Del Monte Pacific

S$0.57 - BUY

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Singapore
Consumer

Reuters	DMPL.SI
Bloomberg	DELM SP

Priced on 12 March 2008
STI @ 2,860.9

12M hi/lo S$0.90/0.39

12M price target	S$0.78
±% potential	+37%
Target set on	5 Mar 08
Shares in issue	1,081.8m
Free float (est.)	21.0%
Market cap	US$445m

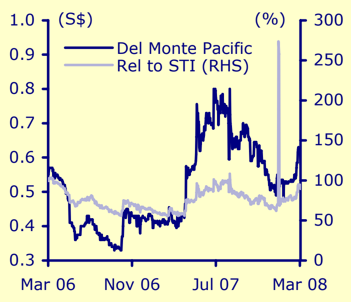
3M average daily volume
S$0.5m (US$0.4m)

Major shareholders
NutriAsia 79.0%

Foreign s'holding 20.0%

Stock performance (%)

	1M	3M	12M
Absolute	6.5	9.6	37.3
Relative	9.0	35.3	49.6
Abs (US$)	9.0	14.0	51.3



Source: Bloomberg

www.clsa.com

Fruitful endeavours

Philippines-based Del Monte Pacific has turned around in the past two years after being acquired by NutriAsia. New-product initiatives and cost-cutting measures have led to margin expansion - after five years of contraction - for this market leader in processed food and beverages. The addition of a fresh-fruit business, and export opportunities provide critical growth potential. With 37% implied upside to our DCF-derived target price of S$0.78, we initiate coverage with a BUY recommendation.

New direction
A market leader in processed food and sauces in the Philippines, Del Monte Pacific was acquired by NutriAsia in 2006. The new management team has set out to turn the company around by improving supply contracts, increasing the product range and expanding beyond the Philippines. Del Monte Pacific operates one of the world's largest pineapple plantations, at 19,000 hectares, with a canned-pineapple production facility alongside, while outsourcing other processed products to third-party packers.

Strong growth potential
We estimate a net profit Cagr of 20% in 2008-10 on higher sales volume, margin expansion through recent supply-contract amendments and the move into the fresh-fruit business. This new venture will allow the firm to expand into Europe and Asia, where it does not own the Del Monte-brand rights. Expansion into the wider-margin fresh-fruit business is a natural transition, after obtaining the rights to supply distributors besides Del Monte Asia, which markets packaged-food products under the Del Monte brand in Asia. As the company obtains the fruit from its own plantation, supply risk is low.

Global expansion
The acquisition of the S&W brand allows Del Monte Pacific to expand overseas in all its product segments. Its FieldFresh joint venture with Bharti in India also provides growth opportunities in the fresh-fruit and vegetable business. While the potential is substantial, we expect minimal returns for the next three years during the gestation period.

Undemanding valuation
We value Del Monte Pacific at a 12-month price target of S$0.78, based on discounted cashflow. With strong growth potential from business initiatives and better contractual terms, the outlook for the company is positive. Structural changes in the business bode well for Del Monte Pacific, and with 37% implied upside to our target price, we initiate with a BUY.

Financials

Year to 31 Dec	06A	07A	08CL	09CL	10CL
Revenue (US$m)	243.4	289.4	352.8	390.2	445.1
Net profit (US$m)	21.0	39.2	36.8	42.5	49.5
EPS (US¢)	2.0	3.6	3.4	3.9	4.6
EPS (% YoY)	12.0	85.6	(6.0)	15.5	16.2
PEx (@S$0.57)	21.1	11.4	12.1	10.5	9.0
Dividend yield (%)	3.6	6.5	5.8	6.7	7.8
FCF yield (%)	(0.1)	(7.4)	1.7	4.9	4.2
ROAE (%)	12.50	19.80	16.20	17.80	19.60
Price/book (x)	2.6	2.0	1.9	1.8	1.7
Net gearing (%)	(3.11)	9.31	17.53	20.24	25.76

Source: CLSA Asia-Pacific Markets

Del Monte Pacific - S$0.57 - BUY

The business

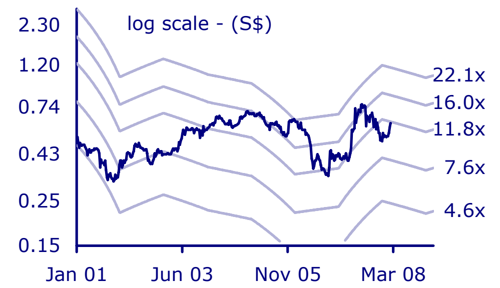
Del Monte Pacific is the market leader in processed fruit, sauces and fruit beverages in the Philippines, with an average of 80% market share in sauces and canned juices and fruits. Del Monte Pacific has the rights to Del Monte in Philippines and India, while its export business largely caters to other Del Monte-brand owners globally.

Competition & market franchise

The company is a market leader in the processed fruit, fruit juice and tomato-ketchup product segments in the Philippines, with each segment having about 80% market share. The foray into fresh-fruit and snack products will see strong competition, but the Del Monte and S&W brands that the company owns should provide good support to new products.

Valuation history

PE bands



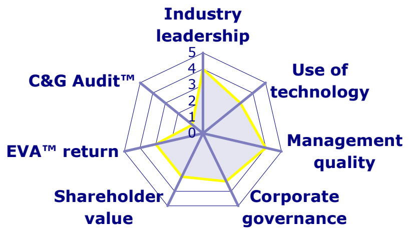
PB bands

Comment

The stock largely underperformed the market under its previous ownership, but we expect improving shareholder returns to increase the visibility of the company.

Bands (from the top): max, +1sd, avg, -1std, min.

Jet Stream® radar



Corporate governance at Del Monte Pacific

Criteria	Score	Country avg (%)	Country rank	Asia-xJ avg (%)	Sector rank
Discipline	90	57	2	61	3
Transparency	82	84	39	73	24
Independence	62	72	44	48	10
Accountability	50	28	10	33	11
Responsibility	88	51	1	50	2
Fairness	56	36	5	50	21
Social resp	20	10	14	13	14
Wtd CG score	**66**	**50**	**4/64**	**48**	**5/57**

Clean & Green Audit™

Criteria	Score
Leadership	0.00
Recognition	2.00
Disclosure	2.00
Looking to the future	0.00
C&G score/20	**3.43**

For details on methodology and scoring ranges across Asia, see our annual Clean & Green Audit report, which debuted in September 2006.

