

MORNING NEWS MIDCAPS

EQUITY RESEARCH

20 October 2016

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Neutral

Earnings 2016

End to a difficult year

Vilmorin has ended a difficult year with lower than expected results. The overall environment remains hazy. We are maintaining our target price of €62 and our Neutral rating prior to today's analyst meeting.

- **We still lack visibility** regarding the environment on the agriculture market as well as consolidation transactions. The recovery in soybean prices compared to corn should continue to have an impact on the sector and on Vilmorin in particular. We would nevertheless highlight the valuation, which now shows a discount of over 30% compared to its peers. At 13x and 11.9x earnings in 2017e and 2018e, the group's valuation is at its lowest point in five years. Note that the average sector P/E is 18x and 16.3x for 2017e and 2018e. We are maintaining our Neutral rating and target price of €62 for the moment while waiting for more visibility concerning agricultural commodity prices and the competitive environment.
- **Lower than expected results:** Vilmorin has reported a 2015/16 net profit of €59.3m, below our estimate for €71.6m. Operating profit was nevertheless in line with our estimate at €100.3m vs. €100.4m(e), as was the reported financial result of €36.5m vs. €37.0m(e). The difference compared to our estimates came from equity associates (€30.8m vs. €34.5m€) and corporate taxes, which were €10.8m higher than our estimate (€33.8m vs. €23.0m(e)). The group is aiming for significant growth in FY 2016/17e on a comparable basis, with an ordinary operating margin at the same level despite R&D up 6.6% to €240m (to be devoted to both garden seeds and field crops). The group will propose a dividend of €1.10 /share (vs. €1.30), corresponding to a pay-out ratio of 38.6%, in line with our estimate.
- **FY 2015/16 was not an easy year for any seed producer.** After Monsanto last week, Vilmorin has reported significant lower results due to a difficult and volatile agriculture market. Despite a significant increase in R&D efforts to €225m, the group succeeded in maintaining its operating margin excluding exceptional charges at 8.4%, a good performance in this environment. Exceptional charges totaled €10.4m in 2015/16 and we conservatively anticipate €5m in additional charges in the current fiscal year. The group's objective for organic growth is in line with our forecast for 4.5%, with the group counting on a rebound in field crops (+6%) and a return to more normative growth at the garden seed division (+4%).

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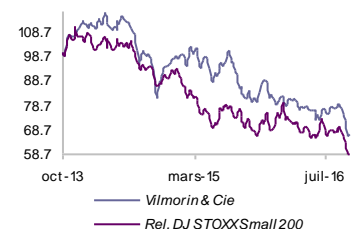
Price	10/19/2016	€53.30
Target		€62.00
Upside		16.3%

Performance	1m	12m	1 Jan
Absolute	-13.0%	-16.5%	-19.5%
Sector	-0.6%	1.9%	-1.6%
DJS Small200	0.2%	-2.4%	-5.4%

Market capitalisation	€1.1bn
Free float	32.6%
Limagrain	67.4%
Daily volume	€651k

on 30/6	2016e	2017e	2018e
EPS (€)	3.39	4.09	4.48
Revision	-	-	-
Change	6.5%	20.6%	9.6%

P/E (x)	15.7	13.0	11.9
P/CF (x)	5.4	4.9	4.6
EV/EBIT (x)	21.4	20.0	18.6
EV/EBITDA (x)	9.5	9.1	8.5
Net yield	2.5%	3.0%	3.2%
FCF yield	6.3%	0.7%	1.7%



