EQUITY RESEARCH

Initiating coverage
19 December 2011

Acomo

Volatility creates value

Buy (initiating coverage)

Price (13/12/11)
€9.85

Target price (12-mth)
€11.50

Forecast total return
22.2%

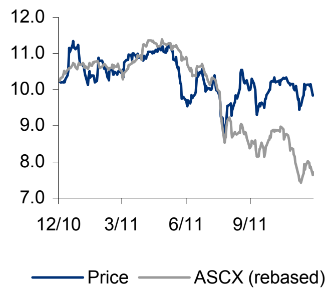
Retail
Netherlands
Bloomberg: ACOMO NA
Reuters: ARBN.AS

Share data

Avg daily volume (3-mth)	11,107
Free float (%)	50.5
Market cap (€m)	230.8
Net debt (1F, €m)	86
Enterprise value (1F, €m)	343
Dividend yield (1F, %)	5.5

Source: Company data, ING estimates

Share price performance



Source: ING

Following its transformation in 2010, Acomo is well placed to benefit from friction in the supply-demand balance in soft commodities. We see further expansion of leadership positions through M&A in the future, which might add up to €0.23 in EPS by 2013. We initiate coverage on Acomo with a BUY rating and TP of €11.5, in view of its consistent dividend yield of c.5% and given it is still trading below its peers at a 9.4x PER for 2012F.

Reliability in value chain. With outsourcing trends continuing, Acomo is in a strong position to benefit from its ability to secure physical delivery and quality of (niche) soft commodities like tea, nutmeg, nuts, pepper and walnuts. Acomo buys (part of) its contracts directly from farmers and secures contract deliveries to large consumer players like Unilever or PepsiCo (c.80% of contracts are pre-sold and secured).

Commodity volatility works in its favour. Acomo also appears well placed to benefit from food industry megatrends. With current swings in soft commodities, potential supply disruptions and more emphasis on quality and safety, large food companies increasingly depend on proprietary knowledge and on the availability of (niche) soft commodities and, thus, on companies like Acomo. High volatility should support strong earnings for Acomo.

M&A may potentially add up to €0.23 in EPS by 2013. After its transformation in 2010, Acomo should be able to acquire c.€150m in sales by the end of 2013, we believe, based on current free cash flow developments. Acomo could potentially add up to €0.23 in EPS by end-2013, which could mean c.€2.5 upside per share (depending on its form of financing).

Dividend play. Acomo's strategy is to maintain a high dividend payout. In 2000-09, the payout ratio was above the 60% level. A high payout can be continued, in our view, despite a relatively high level of net working capital financing (of c.€75m) to absorb relatively large swings in underlying soft commodities (the rule of thumb: up to 20% incorporated). The 2012F dividend yield of c.5.6% is very attractive, in our view.

Interim results were strong, and we expect a strong finish. The reliability of the core Catz unit helps the performance of Acomo. Although 1H11 EBIT margins were down YoY, we expect similar levels of profitability in 2H11 and 6.7% for all of FY11.

Valuation and estimates. We initiate coverage of Acomo with a BUY and a target price of €11.5, based on a weighted average of DCF-based valuation methodologies and a mid-cycle forward PER. Our EPS for 2011–13F are €1.02, €1.04 and €1.08, respectively. We are 10% and 13% above consensus for 2012/13.

Forecasts and ratios

Year end Dec (€m)	2009	2010	2011F	2012F	2013F
Revenues	165	375	545	558	571
Normalised EBITDA	13	32	39	41	43
Normalised net profit	11	18	24	24	25
Normalised EPS (€)	0.67	1.02	1.02	1.04	1.08
Normalised PER (x)	14.8	9.7	9.7	9.4	9.2
EV/normalised EBITDA (x)	17.7	11.2	8.8	8.4	7.9
FCF yield (%)	5.3	5.9	2.7	4.7	6.9
Dividend yield (%)	4.1	5.1	5.5	5.6	5.8
Price/book (x)	4.1	2.4	2.2	2.0	1.8
Normalised ROE (%)	29.3	31.9	26.3	22.0	20.7

Source: Company data, ING estimates

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Executive summary

We initiate coverage of Acomo with a BUY recommendation and a target price of €11.5, providing c.22% upside potential (including a dividend yield of 5.6%). We summarise our key investment points below.

High visibility: Leveraging off knowledge advantage

Up to 80% of contracts are pre-sold and 80% runs up to nine months only

Acomo trades and distributes food raw materials and ingredients for the food industry. Its strategy is based on proprietary information of the value chain (end-to-end) and a thorough understanding of industry dynamics. Acomo has contracts in place that are up to 80% pre-sold to its customers, reducing risk substantially. Furthermore, most of its contracts are short term in nature, with c.80% of its exposure up to nine months only. The remaining 20% or so is longer term in nature and is structured as cost-plus contracts.

The company's main drivers are: 1) proprietary farmer relationships, 2) niche commodities, which make possible proprietary insights, 3) securing access to key resources via (direct) contracts, 4) leadership positions, which secure proprietary knowledge and insights, and 5) an extensive customer base, which creates customer loyalty and opportunities to increase its value propositions. As a result of these drivers, Acomo has proved over the past 10 years that it can successfully weather volatile commodity markets. With soft commodities perhaps reversing in 2012 (at least temporarily), we might see peak profit levels returning, similar to those in 2008/09. With 80% of contracts already pre-sold, Acomo has limited exposure to end markets.

Well placed to benefit from megatrends

With demand outpacing supply, those capable of reliably delivering soft commodities are in the sweet spot

We see five megatrends that we expect to evolve over time in the industry, and we believe that Acomo is well placed to benefit from them. They are: the growing structural supply-demand imbalances in commodities; higher consumption of value-added packaged foods; customers' growing emphasis on sustainability, which translates into a greater need for quality and security of supply; customers' growing concern about food safety and product hygiene, which provides an advantage to an end-to-end supplier; and further industry consolidation, as leadership positions are needed to leverage proprietary knowledge. We believe Acomo is well placed to benefit from the above megatrends, and we expect further capex expansion for Red River and for the tea blending and food ingredients segments in the future, aside from any further M&A opportunities, to help Acomo achieve new leadership positions.

