

# La Doria

H119 results

## Investment continues

La Doria continues to post good sales growth, despite the ongoing tough economic backdrop. Organic sales growth of 2.3% in H119 builds on a good H118. The important variables at this time of year are the outcomes of the seasonal campaigns and the corresponding customer negotiations. Raw materials continue to experience inflation, while customers continue to apply downward pressure to prices thus resulting in an unfavourable margin environment. Indeed, the EBITDA margin was down 50bp to 6.5% in H119. Management's investment programme continues as planned, with €32.5m spent during the period. We leave our forecasts unchanged, and believe the current share price offers a good entry point. Our fair value rises to €14.00 (from €13.60) as we roll forward our DCF.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	669.1	39.7	98.1	23.0	9.0	2.6
12/18	687.9	33.1	88.2	18.0	10.0	2.0
12/19e	690.0	35.0	82.4	20.0	10.7	2.3
12/20e	717.6	39.7	93.5	21.0	9.5	2.4

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

## Tomato campaign

The cooler weather in Italy in May delayed the start of the tomato campaign, which is currently expected to finish in the first half of October. Volumes so far are slightly lower than expected, resulting in rising prices. Importantly, deliveries of fresh tomatoes are being adversely affected by changeable weather, which is causing lines to run below full capacity. As a reminder, La Doria has 'cost-plus' agreements with some of its strategic customers, so will be able to pass on any increased costs. This helps mitigate the risk for margin compression.

## H119 results as expected

Sales growth was particularly impressive in the Vegetable line (8.6%) with strong growth in international markets, and the Sauces division (4.8%). The Red line was stable (+0.8%), while the Fruit line continued to decline (-1.7%) due to a fall in domestic consumption. EBITDA margin was down 50bp during the period due to higher costs, while the EBIT margin was down 100bp due to higher depreciation as the investment plan is underway. With customer negotiations still ongoing across the Red line, Pulses, pasta Sauces and Fruit lines, we leave our estimates unchanged at this stage.

## Valuation: Fair value of €14.00/share

Our DCF model indicates a fair value of €14.00 per share (from €13.60 previously as we roll forward our DCF), or c 60% upside from the current share price. La Doria trades on 9.5x FY20e P/E, a c 25% discount to its private-label peer group. On EV/EBITDA it trades at 7.0x FY20e, a c 20% 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.

## Food & beverages

11 September 2019

**Price** €8.85

**Market cap** €274m

Net debt (€m) at 30 June 2019 107.2

Shares in issue 30.9m

Free float 37%

Code LD

Primary exchange Borsa Italia (STAR)

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	12.7	10.5	(13.7)
Rel (local)	5.3	4.2	(15.9)
52-week high/low	€12.14	€7.48	

## 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) markets. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

## Next events

9M19 results 10 November 2019

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## H119 results review

Consolidated revenues were up 2.7% y-o-y to €358.7m in H119, or +2.3% at constant currency. EBITDA was down 5% to €23.3m, with the EBITDA margin down 50bp to 6.5%. EBIT was down 17% to €15.0m, with the margin down 100bp to 4.2%. Net debt was €107.2m vs €112.3m at the end of FY18 and €64.4m at the end of H118, following a major investment of €32.5m during H119, as part of management's investment plan.

The Pulses and Vegetables line performed strongly, with sales up 8.6%. The Sauces line also showed good growth (+4.8%), while the tomato-based business was broadly flat (+0.8%). The Fruit line continued to suffer, with revenues down 1.7% due to continued weak consumption in the domestic market, and the 'other lines' (ie the trading business that goes through UK subsidiary LDH) was down marginally in sales terms (-0.9%). Overall, sales in the domestic market were down (-4.4%), while international sales were up (+4.4%).

## Valuation

We illustrate La Doria's valuation versus its peers in Exhibit 1 below. On our 2020 estimates, La Doria currently trades at a c 25% discount on a P/E basis, which we believe is unwarranted given the company's balance sheet is conservatively managed. On EV/EBITDA, La Doria trades at a c 20% discount to the peer group.

**Exhibit 1: Benchmark valuation of La Doria relative to peers**

	Market cap (m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2019e	2020e	2019e	2020e	2019e	2020e
Greencore	£996.0	14.5	12.2	8.9	8.3	2.7	3.0
Ebro Foods	£2,993.0	18.3	16.3	10.7	9.8	3.3	3.5
Bonduelle	€745.9	9.6	8.9	6.9	7.4	2.3	2.4
Valsoia	€108.6	15.8	N/A	7.9	N/A	3.7	N/A
<b>Peer group average</b>		<b>14.5</b>	<b>12.5</b>	<b>8.6</b>	<b>8.5</b>	<b>3.0</b>	<b>3.0</b>
La Doria	€ 274.4	10.7	9.5	7.8	7.0	2.3	2.4
<b>Premium/(discount) to peer group</b>		<b>(26.1%)</b>	<b>(24.0%)</b>	<b>(9.3%)</b>	<b>(17.3%)</b>	<b>(24.8%)</b>	<b>(20.0%)</b>

Source: Edison Investment Research estimates, Refinitiv. Note: Prices at 10 September 2019.

