

Recommendation:

BUY

Previous Call: BUY on 8 Jan 2008

Price

Previous Close	S\$0.615
Fair Value	S\$0.860
Share Price Return	39.2%

Share Statistics

Shares	1,081.8 mil
Market Cap.	S\$665.3 mil
Trailing PER	12.3x
Forward FY08 PER	14.6x
P/BV	2.1x
52-weeks Price Range	S\$0.390 – S\$0.905
52-weeks PER Range	9.1x – 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

Exceeding expectation

4 March 2008

FY07 results synopsis. Del Monte Pacific Limited (“DMPL” or the “Group”) reported a strong set of results for FY07 (year ended 31 Dec 2007), which exceeds our expectation. DMPL posted record revenues of US\$289.4 million for FY07, up 18.9% YoY. Net profit for FY07, inclusive of a one-time deferred tax benefit, was US\$38.6 million, up 83.5% YoY. Excluding the tax benefit, the Group’s net profit for FY07 was US\$28.8 million, up 36.9% YoY (our bottomline estimate for FY07 was US\$23.6 million). On a per share basis, DMPL registered an Earnings Per Share (“EPS”) of 3.57 US cents, inclusive of the one-time tax gain (EPS stands at 2.66 US cents if exclude the one-time tax benefit). Finally, DMPL also announced a final dividend of 1.95 US cents per share (~2.79 Singapore cents per share), representing a 75% payout of 2HFY07’s net profit.

The domestic Philippine market remains a major driver. The sterling results reflect the ramping up of sales in the domestic Philippine market through various growth initiatives (such as the launch of the juice drink *Fit ‘n Right*, in both single-serve cans and PET bottles formats, marketed as a lifestyle beverage which aids weight loss). Besides, the Group also shifted from two national distributors in the Philippines to 18 regional distributors. As a result, DMPL saw its store coverage increased from 28,000 stores in May 2007 to 64,000 stores by end of 2007. The broader store coverage will not only aid in strengthening DMPL’s reach in the Philippine market, but also lend support to its new products launches in the future.

Focus for 2008. We believe DMPL will continue its growth momentum in the strong cash-generating domestic Philippine market. We also believe DMPL will, through the S&W brand, expand its products to a wider geographical reach (recall that DMPL can sell its products through the Del Monte brand only in the Philippines and Indian sub-continent). FY08 should also see the Group making further progress in terms of market reach in India through FieldFresh, the joint venture with India’s Bharti Group.

Reiterate our BUY recommendation. We believe that DMPL is hugely undervalued in view of its tremendous growth potential and strong cash-generating domestic Philippine market. Our fair value estimate of S\$0.87 is derived from our dividend discount model (with valuation assumptions spelled out in Exhibit 3), which translates to a FY09 P/E of 17.7x and P/B of 2.7x. Since we initiated coverage on DMPL (on 12 Nov 2007), the liquidity of this counter has massively improved while volatility has remained low despite the current market condition. We believe DMPL spells a good long term investment for value-investors who are seeking for quality companies in the midst of present tumultuous market condition.

Key Financial Data (Financial Year Ended 31st Dec.)	FY06A	FY07A	% ch	FY08E	FY09E	FY10E
Total Turnover (US\$m)	243.4	289.4	18.9	339.3	393.7	446.8
EBITDA (US\$m)	39.7	50.2	26.7	54.0	60.4	65.4
EBITDA Margin (%)	16.3	17.4	1.1 ppt	15.9	15.3	14.6
EBIT (US\$m)	31.6	41.0	29.5	45.3	51.4	56.1
Net Profit (US\$m)	21.0	38.6	83.5	32.5	37.4	40.9
Net Profit Margin (%)	8.6	13.3	4.7 ppt	9.6	9.5	9.2
Net Profit (Less Non-Recurring Item) (US\$m)	21.0	28.8	36.9	32.5	37.4	40.9
Net Profit (Less Non-Recurring Item) Margin (%)	8.6	10.0	1.3 ppt	9.6	9.5	9.2
ROE (%)	12.1	17.5	5.4 ppt	14.6	15.2	14.9
Diluted EPS (US\$ cents)	1.94	3.57	83.5	3.00	3.46	3.78
Diluted EPS (Less Non-Recurring Item) (US\$ cents)	1.94	2.66	36.9	3.00	3.46	3.78
Diluted EPS (S\$ cents) [#]	2.72	4.99	83.5	4.21	4.84	5.29
Diluted EPS (Less Non-Recurring Item) (S\$ cents) [#]	2.72	3.73	36.9	4.21	4.84	5.29
BV/share (S\$ cents)	0.23	0.29	27.1	0.29	0.32	0.35
P/E (x) [*]	22.6	12.3	NM	14.6	12.7	11.6
P/BV (x)	2.7	2.1	NM	2.1	1.9	1.7

