

Singapore Company Focus

Del Monte Pacific

Bloomberg: DELM SP | Reuters: DMPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Jul 2015

BUY (Upgrade from HOLD)

Last Traded Price: S\$0.385 (STI : 3,331.14)

Price Target : S\$0.50 (31% upside)

Reason for Report : Recommendation upgrade

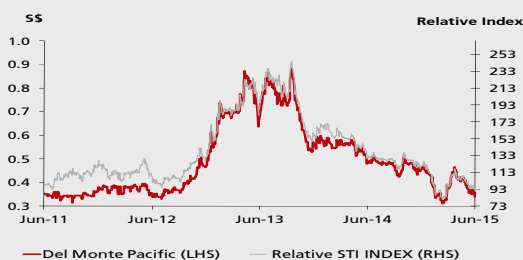
Potential Catalyst: Better-than-expected earnings turnaround

Where we differ: Projecting return to profitability due to absence of non-recurring items, compared to consensus projecting losses

Analyst

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Price Relative



Forecasts and Valuation

FY Apr (US\$ m)	2014A	2015A	2016F	2017F
Revenue	743	2,159	2,495	2,637
EBITDA	(23)	102	243	270
Pre-tax Profit	(60)	(58)	75	100
Net Profit	(32)	(38)	52	70
Net Pft (Pre Ex.)	(32)	(38)	52	70
EPS (S cts)	(3.1)	(3.5)	3.6	4.8
EPS Pre Ex. (S cts)	(3.1)	(3.5)	3.6	4.8
EPS Gth (%)	nm	(14)	nm	35
EPS Gth Pre Ex (%)	nm	(14)	nm	35
Diluted EPS (S cts)	(3.1)	(3.5)	3.6	4.8
Net DPS (S cts)	0.0	0.0	0.0	1.0
BV Per Share (S cts)	17.6	19.1	22.6	27.5
PE (X)	nm	nm	10.8	8.0
PE Pre Ex. (X)	nm	nm	10.8	8.0
P/Cash Flow (X)	4.6	1.8	4.5	4.7
EV/EBITDA (X)	nm	21.1	9.3	8.2
Net Div Yield (%)	0.0	0.0	0.0	2.5
P/Book Value (X)	2.2	2.0	1.7	1.4
Net Debt/Equity (X)	7.3	5.0	4.1	3.3
ROAE (%)	(15.8)	(16.7)	17.2	19.3
Earnings Rev (%)			2	-
Consensus EPS (S cts)			3.9	4.5
Other Broker Recs:		B: 2	S: 0	H: 0

ICB Industry : Consumer Goods

ICB Sector: Food Producers

Principal Business: Engaged in the production, marketing and distribution of premium-branded food and beverage products.

Source of all data: Company, DBS Bank, Bloomberg Finance L.P

At earnings inflexion point

- Upgrade to BUY with 31% upside to TP of S\$0.50
- Earnings at inflexion point; projecting strong turnaround in FY16 after two years of losses post-DMFI acquisition
- Risks exist but low valuation for a well-known brand seems too attractive to ignore
- Expect re-rating and valuation discount gap against peers to narrow as performance materialises; currently only pegs to a conservative 12x PE target

Upgrade to BUY with 31% upside; at earnings inflexion point.

We upgrade DMPL to BUY, from HOLD, with a 31% upside to our TP of S\$0.50. Following the acquisition of US-based Del Monte Foods Inc. (DMFI), DMPL has posted two consecutive years of losses arising from transaction charges, acquisition-related expenses, and high interest expenses amid a softening US business. These are now behind us and we expect DMPL to post a turnaround in FY16F to register a net profit of US\$52m.

High gearing but more than reflected in share price. The counter has lost c.60% of its value (after adjusting for recent rights issue) since the announcement of its US\$1.7bn acquisition back in Oct 2013. Amongst the reasons, in our view then, were the high leverage, uncertainty over fund raising, post-merger integration work and missed expectations on earnings. The Group's gearing peaked at 7.3x as of FYE Apr'14 and has since moderated down to 5x as of FY15. This is still high, but we believe the decline in share price has more than priced it in. Based on our projected earnings, we expect net debt/ equity to decline to 4.1x/3.3x, and more so if the issuance of the previously proposed preference shares comes to fruition.

Potential for further upside as profit materialises and confidence builds up; BUY.

Valuations looks undemanding at 10.8x FY16F and only 8.0x FY17F earnings, and particularly so for an established brand. It is trading at c.50% discount to listed peers in the US and Philippines. Our current TP is pegged to 12x FY16F/17F PE which we feel is conservative but fair, given the current uncertainties. We believe there is potential for the counter to re-rate closer to peers. Assuming 15x FY17F PE, our TP will be S\$0.705, implying a c.80% upside. Upgrade to BUY.

