January 20, 2014

CIMB

Del Monte Pacific

DELM SP / DMPL.SI

COMPANY NOTE

Market Cap	Avg Daily Turnover	Free Float
US$626.3m	**US$0.75m**	**21.3%**
S$797.4m	S$0.95m	255.2 m shares

Current	S$0.62
Target	S$1.14
Prev. Target	S$1.14
Up/Downside	85.4%

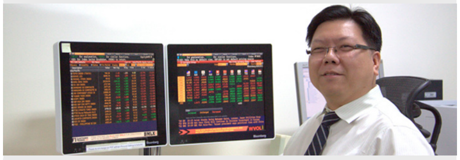
STOCK RATING

ADD

HOLD

REDUCE

Notes from the Field



William TNG, CFA
T (65) 6210 8676
E william.tng@cimb.com

Company Visit	☑	Expert Opinion	☐
Channel Check	☐	Customer Views	☐

> *"This landmark transaction offers DMPL greater access to a well-established, attractive and profitable branded consumer food business in the world's biggest market."*
>
> *– Rolando Gapud, Chairman*

Truly Sweet (20)16?

We stated in our initiation report in Mar 2013 that the key re-rating catalyst of earnings growth driven by the favourable changes in 2015 would lead to stronger earnings for Del Monte Pacific (DMPL) in FY15. The ambitious proposal to acquire Del Monte Foods (DMF) in the US, if successful, could result in a truly sweet (20)16 for the company.

In this note, we provide an update on DMPL's operations and the proposed acquisition's financing structure. We keep our target price of S$1.14, based on 17.5x CY15 P/E (6-year average). The upcoming circular on the proposed acquisition will provide clarity. The re-rating catalysts are: 1) the completion of the acquisition by end-Feb, 2) confirmed financing details, and 3) a clearer business strategy.

Financing almost secured

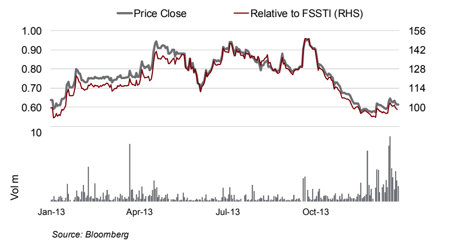
Our latest discussion with management revealed that DMPL has secured the debt portion of the US$1.675bn required for the proposed US acquisition. Thus, DMPL has the leeway to lower its new equity issuance to US$35.5m, instead of the initial US$150m proposed. However, the concerns about the dilution have shifted from the new share issuance to the possible rights issue (that maybe more dilutive) for the refinancing of the shareholder loan (see Figure 5 for the financing structure). However, the possible rights issue would at least allow for the participation of the existing shareholders.

Details on synergies

DMPL plans to enter the fruit juice market in the US via selected key accounts and cities. It also plans to relaunch its "fruit cup" product under the S&W brand. DMPL believes that DMF's recent rebranding efforts could support an estimated 5% sales growth going forward. DMPL also believes that 13% is a sustainable EBITDA margin for DMF (current 9.7%). The acquisition's potential cost savings are estimated at US$30m, of which US$25m would come from savings in general expenses and another US$5m would come from the outsourcing of the US unit's IT needs to the Philippines.

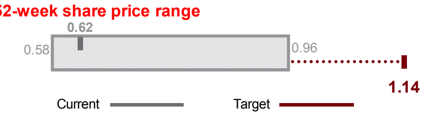
Look past the headlines

Transaction costs for the DMF acquisition have risen since our last update. We now expect a US$6.3m charge in 4Q13 earnings. Given that 1Q is a seasonally slow quarter and the transaction cost has risen to US$20m (previous: US$16m), we expect a headline loss in 1QFY14.



Source: Bloomberg

52-week share price range



Financial Summary

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue (US$m)	425.2	459.7	516.2	589.5	668.3
Operating EBITDA (US$m)	57.81	65.47	70.60	82.15	99.61
Net Profit (US$m)	27.44	32.09	34.63	44.54	56.43
Core EPS (US$)	0.021	0.025	0.027	0.034	0.043
Core EPS Growth	73.8%	16.9%	7.8%	28.6%	26.7%
FD Core P/E (x)	22.79	19.50	18.09	14.07	11.11
DPS (US$)	0.016	0.022	0.006	-	-
Dividend Yield	3.30%	4.62%	1.28%	0.00%	0.00%
EV/EBITDA (x)	12.35	11.36	10.66	9.11	7.36
P/FCFE (x)	29.11	27.33	15.02	24.43	16.82
Net Gearing	39.3%	47.4%	49.3%	40.9%	30.3%
P/BV (x)	2.71	2.46	2.39	2.04	1.73
ROE	12.1%	13.2%	13.4%	15.7%	16.8%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			0.99	1.18	0.87

