

La Doria

FY16 results

Recovery expected from H2

The operating environment remains challenging for La Doria, with sales price deflation, raw material cost inflation and Brexit continuing to feature. FY16 results were in line with expectations, and management still believes a recovery will begin in H217, when the new tomato campaign will start to come through. We roll forward our DCF to commence in 2017 and our fair value increases to €12.59 per share, from €10.99.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/15	748.3	57.4	144.6	28.0	6.3	3.1
12/16	653.1	37.3	108.8	18.0	8.3	2.0
12/17e	643.3	32.7	78.1	17.0	11.6	1.9
12/18e	681.9	42.1	99.1	24.0	9.1	2.6

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

FY16 results

In Q4, La Doria witnessed a continuation of the trends seen in the rest of 2016, specifically a deflationary trading environment and weakening of sterling. In addition, cost inflation was a feature. As outlined in September 2016, FY15 was an exceptionally strong year, management witnessed a weakening of performance from FY16 vs FY15, and it expects a further weakening in 2017 before the recovery starts to come through. This should commence in H217 following a better 2017 tomato campaign over the summer (a drop in southern Italian tomato production in 2016 bodes well for 2017 pricing), and should come through fully in the 2018 numbers. We note FY16 performance was still good, with EBITDA margin of 8.6%.

New three-year plan gives continuity

Together with the FY results, La Doria published a new rolling three-year strategic and financial plan. The strategic objectives remain broadly unchanged: the main priority is to expand the higher-margin and less volatile parts of the business to reduce the dependence on the more unpredictable 'red line'. The target to stabilise overall group margin, added in September, remains a sensible addition given the challenging operating environment. The financial targets represent a small downgrade at the net profit level in relation to the previous three-year rolling plan, which was updated last September. In addition, there is a renewed proposal to utilise a share buyback to enhance liquidity.

Valuation: Remains attractive

Our forecasts remain unchanged and our DCF model, which we have rolled forward to 2017, now points to a fair value of €12.59 per share (€10.99 previously), or 46% upside from the current share price. We calculate that La Doria now trades on 11.6x 2017e P/E and 8.5x 2017e EV/EBITDA, at c 45% and c 17% respective discounts to its private-label peer group.

Food & beverages

20 March 2017

Price €9.06

Market cap €281m

Net debt (€m) at 31 December 2016 104.8

Shares in issue 31.0m

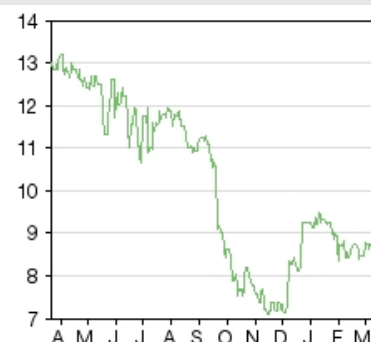
Free float 37%

Code LD

Primary exchange Borsa Italia (STAR)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 3.8 11.8 (30.6)

Rel (local) (1.9) 4.7 (36.3)

52-week high/low €13.2 €7.1

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

Q117 results 12 May 2017

AGM 16 June 2017

H117 results 19 September 2017

Q317 results 14 November 2017

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Updated rolling three-year plan provides continuity

La Doria outlines its financial targets and strategic business plan for a rolling three-year period, usually at the beginning of each financial year.

The new financial targets are very similar to those set out in September 2016. They are revised slightly in light of the FY16 results, as illustrated in Exhibit 1 below. The reduction in sales targets is due to the tough 2016 tomato campaign and the continued deflationary sales environment in La Doria's main markets. At the EBIT level there is a greater cut owing to raw material cost inflation. That said, it is testament to management's commitment to stem the volatility of the business and to reduce the overall dependence on the 'red line' that a larger cut to EBIT is mitigated throughout the P&L and the net profit targets are cut only slightly. Net profit targets benefit from a lower forecast tax rate. Net debt of €104.8m at end FY16 is better than our forecast of €115.3m, indicating FY16 cash flow was better than expected.

