

Singapore Company Guide

Del Monte Pacific

Version 2 | Bloomberg: DELM SP | Reuters: DMPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 Mar 2016

HOLD

Last Traded Price: S\$0.40 (STI : 2,828.86)

Price Target : S\$0.39 (-1% downside) (Prev S\$0.35)

Potential Catalyst: Faster turnaround in operations

Where we differ: Below consensus on higher expenses; pref coupons

Analyst

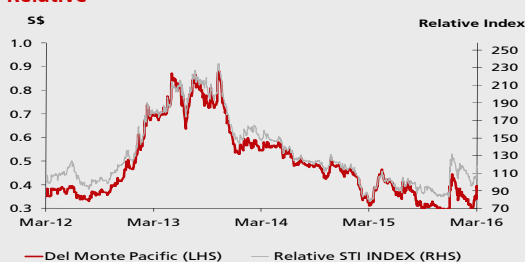
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What's New

- **3Q16 earnings below expectations**
- **US operations impacted by loss of government contract, higher expenses**
- **FY16F earnings revised up on one-off gains, but core profits lower**
- **Maintain HOLD, TP revised slightly up as we roll forward based on average of FY16F/17F**

Price Relative



Forecasts and Valuation

| FY Apr (US\$ m) | 2015A | 2016F | 2017F | 2018F |
|-------------------------------|--------|-------|-------|-------|
| Revenue | 2,159 | 2,280 | 2,406 | 2,524 |
| EBITDA | 102 | 193 | 230 | 256 |
| Pre-tax Profit | (57.8) | 52.3 | 83.8 | 109 |
| Net Profit | (38.1) | 44.6 | 45.7 | 68.8 |
| Net Pft (Pre Ex.) | (38.1) | 20.6 | 45.7 | 68.8 |
| Net Pft Gth (Pre-ex) (%) | (18.2) | nm | 122.3 | 50.5 |
| EPS (S cts) | (3.6) | 3.15 | 3.23 | 4.86 |
| EPS Pre Ex. (S cts) | (3.6) | 1.45 | 3.23 | 4.86 |
| EPS Gth Pre Ex (%) | (14) | nm | 122 | 50 |
| Diluted EPS (S cts) | (3.6) | 3.15 | 3.23 | 4.86 |
| Net DPS (S cts) | 0.0 | 0.0 | 0.0 | 0.0 |
| BV Per Share (S cts) | 19.3 | 22.5 | 25.7 | 30.6 |
| PE (X) | nm | 12.6 | 12.2 | 8.1 |
| PE Pre Ex. (X) | nm | 27.2 | 12.2 | 8.1 |
| P/Cash Flow (X) | 1.8 | 6.3 | 5.0 | 4.1 |
| EV/EBITDA (X) | 21.1 | 11.8 | 9.8 | 8.6 |
| Net Div Yield (%) | 0.0 | 0.0 | 0.0 | 0.0 |
| P/Book Value (X) | 2.0 | 1.8 | 1.5 | 1.3 |
| Net Debt/Equity (X) | 5.0 | 4.4 | 1.6 | 1.4 |
| ROAE (%) | (16.7) | 15.0 | 13.4 | 17.3 |
| Earnings Rev (%): | | 13 | (29) | - |
| Consensus EPS (S cts): | | 3.60 | 5.30 | 5.70 |
| Other Broker Recs: | | B: 2 | S: 0 | H: 1 |

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

Turned profitable but below expectations

Maintain HOLD; turning profitable but not as fast as envisaged. We maintain our HOLD recommendation on DMPL but with a higher TP of S\$0.39 as we roll forward our valuations based on average of FY16F/17F earnings. While we expect DMPL to be on track to post an earnings turnaround in FY16F following two consecutive years of losses, the pace is not as fast as we previously envisaged.

3Q16 profitable but below expectations. Headline profit stood at US\$0.6m, while core profit was US\$7.5m excluding non-recurring items. Despite this, the results was below expectations due to slower sales registered from its US operations (DMFI) arising from loss of government and OEM co-pack contract bids (c.US\$40m). As a result, sales from US declined by c.9% y-o-y to US\$466m. DMPL's Asia Pacific operations performed well, led by Philippines, which saw revenue improved by 11.6% in peso terms (or 6.4% in US terms). While 9M16 core profit of US\$18.5m was an improvement from loss of US\$23.9m last year, this was just at 50% of our original full year estimate.

