

MORNING NEWS MIDCAPS

EQUITY RESEARCH

02 October 2013

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Buy

Target price change

Acquisition in vegetable seeds segment in USA

The takeover of Shamrock will bolster Vilmorin's position (15% market share) in the US vegetable seeds segment (lettuces in particular) and give it access to top-quality research programmes. But the financial impact will be small (1% at group level). Buy.

- We reiterate our Buy rating on Vilmorin and have revised our target price from €115 to €110 (based on the average between target multiples and a DCF valuation). Following the stock's weak performance (together with that of the seeds sector) over the past 4 months (-1% in absolute terms, -3% relative to the market) amid falling agricultural raw material prices (corn prices have fallen by 30% in the past 5 months), it is attractively valued and offers an opportunity for investors looking for long-term growth stories (an upturn in the vegetable seeds segment, expansion in emerging markets, continued market share gains in the US corn market).
- Vilmorin & Cie has just fully taken over Shamrock, a Californian company specialising in vegetable seeds. Shamrock has a diversified product portfolio (e.g. lettuce and greens, melon, watermelon and pepper) and a high-quality research team. As well as boosting its positions in the lettuce segment, Vilmorin will benefit from complementary research programmes in the melon and watermelon segments. Shamrock generated \$20m sales (€14m) last year.
- We have revised our 2013/2016e EPS estimates by an average of -2%. The positive impact stemming from the consolidation of Shamrock (+1%) is more than offset by unfavourable currency trends (e.g. \$ and Real) and higher interest expenses (€20m vs. €16.5m) for 2012/13e.
- Although small in scale (€14m, 1% of group sales), the acquisition of Shamrock will bolster Vilmorin's position in the US vegetable seeds segment (15% market share), particularly in lettuces, a field in which it operates little currently.
- For the record, the US vegetable seeds market is a large one (market gardeners have sales revenue of \$12bn) thanks to high consumption per capita. The group generated €127m sales in the US vegetable seeds segment in 2012/13 (i.e. 9.5% of group sales), where it boasts a market share of 15% (on a par with Syngenta).
- The amount paid was not disclosed, but if we assume an EV/Sales multiple of 2.5x (in line with the industry average), we believe the cash-out could amount to ~€35m.

Recommended Stock

Analyst(s)

Nicolas Langlet	(33 1) 58 55 00 95
Joséphine Chevallier	(33 1) 58 55 96 55
Pierre Tegnér	(33 1) 58 55 24 34
Olivier Delahousse	(33 1) 58 55 04 47

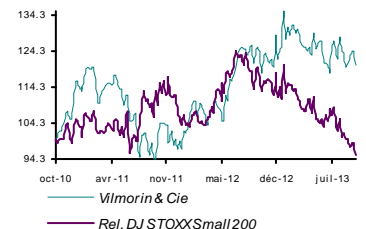
Price	10/01/2013	€90.00
Target	↘	€110.00
Upside		22.2%

Performance	1m	12m	1 Jan
Absolute	-0.2%	-4.1%	-3.8%
Sector	1.6%	6.4%	5.1%
DJS Small200	5.7%	20.1%	15.3%

Market capitalisation	€1.5bn
Free float	32.6%
Limagrain	67.4%
Daily volume	€241k

on 30/6	2013e	2014e	2015e
EPS (€)	5.20	5.98	6.81
Revision	-2.9%	-2.7%	-1.1%
Change	4.5%	15.0%	13.9%

P/E (x)	17.3	15.1	13.2
P/CF (x)	6.7	6.1	5.5
EV/EBIT (x)	12.1	10.8	9.6
EV/EBITDA (x)	6.4	5.8	5.2
Net yield	2.1%	2.4%	2.6%
FCF yield	1.1%	3.2%	4.2%



