

# 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

4 Sep 2015

**HOLD** (Downgrade from BUY)

Last Traded Price: S\$0.32 (STI : 2,906.43)

Price Target : S\$0.35 (8% upside) (Prev S\$0.50)

**Reason for Report :** Results review, revisions to forecasts, TP, rating

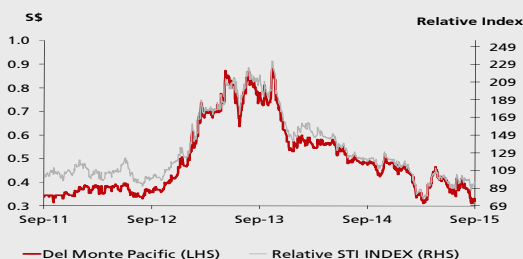
**Potential Catalyst:** Stronger than expected turnaround

**Where we differ:** Below consensus on lower margins, higher opex

### Analyst

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### Price Relative



### Forecasts and Valuation

FY Apr (US\$ m)	2014A	2015A	2016F	2017F
Revenue	743	2,159	2,358	2,489
EBITDA	(23)	102	217	249
Pre-tax Profit	(60)	(58)	49	79
Net Profit	(32)	(38)	39	64
Net Pft (Pre Ex.)	(32)	(38)	39	64
EPS (S cts)	(3.2)	(3.7)	2.9	4.7
EPS Pre Ex. (S cts)	(3.2)	(3.7)	2.9	4.7
EPS Gth (%)	nm	(14)	nm	63
EPS Gth Pre Ex (%)	nm	(14)	nm	63
Diluted EPS (S cts)	(3.2)	(3.7)	2.9	4.7
Net DPS (S cts)	0.0	0.0	0.0	0.0
BV Per Share (S cts)	18.4	19.9	22.8	27.5
PE (X)	nm	nm	11.2	6.8
PE Pre Ex. (X)	nm	nm	11.2	6.8
P/Cash Flow (X)	3.6	1.4	3.3	4.1
EV/EBITDA (X)	nm	20.3	9.8	8.4
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.7	1.6	1.4	1.2
Net Debt/Equity (X)	7.3	5.0	4.3	3.5
ROAE (%)	(15.8)	(16.7)	13.4	18.6
<b>Earnings Rev (%)</b>			(24)	(8)
<b>Consensus EPS (S cts)</b>			4.7	5.8
<b>Other Broker Recs:</b>		B: 3	S: 1	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

## Wait for stronger signs

- **Operations turning profitable but not up to expectations due to higher opex**
- **Trimmed FY16F/17F by 24%/8%**
- **Still projecting turnaround to profits in FY16F, though not as strong as previously envisaged**
- **Prefer to wait for stronger signs of earnings recovery in ensuing quarters; downgrade to HOLD for now, TP revised to S\$0.35**

### Operations staged a turned around in 1Q16 but below expectations.

Although Del Monte Pacific (DMPL)'s operations are turning around, 1Q16 results were below expectations, registering a net loss of US\$12m (vs loss of US\$22m in 1Q15). This was due to higher opex and lower sales growth vis-à-vis our expectations. Revenue grew by 6% y-o-y to hit US\$472.8m, while gross profit surged by 33% to US\$93.8m. The higher opex was a surprise, due largely to higher selling and distribution expenses (+16% to US\$33.9m) and other operating expenses of US\$5m. DMPL recorded EBITDA of US\$17.2m for the quarter, up significantly from US\$0.8m a year ago, but just 7% of our full year estimates.

### Trimmed forecasts on the back of 1Q's performance.

We trimmed our FY16F/17F forecasts by 24%/ 8%, as we revised our revenue growth assumptions and factored in higher operating costs. While we acknowledged that 1Q is the weaker quarter and 2Q and 3Q will sequentially be better, we prefer to adopt a more prudent stance and trim our forecasts. After the revisions, we still expect the group to turn profitable this year, in line with management's expectations, though not as much as we had earlier anticipated.

