Equity Note

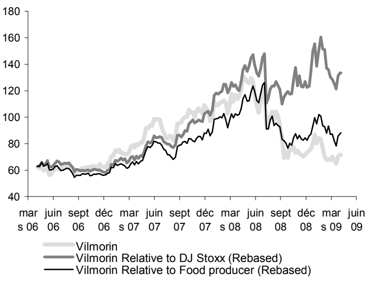
Vilmorin

Food products France

Reco. lowered Add (2) vs Buy (1)

Price (05/05/2009) 71.59 EUR

Target price 70.00 EUR



Reuter:	VILM.PA
Bloomberg:	RIN FP
12-month high:	131.48
12-month low:	64.98

Multiples

	06/08	06/09e	06/10e	06/11e
P/E	23.2	16.1	15.8	14.1
Net. yield (%)	1.6%	2.2%	2.2%	2.5%
FCF yield (%)	3.0%	1.6%	4.5%	5.7%
P/Book value	2.3	1.5	1.4	1.3
EV/Sales	2.0	1.3	1.3	1.2
EV/EBITDA	8.8	6.7	6.3	5.7
EV/EBIT(recur)	14.9	12.9	12.4	11.1

Per share data

EUR	06/08	06/09e	06/10e	06/11e
EPS (AANP)	4.54	4.45	4.54	5.09
%Change	10.9%	-2.1%	2.1%	12.1%
EPS (ANP)	3.31	4.43	4.53	5.12
%Change	-19.2%	34.0%	2.2%	13.0%
Dividend	1.66	1.55	1.59	1.79
Book value	45.95	48.72	51.70	55.24

Income statement

(EUR m)	06/08	06/09e	06/10e	06/11e
Sales	896.9	995.3	1 018	1 053
%Change	-4.4%	11.0%	2.3%	3.5%
Op.profit(recur.)	118.8	104.0	106.6	116.0
%Change	47.5%	-12.5%	2.5%	8.8%
Op.profit(EBIT)	115.2	104.0	106.6	116.0
Attr. net profit	44.3	59.4	60.7	68.6
Adj. attr. NP	60.8	59.4	60.7	68.6

Financial data

	06/08	06/09e	06/10e	06/11e
ROCE bef. Tax	10.5%	9.2%	9.1%	9.8%
ROCE after Tax	8.1%	7.1%	6.8%	7.3%
ROE	9.9%	9.4%	9.0%	9.6%
FCF	42.4	15.2	42.8	54.3
Net debt	323	338	317	283
Gearing	43.7%	43.5%	38.6%	32.6%
Net Debt/EBITDA	1.6	1.7	1.5	1.3
EBITDA/interest	6.7	8.2	9.0	10.2

Performance

	1 mo	3 mos	12 mos
Absolute perf.	2.3%	-13.7%	-38.6%
Perf/country	0.89	0.99	1.08
Perf/DJ sector	0.91	0.98	1.02

Liquidity

Market Cap.	959
EV	1 318
No. of shares (m)	13.4
Groupe	1
Free Float	30.0%

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Vilmorin

Disappointing guidance - Temporary bad patch - Recommendation downgraded from Buy to Add (2) - Target price revised from € 100 to € 70

In addition to Q3 sales, Vilmorin has announced disappointing guidance, prompting us to lower our 2008-09 operating profit estimates by 13%. The company has been subject to more difficult market conditions in Western Europe (lower volumes) and Eastern Europe (financial difficulties facing clients), affecting the field seeds business and, to a certain extent, the vegetable seeds business. Only North America delivered an excellent performance.

However, this is just a temporary disappointment and the company's fundamentals are not called into question.

Following our adjustments and our increased risk premium, we have revised our target price from € 100 to € 70, presenting limited upside. We have downgraded our recommendation from Buy to Add (2). The consensus is likely to be revised downwards by around 15% for the current year.

Q3 sales

Vilmorin has reported Q3 sales of € 449.2m vs. € 380.5m reported or € 428.5m pro forma (after the re-integration of garden products activities, including Oxadis and Suttons). This represents an increase of 4.8% or 6.7% like-for-like and at constant exchange rates. This performance is stronger than we had expected but includes UK subsidiary Suttons, the sale of which has been put back. Over the first nine months of the year, sales totalled € 755.0m vs. € 659.2m or € 746.9m pro forma, up 1% or 4.6% like-for-like and at constant exchange rates.

Q3/9M SALES

(€m)	Reported	Oddo Midcap	Prior period pro forma	% change	% change lfl and cer
Q3 sales	449.2	428.6	428.5	+4.8%	+6.7%
Vegetable seeds	121.8	127.8	118.9	+2.4%	+0.1%
Field seeds	283.8	268.4	258.8	+9.6%	+9.8%
Garden products	43.2	32.5	50.8	-14.9%	+5.4%
9M sales	755.0	727.7	746.9	+1.0%	+4.6%
Vegetable seeds	283.0	289.0	270.4	+4.6%	+2.3%
Field seeds	404.1	388.7	383.8	+5.2%	+6.5%
Garden products	67.1	50.1	92.7	-27.6%	+2.5%

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

Estimates lowered and cautious stance towards 2009-10

While Q3 sales are generally in line with our estimates, or even slightly higher due to the re-integration of UK subsidiary Suttons, we are likely to be more cautious following yesterday's presentation. We would note the following:

First of all, in view of current market conditions, **the company is not going ahead with the sale of UK subsidiary Suttons** (sales of € 23m), which will have the same fate as Oxadis, i.e. re-integrated into the scope of consolidation. Overall, sales of around € 85 will be re-integrated.

