

# MORNING NEWS MIDCAPS

## EQUITY RESEARCH

01 March 2012

### Food

# Vilmorin & Cie

VILM.PA / RIN@FP

## Buy

### H1 11 earnings

### Guidance confirmed

Deeper losses in H1 11/12 than in 2010/11. But the trend cannot be extrapolated to the year given the seasonal impact. Guidance maintained and visibility on the backlog for Q3.

- We are leaving our target price of €92 unchanged. It is based on a DCF model (50%) and a cycle-peak valuation (50%) given supply tensions (a EV/EBIT multiple of 16.3x in 2012). Note that the shortage is driving pricing power (increases set to average 5%). Buy rating maintained, although the recent stock-market performance (+9.8% on the month) is unlikely to continue in the short term.
- A key takeaway was confirmation of the group's full-year guidance, i.e. organic sales growth of 7% and an underlying operating margin of 11%. This confirmation is all the more reassuring in that it now has crystal-clear visibility on its order backlog in Q3. This was not the case when it reported H1 sales.
- Vilmorin's H1 results follow its recent publication of 9.8% sales growth in organic terms (see morning mail of 8 February). As expected, the unfavourable product mix in H1 (dynamic growth in field seeds and relative weakness in vegetable seeds) saw a contraction in the gross margin (-0,9%). **EBIT showed a loss of €17.7m in H1 (vs. €12.6m in 2010/11), impacted by an unfavourable comparison base (disposal gain of €6m in H1 10/11). After allowing for a bigger-than-expected financial expense impact (-€15.8m, with €4.7m in connection with currency losses), the bottom line showed a loss of €9.2m (vs. -€23.4m in 2010/11, and -€20m in our estimates).**
- In addition to this publication, Vilmorin announced a series of fairly small-scale acquisitions (no price tags given but probably quite limited): 1/ it has taken control of Eurodur, a company specialising in wheat seeds (research and marketing), in which it already owned a stake, 2/ it has strengthened its footprint in Brazil, with the acquisition of the research activities of Genetica Agricola (corn), and 3/ it has acquired Cultisol (garden seeds in France), which may come as a surprise as the fate of this business had been called into question in the past (put up for sale then re-consolidated).
- Analysts' meeting at 3pm today.

#### Analyst(s)

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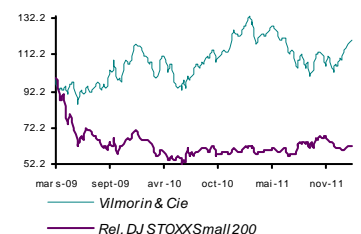
|        |            |        |
|--------|------------|--------|
| Price  | 02/29/2012 | €83.15 |
| Target |            | €92.00 |
| Upside |            | 10.6%  |

| Performance  | 1m   | 12m   | 1 Jan |
|--------------|------|-------|-------|
| Absolute     | 9.8% | -7.1% | 12.9% |
| Sector       | 4.5% | 13.8% | 3.6%  |
| DJS Small200 | 4.4% | -8.3% | 13.2% |

|                       |        |
|-----------------------|--------|
| Market capitalisation | €1.4bn |
| Free float            | 27.7%  |
| Limagrain             | 72.3%  |
| Daily volume          | €264k  |

| on 30/6  | 2011  | 2012e | 2013e |
|----------|-------|-------|-------|
| EPS (€)  | 4.04  | 4.97  | 5.32  |
| Revision | -     | -     | -     |
| Change   | 14.0% | 23.2% | 7.0%  |

|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 20.6 | 16.7 | 15.6 |
| P/CF (x)      | 7.8  | 6.6  | 6.2  |
| EV/EBIT (x)   | 14.6 | 13.1 | 12.4 |
| EV/EBITDA (x) | 6.7  | 7.0  | 7.0  |
| Net yield     | 1.8% | 2.7% | 2.9% |
| FCF yield     | 1.0% | 1.0% | 2.0% |



