Del Monte Pacific

Time For A Pina Colada; Initiate at BUY

Buy (new)

Share price: SGD0.74
Target price: SGD1.00 *(new)*

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Stock Information

Description: Del Monte operates as an investment holding company, which engages in growing, processing, and selling canned and fresh pineapples, pineapple concentrate, tropical mixed fruit and tomato-based products. These products are sold under the brand names of Del Monte and S&W.

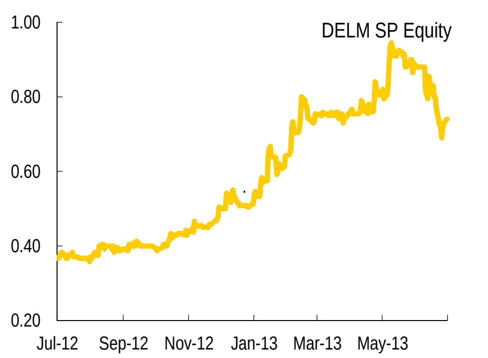
Ticker:	DELM SP
Shares Issued (m):	1,296.6
Market Cap (USD m):	757.0
3-mth Avg Daily Turnover (USD m):	0.5
ST Index:	3,145.0
Free float (%):	33

Major Shareholder:	%
Nutri-Asia	67

Key Indicators

ROE	12.7
Net gearing (%):	46
BVPS/shr (USD):	0.20
Interest cover (x):	15.2

Historical Chart



Performance:

52-week High/Low SGD0.955/SGD0.358

	1-mth	3-mth	6-mth	1-yr	YTD
Absolute (%)	-16.9	-2.4	44.4	93.0	44.4
Relative (%)	-12.5	2.6	45.4	76.7	45.4

Initiate with BUY and TP of SGD1.00 for 35% upside. We initiate coverage on Del Monte Pacific Limited (DMPL) with a BUY rating and TP of SGD1.00, which implies 35% upside from current levels. DMPL operates under the Del Monte brand in the Philippines, where it is a dominant F&B player, and the S&W brand in other markets. The new management team since 2006 has been reshaping the company and the fruits of their labour would be more evident in the next three years.

Possible M&A consolidation among Del Monte companies. The Del Monte group of companies has had a colourful history of ownership change. We sense that change is in the air again: In the past two years, both Del Monte Canada and Del Monte Foods (US) have been acquired, the former by ConAgra Foods and the latter by a KKR-led consortium. We believe consolidation globally is possible and see this as a value driver for DMPL shareholders.

Structural shift towards higher margins and ROE. DMPL's regional expansion through the S&W brand can be seen in the light of a change to its business model outside its home market, ie, from being an OEM exporter to a brand owner. We believe this will lead to better, if not more stable margins, especially given DMPL's vertically integrated business. This should contribute to a significant structural change in ROE profile, from 13% currently to 20% by FY15F.

End of unfavourable long-term supply contracts. DMPL has legacy long-term supply contracts to the other Del Monte companies. Two such major contracts will now be terminated or changed to reflect market pricing by FY15. We estimate this alone would add at least USD3-4m to the bottom line, boosting profit growth further.

Profit growth story with generous dividend. Our TP of SGD1.00 is pegged at 25x FY14F PER. We believe this is justified by a 22% net profit CAGR over the next three years, which is superior to its ASEAN-listed peers. We also expect management to maintain the 75% dividend payout during this period, making DMPL one of the highest-yielding consumer stocks in the region. Initiate with BUY.

Del Monte Pacific– Summary Earnings Table

FY DEC (USD m)	2011	2012	2013F	2014F	2015F
Revenue	425.2	459.7	504.9	554.7	610.6
EBITDA	57.8	65.5	68.1	81.4	103.6
Recurring Net Profit	27.4	32.1	33.4	42.0	57.6
Recurring EPS (SG cents)	2.1	2.5	2.6	3.2	4.5
DPS (SG cents)	1.9	2.2	1.9	2.4	3.3
PER (x)	27.5	23.5	22.6	17.9	13.1
EV/EBITDA (x)	14.6	13.3	12.9	10.1	7.8
Div Yield (%)	3.3	3.8	3.3	4.2	5.7
P/BV (x)	2.7	2.5	2.9	2.8	2.6
ROE (%)	11.6	12.5	12.7	15.3	20.0
ROA (%)	6.5	6.5	6.5	7.7	10.0
Consensus Net Profit			*34.5*	*44.5*	*59.2*

Source: Maybank KE

Investment summary

Dominant F&B player in Philippines. Del Monte Pacific Limited (DMPL) is a Philippine-based food and beverage (F&B) company, listed on the Singapore Exchange (SGX) since 1999. It owns the rights and operates under the Del Monte brand in its home market, where it enjoys more than 70% market share in canned fruits and juices, as well as tomato sauces. In 2006, DMPL was taken over by the current majority shareholder Nutri-Asia. Since then, the new management has made significant efforts to improve the company, as evidenced by profitability more than tripling. We expect it will continue to unleash the latent potential within the company over the next few years.

The empire may merge yet again. The Del Monte brand originated in the US in 1892 and was broken up in 1991 into unaffiliated companies. A slew of ownership changes and private equity activities followed, most recently in the last two years when a KKR-led consortium took Del Monte Foods (US) private again. We believe the latter is now the most likely driver of M&A consolidation among the Del Monte group of companies, which we see as a value driver for DMPL shareholders.

Off to conquer to world. DMPL acquired the S&W brand in 2007 and has used it as a launchpad for regional expansion. It has seen sales of S&W products growing exponentially. Despite being in multiple markets including China, South Korea, the Middle East and ASEAN, this segment accounted for only less than 10% of group revenue in FY12. This means plenty of room to increase sales. India and Myanmar are two other markets with huge growth potential.

Structural shift towards higher margins and ROE. Part of DMPL's global expansion through the S&W brand can also been seen in the light of a change to its business model, from being an OEM exporter to a brand owner. As a brand owner, the company stands to enjoy higher and more stable margins independent of fruit price fluctuations. We estimate this will result in a structural change in operating margins from 11% currently to 14% in FY15F and ROE profile from 13% to 20% during the same period. There is more merit to this strategy when one considers DMPL's position as a vertically-integrated player, with access to most of its own upstream supply requirements.

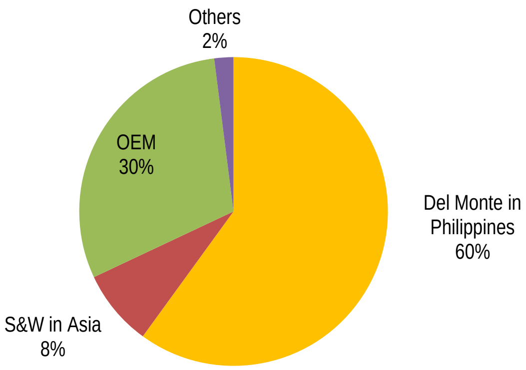
End of unfavourable long-term supply contracts. Even within its OEM business, which accounted for 30% of group revenue in FY12, we see low-hanging fruits for profit upside. DMPL has legacy long-term supply contracts to the other Del Monte companies, which are unfavourable in nature because of their non-market rates. By 2015, however, we understand that two such major contracts will be terminated or repriced to reflect market rates. We estimate profit upside from this alone to be at least USD3-4m. Alternatively, some of these volumes may be directed to its own growing branded business which commands much higher margins.

Deserves higher valuation multiple for profit growth. Our TP of SGD1.00 is pegged at 25x FY14F PER. Though this is a premium to peers and the stock's historical average, we believe it is justified by a superior 22% net profit CAGR over the next three years vs peers' average of 14%. This re-rating will also be driven by a structural change in ROE profile. We expect management to keep the 75% dividend payout during this period, which will rank DMPL among the highest dividend-yielding consumer stocks in the region.

