

# Givaudan

Chemicals

2007-11-22

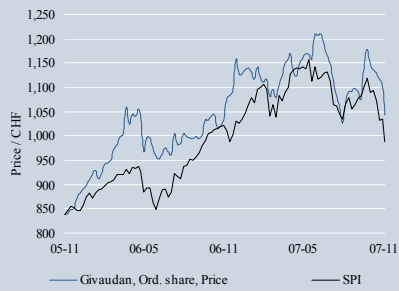
Applied disclosures can be found in the appendix

Neutral

Fair Value CHF1050.00

Price CHF1044.00 (Closing price as of 2007-11-21)

## Price and rel. Performance



## Market Data

Reuters	GIVN.VX
Bloomberg	GIVN VX
Market cap CHFbn	7.6
Free float %	88.0

## Key Data

Yr.end 12/31	2006	2007e	2008e
Revenues m	2,909.0	4,176.1	4,427.1
Net profit m	412.0	154.9	220.2
Adj. EPS	61.28	63.93	75.14
PER	16.3	16.3	13.9
EV/EBIT	15.0	22.1	18.2
EBIT mgn. %	17.7	11.4	12.8

EPS CAGR 06-09e: 11 %

## Next Events

Full year results	2008-02-19
AGM	2008-03-26
Analysts' conference	2008-04-04

Rahul Sen Gupta, CFA, Master in Econom.  
+41 (44) 2142 - 249  
rahul.sengupta@oppenheim.ch  
Bank Sal. Oppenheim jr. & Cie. (Schweiz)

## GOING EAST & ONE YEAR AFTER

### ASSESSMENT

The Eastern European market offers similar opportunities as China; however, the structure is somewhat different. Out of some CHF220m in turnover, Givaudan is more exposed to the Flavors part (about 70% of sales). Savoury (least profitable business line within Flavors) accounts for some 39% of the Flavors business and thus we believe that profitability is lower than in other regions. We also learned that the acquisition of Quest strengthened Givaudan's position in Eastern Europe significantly, increasing the exposure by some 55%. All in all, the overall market size for Flavors is estimated at some CHF0.8bn of which Givaudan holds some 23% market share. Moreover, the market is said to grow by some 7% p.a., while the company expects to outgrow the underlying market. Apparently in the past, Givaudan achieved twice the market growth, however, we were told that current strategy is to outgrow the market only (SOPE: approx. 10%). While the customer base in Flavors is still driven by regional and local customers – only some 30% come from multinationals – the Fragrances division generates its turnover largely with only two customers (P&G and Henkel). Astonishingly, we learned that the drivers in the Fragrances market are somewhat different in such a way that the global customers some time launch global products from the emerging markets (like detergent fragrances. In Flavors, regional taste still dominates and thus local presence is a must. Moreover, the leverage effect from inducing business (increases the profitability theoretically) is also much higher than in other regions. Having said this, we believe that Givaudan is in a solid position to further grow in this region.

### VALUATION

Our valuation approach yields an underlying value of CHF1,163 (WACC between 6.6-7.5%, medium term EBIT margin of 19.5% or 24.5% on EBITDA, perpetual growth of 1.0%). Our fair value of CHF1,050 implies a soft factor discount of some 10% (execution risk, peak margin analysis). Relative to Symrise (Buy, FV EUR23.50), Givaudan is trading at a premium of some 13%, which in our view is not justified given similar profitability but lower sales growth momentum.

### CONCLUSION

All in all, we received thorough insight into the Eastern European market, however, nothing breaking to adjust our equity story. CEO Gilles Andrier re-confirmed the 2007 targets as well as the medium term margin guidance, which in our view will be achieved (at least 22.7% EBITDA margin by 2010e). Nevertheless, management again used the opportunity to make cautious top line statement for 2008 (no organic growth excl. for the acquisition). Thus, we maintain our Neutral rating and our fair value of CHF1,050 for the time being. In our view, Givaudan offers nice value for investors with a three year investment horizon, but for the next months we would stay on the side line.