Further M&A could mean €0.23 to EPS from 2013 onward

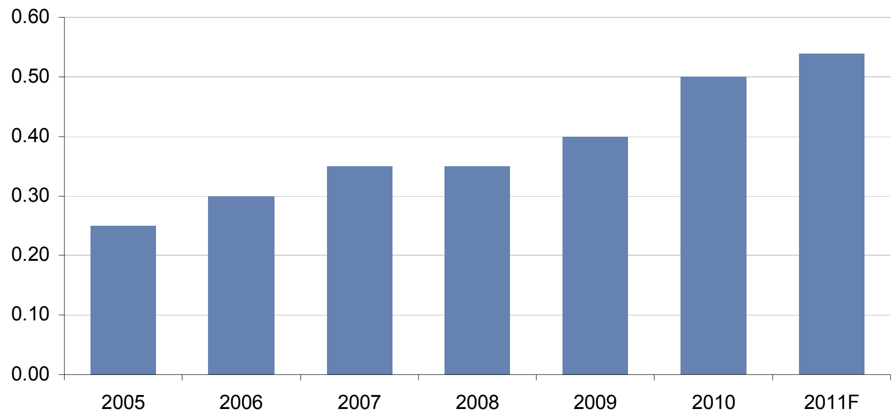
M&A is in its DNA, further expansion expected to drive growth

We believe Acomo will continue to search for bolt-on acquisitions in preferably niche soft commodity categories, where Acomo should be able to make a difference as its proprietary market knowledge should enable it to secure physical deliveries. Based on our calculations and previous transaction multiples, we think Acomo should be able to add up to €150m in sales by the end of 2013, or c.€0.23 to the current c.€1.02 EPS for 2011F.

Strong dividend growth track record

One of Acomo's financial targets is to maintain a high dividend payout in the years to come. Acomo's strong dividend track record over the past seven years is providing comfort to investors, in our view. The cumulative growth rate average for the past five years is c.15%.

Fig 1 Dividend track record consistently strong



Source: Company data, ING estimates

Weighted average target price of €11.5 implies c.22% upside

We base our target price for Acomo on a weighted average of DCF-based valuation methodologies and mid-cycle PER. In our DCF model, we apply a WACC of 8%, a long-term growth rate (after year 10) of 1.5%, and a "standard" 15% discount to fair value to calculate our weighted average multiple. The mid-cycle multiple is based on an average for Acomo's peers, which, according to Bloomberg consensus estimates, are trading at a forward PER of 10.5x.

Fig 2 Target price setting

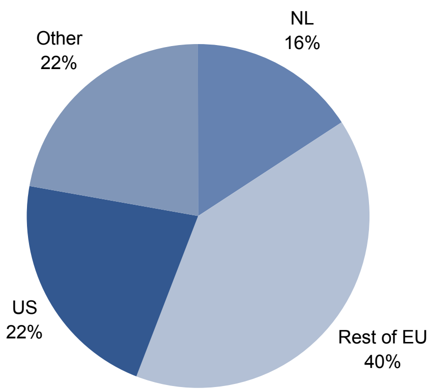
	Mid Cycle	DCF	TP
EPS FY12F (€)	1.04		
PER FY12F (x)	10.5		
Mid cycle fair value (€)	11.0		
WACC (%)		8.0	
EV (€m)		413,774	
DCF fair value (€m)		12.0	
Target price setting (€) (50:50)			11.5

Source: ING estimates

Acomo: reliability in value chain

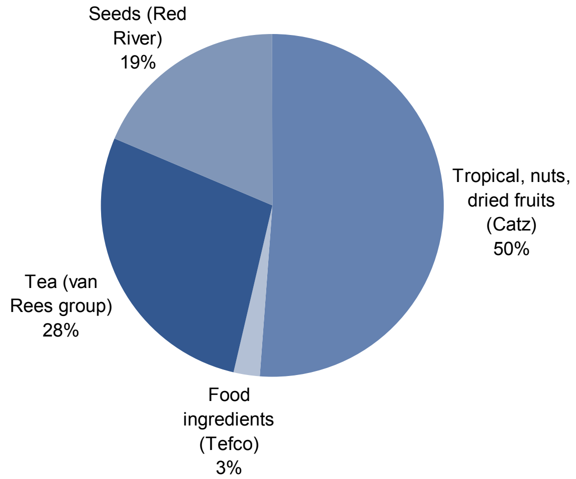
Acomo trades and distributes food raw materials and ingredients for the food industry. As such, it seeks to grow and further diversify its activities in the trade and distribution of (niche) commodities and ingredients for the food industry.

Fig 3 Geographic sales split 2011F



Source: Company data, ING estimates

Fig 4 Divisional sales split 2011F



Source: Company data, ING estimates

To realise its growth ambitions, the company has developed two parallel strategies:

- Achieve organic growth within its existing trading subsidiaries by further diversifying the product assortment.
- Form partnerships and complete acquisitions of other profitable trading companies (it is not interested in turnaround stories) that have a strong track record that can immediately contribute to EPS.

Well placed to benefit from increasing need for guaranteed delivery of high quality (niche) commodities

As a strong trading house, Acomo guarantees absolute reliability of delivery, and is thus well placed in the value chain to benefit from underlying trends such as the following:

- **Growing demographics and rising welfare,** which are changing consumption patterns and creating new demand for "traditional products" beyond typical local demand.
- **Scarcity of resources,** whether from governments taking protective measures (like export bans) or from scarcity of farm land in general, to climatic factors like La Nina that affect harvests.
- **Outsourcing of delivery,** with multinationals trying to secure the supply of soft commodities, for those parties in the value chain that have access to the local suppliers.

Fig 5 Agri commodity demand-supply imbalances

Demand (↑)	Supply (↓)
Growing population	Decreasing arable land
Increasing food consumption per capita with rising incomes	Urbanisation impact
Dietary shift to protein and fat-rich diets	Water constraints
Growing use of biofuel/bioplastics	Impact of climate change
	Environmental constraints
	Logistics and storage chokes

Source: Olam, ING estimates

Financial targets: aiming for consistency

Acomo's financial targets are clear and aim for medium-term consistency.

- Achieve long-term growth in EPS.
- Maintain a high dividend payout.
  - Annual payout ratio in 2000-09: >60% of consolidated net profit (going forward, no goal to have the payout ratio above 60%).
  - Objective for 2011 and beyond: consistent increases in annual dividend.
- ROE: realise net annual profits in excess of 15% of shareholders' equity
- Maintain sound balance sheet with 35-40% solvability.