More than pineapples

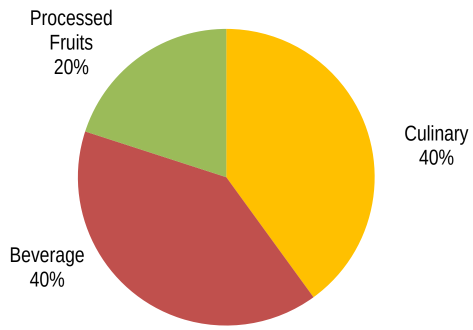
Dual-listed Philippine-based F&B company. Del Monte Pacific Limited (DMPL) is a Philippine-based food and beverage (F&B) company, which listed on the Singapore Exchange (SGX) in 1999. On 10 Jun 2013, it debuted on the Philippine Stock Exchange, making it the first Singapore-listed firm to have a dual listing in Manila. The company operates under different brands – Del Monte or S&W – in different markets. Its main products are fresh and processed fruits, beverages and culinary sauces. It has 4,120 employees and 6,648 seasonal workers across offices in the Philippines, Singapore and India.

Figure 1: Del Monte Pacific – revenue breakdown by segment, FY12



Source: Company, Maybank KE

Figure 2: Del Monte Philippines – revenue breakdown by segment, FY12



Source: Company, Maybank KE

Operates under two brands. The reason for operating under both Del Monte and S&W brands is due to brand ownership. DMPL owns both brands and uses them for different products in different markets:

- Del Monte brand – used in the Philippines, Indian subcontinent and Myanmar for processed products, and
- S&W brand – used in Asia, the Middle East, Europe and Africa for both processed and fresh products.

Figure 3: Del Monte Pacific – uses both Del Monte and S&W brands

Source: Company

Not to be confused with other Del Monte companies. The Del Monte brand has its origins in California, the United States, in 1892. In 1926, Del Monte Foods in the US set up operations in the Philippines to expand its pineapple plantations beyond Hawaii. By 1990, private equity firm KKR broke up the brand, resulting in a number of unaffiliated Del Monte companies with perpetual ownership of the brand in their respective market/product category.

Figure 4: Del Monte brand ownership globally

Note: The above map is for processed food. For fresh produce, Fresh Del Monte (Europe) owns the rights globally.

Source: Company

S&W brand for global expansion. In Jan 2006, Nutri-Asia, a Philippine F&B conglomerate, took majority control of DMPL after a general offer. We believe the original intention of management upon takeover was to purchase the rights to the Del Monte brand in Asia from Kikkoman. But the offer was rebuffed and management subsequently bought the rights (only outside of the US) to the S&W brand. This brand was similar to Del Monte in that both originated in California, but it emerged later in 1896. S&W thus became DMPL's platform for expansion outside its home market.

Figure 5: S&W brand ownership globally

Source: Company

The empire may merge yet again

Consolidation through M&A not impossible. Since breaking up in 1991, the Del Monte group of companies can lay claim to a colourful history of change in ownership and private equity activities (see Appendix, page 22). Even so, the longevity of the businesses attests to the enduring brand equity of the Del Monte name.

If history is any guide, consolidation of these companies through M&A is possible and cannot be ruled out in our view, especially given the current environment of cheap debt.

A stirring of interest. Just last year, Del Monte Canada, a privately-owned company, was bought by ConAgra Foods. The year before, Del Monte Foods (US) was taken private, again by a KKR-led consortium, in a megadeal worth USD5.3b. We think these moves were driven by a lack of growth opportunities in America (from the seller's point of view) and the abundance of cheap debt and liquidity.

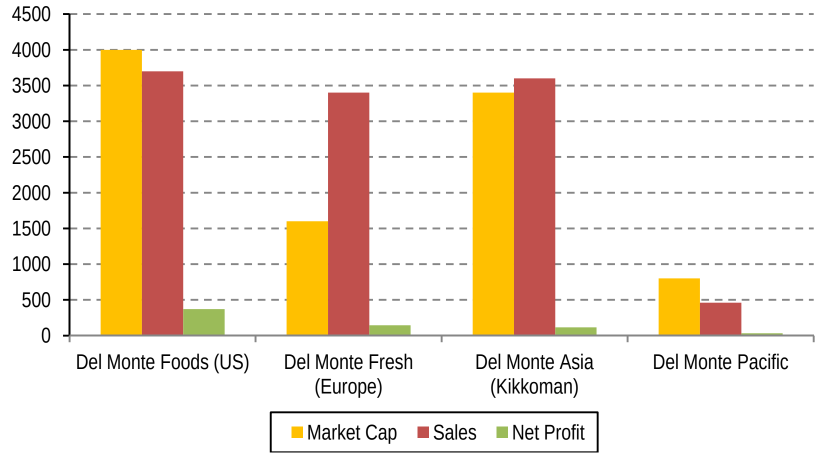
Figure 6: Del Monte companies across the world

Company	Sales/Profit	Location	Nature of business	Listing status	Majority shareholders
Del Monte Canada	NA	Canada	Del Monte branded packaged fruits and vegetables, Aylmer tomato products.	Nil	ConAgra Foods purchased the company from Sun Capital Partners in 2012.
Del Monte Foods	FY12: Revenue of USD3.7b and operating income of USD370m.	USA	One of the largest producers, distributors and marketers of branded pet products and food products. Also owns the rights to S&W in the US.	Nil	Bought by KKR, Vestar Capital and Centerview in 2011, in a deal worth USD5.3b including debt of USD1.3b.
Fresh Del Monte	FY12: Revenue of USD3.4b and net income of USD145m.	Europe	A vertically integrated producer, marketer and distributor of fresh fruit and vegetables globally and prepared food in Europe, Africa and the Middle East.	Listed on NYSE, with a market cap of USD1.6b.	Abu-Ghazaleh family 26%, Fidelity 12.5%.
Del Monte Asia (sub of Kikkoman)	FY12: Revenue of USD3.6b and income of USD114.5m. Del Monte division contributed sales of USD409m and op income of USD82m.	Asia	Kikkoman primarily manufactures and markets tomato-based goods and canned fruits and vegetables.	Kikkoman is listed on TSE with a market cap of USD3.4b.	Kikkoman Corp 4.9%.
Del Monte Pacific	FY12: Revenue of USD460m and net income of USD32m.	Asia	Owns the rights to Del Monte in the Philippines, India and Myanmar. Also owns the rights to S&W outside of the US.	Listed on SGX, with secondary listing in the Philippines, with a market cap of USD0.8b.	NutriaAsia 67%.

Source: Bloomberg, Companies, Maybank KE

Likely to be a value driver for DMPL shareholders. As the smallest among the Del Monte group of companies, we do not think DMPL can be the driving force behind the consolidation of the various entities. But it would serve as a value driver for DMPL shareholders in the three scenarios we sketched out below.

Figure 7: Relative sizes of Del Monte companies as of FY12 (USD m)



Note: Del Monte Foods based on transaction price in 2011.
Source: Companies, Bloomberg, Maybank KE

Scenario 1 – Del Monte Foods/KKR goes on consolidation spree globally

Biggest firm to lead the charge. Del Monte Foods is currently the largest company among the group. Together with KKR's resources, we think it is most likely to drive consolidation. Del Monte processed foods accounted for around 50% of Del Monte Foods' total sales in FY12, with branded pet food making up the rest. The company is largely US-centric and derives more than 90% of sales from the domestic market. But the US is a mature market, with limited growth opportunities. Acquiring the other Del Monte companies, especially those in the Asia Pacific, would give it immediate access to growth markets in the region.

Brand control makes sense. From a brand perspective, consolidation would give Del Monte Foods full control over a single brand. Consider the alternative scenario of using a separate brand to compete against the Del Monte brand (held by Kikkoman and DMPL) in Asia. This branding confusion will be a marketer's nightmare and one Del Monte Foods/KKR will likely want to avoid if possible.

Relisting Del Monte Foods as a new and bigger entity. The intention of KKR and partners is undoubtedly to relist Del Monte Foods with a profit on their original investments. Since the acquisition in 2011, the company has continued to engage in investor relations, making results presentations despite the stock facing a trading suspension. Relisting the company as a new and bigger entity – with the added attraction of growth prospects outside the US – will likely result in a higher valuation premium.

