


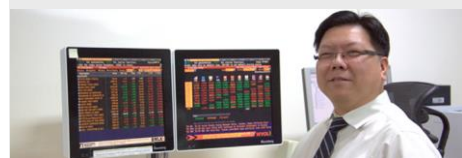
Del Monte Pacific

DELM SP / DMPL.SI

3QFY13 RESULTS NOTE

Market Cap US\$948.5m S\$1,173m	Avg Daily Turnover US\$0.35m S\$0.45m	Free Float 21.3% 255.2 m shares	Current \$0.91 Target  \$1.14 Prev. Target \$1.07 Up/Downside 26.0%	SHORT TERM (3 MTH) TRADING BUY TRADING SELL	LONG TERM OUTPERFORM NEUTRAL UNDERPERFORM
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CIMB Analyst(s)



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Share price info

Share price perf. (%)	1M	3M	12M
Relative	10.2	1.1	103.2
Absolute	10.4	-0.6	108.9
Major shareholders	% held		
NUTRIASIA PACIFIC LTD	67.0		
LEE PINEAPPLE CO PTE LTD	7.8		
WEE POH CHAN PHYLLIS	1.2		

To be number one

The acquisition of Del Monte Foods's consumer food business can be a game changer if integrated successfully. We expect reported earnings to be hit by transaction fees but core earnings to be unscathed. S&W continues to register strong double-digit growth.

At 64% of our and consensus forecasts, 9M13 core net profit is in line with our expectations?. We roll over valuations to CY15 and assume the proposed acquisition is successful but lower our P/E target to 17.5x (6-year average to counter the gearing risk vs. 25x earlier). Growth opportunities from the acquisition are share price catalysts. To be prudent, we now assume no dividend payouts for FY14-15. We stay Outperform.

Non-branded segment improved

At 65% of our and consensus estimates, 9M13 sales are in line with historical trends. The non-branded business (35.3% of 3Q13 sales) grew 19% yoy, driven by better sales of processed pineapple and tropical mixed fruit. This offset the still-low pineapple juice concentrate prices (-16% yoy, +4% qoq).

So did India

The Indian JV posted higher sales in processed foods under the Del Monte brand, leading to a lower loss of US\$1.2m recognised in the third quarter (3Q12: US\$1.5m loss).

S&W does have potential

The S&W brand continues to grow with processed product sales up 47% in 3Q13 while fresh product sales grew 31%.

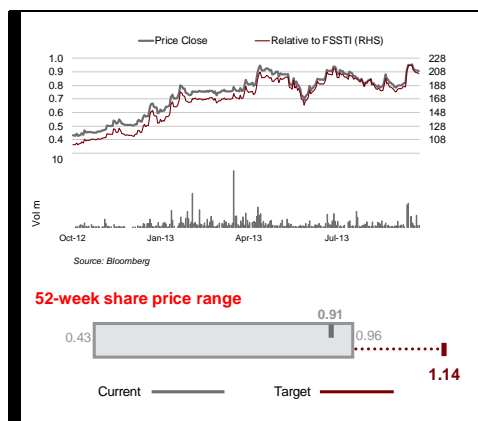
Expect US\$4.3m non-core charge in 4Q13

DMPL charged US\$1.7m in 3Q13 as transaction fees for its proposed acquisition of Del Monte Foods's consumer food business in the US. For 4Q13, the company is guiding for another US\$4.3m in transaction fees for the proposed acquisition. While this lowers reported net profit, our full-year core net profit estimate is unaffected.

