

### STRATEGY – SINGAPORE

## Del Monte Pacific (DELM SP)

4QFY16: Strong Quarter And Resumption Of Dividends

**Net profit improved from a loss of US\$43.3m in FY15 to a gain of US\$51.5m for FY16. Yoy sales were up 5% due to higher revenue in all markets. We maintain our BUY recommendation as we value Del Monte Pacific at 11.6x FY18F PE with a higher target price of S\$0.47.**

### RESULTS

- Strong performance to cap the year.** Del Monte Pacific (DMPL) recorded a net profit gain of US\$51.5m for FY16 vs a US\$43.3m loss in FY15. Sales in the US (DMFI) were up 3.1% mainly due to consolidation of Sager Creek. Without Sager Creek, US sales were lower by 4% due to unsuccessful government contract bids. Even in an increasingly competitive environment in the Philippines, DMPL managed to record an increase in sales from all key categories of packaged fruit, beverages and culinary products.

#### 4Q16 RESULTS

Year to 30 Apr (US\$m)	4Q16	4Q15	yoy % chg	FY16	FY15	yoy % chg
Revenue	520.1	535.0	-2.8	2,267.8	2,159.4	5.0
EBITDA	78.2	40.2	94.5	235.9	103.2	128.6
Operating Profit	58.2	25.5	128.2	161.7	44.2	265.8
Net Profit	19.2	(4.2)	n.m	51.5	(43.3)	n.m
Recurring NPAT	10.9	(5.2)	n.m	19.8	(6.7)	n.m

Source: Del Monte, UOB Kay Hian

- Group adjusted net profit up from a loss of US\$6.7m in FY15 to a gain of US\$19.8m in FY16.** DMFI saw an increase in its market share in packaged vegetables and fruit by 1.1% and 0.9% respectively in the US, but canned products recorded a slight decline on the back of changing consumer preferences toward non-BPA, non-GMO, natural and organic products. DMFI is moving toward a leaner organisation to drive channel growth and further streamlining its operations to bring costs in line with competitors.
- Dividends declared.** DMPL has resumed its payment of dividends for FY16 and the board has declared a final dividend of US\$0.0133 per share, representing a payout ratio of 50%. Del Monte has indicated they intend to maintain a minimum 33% payout ratio going forward. We have assumed a dividend payout of 40% for FY17-19.

### KEY FINANCIALS

Year to 30 Apr (US\$m)	2015	2016	2017F	2018F	2019F
Net Turnover	2,159	2,268	2,353	2,444	2,541
EBITDA	103	236	231	248	276
EBIT	44	162	168	184	211
PATMI	(38)	52	52	60	81
Adjusted PATMI	25	20	52	60	81
Adjusted EPS (cts)	1.8	1.0	2.7	3.1	4.2
Adjusted P/E	-	26.8	10.2	8.8	6.6
P/B (x)	1.9	1.8	1.7	1.6	1.5
Dividend Yield (%)	-	4.9	3.9	4.5	6.1
Adjusted PATMI Margin (%)	1.1	0.9	2.2	2.5	3.2
Net Debt(cash) to Equity (%)	504.7	492.6	249.5	212.3	180.0
Interest cover (x)	0.4	1.6	1.8	1.9	2.3
Adjusted ROE (%)	8.9	6.6	16.8	18.2	22.3
Consensus	-	-	51	65	n.a.
UOB/Consensus	-	-	1.03	0.93	-

Source: Del Monte, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$0.355
Target Price	S\$0.47
Upside	+32.4%
(Previous TP)	S\$0.46)

### COMPANY DESCRIPTION

Del Monte Pacific Limited produces and markets packaged vegetable and fruit, beverage and culinary products. The Group has the exclusive right to use the Del Monte brand for packaged products in the USA, South America, Philippines, the Indian subcontinent and Myanmar, and the S&W brand for both packaged and fresh products globally except Australia and New Zealand.

### STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	DELM SP
Shares issued (m):	1,943.2
Market cap (S\$m):	689.8
Market cap (US\$m):	511.8
3-mth avg daily t'over (US\$m):	0.3

### Price Performance (%)

52-week high/low	S\$0.48/S\$0.28			
1mth	3mth	6mth	1yr	YTD
14.5	7.6	(13.4)	4.4	(7.8)

### Major Shareholders

NutriAsia Pacific Limited	59.4
Bluebell Group Holdings Limited	7.3

FY17 NAV/Share (S\$)	0.32
FY17 Net debt/Share (S\$)	0.81

### PRICE CHART



Source: Bloomberg

### ANALYST

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

### STOCK IMPACT

- Update on deleveraging.** In early-Mar 16, DMPL shareholders approved the mandate with no fixed expiry date to issue preference shares to be listed on the Philippine Stock Exchange (PSE). DMPL has indicated that the preference shares should be issued in 2016 and be priced in the range of 5.5-7.0%. We expect that DMPL will gain final regulatory approvals by August. The company intends to raise up to US\$360m with an initial tranche of up to US\$250m and the balance within three years. We understand that this is the first US dollar-denominated preference share issue listed on the PSE and we expect there to be significant interest given the low yield environment. Upon full completion of the issuance, we expect the debt-to-equity ratio to fall substantially to about 2x. We have forecasted an initial US\$250m issue for FY16 followed by a US\$50m issue for FY17 and a final US\$50m issue for FY18.
- Expectations and outlook.** Barring unforeseen circumstances, the group expects to remain profitable in FY17. In the short term, DMPL intends to focus on strengthening its core business and to further optimise administrative expenses. The group is exploring e-commerce opportunities to sell its range of products across markets.

### EARNINGS REVISION/RISK

- We have lowered our FY17-18 core net profit forecasts by 4% and 20% respectively. This is mainly due to: a) lower FY17 and FY18 sales forecast in the US operations, b) larger financial expense for FY17-19 as we factor in an initial US\$250m perpetual issue vs US\$350m for FY17 in our previous forecast and c) higher interest rate on rollover of bridge loan due Feb 17.
- Key risks include:** a) continued delay in issuance of perpetual securities due to poor market conditions or regulatory barriers, and b) further slowdown in US sales.

### VALUATION/RECOMMENDATION

- Maintain BUY with 11.6x PE-based target price of S\$0.47 (previous TP: S\$0.46).** We continue to apply our 40% discount to the peers' PE ratio of 19.3x.

### PEER COMPARISON

Company	Ticker	Price @ 28 Jun 16 (Icy)	Market Cap (US\$m)	----- PE -----		--- EV/EBITDA ---		----- P/B -----	
				2016 * (x)	2017 * (x)	2016 * (x)	2017 * (x)	2016 * (x)	2017 * (x)
Rfm Corporation	RFM PM	4.20	313	14.5	12.7	7.6	6.8	n.a.	n.a.
Kraft Heinz Co/The	KHC US	84.77	103,077	27.6	22.1	16.2	14.4	1.8	1.7
Universal Robina Corp	URC PM	204.00	9,474	30.5	27.3	18.8	17.0	6.4	5.7
Century Pacific Food Inc	CNPF PM	21.75	1,093	20.0	17.3	14.3	12.2	4.7	3.9
General Mills Inc	GIS US	65.76	39,088	21.6	20.6	13.7	13.3	7.4	7.3
Conagra Foods Inc	CAG US	47.10	20,555	19.6	17.7	12.7	11.8	3.9	3.7
Fresh Del Monte Produce Inc	FDP US	52.79	2,683	14.4	16.4	9.7	10.5	n.a.	n.a.
Campbell Soup Co	CPB US	62.75	19,368	21.1	20.0	12.8	12.4	13.1	11.0
<b>Average</b>				<b>21.2</b>	<b>19.3</b>	<b>13.2</b>	<b>12.3</b>	<b>6.2</b>	<b>5.6</b>
Del Monte Pacific Ltd	DELM SP	0.315	454	10.2	8.8	10.5	9.7	1.7	1.6

\* Refer to FY17, 18 for GIS US & DELM SP  
Source: Bloomberg

### PE DISCOUNT BREAKDOWN

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

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
<b>Net turnover</b>	<b>2,267.8</b>	<b>2,353.0</b>	<b>2,443.9</b>	<b>2,541.0</b>
EBITDA	235.9	231.1	247.8	276.0
Deprec. & amort.	74.1	62.7	63.6	65.4
EBIT	161.7	168.3	184.2	210.6
Net interest income/(expense)	(97.4)	(91.6)	(95.2)	(91.7)
Associate contribution	(1.7)	0.6	0.8	2.7
<b>Pre-tax profit</b>	<b>62.7</b>	<b>77.4</b>	<b>89.8</b>	<b>121.6</b>
Tax	(8.1)	(19.3)	(22.5)	(30.4)
Minorities	(3.0)	(5.8)	(7.1)	(10.2)
<b>Net profit</b>	<b>51.5</b>	<b>52.2</b>	<b>60.2</b>	<b>81.0</b>
Net profit (adj.)	19.8	52.2	60.2	81.0