Pref shares on cards; forecasts revised to reflect coupon payments, one-off items. Management continues to focus on deleveraging the group's balance sheet; and is looking to issue up to US\$360m of preference shares with a target coupon rate of between 5.5% to 7%. Post 3Q16 results, we trimmed our revenue and EBITDA forecasts lower for the group, particularly dragged by DMFI.

Valuation:

Our target price is revised slightly higher to S\$0.39, as we roll over to the average of FY16F/17F (from FY16F) based on 12x FY16F PE, which is at a 40% discount to consumer peers listed in the US and Philippines.

Key Risks to Our View:

Turnaround in performance. The main thesis of our recommendation is the turnaround of profit on the absence of non-recurring expenses and better operational performance. This is also contingent on sales, and in turn consumer sentiment and the broader economy.

At A Glance

| | |
|---------------------------|-----------|
| Issued Capital (m shrs) | 1,943 |
| Mkt. Cap (S\$m/US\$m) | 768 / 559 |
| Major Shareholders (%) | |
| Nutriasia Pacific Ltd | 59.4 |
| Bluebell Group Holdings | 7.4 |
| Lee Pineapple Co Pte Ltd | 5.5 |
| Free Float (%) | 26.7 |
| 3m Avg. Daily Val (US\$m) | 0.85 |

ICB Industry : Consumer Goods / Food Producers

WHAT'S NEW**3Q16 results profitable but below expectations**

3Q16 results profitable but below expectations. DMPL recorded headline net profit of US\$0.6m due to non-recurring items. Excluding several non-recurring items (US\$6.9m), core profit would have been US\$7.5m. While this was a turnaround from 3Q15's loss of US\$2.2m, it was below expectations. In our view, this came about largely from lower revenue recorded by its US operations, Del Monte Foods Inc (DMFI).

Group margins registered improvement. The group's gross margins improved by 1.3ppts in 3Q16 to 20.5%, from 19.2% in 3Q15. This was helped by the absence of the one-time inventory step up seen in FY15. The improvement in operating profit margins was however offset by higher expenses relating to Sager Creek acquisition integration (US\$2m) and higher SAP stabilisation expenses (US\$7.1m).

9M16 headline profit of US\$41.9m; core profit at US\$18.5m.

This was helped by one-time gain on retirement benefits amendment (US\$39.4m in 2Q16) offset partially by non-recurring costs of US\$21.5m from Sager Creek acquisitions, SAP implementation and other initiatives. Core profit for 9M16 would have been US\$18.5m, accounting for just 50% of our FY16F earnings.

US operations, led by DMFI, impacted by loss of government contract bids, higher expenses.

In 3Q16, DMFI's revenue fell by 8.8% to US\$466.2m. Excluding Sager Creek's contribution, DMFI revenue would have dropped by 19.3% arising from an unsuccessful government and OEM contract pack bids.

Asia Pacific ops, led by Philippines did well. DMPL's Asia Pacific operations performed well, led by its Philippines operations, which saw revenue improved by 11.6% in peso terms (or 6.4% in US terms). This was driven by sales of its juices, tomato-based sauces and packaged pineapple products. Its S&W brand in Asia Pacific was strong, registering sales growth of 35.3% in Asia and the Middle East due to strong performance of its fresh and packaged segment.

Preference shares issuance on the cards; target coupon of 5.5% to 7%. Management continues to focus on

deleveraging the group's balance sheet; and looks to issue up to US\$360m of preference shares in calendar year 2016. The target coupon rate for the preference shares is between 5.5% to 7%.

Post-pref shares issuance, management indicated that net gearing should be below 2x. While high, management is comfortable with the gearing level and believes that the strong cashflow generated from operations will aid in deleveraging its balance sheet.

Valuations

Revised forecasts by 13%/-29%. Post 3Q16 results, we trimmed our revenue and EBITDA forecasts lower for the group, particularly arising from DMFI. We now project revenue of US\$2.28bn/ US\$2.4bn for FY16F/17F from US\$2.36bn/ US\$2.49bn previously. Our EBITDA estimates are also lowered to US\$193m/ US\$230m for FY16F/17F, respectively, from US\$217m/ US\$249m. Our resultant headline profit for FY16F is raised by 13% to US\$44.6m arising mainly from one-time gains from adjustment of retirement benefit that was recognised in 2Q16.

