

24 February 2009

Del Monte Pacific

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

Easing inflationary pressures to lower costs

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james-s.tan@db.com**FY08 results were above our expectations**

The company posted its FY08 results with revenue rising by 32% YoY to US\$381.5m and earnings increasing by 30.7% YoY to US\$37.0m. Management has moderated its outlook for 2009 and expects softening demand in Europe/North America and flat demand for key markets — Philippines and India. We expect the company to benefit from the continued cost savings initiatives and easing of inflationary pressures to help lower its costs. Maintain Buy and revise TP to S\$0.58.

Pressure on exports but domestic market could be more resilient

Management has recognized the global crisis and will likely pressure demand exports for processed pineapple products. The company will focus on reducing costs and increasing productivity, and expects to maintain stable earnings in 2009. The company shall benefit from better prices and savings from cost-cutting measures such as product packaging reformulation and improved sourcing.

Decreasing inflationary pressures could help lower its raw material costs

DELM's gross margins in FY08 improved due to higher product prices and cost saving initiatives which helped to relieve inflationary cost pressures in 2008. DB economics team expects inflation to drop from 9.3% in 2008 to 4.0% in 2009E. With easing inflationary pressures, we expect DMPL to benefit from lower COGS.

Defensive dividend yield at 10.2% with dividend payout maintained at 75%

We have reduced our TP from S\$0.60 to S\$0.58 based on a WACC of 13.0% from 12.6% (as we factor in DB's new cost of capital) and maintained our TGR of 2% (inline with population growth rate). 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 pg 5).

Forecasts and ratios

Year End Dec 31	2007A	2008A	2009E	2010E	2011E
Sales (USDm)	289.4	381.5	400.9	425.0	474.7
EBITDA (USDm)	47.9	66.8	71.0	71.1	77.4
Reported NPAT (USDm)	28.3	37.0	40.1	45.8	52.1
Reported EPS FD(USD)	0.03	0.03	0.04	0.04	0.05
DB EPS FD (USD)	0.03	0.03	0.04	0.04	0.05
DB EPS growth (%)	34.7	30.7	8.2	14.3	13.7
PER (x)	14.7	11.6	7.3	6.4	5.6
EV/EBITDA (x)	8.7	7.1	4.1	3.9	3.3
DPS (net) (USD)	0.03	0.03	0.03	0.03	0.04
Yield (net) (%)	6.9	6.4	10.2	11.7	13.3

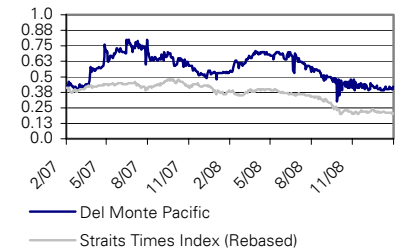
Source: Deutsche Bank estimates, company data

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**Forecast change****Buy**

Price at 20 Feb 2009 (SGD)	0.42
Price target - 12mth (SGD)	0.58
52-week range (SGD)	0.71 - 0.30
Straits Times Index	1,631

Key changes

Price target	0.60 to 0.58	↓	-3.3%
Op prof margin (FYE)	13.3 to 15.1	↑	14.0%
Net profit (FYE)	40.1 to 40.1	↑	0.0%

Price/price relative

Performance (%)	1m	3m	12m
Absolute	3.8	0.6	-22.4
Straits Times Index	-7.5	-1.2	-47.3

Stock data

Market cap (SGDm)	449
Market cap (USDm)	294
Shares outstanding (m)	1,081.8
Major shareholders	NutriAsia (79%)
Free float (%)	21
Avg daily value traded (USDm)	0.1

Key indicators (FY1)

ROE (%)	19.0
Net debt/equity (%)	9.8
Book value/share (USD)	0.20
Price/book (x)	1.4
Net interest cover (x)	6.3
Operating profit margin (%)	15.1

