

Asia Singapore  
Consumer Food & Beverage

Deutsche Bank 

12 November 2008

# Del Monte Pacific

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

## 3Q08 results in line but outlook remains challenging

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### 3Q08 results in line with our expectations and consensus

Management has turned cautious on the outlook going into 2009 and expects demand in various markets to soften. Deteriorating economic growth (DB recently lowered its GDP forecast for the Philippines from 5.1% to 4.6% in 2008 and by 4.3% to 3.7% in 2009) poses further risks to growth. We cut earnings by 15-20% for FY09-10E and reduce our DCF-derived TP from S\$0.90 to S\$0.60. Given the multiple growth engines to drive earnings going forward, we have a Buy rating on the stock and TP implies significant upside.

### Update on its business divisions and currency impact

9M08 sales rose on higher sales in the Philippines (Fit'n Right drink and F&B) and recorded gains in market share and in Europe/North America, however, the negative impact of the appreciation of the Peso was US\$3.8m. Historically, the 4Q has contributed about 50% of its earnings due to its backend loaded in revenue.

### Cost management and increased store coverage

Management is hopeful that its cost cutting program can partially mitigate a decline in sales. The company is looking into further cost cutting measures such as sourcing new suppliers, process outsourcing and repackaging its products. Tinplate costs for 2009 can be renegotiated at a lower price (tin plate is about 20% of its costs) in Mar09. The company has increased its store coverage from 53,000 to 81,000 stores in Sep08 and is on track to cover 140,000 stores in FY10E.

### The stock offers attractive dividend yield at 8.4% and trades at 8.9x FY08E PE

Our DCF-derived TP of S\$0.60 is based on WACC of 12.6% and terminal growth of 2.0%, for a PE of 10.8x FY09E. Risks include competition (branded and private label), a rise in input costs (raw materials and packaging), foreign exchange fluctuations, ongoing litigation and execution of new ventures. See details on p. 4.

#### Forecasts and ratios

Year End Dec 31	2006A	2007A	2008E	2009E	2010E
Sales (USDm)	243.4	289.4	<b>386.8</b>	400.9	425.0
EBITDA (USDm)	35.9	47.9	<b>60.5</b>	63.4	67.4
Reported NPAT (USDm)	21.0	28.3	<b>37.0</b>	40.1	45.8
Reported EPS FD(USD)	0.02	0.03	<b>0.03</b>	0.04	0.04
DB EPS FD (USD)	0.02	0.03	<b>0.03</b>	0.04	0.04
OLD DB EPS FD (USD)	0.02	0.03	<b>0.03</b>	0.04	0.05
% Change	0.0%	0.0%	<b>0.0%</b>	-14.7%	-20.4%
DB EPS growth (%)	-	34.7	<b>30.7</b>	8.2	14.2
PER (x)	14.8	14.7	<b>8.9</b>	8.2	7.2
EV/EBITDA (x)	8.5	8.7	<b>5.5</b>	5.0	4.5
DPS (net) (USD)	0.01	0.03	<b>0.03</b>	0.03	0.03
Yield (net) (%)	5.1	6.9	<b>8.4</b>	9.1	10.4

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items

<sup>2</sup> 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

### Forecast change

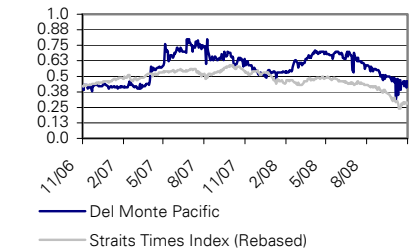
#### Buy

Price at 12 Nov 2008 (SGD)	<b>0.46</b>
Price target - 12mth (SGD)	<b>0.60</b>
52-week range (SGD)	<b>0.71 - 0.30</b>
Straits Times Index	<b>1,807</b>

#### Key changes

Price target	0.90 to 0.60 ↓	<b>-33.3%</b>
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#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.2	-22.0	-27.6
Straits Times Index	-7.3	-35.9	-48.5

#### Stock data

Market cap (SGDm)	<b>498</b>
Market cap (USDm)	<b>330</b>
Shares outstanding (m)	<b>1,081.8</b>
Major shareholders	<b>NutriAsia (79%)</b>
Free float (%)	<b>21</b>
Avg daily value traded (USDm)	<b>0.0</b>

#### Key indicators (FY1)

ROE (%)	<b>16.5</b>
Net debt/equity (%)	<b>12.0</b>
Book value/share (USD)	<b>0.21</b>
Price/book (x)	<b>1.4</b>
Net interest cover (x)	<b>29.0</b>
Operating profit margin (%)	<b>13.1</b>

Deutsche Bank AG/Hong Kong

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Model updated: 12 November 2008

