

La Doria

9M17 results

Recovery coming through

Following a significant improvement in the pulses and vegetables line and the sauces business, La Doria has reported an impressive 7.6% growth in revenue at constant currency for 9M17, which implies 8.0% growth during the latest quarter. The growth was mainly volume-driven, which is positive. As expected, group margins were lower during the period. Overall guidance, however, has been raised as volume growth is ahead of management expectations and the margin contraction has been less than feared. We raise our FY17 forecasts again in light of the positive 9M17 results. Our fair value increases to €16.90 from €15.54/share.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	748.3	57.4	144.6	28.0	11.2	1.7
12/16	653.1	37.3	108.8	18.0	14.9	1.1
12/17e	666.2	37.8	90.1	17.0	18.0	1.1
12/18e	696.2	44.7	105.3	20.0	15.4	1.2

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

Good 9M17 results

While the overall trading environment remains tough, with continued pressure from the supermarkets amid heightened competition and continued sterling weakness, La Doria's businesses are witnessing an improvement in performance. The pulses and vegetables line and the sauces business both posted revenue growth of over 10% at constant currency, which was mainly volume-driven. In terms of geographies, the overseas markets fared better than the domestic market, and exports now account for 79% of group sales.

Recovery coming through

As outlined in the company's latest three-year business plan (last updated in March), management expected the recovery to commence in H217 following a better 2017 tomato campaign over the summer and more favourable vegetable harvests, and then to come through fully in the 2018 numbers. This continues to be our expectation, although the latest results demonstrate that the recovery is coming through more quickly than management expected.

Valuation: €16.90/share

Based on our forecasts, our DCF model points to a fair value of €16.90 per share, or c 4% upside from the current share price. La Doria trades on 15.4x FY18e P/E, a c 20% discount to its private-label peer group, while on 10.5x FY18e EV/EBITDA, it trades at a c 18% premium to the peer group. We believe La Doria remains an attractive proposition given the strength of its market position in the private-label segment, and management's commitment to improve the stability and visibility of the business by reducing reliance on the more volatile tomato line.

Food & beverages

20 November 2017

Price €16.18
Market cap €502m

Net debt (€m) at 30 September 2017	68.7
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	(1.8)	48.7	125.3
Rel (local)	(0.3)	46.7	67.9
52-week high/low		€17.1	€7.2

Business description

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

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FY17 results	March 2018
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9M17 financial results and business update

Business update

During the first nine months of 2017, La Doria has experienced the effects of the 2016 tomato campaign, which also affected H1 results and caused a significant contraction in selling prices. Ready-made sauces and the vegetables businesses saw volume-driven revenue growth. While margins expanded in the sauces business, the vegetable line posted a margin decline caused by a combination of lower selling prices and higher costs, in particular dry pulses and metal cans. Furthermore, group results were once again affected by sterling devaluation relating to the consolidation of LDH.

Given that the majority of the negotiations for the red line occur during Q3, there is good visibility on the business for the next 12 months. During Q4, the effects of the 2017 tomato campaign should start to come through, and there will be an increase in selling prices thanks to a much overdue rebalancing of demand and supply. For the fruit and vegetables/pulses lines, the contracts are mainly negotiated during Q4 and we therefore now also have good visibility for the next 12 months: harvests have improved, hence costs have been lower.

Sterling devaluation

As a reminder, La Doria derives c 50% of its revenue from the UK, which results in a translation impact on the P&L. Sterling devaluation also implies lower competitiveness for baked beans compared to UK-based competitors. Of course, the competition is also encountering higher raw material costs as a function of their euro denomination, but UK-based competitors in the baked beans category have the advantage of having some sterling-denominated costs to mitigate the impact. For the red line, all producers face the same headwinds so there is no loss of competitiveness. As a reminder, La Doria now consolidates 100% of its minorities and treats as debt the value of the put options that exist against it.

9M17 results

Consolidated revenues were up 2.8% to €505.6m during the period, or +7.6% at constant currency. EBITDA was down 5.6% to €42.4m, with the EBITDA margin down 70bp to 8.4%. EBIT was down 6.4% to €30.5m, with the EBIT margin down 60bp to 6.0%. Net debt was €68.7m vs €104.8m at the end of FY16 and €73.7m at the end of H117.

