

SMALL/MID CAP HIGHLIGHTS

Del Monte Pacific (DELM SP)

1QFY17: Seasonally Weak Results

DMPL reported 1QFY17 EBITDA of US\$23.7m (1QFY16: US\$19.7m), demonstrating the impact of the recent restructuring efforts to streamline the business. Stripping out one-off expenses, EBITDA would have come in 25.4% higher yoy. Maintain BUY with a lower PE-based target price of S\$0.41. The group maintains its guidance for a profitable FY17.

RESULTS

- **Seasonally weak first quarter.** Del Monte Pacific (DMPL) recorded a loss of US\$8.7m for 1QFY17, an improvement from a loss of US\$10.7m for 1QFY16. This is in line with the seasonal effect which the company faces in the first quarter - which is its weakest quarter due to the lack of festivities in that period. We expect a pick-up in 2QFY17 and 3QFY17 due to Thanksgiving and Christmas holidays.

HISTORICAL SALES SEASONALITY OF THE US BUSINESS

1Q	19-21%	Back to school
2Q	29-31%	Thanksgiving
3Q	26-28%	Christmas
4Q	22-24%	Easter

Source: Del Monte Pacific

1QFY17 RESULTS

Year to 30 Apr (US\$m)	1QFY17	1QFY16	yoy % change
Revenue	465.5	478.7	-2.8%
EBITDA	23.7	19.7	20.3%
Adj. EBITDA	28.6	22.8	25.4%
Operating Profit	6.8	2.6	161.5%
Net Profit	(8.7)	(10.7)	n.m.
Recurring Net Profit	(5.9)	(9.0)	n.m.

Source: Del Monte Pacific

- **Group revenue fell 2.8% yoy on lower sales from non-branded business and absence of sales from USDA bids.** US subsidiary Del Monte Foods Inc accounted for about 75% of total group sales for 1Q17 as Del Monte lost out on the low-margin US Department of Agriculture (USDA) bids and saw lower private label sales. USDA bids tend to be very volatile. The total size of the bids p.a. is typically in the range of US\$80-100m. We expect DMPL to gradually cut its reliance on this segment due to the volatility and unpredictability of its contributions.

KEY FINANCIALS

Year to 30 Apr (US\$m)	2015	2016	2017F	2018F	2019F
Net Turnover	2,159	2,268	2,282	2,372	2,467
EBITDA	103	236	226	267	300
EBIT	44	162	164	203	235
PATMI	(38)	52	44	54	75
Adjusted PATMI	25	20	44	54	75
Adjusted EPS (cts)	1.8	1.0	2.2	2.8	3.8
Adjusted P/E	-	26.0	11.8	9.6	6.9
P/B (x)	1.9	1.7	1.6	1.6	1.4
Dividend Yield (%)	-	5.0	3.4	4.2	5.8
Adjusted PATMI Margin (%)	1.1	0.9	1.9	2.3	3.0
Net Debt(cash) to Equity (%)	504.7	593.4	273.0	231.4	196.4
Interest cover (x)	0.4	1.6	1.8	2.1	2.5
Adjusted ROE (%)	n.m.	17.0	7.7	8.5	10.5
Consensus	-	-	37.5	49.6	n.a.
UOB/Consensus	-	-	1.16	1.08	-

Source: Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.345
Target Price	S\$0.41
Upside	+18.8%
(Previous TP)	S\$0.47)

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, 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):	1,944
Market cap (S\$m):	699.8
Market cap (US\$m):	497.9
3-mth avg daily t'over (US\$m):	0.4

Price Performance (%)

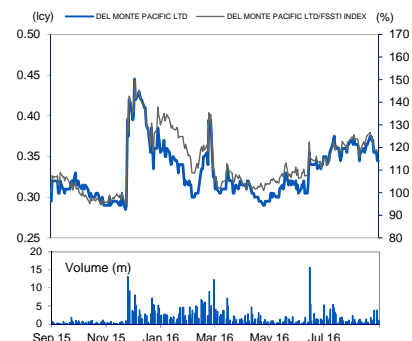
52-week high/low	S\$0.48/S\$0.28				
1mth	3mth	6mth	1yr	YTD	
14.5	7.6	(13.4)	4.4	(7.8)	