### BALANCE SHEET

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
Property, plant, equipment	563.6	573.2	580.1	585.9
Other LT assets	937.1	929.6	922.2	914.8
Cash	47.2	23.5	47.3	58.1
Other current assets	1,146.3	1,182.9	1,195.3	1,239.6
<b>Total assets</b>	<b>2,694.3</b>	<b>2,709.2</b>	<b>2,744.9</b>	<b>2,798.5</b>
ST debt	727.4	727.4	727.4	727.4
Other current liabilities	318.8	319.0	329.2	340.2
LT debt	1,116.4	866.4	816.4	766.4
Other LT liabilities	167.0	167.0	167.0	167.0
Shareholders' equity	302.8	561.6	630.0	712.3
Minority interest	62.0	67.8	74.9	85.1
<b>Total liabilities &amp; equity</b>	<b>2,694.3</b>	<b>2,709.2</b>	<b>2,744.9</b>	<b>2,798.5</b>

### CASH FLOW

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
<b>Operating</b>	<b>30.1</b>	<b>176.0</b>	<b>224.0</b>	<b>214.9</b>
Pre-tax profit	62.7	77.4	89.8	121.6
Tax expense	(8.1)	(19.3)	(22.5)	(30.4)
Deprec. & amort.	74.1	62.7	63.6	65.4
Working capital changes	(167.6)	(36.4)	(2.2)	(33.3)
Non-cash items	69.1	110.9	117.7	122.1
Other operating cashflows	23.3	(19.3)	(22.5)	(30.4)
<b>Investing</b>	<b>(58.1)</b>	<b>(64.0)</b>	<b>(62.6)</b>	<b>(62.9)</b>
Capex	(60.3)	(64.8)	(63.1)	(63.8)
Interest and dividend income	0.4	0.8	0.5	0.9
Investments in JV	(1.9)	-	-	-
Proceeds from sale of assets	3.8	-	-	-
<b>Financing</b>	<b>41.6</b>	<b>(135.8)</b>	<b>(137.6)</b>	<b>(141.2)</b>
Dividend payments	-	(43.4)	(41.9)	(48.6)
Issue of Preference shares	-	250.0	50.0	50.0
Proceeds from borrowings	126.4	(250.0)	(50.0)	(50.0)
Others/interest paid	(84.8)	(92.4)	(95.7)	(92.6)
<b>Net cash inflow (outflow)</b>	<b>13.6</b>	<b>(23.7)</b>	<b>23.8</b>	<b>10.8</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>35.6</b>	<b>47.2</b>	<b>23.5</b>	<b>47.3</b>
Changes due to forex impact	(2.1)	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>47.2</b>	<b>23.5</b>	<b>47.3</b>	<b>58.1</b>

### KEY METRICS

Year to 30 Apr (%)	2016	2017F	2018F	2019F
<b>Profitability</b>				
EBITDA margin	10.4	9.8	10.1	10.9
Pre-tax margin	2.8	3.3	3.7	4.8
Net margin	2.3	2.2	2.5	3.2
ROA	1.9	1.9	2.2	2.9
ROE	17.0	9.3	9.6	11.4
<b>Growth</b>				
Turnover	5.0	3.8	3.9	4.0
EBITDA	128.6	(2.0)	7.2	11.4
Pre-tax profit	n.m	8.6	(0.9)	(0.9)
Net profit	n.m	8.6	(0.9)	(0.9)
Net profit (adj.)	(19.0)	163.4	15.3	34.5
<b>Leverage</b>				
Debt to total capital	68.4	58.8	56.2	53.4
Debt to equity	609.0	283.8	245.1	209.7
Net debt/(cash) to equity	593.4	279.6	237.6	201.5
Interest cover (x)	1.6	1.8	1.9	2.3

## Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

**This report is prepared for general circulation.** It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Securities, which is regulated by Financial Services Authority of Indonesia (OJK). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2016, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W