

Italy - Food

Resilient Distribution in H1, Import & Shipping not priced

2nd July 2018

COMPANY UPDATE

RIC: ORSO.MI
BBG: ORS IM

The BoD reassured the market on H1 business trends and approved the move to the STAR segment by end H1-19. We have updated our valuation according to market multiples and the free risk rate. The current depressed stock valuation fundamentally assigns zero value to the Import and Shipping segment and prices the Distribution business at a huge discount.

Rating:

Buy

Price Target:

€ 11.90 (€ 12.80)

Upside/(Downside): 58.2%

Last Price: € 7.52

Market Cap.: € 133.0m

1Y High/Low: € 13.84/€ 7.09

Free Float: 62.7%

Major shareholders:

FIF Holding 31.6%
Grupo Fernández 5.7%



Stock price performance

	1M	3M	12M
Absolute	-6,2%	-16,5%	-42,3%
Rel.to Milan AIM	-10,7%	-18,7%	-43,5%
Rel.to EU Sector	-7,0%	-13,5%	-36,4%

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H1-18 business update: estimates confirmed

Orsero management expects the consolidated net revenues and Adjusted EBITDA for H1-18 might be substantially in line with the results achieved over the same period of 2017, despite the persisting difficult conditions in the shipping market due in particular to the increase in the cost of fuel ("bunker fuel"). In the Distribution segment, the management focuses on increasing sales in new value-added products such as fresh-cut fruits, mainly by organic investments in new facilities after the successful ramp-up of the Florence plant, rather than by purchasing new capacity. Acquisition-wise, scouting is undergoing in adjacent businesses such as dried fruit and other value-added product lines.

STAR listing in H1-19. Buy-back starts

The Board of Directors has resolved to start the process for listing on the STAR segment within the first half of 2019. In September, the management will appoint the sponsor and identify the advisors who will support it in the admission process to the MTA. The BoD has also decided the start of the program for the purchase of treasury shares to execute the resolution approved at the shareholders' meeting held on 20 April 2018.

Fleet valuation analysis

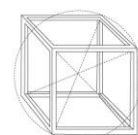
We assess that the current fleet value in use is in line with the appraisal book value at € 53m or roughly € 13m per vessel. The residual life, according to the amortisation plan, is scheduled until 2024/2025; meanwhile, the operational life will be longer according to market evidence and company indications. Concerning the general view of the sector, the overall worldwide Reefer fleet is older than that of Orsero; the scrapping of old vessels will outpace the very limited supply of new ones in the coming years.

58% upside: Buy reiterated, PT of € 11.90 (€12.80)

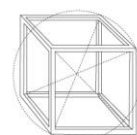
We have left unchanged our estimates. We have updated our PT to € 11.90 (€ 12.80) based on a market multiple comparison, applying a 15% size-discount, corresponding to an implied 7.2x EBITDA_{18e} vs. 8.5x of peers. The EV/EBITDA_{18e} peers' discount is currently more than 41%. Our DCF model corroborates the value obtained by the multiple comparison: € 12.80/s with a risk-free rate brought up-to-date to 2.7% and with other assumptions left unchanged (long-term growth rate of 1%, risk premium at 10%, D/E structure target at 30%). The current depressed stock valuation fundamentally assigns zero value to the Import & Shipping segment and prices the Distribution business at a huge discount. We believe Orsero is a medium-long term value stock: we maintain our positive stance.

Orsero, key financials and ratios

€ m	2016	2017	2018e	2019e	2020e
Sales	685,0	937,8	968,1	1.000,9	1.034,7
EBITDA adj	35,2	31,3	34,5	39,4	40,8
EBIT	17,6	11,3	18,9	23,9	25,4
Net profit	18,2	14,9	12,3	16,1	17,3
Net profit adj	23,7	18,7	12,3	16,1	17,3
NFP (cash)/debt	49,1	46,5	39,1	24,9	8,0
EPS adjusted FD	1,34	1,06	0,70	0,91	0,98
EPS adj. FD growth	45,0%	-21,0%	-34,4%	31,3%	7,0%
DPS ord. €/s	0,00	0,12	0,12	0,15	0,16
Dividend yield	0,0%	1,6%	1,6%	2,0%	2,1%
Free Cash Flow Yield	32,2%	-8,3%	7,1%	12,2%	14,7%
PER x	5,6	7,1	10,8	8,2	7,7
EV/Sales x	0,27	0,19	0,18	0,16	0,14
EV/EBITDA x	5,2	5,7	5,0	4,0	3,5
EV/EBIT x	10,3	15,9	9,1	6,6	5,6