Deutsche Bank AG/Hong Kong

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Model updated: 24 February 2009

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

Reuters: DMPL.SI

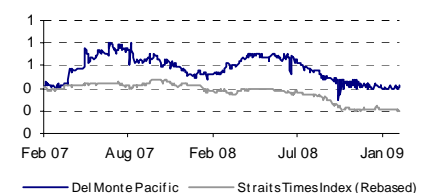
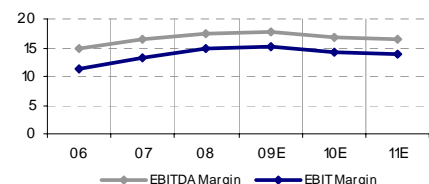
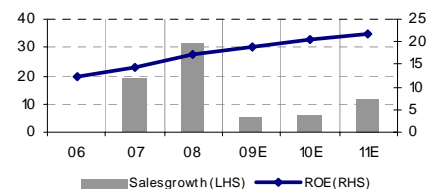
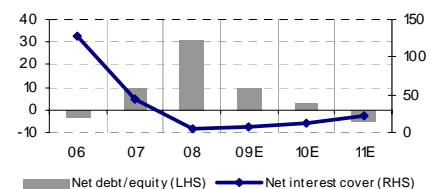
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Buy

Price (20 Feb 09)	SGD 0.42
Target price	SGD 0.58
52-week Range	SGD 0.30 - 0.71
Market Cap (m)	SGDm 449 USDm 294

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

	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (USD)	0.02	0.03	0.03	0.04	0.04	0.05
Reported EPS (USD)	0.02	0.03	0.03	0.04	0.04	0.05
DPS (USD)	0.01	0.03	0.03	0.03	0.03	0.04
BVPS (USD)	0.2	0.2	0.2	0.2	0.2	0.2
Weighted average shares (m)	1,082	1,082	1,082	1,082	1,082	1,082
Average market cap (USDm)	311	417	430	294	294	294
Enterprise value (USDm)	305	416	471	294	279	258
Valuation Metrics						
P/E (DB) (x)	14.8	14.7	11.6	7.3	6.4	5.6
P/E (Reported) (x)	14.8	14.7	11.6	7.3	6.4	5.6
P/BV (x)	1.70	1.59	1.68	1.35	1.26	1.17
FCF Yield (%)	3.3	6.0	nm	23.6	15.1	18.7
Dividend Yield (%)	5.1	6.9	6.4	10.2	11.7	13.3
EV/Sales (x)	1.3	1.4	1.2	0.7	0.7	0.5
EV/EBITDA (x)	8.5	8.7	7.1	4.1	3.9	3.3
EV/EBIT (x)	11.0	10.8	8.3	4.9	4.6	3.9

Income Statement (USDm)

	2006	2007	2008	2009E	2010E	2011E
Sales revenue	243	289	381	401	425	475
Gross profit	71	85	106	121	124	137
EBITDA	36	48	67	71	71	77
Depreciation	8	9	9	10	10	11
Amortisation	0	0	0	0	0	0
EBIT	28	39	57	61	60	66
Net interest income/(expense)	0	-1	-10	-10	-5	-3
Associates/affiliates	0	-1	-3	-2	1	1
Exceptionals/extraordinaries	0	-10	0	0	0	0
Other pre-tax income/(expense)	0	0	0	0	0	0
Profit before tax	28	37	44	49	57	64
Income tax expense	7	-1	7	9	11	12
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	21	28	37	40	46	52
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	21	28	37	40	46	52

Cash Flow (USDm)

	2006	2007	2008	2009E	2010E	2011E
Cash flow from operations	16	31	11	77	50	61
Net Capex	-5	-6	-19	-8	-6	-6
Free cash flow	10	25	-9	69	44	55
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-16	-18	-30	-28	-30	-34
Net inc/(dec) in borrowings	1	-11	39	0	0	0
Other investing/financing cash flows	-2	-33	-5	0	0	0
Net cash flow	-7	-37	-4	42	14	20
Change in working capital	102	122	155	137	143	146