Scenario 2 – Del Monte Asia (Kikkoman) acquires DMPL

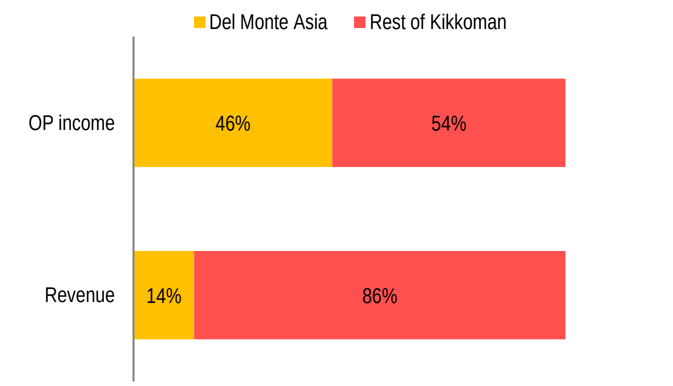
Highest-margin division within Kikkoman. Del Monte Asia is a division within Kikkoman. It accounted for just 14% of total sales in FY12, but a whopping 46% of operating income because of the far higher margins it generates vis-à-vis the rest of Kikkoman's businesses. Expanding this business by acquiring DMPL would further lift its overall margins.

With a market capitalisation of USD3.4b and net debt-to-equity ratio of 42%, it may be possible for Del Monte Asia (Kikkoman) to fund the acquisition by selling the non-profitable divisions. Outside of its core soy sauce products, the company also sells sake and wine, beverages, vitamin supplements as well as hygiene inspection products.

Secures supplier and consolidates brand for Asia. Del Monte Asia follows an asset-light strategy, with only two production facilities outside Japan. The factory in Thailand produces corn products while that in China produces tomato ketchup. We believe this business model is a major reason why its margins are much higher than those of the other divisions.

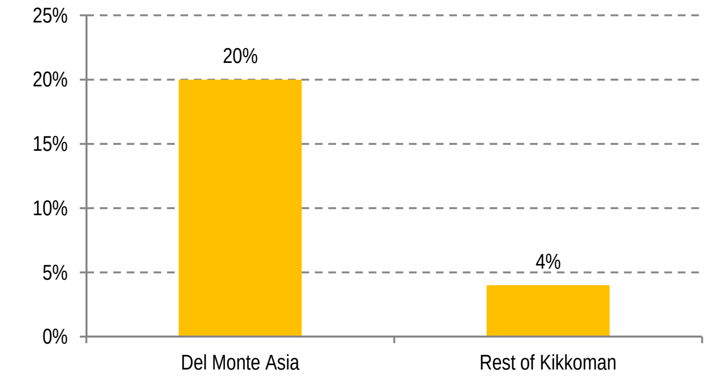
DMPL is an important supplier to Del Monte Asia in terms of processed fruits. With upstream assets and manufacturing facilities, acquiring DMPL would mean securing an important supplier. It will also consolidate the brand for the whole of Asia including Myanmar, where Japanese interests are expanding.

Figure 8: % breakdown of Kikkoman business



Source: Company, Maybank KE

Figure 9: Operating margins within Kikkoman



Source: Company, Maybank KE

Scenario 3 – DMPL takes over Del Monte brand for ASEAN

Most of Del Monte Asia's sales come from North Asia. We believe North Asia ex-Japan accounts for a significant portion of Del Monte Asia's sales. This perhaps explains why the company has not put in much effort to build up its business in ASEAN, a region it is traditionally less familiar with. Much like how Del Monte was split up originally, Kikkoman may be persuaded to sell the brand rights for ASEAN to DMPL.

This could happen if it has difficulties finding suppliers or see margins being eroded by competition. DMPL is currently an OEM supplier to Del Monte Asia but is also aggressively growing its sales in the ASEAN markets.

Allows DMPL to expand with one brand. This would be a coup for DMPL, as we believe competing across ASEAN as a single brand would be desirable for DMPL. It would create more marketing synergies, especially given the proximity of these markets. DMPL is currently seeking expansion in ASEAN through its S&W brand.

Home-court advantage

Dominant brand in Philippines. Del Monte is a well-known brand in the Philippines, with a long history to boot. As such, DMPL enjoys very strong brand equity and dominant market share. Its sales in this market are split approximately between 70% general trade and 30% modern trade. With rapid GDP growth, we estimate the Philippine market will grow at 10-15% pa over the next three years. Despite an already dominant market share, management has identified several strategies that will help increase sales further.

Market share in Philippines

Product	Market Share
Canned pineapple	80%
Canned mixed fruit	74%
Canned RTD juices	92%
Tomato sauce	78%
Spaghetti Sauce	56%

Source: Nielsen Retail Index 2013

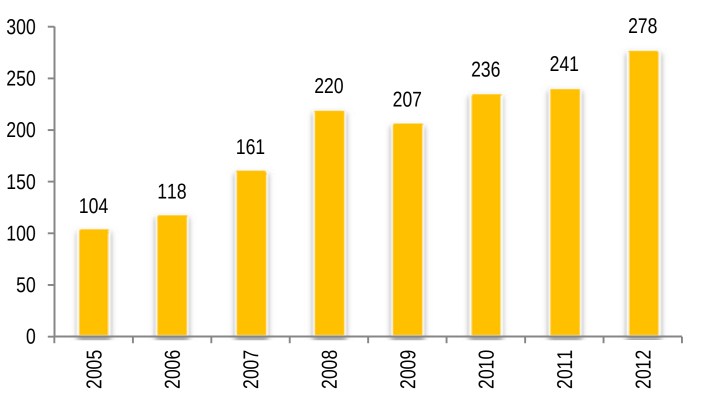
Figure 10: Dominating shelf space in the Philippines

Source: Company

Strong growth since Nutri-Asia's takeover. One of the first initiatives taken by the new management following its takeover in 2006 was to increase the number of general trade distributors from two to 16 (non-exclusive). We believe this move helped drive DMPL's sales, which have grown at 15% CAGR since then. The company uses its own direct sales force for modern trade where it dominates shelf space. Around 30% of current sales within the Philippines are through modern trade and 70% through general trade.

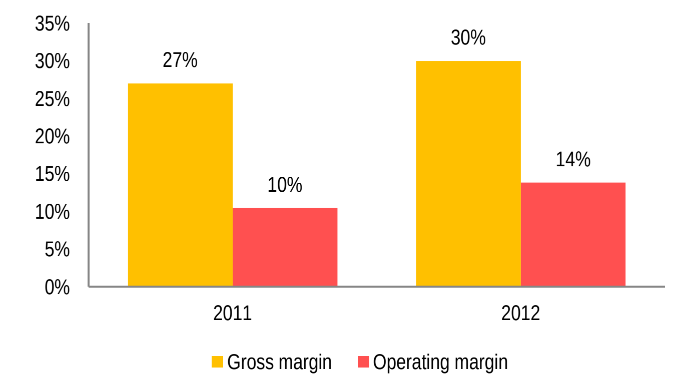
Margins remain robust. As a result of its dominance and brand equity in its home market, DMPL has consistently enjoyed strong margins in its branded business segment (almost 90% of sales currently are from the Philippines). In addition to the culinary business, the company controls most of its upstream manufacturing and distribution processes, thereby helping to control costs and boost margins.

Figure 11: Philippine market sales have grown at 15% CAGR



Source: Company, Maybank KE

Figure 12: Strong margins for branded business



Note: The Philippines accounted for almost 90% of branded business.
Source: Company, Maybank KE

Growth strategy #1 – start your day with juice. Despite the popularity of its beverage products, which command 92% market share of canned RTD juices, the breakfast segment remains untapped. Unlike many other countries where juices are an integral part of breakfast, the Philippines does not yet have this culture. Through marketing and educational campaigns, mostly in-store, DMPL aims to penetrate this segment. In line with this strategy, management plans to eventually introduce Tetra packs, which may be a more convenient form for breakfast use compared to cans.

Growth strategy #2 – smaller and more affordable packs. To encourage sustainable consumption in the rural areas, DMPL launched the smaller pack pineapple tidbits in pouch forms three years ago. Unlike the traditional canned version, this is for one-time consumption and costs PHP12 per pouch. This is more affordable for consumers with little disposable income and also offers convenience. This year the company also introduced a similar fruit cocktail sachet.

Growth strategy #3 – PET drinks that Fit. With PET bottles becoming increasingly popular, DMPL launched the "Fit n Right" range of PET drinks in 2006, making it a pioneer in weight loss drinks. Today it is a market leader in this weight loss category. But this line has not been profitable mainly due to the company's outsourcing contract with San Miguel. Management plans to shift production once the contract ends in 2014, which may lower cost and increase profitability.