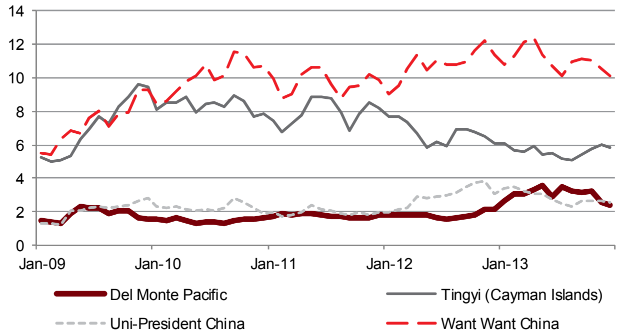
SOURCE: CIMB, COMPANY REPORTS

PEER COMPARISON

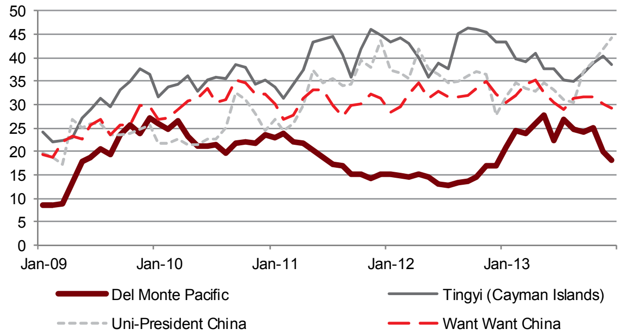
Research Coverage

	Bloomberg Code	Market	Recommendation	Mkt Cap US$m	Price	Target Price	Upside
Del Monte Pacific	DELM SP	SG	ADD	626	0.62	1.14	85.4%
Tingyi (Cayman Islands)	322 HK	HK	HOLD	15,694	21.75	23.20	6.7%
Uni-President China	220 HK	HK	REDUCE	3,309	7.13	7.00	-1.8%
Want Want China	151 HK	HK	ADD	17,868	10.48	12.30	17.4%

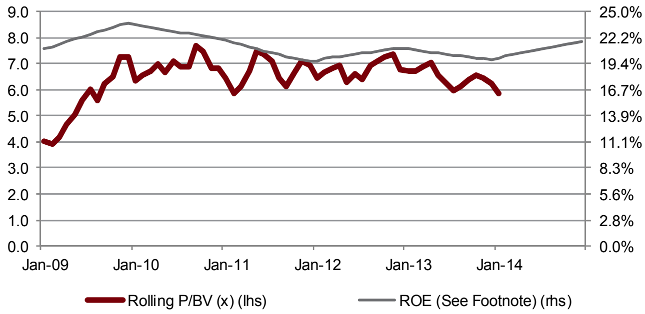
Rolling P/BV (x)



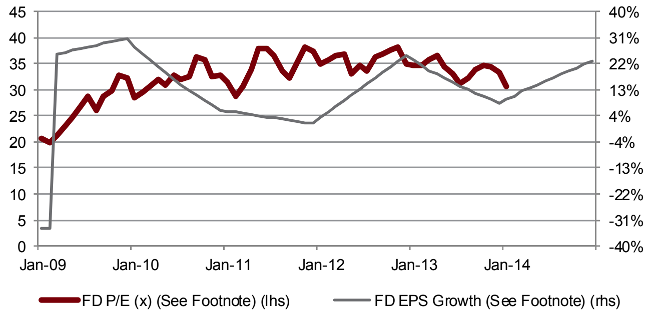
Rolling FD P/E (x)



Peer Aggregate: P/BV vs ROE



Peer Aggregate: FD P/E vs FD EPS Growth



Valuation

	FD P/E (x) (See Footnote)			P/BV (x)			EV/EBITDA (x)		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Del Monte Pacific	19.50	18.09	14.07	2.46	2.39	2.04	11.36	10.66	9.11
Tingyi (Cayman Islands)	43.70	37.52	30.12	6.17	5.64	5.08	16.32	11.94	10.12
Uni-President China	23.39	39.80	24.99	2.61	2.35	2.20	12.33	14.43	12.46
Want Want China	31.50	27.22	23.26	11.14	9.49	8.06	21.47	18.92	15.87

Growth and Returns

	FD EPS Growth (See Footnote)			ROE (See Footnote)			Dividend Yield		
	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14	Dec-12	Dec-13	Dec-14
Del Monte Pacific	16.9%	7.8%	28.6%	13.2%	13.4%	15.7%	4.62%	1.28%	0.00%
Tingyi (Cayman Islands)	-5.3%	16.5%	24.6%	15.6%	15.8%	17.8%	1.15%	1.37%	1.67%
Uni-President China	174.4%	-41.2%	59.3%	11.8%	6.2%	9.1%	1.05%	1.26%	1.00%
Want Want China	35.2%	15.7%	17.0%	38.5%	37.6%	37.5%	2.09%	2.42%	2.83%

SOURCE: CIMB, COMPANY REPORTS

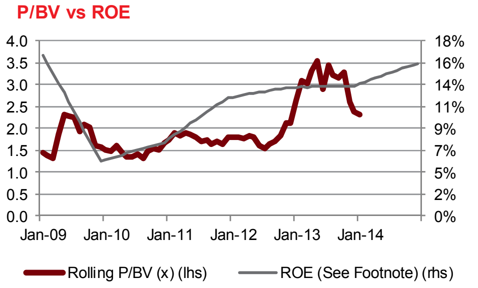
Calculations are performed using EFA™ Monthly Interpolated Annualisation and Aggregation algorithms to December year ends.
NPAT/EPS values for calculations and valuations are based on recurring and normalised values for GAAP and IFRS accounting standard companies respectively.

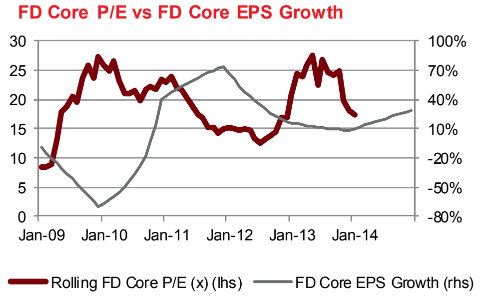
BY THE NUMBERS

Share price info

Share px perf. (%)	1M	3M	12M
Relative	4.3	-32.1	-2.2
Absolute	6	-33.5	-4.2

Major shareholders	% held
NUTRIASIA PACIFIC LTD	67.0
LEE PINEAPPLE CO PTE LTD	7.8
WEE POH CHAN PHYLLIS	1.2





EBIT to be driven by branded sales growth and better terms of trade. Our forecasts exclude the impact of the proposed acquisition.