### TP revised down to S\$0.35, downgrade to HOLD.

As a result of our revised forecasts, our TP is trimmed to S\$0.35 based on 12x FY16F PE. At the current price, the counter is trading at 11x FY16F PE and c.7x FY17F PE based on our revised forecasts. The valuations look inexpensive but we prefer to see more concrete signs that the earnings recovery is as strong as, if not stronger, than our expectations in the next few quarters before we turn positive again. In the meantime, we cut our rating to HOLD, from BUY.

### At A Glance

Issued Capital (m shrs)	1,944
Mkt. Cap (S\$m/US\$m)	622 / 439
Major Shareholders	
Nutriasia Pacific Ltd (%)	67.1
Free Float (%)	24.7
3m Avg. Daily Val (US\$m)	0.16

## INVESTMENT THESIS

Profile	Rationale
<p>Del Monte Pacific Limited is a consumer F&amp;B-focused company. It acquired the consumer food business of Del Monte Corp in the US with the deal completed in Feb 2014 and thus extending the footprint of the Group to the US and South America, along with trademarks such as Del Monte, S&amp;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&amp;W, globally except in Australia and New Zealand</p>	<p><b>Earnings turning around but not as fast as expected; prefer to await stronger signs.</b> We downgrade DMPL to HOLD from BUY, with a revised TP of S\$0.35. While we expect DMPL to post a earnings turnaround in FY16F following two consecutive years of losses, our forecast earnings has been lowered post its 1Q16 results which were weaker than expected. We trimmed our FY16F/17F earnings by 24%/8%. We prefer to wait for stronger signs before turning positive.</p> <p><b>1Q16 shows turnaround but below expectations.</b> While 1Q16 results showed a better operating performance, turning from a loss last year to a profit, it was a small at US\$0.2m. This was below expectations due to higher opex. EBITDA for the quarter was US\$17.2m, up from US\$0.8m in 1Q15, but this accounts for just 7% of our earlier forecasts. The group still registered a net loss of US\$12m, albeit an improvement from loss of US\$22m in 1Q15.</p> <p><b>Gearing high but reflected in price; swapped a portion of loans to fixed rate.</b> The counter has lost c.60% of its value since the announcement of its US\$1.7bn acquisition in Oct'13. In our view, among the reasons 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. We believe this was priced in with the counter trading at just 10.8x/8.0x FY16F/17F PE.</p>
Valuation	Risks
<p>Our target price is revised lower to S\$0.35, based on 12x FY16F PE, which is at a 40% discount to consumer peers listed in the US and Philippines.</p>	<p><b>Higher interest costs.</b> While a portion of loans has been swapped to a fixed rate, a higher interest rate environment could undermine future refinancing options.</p> <p><b>Performance turnaround; raw material price.</b> 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><b>Weather impact.</b> The International Research Institute for Climate and Society postulates that there is a &gt; 90% chance that El Niño will continue through the Northern Hemisphere winter in 2015-16, and around an 80% chance it will last into early spring 2016. Should the effects of El Niño become more severe, crop yields will fall and impact on production and supply.</p> <p><b>Overhang from potential preference shares issuance.</b> The terms and actual fruition of the preference shares issuance are unknown, and will depend on market conditions.</p>

Source: DBS Bank

### Operations turning around, but hit by high opex

**Turning around but 1Q16 below expectations.** Although DMPL showed that operations are turning around, 1Q16 results were below expectations, registering a net loss of US\$12m (vs loss of US\$22m). This was due to higher opex and lower sales growth vis-à-vis our expectations. Revenue grew by 6% y-o-y to hit US\$472.8m, while gross profit surged by 33% y-o-y to US\$93.8m.

**Gross margin expanded to 19.8%.** Gross margins expanded by almost 400 bps to hit 19.8%, from 15.9% a year ago. This was mainly a result of the absence of higher costs of inventory seen in 1Q15.

**...but negated by higher opex.** The positive impact of the gross margin expansion was, however, negated by higher operating expenses which increased by 13% to US\$93.5m, due to other operating expenses (US\$5m) and higher selling and distribution expenses (+16% to US\$33.9m). The higher

S&D expenses were attributed to timing of spend in 1Q. As a result, operating profit was US\$0.2m in the quarter compared to a loss of US\$12.1m last year, and the group achieved an EBITDA of US\$17m (vs US\$0.8m in 1Q15).

