



4 June 2008

Del Monte Pacific

Reuters: **DMPL.SI** Bloomberg: **DELM SP** Exchange: **SES** Ticker: **DMPL**

Fresh ideas, global ambition, healthy growth; Buy initiated

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Leading Asian food and beverage company

Del Monte Pacific Ltd produces, markets and distributes premium-branded fruit and vegetable-based products worldwide. The company has a strong presence in the Philippines, where it owns the Del Monte brand. It also has brand rights in the Indian subcontinent. We forecast a 26.7% increase in recurring earnings, underpinned by revenue growth CAGR of 26.2% in FY07-10E. Our TP of S\$0.90 is 29% above the current price. Initiate with a Buy.

Transformation into a global branded consumer company

The company plans to expand its branded and private label business in Asia and the Indian subcontinent with the recent acquisition of the S&W brand and FieldFresh Foods in India. We believe this could help to transform Del Monte Pacific into a branded consumer products company with a global reach.

Multiple growth engines to drive earnings

Del Monte Pacific aims to (1) grow organically in the Philippine market with its new beverage product Fit 'n Right and double its nationwide store coverage within three years; (2) increase its fresh fruit business worldwide; and (3) expand its export business through the extension of the S&W brand globally.

DCF valuation; competition, input costs and FX key risks

Our DCF-derived TP of S\$0.90 is based on an 9.1% WACC and a terminal growth rate of 1.0%, implying a PE of 15.2x FY09E. Downside risks include competition (branded and private label), a rise in input costs (raw materials and packaging), foreign exchange fluctuations, ongoing litigation suit and execution of its new ventures.

Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E	2010E
Sales (USDm)	243.4	289.4	386.8	484.5	582.0
EBITDA (USDm)	35.9	47.9	60.5	73.0	83.7
Reported NPAT (USDm)	21.0	28.3	37.0	47.0	57.5
Reported EPS FD(USD)	0.02	0.03	0.03	0.04	0.05
DB EPS FD (USD)	0.02	0.03	0.03	0.04	0.05
DB EPS growth (%)	-	34.7	30.7	26.8	22.5
PER (x)	14.8	14.7	15.0	11.8	9.7
EV/EBITDA (x)	8.5	8.7	9.1	7.5	6.4
DPS (net) (USD)	0.01	0.03	0.03	0.03	0.04
Yield (net) (%)	5.1	6.9	5.0	6.3	7.8

Source: Deutsche Bank estimates, company data

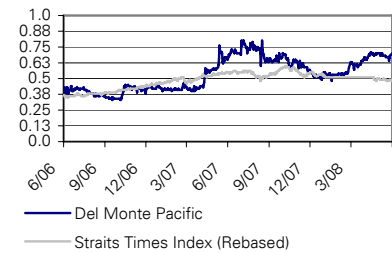
¹ DB EPS is fully diluted and excludes non-recurring items² Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Initiation of Coverage

Buy

Price at 4 Jun 2008 (SGD)	0.70
Price target - 12mth (SGD)	0.90
52-week range (SGD)	0.80 - 0.48
Straits Times Index	3,154

Price/price relative



Performance (%)	1m	3m	12m
Absolute	0.0	12.0	7.7
Straits Times Index	-2.5	-4.7	-11.9

Stock data

Market cap (SGDm)	757
Market cap (USDm)	555
Shares outstanding (m)	1,081.8
Major shareholders	NutriAsia (79%)
Free float (%)	21
Avg daily value traded (USDm)	0.3

Key indicators (FY1)

ROE (%)	16.5
Net debt/equity (%)	8.1
Book value/share (USD)	0.21
Price/book (x)	2.4
Net interest cover (x)	29.0
Operating profit margin (%)	13.1

Deutsche Bank AG/Hong Kong

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DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

Model updated:04 June 2008

Running the numbers**Asia****Singapore****Food & Beverage****Del Monte Pacific**

Reuters: DMPL.SI

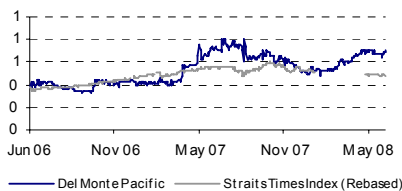
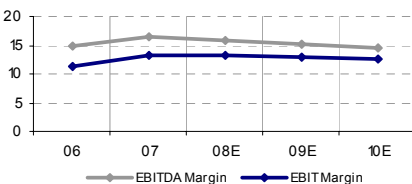
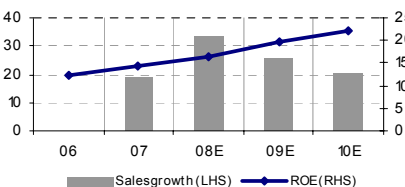
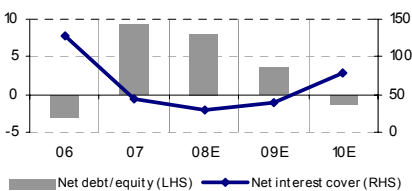
Bloomberg: DELM SP

Buy

Price (4 Jun 08)	SGD 0.70
Target price	SGD 0.90
52-week Range	SGD 0.48 - 0.80
Market Cap (m)	SGDm 757 USDm 555

Company Profile

Del Monte Pacific Limited owns the Del Monte trademark in the Philippines and Indian subcontinent. The company's operations are there and also in China.

Price Performance**Margin Trends****Growth & Profitability****Solvency****James Tan**

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Fiscal year end 31-Dec

Financial Summary

	2006	2007	2008E	2009E	2010E
DB EPS (USD)	0.02	0.03	0.03	0.04	0.05
Reported EPS (USD)	0.02	0.03	0.03	0.04	0.05
DPS (USD)	0.01	0.03	0.03	0.03	0.04
BVPS (USD)	0.2	0.2	0.2	0.2	0.3
Weighted average shares (m)	1,082	1,082	1,082	1,082	1,082
Average market cap (USDm)	311	417	555	555	555
Enterprise value (USDm)	305	416	554	546	533

Valuation Metrics

P/E (DB) (x)	14.8	14.7	15.0	11.8	9.7
P/E (Reported) (x)	14.8	14.7	15.0	11.8	9.7
P/BV (x)	1.70	1.59	2.42	2.24	2.05
FCF Yield (%)	3.3	6.0	5.6	6.7	8.6
Dividend Yield (%)	5.1	6.9	5.0	6.3	7.8
EV/Sales (x)	1.3	1.4	1.4	1.1	0.9
EV/EBITDA (x)	8.5	8.7	9.1	7.5	6.4
EV/EBIT (x)	11.0	10.8	10.9	8.7	7.3

Income Statement (USDm)

Sales revenue	243	289	387	485	582
Gross profit	71	85	109	134	156
EBITDA	36	48	61	73	84
Depreciation	8	9	9	10	10
Amortisation	0	0	0	0	0
EBIT	28	39	51	63	73
Net interest income(expense)	0	-1	-2	-2	-1
Associates/affiliates	0	-1	-2	-2	1
Exceptionals/extraordinaries	0	-10	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0
Profit before tax	28	37	47	60	73
Income tax expense	7	-1	10	13	16
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
Net profit	21	28	37	47	58
DB adjustments (including dilution)	0	0	0	0	0
DB Net profit	21	28	37	47	58

Cash Flow (USDm)

Cash flow from operations	16	31	39	43	53
Net Capex	-5	-6	-8	-6	-5
Free cash flow	10	25	31	37	48
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-16	-18	-29	-28	-35
Net inc/(dec) in borrowings	1	-11	0	0	0
Other investing/financing cash flows	-2	-33	0	0	0
Net cash flow	-7	-37	2	9	13
<i>Change in working capital</i>	<i>102</i>	<i>122</i>	<i>139</i>	<i>157</i>	<i>174</i>

Balance Sheet (USDm)

Cash and other liquid assets	52	15	17	26	39
Tangible fixed assets	79	102	100	96	90
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	0	22	20	18	19
Other assets	136	183	221	262	304
Total assets	266	322	358	403	452
Interest bearing debt	46	36	36	36	36
Other liabilities	46	65	93	119	146
Total liabilities	92	101	129	155	182
Shareholders' equity	174	221	229	248	271
Minorities	0	0	0	0	0
Total shareholders' equity	174	221	229	248	271
<i>Net debt</i>	<i>-5</i>	<i>21</i>	<i>18</i>	<i>9</i>	<i>-3</i>

