EDISON

La Doria

Q120 results

Benefiting from the consumption shift

Food & beverages

La Doria has posted a stellar performance for Q120, with revenues up 16.4%. The COVID-19 pandemic caused consumers to seek ambient food with a long shelf-life, and at-home consumption increased due to widespread closure of the horeca channel (which La Doria does not service). The revenue increase was volume-led, which in turn benefited margins. We expect the benefit to continue in Q2, but to a lesser extent as lockdowns are eased across the world. H2 will also be somewhat dependent on the outcomes of the seasonal campaigns. We raise our estimates to reflect the benefits from the current consumption shift. Our fair value moves to €13.50 as a result (€13.00 previously).

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	687.9	33.1	88.2	18.0	11.4	1.8
12/19	717.7	32.7	64.0	18.0	15.7	1.8
12/20e	789.4	45.0	111.7	18.0	9.0	1.8
12/21e	765.7	43.4	107.7	19.0	9.3	1.9

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

Q120 results materially ahead

Q120 group revenue was €213.9m, up 16.4% on the prior year. Organic growth was 15.5%, mainly driven by volume increases across all categories, owing to the effects of the COVID-19 pandemic. Q1 EBITDA was up 38.6% vs the prior year, with margins up 120bps. The margin improvement was driven by both operating leverage and the benefits of the four-year investment plan starting to come through, with increased efficiencies and lower costs. Net debt was €129m compared to €122m at end Q119, and €148.8m at the end of FY19, as the investment plan continued to be implemented.

Raising forecasts

We raise our forecasts to reflect both the higher-than-expected Q1 results, but also our expectation that the increased consumption will persist through most of FY20, albeit to a lower extent than in Q1. We have assumed consumption returns to more normal levels in FY21, and therefore our FY21 and FY22 forecasts increase to a lesser extent. Our FY20e EBITDA is up 15%, and FY21e and FY22e are up 4% and 3% respectively.

Valuation: Fair value moves to €13.50/share

Our DCF model indicates a fair value of €13.50 per share (previously €13.00), or c 30% upside from the current share price. On our updated estimates, La Doria trades on a P/E of 9.3x FY20e, a c 30% discount to its private-label peer group. On EV/EBITDA it trades at 7.2x FY20e, a c 20% discount. Over the last three months, the shares are up 9%, a +40% outperformance vs the FTSE All-Share Italy. 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.

22 May 2020

Price	**€10.1**
Market cap	**€312m**

Net debt (€m) as at 31 March 2020	129
Shares in issue	30.8m
Free float	37%
Code	LD
Primary exchange	Borsa Italia (STAR)
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	2.6	8.4	14.2
Rel (local)	(0.8)	56.0	38.1
52-week high/low		€10.50	€6.22

Business description

La Doria is the leading manufacturer of private-label preserved vegetables and fruit for the Italian (18% of revenues) and international (82% of revenues) market. It enjoys leading market share positions across its product ranges in the UK, Italy, Germany and Australia.

Next events

AGM	10 June 2020
H120 results	10 September 2020
9M20 results	12 November 2020

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Edison profile page

La Doria is a research client of Edison Investment Research Limited

Investment summary

Company description: Leading private-label manufacturer

La Doria is a leading manufacturer and processor of tomatoes, sauces, pulses and fruit-based products. It has a presence in both the Italian market (c 20% of sales) and internationally (c 80% of revenue). Management has been shifting the product mix towards higher-value and higher-margin products, which also tend to exhibit less volatility, and expanding into new markets.

The company was founded in 1954 by the Ferraioli family. The family maintains active management of the company. Antonio Ferraioli is group chairman and co-CEO, and Andrea Ferraioli is co-CEO. Maria Teresa Ferraioli, Diodato Ferraioli and Enzo Lamberti are members of the board, meaning the family fills five of the nine board positions and owns 63% of the group's share capital.

Valuation: Significant upside remains

We calculate a DCF-based fair value of €13.50 per share, or c 30% upside. As ever, there is good visibility regarding the current year's numbers: pricing for the tomato, vegetable, fruit and sauces lines is complete and costs are fully calculated, as the 2019 seasonal campaigns are over and the annual pricing rounds have occurred. Conversely, the outcome of the 2020 seasonal campaigns (affecting mainly FY21) is still unknown. The updated three-year rolling industrial plan, announced in March, extended the previous strategy, as expected, which is to improve the stability of the business, while continuing to invest to maintain its competitive edge. The investment plan, announced in March 2018, continues to be executed. We also look at La Doria's key metrics compared to its peer group. At 9.3x 2020e P/E and 7.2x 2020e EV/EBITDA, it trades at c 30% and c 20% discounts, respectively, to its peers.

