

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

8 Jul 2013

BUY S\$0.79 STI : 3,169.73

Price Target : 12-Month S\$ 0.97

Reason for Report : Post POA conference update

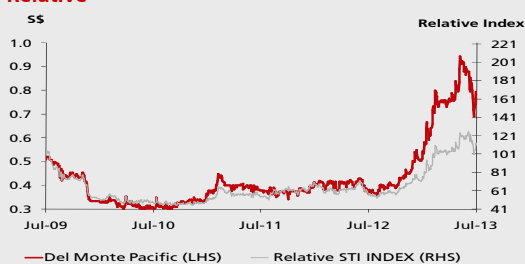
Potential Catalyst: Better than expected operational figures

DBSV vs Consensus: In line with consensus

Analyst

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Price Relative



Forecasts and Valuation

FY Dec (US\$ m)	2012A	2013F	2014F	2015F
Revenue	460	503	560	626
EBITDA	60	63	78	102
Pre-tax Profit	41	45	59	82
Net Profit	32	35	45	62
Net Pft (Pre Ex.)	32	35	45	62
EPS (S cts)	3.2	3.4	4.5	6.1
EPS Pre Ex. (S cts)	3.2	3.4	4.5	6.1
EPS Gth (%)	17	9	29	38
EPS Gth Pre Ex (%)	17	9	29	38
Diluted EPS (S cts)	3.2	3.4	4.5	6.1
Net DPS (S cts)	2.4	2.6	3.3	4.6
BV Per Share (S cts)	25.2	26.3	28.1	30.9
PE (X)	24.9	22.9	17.7	12.9
PE Pre Ex. (X)	24.9	22.9	17.7	12.9
P/Cash Flow (X)	32.6	15.2	14.7	9.3
EV/EBITDA (X)	15.3	14.5	11.7	8.7
Net Div Yield (%)	3.0	3.3	4.2	5.8
P/Book Value (X)	3.1	3.0	2.8	2.6
Net Debt/Equity (X)	0.4	0.5	0.4	0.4
ROAE (%)	13.2	13.4	16.4	20.8

Earnings Rev (%):

Consensus EPS (S cts):	-	3.3	4.3	5.8
Other Broker Recs:	-	B: 4	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 Vickers, Bloomberg Finance L.P

Clear growth story

- **Branded consumer play, with 60% of revenues from the Philippines**
- **Clear growth drivers in place to deliver a projected CAGR of 25% (FY12- 15F)**
- **Looking to manage loan maturities in view of potentially higher interest rates**
- **Maintain BUY, and S\$0.97 TP**

Branded Philippines consumer play. We see DMPL as a key branded consumer play with 60% revenue from Philippines with clear growth drivers in place, supported by its established brands. This, in our view, was the key message to about 40 institutional investors DMPL met in a day of meetings during our Pulse of Asia conference recently.

Clear growth drivers in place. Growth drivers in the near term will be from the Philippines market, expansion of S&W brands for processed and fresh fruits in Asia and Middle East, and management's strategy to shift production of pineapple juice concentrates to RTD canned beverages. By FY15F, the changes in long term supply contracts and expiry of its PET toll packing contracts are further expected to lift earnings to US\$62m, representing CAGR (FY12 – 15F) of 25%.

Cognizant of rise in rates, 1ppt increase to impact FY14/15F earnings by -2.2%/-1.6%. There were queries on the group's net gearing which rose to a high of 62% as of 1Q13 given that interest rates could potentially rise. However, gearing is expected to taper down to c.0.4-0.5x. Management shared that 90% of its loans are short term in nature, and are cognizant of risks from a rise in interest rates. They would be looking to manage their loan maturities going forward. On our estimates, we estimate that a 1ppt rise in interest rates could impact FY14F/15F earnings by -2.2%/-1.6%.

Maintain BUY, TP at S\$0.97. We maintain our BUY recommendation with a DCF-backed TP of S\$0.97, implying FY14F PE of 22.5x. This is projected to decline to 16.3x by FY15F. We view DMPL as inexpensive, trading at c.17.6x PE on FY14F, compared to regional F&B peers' trading at an average PE of 24x.

