

Singapore Company Focus

Del Monte Pacific

Bloomberg: DELM SP | Reuters: DMPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Dec 2013

BUY S\$0.60 STI : 3,081.72

(Upgrade from HOLD)

Price Target: 12-Month S\$0.82 (Prev S\$0.96)

Reason for Report : Change in recommendation/TP/forecasts

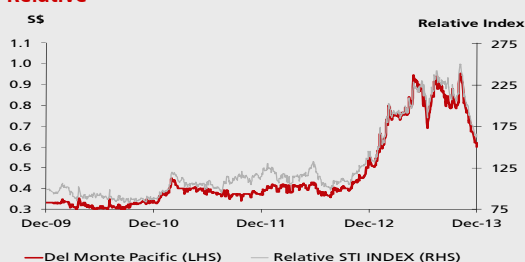
Potential Catalyst: Better-than-expected synergies, contribution

DBSV vs Consensus: Below consensus, factoring in potential M&A transaction costs in FY13F and FY14F

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2012A	2013F	2014F	2015F
Revenue	460	503	560	626
EBITDA	60	56	63	102
Pre-tax Profit	41	38	43	82
Net Profit	32	29	33	62
Net Pft (Pre Ex.)	32	29	33	62
EPS (S cts)	3.1	2.8	3.2	6.0
EPS Pre Ex. (S cts)	3.1	2.8	3.2	6.0
EPS Gth (%)	17	(9)	13	87
EPS Gth Pre Ex (%)	17	(9)	13	87
Diluted EPS (S cts)	3.1	2.8	3.2	6.0
Net DPS (S cts)	2.3	0.9	1.1	2.0
BV Per Share (S cts)	24.6	25.1	27.3	32.2
PE (X)	19.4	21.3	18.8	10.0
PE Pre Ex. (X)	19.4	21.3	18.8	10.0
P/Cash Flow (X)	25.4	17.3	12.5	6.9
EV/EBITDA (X)	12.3	13.5	11.8	6.7
Net Div Yield (%)	3.9	1.6	1.8	3.3
P/Book Value (X)	2.4	2.4	2.2	1.9
Net Debt/Equity (X)	0.4	0.5	0.5	0.4
ROAE (%)	13.2	11.4	12.2	20.1

Earnings Rev (%):	0	(26)	0
Consensus EPS (S cts):	3.2	4.0	5.6
Other Broker Recs:	B: 4	S: 0	H: 1

ICB Industry : Consumer Goods

ICB Sector: Food Producers

Principal Business: Engaged in the production, marketing and distribution of premium-branded food and beverage products.

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

Overzealous selling breeds buying opportunity

- **Recent sell down looks overdone; may have more than priced in uncertainty of proposed acquisition**
- **US\$970m of LIBOR-based loans firmed up at lower-than-expected interest rates**
- **Upgrade to BUY, TP revised to S\$0.82 factoring in higher risk profile**
- **Risks: Rise in interest rates, higher-than-expected equity raising, performance of acquired entity**

Recent weakness looks overdone; opportunity to

accumulate. Since our recommendation downgrade on 25 Oct, DMPL's share price has dropped by >30%, possibly arising from the market's concern on its proposed US\$1.675bn acquisition of Del Monte Food's Consumer Food Business (DMF-CFB). We believe the drop is overdone, and may present investors a window of opportunity to accumulate.

Higher loan quantum but at lower rates. According to media reports, DMF-CFB has raised US\$970m in LIBOR-based loans, which is higher than the US\$930m previously indicated. Average blended interest rates, at this juncture, are at c.5.6%, lower than the 7.5% rate we had previously anticipated. The higher loan quantum also points to a lower amount of equity funds needed of US\$110m (from US\$150m). Based on our FY15F forecasts, we estimate that the acquisition should provide 12% EPS accretion to common equity holders.

Upgrade to BUY, revised TP at S\$0.82. We lowered our FY14F forecasts by 26%, taking into account an estimated one-off transaction cost relating to the acquisition, but have not factored in potential contribution from CFB. Our DCF-backed TP is lowered to S\$0.82, with a higher WACC to factor in a higher level of uncertainty arising from the acquisition. That said, we believe the recent sell-off has more than priced in the uncertainty. At its current price, we estimate the implied FY15F PE of the combined entity is at an attractive 9x. Upgrade to BUY for c.37% upside potential.