Figure 13: Fit n Right PET drinks introduced in 2006

Source: Company

Figure 14: Range of products in the Philippines

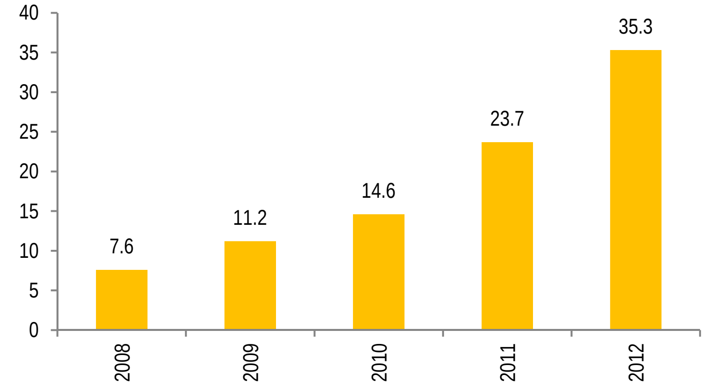
Source: Company

Off to conquer the world

S&W as launchpad for global expansion. DMPL acquired the S&W brand, which has a similar heritage to the Del Monte brand, in Nov 2007 for USD10m. This gives it the global rights to the brand, except in the Americas, Australia and New Zealand. Put another way, the S&W brand can serve as the launchpad for its global expansion, as well as penetration into branded fresh fruit sales (where it does not have the rights under the Del Monte brand).

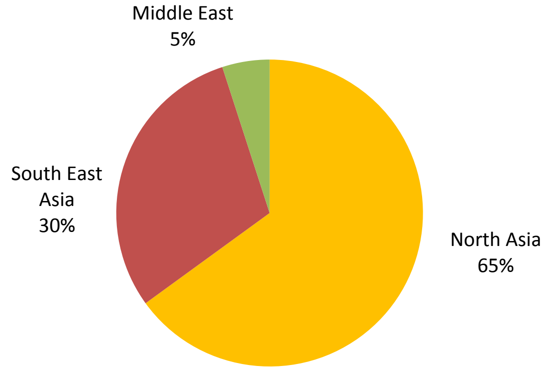
Since 2008, S&W sales have grown rapidly, albeit from a low base. Today, the S&W brand accounts for only 10-15% of branded revenue despite being in multiple markets including China, South Korea, the Middle East and Southeast Asia. In our view, this represents a lot of upside potential to increase sales.

Figure 15: S&W sales have grown rapidly since 2008



Source: Company, Maybank KE

Figure 16: China and Korea are major sales contributors



Source: Company, Maybank KE

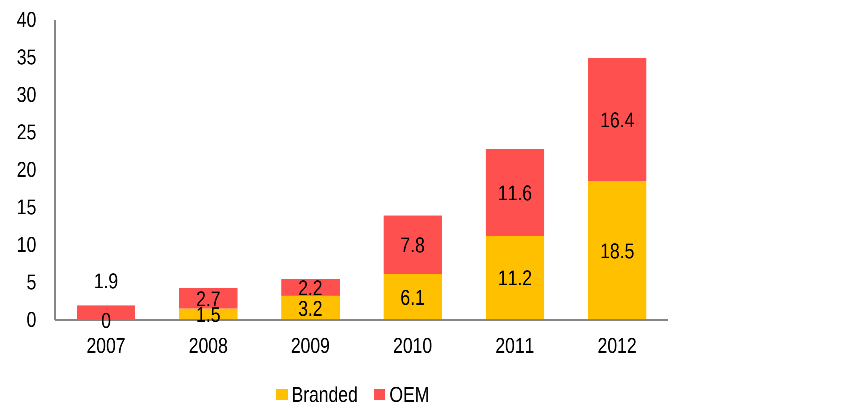
Figure 17: S&W products in Asia

Source: Company

Fresh sales, fresh revenue. Prior to the acquisition of the S&W brand, DMPL sold fresh pineapples only as an OEM supplier, mainly to Del Monte Fresh within Asia. The acquisition therefore gave DMPL a channel to sell under its own brand. This is a logical strategic move, given that DMPL has its own plantations and distribution network. Selling under its own brand will give the company more control over volume levels and hence, better margins. China and South Korea are the key markets and together account for almost 60% of S&W's fresh sales.

For fresh sales, a different and higher grade of pineapple called MD2 is used, unlike the Champaka variety used for processed sales. While there is an oversupply situation in Thailand for the Champaka strain which is depressing prices, the MD2 strain is still seeing strong demand growth with supply in the Asia Pacific limited to the Philippines. We understand there is room to increase production by at least 20-30% in DMPL's plantations through a combination of better yields and more plantings.

Figure 18: DMPL's sales of fresh pineapples (USD m)



Source: Company, Maybank KE

Courting India. DMPL holds a 47% equity stake (but 50% voting control) in Fieldfresh, a JV in India with the Bharti Group. This JV aims to leverage on the latter's distribution network and local know-how to expand and develop the Indian market for Del Monte products. The product range is therefore similar to that in the Philippines where it also owns the Del Monte brand. In Dec 2010, the JV opened a plant near Bangalore to produce culinary products and fruit drinks, which gives it a manufacturing localization.

Indian JV should break even in 2016. Since acquiring its stake in FieldFresh in 2007, we estimate DMPL has incurred start-up costs and shared losses to the tune of USD75m. We deem this amount as part and parcel of starting in a new market, especially a large one like India where there is huge growth potential. Encouragingly, the losses have since narrowed every year and management expects to break even by 2016.

Figure 19: Del Monte products in the Indian subcontinent

Source: Company

Myanmar rights could prove profitable. DMPL also owns the rights to use the Del Monte brand in Myanmar, which could prove valuable going forward as this economy is expected to grow rapidly. In Jan 2013, the company officially launched its products in the country in partnership with Global Sky Company, a domestic distributor.

A structural shift towards higher margin

From exporter to brand owner. Part of DMPL's bid to expand globally by leveraging the S&W brand can also be seen in the change to its business model. Before 2007, the company was an exporter-cum-OEM producer for markets outside the Philippines. S&W represents entry into overseas market for its own branded sales. Going forward, management will likely maintain the OEM business if margins are still favourable, but the focus will be growth of its own branded sales. In our view, this structural shift will result in more stable, if not better margins.

Price-taker in OEM business. As an OEM manufacturer, DMPL has very little pricing power and its margins are generally lower. Moreover, OEM prices to customers are usually correlated to spot prices for pineapples, subjecting DMPL to market forces beyond its control. Brand owners, on the other hand, typically do not reduce prices even if pineapple prices were to decline. As a vertically integrated brand owner with upstream plantations, DMPL can exercise even better control over cost input. This makes embarking on its own branded sales long overdue, a strategy perhaps overlooked by the previous management.

Shift towards higher margin within OEM business. Even within its OEM business, which accounted for around 30% of group revenue in FY12, we see margin upside from the shift from unfavourable long-term supply contracts to more market price contracts.

End of unfavourable legacy supply contracts. We note that within DMPL's OEM business segment, about 45% of revenue comes from long-term supply contracts. These are legacy contracts to the other unaffiliated Del Monte companies and have been in place before the group broke up. One of Nutri-Asia's first major business decisions upon taking over was to identify and terminate the unfavourable contracts. These will now end with effect from end-2014 and/or beginning of 2015 unless they are renegotiated in the meantime. Comparing the margins between supply and non-supply contracts, we believe these contracts represent low-hanging fruits for margin upside.

Figure 20: Supply contracts have very unfavourable margins

	Gross Margin		Operating margin	
	FY11	FY12	FY11	FY12
Branded business	27%	30%	10%	14%
OEM business:				
Asia-Pac non-supply	26%	24%	18%	15%
Europe/ US non-supply	23%	12%	17%	4%
Supply contract	8%	7%	1%	0%

Source: Company, Maybank KE

Figure 21: Profit upside from market price contracts

	FY12 Revenue (USD m)	FY12 operating profit (USD m)
Current Supply Contract at 0% margin	61.0	(0.1)
Assuming 4% Europe/ US non-supply margins		2.4
Assuming 15% Asia-Pac non-supply margins		9.2

Source: Company, Maybank KE

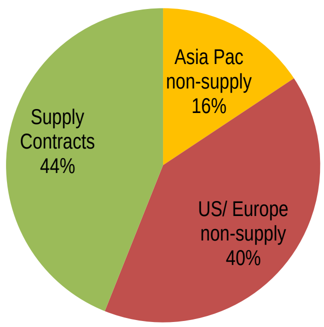
Del Monte Foods (US) contract to end Nov 2014. Under this contract, DMPL supplies canned pineapples and pineapple concentrates for sale in the US. Prices are fixed periodically using a formula consisting of prevailing market prices in the US minus a discount for expenses. The floor price for this contract is at production cost. We understand that this contract, which accounted for almost 80% of the supply contract revenue in FY12, is currently not profitable despite the significant revenue.