#### Revenue registered 6% growth but could have been better.

The group registered 6% revenue growth. This was driven by its US operations (+10%) (DMFI), and Philippine sales (+7%) offset by lower export sales. Sales of fresh fruit and packaged fruit in the Asia Pacific were impacted by reduced pineapple supply which was attributed to the El Nino weather pattern.

In DMFI, sales growth was predominantly driven by the consolidation of its recent acquisition of Sager Creek.

Excluding Sager Creek, revenue growth was 2%.

Management indicated that sales were constrained by tight supply of green beans, and certain tomato and fruit products, given the higher than anticipated demand.

### Results summary and comments

FY Dec (m)	1Q15	4Q15	1Q16	yoy %	qoq%	Comments
<b>Sales</b>	<b>445.6</b>	<b>528.2</b>	<b>472.8</b>	6%	-10%	Consolidation of Sager Creek, Philippines +7% offset by slower exports attributed to supply constraints of pineapple
Cost of Goods Sold	(374.9)	(446.2)	(379.0)	1%	-15%	
<b>Gross Profit</b>	<b>70.7</b>	<b>82.0</b>	<b>93.8</b>	33%	14%	Absence of step up inventory in 1Q15, gross margins expands to 19.8%
<i>Distribution &amp; selling exp</i>	(29.2)	(30.2)	(33.9)	16%	12%	Attributed to timing of spend
<i>General &amp; admin expenses</i>	(53.2)	(61.7)	(54.7)	3%	-11%	Timing of spend and headcount
<i>Other expenses</i>	(0.4)	17.3	(5.0)	nm	nm	
Other Operating Expenses	(82.8)	(74.6)	(93.5)	13%	25%	
<b>EBIT</b>	<b>(12.1)</b>	<b>7.5</b>	<b>0.2</b>	-102%	-97%	Below expectations on higher opex
Interest Income	0.2	0.1	1.2	nm	nm	
Interest Expense	(23.9)	(23.4)	(22.9)	-4%	-2%	Lower interest on refinancing from rights proceeds
Share of Associates' or JV Income	(0.6)	(0.8)	(0.6)	-9%	-25%	Lower FieldFresh (India) losses
<b>Pretax Profit</b>	<b>(36.4)</b>	<b>(16.6)</b>	<b>(22.0)</b>	-40%	33%	
Tax	12.1	0.8	8.4	-31%	nm	
Minority Interests	2.4	1.6	1.6	-32%	1%	
<b>Net Profit</b>	<b>(21.9)</b>	<b>(14.1)</b>	<b>(12.0)</b>	-45%	-15%	Below expectations

Source: Company, DBS Bank

**Del Monte Pacific**

**Earnings turnaround in progress but pace slower than envisaged.** While earnings turnaround is in progress, the pace was slower than we hoped for. We were probably overly optimistic and we did not expect higher operating expenses, coupled with slower rate of sales growth.

**Taking a conservative stance.** In view of the weaker than expected 1Q results, we trimmed our FY16F/17F earnings by 24%/ 8%. This is due to our revised revenue growth assumption, coupled with higher operating costs factored in. While we acknowledged that 1Q is the weaker quarter and 2Q and 3Q will sequentially be better, we decided to adopt a more prudent stance to trim our forecasts. After revision, we

still expect the group to turn profitable, though not as much as we had earlier envisaged. We project a profit of US\$39.4m, compared to our previous forecasts of US\$52m.

**TP revised to S\$0.35, downgrade to HOLD.** As a result of our revised forecasts, our TP is trimmed to S\$0.35 based on 12x FY16F PE. At current price, the counter is trading at 11x FY16F PE and c.7x FY17F PE, on our revised forecasts. It looks inexpensive but we prefer to get confirmation that the earnings recovery is as strong as or stronger than our expectations in the next few quarters. In the meantime, we cut our rating to HOLD, from BUY.