Q120 results and forecast revisions

Q120 group revenue was €213.9m, up 16.4% on the prior year. Organic growth was 15.5%, mainly driven by volume increases across all categories, owing to the effects of the COVID-19 pandemic. Household food consumption has risen significantly, partly due to the mandated closure of the (hotel, retail and catering (horeca) channel. Through the quarter, January and February were ahead of expectations, though the benefit from the pandemic only started to come through in the final week of February and in March.

Q1 group EBITDA was €15.8m vs €11.4m in the prior year, with margin improving 120bps to 7.4%. The factors driving margin improvement were leverage thanks to increased volumes and industrial efficiencies, but also the continued rollout of the company's four-year investment plan, which is helping to reduce costs. In the short term, we expect Q2 to show similar benefits owing to the COVID-19 pandemic in terms of higher volumes. Q3 and – to a greater extent – Q4 will partially depend on the results of the 2020 seasonal campaigns, and we may see a return to more normal volumes and consumption levels. This will depend both on when the horeca sector reopens, and consumer propensity to eat meals cooked and prepared by someone else.

During the quarter, the sauces line saw revenue growth of 28.6%, as this category was the one most favoured by consumers suddenly unable to use the horeca channel, and it also benefited from a new contract win. The pulses and vegetables business was up 15.6%, and the red line was up 11.4% as consumers stockpiled tins of pulses and tomatoes and increased their consumption of these as they cooked more meals. The fruit line was up 13.5% as fruit and fruit juices also witnessed a significant consumption boost. The 'other lines' business (mainly LDH) registered 16.4% revenue growth. Prices across the board were broadly stable, with most of the growth driven by volume increases as home food consumption increased globally, and consumers stockpiled ambient, long shelf-life staples.

We raise our FY20 forecasts to reflect the benefits stemming from the increased consumption across all La Doria's key categories. Our FY20 EBITDA forecast moves up 15%, as we expect consumption to remain at elevated levels through the rest of the year, but to slowly return to more normal levels as lockdowns are eased. Our FY21 and FY22 forecasts increase to a lesser extent, with EBITDA up 4% and 3% respectively.

Net debt was €129m at the end of Q120. The balance sheet remains conservative: net debt/EBITDA should have peaked in FY19 at 2.7x as capital was invested in the industrial plan, but leverage should rapidly decline in FY21 and FY22.

Sensitivities: Raw materials still a key variable

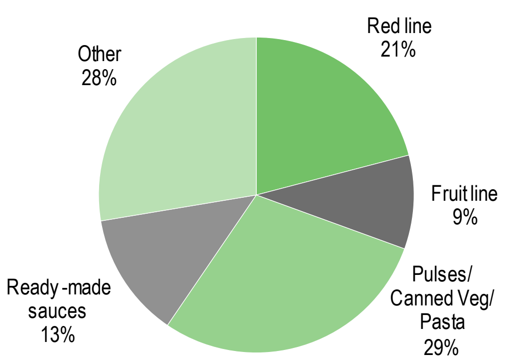
La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance affecting the achievability of price inflation on finished goods (particularly for the red line);
- consumer consumption patterns and competitive pressures; and
- FX, specifically euro/sterling due to the consolidation of its trading subsidiary, LDH.

Company description: A private-label specialist

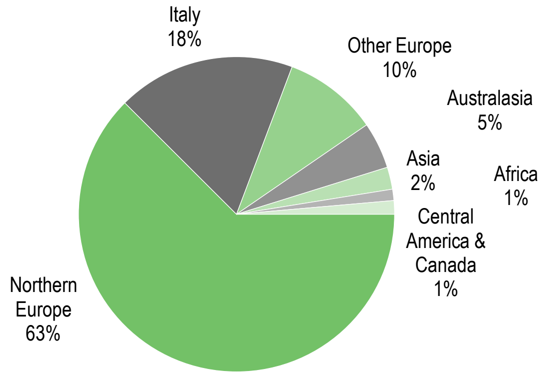
La Doria is the leading European producer of tinned tomatoes, processed pulses and vegetables and private-label, ready-made sauces. It is amongst the largest Italian producers of fruit juices and beverages, and the largest within the Italian private label segment. Exhibits 1 and 2 below break down revenues by category and by geography. In FY19, 18% of revenue was from the domestic market and 82% was international. Its largest market by far is the UK (c 50% of revenues), gained through its subsidiary LDH.

Exhibit 1: Revenue split by category (FY19)



Source: La Doria data

Exhibit 2: Revenue split by geography (FY19)



Source: La Doria data

La Doria supplies a very wide selection of food retailers. Tesco is its largest customer, but it also serves Asda, Sainsbury's, Carrefour, Morrisons, Walmart, Aldi, Lidl and many more. The overwhelming majority (95%) of La Doria's sales are in the private-label segment, with 3% of sales from branded products and the balance from co-packing arrangements for branded manufacturers.