Option #1 – renegotiation for more favourable terms. On top of the long-term supply contracts, DMPL also has other types of supply contracts with Del Monte Foods. The latter would typically use more favourable market prices, which roll on a 3-6 month basis. In our view, this would represent the most amiable conclusion for both parties.

Option #2 – sell to other parties. If the long-term supply contract is not successfully renegotiated, management is confident of selling the equivalent volume to other private labels. We do not see any downside risk of revenue loss if this eventuates, given that operating margins have been almost zero in the past few years. Besides, some of the volume can be redirected towards its own branded sales, which are increasing rapidly.

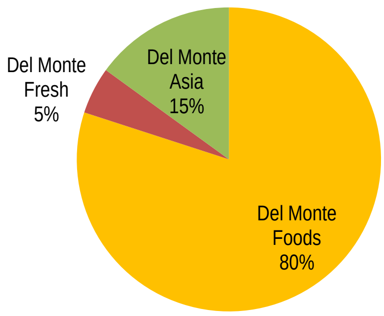
Del Monte Fresh (Europe) contract to shift to market pricing from Jan 2015. This contract is much smaller, accounting for less than 5% of supply contract revenue in FY12. However, the upside for repricing is high. Under this contract, DMPL supplies fresh pineapples to Del Monte Fresh (Europe) for sale in Asia at a fixed price. From Jan 2015, the contract will shift to market pricing which, we understand, would almost double the prices and add around USD2-3m to DMPL's operating profit alone.

Figure 22: OEM business revenue breakdown, FY12



Source: Company, Maybank KE

Figure 23: Supply contract revenue breakdown, FY12

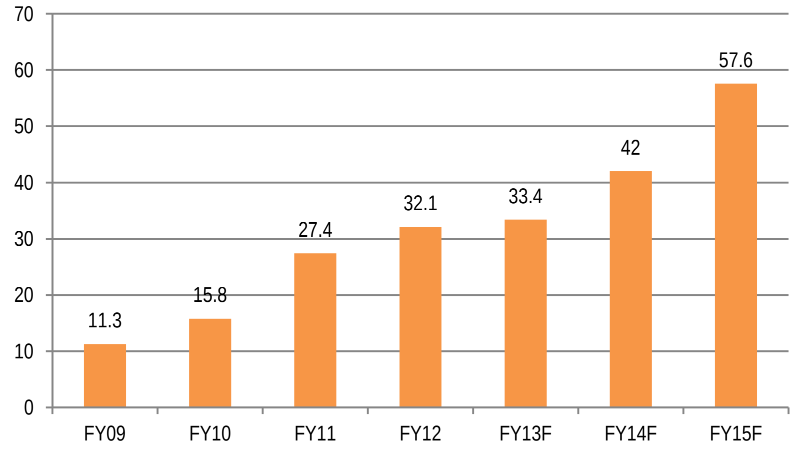


Source: Company, Maybank KE

Financials

Three-year 22% net profit CAGR to be back-loaded. DMPL's net profit has almost tripled in the past three years, from a very low base. Over the next three years, we continue to expect significant growth momentum, with net profit increasing at 22% CAGR, in particular 28% in FY14F and 35% in FY15F. Having said that, we believe growth will mostly be back-loaded.

Figure 24: Expected net profit trajectory (USD m)



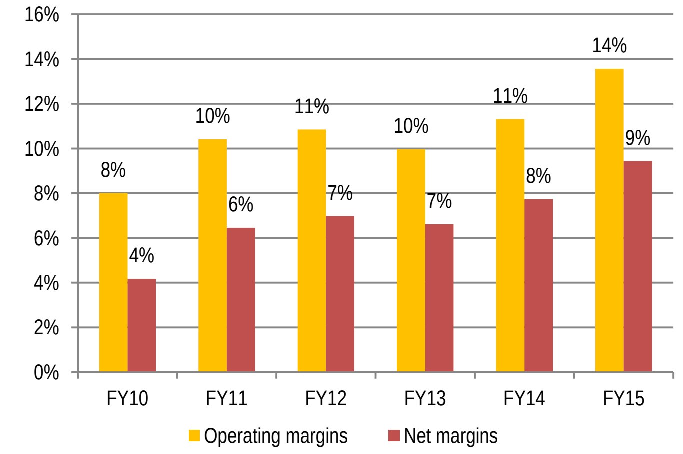
Source: Company, Maybank KE

Expect minor road bump in FY13F. We expect net profit growth of just 4% in FY13F – a minor road bump which we believe is already priced in. DMPL's OEM business segment looks set to post a small loss, swinging from last year's profit. This is due to the weaker demand environment in the US and Europe, as well as poor market prices for processed pineapples caused by oversupply in Thailand. The company has very little control over prices as it is bound by unfavourable long-term supply contracts.

Change to supply contract terms by 2015 is a low-hanging fruit. By 2015, DMPL's two major long-term supply contracts to unaffiliated Del Monte companies will be allowed to cease or changed to market pricing. We estimate this alone would add at least USD3-4m to its bottom line, and more if pineapple prices rebound from cyclical lows.

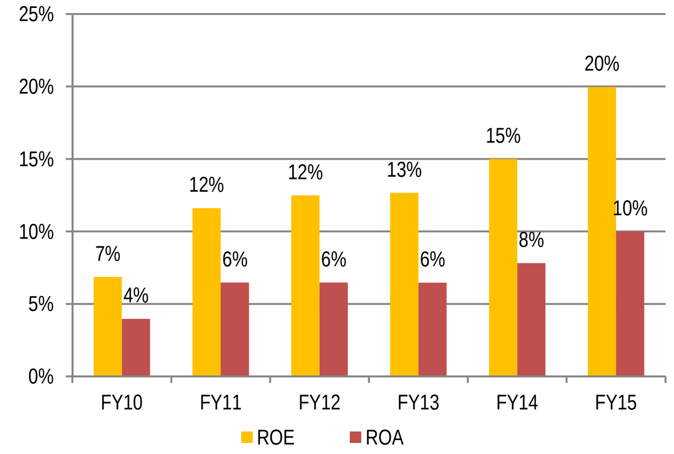
Shift towards branded business = Better margins + better ROE. We expect a structural improvement in overall margins going forward, as DMPL turns to focus more on its own branded sales and extract more profitability out of its OEM business. This trend has been evident in the past three years and we expect it will continue. As a result, DMPL's ROE profile will also improve, rising to 20% by FY15F.

Figure 25: Better margins expected



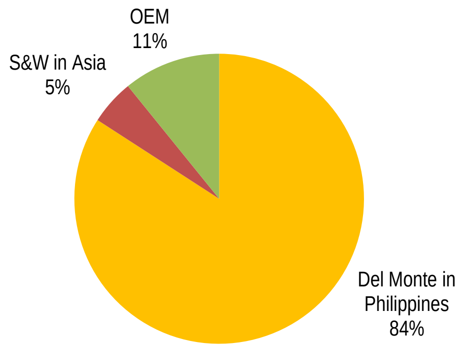
Source: Company, Maybank KE

Figure 26: Better ROE profile going forward



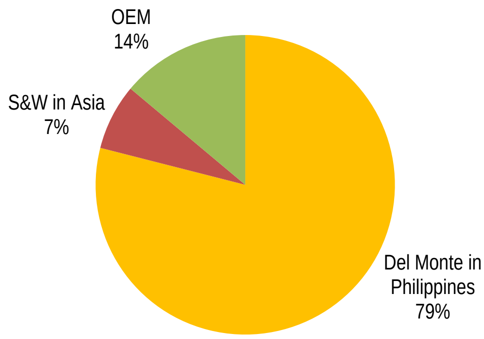
Source: Company, Maybank KE

Figure 27: FY12 operating profit breakdown



Source: Company, Maybank KE

Figure 27: FY15F operating profit breakdown

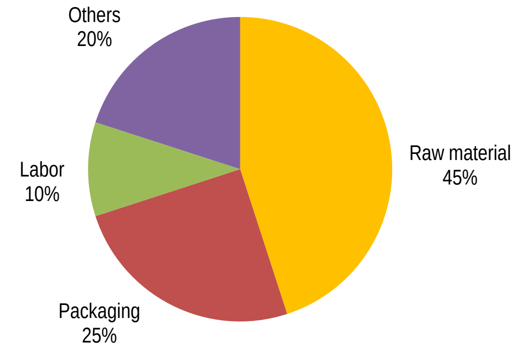


Source: Company, Maybank KE

Cost structure within control. We believe one of the key competitive advantages for DMPL is having significant control over its cost input. Under its cost structure, we estimate raw materials make up 45% of the total, with costs mostly related to the pineapple plantations it owns. Around 25% of total cost is from packaging, which is done in-house under its canning facilities. DMPL enjoys significant economies of scale here and experience from years of operation. Overall, we estimate that only about 20-30% are fixed costs while the rest are variable in nature.

