La Doria

FY19 results

Tough times ahead

Food & beverages

La Doria has reported a good set of FY19 results, with like-for-like growth of 3.8% and EBITDA margins up 10bp. The outlook for 2020 is more subdued: increased costs in the red line will cause EBITDA margins to suffer although they are still expected to be up, while the Sauces business is now expected to see EBITDA margins decline due to increased raw material costs. As expected, management has published its new rolling three-year business plan, which is strategically in line with the prior plan, which provided for €138m of investment. Although it is still early days, La Doria is complying with all government directives regarding the COVID-19 outbreak. So far, there has not been any adverse impact, and demand has in fact increased both domestically and internationally. Our fair value reduces to €13/share from €14 previously as we cut our EBITDA forecasts to reflect the updated guidance.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	687.9	33.1	88.2	18.0	9.3	2.2
12/19	717.7	32.7	64.0	18.0	12.8	2.2
12/20e	732.0	36.7	91.1	18.0	9.0	2.2
12/21e	754.0	40.9	101.5	19.0	8.1	2.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Good FY19 performance, more challenging FY20

FY19 results were strong, with impressive international growth of 6%, while domestic markets (18% of sales) were down 3%. The competitive environment remains challenging as retailers continue to exert downward pressure on pricing. Raw material costs are increasing, as tomato costs are up following the 2019 seasonal tomato campaign, semi-finished tomato product and other ingredient costs are also up.

No negative effects from Coronavirus impact so far

It is still too early to assess the full impact of the Covid-19 pandemic, but so far La Doria has witnessed a surge in demand for many of its products, which are everyday staples with a long shelf life. The company is complying with government orders and has introduced policies to reduce the contagion risk among its employees, but its factories are continuing to operate.

Valuation: Fair value of €13.00/share

Our DCF model indicates a fair value of €13.00 per share (previously €14.00), or c 60% upside from the current share price. La Doria trades on a P/E of 9.0x FY20e, a c 30% discount to its private-label peer group. On EV/EBITDA it trades at 6.3x FY20e, a c 15% discount. We believe La Doria remains an attractive proposition, given the strength of its market position in the private-label segment. Management remains committed to improving the stability of the business, while continuing to invest to maintain its competitive edge.

23 March 2020

Price	**€8.19**
Market cap	**€254m**

Net debt (€m) at 31 December 2019	148.8
Shares in issue	31.0m
Free float	37%
Code	LD
Primary exchange	Borsa Italia (STAR)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	(10.2)	(10.6)	2.8
Rel (local)	42.5	36.0	39.8
52-week high/low		€10.20	€6.22

Business description

La Doria is the leading manufacturer of private-label preserved vegetables and fruit for the Italian (20% of revenues) and international (80% of revenues) market. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

Next events

Q120 results	13 May 2020
H120 results	10 September 2020
9M 20 results	12 November 2020

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Edison profile page

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FY19 results review and outlook

Consolidated revenues were up 4.3% to €717.7m year-on-year, or +3.8% at constant currency. EBITDA was up 6% to €56m, with the EBITDA margin up 10bp to 7.8%. EBIT was down 1% to €34.6m, with the margin down 30bp to 4.8% due to higher depreciation and amortisation, and higher provisions. Net debt was €148.8m vs €112.3m at the end of FY18 and €135.0m at the end of 9M19. As a reminder, the increase in net debt was due to the planned investment – detailed in the industrial plan – to upgrade La Doria's business capabilities in order to remain cost-competitive. 2019 witnessed the installation of a new line for the production of easy-open lids for cans, a new Sauces line, and also significant investment in the subsidiary LDH, as construction began on a highly-automated logistics platform in the UK.

We illustrate how the FY19 results fared vs our expectations in Exhibit 1 below.