* Based on diluted EPS

[#] Based on 1.00 USD to 1.40 SGD

NM = Not Meaningful

Source: Company, Phillip Securities Research Estimates

Segmental Details

Quick takeaways from FY07 results. As evidenced by the FY07 results, we expect DMPL's future growth drivers to come from the Asia Pacific region. As contributions from the North American and the European markets dwindle (see Exhibit 1), we expect stronger growth (in terms of turnover and net earnings) to emerge from the Asia Pacific markets. Especially with the recently acquired S&W brand, DMPL now has another avenue to directly market its products in the Asia Pacific region outside the usual Philippine market and Indian sub-continent. Also, the Bharti joint venture (through FieldFresh) should help DMPL in penetrating deeper into the domestic Indian market by tapping on Bharti's extensive distribution network and consumer knowledge.

Exhibit 1: Summary of FY07 Results by Geography.

Region	Turnover (US\$m)		YoY Change	PBIT (US\$m)		YoY Change	Remarks
	FY06	FY07		FY06	FY07		
Asia Pacific	162,958.0	212,406.0	30.3%	21,268.0	35,293.0	65.9%	<ul style="list-style-type: none"> Asia Pac. region accounted for 73% of DMPL's FY07 turnover. Driven largely by the Philippine market on account of better pricing, volume, and various growth initiatives. Other Asia Pac. markets (incl. India) performed well. China's Great Lakes was in a loss position (~US\$1.6m loss) but was more than offset by strong domestic Philippine market.
Europe & N. America	80,433.0	77,029.0	-4.2%	7,354.0	2,324.0	-68.4%	<ul style="list-style-type: none"> The region accounted for 27% of Group's total turnover in FY07. Europe registered higher sales (up by 4%) while sales in N. America declined (down by 8%). PBIT dropped due to lower sales and unfavourable impact of Peso appreciation (against USD) on costs.
Total	243,391.0	289,435.0	18.9%	28,622.0	37,617.0	31.4%	
PBIT Margin				11.8%	13.0%	1.2 ppt	

Exhibit 2: Summary of FY07 Results by Product Segments.

Product Segments	Turnover (US\$m)		YoY Change	PBIT (US\$m)		YoY Change	Remarks
	FY06	FY07		FY06	FY07		
Processed Products	165,770.0	194,076.0	17.1%	22,415.0	27,783.0	23.9%	<ul style="list-style-type: none"> Processed products accounted for 67% of Group's turnover. Driven mainly by the 34% increase in sales of tomato-based products and 13% increase in sales for processed pineapples. PBIT was up due to higher sales and better margins.
Beverages	72,545.0	91,973.0	26.8%	6,732.0	9,068.0	34.7%	<ul style="list-style-type: none"> Beverages accounted for 32% of Group's turnover. The segment saw a 37% increase in juice sales and an 8% improvement in concentrate sales. The Philippine market was the main driver for the increase in juice sales while Europe was a major contributor to the improvement in concentrate sales.
Non-Processed Products	5,076.0	3,386.0	-33.3%	(525.0)	766.0	145.9%	<ul style="list-style-type: none"> Lower sales volume for fresh pineapples and cattle. Lower sales volume was offset by better products pricings.
Total	243,391.0	289,435.0	18.9%	28,622.0	37,617.0	31.4%	
PBIT Margin				11.8%	13.0%	1.2 ppt	

Source: Company, Phillip Securities Research

Valuation and Recommendation

Still a BUY in view of strong operating cash flow and growth potentials. Our fair value is arrived at using the dividend discount model (DDM). The fair value of estimate of S\$0.86 translates to a FY09 P/E of 17.7x and P/B of 2.7x. We reiterate our BUY recommendation on DMPL in view of its growth initiatives and strong operating cash flow (in excess of US\$31 million in FY07).

Exhibit 3: DDM Valuation.

Parameters	FY07-12	Steady Growth	Remarks
Beta	1.00	0.85	Assumed lower beta during steady growth stage.
Risk Free Rate	3.00%	3.00%	
Market Risk Premium	9.67%	5.50%	Assumed lower premium during steady growth stage.
Cost of Equity	12.67%	7.68%	
Implied EPS Growth (CAGR) over FY07-12	4.47%		
Steady Growth Rate		3.50%	= ROE x Retention Rate. Assumed ROE of 14% & Payout Ratio 75%.