Risk management: key strength

Stability and risk management are key criteria

Acomo's strategy rests on its proprietary knowledge of the value chain from end-to-end and a thorough understanding of industry dynamics:

- Proprietary farmer relationships.
- Niche commodities provide for proprietary insights.
- Securing access to key resources via (direct) contracts.
- Leadership positions secure proprietary knowledge and insights.
- Extensive customer base creating customer loyalty and opportunities to increase value propositions to customers.

Underlying agri-business trends: long-term positive

In our view, Acomo is well placed to benefit from key long-term structural trends. The importance of such trends should grow over time, we believe, as population growth and resource scarcity will mean that reliability and quality of sourcing will become increasingly important. We believe Acomo needs to develop close customer relationships in the medium-to-long term. Part of this dynamic, as we see it, is for the company to achieve insights into customer behaviour in order to build customised solutions and services to meet specific customer needs (consider sunflower seeds for PepsiCo).

1) **Supply constraints and growing demand** leading to friction in the demand-supply balance in food production. This means that knowledge of commodity streams and reliability of delivery is becoming a proprietary business driver.

2) **Higher consumption of proteins and fats in emerging markets.** As urbanisation is stepped up, we see further demand for different kinds of soft commodities. We particularly believe that growing welfare will change century-old consumption patterns and create new demand for products that were historically consumed only in developed countries.

3) **Concerns over food safety, hygiene and sustainability** help Acomo provide value-added features to its customers, securing quality and quantity and on-time delivery.

4) **Rising trends in sovereign investments in agricultural land.** Acomo has decided to selectively integrate across the value chain, which, in our view, should help it to reduce volatility in its performance.

5) **Increased hedge fund activity in commodity markets.** Although this potentially increases the volatility of bulk soft commodities, we believe Acomo's portfolio is relatively recession resistant, as a very high percentage of volumes come from the food category, where demand is relatively inelastic.

Because Acomo is present in (almost) all areas of the value chain – except for owning land or plantations – we see opportunities for forward integration in secondary processing and for supply-chain expansion, for instance, in food ingredients (see Figure 6 below).

Fig 6 Acomo is present in (almost) all areas of the value chain

Part of supply chain	Upstream	Infrastructure	Supply chain	Midstream	Downstream
Activity	Plantations Farming	Harbours Distribution	Sourcing Primary processing Logistics Trading	Secondary processing	Contract manufacturing
M&A	Not likely	Limited	Yes	Yes	Limited

Source: Company data, ING estimates

We believe Acomo's transformation in 2010 (when it disposed of the rubber division and acquired Red River, Van Rees group and King Nuts – see page 8) provides a strong base for future growth. We believe Acomo is well placed in its niche soft commodity areas and conclude that, in general, trading in agricultural products (non-bulk) will result in:

- ~~A~~ growing supply-demand imbalance over a secular time horizon.
- An attractive industry with strong growth prospects.
- A trend towards industry consolidation as participants seek to achieve leadership positions.
- Growing concerns about food hygiene and safety.
- Sustainability of supply becoming a key differentiator, with customers looking to develop green and sustainable supply chains for their raw materials.

Profile of the business units

The year 2010 was one of transformation for Acomo due to the expansion of the group, but also as a result of the disposal of the RCMA commodities segment in Asia (rubber trading activities). The following acquisitions are part of Acomo's 'Focus on food' strategy.

- Red River commodities group, a leading distributor of edible seeds in the US.
- Van Rees group, the largest independent tea exporter/trader worldwide.
- King Nuts & Raaphorst, a distributor of nuts and rice crackers.

Why volatility creates value…

How can Acomo benefit from the current industry trends? We see five megatrends evolving in the industry over time, and we believe Acomo is well placed to benefit from them.

- Long-term friction in the supply-demand balance in commodities.
- Higher consumption of value-added packaged foods.
- Customers' growing emphasis on sustainability.
- Customers' growing concern about food safety and product hygiene.
- Further industry consolidation.

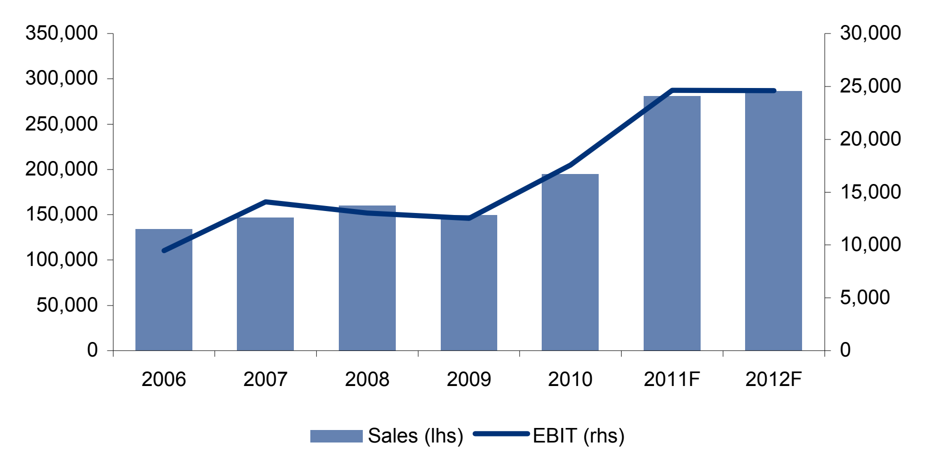
Furthermore, Acomo's contract agreements with end customers are structured in such a way that it minimizes risks, in our view. Up to 90% of Acomo's contracts are for a 3-9 month period, with the remaining 10% or so in medium-term contracts. These are typically 'open book' contracts, which means there is a minimum volume delivery with a price dependent on the market price (cost-plus contracts). Up to 80% of Acomo's contracts are already pre-sold to their end customers, limiting the company's overall exposure to an individual commodity.

Catz International: The core of the group

Catz International: the core of the portfolio with further geographic expansion opportunities

Accounting for over 50% of sales and even more of profits (>60%), Catz represents the core of the group. Catz is a leading trader in spices, coconut, dried fruit, seeds, dehydrated vegetables and nuts. Sales were up by c.38% in 1H11 on the back of high prices for many of the products Catz sells. In September 2010, King Nuts, which supplies a wide range of nuts and rice crackers, was added (pro forma sales of c.€50m in 2010). King Nuts complements Catz in that it adds product assortment, distribution channels and geographical spread.

