

Total Produce

Rating
BUY

Target Price
€1.20

Date: 4th March 2014

IRELAND

Distribution

Total Produce – Consistency pays off

Total Produce continues to look attractive as the business model remains highly cash generative and is enhanced by underlying trends supportive of increased end market demand for the company's extensive product offering. The company remains able to generate returns on capital employed in the mid-teen percentage range while the lowly geared balance sheet is augmented by strong free cash flow generation, further supporting increased acquisition activity in to the future. We believe that Total Produce's low risk business model looks set to continue to generate excellent returns for shareholders through increased dividend payments in addition to strong underlying improvements in profitability supported by increased deal flow. The shares currently trade at an unwarranted discount to the sector, adding to the appeal of the company and we reiterate our positive stance, with a Buy recommendation.

FY 2013 results achieve high end of management's prior guidance

Total Produce reported FY 2013 results that came in at the high end of management's expectations driven by strong trading across all of the group's segments and positive contributions from recent acquisitions. For the year, revenue increased by 13% to €3.2 billion while adjusted EBITDA increased by 6.7% to €74.1 million. Adjusted earnings per share increased by 10.5% to 8.77c (management guidance range: 8.0-8.8c).

Cash generation continues to be strong with net debt profile is attractive

Strong cash flow generation is a feature of Total Produce's business model and 2013 was a very strong year, even taking in to account positive one-time items. The business generated free cash flow of €45.1 million and proceeds from the disposal of joint ventures, notably Capespan provided €21.7 million, with these proceeds being in excess of acquisition related expenditures, principally the Oppenheimer business, to the amount of €4.1 million. Net debt at the end of 2013 amounted to €11.0 million (2012: €53 million), leaving Total Produce exceedingly well positioned to increase acquisition spending going forward with net debt/EBITDA amounting to just .15x.

2014 result likely to be towards high end of guided range

Total Produce management have provided a guidance range of between 8.4 -9.4c for adjusted earnings per share in 2014. The midpoint of this range would indicate a flat outturn for the business during the year. However, we believe that with the balance sheet in as good shape as it is, coupled with the likelihood of increased deal flow over the next twelve months, it is likely that the range will prove conservative and that EPS growth of between 5-6% is more likely. Total Produce achieved an ROCE of 15.3%, highlighting the attractiveness of the returns profile that the company can generate. With the shares trading on just 10x 2014 earnings forecasts, offering shareholders a 2.5% dividend yield, we continue to believe that Total Produce has the capability to re-rate higher given the quality of the underlying business relative to peers.

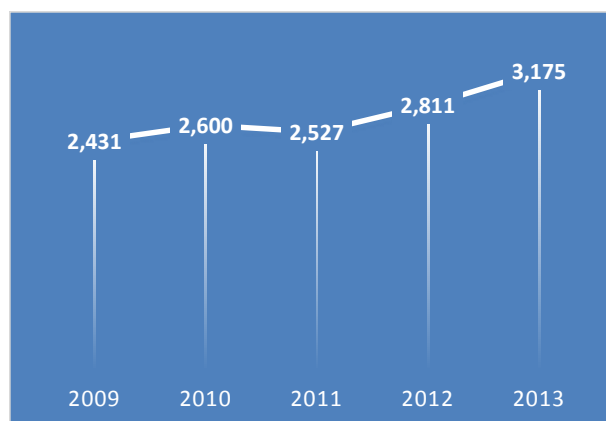
Market Cap
€326 million

Current Price
98c

YTD absolute performance +20.5%

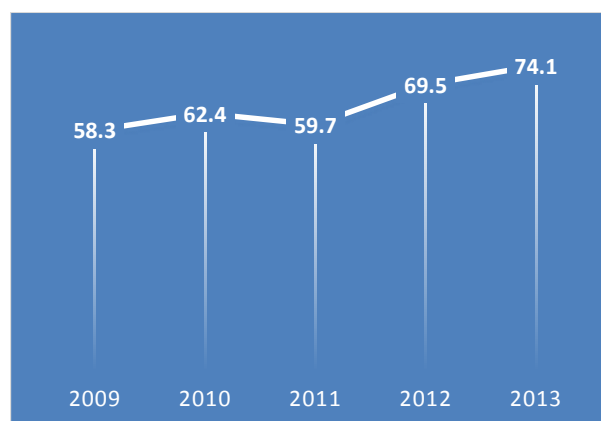
52 week high/low €99/€575

Chart 1: Total Produce Revenue (€ million)



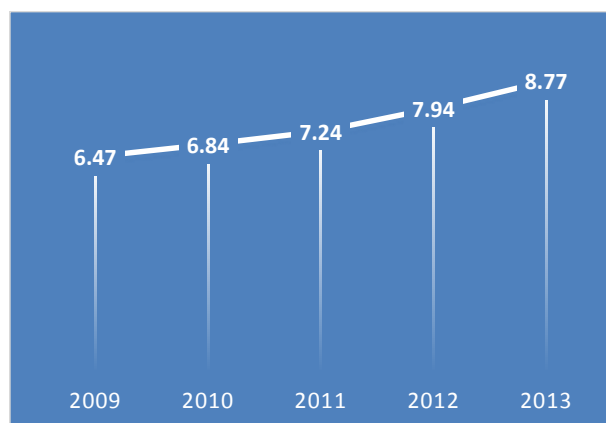
Source: Merrion estimates, company reports

Chart 2: Total Produce Adjusted EBITDA (€ million)



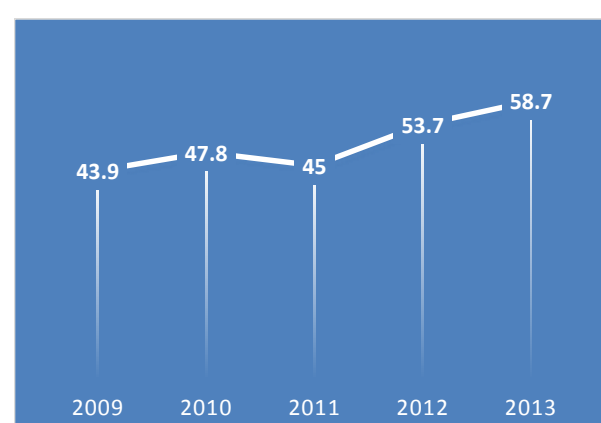
Source: Merrion estimates, company reports

Chart 3: Total Produce Adjusted EPS (c)



Source: Merrion estimates, company reports

Chart 4: Total Produce Adjusted EBITA (€ million)



Source: Merrion estimates, company reports

Table 1: Total Produce cash flow (2007-2013)

Column1	2007-2013 €m
Net debt at June 2007	-62
Operating cash flows	321
Capital expenditure (maintenance)	-57
Dividends from joint ventures & associates	17
Dividends to non-controlling interests	-34
Total free cash flow	247
Proceeds from disposals	35
Acquisitions	-145
Capital expenditure (development)	-37
Dividends to equity holders, share buy back	-48
Other	-1
Movement in net debt (2007 - 2013)	51
Net Debt December 2013	-11

Source: Merrion estimates, company reports

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