

Deoleo

Consumer Staples

Outperform

Target price: EUR0.29

Closing price as of 13/06/2016: EUR0.19

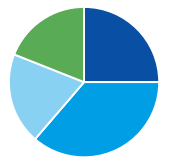
Basic data

Closing price as of 13/06/2016 (EUR)	0.20
Recommendation	Outperform
Market cap (EUR mn)	225.2
Target price (EUR/share)	0.29
Total enterprise value (EUR mn)	761.9
Number of shares (million)	1,155
Average daily volume (EUR mn)	0.22
Free-float (%)	25.6

Main shareholders (%)

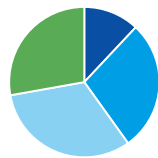
CVC	50.0
Savings Banks	24.4

Revenues by geographical area



- Spain (25%)
- Southern Europe (ex Spain) (36%)
- North America (20%)
- RoW (19%)

EBITDA by geographical area



- Spain (12%)
- Southern Europe (ex Spain) (28%)
- North America (32%)
- RoW (28%)

Per share data

	2015	2016e	2017e
Number of shares (million)	1,155	1,155	1,155
EPS (EUR)	-0.05	-0.02	0.00
EPS growth (%)	-17.2%	-56.7%	-107.5%
Ord. EPS (EUR)	-0.02	-0.02	0.00
Ord. EPS growth (%)	-139.0%	48.2%	-107.5%
DPS (EUR)	0.00	0.00	0.00
CFPS (EUR)	0.00	0.00	0.00

Valuation ratios (x)

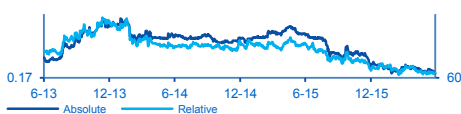
	2015	2016e	2017e
P/E	-3.86	-8.47	112.5
Ord. P/E	-13.2	-8.47	112.5
P/CF	-438.7	-70.8	48.6
P/BV	0.47	0.47	0.47
EV/EBIT	53.1	34.7	15.5
EV/EBITDA	21.7	18.1	10.8
EV/sales	0.94	0.86	0.82
FCF yield (%)	-0.2%	-1.4%	2.1%
Dividend yield (%)	0.0%	0.0%	0.0%
Pay-out (%)	0.0%	0.0%	0.0%

Financial and others (x)

	2015	2016e	2017e
Net debt/EBITDA	14.9	12.7	7.57
Interest coverage	0.42	0.86	1.91
Net debt/equity	104.7%	111.1%	109.7%
RoE (%)	-11.4%	-5.4%	0.4%
RoCE (%)	0.9%	1.5%	3.3%
EV/CE	0.64	0.65	0.64
Capex/sales	-1.1%	1.4%	1.4%
Working capital/sales	14.0%	11.0%	11.2%

Source: company data and BBVA GMR estimates. Fully diluted

Stock market performance (-3y to last close)



Source: Bloomberg

In for a penny, in for a pound

Global olive oil leader

Deoleo is the world leader in the olive oil market, with a 22%e market share. The company owns the leading brand in each of its main markets: Spain, the US, Italy, Germany, the Netherlands, Canada and Australia.

Share price drop overdone

Deoleo's shares have tanked c.60% off their 2015 highs, due to raw material prices not falling despite the bigger crop, stiff private label competition in Spain preventing pass-throughs and management seizing the moment to forfeit the year and accelerate opex to open up new markets. That said, we think that the price has dropped more than the above warrants, which explains why despite the adverse scenario, we remain positive on the stock.

We believe in Deoleo's EBITDA generating potential, although we see things getting worse before they get better

We still believe that Deoleo is capable of producing EBITDA in excess of EUR100mn/year based on its size, recognised brand portfolio, market access and sourcing capabilities. However, we believe things will get worse before they get better. As seen in 1Q16, EBITDA has fallen sharply YoY on raw material costs, and although we see improvements in QoQ margins, we still think that the company will face pressure on costs. In our opinion, despite the difficult environment, Deoleo will be able to post EBITDA growth this year, and operating leverage should drive the company's net income into the black by 2017.

