

La Doria

A good summer

H117 results

La Doria's H117 results demonstrate that the business is solid: despite a tough macroeconomic backdrop in several markets, revenues were up 1.9% during the period, or an impressive 7.4% in constant currency, mainly driven by volumes. The important factor is the outcome of the seasonal 2017 tomato campaign, and – as expected – lower national tomato production, together with the sector destocking following the decrease in production in southern Italy in 2016, resulted in more successful customer negotiations this year, and hence agreed price increases for 2018. As a reminder, this should result in a margin recovery from Q417, when the new contracts start to kick in, and will mainly benefit FY18 margins. We raise our forecasts to reflect the improved outlook and also roll forward our DCF. Our fair value moves to €15.54/share from €12.49.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	748.3	57.4	144.6	28.0	9.0	2.2%
12/16	653.1	37.3	108.8	18.0	11.9	1.4%
12/17e	656.4	34.4	82.0	17.0	15.8	1.3%
12/18e	695.8	44.0	103.5	20.0	12.5	1.5%

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

Positive tomato campaign

Industry forecasts were for a reduction in crop and for a positive outcome to the 2017 campaign as a result of the sector destocking following the Southern Italian production decline in 2016. This did indeed come through, and hence sales prices have increased, which should also have positive margin implications. Pulses also had a better harvest and hence raw material pressures in the canned pulses line should abate from Q417, which should result in higher margins.

Good H117 results; forecasts raised

In H117 the sauces and pulses and vegetable lines were the main contributors to top-line growth (largely volume-driven). However, EBITDA of €24.5m was c 9% below last year; as expected, the margin decline was due to higher raw material costs and lower selling prices. Margins in sauces were up significantly. We increase our forecasts as a result of the positive outcomes from the harvests. Our revenue forecasts for FY17 and FY18 rise by 2%, while our EBITDA forecasts rise by 4-5%.

Valuation: Material upside

We take the opportunity to roll forward our DCF to start in 2018. Based on our updated forecasts, our DCF model points to a fair value of €15.54 per share, or c 20% upside from the current share price. We calculate that La Doria now trades on 12.5x 2018e P/E, a c 40% discount to its private-label peer group, while on 2018e EV/EBITDA it trades on 8.0x, broadly in line with 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 red line.

Food & beverages

27 September 2017

Price €12.9
Market cap €402m

Net debt (€m) at 30 June 2017	73.7
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	17.6	18.4	41.9
Rel (local)	14.0	11.2	2.4
52-week high/low	€12.9	€7.1	

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.

Next events

STAR conference	09/10/17
9m 17 results	14/11/17

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H117 results review; estimate changes

Consolidated revenue for H117 of €340.9m was 1.9% ahead of the prior year, and up an impressive 7.4% in constant currency, mainly driven by volume growth. Strength came from growth in the sauces and the vegetable line (both up 12% in constant currency). Group EBITDA was €24.5m, and the EBITDA margin of 7.2% was 80bps below last year, as a combination of lower sales prices and higher raw material costs weighed on margins. Reported end-June net debt was €73.7m, a reduction from the 30 June 2016 level of €81.9m; end-2016 net debt was €104.8m and, due to the seasonality of the business, we forecast the usual cash outflow in H2 and hence net debt of €98.0m at the end of 2017.

We detail our forecasts in Exhibit 1 below. Our 2017 forecasts move up following the more positive harvests. We note our 2017 and 2018 revenue forecasts are now above the targets set out by the company in February as part of its rolling three-year plan.

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 weaker trajectory from 2016, but the recovery should start to come through in Q4 as we now expect higher selling prices as a result of the successful 2017 campaign. Of course, this applies to the red line.

The harvest for pulses is also expected to be more positive. Thus there should be a margin recovery coming through from Q4 in the “pulses and vegetables” line as raw material costs abate thanks to the improved harvest.

The sauces business had an excellent H117 and we expect volume growth to continue, with stable margins through H217 and FY18. The fruit and fruit juices segment is more likely to remain under pressure, as excess supply continues to be a problem in the domestic Italian market.

The business as a whole is likely to experience continued and increasing pressure from customers as the tough macroeconomic backdrop remains in place, particularly in markets such as Italy, Germany and the UK. The UK will continue to see pressure from sterling weakness. As a reminder, La Doria derives c 50% of its revenue from the UK. Of course, the competition is also encountering higher raw material costs as a function of their euro denomination, but UK-based competitors (eg in baked beans) have the advantage of having some sterling-denominated costs to mitigate the impact, while LDH (La Doria) Ltd (LDH) is a trading company and the majority of costs are euro-denominated. La Doria consolidates 100% of its minorities and treats as debt the value of the put options that exist against it.

Exhibit 1: Current vs previous forecasts

€m	2017e			2018e		
	Old	New	% change	Old	New	% change
Revenue	643.3	656.4	2.0%	681.9	695.8	2.0%
EBITDA	47.7	49.4	3.4%	58.1	60.0	3.2%
EBIT	34.7	36.4	4.7%	45.6	47.5	4.1%
PBT (normalised)	32.7	34.4	5.0%	42.1	44.0	4.5%
Net profit	24.2	25.4	5.0%	30.7	32.1	4.5%
Net debt	95.1	98.0	3.0%	79.6	81.6	2.5%

Source: Edison Investment Research estimates

Valuation

La Doria's three-month share price performance has been +18%, outperforming the MIB, which was up c +8%. On 2018 estimates, La Doria trades on a P/E of 12.5x, which compares to the peer group of private-label and small-cap food manufacturers on 18.4x, or a discount of c 40%, which we believe is unwarranted. On EV/EBITDA, La Doria trades on 9.0x FY18e estimates, which is broadly in line with the peer group on 8.5x.

