

STRATEGY – SINGAPORE

Del Monte Pacific (DELM SP)

The Turnaround Is Here; Upgrade to BUY

Net profit for 2QFY16 surged to US\$53m from US\$185,000 in 2QFY15. Recurring net income stood at US\$18m, reflecting a turnaround after two years of losses, attributable to acquisition and transition-related expenses. We raise our FY16-17 net profit forecasts by 4-18% as we factor in top-line growth from the US segment and cost savings from higher economies of scale. Upgrade to BUY as we value Del Monte Pacific at 12x FY17 earnings. Target price: S\$0.69.

WHAT'S NEW

- **Turnaround performance achieved after two years of losses due to acquisition and transition-related expenses.** Del Monte Pacific (DMPL) recorded recurring net profit of US\$18m for 2QFY16 and US\$6m for 1HFY16 after two years of losses since DMPL purchased Del Monte Foods, Inc (DMFI) in Oct 13. Total sales were up 20% yoy for 2QFY16 to US\$658m with US sales growth up 25%. Revenue from the US accounted for 82% of group sales. There was a yoy improvement in the Group's gross margin from 21% to 23.4% due to better sales mix and cost optimisation.
- **Non-recurring items.** For 2QFY16, DMPL booked a one-off retirement plan amendment of a positive US\$39.4m. This was due to DMFI amending one of its post employment benefits replacing its retiree medical and dental benefits to contributions to a Health Reimbursement Account, which required recognition in the profit and loss statement as one-off income. Management indicates that even without this one-off item, recurring EBITDA would have been US\$53.4m and recurring net income would be US\$7.7m, a turnaround from 1QFY16's losses.
- **College Inn brand to drive US sales.** Walmart has expanded the distribution of College Inn from 25% to 67% of its total stores in the last six months. In addition, new shelf arrangements in Walmart stores have made it easier for shoppers to find College Inn products due to "brand blocking". College Inn has a gross margin of 45%, which is the highest-margin product for DMPL.

KEY FINANCIALS

Year to 30 Apr (US\$m)	2014	2015	2016F	2017F	2018F
Net turnover	743	2,159	2,416	2,648	2,933
EBITDA	(5)	103	246	243	261
Operating profit	(34)	44	187	177	194
Net profit (rep./act.)	(32)	(38)	87	80	90
Net profit (adj.)	(32)	25	47	80	90
EPS (US\$ cent)	(2.5)	1.8	2.4	4.1	4.6
PE (x)	n.a.	15.2	11.0	6.5	5.8
P/B (x)	2.8	1.9	1.5	1.3	1.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Net margin (%)	(4.3)	1.1	2.0	3.0	3.1
Net debt/(cash) to equity (%)	996.1	614.5	386.1	326.8	279.7
Interest cover (x)	n.a.	1.0	4.2	4.1	4.2
ROE (%)	n.a.	-16.6	28.1	21.5	20.3
Consensus net profit			41	65	68
UOBKH/Consensus (x)			1.15	1.24	1.32

Source: Bloomberg, UOB Kay Hian

BUY (Upgraded)

Share Price	S\$0.375
Target Price	S\$0.69
Upside	+84.0%
(Previous TP)	S\$0.46)

COMPANY DESCRIPTION

Del Monte Pacific Limited produces and markets packaged vegetable and fruit, beverage and culinary products. The Group has the exclusive right to use the Del Monte brand for packaged products in the USA, South America, the Philippines, the Indian subcontinent and Myanmar, and the S&W brand for both packaged and fresh products globally except Australia and New Zealand.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DELM SP
Shares issued (m):	1,943.2
Market cap (S\$m):	728.7
Market cap (US\$m):	518.9
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