**Givaudan - P&L (Cost of Sales)**

CHFm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Sales</b>	<b>2,778.0</b>	<b>2,909.0</b>	<b>4,176.1</b>	<b>4,427.1</b>	<b>4,554.7</b>
Cost of goods sold	-1,419.0	-1,473.0	-2,211.0	-2,319.8	-2,368.5
<b>Gross profit</b>	<b>1,359.0</b>	<b>1,436.0</b>	<b>1,965.1</b>	<b>2,107.3</b>	<b>2,186.3</b>
Selling costs	-438.0	-484.0	-659.0	-690.6	-706.0
Administrative costs	-112.0	-114.0	-146.0	-154.9	-154.9
R&D costs	-220.0	-246.0	-375.9	-380.7	-378.0
Other operating income/expenses (net)	-57.0	-59.0	-77.3	-75.3	-68.3
<b>EBITDA</b>	<b>640.0</b>	<b>628.0</b>	<b>832.0</b>	<b>940.4</b>	<b>1,013.5</b>
<b>EBIT</b>	<b>513.0</b>	<b>514.0</b>	<b>478.0</b>	<b>566.7</b>	<b>640.1</b>
Interest result	-57.0	-40.0	-108.1	-121.7	-121.8
Other Financial income / expenses	31.0	34.0	12.5	13.3	13.7
<b>Financial result</b>	<b>-26.0</b>	<b>-6.0</b>	<b>-95.5</b>	<b>-108.5</b>	<b>-108.1</b>
<b>Profit or loss on ordinary activities</b>	<b>487.0</b>	<b>508.0</b>	<b>382.5</b>	<b>458.3</b>	<b>531.9</b>
Extraordinary profit or loss	0.0	0.0	-176.0	-176.0	-100.0
<b>EBT</b>	<b>487.0</b>	<b>508.0</b>	<b>206.5</b>	<b>282.3</b>	<b>431.9</b>
Taxes	-80.0	-95.0	-49.6	-62.1	-90.7
<b>Profit / loss for the year (cont. operations)</b>	<b>407.0</b>	<b>413.0</b>	<b>156.9</b>	<b>220.2</b>	<b>341.2</b>
Minority	-1.0	-1.0	-2.0	0.0	0.0
<b>Net profit</b>	<b>406.0</b>	<b>412.0</b>	<b>154.9</b>	<b>220.2</b>	<b>341.2</b>
+/- Net profit adjustments	33.4	18.7	307.8	323.7	267.8
<b>Adjusted net profit</b>	<b>439.4</b>	<b>430.7</b>	<b>462.7</b>	<b>543.9</b>	<b>609.0</b>

**Key ratios and figures**

CHFm (Yr. end: 12/31)	2005	2006	2007e	2008e	2009e
<b>Valuation</b>					
PER	12.9	16.3	16.3	13.9	12.4
P/BV	2.4	2.6	2.7	2.6	2.4
Dividend yield %	2.1	1.8	1.8	1.9	2.1
EV/Sales	2.3	2.6	2.5	2.3	2.2
EV/EBITDA	10.1	12.3	12.7	11.0	9.9
Sustainable FCF yield %	5.8	3.9	-31.2	4.4	6.3
<b>Data per share</b>					
Weighted avg. number of shares	7.18	7.03	7.24	7.24	7.24
EPS (reported)	56.57	58.62	21.40	30.42	47.14
adj. EPS	61.23	61.28	63.93	75.14	84.14
Dividend	17.60	18.80	20.00	21.55	22.28
Book value per share	329.05	387.92	391.01	407.27	437.62
Sustainable FCFPS	47.5	39.8	-325.5	45.9	65.9
<b>Growth rates %</b>					
Sales	3.7	4.7	43.6	6.0	2.9
EBITDA	9.6	-1.9	32.5	13.0	7.8
EBIT	6.9	0.2	-7.0	18.6	12.9
Net profit	20.5	1.5	-62.4	42.1	55.0
adj. EPS	31.6	0.1	4.3	17.5	12.0
<b>Margins %</b>					
Gross	48.9	49.4	47.1	47.6	48.0
EBITDA	23.0	21.6	19.9	21.2	22.3
EBIT	18.5	17.7	11.4	12.8	14.1
<b>Net profit</b>	<b>14.6</b>	<b>14.2</b>	<b>3.7</b>	<b>5.0</b>	<b>7.5</b>
<b>Expense ratios %</b>					
Personnel cost to sales	24.7	25.6	28.0	26.6	26.1
R&D to sales	7.9	8.5	9.0	8.6	8.3
Depreciation to sales (Cost of sales)	4.6	3.9	8.5	8.4	8.2
Tax rate	16.4	18.7	24.0	22.0	21.0
<b>Other ratios</b>					
Interest cover	-10.0	-13.7	-7.1	-7.2	-7.7