Fig 7 Catz International annual progress (000)



Source: Company data (reported data), ING estimates

Van Rees group: The largest tea trader in the world

Van Rees has plenty of opportunities to develop forward into the value chain

Van Rees is the largest independent cross-border tea trader in the world, with an extensive customer network worldwide. Van Rees supplies companies such as Unilever or Nestle, but also several retailers. Van Rees sources directly from tea estates and at auctions through its own offices in all major tea-producing countries (such as Argentina, China, Indonesia, Kenya, Malawi, Sri Lanka, Vietnam). Van Rees sells unblended teas or blends them to customer specifications in its own plants.

Fig 8 Van Rees: The largest tea trader in the world (000)

	2010	2011F	2012F
Sales (€)	96,800	151,966	155,005
EBIT (€)	4,263	7,025	7,209
EBIT margins (%)	4.4	4.6	4.7

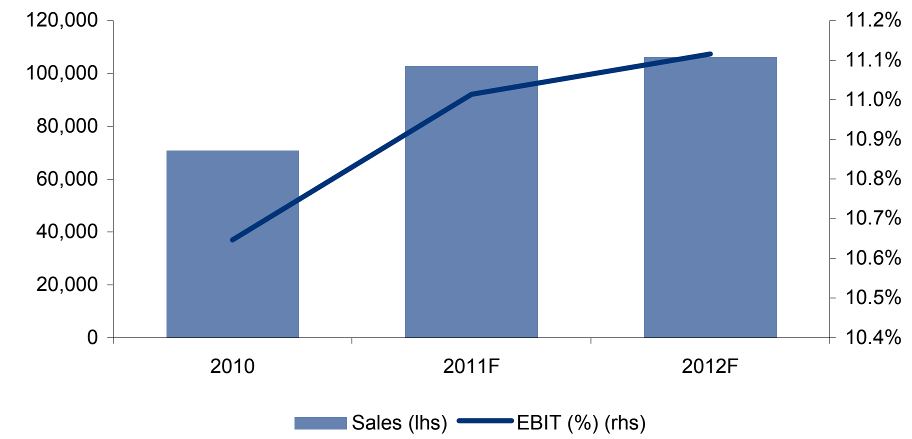
Source: Company data, ING estimates

Red River: Leading US supplier of edible seeds

Red River: another example of a downstream acquisition with high margins

Red River, based in the US, is a prime producer and distributor of edible seeds (mainly sunflower seeds). Red River sources sunflower seeds directly from farmers under growing contracts. It operates four different business lines: in-shell sunflower seeds, sunflower kernels, consumer products (snacks and Sun butter) and wild bird food. Red River owns its own roasting, slating and packaging operations, selling sunflower seeds under the Frito-Lay or Jim Beam names.

Fig 9 Red River: Leading US supplier of edible seeds (000)



Source: Company data, ING estimates

Food ingredients: Smallest part of the group (still)

This could become a candidate for expansion through future M&A…

The distribution activities in food ingredients (natural ingredients for the food industry) range from yeast and malt extracts to flavourings, dry and wet mixtures, pesto, curry and marine powders. The combined revenues are only c.€14m.

Fig 10 Food ingredients: Natural ingredients for the food industry

(000)	2006	2007	2008	2009	2010	2011F	2012F
Sales	8,985	15,121	15,122	15,091	14,180	14,475	14,765
EBIT	1,060	1,463	1,415	1,299	936	1,088	1,113
EBIT (%)	11.8	9.7	9.4	8.6	6.6	7.5	7.5

Source: Company data, ING estimates

We think Acomo may invest in food ingredients going forward, and we would not be surprised to see it turn into a €100m business within a few years.

M&A is part of strategic DNA

In 2010, Acomo undertook three acquisitions and one divestment. For now, we expect Acomo to integrate the newly acquired businesses, but we do not rule out further acquisitions in 2012/13. Based on our assessment of its current covenants, Acomo should have ample growth possibilities in the coming years.

Acomo has bank covenants on its bank loans on two fronts:

1) Interest cover should be above 3.0x (in 2010 it was 13x).

2) Group equity should stay above €65m in 2011, €72.5m in 2012 and €80m in 2013. In 2011, group equity is already €98m, and, with the company expected to be profitable in FY11, we think group equity should easily stay above the €65m hurdle.

Based on shareholders' equity to total assets of c.40%, we reckon that Acomo could spend at least €50m over the coming two years on M&A.

Fig 11 Debt financing leaves ample room for growth from 2012/13 onwards

	2006	2007	2008	2009	2010	2011F	2012F	2013F
Equity (€000)	29,280	32,050	34,899	39,382	94,704	105,021	116,506	128,366
Total assets (€000)	57,344	66,280	64,207	71,892	238,600	262,496	270,879	273,570
Equity as % of total assets	51%	48%	54%	55%	40%	40%	43%	47%
Net debt (€000)	17,293	20,359	16,788	16,133	83,045	92,045	88,045	78,045
EBITDA (€000)	6,811	11,332	9,416	13,432	31,668	38,984	40,516	42,194
Net debt/EBITDA (x)	2.5	1.8	1.8	1.2	2.6	2.4	2.2	1.8
Interest cover (>3x) (EBIT/net int.)	8.1	9.9	11.3	139.3	9.4	15.1	13.7	14.0

Source: Company data, ING estimates

Up to €150m of potential new sales can be added by end of 2013

Based on previous multiples paid and on its c.40% shareholders' equity to total assets, we think that Acomo could acquire at least c.€150m in sales. Furthermore, we think that based on EV/EBIT of 6.7x as of 2010, Acomo could add up to €7.5m in EBIT in 2013F (see Figure 12 below).

Fig 12 M&A flexibility for Acomo

	2010	2011F	2012F	2013F
Equity as % of total assets (%)	40	40	43	47
M&A flexibility (€ 000)			25,000	50,000
Sales acquired/potential (€ 000)	313,537		77,319	154,638
EBIT acquired/potential (€000)	15.2		3,747	7,495
Proceeds spend (€000)	101,378			
EV/Sales (x)	0.32			
EV/EBIT (x)	6.7			

Source: Company data, ING estimates

In view of those two scenarios, we think that Acomo could add up to €0.23 in EPS, based on potential M&A transactions by the end of 2013 (see Figure 13 below).