Factoring in preference shares issuance. We have factored in the potential preference shares, assuming a coupon rate of 6.5%, slightly above the mid-point coupon range targeted by the management. We have also assumed that the total proceeds of US\$360m would be applied towards paring down its loan. As a result, net interest expense would improve, but this would be offset by pref shares dividends amounting to US\$22.5m on our estimates. As a result of our lower revenue forecasts and the pref shares coupon, we have revised our net profit forecasts (for equity holders) down by 29% for FY17F.

Maintain HOLD, TP revised up to S\$0.39. Notwithstanding our forecast changes, our TP is revised marginally up to S\$0.39 as we roll our valuations over to the average of FY16F/17F, from FY16F. Our valuation is still based on 12x earnings, a 40% discount to US peers. At this juncture, we believe this is warranted given its high gearing.

Quarterly / Interim Income Statement (US\$m)

| FY Apr | 3Q2015 | 2Q2016 | 3Q2016 | % chg yoy | % chg qoq | Comments |
|-------------------------|--------------|-------------|--------------|--------------|---------------|--|
| Revenue | 638 | 658 | 594 | (6.8) | (9.7) | Drop in revenue in DMFI due to loss of government contract pack and category contraction, partially offset by Sager Creek acquisition. |
| Cost of Goods Sold | (515) | (505) | (472) | (8.4) | (6.5) | |
| Gross Profit | 122 | 154 | 122 | (0.3) | (20.6) | Lower sales from DMFI in 3Q16 |
| Other Oper. (Exp)/Inc | (99.0) | (96.9) | (97.5) | (1.5) | 0.6 | |
| Operating Profit | 23.4 | 56.7 | 24.5 | 4.7 | (56.7) | |
| Other Non Opg (Exp)/Inc | 0.0 | 0.0 | 0.0 | nm | nm | |
| Associates & JV Inc | (0.4) | (0.3) | (0.4) | 18.8 | (9.3) | |
| Net Interest (Exp)/Inc | (27.9) | (23.8) | (25.0) | 10.4 | (5.0) | Lower interest costs with lower debt post rights issue proceeds used to pare down debt |
| Exceptional Gain/(Loss) | 0.0 | 39.4 | 0.0 | nm | nm | One-time gain from retirement benefits adjustment in 2Q16 |
| Pre-tax Profit | (4.9) | 71.9 | (0.8) | 83.2 | nm | |
| Tax | 1.81 | (13.1) | (0.1) | nm | (99.6) | |
| Minority Interest | 0.91 | (5.5) | 1.47 | 60.5 | nm | |
| Net Profit | (2.2) | 53.3 | 0.59 | nm | (98.9) | 3Q16 below expectations |
| Net profit bef Except. | (2.2) | 13.9 | 0.59 | nm | (95.8) | |
| EBITDA | 23.0 | 56.3 | 24.2 | 5.2 | (57.1) | |
| Margins (%) | | | | | | |
| Gross Margins | 19.2 | 23.3 | 20.5 | | | |
| Opg Profit Margins | 3.7 | 8.6 | 4.1 | | | |
| Net Profit Margins | (0.3) | 8.1 | 0.1 | | | |

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

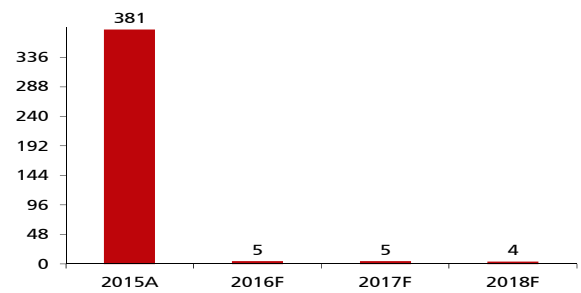
Main revenue contributor is from the US. With the acquisition of Del Monte Foods Inc. (DMFI) in 2012, DMPL's largest revenue contribution comes from the Americas, accounting for c.80% of group revenue. Since the acquisition, the group has reverted to competitive pricing levels for its products, reintroduced the well-recognised classic Del Monte label as well as partnered with complementary brands such as Tyson Foods, Walmart and Fleischmann's ® Yeast to drive topline growth. Also, recipes using the group's products are distributed for free across magazines and the internet. These initiatives will provide the thrust for topline growth.

