

Recommendation:

BUY

Previous Call: BUY on 28 Nov 2007

Price

Previous Close	S\$0.535
Fair Value	S\$0.730
Share Price Return	36.4%

Share Statistics

Shares	1,081.8 mil
Market Cap.	S\$578.8 mil
Trailing PER	19.2x
Forward FY08 PER	14.0x
P/BV	2.3x
52-weeks Price Range	S\$0.390 – S\$0.905
52-weeks PER Range	13.2x – 30.7x
Listing Bourse	SGX-Mainboard
Major Shareholder	NutriAsia Pacific (79.9%)

Price Chart



Company Profile

Del Monte Pacific Ltd is engaged in the production, marketing, and distribution of food products and beverages. It owns the premium Del Monte brand in the Philippines and has the exclusive right to produce and market its food and beverage products under the Del Monte brand in the Indian sub-continent.

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Del Monte Pacific Limited

Great opportunity to accumulate

9 January 2008

Excellent opportunity to accumulate. We believe the recent market weakness spells a great chance for value investors to accumulate Del Monte Pacific Limited ("DMPL" or the "Company"). We remind investors that DMPL's 9MFY07 results showed a 28.5% YoY growth in net profit to reach US\$15.3 million. Given that the fourth quarter is historically the strongest quarter for the Company, we firmly believe that DMPL is on track to outperform its FY06 results. In doing so, FY07 will see DMPL registering a second successive year of profit growth since 2005.

Growth catalysts in place. We reiterate our view that the catalysts for DMPL are in place to bring the Company to the next stage of growth. While the strong domestic Philippines market remains the main cash generator for DMPL, we are also particularly optimistic on the outlook for (i) the private labels and industrial customers in Asia ex-Japan and (ii) the domestic Indian market:

(i) With the ability to sell directly to private labels and industrial clients in Asia ex-Japan (after the newly negotiated supply contract with Del Monte Asia), we see tremendous potential for growth, especially in the supply of fruits and fruit juices. Our view is reinforced by the fact that DMPL has about 20% of global market share for processed pineapples, access to a great variety of temperate Chinese fruits (such as apples, pears, strawberries, etc) through its wholly-owned subsidiary, Great Lakes Fresh Foods and Juice Company Ltd, and access to a huge supply of mangoes from India (which has ~40% of global production).

(ii) The domestic Indian market should see a boost in both its top and bottom lines as a result of the 40.1% stake in FieldFresh Foods Pte Ltd ("Field Fresh"). FieldFresh is a joint venture company with Bharti Enterprises India Ltd ("Bharti"), a huge conglomerate in India with its own retail arm. We expect DMPL to benefit from Bharti's understanding of the Indian consumer pattern and to tap on its distribution network to penetrate deeper and wider into the Indian domestic market. Although we do not think we will see a huge jump in revenue contribution from the Indian domestic market in the near term (over the next 2 years), we are confident of its potential growth over a longer term.

Comments on the depreciation of US currency versus the Philippine peso. As DMPL's reporting currency is in the US dollar and most of its costs are denominated in the Philippine peso, depreciation of US dollars versus the peso may lead to higher costs (in US dollar term) and hence lower margins. However, as the Philippines domestic market is the largest earnings generator for DMPL, the revenue generated in peso, when translated to US dollar, will to some extent offset the peso-denominated costs. As such, while the falling US dollar against the peso may have some negative effect on the Company's bottom line, we believe it will be minimal. Overall, DMPL uses foreign currency borrowings and natural hedges to minimise foreign currency exposure.

Reiterate our BUY recommendation. We believe that current negative market sentiment spells a good opportunity for value-investors to accumulate this counter. Our fair value estimate of S\$0.73 is derived from our dividend discount model (with valuation assumptions spelled below) which translates to a FY08 P/E of 19.2x and P/B of 2.9x. Finally, we believe the high teen forward P/E is warranted in view of DMPL's premium brand name (in Del Monte and S&W) and strong cash generating domestic (Philippines) market.

Key Financial Data (Financial Year Ended 31st Dec.)	FY05A	FY06A	FY07E	FY08E	FY09E
Total Turnover (US\$m)	222.4	243.4	274.4	327.9	378.1
EBITDA (US\$m)	36.9	39.7	42.6	48.0	52.7
EBITDA Margin (%)	16.6	16.3	15.5	14.6	13.9
EBIT (US\$m)	26.7	31.6	35.6	40.4	44.6
Net Profit (US\$m)	18.8	21.0	23.6	28.7	31.4
Net Profit Margin (%)	8.4	8.6	8.6	8.8	8.3
ROE (%)	11.6	12.1	13.2	14.9	14.8
Diluted EPS (US\$ cents)	1.73	1.94	2.18	2.66	2.90
Diluted EPS (S\$ cents) [#]	2.50	2.80	3.14	3.82	4.18
BV/share (S\$ cents)	0.21	0.23	0.24	0.26	0.28
P/E (x) [*]	21.4	19.1	17.0	14.0	12.8
P/BV (x)	2.5	2.3	2.2	2.1	1.9

* Based on diluted EPS

Based on 1.00 USD to 1.44 SGD

Source: Company, Phillip Securities Research Estimates

Exhibit 1: DDM Valuation.

