

Equity Note

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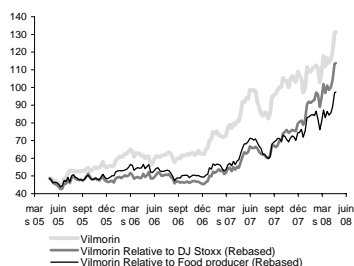
Vilmorin

Food products

France

Disposals

Recommendation	Buy (1)
Price (21/05/2008)	131.40 EUR
Target price	116.50 EUR



Reuter: VILM.PA
Bloomberg: RIN FP
12-month high: 131.48
12-month low: 82.30

Multiples

	06/07	06/08e	06/09e	06/10e
P/E	17.0	29.9	27.0	24.4
Net. yield (%)	2.4%	1.4%	1.6%	1.8%
FCF yield (%)	2.2%	3.5%	2.9%	3.6%
P/Book value	1.5	2.7	2.6	2.4
EV/Sales	1.4	2.4	2.3	2.1
EV/EBITDA	8.4	11.1	10.4	9.6
EV/EBIT(recur)	16.4	19.5	18.5	16.9

Per share data

EUR	06/07	06/08e	06/09e	06/10e
EPS (AANP)	4.09	4.40	4.87	5.39
%Change	2.3%	7.5%	10.7%	10.7%
EPS (ANP)	4.09	4.55	4.87	5.39
%Change	-10.6%	11.2%	7.0%	10.7%
Dividend	1.66	1.87	2.05	2.32
Book value	45.43	48.32	51.33	54.67

Income statement

(EUR m)	06/07	06/08e	06/09e	06/10e
Sales	938.3	895.7	925.3	959.5
%Change	88.7%	-4.5%	3.3%	3.7%
Op.profit(recur.)	80.5	108.1	112.7	121.3
%Change	42.8%	34.3%	4.2%	7.6%
Op.profit(EBIT)	95.0	108.1	112.7	121.3
Attr. net profit	54.8	60.9	65.2	72.2
Adj. attr. NP	54.8	58.9	65.2	72.2

Financial data

	06/07	06/08e	06/09e	06/10e
ROCE bef. Tax	12.1%	9.9%	10.2%	10.8%
ROCE after Tax	9.4%	7.3%	7.5%	8.0%
ROE	11.8%	9.4%	9.8%	10.2%
FCF	20.5	61.8	51.5	63.0
Net debt	345	306	279	244
Gearing	48.9%	40.8%	35.1%	28.8%
Net Debt/EBITDA	2.2	1.6	1.4	1.1
EBITDA/Interest	8.0	9.1	11.5	13.3

Performance

	1 mo	3 mos	12 mos
Absolute perf.	10.7%	18.9%	53.3%
Perf./country	1.16	1.42	1.80
Perf./DJ sector	1.07	1.27	1.48

Liquidity

Market Cap.	1 760
EV	2 082
No. of shares (m)	13.4
avg. volume /d	823
Groupe Limagrain	69.0%
Free Float	31.0%

Withdrawal from the home garden market under way – TP under review

Vilmorin has confirmed that it is selling its home garden division, with an initial deal to unload its French (Oxadis) and Polish (CNOS Vilmorin) subsidiaries for an EV of €60m. Furthermore, negotiations to sell its German business, Flora Frey Sperling, appear to be gaining momentum. As a result, we expect the company to respect its initial schedule. We estimate the total value of the divestments to be €70-80m for an estimated cash-in of €50m (€3.7 per share).

Based on the recent on-site visit in Israel, the announcement of good Q3 sales, the divestments under way, and a 2-3% upward revision in our earnings estimates, we reiterate our Buy (1) rating and are placing our target price of €116.5 under review with a view to an increase in an upcoming publication.