Results comparison

FYE Dec (US\$ m)	3QFY13	3QFY12	yoy %	2QFY13	qoq %	3QFY13	3QFY12	yoy %	Prev.	
			chg		chg	cum	cum	chg	FY13F	Comments
Revenue	127.0	116.6	8.9	121.0	4.9	335.4	300.2	11.7	516.2	In line, driven by both the branded and non branded businesses
Operating costs	(107.1)	(99.6)	7.6	(105.6)	1.4	(282.7)	(253.5)	11.5	(445.6)	In line
EBITDA	19.9	17.0	16.7	15.4	29.1	52.7	46.7	12.7	70.6	In line
EBITDA margin (%)	15.7	14.6		12.7		15.7	15.6		13.7	In line
Depn & amort.	(4.3)	(3.8)	12.2	(4.6)	(7.9)	(13.2)	(10.9)	21.0	(17.8)	In line
EBIT	15.6	13.2	18.0	10.8	45.1	39.5	35.9	10.1	52.8	
Interest expense	(2.0)	(1.1)	84.0	(1.1)	88.0	(3.9)	(2.8)	40.5	(4.7)	Above due to higher borrowings
Interest & invt inc	0.1	0.1	(56.3)	(0.9)	(106.2)	(4.2)	(4.6)	(8.2)	1.1	
Associates' contrib	(1.2)	(1.5)	(18.8)	(1.4)	(11.8)	(3.9)	(5.0)	(23.5)	(4.7)	Indian associate loss continues to narrow
Exceptionals	(2.5)	-		(0.6)		(4.4)	-		-	
Pretax profit	9.9	10.7	(7.7)	6.8	45.9	23.1	23.4	(1.3)	44.5	Below due to exceptionals
Tax	(2.8)	(2.5)	11.6	(0.8)	269.9	(5.5)	(5.1)	8.3	(10.2)	In line
Tax rate (%)	28.1	23.2	20.9	11.1	153.6	24.0	21.8	9.8	23.0	Above due to exceptional items
Minority interests	0.1	0.1	(28.3)	0.1	(19.8)	0.3	0.4	(32.4)	0.4	
Net profit	7.2	8.3	(13.7)	6.1	17.4	17.9	18.7	(4.6)	34.6	Below due to one off expenses and currency translation
Core profit	9.7	8.3	16.1	6.7	43.8	22.2	18.7	18.7	34.6	In line
EPS (cts)	0.6	-	0.8	0.5	19.1	1.4	1.7	(20.7)	2.7	Below
Core EPS (cts)	0.7	-	0.8	0.5	43.7	1.7	1.7	0.8	2.7	In line

SOURCE: CIMB, COMPANY REPORTS



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)	34.52	29.54	27.41	21.31	16.82
DPS (US\$)	0.016	0.022	0.006	-	-
Dividend Yield	2.18%	3.05%	0.85%	0.00%	0.00%
EV/EBITDA (x)	17.92	16.24	15.18	13.00	10.57
P/FCFE (x)	44.09	41.40	22.74	36.99	25.47
Net Gearing	39.3%	46.2%	48.1%	39.9%	29.4%
P/BV (x)	4.11	3.72	3.62	3.09	2.61
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	1.04	0.93

SOURCE: CIMB, COMPANY REPORTS

Must-know facts ▶

Before you can decide what to do with this stock, you need to know the following:

- 1) Core earnings are currently unaffected. However, reported earnings in 4Q13 will be hit by a US\$4.3m transaction fee in relation to the proposed acquisition of Del Monte Foods's consumer food division ("the acquisition"). The company expects another US\$15m-16m in transaction fees from the acquisition to be charged to reported earnings in 1Q14.
- 2) Part of the funding will be structured as preference equity with no share issuance. This will cost 6-8% or an average rate of 7% and the company intends for this to be recognised as equity. Net gearing will be 1.8x if this preference funding is recognised as equity but will be a higher 4.4x if we recognise the preference funding as debt.
- 3) Del Monte's profile will change with the US being the largest revenue contributor. The Philippines, which accounted for 60% of sales before the acquisition, will see its share of the revenue pie fall to 12% post the acquisition. With the US market widely viewed as offering limited growth, much work lies ahead for DMPL to grow the US business.
- 4) We now assume no dividend payouts for 2H13 and FY14-15. DMPL will be totally ill-disciplined if the company continues to pay a dividend while digesting this acquisition.

Make or break ▶

If you think that "little fish" DMPL is in for a difficult indigestion with this acquisition, then the proposed US\$150m placement should be your ticket for a way out. Indigestion, coupled with financial distress risk, could ignite a severe de-rating following which one could revisit the investment case for DMPL. In any case, headline earnings will offer little excitement with the transaction fees for the acquisition looming over the next two quarters.