At A Glance

Issued Capital (m shrs)	1,944
Mkt. Cap (S\$m/US\$m)	752 / 555
Major Shareholders	
Nutriasia Pacific Ltd (%)	59.4
Bluebell Group Hldgs (%)	7.6
Lee Pineapple Co Pte Ltd (%)	5.5
Free Float (%)	27.5
3m Avg. Daily Val (US\$m)	0.30

INVESTMENT THESIS

Profile	Rationale
<p>Del Monte Pacific Limited is a consumer food and beverage focused company. It acquired the consumer food business of Del Monte Corp in the US in Oct 2013 and thus extended the footprint of the Group to the US and South America, along with trademarks such as Del Monte, S&W, Contadina, College Inn, etc. The Group now has exclusive rights to use the Del Monte trademarks for packaged products in the United States, South America, the Philippines, Indian subcontinent and Myanmar. It owns another premium brand, S&W, globally except Australia and New Zealand.</p>	<p>Earnings inflexion point; turnaround in FY16F. After two consecutive years of losses following its acquisition of US-based Del Monte Foods Inc (DMFI) for US\$1.6bn, we project DMPL to register an earnings turnaround and return to profitability in FY16F.</p> <p>Gearing high but reflected in price; swapped a portion of loan to fixed rate. Group's net debt-to-equity is still at a whopping 5x, but it is projected to decline to 4.2x by end-FY16F. That said, we believe this has been priced in with the counter trading at just 10.8x/8.0x FY16F/17F PE. DMFI has swapped its two 7-year term loans (totalling US\$970m) from LIBOR based to fixed rates ("graduated" step-up) from Feb 2016 onwards.</p> <p>Potential for higher share price returns in longer term. When the Group is able to deliver as projected, we envisage market confidence to return, which will re-rate the counter closer to peers. Assuming a valuation target of 15x FY17F earnings, which is a 20-25% discount to current peers' valuation, our TP will be at c.S\$0.705.</p>
Valuation	Risks
<p>Our target price is S\$0.50, based on 12x FY16F/17F PE, which is at a 40% discount to consumer peers listed in the US and Philippines.</p>	<p>Higher interest costs. While a portion of loans has been swapped to fixed rate, a higher interest rate environment could undermine refinancing options in future.</p> <p>Performance of turnaround; raw material price. We expect operational performance to improve on the back of non-recurrence of one-off expenses, coupled with better efficiencies. This is contingent on sales, and in turn consumer sentiment and the broader economy.</p> <p>Our thesis is premised on benign raw material environment. However, should there be a spike in price on soft commodities, such as fruits, tomatoes, etc, due to weather patterns and the company is unable to pass on this cost increase to consumers, this could impinge on our margins assumptions.</p> <p>Overhang from potential preference shares issuance. Terms and the actual fruition of the preference shares issuance are unknown, and will depend on market conditions.</p>

Source: DBS Bank

At earnings inflexion point

Upgrade to BUY, TP: S\$0.50; earnings at inflexion point.

After two consecutive years of losses following its acquisition of US-based Del Monte Foods Inc (DMFI) for US\$1.7bn, we project DMPL to register an earnings turnaround and return to profitability in FY16F. We upgrade to BUY on the back of the projected earnings turnaround, coupled with an attractive valuation for a branded consumer business. Our TP of S\$0.50 is pegged to a conservative 12x on FY16F/17F PE and implies a 31% upside to its current traded price.

Further share price upside in the works. We believe there is potential for DMPL to generate a higher share price return compared to our current price target over the next 2-3 years as the Group executes on its intended plan to return to profitability and deleverage. One will note that the Group's net debt-to-equity is still at a high 5x, but it is projected to decline to 4.1x by end-FY16F. That said, we believe this has been priced in with the counter trading at just 10.8x/8.0x FY16F/17F PE, at a c.50% discount to US and Philippines consumer peers.

Conservative valuation target to account for gearing and infancy of its earnings inflexion point. We pegged our TP to a conservative 12x, which is at a 40% discount to peers. This is to account for its high gearing and uncertainty relating to its pace of recovery. When the Group is able to deliver as projected, we envisage market confidence to return, which will re-rate the counter closer to peers. Assuming a valuation target of 15x FY17F PE, which is at a 20-25% discount to current peers' valuation, our TP will be at c.S\$0.705 – implying a c.80% upside to its current price.

What has happened to cause the steep drop in share price since Oct 2013?

In the chart [on next page], we detailed the events from the announcement of DMPL's proposed acquisition of DMFI. One will note that DMPL has lost c.60% of its share value since its peak, after adjusting for the rights issue.

Rights issue done. The Group undertook a 493-for-1,000 rights shares issue at S\$0.325 per share (PHP10.6 under Philippine rights issue) which raised gross proceeds of US\$155m. This was completed in March 2015, resulting in the issuance of 641.9m new shares. Following the rights issue, the Group's gearing has dipped to 5x (as of FYE Apr'15).

