

Deoleo

Food
Reduce
High-Risk

29 June 2016

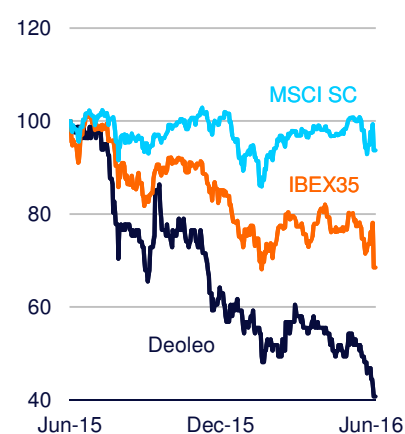
Spain

Still challenging

(YE17 Price Target set at €0.16 (-48% LfL); Recommendation downgraded from Neutral to Reduce)

- Uncertain raw material prices outlook...:** Deoleo has been facing an adverse raw materials environment with Spanish olive oil production in 2015/16 (c70% of the EU's total) expected to meet only one-year of demand and leave inventories at depleted levels. The first indications on the 2016/17 harvest were also poor, although the return to normal seasonal weather conditions in April and May has lifted hopes that production could match 2015/16 figures (c1.4mn tonnes, consistent with historical average). Still, visibility remains limited bringing some uncertainty over the sustainability of the recent decline in raw material costs (-30% from Aug'15 record highs).
- ...but improving pricing power:** Deoleo has been pointing out for an improvement in gross margins supported by the price increases it has been undertaking and anticipates the volumes upturn forecasted for the next months to drive an EBITDA recovery (still not noticeable in 1Q16). In parallel, the company has been working on commercial expansion and cost saving plans, which are expected to feed results in the short-medium term. We have adjusted our EBITDA'16^F-19^F by 3% to reflect a still weak business environment but we continue to forecast a progressive profitability normalization from last year's trough, which should drive a 24% rec. EBITDA CAGR'15-19^F.
- High financial leverage, risks persist:** the stock price is down 35% over the last 6M (vs. the EuroStoxx F&B 2% drop), reflecting tough operating conditions in the olive oil market. Yet, Deoleo is still trading at a demanding 15.2x EV/EBITDA'16^F (8.7x on mid-cycle EBITDA), above the sector's 13.5x average, despite Deoleo's lower product diversification and high financial gearing (10.1x ND/EBITDA'16^F, 5.6x by 2019^F). A potential rights issue (c€150mn reported) is an additional source of uncertainty. After adjusting our estimates and WACC, our **YE16 PT was set at €0.16** (-48% LfL driven by Deoleo's highly geared capital structure). A better than expected 2016/17 olive harvest is a potential positive catalyst but overall in face of leverage and valuation, we downgrade to **REDUCE**.

Deoleo vs IBEX35 vs MSCI SC



Source: Bloomberg.

DCF Valuation (€ mn)

Enterprise Value (DCF)	715
YE17 Net Debt	513
Non-core Assets	6
Equity Value	208
# Shares (mn)	1155
YE17 Fair Value (€)	0.18
Small Cap Discount	10%
YE17 Price Target (€)	0.16

Source: BPI Equity Research.

Stock Data

Price (24 th Jun.):	0.17	Price Target (YE17):	0.16
# shares (mn):	1154.7	M. Cap (€ mn) / F. Float:	191 / 30%
Reuters/Bloomberg:	OLE.MC / OLE SM	Avg. Daily Vol. [€'000]:	182
Major Shareholders:	CVC (50.0%); Unicaja (10.1%); Caixabank (5.0%); Kutxabank (4.8%)		

Estimates	2013	2014	2015	2016 ^F	2017 ^F	2018 ^F	2019 ^F
PE Adj.	9.0	n.s.	n.s.	n.s.	49.1	15.6	9.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCFE Yield	45.4%	-9.0%	-18.3%	-1.6%	2.0%	6.3%	10.6%
FCFF Yield	14.9%	3.1%	1.0%	3.2%	3.9%	4.9%	5.7%
PBV	0.3	0.3	0.4	0.4	0.4	0.4	0.4
EV/EBITDA ⁽¹⁾	9.8	9.6	22.1	15.2	11.2	10.1	9.3
EV/Sales ⁽¹⁾	1.0	1.0	1.0	0.9	0.9	0.9	0.9

(1) EV is fixed with current market cap and MV of remaining items.

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Historical Recommendation

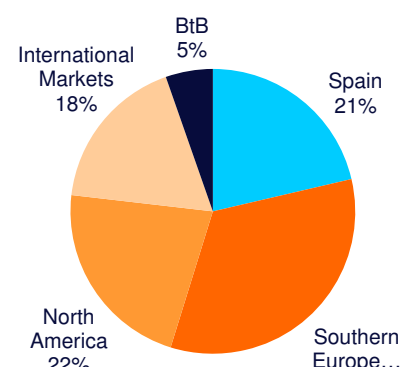
Date	Recommendation
29-Apr-15	Neutral

Source: BPI Equity Research.

Available on our website:
www.bpiequity.bpi.pt, BPI Online, and
 Bloomberg at NH BPD.