Source: Natixis

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## EQUITY MARKETS

## Financial Data on 30/6

Vilmorin &amp; Cie

| Breakdown by activity (€m)              | 2009           | 2010           | 2011           | 2012e          | 2013e          | CAGR 10/13        |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|
| <b>Turnover</b>                         | <b>1,000.4</b> | <b>1,063.8</b> | <b>1,191.5</b> | <b>1,292.6</b> | <b>1,353.2</b> | <b>8.4%</b>       |
| Field seeds                             | 499.0          | 519.7          | 598.4          | 666.3          | 699.6          | 10.4%             |
| Vegetable seeds                         | 409.7          | 454.3          | 509.8          | 545.5          | 572.7          | 8.0%              |
| Home garden                             | 91.7           | 88.3           | 81.9           | 79.5           | 79.5           | -3.5%             |
|   | -              | 1.5            | 1.4            | 1.4            | 1.4            | -2.3%             |
| <b>Reported operating profit</b>        | <b>107.9</b>   | <b>109.3</b>   | <b>126.5</b>   | <b>142.1</b>   | <b>151.3</b>   | <b>11.4%</b>      |
| Field seeds                             | 42.5           | 35.8           | 39.8           | 49.0           | 53.9           | 14.6%             |
| Vegetable seeds                         | 68.8           | 77.5           | 80.2           | 86.6           | 90.9           | 5.5%              |
| Home garden                             | 3.2            | 2.6            | 6.5            | 6.5            | 6.5            | 35.7%             |
|   | -6.6           | -6.6           | 0.0            | 0.0            | 0.0            |                   |
| <b>Reported operating margin</b>        | <b>10.8%</b>   | <b>10.3%</b>   | <b>10.6%</b>   | <b>11.0%</b>   | <b>11.2%</b>   |                   |
| Field seeds                             | 8.5%           | 6.9%           | 6.7%           | 7.3%           | 7.7%           |                   |
| Vegetable seeds                         | 16.8%          | 17.1%          | 15.7%          | 15.9%          | 15.9%          |                   |
| Home garden                             | 3.5%           | 2.9%           | 7.9%           | 8.2%           | 8.2%           |                   |
|   | -              | -440.0%        | -              | -              | -              |                   |
| <b>Profit &amp; loss statement (€m)</b> | <b>2009</b>    | <b>2010</b>    | <b>2011</b>    | <b>2012e</b>   | <b>2013e</b>   | <b>CAGR 10/13</b> |
| <b>Revenues</b>                         | <b>1,000.4</b> | <b>1,063.8</b> | <b>1,191.5</b> | <b>1,292.6</b> | <b>1,353.2</b> | <b>8.4%</b>       |
| <i>Change</i>                           | <i>11.5%</i>   | <i>6.3%</i>    | <i>12.0%</i>   | <i>8.5%</i>    | <i>4.7%</i>    |                   |
| Organic growth                          | 1.4%           | 4.6%           | 9.6%           | 6.8%           | 4.7%           |                   |
| <b>EBITDA</b>                           | <b>196.1</b>   | <b>200.9</b>   | <b>272.9</b>   | <b>268.1</b>   | <b>268.1</b>   | <b>10.1%</b>      |
| <i>Change</i>                           | <i>-3.2%</i>   | <i>2.4%</i>    | <i>35.8%</i>   | <i>-1.7%</i>   | <i>0.0%</i>    |                   |
| <b>EBIT</b>                             | <b>107.9</b>   | <b>109.3</b>   | <b>126.5</b>   | <b>142.1</b>   | <b>151.3</b>   | <b>11.4%</b>      |
| <i>Change</i>                           | <i>-6.3%</i>   | <i>1.3%</i>    | <i>15.7%</i>   | <i>12.3%</i>   | <i>6.5%</i>    |                   |
| Adjusted EBIT                           | 107.9          | 109.3          | 126.5          | 142.1          | 151.3          | 11.4%             |
| <i>Change</i>                           | <i>-6.3%</i>   | <i>1.3%</i>    | <i>15.7%</i>   | <i>12.3%</i>   | <i>6.5%</i>    |                   |
| Operating margin                        | 10.8%          | 10.3%          | 10.6%          | 11.0%          | 11.2%          |                   |
| Financial items                         | -20.8          | -12.2          | -21.4          | -10.0          | -9.7           |                   |