Source : Natixis

Equity Markets research.natixis.com

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Worth noting

- 20 oct. 16 : réunion d'analystes.
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Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2014	2015	2016e	2017e	2018e	CAGR 15/18
Turnover	1,499.9	1,269.4	1,326.2	1,389.2	1,480.1	5.3%
Field seeds	856.1	595.3	581.7	616.6	678.3	4.4%
Vegetable seeds	562.6	614.6	688.7	716.2	744.9	6.6%
Home garden	79.9	58.4	54.7	55.2	55.8	-1.5%
Holding	1.3	1.1	1.1	1.1	1.1	0.0%
Adjusted operating profit	149.9	100.2	110.4	118.7	127.9	8.5%
Field seeds	72.9	20.9	15.8	18.6	21.8	1.4%
Vegetable seeds	89.7	95.8	108.0	112.4	117.6	7.1%
Home garden	-3.5	-0.7	-0.2	-0.2	0.3	
Holding	-9.2	-15.8	-13.3	-12.1	-11.8	9.2%
Adjusted operating margin	10.0%	7.9%	8.3%	8.5%	8.6%	
Field seeds	8.5%	3.5%	2.7%	3.0%	3.2%	
Vegetable seeds	15.9%	15.6%	15.7%	15.7%	15.8%	
Home garden	-4.4%	-1.2%	-0.3%	-0.3%	0.6%	
Holding	-707.7%	-1,436.4%	-1,204.6%	-1,101.2%	-1,076.4%	
Profit & loss statement (€m)	2014	2015	2016e	2017e	2018e	CAGR 15/18
Revenues	1,499.6	1,269.4	1,325.1	1,389.2	1,480.1	5.3%
<i>Change</i>	1.9%	-15.4%	4.4%	4.8%	6.5%	
Organic growth	4.6%	0.7%	4.6%	4.5%	5.8%	
EBITDA	305.0	229.0	247.1	261.9	280.5	7.0%
<i>Change</i>	0.7%	-24.9%	7.9%	6.0%	7.1%	
EBIT	149.9	100.2	100.4	118.7	127.9	8.5%
<i>Change</i>	-5.8%	-33.2%	0.2%	18.2%	7.8%	
Adjusted EBIT	150.6	98.1	110.4	118.7	127.9	9.2%
<i>Change</i>	-6.4%	-34.9%	12.5%	7.5%	7.8%	
Operating margin	10.0%	7.7%	8.3%	8.5%	8.6%	
Financial items	-38.0	-39.2	-37.0	-37.0	-37.0	
Pre-tax profit on ordinary activities	111.9	61.0	117.7	129.1	140.4	32.0%
Exceptional items	-1.8	0.0	0.0	0.0	0.0	
Corporate tax	-27.4	-21.5	-27.7	-30.3	-33.0	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	3.8	30.3	36.1	38.2	40.7	
Minority interests	-4.2	-4.6	3.6	4.0	4.4	
Net profit on divested activities	0.0	0.0	0.0	0.0	0.0	
Reported net profit	82.3	65.3	71.6	86.4	94.7	13.2%
<i>Change</i>	-19.2%	-20.7%	9.8%	20.6%	9.6%	
Adjusted net profit	83.0	67.3	71.6	86.4	94.7	12.1%
<i>Change</i>	-21.9%	-19.0%	6.5%	20.6%	9.6%	
Cash flow statement (€m)	2014	2015	2016e	2017e	2018e	CAGR 15/18
Cash flow from operations	258.0	65.2	208.3	229.7	247.4	56.0%
Net Investments	-212.0	-199.4	-212.5	-213.3	-213.3	2.3%
Decrease (Increase) in WCR	-71.1	56.1	74.1	-8.3	-15.7	
Free cash flow	-25.1	-78.1	69.9	8.2	18.4	na
Acquisitions	-104.0	-50.0	0.0	0.0	0.0	
Dividend	-35.0	-38.5	-32.7	-27.2	-32.8	-5.2%
Capital increase	0.0	0.0	0.0	0.0	0.0	
Divestments	-	-	0.0	0.0	0.0	
Miscellaneous	-55.6	-50.0	0.0	0.0	0.0	
Increase (Decrease) in cash	-219.7	-216.6	37.2	-19.1	-14.4	
Net debt	493.9	495.8	623.0	638.4	648.9	
Gearing	42.6%	41.5%	45.4%	44.3%	42.9%	

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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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