La Doria holds leading private-label market share positions in its largest markets (UK and Italy), across many of its product categories, and in many of its other markets (Germany, Scandinavia and Australia). The company has benefited from its scale in its private-label categories and its reliability when dealing with its major customers, which all have high demands in terms of service and quality levels.

Over the past decade or so, the group strategy has been to gradually shift the sales mix towards non-seasonal, value-added products, in order to reduce the volatility of results and to increase margins. The sauces business lends itself particularly well here. For example, in FY08, the tomato business (red line) accounted for 31% of sales and 60% of EBITDA. In FY19 the tomato business represented 21% of sales and we estimate c 30% of EBITDA. The business plan announced in March builds on last year's industrial plan. The strategy remains to:

- expand the higher-margin product lines;
- invest in the premium and organic segments (which are also higher margin);
- extend the group's geographic reach to faster-growing markets; while
- strengthening the group's existing positions by reducing costs in order to remain competitive.

The business plan to FY23

La Doria outlines its financial targets and strategic business plan for a rolling three-year period at the beginning of each financial year. The industrial plan (restructuring programme) set out in March 2018 continues to be implemented: its main aim was to improve the efficiency of the business by closing some sites, and investing where necessary in order to maintain cost competitiveness. The business plan was updated on 13 March 2020 with the FY19 results, and the new profit targets published were below prior guidance, as shown in Exhibit 3. Management cut expectations given the tough competitive environment and higher production costs (for more detail on the outcome of the 2019 seasonal tomato campaign, see our November update note). We note the new guidance was issued in the very early days of the full lockdown in Italy, and before many of La Doria's other geographies had implemented any restrictions or lockdowns, and hence does not reflect the effects of the COVID-19 pandemic.

Q120 was materially ahead of expectations, and we therefore raise our forecasts to reflect both the stronger Q1 and our the belief that the remainder of FY20 will benefit from the shift towards more meals consumed at home. Some of the consumer stockpiling witnessed in Q1 is likely to slowly unwind, but the number of home-cooked meals is likely to remain elevated, even as lockdowns are eased. We expect margins to continue to benefit from operating leverage.

Looking ahead to FY21, management expected the competitive retail environment to remain tough, although we expect the pricing environment to be a bit more positive. We forecast consumption to have returned to normal. Year-on-year volumes are therefore likely to be down, and we now forecast a lower margin uplift than before (although from a higher base) as operating leverage unwinds, but is offset by the continued benefits of the investment plan coming through.

Exhibit 3: Current vs prior financial targets (2020–21e)

€m	2020e			2021e		
	Old	New	% chg	Old	New	% chg
Revenue	721	732	1.5%	742	753	1.5%
EBITDA	64	55	(14.1%)	70	63	(10.0%)
EBIT	45	37	(17.8%)	48	42	(12.5%)
PBT	43	36	(16.3%)	47	40	(14.9%)
Net profit	32	28	(12.5%)	35	31	(11.4%)
Net debt	131	157	19.8%	101	129	27.7%
EBITDA margin	8.9%	7.5%	-136bp	9.4%	8.4%	-107bp
EBIT margin	6.2%	5.1%	-119bp	6.5%	5.6%	-89bp

Source: La Doria data

We compare our forecasts to guidance in the Financials section on page 10.

The industrial plan

The industrial plan was borne out of the prevailing circumstances, namely an increasingly challenging competitive environment, and the ever-increasing clout of the major retailers, particularly in the private-label category.

The industrial plan aims to transform the business by:

- strengthening La Doria's leadership in the private-label markets in which it operates; and
- laying the foundations for future organic growth and improving flexibility to tackle upcoming market challenges. This includes assessing acquisition-led growth opportunities.

This is being implemented via a major investment plan, which is expanding and reshaping capacity while increasing efficiency and reducing costs. The overall capex spend over the FY18–21 period is expected to be €138m, with €106m invested so far.

Strategic guidelines

The 2020–22 strategic guidelines confirm those set out in 2018 and are as follows:

- Expand higher value-added product ranges, investing in the premium and organic/bio segments, which are higher margin.
- Strengthen existing group market positions in international markets, for example Germany, France, Scandinavia, Japan and Australia.
- Extend growth in markets where La Doria is currently under-represented (mainly the US), or where there is high potential, such as emerging markets (China, South-East Asia, Latin America).
- Assess acquisition opportunities to consolidate or extend the range.
- Continue to execute the four-year investment plan launched in 2018.

The above guidelines should drive both revenue growth and margin expansion, with the latter coming through from improved mix. In addition, investment in new technology should continue to improve efficiency, thus reducing costs and hence driving up margins.