DDM	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	Terminal
EPS (US cents)	3.57	3.00	3.46	3.78	4.03	4.39	
Payout Ratio	75.0%	50.0%	33.0%	33.0%	33.0%	33.0%	75.0%
DPS (US cents)	2.68	1.50	1.14	1.25	1.33	1.45	
Cost of Equity	12.67%	12.67%	12.67%	12.67%	12.67%	12.67%	7.68%
PV		1.33	0.90	0.87	0.82	0.80	
PV of Terminal Value							56.44
Total PV (US\$)		0.61					
Total PV (S\$)		0.86					

Conversion Rate (USD to SGD): 1.40

Source: Phillip Securities Research Estimates

Financials

Financial Year Ended 31st Dec.

Profit and Loss (in US\$ m)	FY06A	FY07A	FY08E	FY09E	FY10E
Revenue	243.4	289.4	339.3	393.7	446.8
Cost of Sales	(180.6)	(214.0)	(251.4)	(292.7)	(334.1)
Gross Profit	62.8	75.4	87.9	101.0	112.6
Profit before Income Tax	27.6	37.1	39.6	45.6	49.9
Profit after Income Tax	21.0	38.6	32.5	37.4	40.9
Profit after Income Tax (Less Non-Recurring Item) (US\$m)	21.0	28.8	32.5	37.4	40.9
Minority Interests	-	-	-	-	-
Profit Attributable to Equity Holders	21.0	38.6	32.5	37.4	40.9
Diluted EPS (US\$ cents)	1.94	3.57	3.00	3.46	3.78
Diluted EPS (Less Non-Recurring Item) (US\$ cents)	1.94	2.66	3.00	3.46	3.78
Diluted EPS (S\$ cents)*	2.72	4.99	4.21	4.84	5.29
Diluted EPS (Less Non-Recurring Item) (S\$ cents)*	2.72	3.73	4.21	4.84	5.29

Balance Sheet (in US\$ m)	FY06A	FY07A	FY08E	FY09E	FY10E
<i>Non-Current Assets</i>					
Property, Plant & Equipment	56.2	68.4	70.7	72.6	72.2
Other Non-Current Assets	22.7	55.3	54.2	53.8	53.5
<i>Current Assets</i>					
Cash & Cash Equivalents	51.5	15.0	12.8	20.6	45.8
Trade Receivables	46.1	64.4	67.9	78.7	84.9
Inventories	45.2	61.5	72.9	84.9	96.9
Other Current Assets	44.5	57.4	50.5	51.7	52.9
Total Assets	266.3	321.9	329.0	362.4	406.2
<i>Current Liabilities</i>					
Short Term Debt	44.6	34.8	46.2	53.6	61.0
Trade & Other Payables	33.7	60.8	50.3	52.7	60.1
Other Current Liabilities	4.1	3.4	7.1	8.2	9.0
<i>Non-Current Liabilities</i>					
Long Term Debt	1.5	0.8	1.0	1.0	1.0
Other Non-Current Liabilities	8.5	1.1	1.1	1.1	1.1
<i>Capital and Reserves</i>					
Minority Interest	-	-	-	-	-
Shareholder's Equity	173.9	221.1	223.3	245.8	273.9
Total Liabilities & Equity	266.3	321.9	329.0	362.4	406.2

Cashflow Statement (in US\$ m)	FY06A	FY07A	FY08E	FY09E	FY10E
Profit for the Year	21.0	38.6	32.5	37.4	40.9
Net Cash generated from Operating Activities	15.7	31.3	28.5	30.9	44.3
Net Cash used in Investing Activities	(3.7)	(36.5)	(9.6)	(9.7)	(7.4)
Net Cash generated from Financing Activities	(18.9)	(32.0)	(21.0)	(13.3)	(11.7)
Net Effect of Ex. Rate Changes	(1.6)	0.6	-	-	-
Net Inc./(Dec.) in Cash & Cash Equivalents	(8.6)	(36.6)	(2.1)	7.8	25.2
Cash & Cash Equivalents at Beginning of Year	60.1	51.5	15.0	12.8	20.6
Cash & Cash Equivalents at End of Year	51.5	15.0	12.8	20.6	45.8

* Based on 1.00 USD to 1.40 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
BUY	04 Mar 2008	0.615	0.860	FY07 Results

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