

Italy - Food

Acquisition of JV minorities in Spain and Italy

28th July 2017

JV MINORITIES ACQUISITION

RIC: ORSO.MI
BBG: ORS IM

Orsero buys-out the JV minorities in Spain and Italy paying a fairly cheap 7.3x EV/EBITDA multiple, becoming a colossus of almost € 1.0bn of sales, consolidating two key markets.

Rating:

Buy

Price Target:

U.R. (€ 16.20)

Upside/(Downside): -

Last Price: € 12.52

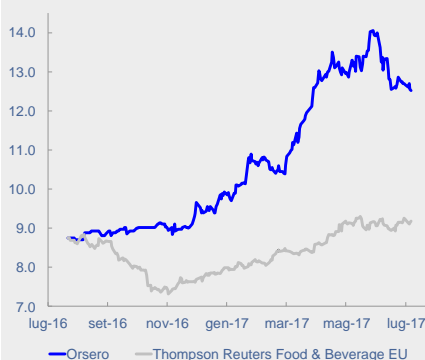
Market Cap.: € 181.5

1Y High/Low: € 14.26/€ 8.70

Free Float: 60.6%

Major shareholders:

FIF Holding 39.4%



Stock price performance

	1M	3M	12M
Absolute	-4.0%	-2.3%	41.4%
Rel.to Milan AIM	-2.3%	-8.9%	15.2%
Rel.to EU Sector	-4.6%	-8.8%	33.6%

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A value accretive move which adds € 220m sales and € 9m EBITDA

Orsero announces the buy-out of the minorities of the Spanish and Italian JVs, previously consolidated according to the equity method, thus adding some € 220m sales and € 9m EBITDA. The group pays a fairly cheap 7.3x EBITDA₁₆ multiple. We positively judge this value accretive move, consistent with the group strategy announced at the time of the business combination with Glenalta Food to consolidate its key markets and to increase the weight of the distribution business. Estimates and PT are under revision. Orsero will announce H1-17 results next 26-Sept.

Spanish minorities acquired for € 19.0m

Orsero signed an agreement with Grupo Fernandez to acquire the 50% stake not yet owned in Hermanos Fernandez Lopez, the second largest Spanish distributor of fresh fruit and vegetables. The company generated € 181m revenues, € 6.2m EBITDA (3.5% margin) and had a NFP of € 5.4m (debt) in 2016. Orsero pays € 19.0m: € 6.0m cash and € 13.0 via a reserved capital increase (1.0m shares at € 13.0/s). In our view, the price corresponds to a maximum of 7.0x EV/EBITDA₁₆, since it also include the value of some minority stakes held by Hermanos Fernandez Lopez. Grupo Fernandez will become Orsero second largest shareholder with a 6.5% (5.7% fully diluted) stake, with a lock-up till 2020.

Italian minorities assessed € 14.4m

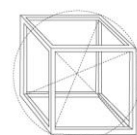
Orsero bought the 50% interest not yet owned in the Italian JVs Fruttital Firenze and Galandi from the Menestrelli family. Fruttital Firenze focuses on banana ripening and packaging of fresh fruit, focusing on large-scale retailers. Galandi, established more than 70 years ago in Tuscany, boasts a huge product portfolio, mainly in vegetables and focuses on traditional retailers. Fruttital Firenze operates also a laboratory for fresh cut fruit, a segment characterised by major growth rates and profitability higher than the traditional distribution average. The two firms generated € 69.4m sales, € 3.2m EBITDA (4.5% margin) and had a net cash position of € 4.1m in 2016. Orsero pays € 14.4m. The price corresponds to 8.0x EV/EBITDA₁₆ and includes € 0.2m deferred payment linked to some economic targets.

Now targeting revenues well in excess of € 1.0bn by 2019

Consistently to its strategy, Orsero has started to use the fresh resources injected by Glenalta Food together with its cash flows to accelerate growth via acquisitions. The group aims at grabbing some local opportunities in Italy, developing partnership in Europe with local producers and targeting prey in adjacent but consistent bio-vegan product categories. The target of € 1.0bn sales by 2019, has been already reached. The move to the MTA/STAR segment highly likely in 2018 adds appeal to the investment case. Last sector transaction at 13.8x EBITDA underlines stock undemanding valuation.