Swapped a portion of loans to fixed. Indeed, the Group's current high leverage is a risk and concern, especially in the environment of the possible US Fed rate hikes. We believe this has been priced into DMPL's share price. Furthermore, we note that a rate hike would increase interest costs but should not have a full impact on DMPL's bottomline. For one, DMFI has swapped its two 7-year term loans (totalling US\$970m) from LIBOR-based to fixed rates ("graduated" step-up) from Feb 2016 onwards. This will hedge itself from spikes in interest rates in the future.

Preferred shares still on the cards, though not urgent.

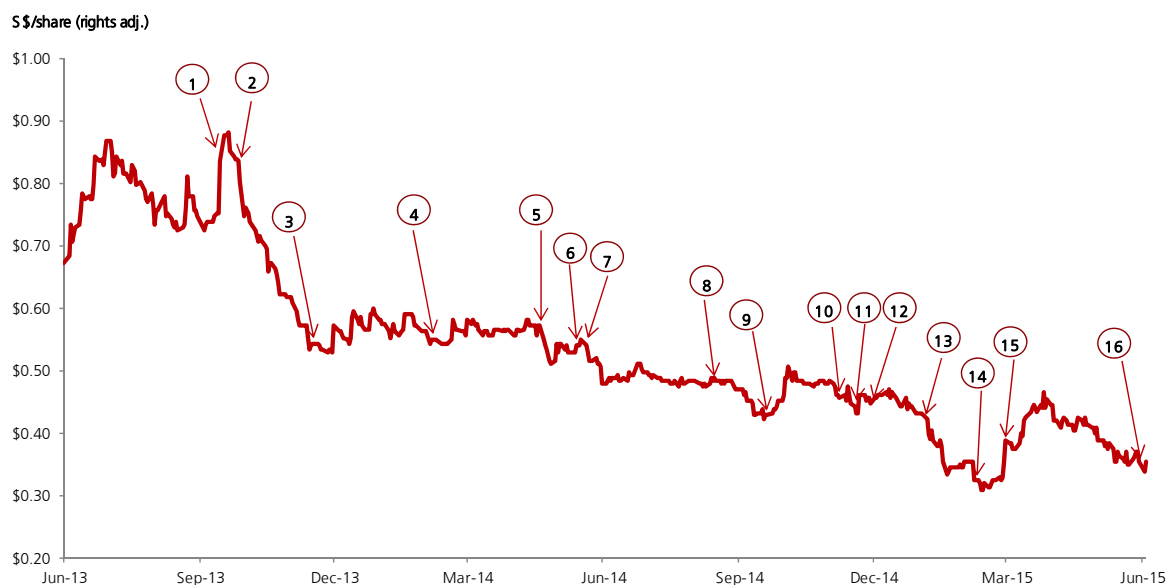
Management had sought to issue preferred shares/perpetual securities earlier in late 2014/Jan 2015 but had decided to defer the proposed offering in January citing "weak global market conditions". In its place, DMPL managed to secure a two-year term loan from BDO at 4%.

Details of loan breakdown (as of FYE Apr'15)

	US\$ m	Terms	Tenure	Remarks
DMFI				
Loans 1st Lien	700	3-month LIBOR (1% floor) + 325bp	7 years, due Feb 2021	Swapped to fixed from Feb 2016; "graduated step-up" of fixed interest rates in further years
Loans 2nd Lien	260	3-month LIBOR (1% floor) + 725bp	7 years, due Feb 2021	
Asset back loan	100	na	Revolving, short term	Working capital loans; revolving
	1,060			
DMPL				
Bank loan (BDO)	350	Fixed @ 4%	2 years, due Jan 2017	Undertaken in Jan 2015 in place of pref shares offering. Eventually to be repaid with preference shares issuance though we believe it may not be on the urgent list, given the relatively low interest rate. To be refinanced to 5-year term, bullet repayment likely to be at c.5%
Bank loan	130	Unsecured, floating	Short term, but to be refinanced to medium term	
Bank loan	140	na	Revolving, short term	Working capital loans
Other loans	40	na	na	
	620			
Total	1,720			