If you are not selling, then you must be of the opinion that the "little fish" will take time (2-3 years, perhaps) to digest the "big fish" and emerge as a Goliath. In that case, we see DMPL as being worth S\$1.14 on 17.5x CY15 post-acquisition earnings (see Figure 2 for our assumptions). We believe 17.5x (DMPL's 6-year average P/E) is a reasonable benchmark to use as 1) there is both gearing risk and potentially slower earnings growth in the short term, 2) DMPL paid 16.8x historical earnings (US\$1.675bn over US\$100m profit as indicated by the company), and 3) pre-delisting, 1 s.d. (according a premium for the strong Del Monte brand name) above the 5-year historical average forward P/E of Del Monte Foods was 17.5x.

Figure 1: Peer comparison

Company	Bloomberg Ticker	Recom.	Price (lcl curr)	Target Price (lcl curr)	Market Cap (US\$ m)	Core P/E (x) CY2013	P/E (x) CY2014	3-year EPS CAGR (%)	P/BV (x) CY2013	Recurring ROE (%) CY2013	Dividend Yield (%) CY2013
Del Monte Pacific	DELM SP	OUTPERFORM	0.91	1.14	949	27.4	21.3	20.7%	3.62	13.4%	0.8%
Chiquita Brands	CQB US	NR	11.33	NA	527	16.3	10.0	na	na	na	na
Kraft Foods Group	KRFT US	NR	54.61	NA	32,524	19.0	17.0	7.4%	9.05	46.2%	3.7%
Fresh Del Monte Produce	FDP US	NR	30.09	NA	1,667	14.3	13.0	na	na	na	na
Dole Food	DOLE US	NR	13.79	NA	1,240	23.0	19.0	na	na	na	na
China Huiyuan Juice Group	1886 HK	NR	5.48	NA	1,361	34.3	30.8	149.1%	1.26	3.8%	0.5%
Tingyi (Cayman Islands)	322 HK	Neutral	21.25	20.00	15,336	37.7	30.5	20.2%	5.54	15.3%	1.3%
Uni-President China	220 HK	Neutral	8.04	7.10	3,733	29.7	24.1	10.9%	2.68	9.4%	1.1%
Universal Robina	URC PM	NR	127.5	NA	6,459	29.2	25.5	2.7%	5.48	19.6%	1.8%
Jollibee Foods	JFC PM	NR	177.2	NA	4,321	41.9	36.1	18.2%	7.83	20.2%	0.8%
San Miguel	SMC PM	NR	85.60	NA	4,731	18.1	15.3	-10.6%	na	na	1.2%
TIPCO Foods	TIPCO TB	NR	10.30	NA	160	na	na	na	na	na	na
Kikkoman Corp	2801 JP	NR	1,700	NA	3,683	31.0	23.8	14.7%	1.74	6.7%	1.1%
Simple average						26.8	22.2	20.9%	4.65	19.0%	1.4%

SOURCES: CIMB, COMPANY REPORTS, BLOOMBERG

Figure 2: Acquisition financing assumptions

Financing required	US\$ mil	Interest exp	
Debt portion	930.0	70.3	US\$700m at 7% pa int rate and US\$230m at ave 9.25% pa int rate
	350.0	10.5	Additional WC loan of US\$350m. Assume 3% int rate
Equity injection portion			
Debt at DMPL level	80.0	1.6	DMPL pays 2% interest rate pa.
Pref shs	350.0	24.5	Coupon rate 6-8%, 5 year. Assume average of 7% and no share issuance, no conversion option.
Placement	150.0		See (A)
Loan	165.0	6.6	NutriAsia shareholder loan. Assume 4% interest rate pa.
Total DMF acquisition int exp		89.0	excluding pref shares dividends
(A)			
Assumed Placement px	0.974	S\$	
Ex Rate	1.2481		
Placement px	0.780	US\$	
No. of new shares issued	192.2		
Existing issued cap (mil)	1,297.5		
Post placement issued cap (mil)	1,489.7		