Risks. Higher interest rates, integration and performance of combined entity, and potential dilution from equity issuance.

At A Glance

Issued Capital (m shrs)	1,297
Mkt. Cap (S\$m/US\$m)	778 / 623
Major Shareholders	
Nutriasia Pacific Ltd (%)	67.1
Lee Pineapple Co Pte Ltd (%)	8.2
Free Float (%)	24.7
Avg. Daily Vol.('000)	589

Oversold with >30% share price drop; opportunity to BUY

Opportunity with recent sell down; upgrade to BUY. Del Monte Pacific's shares have suffered a rough period since late Oct'13 with price falling by more than 30%, possibly due to the market's concern of its US\$1.675bn proposed acquisition of Del Monte Foods' Consumer Food Business (DMF-CFB). We believe the selling is overdone and see a window of opportunity now. We **upgrade to BUY**, with a revised **TP of S\$0.82**, presenting a potential **upside of c.37%**.

Recent drop could have more than priced in uncertainty of proposed acquisition. In our last report on 25 Oct 2013, "*Taking a grounded view*", we estimate that the proposed acquisition to be only marginally accretive to common equity holders for FY14F, assuming DMF's CFB business stays flat as per its last reported results for FYE Apr'13. With the >30% drop in DMPL's share price, we believe this may have more than priced in the uncertainty of the proposed acquisition. Looking at FY15F, our revised projections indicate that the accretion should be slightly higher, at c.12%.

Higher loan quantum secured at lower-than-expected rates... Since the proposed acquisition was first announced in Oct, more details on financing for the proposed deal have been released. According to a Thomson Reuters article on 7

Nov and Moody's announcement on 20 Nov, we understand that the leverage taken by DMF's CFB has increased to US\$970, up by US\$40m from US\$930m, on the back of two tranches of 7.5-year loans. The cost of financing currently averages at c.5.6%, down from 7.5% we previously assumed. The higher leverage implies that the level of equity raised is likely to be lowered by US\$40m to US\$110m, from US\$150m previously announced.

... implying lower expected equity financing. As a result of higher loans, we now expect a correspondingly lower equity fund-raising. Previously, DMPL was expected to raise US\$150m from potential new share issuance. With a higher loan amount, this is expected to correspondingly lower the equity fund raising to US\$110m. However, we note that the potential share dilution may still be similar, given the lower share price recently.

Estimate EPS accretion of c.12% in FY15F with acquisition.

In our preliminary estimates, we forecast the proposed acquisition to see more traction by FY15F, and aid in EPS accretion of c.12%, assuming CFB's financials remain unchanged from its FYE Apr'13 results. We are now basing our assumptions on FYE Dec'15 instead of FY14F, as we believe that this may be a better reflection and will not be distorted by potential transaction costs relating to the acquisition.

Revised funding assumption details for the acquisition

	Previous US\$ m	Revised US\$ m	Change US\$ m	Remarks / What has changed?
By Target (DMF-CFB):				
Term loan B 7.5 years @Libor*+325bp		710		
Term loan second-lien 7.5 years@Libor*+825bp		260		*Libor floor of 1% min
	930	970	40	Previously loan estimated at US\$930m at average costs of 7.5%, compared to current cost of financing of 5.6%
By DMPL:				
Cash on hand, existing credit lines	80	80	-	
Perpetual Preference shares	350	350	-	To be raised, currently bridging bank loan
Common equity	150	110	(40)	Lowered from US\$150, with higher leverage by acquire
Shareholder's loan from NutriAsia Pacific Limited	165	165	-	
Sub-Total (by DMPL)	745	705	(40)	
Total	1,675	1,675	-	

Source: Company announcement

DBSV revised assumption and scenario on acquisition of DMF's CFB on FY15F earnings

