16.1%</i>	
Adjusted net profit	60.8	53.0	60.4	74.9	87.0	18.0%
<i>Change</i>	<i>26.9%</i>	<i>-12.8%</i>	<i>14.0%</i>	<i>24.0%</i>	<i>16.1%</i>	
Cash flow statement (€m)	2008	2009	2010e	2011e	2012e	CAGR 09/12
Cash flow from operations	159.9	151.5	172.7	206.3	225.2	14.1%
Nets Investments	-104.9	-139.2	-161.7	-159.8	-164.4	5.7%
Decrease (Increase) in WCR	7.2	4.9	-22.3	28.2	-16.7	
Free cash flow	62.2	17.2	-11.3	74.8	44.1	36.9%
Acquisitions	-52.6	-14.8	0.0	0.0	0.0	
Dividend	-21.4	-23.5	-24.3	-33.6	-39.0	18.4%
Capital increase	-	-	200.0	-	-	
Divestments	-	-	-	-	-	
Miscellaneous	34.4	-33.3	-34.0	0.0	0.0	
Increase (Decrease) in cash	22.6	-54.4	130.5	41.2	5.1	
Net debt	323.3	377.7	247.2	206.0	200.9	
Gearing	43.7%	50.1%	25.1%	20.1%	18.7%	

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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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	Companies covered	Corporate companies
Buy	52.03%	2.03%
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Reduce	15.41%	0.00%

Reference prices are based on closing prices.

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