

# Equity Note

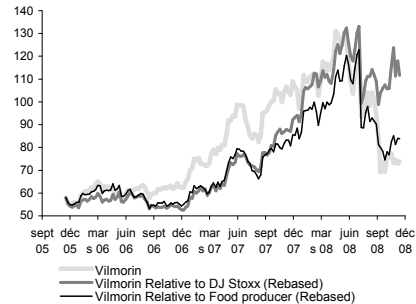
Jean-François Granjon  
+33 (0)4 72 68 27 05  
jfggranjon@oddo.fr

## Vilmorin

Food products France

### AGM - EGM

<b>Recommendation</b>	<b>Buy (1)</b>
<b>Price (11/12/2008)</b>	<b>73.90 EUR</b>
<b>Target price</b>	<b>100.00 EUR</b>



Reuter: VILM.PA  
Bloomberg: RIN FP  
12-month high: 131.48  
12-month low: 68.40

### Multiples

	06/08	06/09e	06/10e	06/11e
P/E	23.2	15.2	14.1	12.8
Net. yield (%)	1.6%	2.3%	2.5%	2.8%
FCF yield (%)	3.0%	3.7%	5.4%	6.7%
P/Book value	2.3	1.5	1.4	1.3
EV/Sales	2.0	1.4	1.3	1.2
EV/EBITDA	8.8	6.3	5.8	5.3
EV/EBIT(recur)	14.9	11.4	10.6	9.6

### Per share data

EUR	06/08	06/09e	06/10e	06/11e
EPS (AANP)	4.54	4.88	5.25	5.75
%Change	10.9%	7.4%	7.7%	9.5%
EPS (ANP)	3.31	4.90	5.30	5.83
%Change	-19.2%	48.0%	8.2%	10.1%
Dividend	1.66	1.71	1.86	2.04
Book value	45.95	49.18	52.77	56.75

### Income statement

(EUR m)	06/08	06/09e	06/10e	06/11e
Sales	896.9	950.6	988.1	1 028
%Change	-4.4%	6.0%	3.9%	4.0%
Op.profit(recur.)	118.8	118.0	124.8	132.7
%Change	47.5%	-0.7%	5.8%	6.4%
Op.profit(EBIT)	115.2	118.0	124.8	132.7
Attr. net profit	44.3	65.6	71.0	78.1
Adj. attr. NP	60.8	65.6	71.0	78.1

### Financial data

	06/08	06/09e	06/10e	06/11e
ROCE bef. Tax	10.5%	10.5%	10.8%	11.3%
ROCE after Tax	8.1%	8.0%	8.1%	8.4%
ROE	9.9%	10.3%	10.4%	10.7%
FCF	42.4	37.1	53.4	66.7
Net debt	323	317	286	244
Gearing	43.7%	40.1%	33.9%	27.1%
Net Debt/EBITDA	1.6	1.5	1.3	1.0
EBITDA/Interest	6.7	8.9	10.3	11.8

### Performance

	1 mo	3 mos	12 mos
Absolute perf.	-1.4%	-26.3%	-29.9%
Perf./country	1.03	1.00	1.29
Perf./DJ sector	1.03	0.97	1.13

### Liquidity

Market Cap.	990
EV	1 318
No. of shares (m)	13.4
Groupe	1
Free Float	30.0%

## Feedback AGM – Confirmation of guidance

Despite a tough environment, management yesterday reaffirmed its growth targets and 2008-09 guidance at the group's AGM. The message was upbeat yet prudent given the context of highly volatile commodity prices. Seed makers and farmers are currently facing a dilemma: on the one hand, speculation-driven commodity-price volatility and more difficult access to credit are clouding visibility for farmers; on the other hand, ever-growing food needs is making access to high-yield seeds increasingly critical, thereby reinforcing the strategic positioning of seed makers.

The group confirmed its 2008-09 targets, namely top-line growth of +5-6% and an operating margin of 12%. We are confirming our forecasts. Recommendation and target price unchanged.

### Holding firm

We noted the following points at yesterday's AGM:

- The strategic stakes are high, with the **need to satisfy growing demand for food globally and new market openings in a context marked by low food stocks around the world** (low yields over recent years, poor weather conditions, collapse of harvests in Argentina recently, etc.). Against this backdrop, the group is capitalising on its R&D efforts (the budget is set to increase by +14% in 2008-09 to €120m without taking partnerships into account) in order to reinforce its market share in conventional seeds (75% of the R&D budget) as well as in GMO seeds (25% of the R&D budget). The latter offer **higher yields (+30%) and have double the market value, in a market that is growing strongly** (+17% since 2002 vs +6% for conventional seeds). The aim is to increase yields per hectare by more than 30% by 2040.
- Going forward, the situation at end-October confirmed the group's growth trends. The market for **vegetable seeds** has confirmed its trend (+5%, market share gains for Clause and Vilmorin). For **field seeds in Europe**, autumn sowings confirmed market share gains. However, there appears to be a risk of insufficient maize sowings, which will probably lead to higher selling prices. Lastly, trends are still up and down in **field seeds in North America**, with the market looking set to show steady volumes in maize (to be confirmed), while value remains on the side of GMO seeds (as in the previous year). Moreover, price hikes of between +5% and +10% included in the group's budget have been applied in the field seeds division.
- A question mark is still hanging over the prospective **disposal of Oxadis** (the sale of Flora Frey is effective and underway for Suttons). The process could take longer than expected given problems possible buyers (two offers to date) could face raising funding and because the group is not pressed for time given this division's profitability (8% operating margin on sales of €60m after the sale of the pet business).
- Despite farmers having less money to spend and limited visibility due to the volatility of commodity prices, management looks comfortable thanks to 1) **price hikes**, seeds being a strategic expenditure, whereas capex and equipment purchases can be reined in more "easily", 2) the phasing-in of **secured payments** in Eastern Europe and elsewhere (Coface, prepayments in the US, etc.), bearing in mind that the group has not had to bear any non-payments, 3) **production under contract**, etc.

## Buy recommendation maintained

We are confirming our 2008-09 forecasts, namely **top-line growth of +6% to €950m**. We are assuming a near 5% increase in prices but are more prudent on volumes (flat due to tension on upcoming maize sowings). Note that the group stands to benefit from the stronger greenback (bear in mind that the exchange rate averaged \$1.47 for the 2007-08 fiscal year, implying a possible gain of 2 points of growth in 2008-09). We are leaving our operating margin forecast at 12.4%, a touch more challenging than the group's guidance of 12%.

Note that the group is to pay a stable dividend of €1.66 per share on 22 December, representing a payout ratio of 50.1% and a dividend yield of 2.2%.

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## Equity Note

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*Next event: Payment of dividend on 22 December 2008 – Release of interim revenues on 4 February 2009 (after trading).*

*Participation in our Midcap Event on 8 and 9 January 2009.*

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PATRICK ODDOUX PRESIDENT, ODDO SECURITIES CORP. (NEW YORK), [poddoux@oddony.com](mailto:poddoux@oddony.com)

150 EAST 52<sup>ND</sup> STREET  
NEW YORK, NEW YORK 10022  
212-481-4002