Exhibit 1: Forecasts vs actual FY19 results (€m)

	Forecast	Actual	% change
Revenue	690.0	717.7	4.0%
EBITDA	53.0	56.0	5.7%
EBIT	37.0	34.6	-6.6%
PBT (pre-exceptional)	35.0	32.7	-6.4%
Net profit	25.5	19.9	-22.3%
Net debt	147.9	148.8	0.6%
EBITDA margin	7.7%	7.8%	0.1%
EBIT margin	5.4%	4.8%	-0.5%

Source: Edison Investment Research, La Doria data

The pulses and vegetables line performed strongly, with organic sales up 8.8%. The ready-made sauces and fruit lines also showed good growth (+4.8% and 4.1%, respectively), while 'other lines' (ie the trading business that goes through UK subsidiary LDH) was up 3.2%. The tomato-based line was flat, due to weakness in Italy.

Coronavirus update

The Covid-19 emergency has led to a spike in demand over the past few weeks, both in Italy and in other markets. The company is following all government directives and has introduced specific measures to reduce the contagion risk for its employees. In addition, anybody who can work from home is being asked to do so. The global spread of Covid-19 is affecting economic activities globally, and La Doria's management correctly states that the effects and evolution of this crisis are unforeseeable. That said, in the shorter term La Doria's results should be buoyed by the increased demand caused by consumers stockpiling ambient and long shelf-life food staples and the increased consumption derived from more consumers eating at home rather than in horeca establishments.

Forecasts

As usual with its full year results, La Doria has published its updated rolling three-year business plan. Two years ago, management initiated an investment plan to strengthen the business in the long term. The strategy centred on driving revenues by increasing capacity in the more value-added lines, in order to improve the mix, increase EBITDA margins and streamline production, thus reducing costs. Management continues with its industrial plan, which included €138m of investment in the business, though it has trimmed its expectations in the shorter term in light of the tough competitive environment and higher production costs. In particular, the 2019 tomato campaign resulted in higher tomato and semi-finished tomato procurement costs. These will adversely affect profitability in FY20, together with meat costs that are also higher (for more detail on the outcome of the 2019 seasonal tomato campaign, see here). Looking ahead to FY21, management expects the competitive retail environment to remain tough, but margins are still expected to expand. We illustrate the change in targets in Exhibit 2 below.

Exhibit 2: Old vs new company financial targets

€m	2020e			2021e		
	Old	New	% chg	Old	New	% chg
Revenue	721	732	1.5%	742	753	1.5%
EBITDA	64	55	(14.1%)	70	63	(10.0%)
EBIT	45	37	(17.8%)	48	42	(12.5%)
PBT	43	36	(16.3%)	47	40	(14.9%)
Net Profit	32	28	(12.5%)	35	31	(11.4%)
Operating cash flow	45	25	(44.4%)	51	54	5.9%
Capex	15	20	33.3%	8	12	50.0%
FCF	30	5	(83.3%)	43	42	(2.3%)
Dividend payout (on parent company profit)	30%	30%		30%	30%	
Net cash flow	18	(8)	(144.4%)	29	27	(6.9%)
Net debt	131	157	19.8%	101	129	27.7%
Debt/EBITDA (x)	2.0	2.9	45.0%	1.5	2.0	33.3%
Gearing (x)	0.5	0.6		0.3	0.4	
ROI	11.2%	8.8%	(240)	12.2%	10.1%	(210)
ROE	11.8%	10.5%	(130)	11.8%	10.7%	(110)

Source: La Doria data

We have adjusted our FY20–22 forecasts to reflect the updated guidance and the tough competitive environment. Our revenue forecasts are up 2%, while EBITDA reduces by c 5% due to the additional pressure of increasing costs. Our tax rate reduces from 28% to 23% in line with company guidance. We note FY20 operating cash flow is lower than other years due to a planned increase in working capital, which should unwind over the following two years. We have also included FY23 forecasts (see Exhibit 6).