Fig 13 EPS enhancement (€m)

EV	€25m	€50m
Sales	77,3	154,6
EBIT	5,0	10,0
interest charges (4.5% interest rate)	1,1	2,3
EBT	3,9	7,8
Tax (tax rate of 31%)	-1,2	-2,4
Net Income	2,7	5,4
EPS enhancement (unchanged # of shares)	0.11	0.23

Source: ING estimates

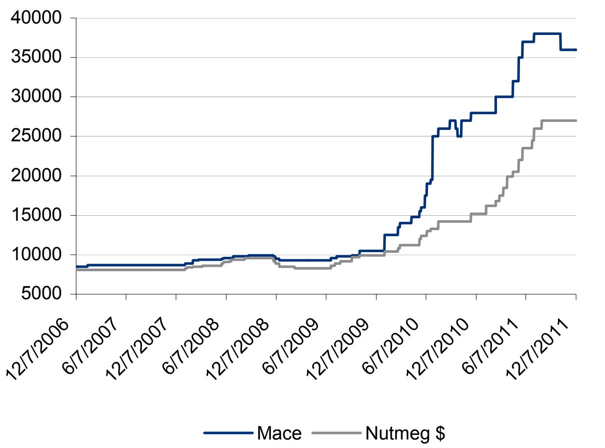
We even think that Acomo has more room to stretch its M&A pipeline depending on its ability to flex its medium-term target of 40% shareholders' equity to total assets in the very short term (just like it did in 2010, when the ratio dropped to slightly above 30% to assets) and to flex its financial engineering through the use of convertible debt.

We foresee further M&A being opportunity-led, but expect the currently underdeveloped food ingredients business to be a clear area of focus. From a geographic position, both emerging markets and North America remain a very interesting area for expansion for Acomo.

Commodity volatility continues

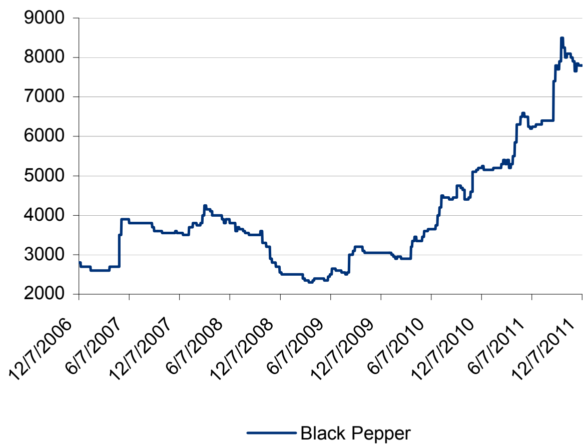
So what kind of exposure does Acomo have to the traded commodities? We have listed some of the main ones that Acomo trades below. Most of the traded commodities are sold forward to its customers, hence the risk Acomo takes is relatively small (except if physical delivery fails, Acomo is at risk for contract default).

Fig 14 Nutmeg (US$/mt) & Mace (US$/mt)



Source: Datastream

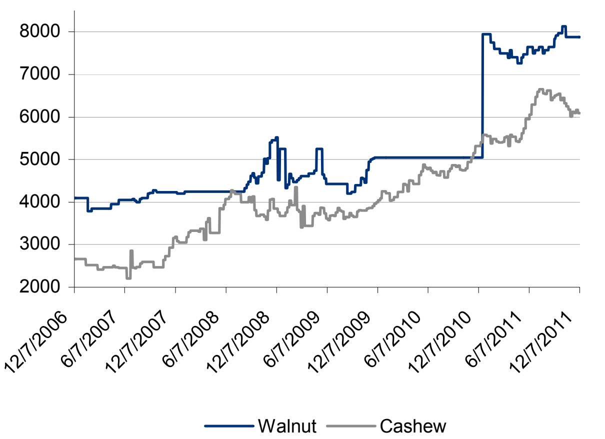
Fig 15 Black Pepper (US$/mt)



Source: Datastream

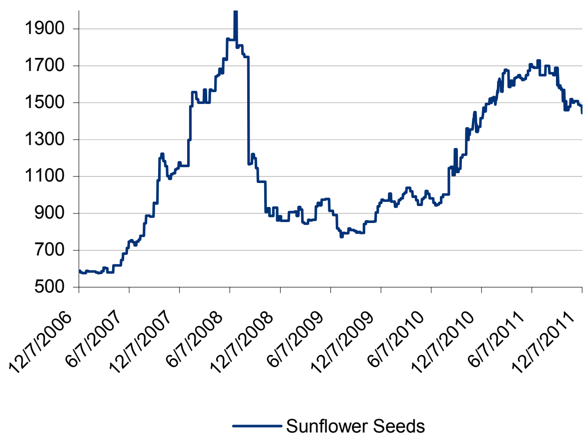
According to some trade sources, the Brazilian cashew crop is better than last year in quantity, but slightly inferior in terms of quality. The Indonesian harvest may be more than 60,000 tons, but Tanzania and Mozambique may not reach their targets. We note that 2011 is not a good year for these two cashew-growing countries because of the depreciation of the Indian Rupee and weather disturbances in the Indian Ocean and Arabian Sea. Mozambique expects around a 7% decline in this year's raw cashew harvest. And there is some concern that the Tanzanian crop size might decrease by the same percentage and that the quality may be lower compared with last season. All of this is pushing up nut prices.

Fig 16 Walnut (GBP/mt) & cashew (GBP/mt)



Source: Datastream

Fig 17 Sunflower seeds (US$/mt)

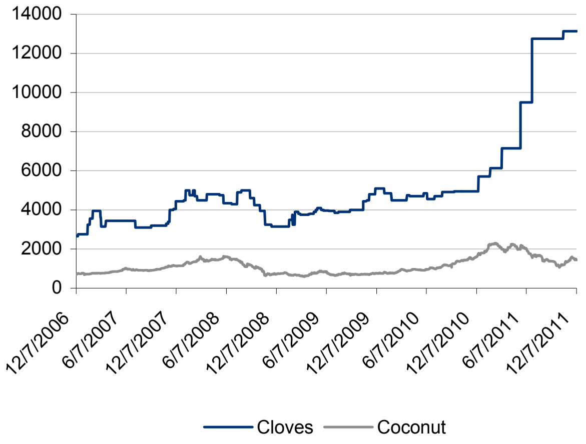


Source: Datastream

Global tea markets have managed to balance supply shortages and soaring demand, avoiding the perfect storm that has sent other commodities spiralling upwards (see Figure

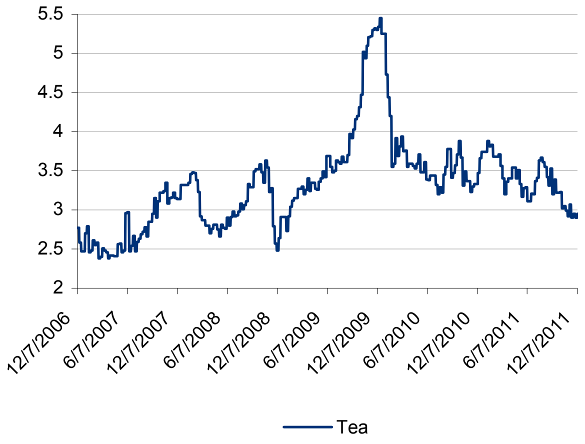
19). Global demand for tea appears set to rise across the board next season, with additional demand coming from China and India's rapidly growing middle classes.

