

Del Monte Pacific Limited

Temporary dip in margins

15 March 2022

SINGAPORE | CONSUMER | 3Q22 RESULTS

- 3Q22 results exceeded expectations. 3Q22 revenue and PATMI at 28%/29% of our FY22e forecasts. Revenue from Americas exceeded expectations, but gross profit lower than expected due to inflationary pressures.
- US subsidiary DMFI sales grew 6.5% YoY, mainly supported by branded retail core canned vegetable and fruit and food service channels.
- DMPI saw sales of S&W branded business increase 11.2% YoY, mainly driven by higher sales of S&W fresh pineapple in North Asia and Singapore, and higher prices to counter inflation.
- Maintain BUY with a higher TP of S\$0.63, from S\$0.62. We raise FY22e PATMI by 7.5%, as we lower our forecasts for operating and interest expenses, in line with the trend for 9M22. Our TP is now pegged to 12x FY22e P/E, down from 13x. We still apply a 20% discount to the industry valuation, which is now 15x, down from 16x.

Results at a glance

USD '000	3Q22	3Q21	YoY	9M22	9M21	YoY
Revenue	659,423	628,353	4.9%	1,772,548	1,664,864	6.5%
- DMFI	468,356	439,960	6.5%	1,243,933	1,154,851	7.7%
- DMPI	197,127	196,928	0.1%	559,235	524,162	6.7%
Profit after taxation	30,471	35,405	-13.9%	93,228	58,690	58.8%
- DMFI	8,246	16,837	-51.0%	37,643	11,226	235.3%
- DMPI	29,970	28,828	4.0%	81,525	71,158	14.6%
PATMI	25,934	30,158	-14.0%	80,057	48,761	64.2%
EPS aft pref div (US cents)	1.08	1.30	-16.9%	3.36	1.75	92.0%

Source: Company, PSR

The Positives

+ US subsidiary Del Monte Foods Inc (DMFI) sales in 3Q22 increased 6.5% YoY. In the Americas, sales increased by 6.3% YoY to US\$471.3mn due to higher sales from branded retail (+2.5% YoY) primarily core canned vegetable and fruit which more than offset planned reduction in private label sales. With the re-opening of schools and restaurants, sales from the food service channel grew significantly by 48% YoY.

+ Del Monte Philippines Inc (DMPI) in 3Q22 supported by both local and international sales. Asia Pacific sales increased 4.1% YoY to US\$181.5mn. S&W branded business increased 11.2% YoY, driven by higher sales of fresh pineapples due to increase in volume in North Asia and Singapore, expanded distribution in China as well as price increases to counter inflation. In peso terms, sales in the Philippines rose 4.2%. Some growth was seen across almost all categories despite continued lockdown and lower foot traffic due to the pandemic, proving the strength of Del Monte's market leader position in the Philippines.

The Negative

- Inflationary pressures. US subsidiary DMFI saw profit after tax falling 51% YoY despite higher sales, due to higher manufacturing cost driven by commodity headwinds, weather-related events and freight headwinds, particularly ocean freight on co-pack products, which more than offset higher sales. Gross margins declined 3.5 ppts to 20.9%. On 9M basis, gross margin was up 1.4 ppts to 23.6%.

BUY (Maintained)

CLOSING PRICE	SGD 0.355
FORECAST DIV	SGD 0.022
TARGET PRICE	SGD 0.630
TOTAL RETURN	83.6%

COMPANY DATA

Bloomberg CODE:	DELM SP
O/S SHARES (MN):	1,944.0
MARKET CAP (USD mn / SGD mn):	506 / 690
52 - WK HI/LO (SGD):	0.48 / 0.25
3M Average Daily T/O (mn):	0.69

