Equity Note

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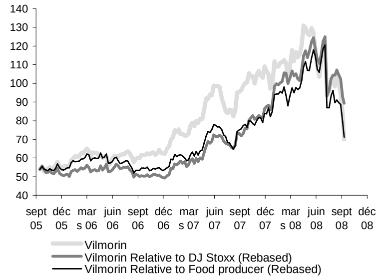
Vilmorin

Food products | France

Conference feedback	
Recommendation	**Buy (1)**
Price (08/10/2008)	**70.01 EUR**
Target price	**100.00 EUR**



Reuter:	VILM.PA
Bloomberg:	RIN FP
12-month high:	131.48
12-month low:	70.01

Multiples

	06/07	06/08e	06/09e	06/10e
P/E	17.0	22.1	14.9	13.6
Net. yield (%)	2.4%	1.4%	3.0%	3.3%
FCF yield (%)	2.2%	3.0%	4.2%	5.4%
P/Book value	1.5	2.2	1.4	1.3
EV/Sales	1.4	2.0	1.4	1.3
EV/EBITDA	8.4	9.3	6.3	5.9
EV/EBIT(recur)	16.4	16.2	11.0	10.2

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.	-32.7%	-36.8%	-27.8%
Perf./country	0.84	0.78	1.23
Perf./DJ sector	0.79	0.76	0.97

Liquidity

Market Cap.	938
EV	1 316
No. of shares (m)	13.4
avg.volume /d	
Groupe	69.0%
Free Float	31.0%

Meeting feedback

Although market conditions are more uncertain, management confirms its top line growth guidance of 5-6%, which we believe is realistic in view of current initial harvests (rape, wheat). Despite increased R&D efforts, the company expects to achieve operating margin of 12% - similar to last year's guidance - which may be cautious if the spring harvest in the US, among others, is in line with expectations (allocation to the benefit of corn).
We are leaving our estimates unchanged with top line growth of 6% and operating margin of 12.5%.
Buy (1) recommendation maintained - target price of € 100.

Continued growth with priority given to investment in R&D

Following the full-year earnings presentation meeting, we would note the following key points:

- 2007-08 was a record year, with margins at an all-time high and particularly favourable market conditions. Operating margin improved by 310 bp, primarily thanks to: i/ a high level of sales with a favourable price effect (around +10 bp for corn); ii/ a significant contribution from the vegetable seeds business with impressive operating margin of 18% (60% of total operating profit); iii/ strong recovery in the field seeds business with operating margin of 9.5% vs. less than 7% last year.
- Despite a relatively high base effect and weaker visibility in general market conditions, management remains confident in view of the following factors:
    - i/ the vegetable seeds market is less volatile and should confirm the performance seen last year (sales growth of over 5%);
    - ii/ the start of the season for field seeds in Europe is looking favourable for rape and wheat harvests, among others. Cultivated land should continue to benefit from the abolition of fallow land and stocks are at a relatively low level. Initial harvests show stronger growth than last year;
    - iii/ visibility in the US is weaker for the time being, as the majority of the harvest will be in the spring. The market is expected to see a shift towards corn (as opposed to soybean) for the next season, which should have a favourable impact provided there is sufficient availability;
    - iv/ further price increases of 5-10% are expected (to be confirmed), with Monsanto having recently announced further price rises.
- These factors should be weighted, taking account of more difficult general market conditions, even though the agricultural market is less sensitive. We believe that this justifies management's cautious guidance, with top line growth of 5-6% and operating margin of 12%. Remember that last year, management's initial operating margin guidance of 10.5-11% was revised to 12% and it eventually achieved operating margin of 12.8%. This 2008-09 guidance takes account of a more aggressive investment strategy, with an R&D budget of € 120m vs. € 105m, i.e. an additional € 15m vs. € 7-8m once up to speed. However, this budget may be adjusted in the course of the year.
- The company benefits from leeway in a number of respects, including: i/ a healthy balance sheet, with net cash of € 260m and unused credit lines of € 150-200m; ii/ financial expenses under control, with non-recurring costs of € 5-6m in 2008-09.
- The company is expected to make a definitive withdrawal from consumer activities over the next few months. It has reached an agreement with Plan SAS concerning licence terms, with the financing terms still to be confirmed. EV is confirmed at € 60m.

Equity Note

Buy (1) recommendation confirmed - Target price of € 100

The company's stronger than expected 2007-08 performance provides an unfavourable reference base. However, its fundamentals remain unchanged. We confirm our estimates, with sales growth of 6% to € 950m. This estimate may seem cautious if price rises are confirmed, among other reasons because of the continuing mix effect (sales in the US increased by value last year while volumes were down 8%).

We reiterate our operating profit estimate of € 119-120m vs. € 115m with operating margin of 12.5%. Management expects operating profit to remain flat at € 115m. Notwithstanding an economic cataclysm, we believe that Vilmorin benefits from leeway (volume effect, prices, continuing improvement in the product mix - e.g. new vegetable seed varieties, increasing weighting of GM products etc.), while management would not put margins at risk despite more ambitious investment plans.

We have not factored the impact of the capital gain on the sale of Oxadis into our EPS estimates.

We reiterate our Buy (1) recommendation with a target price of € 100 on the basis of the decline in the company's peers and a higher risk premium of 6% vs. 5%.

Next event: Q1 sales on November 12 (after market close)

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