

### SMALL/MID CAP HIGHLIGHTS – SINGAPORE

#### Del Monte Pacific (DELM SP)

2QFY17: Recurring Net Profit Up 33% yoy But Expect Near-term Headwinds

**Del Monte Pacific reported a strong 33% yoy increase in recurring net profit for 2QFY17. However, we expect near-term headwinds and pricing pressure, which are likely to impact group gross margin in the near term. Our key concern of a slowdown in US sales appears to be materialising as US sales continued to fall as major US retailers grapple with intensifying competition, resulting in further cash flow optimisation. Downgrade to HOLD. Target price: S\$0.40. Entry price: S\$0.34.**

#### RESULTS

- **Strong growth in recurring net profit.** Del Monte Pacific (Del Monte) recorded 2QFY17 recurring net profit of US\$21.0m, up 33% yoy (2QFY16: US\$15.8m), driven by stronger sales, cost reduction and higher productivity in the Philippines and the S&W brand's Asia market. The US continued to be impacted by consumers shifting away from canned fruits, resulting in a 9.3% yoy drop in sales for Del Monte. Major US retailers are optimising their balance sheets in light of intensifying competition and a broader shift towards e-commerce channels.

#### 2QFY17 RESULTS

Year to 30 Apr (US\$m)	2QFY17	2QFY16	yoy % chg
Revenue	636.2	666.8	-4.6
EBITDA	71.4	103.2	-30.8
Adj. EBITDA	72.9	69.8	4.4
Operating Profit	54.2	86.0	-37.0
Net Profit	20.2	47.8	-57.8
Recurring Net Profit	21.0	15.8	32.9

Source: Del Monte, UOB Kay Hian

- **Asia is still the bright spot.** Sales in the Asia Pacific region grew 20.9% yoy, driven by strong sales in the Philippines and the S&W brand. The group saw expanded product penetration and increased consumption of Del Monte products in the Philippines. We estimate Philippine sales accounted for 13% of group sales in 2QFY17.
- **Minimal one-off expenses.** One-off expenses fell drastically from pre-tax gains of US\$33.4m in 2QFY16 to a pre-tax loss of US\$1.5m in 2QFY17. This was attributable to the closure of the North Carolina plant (US\$1.2m) and severance packages (US\$0.3m).

#### KEY FINANCIALS

Year to 30 Apr (US\$m)	2015	2016	2017F	2018F	2019F
Net Turnover	2,159	2,268	2,272	2,358	2,456
EBITDA	103	236	218	260	296
EBIT	44	162	156	197	231
Net Profit	(38)	52	40	49	72
Adjusted Net Profit	25	20	40	49	72
Adjusted EPS (cent)	1.8	1.0	2.1	2.5	3.7
Adjusted PE (x)	-	25.8	12.7	10.3	7.1
P/B (x)	1.9	1.7	1.6	1.6	1.4
Dividend Yield (%)	-	5.1	3.2	3.9	5.6
Adjusted Net Margin (%)	1.1	0.9	1.8	2.1	2.9
Net Debt(cash) to Equity (%)	504.7	593.4	273.7	233.3	198.2
Interest cover (x)	0.4	1.6	1.7	2.1	2.5
Adjusted ROE (%)	n.m.	17.0	7.2	7.9	10.2
Consensus	-	-	39	51	n.a.
UOB/Consensus	-	-	1.04	0.97	-

Source: Bloomberg, UOB Kay Hian

#### HOLD

(Downgraded)

Share Price	S\$0.355
Target Price	S\$0.40
Upside	+12.7%
(Previously)	S\$0.41

#### COMPANY DESCRIPTION

Del Monte Pacific 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 US, 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):	1,944
Market cap (S\$m):	689.8
Market cap (US\$m):	485.7
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

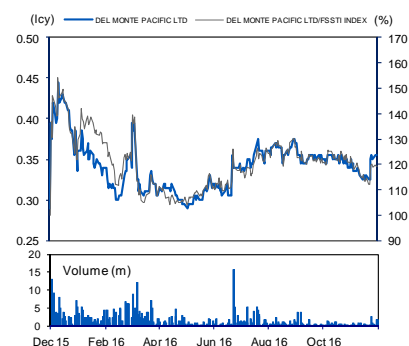
52-week high/low	S\$0.45/S\$0.285			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
4.4	(5.3)	10.9	22.4	(24.9)