Profit & Loss

(US$m)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Net Revenues	**425.2**	**459.7**	**516.2**	**589.5**	**668.3**
Gross Profit	**101.4**	**112.8**	**127.6**	**148.1**	**175.6**
Operating EBITDA	**57.8**	**65.5**	**70.6**	**82.1**	**99.6**
Depreciation And Amortisation	(13.5)	(15.6)	(17.8)	(19.5)	(20.9)
Operating EBIT	**44.3**	**49.9**	**52.8**	**62.6**	**78.7**
Total Financial Income/(Expense)	(1.6)	(3.1)	(3.6)	(4.1)	(4.8)
Total Pretax Income/(Loss) from Assoc.	(10.6)	(6.1)	(4.7)	(3.2)	(1.7)
Total Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**32.1**	**40.7**	**44.5**	**55.4**	**72.2**
Exceptional Items					
Pre-tax Profit	**32.1**	**40.7**	**44.5**	**55.4**	**72.2**
Taxation	(5.5)	(9.1)	(10.2)	(11.1)	(15.9)
Exceptional Income - post-tax					
Profit After Tax	**26.6**	**31.6**	**34.3**	**44.3**	**56.3**
Minority Interests	0.9	0.5	0.4	0.3	0.1
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**27.4**	**32.1**	**34.6**	**44.5**	**56.4**
Recurring Net Profit	27.4	32.1	34.6	44.5	56.4
Fully Diluted Recurring Net Profit	**27.4**	**32.1**	**34.6**	**44.5**	**56.4**

DMPL's current cashflow is sufficient to fund its organic capex needs.

Cash Flow

(US$m)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
EBITDA	57.81	65.47	70.60	82.15	99.61
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(18.61)	(36.86)	(7.30)	(33.60)	(35.94)
(Incr)/Decr in Total Provisions	4.82	6.32	0.00	0.00	0.00
Other Non-Cash (Income)/Expense	0.70	(1.08)	0.00	0.00	0.00
Other Operating Cashflow		(3.06)			
Net Interest (Paid)/Received	(3.58)	(3.52)	(3.60)	(4.08)	(4.79)
Tax Paid	(7.19)	(6.24)	(10.23)	(11.07)	(15.88)
Cashflow From Operations	**33.95**	**21.03**	**49.47**	**33.39**	**43.00**
Capex	(18.48)	(17.89)	(27.74)	(27.74)	(27.74)
Disposals Of FAs/subsidiaries	0.07	0.27	0.00	0.00	0.00
Acq. Of Subsidiaries/investments	(1.12)	(3.41)	(2.00)	(2.00)	0.00
Other Investing Cashflow					
Cash Flow From Investing	**(19.52)**	**(21.04)**	**(29.74)**	**(29.74)**	**(27.74)**
Debt Raised/(repaid)	7.06	22.90	22.00	22.00	22.00
Proceeds From Issue Of Shares	0.00	0.00	0.00	0.00	0.00
Shares Repurchased	(1.23)	(1.55)	0.00	0.00	0.00
Dividends Paid	(16.85)	(23.37)	(27.64)	0.00	0.00
Preferred Dividends					
Other Financing Cashflow	0.00	0.00	0.00	0.00	0.00
Cash Flow From Financing	**(11.02)**	**(2.02)**	**(5.64)**	**22.00**	**22.00**
Total Cash Generated	3.41	(2.02)	14.10	25.66	37.27
Free Cashflow To Equity	**21.49**	**22.90**	**41.73**	**25.66**	**37.27**
Free Cashflow To Firm	**18.51**	**4.09**	**24.46**	**9.07**	**21.36**

SOURCE: CIMB, COMPANY REPORTS

BY THE NUMBERS

NutriAsia has proven to be an aggressive shareholder and is more receptive to debt financing.

Balance Sheet

(US$m)	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Total Cash And Equivalents	20.9	21.5	35.6	61.2	98.5
Total Debtors	82.9	102.4	104.0	118.8	134.7
Inventories	89.4	113.5	113.6	129.0	144.0
Total Other Current Assets	91.8	109.7	118.7	135.6	153.7
Total Current Assets	**285.0**	**347.0**	**371.9**	**444.6**	**530.9**
Fixed Assets	85.4	93.4	103.8	112.6	120.0
Total Investments	24.0	21.5	18.8	17.6	15.9
Intangible Assets	16.0	15.4	14.9	14.3	13.7
Total Other Non-Current Assets	13.5	15.2	15.2	15.2	15.2
Total Non-current Assets	**138.9**	**145.5**	**152.7**	**159.7**	**164.8**
Short-term Debt	105.0	125.9	145.9	165.9	185.9
Current Portion of Long-Term Debt					
Total Creditors	81.3	95.5	99.0	112.5	125.5
Other Current Liabilities	2.6	2.1	2.1	2.1	2.1
Total Current Liabilities	**188.9**	**223.4**	**247.0**	**280.4**	**313.5**
Total Long-term Debt	5.9	15.7	17.7	19.7	21.7
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Non-current Liabilities	**5.9**	**15.7**	**17.7**	**19.7**	**21.7**
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	**194.8**	**239.1**	**264.7**	**300.1**	**335.2**
Shareholders' Equity	230.5	255.2	262.2	306.8	363.2
Minority Interests	(1.5)	(1.9)	(2.3)	(2.6)	(2.7)
Total Equity	**229.0**	**253.3**	**259.9**	**304.2**	**360.5**

Key Ratios

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
Revenue Growth	12.3%	8.1%	12.3%	14.2%	13.4%
Operating EBITDA Growth	37.8%	13.2%	7.8%	16.3%	21.3%
Operating EBITDA Margin	13.6%	14.2%	13.7%	13.9%	14.9%
Net Cash Per Share (US$)	(0.070)	(0.093)	(0.099)	(0.096)	(0.084)
BVPS (US$)	0.18	0.20	0.20	0.24	0.28
Gross Interest Cover	14.49	12.84	11.16	11.57	12.91
Effective Tax Rate	17.2%	22.3%	23.0%	20.0%	22.0%
Net Dividend Payout Ratio	75.1%	90.2%	23.1%	NA	NA
Accounts Receivables Days	69.90	73.77	72.98	69.00	69.23
Inventory Days	94.1	107.0	106.6	100.3	101.1
Accounts Payables Days	85.34	93.26	91.34	87.44	88.16
ROIC (%)	11.3%	11.8%	10.5%	11.9%	13.4%
ROCE (%)	13.8%	13.8%	13.2%	14.0%	15.1%