**Changes to DBS forecasts**

	Previous		New		Chg		Remarks
	FY16F	FY17F	FY16F	FY17F	FY16F	FY17F	
Sales	2,495	2,637	2,358	2,489	-5%	-6%	Cut back on fruits sales, slower growth assumptions
Gross profit	545	593	513	560	-6%	-6%	In line with lower revenue growth
EBITDA	244	271	218	250	-11%	-8%	Higher opex assumptions
Operating Profit	176	202	150	181	-15%	-10%	Higher opex assumptions
Net profit	52	70	39	64	-24%	-8%	As above

Source: DBS Bank's estimates

### Key Assumptions

FY Apr	2013A	2014A	2015A	2016F	2017F
Americas rev gwth %			381	9.21	4.66
Americas GP mgn			16.4	20.8	21.8
Asia Pac rev gwth %			17.6	10.1	9.72
Asia Pac GP mgn			26.0	26.6	26.1
SG&A as % of sales	17.9	19.5	15.6	15.4	15.2

### Segmental Breakdown

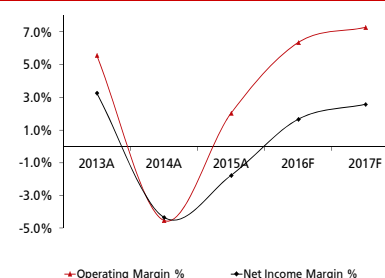
FY Apr	2013A	2014A	2015A	2016F	2017F
<b>Revenues (US\$ m)</b>					
Americas		357	1,717	1,875	1,962
Asia Pacific		349	411	452	496
Europe		37	31	30	30
*Branded	336				
Others	156				
<b>Total</b>	<b>492</b>	<b>743</b>	<b>2,159</b>	<b>2,358</b>	<b>2,489</b>
<b>Gross profit (US\$ m)</b>					
Americas		33	281	391	428
Asia Pacific		88	107	120	129
Europe		0	2	2	2
*Branded	101	N/A	N/A	N/A	N/A
Others	14	N/A	N/A	N/A	N/A
<b>Total</b>	<b>116</b>	<b>121</b>	<b>390</b>	<b>513</b>	<b>560</b>
<b>Gross profit Margins (%)</b>					
Americas		9.1	16.4	20.8	21.8
Asia Pacific		25.3	26.0	26.6	26.1
Europe		(0.4)	7.3	7.5	7.5
*Branded	30.1				
Others	9.2				
<b>Total</b>	<b>23.5</b>	<b>16.3</b>	<b>18.1</b>	<b>21.8</b>	<b>22.5</b>

### Income Statement (US\$ m)

FY Apr	2013A	2014A	2015A	2016F	2017F
Revenue	492	743	2,159	2,358	2,489
Cost of Goods Sold	(377)	(622)	(1,769)	(1,845)	(1,930)
<b>Gross Profit</b>	<b>116</b>	<b>121</b>	<b>390</b>	<b>513</b>	<b>560</b>
Other Opng (Exp)/Inc	(88)	(154)	(346)	(363)	(378)
<b>Operating Profit</b>	<b>27</b>	<b>(34)</b>	<b>44</b>	<b>150</b>	<b>181</b>
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
<b>Pre-tax Profit</b>	<b>17</b>	<b>(60)</b>	<b>(58)</b>	<b>49</b>	<b>79</b>
Tax	(2)	23	14	(5)	(8)
Minority Interest	0	5	5	(5)	(7)
Preference Dividend	0	0	0	0	0
<b>Net Profit</b>	<b>16</b>	<b>(32)</b>	<b>(38)</b>	<b>39</b>	<b>64</b>
Net Profit before Except.	16	(32)	(38)	39	64
EBITDA	42	(23)	102	217	249
<b>Growth</b>					
Revenue Gth (%)	7.1	51.0	190.5	9.2	5.6
EBITDA Gth (%)	(29.3)	nm	nm	111.9	14.7
Opg Profit Gth (%)	(45.1)	nm	nm	239.7	20.9
Net Profit Pre-Ex Gth (%)	(50.0)	(300.0)	18.2	(203.3)	63.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	23.5	16.3	18.1	21.8	22.5
Opg Profit Margin (%)	5.6	(4.5)	2.0	6.4	7.3
Net Profit Margin (%)	3.3	(4.3)	(1.8)	1.7	2.6
ROAE (%)	6.7	(15.8)	(16.7)	13.4	18.6
ROA (%)	2.9	(2.1)	(1.5)	1.5	2.4
ROCE (%)	6.7	(7.5)	3.2	6.0	7.2
Div Payout Ratio (%)	50.0	N/A	N/A	0.0	0.0
Net Interest Cover (x)	5.4	(1.5)	0.4	1.5	1.8

