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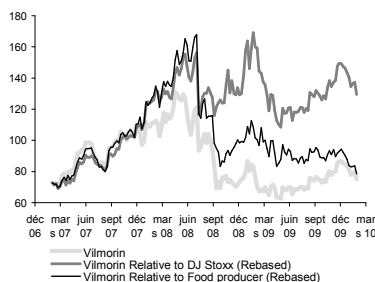
Vilmorin

Food products France

Target price lowered 75.00 vs 79.00 EUR

Recommendation Add (2)

Price (25/02/2010) 75.00 EUR



Reuter: VILM.PA
Bloomberg: RIN FP
12-month high: 88.40
12-month low: 59.50

Multiples

	06/09	06/10	06/11e	06/12e
P/E	20.3	16.4	15.7	14.1
Net. yield (%)	2.2%	2.5%	2.6%	2.7%
FCF yield (%)	1.6%	3.4%	3.9%	6.5%
P/Book value	1.7	1.5	1.4	1.3
EV/Sales	1.5	1.4	1.3	1.2
EV/EBITDA	7.4	6.5	6.0	5.4
EV/EBIT(recur)	14.3	12.3	11.4	10.2

Per share data

EUR	06/09	06/10	06/11e	06/12e
EPS (AANP)	4.00	4.56	4.76	5.32
%Change	-11.9%	13.9%	4.5%	11.7%
EPS (ANP)	3.96	4.56	4.77	5.37
%Change	19.6%	15.1%	4.8%	12.5%
Dividend	1.77	1.86	1.95	2.05
Book value	47.60	50.39	53.30	56.73

Income statement

(EUR m)	06/09	06/10	06/11e	06/12e
Sales	1 002	1 038	1 089	1 142
%Change	11.7%	3.7%	4.8%	4.9%
Op.profit(recur.)	105.1	116.0	123.8	134.6
%Change	-11.5%	10.3%	6.7%	8.7%
Op.profit(EBIT)	107.9	112.3	123.8	134.6
Attr. net profit	53.0	61.0	63.9	72.0
Adj. attr. NP	53.0	61.0	63.9	72.0

Financial data

	06/09	06/10	06/11e	06/12e
ROCE bef. Tax	9.5%	9.4%	10.0%	10.7%
ROCE after Tax	7.2%	7.0%	7.5%	8.0%
ROE	8.5%	9.3%	9.2%	9.8%
FCF	17.4	34.4	39.1	65.5
Net debt	378	381	368	330
Gearing	50.1%	47.7%	43.5%	36.5%
Net Debt/EBITDA	1.9	1.7	1.6	1.3
EBITDA/interest	7.6	9.5	9.2	10.3

Performance

	1 mo	3 mos	12 mos
Absolute perf.	-9.9%	-7.4%	-11.2%
Perf./country	0.84	0.78	1.35
Perf./DJ sector	0.93	0.90	0.69

Liquidity

Market Cap.	1 004
EV	1 411
No. of shares (m)	13.4
Groupe	71.5%
Free Float	28.5%

Wait for visibility to improve. Target price revised from € 79 to € 75. Fairly valued

Yesterday's meeting gave the company the opportunity to clarify its acquisition intentions (China and India in vegetable seeds, speeding up expansion in maize and wheat), without indicating that a major acquisition was close. In Q3, the trend remained favourable in vegetable seeds and mixed in field seeds. EBIT estimates cut by 5% but little change to our EPS estimates (lower financial expenses). Dilution following the capital increase of 10% before acquisition, and more or less neutral after. Target price lowered from € 79 to € 75 (factoring in intermediate dilution of 5%). The prospect of a change in the company's size is very relevant (R&D, market presenting considerable potential in Asia) but the lack of visibility on targets, the Q3 performance and the capital increase conditions could - in the short term - weigh down the share price. We believe that the stock is fairly valued following yesterday's sharp fall.

Change of dimension to be expected

The company stated that a number of targets were currently being considered and that it believed that there were now more acquisition opportunities, with certain operators wanting to join forces with large groups because of R&D challenges. However, we did not have the impression that a very large acquisition was imminent.

The company's targets are: 1) vegetable seeds in China (70% increase in land used for vegetables in China, changes to production methods) and India, where the market is still highly fragmented and presents strong growth potential; 2) market share in maize by means of innovation (stepping up R&D or acquisitions); 3) wheat: building on its market-leading position in Europe (R&D and operations in the main producing countries).

Concerns have been expressed about the company's intention to use part of the € 200m raised to step up R&D. However, the company stated that this capex would remain under control and we believe that within this framework, it is more a question of acquiring targets with a high level of technological content (but with no contribution to earnings in the short term) rather than increasing internal R&D expenditure substantially.

EBIT estimate lowered due to mixed trend in field seeds

We have cut our EBIT estimate by 3% because of 1) mixed conditions in field seeds, particularly in Europe (primary indication of land used for maize, up in the US and down in Europe); 2) provisions of € 4.3m for restructuring measures. This decline is offset by a more significant than expected reduction in financial expenses. Our EPS estimates remain stable.

Following yesterday's fall, we believe the stock is fairly valued

The terms of the capital increase will be set out in the next few weeks and the company has not ruled out the possibility of abandoning the project if conditions are deemed unsatisfactory. At a price of € 70-75, the number of shares would increase by around 20% and the dilutive impact on EPS would be around 10% excluding the consolidation of further acquisitions. However, the impact would be neutral including acquisitions based on multiples similar to those of Vilmorin (EV/EBIT of 12-13x) and positive if the company made use of the leverage effect.

We have revised our target price from € 75 to € 79 to take account of intermediate dilution of 5%. In the short term, the stock could be weighed down by the lack of visibility on Q3 and difficult conditions in field seeds - as illustrated by the mixed results recently announced by KWS - as well as uncertainties about the terms of the capital increase and future acquisitions. We firmly believe that the change of size in order to pool R&D costs, enlarge the genetic portfolio and speed up the company's expansion into growth markets in Asia is very relevant. However, we think that the market will take the risk of waiting for acquisitions before investing in the stock again, which we believe is fairly valued following its 7% fall yesterday.

Next event: Q3 sales on 3 May

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