P&L (€ mn)								CAGR
	2013	2014	2015	2016 ^F	2017 ^F	2018 ^F	2019 ^F	15-19 ^F
Revenues	813	773	817	840	865	890	917	3%
EBITDA	80	73	24	52	70	78	84	37%
EBITDA adj.	80	81	36	52	70	78	84	24%
EBITDA adj. mg.	9.9%	10.5%	4.4%	6.2%	8.1%	8.8%	9.2%	
Depreciation & others	18	18	21	19	19	18	19	-3%
EBIT	62	55	3	32	51	59	66	123%
EBIT adj.	62	63	15	32	51	59	66	46%
Net financial results	-24	-30	-32	-28	-27	-26	-24	-6%
Income tax	16	27	0	20	21	21	22	n.s.
Others	-2	-72	-32	0	0	0	0	n.s.
Minority Interests	0	0	0	0	0	0	0	1%
Net Profit reported	20	-74	-61	-15	4	12	20	n.s.
Net Profit adj.	21	-18	-30	-15	4	12	20	n.s.

FY15 Geographical Revenue Breakdown (€ 817mn)



Source: BPI Equity Research.

Balance Sheet (€ mn)								CAGR
	2013	2014	2015	2016 ^F	2017 ^F	2018 ^F	2019 ^F	15-19 ^F
Net Intangibles	964	951	907	899	899	899	899	0%
Net Fixed Assets	140	130	122	116	112	108	104	-4%
Net Financials	8	4	6	6	6	6	6	0%
Inventories	112	121	140	139	141	144	147	1%
ST Receivables	156	149	117	113	118	122	126	2%
Other Assets	146	72	74	77	76	76	75	1%
Cash & Equivalents	197	84	47	28	37	46	22	-17%
Total Assets	1724	1512	1414	1379	1389	1402	1381	-1%
Equity & Minorities	625	566	506	491	495	507	527	1%
MLT Liabilities	813	765	743	721	721	691	641	-4%
o.w. Debt	575	553	543	522	522	492	442	-5%
ST Liabilities	285	182	165	161	163	187	191	4%
o.w. Debt	95	21	28	28	28	50	50	15%
o.w. Payables	189	159	135	132	133	136	139	1%
Equity+Min. + Liabilities	1724	1512	1414	1374	1379	1386	1359	-1%

DCF Assumptions

Re	12.0%
Rf	3.25%
CRP	0.9%
Beta Equity	1.3
Mkt Premium	6.0%
Rd	9.0%
D/EV	55%
Tax rate	30%
WACC	8.9%
g	2.0%

Source: BPI Equity Research.

Cash flow (€ mn)							
	2013	2014	2015	2016 ^F	2017 ^F	2018 ^F	2019 ^F
+ EBITDA	80	73	24	52	70	78	84
- Chg in Net W.C.	-110	34	10	1	4	4	3
- Income Taxes	16	27	0	20	21	21	22
= Operating Cash Flow	173	12	14	31	45	53	60
- Growth Capex	104	-13	-36	0	0	0	0
- Replacement Capex	-47	9	5	6	15	15	15
- Net Fin. Inv.	0	-8	37	0	0	0	0
= Cash Flow after Inv.	117	24	8	25	31	38	44
- Net Fin. Exp.	24	30	32	28	27	26	24
- Dividends Paid	0	0	0	0	0	0	0
+/- Equity	66	0	0	0	0	0	0
Other	-7	-12	-11	0	0	0	0
=Change in Net Debt	-152	17	35	3	-4	-12	-20
Net Debt (+)/Net Cash (-)	472	490	524	523	513	496	470

Sensitivity Analysis (€/sh)

	-0.5pp	Δ g	+0.5pp
-0.5pp	0.18	0.21	0.23
Δ WACC	0.14	0.16	0.18
+0.5pp	0.11	0.12	0.14

Source: BPI Equity Research.

Growth, per share data and ratios

	2013	2014	2015	2016 ^F	2017 ^F	2018 ^F	2019 ^F
Sales growth	-2%	-5%	6%	3%	3%	3%	3%
EBITDA Adj. growth	-9%	2%	-56%	46%	36%	11%	8%
EPS Adj. growth	n.s.	-183%	n.s.	n.s.	n.s.	215%	62%
Avg. # sh (mn)	1089.0	1154.7	1154.7	1154.7	1154.7	1154.7	1154.7
Basic EPS	0.02	-0.06	-0.05	-0.01	0.00	0.01	0.02
EPS Adj. Fully diluted	0.02	-0.02	-0.03	-0.01	0.00	0.01	0.02
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Payout	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (after tax)	4.1%	3.9%	0.2%	2.3%	3.6%	4.2%	4.7%
ROE	2.8%	-13.2%	-10.8%	-2.9%	0.8%	2.5%	3.9%
Gearing (ND/EV)	51.4%	53.3%	57.1%	56.9%	55.9%	54.0%	51.2%
Net Debt/EBITDA	5.9x	6.7x	22.1x	10.1x	7.3x	6.4x	5.6x

Source: Company data and BPI Equity Research (F).

Market Multiples

	PE		EV/EBITDA	
	16 ^F	17 ^F	16 ^F	17 ^F
Deoleo	n.s.	49.1	15.2	11.2
Barón de Ley	14.9	14.2	7.1	6.7
Ebro Foods	17.0	15.6	9.6	9.1
ES F&B	16.0	14.9	8.4	7.9

Source: BPI Equity Research, Bloomberg.

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	Low Risk	Medium Risk	High Risk
Buy	>15%	>20%	>30%
Neutral	>5% and < 15%	>10% and <20%	>15% and < 30%
Reduce	>-10% and < 5%	>-10% and < 10%	>-10% and < 15%
Sell	< -10%	< -10%	< -10%

These investment ratings are not strict and should be taken as a general rule.

INVESTMENT RATINGS STATISTICS

As of 31st May BPI Equity Research investment ratings were distributed as follows:

Buy	35%
Neutral	31%
Reduce	24%
Sell/Accept Bid	6%
Under Revision/Restricted	5%
Total	100%

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