

Italy - Food

Better than expected FY-17 preliminary results

23rd February 2018

PRELIMINARY FY-17 RESULTS

RIC: ORSO.MI
BBG: ORS IM

A good set of preliminary 2017 results, better than our forecasts. Increasing focus on the core business of distribution, further room for enlarging market share also via M&A in a consolidating industry and a compelling valuation, substantiate our positive stance of the stock.

Rating:

Buy

Price Target:

€ 13.80

Upside/(Downside): 55.2%

Last Price: € 8.89

Market Cap.: € 157.2m

1Y High/Low: € 14.26/€ 8.60

Free Float: 62.7%

Major shareholders:

FIF Holding 31.6%
Grupo Fernández 5.7%



Stock price performance

	1M	3M	12M
Absolute	-1.6%	-11.7%	-16.8%
Rel.to Milan AIM	0.3%	-11.4%	-33.2%
Rel.to EU Sector	4.9%	-7.5%	-27.5%

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Positive stance reiterated: stock trades at 6.6x EBITDA, vs. 10.8x of peers

Orsero reported a good set of preliminary FY-17 results, better than our projections. We think Orsero remains an interesting long term value player, characterised by an increasing focus on the core business of distribution, further room for enlarging market share also via M&A and a compelling valuation even if the Import & Shipping volatility currently clouds the visibility of group figures. We stick to our positive stance on Orsero. Full results will be unveiled next 19-Mar.

2017 revenues close to € 1bn

FY-17 revenues totalled € 935m, better than our € 899m forecast, mainly as a result of higher sales in the distribution business. This number is pro-forma, factoring in the consolidation of the JVs minorities purchased in Jul-17 as of 01-Jan-17. Our projections are consistent with this approach. The comparison with FY-16 data is misleading. We believe the increase in Distribution was driven by Italy and France also in the second half of the year. In Italy, in particular, Orsero enlarged the product range under the "F.lli Orsero" brand, launched the new ready-to-eat line of exotic fruit, started a collaboration with a primary e-commerce platform and increased "fresh cut" sales. This increase, as shown by H1-17 top line trend, more than counterbalanced the decline in the Import & Shipping division, afflicted by tensions on banana prices, a decline in volume shipped and weak freights.

FY-17 EBITDA at € 31.0m, 3.3% margin – Net Financial Position of € 47.0m

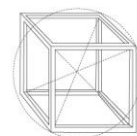
Adjusted (excluding non-recurring items) pro-forma EBITDA totalled € 31.0m, 3.3% margin, better than our € 29.3m expectation. As highlighted in H1-17, the Import & Shipping division is forecasted to have experienced poor profitability also in H2-17. As a result in 2017 the division suffered from: 1) lower profitability for bananas, tied to the prolonged excess on offer which prompted a decline in selling prices; 2) increase in Bunker price; 3) lower loading factor (84% vs. 92%); 4) some changes in vessel voyage schedule generating higher consumption, extra maintenance and transportation costs. 2017 NFP of € 47.0m compares with our € 57.5m projection.

Sector consolidation proceeds inexorably

The sector is in the midst of a deep consolidation process: Sumitomo purchased Fyffes by for 13.8x EBITDA in Dec-16, Total Produce acquired Dole for 9x EBITDA at the end-Jan and Del Monte bought Mann Packing (fresh-cut, USA) in mid-Feb. In an industry where volumes are a key aspect to leveraging well-structured distribution platforms, this trend seems to be accelerating further. Orsero with the JV minorities buy-outs of last Jul-17, has started to use the fresh resources injected by Glenalta Food together with its cash flows to accelerate growth via acquisitions. We believe the group might grab some local opportunities in Italy, develop partnerships in Europe with local producers and target prey in adjacent but consistent bio-vegan, dried fruit and juices/puree product categories.