Key Drivers

	Dec-11A	Dec-12A	Dec-13F	Dec-14F	Dec-15F
ASP (% chg, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%, main prod./serv.)	5.3%	16.8%	17.3%	17.3%	17.9%
Util. rate (%, main prod./serv.)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, 2ndary prod./serv.)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%,2ndary prod/serv)	27.8%	-7.8%	0.8%	5.8%	-0.1%
Util. rate (%, 2ndary prod/serv)	N/A	N/A	N/A	N/A	N/A
ASP (% chg, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit sales grth (%,tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Util. rate (%, tertiary prod/serv)	N/A	N/A	N/A	N/A	N/A
Unit raw mat ASP (%chg,main)	N/A	N/A	N/A	N/A	N/A
Total Export Sales Growth (%)	N/A	N/A	N/A	N/A	N/A
Export Sales/total Sales (%)	N/A	N/A	N/A	N/A	N/A

SOURCE: CIMB, COMPANY REPORTS

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Has the share price troughed?

1. BACKGROUND

1.1 Point of entry

Del Monte Pacific Limited's (DMPL) share price rose by 17% after it announced the proposed acquisition of Del Monte Foods' (DMF) consumer food business. However, the share price rally was short-lived due to concerns regarding: 1) DMPL's ability to obtain the financing required to close the deal, 2) the high gearing and interest payments needed to fund the acquisition, and 3) the extent of the possible equity dilution as a result of the acquisition, which led to a 40% decline in DMPL's share price the past two months. DMPL's share price fell to a 52-week low of S$0.575 on 26 Dec 2013.

Both Rolando C. Gapud (Chairman and Non-Executive Director) and Edgardo M. Cruz, Jr. (Executive Director) began buying DMPL shares on 16 Dec 2013 at an average price of S$0.588 and S$0.612, respectively.

Figure 1: Following the 'insiders'

Date of Acquisition	Quantity	Price (S$)	Before	After	Shareholding post purchases
Edgardo M Cruz, Jr					
16-Dec-13	200,000	0.595	490,000	690,000	0.053%
16-Dec-13	182,800	22.75*	690,000	872,800	0.067%
17-Dec-13	212,000	0.590	872,800	1,084,800	0.083%
17-Dec-13	210,700	22.50*	1,084,800	1,295,500	0.099%
17-Dec-13	182,800	22.75*	1,295,500	1,478,300	0.114%
17-Dec-13	10,000	22.70*	1,478,300	1,488,300	0.114%
17-Dec-13	10,000	22.65*	1,488,300	1,498,300	0.115%
18-Dec-13	5,200	22.55*	1,498,300	1,503,500	0.115%
19-Dec-13	212,000	0.590	1,503,500	1,715,500	0.132%
19-Dec-13	47,400	22.80*	1,715,500	1,762,900	0.135%
23-Dec-13	200,000	0.590	1,762,900	1,962,900	0.151%
6-Jan-14	400,000	0.600	1,962,900	2,362,900	0.182%
Rolando C Gapud					
11-Dec-13	100,000	0.590	480,000	580,000	0.044%
12-Dec-13	50,000	0.585	580,000	630,000	0.048%
13-Dec-13	150,000	0.588	630,000	780,000	0.060%
17-Dec-13	50,000	0.589	780,000	830,000	0.064%
18-Dec-13	100,000	0.590	830,000	930,000	0.071%
16-Dec-13	50,000	0.585	930,000	980,000	0.075%

** Phillipine peso price as shares were bought in the Phillipines*

SOURCES: SGX

Figure 2: Short-term de-rating is over

SOURCES: CIMB, COMPANY REPORTS

2. OUTLOOK

2.1 Update on existing business

1) The Philippines business (Del Monte brand name) accounted for 55% of group sales and 75% of operating profit in 3QFY13. DMPL's long-term annual sales growth target is still 15%. The key sales drivers are: a) the population growth, b) rising number of new institutional accounts such as fast food chains and hospitals, and c) the expansion of its distribution reach from the current 150,000 points of sale to 200,000 in the next two years.

   Although DMPL was not directly affected by the devastating Typhoon Haiyan in 2013, we believe that its sales growth slowed to around 10% yoy in 4QFY13 due to the generally weak consumer sentiment.

2) DMPL uses an external supplier for its PET juice business in the Philippines. As it has become unprofitable, DMPL has decided to terminate the toll-packing arrangement once it expires in FY14. DMPL will transfer an existing PET bottling line from its India JV to the Philippines. This could result in a boost in operating profit from US$3.0 to US$3.8m in FY15.

3) The S&W brand is expected to register strong growth moving forward, thanks to the strong potential demand for fruit juices in the Middle East and Indonesia as alcohol is not widely consumed there. DMPL continues to post strong sales of its "Sweet 16" fresh pineapples in Asia Pacific and the Middle East as it is still the sole supplier of this variety of sweet pineapple in those regions.

4) The India JV's losses are expected to narrow and breakeven achieved in FY15. To be conservative, we assume that breakeven will be reached in FY16.

