

Vilmorin

Food products
France

Price: EUR 74.0

February 08, 2007

Recommendation: Add (2)

Target price: EUR 80.0

Reuter: VILM.PA

Bloomberg: RIN FP

12-month high: 74.0

12-month low: 56.2

Multiples

| | 06/06 | 06/07e | 06/08e | 06/09e |
|----------------|-------|--------|--------|--------|
| P/E | 14.1 | 19.1 | 16.7 | 14.9 |
| Net. yield (%) | 2.9% | 2.5% | 2.8% | 3.1% |
| FCF yield (%) | 7.9% | 3.7% | 4.9% | 6.0% |
| P/Book value | 1.7 | 1.7 | 1.6 | 1.5 |
| EV/Sales | 1.3 | 1.5 | 1.4 | 1.3 |
| EV/EBITDA | 7.0 | 8.4 | 7.6 | 6.9 |
| EV/EBIT(recur) | 12.0 | 15.6 | 13.9 | 12.5 |

Per share data

| EUR | 06/06 | 06/07e | 06/08e | 06/09e |
|------------|-------|--------|--------|--------|
| EPS (AANP) | 4.00 | 3.88 | 4.42 | 4.96 |
| %Change | 18.6% | -3.1% | 13.9% | 12.2% |
| EPS (ANP) | 4.58 | 3.88 | 4.42 | 4.96 |
| %Change | 35.6% | -15.3% | 13.9% | 12.2% |
| Dividend | 1.62 | 1.82 | 2.08 | 2.33 |
| Book value | 33.74 | 44.67 | 47.27 | 50.15 |

Income statement

| (EUR m) | 06/06 | 06/07e | 06/08e | 06/09e |
|-------------------|-------|--------|--------|--------|
| Sales | 497.3 | 966.2 | 996.8 | 1 031 |
| %Change | 1.6% | 94.3% | 3.2% | 3.5% |
| Op.profit(recur.) | 53.4 | 92.4 | 102.0 | 111.7 |
| %Change | 14.8% | 73.1% | 10.3% | 9.5% |
| Op.profit(EBIT) | 52.5 | 90.7 | 100.5 | 110.2 |
| Attr. net profit | 43.8 | 51.9 | 59.2 | 66.4 |
| Adj. attr. NP | 38.3 | 51.9 | 59.2 | 66.4 |

Financial data

| | 06/06 | 06/07e | 06/08e | 06/09e |
|-----------------|-------|--------|--------|--------|
| ROCE bef. Tax | 11.4% | 11.1% | 8.5% | 9.2% |
| ROCE after Tax | 9.8% | 8.0% | 6.2% | 6.7% |
| ROE | 12.3% | 11.3% | 9.6% | 10.2% |
| FCF | 42.4 | 36.9 | 48.1 | 59.6 |
| Net debt | 69 | 400 | 378 | 348 |
| Gearing | 18.7% | 55.9% | 50.1% | 43.6% |
| Net Debt/EBITDA | 0.8 | 2.3 | 2.0 | 1.7 |
| EBITDA/interest | 24.6 | 12.4 | 13.7 | 15.7 |

Performance

| | 1 mo | 3 mos | 12 mos |
|-----------------|-------|-------|--------|
| Absolute perf. | 18.6% | 18.6% | 26.4% |
| Perf./country | 1.16 | 1.14 | 1.09 |
| Perf./DJ sector | 1.15 | 1.14 | 1.08 |

Liquidity

| | |
|-------------------|-------|
| Market Cap. | 991 |
| EV | 1 391 |
| No. of shares (m) | 13.4 |
| avg.volume /d | 473 |
| Groupe | 71.3% |
| Free Float | 28.7% |
| Auto-contrôle | 0.1% |

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Outlook confirmed – target price raised from €68 to €80 – analyst meeting follow-up

Vilmorin has reported slightly stronger than expected H1 sales. We would also note management's confidence about the consolidation of the field seeds business, with particularly robust sales in the US. This has prompted us to upgrade our 2006-07 sales estimate by 1.5% and our EBIT estimate by 5%. In the light of this adjustment and on the basis of our peer comparison valuation, we have revised our target price to € 80. We reiterate our Add (2) recommendation.

H1 sales (analyst meeting follow-up)

Vilmorin has reported H1 sales of € 286.1m, 3% above our estimate of € 276.6m and flat in relation to the same period last year. This includes sales from the field seeds business. Like-for-like and at constant exchange rates, H1 sales were up 1.9%.

By division, vegetable seeds delivered growth of 3.4% to € 191.5m (vs. our estimate of € 188.1m). Like-for-like and at constant exchange rates, sales increased by 1.5%. The field seeds division generated sales of € 94.6m (vs. our estimate of € 88.5m), down 6.8% compared with the same period last year but up 2.7% like-for-like and at constant exchange rates.