Exhibit 3: Old vs new forecasts

	2020e			2021e			2022e		
€m	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	717.6	732.0	2.0%	739.1	754.0	2.0%	761.3	776.6	2.0%
EBITDA	58.7	55.7	-5.1%	64.9	61.9	-4.7%	67.6	64.5	-4.6%
EBIT	41.7	38.7	-7.2%	45.9	42.9	-6.6%	47.6	44.5	-6.5%
PBT	39.7	36.7	-7.6%	43.9	40.9	-6.9%	45.6	42.5	-6.8%
Net Profit	29.0	28.2	-2.5%	32.0	31.5	-1.8%	33.3	32.5	-2.3%
Net Debt	128.5	153.1	19.2%	97.4	122.6	25.9%	69.5	90.5	30.2%

Source: Edison Investment Research

Valuation

We illustrate La Doria's valuation versus its peers in **Error! Reference source not found.** below. We have expanded our peer group to include a wider group of Italian-listed food companies. On 2020 estimates, La Doria currently trades at a c 30% discount on P/E, which we believe is unwarranted given the company's balance sheet is conservatively managed. On EV/EBITDA, La Doria trades at a c 15% discount.

Exhibit 4: Benchmark valuation of La Doria relative to peers

	Market cap	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
	(m)	2020e	2021e	2020e	2021e	2020e	2021e
Greencore	£597.6	9.4	7.3	6.3	5.8	0.6	0.6
Ebro Foods	£2,770.1	19.6	16.3	10.0	9.1	1.2	1.1
Bonduelle	€ 641.0	8.8	9.2	6.2	6.4	0.5	0.5
Valsoia	€ 89.5	N/A	13.8	N/A	5.9	N/A	0.9
Massimo Zanetti Beverage Group	€ 136.8	N/A	7.1	N/A	5.2	4.5	4.6
Centrale del Latte d'Italia	€ 34.3	N/A	N/A	N/A	16.5	N/A	0.0
Newlat	€ 218.5	N/A	24.9	N/A	7.0	N/A	0.0
Peer group average*		**12.6**	**13.1**	**7.5**	**8.0**	**1.7**	**1.1**
La Doria	€ 253.9	9.0	8.1	6.3	6.1	2.3	2.4
Premium/(discount) to peer group		**(28.6%)**	**(38.4%)**	**(15.4%)**	**(24.0%)**	**36.3%**	**123.6%**

Source: Edison Investment Research estimates, Refinitiv. Note: Prices at 20 March 2020. *FY20e average excludes Centrale del Latte d'Italia.

Our primary valuation methodology is DCF analysis and we calculate a fair value of €13.00/share (previously €14.00) or c 60% upside from the current level. This is based on our assumptions of a 1.0% terminal growth rate and a 6.5% terminal EBIT margin. We have cut the latter assumption from 7.0% in light of the structurally tough competitive environment. Our WACC of 6.4% is predicated on an equity risk premium of 4.5%, borrowing spread of 6% and beta of 0.8.

We have rolled forward our DCF to commence in 2020, and our model still points to significant potential upside. Below, we show a sensitivity analysis to our assumptions and note that the current share price is discounting a terminal EBIT margin of 5.5% (which compares with La Doria's FY19 EBITDA margin of 7.8% and EBIT margin of 4.8%) and a terminal growth rate of c -2.3%.

Exhibit 5: DCF sensitivity to terminal growth rate and EBIT margin (€/share)

		EBIT margin					
		5.5%	**6.0%**	**6.5%**	**7.0%**	**7.5%**	**8.0%**
Terminal growth	**-2.5%**	6.8	7.5	8.1	8.7	9.3	9.9
	-1.5%	7.5	8.2	8.8	9.5	10.2	10.9
	-0.5%	8.2	9.0	9.9	10.7	11.5	12.3
	0.5%	9.3	10.3	11.2	12.1	13.1	14.0
	1.5%	10.8	11.9	13.1	14.2	15.4	16.6
	2.5%	13.0	14.5	16.0	17.4	18.9	20.4
	3.5%	16.8	18.8	20.8	22.8	24.8	26.8