Major Shareholders

NutriAsia Pacific Limited	59.4
Bluebell Group Holdings Limited	7.6

FY17 NAV/Share (S\$)	0.32
FY17 Net debt/Share (S\$)	0.81

PRICE CHART



Source: Bloomberg

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- **Gross margin fell to 16% in 1QFY17 from 19% in 1QFY16.** DMPL saw a drop in gross profit margins due to the increase in trade spend and promotions. Due to limited product supply in 1Q16, the group did not engage in aggressive promotions for FY16. Furthermore, DMPL incurred a one-off US\$1.5m charge relating to the closure of its North Carolina plant.

STOCK IMPACT

- **Update on deleveraging.** DMPL has received approvals from the Philippine Securities and Exchange Commission (SEC) and from the central bank for the listing of its perpetual preference shares on the Philippine Stock Exchange. DMPL is planning to issue up to US\$360m with an initial tranche of US\$250m and balance issuable within three years. DMPL is guiding for an issuance in 2016 (calendar year), subject to regulatory approvals and market conditions. Barring unforeseen circumstances or regulatory roadblocks, we believe there will be significant interest in the preference shares as it is the first US dollar-denominated issuance on the Philippine Stock Exchange.
- **Expectations and outlook.** DMPL will continue to optimise its performance by restructuring and streamlining operations which may include further plant closures or one-off expenses if the group decides to completely exit the low-margin USDA contracts and private label business.

EARNINGS REVISION/RISK

- We have lowered our FY17-18 core net profit forecasts by 15% and 10% respectively, mainly due to: a) lower contribution from USDA bids, b) normalisation of trade spend resulting in lower-than-expected gross margins, and c) lower private label sales in the US.
- **Key risks include:** a) continued delay in issuance of perpetual securities due to poor market conditions or regulatory barriers, and b) further slowdown in US sales.

VALUATION/RECOMMENDATION

- **Maintain BUY with an 11.5x PE-based target price of S\$0.41 (previous target: S\$0.47).** We continue to apply a 40% discount to peers PE ratio of 19.1x.

PEER COMPARISON

Company	Ticker	Price @ 13 Sep 16 (1cy)	Mkt Cap (US\$m)	PE		EV/EBITDA		P/B	
				2016 * (x)	2017 * (x)	2016 * (x)	2017 * (x)	2016 * (x)	2017 * (x)
Rfm Corporation	RFM PM	4.17	305	14.4	12.6	7.4	6.5	n.a.	n.a.
Kraft Heinz Co/The	KHC US	88.56	107,835	27.4	22.8	17.5	15.8	1.9	1.8
Universal Robina Corp	URC PM	180.2	8,256	27.4	25.4	17.3	15.5	5.7	5.0
Century Pacific Food Inc	CNPF PM	16.96	1,261	24.7	21.7	16.3	14.2	5.1	4.5
General Mills Inc	GIS US	66.28	39,738	21.4	19.3	13.5	12.6	7.6	7.2
Conagra Foods Inc	CAG US	44.46	19,533	18.5	17.0	12.0	11.4	4.9	4.4
Fresh Del Monte Produce Inc	FDP US	58.33	2,990	14.3	15.5	9.5	9.8	2.0	1.8
Campbell Soup Co	CPB US	55.99	17,281	30.8	18.2	15.1	10.5	11.3	10.5
Average				22.4	19.1	13.6	12.0	5.5	5.0
Del Monte Pacific Ltd	DELM SP	0.345	498	11.8	9.6	10.5	8.9	1.6	1.6

