

# La Doria

H120 results

## Another strong set of results

During Q2, La Doria continued to benefit from the shift in consumption caused by the COVID-19 pandemic, with more food consumed at home and only a slow and partial return to the horeca channel, to which La Doria has little exposure. As in Q1, revenue growth was entirely volume-led, which benefited margins. We expect the trend to persist until at least the end of the year, as consumers continue to favour eating at home while the pandemic is ongoing. We see upside to our forecasts, as La Doria benefits from the prolonged shift in consumption.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	687.9	33.1	88.2	18.0	13.0	1.6
12/19	717.7	32.7	64.0	18.0	17.9	1.6
12/20e	803.8	46.6	115.9	18.0	9.9	1.6
12/21e	779.7	45.0	111.8	19.0	10.3	1.7

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

## H120 results demonstrate continued strength

H120 group revenue was €442m, up 23% on the prior year. The Sauces business was the standout performer, up 30% in revenue terms, and the 'other' (trading) line was up 33% as UK consumption of ambient food remained at elevated levels. All markets and segments witnessed growth, with the international business growing by 26%, while the domestic business grew by 19%. EBITDA was €34.2m, up 47% vs the prior year, with margins up 120bp to 7.7%. Once again, margin improvement was driven by both operating leverage and the benefits of the four-year investment plan, with increased efficiencies and lower costs. Net debt was €89m compared to €107m at end H119, and €129m at the end of Q120.

## Upside to forecasts

We raise our forecasts slightly to reflect the continued good performance through Q2, although demand is slowly returning to more normal levels as the horeca (hotel, retail and catering) channel gains traction. The first phase of the tomato campaign has gone well, though agricultural yields in September are expected to be lower due to sub-optimal weather conditions in the prior months. While – as normal – negotiations are not yet complete, we expect FY21 profitability in the segment to improve, with increased pricing and a more positive industry backdrop, due to lower stocks and higher demand. We therefore see upside to our forecasts.

## Valuation: Fair value of €15.50

Our DCF model indicates a fair value of €15.50 per share (previously €13.50), or c 30% upside to the current share price. On our updated estimates, La Doria trades on a P/E of 10.3x FY21e, a c 20% discount to its private-label peer group. On EV/EBITDA it trades at 7.7x FY21e, broadly in line with its peers. 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.

## Food & beverages

17 September 2020

**Price** €11.46

**Market cap** €353m

Net debt (€m) at 30 June 2020 89.2

Shares in issue 30.8m

Free float 37%

Code LD

Primary exchange Borsa Italia (STAR)

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs 3.8 2.0 17.7

Rel (local) 4.2 0.0 29.1

52-week high/low €11.58 €6.22

## Business description

La Doria is the leading manufacturer of private-label preserved vegetables and fruit for the Italian (18% of 2019 revenues) and international (82% of revenues) market. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

## Next events

9M20 results 12 November 2020

FY20 results March 2021

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## H120 results review and forecasts

Consolidated revenues were €442m, up 23% on the prior year. EBITDA was €34.2m, up 47% vs the prior year, with margins up 120bp to 7.7%. Group EBIT was €25.9m, vs €15.0m in H119, thus resulting in EBIT margin increasing 170bps to 5.9%. Net debt was €89m compared to €107m at end H119, and €129m at the end of Q120.

The Sauces business performed very strongly, up 30% in revenue terms, and the 'other' (trading) line was up 33% as UK consumption of ambient food remained at elevated levels. The tomato-based business was up 22%, the Pulses and Vegetables line was up 17%, and the Fruit line was up 8% during the period. All markets and segments witnessed growth, with the international business (83% of the H1 total) growing by 26%, while the domestic business grew by 19%. Once again, margin improvement was driven by both operating leverage and the benefits of the four-year investment plan, with increased efficiencies and lower costs.