Key Company Metrics

Sales growth (%)	nm	18.9	33.6	25.3	20.1
DB EPS growth (%)	na	34.7	30.7	26.8	22.5
EBITDA Margin (%)	14.7	16.6	15.7	15.1	14.4
EBIT Margin (%)	11.4	13.3	13.1	13.0	12.5
Payout ratio (%)	75.1	102.3	75.0	75.0	75.0
ROE (%)	12.1	14.3	16.5	19.7	22.2
Capex/sales (%)	2.2	2.2	2.1	1.2	0.9
Capex/depreciation (x)	0.7	0.7	0.8	0.6	0.5
Net debt/equity (%)	-3.1	9.3	8.1	3.7	-1.2
Net interest cover (x)	127.7	44.8	29.0	39.3	77.8

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

Turnaround story in progress, with new management initiatives driving the transformation into a global branded consumer company

Del Monte Pacific owns the Del Monte brand in the Philippines and the Indian subcontinent. It enjoys leading market shares in fruit beverages and processed/mixed fruit such as pineapple juice and canned pineapple, and condiments such as tomato sauce, spaghetti sauce and ketchup. With its own 20,000 hectare plantation and pineapple cooperatives in the Philippines, the company owns a significant part of the world's processed pineapple production and is a global low-cost producer of pineapples.

NutriGroup Asia acquired Del Monte Pacific in 2006, and the new management team has started to turn the company around through cost-cutting initiatives. The next phase of growth is to roll out a new fresh fruit business and seize overseas market opportunities in premium quality processed fruit and vegetables through its newly acquired brand, S&W.

Acquisition of S&W and FieldFresh driving growth in the Asia Pacific

The S&W brand acquisition allows Del Monte Pacific scope for product line expansion and global market penetration. The company aims to expand its branded and private label business in Asia and the Indian subcontinent with the recent acquisition of the S&W brand and FieldFresh Foods in India. The company is transforming itself into a branded consumer products company with a global reach through these acquisitions and initiatives.

Outlook and strategy

The company aims to: (1) grow organically in the Philippine market with its new beverage product Fit 'n Right and double its nationwide store coverage within three years; (2) increase its fresh fruit business worldwide; and (3) expand its export business by extending the S&W brand globally.

Valuation

DCF-based TP of S\$0.90

We value Del Monte Pacific using a discounted cash flow (DCF) methodology, arriving at a 12-month TP of S\$0.90. This is based on an 9.1% WACC, assuming 10.9% risk-free rate, equity risk premium of 4.6%, and 0.3 beta based on DB's cost of capital in the Philippines to derive our cost of equity of 9.1%. Our terminal growth rate of 1.0% is based on long-term economic growth.

Our TP implies 15.2x FY09E PE and the stock is currently trading at 11.8x FY09E PE. Its peer group is trading at an average of 13.3x FY09E PE. The stock has traded at a high of 30x PE, and on an average PE of 13.4x. We believe that the stock warrants a higher PE multiple due to its stronger earnings CAGR compared with peers. The multiple implies a PEG of around 0.5.

Risks

Competition, forex, litigation and execution are key risks

Risks to our view include competition (branded and private label), a rise in input costs (raw materials and packaging), fluctuations between the Philippines peso and the US dollar, outcome of ongoing litigation with Fresh Del Monte Produce Inc and the execution of its new ventures – S&W and FieldFresh.

Table of Contents

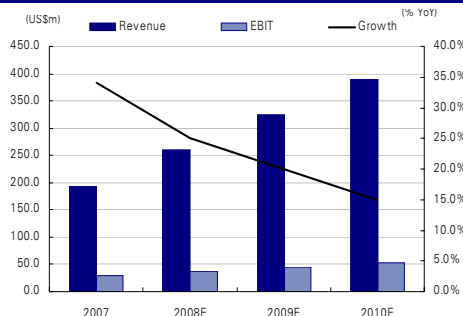
Processed food industry	5
Philippines – domestic operations	5
Philippines – market share of sauces	6
Philippines – market share of canned food	6
Beverage industry.....	7
Philippines -market share of juices.....	7
China – Great Lakes	8
India – expanding its Del Monte brand and JV business.....	8
Non-processed food industry	9
Del Monte's non-processed food business	9
New management driving new initiatives	10
NutriAsia has extensive experience in the Philippines	10
Doubling its store coverage in the Philippines	11
Amended its long-term supply contracts	11
Competitive strengths	12
Del Monte Pacific's integrated operations	12
Financial forecasts.....	13
Key assumptions.....	13
Financial Statements.....	14
Valuation	16
DCF valuation at S\$0.90.....	16
Peer valuation comparison.....	17
Risks.....	18
Company background	19
Business overview	19
Del Monte Brand History	19
S&W brand history.....	20
Management profile.....	20
Appendix A.....	21
Extension of its brand portfolio	21

Processed food industry

Philippines – domestic operations

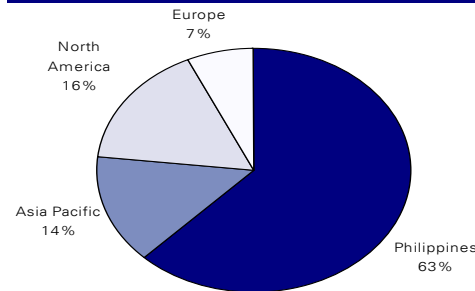
We forecast CAGR of 26.2% in revenue and 22.7% in earnings in the processed segment for FY07-10E

Figure 1: Del Monte Pacific’s processed segment from FY07-10E



Source: Company data, Deutsche Bank

Figure 2: Geographical revenue contribution by region/country in FY08E

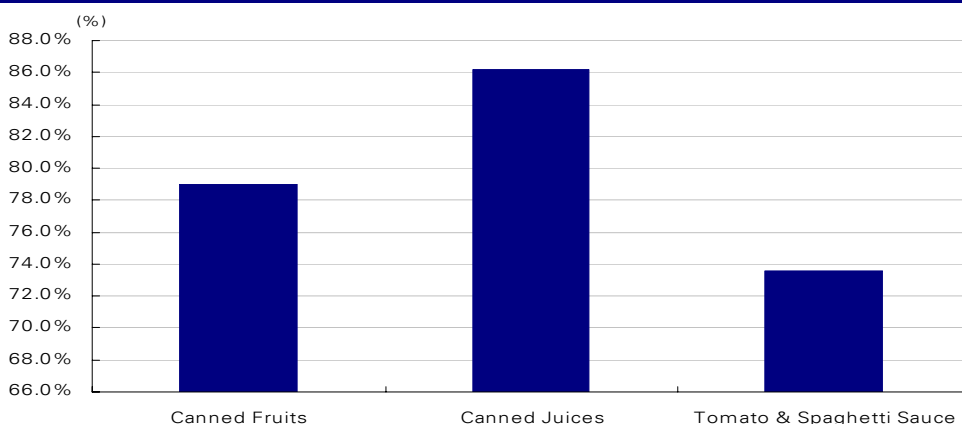


Source: Deutsche Bank

In 2007, the company’s revenue of processed products increased by 17.1% YoY to US\$194.1m driven by higher sales of tomato-based products and processed pineapples. The company’s processed product segment makes up the lion’s share of revenue, accounting for 67% of turnover and 74% of EBIT for FY07. As shown in Figure 1, we forecast CAGR growth of 26.2% for revenue and 22.7% for earnings in the company’s processed segment from FY07-10E. Figure 2 shows the geographical revenue contribution by region/country in FY08E. The Philippines is the largest market for the company deriving 63% of the company’s revenue, followed by North America at 16%, the Asia Pacific at 14%, and Europe at 7%. On the domestic front, we believe that the growth of the company’s processed segment will come from the company’s shift from two national distributors to 18 regional distributors; this will enable broader distribution of both new and existing products.