Outlook	1 year	Comment
***Jet Stream*® criteria**		
Industry leadership	✓	Market leader in the Philippines.
EVA™ return	✓	New owner has improved ROEs.
Shareholder value	✓	ROE has been above 25% for the past 10 years.
Corporate governance	✓	Lack of transparency, as the company is sensitive about competitive information.
Management quality	✓	New management has years of experience in the consumer market.
Use of technology	✓	Advanced planting methods and reduction in packaging materials.
CLSA Clean & Green Audit™	×	Emission levels are low in the manufacturing process.
Valuations		
Earnings momentum	✓	We expect 20% earnings growth in 2008-10.
Price/earnings	✓	Trading at 10.5x 09CL EPS. Discount to regional peers, with a better growth profile.
Price/book value	✓	Trading at 1.8x 09CL PB. Expect improving shareholder returns.
Macro factors		
Country risk	×	The recent calls for the president's resignation underline political dissent in the Philippines.
Strategy	✓	We are O-WT the Philippines, with the appreciating peso positive for domestic companies.
Liquidity	×	Small and medium-sized companies less in favour now.
Technical analysis		The high of S$0.90 last July heralded the start of a multimonth consolidation. Expect further sideways moves in the coming months.
Conclusion	**BUY**	

New direction

Market leader in sauces and processed fruits in the Philippines

Del Monte Pacific is the market leader in processed fruit, sauces and fruit beverages in the Philippines, with an average of 80% market share in sauces and canned juices and fruits. The company processes, markets and distributes these products, together with fresh fruits and vegetables both locally and to international customers. Del Monte Pacific also owns the rights to the Del Monte brand on the Indian subcontinent.

Figure 1

History of Del Monte Pacific

Year	Event
1892	Del Monte brand was established in the USA.
1926	Del Monte Foods (USA) set up operations to diversify from disease-affected Hawaiian pineapple plantation.
1990	Del Monte brand was disaggregated and sold to various companies.
1991	Del Monte Foods sold its 50% stake in the Philippines unit to Del Monte Int'l (Europe) and Kikkoman.
1996	Del Monte Foods and Kikkoman divested to MCI (Phil) and Del Monte Int'l (later became Cirio).
1999	Del Monte Pacific was incorporated and listed on the SGX, which became the holding company of Del Monte Philippines.
Dec 05	MCI and Cirio divested to NutriAsia Pacific.
Jan 06	NutriAsia Pacific stake reached 85%.
Jul 07	NutriAsia Pacific reduced stake to 80% to increase liquidity.

Source: Del Monte Pacific

Brand heritage

Del Monte Pacific owns the branding rights in the Philippines and India

Del Monte is a globally well-known brand for processed and fresh fruits. Started in 1892 in California, USA, the brand is now owned perpetually by several licensees around the world with no royalty payments. Del Monte Pacific owns the rights to the brand in the Philippines and the Indian subcontinent.

Figure 2

Del Monte-brand owners

Company	Market	Product
Del Monte Pacific	Philippines and Indian subcontinent	Processed
Del Monte Asia / Kikkoman	The rest of Asia Pacific	Processed
Del Monte Foods	USA, Central and South America	Processed
Kraft and CanGro	Canada	Processed
Fresh Del Monte	Europe, Middle East and Africa	Processed
Fresh Del Monte	Worldwide	Fresh

Source: CLSA Asia-Pacific Markets, Del Monte Pacific

Figure 3

Strong visibility in retail outlets

Figure 4

A wide product range

Source: CLSA Asia-Pacific Markets

Production

Plantation

One of the largest pineapple plantations in the world

With more than 80 years of experience in pineapple cultivation, Del Monte Pacific knows its pineapples. The company owns up to 20,000 hectares of contiguous pineapple plantation (on leased land) in Northern Mindanao in the Philippines, one-third the size of Singapore. Production of pineapples takes up to 32 months for two cycles of harvests, with up to seven months of rest period in between.

Plantation is 30 minutes from the cannery, ensuring freshness of products

The plantation achieves an average yield per hectare of 175 tonnes, one of the best in the industry. Planting is scheduled to supply 1m pineapples to the cannery on a daily basis. The plantation is located about 30 minutes away from the cannery. Del Monte Pacific also plants other products such as papaya, but sources most of its needs from out-growers. The papayas are used in its processed-food products.

The company also owns a cattle farm in the plantation. Meat and milk from pineapple-pulp-fed cows are sold to the local markets. This is a solution to the by-product generated from its plant.

Figure 5

Miles of pineapples

Figure 6

The wash before the cut

Source: CLSA Asia-Pacific Markets

Cannery

It produces its own cans

Del Monte Pacific's cannery in Cagayan De Oro is one of the largest integrated processing plants in the world. It has a 700,000-tonne processing capacity, next to its own port, where freshly picked fruits are processed and canned on the same day. The production facility has the capability to produce processed products from fruit to can, as well as making its own cans from purchased tin-plates. The company is looking at other expansion options within the current compound to maximise production, such as building new warehouses and maximising current plant space.

Started selling fresh fruits in 2H07, a new development for the company

Figure 7

Segment breakdown of 2007

Segment	Product	Rev (%)	Ebit (%)	Margin (%)
Processed	Canned fruits, pasta, sauces and condiments	67	74	14.8
Beverage	Fruit juices and flavoured drinks	32	24	9.5
Non-processed	Fresh pineapples, beef and milk	1	2	21.0

Source: CLSA Asia-Pacific Markets, Del Monte Pacific

Most culinary products are outsourced to toll packers

Toll packers

Del Monte Pacific's sauces, ketchup, pasta and other culinary products are sourced from third-party companies. The margins in these products vary. A recent addition to third-party sourcing includes the PET *Fit 'n Right* beverages, used to be produced in canned versions from the cannery.

Acquired by NutriAsia Group, a local player in condiments and cooking oil

New owner has similar business

Del Monte Pacific's main shareholder is NutriAsia Pacific (NPL), a subsidiary of The NutriAsia Group. The NutriAsia Group is a market leader in liquid condiments, specialty sauces and cooking oil. The company's *UFC* brand has 85% market share in the local ketchup and hot-chilli-sauce category.

Del Monte Pacific was largely a production base for the previous owners . . .

There are key differences between the current and previous owners:

- Single majority shareholder in 16 years. Quicker decision-making process with a seven-member board, down from eleven.
- NutriAsia Group's experience in similar business complements Del Monte's products to target multiple product types and price points.
- The previous owners, Del Monte Foods, Kikkoman and Cirio were more interested in using Del Monte Pacific as a production based. Supply contracts have been negotiated to more favourable terms.
- Amended contract terms also allow expansion into the fresh-produce business.

. . . while new owners intend to build Del Monte Pacific's brand and improve shareholder returns

New management has years of experience in consumer business

New, experienced management

A new management team has been put in charge to drive Del Monte Pacific into the next growth phase. The management has years of experience in consumer products, marketing, supply chain management and other key areas. Looking at the background of the management, the team looks promising.

Figure 8

New management team

Role	Previous experience
COO	P&G, Kraft, SAFI
Head of Marketing	P&G, Kraft, SAFI
Head of Sales	J&J
Head of R&D	Kraft
Head of Supply Chain	SAFI
Head of Purchasing	Unilab
Head of HR	Nestle
Manager of fresh produce	LFC

Source: CLSA Asia-Pacific Markets

Focused on turning the business around

The new team wasted no time in fixing immediate issues with Del Monte Pacific The revision of the long-term contracts with other Del Monte-brand owners was one of the first developments the new management brought to Del Monte Pacific. With these amendments, Del Monte Pacific will see an improvement in margins and room to grow its fresh-produce business outside the Philippines.