Source: Company, DBS Bank

### Margins Trend



## Quarterly / Interim Income Statement (US\$ m)

FY Apr	1Q2015	2Q2015	3Q2015	4Q2015	1Q2016
Revenue	446	548	638	528	473
Cost of Goods Sold	(375)	(433)	(515)	(446)	(379)
<b>Gross Profit</b>	<b>71</b>	<b>115</b>	<b>122</b>	<b>82</b>	<b>94</b>
Other Oper. (Exp)/Inc	(83)	(89)	(99)	(75)	(94)
<b>Operating Profit</b>	<b>(12)</b>	<b>25</b>	<b>23</b>	<b>7</b>	<b>0</b>
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(1)	(1)	0	(1)	(1)
Net Interest (Exp)/Inc	(24)	(25)	(28)	(23)	(22)
Exceptional Gain/(Loss)	0	0	0	0	0
<b>Pre-tax Profit</b>	<b>(36)</b>	<b>0</b>	<b>(5)</b>	<b>(17)</b>	<b>(22)</b>
Tax	12	0	2	1	8
Minority Interest	2	0	1	2	2
<b>Net Profit</b>	<b>(22)</b>	<b>0</b>	<b>(2)</b>	<b>(14)</b>	<b>(12)</b>
Net Profit before Except	(22)	0	(2)	(14)	(12)
EBITDA	0	39	23	7	0

## Growth

Revenue Gth (%)	22.4	23.0	16.3	(17.2)	(10.5)
EBITDA Gth (%)	nm	21,019.3	(41.8)	(70.8)	nm
Opg Profit Gth (%)	73.3	nm	(8.0)	(68.1)	(97.1)
Net Profit Pre-Ex Gth (%)	(43.5)	(100.8)	(1,284.9)	545.3	(15.0)

## Margins

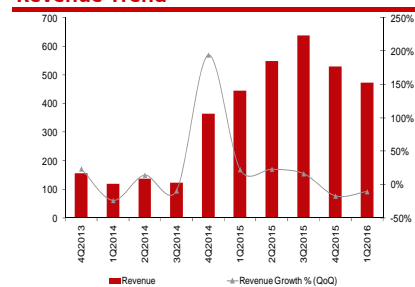
Gross Margins (%)	15.9	20.9	19.2	15.5	19.8
Opg Profit Margins (%)	(2.7)	4.6	3.7	1.4	0.0
Net Profit Margins (%)	(4.9)	0.0	(0.3)	(2.7)	(2.5)

## Balance Sheet (US\$ m)

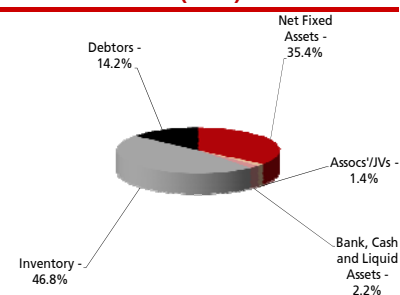
FY Apr	2013A	2014A	2015A	2016F	2017F
Net Fixed Assets	94	501	578	586	580
Invt in Associates & JVs	20	21	23	21	20
Other LT Assets	34	829	879	873	866
Cash & ST Invt	133	28	36	85	107
Inventory	99	814	764	740	776
Debtors	111	216	232	254	268
Other Current Assets	113	118	127	132	137
<b>Total Assets</b>	<b>606</b>	<b>2,528</b>	<b>2,639</b>	<b>2,691</b>	<b>2,754</b>
ST Debt	265	920	446	431	401
Creditor	100	258	377	395	414
Other Current Liab	1	13	15	18	21
LT Debt	14	934	1,273	1,273	1,273
Other LT Liabilities	2	152	196	196	196
Shareholder's Equity	226	183	274	313	377
Minority Interests	(2)	68	60	65	72
<b>Total Cap. &amp; Liab.</b>	<b>606</b>	<b>2,528</b>	<b>2,639</b>	<b>2,691</b>	<b>2,754</b>
Non-Cash Wkg. Capital	223	877	732	713	745
Net Cash/(Debt)	(147)	(1,826)	(1,683)	(1,619)	(1,566)
Debtors Turn (avg days)	79.3	80.4	37.9	37.6	38.2
Creditors Turn (avg days)	96.6	99.1	107.5	67.8	79.2
Inventory Turn (avg days)	111.7	108.6	274.6	168.6	154.6
Asset Turnover (x)	0.9	0.5	0.8	0.9	0.9
Current Ratio (x)	1.2	1.0	1.4	1.4	1.5
Quick Ratio (x)	0.6	0.7	0.2	0.3	0.4
Net Debt/Equity (X)	0.7	7.3	5.0	4.3	3.5
Net Debt/Equity ex MI (X)	0.6	10.0	6.1	5.2	4.1
Capex to Debt (%)	8.7	1.0	4.4	4.1	3.3
Z-Score (X)	2.1	0.4	1.2	1.5	1.6