**IMPORTANT REGULATORY DISCLOSURES**

This research report has been prepared by Oppenheim Research GmbH, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA, and/or the research department of Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. and/or Bank Sal. Oppenheim jr. & Cie (Austria) AG (collectively, together with their affiliates, "Sal. Oppenheim").

Sal. Oppenheim's policy prohibits research analysts, strategists and research associates from investing in securities in their sub-industry as defined by the Global Industry Classification Standard, which was developed by and is the exclusive property of Morgan Stanley Capital International and Standard & Poor's. Research analysts, strategists and research associates may nevertheless own such securities to the extent acquired under a prior policy or in a merger, fund distribution or other involuntary acquisition.

**Analyst certification**

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that, with respect to each security or issuer that the analyst covered in this report:

all of the views expressed accurately reflect his or her personal views about those securities or issuers; and

no part of his or her compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research report.

**Disclosures about potential conflicts of interest**

We refer to the following potential conflict(s) of interest:

Member of board: One or more members of the board of directors, supervisory board or senior officers of Sal. Oppenheim jr. , Cie. KGaA and/or its affiliated entities also serves on the board of directors or supervisory board of Givaudan.

Trading: Sal. Oppenheim jr. , Cie. KGaA and/or its affiliated entities regularly trade stock of Givaudan.

3

**Rating system**

Securities firms use a variety of rating terms and systems to describe their recommendations. Sal. Oppenheim uses a rating system with the categories STRONG BUY, BUY, NEUTRAL, REDUCE and SELL (see definitions below).

A rating system using such terms as Overweight, Equal Weight or Underweight is not equivalent to our rating system. Investors should carefully read the definitions of the rating system used in each research report. In addition, since the research report contains more complete information concerning analyst's views, investors should carefully read the entire research report and not infer its contents from the ratings alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

The ratings in this report are based on the analyst's expectations of the absolute change in stock price over a period of 6 to 12 months and reflect the analyst's view of the potential for change in stock price as a percentage. The STRONG BUY and SELL ratings reflect the analyst's expected high change in the value of the stock.

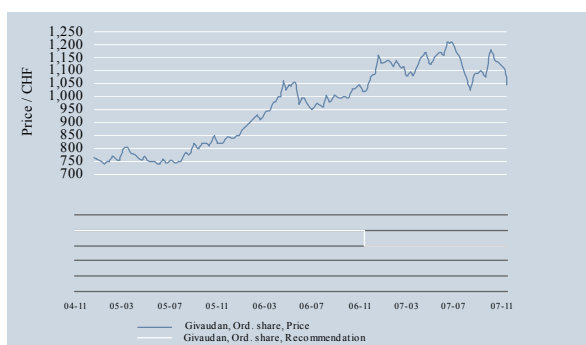
The levels of change expressed in each rating categories are: STRONG BUY (> 20%); BUY (> 10%); NEUTRAL (0% to 10%); REDUCE (< 0%); and SELL (< -10%).

The change in stock price results from the difference between the current share price and the analyst's performance expectations, which are generally based on a fair value calculation performed on the basis of a discounted free cash flow model and a key comparables analysis.

In general, updated ratings are provided in connection with material events, such as changes in credit ratings, significant model adjustments and the publication of periodic financial information.

**Ratings distribution**

The following table discloses, for each of Sal. Oppenheim's rating categories, the percentage of (1) all companies covered by Sal. Oppenheim and (2) companies for which Sal. Oppenheim provided investment banking services during the past 12 months that received such rating.