Terms of divestment clarified

Vilmorin yesterday provided details on the terms of its withdrawal from the home garden market (see breaking news dated 21 May 2008). In our view, there were two key new pieces of information compared with the last update on divestments made during the recent on-site visit in Israel:

- **The division consisting of Oxadis and CNOS Vilmorin (€103m in FY 2006/07) will be sold for an enterprise value of €60m.** The main French subsidiary, Oxadis (no. 1 in France), and Polish subsidiary CNOS Vilmorin (no. 2) will be sold to French company Plan SAS, a private gardening and seed company with sales of €47m. The sale is likely to be made based on a total enterprise value of €60m between now and 30 June 2008. Before that can happen, Vilmorin will have to sell Oxadis the brands and businesses specifically dedicated to home gardening (Vita, France Graines, etc.). Professional brands (Vilmorin, Clause, Tézier, etc.) will remain the property of Vilmorin and will be licensed to Plan SAS for its use.

The amount of the sale (EV of €60m) is roughly in line with our estimate at 0.6x sales of close to €100-105m and 7-7.5x EBIT.

- **Negotiations dealing with the sale of the Flora Frey Sperling division (no. 1 in Germany with sales of €14m) appear to be gaining momentum.** The news here is that the sale could take place before 30 June 2008, whereas until recently (at the on-site visit in Israel in early May) the company's time-frame was December 2008.

Lastly, the company has received several bids for its UK subsidiary, Sutton Seeds (no. 2 in the UK, sales of €25m), and has not changed its plans of making a sale before the end of the year.

Deal was expected and is good news

- **This operation was expected** (see our comments on 11 October 2007 when Vilmorin released its FY results). However, whereas it appears the initial time-frame was pushed back due to more restrictive conditions and despite the decision to sell the units individually, the company will probably have made most of its divestments by the end of the year on 30 June 2008. Oxadis and CNOS make up most of the division, i.e. over 70% of the division's business and most of its earnings.
- **Estimated total of €70-80m is less ambitious.** While the stated amount of this initial sale (€60m) is generally in line with our estimates, it appears that our original calculation for the total amount, i.e. close to €90m, was too ambitious. The €60m sales of Oxadis is an important step. The overall amount is more likely to be between €70m and €80m, which means we expect Vilmorin to get an additional €10m to €20m for Sutton (still in the development stage) and Flora Frey (Vilmorin's "Achilles' heel"). Given the debt associated with this business, the cash-in will be around €50m (not yet factored into our business plan), or €3.7 per share.

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- **A favourable mix effect.** In previous comments, we calculated that the company's divestments would increase operating margin by around 50bp and enable Vilmorin to focus on R&D spending (nearly 14% of consolidated sales). Pro forma 2006/07 results came to approximately €80m, or an operating margin of 9.9%, compared with a reported figure of €95m (10.1%). The apparent decline was mainly attributable to: 1) exceptional items (writeback of €3m of impairment) that temporarily improved the home garden contribution, and 2) accounting restatements (booking charges, etc.). Given a restated home garden operating margin of 6%, the margin mix is clearly likely to improve.
- **Income statement impact.** The Oxadis sale is likely to generate a capital gain. By contrast, the bid for Flora Frey's assets will probably be contingent upon some restructuring measures. Even though Vilmorin has written down the value of the Flora Frey assets in its accounts, certain adjustments (provisions, etc.) may be made. All told, the overall impact on the company's income statement is likely to be relatively neutral (capital gain from the sale of French businesses and Sutton Seeds, additional costs for Flora Frey). Lastly, the company's operating licences are likely to gradually generate royalties, thus strengthening the profitability of the professional division (14.8% operating margin in 2006/07, 15.2% projected for 2007/08).

Buy (1) rating reiterated – Target price of €116.5 under review

This announcement validates the seed company's strategy of refocusing on its higher-margin "professional" activities and its goal of boosting R&D spending (around €100m, of which 25% is dedicated to biotech).

The recent announcement of excellent Q3 sales (see Flash dated 7 May 2008), the confirmed withdrawal from home garden activities, and the ongoing 2-3% upward revision in our 2007/08 and 08/09 earnings estimates all reinforce **our confidence in the stock, which is among our list of recommended stocks for H1 2008.**

We reiterate **our Buy (1) rating. The stock price has climbed well above our target price of €116.5, which we will be revising in the very near future** (upcoming update).

Note that the share is on our list of recommended stocks for H1 2008. (entry price: €90).

Next event: FY sales due out 5 August 2008 (after the close), FY results due out 7 October 2008 (after the close).

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