

MORNING NEWS MIDCAPS

EQUITY RESEARCH

13 October 2014

Food

Vilmorin & Cie

VILM.PA / RIN@FP

Neutral (vs Buy)

Rating change

Let the storm pass

We are downgrading from Buy to Neutral (target price cut from €105 to €80). Though we still believe in the long term growth story, it is reasonable to wait for clearer visibility on the 2015 season before repositioning on the share.

- We are downgrading from Buy to Neutral **with a target price (average for DCF and valuation multiple) lowered from €105 to €80**. Though we still believe in the long term growth story (buoyant seeds market, ongoing market share gains in the US in corn, expansion abroad) and operating margin improvement potential long term (introduction of own developed GMO strains, operating leverage) **momentum over the next six months is likely to be difficult** (agricultural commodity prices under pressure, decline in planted corn surface in the US). **Valuation multiples**, based on our revised estimates, are broadly in line with the sector implying **narrow rerating potential**.
- **2015/2017 EPS cut by -15%**. This places us 5% under the consensus. Note that in the wake the implementation of the IFRS 11 'partnerships' standard which slates reclassification as equity affiliates for companies hitherto consolidated by the proportional consolidation method, the results of Agreliant (Maize JV in the US: €239m of sales in 2013/14) and two other companies (Genective and Soltis) now appear in the 'equity affiliate results' line. This change, implying a fall in sales and operating profit in 2013/14 of -€239m and -€20m but has no impact at the net profit level. See the details on page 2.
- **2014/15e organic growth at 4%**. While we expected a significant increase in top line performances in 2014/15, difficult market conditions for field seed groups are likely to limit scope for organic growth at +4.0% at the group level (guidance >4%). Including Agreliant, for which we expect flat sales (a decline in the amount of land used for corn), group organic growth is only likely to +3.4%.
- **Heading towards flat 2014/15 operating profit (€149 in 2014/15e)**. We estimate that the increase in R&D spend of €21m (which should enable the group to return to the level of investments as a sales % in 2011) will more than offset operating leverage and the positive business mix (organic growth in for garden seeds of +5% vs. +3.5% for field seeds). Our adjusted operating profit (incl. IFRS 11) thus comes out at €129m (adjusted operating margin of 10%, in line with guidance). Adding to this our operating profit forecast of activities which have now been consolidated by the equity method (€20m, in line with 2013/14), group 2014/15 operating profit (including Agreliant, Genective and Soltis) should come out at €149m (vs. €151.5m in 2013/14).

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Price	10/10/2014	€74.20
Target	↘	€80.00
Upside		7.8%

Performance	1m	12m	1 Jan
Absolute	-14.6%	-15.7%	-23.7%
Sector	-4.6%	9.6%	3.6%
DJS Small200	-7.4%	0.4%	-6.5%

Market capitalisation	€1.3bn
Free float	32.6%
Limagrain	67.4%
Daily volume	€830k

on 30/6	2014e	2015e	2016e
EPS (€)	4.31	4.74	5.30
Revision	-14.0%	-14.9%	-14.8%
Change	-20.2%	9.8%	11.9%

P/E (x)	17.2	15.7	14.0
P/CF (x)	5.5	9.3	5.7
EV/EBIT (x)	15.6	18.2	16.9
EV/EBITDA (x)	7.7	8.8	8.2
Net yield	2.2%	2.5%	2.5%
FCF yield	3.0%	2.1%	3.9%



Source : Natixis

Equity Markets equity.natixis.com

Bloomberg access NXGR

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

Restatement on the application of the IFRS 11 standard

€m	2013/14 rep.	2013/14 proforma	2014/15 est.
Sales	1,499.6	1,260.6	1,334.4
Operating profit	149.9	129.9	128.9
Equity affiliate earnings	3.8	23.8	27.6
o/w Agreliant/ Genective/Soltis	0.0	20	20.5
o/w other equity affiliates	3.8	3.8	7.1