Source: Company, DBS Bank estimates

A recap since Oct 2013 – share price movements and related events



Source: Thomson Reuters, DBS Bank

S/no	Date	Comments
1	11-Oct-13	Announcement on acquisition of Del Monte Food's Consumer Food Business for US\$1.6bn; share price surged up to 17% in the ensuing few days.
2	25-Oct-13	DBS downgrades recommendation to HOLD, taking a grounded view compared to market, citing challenges and sees limited earnings accretion in the immediate term.
3	11-Dec-13	DBS upgrades recommendation to BUY following 30% drop in share price over in 1.5 months.
4	25-Feb-14	FYE2013 results announced; recurring profit within expectations though headline net profit impacted by acquisition-related transaction costs.
5	16-May-14	Del Monte Pacific issues profit guidance and changes financial year-end to Apr, instead of Dec. Hence, FYE2014 was a transitional period and the Board expects to report a net loss for the period 1 Jan 2014 to 30 Apr 2014.
6	12-Jun-14	DMPL reports results for Transitional Period. Net loss reported as per earlier guided in May 2014.
7	18-Jun-14	DBS downgrades recommendation back to HOLD citing more time needed for acquisition to be digested. Expected turnaround only in FY16F.
8	12-Sep-14	Reports 1Q15 earnings (May-Jul'14). Net loss of US\$21.9m. Guided for pref shares in Nov'14 and rights issue in early 2015.
9	15-Oct-14	Issues 5.5m new shares in the Philippines.
10	5-Dec-14	Announces proposed international offering of Preference Shares (to refinance bridge loan for DMFI's acquisition).
11	15-Dec-14	Reports 2Q15 earnings (Aug-Oct'14). Net profit of US\$0.2m, down from US\$8.4m a year ago. Improvement from 1Q15's US\$21.9m loss. Shared that equity fund raising imminent with DBS appointed as global coordinator of pref shares.
12	22-Dec-14	Announces proposed rights issue to raise gross proceeds of up to US\$180m.
13	29-Jan-15	Announces extension of US\$350m bridge loan by BDO Unibank Inc.; announces distribution ratio of rights issue on 30 Jan (493 rights for 1,000 shares).
14	10-Mar-15	Rights issue fully subscribed, raised US\$155m gross proceeds.
	11-Mar-15	Reports 3Q15 results. Net loss of US\$2.2m, but an improvement from US\$6.4m loss a year ago. Deleveraging a key focus and perpetual securities offering when opportune. Management noted high coupon rate and may look to smaller maiden pref shares.
15	1-Apr-15	Use of rights proceeds to pare down US\$150m loan from BPI.
16	29-Jun-15	Reports 4Q15 and FY15 results. Full-year net loss of US\$38m due to non-recurring expenses. Expects FY16 to return to profitability on the absence of one-offs and improved operating performance.

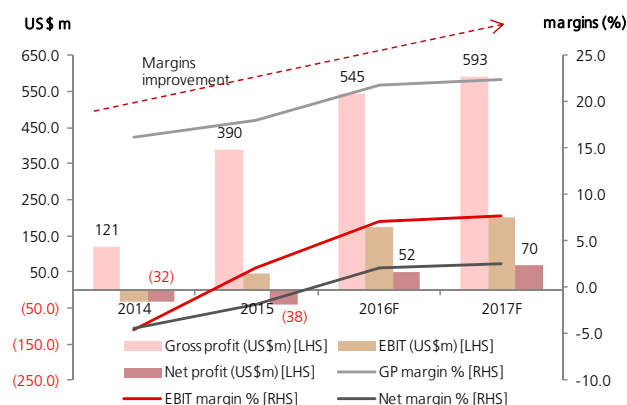
Source: DBS Bank, Company announcements

Forecasts and valuation

Earnings inflexion point; returning to profitability in FY16F.
 We project DMPL to bounce back strongly to post a net profit of US\$51.5m on the back of an absence of non-recurring items seen in FY15 and continued improvement in operational performance. There was a total of US\$62.6m impact on net profit arising from non-recurring expenses in FY15. These items will be absent in FY16F. Furthermore, we expect an improvement in topline on organic growth, coupled with the recent acquisition of Sager Creek by DMFI.

Packaging materials and energy looks to be in favour. In the current environment of benign raw material prices, we believe this should provide some certainty of improvements in gross margins. In particular, packaging materials continue to remain low vis-à-vis recent years. For instance, tin plates, a key packaging material for DMPL, remains at a 5-year low of c.US\$14,000/mt.

Earnings inflexion, rebound in margins



Source: DBS estimates, Company

Non-recurring expenses amounting to US\$60.4m (EBITDA) providing a boost to FY16 performance

DMPL FY FY2015 Non-Recurring Expenses

DMPL generated an EBITDA of US\$95.7m and incurred a net loss of US\$38.0m mainly due to acquisition-related and non-recurring expenses worth US\$62.6m, after tax

	EBITDA impact	Bottom line impact ¹
1. Inventory step-up ²	US\$44.3m	US\$24.6m
2. ERP implementation at DMFI ³	US\$16.4m	US\$9.1m
3. Venezuela write-off ⁴	US\$7.3m	US\$4.1m
4. Others ⁵	(US\$7.6m)	US\$24.8m
Total	US\$60.4m	US\$62.6m

¹Net of tax and net of DMPL's non-controlling interest in DMFI of 10.6% where applicable.

