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**Singapore
Consumer**

Not all sweet in Europe

We have been receiving queries on European exposure of two Sing-listed consumer companies as the continent is facing a slowdown. While Petra Foods acquired its European business and is facing start up risks, Del Monte Pacific has recently revamped its export contracts to protect its margins. Given the opportunities available to the two companies, Del Monte is more shielded from a slower European economy.

Eastern Europe is still growing

- Our Economics team expects a slowdown in European growth to 0.9% and 1.1% for 2008-09 respectively.
- The consumption of packaged food grew at 1.7% last year, but this was largely driven by Eastern Europe.
- However, the latter only accounts for 21% of the total European packaged food market that is worth US\$620bn (Source: Euromonitor, 2007) and has room for further growth.

Del Monte Pacific - Asian business to drive growth

- Although Del Monte Pacific (DELM SP – S\$0.66 – BUY) does not separate sales figures between US and Europe, we estimate the latter to account for 15% of sales and 3% of EBIT.
- While sales of canned products to European customers have slowed, the acquisition of the S&W brand allows the company to enter Eastern Europe.
- We like the domestic business in Philippines and change in business model.

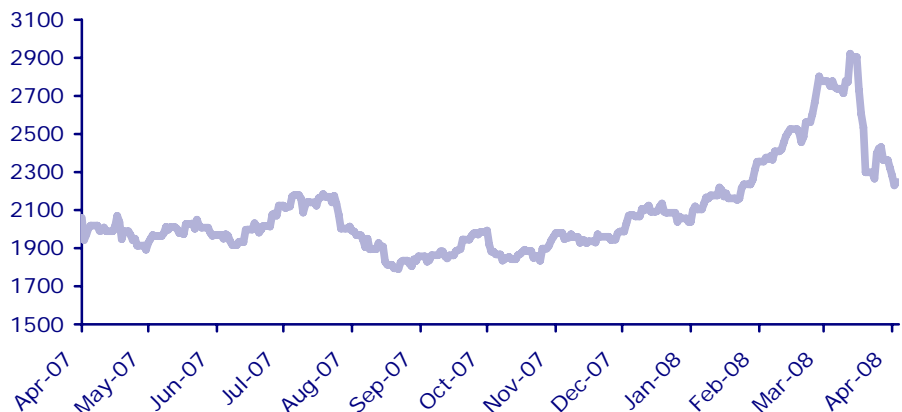
Petra Foods – Still turning around in Europe

- Petra Foods (PETRA SP – S\$1.27 – UPF) added US\$200m in revenue in FY07, after acquiring the European cocoa production facilities.
- In the event of economic slowdown, profitability in the continent for FY09 may be lower than expected.
- The 25% decline of cocoa futures from its high in Feb 08 provides some relief to margin concerns.

Pineapples over chocolate

- We like Del Monte for the integrated business model which limits exposure to high raw material costs.
- Petra Food's European turnaround may take longer, but domestic branded chocolate sales still provide stable earnings growth.
- Maintain BUY for Del Monte, and expect Petra Foods to UPF.

Cocoa futures are not so volatile

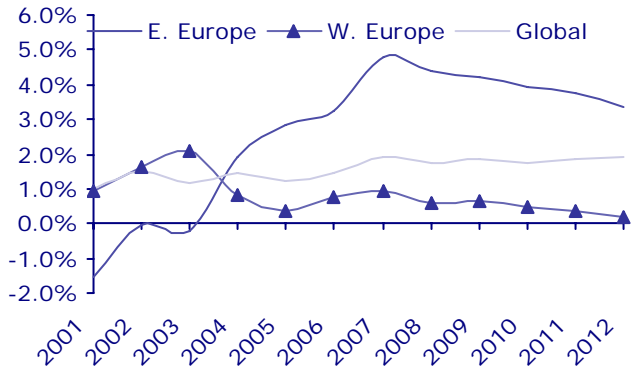


Eastern Europe is still growing

We expect the Europe's economy to slowdown to 0.9% in 2008 before rising up to 1.1% in 2009. The continent accounts for 39% of the estimated US\$1.6trn packaged food industry, which ranges from canned products to confectionery. While the consumption of packaged food has been flat in the Euro zone, the eastern part of the continent increased consumption by 10% in FY07 (Source: Euromonitor). Growth in central and eastern Europe is estimated to be 5%, vs western 2% (Source: IMF).