Amended onerous contractual terms with the other Del Monte brand-owners . . .

Figure 9

Amended contracts in summary

Supply contract	Status
Del Monte Foods (USA)	Amended in October 2006 with clarified and enforced cost floor provision.
Fresh Del Monte (EMEA)	Served notice of termination, effective in May 2010.
Fresh Del Monte (global-fresh)	Amended in February 2007; champaka prices raised, to be replaced by higher-priced MD2 in three years.
Del Monte Asia	New contract in January 2007. Reduced prices in line with market and given direct access to private labels in Asia ex-Japan.

Source: CLSA Asia-Pacific Markets, Del Monte Pacific

. . . and underwent cost-cutting exercise

Other new initiatives taken during the year include:

- Switched from two nationwide distributors in the Philippines to 16 regional distributors, effectively expanded from 28,000 to 64,000 stores. Target at 80,000 stores by end of 2008.
- Started selling fresh pineapples in Metro Manila Exports.
- Cost savings through reducing the number of tinplate suppliers to two, and weight of tin cans.
- Joint insurance procurement, and advertising and promotion contracts with NutriAsia.
- Reduced the number of warehouses from 12 to three.
- Other cost-saving measures involve purchasing, logistics rationalisation and cannery improvements.
- Tax incentives from the Philippine Economic Zone Authority (PEZA). Production from the cannery will be taxed at an amount equal to 5% of the gross profit, while the rest of its business will be taxed at 35% of the pre-tax level.

Market leader in the Philippines

We estimate the Philippines accounts for up to 75% of total sales

Del Monte Pacific's key Asia-Pacific segment makes up 73% of its 2007 sales, and we estimate that the Philippines accounts for 75% of that. This segment commands better Ebit margins at 17%, compared to 3% in the European and North America markets. We expect margins in the European-and-North-America segment to improve from the revamp of supply contracts.

Figure 10

Revenue breakdown of 2007

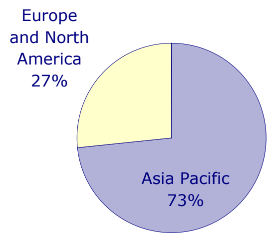
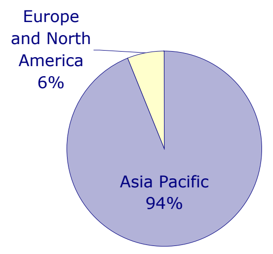


Figure 11

Margins to improve



Source: CLSA Asia-Pacific Markets, Del Monte Pacific

Focusing on broader product-segments

The company currently commands more than 80% of market share for sauces and canned juices and 78% of canned food products. However, the company intends to target the broader culinary, nutritional beverage and snack products to increase its growth opportunities. This will be done through the introduction of new products such as cooking mix, fruit cups and the hugely successful *Fit 'n Right* that helps weight loss.

Figure 12

Market leader in the Philippines

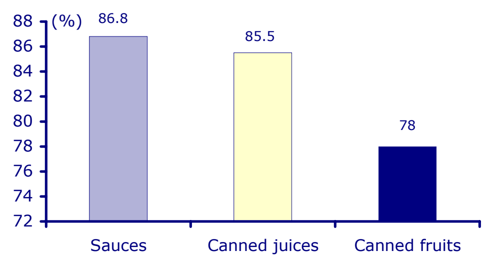
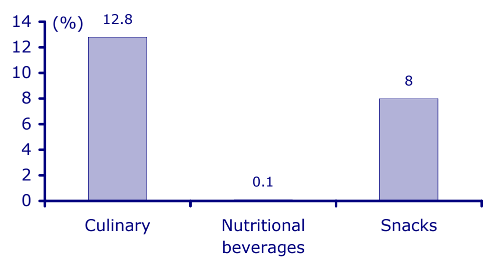


Figure 13

Potential in redefined product segments



Source: CLSA Asia-Pacific Markets, Del Monte Pacific

Domestic initiatives

Polyethylene terephthalate (PET)

Currently outsourcing to San Miguel's Thai plant

The company currently contracts its PET packaging to a packer in Thailand, due to the lower cost of PET in the country. However, potential savings from freight costs may mitigate pricier PET in the Philippines. Should the company invest in its PET line, we should see improvement in margins.

Figure 14

Ketchup in new PET bottles

Figure 15

***S*ales grew after repackaging**

Source: CLSA Asia-Pacific Markets

Marketing health benefits

Marketing to focus on health benefit of products

While new products are good, the company's recent success in products such as *Fit 'n Right* is in part due to major promotion and TV-advertising efforts. The focus on weight-loss ingredient, L-carnitine, from the product has driven sales that was beyond the management's expectation. Other efforts include a weight-loss competition and putting some of the most popular young celebrities to endorse its products.

The company is also highlighting lycopene in its tomato-based products; while it exists in all such products, Del Monte has successfully associated this anti-oxidant to its brand name. Also, to raise the company's profile, it will open a gourmet supermarket and continue its Kitchenomics TV cooking show, recipe e-mail club, recipe website and even a call centre.

Strong growth potential

Processed food is big in rural areas . . .

Consumption of processed food in the Philippines grew at a strong 7% in the past five years, much faster than chilled and frozen products. This is because canned and packaged products are easier to store and do not require refrigeration. The rising price of fresh foods is another driver in the growth in demand for processed foods, especially in rural areas.

. . . while the beverage segment has seen rejuvenation in the products

Functional drinks have also become popular, and have been growing at 13% in the past five years. The high demand for the company's *Fit 'n Right* after the launch of a major weight-loss competition as part of the promotion reflects this trend. Attractive celebrity tie-ins aside, the attractive bottle-packaging also appeals to the younger audience, as opposed to the canned version, and help promoted the brand as well. Del Monte Pacific is looking at tapping into this trend with its fruit juices through repackaging and branding.

Steady sales growth

We forecast 20% net profit Cagr for 2008-10

We expect Del Monte Pacific to report a strong revenue Cagr of 15% for the next three years, on the back of new processed-product and beverage initiatives and the sales of fresh products. With the recent amendments to long-term contracts, the ability to sell fresh produce and improvement in contract terms will drive margin expansion.