Scenario on FY15F	Target CFB	DMPL FY15F	Combined	Remarks
Sales	1,830	626	2,456	Sales and opg profit remained stable as per FYE Apr'13
EBITDA	178	104	282	
Depr & Amortisation	43	17	60	
Operating profit	135	87	222	
Interest costs	0	(3)	(3)	
Additional interest costs	(59)	(9)	(68)	US\$970m loan @ blended interest costs of 5.6% and 3% working cap loan (US\$150m); Shareholder's loan (US\$165m) and credit lines/ cash (US\$80m)
PBT	76	75	150	
Tax	(27)	(18)	(44)	
PAT	49	57	106	
Pref shares dividends	0	(25)	(25)	Pref shares dividends at 7%
PAT (after pref shares)	49	32	82	
Existing shares (m)			1,298	
New shares issued (m)			222	Assume new shares of 230m (US\$110m @ S\$0.62/share)
Total shares (m)			1,520	New share base
EPS US cents (combined)			5.36	
EPS US cents (current)			4.78	DBSV's current forecast for DMPL
Accretion			12%	

Source: DBSVickers

Other updates

Minimal impact from Typhoon Haiyan. Based on our understanding, the impact from Typhoon Haiyan is minimal on DMPL. Sales in affected areas usually accounts for 3-4% of total sales in the Philippines, and should not materially affect earnings. In addition, the impact is likely to be one-off, rather than recurring.

Valuation

Trim FY14F forecasts on transaction costs; proposed acquisition's contribution, potential synergies not factored in. We have yet to factor in the proposed acquisition of Del Monte Food's Consumer Food Business, due to lack of detailed financial information. We have also not included any potential synergies from the acquisition, particularly from purchasing. That said, we have taken into account the potential remaining transaction costs that are likely to be realised in FY14F. As such, we lowered our FY14F forecasts by 26% and our estimates are below consensus after this revision.

Upgrade to BUY, revised TP to S\$0.82. We believe the recent >30% drop in share price has been overdone, and presents investors a window of opportunity. While we were neutral on the proposed acquisition, the drop in share price

surprised us. We believe there is an opportunity to accumulate in view of the recent correction, particularly with lower costs of financing by the acquired CFB.

Implied FY15F PE of combined entity at c.9x. At its current price, the implied PE on FY15F looks attractive at c.9x, though we note that this is based on our preliminary estimates. We have based this on our current DMPL and CFB forecasts as per FYE Apr'13, and after factoring in interest costs pertaining to the loans undertaken. This is also assuming the US\$110m equity is raised via a share issuance at current market price of S\$0.60 per share.

Implied PE of combined entity on current share price

	Per share
DBSV's est. FY15F EPS for DMPL combined (US cts)	5.36
FX rate: USD/SGD	1.25
Current market price per share	
S\$/share	0.62
US\$/share	0.48
Implied PE (x) – FY15 combined	9.0

Source: DBSVickers' estimates

Del Monte Pacific

Our DCF-backed TP is, however, lowered to S\$0.82 after taking into account lower FY14F profits (arising from one-off transaction costs) and a higher WACC of 9.2% to factor in a higher level of uncertainty arising from the acquisition. That said, we believe the recent sell-off has more than priced in the uncertainty. Upgrade to BUY for c.37% upside potential.

Key Risks

Key risks to our recommendation includes:

- **Higher-than-expected dilution from equity issuance.** As per the initial announcement by the company, there are expectations for equity financing by DMPL to fund the proposed acquisition. If the equity issuance is higher than expected, or if share price continues falling, this could impinge on the fund-raising via equity and may cause a higher dilution.
- **Rise in interest rates.** Post-acquisition and proposed financing, DMPL will still be relatively highly geared, with an estimated net debt/equity of c.2x, from 3Q13's 0.69x. Furthermore, the term loans are based on LIBOR and a spike in interest rates will raise costs and lower the profitability of the Group as a whole.
- **Performance of newly acquired CFB and integration challenges.** We have previously highlighted that the new combined entity will be highly sensitive to the performance of CFB going forward, given its significantly larger size. If DMPL is unable to arrest the decline in profits, this would be detrimental to DMPL's overall financial performance.