Del Monte Pacific holds a dominant market share of several processed products in the Philippines: 73.6% for tomato & spaghetti sauce, 86.2% for canned juices and 79.0% for canned fruit in 2007

Figure 3: Del Monte Pacific’s market share of processed products in the Philippines



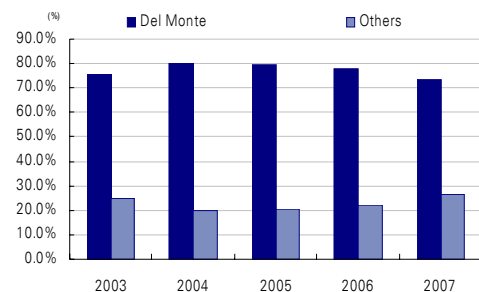
Source: Deutsche Bank, Company (2007)

Datamonitor forecasts Philippines canned food sales CAGR of only 2.4%, from US\$337.6m in 2007 to US\$362.8m in 2010. We believe that the company will be able to grow faster than the segment due to its new product pipeline and increased store coverage from 68,000 to 140,000 from FY07-10E, a CAGR of 27.2%.

Del Monte Pacific is looking to capture bigger markets such as culinary and total snacks for more growth potential.

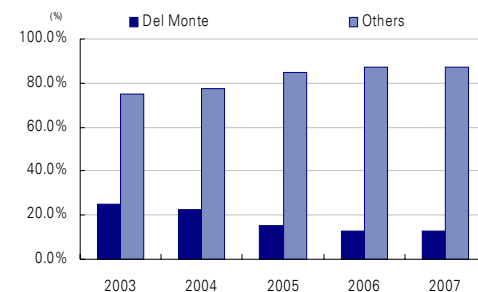
Philippines – market share of sauces

Figure 4: Del Monte % share of total sauces



Source: Deutsche Bank, Company

Figure 5: Del Monte % share of total culinary

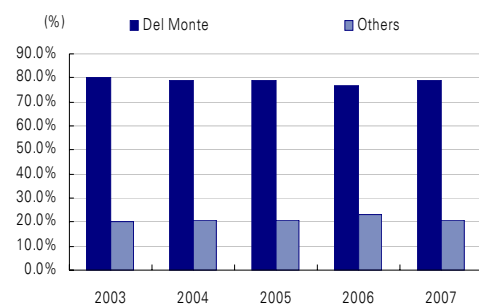


Source: Deutsche Bank, Company

The company currently dominates categories such as total sauces, ready-to-drink canned juice and total canned fruit. In 2007, the market size of total sauces in the Philippines was estimated to be US\$65.1m, of which Del Monte Pacific had a 73.6% market share. The entire culinary segment is estimated to be worth US\$511.6 in 2007 and Del Monte Pacific has steadily increased its market share from, 12.8% in 2006 to 13.0% in 2007.

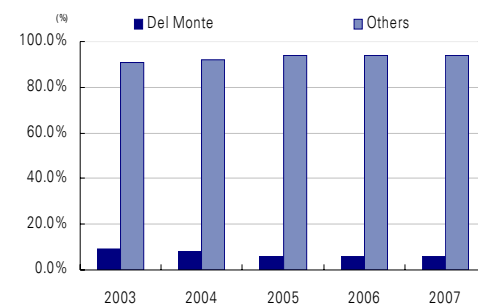
Philippines – market share of canned food

Figure 6: Del Monte share of total canned fruit



Source: Deutsche Bank, Company

Figure 7: Del Monte share of total snacks



Source: Deutsche Bank, Company

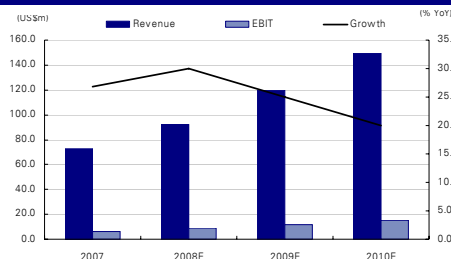
The total canned fruit segment in the Philippines was estimated to be US\$46.5m, with Del Monte Pacific making up 79.0% of the canned fruit segment. The company plans to target the total snacks market, which is estimated to be worth US\$558.1m, by expanding its product range to increase its market share. Del Monte Pacific currently has a steady 6.0% share of the total snacks market in the Philippines.

Beverage industry

Philippines -market share of juices

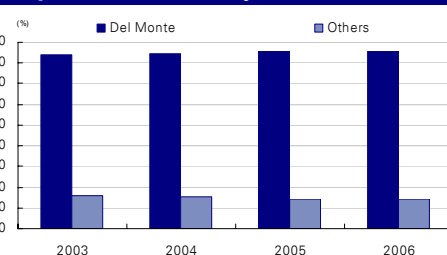
The company's latest product, Fit 'n Right beverage, was launched in 4Q06. The response has been strong; sales hit US\$10m in FY07

Figure 8: Revenue and EBIT forecast from FY07-10E



Source: Deutsche Bank, Company

Figure 9: Del Monte % share of total ready-to-drink canned juices



Source: Deutsche Bank, Company

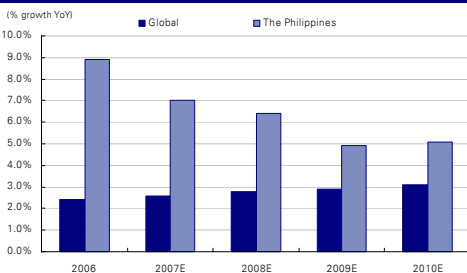
Our earnings model forecasts Del Monte Pacific's beverage revenue to grow 24.9% and EBIT to rise at a 23.6% CAGR from FY07-10E. Even though the soft drink market is showing signs of reaching maturity, Del Monte Pacific has shifted its focus to healthier drinks to increase its market share. Historically, beverages made up 32% and 24% of the company's revenue and EBIT, respectively.

Fit 'n Right was first marketed in single-serve cans and expanded to the PET format in Oct 2007

The company's beverage lineup consists of juice drinks, purees and juice concentrates. Del Monte Pacific's new Fit 'n Right beverage is marketed as a fruit juice with weight loss ingredients. When the company re-launched Fit'n Right last year, product sales in 2007 had exceeded management's target. Management plans to double the production capacity of its Fit'n Right beverage this year. We believe that Fit'n Right, along with non-carbonated juice beverages in Del Monte Pacific's product line, will continue to drive beverage market penetration.

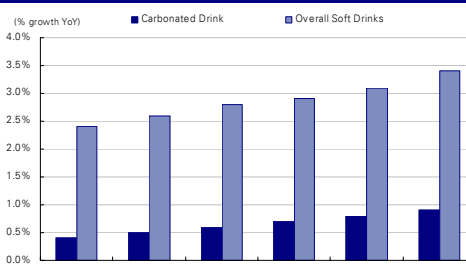
Global carbonated drinks grew at only 0.5% for 2007, while the global soft drink value grew at 2.6%

Figure 10: Soft drink market growth globally and in the Philippines



Source: Deutsche Bank, National Statistics Office, Philippine Department of Trade and Industry, BMI

Figure 11: Soft drinks vs. carbonated drinks growth globally



Source: Deutsche Bank, Datamonitor

Soft drink sales in the Philippines grew faster than global soft drink sales and should continue to do so. Soft drink sales in the Philippines reached US\$698.4m in 2007. BMI estimates that sales will grow to US\$819.7m in 2010, with a CAGR of 5.5%. In 2007, beverage turnover for the company increased 26.8% YoY to US\$92.0m. The main growth driver for the company's beverage segment will come from its new product, Fit'n Right.

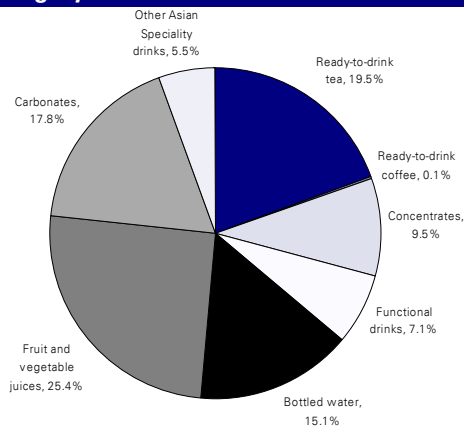
China – Great Lakes

Emerging markets present opportunities for earnings growth

Improving economic conditions in India and China continue to drive the rapid development of the food processing industry. First, the growing middle class in each country increasingly prefers processed food due to the ease, speed and convenience with which meals can be prepared. Second, an increasing number of women who would have traditionally prepared food at home are entering the workforce to earn additional wages for the family. Third, migration from rural to urban areas is resulting in lifestyle and dietary changes. Finally, rising disposable income means that people are spending more on higher-value food such as meat, fruits and vegetables.

