

### STRATEGY – SINGAPORE

#### Del Monte Pacific (DELM SP)

3QFY16: A Challenging Quarter Mired By One-off Charges But Nonetheless A Turnaround

**DMPL's net profit improved from the loss of US\$2.2m in 3QFY15 to a gain of US\$0.6m for 3QFY16. Sales were down by 7% yoy due to lost contracts in the US but market share for the core US retail business remained stable amid a challenging quarter. Maintain BUY recommendation as we value Del Monte Pacific at 12x FY17F PE with a reduced target price of S\$0.46.**

#### RESULTS

- Turnaround performance continues in a challenging quarter.** Del Monte Pacific (DMPL) recorded a net profit of US\$0.6m for 3QFY16 vs a US\$2.2m loss in 3QFY15. Sales in the US (DMFI) were down 20% for base business excluding Sager Creek due to unsuccessful government (USDA) and OEM co-pack contract bids. The USDA contract is a low-margin business that does not carry the Del Monte brand, and DMFI bids for this contract using excess inventory. The food goes to segments such as school lunches. These USDA contract values tend to be very volatile with a value of US\$40m in 3QFY16 and we estimate the full-year value of the contract to be about US\$180m. In 3QFY15, DMFI successfully bid for the contract at a decent margin as competitors were suffering a shortage of inventory. For 3QFY16, competitors were aggressive in pricing bids close to cost.
- Group adjusted net profit down from US\$11.3m in 3QFY15 to US\$7.5m in 3QFY16.** DMPL recorded a lower adjusted net profit due to timing issues with holiday season sales. A portion of Thanksgiving related sales were booked in 2QFY16 which resulted in an abnormally high adjusted net profit of US\$18m for that quarter. This also partially accounted for the drop in US sales for 3QFY16.
- Non-recurring items.** Significant non-recurring expenses continue to persist as the company proceeds with further streamlining and integrating the different entities. For 3QFY16, Del Monte recorded non-recurring expenses of US\$12.5m on a pre-tax basis and US\$6.9m on a net of tax basis. Previously, we expected the restructuring and acquisition-related one-time charges to be minimal in FY17 but we now expect further charges to be booked in FY17 since DMFI has rolled out the "Project Restoration and One" to further optimise G&A cost with an aim to further improve margins and profitability down the road by FY18.
- Plans for the US business.** In the near term, the US segment will focus on expanding the food service business through Sager Creek. The food service business consists of restaurant deliveries and is a more predictable business than the USDA contracts which are volatile in nature. Previously we expected Sager Creek to be profitable in FY17 but due to optimisation issues, we now expect profitability for Sager Creek only in FY18.

#### KEY FINANCIALS

Year to 30 Apr (US\$m)	2014	2015	2016F	2017F	2018F
Net Turnover	743	2,159	2,267	2,331	2,517
EBITDA	(5)	103	233	229	263
EBIT	(34)	44	174	163	196
PATMI	(40)	(38)	47	54	76
Adjusted PATMI	(40)	25	25	54	76
Adjusted EPS (cts)	(2.5)	1.8	1.3	2.8	3.9
Adjusted P/E	-	-	17.8	8.4	5.9
P/B (x)	2.5	1.6	1.4	1.3	1.1
Dividend Yield (%)	-	-	-	-	-
Adjusted PATMI Margin (%)	(5.3)	1.1	1.1	2.3	3.0
Net Debt(cash) to Equity (%)	996.1	614.5	558.9	401.2	342.6
Interest cover (x)	n.a	0.4	1.7	1.9	2.3
Adjusted ROE (%)	n.a	8.9	7.9	15.4	19.0
Consensus	-	-	44	60	68
UOB/Consensus	-	-	1.07	0.90	1.12

Source: Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$0.325
Target Price	S\$0.46
Upside	+41.5%
(Previous TP)	S\$0.69

#### 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):	1,943.2
Market cap (S\$m):	631.5
Market cap (US\$m):	459.5
3-mth avg daily t'over (US\$m):	0.9

#### Price Performance (%)

52-week high/low	S\$0.48/S\$0.28			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
1.6	(22.6)	10.2	1.6	(15.6)