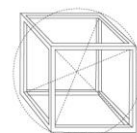
Orsero, key financials and ratios

€ m	2015	2016	2017e	2018e	2019e
Sales	617.4	685.0	711.4	744.2	779.5
EBITDA adj	28.2	35.2	35.4	36.1	37.5
EBIT	12.1	17.6	23.5	24.2	25.5
Net profit	13.6	18.2	20.1	20.7	21.8
Net profit adj	16.4	23.7	20.1	20.7	21.8
NFP (cash)/debt	147.0	49.1	28.2	9.1	(11.0)
EPS adjusted FD	0.98	1.42	1.20	1.24	1.31
EPS adj. FD growth	-	45.0%	-15.3%	3.2%	5.4%
DPS ord. €/s	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield	-	23.6%	11.5%	10.5%	11.1%
PER x	12.8	8.8	10.4	10.1	9.6
EV/Sales x	0.53	0.34	0.29	0.26	0.22
EV/EBITDA x	11.7	6.5	5.9	5.3	4.5
EV/EBIT x	27.2	13.1	8.9	7.9	6.7





Income statement (€ m)	2015	2016	2017e	2018e	2019e
Revenues	617.4	685.0	711.4	744.2	779.5
COGS	(553.4)	(612.3)	(633.7)	(663.5)	(695.9)
Gross Profit	64.0	72.7	77.8	80.7	83.6
SG&A	(51.9)	(55.0)	(54.3)	(56.5)	(58.2)
EBIT	12.1	17.6	23.5	24.2	25.5
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
Results from investments	1.3	4.9	2.7	2.8	2.8
Pre Tax Profit	7.3	21.1	24.0	24.8	26.1
Taxes	6.1	(2.9)	(3.8)	(4.0)	(4.2)
Discontinued	0.2	0.0	0.0	0.0	0.0
Minorities	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Net Profit	13.6	18.2	20.1	20.7	21.8
D&A	(10.5)	(9.8)	(10.3)	(10.3)	(10.3)
Provisions	(2.5)	(1.5)	(1.6)	(1.7)	(1.7)
Non recurring items	(3.2)	(6.3)	0.0	0.0	0.0
Adjusted EBITDA	28.2	35.2	35.4	36.1	37.5
Adjusted Net profit	16.4	23.7	20.1	20.7	21.8
Balance sheet (€ m)	2015	2016	2017e	2018e	2019e
Net Working Capital	22.6	27.4	26.6	27.7	28.9
Net Fixed Assets	122.4	95.9	95.4	94.8	94.2
Equity Investments	36.7	39.2	40.0	40.8	41.6
Other M/L Term A/L	12.1	3.0	2.8	3.1	3.4
Net Invested Capital	193.8	165.6	164.7	166.4	168.1
Net Financial Debt/(cash)	147.0	49.1	28.2	9.1	(11.0)
Minorities	1.1	0.7	0.8	0.9	1.1
Group's Shareholders Equity	45.7	115.8	135.7	156.3	178.1
Financial Liabilities & Equity	193.8	165.6	164.7	166.4	168.1
Cash Flow statement (€ m)	2015	2016	2017e	2018e	2019e
Total net income	-	18.2	20.1	20.7	21.8
Depreciation	-	9.8	10.3	10.3	10.3
Other non-cash charges	-	9.1	0.2	(0.3)	(0.3)
Cash Flow from Oper. (CFO)	-	37.0	30.6	30.7	31.9
Change in NWC	-	(4.9)	0.9	(1.1)	(1.3)
FCF from Operations (FCFO)	-	32.2	31.4	29.6	30.6
Net Investments (CFI)	-	10.7	(10.5)	(10.5)	(10.5)
Free CF to the Firm (FCFF)	-	42.8	20.9	19.1	20.1
CF from financials (CFF)	-	(32.7)	0.0	0.0	0.0
Free Cash Flow to Equity (FCFE)	-	10.1	20.9	19.1	20.1
Financial ratios	2015	2016	2017e	2018e	2019e
EBITDA adj. margin	4.6%	5.1%	5.0%	4.9%	4.8%
EBIT margin	2.0%	2.6%	3.3%	3.3%	3.3%
Net profit margin	2.2%	2.7%	2.8%	2.8%	2.8%
Tax rate	n.m.	13.6%	16.0%	16.0%	16.0%
Interest coverage x	0.50	0.08	0.09	0.09	0.08
Net Debt/EBITDA adj. x	5.22	1.39	0.80	0.25	(0.29)
Debt-to-Equity x	3.21	0.42	0.21	0.06	(0.06)
ROIC	7.0%	11.0%	12.2%	12.5%	13.0%
ROCE	4.8%	7.5%	9.2%	8.8%	8.5%
ROACE	4.8%	7.2%	9.6%	9.1%	8.9%
ROE	29.7%	15.7%	14.8%	13.2%	12.3%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2015	2016	2017e	2018e	2019e
Number of shares # m	14.19	14.19	14.49	14.49	14.49
Number of shares Fully Diluted # m	16.70	16.70	16.70	16.70	16.70
Average Number of shares Fully Diluted	16.70	16.70	16.70	16.70	16.70
EPS stated FD €	0.81	1.09	1.20	1.24	1.31
EPS adjusted FD €	0.98	1.42	1.20	1.24	1.31
EBITDA €	1.69	2.11	2.12	2.17	2.25
EBIT €	0.72	1.05	1.41	1.45	1.52
FCFO €	n.a.	1.93	1.88	1.77	1.83
FCFF €	n.a.	2.56	1.25	1.14	1.20
FCFE €	n.a.	0.61	1.25	1.14	1.20
Dividend €	0.00	0.00	0.00	0.00	0.00



