

La Doria

Building for the future

H118 results

La Doria's results again demonstrate the strength of the business and the underlying strategy. Despite a continued challenging macroeconomic backdrop and a tough trading environment, sales were up 2.5% during the period, and 3.7% at constant currency, entirely driven by volume growth. As ever, the important factor at this stage in the year is the outcome of the seasonal campaigns. With regard to tomatoes, the 2018 campaign was critical due to adverse weather conditions, which caused volumes to fall and affected quality, hence production costs will be up. The fruit campaign was characterised by higher costs for peaches and nectarines, whereas apricot, apple and pear prices are expected to remain stable. We leave our estimates unchanged at this stage.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	653.1	37.3	108.8	18.0	11.0	1.5
12/17	669.1	39.7	98.1	23.0	12.2	1.9
12/18e	689.2	42.2	99.3	24.0	12.0	2.0
12/19e	709.8	45.5	107.1	25.0	11.2	2.1

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

Less efficient tomato campaign

The heavy rains from the second half of August affected crop quantity and quality, and the processing efficiency of the tomato campaign. Overall volumes are now expected to be down 10-15% at a national level, and packaging and energy costs are expected to be up. Overall tomato costs are also likely to be higher, and – coupled with lower volumes – fixed cost leverage is likely to dent profitability.

H118 results in line

Sales growth was broad based, with most segments contributing. Sales were down in the fruit line, which witnessed a drop in both volume and pricing. The sauces line was stable, as volume growth was offset by targeted price reductions to gain market share. EBITDA was broadly flat, implying a 20bp reduction in margin. At this stage, with customer negotiations still ongoing across the red line, pulses and the fruit line, we leave our estimates unchanged. We continue to forecast broadly flat EBITDA for FY18, but the lower efficiency of the tomato campaign and lower crop quality does add a small downside risk to our estimates. We note that the four-year investment plan is under way, with a €24m investment during H1.

Valuation: Fair value unchanged at €16.10/share

Based on our forecasts, our DCF model points to a fair value of €16.10 per share (unchanged), or c 35% upside from the current share price. La Doria trades on 11.2x FY19e P/E, a c 40% discount to its private-label peer group, whereas on 7.9x FY19e EV/EBITDA it trades at a c 10% discount 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

24 September 2018

Price €11.96
Market cap €370m

Net debt (€m) at 30 June 2018	64.4
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	18.4	7.4	(5.8)
Rel (local)	14.5	7.7	(2.0)
52-week high/low	€17.5	€9.6	

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.

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H1 results review

Consolidated revenue for H118 of €349.3m was 2.5% ahead of the prior year and up 3.7% in constant currency, driven by volume growth at an impressive 4.5% and a slight reduction in pricing. Strength came from the trading side of the business, and to a lesser extent from the red and vegetable lines. Group EBITDA was €24.4m, and the EBITDA margin of 7.0% was 20bps below last year, as lower sales prices weighed on margins. Reported end-June net debt was €64.4m, a reduction from the 30 June 2017 level of €73.7m; end-2017 net debt was €98.1m and, due to the seasonality of the business, we forecast the usual cash outflow in H2. In addition, in H2 we expect to see more of the capital expenditure associated with the new business plan, and hence we forecast net debt of €119.8m at the end of 2018. As a reminder, €24m was invested in H1. By way of update, the Acerra plant is scheduled for closure at the end of September 2018. The new line of sauces in Parma and cans in Sarno are being built, and building of the new logistics centre for the UK LDH business should start in H2. The four-year industrial plan aims at increasing production capacity in categories with stronger growth potential and higher margin (such as pasta sauces), the improvement of industrial and logistics efficiency in order to reduce overall cost and become more competitive.

The annual tomato campaign runs from the end of July to the end of September/start of October. Typically, La Doria negotiates annual contracts with its customers, and hence prices, just before or during the processing season, which gives it good visibility on its profitability outlook through to Q3 of the following year, when the next pricing rounds occur. Therefore, we expect Q3 to continue with the same trajectory as H1, and the 2018 seasonal campaign will begin to take effect from Q4. Both customer negotiations and physical crop harvesting are still ongoing, and hence the final result is still unknown. As things stand, we expect the lower quality of the 2018 crop and the lower efficiency of production, coupled with the higher packaging materials and energy costs to offset the increase in finished goods pricing.

