

La Doria

FY18 results

Navigating through tough times

La Doria's FY18 results were broadly in line with our expectations: organic revenues were up by a healthy 3.4%, but EBITDA margins were lower than expected, down 130bp due to increased production costs and a challenging competitive environment. Looking ahead, the company has released its updated three-year rolling plan and has cut guidance for the 2019–21 period. FY19 guidance has suffered the most, with target revenue cut by 3% and EBITDA by 19%. Management reiterated its 2018 plan to invest in the business in order to enhance its competitive position. Our fair value moves to €13.60 (from €15.40), to reflect our lower forecasts.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/17	669.1	39.7	98.1	23.0	8.0	2.9
12/18	687.9	33.1	88.2	18.0	8.9	2.3
12/19e	690.0	35.0	82.4	20.0	9.5	2.6
12/20e	717.6	39.7	93.5	21.0	8.4	2.7

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

FY18 as expected

FY18 witnessed strong volume growth, partly offset by a reduction in sales prices. EBITDA was down 12% as raw material cost inflation and higher costs associated with a tough tomato campaign negatively affected margins, particularly during Q4. The introduction of European duties on some imports from the US was also unhelpful. The environment remains competitive, with pressure on sales prices from La Doria's major retail customers. The tomato-based business was the standout performer, with organic revenue growth of 7.9%, while the fruit line accelerated its decline (-10.5%) due to weak consumption.

Investment plan: Forging ahead with c €120m plan

In March 2018, La Doria announced an investment plan with the primary objective of improving revenues and margins by driving up volumes of its higher value-added products, and improving economies of scale. In addition, cost reductions would be targeted by streamlining production and building a new UK logistics platform. Management has forged ahead with the plan, closing the Acerra site, and the tough business environment underscores the necessity to remain competitive.

Valuation: Fair value of €13.60/share

We have cut our estimates to reflect the company's updated guidance. Our DCF model now indicates a fair value of €13.60 per share (previously €15.40), or c 70% upside from the current share price. La Doria trades on 9.5x FY19e P/E, a c 35% discount to its private-label peer group. On EV/EBITDA it trades at 7.2x FY19e, a c 20% discount. We believe La Doria remains an attractive proposition, given the strength of its market position in the private-label segment, as well as management's commitment to improving the stability and visibility of the business by reducing its reliance on the more volatile tomato line, while continuing to invest in the business in order to maintain its competitive edge.

Food & beverages

29 March 2019

Price €7.83

Market cap €243m

Net debt (€m) at 31 December 2018 112.3

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	(6.5)	0.9	(35.3)
Rel (local)	(8.2)	(12.0)	(31.1)
52-week high/low	€13.8	€7.8	

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

Q119 results	14 May 2019
AGM	11 June 2019
H119 results	12 September 2019
9M19 results	13 November 2019

Analysts

Sara Welford	+44 (0)20 3077 5700
Russell Pointon	+44 (0)20 3077 5700

consumer@edisongroup.com
[Edison profile page](#)

**La Doria is a research client of
Edison Investment Research
Limited**

FY18 results review and outlook

Consolidated revenues were up 2.8% to €687.9m year-on-year, or +3.4% at constant currency. EBITDA was down 12% to €52.8m, with the EBITDA margin down 130bp to 7.7%. EBIT was down 17% to €34.8m, with the margin down 110bp to 5.1%. Net debt was €112.3m vs €98.1m at the end of FY17 and €79.1m at the end of 9M18, following major investment of €45m during the course of the year, which was part of management's investment plan.

We illustrate how the FY18 results fared vs our expectations in Exhibit 1 below.

Exhibit 1: Forecasts vs actual FY18 results (€m)			
	Forecast	Actual	% chg
Revenue	689.2	687.9	-0.2%
EBITDA	54.8	52.8	-3.5%
EBIT	39.8	34.8	-12.6%
PBT (pre-exceptional)	37.8	33.1	-12.4%
Net profit	27.6	27.3	-0.8%
Net debt	122.3	112.3	-8.3%
EBITDA margin	7.9%	7.7%	-0.3%
EBIT margin	5.8%	5.1%	-0.7%
Source: Edison Investment Research, La Doria data			

The tomato-based line performed strongly, with organic sales up 7.9%. The vegetable line also showed good growth (+3.6%), while 'other lines' (ie the trading business that goes through UK subsidiary LDH) was up 5%. The sauces business was flat, with lower prices offsetting volume growth. The fruit line continued to suffer, with organic revenues down 10.5% due to weak consumption in both the domestic market and Britain.

Forecasts

La Doria has published its updated rolling three-year industrial strategy. Last year 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 (for example with the closure of the Acerra site), thus reducing costs. Management is continuing with its plan, though it has trimmed its expectations in the shorter term in light of the tough trading environment. In particular, the introduction of European duties on imports of dried pulses from the US was unexpected, and the 2018 tomato campaign was the toughest in recent years. We illustrate the change in targets in Exhibit 2 below.