The company in a nutshell

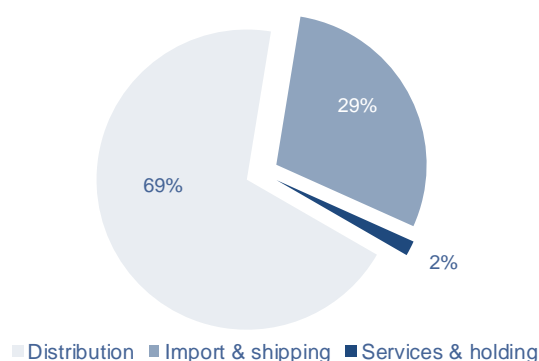
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and 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.

2016 Orsero highlights: € 685m revenues, EBITDA of € 35.2m (5.1% margin), € 18.1m net profit and € 49.0m net financial position (1.3x 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 last 28th October 2016.

2016 Gross Turnover...



...and EBITDA by business



Shareholder structure

	%	# m
Orsero family	39.39%	5.59
Free Float	60.61%	8.60
o/w treasury shares	4.53%	0.64
Total	100.00%	14.19

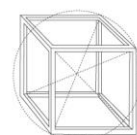
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	-1.6	-0.4	1.8	-16.8	-11.3	-15.7
Total Produce PLC	-0.9	0.7	0.0	5.5	18.1	9.4
Peers Average	-1.3	0.1	0.9	-5.6	3.4	-3.2
Orsero Spa	-0.2	-1.4	-4.0	-2.3	28.5	33.4
FTSE AIM Italia	0.4	0.1	-1.7	6.6	15.7	21.3
EU Sector	0.4	-0.8	0.7	6.5	14.9	18.6
Orsero Spa to peers	1.0	-1.5	-4.9	3.3	25.1	36.6
Orsero Spa to FTSE AIM Italia	-0.7	-1.6	-2.3	-8.9	12.8	12.0
Orsero Spa to EU Sector	-0.6	-0.6	-4.6	-8.8	13.5	14.8

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	12.5	11.8	13.1	8.9	8.5	9.1	8.1	7.6	8.2
Total Produce PLC	20.5	19.2	18.5	13.3	12.4	11.6	9.0	8.4	7.9
Average	16.5	15.5	15.8	11.1	10.4	10.4	8.5	8.0	8.0
Orsero Spa	10.4	10.1	9.6	6.5	6.4	6.2	5.9	5.3	4.5
% (Discount)/Premium to peer average	-37.0%	-35.0%	-39.3%	-41.1%	-38.8%	-40.5%	-30.6%	-34.1%	-43.4%

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
28/07/2017	U.R.	BUY
18/04/2017	€16.20	BUY
13/02/2017	-	not rated
25/11/2016	-	not rated

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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.