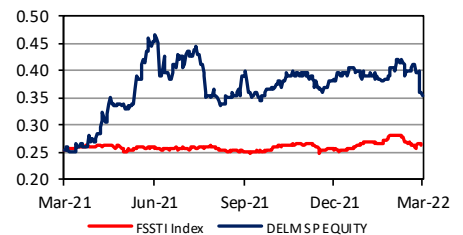
MAJOR SHAREHOLDERS

Mr. Joselito D. Campos, Jr.	71.7%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(11.1)	(5.3)	(11.1)
STI RETURN	(5.2)	4.0	4.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Apr, USD (mn)	FY20	FY21	FY22e	FY23e
Revenue	2,128.3	2,162.7	2,320.1	2,436.1
EBITDA	270.5	402.1	429.5	484.6
PATMI	-81.4	63.3	94.9	95.0
Adj. PATMI	32.2	63.3	94.9	95.0
Adj. EPS (US cents)	1.7	3.3	3.9	4.7
EPS (US cents)	-5.2	2.2	3.9	4.7
EPS (SG cents)	-7.1	3.0	5.2	6.6
P/E (x)	n.a.	11.7	6.8	5.3
Dividend Yield	19.8%	4.8%	6.2%	6.2%
ROE	5.7%	9.9%	18.1%	18.8%
ROA	1.3%	2.6%	3.7%	3.7%

Source: Company, PSR

VALUATION METHOD

12x FY22e P/E

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Other updates

Improving cost of debt in the long term. DMFI issued US\$500mn of 11.875% Senior Secured Notes on 15 May 2020. They will mature on 15 May 2025 and are redeemable at the option of DMFI beginning in May 2022. Interest paid under this loan in FY21 was US\$29.7mn, accounting for 27% of total interest expense. Due to the one-time estimated US\$45m cost of early redemption, we will only see the effect of net savings on this loan in FY24 (Figure 1).

DMPL announced that they will be redeeming all the outstanding US\$200mn Series A-1 Preference Shares, which we expect the company to refinance through loans. This would increase interest expense, but net savings are expected as the new loans would be taken at lower rates. DMPL recently issued US\$90mn 3-year unrated Senior Notes with fixed coupon rate of 3.75% payable semi-annually. This compares to fixed rates of 6.625% and 6.5% per annum for Series A-1 and A-2 preference shares respectively.

In October 2021, S&P Global Ratings raised the credit rating on DMFI to 'B' from 'B-', and issue-level rating on its debt to 'B' from 'B-'. In January 2022, Moody's upgraded DMFI's Corporate Family Rating to B2 from B3. We expect DMFI to issue debt at a lower cost.

Outlook

Del Monte Foods (DMFI) has continued to increase its market share in the US in various categories, through expanding distribution channels, and building the Del Monte brand (Figure 2). This ensures its pricing power, which protects the bottomline, especially in the current inflationary environment. As such, we are expecting margins to recover in 4Q22. DMFI would also continue its emphasis on innovation, with items launched in the past three years on track to reach 8.5% of DMFI's total sales in FY23.

Del Monte Philippines (DMPI) remains market leaders in key categories (Figure 2). DMPI is continuing to strengthen its competitive position of the brands and drive core category growth in key channels and segments.

Maintain BUY with a higher TP of S\$0.63, from S\$0.62.

We have a higher TP of S\$0.63, up from S\$0.62. Our FY22e PATMI has been raised by 7.5%, as we lower our forecasts for operating and interest expenses, in line with the trend for 9M22.

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Figure 1: EPS accretion from redeeming preference shares

EPS Accretion/Dilution	
FY23e	
One-time cash cost for early redemption of US\$500mn notes (US\$m)	(45)
Interest expense for redeeming US\$200mn pref shares (US\$m)	(7.5)
Savings from redeeming US\$200mn pref shares (US\$m)	16.5
Accretion/dilution (US cts/share)	0.5
Percentage accretion/(dilution)	7.4%
FY24e	
Interest savings from refinancing US\$500mn notes (US\$m)	15
Interest expense for redeeming US\$100mn pref shares (US\$m)	(3.75)
Savings from redeeming US\$100mn pref shares (US\$m)	3.25
Accretion/dilution (US cts/share)	0.7
Percentage accretion/(dilution)	11.2%