We have rolled forward our DCF to commence in 2020, so our fair value rises to €14.00 per share (from €13.60 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 5% 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 FY18 EBITDA margin of 7.7% and EBIT margin of 5.1%) and a terminal growth rate of 0.1%.

**Exhibit 2: 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%	7.0	7.6	8.1	8.7	9.3	9.9
	-1.5%	7.6	8.2	8.9	9.6	10.2	10.9
	-0.5%	8.3	9.1	9.8	10.6	11.4	12.2
	0.5%	9.3	10.2	11.1	12.0	12.9	13.9
	1.5%	10.7	11.8	12.9	14.0	15.1	16.3
	2.5%	12.9	14.3	15.7	17.1	18.5	19.9
	3.5%	16.5	18.4	20.3	22.3	24.2	26.1

Source: Edison Investment Research

**Exhibit 3: Financial summary**

	€m	2017	2018	2019e	2020e	2021e	2022e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		669.1	687.9	690.0	717.6	739.1	761.3
Cost of Sales		(555.7)	(581.7)	(583.4)	(603.9)	(618.3)	(636.1)
Gross Profit		113.4	106.2	106.5	113.7	120.8	125.2
EBITDA		60.1	52.8	53.0	58.7	64.9	67.6
Operating Profit (before amort. and except.)		41.6	34.8	37.0	41.7	45.9	47.6
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)		0.2	3.2	0.0	0.0	0.0	0.0
Operating Profit		41.8	37.9	37.0	41.7	45.9	47.6
Net Interest		(1.9)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)		39.7	33.1	35.0	39.7	43.9	45.6
Profit Before Tax (FRS 3)		39.9	36.3	35.0	39.7	43.9	45.6
Tax		(9.5)	(8.9)	(9.4)	(10.7)	(11.8)	(12.3)
Profit After Tax (norm)		30.4	27.3	25.5	29.0	32.0	33.3
Profit After Tax (FRS 3)		30.4	27.3	25.5	29.0	32.0	33.3
Average Number of Shares Outstanding (m)		31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)		98.1	88.2	82.4	93.5	103.3	107.4
EPS - (IFRS) (c)		98.1	88.2	82.4	93.5	103.3	107.4
Dividend per share (c)		23.0	18.0	20.0	21.0	22.0	22.0
Gross Margin (%)		16.9	15.4	15.4	15.8	16.3	16.4
EBITDA Margin (%)		9.0	7.7	7.7	8.2	8.8	8.9
Operating Margin (before GW and except.) (%)		6.2	5.1	5.4	5.8	6.2	6.3
<b>BALANCE SHEET</b>							
Fixed Assets		174.0	203.5	246.0	254.2	254.4	242.4
Intangible Assets		6.1	5.5	4.8	4.1	3.4	2.7
Tangible Assets		149.9	175.9	216.6	215.3	205.0	193.7
Investments		18.0	22.1	24.5	34.7	45.9	45.9
Current Assets		394.2	419.4	378.1	403.0	437.7	474.9
Stocks		209.5	204.4	201.3	205.3	207.1	213.1
Debtors		106.5	110.2	107.6	109.1	110.9	114.2
Cash		66.7	86.8	51.2	70.6	101.7	129.6
Other		11.5	18.0	18.0	18.0	18.0	18.0
Current Liabilities		(209.8)	(242.3)	(234.4)	(238.5)	(241.3)	(244.9)
Creditors		(142.1)	(148.4)	(140.5)	(144.6)	(147.5)	(151.0)
Short term borrowings		(67.6)	(93.9)	(93.9)	(93.9)	(93.9)	(93.9)
Long Term Liabilities		(131.5)	(139.3)	(122.8)	(122.8)	(122.8)	(122.8)
Long term borrowings		(97.2)	(105.2)	(105.2)	(105.2)	(105.2)	(105.2)
Other long-term liabilities		(34.3)	(34.1)	(17.6)	(17.6)	(17.6)	(17.6)
Net Assets		227.0	241.4	266.9	295.9	327.9	349.6
<b>CASH FLOW</b>							
Operating Cash Flow		35.4	48.2	41.3	46.6	52.3	49.6
Net Interest		(1.9)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Capex		(17.6)	(46.5)	(56.0)	(15.0)	(8.0)	(8.0)
Acquisitions/disposals		(0.4)	0.0	0.0	0.0	0.0	0.0
Financing		0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(7.7)	(9.6)	(8.9)	(10.1)	(11.2)	(11.6)
Other		(2.4)	(4.6)	(10.0)	(0.0)	0.0	0.0
Net Cash Flow		5.4	(14.1)	(35.6)	19.4	31.1	27.9
Opening net debt/(cash)		104.8	98.2	112.3	147.9	128.5	97.4
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		1.2	(0.0)	(0.0)	0.0	(0.0)	0.0
Closing net debt/(cash)		98.2	112.3	147.9	128.5	97.4	69.5

Source: Company data, Edison Investment Research

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