Forecasts

We raise our forecasts to reflect the strength of the 9M17 results and our expectation that Q4 will benefit from the positive tomato campaign and more favourable vegetable harvests. We note 2017 is expected to be a trough year in respect of margins, implying some recovery in the 2017 contract negotiation, which should mainly affect 2018 results. Given the encouraging 9M17 results, which were ahead of management expectations, we increase both our revenue growth and margin assumptions for FY17. At this stage we leave our FY18 forecasts broadly unchanged. We note that the company's rolling three-year plan is due to be updated in March, and we expect the new plan will reflect a more meaningful recovery, hence we see potential upside to our FY18 forecasts. We illustrate the changes to our forecasts in Exhibit 1

Exhibit 1: Old vs new forecasts (€m)

	2017e			2018e		
	Old	New	% chg	Old	New	% chg
Revenue	656.4	666.2	1.5%	695.8	696.2	0.1%
EBITDA	49.4	52.8	6.9%	60.0	60.7	1.2%
EBIT	36.4	39.8	9.4%	47.5	48.2	1.5%
PBT	34.4	37.8	9.9%	44.0	44.7	1.7%
Net profit	25.4	27.9	9.9%	32.1	32.6	1.7%
Net debt	98.0	98.6	0.6%	81.6	79.3	-2.8%

Source: Edison Investment Research

Valuation

La Doria's share price has significantly outperformed the broader market over the last three, six, and 12 months, as it recovered from the underperformance during 2016. Over the past three months, La Doria is up c 40% compared to a 5% increase in the FTSEMIB index. On 2018 estimates, La Doria trades on 15.4x P/E, which is at a discount of c 20% versus the peer group of private-label and small-cap food manufacturers on 18.9x P/E. On EV/EBITDA, La Doria trades on 10.5x, or a premium of c 18% to its peer group.

Exhibit 2: Benchmark valuation of La Doria relative to peers

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2017e	2018e	2017e	2018e	2017e	2018e
Greencore	£1,384.5	12.5	11.3	10.0	8.1	3.0%	3.2%
Ebro Foods	€ 3,075.8	17.0	16.0	9.7	9.1	3.2%	3.4%
Parmalat	€ 5,914.2	38.9	35.4	11.9	10.0	0.6%	0.6%
Bonduelle	€ 1,205.4	14.9	13.1	7.9	7.1	1.4%	1.5%
Valsoia	€ 166.7	22.4	18.9	12.6	10.3	n/a	n/a
Peer group average		21.1	18.9	10.4	8.9	2.0%	2.2%
La Doria	€ 501.6	18.0	15.4	12.1	10.5	1.1%	1.2%
Premium/(discount) to peer group		-15.0%	-18.8%	16.4%	18.3%	-48.5%	-43.2%

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 17 November 2017.

Our primary valuation methodology is DCF analysis and, based on our updated forecasts, we calculate a fair value of €16.90/share (from €15.54/share), or c 4% upside from the current levels. This is based on our assumptions of a 1.5% terminal growth rate and a 7.5% terminal EBIT margin. We have raised our terminal growth rate assumption from 1.0% to 1.5% to better align La Doria's long-term growth prospects to our assumptions in the rest of the consumer space, whereby we typically assume terminal growth rate of 1.5-2.0%. Our WACC of 6.4% is based on an equity risk premium of 4%, a borrowing spread of 5% and beta of 0.8. Below, we show a sensitivity analysis of these assumptions and note that based on our model the current share price is discounting a terminal EBIT margin of c 7.2% (which compares to La Doria's reported EBIT margin of 8.1% in 2015, 6.1% in 2016, and a company target of 5.6% EBIT margin at the trough in 2017e) and a terminal growth rate of 1%.

Exhibit 3: DCF sensitivity to terminal growth rate and EBIT margin (€ per share)

Terminal growth rate		EBIT margin					
		6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
	-2.5%	10.4	11.0	11.5	12.1	12.7	13.2
	-1.5%	11.1	11.8	12.4	13.0	13.7	14.3
	-0.5%	12.0	12.7	13.5	14.2	14.9	15.7
	0.5%	13.2	14.1	14.9	15.8	16.7	17.5
	1.5%	14.9	15.9	17.0	18.0	19.1	20.1
	2.5%	17.4	18.7	20.1	21.4	22.7	24.1
	3.5%	21.6	23.4	25.2	27.0	28.8	30.6

