

MORNING NEWS MIDCAPS

EQUITY RESEARCH

09 January 2013

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Buy

News

A strategic acquisition

Following Brazil, China and India, Vilmorin continues to expand its Corn business internationally with an acquisition in South Africa. This operation is a small (€10m sales) but strategically advantageous one. Buy rating maintained.

- We remain at Buy on Vilmorin owing to: 1/ the long-term potential for top-line growth >5% and operating margin gains, 2/ the group's capacity to deliver positive surprises with its next releases and exceed its guidance, and 3/ the potential for a rerating vs. the sector (Vilmorin's 12m PE is 15x based on our estimates vs. 17.7x for the sector). Vilmorin's valuation relative to KWS (target price €220; Neutral), showing a 12% discount in terms of 12m PE, is currently at a 5-year low.
- Vilmorin has just announced another acquisition in the Field Seeds market with the acquisition of a majority stake (80%) in South African company Link Seed. Link Seed specialises in corn and soybeans and should generate €10m sales in 2013 (+0.7% of Vilmorin's 2013e sales), giving it a 6% market share in the corn seeds segment. The financial details of the deal have not been disclosed but we can estimate the cost of this acquisition at ~€30m on the basis of an EV/Sales multiple of 3x (in line with the sector average).
- Although a small operation (i.e. 0.7% of group sales), it is a strategically advantageous one. It will enable Vilmorin to: 1/ establish positions in a market where the rate of adoption of GM seeds is already very high, 2/ gain access to expertise in a local market as well as genetic resources, 3/ gain access to an already well-established distribution network. In the medium term, Link Seed could become a development platform for the eastern and southern African region.

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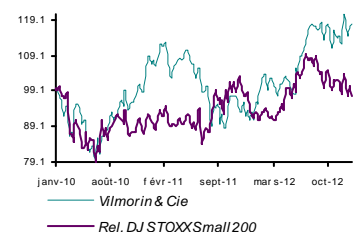
Price	01/08/2013	€94.00
Target		€110.00
Upside		17.0%

Performance	1m	12m	1 Jan
Absolute	-1.0%	27.5%	0.4%
Sector	-0.8%	19.8%	1.0%
DJS Small200	4.4%	22.4%	3.3%

Market capitalisation	€1.6bn
Free float	27.7%
Limagrain	72.3%
Daily volume	€848k

on 30/6	2012	2013e	2014e
EPS (€)	4.98	5.74	6.28
Revision	-	-	-
Change	23.2%	15.3%	9.4%

P/E (x)	14.8	16.4	15.0
P/CF (x)	5.8	6.5	6.1
EV/EBIT (x)	12.0	12.7	11.7
EV/EBITDA (x)	6.4	6.7	6.3
Net yield	3.0%	2.0%	2.3%
FCF yield	1.1%	1.8%	3.3%



Source : Natixis

Equity Markets equity.natixis.com

Bloomberg access NXSE

Distribution of this report in the United States. See important disclosures at the end of this report.

Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2010	2011	2012	2013e	2014e	CAGR 11/14
Turnover	1,064.3	1,191.8	1,338.0	1,429.0	1,502.3	8.0%
Field seeds	520.0	598.6	728.7	793.5	841.1	12.0%
Vegetable seeds	454.3	510.3	527.2	552.5	577.4	4.2%
Home garden	88.0	81.9	80.8	81.6	82.4	0.2%
Unallocated costs	2.0	1.0	1.3	1.3	1.3	9.1%
Adjusted operating profit	97.1	126.7	137.7	162.9	175.4	11.4%
Field seeds	35.8	39.8	74.0	87.3	94.2	33.3%
Vegetable seeds	65.4	80.2	76.9	85.1	90.7	4.2%
Home garden	2.6	6.5	-1.8	1.5	1.5	-38.5%
Unallocated costs	-6.7	0.2	-11.4	-11.0	-11.0	
Adjusted operating margin	9.1%	10.6%	10.3%	11.4%	11.7%	
Field seeds	6.9%	6.6%	10.2%	11.0%	11.2%	
Vegetable seeds	14.4%	15.7%	14.6%	15.4%	15.7%	
Home garden	3.0%	7.9%	-2.2%	1.8%	1.8%	
Unallocated costs	-335.0%	20.0%	-876.9%	-846.2%	-846.2%	
Profit & loss statement (€m)	2010	2011	2012	2013e	2014e	CAGR 11/14
Revenues	1,063.8	1,191.8	1,338.0	1,429.0	1,502.3	8.0%
<i>Change</i>	<i>6.3%</i>	<i>12.0%</i>	<i>12.3%</i>	<i>6.8%</i>	<i>5.1%</i>	
Organic growth	4.6%	9.6%	11.0%	7.5%	5.1%	
EBITDA	200.9	276.0	269.0	305.9	325.7	5.7%
<i>Change</i>	<i>2.4%</i>	<i>37.4%</i>	<i>-2.5%</i>	<i>13.7%</i>	<i>6.5%</i>	
EBIT	109.3	156.7	137.7	162.9	175.4	3.8%
<i>Change</i>	<i>1.3%</i>	<i>43.4%</i>	<i>-12.1%</i>	<i>18.3%</i>	<i>7.7%</i>	
Adjusted EBIT	109.3	126.7	144.3	162.9	175.4	11.4%
<i>Change</i>	<i>1.3%</i>	<i>15.9%</i>	<i>13.9%</i>	<i>12.9%</i>	<i>7.7%</i>	
Operating margin	10.3%	10.6%	10.8%	11.4%	11.7%	
Financial items	-12.2	-21.3	-26.3	-16.5	-15.0	
Pre-tax profit on ordinary activities	97.1	105.4	118.0	146.4	160.4	15.0%
Exceptional items	-12.1	30.0	-6.6	0.0	0.0	
Corporate tax	-27.8	-38.7	-26.1	-42.2	-46.2	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	0.5	0.6	1.8	1.8	1.8	
Minority interests	-6.0	-6.3	-6.5	-7.2	-7.9	
Net profit on divested activities	2.5	0.0	0.0	0.0	0.0	
Reported net profit	54.2	91.0	80.6	98.8	108.1	5.9%
<i>Change</i>	<i>-7.9%</i>	<i>67.9%</i>	<i>-11.4%</i>	<i>22.6%</i>	<i>9.4%</i>	
Adjusted net profit	60.4	69.5	85.7	98.8	108.1	15.8%
<i>Change</i>	<i>14.0%</i>	<i>15.1%</i>	<i>23.2%</i>	<i>15.3%</i>	<i>9.4%</i>	
Cash flow statement (€m)	2010	2011	2012	2013e	2014e	CAGR 11/14
Cash flow from operations	164.0	167.0	225.7	249.0	266.3	16.8%
Net Investments	-153.1	-148.0	-168.0	-174.3	-186.6	8.0%
Decrease (Increase) in WCR	-44.6	-11.9	-67.0	-45.0	-25.7	
Free cash flow	-33.7	7.1	-9.3	29.7	54.1	96.8%
Acquisitions	-19.8	17.0	-13.0	0.0	0.0	
Dividend	-25.5	-35.0	-30.3	-32.7	-36.6	1.5%
Capital increase	203.6	-11.5	55.7	0.0	0.0	
Divestments	-	-	-	-	-	
Miscellaneous	5.3	0.4	-48.7	0.0	0.0	
Increase (Decrease) in cash	129.9	-22.0	-45.6	-3.0	17.5	
Net debt	247.8	270.2	315.7	318.7	301.3	
Gearing	23.7%	26.1%	28.1%	26.7%	23.6%	

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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	14.44%	0.00%

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