We maintain our positive view

We think that the market is overreacting to a negative s/t olvie oil market conditions, but does not discount Deoleo's medium-term potential. Even with our tough valuation hypothesis (9% WACC, 0% g), we see 50% upside potential from current levels (EUR0.29 TP).

Strengths	Weaknesses
<ul style="list-style-type: none"> Global olive oil leader Premium brand portfolio Geographical diversification 	<ul style="list-style-type: none"> Unpredictable factors (weather and disease) Raw material exposure

Opportunities	Threats
<ul style="list-style-type: none"> Further asset disposals Capacity optimisation Tax credits 	<ul style="list-style-type: none"> Raw material volatility Private labels

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Deoleo Consumer Staples

Closing price as of 13/06/2016: EUR0.19 Outperform

Balance sheet (EUR mn)	2011	2012	2013	2014	2015	2016e	2017e	2018e	
Intangible assets	1,105	930.4	963.3	951.5	907.2	907.2	907.2	907.2	
Tangible assets	158.6	132.2	134.5	127.6	121.6	113.5	105.2	96.6	
Financial investments	7.10	4.10	10.0	2.80	5.69	6.44	7.56	9.25	
Other long-term assets	232.0	153.5	157.3	66.7	62.3	62.3	62.3	62.3	
Assets classified for disposal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Current assets	358.6	299.0	261.6	263.0	248.2	265.3	270.5	274.9	
Other current assets	6.90	19.6	18.7	20.9	26.8	26.8	26.8	26.8	
Cash and cash equivalents	118.2	128.1	178.5	79.9	42.0	38.9	43.5	73.2	
Total assets	1,986	1,667	1,724	1,512	1,414	1,420	1,423	1,450	
Equity	811.7	560.2	624.9	565.5	505.8	479.3	481.3	508.3	
Minority interests	0.50	0.50	0.50	0.50	0.44	0.44	0.44	0.44	
Prov. and other l.t. liabilities	235.4	209.1	246.5	205.3	199.0	199.0	199.0	199.0	
Liabilities classified for disposal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Financial debt	780.2	752.1	650.5	569.4	571.5	571.5	571.5	571.5	
Accounts payable	139.7	118.0	189.3	156.1	133.9	167.1	167.7	167.9	
Other current liabilities	18.8	27.0	12.2	15.6	3.02	3.02	3.02	3.02	
Total liabilities	1,986	1,667	1,724	1,512	1,414	1,420	1,423	1,450	
Net debt	662.0	624.0	472.0	489.5	529.5	532.7	528.0	498.4	
Capital employed	1,714	1,397	1,327	1,253	1,205	1,181	1,177	1,173	
Working capital	218.9	181.0	72.3	106.9	114.2	98.1	102.7	107.0	
									CAGR
P&L (EUR mn)	2011	2012	2013	2014	2015	2016e	2017e	2018e	15/18e
Net revenues	960.8	828.9	813.0	773.2	817.3	889.8	918.9	945.8	4.99
Other income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Revenues and other income	960.8	828.9	813.0	773.2	817.3	889.8	918.9	945.8	4.99
Growth in sales (%)	-7.0%	-13.7%	-1.9%	-4.9%	5.7%	8.9%	3.3%	2.9%	
Supplies	-671.3	-600.4	-560.3	-551.0	-634.5	-680.7	-683.0	-683.5	