Exhibit 2: Old vs new company financial targets

€m	FY19e			FY20e		
	Old	New	% chg	Old	New	% chg
Revenue	712	691.0	(2.9%)	736	721.0	(2.0%)
EBITDA	65	53.0	(18.5%)	71	64.0	(9.9%)
EBIT	48	38.0	(20.8%)	54	45.0	(16.7%)
PBT	46	35.0	(23.9%)	52	43.0	(17.3%)
Net profit	34	26.0	(23.5%)	38	32.0	(15.8%)
Operating cash flow	45.0	39	(12.4%)	50.0	45	(10.0%)
Capex	28.0	56	99.3%	14.0	15	7.1%
FCF	17.0	-16	N/A	36.0	30	(16.7%)
Dividend payout (on parent company profit)	30%	30%		30%	30%	
Net cash flow	3	(36)	N/A	21	18	(14.3%)
Net debt	117	148	26.5%	96	131	36.5%
Debt/EBITDA (x)	1.8	2.8		1.3	2.0	
Gearing (x)	0.4	0.6		0.3	0.5	
ROI (%)	12.4%	9.4%	(300)	13.7%	11.2%	(250)
ROE (%)	12.6%	10.5%	(210)	12.9%	11.8%	(110)

Source: La Doria data

We have trimmed our FY19–21 forecasts to reflect the updated industrial plan and the tough competitive environment. Our revenue forecasts fall by c 2–3%, while EBITDA reduces by c 10% due to the additional pressure of increasing costs. We now expect FY19 revenue and EBITDA to be broadly flat vs FY18, with the benefits of the investment plan (including the closure of the Acerra site, and the expansion of the Parma site) helping to offset higher costs. We note the gearing level forecast for FY19 has increased, with net debt/EBITDA peaking at 2.8x then falling back to 2.0x in FY20. The new investment should ensure La Doria is well placed to compete in a tough environment by becoming one of the lowest-cost operators, with fully automated warehouses and streamlined production.

Exhibit 3: Old vs new forecasts (€m)

	FY19e			FY20e		
	Old	New	% chg	Old	New	% chg
Revenue	709.8	690.0	-2.8%	731.1	717.6	-1.9%
EBITDA	60.0	53.0	-11.6%	65.4	58.7	-10.3%
EBIT	43.0	37.0	-13.9%	48.4	41.7	-13.9%
PBT	41.0	35.0	-14.6%	46.4	39.7	-14.5%
Net profit	29.9	25.5	-14.6%	33.9	29.0	-14.5%
Net debt	119.4	147.9	23.9%	100.0	128.5	28.5%

Source: Edison Investment Research

Valuation

We illustrate La Doria's valuation versus its peers in Exhibit 4 below. On 2019 estimates, La Doria currently trades at a c 40% 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 25% discount.

Exhibit 4: 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	£868.3	12.4	10.6	9.3	8.9	3.1	3.4
Ebro Foods	£2,904.8	17.4	15.9	10.7	10.0	3.4	3.5
Bonduelle	€860.3	11.0	9.6	6.9	7.5	2.0	2.1
Valsoia	€139.8	18.0	N/A	9.9	N/A	2.5	N/A
Peer group average		14.7	12.0	9.2	8.8	2.7	3.0
La Doria	€242.7	9.5	8.4	7.2	6.5	2.6	2.7
Premium/(discount) to peer group		-35.3%	-30.3%	-21.9%	-26.2%	-6.9%	-10.5%

Source: Edison Investment Research estimates, Refinitiv. Note: Prices at 28 March 2019.

Our primary valuation methodology is DCF analysis and we calculate a fair value of €13.60/share (previously €15.40), or c 75% upside from the current level. This is based on our assumptions of a 1.0% 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.

We have rolled forward our DCF to commence in 2019 and we have cut our terminal EBIT margin assumption to 7.0% (from 8.0%). Notwithstanding the lower assumed EBIT margin, 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 FY18 EBITDA margin of 7.7% and EBIT margin of 5.1%) and a terminal growth rate of c -0.3%.

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%	6.8	7.4	7.9	8.5	9.1	9.6
	-1.5%	7.3	8.0	8.6	9.3	9.9	10.6
	-0.5%	8.1	8.8	9.5	10.3	11.0	11.8
	0.5%	9.0	9.9	10.8	11.6	12.5	13.4
	1.5%	10.3	11.4	12.5	13.6	14.6	15.7
	2.5%	12.4	13.7	15.1	16.5	17.8	19.2
	3.5%	15.8	17.7	19.5	21.4	23.2	25.1

