Equity Note

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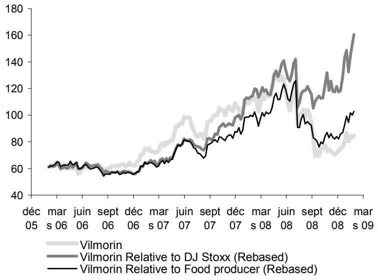
Vilmorin

Food products France

Half-year earnings	
Recommendation	Buy (1)
Price (25/02/2009)	84.50 EUR
Target price	100.00 EUR



Reuter:	VILM.PA
Bloomberg:	RIN FP
12-month high:	131.48
12-month low:	68.40

Multiples

	06/08	06/09e	06/10e	06/11e
P/E	23.2	17.3	16.1	14.7
Net. yield (%)	1.6%	2.0%	2.2%	2.4%
FCF yield (%)	3.0%	3.3%	4.7%	5.9%
P/Book value	2.3	1.7	1.6	1.5
EV/Sales	2.0	1.6	1.5	1.4
EV/EBITDA	8.8	7.0	6.5	5.9
EV/EBIT(recur)	14.9	12.6	11.7	10.7

Per share data

EUR	06/08	06/09e	06/10e	06/11e
EPS (AANP)	4.54	4.88	5.25	5.75
%Change	10.9%	7.4%	7.7%	9.5%
EPS (ANP)	3.31	4.90	5.30	5.83
%Change	-19.2%	48.0%	8.2%	10.1%
Dividend	1.66	1.71	1.86	2.04
Book value	45.95	49.18	52.77	56.75

Income statement

(EUR m)	06/08	06/09e	06/10e	06/11e
Sales	896.9	950.6	988.1	1 028
%Change	-4.4%	6.0%	3.9%	4.0%
Op.profit(recur.)	118.8	118.0	124.8	132.7
%Change	47.5%	-0.7%	5.8%	6.4%
Op.profit(EBIT)	115.2	118.0	124.8	132.7
Attr. net profit	44.3	65.6	71.0	78.1
Adj. attr. NP	60.8	65.6	71.0	78.1

Financial data

	06/08	06/09e	06/10e	06/11e
ROCE bef. Tax	10.5%	10.5%	10.8%	11.3%
ROCE after Tax	8.1%	8.0%	8.1%	8.4%
ROE	9.9%	10.3%	10.4%	10.7%
FCF	42.4	37.1	53.4	66.7
Net debt	323	317	286	244
Gearing	43.7%	40.1%	33.9%	27.1%
Net Debt/EBITDA	1.6	1.5	1.3	1.0
EBITDA/interest	6.7	8.9	10.3	11.8

Performance

	1 mo	3 mos	12 mos
Absolute perf.	5.6%	14.0%	-23.2%
Perf./country	1.12	1.32	1.45
Perf./DJ sector	1.12	1.24	1.23

Liquidity

Market Cap.	1 132
EV	1 460
No. of shares (m)	13.4
Groupe	1
Free Float	30.0%

Confirmation of full-year targets – reintegration of Oxadis

Vilmorin has reported H1 2008-09 earnings in line with our forecasts in spite of the reintegration of Oxadis' activities, while the divestment process is currently on hold. The group posted an operating loss of € 20m vs. -€ 11.6m for the pro forma figure, in line with our estimates. These earnings reflect a marked seasonal trend (30% of H1 sales) while the group has stepped up its R&D. H1 2008-09 was characterised by the halt of the sale of Oxadis and the confirmation of guidance for the full year.
Buy (1) recommendation maintained.

Interim earnings in line

Whilst the group recently published H1 2008-09 sales of € 284.9m, up 1.8% and 2% like-for-like (€ 299.5m following the re-integration of Oxadis' activities), Vilmorin this morning published its interim results, reporting an operating loss of € 20.2m compared with -€9.8m in H1 2007-08 (-€11.6m pro forma). Note that the group regularly reports interim losses owing to the seasonal nature of its business (30% of full-year sales are generated in the first half). Net attributable loss for the group totalled € 27.4m compared with -€ 27.6m for H1 2007-08 (-€27.4m pro forma) and -€ 27.6m for our estimates.