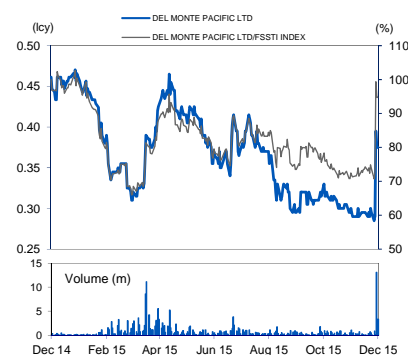
52-week high/low					S\$0.48/S\$0.28
1mth	3mth	6mth	1yr	YTD	
27.1	27.1	1.4	(21.1)	(18.7)	

Major Shareholders

	%
NutriAsia Pacific Limited	59.4
Bluebell Group Holdings Limited	7.3

FY16 NAV/Share (US\$)	0.18
FY16 Net Debt/Share (US\$)	0.68

PRICE CHART



Source: Bloomberg

ANALYST

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STOCK IMPACT

- Update on deleveraging.** DMPL has had plans to issue perpetual securities since the end of 2014 but held off due to weak market conditions. The company has provided some updates on the progress of its debt reduction initiatives. DMPL intends to issue US dollar-denominated perpetual preference shares to be listed on the Philippine Stock Exchange. It expects the launch to be in 1Q16, subject to regulatory approval and market conditions. The company intends to raise US\$350m to pay down its leveraged buyout (LBO) bridging loan with BDO Unibank, Inc. The Securities Exchange Commission in Philippines has confirmed that DMPL has filed applications to register and list the securities as of 27 Nov 15.
- Expectations and outlook.** We expect 2HFY16 revenue to come in more than 14% stronger than 1HFY16's due to the festive seasonality in sales as management has indicated that 2H sales usually account for about 55% of total sales. For FY17, we expect even stronger sales translating into a 70% increase in net income due to a full fiscal year effect of Sager Creek revenue contribution and the absence of restructuring charges seen in FY16.

EARNINGS REVISION/RISK

- We raise our FY16-17 core net profit estimates by 4% and 18% respectively.** Our estimates are 15% and 24% above consensus forecast.
- Key risks include:** a) continued delay in issuance of perpetual securities due to poor market conditions or regulatory barriers, b) interest rates rising faster than anticipated, and c) slowdown in US sales growth.

VALUATION/RECOMMENDATION

- Upgrade to BUY with a target price of S\$0.69.** We apply a 40% discount to FY16 sector PE due to: a) 10% for smaller size, and b) 30% for higher gearing for DMPL. We have also factored in the possibility that the preference share issue may not manifest if market conditions weaken.

REGIONAL RMC - PEER COMPARISON

Company	Ticker	Price @ 10 Dec 15 (1cy)	Market Cap (US\$m)	PE		P/B		Yield 2016** (%)	Net Gearing (%)	ROE 2015** (x)
				2015* (x)	2016** (x)	2015* (x)	2016** (x)			
Rfm Corporation	RFM PM	4.02	298	14.9	12.2	n.a.	n.a.	2	-3.2	10.2
Pepsi-Cola Products	PIP PM	3.69	289	14.5	12.7	1.6	1.4	2.2	44.3	11.3
Universal Robina Corp	URC PM	184.6	8,530	31.1	27.4	6.5	5.9	1.9	22.7	21.9
General Mills Inc	GIS US	58.58	35,013	20	18.6	6.3	5.9	3.3	146.3	29.8
Average				20.1	17.7	4.8	4.4	2.4	52.5	18.3
Del Monte Pacific Ltd	DELM SP	0.375	519	11.0	6.5	1.5	1.3	0.0	184.2	21.5

* FY16 for Del Monte

** FY17 for Del Monte

Source: Bloomberg.