Figure 16

Rev. Cagr of 15% in next three years

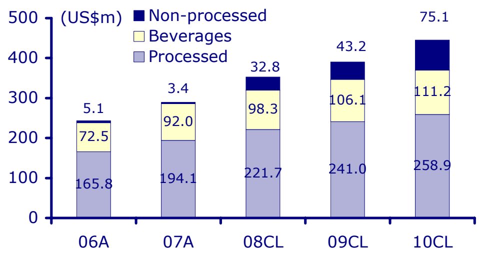
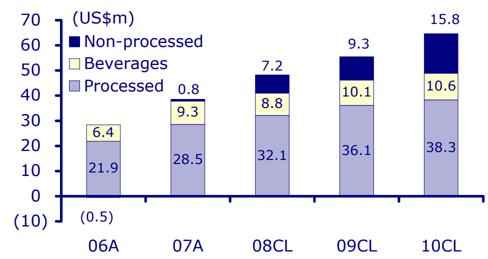


Figure 17

Net profit Cagr of 20% for 2008-10



Source: CLSA Asia-Pacific Markets, Del Monte Pacific

New initiative to expand overseas

S&W gives Del Monte Pacific the opportunity to expand in Europe and Asia directly, hence allowing the company to capture better margins. By selling directly, Del Monte Pacific can command margins of up to 20% in the export market, compared to margins below 10% now. We are only assuming a 10% growth in this business as it is still starting up.

Figure 18

Growth forecast

Segment	New initiatives	3Y rev Cagr (%)	3Y Ebit Cagr (%)
Processed	❑ Sourcing new products from other Del Monte companies such as canned vegetables.	10	10
	❑ Increasing its range of culinary products such as cooking mix and pasta.		
	❑ The acquisition of S&W brand allows the company to sell canned products in Europe and Asia, where this is restricted under the Del Monte brand.		
Beverage	❑ PET bottles proved to be successful for Fit 'n Right, possibly introducing fruit juices into this format.	7	4
Non-processed	❑ The sweeter MD2 variety commands higher prices. Recent amendment of contract with Kikkoman (Del Monte Asia) allows the company to sell pineapples to other suppliers in Asia, opening opportunities for the company.	181	173
	❑ Joint venture with Bharti in India will produce fresh fruits and vegetables under FieldFresh.		

Source: CLSA Asia-Pacific Markets, Del Monte Pacific

Conservative approach to growth assumptions

Forecast assumptions

We believe Del Monte Pacific has a great turnaround story to tell. However, due to competitive reasons and the large number of products the company has, the management does not disclose the sales volume or average selling price of its products. We have taken a conservative approach to forecast our growth assumptions, based on new opportunities and product initiatives, on the back of industry growth rate.

Figure 19

Demand in the Philippines is still strong

Type	July 2003 (%)	November 2008 (%)
Canned/packaged foods	7	8
Non-alcoholic drinks	7	6
Functional drinks	13	12
Fruits	2	3
Sauces	6	6
Pasta	6	5

Source: Euromonitor

Figure 20

Our forecast assumption

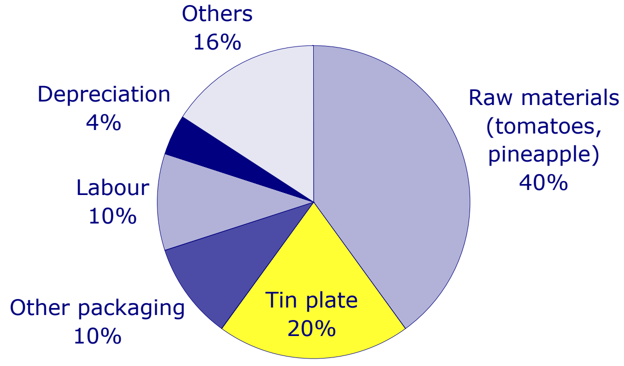
	07A	08CL	09CL	10CL	Comments
Revenue (US$m)	289.4	352.8	390.2	445.1	
YoY (%)		22	11	14	
Processed (US$m)	194.1	221.7	241.0	258.9	
YoY (%)		14	9	7	
Canned pineapples (US$m)	106.4	114.1	120.6	125.0	Driven by pineapple growth and flat ASP
YoY (%)		7	6	4	
Culinary - tomato based (US$m)	87.8	96.5	106.2	116.8	
YoY (%)		10	10	10	Assumed sales-growth on new ketchup and sauces
S&W (US$m)		10.0	13.0	15.6	
YoY (%)			30	20	Assumed sales-growth
Other processed (pasta, etc) (US$m)		1.0	1.2	1.4	
YoY (%)			20	20	Assumed sales-growth with new condiments and pasta products
Beverage (US$m)	92.0	98.3	106.1	111.2	
YoY (%)		7	8	5	
Pineapple juice (US$m)	77.3	82.9	87.5	90.8	Driven by our assumed pineapple production
YoY (%)		7	6	4	
Others (concentrates, Great Lakes, etc) (US$m)	14.7	15.4	18.5	20.4	
YoY (%)		5	20	10	
Non-processed (US$m)	3.4	32.8	43.2	75.1	We have not taken into account the cattle business, which is a waste-disposal system for the company
YoY (%)		nm	32	74	
Pineapple (US$m)	3.4	32.8	43.2	75.1	Based on pineapples allocated to fresh segment
YoY (%)		nm	32	74	
Processed volume ('000 t)					
Canned pineapples	255.2	273.7	289.1	299.8	Based on the breakdown of solids and liquids from production
Pineapple beverages	382.8	410.5	433.7	449.7	
Production volume ('000 t)					
Pineapple	638.0	684.2	722.8	749.6	Processed pineapples
YoY (%)	3	7	6	4	
Processed (%)	99	92	90	84	Percentage of fruits processed
Fresh	9.0	60.8	80.0	139.1	Apportioned fresh fruits
YoY (%)	0	576	32	74	
Estimated pineapple breakdown					
Solids (%)	40	40	40	40	Based on what we know from the production
Liquid (%)	60	60	60	60	
ASP (US$'000/t)					
Processed products	0.42	0.42	0.42	0.42	Assuming flat ASP, although the management did increase prices in 2007
Beverages	0.20	0.20	0.20	0.20	
Fresh	0.54	0.54	0.54	0.54	

Source: CLSA Asia-Pacific Markets

Estimate of 2007 cost-of-goods breakdown

Figure 21

Cost-of-goods breakdown of 2007



Source: Del Monte Pacific

Better margins

Margin improvements through structural changes, but raw-material-cost pressure exists

We are expecting margin improvement from Del Monte on the basis of:

- Fresh produce. Starting 4Q07, the company supplies fresh produce to other companies in Asia, and not restricted to other Del Monte-brand owners. This segment commands 20-25% margins. With some of the best pineapples around, there is an opportunity to grow.
- Better contractual terms. Revised supply contracts to other Del Monte-brand owners have set a cost-floor price, reversing the declining margins in the export business.
- Cost savings. The company continues its cost-saving initiatives, including weight reduction of tin cans and exploring other packaging options for other products.

We are seeing the impact of better contract terms coming through in the second half of 2007. Margin improvements were also due to the increase in fresh-produce sales, although this is starting from a very low base. The new MD2 pineapple tastes superior to the champaka variety and commands higher prices.

Change in packaging saves cost and refresh the product lines

While the company has increased prices in 4Q07, repackaged products such as PET-bottled ketchups and sauces as well as and lighter tin-cans were some cost-savings initiatives that have flowed through to the margins.

Demand for fresh produce is expected to increase, and Del Monte Pacific can capitalise on this trend with its fresh-fruit sales, which they are now allowed under the revised contract with Del Monte Asia (Kikkoman).

