

Vilmorin

Food products
France

Price: EUR 64.3

December 12, 2006

Recommendation: Add (2)

Target price: EUR 68.0

Reuter: VILM.PA

Bloomberg: RIN FP

12-month high: 65.6

12-month low: 54.5

Multiples

	06/06	06/07e	06/08e	06/09e
P/E	14.1	17.2	14.8	13.2
Net. yield (%)	2.9%	2.7%	3.2%	3.6%
FCF yield (%)	8.8%	4.1%	5.5%	6.8%
P/Book value	1.7	1.5	1.4	1.3
EV/Sales	1.3	1.4	1.3	1.3
EV/EBITDA	7.0	8.0	7.2	6.5
EV/EBIT (recur)	12.0	15.2	13.2	11.8

Per share data

EUR	06/06	06/07e	06/08e	06/09e
EPS (AANP)	4.00	3.74	4.36	4.87
%Change	18.6%	-6.7%	16.7%	11.7%
EPS (ANP)	4.58	3.74	4.36	4.87
%Change	35.6%	-18.4%	16.7%	11.7%
Dividend	1.62	1.76	2.05	2.29
Book value	33.74	44.23	46.83	49.65

Income statement

(EUR m)	06/06	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.)	53.4	88.0	100.1	109.4
%Change	14.8%	64.9%	13.7%	9.2%
Op.profit(EBIT)	52.5	86.3	98.6	107.9
Attr. net profit	43.8	50.0	58.4	65.2
Adj. attr. NP	38.3	50.0	58.4	65.2

Financial data

	06/06	06/07e	06/08e	06/09e
ROCE bef. Tax	11.4%	10.2%	8.0%	8.6%
ROCE after Tax	9.9%	7.5%	5.9%	6.4%
ROE	12.3%	10.9%	9.6%	10.1%
FCF	47.4	35.0	47.5	58.3
Net debt	69	426	406	378
Gearing	18.7%	57.2%	51.8%	45.7%
Net Debt/EBITDA	0.8	2.5	2.2	1.9
EBITDA/interest	24.6	12.3	13.7	15.5

Performance

	1 mo	3 mos	12 mos
Absolute perf.	3.7%	8.1%	14.3%
Perf./country	1.04	1.02	0.98
Perf./DJ sector	1.05	1.04	1.01

Liquidity

Market Cap.	861
EV	1 291
No. of shares (m)	13.4
avg.volume /d	224
Groupe	71.3%
Free Float	28.7%
Auto-contrôle	0.1%

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AGM: Confidence that growth lies ahead

During the AGM, management spoke not only of the last year's results but also of the new consolidation scope and the motivations relating to the integration of the Field Seeds activities. We take away three main points from the AGM: 1/ the group has strengthened its market share; 2/ management is focusing on two strategic avenues of growth - R&D and International development (including Asia); 3/ cereal prices and the rise of biofuels are positive factors.

Facts: AGM

During the AGM, management provided a succinct, precise analysis of its activities by division. The group has significantly strengthened its market share in recent years in vegetable seeds and field seeds.

In the Professional Seeds division (an estimated 39% of consolidated sales in 2007), the group is number two worldwide with solid positions reinforced by the recent acquisition of 100% of Israeli subsidiary Hazera. The group is hence leader in tomato seeds. In addition, with the rapprochement of the Mikado and Kyowa subsidiaries, the group is now ranked fourth in Japan. In Mass Market vegetable seeds (an estimated 15% of sales), Vilmorin is the undisputed European leader in the main countries (France, the UK and Germany), with a full recovery projected for Flora Frey in 2007/08. The contribution of Field Seeds also enables the group to hold strong market shares. In Europe (an estimated 36% of sales), number one in wheat and number two in corn, the group has strengthened its market share in wheat, now commanding more than 30% market share (integration of the Innoseeds activity of Danish subsidiary DLF). In the US (an estimated 9.5% of sales), despite a market share of only 6% at present (vs. 3% five years earlier), the group is now ranked fourth in corn seeds, behind Dupont-Pioneer, Monsanto and Syngenta.

Comments: strategic priorities

The group is pursuing several strategic avenues of growth to lay the groundwork for future expansion:

- R&D will of course remain a cornerstone of the group's strategy, with a budget of € 90m, representing 10% of sales and € 140m if we include the programmes that are financed in partnership (Keygene, Biogemma...). R&D makes it possible to develop new varieties and enjoy better control over biotechnologies to ensure the development of conventional plants as well as those that are genetically modified. With an accession rate of 84% (up by 0.5 points) for professional seeds, the group is ensured comfortable profitability (operating margin > 15%). In addition, the strategic priority of GMOs (mainly in the US and Asia) helps ensure that supply will meet the high demand from growers of resistant plants. While the group makes 75% of its Field Seeds sales in the US in corn, 50% are GMOs. This rate is expected to rise quickly to 70%.
- International development is Vilmorin's leitmotif, the group aiming to gain a foothold in Asia. Vilmorin is already present in Japan, India with and recent agreement with a laboratory (Avesthagen) which presented at its roundtable players like Biomerieux, Novartis, Danone... China is a priority and the group is actively seeking partners despite a fairly impermeable environment. Management's goal is to finalise a deal as quickly as possible enabling Vilmorin to enter among others the rice market, which is becoming a strategic variety along the lines of the straw cereals, corn and oleaginous seeds.

In the shorter term, we noted several positive factors, including: 1/ a positive orientation of cereal prices, and 2/ diversified sources of growth with biofuels. Cereal prices have risen sharply again in recent months (+50%) on the back of strong demand and inventories at an historic low. This is also the result of the arrival of new outlets, including among others biofuels, which will provide strong support to demand.

Note that in the US, farmers are investing heavily in new bioethanol production facilities, driving the market with sales growth for the group in the US probably above 5%. Brazil currently meets 50% of its fuel needs using bioethanol (from sugar cane).

Recommendation: Add (2) maintained - TP confirmed at €68

We are very confident that the group's growth prospects are bright, while 2006/07 will be the year of integrating the Field Seeds activities. The news-flow in the near term will not be very meaningful, as it is well known that the business is highly seasonal in nature (cf. publication of Q1 sales and our Morning Midcap meeting of November 14, 2006). It will be accentuated by the integration of the field seeds business (approximately 25% of European sales in H1 and less than 10% of US sales compared with 36-37% for vegetable seeds).

Q3 (January/March) will hence be key for both field seeds and vegetable seeds. In the meantime, we maintain our estimates overall in line with the company's guidance, namely sales of € 950m in 2006/07, which is nearly a doubling of the earlier level, operating profit of € 86.3m, up 64%, giving an operating margin of 9% compared with 10.6%, and net attributable profit of € 50m vs. € 43.8m (+14%).

Note that the group's sensitivity to the dollar is limited. It mainly involves a conversion risk and very little transaction risk. With Harris Moran and AgReliant (US field seeds activity), the group makes approximately 16-17% of its sales in dollars. The contribution to operating profit is limited to less than 10%. Also, a variation of 10% in the €/€ exchange rate has an impact of less than 1% on operating profit.

Next event: Distribution of the dividend (€ 1.62) on December 20, 2006 – Participation in our Midcap Event on January 11 and 12, 2007 – Publication of Q2 sales on February 8, 2007 (before market opening).



Equity flash

France / Europe - Wednesday, 13 December 2006

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