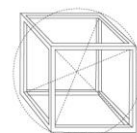
Orsero, key financials and ratios

€ m	2015	2016	2017e	2018e	2019e
Sales	617.4	685.0	935.0	938.8	980.7
EBITDA adj	28.2	35.2	31.0	38.6	43.4
EBIT	12.1	17.6	22.6	23.6	28.5
Net profit	13.6	18.2	15.6	17.9	22.0
Net profit adj	16.4	23.7	9.2	17.9	22.0
NFP (cash)/debt	147.0	49.1	47.0	40.9	17.8
EPS adjusted FD	0.93	1.34	0.52	1.01	1.25
EPS adj. FD growth	-	45.0%	-61.4%	95.5%	23.1%
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	-	27.3%	-6.9%	11.3%	14.7%
PER x	9.6	6.6	17.2	8.8	7.1
EV/Sales x	0.49	0.30	0.22	0.20	0.17
EV/EBITDA x	10.8	5.9	6.6	4.8	3.7
EV/EBIT x	25.2	11.7	9.0	7.8	5.7





Income statement (€ m)	2015	2016	2017e	2018e	2019e
Revenues	617.4	685.0	935.0	938.8	980.7
COGS	(553.4)	(612.3)	(840.2)	(843.0)	(877.8)
Gross Profit	64.0	72.7	94.8	95.8	102.9
SG&A	(51.9)	(55.0)	(72.2)	(72.1)	(74.3)
EBIT	12.1	17.6	22.6	23.6	28.5
Financials	(6.1)	(1.4)	(2.2)	(2.2)	(2.2)
Results from investments	1.3	4.9	0.5	0.0	0.0
Pre Tax Profit	7.3	21.1	20.9	21.5	26.4
Taxes	6.1	(2.9)	(5.2)	(3.4)	(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	15.6	17.9	22.0
D&A	(10.5)	(9.8)	(12.6)	(12.8)	(12.7)
Provisions	(2.5)	(1.5)	(2.1)	(2.1)	(2.2)
Non recurring items	(3.2)	(6.3)	8.0	0.0	0.0
Adjusted EBITDA	28.2	35.2	31.0	38.6	43.4
Adjusted EBIT	15.2	23.9	14.7	23.6	28.5
Adjusted Net profit	16.4	23.7	9.2	17.9	22.0
Balance sheet (€ m)	2015	2016	2017e	2018e	2019e
Net Working Capital	22.6	27.4	45.8	41.7	42.7
Net Fixed Assets	122.4	95.9	157.7	160.2	157.8
Equity Investments	36.7	39.2	10.0	10.2	10.4
Other M/L Term A/L	12.1	3.0	(21.5)	(21.3)	(21.2)
Net Invested Capital	193.8	165.6	192.1	190.9	189.7
Net Financial Debt/(cash)	147.0	49.1	47.0	40.9	17.8
Minorities	1.1	0.7	0.9	1.0	1.1
Group's Shareholders Equity	45.7	115.8	144.2	148.9	170.8
Financial Liabilities & Equity	193.8	165.6	192.1	190.9	189.7
Cash Flow statement (€ m)	2015	2016	2017e	2018e	2019e
Total net income	-	18.2	15.6	17.9	22.0
Depreciation	-	9.8	12.6	12.8	12.7
Other non-cash charges	-	9.1	4.5	(0.3)	(0.1)
Cash Flow from Oper. (CFO)	-	37.0	32.7	30.5	34.6
Change in NWC	-	(4.9)	(18.4)	2.8	(0.9)
FCF from Operations (FCFO)	-	32.2	14.3	33.3	33.6
Net Investments (CFI)	-	10.7	(25.2)	(15.5)	(10.5)
Free CF to the Firm (FCFF)	-	42.8	(10.9)	17.8	23.1
CF from financials (CFF)	-	(32.7)	13.0	0.0	0.0
Free Cash Flow to Equity (FCFE)	-	10.1	2.1	17.8	23.1
Financial ratios	2015	2016	2017e	2018e	2019e
EBITDA adj. margin	4.6%	5.1%	3.3%	4.1%	4.4%
EBIT margin	2.0%	2.6%	2.4%	2.5%	2.9%
Net profit margin	2.2%	2.7%	1.7%	1.9%	2.2%
Tax rate	n.m.	13.6%	25.0%	16.0%	16.0%
Interest coverage x	0.50	0.08	0.10	0.09	0.08
Net Debt/EBITDA adj. x	5.22	1.39	1.51	1.06	0.41
Debt-to-Equity x	3.21	0.42	0.33	0.27	0.10
ROIC	7.0%	11.0%	8.1%	9.4%	11.6%
ROCE	4.8%	7.5%	5.5%	8.7%	9.8%
ROACE	4.8%	7.2%	5.9%	9.0%	10.1%
ROE	29.7%	15.7%	10.8%	12.0%	12.9%
Payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Per share figures	2015	2016	2017e	2018e	2019e
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 €	0.77	1.03	0.88	1.01	1.25
EPS adjusted FD €	0.93	1.34	0.52	1.01	1.25
EBITDA €	1.59	1.99	1.76	2.18	2.45
EBIT €	0.68	1.00	1.28	1.34	1.61
FCFO €	n.a.	1.82	0.81	1.88	1.90
FCFF €	n.a.	2.42	(0.62)	1.01	1.31
FCFE €	n.a.	0.57	0.12	1.01	1.31
Dividend €	0.00	0.00	0.00	0.00	0.00