SOURCE: CIMB RESEARCH, COMPANY

Figure 3: Target price derivation

(US\$ mil)	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.
EBITDA	205.0		
EBITDA margin (%)	11.2		EBITDA margins were 12.8%, 11.1% & 9.7% for FY11-13. Ave over ther past 3 years was 11.2%
Depreciation	(46.0)		Highest of FY11-FY13
Interest expense	(89.0)	CIMB	To fund DMF acq - See Figure 2
PBT	70.0		
Tax expense	(24.5)		
Tax rate (%)	35.0	IR	Effective tax for DMF expected to be around 35%
Net income	45.5		
DMPPL			
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		
Combined Entity			
Revenue	2,498.3		
EBITDA	304.6		
EBITDA margin (%)	12.2		
Depreciation	(66.9)		
Interest expense	(95.1)		
PBT	142.5		
Tax expense	(40.4)		
Tax rate (%)	28.3		
Profit after tax	102.1		
Pref shares dividends	(24.5)		See Figure 2
Net profit	77.6		
FD IC	1,489.7		
FD EPS (US cts)	5.21		
FD EPS (S cts)	6.51		
Ex rate	1.2481		
TP at 17.5x P/E	1.14	CIMB	Revert back to 6-year P/E to factor in gearing risk

SOURCE: CIMB RESEARCH, COMPANY

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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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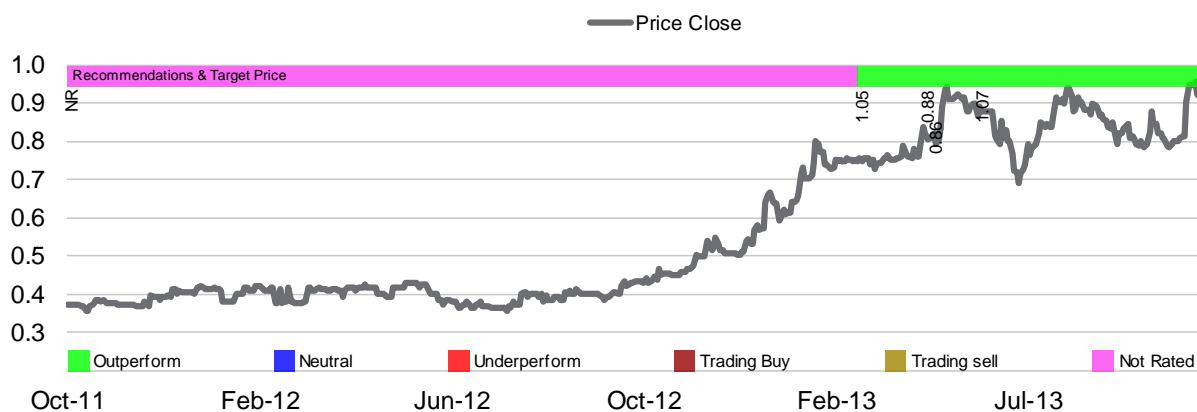
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Spitzer Chart for stock being researched (2 year data)



Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2013		
1234 companies under coverage		
	Rating Distribution (%)	Investment Banking clients (%)
Outperform/Buy/Trading Buy	49.8%	7.2%
Neutral	34.2%	5.1%
Underperform/Sell/Trading Sell	16.0%	4.8%

Recommendation Framework #1 *

Stock

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 5% 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 5% or more over the next 3 months.

Sector

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.

TRADING BUY: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 3 months.

TRADING SELL: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index 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.

Recommendation Framework #2 **

Stock	Sector
OUTPERFORM: Expected positive total returns of 10% or more over the next 12 months.	OVERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 12 months.
NEUTRAL: Expected total returns of between -10% and +10% over the next 12 months.	NEUTRAL: The industry, as defined by the analyst's coverage universe, has either (i) an equal number of stocks that are expected to have total returns of +10% (or better) or -10% (or worse), or (ii) stocks that are predominantly expected to have total returns that will range from +10% to -10%; both over the next 12 months.
UNDERPERFORM: Expected negative total returns of 10% or more over the next 12 months.	UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse over the next 12 months.
TRADING BUY: Expected positive total returns of 10% or more over the next 3 months.	TRADING BUY: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of +10% or better over the next 3 months.
TRADING SELL: Expected negative total returns of 10% or more over the next 3 months.	TRADING SELL: The industry, as defined by the analyst's coverage universe, has a high number of stocks that are expected to have total returns of -10% or worse 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.