More specifically, the investment plan includes:

- an expansion of capacity, mainly focused on ready-made sauces and the internal production of cans. This is aimed at supporting future growth and commercial development, and driving economies of scale. As discussed above, most of these new lines were installed during FY18 and FY19.
- rationalising industrial sites by closing the Acerra plant and streamlining production. Again, as discussed above, the Acerra plant was successfully closed during FY18.
- increasing efficiency and reducing costs through the improvement and automation of existing warehousing facilities, and establishing a major UK logistics platform to better serve its large-scale retail customers. This is a large and complex investment, and although the project is on track, the automated facility is not expected to be fully operational until Q320, with the financial benefit coming through in FY21. This also represents a substantial part of the overall investment plan.
- management's published targets point to an EBITDA margin of 8.5% by FY22 vs 7.8% reported in FY19 and 7.5% expected in FY20. We forecast margins of 8.6% in FY20 and 8.4% in FY21, as detailed in Exhibit 4. Our FY20 forecasts are materially higher than management guidance as we have tried to model the effect of the COVID-19 pandemic.

Business overview

La Doria operates in four distinct categories: tomato-based products, pulses and vegetables, ready-made sauces, and fruit-based products. In addition, it sells both its products and those of third parties through a holding in its UK subsidiary, LDH. We look at each of these in turn.

Tomato-based products – the red line

La Doria is the largest producer in Europe of peeled and chopped tomatoes and it is market leader in UK, Australian and Japanese private-label canned tomatoes. As illustrated in Exhibit 1, the red line (tomato-based products) contributed 21% of revenues in FY19.

La Doria's tomato business is seasonal and can be volatile. Over the last decade, the supply of Italian tomatoes has stabilised considerably thanks to legislative reform and structural consolidation. The industry now operates more effectively as a cohort and interests are better-aligned to avoid significant overproduction. Indeed, over the past few years, production has been broadly in line with expectations, and huge overproduction seems to be an issue of the past.

Sector consolidation among the producers has also helped pricing, as there were a number of small businesses that at times made seemingly irrational pricing choices. Although consolidation has helped to mitigate the fragmentation issue, some small players still remain and pricing still comes under pressure if campaign conditions are imperfect.

The annual tomato campaign runs from the end of July to the end of September. Typically, La Doria negotiates annual contracts with its customers, and hence volumes and prices, just before or during the processing season. This gives La Doria good visibility over the outlook for its profitability until Q3 of the following year, when the next pricing rounds occur.

In 2019 the tomato campaign was characterised by a delayed start, owing to cooler weather in Italy in May, and this is of course affecting FY20. This resulted in the campaign extending to the middle of October, with volumes slightly lower than expected, and hence rising prices. Deliveries of fresh tomatoes were adversely affected by changeable weather, which caused lines to run below full capacity and hence rising production costs.

In 2019 the overall Italian tomato crop came in at 4.8m tonnes, up c 3% on the 2018 crop (which had been affected by the weather and yields were lower than expected), and vs 5m tonnes on average during the 2016–18 period. The overall crop quality was far from optimal. In addition, supply was intermittent, thus resulting in higher production costs (due to lower industrial yields and lower processing efficiency). Tomato finished product prices were on the increase again towards the end of FY19 due to the increase in product costs.

On the demand side, Italian tomato consumption continues to decline: during FY19 the market (including the discount channel) was down 2% in volume and down 0.8% in value terms (source: IRI Infoscan). This compares to volumes and value both down 4.3% in FY18, and hence the decline in consumption decelerated. Private-label share bounced back to 31.4% in FY19 from 30.8% in FY18 (and 31.7% in FY17) as a more normal market returned. During FY18 the brands had increased their promotional activity in the face of a declining market, hence temporarily gaining market share (source: IRI Infoscan).

In contrast, a number of La Doria's larger export markets expanded. In the UK, in FY19, the tomato-based products market was up 1.1% in volume terms and 2.1% in value terms (source: Kantar Worldpanel). Private label outperformed the market by growing 2.6% and gaining 110bps share to reach 72.7% market share. Conversely, brands contracted by 2.7% and lost share.

2020 outlook

It is still early days for the 2020 campaign, but our current forecast is for a slight increase in tomato production at national level, or c 5-5.1m tonnes. As ever, the quality of the crop and industrial yield will only be determined once the campaign is nearly over. That said, we do not expect the COVID-19 pandemic to significantly affect campaign volumes, as the vast majority of the harvest is performed by machines. Social distancing, workforce mobility and sick rates should therefore have a relatively small effect.

Pulses and beans

La Doria is market leader in Europe (including the UK) in private-label preserved pulses. As shown in Exhibit 1, the vegetable line (pulses and beans) represented 29% of revenues in FY19.