High gearing a risk if interest rates trend higher

	Net debt/ equity (x)	Net Debt (US\$ m)	Equity (US\$ m)
Pre-acquisition:			
DMPL (as of 30 Sep'13)	0.69	(158)	230
Post-acquisition:			
- DMPL credit lines		(80)	
- DMPL shareholder's loan		(165)	
- CFB loan for buy-out		(970)	
- Pref shares			350
- New shares			110
Combined (post-acquisition)	1.99	(1,373)	690
Assume pref shares as debt	5.07	(1,723)	340

Source: DBSVickers, Company announcements

Peers' valuation table

Company	Curr	Last Px	Mkt Cap (US\$ m)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/EBITDA Hist	P/EBITDA Curr	P/B (x)	P/S (x)
Del Monte Pacific Ltd	SGD	0.62	644	20.1	22.0	19.4	9.3	11.6	2.8	1.3
Petra Foods Ltd	SGD	3.50	1,711	100.6	35.5	23.3	19.0	16.4	6.0	3.4
Super Group Ltd/Singapore	SGD	3.40	1,516	19.2	22.5	19.3	17.3	16.0	4.3	3.4
Mayora Indah Tbk PT	IDR	27,000	2,042	24.6	27.2	24.3	14.5	16.8	6.8	2.1
Unilever Indonesia Tbk PT	IDR	26,250	16,937	37.9	36.6	33.2	26.6	26.9	36.3	6.7
Indofood Sukses Makmur Tbk PT	IDR	6,700	4,975	22.3	17.1	14.5	7.8	9.5	2.6	1.1
Jollibee Foods Corp	PHP	168.00	4,010	40.2	39.0	33.4	21.3	19.6	8.1	2.3
Universal Robina Corp	PHP	119.50	5,913	24.8	27.3	23.9	19.7	18.6	5.3	3.3
Nestle Malaysia Bhd	MYR	66.70	4,881	27.9	28.6	26.4	18.8	19.0	21.2	3.3
Oishi Group PCL	THB	91.50	534	82.4	43.2	33.2	19.3	17.0	5.5	1.4
				42.2	30.8	25.7	18.3	17.8	10.6	3.1

Source: Bloomberg Finance L.P (prices as of 9 Dec 2013), DBSVickers

Key Assumptions

FY Dec	2011A	2012A	2013F	2014F	2015F
Branded rev. gwth %	5.3	16.8	15.8	14.1	12.0
Non-branded rev gwth	27.8	(7.8)	(5.1)	3.4	10.9
Branded GP margins	27.4	30.2	30.3	30.3	31.1
Non-Branded GP	17.4	11.5	7.4	10.6	16.7

Segmental Breakdown

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenues (US\$ m)					
Branded	275	321	371	424	475
Non-supply contract -	22	22	26	27	29
Non-supply contract -	67	56	48	49	51
Supply contract	62	61	58	60	72

Total	425	460	503	560	626
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Gross profit (US\$ m)

Branded	75	97	112	128	148
Non-supply contract -	6	5	6	7	7
Non-supply contract -	15	7	3	5	8
Supply contract	5	4	1	3	11

Total	101	113	122	143	173
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Gross profit Margins

Branded	27.4	30.2	30.3	30.3	31.1
Non-supply contract -	25.5	23.6	24.0	24.0	24.0
Non-supply contract -	23.1	11.6	6.0	10.0	15.0
Supply contract	8.5	7.1	1.0	5.0	15.0

Total	23.9	24.5	24.3	25.5	27.6
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Income Statement (US\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenue	425	460	503	560	626
Cost of Goods Sold	(324)	(347)	(381)	(417)	(453)
Gross Profit	101	113	122	143	173
Other Opng (Exp)/Inc	(57)	(63)	(76)	(92)	(86)
Operating Profit	44	50	46	51	87
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(11)	(6)	(5)	(4)	(2)
Net Interest (Exp)/Inc	(2)	(3)	(3)	(4)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	32	41	38	43	82
Tax	(6)	(9)	(9)	(10)	(20)
Minority Interest	1	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	27	32	29	33	62
Net Profit before Except.	27	32	29	33	62
EBITDA	47	60	56	63	102