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	£1,340.7	12.2	10.9	10.0	7.9	3.1%	3.3%
Ebro Foods	€ 3,101.2	16.6	15.9	9.6	9.0	3.2%	3.4%
Parmalat	€ 5,687.9	34.4	32.3	11.2	9.2	0.6%	0.6%
Bonduelle	€ 1,209.3	19.5	15.9	9.9	8.0	1.2%	1.3%
Valsoia	€171.8	19.3	17.2	N/A	N/A	N/A	N/A
Peer group average		20.4	18.4	10.2	8.5	2.0%	2.2%
La Doria	€401.5	15.8	12.5	10.9	9.0	1.3%	1.5%
Premium/(discount) to peer group		-22.6%	-32.2%	7.6%	5.3%	-35.3%	-28.6%

Source: Edison Investment Research estimates, Bloomberg consensus. Note: Prices at 25 September 2017.

Our primary valuation methodology is DCF analysis, and we calculate a fair value of €15.54/share (from €12.49), or c 20% upside from the current level. This is based on our assumptions of a 1.0% terminal growth rate and a 7.5% 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 already reported EBIT margin of 6.1% in 2016) and a terminal growth rate of c -0.7%.

Exhibit 3: 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	-2.0%	10.6	11.2	11.7	12.3	12.9	13.5
	-1.0%	11.3	12.0	12.7	13.3	14.0	14.7
	0.0%	12.3	13.1	13.9	14.6	15.4	16.2
	1.0%	13.7	14.6	15.5	16.5	17.4	18.3
	2.0%	15.7	16.8	18.0	19.1	20.3	21.4
	3.0%	18.8	20.3	21.8	23.3	24.8	26.3
	4.0%	24.5	26.6	28.8	30.9	33.1	35.2

Source: Edison Investment Research estimates

We have rolled forward our DCF to commence in 2018 vs FY17 previously.

Key valuation sensitivities

La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of finished goods price inflation;
- consumer consumption patterns and competitive pressures, particularly in Europe with a subdued economic environment, although La Doria and private label in general should benefit from any consumer downtrading; and
- FX, specifically euro/sterling due to the consolidation of its trading subsidiary LDH.

Exhibit 4: Financial summary

	€m	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		631.4	748.3	653.1	656.4	695.8	716.7
Cost of Sales		(527.6)	(616.9)	(545.4)	(556.0)	(582.4)	(592.7)
Gross Profit		103.8	131.5	107.8	100.4	113.4	124.0
EBITDA		60.0	77.6	56.3	49.4	60.0	69.6
Operating Profit (before amort. and except.)		48.1	61.0	39.9	39.0	50.2	36.4
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	36.4	47.5	57.1
Net Interest		(4.1)	(3.6)	(2.7)	(2.0)	(3.5)	(3.5)
Profit Before Tax (norm)		44.0	57.4	37.3	34.4	44.0	53.6
Profit Before Tax (FRS 3)		44.3	61.0	46.2	34.4	44.0	53.6
Tax		(14.3)	(16.1)	(12.4)	(8.9)	(11.9)	(14.5)
Profit After Tax (norm)		29.9	44.8	33.7	25.4	32.1	39.2
Profit After Tax (FRS 3)		29.9	44.8	33.7	25.4	32.1	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	82.0	103.5	126.3
EPS - (IFRS) (c)		81.5	144.6	108.8	82.0	103.5	126.3
Dividend per share (c)		22.0	28.0	18.0	17.0	20.0	23.0
Gross Margin (%)		16.4	17.6	16.5	15.3	16.3	17.3
EBITDA Margin (%)		9.5	10.4	8.6	7.5	8.6	9.7
Operating Margin (before GW and except.) (%)		7.6	8.1	6.1	5.9	5.5	6.8
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	384.4	418.8	450.0
Stocks		212.9	199.8	187.0	189.0	200.9	204.5
Debtors		100.3	107.7	103.9	101.7	107.8	111.1
Cash		41.1	77.9	62.8	79.5	95.9	120.3
Other		19.6	13.3	14.2	14.2	14.2	14.2
Current Liabilities		(229.1)	(220.7)	(187.9)	(180.9)	(191.3)	(193.1)
Creditors		(143.7)	(129.3)	(126.4)	(119.5)	(129.8)	(131.6)
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	234.2	266.3	305.4
CASH FLOW							
Operating Cash Flow		53.7	58.2	65.7	33.6	40.4	50.2
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)	(6.4)	(8.0)	(9.8)
Other		8.6	(23.3)	(16.3)	(8.0)	0.0	0.0
Net Cash Flow		(30.2)	8.7	25.3	6.7	16.4	24.4
Opening net debt/(cash)		108.5	138.2	130.1	104.8	98.0	81.6
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	98.0	81.6	57.2

Source: Edison Investment Research, La Doria accounts

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