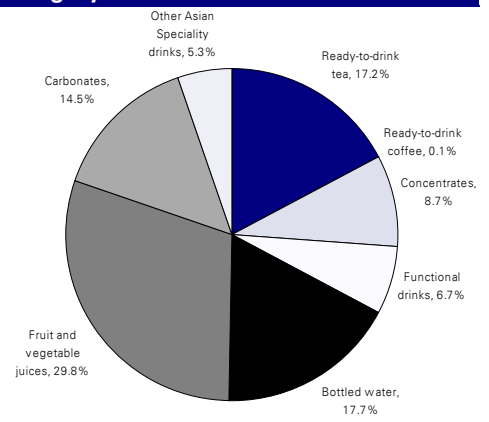
Euromonitor expects that the fruit and vegetable juices market in China will continue to grow at a 14.5% CAGR to 19.1bn liters in 2012

Figure 12: Total soft drink sales by category in China in 2005



Source: Deutsche Bank, Euromonitor

Figure 13: Total soft drink sales by category in China in 2010E



Source: Deutsche Bank, Euromonitor

In Figure 12 and 13 show total off-trade soft drink sales by category in China in 2005 and 2010E. Fruit and vegetable juices increased their share of overall soft drinks sales, from 19.5% in 2000 to 25.4% in 2005, and according to Euromonitor’s forecast, should increase to 29.8% in 2010.

Del Monte Pacific has a 100% stake in one of the leading Chinese juice brand, Great Lakes, which produces, markets and distributes juice under the Great Lakes, Ming Lang, Rougemont and Welch’s brands. Great Lakes’ turnover in 2007 grew a healthy 22% due to strong domestic sales. Its leading juice brand, Great Lakes, together with licensed brands Rougemont, and Welch’s performed well compared with 2006. However, Great Lakes is still making losses as prices of imported orange juice concentrate and apples continue to remain high.

India – expanding its Del Monte brand and JV business

Partnering with local leading leader: FieldFresh

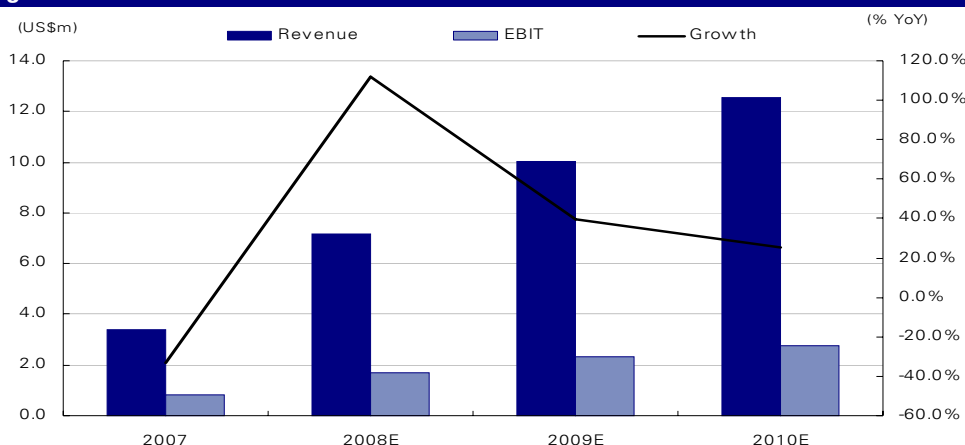
In 2007, Del Monte Foods India expanded its sales of fruit purees – mango, guava and papaya worldwide, exporting to diverse markets such as North America, Europe, Africa, the Middle East and the Asia Pacific. The company has turned around the business and achieved breakeven at the operating income level by streamlining operations and increasing production capacity during the 2007 mango season.

In 2007, Del Monte Pacific acquired 40.1% of FieldFresh Foods in India, a fresh produce grower and marketer that is part of the Bharti group, for US\$22.5m. Del Monte Pacific’s stake in the joint venture will help develop the Del Monte Brand and expand distribution channels for exports. The Bharti group’s local expertise and leadership position and Del Monte Pacific’s product line should make a healthy combination.

Non-processed food industry

Del Monte's non-processed food business

Figure 14: Revenue and EBIT forecast from FY07-10E

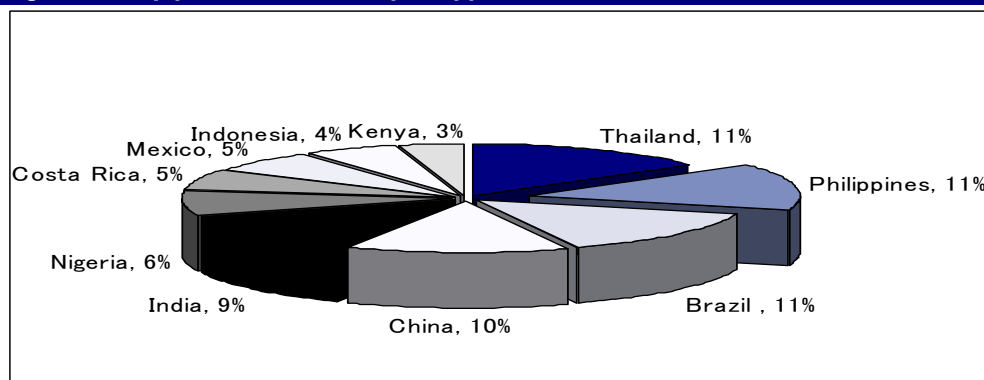


Source: Company data, Deutsche Bank

Del Monte's non-processed food consists of fresh pineapple and the non-core cattle business

In 2007, Del Monte Pacific's non-processed products (consisting of fresh pineapple and non-core cattle business) accounted for US\$3.4m in revenue and US\$0.8m in EBIT, or 2.1% of FY07 EBIT. The outlook for fresh pineapple is good, with strong pricing for pineapples expected to double and volumes to increase due to higher production from Del Monte's own and contract pineapple plantations. Del Monte Pacific owns about 20,000 hectares of pineapple plantations and has an additional 1,200 hectares with contract farmers. The company plans to increase the land with contract farmers from 1,200 to 4,500 hectares in the next three years.

Figure 15: Top producers of fresh pineapple in 2006



Source: Deutsche Bank, FAO

In 2006, the total world production of pineapples was around 15.0m tons. The Philippines was the second-largest producer of fresh pineapples with annual production of 1.7 m tons and has an 11% market share. The Philippines' export of harvested fresh pineapple totaled US\$262m in 2006, growing by a healthy 25.8% from US\$210.8m in 2005.

New management driving new initiatives

NutriAsia has extensive experience in the Philippines

Since the new management team took over in early 2006, the company has undergone extensive restructuring to drive sales and reduce costs. New management, under the leadership of J.D. Campos, Jr., has a deep understanding of the Del Monte business, whose holding company NutriAsia owns SAFI, the largest sauces and condiments company in the Philippines. The new management has a hands-on style and is committed to finding new growth avenues and driving cost saving initiatives and efficiencies. The company will continue to benefit from the cost initiatives put in place last year, i.e. the full year impact of using PET juice packaging instead of tinplate, and the impact of price hikes for some of its products in November 2007.

Cost savings in reduction of warehouses and working capital and greater cost efficiencies by expanding the supplier base

Del Monte Pacific has renewed its contracts with distributors to carry inventory of their finished products, allowing it to reduce its number of warehouses from 12 to three. The contract renewals also reduce working capital, allowing for further cost savings. The company used to rely on only one supplier for its tinplate sourcing but has recently added a supplier. In addition, the company has also looked into joint procurement with NutriAsia for its raw materials and the outsourcing of more of its lower margin business such as pineapple harvesting.