Figure 22

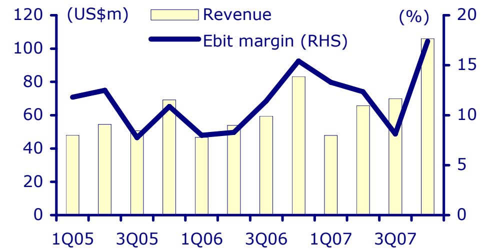
Cost-of-sales assumptions

(US$m)	07A	08CL	09CL	10CL	Comments
Cost of sales	(214.0)	(260.7)	(288.8)	(334.1)	
YoY (%)		22	11	16	
Raw materials (tomatoes, pineapple)	(85.9)	(105.7)	(118.5)	(139.3)	Raw materials in processed segment includes tomatoes, fruits and additional pineapples. Most of it is from own plantation, lowering exposure to raw-material costs
Price increase (%)		10	3	3	
YoY (%)		23	12	18	
Tin plate	(42.9)	(53.0)	(57.6)	(61.8)	For canned products, expect slowdown in price increase
Price increase (%)		15	3	3	
YoY (%)		23	9	7	
Other packaging	(21.5)	(26.4)	(29.5)	(32.4)	For other products, expect cost increase to slow down
Price increase (%)		10	3	3	
YoY (%)		23	12	10	
Labour	(21.5)	(24.2)	(26.3)	(28.1)	
Price increase (%)		5	3	3	
YoY (%)		13	9	7	
Depreciation	(9.3)	(11.3)	(12.4)	(13.7)	
YoY (%)		22	10	10	
Others	(33.0)	(40.2)	(44.5)	(58.8)	
YoY (%)		22	11	32	

Source: CLSA Asia-Pacific Markets

Figure 23

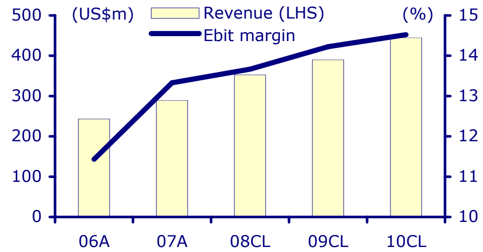
Seasonal trends



Source: Del Monte Pacific

Figure 24

Structural change in margins



Source: CLSA Asia-Pacific Markets

Processed food will still be the mainstay of the business

Margin improvements are due to cost cutting and change of supply contracts

Figure 25

Forecast summary

(US$m)	06A	07A	08CL	09CL	10CL
Revenue	243.4	289.4	352.8	390.2	445.1
Processed	165.8	194.1	221.7	241.0	258.9
Beverages	72.5	92.0	98.3	106.1	111.2
Non-processed	5.1	3.4	32.8	43.2	75.1
Ebit	27.8	38.6	48.2	55.5	64.6
Processed	21.9	28.5	32.1	36.1	38.3
Beverages	6.4	9.3	8.8	10.1	10.6
Non-processed	(0.5)	0.8	7.2	9.3	15.8
Margin (%)	11.4	13.3	13.7	14.2	14.5
Processed	13.2	14.7	14.5	15.0	14.8
Beverages	8.9	10.1	9.0	9.5	9.5
Non-processed	(10.2)	22.8	22.0	21.5	21.0
Pre-tax profit	27.6	37.1	45.3	52.2	60.7
Processed	22.1	28.0	31.0	34.8	36.7
Beverages	6.0	8.4	7.7	8.8	9.0
Non-processed	(0.5)	0.8	6.6	8.6	15.0
Margin (%)	11.3	12.8	12.8	13.4	13.6
Processed	13.4	14.4	14.0	14.5	14.2
Beverages	8.3	9.1	7.8	8.3	8.1
Non-processed	(10.3)	22.7	20.2	20.0	19.9

Source: CLSA Asia-Pacific Markets

Global expansion

S&W

Del Monte Pacific acquired the rights to the S&W brand in Europe and Asia for US$10m in Novemebr 2007. This is another heritage brand owned by Del Monte USA that is famous for its canned vegetable and bean products. S&W opens up the whole processed-food business in Europe and Asia for Del Monte Pacific where it does not have the Del Monte-brand rights.

S&W allows expansion in markets where Del Monte Pacific could not with the Del Monte brand

Figure 26

S&W offers great international potential

Figure 27

Drinks can be repackaged under S&W

Source: Del Monte Pacific, CLSA Asia-Pacific Markets

Del Monte Pacific's expansion plan for S&W currently involves mostly toll packers, and no asset investments. However, if the company intends to grow in certain markets, we believe selling and distribution costs to increase. The key focus areas will be Eastern Europe and Asian countries.

Figure 28

Canned and processed products in 2007

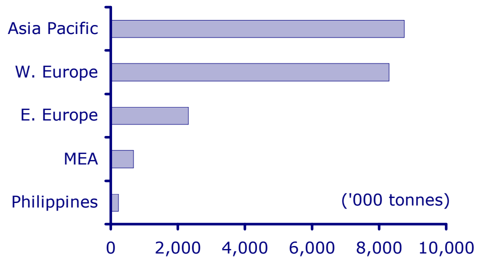
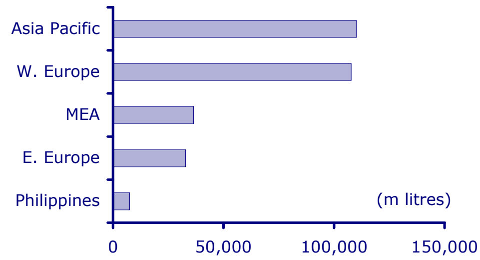


Figure 29

Non-alcoholic beverage



Source: Euromonitor

S&W to breakeven in the next two years

S&W is estimated to have sales of up to US$10m in revenue for 2008, but we expect the business to breakeven for the next two years. We are forecasting a modest 10% growth for the next three years as Del Monte Pacific is still ramping up the sourcing of products and putting its new strategy in place. As mentioned before, one of the big potentials is to market the fresh produce under the S&W brand in the Philippines.

Figure 30

Growth in global demand

Type	July 2003 (%)	November 2008 (%)
Canned foods	1	2
Non-alcoholic drinks	6	4
Functional drinks	9	4
Fruits	3	3
Sauces	3	3

Source: Euromonitor

Huge potential outside Philippines

While the overall global demand for processed foods has matured, the European and Asian markets for packaged foods is 120x and non-alcoholic 35x that of Philippines in retail value, as reported by Euromonitor and USDA.

FieldFresh

India is one of the largest producers of vegetables. Del Monte Pacific acquired 40% of FieldFresh to the tune of US$20.9m, with the remaining 50% owned by the influential Bharti group and 10% by investment bank EL Rothschild. Bharti and Del Monte Pacific have equal voting rights.

