

MORNING NEWS MIDCAPS

EQUITY RESEARCH

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Food

Vilmorin & Cie

VILM.PA / RIN@FP

Neutral

News

Acquisition of Genica Research

Vilmorin & Cie announced that it is buying Genica Research and thus shoring up its positions in the American market and the vegetable seeds segment. The stock is trading on 19.2x 2016e earnings; we reiterate our Neutral rating and €69.4 target price.

- Neutral rating and €69.4 target price reiterated:** we remain at Neutral on the stock for the following reasons: 1/ market conditions remain complicated for the Field Seeds division and 2/ FCF generation will remain meagre in the short term because of R&D investments, despite a solid performance from the Vegetable Seeds business. Vilmorin & Cie is currently trading at a 25% discount in terms of EV/EBITDA 2016e, which is justified because the group is expected to post a 7.9% operating margin in 2016e compared with the projected sector average of 14.4%. In terms of PE, Vilmorin & Cie is trading on 19.2x 2016e earnings vs. around 17x for the sector, i.e. at a ~13% premium.
- Shoring up positions in the USA by acquiring Genica Research:** Vilmorin & Cie announced that it is buying Genica Research, located in Dixon, California, and thus bolstering its positions in the USA (two-thirds of sales) in its drive to become the no.1 in vegetable seeds there. Genica Research generated \$25m sales in 2015, exclusively in the vegetable seeds segment with a focus on major crops. What is specific about Genica Research is that all its products are unbranded and sold via 16 distribution clients, enabling it to generate \$500,000 revenues per employee. Neither the price-tag nor the target's operating margin were disclosed. We estimate the price at an enterprise value of between \$90m and \$110m (i.e. an EV/Sales multiples of 2x to 3x based on sales including distribution) given the quality of the portfolio, the complementary fit with Vilmorin & Cie and the management team's reputation.
- 2016 targets and ambitions out to 2020 confirmed:** Vilmorin & Cie confirmed its sales growth guidance of between 0% and 2% at constant currencies in 2016 (vs. 1.7%e), with average sales growth in the Vegetable Seeds division beating market trends (at 4.5%e) and flat sales growth in the Field Seeds division (at -1.0%e). We see the operating margin reaching 8.4%e based on R&D expenses at €225m, which is more than was spent last year. Management also confirmed its ambitions out to 2020, i.e. average sales growth of >5% and an operating margin of 18% in Vegetable Seeds, and €1bn sales and an operating margin of 10% in Field Seeds (including AgReliant).

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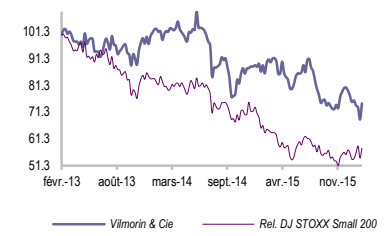
Price	02/01/2016	€67.00
Target		€69.40
Upside		3.6%

Performance	1m	12m	1 Jan
Absolute	1.2%	-14.1%	1.2%
Sector	0.0%	5.0%	0.0%
DJS Small200	-8.0%	-2.2%	-8.0%

Market capitalisation	€1.4bn
Free float	32.6%
Limagrain	67.4%
Daily volume	€873k

on 30/6	2015	2016e	2017e
EPS (€)	3.18	3.40	3.92
Revision	-	-	-
Change	-26.2%	6.9%	15.2%

P/E (x)	18.1	19.7	17.1
P/CF (x)	10.7	6.7	6.3
EV/EBIT (x)	20.9	25.0	22.8
EV/EBITDA (x)	10.1	11.1	10.5
Net yield	2.2%	1.8%	2.1%
FCF yield	1.7%	1.9%	2.7%