Exhibit 1: Current vs prior company financial targets (2017-18e)

€m	2017e			2018e		
	Old	New	% chg	Old	New	% chg
Revenue	661.0	644.0	-2.6%	702.0	690.2	-1.7%
EBITDA	50.0	48.0	-4.0%	61.0	59.2	-3.0%
EBIT	37.2	34.9	-6.2%	48.2	46.4	-3.7%
PBT	34.4	33.1	-3.8%	45.7	43.0	-5.9%
Net profit	25.0	25.1	0.4%	33.2	31.7	-4.5%
Net debt	100.4	95.0	-5.4%	84.1	77.0	-8.4%
EBITDA margin (%)	7.6%	7.5%	-0.1%	8.7%	8.6%	-0.1%
EBIT margin (%)	5.6%	5.4%	-0.2%	6.9%	6.7%	-0.1%

Source: La Doria data

La Doria's strategic objectives remain broadly the same, thus giving the business a solid level of continuity. The new three-year plan provides an explicit objective to stabilise overall group margin, which was a sensible addition (in September) given the tough operating environment. The objectives to pursue development and expand into new regions tie in with the overarching objective of reducing the volatility and seasonality of the business and improving visibility through the development of higher value-added, margin-enhancing products. We note new products include pulses and ready-made sauces. The management will also seek renewed authorisation to purchase treasury shares, thus enabling the company to facilitate market liquidity.

The business plan also provides an updated view on La Doria's markets. The company's current slowdown is entirely caused by the poor general environment:

- the decline and stagnation of consumption in certain countries, which increases competitive pressures; and
- Brexit, which has caused a weakening of sterling and hence a temporary loss of competitiveness for La Doria in certain categories, such as pulses and ready-made soups, where the competition has local production and hence lower costs.

On a more positive note, there was a drop in tomato production in Southern Italy in 2016, which has caused ongoing sector destocking, and hence a recovery in sales prices (and therefore margin) is expected for the 2017 campaign, which will start to come through in the Q417 figures due to its seasonality.

Valuation

La Doria's share price has slightly outperformed the market over the last three months. It is up 6.9% vs the FTSE MIB index, which is up 5.5%, although the company's share price has significantly underperformed over the last six and 12 months. On 2017 estimates La Doria trades on 11.6x P/E and 8.5x EV/EBITDA, with a 2.0% dividend yield. This compares to the peer group of private-label and small-cap food manufacturers on 19.9x and 10.3x, or a discount of c 45% and c 17% respectively, which we believe is unwarranted.

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	£1,803.9	16.2	14.5	11.9	9.4	2.3%	2.5%
Ebro Foods	€2,931.9	16.1	15.3	9.0	8.4	3.6%	3.7%
Parmalat	€5,684.1	31.9	34.0	10.4	9.1	0.6%	0.7%
Bonduelle	€941.8	15.6	12.7	9.1	7.1	1.5%	1.6%
Valsoia	€174.2	19.8	19.5	11.0	10.5	2.0%	1.5%
Peer group average		19.9	19.2	10.3	8.9	2.0%	2.0%
La Doria	€267.5	11.6	9.1	8.5	7.0	2.0%	2.8%
Premium/(discount) to peer group		-44.6%	-54.7%	-17.3%	-21.6%	-0.9%	39.2%

Source: Edison Investment Research estimates and Bloomberg consensus. Note: Prices at 16 March 2017.

We have also rolled forward our DCF to 2017 and calculate a fair value of €12.59 per share (from €10.99), or 46% upside from the current level. This is based on our assumptions of a 1.5% terminal growth rate, a 9.0% terminal EBITDA margin and a beta of 0.8, giving a WACC of 6%. Below we show a sensitivity analysis to these assumptions and note that the current share price is discounting a terminal EBIT margin of 6.5% and a terminal growth rate of c -1%.