The company in a nutshell

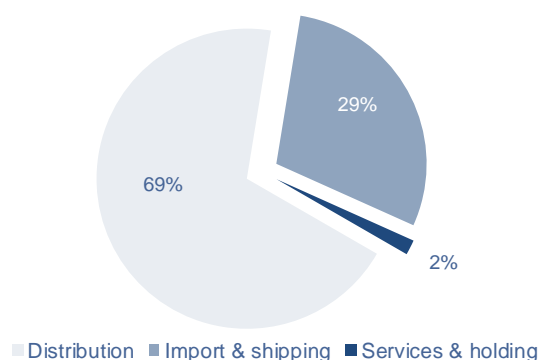
Orsero is an international group headquartered in Albenga (Savona), operating in the fresh fruit and vegetable import and distribution business in the Mediterranean area of Europe. The group was founded over 50 years ago by the Orsero family. The current business structure entails besides import and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

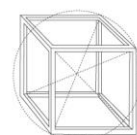
Peer group absolute performance

	1D	1W	1M	3M	6M	YTD
Fresh Del Monte Produce Inc	6.1	6.2	1.4	6.9	5.1	3.2
Total Produce PLC	0.8	-0.8	2.5	-4.0	11.0	-5.5
Peers Average	3.5	2.7	2.0	1.5	8.0	-1.2
Orsero Spa	-0.6	-1.2	-1.6	-11.7	-34.3	-3.9
FTSE AIM Italia	0.3	0.4	-1.8	-0.3	-0.1	0.3
EU Sector	-0.2	-1.0	-6.5	-4.3	-0.5	-5.6
Orsero Spa to peers	-4.0	-3.9	-3.5	-13.2	-42.3	-2.7
Orsero Spa to FTSE AIM Italia	-0.8	-1.6	0.3	-11.4	-34.2	-4.1
Orsero Spa to EU Sector	-0.4	-0.2	4.9	-7.5	-33.8	1.7

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	15.2	11.4	10.5	9.7	8.0	7.5	9.0	7.2	6.8
Total Produce PLC	23.6	23.7	22.2	16.8	16.9	16.0	12.5	11.7	11.0
Average	19.4	17.6	16.3	13.3	12.4	11.8	10.8	9.5	8.9
Orsero Spa	17.2	8.8	7.1	6.6	4.8	4.3	6.6	4.8	3.7
% (Discount)/Premium to peer average	-11.4%	-50.0%	-56.3%	-50.6%	-61.5%	-63.7%	-38.8%	-49.2%	-58.1%

Source: CFO Sim, Thomson Reuters Eikon



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DATE	TARGET PRICE	RATING
23/02/2018	€13.80	BUY
01/02/2018	€13.80	BUY
27/09/2017	€13.80	BUY
28/07/2017	U.R.	BUY
18/04/2017	€16.20	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.