Del Monte secured deals with McDonald's and Jollibee in the Philippines in 2007 with contribution to begin from 2007

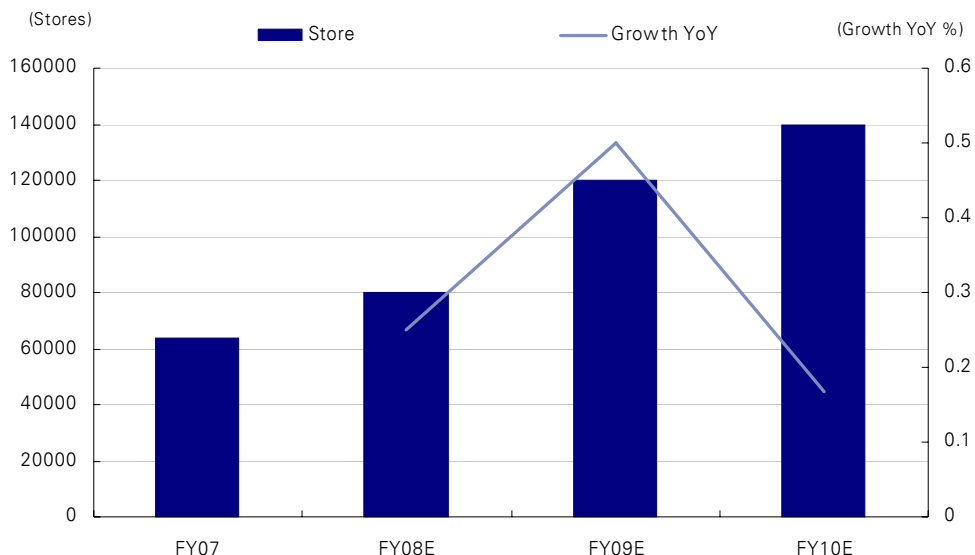
In 2007, Del Monte Pacific secured contracts to supply fresh pineapple juice to two fast food chains in the Philippines: McDonald's, the world leader and Jollibee, a leading national chain. McDonald's currently operates 180 company-owned branches in the Philippines and Jollibee operates over 620 stores. We believe that the contract will provide Del Monte Pacific with additional future revenue stream. In addition, the company has started to supply fresh pineapple to the food service sector and has partnered with a strong distributor who supplies fruit and vegetables to a number of airlines. Currently, about 18 airlines serve the company's fruit to passengers daily.

The S&W brand originated in the USA in 1896 as a producer and marketer of premium quality processed fruit and vegetables

In November 2007, the company acquired the S&W brand from Del Monte Foods (DLM US; non rated) for all markets with the exception of North and South America, Australia and New Zealand, for US\$10m. With this acquisition, Del Monte Pacific is transforming itself into a global market-oriented company. The acquisition of S&W allows Del Monte Pacific to expand its food product line globally whereas before it was limited to operations in the Philippines and the Indian subcontinent. Processed and non-processed food accounted for US\$197.5m in turnover in 2007, mainly from the Philippines. In 2007, if S&W sales were to be annualized, sales for the company would have been US\$8m. The company believes that cost synergies can be attained by manufacturing the S&W brand in-house wherever possible and tapping the marketing expertise of Del Monte Pacific to grow the label in the region.

Doubling its store coverage in the Philippines

Figure 16: Expansion of distribution channels in FY07-10E



Source: Company data, Deutsche Bank

The company could double its nationwide store coverage within three years. In 2007, management decided to switch from two national distributors to 18 regional distributors in the Philippines to increase its nationwide store coverage. In May 2007, the company had nationwide store coverage of 28,000 stores in the Philippines (4.7% market coverage, based on an estimated 600,000 stores nationwide); by the end of the year, this number had increased to 64,000 stores (10.7% market coverage). We believe that the company should be able to increase its stores from 68,000 to 140,000 from FY07-10E and more than double its market coverage to 23.3%. We believe the increase in store coverage and penetration should help drive sales growth for the company.

Amended its long-term supply contracts

Figure 17: Changes to its supply contracts

Supply contract with:	Markets	Status
Del Monte Foods	USA	Amended in Oct 2006
Fresh Del Monte	Europe, Middle East and Africa	Served notice of termination in May 2007
Fresh Del Monte	Globally for fresh products	Amended in Feb 2007
Del Monte Asia	Asia	New contract in Jan 2007

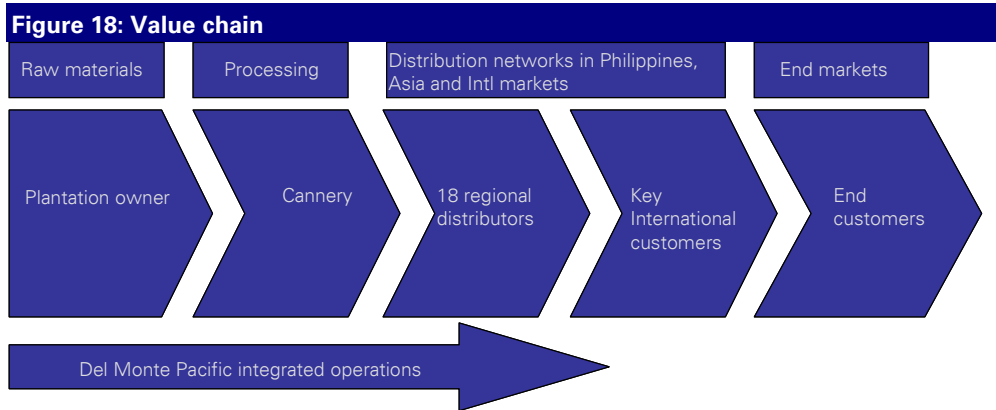
Source: Deutsche Bank, Company

Del Monte amended its supply contracts to allow for higher volume of outside supply contracts of fruit in cups

Supply contracts with Del Monte brand owners. Del Monte Pacific has long-term supply contracts with Del Monte brand owners (Del Monte Foods, Fresh Del Monte and Del Monte Asia). Contracts may be terminated with three years' notice due to the three-year growing cycle of pineapples. The contract with Del Monte Foods was amended in Oct 2006, retroactive to Jan 2006, which clarified and enforced cost floor provision. Del Monte Pacific served notice of termination in May 2007 for processed food and amended its fresh produce contract in Feb 2007 to raise pineapple prices and shift in variety. The contract with Del Monte Asia was renewed in Jan 2007 with reduced prices, in exchange for direct access to private label in Asia ex Japan.

Competitive strengths

Del Monte Pacific's integrated operations



Source: Deutsche Bank, company

Global market-oriented

We believe the management's business strategy will have a positive impact on the company's outlook. By leveraging the S&W brand, Del Monte Pacific is well-positioned to enter new global markets. The transformation into a branded consumer products company will establish Del Monte Pacific as a globally market-oriented company and help expand products and processes into new markets. Finally, management's business strategy will diversify its business segments; increase its geographical markets, branded consumer products, and fruit and vegetable production distribution capacity.

Vertically integrated pineapple operations

Del Monte Pacific operates one of the world's largest, fully integrated pineapple operations in the Philippines and is a global low-cost producer of pineapples. It operates a plantation of approximately 20,000 hectares at northern Mindanao, Philippines and runs a cannery that processes some 700,000 tpa of pineapples.

Globally recognised brand

S&W, an internationally recognised fruit and vegetable products brand, was founded in the USA in 1896. Before acquiring the S&W brand, Del Monte Pacific was restricted to markets in the Philippines and Indian subcontinent and only sold products under the Del Monte brand. We believe the acquisition of the S&W brand will release Del Monte Pacific from these restrictions and increase its opportunity to enter new markets and introduce product lines.

Partnering leading local businesses

The Bharti group is one of India's well-respected and leading companies with business operations spanning from telecom to retail. In 2007, Del Monte Pacific formed a joint venture with the Bharti group to capitalise on India's rapid growing fruit and vegetable industry. Del Monte Pacific's 40.1% stake in the joint venture will help develop the Del Monte Brand and expand distribution channels for export. The Bharti group's local expertise and leadership position along with Del Monte Pacific' product line will make a healthy combination for growth.

Current management of Del Monte Pacific driving key areas of growth

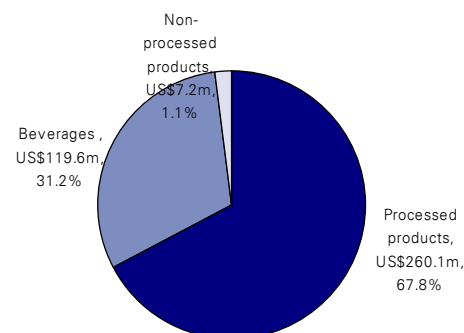
The current senior management team has food industry experience ranging from 20-25 years at multinational corporations. In 2007, many senior positions in key areas were filled by talented individuals from multinational corporations to support long-term aggressive growth plans. Management also created initiatives to improve productivity and efficiency, implement a Sales Information System, and also targets to bring working capital down to zero in 3 years time. We see the hiring of food industry veterans into Del Monte Pacific and the initiatives they have introduced as leading the organisation in the right direction.