²Purchase accounting standards required a restatement to fair market values of the assets which formed part of the acquisition. This had a corresponding impact on DMFI's costs, primarily due to an upward revaluation of inventory which corresponded to a higher cost of goods sold. This was a carryover from the Transition Period of January to April 2014 as not all the inventory at the point of acquisition had been sold during that period. The inventory step up had no cash flow impact. Moreover, the inventory affected by this carryover was sold in FY2015 so there will no longer be any impact in FY2016.

³ & ⁴Same as per slide 6.

⁵Others included a gain resulting from DMFI's Sager Creek bargain purchase (negative goodwill). Others also included acquisition-related interest expenses of US\$25.3m for bottom line but not for EBITDA impact. US\$150m of the bridge loans had already been paid down in March 2015.



Source: Company presentation slides, 4Q15 results announcement

Del Monte Pacific

Pref shares coupon to trim EPS (after pref coupon) to equity holders by 27%/ 20%. We undertook a theoretical exercise to assess the impact of the eventual issuance of preference shares. Assuming an issuance of US\$350m at a coupon rate of 7% at the beginning of FY16, pro-forma net profit forecasts will improve by 20%/15% for FY16F/17F due to interest savings (net of assumed tax) from the repayment of loans. However, after assuming coupon payment to pref share holders, we estimate 27%/ 20% drops in our forecasts (net profit attributable to equity holders). This is not surprising given the "higher" coupon rate compared to current interest rate on DMPL's loan.

Positive from potential pref share issuance is the decline in net gearing. On the brighter side, gearing will drop significantly from 5x/4x to 1.9x/1.6x for FY16F/17F. This will improve the Group's financial leverage ratio, and could provide a re-rating catalyst, given the removal of an overhang arising from its high leverage.

Dividends unlikely till FY17F, at the earliest. While DMPL has a dividend policy of 33% minimum payout ratio, this has not been the case in the past two years, given the reported net losses. To put things into perspective, the Board has paid out dividends equal to 75% ratio from 2006 to 2012. Given the initial turnaround projected in FY16, we believe the Board is likely to adopt a conservative stance in conserving cash.

We believe a resumption of dividend payouts is more likely from FY17F. In addition, we understand that the current bond covenant prevents DMFI from upstreaming dividends to its shareholders unless its net debt-to-EBITDA is <5.25x.

Upgrade to BUY, TP: S\$0.50. We upgrade to BUY on the back of the projected earnings turnaround, coupled with an attractive valuation for a branded consumer business. Our TP of S\$0.50 is pegged to a conservative 12x on FY16F/17F PE and implies a 31% upside to its current traded price.

One will note that the Group's net debt-to-equity is still at a whopping 5x, but it is projected to decline to 4.2x by end-FY16F. That said, we believe this has been priced in with the counter trading at just 10.8x/ 8.0x FY16F/17F PE, compared to US and Philippines consumer peers at c.18x to 22x average forward earnings. In any case, we have pegged our TP to a conservative 12x, which is at a 40% discount to peers, providing a high margin of safety, in our view.

Further upside to share price in the works. We believe there is potential for DMPL to achieve a higher return than our current share price target of S\$0.50 over the next 2-3 years as the Group executes on its intended plan to return to profitability and deleverage, and as the market regains its confidence on the counter. Assuming a valuation target of 15x FY17F earnings, which is at a 20-25% discount to current peers' valuation, our TP will be at c.S\$0.705 – implying c.80% upside to its current price.

DBS's pro-forma net profit arising from pref shares issuance (assuming US\$350m @ 7% coupon rate)

	FY16F	FY17F	Remarks
Current net profit (US\$ m)	51.5	69.5	Current DBS estimates
Gearing (x)	4.1 x	3.3 x	Current net debt-to-total equity forecasts
Pro-forma net profit (US\$ m) (Pref shares)	62.0	80.0	Issuance of US\$350m pref shares, resulting in repayment of US\$350m loan and interest savings (net of tax, assumed 25%)
<i>Change vs current</i>	20%	15%	
Less: Pref shares coupon (US\$ m)	(24.5)	(24.5)	Assume pref shares coupon @ 7% on US\$350m
Pro-forma net profit to equity holders (US\$ m)	37.5	55.5	Profit attributable to equity holders, net of pref shares coupon payments
<i>Change vs current</i>	-27%	-20%	
Net Gearing (x) - Pro-forma	1.7 x	1.5 x	Pro-forma gearing ratio (total equity) drops to 1.7x/1.5x from 4x/3.3x post pref shares