The situation for pulses is also expected to become slightly tougher, as increased tariffs on US pulses have contributed to a general uplift in global pulse costs. Thus we expect the pulses and vegetables market to witness an overall increase in pricing.

The sauces business had a good H118 and we expect volume growth to continue, although the pricing environment is likely to remain competitive. The fruit and fruit juices segment is likely to remain under pressure, as increased fruit prices and severe competition continue to be a problem in the domestic Italian market.

We leave our forecasts unchanged at this stage, as we forecast broadly stable EBITDA for FY18 and await the final outcome of the campaign and customer negotiations. Given the continued tough macroeconomic backdrop and the increase in the cost of production as a result of the tomato campaign, we see a small level of downside risk.

Valuation

La Doria's three-month share price performance has been +7%, outperforming the FTSEMIB, which was down 5%. On 2019 estimates, La Doria trades on a P/E of 11.2x, which compares to the peer group of private-label and small-cap food manufacturers on 18.2x, or a discount of c 40%, which we believe is unwarranted. On EV/EBITDA, La Doria trades on 7.9x FY19e estimates, which is at a c 10% 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 (%)	
		2018e	2019e	2018e	2019e	2018e	2019e
Greencore	£1,400.5	13.4	12.4	9.2	8.4	2.9%	3.0%
Ebro Foods	€ 2,894.2	16.8	15.4	10.3	9.3	3.4%	3.6%
Parmalat	€ 5,426.3	40.1	30.5	n/a	n/a	0.6%	0.8%
Bonduelle	€ 915.2	12.3	10.9	7.0	6.4	1.8%	1.9%
Valsoia	€ 158.7	23.0	21.7	11.6	10.6	2.2%	2.2%
Peer group average		21.1	18.2	9.5	8.7	2.2%	2.3%
La Doria	€ 370.8	12.0	11.2	8.6	7.9	2.0%	2.1%
Premium/(discount) to peer group		-42.9%	-38.5%	-9.5%	-8.9%	-7.3%	-8.8%

Source: Edison Investment Research estimates, Bloomberg consensus. Note: Prices at 14 September 2018.

Our primary valuation methodology is DCF analysis, and we calculate a fair value of €16.10/share (unchanged), or c 35% upside from the current level. This is based on our assumptions of a 1.0% terminal growth rate and an 8.0% terminal EBIT margin. Our WACC of 6.0% 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 these assumptions and note that the current share price is discounting a terminal EBIT margin of 7.5% (which compares to La Doria's FY17 EBITDA margin of 9.0% and EBIT margin of 6.2%) and a terminal growth rate of c -0.3%.

Exhibit 2: DCF sensitivity to terminal growth rate and EBIT margin (€/share)

		EBIT margin					
		6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
Terminal growth	-2.5%	8.5	9.0	9.6	10.2	10.8	11.3
	-1.5%	9.2	9.7	10.5	11.1	11.8	12.4
	-0.5%	10.1	10.7	11.6	12.3	13.0	13.8
	0.5%	11.3	12.0	13.0	13.9	14.8	15.6
	1.5%	13.0	13.8	15.1	16.1	17.2	18.2
	2.5%	15.5	16.6	18.2	19.5	20.8	22.2
	3.5%	19.8	21.2	23.4	25.2	27.0	28.8