#### Major Shareholders

NutriAsia Pacific Limited	59.4
Bluebell Group Holdings Limited	7.3

FY16 NAV/Share (S\$)	0.17
FY16 Net debt/Share (S\$)	0.92

#### PRICE CHART



Source: Bloomberg

#### ANALYST

**Nicholas Leow**  
+6590 6616  
nicholasleow@uobkayhian.com

### STOCK IMPACT

- Update on deleveraging.** In early-Mar 16, DMPL shareholders approved the mandate with no fixed expiry date to issue preference shares to be listed on the Philippine Stock Exchange (PSE). DMPL has indicated that the preference shares should be issued in 2016 and be priced at 5.5-7.0% discounts. We expect the issue will likely finalise sometime in early-FY17 subject to regulatory approval and favourable market conditions. We understand that this is the first US dollar-denominated preference share issue to be listed on the PSE and we expect there to be significant interest given the low yield environment.
- FY16 expectations and outlook.** We expect 4QFY16 sales to come in about 2% yoy higher than 4QFY15 sales given the lost USDA contract bids, which will be offset by continued growth in sales from Asia Pacific. In total, we expect a 5% yoy growth in sales for FY16. We estimate additional non-recurring expenses to come in at US\$5m after tax for 4QFY16, most of which would be SAP-related given the accelerated SAP timeline of two years that the group has implemented.
- FY17 and beyond.** For FY17, we estimate US sales to grow 1.5% yoy due to minimal USDA contract contribution and Asia Pacific sales to continue growing at about 8% yoy, which would imply a conservative 3% revenue growth.

### EARNINGS REVISION/RISK

- We have slashed our FY16-17 core net profit forecasts by 47% and 32% respectively. This is mainly due to: a) lower FY16 and FY17 sales forecasts, b) lower FY16 and FY17 gross margins forecasts by 1ppt to account for slower-than-expected Sager Creek optimisation which has put a drag on group margins, and c) larger financial expense for FY16 as we push the preference share offering into FY17.
- 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 a lower 12x PE-based target price of S\$0.46 (previously S\$0.69).** We continue to apply our 40% discount to peers' PE of 20x. As we expect the preference share issue to manifest sometime in early-FY17, we have elected to include an EV/EBITDA comparison to DMPL's peers to account for a more complex capital structure. Based on our DMPL's FY17F EV/EBITDA forecast with no discount applied, our target price is S\$0.42, with a 29% upside.

### REGIONAL PEER COMPARISON

Company	Ticker	Price @ 13 Mar 16 (1cy)	Mkt Cap (US\$m)	PE			EV/EBITDA		
				2015 *	2016F *	2017F *	2015 *	2016F *	2017F *
				(x)	(x)	(x)	(x)	(x)	(x)
Rfm Corporation	RFM PM	4	298	15.4	12.1	10.8	n.a.	7.7	6.7
Kraft Heinz Co/The	KHC US	76.95	93,509	n.a.	26.0	20.5	31.6	15.4	13.6
Universal Robina Corp	URC PM	204	9,562	35.9	30.5	27.0	20.5	18.0	16.1
Century Pacific Food Inc	CNPF PM	17.9	908	20.2	16.7	14.6	14.7	12.1	10.2
General Mills Inc	GIS US	61.06	36,230	21.3	19.9	18.8	13.3	12.9	12.4
Conagra Foods Inc	CAG US	43.86	19,041	20.8	18.4	16.3	13.9	13.4	12.4
Fresh Del Monte Produce Inc	FDP US	42.42	2,180	35.9	15.1	14.1	15.0	9.4	9.0
Campbell Soup Co	CPB US	63.99	19,782	29.0	21.6	20.4	16.7	13.1	12.9
<b>Average</b>				<b>25.5</b>	<b>20.0</b>	<b>17.8</b>	<b>17.9</b>	<b>12.7</b>	<b>11.7</b>
Del Monte Pacific Ltd	DELM SP	0.325	460	17.8	8.4	5.9	10.5	9.9	8.6

\* Refer to FY16, 17, 18 for GIS US & DELM SP  
Source: Bloomberg

### DEL MONTE 3Q16 VS 3Q15

3Q16 Results US\$m	3Q16	3Q15	yoy % change
Revenue	594.1	637.5	-6.8%
Operating Profit	24.5	23.4	4.7%
PBT	(0.8)	(4.9)	n.m
PATMI	0.6	(2.2)	n.m
Adjusted PAT	7.5	11.3	-33.6%

Source: Del Monte Pacific, UOB Kay Hian

### DEL MONTE 9M16 VS 9M15

9m FY16 Results US\$m	9m FY16	9m FY15	yoy % change
Revenue	1,725.2	1,631.2	5.8%
Operating Profit	120.8	36.7	229.2%
PBT	46.6	(10.3)	n.m
PATMI	41.9	(23.9)	n.m
Adjusted PAT	18.5	9.8	88.8%