Financial forecasts

Key assumptions

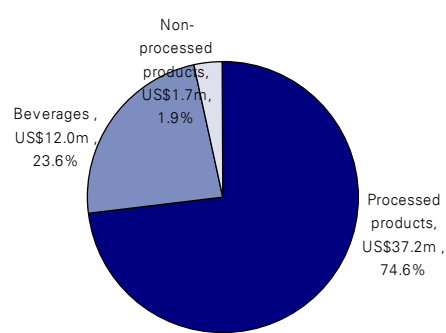
We forecast revenue CAGR of 26.2% for processed products, 24.9% for beverages, and 20.0% for non-processed products over FY07-10E

Figure 19: Revenue forecast FY08E



Source: Deutsche Bank

Figure 20: EBIT forecast FY08E



Source: Deutsche Bank

Our earnings models forecast 26.2% CAGR in revenue and 26.7% CAGR in earnings over FY07-10E for the company. Our earnings forecast is based on the key assumptions below:

Given the inflationary cost pressures, we have conservatively forecast a decline in EBIT margins for Del Monte's three main business segments – from 14.7% to 13.5% for processed products, 10.1% to 9.8% for beverages, and 23.6% to 22.0% for non-processed products from FY07 to FY10E.

Figure 21: Our key assumptions

	2006	2007	2008E	2009E	2010E
Revenue					
Processed products	165.8	194.1	260.1	325.1	390.1
Beverages	72.5	92.0	119.6	149.5	179.3
Non-processed products	5.1	3.4	7.2	10.0	12.6
Total revenue	243.4	289.4	386.8	484.5	582.0
Growth					
Processed products	9%	17%	34%	25%	20%
Beverages	19%	27%	30%	25%	20%
Non-processed products	-50%	-33%	112%	40%	26%
EBIT					
Processed products	21.9	28.5	37.2	45.5	52.7
Beverages	6.4	9.3	12.0	15.0	17.6
Non-processed products	-0.5	0.8	1.7	2.3	2.8
Total EBIT	27.8	38.6	50.8	62.8	73.0
EBIT Margin					
Processed products	13.2%	14.7%	14.3%	14.0%	13.5%
Beverages	8.8%	10.1%	10.0%	10.0%	9.8%
Non-processed products	-9.9%	23.6%	23.3%	23.0%	22.0%
EBIT margin	11.4%	13.3%	13.1%	13.0%	12.5%

Source: Company data, Deutsche Bank

Financial Statements

Figure 22: Income statement (USDm)

	2006	2007	2008E	2009E	2010E
Revenues	243.4	289.4	386.8	484.5	582.0
% change Y/Y	9.5%	18.9%	33.6%	25.3%	20.1%
Gross margin (%)	25.8%	26.1%	25.6%	25.5%	25.0%
EBITDA	35.9	37.6	60.5	73.0	83.7
% change Y/Y	5.0%	4.9%	61.0%	20.5%	14.7%
EBITDA margin (%)	14.7%	13.0%	15.7%	15.1%	14.4%
EBIT	27.8	28.3	50.8	62.8	73.0
% change Y/Y	16.4%	1.8%	79.4%	23.5%	16.3%
EBIT margin (%)	11.4%	9.8%	13.1%	13.0%	12.5%
Net interest	-0.2	-0.9	-1.7	-1.6	-0.9
Share of Associates	0.0	-0.6	-2.0	-1.5	1.0
Exceptional Gains/(Losses)	0.0	10.3	0.0	0.0	0.0
Earnings before tax	27.6	37.2	47.1	59.7	73.1
% change Y/Y	23.7%	34.6%	26.7%	26.8%	22.5%
Tax	-6.6	1.5	-10.0	-12.7	-15.6
as % of EBT	-23.8%	4.0%	-21.3%	-21.3%	-21.3%
Minority Interests	-	-	-	-	-
Net income	21.0	38.6	37.0	47.0	57.5
Recurring net profit	21.0	28.3	37.0	47.0	57.5
% change Y/Y	16.6%	83.6%	-4.1%	26.8%	22.5%

Source: Company data, Deutsche Bank

Figure 23: Balance sheet (USDm)

	2006	2007	2008E	2009E	2010E
Cash and Cash Equivalents	51.5	15.0	17.1	26.3	38.9
Accounts receivable	46.1	64.4	81.4	102.0	122.5
Inventories	45.2	61.5	82.2	103.0	123.7
Others	44.5	57.4	57.4	57.4	57.4
Current assets	187.4	198.2	238.1	288.7	342.5
LT investments	0.0	0.0	0.0	0.0	0.0
Net fixed assets	78.9	101.7	100.0	95.8	90.1
Intangible assets	0.0	0.0	0.0	0.0	0.0
Other LT assets	0.0	22.0	20.0	18.5	19.5
Total Assets	266.3	321.9	358.1	403.0	452.2
ST bank loans	44.6	34.8	34.8	34.8	34.8
Payables	33.7	60.8	82.3	105.3	129.3
Others	4.1	3.4	10.0	12.7	15.6
Total current liabilities	82.4	99.0	127.1	152.8	179.7
Long term debt	1.5	0.8	0.8	0.8	0.8
Other liabilities	8.5	1.1	1.1	1.1	1.1
Total liabilities	92.4	100.9	129.0	154.7	181.6
Shareholder's equity	173.9	221.1	229.1	248.3	270.6
Total liabilities and equity	266.3	321.9	358.1	403.0	452.2

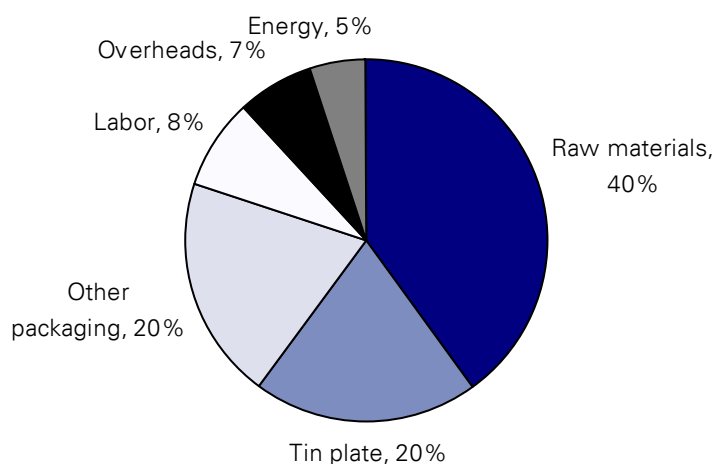
Source: Company data, Deutsche Bank

Figure 24: Cash flow statements (USDm)

	2006	2007	2008E	2009E	2010E
Pre-Tax Profit	27.6	37.2	47.1	59.7	73.1
Tax Paid	-8.9	-4.1	-3.4	-10.0	-12.7
Depreciation & amortisation	8.0	9.3	9.7	10.2	10.7
Other non-cash items	-1.3	-7.3	-1.4	-8.5	-13.7
Change in working capital	-18.7	-7.8	-16.3	-18.3	-17.2
Cash flow from operations	15.7	31.4	39.1	43.0	52.8
CAPEX	-5.5	-6.3	-8.0	-6.0	-5.0
Disposal/ (purchase)	0.0	-32.5	0.0	0.0	0.0
Other	1.7	2.4	0.0	0.0	0.0
Cash flow from investing	-3.7	-36.5	-8.0	-6.0	-5.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Debt raised/(repaid)	1.0	-10.6	0.0	0.0	0.0
Other	-4.0	-3.1	0.0	0.0	0.0
Dividends	-15.9	-18.4	-29.0	-27.8	-35.2
Cash flow from financing	-18.9	-32.0	-29.0	-27.8	-35.2
Net changes in cash	-6.9	-37.1	2.1	9.2	12.6
Currency Adjustments	-1.6	0.5	0.0	0.0	0.0
Beginning cash	60.1	51.5	15.0	17.1	26.3
Ending cash	51.5	15.0	17.1	26.3	38.9
DPS (S cts)	2.0	3.6	3.5	4.4	5.4
Free cash flows	10.2	25.1	31.1	37.0	47.8

Source: Company data, Deutsche Bank

The major cost components of the company's cost of goods sold are raw materials making up 40%, followed by tin plate at 20%, other packaging at 20%, labor at 8%, overheads at 7% and energy at 5%. Raw materials are not a concern for the company as it sources the bulk of its pineapples at its own plantations. However, tin plate and packaging costs have been rising. The company typically locks in its tin plate prices for 6 months and is moving more towards plastic bottles instead of tin plate packaging to reduce costs. With packing and tin plate accounting for 40% of the cost of goods, every 1% increase in packaging and tin plate costs could reduce net profit by 2% if the company is unable to pass on the costs.