FY19 was mainly affected by the 2018 summer harvest. This witnessed broadly stable harvest quantities compared to the prior year, and hence stable procurement prices. However, raw material costs were affected by customs duties levied by the EU on imports from the US, in response to US duties that became applicable to certain goods. Dried pulse costs were also affected by the strengthening US dollar vs the euro. Finished goods prices, therefore, were slightly up, following the significant increase in raw material costs.

On the consumption side, during FY19 the Italian canned vegetable market declined slightly (volumes down 0.8% and value down 0.3%), which was a marked improvement on FY18 (volumes -4.3%, value -3.5%) (source: IRI InfoScan). The private-label segment gained an impressive 140bps of volume share to 61.8%. In the UK, La Doria's key product in the category is private-label baked beans. In 2018 the overall baked beans market declined in both volume (-1.9%) and value (-1.1%). Private-label share grew slightly (+1.1% in volume terms) and was up 140bps to 45.2% (source: Kantar Worldpanel).

La Doria management has expanded the vegetable line, and indeed part of the investment in the industrial plan was to free up capacity for further production of pulses in carton packaging. Although this division has suffered from competitive pressures in the past – in the UK, in particular, due to Brexit-related effects – it offsets the more commoditised red line products and also has the advantage that production can occur throughout the year, rather than being concentrated in the three summer months of the tomato processing campaign. Expanding the vegetable line has helped to improve group efficiency and reduced the volatility of the overall group.

Outlook

We expect costs will continue to be elevated due to the duties levied by the EU. That said, as detailed above, we expect increased consumption to persist through FY20 and hence we expect operating leverage benefits to result in higher margins.

The fruit line

During FY19 the fruit business accounted for 9% of revenues (Exhibit 1). La Doria remains the market leader in Italian private-label fruit juices and fruit beverages, and is one of the main producers in the Italian market overall. The profitability of the fruit line is below that of other segments, as it has suffered through years of underperformance caused by weak economic conditions, reduced consumption and a general industry overcapacity. As for the other divisions, 2019 pricing was mainly driven by the 2018 crop, which featured a reduction in supply, and hence an increase in procurement costs. In addition, the cost of sugar was up significantly, thus contributing further to the raw material cost increase.

On the demand side, during FY19 the Italian fruit juice market was down 2.7% in volume terms and 3% in value terms (source: IRI InfoScan). The private-label segment increased its volume market share by 120bps to 45.2%.

Sauces

La Doria is the market leader in Europe in private-label pasta sauce, and the segment accounted for 13% of revenues in FY19 (see Exhibit 1). Following a tough year in 2018 – which saw raw material cost increases coupled with fierce competition leading to pricing declines – the business witnessed stable costs during 2019.

During the year the overall Italian sauces market (excluding the discount channel) witnessed growth in both value (+7%) and volume (+5.9%) terms (source: IRI InfoScan). Tomato-based sauces volumes were up 5.1%, while pesto sauce volumes were up 9.1% (source: IRI InfoScan). Private-label continued to outperform and take share, with tomato-based sauce volumes up 10.2%, and pesto sauce volumes up 17.5%. Private label now holds a c 18% market share in both subcategories, up from c 17% in FY18 (source: IRI InfoScan).

In the UK, the sauces market (excluding pesto) was up 1.1% in volume terms, and down 1% in value (source: Kantar Worldpanel). Private-label share grew by 390bp to 50.9% at the expense of the brands. The pesto market volumes were up 3.3% while value declined by 1.2%. Again, private-label share expanded 340bp, and now stands at 73.6%.

Other lines (trading as LDH)

La Doria owns 58.0% of its subsidiary, La Doria Holdings, or LDH. For accounting purposes, it consolidates 100% of its minorities, and treats as debt the value of the put options that exist against it. LDH is the leader in the British market for private-label, tomato-based products, baked beans, dry pasta and canned tuna. The 'other' category is mainly composed of LDH's sales and accounted for 28% of group sales in FY19.

The remaining 42% stake in LDH is owned by a combination of Thai Union Group, Di Martino (Italian pasta maker) and management. LDH's three major shareholders – La Doria, Thai Union Group and Di Martino – together supply the majority of its ranges across tomatoes, pulses, tuna and pasta.

EDISON

Financials

Q120 results

Q120 group revenue was €213.9m, up 16.4% on the prior year. Organic growth was 15.5%, mainly driven by volume increases across all categories, owing to the effects of the COVID-19 pandemic. Household food consumption has risen significantly, partly due to the mandated closure of the horeca channel (in which La Doria is under-represented). Consumers have stockpiled long shelf-life food, and are also cooking more meals in order to save money and as a result of many people having more time to cook while in lockdown. Through the quarter, January and February were ahead of expectations, though the benefit from the pandemic only started to come through in the final week of February and in March.