To focus on domestic market

FieldFresh grows and exports fresh fruits and vegetables to the UK, Middle East and Europe, and plans to develop the local market. The company currently has 300 acres of farmland in Punjab with R&D facilities and 42 acres of state-of-the-art greenhouses. Up to 50m tonnes of fruits and 80m tonnes of vegetables were consumed in India in 2007, or 19% of total vegetables consumed in Asia Pacific, a big market for the company.

Figure 31

Fresh vegetable consumption in 2007

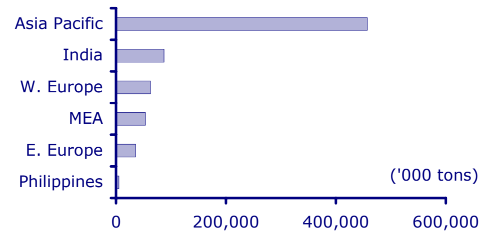
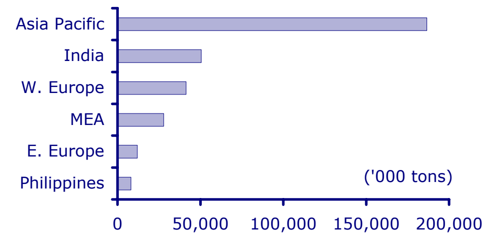


Figure 32

Fresh fruit consumption in 2007



Source: Euromonitor

Del Monte Pacific - An experienced partner

Bharti and EL Rothschild invited Del Monte Pacific to join the joint venture, taking advantage of Del Monte Pacific's experience and knowledge in processing branded food-products. This can contribute significantly to the development of FieldFresh. Estimating that 20% of fresh fruits and vegetables are wasted due to spoilage, the joint venture intends to aggressively develop processed and fresh products under the *FieldFresh* brand. Del Monte Pacific intends to focus on FieldFresh in the country, and consolidate the Del Monte mango business in India into the joint venture.

A ready channel

Bharti's 50% interest in Wal-Mart's India venture has the potential to become a key customer of FieldFresh. However, the first store is only expected to open by end of 2008, with up to 14 more in the next six years. We expect other distributors to be the key customers of FieldFresh for the time being.

Associate level

As the company is still starting up, we are not expecting contribution from this business for 2008-09. Earnings will be reported as contribution from associate and is not consolidated as part of the overall business.

Great Lakes

Great Lakes Fresh Foods and Juice company was established in Tianjin, China in 1994 to produce 100% fresh fruit juices. China is fast becoming the world's leading fruit producer. Del Monte Pacific acquired this company in July 2004 and it accounts for about US$14m of Del Monte Pacific's sales in 2006.

Great Lakes accounts for US$14m of Del Monte Pacific's sales in 2006

The company competes in the premium-juice segment againts the likes of Tropicana and has penetrated the Tianjin, Beijing and Shanghai markets. But due to the tough business environment, we expect the business to breakeven this year.

12-month target price of S$0.78 based on DCF, implies 14x 09CL PE

Undemanding valuation

We value Del Monte Pacific at a 12-month price target of S$0.78, based on the discounted cashflow. This implies 14x 09CL PE, which is a slight premium to its peers due to a better growth profile. Target price also implies 0.61x PE to 2008-09 growth, which recognises the strong growth of Del Monte Pacific. With strong growth potential from business initiatives and better contractual terms, the company's outlook is positive. We believe the structural changes in the business bodes well for Del Monte Pacific.

Better shareholder returns and dividend yields at undemanding valuations

We think Del Monte Pacific is worth investing in on the basis of:

- Low valuations relative to its peers at 10x 09CL PE and 2x 07CL PB, with an attractive growth profile and high dividend yields.
- High dividend yield of 5.8%. The company has paid out 75% of its net profit in the past two years due to its net-cash position. The current net-gearing level of 20%, due to new investments into FieldFresh and the acquisition of S&W, leaves room for further borrowings.
- Management aims to increase shareholder returns through new business development and cost intermediation. We expect incremental increase in ROE and ROIC through these intiatives.

Previous owner did not develop Del Monte Pacific's business

New owner took charge in 2006 and turn the company around

We forecast a dip in 2008 due to higher capital expenditure for new initiatives

Figure 33

Del Monte Pacific's ROE and ROIC

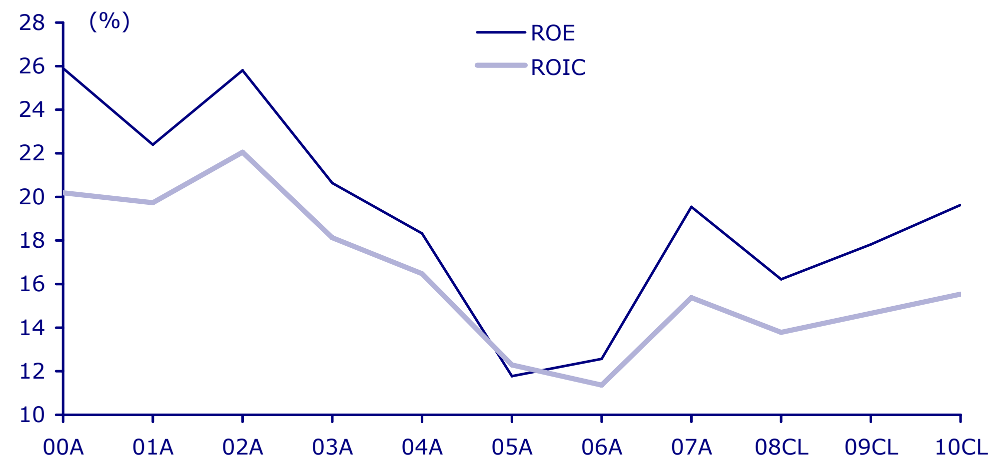


Figure 34

Historical PE

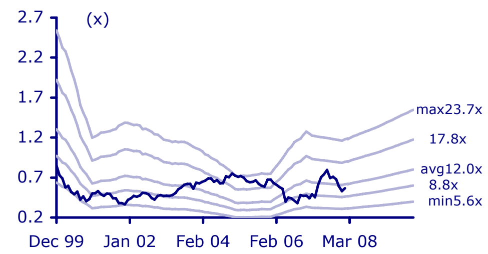
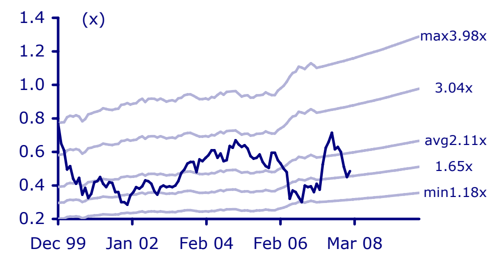


Figure 35

Historical PB



Source: CLSA Asia-Pacific Markets

Historical performance has shown that Del Monte Pacific has largely underperformed the market in the past few years. There are currently minimal institutional holders in the stock and not well covered.