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

Reuters: DMPL.SI

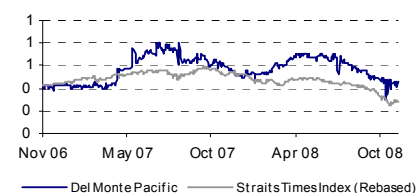
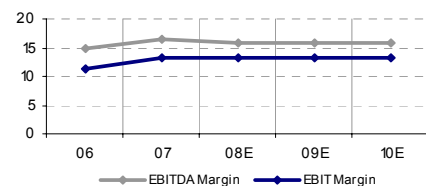
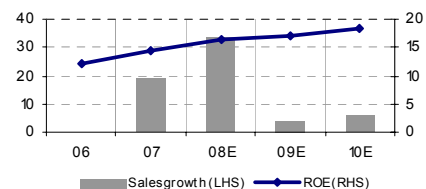
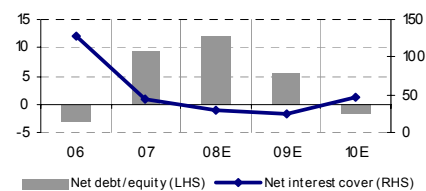
Bloomberg: DELM SP

**Buy**

Price (12 Nov 08)	SGD 0.46
Target price	SGD 0.60
52-week Range	SGD 0.30 - 0.71
Market Cap (m)	SGDm 498 USDm 330

**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**

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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	0.04
Reported EPS (USD)	0.02	0.03	0.03	0.04	0.04
DPS (USD)	0.01	0.03	0.03	0.03	0.03
BVPS (USD)	0.2	0.2	0.2	0.2	0.2
Weighted average shares (m)	1,082	1,082	1,082	1,082	1,082
Average market cap (USDm)	311	417	330	330	330
Enterprise value (USDm)	305	416	333	320	301

**Valuation Metrics**

P/E (DB) (x)	14.8	14.7	8.9	8.2	7.2
P/E (Reported) (x)	14.8	14.7	8.9	8.2	7.2
P/BV (x)	1.70	1.59	1.44	1.37	1.28
FCF Yield (%)	3.3	6.0	8.2	12.7	14.5
Dividend Yield (%)	5.1	6.9	8.4	9.1	10.4
EV/Sales (x)	1.3	1.4	0.9	0.8	0.7
EV/EBITDA (x)	8.5	8.7	5.5	5.0	4.5
EV/EBIT (x)	11.0	10.8	6.5	6.0	5.3

**Income Statement (USDm)**

	2006	2007	2008E	2009E	2010E
<b>Sales revenue</b>	<b>243</b>	<b>289</b>	<b>387</b>	<b>401</b>	<b>425</b>
<b>Gross profit</b>	<b>71</b>	<b>85</b>	<b>109</b>	<b>114</b>	<b>121</b>
<b>EBITDA</b>	<b>36</b>	<b>48</b>	<b>61</b>	<b>63</b>	<b>67</b>
Depreciation	8	9	9	10	10
Amortisation	0	0	0	0	0
<b>EBIT</b>	<b>28</b>	<b>39</b>	<b>51</b>	<b>53</b>	<b>57</b>
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
<b>Profit before tax</b>	<b>28</b>	<b>37</b>	<b>47</b>	<b>49</b>	<b>57</b>
Income tax expense	7	-1	10	9	11
Minorities	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0
<b>Net profit</b>	<b>21</b>	<b>28</b>	<b>37</b>	<b>40</b>	<b>46</b>
DB adjustments (including dilution)	0	0	0	0	0
<b>DB Net profit</b>	<b>21</b>	<b>28</b>	<b>37</b>	<b>40</b>	<b>46</b>

**Cash Flow (USDm)**

	2006	2007	2008E	2009E	2010E
<b>Cash flow from operations</b>	<b>16</b>	<b>31</b>	<b>39</b>	<b>50</b>	<b>54</b>
Net Capex	-5	-6	-12	-8	-6
<b>Free cash flow</b>	<b>10</b>	<b>25</b>	<b>27</b>	<b>42</b>	<b>48</b>
Equity raised/(bought back)	0	0	0	0	0
Dividends paid	-16	-18	-29	-28	-30
Net inc/(dec) in borrowings	1	-11	0	0	0
Other investing/financing cash flows	-2	-33	-5	0	0
<b>Net cash flow</b>	<b>-7</b>	<b>-37</b>	<b>-7</b>	<b>14</b>	<b>18</b>
Change in working capital	102	122	139	140	143