Growth

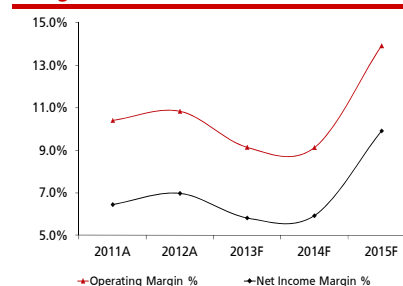
Revenue Gth (%)	12.3	8.1	9.5	11.3	11.7
EBITDA Gth (%)	33.7	27.0	(6.7)	12.7	61.9
Opg Profit Gth (%)	46.1	12.6	(7.7)	11.1	70.4
Net Profit Gth (%)	73.6	16.9	(8.7)	13.3	87.0

Margins & Ratio

Gross Margins (%)	23.9	24.5	24.3	25.5	27.6
Opg Profit Margin (%)	10.4	10.8	9.1	9.1	13.9
Net Profit Margin (%)	6.5	7.0	5.8	5.9	9.9
ROAE (%)	12.1	13.2	11.4	12.2	20.1
ROA (%)	6.7	7.0	5.7	6.0	10.4
ROCE (%)	11.3	11.6	9.6	9.5	15.4
Div Payout Ratio (%)	75.3	75.2	33.0	33.0	33.0
Net Interest Cover (x)	27.7	16.3	13.7	13.1	25.3

Source: Company, DBS Vickers

Margins Trend



Contribution from acquisition not factored in yet, pending release of further financial information by company.

Trim earnings by 26% to factor in US\$15m acquisition costs in FY14F. We have earlier factored in a transaction costs of US\$6m in FY13F.

Lower payout ratio to minimum of 33% post-acquisition due to higher gearing.

Quarterly / Interim Income Statement (US\$ m)

FY Dec	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013
Revenue	117	160	87	121	127
Cost of Goods Sold	(87)	(121)	(68)	(93)	(95)
Gross Profit	30	39	20	28	32
Other Oper. (Exp)/Inc	(16)	(20)	(12)	(18)	(19)
Operating Profit	13	19	8	10	13
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(1)	(1)	(1)	(1)
Net Interest (Exp)/Inc	(1)	(1)	0	(2)	(2)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	11	17	6	7	10
Tax	(2)	(4)	(2)	(1)	(3)
Minority Interest	0	0	0	0	0
Net Profit	8	13	5	6	7
Net profit bef Except.	8	13	5	6	7
EBITDA	15	23	11	13	16

Growth

Revenue Gth (%)	7.1	36.8	(45.2)	38.5	4.9
EBITDA Gth (%)	45.7	46.9	(51.4)	21.3	20.6
Opg Profit Gth (%)	46.8	44.2	(58.1)	27.4	29.2
Net Profit Gth (%)	39.7	60.7	(66.3)	36.2	17.4

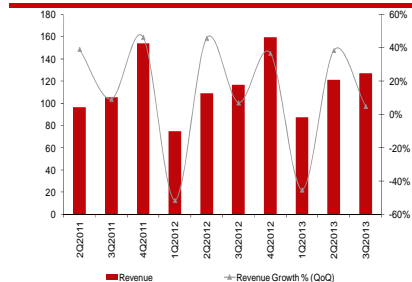
Margins

Gross Margins (%)	25.3	24.2	22.6	23.4	24.9
Opg Profit Margins (%)	11.3	11.9	9.1	8.4	10.3
Net Profit Margins (%)	7.1	8.4	5.2	5.1	5.7