Figure 1

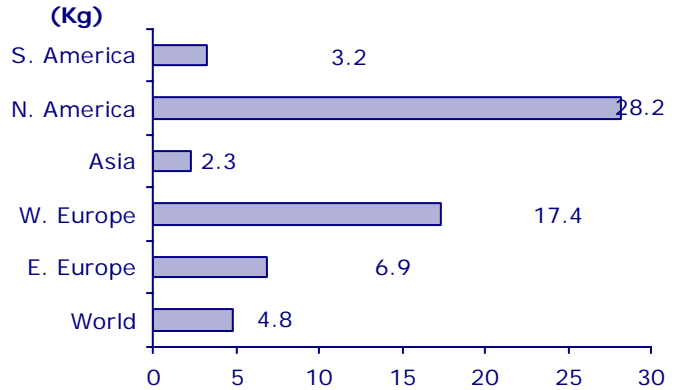
Canned food: Consumption growth



Source: Euromonitor

Figure 2

Canned food: 2007 per capita consumption



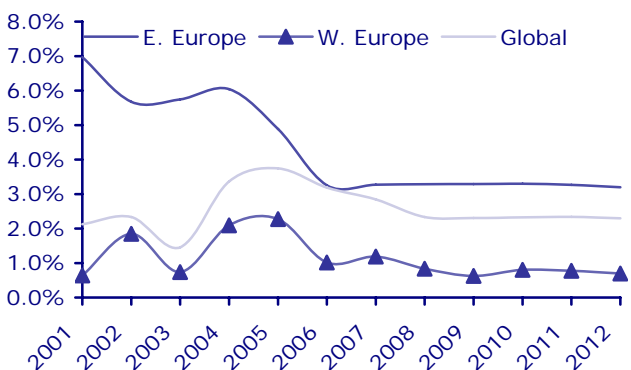
Canned and preserved products

Packaged products in the form of cans are some of the oldest methods in preserving and keeping food for long periods of time. However, given the current popularity of fresh produce, the demand for canned products has largely plateaued in developed countries. The demand for canned food is still high in developing countries, especially in rural areas where refrigerated storage is limited. However, North America and Eastern Europe still have the highest per capita consumption of 28.2 and 17.4 kg respectively, compared to 4.8% globally.

In Europe, we are expecting demand for these products to grow 4.4% in the eastern and central regions in FY08. The per capita consumption of canned products in Eastern Europe is 6.9 kg, less than half of its western neighbours. Del Monte Pacific's is eyeing the Eastern Europe canned product market as an entry point.

Figure 3

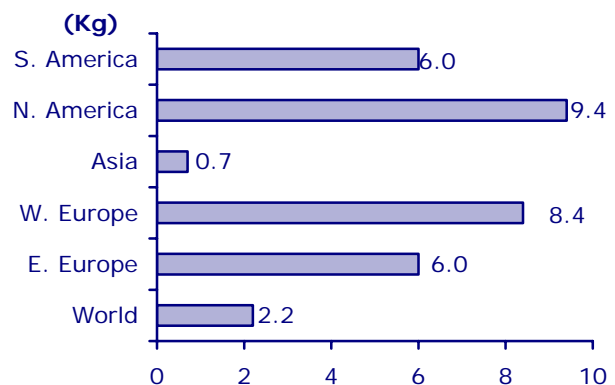
Confectionery: Consumption growth



Source: Euromonitor

Figure 4

Confectionery: 2007 per capita consumption



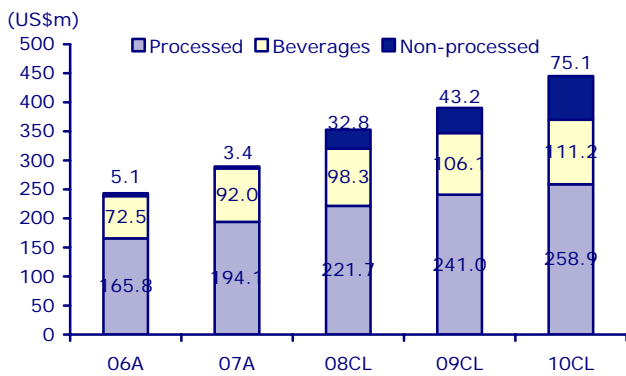
Confectionery

Sweets, lollipops, chocolate and other sweet snack foods fall into the category of confectionery. Again, North America and Western Europe’s per capita consumption of 9.4 and 8.4kg dwarf the global average of 2.2kg. Eastern Europe, however, is not too far behind where 6kg of confectionery is consumed per capita.

Confectionery consumption in Eastern Europe will grow at 3.3% in the next three years, but flat for the rest of the continent. The fastest growth in consumption will come from Asia, expecting to grow an average of 5.5% in the same period. Petra Foods is banking on Europe’s high per capita consumption of confectionery to drive its cocoa ingredients business.