Q1 group EBITDA was €15.8m vs €11.4m in the prior year, with margin improving 120bps to 7.4%. The factors driving margin improvement were leverage thanks to increased volumes and industrial efficiencies, but also the continued rollout of the company's four-year investment plan, which is helping to reduce costs.

During the quarter, the sauces line saw revenue growth of 28.6%, as this category was the one most favoured by consumers suddenly unable to use the horeca channel, and also benefited from a new contract win. The pulses and vegetables business was up 15.6%, and the red line was up 11.4% as consumers stockpiled tins of pulses and tomatoes and increased their consumption of these thanks to cooking more meals. The fruit line was up 13.5% as fruit and fruit juices also witnessed a significant consumption boost. The 'other lines' business (mainly LDH) registered 16.4% revenue growth. Prices across the board were broadly stable, with most of the growth driven by volume increases as home food consumption increased globally, and consumers stockpiled ambient, long shelf-life staples.

Reported group pre-tax profit was €16.1m in the quarter vs €3.4m in the prior year, owing to a currency gain of €4.7m vs a loss of €4.0m in the comparable period. Reported net profit was similarly affected by this and came in at €12.1m vs €2.0m. Net debt was €129m compared to €122m at end Q119, and €148.8m at the end of FY19, as the investment plan continued to be implemented.

Forecast revisions

As discussed above, we have raised our forecasts for FY20 in light of the shift towards greater at-home consumption due to the COVID-19 pandemic. We expect FY21 consumption to return to more normal levels, and hence our forecasts for FY21 and FY22 increase to a lesser extent. We illustrate below both the change to our forecasts and how our forecasts compare to La Doria's published targets. Our revenue and profit forecasts are materially above company targets for FY20, c 2% and c 5% ahead respectively for FY21, and broadly in line and c 4% ahead respectively for FY22. This is because company guidance was issued on 13 March 2020, in the very early days of the full lockdown in Italy, and before many of La Doria's other geographies had implemented any restrictions or lockdowns, and it does not reflect the effects of the COVID-19 pandemic.

Our DCF valuation still points to significant upside for the shares. The balance sheet remains conservative: net debt/EBITDA should have peaked in FY19 at 2.7x as capital was invested in the industrial plan, but leverage should rapidly decline in FY21 and FY22. We expect the outcome of the 2020 campaigns to be partially known by the H1 results (scheduled for September), but a clearer picture will not emerge until later in the year. Customer negotiations on the red line side will be almost complete, and good progress should be made in the vegetable, sauces and fruit lines.

Exhibit 4: New vs old Edison forecasts

	2020e			2021e			2022e		
	Old (€m)	New (€m)	Diff (%)	Old (€m)	New (€m)	Diff (%)	Old (€m)	New (€m)	Diff (%)
Revenue	732.0	789.4	7.8%	754.0	765.7	1.6%	776.6	781.0	0.6%
EBITDA	55.7	64.0	14.9%	61.9	64.4	4.0%	64.5	66.4	3.0%
EBIT	38.7	47.0	21.5%	42.9	45.4	5.8%	44.5	46.4	4.3%
PBT	36.7	45.0	22.7%	40.9	43.4	6.1%	42.5	44.4	4.5%
Net profit	28.2	34.6	22.7%	31.5	33.4	6.1%	32.5	34.0	4.5%
Net debt	153.1	157.6	2.9%	122.6	120.4	-1.7%	90.5	85.2	-5.8%
EBITDA margin	7.6%	8.1%	0.5%	8.2%	8.4%	0.2%	8.3%	8.5%	0.2%
EBIT margin	5.3%	6.0%	0.7%	5.7%	5.9%	0.2%	5.7%	5.9%	0.2%

Source: La Doria targets, Edison Investment Research estimates

Exhibit 5: Edison forecasts vs company targets

	2020e			2021e			2022e		
	Target (€m)	Forecast (€m)	Diff (%)	Target (€m)	Forecast (€m)	Diff (%)	Target (€m)	Forecast (€m)	Diff (%)
Revenue	732	789.4	7.8%	753	765.7	1.7%	777	781.0	0.5%
EBITDA	55	64.0	16.3%	63	64.4	2.2%	66	66.4	0.6%
EBIT	37	47.0	27.0%	42	45.4	8.0%	46	46.4	0.9%
PBT	36	45.0	24.9%	40	43.4	8.4%	44	44.4	1.0%
Net profit	28	34.6	23.7%	31	33.4	7.7%	34	34.0	(0.0%)
Net debt	157	157.6	0.4%	129	120.4	(6.6%)	99	85.2	(13.9%)
EBITDA margin	7.5%	8.1%	1bps	8.4%	8.4%	4bps	8.5%	8.5%	1bps

Source: La Doria targets, Edison Investment Research estimates

Valuation

We illustrate La Doria's valuation versus its peers in Exhibit 6 below. On our updated 2020 estimates, La Doria currently trades at a c 30% discount to its peers 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 20% discount.