**Balance Sheet (USDm)**

	2006	2007	2008E	2009E	2010E
Cash and other liquid assets	52	15	8	22	40
Tangible fixed assets	79	102	104	102	97
Goodwill/intangible assets	0	0	0	0	0
Associates/investments	0	22	25	23	24
Other assets	136	183	221	227	237
<b>Total assets</b>	<b>266</b>	<b>322</b>	<b>358</b>	<b>375</b>	<b>399</b>
Interest bearing debt	46	36	36	36	36
Other liabilities	46	65	93	98	106
<b>Total liabilities</b>	<b>92</b>	<b>101</b>	<b>129</b>	<b>133</b>	<b>142</b>
Shareholders' equity	174	221	229	241	257
Minorities	0	0	0	0	0
<b>Total shareholders' equity</b>	<b>174</b>	<b>221</b>	<b>229</b>	<b>241</b>	<b>257</b>
Net debt	-5	21	27	13	-5

**Key Company Metrics**

Sales growth (%)	nm	18.9	33.6	3.7	6.0
DB EPS growth (%)	na	34.7	30.7	8.2	14.2
EBITDA Margin (%)	14.7	16.6	15.7	15.8	15.9
EBIT Margin (%)	11.4	13.3	13.1	13.3	13.3
Payout ratio (%)	75.1	102.3	75.0	75.0	75.0
ROE (%)	12.1	14.3	16.5	17.0	18.4
Capex/sales (%)	2.2	2.2	3.1	2.0	1.4
Capex/depreciation (x)	0.7	0.7	1.2	0.8	0.6
Net debt/equity (%)	-3.1	9.3	12.0	5.5	-1.8
Net interest cover (x)	127.7	44.8	29.0	23.8	46.4

Source: Company data, Deutsche Bank estimates

# 3Q08 results review

## 3Q08 results in line but 2009 outlook challenging

**Figure 1: Quarterly results breakdown**

USDm	1Q07	2Q07	3Q07	1Q08	2Q08	3Q08	YoY	QoQ	9M07	9M08	YoY
Sales	47.9	65.7	70.0	71.7	88.6	98.8	41.2%	11.5%	183.5	259.1	41.2%
Cost of Services	(36.3)	(50.2)	(54.8)	(56.0)	(67.7)	(77.2)	41.0%	14.1%	(141.3)	(200.8)	42.2%
Gross Profit	11.5	15.5	15.2	15.7	20.9	21.6	41.9%	3.1%	42.3	58.2	37.8%
Other Operating Income	0.7	0.0	0.0	0.8	(0.4)	(0.1)	na	-81.3%	0.7	0.3	-55.0%
Other Operating Expenses	(5.9)	(7.4)	(9.5)	(8.1)	(10.2)	(10.6)	11.6%	4.1%	(22.8)	(28.9)	26.7%
EBIT	6.4	8.1	5.7	7.7	10.3	10.9	91.7%	5.3%	20.1	28.9	43.3%
Non-Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	na	na	0.0	0.0	na
Interest Income	0.9	1.1	0.6	1.4	0.3	0.3	-45.3%	-1.0%	2.5	2.0	-20.0%
Interest Expense	(0.6)	(0.8)	(0.8)	(0.8)	(2.8)	(3.8)	382.0%	36.4%	(2.2)	(7.3)	240.8%
Share of Associates' or JV Income	0.0	0.0	0.0	(0.8)	(0.8)	(1.1)	na	24.9%	0.0	(2.7)	na
Exceptional Gains/(Losses)	0.0	0.0	0.0	0.0	0.0	0.0	na	na	0.0	0.0	na
Pretax Profit	6.7	8.4	5.5	7.4	7.0	6.4	16.5%	-9.6%	20.5	20.8	1.5%
Tax	(1.5)	(3.0)	(0.7)	(1.4)	(1.5)	(0.2)	-79.7%	-89.7%	(5.2)	(3.0)	-43.0%
Minority Interests	0.0	0.0	0.0	0.0	0.0	0.0	na	na	-	-	na
Net Profit	5.1	5.4	4.7	6.0	5.6	6.2	31.6%	11.3%	15.3	17.8	16.7%
Dividends & Cash Earnings											
<b>Margins (%)</b>							<b>Chg ppt</b>	<b>Chg ppt</b>			<b>Chg ppt</b>
Gross Margin	24.1	23.6	21.7	21.9	23.6	21.8	0.1	-1.8	23.0	22.5	-0.6
SGA % Sales	12.3	11.3	13.6	11.3	11.5	10.8	-2.9	-0.8	12.4	11.2	-1.3
EBITDA Margin	18.4	16.1	11.6	14.3	14.4	13.5	1.9	-0.8	0.0	0.0	0.0
EBIT Margin	13.3	12.4	8.1	10.7	11.7	11.0	2.9	-0.7	11.0	11.1	0.2
Pre-tax Margin	13.9	12.8	7.8	10.3	7.9	6.4	-1.4	-1.5	11.2	8.0	-3.1
Net Margin	10.7	8.2	6.7	8.4	6.3	6.3	-0.5	0.0	8.3	6.9	-1.4
Depr % of sales	5.1	3.7	3.5	3.6	2.7	2.5	-1.0	-0.2	0.0	0.0	0.0
Effective Tax Rate %	23.0	35.4	13.6	18.6	20.7	2.4	-11.2	-18.3	25.6	14.4	-11.2