Previous report with differing recommendation published at 2001-06-20.

**Rating Distribution**

Recommendation	Coverage Universe		Investment banking-relationship	
	No.	in %	No.	in %
Strong buy	17	4.5	4	7.1
Buy	168	44.7	35	62.5
Neutral	145	38.6	17	30.4
Reduce	26	6.9	0	0.0
Sell	1	0.3	0	0.0
No rating	19	5.1	0	0.0

**ADDITIONAL INFORMATION FOR US INSTITUTIONAL CLIENTS**

This research report is being distributed in the United States of America solely to major US institutional investors (as defined in Rule 15a-6 under the Securities Exchange Act of 1934, as amended). Sal. Oppenheim jr. & Cie. Securities Inc. accepts responsibility for the content of reports prepared by its non-US affiliates when distributed to major US institutional investors. Major US institutional investors who wish to effect any transaction in securities mentioned in this research report should do so with Sal. Oppenheim jr. & Cie. Securities Inc. at the address below and not with Sal. Oppenheim jr. & Cie. KGaA or any other Sal. Oppenheim affiliate.

Sal. Oppenheim jr. & Cie. Securities Inc.  
444 Madison Avenue, 34th floor  
New York, NY 10022  
Tel: +1 212 888 52 46  
Fax: +1 212 888 0916  
E-Mail: [jhagenbuch@sal-oppenheim.com](mailto:jhagenbuch@sal-oppenheim.com)

Sal. Oppenheim jr. & Cie. Securities Inc. is a broker-dealer registered with the Securities and Exchange Commission as well as a member of the National Association of Securities Dealers and the Securities Investor Protection Corporation.

**ADDITIONAL INFORMATION FOR U.K. CLIENTS**

In the United Kingdom, this report is approved and/or distributed by Sal. Oppenheim jr. & Cie. KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG. Sal. Oppenheim jr. & Cie. KGaA registered as a German bank, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. registered as a Swiss bank and Bank Sal. Oppenheim jr. & Cie. (Austria) AG registered as an Austrian bank have no place of business in the United Kingdom and are not regulated under the Financial Services and Markets Act 2000. The protections provided by the U.K. regulatory system will not be applicable to the recipients of any information or documentation provided by Sal. Oppenheim jr. & Cie KGaA or by Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd., or by Bank Sal. Oppenheim jr. & Cie. (Austria) AG and compensation under the Financial Services Compensation Scheme will not be available.

4 Any contact with analysts, brokers or other employees of Sal. Oppenheim jr. & Cie. KGaA, Bank Sal. Oppenheim jr. & Cie. (Switzerland) Ltd. or Bank Sal. Oppenheim jr. & Cie. (Austria) AG must be directly with the relevant bank and not through the offices or employees of any other Sal. Oppenheim affiliate in the United Kingdom

In the United Kingdom, this document is being distributed only to persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or to persons to whom it may otherwise be lawfully communicated under the Order (together, "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons.

**ADDITIONAL INFORMATION FOR CLIENTS IN GERMANY, SWITZERLAND, AUSTRIA AND OTHER COUNTRIES**

In Germany, this research report is approved and/or distributed by Oppenheim Research GmbH in Cologne, a wholly-owned subsidiary of Sal. Oppenheim jr. & Cie KGaA in Cologne, authorized by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

In Switzerland, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Schweiz) AG authorized by the Eidgenössische Bankenkommission (EBK).

In Austria, this research report is approved and/or distributed by Sal. Oppenheim jr. & Cie. (Austria) AG authorized by the Finanzmarktaufsicht (FMA).

Laws and regulations of other countries may also restrict the distribution of this report. Persons in possession of this document should inform themselves about possible legal restrictions and observe them accordingly.