Source: Edison Investment Research estimates

Exhibit 6: Financial summary

€m	2018	2019	2020e	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	687.9	717.7	732.0	754.0	776.6	799.9
Cost of Sales	(581.7)	(604.2)	(618.5)	(633.2)	(651.5)	(670.2)
Gross Profit	106.2	113.5	113.5	120.7	125.1	129.7
EBITDA	52.8	56.0	55.7	61.9	64.5	67.2
Operating Profit (before amort. and except.)	34.8	34.6	38.7	42.9	38.7	42.9
Intangible Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0	0.0
FX Gain/(loss)	3.2	(5.0)	0.0	0.0	0.0	0.0
Operating Profit	37.9	29.5	38.7	42.9	44.5	47.2
Net Interest	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)	33.1	32.7	36.7	40.9	42.5	45.2
Profit Before Tax (FRS 3)	36.3	27.7	36.7	40.9	42.5	45.2
Tax	(8.9)	(7.9)	(8.4)	(9.4)	(10.0)	(12.2)
Profit After Tax (norm)	27.3	19.9	28.2	31.5	32.5	33.0
Profit After Tax (FRS 3)	27.3	19.9	28.2	31.5	32.5	33.0
Average Number of Shares Outstanding (m)	31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)	88.2	64.0	91.1	101.5	104.9	106.5
EPS - (IFRS) (c)	88.2	64.0	91.1	101.5	104.9	106.5
Dividend per share (c)	18.0	18.0	18.0	19.0	20.0	20.0
Gross Margin (%)	15.4	15.8	15.5	16.0	16.1	16.2
EBITDA Margin (%)	7.7	7.8	7.6	8.2	8.3	8.4
Operating Margin (before GW and except.) (%)	5.1	4.8	5.3	5.3	5.7	5.7
BALANCE SHEET						
Fixed Assets	203.5	246.0	268.4	266.8	265.7	265.2
Intangible Assets	5.5	5.1	4.4	3.7	3.0	2.3
Tangible Assets	175.9	221.6	225.3	219.0	211.7	204.4
Investments	22.1	19.3	38.6	44.1	50.9	58.5
Current Assets	419.4	384.4	385.0	423.3	456.0	491.2
Stocks	204.4	219.1	223.9	225.4	224.1	224.5
Debtors	110.2	109.8	109.8	116.1	118.0	120.0
Cash	86.8	42.0	37.8	68.3	100.4	133.1
Other	18.0	13.5	13.5	13.5	13.5	13.5
Current Liabilities	(242.3)	(246.6)	(231.7)	(242.6)	(246.2)	(251.9)
Creditors	(148.4)	(153.9)	(139.1)	(150.0)	(153.5)	(159.2)
Short term borrowings	(93.9)	(92.7)	(92.7)	(92.7)	(92.7)	(92.7)
Long Term Liabilities	(139.3)	(130.3)	(130.3)	(130.3)	(130.3)	(130.3)
Long term borrowings	(105.2)	(98.2)	(98.2)	(98.2)	(98.2)	(98.2)
Other long term liabilities	(34.1)	(32.2)	(32.2)	(32.2)	(32.2)	(32.2)
Net Assets	241.4	253.6	291.3	317.2	345.2	374.2
CASH FLOW						
Operating Cash Flow	48.2	38.7	27.6	55.5	57.5	58.3
Net Interest	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)	(2.0)
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Capex	(46.5)	(59.4)	(20.0)	(12.0)	(12.0)	(12.0)
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0	0.0
Financing	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	(9.6)	(6.9)	(9.9)	(11.0)	(11.4)	(11.6)
Other	(4.6)	(7.0)	(0.0)	0.0	0.0	0.0
Net Cash Flow	(14.1)	(36.5)	(4.3)	30.5	32.1	32.8
Opening net debt/(cash)	98.2	112.3	148.8	153.1	122.6	90.5
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.0)	0.0	(0.0)	(0.0)	(0.0)	0.0
Closing net debt/(cash)	112.3	148.8	153.1	122.6	90.5	57.7

Source: Edison Investment Research, company data

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