

MONEY TALK

DEL MONTE PACIFIC (DELM SP)

Changes Abound

VALUATION

- Del Monte Pacific (Del Monte) is trading at an FY14F and FY15F PE of 16x and 10x respectively. Based on Bloomberg consensus, the 12-month target price for the stock is S\$0.98, which translates to a 52% potential upside from the current level.

INVESTMENT HIGHLIGHTS

- Potential margin uplift from in-house PET bottling** for Del Monte Philippines. Currently, the bottling of branded beverages sold in the Philippines is being outsourced at a loss. The contract will terminate in Aug 14 and the group intends to bring the process in-house. Management estimates the segment's gross margin will improve to 20-25% from the current 9% due to this move.
- S&W brand (S&W) to breakeven in 2013; high double-digit growth from existing and new markets in the near term.** Management will continue to focus on growing S&W's processed and fresh businesses in Asia and the Middle East. For one, it plans to introduce tetra-packed juices in the latter market, where consumers are largely non-alcohol drinkers. S&W's processed sales rose 47% yoy in 3Q13 driven by China, Korea, Middle East and Indonesia. Fresh sales rose 31% yoy driven by Korea, Japan and China. Management expects S&W to breakeven in 2013 and for an overall annual growth of 20% to be achievable in the near term as the business continues to gain traction.
- Higher profitability in 2015 from better supply contracts.** A number of Del Monte's long-term supply contracts will undergo repricing in 2014-15. The group is intent on negotiating better terms to reverse its loss-making positions. The agreement to supply processed pineapple products to Del Monte USA will terminate in Nov 14, which will allow the group to sell directly into that market at market prices, resulting in better margins. The contract to supply fresh pineapples in Asia will also shift to market pricing beginning Jan 15.
- Indian JV targets to break even in 2016 on better sales and improved scale.** As of 9M13, FieldFresh Foods' equity loss declined to US\$3.6m from US\$5.6m in 2012 and US\$9.7m in 2011. Del Monte processed sales under the JV grew 34% yoy in 3Q13. Management expects the improvement to be sustained on the back of better sales mix, improved prices, reduced overhead and tighter control of expenses.
- Stretching fundraising capacity for US acquisition** with plans for the US\$1.675b deal to include LBO debt, common equity, preferred share issuances, and a rights offering. We see execution risks and a long, transitional period for the group's acquisition of US-based Del Monte Foods' consumer food business.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2010	2011	2012	3Q12	3Q13
Net turnover	378.6	425.2	459.7	116.6	127.0
EBITDA	43.1	56.1	65.1	16.7	18.0
Operating profit	31.5	42.6	49.4	12.9	13.8
Net profit (rep./act.)	15.8	27.4	32.1	8.3	7.2
Net profit (adj.)	15.8	27.4	32.1	8.3	7.2
EPS (cents)	1.22	2.12	2.48	0.64	0.56
PE (x)	41.4	23.8	20.4	-	-
P/B (x)	2.9	2.8	2.6	2.7	2.8
Dividend yield (%)	1.8	3.2	2.5	-	-
Net margin (%)	4.2	6.5	7.0	7.1	5.7
Net debt/(cash) to equity (%)	39.0	39.3	46.2	64.1	68.7
Interest cover (x)	7.0	13.9	12.7	-	-
ROE (%)	7.5	12.1	13.2	-	-

Source: Del Monte, Bloomberg, UOB Kay Hian

NOT RATED

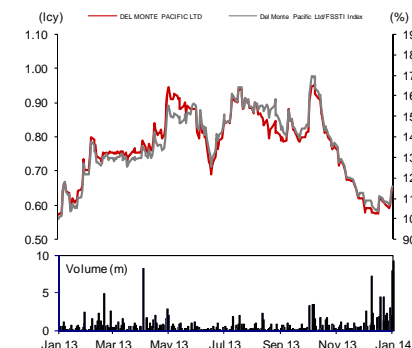
Share Price	S\$0.645
Target Price	N.A.
Upside	N.A.