5) The Del Monte Asia supply agreement is likely to be the last to be terminated. Under this supply agreement, DMPL supplies canned pineapple, pineapple concentrate, pineapple juice, mixed tropical fruit and juice drinks to Kikkoman (which owns the rights to the Del Monte brand in the Asia Pacific region) for distribution in Singapore, Hong Kong, Korea and Japan, as well as other countries in Asia and the Pacific Rim. The

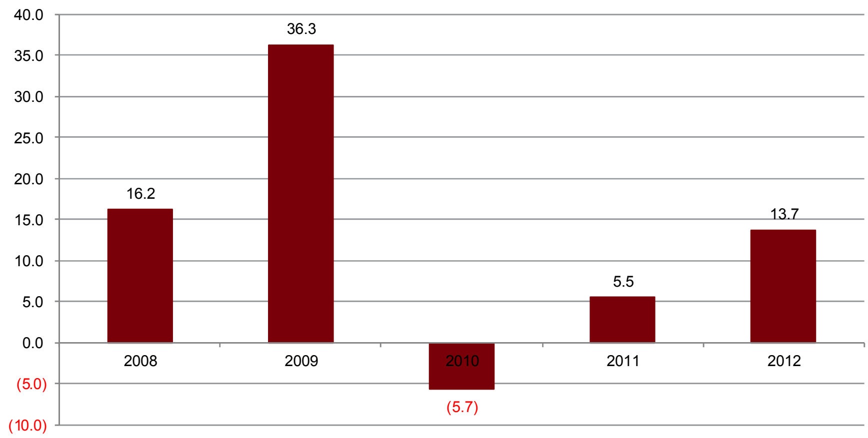
agreement is terminable with an 18 month notice period. Since Del Monte Asia's Del Monte brand against the S&W brand, we think that the termination of the supply agreement will benefit DMPL. We believe that DMPL is capable of generating higher operating margins for the S&W brand than the existing agreement's estimated 10% operating margin.

2.2 Watch out for headline loss

We understand that the transaction costs (legal and investment banking fees) related to the proposed acquisition have increased due to changes in the debt composition and interest rates payable. We now forecast transaction costs of US$8m in FY13, instead of US$6m. Since a transaction cost of US$1.7m has been booked in 3Q13, we expect another US$6.3m to be booked in 4Q13.

In 1QFY14, we now estimate that DMPL will incur transaction fees of US$20m, instead of US$16m. Furthermore, 1Q is a seasonally weak quarter. Thus, investors should expect DMPL to report a headline loss of around US$15.5m in 1QFY14, using the US$4.5m net profit in 1QFY13 as a guide.

Figure 3: 1Q as percentage of full-year net profit



SOURCES: CIMB, COMPANY REPORTS

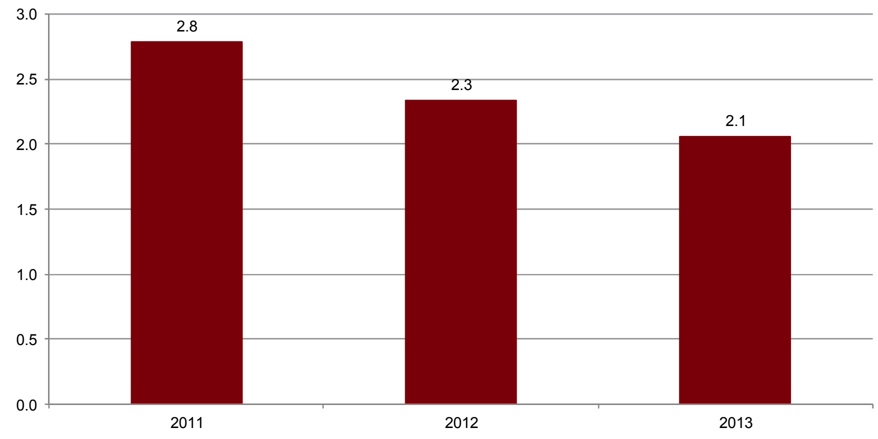
2.3 Update on acquisition status

The key updates on the acquisition are:

1) The EGM will be conducted in Feb 2014 and a detailed circular on the proposed acquisition will be issued to shareholders prior to that. DMPL only needs a simple majority for the proposed acquisition to be approved. Thus, we do not foresee any hiccups. The deal is slated for completion in end-Feb 2014.

2) To recap, the acquisition cost of US$1.675bn is divided into a debt portion of US$970m and an equity portion of US$705m. We have outlined the details of the latest financing structure in Figure 5 and the interest coverage ratio based on the adjusted EBITDA data available in Figure 4.

Figure 4: Interest coverage ratio based on EBITDA



SOURCES: CIMB, COMPANY REPORTS

Figure 5: Latest financing structure

1. Financing required (total of US$1.675bn for the acquisition)

	US$ mil	Interest exp	Comments/details
Debt portion			
	970.0	51.6	US$710m at an interest rate of 4.25% (3.25% + LIBOR). US$260m at an interest rate of 8.25% (7.25% + LIBOR). This LBO debt has been secured but not drawn down yet. Assume LIBOR = 1%. Previously debt targeted was US$930m.
Equity portion			
Debt at DMPL level	80.0	1.6	DMPL pays 2% interest rate pa.
Preference shares	350.0	24.5	A bridging loan of US$350m has been obtained at an interest rate of 3.5%. This will be refinanced subsequently (target time frame is within 4 to 6 months) via a preference share issue at 6-8% dividend rate with a 5-year tenure. Here, we assume an average 7% dividend rate and no share issuance. There will not be a conversion option but DMPL intends to account for the preference shares as equity. Here, the US$24.5m represents an average 7% cost for the preference shares. At the initial bridging loan stage, the interest expense is estimated at US$12.3m.
New share placement	74.5		See (2) - US$150m in new equity planned. Strategic investors will subscribe for equity of US$74.5m in a holding company that will own DMF. No new DMPL shares will be issued for this tranche. The remaining US$74.5m could come from new DMPL shares, medium-term loan or a combination of both. Since the debt portion was raised by US$40m to US$970m, DMPL has the option of reducing the placement portion to US$35.5m.
Loan from major shareholder NutriAsia	165.0	6.6	Assume 4% interest rate pa. This could be replaced by a rights issue as the US$165m is intended to be a bridging loan. Debt convenant complicates the amount of new equity that can be raised as DMPL ceasing to be a subsidiary of NutriAsia constitutes an event of default. For easier calculation, we have not imputed the rights issue yet.
Total DMF acquisition int exp		**59.8**	