Source: Edison Investment Research estimates

Exhibit 5: Financial summary

	€m	2016	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		653.1	669.1	687.9	690.0	717.6	739.1
Cost of Sales		(545.4)	(555.7)	(581.7)	(583.4)	(603.9)	(618.3)
Gross Profit		107.8	113.4	106.2	106.5	113.7	120.8
EBITDA		56.3	60.1	52.8	53.0	58.7	64.9
Operating Profit (before amort. and except.)		39.9	41.6	34.8	37.0	41.7	45.9
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)		8.9	0.2	3.2	0.0	0.0	0.0
Operating Profit		48.8	41.8	37.9	37.0	41.7	45.9
Net Interest		(2.7)	(1.9)	(1.7)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)		37.3	39.7	33.1	35.0	39.7	43.9
Profit Before Tax (FRS 3)		46.2	39.9	36.3	35.0	39.7	43.9
Tax		(12.4)	(9.5)	(8.9)	(9.4)	(10.7)	(11.8)
Profit After Tax (norm)		33.7	30.4	27.3	25.5	29.0	32.0
Profit After Tax (FRS 3)		33.7	30.4	27.3	25.5	29.0	32.0
Average Number of Shares Outstanding (m)		31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)		108.8	98.1	88.2	82.4	93.5	103.3
EPS - (IFRS) (c)		108.8	98.1	88.2	82.4	93.5	103.3
Dividend per share (c)		18.0	23.0	18.0	20.0	21.0	22.0
Gross Margin (%)		16.5	16.9	15.4	15.4	15.8	16.3
EBITDA Margin (%)		8.6	9.0	7.7	7.7	8.2	8.8
Operating Margin (before GW and except.) (%)		6.1	6.2	5.1	5.4	5.8	6.2
BALANCE SHEET							
Fixed Assets		173.3	174.0	203.5	246.0	254.2	254.4
Intangible Assets		10.0	6.1	5.5	4.8	4.1	3.4
Tangible Assets		143.9	149.9	175.9	216.6	215.3	205.0
Investments		19.4	18.0	22.1	24.5	34.7	45.9
Current Assets		367.8	394.2	419.4	378.1	403.0	437.7
Stocks		187.0	209.5	204.4	201.3	205.3	207.1
Debtors		103.9	106.5	110.2	107.6	109.1	110.9
Cash		62.8	66.7	86.8	51.2	70.6	101.7
Other		14.2	11.5	18.0	18.0	18.0	18.0
Current Liabilities		(187.9)	(209.8)	(242.3)	(234.4)	(238.5)	(241.3)
Creditors		(126.4)	(142.1)	(148.4)	(140.5)	(144.6)	(147.5)
Short term borrowings		(61.5)	(67.6)	(93.9)	(93.9)	(93.9)	(93.9)
Long Term Liabilities		(144.5)	(131.5)	(139.3)	(122.8)	(122.8)	(122.8)
Long term borrowings		(106.1)	(97.2)	(105.2)	(105.2)	(105.2)	(105.2)
Other long term liabilities		(38.3)	(34.3)	(34.1)	(17.6)	(17.6)	(17.6)
Net Assets		208.8	227.0	241.4	266.9	295.9	327.9
CASH FLOW							
Operating Cash Flow		48.5	35.4	48.2	41.3	46.6	52.3
Net Interest		(2.7)	(1.9)	(1.7)	(2.0)	(2.0)	(2.0)
Tax		0.0	0.0	0.0	0.0	0.0	0.0
Capex		(12.4)	(17.6)	(46.5)	(56.0)	(15.0)	(8.0)
Acquisitions/disposals		3.2	(0.4)	0.0	0.0	0.0	0.0
Financing		0.0	0.0	0.0	0.0	0.0	0.0
Dividends		(11.5)	(7.7)	(9.6)	(8.9)	(10.1)	(11.2)
Other		(2.2)	(2.4)	(4.6)	(10.0)	(0.0)	0.0
Net Cash Flow		22.9	5.4	(14.1)	(35.6)	19.4	31.1
Opening net debt/(cash)		130.1	104.8	98.2	112.3	147.9	128.5
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		2.4	1.2	(0.0)	(0.0)	0.0	(0.0)
Closing net debt/(cash)		104.8	98.2	112.3	147.9	128.5	97.4

Source: Edison Investment Research, La Doria data

General disclaimer and copyright

This report has been commissioned by La Doria and prepared and issued by Edison, in consideration of a fee payable La Doria. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the Edison analyst at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2019 Edison Investment Research Limited (Edison). All rights reserved FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd who holds an Australian Financial Services Licence (Number: 427484). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

Neither this document and associated email (together, the "Communication") constitutes or form part of any offer for sale or subscription of, or solicitation of any offer to buy or subscribe for, any securities, nor shall it or any part of it form the basis of, or be relied on in connection with, any contract or commitment whatsoever. Any decision to purchase shares in the Company in the proposed placing should be made solely on the basis of the information to be contained in the admission document to be published in connection therewith.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document (nor will such persons be able to purchase shares in the placing).

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

The Investment Research is a publication distributed in the United States by Edison Investment Research, Inc. Edison Investment Research, Inc. is registered as an investment adviser with the Securities and Exchange Commission. Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a) (11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.