Source: Company, PSR

Figure 2: Strong market positions in US

Products	Market share	Market position
Canned vegetable	21.5%	#1
Canned fruit	21.2%	#2
Fruit Cup Snack	25.9%	#2
Canned tomato	5.7%	#3

Source: Company, PSR

Figure 3: Market leader in various categories in the Philippines

Products	Market share	Market position
Packaged pineapple	92.3%	#1
Canned mixed fruit	77.2%	#1
RTD Juices ex-foil pouch	45.6%	#1
Tomato sauce	86.4%	#1
Spaghetti sauce	38.2%	#1

Source: Company, PSR

Figure 4: Industry peers trading at 15x FY22e P/E

Company	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Currency	Share Px Local Crcy	Mkt. Cap. (US\$ m)	P/E Yr 0	P/E Yr 1	P/E Yr 2	P/B (x)	Dividend Yield	ROE	EV/EBITDA (x)	Gearing	EBITDA Margin
Kraft Heinz Co	8.0%	7.4%	4.1%	USD	37.36	45,719	45.2	14.1	13.7	0.93	4.3%	2.0%	13.7	45.4%	17.4%
Hormel Foods Corp	6.4%	5.4%	3.4%	USD	50.48	27,511	30.3	25.8	23.9	3.86	2.0%	13.6%	20.5	49.5%	12.1%
Conagra Brands Inc	-14.7%	-7.4%	-11.9%	USD	30.10	14,439	11.1	12.2	11.1	1.66	4.0%	12.9%	11.1	106.9%	19.8%
Indofood CBP	-12.0%	-13.5%	-13.5%	IDR	7525.00	6,123	13.3	13.3	12.1	2.74	2.9%	25.8%	13.3	63.0%	22.6%
Universal Robina Corp	-19.4%	-19.6%	-20.1%	PHP	102.30	4,278	9.6	19.8	18.1	2.05	3.2%	23.1%	13.3	49.2%	17.6%
Indofood Sukes Makmur	-3.9%	-5.4%	-3.6%	IDR	6100.00	3,737	8.3	7.5	7.0	1.18	4.6%	19.1%	7.6	67.6%	20.3%
Treehouse Foods	-14.3%	-18.8%	-19.3%	USD	32.72	1,826	-146.0	24.9	13.1	0.99	n.a.	-0.7%	14.7	113.2%	6.4%
B&G Foods Inc	-16.7%	-13.7%	-16.4%	USD	25.69	1,760	26.1	14.7	13.7	1.91	7.4%	7.7%	15.0	253.8%	14.2%
Dole PLC	-5.7%	4.3%	1.1%	USD	13.46	1,277	16.0	9.1	8.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Delfi Ltd	-0.7%	-1.3%	-3.3%	SGD	0.74	331	11.3	12.3	11.3	1.39	4.2%	12.6%	6.2	22.5%	14.6%
RFM Corp	-6.7%	-11.0%	-7.7%	PHP	4.20	270	11.0	n.a.	n.a.	1.11	5.6%	10.8%	5.2	8.1%	15.1%
Del Monte Pacific Ltd	-11.1%	-5.3%	-11.1%	SGD	0.36	506	11.7	6.8	5.3	0.82	4.6%	18.1%	5.4	220.2%	18.5%
	0.8%	1.2%	-1.3%			107,776	22.3	15.4	14.3	1.94		9.4%	14.6	61.3%	16.3%

Source: Bloomberg, PSR (Closing prices as at 14 March 2022)