INTERIM EARNINGS

€ m	Reported	Oddo Midcap estimates	Previous period Prev.	Pro forma	Reported/ Previous period
Sales	299,5		279,9	311,3	-3,8%
Underlying op. profit	-20,2	-19,6	-9,8	-11,6	nm
Earnings from activities continued	-28,1	-30,6	-22,8	-24,1	nm
Earnings from discontinued activities	-1,1	-	-7,6	-6,3	nm
Attrib. net profit	-27,4	-27,6	-27,6	-27,4	nm

SOURCES: VILMORIN – ODDO MIDCAP ESTIMATES

Confirmation of 2008 targets

Pending today's meeting, we note the following main points:

- The temporary suspension of the sale of **Oxadis is reflected in a reintegration of the activities continued** (impact of +€ 17.5m on H1 2008-09 sales). Interim sales reflected 1/ an excellent performance for the vegetable seed division, with sales up 6.4% (+4% like-for-like) buoyed by sustained growth (double-digit) at its main subsidiaries (Vilmorin, Clause/Harris Moran, etc.) and 2/ a good start to the season for field crops despite a lag observed in corn seeds in Europe. The group benefited amongst others from a good season for its wheat seeds (increase in royalties of +10%).
- Regarding earnings, the group posted an operating loss of € 20.2m, **in line with our estimates.** These losses are due to the seasonal nature of the business. Moreover, H1 2008-09 reflects the negative impact of the postponing of corn seed billings from Q3 in Europe (shortfall of € 7-8m), **and an increase in R&D efforts (+€ 15m for the annual budget).** Note, however, that the improvement in the gross margin at 44.6% vs. 43.1% previously. All told, attributable net profit is comparable to the H1 2007-08 figure due to lower financial charges (gain on hedging instruments) and an improvement in earnings of abandoned activities (disposal of Flora Frey).
- Regarding the outlook, **the group confirms its previous guidance** (growth >5% vegetable seeds and >6% for field crops). Despite a market which is probably down in volume terms in the US in the corn segment, the order book and reservations for the spring season help confirm these targets. **The group is envisaging significant growth in sales.**

- We reiterate our full-year target, with sales of € 950m in line with the consensus and operating profit of € 118m (€ 115m for the consensus), reflecting an operating margin of 12.4% which is slightly higher than the group's guidance (12%). **In reality, with the reintegration of Oxadis, sales are likely to be higher, approaching the € 1bn threshold. Operating profit could total € 120m, i.e. an operating margin of 12%** (the reintegration of Oxadis would cost around 40bp due to a less favourable mix effect (Oxadis' reintegration "would cost" around 40bp due to a less favourable mix effect). In the group's press release, management indicated a slight contraction in the margin relative to the 12.8% reached in FY 2007-08, which lends weight to the 12% target.
- These targets assume a 7.8% increase in H2 2007-2008 sales (excluding Oxadis) compared with +10.3% for H1 2007-08, i.e. an achievable target due to the price effect anticipated for field crops, amongst others. Regarding our earnings estimates, this assumes a H2 2008 margin of 20.7% (excluding Oxadis), which is also achievable given the margin in H2 2007-08) due to a favourable mix and price effect.

Buy (1) recommendation confirmed

Whilst the group has a relatively resilient business model in light of the prevailing macroeconomic and agricultural environment, which in the case of the latter is likely to become more strained (what of capex trends for farmers against a backdrop of an erosion in purchasing power?), **we maintain our Buy (1) rating on the share** unchanged whilst the group is one of the few companies to provide and confirm guidance, while we anticipate a **7.4% increase in FY 2008-09 EPS.**

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