Asia Pacific growth driven by Philippines, Middle East. With the Philippines economy growing at a healthy rate, we project consumption should continue on an uptrend. This will benefit the group given that it is the market leader in the processed fruits and vegetables segment. New products such as the 1L tetra juice drinks are also well received by consumers. Sales of Del Monte in the Philippines were up 19% and S&W branded business sales in Asia and the Middle East grew by 17% for FY15. While Asia Pacific and the Philippines only make up 20% of revenue in FY15, the strong double-digit growth in revenue from these markets will be important for the group's organic growth.

Leveraging on its US operations. In the short term, canned pineapple products from the Philippines are sold in the US market to generate topline growth. Given the group's success in this product segment in its Asian and Philippines markets, this strategy will likely generate positive results. In the medium term, the group is focused on developing the Del Monte range of products for the ethnic markets (Hispanics, Asians) in the US. The group is also planning to use its US operations as a base to penetrate into the South and Central American markets.

Synergistic benefits from acquisitions. Product teams from the different markets are able to share product knowledge, map out product innovations, and identify cross-border selling opportunities. This will help to ensure that resources are more effectively deployed across the group. Furthermore, the acquisition of Sager Creek has enabled the group to expand rapidly into foodservice and new vegetable segments. It is also reported that this acquisition will achieve significant operating synergies in terms of production and distribution in the US market.

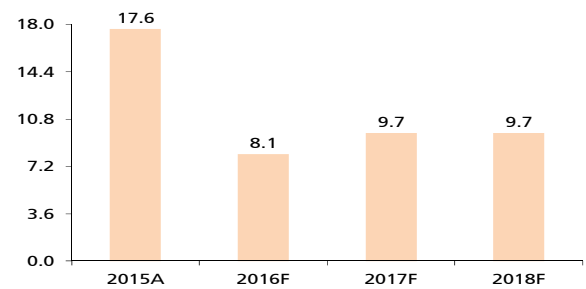
Americas rev gwth %



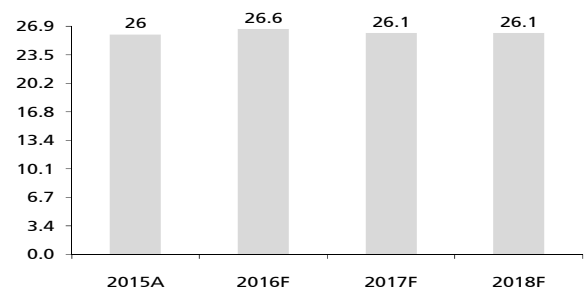
Americas GP mgn



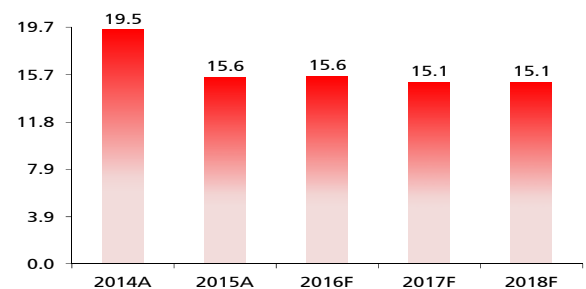
Asia Pac rev gwth %



Asia Pac GP mgn



SG&A as % of sales



Source: Company, DBS Bank

Balance Sheet:

Gearing high due to leverage for buyout. Gearing is high and currently stands at 5x as of end-FY15, but is projected to drop to 4.4x by end FY16F based on our assumptions/projections. Management is focused on de-leveraging its balance sheet and is looking to issue preference shares.

Capex to moderate. With the group now focused on the integration of the acquired businesses (DMFI & Sager Creek), capex will be significantly lower as no further significant acquisitions are planned, at least for FY16F.

Share Price Drivers:

Resumption of dividends. The group has a dividend policy of paying out 33% of its full-year profit. Currently, it is focused on de-leveraging its balance sheet and would want to use the profits to reduce gearing. The resumption of dividend payout should signal its confidence in the cashflow generation ability of the overall business and hence a catalyst for share price.

Pace of earnings turnaround. Since the acquisition of DMFI, the group registered losses for FY14 and FY15. We expect the group to register profits albeit at a slower pace than previously envisaged. An improvement in the pace would aid in driving share price up.

