

on 23 February 2015

Food

# Vilmorin & Cie

VILM.PA / RIN@FP

## Neutral

### Target price change

## Small rebound on the cards in H2

The solid performance by the vegetable seeds business will again be offset by tough conditions for the field seeds business in H2, resulting in an expected -1% lfl EBIT decline over the full year. Neutral rating reiterated and target price revised to €80.

- **We reiterate our Neutral rating and have revised our target price to €80 (vs. €72.7€)** after updating the market data and sector peer multiples used in our model. Although we still adhere to Vilmorin's long-term growth story (a buoyant seeds market, continued market share gains in the US corn market, international expansion), we are concerned that the field seeds business will continue to struggle this year (agricultural commodity prices under pressure, a reduction in corn acreage), taking a toll on EBIT (-1% lfl). **Moreover, we are now more cautious about the group's ability to significantly improve its margin level in the medium and long term** (introducing the GM traits that the group has developed will not have the impact we had previously expected).
- **Our 2014/16e EPS estimates remain broadly unchanged. We have cut our 2016/17 EPS estimate by 4% to factor in more conservative EBIT margin assumptions.**
- **Guidance fine-tuned:** although the organic growth guidance remains unchanged (>4%), the mix by division has been adjusted slightly (vegetable seeds organic growth +6/7% vs. >5% previously, field seeds organic growth +1/+1.5% vs. >3% previously). Despite this more favourable business mix, slightly lower R&D expenses (€210m vs. €215m) and the deconsolidation of Suttons (-€3m EBIT estimated in 2013/14), management is sticking with its EBIT margin guidance of 10% implying EBIT >€128m (vs. Natixis €128.8m).
- **Vegetable seeds:** the momentum should remain solid in H2 (+7.2%e organic growth, in line with the guidance) thanks to robust market trends. Despite this fine performance, we see the EBIT margin contracting by 50bp because of higher operational investments booked in H1 14/15.
- **Field seeds:** there are decent trends in Europe (at least flat over the full year for corn), but the situation in Russia/Ukraine (€80m sales in 2013/14) remains challenging and is taking a toll. The EBIT margin is set to remain flat vs. 2013/14.
- **Agreliant (equity-accounted):** given the decline in corn acreage in the USA (-5%) and a less favourable mix effect, we now expect sales to decline (-2% vs. stable previously) and EBIT to reach \$31.5m (vs. \$34.1m in 2013/14). But the forex impact will be favourable and enable net profit to rise to €19.9m (vs. €18.8m).

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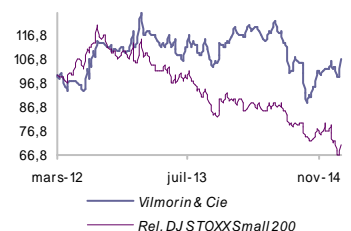
|        |            |        |
|--------|------------|--------|
| Price  | 02/20/2015 | €80.60 |
| Target |            | €80.00 |
| Upside |            | -0.7%  |

| Performance  | 1m   | 12m   | 1 Jan |
|--------------|------|-------|-------|
| Absolute     | 2.5% | -7.2% | 4.8%  |
| Sector       | 4.2% | 24.7% | 10.6% |
| DJS Small200 | 7.9% | 11.0% | 12.3% |

|                       |        |
|-----------------------|--------|
| Market capitalisation | €1.7bn |
| Free float            | 32.6%  |
| Limagrain             | 67.4%  |
| Daily volume          | €684k  |

| on 30/6  | 2015e | 2016e | 2017e |
|----------|-------|-------|-------|
| EPS (€)  | 4.21  | 4.85  | 5.38  |
| Revision | -2.2% | 0.6%  | -4.2% |
| Change   | -2.4% | 15.1% | 11.1% |

|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 19.1 | 16.6 | 15.0 |
| P/CF (x)      | 7.5  | 6.8  | 6.3  |
| EV/EBIT (x)   | 21.8 | 20.3 | 18.7 |
| EV/EBITDA (x) | 10.7 | 10.0 | 9.3  |
| Net yield     | 2.3% | 2.1% | 2.4% |
| FCF yield     | 4.2% | 2.1% | 3.2% |