Fig 18 Clover $/Mt & Coconut (US$/mt)



Source: Datastream

Fig 19 Tea (US$/kg)



Source: Datastream

Lower soft commodity prices per se do not adversely affect the earnings model of Acomo. What would become difficult for Acomo would be low prices for soft commodities in combination with very low volatility. In the current environment, Acomo's customers might not be willing to pay a premium for the added-value services and reliability that Acomo provides.

Acomo versus peers

Although, in our view, the companies that operate in this space are difficult to compare (bulk soft commodities versus niche soft commodities), we believe it is important to put Acomo into context with some of its peers.

We see further forward integration in the value chain

In our view, Acomo has plenty of growth opportunities ahead that could enable it to further diversify and to forward integrate in the value chain (just like it did with the recent acquisitions of Red River in edible seeds or Van Rees in tea, with the latter able to sell blended or unblended teas to its customers). Acomo, like it peers, can benefit through value-added products and services in the current highly volatile soft commodity markets.

In Figure 20 below, we provide an overview of some of the players that operate in the space. We believe that Acomo has made a strategic decision not to compete in the more bulk areas that some of its peers trade in, such as dairy, grains, cocoa, coffee and rice sugar. The bulk soft commodities are highlighted in Figure 20 below.

Fig 20 Agricultural peer review overview

	Olam	ADM	Bunge	Cargill	Dreyfus	Glencore	Noble	Wilmar	Acomo
Edible Nuts	Y								Y
Edible seeds (incl. Sesame)	Y								Y
Spices & Vegetable ingredients	Y								Y
Dried Fruits									Y
Coffee	Y				Y		Y		
Cocoa	Y	Y		Y			Y		
Dairy	Y								
Grains	Y	Y	Y	Y	Y	Y	Y	Y	
Rice	Y	Y			Y		Y	Y	
Sugar	Y		Y	Y	Y	Y	Y	Y	
Sweeteners	Y								
Vegetable oil	Y		Y	Y	Y		Y	Y	
Packaged Foods Business	Y							Y	Y
Cotton	Y			Y	Y	Y	Y		
Wool	Y								
Wood products	Y								
Rubber	Y							Y	
Fertilisers	Y								
Commodity Financial Services	Y	Y		Y	Y				
Tea									Y
Presence in products	18	4	3	6	7	3	7	7	6

Source: Olam, ING estimates

In our view, Acomo has built a defensible position in tea, edible seeds, spices, nuts and dried fruits. Acomo could further expand its leadership position, in our view, through further geographic expansion and selective integration across the value chain, whilst not exposing itself to any one commodity in a meaningful way (the Top 5 customers represent only 10-15% of sales).

As long as Acomo does not enter the areas of the big players – ie, bulk commodities – we foresee ample opportunities for profitable growth ahead. The company could also achieve further growth in food ingredients, in our view, which is an area currently underrepresented by Acomo.

Valuation and estimates

Estimates: positive surprise expected in FY11 results

In our view, the market could be positively surprised by Acomo's FY11 results, especially versus current consensus estimates of €0.95; our forecast is for €1.02 in EPS for FY11. We believe the 3Q11 trading update should bode well for the remainder of the year.

Fig 21 Acomo P&L

	2009	2010	2011F	2012F	2013F	2014F
Sales	**164**	**375**	**545**	**558**	**571**	**585**
Tropical products & nuts	149	194	281	286	292	298
Food ingredients	15	14	14	15	15	15
Tea	0	97	152	155	158	161
Seeds	0	71	103	108	112	117
EBIT	**13.1**	**29.9**	**36.7**	**37.5**	**38.8**	**39.8**
Tropical products & nuts	12.5	17.6	24.5	24.6	25.1	25.6
Food Ingredients	1.3	0.9	1.1	1.1	1.1	1.2
Tea	0.0	4.3	7.0	7.2	7.7	7.8
Seeds	0.0	7.5	11.3	11.9	12.3	12.8
Net income	10.5	18.2	23.8	24.4	25.2	26.0
EPS (€)	**0.67**	**1.02**	**1.02**	**1.04**	**1.08**	**1.11**

Source: Company data, ING estimates

Valuation: niche players trade more at a premium

Acomo trades in line with its peers, but not yet in line with other niche market operators

We base our target price for Acomo on a weighted average of DCF-based valuation methodologies and mid-cycle PER. In our DCF model, we apply a WACC of 8%, a long-term growth rate (after year 10) of 1.5%, and a "standard" 15% discount to fair value to calculate our weighted average multiple. The mid-cycle multiple is based on an average for Acomo's peers, which, according to Bloomberg consensus estimates, are trading at a forward PER of 10.4x (see Figure 22 below).

Fig 22 Peer review PER forward calculation (based on consensus estimates) (x)

	FY11F	FY12F
Acomo	10.0	9.9
Olam International	13.5	11.1
Wilmar International	14.6	12.6
Bunge	10.2	9.2
ADM	9.5	8.5
Average	**11.6**	**10.4**

Source: Datastream, 12 December 2011

Figure 23 shows how we arrived at our target price.

