MIDCAP

Equity Note

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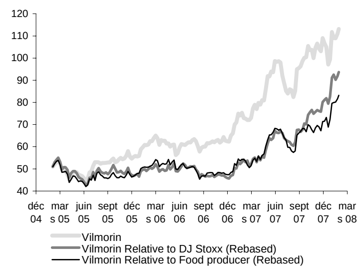
Conference feedback

Recommendation	**Buy (1)**
Price (27/02/2008)	**113.15 EUR**
Target price	**116.50 EUR**



Reuter:	VILM.PA
Bloomberg:	RIN FP
12-month high:	113.2
12-month low:	72.0

Multiples

	06/07	06/08e	06/09e	06/10e
P/E	17.0	25.7	23.2	21.0
Net. yield (%)	2.4%	1.6%	1.8%	2.1%
FCF yield (%)	2.2%	3.9%	3.4%	4.2%
P/Book value	1.5	2.3	2.2	2.1
EV/Sales	1.4	2.1	2.0	1.9
EV/EBITDA	8.4	9.8	9.2	8.4
EV/EBIT(recur)	16.4	17.2	16.3	14.8

Per share data

EUR	06/07	06/08e	06/09e	06/10e
EPS (AANP)	4.09	4.40	4.87	5.40
%Change	2.3%	7.5%	10.7%	10.8%
EPS (ANP)	4.09	4.40	4.87	5.40
%Change	-10.6%	7.5%	10.7%	10.8%
Dividend	1.66	1.87	2.05	2.32
Book value	45.43	48.32	51.33	54.68

Income statement

(EUR m)	06/07	06/08e	06/09e	06/10e
Sales	938.3	895.7	925.3	959.5
%Change	88.7%	-4.5%	3.3%	3.7%
Op.profit(recur.)	80.5	108.1	112.7	121.3
%Change	42.8%	34.3%	4.2%	7.6%
Op.profit(EBIT)	95.0	108.1	112.7	121.3
Attr. net profit	54.8	59.0	65.3	72.3
Adj. attr. NP	54.8	59.0	65.3	72.3

Financial data

	06/07	06/08e	06/09e	06/10e
ROCE bef. Tax	12.1%	9.9%	10.2%	10.8%
ROCE after Tax	9.4%	7.3%	7.5%	8.0%
ROE	11.8%	9.4%	9.8%	10.2%
FCF	20.5	59.8	51.6	63.1
Net debt	345	305	278	240
Gearing	48.9%	40.7%	34.9%	28.4%
Net Debt/EBITDA	2.2	1.6	1.4	1.1
EBITDA/interest	8.0	9.1	11.5	13.4

Performance

	1 mo	3 mos	12 mos
Absolute perf.	13.9%	12.8%	49.1%
Perf./country	1.21	1.29	1.76
Perf./DJ sector	1.20	1.26	1.52

Liquidity

Market Cap.	1 515
EV	1 836
No. of shares (m)	13.4
avg.volume /d	1 258
Groupe Limagrain	69.0%
Free Float	31.0%

We upgrade estimates – Buy (1) rating confirmed – TP of € 116.5

On the basis of half-year results, we are confident the group can post excellent performance in 2007/2008. We now estimate an operating margin of 12% (excluding the home garden business) vs 10.5% previously (including the home garden business) and 11.8% (excluding the home garden business) with estimated operating profit of € 108m (vs € 95m in 2006/2007). In the second half, the group will benefit from a good spring campaign for maize in Europe and the US.
Our estimates top those of the management (margin of 10.5-11%), but remain reasonable.
We confirm our Buy (1) rating with a revised target price of € 116.5.

Feedback from Sfaf analysts' meeting

Even cautiously interpreted, half-year results show a significant improvement in the group's profitability and pave the way for good full-year results. From yesterday's presentation, we note the following key elements:

- Adjusted by non-recurring elements (€ 10m in the first half of 2006/2007), **the operating profit improved significantly by € 18.3m to a reduced loss of € 9.8m** (vs losses of € 18.6m and € 28.6m adjusted by non-recurring items). This improvement was due to several factors.

- The group benefited from strong growth in activity with **sales 14%, of which 32% for the Field Seeds division**. The combination of doubtless equivalent volume and price impacts therefore reflects better cost control.

- Despite a slight deterioration in the commercial margin, partly due to a forex and scope impact, the group kept costs well under control with **virtual stability in absolute value in marketing costs** (stable at € 58m), **R&D** costs (€ 35m with a positive impact from research tax credits) and **G&A** costs (€ 40m) and a significant improvement in relative terms (for example, marketing costs stood at 20.8% of sales vs 23.5% for the comparative half-year period).

