

MONEY TALK

## DEL MONTE PACIFIC LIMITED (DELM SP)

### Looking For Operational Improvements

#### WHAT'S NEW

- We downgrade Del Monte Pacific Limited (DMPL) to a HOLD based on its valuation. After the strong share price performance in March, we think there is limited upside for the stock in the short term. However, we are still positive on the long-term transformation of the company and think that there is potential upside to our target price if the company successfully turns around the US business. We recommend investors to accumulate the stock if it pulls back after its 4QFY15 results. Suggested entry price: S\$0.38.

#### INVESTMENT HIGHLIGHTS

- **Update on deleveraging.** We had a conference call with the company to check on the progress of their debt reduction initiatives. They confirmed that plans to issue US\$350m of perpetual securities is progressing well and is likely to be completed in the next few months. To recap, DMPL successfully completed the issuance of additional equity in March and this round of perpetuals will pay down its leveraged buyout (LBO) bridging loans further. However, we are still uncertain if these securities will be classified as debt or equity on DMPL's balance sheet and whether its dividends will be considered as interest bearing. Nonetheless, with an interest plus dividend cover of 2x, the company is likely to generate sufficient cash flow to pay off the yearly cost of its debt.
- **Watch the operating margins.** The longer term growth story remains in management's ability to turnaround its US subsidiary, Del Monte Foods Inc (DMFI). By reinstating trade spending, establishing new tie-ups with retailers, revamping its pricing strategy, reverting to familiar brand designs, and cutting costs through outsourcing, we think these strategies will boost revenue and improve margins in the coming quarters. We advise investors to look beyond the headline figures in 4QFY15 (which are likely to be weak) and concentrate on the likely improvement in EBIT margins.

#### OUR VIEW

- **Still trading at a discount.** Despite the run-up in the share price, the stock is still trading at an estimated FY16 PE of only 16-17x, more than 20% below its comparables. In our opinion, the company's high debt levels justifies a slight discount to its peers. However, upon better visibility on the operational turnaround of DMFI, we think that the market may re-rate Del Monte to its historical valuation of above 20x PE. We recommend to buy on weakness with an entry price of S\$0.38.

#### KEY FINANCIALS

| Year to 31 Apr (US\$m)        | FY12* | FY13* | FY15F  | FY16F  | FY17F  |
|-------------------------------|-------|-------|--------|--------|--------|
| Net turnover                  | 459.7 | 492.2 | 2181.2 | 2440.0 | 2641.3 |
| EBITDA                        | 69.7  | 47.5  | 116.2  | 205.4  | 228.8  |
| Operating profit              | 49.7  | 27.5  | 56.2   | 145.4  | 168.8  |
| Net profit (rep./act.)        | 31.5  | 15.8  | (35.4) | 45.5   | 68.0   |
| Net profit (adj.)             | 31.5  | 15.8  | 9.6    | 45.5   | 68.0   |
| EPS (cents)                   | 2.5   | 1.2   | (1.5)  | 2.1    | 3.1    |
| PE (x)                        | 11.5  | 46.9  | -      | 16.2   | 11.0   |
| P/B (x)                       | 1.5   | 3.3   | 1.9    | 1.0    | 1.0    |
| Dividend yield (%)            | 4.6   | 1.3   | 0.0    | 0.0    | 0.0    |
| Net margin (%)                | 6.9   | 3.2   | (1.6)  | 1.9    | 2.6    |
| Net debt/(cash) to equity (%) | 46.7  | 107.2 | 505.6  | 176.9  | 177.8  |
| Interest cover (x)            | 17.9  | 8.6   | 1.1    | 2.2    | 2.4    |
| ROE (%)                       | 12.6  | 6.9   | -      | 6.1    | 8.9    |

Note: Company changed financial year end to April after acquisition

\* Year to 31 Dec

Source: Del Monte, Bloomberg, UOB Kay Hian

## HOLD

|              |         |
|--------------|---------|
| Share Price  | S\$0.45 |
| Target Price | S\$0.46 |
| Upside       | 1%      |

#### 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.

|                           |                  |
|---------------------------|------------------|
| GICS sector               | Consumer Staples |
| Bloomberg ticker:         | DELM SP          |
| Shares issued (m):        | 1944.0           |
| Market cap (S\$m):        | 903.0            |
| Market cap (US\$m):       | 669.7            |
| 3-mth avg t'over (US\$m): | 1.4              |