Source: Edison Investment Research estimates

Exhibit 3: Financial summary

	€m	2015	2016	2017	2018e	2019e	2020e	2021e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue		748.3	653.1	669.1	689.2	709.8	731.1	753.1
Cost of Sales		(616.9)	(545.4)	(555.7)	(575.1)	(589.6)	(604.3)	(618.7)
Gross Profit		131.5	107.8	113.4	114.0	120.3	126.8	134.4
EBITDA		77.6	56.3	60.1	59.2	64.5	70.1	76.7
Operating Profit (before amort. and except.)		61.0	39.9	41.6	44.2	47.5	53.1	58.7
Intangible Amortisation		0.0	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	0.0
FX Gain / (loss)		3.6	8.9	0.2	0.0	0.0	0.0	0.0
Operating Profit		64.6	48.8	41.8	44.2	47.5	53.1	58.7
Net Interest		(3.6)	(2.7)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)		57.4	37.3	39.7	42.2	45.5	51.1	56.7
Profit Before Tax (FRS 3)		61.0	46.2	39.9	42.2	45.5	51.1	56.7
Tax		(16.1)	(12.4)	(9.5)	(11.4)	(12.3)	(13.8)	(15.3)
Profit After Tax (norm)		44.8	33.7	30.4	30.8	33.2	37.3	41.4
Profit After Tax (FRS 3)		44.8	33.7	30.4	30.8	33.2	37.3	41.4
Average Number of Shares Outstanding (m)		31.0	31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)		144.6	108.8	98.1	99.3	107.1	120.3	133.5
EPS - (IFRS) (c)		144.6	108.8	98.1	99.3	107.1	120.3	133.5
Dividend per share (c)		28.0	18.0	23.0	24.0	25.0	26.0	27.0
Gross Margin (%)		17.6	16.5	16.9	16.5	16.9	17.3	17.8
EBITDA Margin (%)		10.4	8.6	9.0	8.6	9.1	9.6	10.2
Operating Margin (before GW and except.) (%)		8.1	6.1	6.2	6.4	6.7	7.3	7.8
BALANCE SHEET								
Fixed Assets		177.6	173.3	174.0	220.0	236.0	246.1	253.6
Intangible Assets		10.6	10.0	6.1	5.4	4.7	4.0	3.3
Tangible Assets		143.3	143.9	149.9	196.6	208.3	206.0	199.7
Investments		23.7	19.4	18.0	18.0	23.0	36.1	50.6
Current Assets		398.8	367.8	394.2	358.9	372.1	402.1	438.7
Stocks		199.8	187.0	209.5	195.5	200.4	205.5	207.3
Debtors		107.7	103.9	106.5	106.8	110.0	113.3	116.7
Cash		77.9	62.8	66.7	45.0	50.1	71.8	103.2
Other		13.3	14.2	11.5	11.5	11.5	11.5	11.5
Current Liabilities		(220.7)	(187.9)	(209.8)	(200.5)	(203.2)	(205.9)	(208.5)
Creditors		(129.3)	(126.4)	(142.1)	(132.9)	(135.5)	(138.3)	(140.9)
Short term borrowings		(91.4)	(61.5)	(67.6)	(67.6)	(67.6)	(67.6)	(67.6)
Long Term Liabilities		(157.3)	(144.5)	(131.5)	(120.7)	(114.1)	(114.1)	(114.1)
Long term borrowings		(116.6)	(106.1)	(97.2)	(97.2)	(97.2)	(97.2)	(97.2)
Other long term liabilities		(40.7)	(38.3)	(34.3)	(23.5)	(16.8)	(16.8)	(16.8)
Net Assets		198.4	208.8	227.0	257.8	291.0	328.3	369.7
CASH FLOW								
Operating Cash Flow		58.2	65.7	39.9	52.1	46.8	50.7	58.9
Net Interest		(3.6)	(2.7)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)
Tax		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capex		(8.4)	(13.0)	(18.7)	(61.0)	(28.0)	(14.0)	(11.0)
Acquisitions/disposals		(4.9)	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	0.0
Dividends		(9.3)	(8.4)	(7.6)	(10.8)	(11.6)	(13.1)	(14.5)
Other		(23.3)	(16.3)	(5.2)	0.0	0.0	0.0	0.0
Net Cash Flow		8.7	25.3	6.6	(21.7)	5.1	21.7	31.4
Opening net debt/(cash)		138.2	130.1	104.8	98.2	119.8	114.7	93.0
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.6)	(0.1)	0.1	0.0	(0.0)	0.0	0.0
Closing net debt/(cash)		130.1	104.8	98.2	119.8	114.7	93.0	61.7

Source: Edison Investment Research, company data

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