At A Glance

Issued Capital (m shrs)	1,297
Mkt. Cap (\$m/US\$m)	1,024 / 799
Major Shareholders	
Nutriasia Pacific Ltd (%)	67.1
Lee Pineapple Co Pte Ltd (%)	8.2
Free Float (%)	24.7
Avg. Daily Vol.('000)	709

Del Monte Pacific

Pulse of Asia Conference update

Keen interest seen in DMPL. Del Monte Pacific Limited (DMPL) attended our Pulse of Asia Conference in Singapore and met with almost 40 institutional investors in one day of meetings. The key message from DMPL is consistent and clear – visible growth from near and long term growth drivers, supported by established brands. We forecast earnings to grow at a CAGR (FY12-FY15F) of 25%, with growth accelerating in FY15. We retain our BUY recommendation, with a DCF-backed TP of S\$0.97, representing a total return of c.30%.

Visible growth drivers

Clear near term growth drivers. Growth drivers in the near term are supported by sales in the Philippines market, expansion of S&W brands for processed and fresh fruits in Asia and Middle East, and management’s strategy to shift production of pineapple juice concentrates to RTD canned beverages.

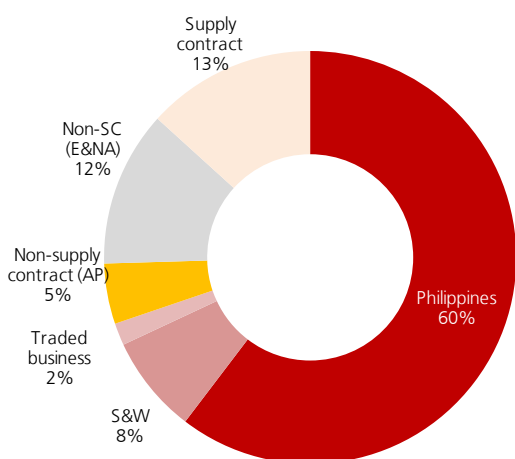
Riding on the Philippines market. Since the new shareholders took control in 2007, sales revenue from Philippines has grown by 72% to reach US\$277.5m in FY12, from just US\$161m in FY07. We expect this to further increase to US\$386.3m by FY15F, driven mainly by its wider distribution network, capacity expansion of its canned juices line, new product introduction/ extension and robust growth of the Philippines economy.

In FY12, Philippines accounted for 60% of group revenue and 84% of group operating profit, driven by its brand strength and market share leadership for canned fruit juices, tomato sauce and spaghetti sauce.

Further growth of S&W brand. We expect S&W to continue on its growth trajectory, particularly from sales of branded fresh pineapple. Since acquiring the brand at the end of 2007, the focus has been on S&W branded fresh pineapple. As of FY12, sales revenue from S&W fresh pineapple has grown by more than 12x to reach US\$18.5m, from just US\$1.5m in FY08. We project this growth trajectory to continue and fresh pineapple to account for 65% of S&W sales by FY15F.

Longer term earnings growth - Projected surge in FY15 earnings arising from 3 initiatives. We retain our FY15F net income of US\$62m, a 38% increase from our FY14F. This will be driven largely by: (i) the expected supply contract termination with Del Monte USA for processed pineapple; (ii) shift of contract pricing of fresh pineapples to Del Monte Fresh; and, (iii) expiry of PET juice toll-pack contract by Aug 2014. The uplift in earnings from these initiatives is estimated to be c.US\$10m.