Key Risks:

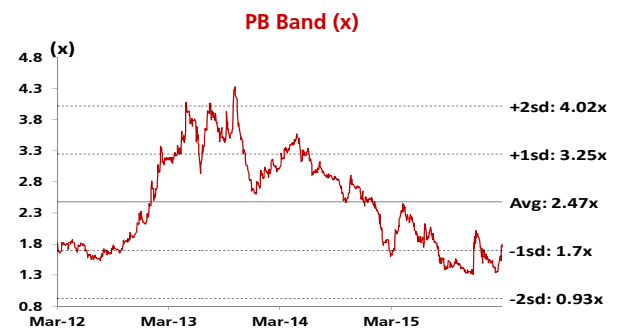
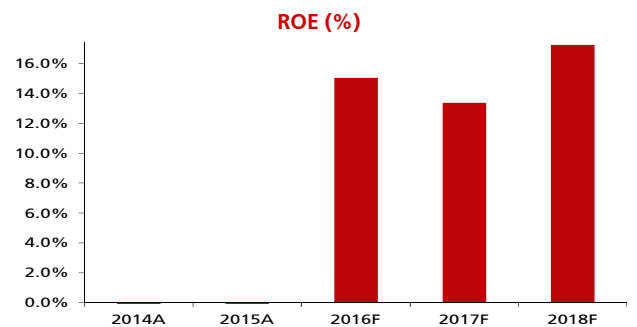
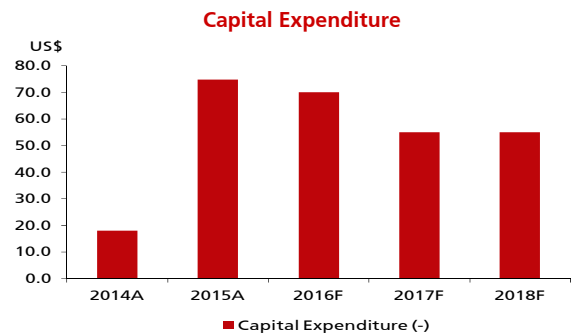
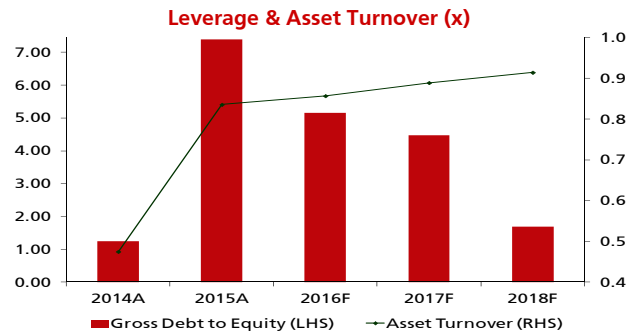
Higher interest costs. While a portion of loans has been swapped to a fixed rate, a higher interest rate environment could undermine future refinancing options.

Performance turnaround; raw material price. We expect operational performance to improve on the back of non-recurrence of one-off expenses, coupled with better efficiencies. This is contingent on sales, and in turn consumer sentiment and the broader economy.

Overhang from potential preference shares issuance. The terms and actual fruition of the preference shares issuance are unknown, and will depend on market conditions.

Company Background

Del Monte Pacific Limited is a consumer F&B-focused group. It acquired the consumer food business of Del Monte Corp in the US with the deal completed in Feb 2014 and thus extending the footprint of the group to the US and South America, along with trademarks such as Del Monte, S&W, Contadina, College Inn, etc. The group now has exclusive rights to use the Del Monte trademarks for packaged products in the United States, South America, the Philippines, Indian subcontinent and Myanmar. It owns another premium brand, S&W, globally except in Australia and New Zealand



Source: Company, DBS Bank

Del Monte Pacific

Key Assumptions

| FY Apr | 2014A | 2015A | 2016F | 2017F | 2018F |
|---------------------|-------|-------|-------|-------|-------|
| Americas rev gwth % | | 381 | 5.25 | 4.54 | 3.75 |
| Americas GP mgn | | 16.4 | 20.0 | 21.0 | 21.8 |
| Asia Pac rev gwth % | | 17.6 | 8.11 | 9.71 | 9.72 |
| Asia Pac GP mgn | | 26.0 | 26.6 | 26.1 | 26.1 |
| SG&A as % of sales | 19.5 | 15.6 | 15.6 | 15.1 | 15.1 |