DMPL is a significant producer of pineapples. It produces 20% of processed pineapples globally and 15% of fresh pineapples for shipment within Asia.

Figure 28: Estimated cost structure, FY12

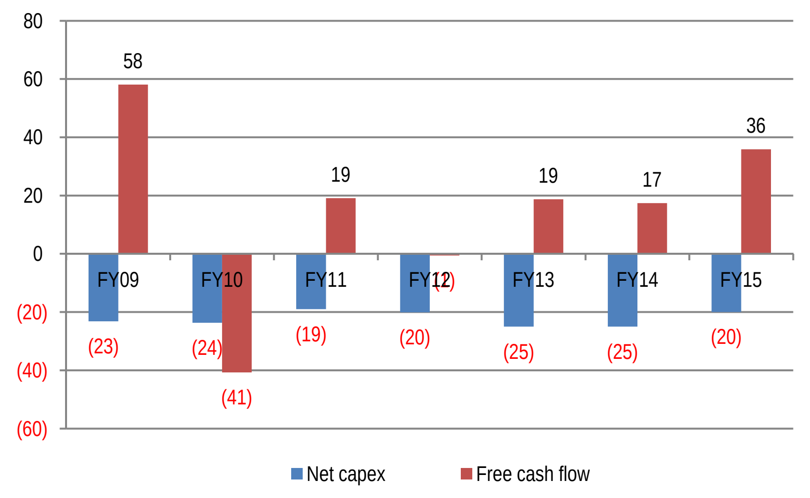


Source: Company, Maybank KE

Pineapple prices at cyclical lows. We believe processed pineapple prices and pineapple juice concentrate prices are already at historical lows and unlikely to decline further. The latter has already fallen from around USD2,000/tonne to the current USD1,250/tonne in over a year, due to oversupply in Thailand, a major producer, and weak demand from traditional export markets in the US and Europe.

Generous dividend payout of 75% in recent years. DMPL's official dividend policy is 33% payout pa but the company has paid out a generous 75% every year since 2005. We expect this practice to remain in place, given that there are no significant capex requirements. Although the past three years saw free cash flow constrained by higher working capital due to the OEM business, we expect the situation would change for the better going forward, which would improve what is naturally a strong free cash flow business model.

Figure 29: Free cash flow to improve as branded business grows, FY13-FY15F



Source: Company, Maybank KE

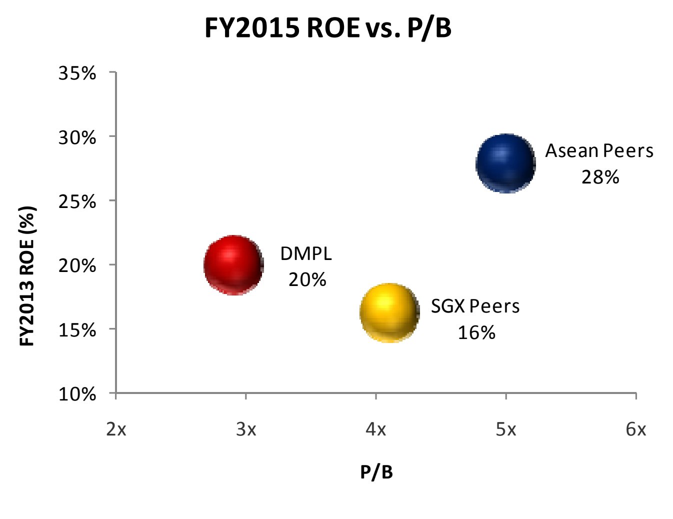
Valuations poised for re-rating

TP of SGD1.00 pegged at 25x FY14F. Our TP of SGD1.00 is pegged at 25x FY14F PER, a premium to ASEAN peers which are trading on 21x FY14F PER on average. However, we believe it is more instructive to also take into account profit growth momentum. On a PEG basis, this translates to 1.1x for DMPL vs 1.6x for peers. Our TP of SGD1.00 implies upside of 37% from current levels.

Structural ROE change to drive re-rating. We expect the structural shift towards branded business will lead to ROE improvement and, in turn, drive the stock's re-rating over the next three years. Two factors will lift ROE: 1) an increased emphasis on own branded sales which have higher margins, and 2) higher margins from the OEM business as unfavourable long-term contracts wind down. We estimate ROE will improve from 12% in FY12 to 20% by FY15F, which will put DMPL in the top tier of its peer group.

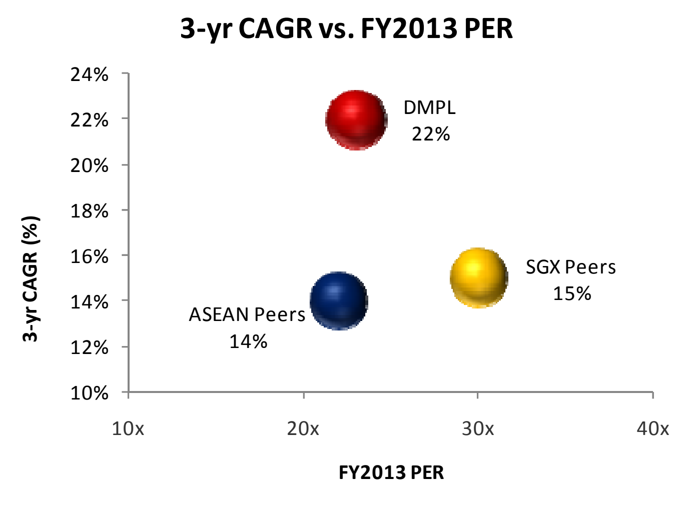
Higher valuation multiple underpinned by profit growth. We expect DMPL to record net profit CAGR of 22% over the next three years, far superior to the respective growth of 14% and 15% its ASEAN and SGX-listed peers are expected to post during the same period.

Figure 30: P/BV vs ROE, FY15F



Source: Bloomberg, Maybank KE

Figure 31: FY13F PER vs 3-year net profit CAGR



Source: Bloomberg, Maybank KE

Dual-listing in the Philippines to improve liquidity. In Jun 2013, DMPL successfully dual-listed its shares on the Philippine Stock Exchange (PSE) by way of introduction. The shares are fungible, within a time period of 5-7 working days.

We believe this move will benefit the stock in terms of enhanced visibility on two platforms, as well as increased overall liquidity. Controlling shareholder Nutri-Asia's 79% stakeholding was pared down to 67% following the sale of vendor shares (around 12%) for the listing in the Philippines.

