

# Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

9 Sep 2016

## Del Monte Pacific (DELM SP) : HOLD

Mkt. Cap: US\$534m | 3m Avg. Daily Val: US\$0.40m

Last Traded Price ( 8 Sep 2016): S\$0.37

Price Target 12-mth: S\$0.37 (0%)

### Company Guide

#### Del Monte Pacific



Summary of our point of view, and highlights the relevant data points, which are actively tracked

### Analyst

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### Positioning for subsequent quarters

- 1Q17 results in line, driven by Asia Pacific business
- Stronger sales growth and margins from Philippines/Asia Pacific offset higher operating losses in America
- Preference share issue imminent
- Maintain HOLD and S\$0.37 TP

#### Forecasts and Valuation

FY Apr (US\$m)	2015A	2016A	2017F	2018F
Revenue	2,187	2,268	2,394	2,513
EBITDA	91.5	234	223	244
Pre-tax Profit	(66.9)	62.7	57.6	80.3
Net Profit	(43.2)	51.5	36.8	49.0
Net Pft (Pre Ex.)	(43.2)	51.5	36.8	49.0
Net Pft Gth (Pre-ex) (%)	(34.0)	nm	(28.7)	33.3
EPS (S cts)	(4.0)	3.58	2.56	3.41
EPS Pre Ex. (S cts)	(4.0)	3.58	2.56	3.41
EPS Gth Pre Ex (%)	(29)	nm	(29)	33
Diluted EPS (S cts)	(4.0)	3.58	2.56	3.41
Net DPS (S cts)	0.0	1.80	0.0	0.0
BV Per Share (S cts)	18.5	21.1	21.8	25.2
PE (X)	nm	10.4	14.5	10.9
PE Pre Ex. (X)	nm	10.4	14.5	10.9
P/Cash Flow (X)	1.7	17.7	5.4	3.5
EV/EBITDA (X)	23.4	10.2	10.7	9.5
Net Div Yield (%)	0.0	4.8	0.0	0.0
P/Book Value (X)	2.0	1.8	1.7	1.5
Net Debt/Equity (X)	5.2	4.9	2.4	2.1
ROAE (%)	(19.4)	18.1	11.9	14.5

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

### What's New

1Q17 within expectations as stronger Asia Pacific business offsets higher losses in America. Losses were US\$8.7m, which is lower than US\$10.7m last year (+18.3% y-o-y). EBIT improved from US\$2.6m to US\$6.8m (+156% y-o-y). This is despite a 3% y-o-y decline in sales to US\$646m. While the Americas operating losses widened to US\$9.3m (+46% y-o-y), this was made up by Asia Pacific's operating profit which grew 74% y-o-y to US\$15m.

### Positioning US business for Thanksgiving and Christmas.

Headline revenue was dragged by the Americas which recorded -6.3% y-o-y decline in sales. The decline was largely attributed to reduced sales in non-branded products in private labels, food service and volume sales reduction in loss of US Department of Agriculture business. Gross margins were lower at 16.1% vs 19.2% last year due to higher trade promotional spend ahead of Thanksgiving and Christmas. As a result, market share for packaged fruit and vegetables has increased. There was also higher marketing expense of US\$4m in preparation for the upcoming holiday season.

### Strong Asia Pacific led by more robust sales and margins.

Asia Pacific business's revenue rose 11% y-o-y to US\$111m, while the Philippines market and the S&W branded business grew by 8.7% and 12% respectively through increase in sales of key accounts and through convenience stores. Gross margins increased by 2.3ppt to 32.2%, boosted by culinary products,

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productivity, better pricing and lower packaging costs. As a result, operating margins for Asia Pacific business increased to 13.6% from 8.7% in 1Q16.

**On track to meet estimates.** We view the current results as a mixed bag. While there were increased losses in the Americas business, this was largely due to higher marketing and promotional expenses ahead of the holiday season, with the intent of boosting volume sales in the upcoming quarters. Assuming market share reaches a desirable level, less aggressive promotional and marketing activities would essentially improve profitability. In addition, 1Q is typically a seasonally low quarter where production is being ramped up for holiday season sales in the upcoming quarters. Performance of the subsequent quarters would therefore be more reflective of earnings traction for FY17F.