Source: Deutsche Bank

3Q08 revenue rose by 41.2% YoY to US\$98.8m on strong sales in the Philippine market and higher sales in Europe and North America. Gross profit was up 41.9% to US\$21.6m due to its cost savings programs and increased product ASP. Net profit rose by 31.6% YoY to US\$6.2m. As of 3Q08, the company's current gearing stood at 36%. We forecast gearing to drop to 12% by the end of FY08E. This is due to the timing in working capital changes and as it is during its 4Q where most of their inventory and receivables is lowered.

9M08 earnings made up 48.1% of our FY08E earnings forecast. We expect the 4Q08 results to make up the rest of our FY08E earnings as historically the 4Q has contributed about 50% of its earnings due to its backend loading of revenue. Revenue increased by 41.2% YoY to US\$259.1m with net profit rising by 16.7% YoY to US\$17.8m.

## Changes to our estimates

**Figure 2: Revisions to our earnings in FY09-10E**

FYE (USDm)	2008E	2009E	2010E
<b>Sales</b>			
New	386.8	400.9	425.0
Old	386.8	484.5	582.0
Change	0.0%	-17.3%	-27.0%
<b>Gross profit</b>			
New	99.2	103.3	109.8
Old	99.2	123.3	145.8
Change	0.0%	-16.2%	-24.6%
<b>Operating profit</b>			
New	50.8	53.2	56.7
Old	50.8	62.8	73.0
Change	0.0%	-15.2%	-22.3%
<b>Net profit</b>			
New	37.0	40.1	45.8
Old	37.0	47.0	57.5
Change	0.0%	-14.6%	-20.4%

Source: Deutsche Bank

We have cut our sales forecast by 17.3% and 27.0% in FY09 and FY10E, respectively, to factor in the slowdown in consumption in the region. We have raised our gross margins by 0.3ppt to 25.8% in FY09E and 0.8ppt to 25.8% in FY10E to factor in lower raw material costs and cost cutting measures. Following our revised sales and margin assumptions, we cut our earnings by 14.6% and 20.4% in FY09E and FY10E to US\$40.1m and S\$45.8m respectively.

## Valuation

Given our revised earnings estimates, we have cut our TP from S\$0.90 to S\$0.60. We have raised our WACC from 9.1% to 12.6% due to a higher risk-free rate of 10.9% to 11.8%, an increase in our equity risk premium from 4.6% to 4.7% (assuming DB's estimates for cost of capital in the Philippines) and raised beta from 0.3 to 0.5. We have also used a target debt to equity of 20% and a cost of equity of 6%, since we believe some leverage is good for the company. We have increased our terminal growth rate of 2% from 1% to be inline with the population growth rate.

## Risks

Key downside risks to our target price are:

- 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.
- Since 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 Philippine peso against the US dollar could lead to higher costs and a squeeze in gross margins.
- The outcome of ongoing litigation with Fresh Del Monte Produce, Inc. and execution of its new ventures S&W and FieldFresh.

# Appendix 1

## Important Disclosures

Additional information available upon request

### Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Del Monte Pacific	DMPL.SI	0.46 (SGD) 12 Nov 08	NA

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

**For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at <http://gm.db.com>.**

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### Historical recommendations and target price: Del Monte Pacific (DMPL.SI)

(as of 11/12/2008)



#### Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

#### Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

1. 4/6/2008: Buy, Target Price Change SGD0.90

Equity rating key

Equity rating dispersion and banking relationships

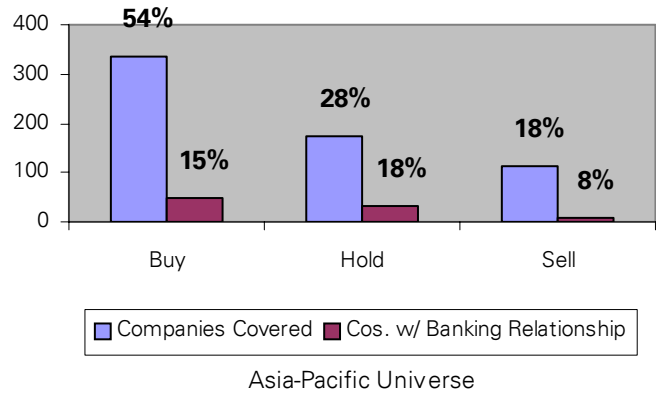
**Buy:** Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

**Notes:**

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
  - Buy: Expected total return (including dividends) of 10% or more over a 12-month period
  - Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
  - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



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