Figure 36

Comparison of Del Monte Pacific's performance with other companies

Name	Code	Market cap (US$m)	PE (x) 2008	PE (x) 2009	08CL PB (x)	Div. yield (%)	EV/ Ebitda (x)	ROE (%)	PE/G (x)
Fraser & Neave Holdings Bhd	FNH	846.9	15.4	14.2	2.3	5.5	11.1	13.5	2.0
Dutch Lady Milk Inds Bhd	DLM	246.1	16.7	14.3	6.2	7.0	12.4	38.1	1.4
PPB Group Berhad	PEP	3465.0	15.6	14.5	1.0	2.1	12.2	86.9	na
Nestle (Malaysia) Berhad	NESZ	1905.9	19.3	18.0	9.6	5.1	15.5	48.8	1.8
Petra Foods	PETRA	479.4	14.8	12.7	2.5	2.5	20.7	14.6	na
Cerebos Pacific	CER	866.5	13.1	12.0	3.0	6.5	11.0	23.3	0.6
Singapore Food Industries	SFI	288.1	10.8	9.9	2.6	6.5	11.2	20.7	2.9
Food Empire Holdings	FEH	243.2	na	na	2.2	2.4	8.9	21.4	na
Thai Union Frozen Prod Pub	TUF	532.2	8.3	7.8	1.3	6.4	na	14.2	na
Thai Vegetable Oil	TVO	342.6	7.9	6.7	na	4.4	na	na	na
Thai President Food	TF	285.4	na	na	1.7	3.7	10.8	13.6	na
Simple average		**863.8**	**13.5**	**12.2**	**3.2**	**4.7**	**12.6**	**29.5**	**1.7**
Del Monte Foods	DLM	1,775.5	13.1	12.1	1.2	1.8	na	8.1	na
Fresh Del Monte Produce	FDP	2,168.0	10.8	10.3	1.7	0.0	na	(13.4)	2.7
Kikkoman	2801	2,246.7	20.0	19.3	1.3	1.3	na	6.2	na
Kraft Foods Inc-Class A	KFT	46,934.8	16.0	14.9	1.7	3.4	14.7	9.3	0.1
Simple average		**13,281.2**	**15.0**	**14.2**	**1.5**	**1.6**	**14.7**	**2.6**	**1.4**
Del Monte Pacific	DELM	479.4	13.0	11.3	2.1	5.4	10.4	16.2	0.4

Source: CLSA Asia-Pacific Markets

Key risks

Forex

Strong peso is good for cost

As most of the company's cost structure is in the local currency, we expect a stronger peso to have a positive impact on margins. Assuming 20% of Cogs is sourced in US dollar, a 10% appreciation in peso will boost net profit by 20%. On the flipside, the stronger peso also marginally reduces contribution from the export business.

Execution of new ventures

New ventures pose execution risks

S&W and Fieldfresh are new international ventures. These investments require gestation period and upfront costs, and may take a while to generate returns. There is a possibility that the expansion may not perform up-to-expectations. The fresh-produce business is less risky as it requires allocating part of its fruits for sale to distributors and does not require additional investments.

Raw material costs

Raw materials continue to pressure margins

Raw materials and packaging account for 70% of cost-of-goods. While the company has successfully raised prices and increased margins, we expect raw-material-related cost pressures to continue. A 10% increase in raw material cost would reduce net profit by 25% if Del Monte Pacific cannot pass on the costs. The company is constantly looking for cheaper sourcing alternatives and other cost-saving measures. Joint sourcing with NutriAsia Group offers Del Monte Pacific better bargaining power.

We are using Philippines' cost of equity

Figure 37

Our assumptions

WACC		**Comment**			
Low (%)	10.5				
Base (%)	10.0				
High (%)	9.5				
Risk-free rate (3M bond rate) (%)	5.0	Philippines market risk premium			
Equity risk premium (%)	7.0	10-year peso bond			
Cost of equity (%)	12.0				
Beta	1.0				
Cost of debt (%)	5.0				
Tax rate (%)	35.0	Local tax rate			
Net debt	59.2	Assumed 30% debt			
Equity	197.5				
D/C (%)	23.0				
E/C (%)	77.0				
FCF growth (%)	3.0				

Present value of projected cashflow

WACC	**1**	**2**	**3**	**4**	**5**	**6**
10.5%	42.7	38.2	40.5	30.6	29.9	30.2
10.0%	42.9	38.6	41.0	31.1	30.6	31.0
9.5%	43.1	38.9	41.6	31.7	31.3	31.9

Terminal present-value (perpetual growth)

WACC	**2.0%**	**3.0%**	**4.0%**
10.5%	355.8	403.4	465.6
10.0%	388.5	444.2	518.4
9.5%	426.0	491.7	581.4

Figure 38

Target-price assumption

Perpetual free-cashflow growth

WACC	**2.0%**	**3.0%**	**4.0%**
10.5%	0.66	0.72	0.80
10.0%	0.70	0.78	0.87
9.5%	0.76	0.84	0.96

Source: CLSA Asia-Pacific Markets

Recommend a BUY with 26% to our target price

Recommending a BUY

This underfollowed company is currently trading at 10.8x 09CL PEx. Our target price implies an undemanding 14x 09CL PE, similar to its regional peers in the processed-food space. We initiate our coverage on Del Monte with a BUY, with 37% implied upside to our target price of S$0.78.

Appendix 1: What the charts say

Del Monte Pacific's price action is hard to interpret short term, but the weekly chart shows that the stock has developed a broad rising channel from the September-2001 lows. The high of S$0.90 last July heralded the start of a multimonth consolidation and further sideway moves are likely in the coming months. Key support is found at S$0.87 and resistance at the S$0.70-0.71

Del Monte Pacific weekly with 40-week WMA

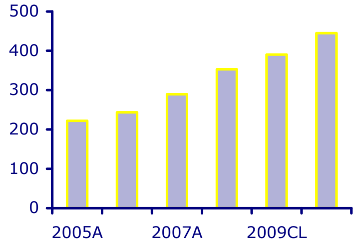
Source: CLSA Asia-Pacific Markets

Price Action

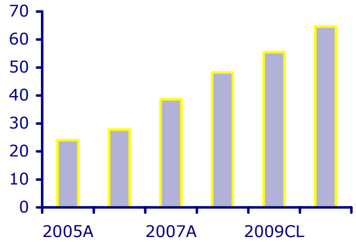
These views are based on technical analysis and may or may not be in agreement with the 'fundamental' view.
For further information please contact
Laurence Balanco, Analyst, Asian Technical Research
Tel: (852) 26008576 e-mail: laurence.balanco@clsa.com

Appendix 2: Risks & drivers

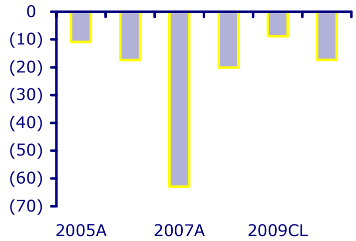
Sales (US$m)