Segmental Breakdown

| FY Apr | 2014A | 2015A | 2016F | 2017F | 2018F |
|---------------------------------|-------------|--------------|--------------|--------------|--------------|
| Revenues (US\$m) | | | | | |
| Americas | 357 | 1,717 | 1,807 | 1,889 | 1,960 |
| Asia Pacific | 349 | 411 | 444 | 487 | 535 |
| Europe | 36.8 | 31.4 | 29.4 | 29.4 | 29.4 |
| Total | 743 | 2,159 | 2,280 | 2,406 | 2,524 |
| Gross profit (US\$m) | | | | | |
| Americas | 32.6 | 281 | 362 | 397 | 428 |
| Asia Pacific | 88.4 | 107 | 118 | 127 | 140 |
| Europe | (0.2) | 2.30 | 2.17 | 2.17 | 2.17 |
| Total | 121 | 390 | 482 | 526 | 570 |
| Gross profit Margins (%) | | | | | |
| Americas | 9.1 | 16.4 | 20.0 | 21.0 | 21.8 |
| Asia Pacific | 25.3 | 26.0 | 26.6 | 26.1 | 26.1 |
| Europe | (0.4) | 7.3 | 7.4 | 7.4 | 7.4 |
| Total | 16.3 | 18.1 | 21.1 | 21.9 | 22.6 |

Income Statement (US\$m)

| FY Apr | 2014A | 2015A | 2016F | 2017F | 2018F |
|-----------------------------|---------------|---------------|-------------|-------------|-------------|
| Revenue | 743 | 2,159 | 2,280 | 2,406 | 2,524 |
| Cost of Goods Sold | (622) | (1,769) | (1,798) | (1,879) | (1,954) |
| Gross Profit | 121 | 390 | 482 | 526 | 570 |
| Other Opng (Exp)/Inc | (154) | (346) | (356) | (363) | (381) |
| Operating Profit | (33.6) | 44.2 | 126 | 163 | 189 |
| Other Non Opg (Exp)/Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates & JV Inc | (4.6) | (2.5) | (1.5) | (1.0) | (1.0) |
| Net Interest (Exp)/Inc | (22.1) | (99.5) | (96.6) | (78.2) | (78.1) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 24.0 | 0.0 | 0.0 |
| Pre-tax Profit | (60.2) | (57.8) | 52.3 | 83.8 | 109 |
| Tax | 23.1 | 14.4 | (4.7) | (8.4) | (11.0) |
| Minority Interest | 4.95 | 5.22 | (3.0) | (7.0) | (7.0) |
| Preference Dividend | 0.0 | 0.0 | 0.0 | (22.8) | (22.8) |
| Net Profit | (32.2) | (38.1) | 44.6 | 45.7 | 68.8 |
| Net Profit before Except. | (32.2) | (38.1) | 20.6 | 45.7 | 68.8 |
| EBITDA | (22.6) | 102 | 193 | 230 | 256 |
| Growth | | | | | |
| Revenue Gth (%) | 51.0 | 190.5 | 5.6 | 5.5 | 4.9 |
| EBITDA Gth (%) | nm | nm | 88.8 | 19.3 | 11.1 |
| Opg Profit Gth (%) | nm | nm | 186.2 | 29.0 | 15.7 |
| Net Profit Gth (Pre-ex) (%) | nm | (18.2) | nm | 122.3 | 50.5 |
| Margins & Ratio | | | | | |
| Gross Margins (%) | 16.3 | 18.1 | 21.1 | 21.9 | 22.6 |
| Opg Profit Margin (%) | (4.5) | 2.0 | 5.5 | 6.8 | 7.5 |
| Net Profit Margin (%) | (4.3) | (1.8) | 2.0 | 1.9 | 2.7 |
| ROAE (%) | (15.8) | (16.7) | 15.0 | 13.4 | 17.3 |
| ROA (%) | (2.1) | (1.5) | 1.7 | 1.7 | 2.5 |
| ROCE (%) | (7.5) | 3.2 | 5.1 | 6.5 | 7.4 |
| Div Payout Ratio (%) | N/A | N/A | 0.0 | 0.0 | 0.0 |
| Net Interest Cover (x) | (1.5) | 0.4 | 1.3 | 2.1 | 2.4 |