Source: DBS' estimates

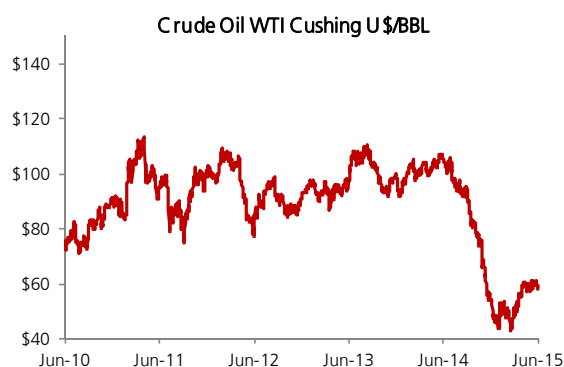
Peer valuation table

Peers are trading at c.18-22x average forward earnings, implying DMPL is at c.50% discount to peers

Company	Curr	Last Px	Mkt Cap (US\$ m)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	EV/ EBITDA Hist	EV/ EBITDA Curr	P/B (x)	P/S (x)
Del Monte Pacific Ltd	SGD	0.355	563	nm	9.9	7.4	20.8	9.1	1.9	0.3
Philippines based peers										
Universal Robina Corp	PHP	194.00	9,242	35.3	30.6	25.8	20.8	18.4	7.3	4.1
Century Pacific Food Inc	PHP	18.30	908	22.7	21.8	19.2	15.3	14.0	6.2	1.8
RFM Corp	PHP	4.15	323	17.2	15.4	12.6	10.7	9.9	1.6	1.3
Pepsi-Cola Products Philippines Inc	PHP	4.89	393	20.7	19.8	17.3	5.5	6.4	2.2	0.7
				24.0	21.9	18.7	13.1	12.2		
US based peers										
ConAgra Foods Inc	USD	43.72	18,671	19.3	19.3	17.8	54.4	12.2	4.1	1.2
General Mills Inc	USD	55.72	33,214	20.7	19.8	18.7	11.6	12.7	5.3	1.9
Campbell Soup Co	USD	47.65	14,796	19.0	20.0	19.2	9.9	12.3	9.3	1.8
Kellogg Co	USD	62.70	22,127	16.3	17.6	16.6	17.1	12.0	8.7	1.6
Hormel Foods Corp	USD	56.37	14,897	22.3	22.2	20.3	12.9	12.3	3.9	1.6
				19.5	19.8	18.5	21.2	12.3		

Source: Bloomberg Finance L.P., DBS' estimates (prices as of 30 June 2015)

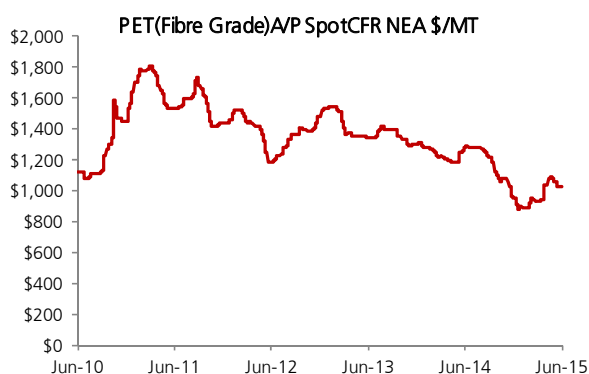
WTI –rebounded off lows but still down y-o-y



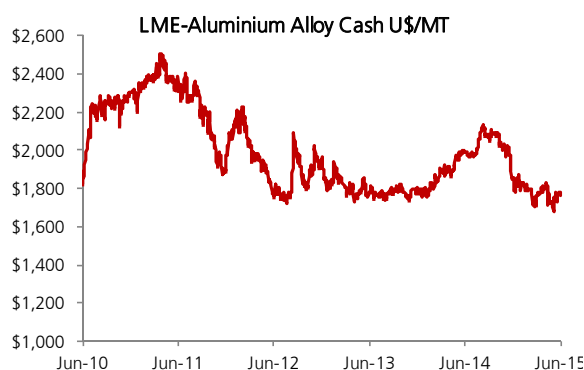
Tin at a low compared to 5-year history



PET tracking oil price



Aluminium hovering at 5-year lows



Source: Thomson Reuters, DBS Bank

Del Monte Pacific

Key Assumptions

FY Apr	2013A*	2014A	2015A	2016F	2017F
Americas rev gwth %	-	-	381	16.3	4.83
Americas GP mgn	-	-	16.4	21.0	21.8
Asia Pac rev gwth %	-	-	17.6	13.7	9.68
Asia Pac GP mgn	-	-	26.0	26.4	25.9
SG&A as % of sales	17.9	19.5	15.6	14.8	14.8

Jump in Americas growth rate in FY15A due to consolidation of DMFI from Feb'14

Segmental Breakdown

FY Apr	2013A*	2014A	2015A	2016F	2017F
Revenues (US\$ m)					
Americas	-	357	1,717	1,998	2,094
Asia Pacific	-	349	411	467	512
Europe	-	37	31	30	30
*Branded	336	-	-	-	-
Others	156	-	-	-	-
Total	492	743	2,159	2,495	2,637

