Equity Note

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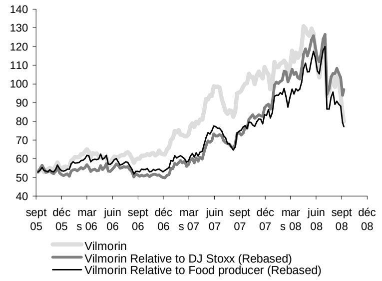
Vilmorin

Food products France

Full-year earnings	
Recommendation	**Buy (1)**
Price (07/10/2008)	**79.89 EUR**
Target price	**100.00 EUR**



Reuter:	VILM.PA
Bloomberg:	RIN FP
12-month high:	131.48
12-month low:	79.26

Multiples

	06/07	06/08e	06/09e	06/10e
P/E	17.0	22.1	17.0	15.5
Net. yield (%)	2.4%	1.4%	2.7%	2.9%
FCF yield (%)	2.2%	3.0%	3.6%	4.7%
P/Book value	1.5	2.2	1.6	1.5
EV/Sales	1.4	2.0	1.5	1.4
EV/EBITDA	8.4	9.3	7.0	6.5
EV/EBIT(recur)	16.4	16.2	12.1	11.2

Per share data

EUR	06/07	06/08e	06/09e	06/10e
EPS (AANP)	4.09	4.77	4.71	5.14
%Change	2.3%	16.6%	-1.3%	9.1%
EPS (ANP)	4.09	3.58	5.05	5.51
%Change	-10.6%	-12.6%	41.1%	9.1%
Dividend	1.66	1.47	2.12	2.31
Book value	45.43	47.35	50.93	54.32

Income statement

(EUR m)	06/07	06/08e	06/09e	06/10e
Sales	938.4	896.9	950.6	988.1
%Change	88.7%	-4.4%	6.0%	3.9%
Op.profit(recur.)	80.5	111.1	120.2	127.0
%Change	42.8%	38.0%	8.1%	5.7%
Op.profit(EBIT)	95.0	111.1	120.2	127.0
Attr. net profit	54.8	47.9	67.7	73.8
Adj. attr. NP	54.8	63.9	67.7	73.8

Financial data

	06/07	06/08e	06/09e	06/10e
ROCE bef. Tax	12.1%	10.0%	10.5%	10.8%
ROCE after Tax	9.4%	7.5%	7.8%	8.0%
ROE	11.8%	10.3%	10.3%	10.5%
FCF	20.5	42.0	39.0	50.3
Net debt	345	346	335	313
Gearing	48.9%	47.2%	42.7%	37.6%
Net Debt/EBITDA	2.2	1.8	1.6	1.4
EBITDA/interest	8.0	7.7	8.4	9.5

Performance

	1 mo	3 mos	12 mos
Absolute perf.	-18.8%	-28.7%	-17.0%
Perf./country	0.92	0.84	1.33
Perf./DJ sector	0.91	0.82	1.07

Liquidity

Market Cap.	1 070
EV	1 449
No. of shares (m)	13.4
avg.volume /d	
Groupe	69.0%
Free Float	31.0%

Good full-year results: growth continues

Vilmorin has published excellent results, with operating profit up +47.5% to €115.2m, ahead of our forecast and consensus. Operating margin was a record 12.8% vs 9.7%, a gain of 310bp.
The group confirms that growth is continuing, though at a more modest rate (+6%, on our estimates), with margins continuing to improve despite an ambitious investment programme aimed at reinforcing its position as the world No4 seed producer.
Our 2008/09 assumptions remain conservative. We maintain our Buy (1) rating, though with a new, lower target price of €100 (vs €135) to allow for the adjustment of comparables (particularly Monsanto) and an increase in Oddo's risk premium to 6% from 5% (i.e. a WACC of 8.1% vs 7.4%).

Publication of full-year results

Together with full-year sales growth of +11.5% to €896.9m (+13.4% like for like), the group reports a strong improvement in operating profitability, with operating profit of €115.2m compared with €78.1m on a pro-forma basis (deconsolidation of the consumer business), an increase of +47.5%. This result is 3.5% above our forecast of €111m.