- The field seeds business delivered a fairly strong performance, with nine-month sales up 6.5% and growth of 9.8% in Q3. Remember that at the end of H1, pro forma sales were down 0.5%. This is therefore higher than we had expected. Although it is true that the season falls mainly in Q3 (in Europe and North America), we need to differentiate between European and North American activities. **In the US, the company continued to deliver a remarkable performance** with nine-month sales up 27.9% or 26% like-for-like and at constant exchange rates, thanks to a continuing extremely favourable mix/price effect (higher selling prices and predominance of GM seeds, which make up the majority of the market in North America). Meanwhile, the sluggish performance in Europe in H1 was confirmed due to greater caution in Eastern Europe, among other factors. Nine-month sales fell by 1.3% to € 294m (flat in Q3). This poor performance is because of: i/ **a sharp and deliberate fall in the main countries in Eastern Europe** (sales down € 15m) in order to reduce the risk of non-payment; ii/ a confirmed "wait-and-see" stance in Western Europe for maize (arbitrage etc.), with a sharper than expected fall in volumes (down 5%).

- As regards the vegetable seeds business, sales came to € 283m over the first nine months of the year, well below our estimate, representing like-for-like growth of 2.3% but with more or less flat growth in Q3. The company was affected by a confirmed decline in the market within the Mediterranean Basin, affecting Israeli subsidiary Hazera in particular.
- In terms of guidance, management has shown itself to be particularly cautious, revising its growth estimates fairly significantly (growth of 2-3% vs. 5-6% previously). In the light of this performance and given that Q3 generally accounts for around 42-43% of full-year sales, **we believe that our full-year sales estimate of over € 1bn may be ambitious.** On the basis of more modest organic growth, we expect sales of € 995m, taking account of organic growth of around 2% for the vegetable seeds business (40.5% of total sales) and growth of 1% for the field seeds business (51% of total sales). These new estimates also take account of a significant reduction of around 37% in the contribution from countries in Eastern Europe from € 80m to € 50m. Lastly, we expect sales of € 85m from the garden products business.
- As regards earnings and in order to take account of our revised topline estimates, we are also likely to adopt a more cautious stance. We now expect **operating profit of around € 104m (vs. € 120m previously)** vs. € 115m the previous year (excluding garden products), with operating margin of 10.4%. **This is generally in line with management's new guidance of around 11% excluding garden products (vs. 12% previously).** Including garden products, the less favourable mix effect justifies a loss of 50-60bp. This significant downwards revision may come as a surprise but is nevertheless justified by: i/ the continuing high level of investment (R&D expenditure up € 15m); ii/ a less favourable business mix with the re-integration of garden activities and weaker sales in the vegetable seeds business, while margins are very high (17.9% last year); iii/ lower volumes in the field seeds business, making it more difficult to absorb fixed costs.
- Visibility is limited for 2009-10. The company is likely to remain cautious in Eastern Europe, where it could cut back its presence further (see our recent comments concerning Exel Industries). The "wait-and-see" stance in the agricultural market is expected to continue, giving rise to questions about arbitrage. **Lastly, after two years of sharp rises in selling prices, increases are now likely to be more modest.**

Recommendation downgraded from Buy to Add (2) - Target price revised from € 100 to € 70

Our revised estimates include a 1.5% reduction in our 2008-09 sales estimate to € 995m and a 3.5% reduction in our 2009-10 estimate to € 1,018m. **We have lowered our operating profit estimate by 13% to from € 120m to € 104m, down 9.7% vs. last year.** Our 2009-10 estimate has been cut by 15% to € 107m. We have revised our 2008-09 EPS estimate from € 4.88 to € 4.45 and our 2009-10 estimate from € 5.25 to € 4.54.

The consensus is considerably higher (€ 115-120m) and is likely to be revised downwards by around 15%.

This clearly constitutes a temporary disappointment, even though the company's fundamentals and strategy remain unchanged and promising in view of current developments (long-term leverage with the development of GM seeds, hybrid varieties etc.). In the shorter term, the outlook presents a more fragile profile compared with a record year in 2007-08.

On the basis of our **revised estimates, we have lowered our target price from € 100 to € 70.** This takes account of a higher risk premium due to the current disappointment, with a WACC of 9%. In view of the temporary bad patch, news flow with no drivers and limited upside, **we have downgraded our recommendation from Buy to Add (2).**

Next event: full-year sales on 4 August (after market close)

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