Largely one-time gains from adjustment of retirement benefits, and other non-recurring items

Assuming preference shares coupon of 6.5% on US\$360m

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US\$m)

| FY Apr | 3Q2015 | 4Q2015 | 1Q2016 | 2Q2016 | 3Q2016 |
|-----------------------------|--------------|---------------|---------------|-------------|--------------|
| Revenue | 638 | 528 | 473 | 658 | 594 |
| Cost of Goods Sold | (515) | (446) | (379) | (505) | (472) |
| Gross Profit | 122 | 82.0 | 93.8 | 154 | 122 |
| Other Oper. (Exp)/Inc | (99.0) | (74.6) | (93.5) | (96.9) | (97.5) |
| Operating Profit | 23.4 | 7.47 | 0.22 | 56.7 | 24.5 |
| Other Non Opg (Exp)/Inc | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates & JV Inc | (0.4) | (0.8) | (0.6) | (0.3) | (0.4) |
| Net Interest (Exp)/Inc | (27.9) | (23.3) | (21.7) | (23.8) | (25.0) |
| Exceptional Gain/(Loss) | 0.0 | 0.0 | 0.0 | 39.4 | 0.0 |
| Pre-tax Profit | (4.9) | (16.6) | (22.0) | 71.9 | (0.8) |
| Tax | 1.81 | 0.83 | 8.37 | (13.1) | (0.1) |
| Minority Interest | 0.91 | 1.62 | 1.64 | (5.5) | 1.47 |
| Net Profit | (2.2) | (14.1) | (12.0) | 53.3 | 0.59 |
| Net profit bef Except. | (2.2) | (14.1) | (12.0) | 13.9 | 0.59 |
| EBITDA | 23.0 | 6.70 | (0.4) | 56.3 | 24.2 |
| Growth | | | | | |
| Revenue Gth (%) | 16.3 | (17.2) | (10.5) | 39.2 | (9.7) |
| EBITDA Gth (%) | (41.8) | (70.8) | nm | nm | (57.1) |
| Opg Profit Gth (%) | (8.0) | (68.1) | (97.1) | 26,127.8 | (56.7) |
| Net Profit Gth (Pre-ex) (%) | nm | (545.3) | 15.0 | nm | (95.8) |
| Margins | | | | | |
| Gross Margins (%) | 19.2 | 15.5 | 19.8 | 23.3 | 20.5 |
| Opg Profit Margins (%) | 3.7 | 1.4 | 0.0 | 8.6 | 4.1 |
| Net Profit Margins (%) | (0.3) | (2.7) | (2.5) | 8.1 | 0.1 |

3Q16 below expectations, largely from weaker sales from DMFI

One-gain adjustment from retirement benefits seen in 2Q16

Balance Sheet (US\$m)

| FY Apr | 2014A | 2015A | 2016F | 2017F | 2018F |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| Net Fixed Assets | 501 | 578 | 586 | 580 | 573 |
| Invt in Associates & JVs | 21.0 | 22.6 | 21.1 | 20.1 | 19.1 |
| Other LT Assets | 829 | 879 | 873 | 866 | 860 |
| Cash & ST Invt | 28.4 | 35.6 | 39.3 | 42.7 | 70.2 |
| Inventory | 814 | 764 | 786 | 823 | 857 |
| Debtors | 216 | 232 | 245 | 259 | 271 |
| Other Current Assets | 118 | 127 | 132 | 137 | 142 |
| Total Assets | 2,528 | 2,639 | 2,683 | 2,728 | 2,792 |
| ST Debt | 920 | 446 | 431 | 50.5 | 20.5 |
| Creditor | 258 | 377 | 384 | 402 | 419 |
| Other Current Liab | 13.3 | 14.8 | 18.2 | 21.9 | 24.4 |
| LT Debt | 934 | 1,273 | 1,273 | 1,273 | 1,273 |
| Other LT Liabilities | 152 | 196 | 196 | 196 | 196 |
| Shareholder's Equity | 183 | 274 | 318 | 714 | 783 |
| Minority Interests | 67.6 | 59.5 | 62.5 | 69.5 | 76.5 |
| Total Cap. & Liab. | 2,528 | 2,639 | 2,683 | 2,728 | 2,792 |
| Non-Cash Wkg. Capital | 877 | 733 | 761 | 795 | 827 |
| Net Cash/(Debt) | (1,826) | (1,683) | (1,664) | (1,281) | (1,223) |
| Debtors Turn (avg days) | 80.4 | 37.9 | 38.2 | 38.2 | 38.3 |
| Creditors Turn (avg days) | 99.1 | 107.5 | 67.8 | 80.3 | 79.3 |
| Inventory Turn (avg days) | 108.6 | 274.6 | 168.6 | 163.6 | 162.2 |
| Asset Turnover (x) | 0.5 | 0.8 | 0.9 | 0.9 | 0.9 |
| Current Ratio (x) | 1.0 | 1.4 | 1.4 | 2.7 | 2.9 |
| Quick Ratio (x) | 0.7 | 0.2 | 0.3 | 0.3 | 0.6 |
| Net Debt/Equity (X) | 7.3 | 5.0 | 4.4 | 1.6 | 1.4 |
| Net Debt/Equity ex MI (X) | 10.0 | 6.1 | 5.2 | 1.8 | 1.6 |
| Capex to Debt (%) | 1.0 | 4.4 | 4.1 | 4.2 | 4.3 |
| Z-Score (X) | 0.4 | 1.1 | 1.4 | 1.5 | 1.6 |