| Pre-tax profit on ordinary activities   | 87.2           | 97.1           | 105.1          | 132.1          | 141.6          | 13.4%             |
| Exceptional items                       | 0.0            | -12.1          | 30.2           | 0.0            | 0.0            |                   |
| Corporate tax                           | -20.0          | -27.8          | -38.7          | -39.6          | -42.5          |                   |
| Goodwill amortisation/ impairment       | -              | -              | -              | -              | -              |                   |
| Equity associates                       | -1.1           | 0.5            | 0.6            | 0.6            | 0.6            |                   |
| Minority interests                      | -7.2           | -6.0           | -6.3           | -6.8           | -7.2           |                   |
| Net profit on divested activities       | 0.0            | 2.5            | 0.0            | 0.0            | 0.0            |                   |
| <b>Reported net profit</b>              | <b>58.9</b>    | <b>54.2</b>    | <b>90.9</b>    | <b>86.2</b>    | <b>92.6</b>    | <b>19.5%</b>      |
| <i>Change</i>                           | <i>32.8%</i>   | <i>-7.9%</i>   | <i>67.7%</i>   | <i>-5.2%</i>   | <i>7.4%</i>    |                   |
| Adjusted net profit                     | 53.0           | 60.4           | 69.2           | 86.2           | 92.6           | 15.3%             |
| <i>Change</i>                           | <i>-12.8%</i>  | <i>14.0%</i>   | <i>14.5%</i>   | <i>24.7%</i>   | <i>7.4%</i>    |                   |
| <b>Cash flow statement (€m)</b>         | <b>2009</b>    | <b>2010</b>    | <b>2011</b>    | <b>2012e</b>   | <b>2013e</b>   | <b>CAGR 10/13</b> |
| Cash flow from operations               | 151.5          | 164.0          | 184.7          | 217.8          | 230.4          | 12.0%             |
| Net Investments                         | -139.2         | -153.1         | -148.0         | -177.5         | -183.7         | 6.3%              |
| Decrease (Increase) in WCR              | 4.9            | -44.6          | -22.0          | -26.7          | -18.1          |                   |
| Free cash flow                          | 17.2           | -33.7          | 14.7           | 13.6           | 28.7           | na                |
| Acquisitions                            | -14.8          | -19.8          | 0.0            | 0.0            | 0.0            |                   |
| Dividend                                | -23.5          | -25.5          | -35.0          | -38.6          | -41.5          | 17.6%             |
| Capital increase                        | -              | 203.6          | -              | -              | -              |                   |
| Divestments                             | -              | -              | -              | -              | -              |                   |
| Miscellaneous                           | -33.3          | 5.3            | -15.0          | 0.0            | 0.0            |                   |
| Increase (Decrease) in cash             | -54.4          | 129.9          | -35.3          | -25.0          | -12.8          |                   |
| <b>Net debt</b>                         | <b>377.7</b>   | <b>247.8</b>   | <b>283.1</b>   | <b>308.1</b>   | <b>320.9</b>   |                   |
| <b>Gearing</b>                          | <b>50.1%</b>   | <b>23.7%</b>   | <b>25.5%</b>   | <b>26.6%</b>   | <b>26.5%</b>   |                   |

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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.

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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.

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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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|         |  |
|---------|--|
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|---------|-------------------|---------------------|
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| Neutral | 39.60%            | 1.16%               |
| Reduce  | 15.61%            | 0.00%               |

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