COMPANY DESCRIPTION

Del Monte Pacific Limited produces and markets processed and fresh pineapples, pineapple concentrate, tropical mixed fruit, ketchup, sauces and pasta. The company owns the Del Monte brand rights for processed products for the Philippines, Indian subcontinent and Myanmar, and the S&W brand for both processed and fresh products for Asia and EMEA.

GICS sector	Consumer Staples
Bloomberg ticker:	DELM SP
Shares issued (m):	1,296.6
Market cap (S\$m):	836.3
Market cap (US\$m):	658.5
3-mth avg t'over (US\$m):	0.7

PRICE CHART



Source: Bloomberg

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MONEY TALK

Bloomberg Consensus

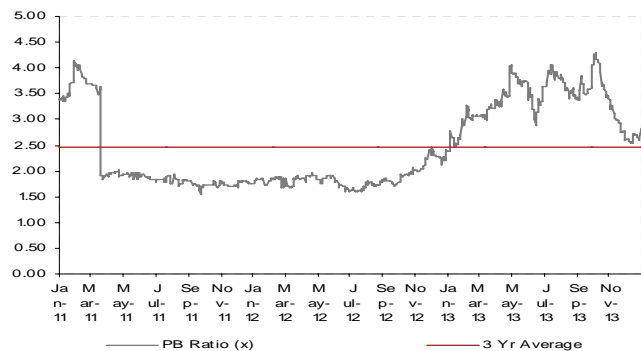
Recommendation	Buy	Sell	Hold	Valuation Ratios	12/11	12/12	12/13E	12/14E	
12/31/2013	100%	0%	0%	P/E	15.0	17.0	18.1	15.9	
Target Price			0.98	EV/EBIT	11.8	13.3	-	-	
Upside			51%	EV/EBITDA	8.9	10.1	11.7	10.4	
				P/S	1.0	1.2	1.3	1.2	
Income Statement	12/11	12/12	12/13E	12/14E	P/B	1.8	2.1	2.5	2.3
Revenue	535	574	639	711	Div Yield	5.0%	3.0%	3.2%	3.5%
Gross Income	127	141	155	181					
Operating Income	54	62	67	73	Profitability Ratios %				
Pretax Income	40	51	55	67	Gross Margin	23.9	24.5	24.3	25.5
Net Income Adjusted*	34	40	43	51	EBITDA Margin	13.2	14.2	13.8	13.9
EPS Adjusted	0.03	0.03	0.04	0.04	Operating Margin	10.0	10.8	10.5	10.3
Dividends Per Share	0.02	0.02	0.02	0.02	Profit Margin	6.5	7.0	6.8	7.2
Payout Ratio (%)	75	51	57	56	Return on Assets	6.7	7.0	6.8	6.3
EBITDA	71	81	88	99	Return on Equity	12.1	13.2	12.5	13.1

Peer Comparison	Ticker	Price @ 10 Jan 14	Market Cap (\$m)	----PE----		----P/B----		Yield
				FY14F (x)	FY15F (x)	FY14F (x)	FY15F (x)	FY15F (%)
Super Group Ltd	SUPER SP	3.79	1,664	21.9	19.4	4.2	3.8	2.5
Yeo Hiap Seng Ltd	YHS SP	2.40	1,086	42.9	34.3	1.8	1.7	0.8
Food Empire Holdings Ltd	FEH SP	0.53	222	n.a.	n.a.	n.a.	n.a.	n.a.
Qaf Ltd	QAF SP	0.83	357	n.a.	n.a.	n.a.	n.a.	n.a.
Average				32.4	26.9	3.0	2.7	1.6
Del Monte Pacific Ltd	DELM SP	0.645	658	15.7	10.4	2.3	2.1	5.1

Price Earnings Ratio (3 years average)



Price to Book Ratio (3 years average)



Source: Del Monte, Bloomberg, UOB Kay Hian

Technical View



Source: Nextview

Del Monte Pacific (DELM SP, D03)

Resistance: S\$0.67

Support: S\$0.575

The stock has fallen from its 15-year high since Oct 13 and has rebounded from S\$0.575. Currently, it has an immediate resistance near S\$0.67.

Disclosures

As of 13 January 2014, the analyst and his/her immediate family do not hold positions in the respective securities recommended in this report.

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