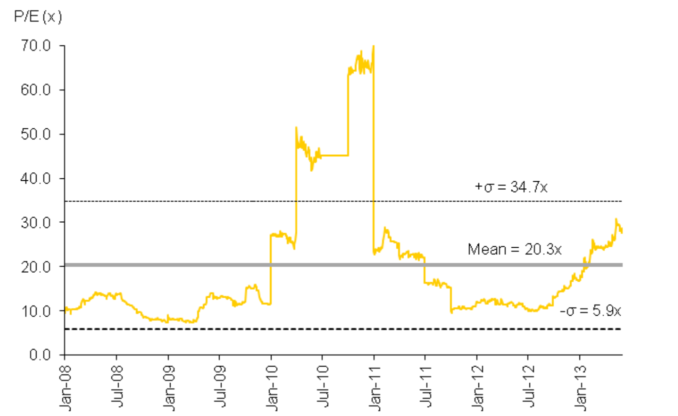
Figure 32: Peer comparison

	Exchange	Share price (lcl curr)	Market cap (USD m)	PER 2013E (x)	PER 2014E (x)	PER 2015E (x)	EPS growth 2013E (%)	EPS growth 2014E (%)	EPS growth 2015E (%)	3-yr EPS CAGR (%) 12-15E	P/B 2013E (x)	ROE 2013E (%)	ROE 2014E (%)	Div yield 2013E (%)
Singapore F&B														
SUPER GROUP LTD	SGD	4.32	1,901	24.1	21.0	18.0	26	15	17	19	5.2	24	23	2.2
YEO HIAP SENG	SGD	2.56	1,160	32.0	64.0	49.2	(35)	(50)	30	(25)	2.0	6	3	0.4
PETRA FOODS LTD	SGD	3.69	1,780	31.7	22.8	20.1	3	39	13	51	5.0	18	20	2.2
DEL MONTE PAC LT	SGD	0.73	747	22.2	16.9	12.5	4	31	35	23	2.9	14	17	3.3
ASEAN F&B														
NESTLE (MALAY)	MYR	68.38	5,068	29.5	27.5	25.1	8	7	9	8	20.3	78	77	3.3
INDOFOOD CBP SUK	IDR	12,100.00	7,058	27.6	24.1	22.1	17	15	9	13	5.4	20	21	1.4
INDOFOOD SUKSES	IDR	7,000.00	6,149	16.3	14.4	12.7	16	13	13	14	2.6	16	16	2.4
MAYORA INDAH	IDR	30,300.00	2,324	26.5	22.1	17.5	20	20	26	22	6.3	26	24	0.7
NIPPON INDOSARI	IDR	7,700.00	780	38.0	28.5	22.2	37	34	28	33	9.4	26	28	0.5
MALEE SAMPRAN	THB	34.00	154	7.8	6.0	4.7	(5)	29	30	16	3.8	44	43	5.7
THAI VEGETABLE	THB	18.40	480	9.7	9.0	9.9	(15)	8	(10)	(6)	2.1	20	21	7.4
THAI UNION FROZE	THB	58.25	2,157	13.5	10.6	9.1	(2)	28	17	14	1.6	13	15	3.6
RFM CORP	PHP	5.08	372	18.1	14.5	na	30	25	20	14	2.8	16	18	1.2
PEPSI-COLA PROD	PHP	5.99	513	21.0	18.4	16.2	24	14	14	17	3.2	15	16	2.3
UNIVERSAL ROBINA	PHP	122.00	6,174	30.7	26.6	23.0	8	16	16	13	5.3	18	19	1.7
SAN MIGUEL	PHP	94.00	5,190	15.1	15.9	13.8	(46)	(6)	15	(9)	0.7	9	10	1.3
VIET NAM DAIRY P	VND	131,000.00	5,157	16.3	13.9	12.0	15	18	15	16	5.7	38	37	2.7
KINH DO CORP	VND	46,900.00	366	16.7	14.7	12.2	23	13	20	19	1.9	12	12	4.7
Average (excluding Del Monte)				*22.0*	*20.8*	*18.0*	*7.3*	*14.0*	*16.7*	*13.5*	*4.9*	*23.6*	*23.8*	*2.6*

Source: Bloomberg

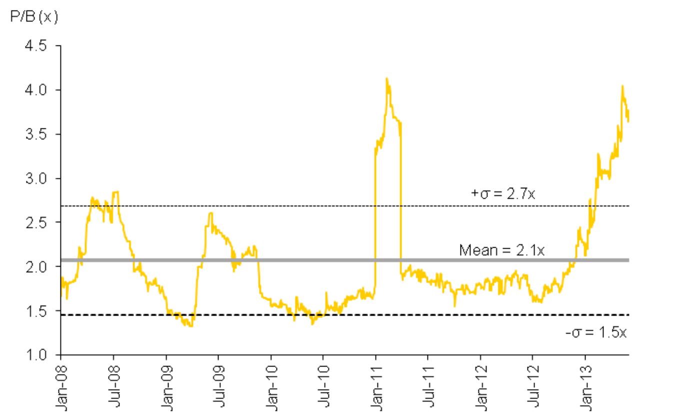
Historical PER, P/BV bands. On a five-year historical basis, the stock has traded at an average of 20x PER and 2x P/BV. We believe the stock will re-rate to a new level, given the structural changes in ROE profile and expected earnings growth. We also believe it will attract a greater institutional following as a result of higher market capitalisation and trading liquidity.

Figure 33:PER band since 2008



Source: Bloomberg, Maybank KE

Figure 34:P/BV band since 2008



Source: Company, Maybank KE

Key risks

Market concentration. Revenue for DMPL is still primarily derived from the Philippines, its home market, which accounts for around 60% of group sales. We expect this percentage to climb to 67% over the next three years, driven by strong domestic sales and the cessation of unfavourable OEM export contracts. While a dominant domestic market share is a source of strength, it also represents market concentration risk. An economic crisis in the country could stifle demand and limit spending.

Intensifying competition for branded business. We believe DMPL is more susceptible to this risk in new markets and products which it is not traditionally strong in. More specifically, this is a risk for the S&W brand outside the Philippines, where the company started in 2007. For example, DMPL found it more difficult to break into markets such as Thailand, where there are strong incumbents. Nonetheless, given that this brand represents less than 10% of group sales and is growing from a very low base, we deem the overall risk to be low.

Significant decline in pineapple prices. Pineapple prices currently are at cyclical lows and any significant drop in global demand or an unexpected supply glut would deal prices a nasty blow. If this eventuates, DMPL's OEM business may take a hit, as supplies to customers are typically based on market prices. Longer term, however, we see this risk diminishing as the company makes a structural shift away from the OEM business.

Persistent losses in non-core markets. DMPL currently has a JV called FieldFresh in India with the Bharti Group, where it holds a 47% equity stake. Since starting up in 2007, FieldFresh has incurred losses, though these have been narrowing. We expect this business to turn in its first positive earnings by FY16. If this does not materialise, group profit could be dragged down.

Unforeseen plantation disruptions. DMPL is a vertically integrated producer, especially for its pineapple business, where it owns plantations in the Philippines. Unforeseen weather changes, crop diseases or worker strikes could disrupt supply and volumes or margins would be affected if DMPL has to outsource from other plantations.

Key management

Mr Rolando C Gapud, Chairman and Non-Executive Director
Mr Gapud has more than 35 years of experience in banking, finance and general management, having served as the CEO of several Philippine companies. He has also served on the boards of various major companies, including the Development Bank of the Philippines. Mr Gapud holds a Master of Science in Industrial Management degree from the Massachusetts Institute of Technology.

MrJoselito D Campos, Jr, Managing Director and CEO
Mr Campos is chairman and CEO of the Nutri-Asia Group of Companies, a major food conglomerate in the Philippines. He is also the chairman of two major property developers, Fort Bonifacio Development Corp and Ayala-Greenfield Development Corp, as well as a director of San Miguel Corp, one of the largest and oldest business conglomerates in the Philippines. Mr Campos holds an MBA from Cornell University.

Mr Luis F Alejandro, COO
Mr Alejandro has over 25 years of experience in consumer product operations and management. He started his career with Procter & Gamble before joining Kraft Foods Philippines. Later, he joined Southeast Asia Food Inc and Heinz UFC Philippines, two leading consumer companies of the Nutri-Asia Group, as president and chief operating officer. He holds a bachelor's degree in Economics from the Ateneo de Manila University and an MBA from the Asian Institute of Management.

Mr Richard W Blossom, Senior Vice President
Mr Blossom is the president of GTL Limited, DMPL's principal export arm. He has over 30 years of experience in general management, marketing, sales, distribution and logistics of fast moving consumer goods. He obtained his MBA in marketing from New York University's Stern School of Business.

Ms Tan Chooi Khim, General Manager S&W
Ms Tan has more than 20 years of experience in the fast moving consumer goods industry. She started her career at Unilever and joined Sara Lee as marketing director. Ms Tan holds a Master of Science in Chemistry from Purdue University and a Bachelor of Science in Chemistry from Cumberland College.

Mr Ignacio C O Sison, CFO
Mr Sison has more than 20 years of finance experience. He was previously Vice President, Corporate Controller and Vice President, Treasury and Corporate Development of Del Monte Philippines. Before joining the company, he was CFO of Macondray SGV & Co. Mr Sison holds a MS degree in Agricultural Economics from Oxford University. He also has a MA degree (major in Economics) from the International University of Japan and a BA in Economics from the University of Philippines.