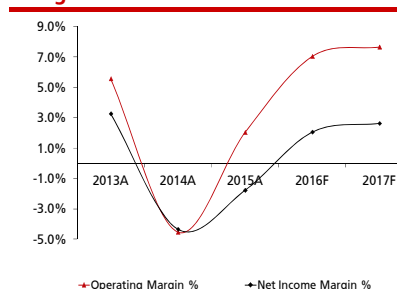
Segmentals changed with DMFI acquisition

Gross profit (US\$ m)					
Americas	-	33	281	420	458
Asia Pacific	-	88	107	123	133
Europe	-	0	2	2	2
*Branded	101	-	-	-	-
Others	14	-	-	-	-
Total	116	121	390	545	593

Gross profit Margins (%)					
Americas	-	9.1	16.4	21.0	21.8
Asia Pacific	-	25.3	26.0	26.4	25.9
Europe	-	(0.4)	7.3	7.5	7.5
*Branded	30.1	-	-	-	-
Others	9.2	-	-	-	-
Total	23.5	16.3	18.1	21.9	22.5

*Note: 2013A financial year end is Dec, and for 2014A onwards, FYE is Apr.

Margins Trend



Income Statement (US\$ m)

FY Apr	2013A*	2014A	2015A	2016F	2017F
Revenue	492	743	2,159	2,495	2,637
Cost of Goods Sold	(377)	(622)	(1,769)	(1,950)	(2,044)
Gross Profit	116	121	390	545	593
Other Opng (Exp)/Inc	(88)	(154)	(346)	(369)	(390)
Operating Profit	27	(34)	44	176	202
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(5)	(5)	(2)	(2)	(1)
Net Interest (Exp)/Inc	(5)	(22)	(99)	(99)	(101)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	17	(60)	(58)	75	100
Tax	(2)	23	14	(13)	(18)
Minority Interest	0	5	5	(11)	(13)
Preference Dividend	0	0	0	0	0
Net Profit	16	(32)	(38)	52	70
Net Profit before Except.	16	(32)	(38)	52	70
EBITDA	42	(23)	102	243	270

Growth

Revenue Gth (%)	7.1	51.0	190.5	15.6	5.7
EBITDA Gth (%)	(29.3)	nm	nm	137.3	11.0
Opg Profit Gth (%)	(45.1)	nm	nm	298.7	14.9
Net Profit Pre-Ex Gth (%)	(50.0)	(300.0)	18.2	(235.3)	34.9

Margins & Ratio

Gross Margins (%)	23.5	16.3	18.1	21.9	22.5
Opg Profit Margin (%)	5.6	(4.5)	2.0	7.1	7.7
Net Profit Margin (%)	3.3	(4.3)	(1.8)	2.1	2.6
ROAE (%)	6.7	(15.8)	(16.7)	17.2	19.3
ROA (%)	2.9	(2.1)	(1.5)	1.9	2.5
ROCE (%)	6.7	(7.5)	3.2	6.5	7.3
Div Payout Ratio (%)	50.0	N/A	N/A	0.0	20.0
Net Interest Cover (x)	5.4	(1.5)	0.4	1.8	2.0

Rebound in gross margins on absence of non-recurring items coupled with operational improvements

At this stage, assuming resumption of dividends in FY17. We note that this is lower than the current 33% dividend policy, but are adopting a conservative take at this juncture.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US\$ m)

FY Apr	4Q2014	1Q2015	2Q2015	3Q2015	4Q2015
Revenue	364	446	548	638	528
Cost of Goods Sold	(330)	(375)	(433)	(515)	(446)
Gross Profit	34	71	115	122	82
Other Oper. (Exp)/Inc	(79)	(83)	(89)	(99)	(75)
Operating Profit	(45)	(12)	25	23	7
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	(1)	(1)	0	(1)
Net Interest (Exp)/Inc	(18)	(24)	(25)	(28)	(23)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(65)	(36)	0	(5)	(17)
Tax	21	12	0	2	1
Minority Interest	5	2	0	1	2
Net Profit	(39)	(22)	0	(2)	(14)
Net Profit before Except	(39)	(22)	0	(2)	(14)
EBITDA	(46)	0	39	23	7

Growth

Revenue Gth (%)	194.3	22.4	23.0	16.3	(17.2)
EBITDA Gth (%)	(241.7)	nm	21,019.3	(41.8)	(70.8)
Opg Profit Gth (%)	(258.7)	73.3	nm	(8.0)	(68.1)
Net Profit Pre-Ex Gth (%)	501.6	(43.5)	(100.8)	(1,284.9)	545.3