Philippines accounted for 60% of revenue in FY12



AP = Asia Pacific
E&NA = Europe & North America

Source: Company

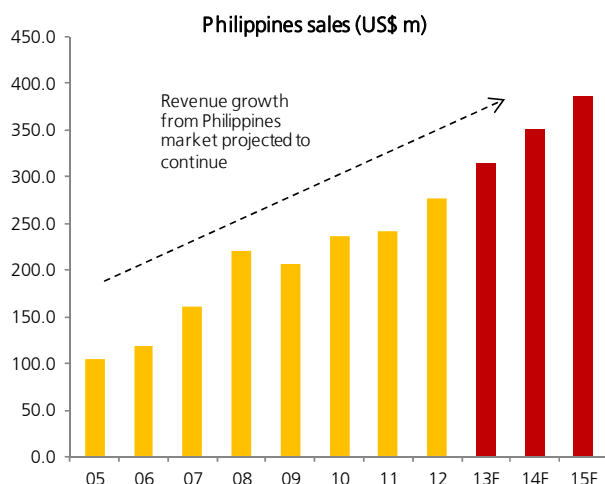
...and 84% of operating profits



AP = Asia Pacific
E&NA = Europe & North America

Source: Company

Sales growth of Philippines projected to continue



Source: Company, DBSVickers

1Q13 gearing is high, but expected to trend down

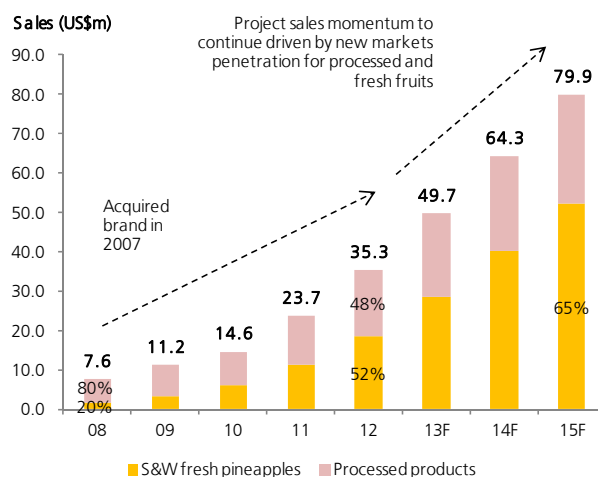
Gearing to decline from 1Q13's high. With prospects of potentially higher interest rates, investors' focus was also on DMPL's gearing, which reached a high of 0.62x as of end-1Q13. This was a result of higher logistics costs arising from a weak pineapple juice concentrates market, particularly in Europe, and forward purchase of raw materials, such as tin plates. The group's gearing is expected to fall towards the end of FY13F, and the targeted long term gearing remains at c.0.4-0.5x.

We have assumed interest rates of 3% in our forecast. Currently, 90% of the group's loans are short-term in nature, done so to capitalize on the lower short-term interest rate. Management is cognizant of the risks of higher rates, and would be looking at strategies to lengthen the debt maturities going forward. Based on our financial model, we estimate that a 1ppt rise in interest rates will impact FY14F/15F earnings by c.-2.2%/-1.6%, respectively.

Key Risks

Risks. The key risks we identified are execution from its long term supply contracts, changes to yields of pineapples from their plantation, unexpected surge in raw material prices (such as tin plates), expansion and penetration of its distribution points in the Philippines and S&W brand in the Asia Pacific, etc.

S&W sales driven by branded pineapple sales



Source: Company, DBSVickers

Valuation

Maintain BUY, TP: S\$0.97. We maintain our BUY recommendation and S\$0.97 TP, based on DCF (WACC 8.2% and t=2%). Our TP implies FY14F PE of 22.5x and this is projected to decline further to 16.3x by FY15F. We view DMPL as inexpensive as it is now trading at c.17x PE on FY14F, compared to regional F&B peers' trading at an average PE of 24x. With CAGR of 25% (FY12- FY15F), its PEG equates to c.0.7x. Dividend yield currently stands at 3.4%/4.3% for FY13F/14F, based on an assumed payout of 75% on net profits, as per previous years.

Estimated impact on FY14F/15F projections on 1ppt increase in rates

	FY14F	FY15F
Net income (US\$m) – current forecasts	45.1	62.1
Net income (US\$m), assume 1% rise in ST interest rates*	44.1	61.1
Change (%)	(2.2%)	(1.6%)