Source: Del Monte Pacific, UOB Kay Hian

### PE DISCOUNT BREAKDOWN

Size discount	10%
Discount for high gearing	30%
<b>Total discount</b>	<b>40%</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 30 Apr (US\$m)	2015	2016F	2017F	2018F
Net turnover	2,159.4	2,267.3	2,330.8	2,517.3
EBITDA	103.2	233.2	228.9	263.0
Deprec. & amort.	59.0	59.4	65.9	66.8
EBIT	44.2	173.9	163.0	196.2
Net interest income/(expense)	(99.5)	(102.9)	(84.1)	(83.4)
Associate contribution	(2.5)	(1.2)	0.6	0.8
<b>Pre-tax profit</b>	<b>(57.7)</b>	<b>69.7</b>	<b>79.6</b>	<b>113.6</b>
Tax	14.4	(17.4)	(19.9)	(28.4)
Minorities	5.2	(5.5)	(6.0)	(9.0)
<b>Net profit</b>	<b>(38.0)</b>	<b>46.8</b>	<b>53.7</b>	<b>76.2</b>
Net profit (adj.)	24.5	25.4	53.7	76.2

### BALANCE SHEET

Year to 30 Apr (US\$m)	2015	2016F	2017F	2018F
Property, plant, equipment	578.4	595.6	605.4	612.3
Other LT assets	893.5	885.9	878.4	870.9
Cash	35.6	26.4	65.0	92.9
Other current assets	1,123.9	1,240.7	1,244.1	1,303.2
<b>Total assets</b>	<b>2,631.4</b>	<b>2,748.7</b>	<b>2,792.9</b>	<b>2,879.3</b>
ST debt	445.5	545.5	545.5	545.5
Other current liabilities	383.4	348.4	357.4	383.1
LT debt	1,272.9	1,272.9	922.9	922.9
Other LT liabilities	196.0	196.0	196.0	196.0
Shareholders' equity	273.9	320.6	699.8	751.5
Minority interest	59.6	65.1	71.1	80.1
<b>Total liabilities &amp; equity</b>	<b>2,631.4</b>	<b>2,748.7</b>	<b>2,792.9</b>	<b>2,879.3</b>

### CASH FLOW

Year to 30 Apr (US\$m)	2015	2016F	2017F	2018F
<b>Operating</b>	<b>239.6</b>	<b>62.8</b>	<b>215.3</b>	<b>202.0</b>
Pre-tax profit	(57.7)	69.7	79.6	113.6
Tax expense	14.4	(17.4)	(19.9)	(28.4)
Deprec. & amort.	59.0	59.4	65.9	66.8
Working capital changes	159.0	(151.8)	5.7	(33.4)
Non-cash items	67.3	85.5	64.2	55.0
Other operating cashflows	(2.4)	17.4	19.9	28.4
<b>Investing</b>	<b>(155.0)</b>	<b>(68.3)</b>	<b>(67.7)</b>	<b>(64.6)</b>
Capex	(151.4)	(69.4)	(68.5)	(66.6)
Interest and dividend income	0.4	0.7	0.5	1.6
Investments in JV	(4.2)	-	-	-
Proceeds from sale of assets	0.4	0.4	0.4	0.4
<b>Financing</b>	<b>(77.3)</b>	<b>(3.7)</b>	<b>(109.1)</b>	<b>(109.6)</b>
Dividend payments	(74.6)	(76.0)	(76.0)	(76.0)
Issue of shares	7.3	-	-	-
Proceeds from borrowings	-	-	-	-
Others/interest paid	-	-	-	-
<b>Net cash inflow (outflow)</b>	<b>29.0</b>	<b>(27.6)</b>	<b>(15.6)</b>	<b>(23.0)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>477.9</b>	<b>505.8</b>	<b>478.2</b>	<b>462.7</b>
Changes due to forex impact	(1.1)	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>505.8</b>	<b>478.2</b>	<b>462.7</b>	<b>439.7</b>

### KEY METRICS

Year to 30 Apr (%)	2015	2016F	2017F	2018F
<b>Profitability</b>				
EBITDA margin	4.8	10.3	9.8	10.4
Pre-tax margin	(2.7)	3.1	3.4	4.5
Net margin	(1.8)	2.1	2.3	3.0
ROA	(1.4)	1.7	1.9	2.6
ROE	(13.9)	14.6	7.7	10.1
<b>Growth</b>				
Turnover	190.5	5.0	2.8	8.0
EBITDA	n.m	126.0	(1.9)	14.9
Pre-tax profit	n.m	n.m	8.6	(0.9)
Net profit	n.m	n.m	8.6	(0.9)
Net profit (adj.)	n.m	3.5	111.8	41.9
<b>Leverage</b>				
Debt to total capital	65.3	66.2	52.6	51.0
Debt to equity	627.5	567.2	209.8	195.4
Net debt/(cash) to equity	614.5	558.9	200.5	183.0
Interest cover (x)	0.4	1.7	1.9	2.3

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