Margins

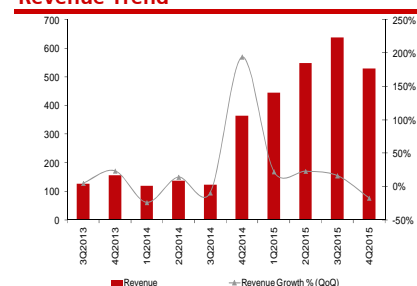
Gross Margins (%)	9.4	15.9	20.9	19.2	15.5
Opg Profit Margins (%)	(12.4)	(2.7)	4.6	3.7	1.4
Net Profit Margins (%)	(10.6)	(4.9)	0.0	(0.3)	(2.7)

Balance Sheet (US\$ m)

FY Apr	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	94	501	578	586	580
Invt in Associates & JVs	20	21	23	21	20
Other LT Assets	34	829	879	873	866
Cash & ST Invt	133	28	36	75	108
Inventory	99	814	764	784	823
Debtors	111	216	232	268	284
Other Current Assets	113	118	127	132	137
Total Assets	606	2,528	2,639	2,740	2,818
ST Debt	265	920	446	431	401
Creditor	100	258	377	418	439
Other Current Liab	1	13	15	26	31
LT Debt	14	934	1,273	1,273	1,273
Other LT Liabilities	2	152	196	196	196
Shareholder's Equity	226	183	274	325	395
Minority Interests	(2)	68	60	71	83
Total Cap. & Liab.	606	2,528	2,639	2,740	2,818
Non-Cash Wkg. Capital	223	877	732	740	773
Net Cash/(Debt)	(147)	(1,826)	(1,683)	(1,628)	(1,565)
Debtors Turn (avg days)	79.3	80.4	37.9	36.6	38.2
Creditors Turn (avg days)	96.6	99.1	107.5	67.8	77.1
Inventory Turn (avg days)	111.7	108.6	274.6	168.6	150.2
Asset Turnover (x)	0.9	0.5	0.8	0.9	0.9
Current Ratio (x)	1.2	1.0	1.4	1.4	1.6
Quick Ratio (x)	0.6	0.7	0.2	0.3	0.4
Net Debt/Equity (X)	0.7	7.3	5.0	4.1	3.3
Net Debt/Equity ex MI (X)	0.6	10.0	6.1	5.0	4.0
Capex to Debt (%)	8.7	1.0	4.4	4.1	3.3
Z-Score (X)	2.0	0.2	1.3	1.5	1.5

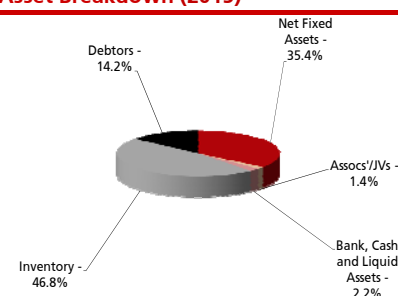
Source: Company, DBS Bank

Revenue Trend



2Q and 3Q are the seasonally strong quarters of DMFI which contributes 80% of the Group's revenue now

Asset Breakdown (2015)

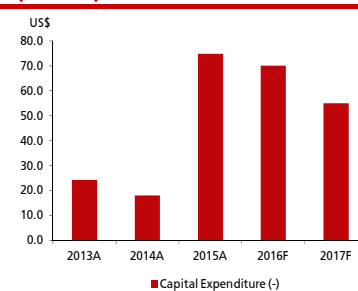


Cash Flow Statement (US\$ m)

FY Apr	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	17	(60)	(58)	75	100
Dep. & Amort.	20	29	59	68	68
Tax Paid	(11)	(4)	(12)	(1)	(13)
Assoc. & JV Inc/(loss)	5	5	2	2	1
Chg in Wkg.Cap.	(12)	147	151	(19)	(39)
Other Operating CF	8	(28)	89	0	0
Net Operating CF	27	88	232	125	118
Capital Exp.(net)	(24)	(18)	(75)	(70)	(55)
Other Invts.(net)	0	(1,821)	(75)	0	0
Invts in Assoc. & JV	(4)	(2)	(4)	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(27)	(1,841)	(154)	(70)	(55)
Div Paid	(24)	0	0	0	0
Chg in Gross Debt	147	1,580	(134)	(15)	(30)
Capital Issues	0	0	155	0	0
Other Financing CF	(5)	69	(91)	0	0
Net Financing CF	117	1,649	(71)	(15)	(30)
Currency Adjustments	(8)	0	0	0	0
Chg in Cash	108	(105)	7	40	33
Opg CFPS (US cts.)	2.8	(4.2)	5.5	7.4	8.0
Free CFPS (US cts.)	0.2	5.0	10.7	2.8	3.2

Source: Company, DBS Bank

Capital Expenditure



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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

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