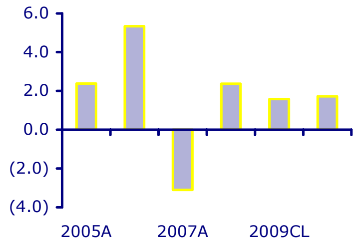
Op profit (S$m)



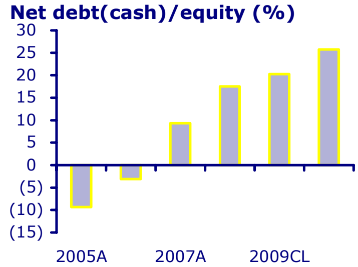
Net cashflow (US$m)



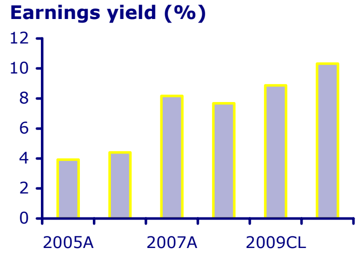
Debt coverage (years)



Net debt(cash)/equity (%)



Earnings yield (%)



Investment by numbers

We base our 20% 3-year earnings Cagr on 15% growth in revenue and margin improvements. This is on the back of a steady 10% growth in developed product-segments, and new contribution from the fresh-produce business that is starting from a low base.

The company has paid out 75% of net profit in the past two years, due to its net-cash position, bringing dividend yield to 6%. We expect this trend to continue, given current net-gearing levels of 20%, which leaves room for further borrowings.

Management aims to increase shareholder returns through new business development and cost intermediation. We expect incremental increase in ROE and ROIC through these intiatives.

Risks to our view

As most of the company's cost structure is in the local currency, we expect a stronger Peso to have a positive impact on margins. Assuming 20% of COGS is sourced in US Dollar, a 10% appreciation in Peso will boost net profit by 20%. On the flipside, the stronger peso also marginally reduces contribution from the export business.

S&W and Fieldfresh are new international-ventures, which require gestation period and upfront costs, and may take a while to generate returns. The expansion may not perform up-to-expectations. The fresh-produce business is less risky as it requires allocating part of its fruits for sale to distributors and does not require additional investments.

Raw materials and packaging account for 70% of cost-of-goods. While the company has successfully raised prices and increased margins, we expect raw material-related cost pressures to continue. A 10% increase in raw-material cost would reduce net profit by 25% if DMPL cannot pass on the costs. The company is constantly looking for cheaper sourcing-alternatives and other cost-saving measures. Joint sourcing with NutriAsia Group offers DMPL better bargaining power.

Key earnings drivers

Year to 31 December	2006A	2007A	2008CL	2009CL	2010CL
Revenue	243.4	289.4	352.8	390.2	445.1
Processed	165.8	194.1	221.7	241.0	258.9
Beverages	72.5	92.0	98.3	106.1	111.2
Non-processed	5.1	3.4	32.8	43.2	75.1
Ebit	27.8	38.6	48.2	55.5	64.6
Processed	21.9	28.5	32.1	36.1	38.3
Beverages	6.4	9.3	8.8	10.1	10.6
Non-processed	(0.5)	0.8	7.2	9.3	15.8

Appendix 3: Summary financials

Summary P&L forecast (US$m)					
Year to 31 December	**2006A**	**2007A**	**2008CL**	**2009CL**	**2010CL**
Revenue	**243**	**289**	**353**	**390**	**445**
Operating Ebitda	36	48	60	68	78
Operating Ebit	28	39	48	56	65
Interest income	4	2	3	3	3
Interest expense	(4)	(3)	(6)	(6)	(7)
Other items	0	0	0	0	0
Profit before tax	**28**	**38**	**45**	**52**	**61**
Taxation	(7)	1	(9)	(10)	(11)
Minorities and other	0	0	0	0	0
Profit	**21**	**39**	**37**	**42**	**49**
Summary cashflow forecast (US$m)					
Operating Ebit	**28**	**39**	**48**	**56**	**65**
Depreciation/amort	8	9	11	12	14
Working capital - trade	(18)	(7)	(14)	(8)	(12)
Other operating items	(6)	(44)	(9)	(5)	(8)
Operating cashflow	**12**	**(4)**	**37**	**54**	**58**
Net interest/taxes/other	(4)	(7)	(11)	(12)	(14)
Cashflow	**9**	**(11)**	**25**	**42**	**44**
Capital expenditure	(9)	(21)	(18)	(20)	(25)
Acq/inv/disposals	0	0	0	0	0
Free Cashflow	**(1)**	**(33)**	**7**	**22**	**19**
Ord div paid/Other items	(9)	7	(27)	(31)	(36)
Decrease in net debt	(10)	(26)	(20)	(9)	(17)
Summary balance sheet forecast (US$m)					
Cash & equivalents	52	15	19	17	9
Debtors - trade	46	64	78	87	99
Inventories - trade	45	62	75	83	95
Other current assets	44	79	88	93	101
Fixed assets	56	68	75	83	94
Intangible assets	16	25	25	25	25
Other term assets	7	8	10	11	12
Total assets	**266**	**322**	**371**	**399**	**435**
Short-term debt	45	35	59	66	75
Creditors - trade	34	61	74	82	93
Other current liabs	4	3	3	4	5
Long-term debt/CBs	2	1	1	1	1
Other long-term liabs	8	1	1	1	2
Minorities/other equity	0	0	0	0	0
Shareholder funds	174	221	232	245	260
Total liabs & equity	**266**	**322**	**371**	**399**	**435**
Ratio analysis					
Revenue growth (%)	9.5	18.9	21.9	10.6	14.1
Op Ebitda growth (%)	4.6	33.4	24.3	14.1	15.3
Op Ebit growth (%)	15.8	38.6	25.0	15.1	16.5
Op Ebitda margin (%)	14.7	16.5	16.9	17.4	17.6
Op Ebit margin (%)	11.4	13.3	13.7	14.2	14.5
Net profit margin (%)	8.6	13.5	10.4	10.9	11.1
Dividend payout (%)	74.9	74.0	70.0	70.0	70.0
Tax rate (%)	23.8	(3.9)	18.8	18.6	18.5
Ebitda/net int exp (x)	164.5	55.5	20.3	20.5	19.8
Net debt/equity (%)	(3.1)	9.3	17.5	20.2	25.8
Gross debt/equity (%)	26.5	16.1	25.9	27.1	29.1
Net debt/op Ebitda (x)	(0.2)	0.4	0.7	0.7	0.9
Gross debt/op Ebitda (x)	1.3	0.7	1.0	1.0	1.0
Return on equity (%)	12.6	19.8	16.2	17.8	19.6
ROCE (%)	17.7	18.8	18.7	19.6	20.8
Return on assets (%)	8.1	13.3	10.6	11.0	11.9

PEZA tax incentives lower the overall tax rate.

Strong cashflow generation.

This is assuming larger-than-guided capex, and a 75% dividend payout ratio.

We have conservative growth estimates, 2009 is the base effect from 2008's new product segment.

Improving margins from tax incentives, cost-cutting initiatives and new business.

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