#### PRICE CHART

Source: Bloomberg



#### ANALYST

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**MONEY TALK**

**Bloomberg Consensus**

| Recommendation       | Buy   | Sell  | Hold | Valuation Ratios | 5/12                   | 5/13 | 5/14 | 5/15E |        |
|----------------------|-------|-------|------|------------------|------------------------|------|------|-------|--------|
| 4/2/2014             | 50%   | 25%   | 25%  | P/E              | 15.0                   | 20.4 | 39.0 | -     |        |
| Target Price         |       |       | 0.65 | EV/EBIT          | 11.8                   | 13.5 | 28.9 | -     |        |
| Upside               |       |       | 73%  | EV/EBITDA        | 8.9                    | 10.2 | 16.7 | 106.6 |        |
|                      |       |       |      | P/S              | 1.0                    | 1.4  | 1.3  | 0.3   |        |
|                      |       |       |      | P/B              | 1.8                    | 2.2  | 2.7  | 1.5   |        |
|                      |       |       |      | Div Yield        | 5.0%                   | 3.0% | 1.3% | 2.1%  |        |
| Income Statement     | 12/13 | 12/14 | 4/14 | 4/15E            | Profitability Ratios % |      |      |       |        |
| Revenue              | 535   | 574   | 616  | 2,941            | Gross Margin           | 23.9 | 24.5 | 23.5  | 4.5    |
| Gross Income         | 127   | 141   | 145  | 132              | EBITDA Margin          | 13.2 | 14.1 | 9.4   | 0.7    |
| Operating Income     | 54    | 61    | 33   | 6                | Operating Margin       | 10.0 | 10.7 | 5.4   | 0.2    |
| Pretax Income        | 40    | 51    | 22   | (46)             | Profit Margin          | 6.5  | 7.0  | 3.3   | (2.0)  |
| Net Income Adjusted* | 34    | 40    | 20   | (60)             | Return on Assets       | 6.7  | 6.9  | 2.9   | 0.7    |
| EPS Adjusted         | 0.02  | 0.03  | 0.01 | (0.04)           | Return on Equity       | 12.1 | 13.2 | 6.7   | (14.4) |
| Dividends Per Share  | 0.02  | 0.01  | 0.01 | 0.01             |                        |      |      |       |        |
| Payout Ratio (%)     | 75    | 51    | 50   | -                |                        |      |      |       |        |
| EBITDA               | 71    | 81    | 58   | 20               |                        |      |      |       |        |

| Peer Comparison       | Ticker  | Price @ 23 Apr 15 | Market Cap (US\$m) | -----PE----- |           | -----P/B----- |           | Yield FY14 (%) |
|-----------------------|---------|-------------------|--------------------|--------------|-----------|---------------|-----------|----------------|
|                       |         |                   |                    | FY14 (x)     | FY15F (x) | FY14 (x)      | FY15F (x) |                |
| Rfm Corporation       | RFM PM  | 5.09              | 402                | 20.1         | 15.4      | n.a.          | n.a.      | 1.6            |
| Pepsi-Cola Products   | PIP PM  | 4.1               | 342                | 18.6         | 16.6      | 1.9           | 1.7       | 1.2            |
| Universal Robina Corp | URC PM  | 219               | 10,788             | 41.3         | 34.2      | 8.5           | 7.7       | 1.5            |
| General Mills Inc     | GIS US  | 56.21             | 33,506             | 19.4         | 19.9      | 4.6           | 5.6       | 2.9            |
| Average               |         |                   |                    | 24.9         | 21.5      | 5.0           | 5.0       | 1.8            |
| Del Monte Pacific Ltd | DELM SP | 0.445             | 642                | n.a.         | n.a.      | n.a.          | 1.5       | 2.0            |

Price Earnings Ratio (3 years average)



Price to Book Ratio (3 years average)



Source: Bloomberg

**Technical View**



**Del Monte Pacific (DELM SP, D03)**

To recap on our technical view on 6 Apr 15, the stock could be forming a potential bullish flag formation and a breakout is likely to have the stock test S\$0.425 in trading sessions ahead. In recent trading sessions, the stock had formed an intraday-high of S\$0.48 and has since retraced. Expect the stock to consolidate at around the 150-day SMA, during which it is likely to trade between S\$0.40-0.50.

Source: Nextview

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