Estimate gearing to drop with pref shares issuance (assuming pref shares as 100% equity).

Source: Company, DBS Bank

Cash Flow Statement (US\$m)

| FY Apr | 2014A | 2015A | 2016F | 2017F | 2018F |
|-------------------------|----------------|---------------|---------------|---------------|---------------|
| Pre-Tax Profit | (60.2) | (57.8) | 52.3 | 83.8 | 109 |
| Dep. & Amort. | 29.0 | 59.4 | 68.3 | 68.3 | 68.3 |
| Tax Paid | (4.1) | (12.5) | (1.3) | (4.7) | (8.4) |
| Assoc. & JV Inc/(loss) | 4.57 | 2.45 | 1.50 | 1.00 | 1.00 |
| Chg in Wkg.Cap. | 147 | 151 | (32.0) | (37.3) | (35.1) |
| Other Operating CF | (28.0) | 89.1 | 0.0 | 0.0 | 0.0 |
| Net Operating CF | 87.9 | 232 | 88.7 | 111 | 135 |
| Capital Exp.(net) | (18.0) | (74.8) | (70.0) | (55.0) | (55.0) |
| Other Invts.(net) | (1,821) | (75.0) | 0.0 | 0.0 | 0.0 |
| Invts in Assoc. & JV | (2.3) | (4.3) | 0.0 | 0.0 | 0.0 |
| Div from Assoc & JV | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Investing CF | 0.0 | 0.35 | 0.0 | 0.0 | 0.0 |
| Net Investing CF | (1,842) | (154) | (70.0) | (55.0) | (55.0) |
| Div Paid | 0.0 | 0.0 | 0.0 | (22.8) | (22.8) |
| Chg in Gross Debt | 1,580 | (134) | (15.0) | (380) | (30.0) |
| Capital Issues | 0.0 | 155 | 0.0 | 0.0 | 0.0 |
| Other Financing CF | 69.0 | (91.1) | 0.0 | 350 | 0.0 |
| Net Financing CF | 1,649 | (70.5) | (15.0) | (52.8) | (52.8) |
| Currency Adjustments | (0.2) | (0.1) | 0.0 | 0.0 | 0.0 |
| Chg in Cash | (105) | 7.22 | 3.70 | 3.38 | 27.5 |
| Opg CFPS (\$ cts) | (5.7) | 7.59 | 8.53 | 10.5 | 12.0 |
| Free CFPS (\$ cts) | 6.82 | 14.7 | 1.32 | 3.96 | 5.67 |

Pref shares proceeds
used to deleverage

Source: Company, DBS Bank

Target Price & Ratings History



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

| S.No. | Date | Closing Price | Target Price | Rating |
|-------|-----------|---------------|--------------|--------|
| 1: | 02 Jul 15 | 0.41 | 0.50 | BUY |
| 2: | 23 Jul 15 | 0.39 | 0.50 | BUY |
| 3: | 04 Sep 15 | 0.30 | 0.35 | HOLD |

Source: DBS Bank

DBS Bank 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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