Source: Company, DBS Bank

## Revenue Trend



## Asset Breakdown (2015)

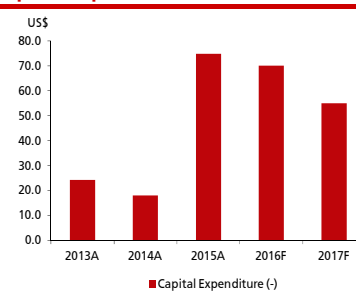


### Cash Flow Statement (US\$ m)

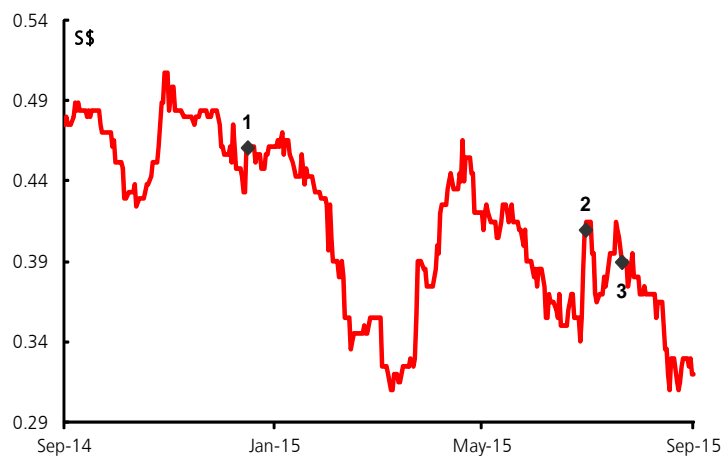
FY Apr	2013A	2014A	2015A	2016F	2017F
Pre-Tax Profit	17	(60)	(58)	49	79
Dep. & Amort.	20	29	59	68	68
Tax Paid	(11)	(4)	(12)	(1)	(5)
Assoc. & JV Inc/(loss)	5	5	2	2	1
Chg in Wkg.Cap.	(12)	147	151	16	(36)
Other Operating CF	8	(28)	89	0	0
<b>Net Operating CF</b>	<b>27</b>	<b>88</b>	<b>232</b>	<b>134</b>	<b>108</b>
Capital Exp.(net)	(24)	(18)	(75)	(70)	(55)
Other Invt.(net)	0	(1,821)	(75)	0	0
Invt 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
<b>Net Investing CF</b>	<b>(27)</b>	<b>(1,841)</b>	<b>(154)</b>	<b>(70)</b>	<b>(55)</b>
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
<b>Net Financing CF</b>	<b>117</b>	<b>1,649</b>	<b>(71)</b>	<b>(15)</b>	<b>(30)</b>
Currency Adjustments	(8)	0	0	0	0
Chg in Cash	108	(105)	7	49	23
Opg CFPS (US cts.)	2.8	(4.2)	5.5	6.1	7.4
Free CFPS (US cts.)	0.2	5.0	10.7	3.3	2.7

Source: Company, DBS Bank

### Capital Expenditure



### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date	Closing Price	Target Price	Rating
1:	18 Dec 14	0.46	0.57	Hold
2:	02 Jul 15	0.41	0.50	Buy
3:	23 Jul 15	0.39	0.50	Buy

Source: DBS Bank

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**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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