VALUATION

Peer average PE	20
Size discount	10%
Discount for high gearing	30%
Total discount	40%
Fair PE ratio	12
Fair Value (S\$)	0.69

Source: UOB Kay Hian

PROFIT & LOSS

Year to 30 Apr (US\$m)	2015	2016F	2017F	2018F
Net turnover	2,159.4	2,415.5	2,647.9	2,933.2
EBITDA	103.2	246.3	242.6	261.1
Deprec. & amort.	59.0	59.4	65.9	66.8
EBIT	44.2	186.9	176.7	194.3
Total other non-operating income	0.0	0.0	0.0	0.0
Associate contributions	(2.5)	(1.2)	0.6	0.8
Net interest income/(expense)	(99.5)	(56.5)	(57.5)	(61.4)
Pre-tax profit	(57.7)	129.2	119.9	133.7
Tax	14.4	(32.3)	(30.0)	(33.4)
Minorities	5.2	(10.3)	(9.5)	(10.6)
Net profit	(38.0)	86.6	80.4	89.6
Net profit (adj.)	24.5	47.2	80.4	89.6

BALANCE SHEET

Year to 30 Apr (US\$m)	2012	2013	2014	2015
Fixed assets	93.4	99.5	501.4	578.4
Other LT assets	53.2	60.5	849.9	901.5
Cash/ST investment	24.6	132.9	28.4	35.6
Other current assets	325.5	324.8	1,148.4	1,123.9
Total assets	496.7	617.6	2,528.0	2,639.4
ST debt	125.9	265.4	919.6	445.5
Other current liabilities	99.2	109.7	271.1	391.4
LT debt	15.7	11.3	934.4	1,272.9
Other LT liabilities	5.2	2.9	152.1	196.1
Shareholders' equity	250.7	228.4	250.9	333.4
Minorities	(1.9)	(2.3)	67.6	59.5
Total liabilities & equity	496.7	617.6	2,528.0	2,639.4

CASH FLOW

Year to 30 Apr (US\$m)	2012 *	2013 *	2014	2015
Operating	26.1	27.3	105.4	231.5
Pre-tax profit	32.2	16.1	(37.2)	(43.3)
Tax	(6.2)	(10.8)	(11.3)	(12.5)
Deprec. & amort.	15.0	19.0	29.0	59.0
Associates	5.6	4.6	4.6	2.5
Working capital changes	(36.9)	(11.6)	121.6	161.1
Non-cash items	(0.1)	(0.1)	(0.3)	1.3
Other operating cashflows	16.5	10.2	(1.0)	63.5
Investing	(20.5)	(27.5)	(1,748.8)	(153.7)
Capex (growth)	(17.9)	(24.7)	(1,745.3)	(150.2)
Investments	(3.4)	(3.6)	(4.2)	(4.2)
Proceeds from sale of assets	0.3	0.4	0.4	0.4
Others	0.6	0.4	0.3	0.4
Financing	(4.6)	116.9	1,666.9	(70.5)
Issue of shares	0.0	0.0	0.0	155.0
Proceeds from borrowings	22.9	146.7	1,685.5	(134.5)
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(27.5)	(29.7)	(18.6)	(91.1)
Net cash inflow (outflow)	1.1	116.7	23.5	7.3
Beginning cash & cash equivalent	20.9	24.6	18.9	28.4
Ending cash & cash equivalent	24.6	132.9	28.4	35.6

KEY METRICS

Year to 30 Apr (%)	2015	2016F	2017F	2018F
Profitability				
EBITDA margin	4.8	10.2	9.2	8.9
Pre-tax margin	(2.7)	5.3	4.5	4.6
Net margin	(1.8)	3.6	3.0	3.1
ROA	(1.5)	3.2	2.8	3.0
ROE	(16.6)	28.1	21.5	20.3
Growth				
Turnover	190.5	11.9	9.6	10.8
EBITDA	n.a.	138.6	(1.5)	7.6
Pre-tax profit	n.a.	n.a.	(7.2)	11.5
Net profit	n.a.	n.a.	(7.2)	11.5
Net profit (adj.)	n.a.	92.8	70.2	11.5
EPS	n.a.	37.9	70.2	11.5
Leverage	2012 *	2013 *	2014	2015
Debt to total capital	56.5	121.1	739.0	515.5
Debt to equity	56.1	119.9	1,011.6	627.5
Net debt/(cash) to equity	46.3	62.3	996.1	614.5
	2015	2016F	2017F	2018F
Interest cover (x)	1.0	4.2	4.1	4.2

* Financial year ended 31 December

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