Exhibit 6: Benchmark valuation of La Doria relative to peers

	Market cap	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
	(m)	2020e	2021e	2020e	2021e	2020e	2021e
Greencore	£618.1	9.7	12.7	7.0	8.7	0.7	0.7
Ebro Foods	€ 2,917.7	20.7	16.3	11.0	9.5	1.3	1.2
Bonduelle	€ 689.5	9.5	10.8	7.9	8.6	0.6	0.6
Valsoia	€ 103.7	14.6	14.2	7.1	6.9	1.1	1.0
Massimo Zanetti Beverage Group	€ 118.4	8.2	26.3	5.0	5.7	5.3	5.4
Centrale del Latte d'Italia	€ 35.5	-5.5	N/A	17.4	11.3	0.0	0.0
Newlat	€ 204.1	20.1	17.8	7.8	4.2	0.0	0.0
Peer group average*		**13.8**	**16.3**	**9.0**	**7.9**	**1.5**	**1.3**
La Doria	€ 311.9	9.0	9.3	7.2	6.9	1.9	2.0
Premium/(discount) to peer group		(34.7%)	(42.8%)	(20.7%)	(11.7%)	26.1%	56.7%

Source: Edison Investment Research estimates, Refinitiv. Note: Prices at 21 May 2020. *FY20e average excludes Centrale del Latte d'Italia.

Our primary valuation methodology is a 10-year DCF analysis, and we calculate a fair value of €13.50/share (vs €13 before), or c 30% upside from the current level. 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 4.5%, a borrowing spread of 6% and beta of 0.8. We note our fair value would be €14.93 if our WACC moved down 40bps to 6.0%. Below, we show a sensitivity analysis to these assumptions and note that based on our estimates and assumptions the current share price is broadly discounting a terminal EBIT margin of c 6% (which compares to La Doria's reported EBIT margin of 4.8% in 2019, and 8.1% at the peak in 2015) and a terminal growth rate of c 1.0%. We expect La Doria's 2019 EBIT margin to mark a trough level due to the tough competitive environment. We forecast an EBIT margin of 6.0% in FY20, given the strong revenue and margin growth in Q120, which reflected increased consumption owing to the effects of the COVID-19 pandemic. We also expect revenues to continue growing and currently forecast a 2.7% revenue CAGR to FY24 (mainly driven by the more value-added businesses such as sauces, as per management's strategy) and a more conservative 1.7% revenue growth thereafter, falling to 1.5% in perpetuity.

Exhibit 7: DCF sensitivity (€/share) to terminal growth rate and EBIT margin

		EBIT margin					
		5.5%	6.0%	6.5%	7.0%	7.5%	8.0%
Terminal growth	-2.5%	6.3	6.9	7.5	8.1	8.7	9.3
	-1.5%	6.9	7.6	8.2	8.9	9.6	10.3
	-0.5%	7.7	8.4	9.2	10.0	10.8	11.6
	0.5%	8.7	9.6	10.5	11.5	12.4	13.3
	1.5%	10.1	11.3	12.4	13.5	14.7	15.8
	2.5%	12.3	13.8	15.2	16.6	18.1	19.5
	3.5%	16.0	18.0	20.0	21.9	23.9	25.8

Source: Edison Investment Research estimates

Sensitivities

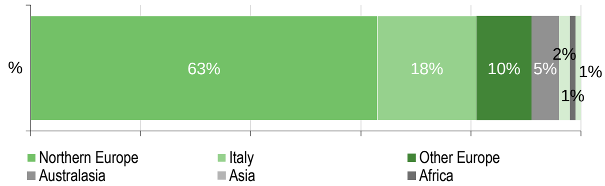
La Doria's key sensitivities include:

- 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, particularly for the red line;
- consumer consumption patterns and competitive pressures, particularly in Europe with a subdued economic environment, although La Doria and the private label segment in general tend to benefit from consumers trading down;
- FX, specifically euro/sterling due to the consolidation of its trading subsidiary, LDH. The UK represents c 50% of group sales.