*Note: assumes loan portfolio remains the same and at same level of debt

Source: DBSVickers

Del Monte Pacific**Peers' valuation table**

Company	Curr	Last Px	Mkt Cap (US\$ m)	Hist. PE (x)	PE Curr Yr (x)	PE Nxt Yr (x)	P/EBITDA Hist	P/EBITDA Curr	P/B (x)	P/S (x)
Del Monte Pacific Ltd	SGD	0.765	780	24.2	22.4	17.3	14.2	11.5	3.1	1.6
Petra Foods Ltd	SGD	3.93	1,826	76.9	32.5	23.3	17.1	18.3	5.9	1.9
Super Group Ltd/Singapore	SGD	4.49	1,972	30.1	25.1	21.8	24.1	19.6	5.9	4.7
Mayora Indah Tbk PT	IDR	30650.00	2,375	29.1	26.9	22.5	14.9	14.9	7.3	2.2
Unilever Indonesia Tbk PT	IDR	28300.00	22,331	43.4	41.1	37.3	30.9	29.4	41.1	7.9
Indofood Sukses Makmur Tbk PT	IDR	7200.00	6,226	19.5	16.5	14.5	8.9	8.2	2.8	1.2
Jollibee Foods Corp	PHP	145.50	3,526	38.6	34.5	29.5	20.3	16.8	6.9	2.1
Universal Robina Corp	PHP	120.00	6,029	28.9	30.2	26.1	20.5	19.1	5.1	3.4
Nestle Malaysia Bhd	MYR	68.98	5,086	30.5	29.8	27.7	20.7	20.1	19.7	3.5
				38.2	28.9	24.4	19.9	17.9	11.5	3.6

Source: Bloomberg Finance L.P (prices as of 4 July 2013), DBS Vickers

Key Assumptions

FY Dec	2011A	2012A	2013F	2014F	2015F
Branded rev. gwth %	5.3	16.8	15.8	14.1	12.0
Non-branded rev gwth %	27.8	(7.8)	(5.1)	3.4	10.9
Branded GP margins	27.4	30.2	30.3	30.3	31.1
Non-Branded GP margins	17.4	11.5	7.4	10.6	16.7

Sensitivity Analysis

	2013
Tin price +/- 10%	Gross margins +/- 1%

Non-branded revenue and margins to be impacted by weaker contribution from Europe. Project margins to recover by FY15F with changes in terms on supply contract

Segmental Breakdown

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenues (US\$ m)					
Branded	275	321	371	424	475
Non-supply contract - AP	22	22	26	27	29
Non-supply contract - ENA	67	56	48	49	51
Supply contract	62	61	58	60	72
Total	425	460	503	560	626

Revenue growth driven by Philippines market, and S&W brand in Asia Pacific. Expect non-branded segment to be impacted by lower prices for pineapple juice concentrates in FY13.

Gross profit (US\$ m)

Branded	75	97	112	128	148
Non-supply contract - AP	6	5	6	7	7
Non-supply contract - ENA	15	7	3	5	8
Supply contract	5	4	1	3	11
Total	101	113	122	143	173

Gross profit Margins (%)

Branded	27.4	30.2	30.3	30.3	31.1
Non-supply contract - AP	25.5	23.6	24.0	24.0	24.0
Non-supply contract - ENA	23.1	11.6	6.0	10.0	15.0
Supply contract	8.5	7.1	1.0	5.0	15.0
Total	23.9	24.5	24.3	25.5	27.6

Project branded margins to remain stable at c.30% on the back of stable raw material prices. Non-branded business projected to see a dip in gross profit from Europe and N. America on lower revenue.

Income Statement (US\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenue	425	460	503	560	626
Cost of Goods Sold	(324)	(347)	(381)	(417)	(453)
Gross Profit	101	113	122	143	173
Other Opng (Exp)/Inc	(57)	(63)	(69)	(77)	(86)
Operating Profit	44	50	53	66	87
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(11)	(6)	(5)	(4)	(2)
Net Interest (Exp)/Inc	(2)	(3)	(3)	(3)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	32	41	45	59	82
Tax	(6)	(9)	(10)	(14)	(20)
Minority Interest	1	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	27	32	35	45	62
Net Profit before Except.	27	32	35	45	62
EBITDA	47	60	63	78	102