Fig 23 Target price setting

	Mid-cycle	DCF	TP
EPS FY12F (€)	1.04		
PER FY12F (x)	10.5		
Mid cycle fair value (€)	11.0		
WACC (%)		8.0	
EV (€m)		419,134	
DCF fair value (€m)		12.2	
Target price setting (€) (50:50)			**11.5**

Source: ING estimates

Fig 24 Weighted average cost of capital (WACC) (%)

Cost of equity		Market value capital	
Risk-free rate	3.75	Market capitalisation (€m)	230,771
Bèta (x)	1.00	Combined outstanding shares	23,428.5
Equity risk premium	5.75	Share price (€)	9.85
Cost of equity	9.50	Net debt ending	80,899
Cost of debt		**Weighting factors**	
Risk-free rate	3.75	Equity	74
Spread	1.50	Debt	26
Pre-tax cost of debt	5.25		
Tax rate	30.00		
After-tax cost of debt	3.68	**WACC**	8.0

Source: ING estimates

Fig 25 Cash flows (€m)

	2011F	2012F	2013F	2014F	2015F	2016F	2017F	2018F	2019F	2020F
Net operating free cash flow	9,390	16,143	23,041	25,481	25,876	26,301	26,836	27,399	27,990	28,609
Growth rate (%)	-60.0	71.9	42.7	10.6	1.6	1.6	2.0	2.1	2.2	2.2
Discounted with WACC	10,106	16,089	21,265	21,777	20,479	19,275	18,213	17,220	16,290	15,418

Source: ING estimates

Fig 26 Per share calculation

Terminal Value		Valuation		Value per share	
Forecast period	10	PV OpFCF 2011-2020F (€m)	176,131	Enterprise value (€m)	419,134
G (growth after year 10) (%)	1.50	PV Terminal value (€m)	243,003	Net debt (€m)	80,899
WACC (%)	7.99	Enterprise value (€m)	419,134	Pension deficit	1,524
Net OpFCF (t+1) (€m)	29,254	Forecast period (%)	42	Minority interests profit and loss	0
Terminal value (€m)	450,899	Terminal value (%)	58	Market value equity (€m)	336,711
PV terminal value (€m)	243,003			Number of shares (m)	23,428.5
				Value per share (€)	14.4
				Discount to DCF (%)	15.0
				DCF target price (€)	**12.2**

Source: ING estimates

In the scenario analysis below, we highlight the sensitivities to our assumptions.

Fig 27 Scenario analysis for target price calculation

		WACC			
		7.00%	**7.50%**	**8.00%**	**8.50%**
	0.0%	12.2	11.2	10.5	9.7
	0.5%	12.8	11.8	11.0	10.0
LT growth	**1.0%**	13.6	12.4	**11.5**	10.5
	1.5%	14.5	13.1	12.2	11.0
	2.0%	15.5	14.0	12.9	11.6

Source: ING estimates

ING versus consensus

Acomo is included in the AScX index as of 21 March 2011, a milestone marking the development of the group. So far, Acomo has not been widely covered by the Street, and consensus is therefore limited as it only contains one estimate. Even so, compared with the consensus, our estimates are a bit more bullish for Acomo.

Fig 28 ING versus consensus

	2011F	2012F	2013F
Consensus	0.95	0.95	0.95
INGF	1.02	1.04	1.08
Difference (%)	7	10	13

Source: Bloomberg, ING estimates

Risks: sharp reversal of soft commodity volatility

Although Acomo has proprietary relationships with farmers or has solid knowledge of sourcing and quality of soft commodities, the biggest risk we see is a failure to deliver physical quantities to its customers or a sharp reversal in soft commodities' volatility. A drop in soft commodities' prices would not necessarily alter the company's earnings model, however.

In our scenario analysis, we highlight that our target price could be reduced to c.€10.5 per share if long-term growth were to be 0% compared with our base-case long-term growth rate forecast of 1.5%, a c.10% drop that could be the result of a prolonged recession, including in emerging markets. Another risk factor we see is related to M&A: we do not rule out the possibility that management could opportunistically engage in new transactions that might be above our expectation of an EV/Sales ratio of 0.35x or could engage in alternative financing constructions like convertible bonds or equity financing (although recent transactions have proved to be very successful).

Appendix: Shareholder base

Fig 29 Shareholder base Acomo (%)

Bracamonte 1 B.V.	4.97
Exploitatiemaatschappij Westerduin B.V.	6.53
F.L.H. van Delft	8.57
Jan Plas S.A.	4.64
Monolith N.V.	5.05
Monolith Investment Management B.V.	4.34
Red Wood Trust	10.06
Todlin N.V.	5.11
J.G.H.M. Niessen	16.17

Source: AFM, ING estimates

Financials

Year end Dec (€m)	2006	2007	2008	2009	2010	2011F	2012F	2013F
Income statement								
Revenues	143	162	175	165	375	545	558	571
Cost of goods sold	(130)	(143)	(157)	(141)	(315)	(457)	(469)	(479)
Gross profit	**13**	**19**	**18**	**24**	**60**	**88**	**90**	**92**
Operating costs	(7)	(8)	(9)	(10)	(29)	(49)	(49)	(49)
EBITDA	**7**	**11**	**9**	**13**	**32**	**39**	**41**	**43**
Depreciation & amortisation	(0.2)	(0.2)	(0.2)	(0.3)	(2)	(2)	(3)	(4)
EBIT	**6**	**11**	**9**	**13**	**30**	**37**	**38**	**39**
Net interest	(0.8)	(1)	(0.8)	(0.1)	(3)	(2)	(3)	(3)
Associates	4	1	3	0.6	0	0	0	0
Other pre-tax items	(0.1)	0.0	(0.1)	0.1	0.0	(0.3)	0.1	0
Pre-tax profit	**9**	**11**	**11**	**14**	**27**	**34**	**35**	**36**
Tax	(2)	(3)	(2)	(3)	(8)	(10)	(10)	(11)
Other post-tax items	0	0	0	0	(3)	0	0	0
Net profit	**8**	**9**	**9**	**11**	**15**	**24**	**24**	**25**
Normalised EBITDA	**7**	**11**	**9**	**13**	**32**	**39**	**41**	**43**
Normalised EBIT	**6**	**11**	**9**	**13**	**30**	**37**	**38**	**39**
Normalised net profit	**8**	**9**	**9**	**11**	**18**	**24**	**24**	**25**
Balance sheet								
Tangible fixed assets	12	11	14	13	23	25	31	32
Intangible fixed assets	2	2	2	5	48	50	50	50
Other non-current assets	0.0	0	0	0.4	0.3	0.3	0.3	0.3
Cash & equivalents	3	5	5	9	7	8	5	2
Other current assets	40	49	44	44	160	181	185	189
Total assets	**57**	**66**	**64**	**72**	**239**	**263**	**271**	**273**
Short-term debt	17	21	17	14	61	76	72	62
Other current liabilities	10	12	11	14	50	55	56	57
Long-term debt	1	0.6	0	3	44	19	19	19
Other long-term liabilities	0	1	1	2	8	8	8	8
Total liabilities	**28**	**34**	**29**	**33**	**164**	**157**	**154**	**145**
Total equity	29	32	35	39	75	106	117	127
Total liabilities & equity	**57**	**66**	**64**	**72**	**239**	**263**	**271**	**273**
Capital employed	47	53	52	56	180	200	207	208
Net working capital	35	42	36	38	129	145	149	152
Net debt (cash)	14	16	11	7	98	86	85	79
Cash flow								
Cash flow EBITDA	7	11	9	13	32	39	41	43
Change in working capital	(9)	(7)	5	(1)	(2)	(17)	(4)	(3)
Other non-cash items	(0.9)	0.5	(2)	3	(1)	1	(1)	(1)
Operating cash flow	**(3)**	**5**	**13**	**15**	**28**	**23**	**36**	**38**
Cash interest paid	(0.7)	(0.6)	(0.9)	(0.3)	(2)	(3)	(3)	(3)
Cash taxes paid	(1)	(1)	(1)	(1)	(5)	(10)	(10)	(11)
Net cash from operating activities	**(4)**	**3**	**10**	**13**	**21**	**10**	**23**	**25**
Capex	(0.3)	(0.9)	(1)	(0.9)	(2)	(3)	(9)	(4)
Net acquisitions	3	(0.1)	(1)	(1)	(84)	(2)	0	0
Cash from investing activities	**3**	**(1.0)**	**(2)**	**(2)**	**(86)**	**(5)**	**(9)**	**(4)**
Increase (decrease) in equity	0.1	(2)	(2)	0	40	0	0	0
Increase (decrease) in debt	3	3	(4)	(0.7)	27	9	(4)	(10)
Dividends & minority distribution	(3)	(3)	(3)	(6)	(7)	(13)	(13)	(13)
Other financing cash flow	(0.1)	1	0.2	(0.5)	2	0	0	0
Cash from financing activities	**0.6**	**(0.1)**	**(7)**	**(7)**	**62**	**(4)**	**(17)**	**(23)**
Forex & discontinued operations	0	0	0	0	0	0	0	0
Net change in cash & equivalents	**(0.8)**	**2**	**0.4**	**4**	**(3)**	**0.9**	**(3)**	**(3)**
FCF	(4)	2	10	12	21	9	16	23