#### Major Shareholders

	%
NutriAsia Pacific Limited	59.4
Bluebell Group Holdings Limited	7.6

FY17 NAV/Share (S\$)	0.29
FY17 Net debt/Share (S\$)	0.81

#### PRICE CHART



Source: Bloomberg

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- Preference share guidance pushed into 2017.** Del Monte had previously guided for a launch of the preference share offering in 2016 but due to a regulatory approvals taking a longer-than-expected time, management is now guiding for a preference share offering in early-17. In Nov 16, the Philippine Securities and Exchange Commission (SEC) announced the approval of the framework for the listing and trading of US dollar-denominated securities. It will likely take the SEC a month or so to upgrade the trading platform to facilitate such transactions. We expect strong demand as the target market for US dollar-denominated shares will likely be foreign investors and locals with US dollar deposit accounts. Our channel checks indicate US dollar time deposit rates in the Philippines yield about 1.0-1.3% p.a. The successful issuance of the targeted initial tranche of up to US\$250m could provide a re-rating catalyst, given the removal of an overhang resulting from high leverage and the continued delay in the offering.

### TARGET PRICE SENSITIVITY TO FOREX ASSUMPTION

Target Price (S\$)	US\$/S\$ Assumption
0.37	1.30
0.39	1.35
0.40	1.40
0.42	1.45
0.43	1.50

Source: UOB Kay Hian

### STOCK IMPACT

- Expect near-term headwinds and pricing pressure in the US.** Del Monte's US sales have come under pressure due to: a) weakness in the canned fruit industry, b) continued impact of unsuccessful low-margin USDA bids, c) reduced sales in private labels, and d) lower inventory builds on packaged vegetable and plastic fruit cups among major retailers. Ahead of the major holiday season, retailers usually stock up on inventory in anticipation of higher sales. However, retailers such as Wal-Mart have been more careful this year as the grocery segment which has traditionally been the main growth driver experienced intensifying competition as deep discounters such as Aldi expand. And Del Monte has been very proactive in adjusting to consumer trends. It has started using natural sea salt in its products, and transitioned to BPA-free internal can coatings and non-GMO products. This has translated to higher market share in certain segments amidst a consolidating canned food industry.

### EARNINGS REVISION/RISK

- We lower our FY17-19 core net profit forecasts by 4-9%.** This is mainly due to: a) a lower sales forecast for the US operations partially offset by stronger sales forecast in the Asia Pacific, and b) lower gross margin assumptions for the group due to near-term headwinds and pricing pressure. We have adjusted our US\$/S\$ assumption to S\$1.40 (S\$1.30 previously).
- 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

- Downgrade to HOLD.** Our target price is S\$0.40 (previously S\$0.41), based on 11.3x FY17 PE, and applying a 40% discount to peers' average PE of 18.9x.

### PEER COMPARISON

Company	Ticker	Price @ 6 Dec 16 (lcy)	Market Cap (US\$m)	PE		EV/EBITDA	
				2016F* (x)	2017F* (x)	2016F* (x)	2017F* (x)
Rfm Corporation	RFM PM	4.53	320	15.6	13.7	8.0	7.1
Kraft Heinz Co/The	KHC US	80.19	97,613	24.3	20.4	16.2	14.7
Universal Robina Corp	URC PM	169	7,515	26.2	24.3	16.3	15.4
Century Pacific Food Inc	CNPF PM	16.9	1,207	24.6	21.7	16.2	14.1
General Mills Inc	GIS US	61.0646	36,110	19.7	17.9	12.6	11.8
Conagra Brands Inc	CAG US	37.35	16,351	21.6	20.0	14.0	13.9
Fresh Del Monte Produce Inc	FDP US	56.48	2,926	12.4	14.2	8.8	9.3
Campbell Soup Co	CPB US	57.78	17,789	31.7	18.8	15.6	10.9
<b>Average</b>				<b>22.0</b>	<b>18.9</b>	<b>13.5</b>	<b>12.1</b>