- Note the improvement in adjusted operating profit of € 18.3m compared with gains of over € 34m in sales over the period, ie **a positive impact of over 50% of additional sales on operating profit**. The breakdown by main divisions shows an improvement in the Vegetables division with an operating profit of € 7.6m vs € 5.5m for the comparative half-year period (performance taking seasonal factors into account with historical losses in H1 for the Vegetables division). **A similar improvement was seen in the Field Seeds division with losses reduced to € 19.4m vs € 29.2m, ie an improvement of € 10m.**

Confirmed outlook

- **The group confirmed its strategic priorities with the ongoing sale of the Home Garden division**, either as one entity or in segments. The group wishes to maintain ownership of professional brands, Vilmorin, Clause and Tézier, with a licensing contract. Talks are taking longer than anticipated since financial terms have become more favourable. The objective is still for a sale by the end of the financial year (global sale or in parts) or the calendar year (global sale). Despite a negative contribution in H1, the full-year contribution should be positive on the condition that any restructurings before the sale are taken into account.

- **The group is also strengthening positions in strategic species** (Global Genetics programme) and **stepping up new research programmes, for example via the stake in Chinese company LPHT** (equity affiliate). The focus is on rice and hybrid wheat programmes. And the group is constantly adapting to changes in the main production zones and intensifying its international network by opening new subsidiaries in Europe, Asia and the American continent.

- In terms of outlook, **the group gave new guidance with a** confirmed growth target of 5% for Vegetables, growth of 8-10% (vs 5%) for Field Seeds and an operating margin of 10.5-11% vs 9.5-10% previously. We consider this guidance to be conservative given expected outlook for the second half (good spring in maize and expected increase in sales prices with limited risks in cost prices).
- While we validate the growth target of 5% in Vegetables, guidance for Field Seeds is modest in our view and assumes growth of just 4% in H2. Based on market trends in Europe (3.5% growth in wheat surfaces, 4.5% in sunflower and 2.5% for maize), the group's market share and the price impact (positive by 10% for maize?), growth should be higher than this. **We estimate growth of 19% to € 515m, ie H2 growth of 15% to € 390m. Overall, we anticipate global sales of € 895m vs € 855m previously (excluding the Home Garden business and € 1bn with the home garden activity), up 12.4%.**
- In terms of margins, we also estimate a bigger improvement **with an estimated operating margin of 12% vs 10.5% previously (including the Home Garden business and 11.8% excluding the Home Garden business).** The improvement will be generated by the deconsolidation of the Home Garden business (we estimate an impact of around 50bp) and by the strong contribution form the Field Seeds division. **We anticipate operating profit of € 108m compared with € 95m for the previous year** (€ 70m adjusted by non-recurring elements and the home garden business). This means a difference of € 38m of which € 18m has already been achieved in H1. In Vegetables, we estimate operating profit of € 58m (vs € 54m in the previous year) with a margin in line at 15%. In Field Seeds, our estimate is € 50m (vs € 29.5m in the previous year) with an operating margin of 9.7%, in line with an initial estimate of 8-9%. The group should benefit from a significant improvement in margins in Europe (volume and price impacts) and the booking of royalties that will be proportionally higher in H2 than in H1. These assumptions give an operating margin of 17.7% for Field Seeds in H2 versus 17.4% for H2 2006/2007, which are conservative estimates.
- Financial charges will, however, be heavier (€ 20/€ 21m?). And, uncertainties remain as to whether the contribution from the Home Garden business will be taken into account. We maintain our NAP estimate of close to € 61m (€ 54.8m for the previous year).

Buy rating confirmed – revised TP of € 116.5 (vs € 115)

Based on these interim results, we are confident about full-year outlook. Full-year performance should be excellent despite a few uncertainties: 1) the lack of certainty about any season, uncertainties remain in the US with arbitrages taking place (maize down 6% and soya up 12%), **however the group's activity should grow in value,** 2) the risk of an increase in cost prices in seed multiplication, but the group is currently negotiating price increases for the 2008/2009 season. **We assume virtual stability in margins in 2008/2009**, 3) and, there is a price to be paid for success since the group may be hit by a lack of availability of seeds. **This will depend on counter-season production from countries such as Chile.**

Our new estimates are bolder than management guidance, but we believe these are reasonable and **our global estimate for operating profit in 2007/2008 is € 105/€ 120m.**

We maintain our Buy (1) recommendation with a slightly upgraded target price of € 116.5 (vs € 115).

The share is in our H1 2008 recommended selection.

Next event: Q3 sales on May 6, 2008 (after close of trading)

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