Growth

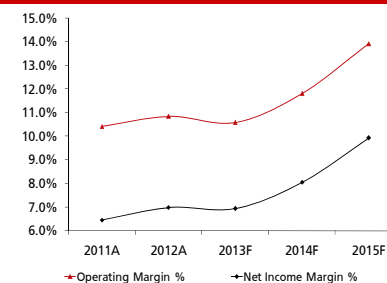
Revenue Gth (%)	12.3	8.1	9.5	11.3	11.7
EBITDA Gth (%)	33.7	27.0	5.3	23.6	30.8
Opg Profit Gth (%)	46.1	12.6	6.8	24.3	31.7
Net Profit Gth (%)	73.6	16.9	8.8	29.2	37.8

Margins & Ratio

Gross Margins (%)	23.9	24.5	24.3	25.5	27.6
Opg Profit Margin (%)	10.4	10.8	10.6	11.8	13.9
Net Profit Margin (%)	6.5	7.0	6.9	8.0	9.9
ROAE (%)	12.1	13.2	13.4	16.4	20.8
ROA (%)	6.7	7.0	6.9	8.4	10.9
ROCE (%)	11.3	11.6	11.2	12.6	16.0
Div Payout Ratio (%)	75.3	75.2	75.0	75.0	75.0
Net Interest Cover (x)	27.7	16.3	15.9	19.4	25.6

Source: Company, DBS Vickers

Margins Trend



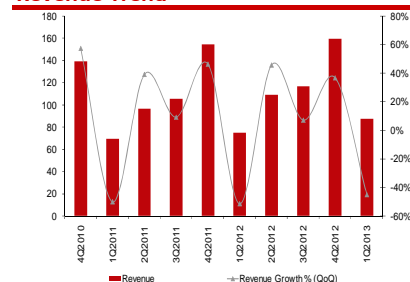
Projecting net profit growth to accelerate in our forecast years, driven by branded segment in FY13/14F, and revisions in long term supply contract terms from FY15F in the non-branded segment

Assuming payout ratio of 75% on the back of improving profits. Dividend payout policy is 33%.

Quarterly / Interim Income Statement (US\$ m)

FY Dec	1Q2012	2Q2012	3Q2012	4Q2012	1Q2013
Revenue	75	109	117	160	87
Cost of Goods Sold	(57)	(82)	(87)	(121)	(68)
Gross Profit	18	27	30	39	20
Other Oper. (Exp)/Inc	(9)	(18)	(16)	(20)	(12)
Operating Profit	9	9	13	19	8
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(2)	(2)	(1)	(1)
Net Interest (Exp)/Inc	(1)	0	(1)	(1)	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6	7	11	17	6
Tax	(1)	(1)	(2)	(4)	(2)
Minority Interest	0	0	0	0	0
Net Profit	4	6	8	13	5
Net profit bef Except.	4	6	8	13	5
EBITDA	11	11	16	23	11
Growth					
Revenue Gth (%)	(51.5)	45.8	7.1	36.8	(45.2)
EBITDA Gth (%)	(46.0)	0.7	46.1	46.5	(51.4)
Opg Profit Gth (%)	(53.5)	4.4	47.3	43.7	(58.1)
Net Profit Gth (%)	(66.2)	34.8	40.1	60.2	(66.3)
Margins					
Gross Margins (%)	23.6	24.8	25.3	24.2	22.6
Opg Profit Margins (%)	11.5	8.3	11.4	11.9	9.1
Net Profit Margins (%)	5.9	5.5	7.2	8.4	5.2

Revenue Trend

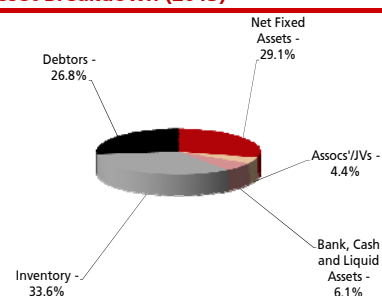


1Q is traditionally the slowest quarter. 1Q13 impacted by slower European sales, offset by robust sales in the Philippines.