Source: Edison Investment Research estimates

Exhibit 4: Financial summary

	€m	2014	2015	2016	2017e	2018e	2019e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		631.4	748.3	653.1	666.2	696.2	717.1
Cost of Sales		(527.6)	(616.9)	(545.4)	(561.6)	(582.0)	(593.0)
Gross Profit		103.8	131.5	107.8	104.6	114.2	124.1
EBITDA		60.0	77.6	56.3	52.8	60.7	69.7
Operating Profit (before amort. and except.)		48.1	61.0	39.9	36.4	47.5	39.8
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)		0.3	3.6	8.9	0.0	0.0	0.0
Operating Profit		48.4	64.6	48.8	39.8	48.2	57.2
Net Interest		(4.1)	(3.6)	(2.7)	(2.0)	(3.5)	(3.5)
Profit Before Tax (norm)		44.0	57.4	37.3	37.8	44.7	53.7
Profit Before Tax (FRS 3)		44.3	61.0	46.2	37.8	44.7	53.7
Tax		(14.3)	(16.1)	(12.4)	(9.8)	(12.1)	(14.5)
Profit After Tax (norm)		29.9	44.8	33.7	27.9	32.6	39.2
Profit After Tax (FRS 3)		29.9	44.8	33.7	27.9	32.6	39.2
Average Number of Shares Outstanding (m)		30.6	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)		80.5	144.6	108.8	90.1	105.3	126.4
EPS - (IFRS) (c)		81.5	144.6	108.8	90.1	105.3	126.4
Dividend per share (c)		22.0	28.0	18.0	17.0	20.0	23.0
Gross Margin (%)		16.4	17.6	16.5	15.7	16.4	17.3
EBITDA Margin (%)		9.5	10.4	8.6	7.9	8.7	9.7
Operating Margin (before GW and except.) (%)		7.6	8.1	6.1	5.5	6.0	6.9
BALANCE SHEET							
Fixed Assets		179.6	177.6	173.3	170.8	170.8	181.2
Intangible Assets		10.6	10.6	10.0	9.3	8.6	7.9
Tangible Assets		146.6	143.3	143.9	142.1	142.8	143.5
Investments		22.3	23.7	19.4	19.4	19.4	29.7
Current Assets		374.0	398.8	367.8	387.3	421.0	452.4
Stocks		212.9	199.8	187.0	190.9	200.8	204.6
Debtors		100.3	107.7	103.9	103.3	107.9	111.1
Cash		41.1	77.9	62.8	78.9	98.1	122.5
Other		19.6	13.3	14.2	14.2	14.2	14.2
Current Liabilities		(229.1)	(220.7)	(187.9)	(181.9)	(191.2)	(193.2)
Creditors		(143.7)	(129.3)	(126.4)	(120.4)	(129.7)	(131.7)
Short term borrowings		(85.4)	(91.4)	(61.5)	(61.5)	(61.5)	(61.5)
Long Term Liabilities		(136.6)	(157.3)	(144.5)	(140.1)	(132.1)	(132.6)
Long term borrowings		(93.9)	(116.6)	(106.1)	(116.0)	(116.0)	(116.0)
Other long term liabilities		(42.6)	(40.7)	(38.3)	(24.1)	(16.1)	(16.6)
Net Assets		187.9	198.4	208.8	236.1	268.6	307.7
CASH FLOW							
Operating Cash Flow		53.7	58.2	65.7	33.6	43.4	50.1
Net Interest		(4.1)	(3.6)	(2.7)	(2.0)	(3.5)	(3.5)
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Capex		(17.2)	(8.4)	(13.0)	(10.5)	(12.5)	(12.5)
Acquisitions/disposals		(64.8)	(4.9)	0.0	0.0	0.0	0.0
Financing		0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(6.3)	(9.3)	(8.4)	(7.0)	(8.2)	(9.8)
Other		8.6	(23.3)	(16.3)	(8.0)	0.0	0.0
Net Cash Flow		(30.2)	8.7	25.3	6.2	19.3	24.3
Opening net debt/(cash)		108.5	138.2	130.1	104.8	98.6	79.3
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.5	(0.6)	(0.1)	0.1	0.0	(0.0)
Closing net debt/(cash)		138.2	130.1	104.8	98.6	79.3	55.0

Source: Edison Investment Research, Company data

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