(2) - share placement calculations

Latest price in S$	0.615	
Assumed placement discount	10.0%	
Exchange rate	1.2734	
Placement price in US$	0.435	
Placement proceeds required (US$ m)	74.5	
No. of shares required for placement proceeds (m)	171.4	
Existing issued cap (mil)	1,296.6	Source: Bloomberg
Post-placement issued cap (m)	1,468.0	
NutriAsia's shareholdings pre-placement		
(number of shares in mil)	869.3	
As % of issued capital	67.1%	
NutriAsia's shareholdings post-placement		
(number of shares in mil)	869.3	Assume that new shares are not offered to NutriAsia
As % of issued capital	59.2%	

(3) Working capital loan required for DMF operations

	US$ mil	Interest exp	
Total working capital loan	350.0	10.5	Interest rate guidance of 3%.
Assumed drawdown	80.0	2.4	Interest rate guidance of 3%.

(4) Total interest expense

	86.7	Including preference dividend payment.
	62.2	Excluding preference dividend payment

SOURCES: CIMB, COMPANY REPORTS

2.4 Update on acquisition potential

The key updates are:

1) DMPL's pineapple juice segment is expected to continue making losses. It is estimated that 70% of pineapple juice extracted is currently sold in non-branded concentrate form. The current pineapple juice concentrate price is US$1,200/tonne, lower than DMPL's breakeven cost of US$1,380/tonne. Thus, this segment is expected to remain loss-making.

   We note that DMF does not offer beverages as a distinct product category, Its US peer Dole however, offers a range of chilled juice beverages under the Dole brand. Thus, there is potential for DMPL to exit the commoditised pineapple concentrate market and channel its excess pineapple juice supply into branded beverage products for the US market. We believe that it would be a sensible strategy for DMPL to start by marketing its chilled juice beverages to key clients in major cities, rather than implementing a nationwide rollout. Market forecasters estimate the yearly value of the US juice market between US$17bn-18bn.

Figure 6: Dole's chilled fruit beverages

SOURCES: COMPANY REPORTS

2) DMPL is expected to launch other products, including a) "fruit cups" under the S&W brand, b) sauces. DMPL is looking into developing the sauce market in the medium term (2-3 year plan).

3) DMPL's financial targets for DMF include:

a) 5% annual sales growth thanks to DMF's repackaging and marketing efforts prior to DMPL's acquisition,

b) a sustainable EBITDA margin of around 13%,

c) cost synergies of US$30m in FY14-15, of which US$25m would come from savings in general and administrative expenses and another US$5m would come from the outsourcing of the US unit's IT needs to the Philippines.

3. VALUATION AND RECOMMENDATION

3.1 Details to emerge

We maintain our Add recommendation and target price of S$1.14, based on 17.5x FY15 P/E [6-year average]. We will only be able to determine a more accurate valuation for DMPL once the company releases more details on the acquisition.

Nonetheless, we present our analysis on the possible equity dilution impact from the acquisition on our target price in Figures 7 and 8.

If we assume that the acquisition falls through and we ignore the transaction costs and break-up fees, DMPL trades at 14x FY14 P/E and 11x FY15 P/E, backed by earnings growth of 29% and 27%, respectively.

3.2 Sensitivity analysis

In Figure 9, we analyse the impact of the potential changes in DMF's sales and EBITDA margin as a result of the acquisition to the combined entity's profit.

The more conservative investors should take note of Figure 10 that shows our potential target price scenarios, based on the combined entity (FY15 earnings) trading at 0.5 s.d. and 1.0 s.d. below the 6-year average forward P/E.

Figure 7: Scenario A – dilution from placement only

(US$ m)	Base case	Source	Assumptions
DMF			
Revenue	1,830.0	CIMB	Assume deal closes in Feb 2014. Analyse impact on 2015. Assume sales unchanged at FY13 level. This is conservative as DMPL believes sales can grow by 5%.
EBITDA	177.5		
EBITDA margin (%)	9.7		EBITDA margin was 12.8%in FY11, 11.1% in FY12 and & 9.7% in FY13. 3 year average was 11.2%. We now assume 9.7% EBITDA margin, the lowest in the past 3 years. Again, conservative against DMPL's belief that sustainable EBITDA margin is 13%.
Depreciation	(46.0)		Highest level in FY11-FY13.
Interest expense	(62.2)	CIMB	To fund DMF acquisition (See Figure 5).
PBT	69.3		
Tax expense	(24.2)		
Tax rate (%)	35.0	IR	Effective tax for DMF expected to be around 35%.
Net income	**45.0**		
DMPL			
Revenue	668.3		
EBITDA	99.6		
EBITDA margin (%)	14.9		
Depreciation	(20.9)		
Interest expense	(6.1)		
PBT	72.6		
Tax expense	(15.9)		
Tax rate (%)	21.9		
Net income	56.7		We estimate a positive US$6m OP impact arising from the termination of the supply contract to DMF in Nov 2014. This is indirectly modelled into our FY15 sales assumptions at DMPL level. Since we assumed US sales to be stagnant, this should offset the risk of double counting the profit impact from an early termination of the DMF supply contract.
Combined Entity			
Revenue	2,498.3		
EBITDA	277.1		
EBITDA margin (%)	11.1		
Depreciation	(66.9)		
Interest expense	(68.3)		
PBT	141.9		
Tax expense	(40.1)		
Tax rate (%)	28.3		
Profit after tax	101.7		
Pref shares dividends	(24.5)		See Figure 5
Net profit	**77.2**		
FD IC	1,468.0		Assume US$74.5m in new equity raised instead of the remaining balance of US$35.5m.
FD EPS (US cts)	5.26		
FD EPS (S cts)	6.70		
Ex rate	1.2734		
TP at 17.5x P/E	**1.17**	**CIMB**	**6-year average P/E.**
			Maintain existing S$1.14 TP as new information will soon be available.