Source: Bloomberg

### PROFIT & LOSS

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
Net turnover	2,267.8	2,271.7	2,357.6	2,456.4
EBITDA	235.9	218.3	260.3	296.2
Deprec. & amort.	74.1	62.7	63.6	65.4
EBIT	161.7	155.6	196.7	230.9
Net interest income/(expense)	(97.4)	(91.6)	(94.7)	(91.0)
Associate contribution	(1.7)	0.6	0.8	2.7
<b>Pre-tax profit</b>	<b>62.7</b>	<b>64.6</b>	<b>102.8</b>	<b>142.5</b>
Tax	(8.1)	(16.2)	(25.7)	(35.6)
Minorities	(3.0)	(4.8)	(8.2)	(12.0)
Net profit	51.5	43.6	68.9	94.9
Preference dividends	-	(3.3)	(19.5)	(22.8)
<b>Net profit to common shareholders</b>	<b>51.5</b>	<b>40.4</b>	<b>49.4</b>	<b>72.2</b>
Net profit (adj.)	19.8	40.4	49.4	72.2

### 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	50.0	79.3	91.3
Other current assets	1,146.3	1,148.5	1,147.1	1,188.1
<b>Total assets</b>	<b>2,694.3</b>	<b>2,701.4</b>	<b>2,728.7</b>	<b>2,780.2</b>
ST debt	727.4	727.4	727.4	727.4
Other current liabilities	318.8	309.7	315.1	325.0
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	564.0	627.8	707.4
Minority interest	62.0	66.8	75.0	87.0
<b>Total liabilities &amp; equity</b>	<b>2,694.3</b>	<b>2,701.4</b>	<b>2,728.7</b>	<b>2,780.2</b>

### CASH FLOW

Year to 30 Apr (US\$m)	2016	2017F	2018F	2019F
<b>Operating</b>	<b>30.1</b>	<b>188.3</b>	<b>222.7</b>	<b>209.4</b>
Pre-tax profit	62.7	64.6	102.8	142.5
Tax expense	(8.1)	(16.2)	(25.7)	(35.6)
Deprec. & amort.	74.1	62.7	63.6	65.4
Working capital changes	(167.6)	(11.2)	6.7	(31.1)
Non-cash items	69.1	104.5	100.9	103.9
Other operating cashflows	23.3	(16.2)	(25.7)	(35.6)
<b>Investing</b>	<b>(58.1)</b>	<b>(64.0)</b>	<b>(62.1)</b>	<b>(62.2)</b>
Capex	(60.3)	(64.8)	(63.1)	(63.8)
Interest and dividend income	0.4	0.8	1.0	1.6
Investments in JV	(1.9)	-	-	-
Proceeds from sale of assets	3.8	-	-	-
<b>Financing</b>	<b>41.6</b>	<b>(121.5)</b>	<b>(131.4)</b>	<b>(135.1)</b>
Dividend payments	-	(29.1)	(35.6)	(42.5)
Issue of shares	-	250.0	50.0	50.0
Net 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>2.8</b>	<b>29.2</b>	<b>12.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>35.6</b>	<b>47.2</b>	<b>50.0</b>	<b>79.3</b>
Changes due to forex impact	(2.1)	-	-	-
<b>Ending cash &amp; cash equivalent</b>	<b>47.2</b>	<b>50.0</b>	<b>79.3</b>	<b>91.3</b>

### KEY METRICS

Year to 30 Apr (%)	2016	2017F	2018F	2019F
<b>Profitability</b>				
EBITDA margin	10.4	9.6	11.0	12.1
Pre-tax margin	2.8	2.8	4.4	5.8
Net margin	2.3	1.8	2.1	2.9
ROA	1.9	1.5	1.8	2.6
ROE	17.0	7.2	7.9	10.2
<b>Growth</b>				
Turnover	5.0	0.2	3.8	4.2
EBITDA	128.6	(7.4)	19.2	13.8
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)	103.6	22.4	46.0
<b>Leverage</b>				
Debt to total capital	68.4	59.0	56.6	53.7
Debt to equity	609.0	282.6	245.9	211.2
Net debt/(cash) to equity	593.4	273.7	233.3	198.2
Interest cover (x)	1.6	1.7	2.1	2.5

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