Figure 25: Breakdown of cost of goods sold in 2007

Source: Deutsche Bank, Company

Valuation

DCF valuation at S\$0.90

We use WACC of 9.1%

Our primary valuation method is using our DCF valuation methodology which is consistent with the valuation framework of DB's F&B/consumer research team as the DCF valuation methodology takes into account the business cycle and long-term profitability of F&B companies. Based on our DCF methodology and valuing the company's cash flows, we arrive at a 12-month TP of S\$0.90. This is based on a 9.1% WACC, assuming DB's estimates for cost of capital in the Philippines, we take a risk-free rate of 10.9%, equity risk premium of 4.6% and 0.3 beta to derive our cost of equity of 9.1%. Our terminal growth rate is 1%, based on long-term economic growth.

Figure 26: DCF assumptions and TP sensitivity

Assumptions			Terminal growth rate					
			WACC	-1%	0%	1%	2%	3%
Risk free rate	10.9%	DB COE methodology	10.0%	0.69	0.73	0.79	0.86	0.96
Cost of debt	4.6%	DB COE methodology	9.0%	0.77	0.83	0.91	1.01	1.14
Tax rate %	21.0%	Forecast tax rate	9.1%	0.76	0.83	0.90	1.00	1.13
Expected market return	4.6%	DB COE methodology	8.0%	0.80	0.88	0.98	1.11	1.30
Current beta	0.3	Historical average	7.0%	1.00	1.11	1.26	1.47	1.77
Target debt/equity ratio	0.0%	Net cash in FY10E						
Cost of equity	9.1%	Based on CAPM model						
WACC	9.1%							
Terminal growth	1%	Assumed						

Source: Deutsche Bank

Our TP implies 15.2x FY09E PE and the stock is currently trading at 11.8x FY09E PE. Its peer group is trading at an average of 13.3x FY09E PE. We believe that the multiple is justified given the company's strong recurring earnings CAGR growth of 26.7%. The multiple implies a PEG of around 0.5.

Figure 27: DCF valuation

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E	Terminal
Operating profit	27.8	28.3	50.8	62.8	73.0	85.1	96.1	108.4	
Operating profit growth%		2%	79%	24%	16%	17%	13%	13%	
Tax rate %	24%	-4%	21%	21%	21%	21%	21%	21%	
NOPLAT	21.2	29.4	40.0	49.4	57.5	67.0	75.6	85.3	
+Depreciation & amortization	8.0	9.3	9.7	10.2	10.7	11.2	11.7	12.3	
+(Increase)/decrease in working capital	(18.7)	(7.8)	(16.3)	(18.3)	(17.2)	15.0	(13.7)	(15.6)	
-Capex	(5.5)	(6.3)	(8.0)	(6.0)	(5.0)	(5.0)	(5.0)	(5.0)	
FCFF	5.1	24.6	25.5	35.3	45.9	88.2	68.7	77.1	964.1
Discounted FCFF			23.3	29.6	35.4	62.3	44.5	45.8	524.9
Sum of Discounted FCFF to FY08E		765.8							
Net Cash as at FY08E		(18.5)							
Fair Value of Equity (at end FY08E)		747							
Total outstanding shares (m)		1,082							
Forex Conversion		1.30							
Fair Equity Value/Share (S\$)		0.90							

Source: Deutsche Bank

Peer valuation comparison

Figure 28: Peer valuation comparable

Regional F&B companies

Company Name	Ticker	Price (\$)	Mkt Cap (US\$MM)	Yield (%)	P/B (x)	P/S (x)	P/E			ROE (%)	Liquidity (US\$MM)	Price Movement		
							FY07	FY08E	FY09E			5D	3M	12M
Cerebos Pacific	CER	3.83	920	6.5	3.6	1.5	14.3	13.7	12.4	23.3	0.0	1.3	-3.0	8.9
China Huiyuan Juice Group	1886	5.85	1131	2.1	na	2.7	11.1	19.6	15.3	14.3	0.2	-3.2	-6.1	-34.5
Dutch Lady Milk	DLM	12.70	270	4.4	6.1	1.3	21.1	17.2	14.8	38.1	0.0	0.8	0.8	12.5
Jollibee Foods Corp	JFC	42.00	1020	2.0	3.3	na	18.2	16.1	13.9	22.2	0.0	-2.3	-9.9	-23.0
Lam Soon PCL	LST	4.78	257	2.1	2.2	0.5	14.1	12.6	14.7	11.0	2.2	-5.6	68.7	149.7
Nestle Bhd	NESZ	29.50	2296	6.6	9.5	1.7	21.9	21.5	20.0	48.8	0.0	-0.8	19.8	30.2
Petra Foods	PETRA	1.02	414	2.9	2.1	0.4	17.9	13.8	10.7	14.6	0.3	-15.5	-22.1	-43.5
Singapore Food Industries	SFI	0.79	311	6.3	2.5	0.6	11.8	11.0	10.1	20.7	0.1	1.3	7.4	-9.0
Universal Robina Corp	URC	13.25	686	5.1	0.9	0.8	5.3	9.3	8.0	17.2	0.0	0.0	-0.6	-13.0
Peer average			812	4.2	3.8	1.2	15.1	15.0	13.3	23.3	0.3	-2.7	6.1	8.7

Global F&B companies

Del Monte Foods Co	DLM	8.63	1702	1.9	1.2	0.5	12.9	12.2	11.4	8.1	1.1	0.8	-6.3	-27.3
Fresh Del Monte	FDP	29.27	244	0.0	1.3	0.5	8.5	9.0	8.9	-13.4	0.1	3.5	-13.6	17.9
Kikkoman Corp	2801	1290.0	2544	1.2	1.5	0.6	21.8	56.6	na	6.7	0.0	-1.5	9.2	-28.4
Kraft Foods Inc	KFT	32.05	48589	3.3	2.0	1.3	17.6	16.7	15.6	9.3	8.1	-0.7	3.6	-3.9
Peer average			13270	1.6	1.5	0.7	15.2	12.6	12.0	2.7	2.3	0.5	-1.8	-10.4

Del Monte Pacific Limited **DELM** **0.70** **578** **5.0** **2.4** **1.4** **14.7** **15.0** **11.8** **16.5** **0.2** **3.0** **16.6** **9.0**

Source: Deutsche Bank, Company data, Bloomberg priced as at 4 June 2008.

Our TP implies a PE of 15.2x for FY09E

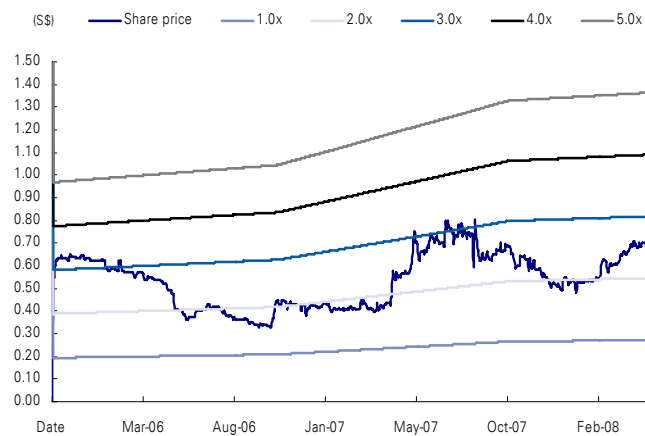
Regional F&B peers are trading at 15.0x and 13.3x FY08-09E PE whereas global F&B companies, which include brand owners of the Del Monte brand, are trading at 12.6x and 12.0x FY08-09E PE. The stock has traded at a high of 30x PE and at an average of 13.4x PE. We believe that the stock warrants a higher PE multiple due to stronger CAGR in earnings compared with peers.

Figure 29: P/E chart



Source: Deutsche Bank, Bloomberg priced as at 4 June 2008.