Exhibit 4: Financial summary

€m	2018	2019	2020e	2021e	2022e	2023e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	687.9	717.7	789.4	765.7	781.0	804.5
Cost of Sales	(581.7)	(604.2)	(663.0)	(642.4)	(654.4)	(673.3)
Gross Profit	106.2	113.5	126.4	123.4	126.6	131.2
EBITDA	52.8	56.0	64.0	64.4	66.4	69.2
Operating Profit (before amort. and except.)	34.8	34.6	49.6	44.7	47.0	45.4
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)	3.2	(5.0)	0.0	0.0	0.0	0.0
Operating Profit	37.9	29.5	47.0	45.4	46.4	49.2
Net Interest	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)	(2.0)
Profit Before Tax (norm)	33.1	32.7	45.0	43.4	44.4	47.2
Profit Before Tax (FRS 3)	36.3	27.7	45.0	43.4	44.4	47.2
Tax	(8.9)	(7.9)	(10.3)	(10.0)	(10.4)	(12.8)
Profit After Tax (norm)	27.3	19.9	34.6	33.4	34.0	34.5
Profit After Tax (FRS 3)	27.3	19.9	34.6	33.4	34.0	34.5
Average Number of Shares Outstanding (m)	31.0	31.0	31.0	31.0	31.0	31.0
EPS - normalised fully diluted (c)	88.2	64.0	111.7	107.7	109.6	111.2
EPS - (IFRS) (c)	88.2	64.0	111.7	107.7	109.6	111.2
Dividend per share (c)	18.0	18.0	18.0	19.0	20.0	20.0
Gross Margin (%)	15.4	15.8	16.0	16.1	16.2	16.3
EBITDA Margin (%)	7.7	7.8	8.1	8.4	8.5	8.6
Operating Margin (before GW and except.) (%)	5.1	4.8	6.4	6.0	5.9	5.9
BALANCE SHEET						
Fixed Assets	203.5	246.0	261.2	265.8	269.7	273.8
Intangible Assets	5.5	5.1	4.4	3.7	3.0	2.3
Tangible Assets	175.9	221.6	225.3	219.0	211.7	204.4
Investments	22.1	19.3	31.4	43.1	55.0	67.0
Current Assets	419.4	384.4	397.2	430.5	463.0	499.1
Stocks	204.4	219.1	232.1	228.7	225.1	225.5
Debtors	110.2	109.8	118.4	117.9	118.7	120.7
Cash	86.8	42.0	33.3	70.4	105.6	139.3
Other	18.0	13.5	13.5	13.5	13.5	13.5
Current Liabilities	(242.3)	(246.6)	(239.8)	(244.4)	(246.8)	(252.5)
Creditors	(148.4)	(153.9)	(147.2)	(151.8)	(154.1)	(159.8)
Short term borrowings	(93.9)	(92.7)	(92.7)	(92.7)	(92.7)	(92.7)
Long Term Liabilities	(139.3)	(130.3)	(130.3)	(130.3)	(130.3)	(130.3)
Long term borrowings	(105.2)	(98.2)	(98.2)	(98.2)	(98.2)	(98.2)
Other long term liabilities	(34.1)	(32.2)	(32.2)	(32.2)	(32.2)	(32.2)
Net Assets	241.4	253.6	288.2	321.6	355.6	390.1
CASH FLOW						
Operating Cash Flow	48.2	38.7	25.3	62.8	61.1	59.8
Net Interest	(1.7)	(1.8)	(2.0)	(2.0)	(2.0)	(2.0)
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Capex	(46.5)	(59.4)	(20.0)	(12.0)	(12.0)	(12.0)
Acquisitions/disposals	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
Dividends	(9.6)	(6.9)	(12.1)	(11.7)	(11.9)	(12.1)
Other	(4.6)	(7.0)	(0.0)	0.0	0.0	0.0
Net Cash Flow	(14.1)	(36.5)	(8.8)	37.2	35.2	33.7
Opening net debt/(cash)	98.2	112.3	148.8	157.6	120.4	85.2
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0
Other	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0
Closing net debt/(cash)	112.3	148.8	157.6	120.4	85.2	51.5

Source: Edison Investment Research, company data

Contact details	Revenue by geography
Via Nazionale 320 84012 Angri Italy +39 081 516611 www.gruppoladoria.com	

Management team	
CEO: Antonio Ferraioli	**CFO: Alberto Festa**
Antonio Ferraioli joined the company in 1974. He has been CEO since 1984 and is a member of the founding Ferraioli family.	Alberto Festa joined the company in 2007, having held various positions in a number of Italian consumer products companies.

Principal shareholders	(%)
Antonio Ferraioli	11.17
Andrea Ferraioli	9.95
Rosa Ferraioli	9.66
Iolanda Ferraioli	9.66
Giovanna Ferraioli	9.66
Raffaella Ferraioli	9.66
Teresa Maria Ferraioli	9.66

Companies named in this report

Greencore (GNC.LN), Ebro Foods (EBRO.SM), Bonduelle (Bon.EN), Valsoia (VLS.IM), Massimo Zanetti Beverages (MZB.IM), Newlat (NWL.I), Centrale del Latte d'Italia (CLI.IM), Tesco (TSCO.LN), Carrefour (CARR.PA), Casino (CASP.PA)

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