Normalised earnings (eg, EBITDA, EBIT, net income and other sector-specific line items) are in the opinion of the analyst the best representation of a company's underlying and sustainable earnings derived from its regular operating activities.

Source: Company data, ING estimates

Valuation, ratios and metrics

Year end Dec	2006	2007	2008	2009	2010	2011F	2012F	2013F
Performance & returns								
Revenue growth (%)	20.0	13.1	8.3	-6.2	127.9	45.3	2.5	2.3
Normalised EBITDA growth (%)	-5.4	70.9	-16.9	42.7	135.8	23.1	3.9	5.0
Normalised EBIT growth (%)	-5.9	72.8	-17.1	42.3	126.1	23.7	2.2	3.4
Normalised EPS growth (%)	57.0	13.0	-0.48	26.6	52.9	-0.22	2.6	3.2
Gross margin (%)	9.4	11.9	10.5	14.4	16.1	16.1	16.1	16.1
Normalised EBITDA margin (%)	4.6	7.0	5.4	8.2	8.4	7.2	7.3	7.4
Normalised EBIT margin (%)	4.5	6.9	5.3	8.0	7.9	6.7	6.7	6.8
Reported net margin (%)	5.3	5.3	4.9	6.4	4.1	4.4	4.4	4.4
Reported ROE (%)	27.4	28.2	25.7	28.4	27.1	26.3	22.0	20.7
Normalised ROA (%)	12.4	18.0	14.1	19.3	19.1	14.6	14.1	14.3
ROAIC (%)	12.3	19.4	14.5	21.6	20.0	13.4	12.8	13.0
ROACE (%)	14.7	22.2	17.6	24.5	25.2	19.3	18.4	18.7
ROACE - WACC (%)	6.7	14.2	9.6	16.5	17.2	11.3	10.4	10.7
Leverage & solvency								
Working capital as % of sales	24.1	26.0	20.7	22.9	34.3	26.7	26.6	26.6
Net debt (cash)/EBITDA (x)	2.2	1.4	1.2	0.51	3.1	2.2	2.1	1.8
Net debt (cash)/equity (%)	49.2	50.6	32.8	17.5	130.8	81.1	73.4	61.7
EBITDA net interest coverage (x)	8.1	10.0	11.5	142.4	10.0	16.0	14.8	15.2
Current ratio (x)	1.6	1.6	1.7	1.9	1.5	1.4	1.5	1.6
Dividend cover (cash flow) (x)	n/a	1.7	4.5	3.1	3.7	1.5	2.0	2.5
Valuation								
EV/revenue (x)	1.7	1.5	1.4	1.4	0.95	0.63	0.61	0.59
EV/normalised EBITDA (x)	37.0	21.8	25.7	17.7	11.2	8.8	8.4	7.9
EV/normalised EBIT (x)	38.0	22.2	26.2	18.1	11.9	9.3	9.1	8.6
EV/capital employed (x)	5.2	4.6	4.7	4.3	2.0	1.7	1.7	1.6
EV/invested capital (x)	5.2	4.5	4.6	4.1	1.9	1.6	1.6	1.6
Normalised PER (x)	21.0	18.6	18.7	14.8	9.7	9.7	9.4	9.2
Price/book (x)	5.5	5.0	4.6	4.1	2.4	2.2	2.0	1.8
Dividend yield (%)	3.0	3.6	3.6	4.1	5.1	5.5	5.6	5.8
FCF yield (%)	n/a	1.00	4.1	5.3	5.9	2.7	4.7	6.9
Per share data								
Reported EPS (€)	0.47	0.53	0.53	0.64	0.86	1.02	1.04	1.08
Normalised EPS (€)	0.47	0.53	0.53	0.67	1.02	1.02	1.04	1.08
Dividend per share (€)	0.30	0.35	0.35	0.40	0.50	0.54	0.55	0.57
Equity FCFPS (€)	(0.29)	0.12	0.56	0.75	1.05	0.28	0.58	0.86
BV/share (€)	1.79	1.96	2.14	2.41	4.18	4.53	4.97	5.44

Source: Company data, ING estimates

Company profile

ACOMO trades and distributes food raw materials and ingredients for the food industry. In 2010, the company generated sales of €375m.

Disclosures Appendix

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