We raise our forecasts slightly to reflect the continued good performance through Q2. Demand is clearly slowly returning to more normal levels as the horeca channel has opened following lockdowns, and consumer confidence about eating out has been increasing. The first phase (July and August) of the seasonal tomato campaign has gone well, with favourable weather rather than the extremes that affected the campaign in the previous year. In September, however, agricultural yields are expected to be lower – with reduced availability of fresh tomatoes to be processed – due to suboptimal climactic conditions in the prior months. Raw material costs will therefore be higher than forecast. Negotiations are not yet complete, and indeed the tomato campaign is still ongoing, but we expect profitability to improve in the segment in FY21 as the commercial landscape is more favourable than last year. We therefore see upside to our forecasts.

We forecast the usual seasonality to La Doria's cash flows for FY20, and hence expect net debt to increase to €147m by end FY20 (from €89m at end H120 and little changed from the end 2019 level of €148.8m). From FY21, we expect capital expenditure to fall as La Doria's four-year investment programme comes to an end and it starts to reap the rewards of its investments. We forecast strongly positive cash flows to contribute to net debt more than halving by the end of FY23 (to our forecast €52m).

Our forecasts are shown in Exhibit 1. As a reminder, we do not assume any further significant lockdowns in La Doria's main markets.

**Exhibit 1: New versus old forecasts**

€m	2020e			2021e			2022e		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	789.4	803.8	1.8%	765.7	779.7	1.8%	781.0	795.2	1.8%
EBITDA	64.0	65.1	1.8%	64.4	65.5	1.8%	66.4	67.6	1.8%
EBIT	47.0	48.1	2.5%	45.4	46.5	2.6%	46.4	47.6	2.6%
PBT	45.0	46.6	3.7%	43.4	45.0	3.9%	44.4	46.1	3.8%
Net Profit	34.6	35.9	3.7%	33.4	34.7	3.9%	34.0	35.3	3.8%
Net Debt	157.6	147.4	-6.4%	120.4	115.6	-4.0%	85.2	84.0	-1.5%
EBITDA margin	8.1%	8.1%	0.0%	8.4%	8.4%	0.0%	8.5%	8.5%	0.0%
EBIT margin	6.0%	6.0%	0.0%	5.9%	6.0%	0.0%	5.9%	6.0%	0.0%

Source: Edison Investment Research

## Valuation

We illustrate La Doria's valuation versus its peers in Exhibit 2 below. On our 2021 estimates, La Doria currently trades at a c 20% discount on a P/E basis, which we believe is unwarranted given that the company's balance sheet is conservatively managed. On EV/EBITDA, La Doria trades broadly in line with the peer group. As a result of its strong performance during the COVID-19 pandemic, La Doria has outperformed the peer group and its discount has narrowed, although we believe the discount could narrow further as the company continues to benefit from the shift in consumer preference to eating at home, and reaps the benefits of its four-year investment programme.

**Exhibit 2: Benchmark valuation of La Doria relative to peers**

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2020e	2021e	2020e	2021e	2020e	2021e
Greencore	£511.5	20.8	10.4	9.7	7.5	0.9	2.9
Ebro Foods	€3,125.1	16.3	17.4	9.4	9.9	3.0	3.3
Bonduelle	€651.1	10.4	8.8	8.6	8.0	2.4	2.6
Valsoia	€132.7	18.0	17.3	9.3	8.9	3.1	3.1
Massimo Zanetti Beverage Group	€130.4	-35.9	10.9	8.0	5.4	0.0	4.1
Centrale del Latte d'Italia	€33.1	13.2	12.5	9.0	8.8	0.0	0.0
Newlat	€222.8	19.5	15.9	6.4	5.6	0.0	0.0
<b>Peer group average*</b>		<b>16.4</b>	<b>13.3</b>	<b>8.6</b>	<b>7.7</b>	<b>1.3</b>	<b>2.3</b>
La Doria	€358.4	10.0	10.3	7.8	7.7	1.6	1.6
<b>Premium/(discount) to peer group</b>		<b>(39.0%)</b>	<b>(22.3%)</b>	<b>(9.8%)</b>	<b>0.1%</b>	<b>17.4%</b>	<b>(27.6%)</b>

Source: Edison Investment Research estimates, Refinitiv. Note: Prices at 15 September 2020. \*FY20e P/E average excludes Massimo Zanetti Beverage Group.