Income statement (€ m)	2016	2017	2018e	2019e	2020e
Revenues	685.0	937.8	968.1	1,000.9	1,034.7
COGS	(612.3)	(859.2)	(880.0)	(906.4)	(937.4)
Gross Profit	72.7	78.6	88.1	94.4	97.3
SG&A	(55.0)	(67.3)	(69.2)	(70.6)	(71.9)
EBIT	17.6	11.3	18.9	23.9	25.4
Financials	(1.4)	(2.7)	(2.6)	(2.6)	(2.6)
Results from investments	4.9	11.0	0.0	0.0	0.0
Pre Tax Profit	21.1	19.6	16.3	21.3	22.8
Taxes	(2.9)	(4.5)	(3.7)	(4.9)	(5.2)
Discontinued	0.0	0.0	0.0	0.0	0.0
Minorities	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)
Net Profit	18.2	14.9	12.3	16.1	17.3
D&A	(9.8)	(12.8)	(13.0)	(12.8)	(12.6)
Provisions	(1.5)	(2.5)	(2.6)	(2.7)	(2.8)
Non recurring items	(6.3)	(4.8)	0.0	0.0	0.0
Adjusted EBITDA	35.2	31.3	34.5	39.4	40.8
Adjusted EBIT	23.9	16.0	18.9	23.9	25.4
Adjusted Net profit	23.7	18.7	12.3	16.1	17.3
Balance sheet (€ m)	2016	2017	2018e	2019e	2020e
Net Working Capital	27.4	43.0	43.0	44.8	44.4
Net Fixed Assets	95.9	144.0	146.4	143.9	141.6
Equity Investments	39.2	8.0	8.1	8.3	8.4
Other M/L Term A/L	3.0	(2.7)	(2.3)	(2.0)	(1.7)
Net Invested Capital	165.6	192.2	195.1	195.1	192.8
Net Financial Debt/(cash)	49.1	46.5	39.1	24.9	8.0
Minorities	0.7	1.1	1.3	1.6	1.8
Group's Shareholders Equity	115.8	144.7	154.7	168.6	183.0
Financial Liabilities & Equity	165.6	192.2	195.1	195.1	192.8
Cash Flow statement (€ m)	2016	2017	2018e	2019e	2020e
Total net income	18.2	14.9	12.3	16.1	17.3
Depreciation	9.8	12.8	13.0	12.8	12.6
Other non-cash charges	9.1	1.5	(0.4)	(0.4)	(0.3)
Cash Flow from Oper. (CFO)	37.0	29.1	24.9	28.6	29.5
Change in NWC	(4.9)	(15.6)	0.0	(1.9)	0.5
FCF from Operations (FCFO)	32.2	13.6	24.9	26.7	30.0
Net Investments (CFI)	10.7	(24.6)	(15.5)	(10.5)	(10.5)
Free CF to the Firm (FCFF)	42.8	(11.0)	9.4	16.2	19.5
CF from financials (CFF)	(32.7)	34.5	(2.0)	(2.0)	(2.6)
Free Cash Flow to Equity (FCFE)	10.1	23.4	7.4	14.2	16.9
Financial ratios	2016	2017	2018e	2019e	2020e
EBITDA adj. margin	5.1%	3.3%	3.6%	3.9%	3.9%
EBIT margin	2.6%	1.2%	2.0%	2.4%	2.5%
Net profit margin	2.7%	1.6%	1.3%	1.6%	1.7%
Tax rate	13.6%	23.0%	23.0%	23.0%	23.0%
Interest coverage x	0.08	0.24	0.14	0.11	0.10
Net Debt/EBITDA adj. x	1.39	1.48	1.13	0.63	0.20
Debt-to-Equity x	0.42	0.32	0.25	0.15	0.04
ROIC	11.0%	7.7%	6.3%	8.3%	9.0%
ROCE	7.5%	5.5%	6.3%	7.6%	7.7%
ROACE	7.2%	6.1%	6.4%	7.8%	7.9%
ROE	15.7%	10.3%	7.9%	9.6%	9.4%
Payout ratio	0.0%	13.7%	16.0%	16.0%	16.0%
Per share figures	2016	2017	2018e	2019e	2020e
Number of shares # m	17.68	17.68	17.68	17.68	17.68
Number of shares Fully Diluted # m	17.68	17.68	17.68	17.68	17.68
Average Number of shares Fully Diluted	17.68	17.68	17.68	17.68	17.68
EPS stated FD €	1.03	0.84	0.70	0.91	0.98
EPS adjusted FD €	1.34	1.06	0.70	0.91	0.98
EBITDA €	1.99	1.77	1.95	2.23	2.31
EBIT €	1.00	0.64	1.07	1.35	1.43
FCFO €	1.82	0.77	1.41	1.51	1.70
FCFF €	2.42	(0.62)	0.53	0.92	1.10
FCFE €	0.57	1.32	0.42	0.80	0.96
Dividend €	0.00	0.12	0.12	0.15	0.16



The company in a nutshell

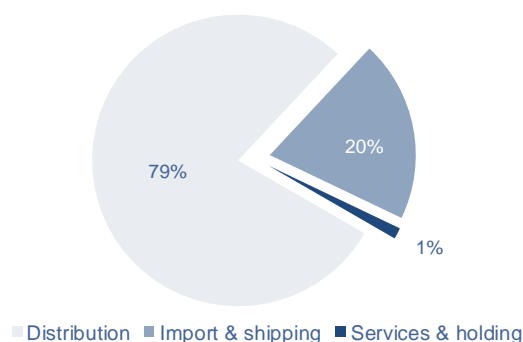
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and distribution of fresh fruit and vegetables, production and export of fruit together with chilled maritime transportation. Orsero boasts a presence mainly in Italy, France, Spain, Portugal, Greece, Costa Rica and Colombia.