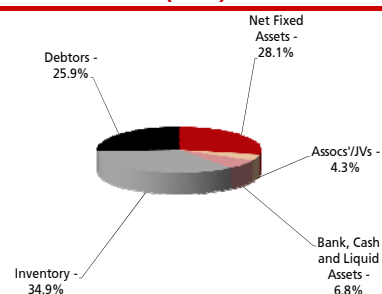
Balance Sheet (US\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	85	93	109	122	128
Invt in Associates & JVs	24	22	17	13	11
Other LT Assets	29	31	30	29	29
Cash & ST Invt	21	25	26	39	86
Inventory	89	113	136	134	126
Debtors	83	102	101	112	125
Other Current Assets	92	110	115	120	125
Total Assets	424	496	533	568	628
ST Debt	105	126	126	126	126
Creditor	81	95	105	115	125
Other Current Liab	3	5	9	10	20
LT Debt	6	16	36	36	26
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	231	255	260	284	335
Minority Interests	(1)	(2)	(2)	(3)	(3)
Total Cap. & Liab.	424	496	533	568	628
Non-Cash Wkg. Capital	180	225	238	240	231
Net Cash/(Debt)	(90)	(117)	(135)	(123)	(66)
Debtors Turn (avg days)	69.9	73.6	73.6	69.3	69.2
Creditors Turn (avg days)	81.0	89.1	97.6	99.7	99.7
Inventory Turn (avg days)	93.2	98.2	111.9	124.1	122.5
Asset Turnover (x)	1.0	1.0	1.0	1.0	1.0
Current Ratio (x)	1.5	1.5	1.6	1.6	1.7
Quick Ratio (x)	0.6	0.5	0.6	0.5	0.6
Net Debt/Equity (X)	0.4	0.4	0.5	0.5	0.4
Net Debt/Equity ex MI (X)	0.4	0.5	0.5	0.4	0.2
Capex to Debt (%)	16.6	12.5	18.7	17.3	14.4
Z-Score (X)	3.5	3.8	3.4	3.5	3.7

Revenue Trend



Asset Breakdown (2013)



We have not factored in the potential debt, pref shares or equity shares for the proposed US\$1.675bn acquisition, as well as the acquiree's contribution. Post-fund raising and consolidation, gearing should rise to c.2x.

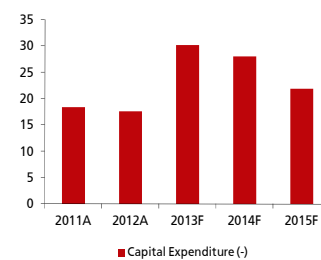
Source: Company, DBS Vickers

Cash Flow Statement (US\$ m)

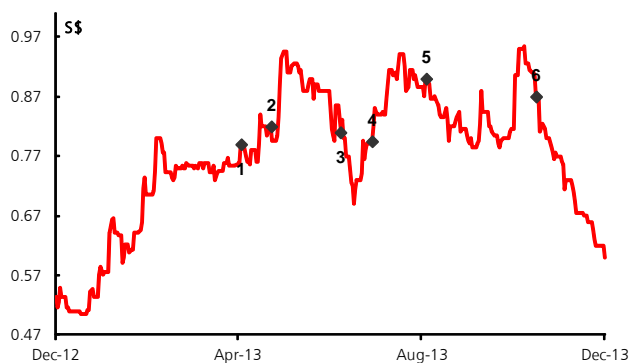
FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	32	41	38	43	82
Dep. & Amort.	14	16	15	16	17
Tax Paid	(7)	(6)	(5)	(9)	(10)
Assoc. & JV Inc/(loss)	11	6	5	4	2
Chg in Wkg.Cap.	(14)	(37)	(16)	(4)	0
Other Operating CF	4	5	0	0	0
Net Operating CF	40	25	36	50	90
Capital Exp.(net)	(18)	(18)	(30)	(28)	(22)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(1)	(3)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1)	2	0	0	0
Net Investing CF	(20)	(19)	(30)	(28)	(22)
Div Paid	(17)	(23)	(24)	(10)	(11)
Chg in Gross Debt	7	23	20	0	(10)
Capital Issues	(1)	0	0	0	0
Other Financing CF	(3)	(4)	0	0	0
Net Financing CF	(14)	(5)	(4)	(10)	(21)
Currency Adjustments	(2)	3	0	0	0
Chg in Cash	3	4	2	12	47
Opg CFPS (US cts.)	4.1	4.7	4.0	4.2	6.9
Free CFPS (US cts.)	1.6	0.5	0.5	1.7	5.3

Source: Company, DBS Vickers

Capital Expenditure



Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	12 Apr 13	0.79	0.97	Buy
2:	02 May 13	0.82	0.97	Buy
3:	17 Jun 13	0.81	0.97	Buy
4:	08 Jul 13	0.80	0.97	Buy
5:	13 Aug 13	0.90	0.97	Buy
6:	25 Oct 13	0.87	0.96	Hold

Source: DBS Vickers

DBSV recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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