SOURCE: CIMB RESEARCH, COMPANY

Figure 8: Scenario B – dilution from placement and rights issue

(US$ m)	Base case	Source	Assumptions
DMF			
Revenue	1,830.0	CIMB	Assume deal closes in Feb 2014. Analyse impact on 2015. Assume sales unchanged at FY13 level. This is conservative as DMPL believes sales can grow by 5%.
EBITDA	177.5		
EBITDA margin (%)	9.7		EBITDA margin was 12.8%in FY11, 11.1% in FY12 and & 9.7% in FY13. 3 year average was 11.2%. We now assume 9.7% EBITDA margin, the lowest in the past 3 years. Again, conservative against DMPL's belief that sustainable EBITDA margin is 13%.
Depreciation	(46.0)		Highest level in FY11-FY13.
Interest expense	(55.6)	CIMB	To fund DMF acquisition (See Figure 5).
PBT	75.9		
Tax expense	(26.6)		
Tax rate (%)	35.0	IR	Effective tax for DMF expected to be around 35%.
Net income	**49.3**		
DMPL			
Revenue	668.3		
EBITDA	99.6		
EBITDA margin (%)	14.9		
Depreciation	(20.9)		
Interest expense	(6.1)		
PBT	72.6		
Tax expense	(15.9)		
Tax rate (%)	21.9		
Net income	56.7		We estimate a positive US$6m OP impact arising from the termination of the supply contract to DMF in Nov 2014. This is indirectly modelled into our FY15 sales assumptions at DMPL level. Since we assumed US sales to be stagnant, this should offset the risk of double counting the profit impact from an early termination of the DMF supply contract.
Combined Entity			
Revenue	2,498.3		
EBITDA	277.1		
EBITDA margin (%)	11.1		
Depreciation	(66.9)		
Interest expense	(61.7)		
PBT	148.5		
Tax expense	(42.5)		
Tax rate (%)	28.6		
Profit after tax	106.0		
Pref shares dividends	(24.5)		See Figure 5
Net profit	**81.5**		
FD IC	1,757.9		Assume US$74.5m in new equity raised instead of the remaining balance of US$35.5m.
FD EPS (US cts)	4.64		
FD EPS (S cts)	5.90		
Ex rate	1.2734		
TP at 17.5x P/E	**1.03**	**CIMB**	**6-year average P/E.**

SOURCES: CIMB, COMPANY REPORTS

Figure 8: Scenario B – dilution from placement and rights issue (continued)

Note

Assume that the US$35.5m of equity required and shareholderloan from NutriAsia of US$165m
are both financed by placement instead.
This is an approximation and is not realistic as 1) If the US$165m is refinanced via a rights issue, the discount is
likely to be higher than the 10% we have assumed and 2) NutriAsia's stake in DMPL will fall to 49.5% after the issued capital is enlarged,

which will trigger a debt convenant default unless there are sufficient unsubscribed shares for NutriAsia to take up.
take up.

Funding required	200.5	US$ (m)
No. of shares to be issued (in mil)	461.3	Assume placement price of US$0.435, see Figure 5 - (2)
Enlarged issued cap (mil)	1,757.9	
Existing issued cap (mil)	1,296.6	
% increase in issued cap	35.6%	
Existing NutriAsia shares	869.3	(m)
NutriAsia stake	49.5%	

SOURCES: CIMB, COMPANY REPORTS

Figure 9: Sensitivity analysis

Scenario A

	1% increase in DMF Sales (1)	1% pt increase in DMF EBITDA margin (2)	Impact of (1) and (2)
Combined profit	+1.55%	+15.4%	+17.1%
TP change	+4.39%	+18.4%	+20.2%

Scenario B

	1% increase in DMF Sales	1% pt increase in DMF EBITDA margin	Impact of
Combined profit	+1.47%	+14.6%	+16.2%
TP change	+1.94%	+14.6%	+16.5%

SOURCES: CIMB, COMPANY REPORTS

Figure 10: Target price analysis, based on conservative P/Es

		Target price (S$)	
	P/E	Scenario A	Scenario B
6-year average	17.5	1.14	1.03
0.5 s.d. below 6 -year average	14.1	0.94	0.83
1.0 s.d. below 6-year average	10.2	0.68	0.60

SOURCES: CIMB, COMPANY REPORTS

Figure 11: Peer Comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US$ m)	Core P/E (x) CY2013	Core P/E (x) CY2014	3-year EPS CAGR (%)	P/BV (x) CY2013	Recurring ROE (%) CY2013	Dividend Yield (%) CY2013
Del Monte Pacific	**DELM SP**	**ADD**	**0.62**	**1.14**	**626**	**18.1**	**14.1**	**20.7%**	**2.39**	**13.4%**	**1.3%**
Chiquita Brands	CQB US	NR	11.52	NA	539	31.1	10.1	na	na	na	na
Kraft Foods Group	KRFT US	NR	54.76	NA	32,630	19.4	17.1	7.4%	9.12	45.1%	3.7%
Fresh Del Monte Produce	FDP US	NR	27.23	NA	1,528	16.3	13.2	-3.2%	na	na	na
China Huiyuan Juice Group	1886 HK	NR	4.63	NA	1,194	28.6	25.7	149.1%	1.06	3.0%	0.6%
Tingyi (Cayman Islands)	322 HK	Hold	21.75	23.20	15,694	37.4	30.0	21.6%	5.64	15.8%	1.4%
Uni-President China	220 HK	Reduce	6.97	7.00	3,235	38.9	24.4	7.2%	2.30	6.1%	1.3%
Universal Robina	URC PM	NR	122.8	NA	5,937	26.7	24.0	14.7%	5.27	20.0%	1.9%
Jollibee Foods	JFC PM	NR	167.6	NA	3,909	38.9	33.4	17.9%	7.84	20.8%	1.5%
San Miguel	SMC PM	NR	58.00	NA	3,056	13.8	12.0	-14.1%	0.41	na	1.8%
TIPCO Foods	TIPCO TB	NR	7.95	NA	117	na	na	na	na	na	na
Kikkoman Corp	2801 JP	NR	1,896	NA	3,832	34.6	25.4	16.6%	1.93	6.7%	1.0%
Simple average						**27.6**	**20.9**	**19.4%**	**4.00**	**17.0%**	**1.6%**