**Strategy to drive growth from cost and top-line perspective in place.** As part of its growth strategy, Del Monte will continue to optimise its cost structure by restructuring and streamlining operations. Focus on top-line growth will also be on new products, expansion of S&W brand, investment in College Inn, and expanding distribution in Asia and Middle East.

**Preference share issue by end-2016 on track.** Del Monte had been planning its preference share offering on the Philippines Stock Exchange as early as end-2014. Developments for the preference share issue is now on track for launch by end-2016, subject to regulatory approvals. We have already factored in the initial tranche of US\$250m into our FY17F numbers.

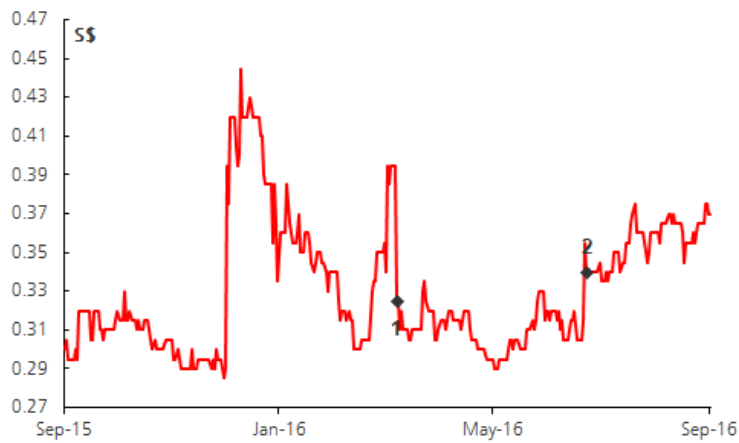
**Maintain HOLD and S\$0.37 TP.** We keep our earnings estimates unchanged. Our TP based on 12x blended FY17-18F earnings is kept at S\$0.37. Maintain HOLD.

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

FY Apr	1Q2016	4Q2016	1Q2017	% chg yoy	% chg qoq
Revenue	479	520	466	(2.8)	(10.5)
Cost of Goods Sold	(376)	(409)	(372)	(1.1)	(9.1)
<b>Gross Profit</b>	<b>103</b>	<b>111</b>	<b>93.6</b>	<b>(8.7)</b>	<b>(15.6)</b>
Other Oper. (Exp)/Inc	(99.9)	(52.7)	(86.8)	(13.0)	64.9
<b>Operating Profit</b>	<b>2.64</b>	<b>58.3</b>	<b>6.76</b>	<b>155.9</b>	<b>(88.4)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(0.6)	(0.5)	(0.4)	37.9	22.0
Net Interest (Exp)/Inc	(21.7)	(26.9)	(26.6)	(22.9)	1.1
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>(19.6)</b>	<b>30.9</b>	<b>(20.2)</b>	<b>(3.2)</b>	<b>nm</b>
Tax	7.45	(9.9)	9.41	26.3	(194.8)
Minority Interest	1.48	(1.7)	2.10	42.3	(224.2)
<b>Net Profit</b>	<b>(10.7)</b>	<b>19.3</b>	<b>(8.7)</b>	<b>18.3</b>	<b>nm</b>
Net profit bef Except.	(10.7)	19.3	(8.7)	18.3	nm
EBITDA	2.06	57.8	6.40	210.2	(88.9)
<b>Margins (%)</b>					
Gross Margins	21.4	21.3	20.1		
Opg Profit Margins	0.6	11.2	1.5		
Net Profit Margins	(2.2)	3.7	(1.9)		

Source of all data: Company, DBS Bank

## Target Price &amp; Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Mar 16	0.33	0.39	HOLD
2:	30 Jun 16	0.34	0.37	HOLD

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

Source: DBS Bank

Analyst: Alfie YEO

DBS Bank 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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