During 2012, the group launched the "F.lli Orsero" brand for bananas and pineapples, which expresses the sense of tradition and the passion of a large Italian family company for fruit and vegetables of the highest quality.

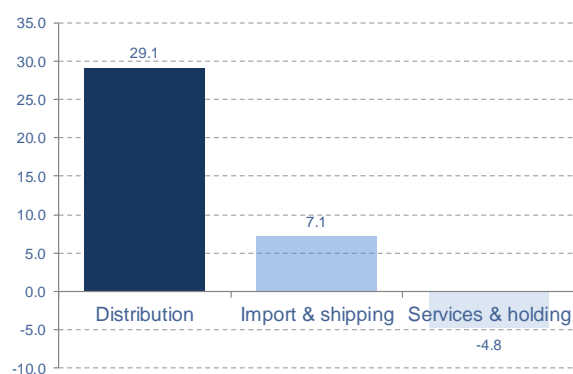
2017 Orsero pro-forma highlights: € 937.8m revenues, EBITDA adj. of € 31.3m (3.3% margin), € 14.9m net profit and € 46.5m net financial position (1.48x EBITDA).

Orsero was listed on the AIM Italia (Alternative Investment Market) on 13-Feb-17 as a result of the merger between Glenalta Food and Orsero. The merger was the final step in the business combination between Glenalta Food and GF Group, as regulated by the agreement signed and announced on 28th October 2016.

2017 Gross Turnover...



...and EBITDA by business



Shareholder structure

	%	# m
Orsero family	31.6%	5.59
Grupo Fernandez	5.7%	1.00
Free Float	62.7%	11.09
o/w treasury shares	3.6%	0.64
Total	100.0%	17.68

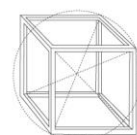
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	-0,1	0,5	-0,2	-1,5	-6,5	-6,5
Total Produce PLC	-0,9	1,4	0,0	-7,5	-13,3	-13,3
Greenyard NV	-1,6	-4,3	-17,4	-32,0	-38,7	-38,7
Peers Median	-0,9	0,5	-0,2	-7,5	-13,3	-13,3
Orsero Spa	3,6	1,9	-6,2	-16,5	-18,7	-18,7
FTSE AIM Italia	0,3	1,1	4,5	2,2	2,0	2,0
EU Sector	0,9	-0,1	0,8	-3,0	-9,9	-9,9
Orsero Spa to peers	4,5	1,4	-6,0	-9,0	-5,4	-5,4
Orsero Spa to FTSE AIM Italia	3,3	0,8	-10,7	-18,7	-20,7	-20,7
Orsero Spa to EU Sector	2,7	2,0	-7,0	-13,5	-8,8	-8,8

Peers group multiples table

Price & EV multiples x	PER FY1	PER FY2	PER FY3	PCF FY1	PCF FY2	PCF FY3	EBITDA FY1	EBITDA FY2	EBITDA FY3
Fresh Del Monte Produce Inc	14,9	13,2	12,1	9,4	8,7	8,1	8,5	7,5	7,0
Total Produce PLC	21,2	15,2	13,8	16,7	15,2	17,7	11,9	11,6	11,7
Greenyard NV	20,8	14,9	13,0	5,4	4,9	4,7	6,6	5,8	5,4
Median	20,8	14,9	13,0	9,4	8,7	8,1	8,5	7,5	7,0
Orsero Spa	10,8	8,2	7,7	4,8	4,2	4,1	5,0	4,0	3,5
% (Discount)/Premium to peer median	-48,0%	-44,8%	-40,7%	-49,1%	-51,6%	-49,7%	-41,6%	-46,3%	-50,3%

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
02/07/2018	€11,90	BUY
21/03/2018	€12,80	BUY
01/02/2018	€13,80	BUY
27/09/2017	€13,80	BUY
28/07/2017	U.R.	BUY

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- a **SELL** rating is assigned if the target price is at least 15% lower than the market price;
- a **NEUTRAL** rating is assigned if the difference between the current price and target price lies within the +/-15% bands identified using the preceding criteria.

The rating is determined on the basis of the **expected absolute return 12 months forward** and not on the basis of the estimated out/underperformance relative to a market index. Thus, the rating can be directly linked with the estimated percentage difference between current price and target price. The prices of the financial securities mentioned in the report (also used for the calculation of market capitalisation and market multiples) are the reference prices of the stock market trading day preceding the publication date of the report, otherwise stated.