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

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The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBS does not confirm nor certify the accuracy of such survey result.

Score Range:	90 – 100	80 – 89	70 – 79	Below 70 or	No Survey Result
Description:		Excellent	Very Good	Good	N/A

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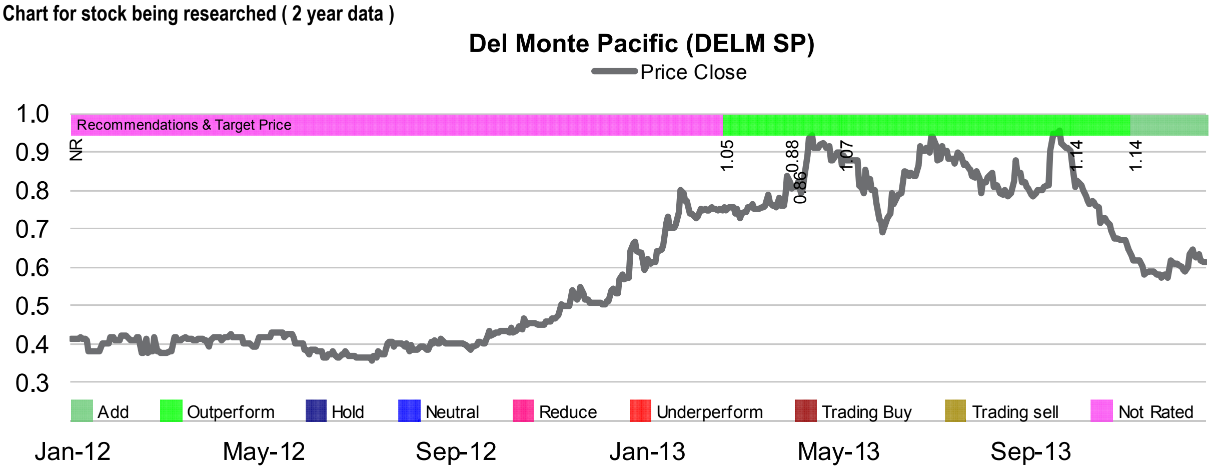
Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2013 1297 companies under coverage for quarter ended on 31 December 2013		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy/Add	50.4%	6.9%
Neutral/Hold	33.3%	6.5%
Underperform/Sell/Trading Sell/Reduce	16.3%	4.9%

Spitzer Chart for stock being researched (2 year data)



As at the time of publishing this report CIMB is phasing in an absolute recommendation structure for stocks (Framework #1). Please refer to all frameworks for a definition of any recommendations stated in this report.

CIMB Recommendation Framework #1

Stock Ratings	**Definition**
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.
Stock price targets have an investment horizon of 12 months.

Sector Ratings	**Definition**
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	**Definition**
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

CIMB Stock Recommendation Framework #2 *

Outperform	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.

Underperform	The stock's total return is expected to be below a relevant benchmark's total return by 5% or more over the next 12 months.
Trading Buy	The stock's total return is expected to exceed a relevant benchmark's total return by 3% or more over the next 3 months.
Trading Sell	The stock's total return is expected to be below a relevant benchmark's total return by 3% or more over the next 3 months.

** This framework only applies to stocks listed on the Singapore Stock Exchange, Bursa Malaysia, Stock Exchange of Thailand, Jakarta Stock Exchange, Australian Securities Exchange, Taiwan Stock Exchange and National Stock Exchange of India/Bombay Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*
CIMB Research Pte Ltd (Co. Reg. No. 198701620M)

CIMB Stock Recommendation Framework #3 **

Outperform	Expected positive total returns of 10% or more over the next 12 months.
Neutral	Expected total returns of between -10% and +10% over the next 12 months.
Underperform	Expected negative total returns of 10% or more over the next 12 months.
Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

*** This framework only applies to stocks listed on the Korea Exchange, Hong Kong Stock Exchange and China listings on the Singapore Stock Exchange. Occasionally, it is permitted for the total expected returns to be temporarily outside the prescribed ranges due to extreme market volatility or other justifiable company or industry-specific reasons.*

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (IOD) in 2012.

AAV – not available, **ADVANC** - Excellent, **AEONTS** – Good, **AMATA** - Very Good, **ANAN** – not available, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** – not available, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** - Good, **CENTEL** – Very Good, **CK** - Very Good, **CPALL** - Very Good, **CPF** - Very Good, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Very Good, **EGCO** – Excellent, **ERW** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Very Good, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Very Good, **ITD** – Very Good, **IVL** - Very Good, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KK** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** - Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MINT** - Very Good, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** - Good, **SPALI** - Very Good, **SRICHA** – not available, **SSI** – not available, **STA** - Good, **STEC** - Very Good, **TCAP** - Very Good, **THAI** - Excellent, **THCOM** – Very Good, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Very Good, **TTW** – Very Good, **TUF** - Very Good, **VGI** – not available, **WORK** – Good.