Source : Natixis

Equity Markets research.natixis.com

Bloomberg access NXGR

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

Worth noting

- 7 March 2016: H1 15/16 sales and 2015-16 earnings figures.
 - 27 April 2016: Q3 2015/16 sales figures.
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Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2013	2014	2015	2016e	2017e	CAGR 14/17
Turnover	1,472.5	1,499.9	1,269.4	1,291.1	1,352.7	-3.4%
Field seeds	846.8	856.1	595.3	589.3	624.7	-10.0%
Vegetable seeds	544.9	562.6	614.6	642.3	667.9	5.9%
Home garden	79.5	79.9	58.4	58.4	59.0	-9.6%
Holding	1.3	1.3	1.1	1.1	1.1	-5.4%
Adjusted operating profit	158.3	149.9	100.2	108.4	118.8	-7.5%
Field seeds	84.0	72.9	20.9	20.7	23.8	-31.1%
Vegetable seeds	82.0	89.7	95.8	100.8	105.5	5.5%
Home garden	-2.9	-3.5	-0.7	-0.2	0.4	
Holding	-4.8	-9.2	-15.8	-12.9	-10.8	-5.6%
Adjusted operating margin	10.8%	10.0%	7.9%	8.4%	8.8%	
Field seeds	9.9%	8.5%	3.5%	3.5%	3.8%	
Vegetable seeds	15.0%	15.9%	15.6%	15.7%	15.8%	
Home garden	-3.6%	-4.4%	-1.2%	-0.3%	0.6%	
Holding	-369.2%	-707.7%	-1,436.4%	-1,173.7%	-983.8%	
Profit & loss statement (€m)	2013	2014	2015	2016e	2017e	CAGR 14/17
Revenues	1,472.0	1,499.6	1,269.4	1,291.1	1,352.7	-3.4%
<i>Change</i>	10.0%	1.9%	-15.4%	1.7%	4.8%	
Organic growth	9.4%	4.6%	0.7%	1.7%	3.0%	
EBITDA	303.0	305.0	229.0	240.5	254.7	-5.8%
<i>Change</i>	12.6%	0.7%	-24.9%	5.0%	5.9%	
EBIT	159.2	149.9	100.2	107.0	117.2	-7.9%
<i>Change</i>	15.6%	-5.8%	-33.2%	6.7%	9.6%	
Adjusted EBIT	160.9	150.6	98.1	107.0	117.2	-8.0%
<i>Change</i>	11.5%	-6.4%	-34.9%	9.0%	9.6%	
Operating margin	10.9%	10.0%	7.7%	8.3%	8.7%	
Financial items	-27.9	-38.0	-39.2	-42.9	-42.9	
Pre-tax profit on ordinary activities	131.3	111.9	61.0	64.0	74.3	-12.7%
Exceptional items	0.0	-1.8	0.0	0.0	0.0	
Corporate tax	-23.6	-27.4	-21.5	-23.0	-26.4	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	1.7	3.8	30.3	36.0	40.5	
Minority interests	-7.6	-4.2	-4.6	-5.1	-5.6	
Net profit on divested activities	0.0	0.0	0.0	0.0	0.0	
Reported net profit	101.8	82.3	65.3	71.9	82.8	0.2%
<i>Change</i>	26.3%	-19.2%	-20.7%	10.2%	15.2%	
Adjusted net profit	106.3	83.0	67.3	71.9	82.8	-0.1%
<i>Change</i>	24.1%	-21.9%	-19.0%	6.9%	15.2%	
Cash flow statement (€m)	2013	2014	2015	2016e	2017e	CAGR 14/17
Cash flow from operations	256.0	258.0	65.2	210.5	225.9	-4.3%
Net Investments	-193.0	-212.0	-199.4	-189.9	-188.9	-3.8%
Decrease (Increase) in WCR	3.6	-71.1	56.1	5.5	0.2	
Free cash flow	66.6	-25.1	-78.1	26.2	37.3	na
Acquisitions	-51.0	-104.0	-50.0	0.0	0.0	
Dividend	-31.2	-35.0	-38.5	-25.2	-29.0	-6.1%
Capital increase	1.0	0.0	0.0	0.0	0.0	
Divestments	-	-	-	-	-	
Miscellaneous	-7.0	-55.6	-50.0	0.0	0.0	
Increase (Decrease) in cash	-21.6	-219.7	-216.6	1.0	8.3	
Net debt	337.0	493.9	495.8	659.5	651.2	
Gearing	29.7%	42.6%	41.5%	53.0%	49.9%	

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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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