* Refer to FY17, 18 for GIS US & DELM SP
Source: Bloomberg

PROFIT & LOSS

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
Net turnover	2,267.8	2,282.2	2,371.7	2,467.3
EBITDA	235.9	226.4	266.6	300.0
Deprec. & amort.	74.1	62.7	63.6	65.4
EBIT	161.7	163.7	203.0	234.7
Net interest income/(expense)	(97.4)	(91.6)	(94.7)	(91.0)
Associate contribution	(1.7)	0.6	0.8	2.7
Pre-tax profit	62.7	72.7	109.1	146.3
Tax	(8.1)	(18.2)	(27.3)	(36.6)
Minorities	(3.0)	(5.5)	(8.7)	(12.3)
Net profit	51.5	49.1	73.2	97.5
Preference dividends	-	(5.4)	(19.5)	(22.8)
Net profit to common shareholders	51.5	43.7	53.7	74.7
Net profit (adj.)	19.8	43.7	53.7	74.7

BALANCE SHEET

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
Property, plant, equipment	563.6	573.2	580.1	585.9
Other LT assets	937.1	929.6	922.2	914.8
Cash	47.2	50.6	81.5	95.0
Other current assets	1,146.3	1,149.8	1,151.0	1,191.7
Total assets	2,694.3	2,703.2	2,734.8	2,787.4
ST debt	727.4	727.4	727.4	727.4
Other current liabilities	318.8	309.9	316.0	325.9
LT debt	1,116.4	866.4	816.4	766.4
Other LT liabilities	167.0	167.0	167.0	167.0
Shareholders' equity	302.8	565.2	631.8	712.3
Minority interest	62.0	67.4	76.1	88.4
Total liabilities & equity	2,694.3	2,703.2	2,734.8	2,787.4

CASH FLOW

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
Operating	30.1	191.1	225.6	212.5
Pre-tax profit	62.7	72.7	109.1	146.3
Tax expense	(8.1)	(18.2)	(27.3)	(36.6)
Deprec. & amort.	74.1	62.7	63.6	65.4
Working capital changes	(167.6)	(12.3)	4.9	(30.8)
Non-cash items	69.1	104.4	102.5	104.8
Other operating cashflows	23.3	(18.2)	(27.3)	(36.6)
Investing	(58.1)	(64.0)	(62.0)	(62.2)
Capex	(60.3)	(64.8)	(63.1)	(63.8)
Interest and dividend income	0.4	0.8	1.0	1.6
Investments in JV	(1.9)	-	-	-
Proceeds from sale of assets	3.8	-	-	-
Financing	41.6	(123.7)	(132.7)	(136.8)
Dividend payments	-	(31.3)	(37.0)	(44.2)
Issue of shares	-	250.0	50.0	50.0
Net Proceeds from borrowings	126.4	(250.0)	(50.0)	(50.0)
Others/interest paid	(84.8)	(92.4)	(95.7)	(92.6)
Net cash inflow (outflow)	13.6	3.4	30.9	13.5
Beginning cash & cash equivalent	35.6	47.2	50.6	81.5
Changes due to forex impact	(2.1)	-	-	-
Ending cash & cash equivalent	47.2	50.6	81.5	95.0

KEY METRICS

Year to 30 Apr (%)	2016	2017F	2018F	2019F
Profitability				
EBITDA margin	10.4	9.9	11.2	12.2
Pre-tax margin	2.8	3.2	4.6	5.9
Net margin	2.3	1.9	2.3	3.0
ROA	1.9	1.6	2.0	2.7
ROE	17.0	7.7	8.5	10.5
Growth				
Turnover	5.0	0.6	3.9	4.0
EBITDA	128.6	(4.0)	17.7	12.5
Pre-tax profit	n.m	8.6	(0.9)	(0.9)
Net profit	n.m	8.6	(0.9)	(0.9)
Net profit (adj.)	(19.0)	120.2	22.9	39.2
Leverage				
Debt to total capital	68.4	59.0	56.5	53.6
Debt to equity	609.0	282.0	244.3	209.7
Net debt/(cash) to equity	593.4	273.0	231.4	196.4
Interest cover (x)	1.6	1.8	2.1	2.5

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