Balance Sheet (USDm)

	2006	2007	2008	2009E	2010E	2011E
Cash and other liquid assets	52	15	8	50	64	84
Tangible fixed assets	79	68	66	64	59	54
Goodwill/intangible assets	0	0	0	0	0	0
Associates/investments	0	22	23	22	23	24
Other assets	136	217	248	253	265	286
Total assets	266	322	346	388	411	448
Interest bearing debt	46	36	71	71	71	71
Other liabilities	46	65	70	100	107	127
Total liabilities	92	101	141	171	178	198
Shareholders' equity	174	221	205	217	233	251
Minorities	0	0	1	1	1	1
Total shareholders' equity	174	221	206	218	234	252
Net debt	-5	21	63	21	7	-13

Key Company Metrics

	2006	2007	2008	2009E	2010E	2011E
Sales growth (%)	nm	18.9	31.8	5.1	6.0	11.7
DB EPS growth (%)	na	34.7	30.7	8.2	14.3	13.7
EBITDA Margin (%)	14.7	16.6	17.5	17.7	16.7	16.3
EBIT Margin (%)	11.4	13.3	14.9	15.1	14.2	13.9
Payout ratio (%)	75.1	102.3	74.8	75.0	75.0	75.0
ROE (%)	12.1	14.3	17.4	19.0	20.4	21.6
Capex/sales (%)	2.2	2.2	5.1	2.0	1.4	1.3
Capex/depreciation (x)	0.7	0.7	2.0	0.8	0.6	0.5
Net debt/equity (%)	-3.1	9.3	30.6	9.8	3.1	-5.3
Net interest cover (x)	127.7	44.8	5.7	6.3	12.9	22.1

Source: Company data, Deutsche Bank estimates

Highlight of FY08 results

Beverages lead to growth in revenue

Figure 1: FY08 results breakdown

USDm	FY07	FY08	YoY
Sales	289.4	381.5	31.8%
Cost of Services	(214.0)	(285.2)	33.3%
Gross Profit	75.4	96.2	27.6%
Other Operating Income	0.0	0.0	na
Other Operating Expenses	(36.8)	(39.3)	6.8%
EBIT	28.3	56.9	101.0%
Non-Operating Income	0.0	0.0	na
Interest Income	2.4	1.4	-43.1%
Interest Expense	(3.2)	(11.4)	nm
Share of Associates' or JV Income	(0.6)	(3.1)	nm
Exceptional Gains/(Losses)	10.3	0.0	nm
Pretax Profit	37.2	43.9	18.1%
Tax	1.5	(6.9)	nm
Minority Interests	0.0	0.0	na
Core net profit	28.3	37.0	30.7%

Source: Deutsche Bank, Company Data

FY08 revenue rose by 31.8% YoY to US\$381.5m on strong sales in the Philippine market, which grew by 37% due mainly to its juice drink Del Monte Fit n' Right a lifestyle beverage. The beverage segment accounted for 37.9% YoY of FY08 turnover and increased 57.1% YoY to US\$144.5m with gross profit rising 75.1% YoY to US\$37.1m, while operating profit more than doubled to US\$22.3m.

The process segment grew by 18.3% YoY to US\$229.6m due to higher sales in Europe and North America, and S&W's full-year contribution. The S&W brand contributed sales of US\$7.4m in FY08 on new business of branded fresh pineapples, higher sales from Singapore, HK, and Japan. The brand also expanded into Korea and the Philippines. Higher sales led to a 15.3% YoY increase to US\$57.7m in gross profit, while operating profit increased by 17.8% YoY to US\$33.6m.

The company increased its store coverage by 37.5% YoY to 88,000 stores in 2008 and is on track to cover 140,000 stores in FY10E. We believe the increase in store coverage and penetration should help drive sales growth for the company.

