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## COMPANY ALERT

### Del Monte Pacific

#### Cost savings to filter into 2H09

## Forecast Change

Buy

Reuters:DMPL.SI Exchange:SES Ticker:DMPL

Price (SGD)	0.59
Price target (SGD)	0.62
52-week range (SGD)	0.65 - 0.30
Market cap (USDm)	441
Shares outstanding (m)	1,081.8
Net debt/equity (%)	7.1
Book value/share (USD)	0.20
Price/book (x)	2.0

FYE 12/31	2008A	2009E	2010E
Sales (US-Dm)	381	372	406
Net Profit (USDm)	37.0	40.1	47.9
DB EPS (USD)	0.03	0.04	0.04
PER (x)	11.6	11.0	9.2
Yield (net) (%)	6.4	6.8	8.1

**2Q09 results in line with expectations.** Excluding divestment and forex translation, revenue would have increased 1% YoY instead of a decline of 11% YoY to US\$78.9m. Earnings decline slowed to 9% YoY but rose 24% QoQ to US\$5.1m in the 2Q09.

**Earnings are back-end loaded.** The company's core market in the Philippines remains resilient in peso terms with sales up 11% YoY driven by Del Monte Fit 'n Right juice drink in PET bottles, culinary products and the food service sector. We expect the company to achieve cost reductions from lowering tin plate costs and raw material costs in the 2H09.

**Expanding into key markets - Vietnam and India.** Mgmt has made some key hires to build the S&W brand and is looking to have a business plan to further expand its S&W brand in India and Vietnam. In India, Del Monte launched a marketing campaign in May09 in the FieldFresh joint venture with the Bharti group and has expanded its product range in 12 key cities across India.

**Maintain Buy.** We have raised our earnings assumptions for FY10-11 by 4.5% and 5.0%, respectively, to account for expansion into Vietnam and India. We have raised our target price from S\$0.58 to S\$0.62 based on our DCF valuation. We have incorporated DB's new cost of capital assumptions using a risk-free rate of 10.9% from 11.4%, our ERP of 5.0% from 5.2%, and beta of 0.5 to derive our cost of equity of 13.4%. We maintain our target debt/equity of 20% and a cost of debt at 10% to derive our WACC of 12.5% from 13.0%. We maintain our TGR of 2%, in line with the population growth rate. Key risks: competition, input costs, FX.

FYE 3/31	2Q09	2Q08	YoY	1H09	1H08	YoY
Revenue (USDm)	78.9	88.6	-10.9%	139.3	160.3	-13.1%
Gross profit (USDm)	19.5	20.9	-7.1%	35.0	36.6	-4.5%
Operating profit (USDm)	8.5	10.3	-17.8%	15.6	18.0	-13.3%
Net profit (USDm)	5.1	5.6	-9.2%	9.1	11.6	-21.2%
Gross margin	24.7%	23.6%	4.3%	25.1%	22.9%	9.9%
Operating margin	10.8%	11.7%	-7.7%	11.2%	11.2%	-0.3%
Net profit margin	6.4%	6.3%	1.9%	6.6%	7.2%	-9.3%

Source: Company data

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