We have rolled forward our DCF to commence in 2021, so our fair value rises to €15.50 per share (from €13.50 previously). This is based on our assumptions of a 1.5% terminal growth rate and a 7.0% terminal EBIT margin. Our WACC of 6.4% is predicated on an equity risk premium of 4%, borrowing spread of 6% and beta of 0.8. 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%, with the latter representing a trough level) and a terminal growth rate of 1.1%.

**Exhibit 3: 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%	8.1	8.7	9.3	9.9	10.6	11.2
	-1.5%	8.7	9.4	10.1	10.8	11.5	12.2
	-0.5%	9.5	10.3	11.2	11.9	12.8	13.6
	0.5%	10.6	11.6	12.5	13.4	14.5	15.5
	1.5%	12.1	13.3	14.4	15.5	16.8	18.0
	2.5%	14.5	16.0	17.5	18.8	20.5	22.0
	3.5%	18.4	20.5	22.5	24.3	26.6	28.6

Source: Edison Investment Research

**Exhibit 4: Financial summary**

	€m	2018	2019	2020e	2021e	2022e	2023e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		687.9	717.7	803.8	779.7	795.2	819.1
Cost of Sales		(581.7)	(604.2)	(675.1)	(654.0)	(666.3)	(685.5)
Gross Profit		106.2	113.5	128.7	125.6	128.9	133.6
EBITDA		52.8	56.0	65.1	65.5	67.6	70.5
Operating Profit (before amort. and except.)		34.8	34.6	48.1	46.5	48.1	46.5
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	48.1	46.5	47.6	50.5
Net Interest		(1.7)	(1.8)	(1.5)	(1.5)	(1.5)	(1.5)
Profit Before Tax (norm)		33.1	32.7	46.6	45.0	46.1	49.0
Profit Before Tax (FRS 3)		36.3	27.7	46.6	45.0	46.1	49.0
Tax		(8.9)	(7.9)	(10.7)	(10.4)	(10.8)	(13.2)
Profit After Tax (norm)		27.3	19.9	35.9	34.7	35.3	35.8
Profit After Tax (FRS 3)		27.3	19.9	35.9	34.7	35.3	35.8
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	115.9	111.8	113.8	115.3
EPS - (IFRS) (c)		88.2	64.0	115.9	111.8	113.8	115.3
Dividend per share (c)		18.0	18.0	18.0	19.0	20.0	20.0
Gross Margin (%)		15.4	15.8	16.0	16.1	16.2	16.3
EBITDA Margin (%)		7.7	7.8	8.1	8.4	8.5	8.6
Operating Margin (before GW and except.) (%)		5.1	4.8	6.0	6.0	6.0	6.0
<b>BALANCE SHEET</b>							
Fixed Assets		203.5	246.0	261.5	266.5	270.7	275.1
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	31.7	43.7	55.9	68.3
Current Assets		419.4	384.4	400.3	434.5	467.8	504.9
Stocks		204.4	219.1	222.8	225.6	226.6	229.6
Debtors		110.2	109.8	120.6	120.1	120.9	122.9
Cash		86.8	42.0	43.4	75.3	106.9	138.8
Other		18.0	13.5	13.5	13.5	13.5	13.5
Current Liabilities		(242.3)	(246.6)	(242.0)	(246.7)	(249.1)	(254.9)
Creditors		(148.4)	(153.9)	(149.4)	(154.0)	(156.4)	(162.2)
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	289.4	323.9	359.1	394.7
<b>CASH FLOW</b>							
Operating Cash Flow		48.2	38.7	35.4	57.5	57.5	58.0
Net Interest		(1.7)	(1.8)	(1.5)	(1.5)	(1.5)	(1.5)
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)	(12.6)	(12.1)	(12.4)	(12.5)
Other		(4.6)	(7.0)	(0.0)	0.0	0.0	0.0
Net Cash Flow		(14.1)	(36.5)	1.3	31.8	31.6	32.0
Opening net debt/(cash)		98.2	112.3	148.8	147.4	115.6	84.0
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	147.5	115.6	84.0	52.0

Source: Company data, Edison Investment Research

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