Sources: Vilmorin, Natixis

Financial Data on 30/6

Vilmorin & Cie

Breakdown by activity (€m)	2012	2013	2014e	2015e	2016e	CAGR 13/16
Turnover	1,338.0	1,472.5	1,499.9	1,334.4	1,404.4	-1.6%
Field seeds	728.7	846.8	856.1	648.8	687.8	-6.7%
Vegetable seeds	527.2	544.9	562.6	603.6	633.8	5.2%
Home garden	80.8	79.5	79.9	80.7	81.5	0.8%
Holding	1.3	1.3	1.3	1.3	1.3	0.0%
Adjusted operating profit	144.3	158.3	149.9	129.7	138.2	-4.4%
Field seeds	74.0	84.0	72.9	48.7	51.6	-15.0%
Vegetable seeds	76.9	82.0	89.7	93.2	99.1	6.5%
Home garden	-1.8	-2.9	-3.5	-3.0	-2.5	4.8%
Holding	-4.8	-4.8	-9.2	-9.2	-10.0	-27.7%
Adjusted operating margin	10.8%	10.8%	10.0%	9.7%	9.8%	
Field seeds	10.2%	9.9%	8.5%	7.5%	7.5%	
Vegetable seeds	14.6%	15.0%	15.9%	15.4%	15.6%	
Home garden	-2.2%	-3.6%	-4.4%	-3.7%	-3.1%	
Holding	-369.8%	-369.2%	-707.7%	-707.7%	-769.2%	
Profit & loss statement (€m)	2012	2013	2014e	2015e	2016e	CAGR 13/16
Revenues	1,338.0	1,472.5	1,499.9	1,334.4	1,404.4	-1.6%
Change	12.3%	10.1%	1.9%	-11.0%	5.2%	
Organic growth	11.0%	9.4%	4.6%	4.0%	5.2%	
EBITDA	269.0	302.2	305.0	266.9	283.5	-2.1%
Change	-2.5%	12.3%	0.9%	-12.5%	6.2%	
EBIT	137.7	156.6	149.9	128.9	138.2	-4.1%
Change	-12.1%	13.7%	-4.3%	-14.0%	7.3%	
Adjusted EBIT	144.3	158.3	150.6	128.9	138.2	-4.4%
Change	13.9%	9.7%	-4.9%	-14.4%	7.3%	
Operating margin	10.8%	10.8%	10.0%	9.7%	9.8%	
Financial items	-26.3	-27.9	-38.0	-32.1	-30.1	
Pre-tax profit on ordinary activities	118.0	128.7	111.9	96.8	108.1	-5.6%
Exceptional items	-6.6	0.0	-1.8	0.0	0.0	
Corporate tax	-26.1	-23.3	-27.4	-28.6	-32.0	
Goodwill amortisation/ impairment	-	-	-	-	-	
Equity associates	1.8	1.7	3.8	27.6	30.9	
Minority interests	-6.5	-7.6	-4.2	-4.6	-5.1	
Net profit on divested activities	0.0	0.0	0.0	0.0	0.0	
Reported net profit	80.6	99.5	82.3	91.2	102.0	0.8%
Change	-11.4%	23.4%	-17.3%	10.8%	11.9%	
Adjusted net profit	85.7	104.0	83.0	91.2	102.0	-0.6%
Change	23.2%	21.4%	-20.2%	9.8%	11.9%	
Cash flow statement (€m)	2012	2013	2014e	2015e	2016e	CAGR 13/16
Cash flow from operations	225.7	255.2	258.0	153.8	252.3	-0.4%
Net Investments	-168.0	-193.0	-212.0	-175.7	-181.4	-2.0%
Decrease (Increase) in WCR	-67.0	3.6	-8.2	49.2	-20.8	
Free cash flow	-9.3	65.8	37.8	27.3	50.1	-8.7%
Acquisitions	-13.0	-51.0	-104.0	0.0	0.0	
Dividend	-30.3	-31.2	-35.0	-35.0	-35.7	4.5%
Capital increase	55.7	1.0	0.0	0.0	0.0	
Divestments	-	-	-	-	-	
Miscellaneous	-48.7	-6.0	-55.9	0.0	0.0	
Increase (Decrease) in cash	-45.6	-21.4	-157.0	-7.7	14.4	
Net debt	315.7	337.0	494.0	501.7	487.3	
Gearing	28.1%	29.3%	41.1%	39.7%	36.5%	

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Rating changes for Vilmorin & Cie in the last 12 months

Date	Rating	Previous	Price
10/13/2014	Neutral	Buy	€74.20

This document may mention valuation methods, which are defined as follows:

- 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.

Natixis ratings cover the next six months and are as follows:

Buy	upside over 10%
Neutral	upside between +10% and -10%
Reduce	downside of more than -10% and/or high risks on business and financial fundamentals.
Present shares	favorable response to a public offer (takeover, delisting,...)

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	Companies covered	Corporate companies
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Neutral	51.50%	0.83%
Reduce	10.30%	0.00%

Reference prices are based on closing prices.

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