Balance Sheet (US\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	85	93	109	122	128
Invt in Associates & JVs	24	22	17	13	11
Other LT Assets	29	31	30	29	29
Cash & ST Invt	21	25	23	23	44
Inventory	89	113	126	134	126
Debtors	83	102	101	112	125
Other Current Assets	92	110	115	120	125
Total Assets	424	496	520	553	586
ST Debt	105	126	126	126	126
Creditor	81	95	105	115	125
Other Current Liab	3	5	10	14	20
LT Debt	6	16	16	16	6
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	231	255	266	285	313
Minority Interests	(1)	(2)	(2)	(3)	(3)
Total Cap. & Liab.	424	496	520	553	586
Non-Cash Wkg. Capital	180	225	227	237	231
Net Cash/(Debt)	(90)	(117)	(119)	(118)	(88)
Debtors Turn (avg days)	69.9	73.6	73.6	69.3	69.2
Creditors Turn (avg days)	81.0	89.1	97.6	99.7	99.7
Inventory Turn (avg days)	93.2	98.2	111.9	119.5	118.2
Asset Turnover (x)	1.0	1.0	1.0	1.0	1.1
Current Ratio (x)	1.5	1.5	1.5	1.5	1.6
Quick Ratio (x)	0.6	0.5	0.6	0.5	0.5
Net Debt/Equity (X)	0.4	0.4	0.5	0.4	0.4
Net Debt/Equity ex MI (X)	0.4	0.5	0.4	0.4	0.3
Capex to Debt (%)	16.6	12.5	21.3	19.8	16.6
Z-Score (X)	4.4	4.3	4.2	4.3	4.4

Asset Breakdown (2013)



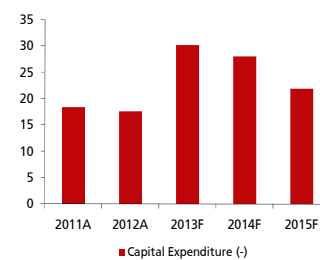
Expect gearing level to revert down c.0.4x, similar to years prior to FY12

Source: Company, DBS Vickers

Cash Flow Statement (US\$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	32	41	45	59	82
Dep. & Amort.	14	16	15	16	17
Tax Paid	(7)	(6)	(5)	(10)	(14)
Assoc. & JV Inc/(loss)	11	6	5	4	2
Chg in Wkg.Cap.	(14)	(37)	(7)	(14)	0
Other Operating CF	4	5	0	0	0
Net Operating CF	40	25	53	54	86
Capital Exp.(net)	(18)	(18)	(30)	(28)	(22)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	(1)	(3)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1)	2	0	0	0
Net Investing CF	(20)	(19)	(30)	(28)	(22)
Div Paid	(17)	(23)	(24)	(26)	(34)
Chg in Gross Debt	7	23	0	0	(10)
Capital Issues	(1)	0	0	0	0
Other Financing CF	(3)	(4)	0	0	0
Net Financing CF	(14)	(5)	(24)	(26)	(44)
Currency Adjustments	(2)	3	0	0	0
Chg in Cash	3	4	(2)	0	21
Opg CFPS (US cts.)	4.1	4.7	4.6	5.3	6.7
Free CFPS (US cts.)	1.6	0.5	1.7	2.0	5.0

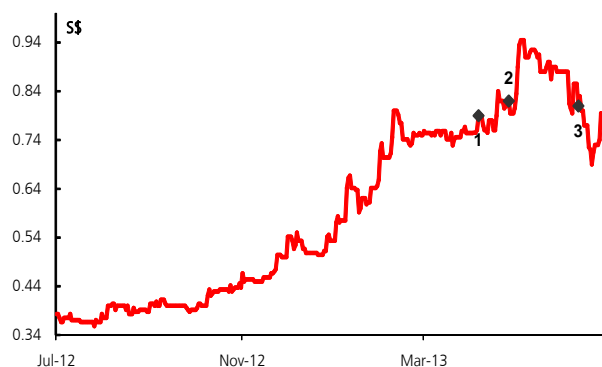
Capital Expenditure



FY13/14 capex projected at US\$30m/28m, with investment in waste-to-energy plant.

Source: Company, DBS Vickers

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1:	12 Apr 13	0.79	0.97	Buy
2:	02 May 13	0.82	0.97	Buy
3:	17 Jun 13	0.81	0.97	Buy

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

Source: DBS Vickers

DBSV recommendations are based on an 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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