Operating margin was thus at an historic high of 12.8% vs 9.7% (adjusted basis) and our own forecast of 12.4%. Net profit was, as expected, impacted by the result for the discontinued operations (Consumer division), i.e. -€16.5m, coming in at €51.1m vs €57.3m and €50m forecast. The increase in the share of minorities resulted in attributable net profit of €44.3m, slightly below our forecast of €47.9m.

FULL-YEAR RESULTS

(€m)	Published	Oddo Midcap estimates	Prev. period proforma	Published /Prev. period
Sales	896.9		804.7	+11.5%
Operating profit	115.2	111.1	78.1	+47.5%
Operating margin	12.8%	12.4%	9.7%	+310bp
Earnings from continuing ops	67.6	66.0	45.5	+48.5%
Earnings from discontinued ops	-16.5	-16.0	11.8	ns
Net profit	51.1	50.0	57.3	-10.8%
Attrib net profit	44.3	47.9	54.8	-19.1%

SOURCE: COMPANY, ODDO MIDCAP

Publication of full-year results

We would highlight the following points:

- As we expected, the group recorded an excellent performance, with operating profit up +47.5% and a 310bp gain in operating margin. We note that this result is slightly above our forecast and consensus. It is also significantly above management's guidance (>12%). The performance is mainly due to an improvement in gross margin (+100bp to 45.7%), as well as firm control of operating expenses, which increased by just +4.7%.
- We note that group operating margin for H2 was above 20%, also a record level, compared with 17.6% for the comparable half-year period. This performance was partly due to the health of the Field Seeds business (despite the reduced corn acreage in the US)
- Although we have no detail on contributions, we believe the Field Seeds division probably made a significant contribution to this performance because of the strong top-line growth (+21.2% on an unchanged consolidation basis and at constant exchange rates, of which +23.2% for the European activities). These results can mainly be attributed to volume, price and mix effects (share of GMOs in the US). We estimate the operating margin of the Field Seeds activity at around 9% vs less than 7% the previous year.

- In France, the group benefited from changes to the method for applying and calculating the tax credit for research, i.e. +€20.3m vs €9.7m. Excluding this impact, the group improved its operating margin by 200bp. In reality, the performance was greater still, with the previous year including negative goodwill of €9m.
- Net profit was impacted by the withdrawal from the Consumer activities in Germany, with the disposal of Flora Frey (-€16.5m). We note that the largest part of the minority interests mainly corresponds to the part not held within LVH (the group's European Field Seeds activity), a contribution that we had underestimated.
- As for outlook, management confirmed that top-line growth should continue, as should margin improvement, though not at the same rate as in the previous year. As expected, the group will step up its investment strategy in order to maintain future value creation and keep barriers to entry extremely high. For our part, we forecast 2008/09 sales growth of +6% to €950m. We maintain our operating profit forecast of €120m, which is a conservative assumption, given the performance achieved in the year just ended (+4%). Our margin forecast of 12.6% (vs 12.4% forecast for 2007/08 and 12.8% published) also looks cautious. In 2008/09, the group should benefit from: i/ continued organic growth; ii/ a still favourable price effect; iii/ reallocations in favour of corn in the US; and iv/ a still positive mix effect.

Buy (1) reiterated, with new target price of €100 (vs €135)

Despite the unfavourable investment climate, we maintain our Buy (1) rating on the stock, which is still benefiting from good performances in terms of earnings growth. The agricultural context and commodity price trends have declined somewhat as sources of growth, in contrast to recent quarters, but fundamentals remain unchanged for the medium term. In addition, the group should maintain growth at a reasonable rate of around 4-5%.

However, given trends for comparable companies (e.g. Monsanto, which is down -25% since January 1 and -47% since June, despite regular upgrades to guidance) and an increase to Oddo's risk premium to 6% vs 5% previously (giving a WACC of 8.1% vs 7.4% previously), we are lowering our price target to €100 (vs €135 previously).

The stock's defensive dimension, which has played its role in full during the first half of the calendar year, has recently been tarnished, but the fact remains that the group is less exposed to a sudden downturn in activity.

Next events: Meeting today, Q1 sales on November 12, 2008 (after close)

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