Source : Natixis

Equity Markets research.natixis.com

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## Financial Data on 30/6

## Vilmorin &amp; Cie

| Breakdown by activity (€m)              | 2012           | 2013           | 2014           | 2015e          | 2016e          | CAGR 14/17        |
|---|----------------|----------------|----------------|----------------|----------------|-------------------|
| <b>Turnover</b>                         | <b>1,338.0</b> | <b>1,472.5</b> | <b>1,499.9</b> | <b>1,298.7</b> | <b>1,373.8</b> | <b>-2.3%</b>      |
| Field seeds                             | 728.7          | 846.8          | 856.1          | 627.6          | 665.2          | -7.7%             |
| Vegetable seeds                         | 527.2          | 544.9          | 562.6          | 615.4          | 652.3          | 6.2%              |
| Home garden                             | 80.8           | 79.5           | 79.9           | 54.4           | 55.0           | -11.6%            |
| Holding                                 | 1.3            | 1.3            | 1.3            | 1.3            | 1.3            | 0.0%              |
| <b>Adjusted operating profit</b>        | <b>144.3</b>   | <b>158.3</b>   | <b>149.9</b>   | <b>129.6</b>   | <b>138.5</b>   | <b>-4.4%</b>      |
| Field seeds                             | 74.0           | 84.0           | 72.9           | 47.1           | 49.9           | -15.9%            |
| Vegetable seeds                         | 76.9           | 82.0           | 89.7           | 94.8           | 101.1          | 7.2%              |
| 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%            |
| <b>Adjusted operating margin</b>        | <b>10.8%</b>   | <b>10.8%</b>   | <b>10.0%</b>   | <b>10.0%</b>   | <b>10.1%</b>   |                   |
| Field seeds                             | 10.2%          | 9.9%           | 8.5%           | 7.5%           | 7.5%           |                   |
| Vegetable seeds                         | 14.6%          | 15.0%          | 15.9%          | 15.4%          | 15.5%          |                   |
| Home garden                             | -2.2%          | -3.6%          | -4.4%          | -5.5%          | -4.5%          |                   |
| Holding                                 | -369.8%        | -369.2%        | -707.7%        | -707.7%        | -769.2%        |                   |
| <b>Profit &amp; loss statement (€m)</b> | <b>2012</b>    | <b>2013</b>    | <b>2014</b>    | <b>2015e</b>   | <b>2016e</b>   | <b>CAGR 14/17</b> |
| <b>Revenues</b>                         | <b>1,338.0</b> | <b>1,472.0</b> | <b>1,499.6</b> | <b>1,298.7</b> | <b>1,373.8</b> | <b>-2.3%</b>      |
| Change                                  | 12.3%          | 10.0%          | 1.9%           | -13.4%         | 5.8%           |                   |
| Organic growth                          | 11.0%          | 9.4%           | 4.6%           | 3.2%           | 5.8%           |                   |
| EBITDA                                  | 269.0          | 303.0          | 305.0          | 263.2          | 280.6          | -2.5%             |
| Change                                  | -2.5%          | 12.6%          | 0.7%           | -13.7%         | 6.6%           |                   |
| <b>EBIT</b>                             | <b>137.7</b>   | <b>159.2</b>   | <b>149.9</b>   | <b>128.8</b>   | <b>138.5</b>   | <b>-4.5%</b>      |
| Change                                  | -12.1%         | 15.6%          | -5.8%          | -14.0%         | 7.5%           |                   |
| Adjusted EBIT                           | 144.3          | 160.9          | 150.6          | 128.8          | 138.5          | -4.9%             |
| Change                                  | 13.9%          | 11.5%          | -6.4%          | -14.4%         | 7.5%           |                   |
| Operating margin                        | 10.8%          | 10.9%          | 10.0%          | 9.9%           | 10.1%          |                   |
| Financial items                         | -26.3          | -27.9          | -38.0          | -37.0          | -33.3          |                   |
| Pre-tax profit on ordinary activities   | 118.0          | 131.3          | 111.9          | 91.8           | 105.2          | -7.1%             |
| Exceptional items                       | -6.6           | 0.0            | -1.8           | 0.0            | 0.0            |                   |
| Corporate tax                           | -26.1          | -23.6          | -27.4          | -28.0          | -32.1          |                   |
| Goodwill amortisation/ impairment       | -              | -              | -              | -              | -              |                   |
| Equity associates                       | 1.8            | 1.7            | 3.8            | 29.8           | 34.5           |                   |
| 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            |                   |
| <b>Reported net profit</b>              | <b>80.6</b>    | <b>101.8</b>   | <b>82.3</b>    | <b>89.0</b>    | <b>102.5</b>   | <b>0.2%</b>       |
| Change                                  | -11.4%         | 26.3%          | -19.2%         | 8.2%           | 15.1%          |                   |
| Adjusted net profit                     | 85.7           | 106.3          | 83.0           | 89.0           | 102.5          | -1.2%             |
| Change                                  | 23.2%          | 24.1%          | -21.9%         | 7.3%           | 15.1%          |                   |
| <b>Cash flow statement (€m)</b>         | <b>2012</b>    | <b>2013</b>    | <b>2014</b>    | <b>2015e</b>   | <b>2016e</b>   | <b>CAGR 14/17</b> |
| Cash flow from operations               | 225.7          | 256.0          | 258.0          | 228.0          | 249.7          | -0.8%             |
| Net Investments                         | -168.0         | -193.0         | -212.0         | -204.0         | -202.1         | 1.5%              |
| Decrease (Increase) in WCR              | -67.0          | 3.6            | -71.1          | 46.0           | -12.3          |                   |
| Free cash flow                          | -9.3           | 66.6           | -25.1          | 70.0           | 35.3           | -19.1%            |
| Acquisitions                            | -13.0          | -51.0          | -104.0         | -50.0          | 0.0            |                   |
| Dividend                                | -30.3          | -31.2          | -35.0          | -38.5          | -35.9          | 4.7%              |
| Capital increase                        | 55.7           | 1.0            | 0.0            | 0.0            | 0.0            |                   |
| Divestments                             | -              | -              | -              | -              | -              |                   |
| Miscellaneous                           | -48.7          | -7.0           | -55.6          | -50.0          | 0.0            |                   |
| Increase (Decrease) in cash             | -45.6          | -21.6          | -219.7         | -68.5          | -0.6           |                   |
| <b>Net debt</b>                         | <b>315.7</b>   | <b>337.0</b>   | <b>493.9</b>   | <b>512.4</b>   | <b>513.0</b>   |                   |
| <b>Gearing</b>                          | <b>28.1%</b>   | <b>29.7%</b>   | <b>42.6%</b>   | <b>42.2%</b>   | <b>39.9%</b>   |                   |

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## Rating changes for Vilmorin &amp; Cie in the last 12 months

| Date       | Rating  | Previous | Price  |
|------------|---------|----------|--------|
| 10/13/2014 | Neutral | Buy      | €67.46 |

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- 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.
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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 |
|---------|-------------------|---------------------|
| Buy     | 31.42%            | 5.63%               |
| Neutral | 56.19%            | 1.57%               |
| Reduce  | 12.39%            | 0.00%               |

Reference prices are based on closing prices.

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