Business update

Economic outlook

Deteriorating economic growth could pose further risks to growth. DB has recently cut Philippines GDP growth to 2.7% and 3.5% for 2009-10E from 3.3% and 4.3%. The Philippines market accounts for 40-50% of the company's revenue.

Based on DB's 12M currency forecasts, we expect the Peso to strengthen against the USD from current levels of 47.1 PHP/USD to 45.5, which should be favorable to Asia Pacific as Peso sales translated using strong PHP/USD rate generate higher sales in USD terms. However, DMPL's market in Europe and North America will be negatively affected; as predominantly PHP costs translated using strong PHP/USD rate generates higher costs in USD. Currency impact from turnover in Asia Pacific, Europe, and North America totaled US\$7.3m in FY08.

Beneficiary of lower packaging costs and inflationary easing

Figure 2: DB tin price forecasts

	2009E	2010E	2011E	2012E	2013ELT
USc/lb	523.8	573.8	485	500	400
USD/t	11547	12649	10692	11023	8818
%chg from previous forecast	-9.0%	8.3%	0.0%	0.0%	-11.1%

Source: Deutsche Bank

Since tin plate accounts for approximately 25% of the company's COGS, we believe falling tin prices should benefit DMPL's COGS. DB commodities team has lowered its 2009E price forecast for tin by 9.0% to US\$11547/ton. 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. We believe that the company can benefit from moderating raw material costs and have forecast margins to increase.

Update on India segment

Sales for Bharti Del Monte, a joint venture, doubled to US\$10.3m in FY08, as sales of processed products such as canned fruits and juices imported from the Philippines started. The fresh exports achieved 5% market share of UK market for baby corn. The company's strategy for the segment is geared towards 1) fresh export; 2) fresh domestic; and 3) processed domestic.

During FY08, the company divested its facility in Tamil Nadu, India to Nature's First India Pvt. Ltd at a total consideration of Indian rupees 50m, payable in cash based on an asset valuation. With the Bharti Del Monte joint venture in Sep07, the company requires a larger facility to support the Del Monte Group's development plans for the Indian market.

Valuation

We have cut our TP from S\$0.60 to S\$0.58 as we factor in DB's new cost of capital in the Philippines. We have raised our WACC from 12.6% to 13.0% due to a change in our risk-free rate from 11.8% to 11.4%, an increase in our equity risk premium from 4.7% to 5.2% and maintain our beta at 0.5. We have also used a target debt to equity of 20% and an increase cost of debt from 6.0% to 10.0%. We have maintained our terminal growth rate of 2% to be inline with the population growth rate. Our TP implies 9.9x FY09E PE and the stock is currently trading at 7.3x FY09E PE.

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 is 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	0.42 (SGD) 20 Feb 09	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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Historical recommendations and target price: Del Monte Pacific (DMPL.SI)

(as of 23/02/2009)



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	2.	13/11/2008:	Buy, Target Price Change SGD0.60
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Equity rating key Equity rating dispersion and banking relationships

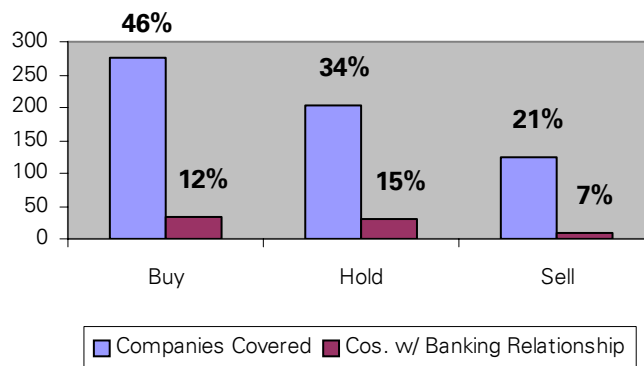
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 - Sell: Expected total return (including dividends) of -10% or worse over a 12-month period



Asia-Pacific Universe

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