Exhibit 3: DCF sensitivity to terminal growth rate and EBIT margin (€ per share)

		EBIT margin					
		6.5%	7.0%	7.5%	8.0%	8.5%	9.0%
Terminal growth	-2.0%	7.8	8.4	8.9	9.5	10.1	10.6
	-1.0%	8.5	9.2	9.8	10.5	11.1	11.8
	0.0%	9.5	10.2	11.0	11.7	12.5	13.2
	1.0%	10.8	11.7	12.6	13.5	14.4	15.3
	2.0%	12.7	13.8	14.9	16.0	17.2	18.3
	3.0%	15.7	17.2	18.6	20.1	21.6	23.0
	4.0%	21.3	23.4	25.5	27.6	29.7	31.8

Source: Edison Investment Research estimates

Key sensitivities

La Doria's key sensitivities include:

- input cost inflation on the agricultural commodities it processes to manufacture its products;
- the supply/demand balance of fresh tomatoes affecting the achievability of finished goods price inflation;
- 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 down trading; and
- foreign exchange, 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	643.3	681.9	702.4
Cost of Sales		(527.6)	(616.9)	(545.4)	(545.5)	(571.5)	(581.6)
Gross Profit		103.8	131.5	107.8	97.8	110.5	120.8
EBITDA		60.0	77.6	56.3	47.7	58.1	67.6
Operating Profit (before amort. and except.)		48.1	61.0	39.9	34.7	45.6	55.1
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	34.7	45.6	55.1
Net Interest		(4.1)	(3.6)	(2.7)	(2.0)	(3.5)	(3.5)
Profit Before Tax (norm)		44.0	57.4	37.3	32.7	42.1	51.6
Profit Before Tax (FRS 3)		44.3	61.0	46.2	32.7	42.1	51.6
Tax		(14.3)	(16.1)	(12.4)	(8.5)	(11.4)	(13.9)
Profit After Tax (norm)		29.9	44.8	33.7	24.2	30.7	37.6
Profit After Tax (FRS 3)		29.9	44.8	33.7	24.2	30.7	37.6
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	78.1	99.1	121.4
EPS - (IFRS) (c)		81.5	144.6	108.8	78.1	99.1	121.4
Dividend per share (c)		22.0	28.0	18.0	17.0	24.0	24.0
Gross Margin (%)		16.4	17.6	16.5	15.2	16.2	17.2
EBITDA Margin (%)		9.5	10.4	8.6	7.4	8.5	9.6
Operating Margin (before GW and except.) (%)		7.6	8.1	6.1	5.4	6.7	7.8
BALANCE SHEET							
Fixed Assets		179.6	177.6	173.3	170.8	170.8	170.8
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	19.4
Current Assets		374.0	398.8	367.8	381.7	414.9	445.0
Stocks		212.9	199.8	187.0	185.5	197.2	200.6
Debtors		100.3	107.7	103.9	99.7	105.7	108.9
Cash		41.1	77.9	62.8	82.4	97.9	121.3
Other		19.6	13.3	14.2	14.2	14.2	14.2
Current Liabilities		(229.1)	(220.7)	(187.9)	(179.2)	(189.3)	(191.1)
Creditors		(143.7)	(129.3)	(126.4)	(117.7)	(127.8)	(129.6)
Short term borrowings		(85.4)	(91.4)	(61.5)	(61.5)	(61.5)	(61.5)
Long Term Liabilities		(136.6)	(157.3)	(144.5)	(140.4)	(132.8)	(132.8)
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)	(24.4)	(16.8)	(16.8)
Net Assets		187.9	198.4	208.8	233.0	263.7	291.9
CASH FLOW							
Operating Cash Flow		53.7	58.2	65.7	36.2	39.2	48.8
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)	(6.1)	(7.7)	(9.4)
Other		8.6	(23.3)	(16.3)	(8.0)	0.0	0.0
Net Cash Flow		(30.2)	8.7	25.3	9.6	15.5	23.4
Opening net debt/(cash)		108.5	138.2	130.1	104.8	95.1	79.6
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	95.1	79.6	56.2

Source: Edison Investment Research, La Doria accounts

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