Figure 5

DELM’s revenue breakdown



Source: CLSA Asia-Pacific Markets

Figure 6

DELM financials

Year to 31 December	2006A	2007A	2008CL	2009CL	2010CL
Revenue (US\$m)	243	289	353	390	445
Net profit (US\$m)	21	39	37	42	49
EPS (US¢)	1.95	3.62	3.40	3.93	4.57
CLSA/consensus			1.00	1.01	0.99
EPS change (%)	12.1	85.6	(6.1)	15.6	16.3
PEx (@S\$0.66)	24.0	12.9	13.7	11.9	10.2
Dividend yield (%)	3.1	5.7	5.1	5.9	6.8
ROE (%)	12.6	19.8	16.2	17.8	19.6
PB (x)	2.91	2.29	2.18	2.07	1.95
Net gearing (%)	(3)	9	18	20	26
EV/Op Ebitda (x)	13.9	11.0	9.2	8.2	7.3

Del Monte Pacific (DELM SP – S\$0.66 – BUY)

We estimate sales to Europe account for 15% of sales and 3% of EBIT, which is small. While sales of canned products to European customers have slowed despite getting better contract terms now, the acquisition of the S&W brand allows the company to enter Europe directly. However, Europe is not the only opportunity that the company has lined up. We like the domestic business in Philippines, opportunities in India and structural changes to business model.

Europe not the only potential

The acquisition of the S&W brand opens growth opportunities for Del Monte Pacific in Asia and Europe, where the company does not have rights to sell canned products under the Del Monte brand. S&W is estimated to have sales of up to US\$10m in revenue for FY08, but we expect the business to breakeven for the next two years.

Philippines and fruit businesses to drive growth

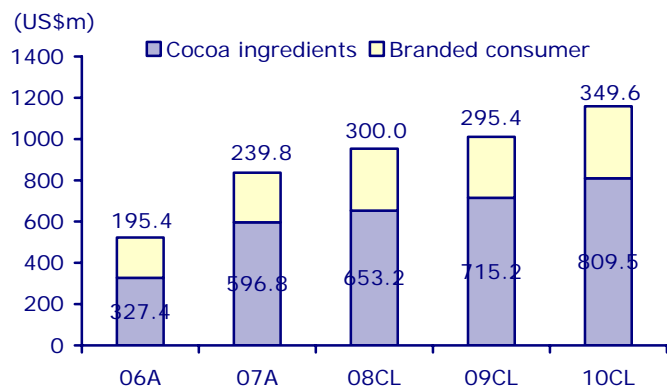
While the biggest opportunity the S&W brand provides DMPL is the canned products in Asia, it is the fresh fruit business that is interesting. Del Monte Pacific now has the rights to market fruits in Asia after revising supply contracts with Del Monte Asia (Kikkoman), but not under the Del Monte brand.

Re-iterate BUY, tp: S\$0.78

We value Del Monte Pacific at a 12-mth price target of S\$0.78, based on DCF. With strong growth potential from business initiatives and better contractual terms, the outlook looks positive for the company. We believe the structural changes in the business bodes well for DMPL. With 27% upside to our price target, we maintain BUY.

Figure 7

PETRA's sales breakdown



Source: CLSA Asia-Pacific Markets

Figure 8

PETRA financials

Year to 31 December	2006A	2007A	2008CL	2009CL	2010CL
Revenue (US\$m)	523	837	953	1,011	1,159
Net profit (US\$m)	29	26	35	44	53
EPS (US¢)	5.47	4.94	6.64	8.21	9.96
CLSA/consensus			1.08	1.11	1.02
EPS change (%)	22.9	(9.7)	34.4	23.6	21.3
PEX (@S\$1.27)	17.0	18.8	14.0	11.3	9.3
Dividend yield (%)	2.2	2.2	2.9	3.5	4.3
ROE (%)	18.0	14.6	17.7	19.6	21.0
PB (x)	2.87	2.62	2.35	2.09	1.84
Net gearing (%)	67	106	111	89	75
EV/Op Ebitda (x)	14.1	16.5	12.0	9.9	8.4

Petra Foods (PETRA SP – S\$1.27 – UPF)

Despite robust sales, product mix change in both branded and food ingredient businesses have brought down overall margins. Coupled with start up costs in the European operations, we saw a decline in FY07 net profit. However, Petra Foods is banking on the European operations to be the next growth driver.

European business needs to turn around

The European operations contributed US\$200m revenue in FY07 and 24% of total sales. We expect breakeven in FY08 as Petra upgrade its facilities to increase and improve upon the variety of cocoa based products currently coming out of the factory. The risk of a turnaround in FY09 is if Petra can not expand into higher end cocoa products and gain market share from its existing customers. The key strength that the company has is strong relationship with most of the global chocolate manufactures.

Indonesia still biggest contributor

The branded consumer business remains strong, growing around 20% at sales and EBIT levels. This is largely driven by the introduction of new products in and increased distribution of third party products in key markets. The 25% decline in cocoa futures from its high in Feb 08 provides some relief to margin pressures in the branded consumer business, although prices of sugar and milk are still high.

Maintain UPF, tp: S\$1.25.

Petra Food's biggest potential lies in the European chocolate ingredient operations, but start-up risks remain high, especially when the global economy is seeing signs of slowdown while commodity prices are still high.

Key to CLSA investment rankings: BUY = Expected to outperform the local market by >10%; O-PF = Expected to outperform the local market by 0-10%; U-PF = Expected to underperform the local market by 0-10%; SELL = Expected to underperform the local market by >10%. Performance is defined as 12-month total return (including dividends).

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