Appendix: Colourful ownership history

**Underlined represents directly related to DMPL*

1979: <u>Tobacco giant R.J. Reynolds acquired Del Monte Foods.</u>

1983: <u>Biscuit-maker Nabisco bought R.J. Reynolds, becoming RJR Nabisco.</u>

1990: <u>Kohlberg Kravis Roberts (KKR) took over Nabisco-RJR in the biggest leverage buyout at the time and subsequently sells former Del Monte Corporation units separately, breaking them up into Del Monte Foods and Del Monte Fresh Produce. Kikkoman gained the exclusive marketing rights to the Del Monte brand in all of Asia excluding the Philippines.</u>

1991: <u>Del Monte Foods divested 49.9% of Del Monte Philippines to Kikkoman (15%) and to Europe-based Del Monte International (35%).</u>

1996: <u>Del Monte Foods and Kikkoman divested their entire interest in Del Monte Philippines. Philippine-based MCI and Del Monte International became joint controlling shareholders of Del Monte Philippines.</u>

1996: Fresh Del Monte Produce acquired by IAT Group.

1997: Fresh Del Monte Produce begins trading on the NYSE.

1997: Private equity TPG Group purchases Del Monte Foods.

1999: Del Monte Foods begins trading on the NYSE.

1999: <u>DMPL was incorporated as a holding company for the Del Monte Philippines business and listed on the SGX. Both MCI and Del Monte International (Europe) became joint major shareholders with 37.5% stake each.</u>

2001: Del Monte International (Europe) was bought by Italy-based CirioSpA. CirioSpA subsequently increased its stake in DMPL to 40%.

2004: CirioSpA became insolvent and was broken up. Fresh Del Monte bought Del Monte International (Europe) from CirioSpA.

2005: <u>CirioSpA's stake in DMPL was sold to MCI, which in turn sold its 50% stake to San Miguel-Nutri-Asia, a JV vehicle where Nutri-Asia held 58%. The JV completed a general offer and held an 85% stake in DMPL.</u>

2007: <u>San Miguel sold its 42% stake in the JV to Nutri-Asia, resulting in the latter being the sole majority shareholder of DMPL.</u>

2011: KKR, Vestar and Centerview completed acquisition of Del Monte Foods, taking it private once again.

2012: ConAgra Foods completed its acquisition of Del Monte Canada from Sun Capital Partners.

PROFIT AND LOSS (SGD m)

YE Dec	2011	2012	2013F	2014F	2015F
Sale	425.2	459.7	504.9	554.7	610.6
Cost of sales	(323.8)	(346.9)	(388.1)	(419.0)	(447.1)
Gross Profit	101.4	112.8	116.8	135.7	163.5
SG&A	(57.1)	(62.9)	(66.4)	(74.1)	(80.7)
Operating Profit	44.3	49.9	50.3	61.6	82.8
Net Finance cost	(1.6)	(3.1)	(3.3)	(4.2)	(4.9)
JV/ Associates	(10.6)	(6.1)	(4.0)	(2.0)	(1.0)
Pretax income	32.1	40.7	43.0	55.4	76.9
Income taxes	(5.5)	(9.1)	(10.1)	(13.9)	(19.7)
Minority	0.9	0.5	0.5	0.5	0.5
Reported Net profit	27.4	32.1	33.4	42.0	57.6
Net profit (recurring)	27.4	32.1	33.4	42.0	57.6
EPS (USD cent)	2.1	2.5	2.6	3.2	4.5
EBITDA	57.8	65.5	68.1	81.4	103.6

CASH FLOW (SGD m)

YE Dec	2011	2012	2013F	2014F	2015F
Operating cash flow	38.1	19.5	43.7	41.6	55.9
Pretax profit	26.6	31.6	43.0	55.4	76.9
Depreciation & amortization	13.5	15.7	17.8	19.8	20.8
Share of JV/ assoc	10.6	6.1	4.0	2.0	1.0
Change in working capital	(18.6)	(46.2)	(10.9)	(21.8)	(23.1)
Others	6.0	12.4	(10.1)	(13.9)	(19.7)
Investment cash flow	(19.0)	(20.1)	(25.0)	(25.0)	(20.0)
Net capex	(18.4)	(17.1)	(25.0)	(25.0)	(20.0)
Other investments	(1.1)	(3.6)	0.0	0.0	0.0
Others	0.5	0.6	0.0	0.0	0.0
Financing cash flow	(15.7)	(5.0)	(18.3)	(16.6)	(35.9)
Dividends	(16.8)	(23.4)	(25.0)	(31.5)	(43.2)
Net change in debt	7.1	22.5	6.7	14.9	7.3
Issue of shares	(1.8)	0.0	0.0	0.0	0.0
Others	(4.1)	(4.1)	0.0	0.0	0.0
Net cash flow	3.4	(5.6)	0.4	0.0	0.0
Free cash flow	*19.1*	*(0.6)*	*18.7*	16.6	*35.9*

BALANCE SHEET (SGD m)

YE Dec	2011	2012	2013F	2014F	2015F
Total assets	417.4	495.5	515.7	548.7	577.2
Current assets:	278.5	350.1	367.0	396.8	427.1
Cash	20.9	24.6	25.0	25.0	25.0
Inventories	82.9	113.5	111.7	120.5	128.6
Recievables	82.9	102.4	110.7	121.6	133.8
Bio assets	91.8	109.7	119.7	129.7	139.7
Long-term assets:	138.9	145.5	148.7	151.9	150.0
PPE	85.4	93.4	101.2	106.9	106.6
JV/ Associates	24.0	21.5	17.5	15.5	14.5
Intangibles	16.0	15.4	14.9	14.3	13.7
Others	13.5	15.2	15.2	15.2	15.2
Total liabilities	194.8	242.2	254.5	277.5	291.9
Current liabilities:	188.9	226.5	239.5	262.5	276.9
Payables	81.3	95.5	101.0	109.1	116.4
ST Borrowings	105.0	125.9	133.3	148.3	155.3
Others	2.6	5.2	5.2	5.2	5.2
Long-term liabilities	5.9	15.7	15.0	15.0	15.0
Long-term borrowings	5.9	15.7	15.0	15.0	15.0
Others	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	230.5	255.2	263.6	274.1	288.7

KEY RATIOS (SGD m)

YE Dec	2011	2012	2013F	2014F	2015F
Growth (% YoY)					
Sales	12.3	8.1	9.8	9.9	10.1
Operating Profit	46.1	12.6	0.9	22.5	32.0
EBITDA	37.8	13.3	3.9	19.6	25.5
Net Profit (recurring)	73.6	16.9	4.0	25.9	34.5
EPS	73.8	16.9	4.0	25.9	34.5
Profitability (%)					
Operating margin	10.4	10.8	10.0	11.1	13.6
EBITDA margin	13.6	14.3	13.5	14.7	17.0
Net profit margin	6.5	7.0	6.6	7.6	9.4
ROA	6.5	6.5	6.5	7.7	10.0
ROE	11.6	12.5	12.7	15.3	20.0
Stability					
Gross debt/equity (%)	48.1	55.5	56.3	59.6	59.0
Net debt/equity (%)	39.1	45.9	46.8	50.4	50.3
Int. coverage (X)	27.7	16.3	15.2	14.6	16.8
Int. & ST debt coverage (X)	0.4	0.4	0.4	0.4	0.5
Cash flow int. coverage (X)	2.1	-1.8	0.1	0.0	0.0
Cash flow int. & ST debt (X)	0.0	0.0	0.0	0.0	0.0
Current ratio (X)	1.5	1.5	1.5	1.5	1.5
Quick ratio (X)	1.0	1.0	1.1	1.1	1.1
Net debt/(cash) (USD m)	90.0	117.0	123.3	138.3	145.3
Per share data (USD cents)					
EPS	2.5	3.0	2.6	3.2	4.5
CFPS	1.8	(0.1)	1.4	1.3	2.8
BVPS	21.4	23.7	20.4	21.2	22.3
SPS	39.4	42.6	39.0	42.9	47.2
EBITDA/share	5.4	6.1	2.6	3.2	4.5
DPS	1.9	2.2	1.9	2.4	3.3

Source: Company, Maybank KE

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