Equity Markets equity.natixis.com

Bloomberg access NXSE

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Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2011	2012	2013e	2014e	2015e	CAGR 12/15
Turnover	1,191.8	1,338.0	1,472.5	1,592.7	1,729.8	8.9%
Field seeds	598.6	728.7	846.8	930.8	1,034.6	12.4%
Vegetable seeds	510.3	527.2	544.9	580.3	612.8	5.1%
Home garden	81.9	80.8	79.5	80.3	81.1	0.1%
Holding	1.0	1.3	1.3	1.3	1.3	0.0%
Adjusted operating profit	126.7	144.3	166.0	184.6	205.8	12.6%
Field seeds	39.8	74.0	94.8	107.0	122.1	18.2%
Vegetable seeds	80.2	76.9	80.6	87.0	93.1	6.6%
Home garden	6.5	-1.8	1.5	1.5	1.5	
Holding	0.2	-4.8	-11.0	-11.0	-11.0	-31.8%
Adjusted operating margin	10.6%	10.8%	11.3%	11.6%	11.9%	
Field seeds	6.6%	10.2%	11.2%	11.5%	11.8%	
Vegetable seeds	15.7%	14.6%	14.8%	15.0%	15.2%	
Home garden	7.9%	-2.2%	1.9%	1.9%	1.9%	
Holding	20.0%	-369.8%	-846.2%	-846.2%	-846.2%	
Profit & loss statement (€m)	2011	2012	2013e	2014e	2015e	CAGR 12/15
Revenues	1,191.8	1,338.0	1,472.5	1,592.7	1,729.8	8.9%
<i>Change</i>	<i>12.0%</i>	<i>12.3%</i>	<i>10.1%</i>	<i>8.2%</i>	<i>8.6%</i>	
Organic growth	9.6%	11.0%	9.4%	8.1%	8.4%	
EBITDA	276.0	269.0	313.4	344.0	378.9	12.1%
<i>Change</i>	<i>34.0%</i>	<i>-2.5%</i>	<i>16.5%</i>	<i>9.8%</i>	<i>10.1%</i>	
EBIT	156.7	137.7	166.0	184.6	205.8	14.3%
<i>Change</i>	<i>61.2%</i>	<i>-12.1%</i>	<i>20.5%</i>	<i>11.2%</i>	<i>11.5%</i>	
Adjusted EBIT	126.7	144.3	166.0	184.6	205.8	12.6%
<i>Change</i>	<i>24.5%</i>	<i>13.9%</i>	<i>15.0%</i>	<i>11.2%</i>	<i>11.5%</i>	
Operating margin	10.6%	10.8%	11.3%	11.6%	11.9%	
Financial items	-21.3	-26.3	-20.0	-17.0	-15.0	
Pre-tax profit on ordinary activities	105.4	118.0	146.0	167.6	190.8	17.4%
Exceptional items	30.0	-6.6	0.0	0.0	0.0	
Corporate tax	-38.7	-26.1	-42.1	-48.3	-54.9	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	0.6	1.8	1.8	1.8	1.8	
Minority interests	-6.3	-6.5	-7.2	-7.9	-8.7	
Net profit on divested activities	0.0	0.0	0.0	0.0	0.0	
Reported net profit	91.0	80.6	98.5	113.3	129.0	17.0%
<i>Change</i>	<i>67.6%</i>	<i>-11.4%</i>	<i>22.2%</i>	<i>15.0%</i>	<i>13.9%</i>	
Adjusted net profit	69.5	85.7	98.5	113.3	129.0	14.6%
<i>Change</i>	<i>28.3%</i>	<i>23.2%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>13.9%</i>	
Cash flow statement (€m)	2011	2012	2013e	2014e	2015e	CAGR 12/15
Cash flow from operations	167.0	225.7	253.0	280.5	310.8	11.3%
Net Investments	-148.0	-168.0	-175.6	-189.4	-197.7	5.6%
Decrease (Increase) in WCR	-11.9	-67.0	-60.2	-42.1	-48.0	
Free cash flow	7.1	-9.3	17.2	49.1	65.1	na
Acquisitions	17.0	-13.0	0.0	0.0	0.0	
Dividend	-35.0	-30.3	-36.0	-40.3	-45.1	14.2%
Capital increase	-11.5	55.7	0.0	0.0	0.0	
Divestments	-	-	-	-	-	
Miscellaneous	0.4	-48.7	0.0	0.0	0.0	
Increase (Decrease) in cash	-22.0	-45.6	-18.8	8.8	20.0	
Net debt	270.2	315.7	334.5	325.7	305.8	
Gearing	26.1%	28.1%	28.1%	25.6%	22.4%	

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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.

From 05/01/2010, Natixis ratings cover the next six months and are as follows:

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Present shares	favorable response to a public offer (takeover, delisting,...)

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Reduce	9.76%	0.00%

Reference prices are based on closing prices.

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