H1 SALES

| (€m) | Reported | Oddo Midcap | Prior period | % change pro forma | % change lfl and CER |
|------------------------|----------|-------------|--------------|--------------------|----------------------|
| Sales | 286.1 | 276.6 | 286.6 | -0.2% | +1.9% |
| Vegetable seeds | 191.5 | 188.1 | 185.1 | +3.4% | +1.5% |
| Consumer | 45.4 | 47.5 | 49.6 | | -7.9% |
| Trade | 146.1 | 140.6 | 135.8 | | +7.6% |
| Field seeds | 94.6 | 88.5 | 101.5 | -6.8% | +2.7% |

SOURCE: COMPANY – ODDO MIDCAP ESTIMATES

Auspicious start to 2006-07

Following the H1 sales presentation meeting, our main observations are as follows:

- **H1 sales validate full-year guidance.** H1 sales were just above our estimate and confirm the favourable trend in the trade vegetable seeds division, with growth of 7.6% (international expansion). We had also underestimated the contribution from the field seeds division due to the lack of benchmark information and the highly seasonal nature of sales. We would also note the sequential improvement in sales for all divisions (growth of 1.5% in H1 vs. a fall of 1.8% in Q1 for the vegetable seeds division and growth of 2.7% in H1 vs. 0.7% in Q1 for the field seeds division).
- **Double-digit growth for field seeds in the US.** Given the seasonal nature of sales, accentuated by the field seeds business, Q3 (January to March) should be decisive. Management has already demonstrated its confidence about continuing strong momentum for the trade vegetable seeds business. Furthermore, the level of orders for field seeds in the US – specifically maize, which accounts for three-quarters of sales – represents double-digit growth. The market is currently driven by 1/ robust demand (10% increase in the maize cultivation area) against the backdrop of a difficult climate for raw materials (low inventories for cereal crops, high prices); 2/ the ramp-up of new outlets including biofuels; 3/ growth in the market share of GM seeds, which are expected to make up 70% of the market vs. 50% last year. In addition to volumes, this is reflected by higher prices and a more favourable product mix.
- **Strengthening the company's position in Asia.** Management has confirmed the acquisition of a stake in Indian laboratory Avesthagen (€ 5m for a total valuation of € 115m), with the creation of a joint venture to bring together its acquisitions in both field seeds and vegetable seeds. Note that the company is also very active in China and is looking to build on its position rapidly by forming partnerships. A significant amount is at stake, as these markets represent several billion dollars of a global market of \$ 30bn.

- **Reinforcing R&D.** Finally, in the wake of the combining of the vegetable seeds and field seeds businesses, synergies should come to light with the reconfiguration of upstream research and the company's desire to link together its various research programmes. In concrete, the company is aiming to launch a new genotyping platform and is obtaining the means to ensure its future growth by prioritising the development of plant varieties, a long-term source of improvement in margins.

Add (2) recommendation maintained – target price revised to €80

Yesterday's meeting also provided the opportunity for the company to announce a change at management level with the appointment of Adrian Huige as deputy chief executive officer, replacing Daniel Cheron, who will now be in charge of the executive management of Limagrain and will remain a director of Vilmorin.

Adrian Huige was CEO of Advanta for seven years and is familiar with the field seeds market and has also been involved in the consolidation of European operations into Vilmorin's field seeds business. He has an international background and his efforts should be in keeping with the strategy pursued until now.

In summary, we believe that 2006-07 should be an interim year with the integration of the field seeds business and could harbour a few welcome surprises, particularly from the US. The contribution of the field seeds business in the US is likely to be € 10-15m higher than we had expected, with sales growth of 10-15% vs. management's previous guidance of around 5%. Remember that this growth should help to improve the product mix, while margins on maize seeds have improved as a result of the increase in prices – which have doubled over the last 12 months – and the growing proportion of GM seeds – which generate margins 20-30% higher than conventional seeds.

We have upgraded our sales estimate by 1.5% from € 951m to € 966m and our operating profit estimate by 5% from € 86m to € 91m, with an increase of 30 basis points in estimated operating margin from 9.1% to 9.4%. We have also raised our net profit estimate from € 50m to € 52m.

On the basis of these revised estimates, our peer comparison valuation (sample of food and agrochemicals companies) and the consolidation of the field seeds business under favourable conditions – resulting in a discount rate of just 6.5% - we have increased our target price from € 68 to € 80 and reiterate our Add (2) recommendation.

Next event: H1 earnings on April 11 (after market close) – Remember that H1 results are insignificant given the increased seasonal nature of the business, with heavy losses likely (loss of € 34.4m in H1 2005-06 pro forma).



Equity flash

France / Europe - Friday, 09 February 2007

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