**FURTHER INFORMATION**

For further information on how Sal. Oppenheim manages conflicts of interest and maintains independence of its research product and on certain additional disclosures concerning research recommendations, especially in light of the continuing requirements of § 34 b of the German Securities Trading Act (WpHG), please refer to the homepage of Sal. Oppenheim: [http://www.oppenheim.de/de/04\\_research/06\\_compliance/04\\_06.htm](http://www.oppenheim.de/de/04_research/06_compliance/04_06.htm)

**DISCLAIMER**

This research report contains selected information and does not purport to be complete. The research report is based on publicly available information and data (the "Information") that is believed to be accurate and complete. Sal. Oppenheim has not independently verified the accuracy and completeness of the Information, nor does it guarantee such accuracy and completeness. Possible errors or incompleteness of the Information do not constitute grounds for liability, either with regard to indirect or to direct or consequential damages. In particular, Sal. Oppenheim is not liable for the statements, plans or other details contained in the Information concerning the examined companies, their associated companies, strategies, economic situations, market and competitive situations, regulatory environment, etc. Although due care has been taken in compiling the Information, no assurance can be provided that the Information is complete or free from error.

Neither Sal. Oppenheim nor its shareholders and employees are liable for the accuracy and completeness of the statements, estimates and conclusions derived from the Information contained in this research report. To the extent this research report is being transmitted in connection with an existing contractual relationship, e.g., financial advisory or similar services, the liability of Sal. Oppenheim shall be restricted to gross negligence and wilful misconduct. In any case, the liability of Sal. Oppenheim is limited to typical, foreseeable damages and liability for any indirect damages is excluded.

This report does not constitute an offer to sell, or a solicitation of an offer to purchase, any security. Sal. Oppenheim may perform investment banking services or other services for companies mentioned in this report. Directors or employees of Sal. Oppenheim may serve on the board of directors of companies mentioned in this report. Opinions expressed in this report are subject to change without notice.

Past performance is not a guide to future results. The price of securities may decrease or increase and as a result investors may lose the amount originally invested. Changes in exchange rates may also cause the value of investments to decrease or increase. Any documents or information we provide is directed solely to persons we reasonably believe to be investment professionals.

All such communications and any activity to which they relate are available only to such investment professionals; any activity arising from such communications will only be carried out with investment professionals. Persons who do not have professional experience in matters relating to investments should not rely upon such communications.

**Produced by:**

**Rahul Sen Gupta, CFA, Master in  
Econom.**  
Telephone +41 (44) 2142 - 249  
rahul.sengupta@oppenheim.ch  
**Bank Sal. Oppenheim jr. & Cie.  
(Schweiz) AG, Zurich**

Sal. Oppenheim jr. & Cie. KGaA

Unter Sachsenhausen 4  
50667 Köln  
Telephone +49 (2 21) 1 45 - 01

Untermainanlage 1  
60329 Frankfurt am Main  
Telephone +49 ( 69) 71 34 - 0

Odeonsplatz 12  
80539 München  
Telephone +49 ( 89) 29 00 74 - 0

www.oppenheim.de  
info@oppenheim.de

Oppenheim Research GmbH

Unter Sachsenhausen 4  
50667 Köln  
Telephone +49 (2 21) 1 45 - 02

Untermainanlage 1  
60329 Frankfurt am Main  
Telephone +49 ( 69) 71 34 - 0

www.oppenheim-research.de  
research@oppenheim.de

Bank Sal. Oppenheim jr. & Cie.  
(Schweiz) AG

Uraniastrasse 28  
CH-8022 Zürich  
Telephone + 41 (44) 2 14 22 14

Sal. Oppenheim jr. & Cie.  
Securities Inc.

444 Madison Avenue, 34<sup>th</sup> Floor  
New York, N.Y. 10022  
USA  
Telephone + 1 (2 12) 8 88 52 46

Bank Sal. Oppenheim jr. & Cie.  
(Österreich) AG

Palais Equitable  
Stock im Eisen-Platz 3  
1010 Vienna  
Telephone + 43 (1) 518 66 0

Further locations in:

Baden-Baden, Berlin, Dublin, Duesseldorf, Geneva, Hamburg, Luxembourg, Salzburg, Stuttgart,  
Wiesbaden

For further information please contact the institutional sales desk of Sal. Oppenheim jr. & Cie.