Parameters	FY06-12	Steady Growth	Remarks
Beta	1.00	0.90	Assumed lower beta during steady growth stage.
Risk Free Rate	2.41%	2.41%	
Market Risk Premium	9.99%	6.09%	Assumed lower premium during steady growth stage.
Cost of Equity	12.40%	7.89%	
Implied EPS Growth (CAGR) over FY06-12	13.19%		
Steady Growth Rate		3.50%	= ROE x Retention Rate. Assumed ROE of 14% & Payout Ratio 75%.

DDM	FY06	FY07E	FY08E	FY09E	FY10E	FY11E	FY12E	Terminal
EPS (US cents)	1.94	2.18	2.66	2.90	3.30	3.69	4.09	4.23
Payout Ratio	75.1%	75.0%	50.0%	33.0%	33.0%	33.0%	33.0%	75.0%
DPS (US cents)	1.46	1.63	1.33	0.96	1.09	1.22	1.35	3.17
Cost of Equity	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%	12.40%	7.89%
PV		1.45	1.05	0.67	0.68	0.68	0.67	
PV of Terminal Value								45.83
Total PV (US\$)	0.51							
Total PV (S\$)	0.73							

Conversion Rate (USD to SGD): 1.44

Source: Phillip Securities Research Estimates

Financials

Financial Year Ended 31st Dec.

Profit and Loss (in US\$ m)	FY05A	FY06A	FY07E	FY08E	FY09E
Revenue	222.4	243.4	274.4	327.9	378.1
Cost of Sales	(163.8)	(180.6)	(204.9)	(245.5)	(284.9)
Gross Profit	58.6	62.8	69.5	82.4	93.2
Profit before Income Tax	22.5	27.6	30.8	35.0	38.3
Profit after Income Tax	18.5	21.0	23.6	28.7	31.4
Minority Interests	(0.3)	-	-	-	-
Profit Attributable to Equity Holders	18.8	21.0	23.6	28.7	31.4
Diluted EPS (US\$ cents)	1.73	1.94	2.18	2.66	2.90
Diluted EPS (S\$ cents)*	2.50	2.80	3.14	3.82	4.18

Balance Sheet (in US\$ m)	FY05A	FY06A	FY07E	FY08E	FY09E
<i>Non-Current Assets</i>					
Property, Plant & Equipment	54.6	56.2	59.1	62.2	64.9
Other Non-Current Assets	21.1	22.7	53.4	53.1	52.8
<i>Current Assets</i>					
Cash & Cash Equivalents	60.1	51.5	8.3	17.2	28.2
Trade Receivables	32.4	46.1	57.6	65.6	75.6
Inventories	46.1	45.2	61.5	71.2	82.6
Other Current Assets	40.1	44.5	45.4	46.5	47.6
Total Assets	254.4	266.3	285.3	315.7	351.7
<i>Current Liabilities</i>					
Short Term Debt	42.8	44.6	52.1	62.3	72.1
Trade & Other Payables	38.8	33.7	36.9	44.2	51.3
Other Current Liabilities	1.8	4.1	7.2	6.3	6.9
<i>Non-Current Liabilities</i>					
Long Term Debt	2.4	1.5	1.5	1.5	1.5
Other Non-Current Liabilities	7.8	8.5	8.5	8.5	8.5
<i>Capital and Reserves</i>					
Minority Interest	(0.3)	-	-	-	-
Shareholder's Equity	161.2	173.9	179.1	193.0	211.4
Total Liabilities & Equity	254.4	266.3	285.3	315.7	351.7

Cashflow Statement (in US\$ m)	FY05A	FY06A	FY07E	FY08E	FY09E
Profit for the Year	18.5	21.0	23.6	28.7	31.4
Net Cash generated from Operating Activities	13.9	9.6	10.3	28.8	30.0
Net Cash used in Investing Activities	(5.6)	(3.7)	(37.8)	(9.8)	(9.4)
Net Cash generated from Financing Activities	(9.3)	(18.9)	(15.7)	(10.1)	(9.6)
Net Effect of Ex. Rate Changes	3.5	4.5	-	-	-
Net Inc./ (Dec.) in Cash & Cash Equivalents	2.6	(8.6)	(43.2)	8.9	11.0
Cash & Cash Equivalents at Beginning of Year	57.5	60.1	51.5	8.3	17.2
Cash & Cash Equivalents at End of Year	60.1	51.5	8.3	17.2	28.2

* Based on 1.00 USD to 1.44 SGD

Source: Company, Phillip Securities Research Estimates

Ratings History

Del Monte Pacific Limited

Rating	Date	Closing price (S\$)	Fair value (S\$)	Remarks
BUY	12 Nov 2007	0.575	0.720	Initiating Coverage
BUY	28 Nov 2007	0.590	0.730	Update
BUY	08 Jan 2008	0.535	0.730	Short Note

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	HOLD	Trade within \pm 15% from the current price
	SELL	>15% downside from the current price
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