Figure 30: P/B chart



Source: Deutsche Bank, Bloomberg priced as at 4 June 2008.

Risks

Exposure to fluctuations in prices of raw materials

Del Monte has exposure to a number of commodity markets including fruit, vegetables, energy, tinplate and plastic (PET resin). If Del Monte is not be able to pass through sufficient price increases to cover increased costs without a negative effect on volume, sales and profits' profitability could be affected. With tin plate and other packaging accounting for 40% of the cost of goods, every 1% increase in packaging and tin plate costs could reduce net profit by 2% if the company is unable to pass on the costs.

The company's output of pineapples at its plantations could be subject to weather conditions. As its plantations sit on a plateau, it's less susceptible to flooding or La Nina weather conditions but would be more susceptible to drought or El Nino. The last major occurrence of El Nino was in 1999 where the company's plantations experienced a lower crop tonnage. A severe drought could affect the company's pineapple yield and have a negative impact on the company's profitability.

Foreign exchange risk between the peso and the US dollar

As 40-50% of the company's total revenue is derived from the Philippines market and the company's cost structure denominated in local currency, an appreciation of the Philippines peso against the US dollar could lead to higher costs and a squeeze in gross margins.

The company has ongoing litigation with Fresh Del Monte Produce (FDM)

In May 2008, Fresh Del Monte Produce Inc filed a complaint against Del Monte Pacific in the US District Court, Southern District of New York, over an alleged breach of contract and claimed damages of US\$100m. FDM is the licensee of the Del Monte brand for processed products in Europe, the Middle East and Africa, and for fresh produce worldwide. FDM alleged that Del Monte Pacific had sold Del Monte processed products in FDM's territory. The complaint relates to two contested shipments. In the past, there were two lawsuits of a similar nature with Fresh Del Monte produce which were settled amicably. Del Monte Pacific believes that the claims are without merit and will contest them vigorously without prejudice to actions it may take against FDM. However, an unfavourable outcome from the litigation with FDM could have a negative impact on the company.

Execution risk associated with new ventures – S&W and FieldFresh

The company may fail to successfully implement its growth strategy (acquisition of S&W and joint venture with FieldFresh), possibly resulting in lower sales projections and decreased earnings.

Company background

Business overview

Del Monte Pacific Limited is a leading group of companies that provides branded fruit and vegetable products to consumers around the world. The company has operations in the Philippines, the Indian subcontinent, and China. In the Philippines, through its Del Monte brand and second tier brand, Today's, the group holds a leading market share in canned food products. Del Monte Pacific's brand portfolio includes Del Monte, S&W, FieldFresh, Today's, Great Lakes, Ming Lang and Little Lakes.

Del Monte Pacific Limited is committed to strengthening its reputation among consumers as a premium quality, healthy fruit and vegetable company. The group owns the S&W trademark globally (except for Americas, Australia and New Zealand), which is well-known for its premium canned fruit and vegetable products. NutriAsia Pacific Ltd (NPL), under the parent company NutriAsia Group of Companies, owns 78.5% of Del Monte Pacific Limited.

Del Monte Brand History

Figure 31: Del Monte brand and Del Monte Pacific

Timeline	Del Monte Pacific Limited history and the Del Monte Brand
1892	Del Monte brand originated in the USA
1926	Del Monte Foods (USA) set up operations in the Philippines to move away from disease-affected Hawaiian pineapple plantation
1990	In the biggest LBO at that time, KKR took over RJR Nabisco (then owner of Del Monte Foods). The Del Monte brand was disaggregated and sold to different companies to extract more value.
1991	Del Monte Foods sold its 50% stake in the Philippines unit, Del Monte Philippines, to Del Monte Intl (Europe) and Kikkoman (Japan)
1996	Del Monte Foods and Kikkoman divested to MCI (Philippines) and Del Monte Intl (later became Cirio)
1999	DMPL was incorporated and became the holding company of Del Monte Philippines and was listed on SGX
Dec 2005	MCI and Cirio divested to NutriAsia Pacific Ltd (NPL)
Jan 2006	NPL stake reached 85% after the General Offer
Jul 2007 and Mar 2008	NPL reduced its stake to 79% to increase trading liquidity

Source: Deutsche Bank, Company

Del Monte Pacific Limited owns the Del Monte trademark in the Philippines and the brand rights for the Indian subcontinent territories. The company has long-term supply contracts with Del Monte Asia/Kikkoman, Del Monte Foods, Kraft Canada and Del Monte Fresh Produce, all of whom have exclusive rights to the Del Monte trademark in their respective territories or product category.

Figure 32: Del Monte trademark rights around the world

Company	Markets	Product Category
Del Monte Pacific	Philippines and Indian subcontinent	Processed Food and Beverage
Del Monte Asia/Kikkoman	Asia Pacific (ex-Philippines and Indian subcontinent)	Processed Food and Beverage
Del Monte Foods	USA and South America	Processed Food and Beverage
Kraft and CanGro	Canada	Processed Food and Beverage
Del Monte Fresh Produce	Africa, Europe and the Middle East	Processed Food and Beverage
	Worldwide	Fresh Produce

Source: Deutsche Bank, Company

S&W brand is named after its founders – Samuel Sussman, Gustav Wormser and Samuel Wormser

S&W brand history

The S&W brand was founded in 1896 by three grocery wholesalers from San Francisco – Samuel Sussman, Gustav Wormser and Samuel Wormser. S&W has grown from a local city brand to one recognised worldwide due to the quality and taste of its products. S&W is recognised as a premium canned-food, dressings and sauces by consumers all over the world.

Management profile

Mr. Joselito D. Campos, Jr. – Managing Director and CEO

Mr. Campos is the current chairman and CEO of the NutriAsia Group of Companies, chairman of Fort Bonifacio Development Corp, vice chairman of Avala-Greenfield Development Corp, and director of FieldFresh Foods Private Ltd. He received his MBA from Cornell University.

Mr. Luis F. Alejandro – COO

With over 20 years' consumer product operations and management experience, Mr. Alejandro has worked with Procter & Gamble, Kraft Foods Philippines, Southeast Asia Food Inc, NutriAsia Group Inc. and Heinz UFC Philippines. He has a Bachelor's degree in Economics from the Ateneo de Manila University and an MBA from the Asian Institute of Management.

Mr. Richard W. Blossom – Head of International Markets

With over 25 years' experience in general management, marketing, sales, distribution and logistics of fast-moving consumer goods, Mr. Blossom has served as president of Pepsi Cola Asia Pacific, PepsiCo Foods Asia Pacific, Revlon Asia Pacific, and CEO of Dohler Asia and EAC Consumer Products. He completed his MBA in Marketing from the Stern School of Business at New York University.

Mr. Ignacio C O Sison – CFO

Mr. Sison has BA in Economics, magna cum laude, from the University of the Philippines, an MA in Economics from the International University of Japan, and an MS in Agricultural Economics from Oxford University. Mr. Ignacio has more than 20 years' experience in treasury, corporate planning and controllership.

NutriAsia Group of Companies owns 79% of Del Monte Pacific

NutriAsia is the holding company of the Campos family and is the market leader in liquid condiments, specialty sauces and cooking oil in the Philippines. Its flagship brand, UFC, has an 85% market share in the local ketchup and hot chilli sauce categories. In 2006, NutriAsia's stake reached 85% after the general offer and subsequently reduced its stake to 79% to increase trading liquidity in the company. The free float for Del Monte Pacific stands at 21%.

Appendix A

Extension of its brand portfolio

Figure 33: Del Monte Pacific portfolio of brands



Source: Company

Appendix 1

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Company	Ticker	Recent price*	Disclosure
Del Monte Pacific	DMPL.SI	0.70 (SGD) 4 Jun 08	NA

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Equity rating key Equity rating dispersion and banking relationships

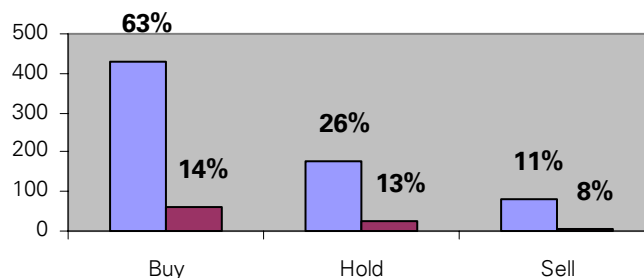
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