Personnel costs	-60.6	-62.6	-48.2	-47.5	-50.7	-51.5	-52.2	-53.0	
Other operating expenses	-186.4	-280.5	-126.3	-93.3	-96.5	-115.6	-113.9	-108.7	
Recurrent EBITDA	42.5	-114.6	78.2	81.4	35.6	42.0	69.7	100.6	41.4
Non-recurrent items	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
EBITDA	42.5	-114.6	78.2	81.4	35.6	42.0	69.7	100.6	41.4
EBITDA growth (%)	-10725.0%	-369.6%	-168.2%	4.1%	-56.3%	18.3%	65.8%	44.2%	
EBITDA/sales (%)	4.4%	-13.8%	9.6%	10.5%	4.4%	4.7%	7.6%	10.6%	
Depreciation and provisions	-20.3	-19.6	-18.1	-27.5	-21.0	-20.1	-20.9	-21.6	
EBIT	22.2	-134.2	60.1	53.9	14.5	22.0	48.9	79.0	75.9
EBIT growth (%)	-175.8%	-704.5%	-144.8%	-10.3%	-73.1%	51.2%	122.6%	61.6%	
EBIT/sales (%)	2.3%	-16.2%	7.4%	7.0%	1.8%	2.5%	5.3%	8.4%	
EBIT non-recurrent items	0.00	0.00	0.00	0.00	-49.4	0.00	0.00	0.00	
Operating profit	22.2	-134.2	60.1	53.9	-34.8	22.0	48.9	79.0	-31.4
Net financial result	9.20	-29.0	-23.9	-24.7	-34.9	-25.6	-25.6	-25.4	
Equity-accounted earnings	0.00	0.00	0.10	0.20	0.00	0.75	1.13	1.69	
Ordinary income	31.4	-163.2	36.3	29.4	-69.8	-2.85	24.4	55.3	7.45
Ordinary income growth (%)	-169.5%	-619.7%	-122.2%	-19.1%	-337.7%	-95.9%	-958.2%	126.2%	
Extr. result/discont. activities	-20.2	0.00	0.00	-76.5	0.00	0.00	0.00	0.00	
Pre-tax profit	11.2	-163.2	36.3	-47.1	-69.8	-2.85	24.4	55.3	7.45
Tax	-10.1	-82.4	-16.4	-26.9	8.46	-23.7	-22.4	-28.3	
Minorities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Net profit	1.10	-245.6	19.9	-74.1	-61.3	-26.6	2.00	27.0	23.9
Net profit growth (%)	-102.2%	-22427.3%	-108.1%	-472.1%	-17.2%	-56.7%	-107.5%	1250.0%	
Ordinary net profit	3.08	-245.6	19.9	46.0	-17.9	-26.6	2.00	27.0	-14.6
Effective tax rate (%)	90.2%	-50.5%	45.3%	-56.9%	12.1%	-659.2%	96.2%	52.8%	
Cash flow statement (EUR mn)						2016e	2017e	2018e	
EBITDA						42.0	69.7	100.6	
Non-cash EBITDA						0.00	0.00	0.00	
Working capital variation						16.1	-4.59	-4.30	
Capex						-12.1	-12.5	-13.0	
Free operating CF pre-tax						46.1	52.6	83.3	
Net financial result						-25.6	-25.6	-25.4	
Non-cash financial result						0.00	0.00	0.00	
Taxes						-23.7	-22.4	-28.3	
Div. from/to assoc./minorities						0.00	0.00	0.00	
Cash flow other						0.00	0.00	0.00	
FCFE						-3.18	4.63	29.7	
Dividends						0.00	0.00	0.00	
FCFE after dividends						-3.18	4.63	29.7	
FX						0.00	0.00	0.00	
Change in net debt						3.18	-4.63	-29.7	

Source: company data and BBVA GMR estimates

Recommendation history and TP (-3y or since initiating coverage): (7/10/11) U 0.44 (12/3/12) U 0.49 (8/2/13) U 0.27 (21/3/13) U 0.28 (15/10/13) U 0.34 (14/11/13) MP 0.46 (28/5/14) O 0.53 (20/10/14) O 0.50 (30/10/14) O 0.48 (23/3/15) O 0.52 (14/10/15) O 0.49 (25/2/16) O 0.29

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