

## Vilmorin

Food products  
France

**Price:** EUR 60.2

October 12, 2006

**Recommendation:** Add (2)

Target price: EUR 68.0

Reuter: VILM.PA

Bloomberg: RIN FP

12-month high: 65.6

12-month low: 52.5

### Multiples

	06/06e	06/07e	06/08e	06/09e
P/E	14.1	16.1	13.7	12.3
Net. yield (%)	3.8%	2.9%	3.4%	3.8%
FCF yield (%)	9.4%	4.2%	5.9%	7.2%
P/Book value	1.6	1.3	1.3	1.2
EV/Sales	1.2	1.3	1.2	1.2
EV/EBITDA	6.6	7.4	6.6	6.0
EV/EBIT(recur)	11.2	14.1	12.1	10.9

### Per share data

EUR	06/06e	06/07e	06/08e	06/09e
EPS (AANP)	4.00	3.74	4.40	4.88
%Change	18.4%	-6.4%	17.5%	11.0%
EPS (ANP)	4.57	3.74	4.40	4.88
%Change	35.5%	-18.2%	17.5%	11.0%
Dividend	2.15	1.76	2.07	2.29
Book value	34.38	44.78	47.41	50.23

### Income statement

(EUR m)	06/06e	06/07e	06/08e	06/09e
Sales	497.3	950.8	980.8	1 014
%Change	1.6%	91.2%	3.2%	3.4%
Op.profit(recur.)	54.3	88.0	100.2	109.1
%Change	16.7%	62.2%	13.9%	8.9%
Op.profit(EBIT)	52.5	88.0	100.2	109.1
Attr. net profit	43.8	50.1	58.9	65.3
Adj. attr. NP	38.3	50.1	58.9	65.3

### Financial data

	06/06e	06/07e	06/08e	06/09e
ROCE bef. Tax	11.8%	10.9%	8.4%	9.1%
ROCE after Tax	10.2%	7.7%	6.0%	6.4%
ROE	12.2%	10.8%	9.5%	10.0%
FCF	50.9	34.1	47.2	57.7
Net debt	35	381	357	328
Gearing	9.5%	50.8%	45.4%	39.6%
Net Debt/EBITDA	0.4	2.3	1.9	1.7
EBITDA/interest	24.9	13.3	15.4	17.7

### Performance

	1 mo	3 mos	12 mos
Absolute perf.	1.1%	-1.6%	12.3%
Perf./country	0.97	0.91	0.95
Perf./DJ sector	0.99	0.89	0.98

### Liquidity

Market Cap.	806
EV	1 187
No. of shares (m)	13.4
avg.volume / d	367
Groupe	78.6%
Free Float	21.4%
Auto-contrôle	0.1%

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## 2006-07 guidance confirmed – Target price raised to €68 following analyst meeting

Yesterday's results confirm the excellent performance of the professional vegetable seeds business and in particular the attractive outlook relating to the new scope of consolidation with the consolidation of the field seeds business. We maintain our Add (2) recommendation and have revised our target price to € 68.

### Full-year results: improvement in fundamentals

Vilmorin's full-year results confirm the excellent performance of the vegetable seeds division, with operating margin of 15.7% vs. 14.8% last year. This is the result of robust sales, as well as further improvement in new varieties (84% vs. 83.5% last year).

Not including restructuring costs (Oxadis) and impairment losses (Flora Frey), operating profit was € 54.3m, giving operating margin of 10.9%, in line with the target of 11%.

Finally, in view of lighter taxation as a result of deferred taxes, research tax credits and tax optimisation measures, attributable net profit from discontinued operations (€5.5m) increased by 18.5%.

### 2006-07: change of dimension with tangible synergies

We learned the following from the analyst meeting:

- The 2006-07 financial year reflects a real change of dimension with the consolidation of the field seeds business, representing sales of € 425m to June 30, 2006, with operating profit of just € 2.3m due to restructuring costs (€17m). Adjusted for this factor, operating margin comes to 4.5%. The current year should benefit from synergies of € 12m from past restructuring measures, giving adjusted operating profit of over €30m and operating margin of over 7%.
- The company should also benefit from recent changes in the scope of consolidation with the acquisition of Hazera, the creation of a division in Japan, the withdrawal from the feed grains and grass seeds businesses, as well as partnerships formed in India (laboratories). The acquisition of a 90% stake in Hazera should represent a value of around €3m, around 7% of 2005-06 attributable net profit.
- The field seeds business should enable the company to restore a certain level of growth momentum with access to a large market (\$ 20bn) offering strong growth, particularly in the US through GM seeds. In addition, the farming sector is currently seeing and should continue to see restored interest, with the growing weighting of new outlets such as biofuels (this is a reality in the US in particular, with a number of investments). Limited global inventories for cereals should also be noted, with current price revaluations.
- Vilmorin has several means of improving margins, namely: 1/ synergies from restructuring measures in Europe for field seeds (Advanta), 2/ increased market share in the US, with a stronger presence in the GM segment, the increase in new varieties in the field seeds segment should help to improve margins, 3/ the professional vegetable seeds division should gradually benefit from the recovery of the German subsidiary as well as the redefinition of ranges at Oxadis, 4/ maintaining the performance of the company's flagship activities, i.e. professional vegetable seeds.
- To assuage its strategy, the company has a healthy balance sheet with estimated gearing of 51% (new scope of consolidation). It also has significant market share, even against market leaders Monsanto, Dupont-Pioneer and Syngenta. Vilmorin is world No. 1 in the wheat market and No. 1 in maize for ensilage.

### Add (2) recommendation maintained

We reiterate our Add (2) recommendation and have revised our target price by 4.5% from €65 to €68.

Management's guidance for the current year supports our estimates, with sales of €950-970m (vs. our estimate of €951m) and operating margin of over 9% (vs. our estimate of 9.3% with operating profit of €88m) and net profit of around €50m.

We have increased our attributable net profit estimate by 4% from €48m to €50m to reflect lower taxation at normal rates. Taking account of the research tax credit and tax optimisation, the company should be able to benefit from a tax rate of below 30% in the long term (vs. 33% in our estimate).

A dividend of €1.62, similar to last year's, will be proposed at the general shareholders' meeting. This represents a payout ratio of 49.5%, in line with that of previous years. The dividend will be paid on December 20.

*Next event: Q1 sales on November 13 (after market close) - AGM on December 12*



# Equity flash

France / Europe - Friday, 13 October 2006

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