Financials

Income Statement

Y/E Apr, USD '000	FY19	FY20	FY21	FY22e	FY23e
Revenue	1,954,842	2,128,343	2,162,709	2,320,096	2,436,100
Cost of sales	(1,559,857)	(1,676,186)	(1,606,746)	(1,678,565)	(1,719,328)
Gross profit	394,985	452,157	555,963	641,531	716,772
Selling & distri expenses	(202,839)	(213,414)	(200,417)	(235,490)	(248,482)
General & admin expenses	(115,540)	(120,010)	(144,053)	(145,006)	(150,628)
Other operating income/(loss)	3,516	(67,547)	357	1,160	1,218
Other expenses	-	-	-	-	(45,000)
Interest income	18,125	5,814	4,674	4,415	25,632
EBIT	97,658	50,039	214,787	263,594	296,589
Finance costs	(96,958)	(114,693)	(111,044)	(111,705)	(142,668)
Profit before tax	700	(64,654)	103,743	151,889	153,921
Taxation	13,524	(29,176)	(27,273)	(39,930)	(40,464)
Minority interest	6,095	12,436	(13,214)	(17,093)	(18,463)
PATMI	20,319	(81,394)	63,256	94,866	94,994
Adj PATMI (excl. non-recurring items)	15,800	32,200	63,300	94,866	94,994

Per share data (USD Cents)

Y/E Apr	FY19	FY20	FY21	FY22e	FY23e
Adj. EPS (US cents)	0.81	1.66	3.26	3.86	4.72
EPS before pref div (US cents)	1.05	-4.19	3.25	4.88	4.89
EPS (US cents)	0.03	-5.20	2.24	3.86	4.72
EPS (SG cents)	0.04	-7.07	3.04	5.22	6.64
DPS (US cents)	0.52	1.54	1.20	1.61	1.61
DPS (SG cents)	0.71	2.12	1.62	2.19	2.19
BVPS (US cents)	30.92	29.11	33.05	26.91	25.99
BVPS (SG cents)	41.51	39.08	44.37	36.13	34.89

Cash Flow

Y/E Apr, USD '000	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit after tax	14,224	(93,830)	76,470	111,959	113,457
Adjustments	201,013	368,723	323,463	313,107	345,487
WC changes	(27,482)	149,530	(53,195)	(32,340)	(32,919)
Cash generated from ops	187,755	424,423	346,738	392,726	426,025
Income taxes paid	(6,830)	(46,982)	(31,464)	(39,930)	(40,464)
Cashflow from ops	180,925	377,441	315,274	352,796	385,560
CFI					
CAPEX, net	(107,273)	(103,215)	(152,269)	(160,000)	(170,000)
Others	715	(914)	115,148	4,415	25,632
Cashflow from investments	(106,558)	(104,129)	(37,121)	(155,585)	(144,368)
CFE					
Interest paid	(87,494)	(94,648)	(83,006)	(111,705)	(142,668)
Loans, net of repayments	25,648	(102,727)	(81,472)	276,567	5,468
Dividends paid	(19,750)	(29,862)	(62,670)	(31,306)	(31,348)
Others	(130)	(34,427)	(58,271)	-	-
Cashflow from financing	(81,726)	(261,664)	(285,419)	(66,444)	(268,547)
Net change in CCE	(7,359)	11,648	(7,266)	130,767	(27,355)
CCE, end	21,636	33,465	29,435	160,202	132,848

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Apr, USD '000	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Trade and other receivables	146,534	320,603	185,049	185,608	194,888
Cash	21,636	33,465	29,435	160,202	132,848
Inventories	664,922	482,463	557,602	603,225	633,386
Total current assets	918,407	964,071	854,285	1,031,234	1,043,321
PPE & IA	1,299,455	1,218,932	1,239,473	1,233,586	1,215,599
Others	180,832	371,350	324,145	324,145	324,145
Total non-current assets	1,480,287	1,590,282	1,563,618	1,557,731	1,539,744
Total Assets	2,398,694	2,554,353	2,417,903	2,588,965	2,583,064
LIABILITIES					
Trade and other liabilities	188,669	276,893	254,729	268,570	275,093
Bank borrowings	492,740	1,298,292	332,453	332,453	332,453
Others	29,332	60,026	66,654	66,654	66,654
Total current liabilities	710,741	1,635,211	653,836	667,677	674,200
Long-term borrowings	985,915	97,737	953,290	1,229,857	1,235,326
Others	100,897	255,508	168,281	168,281	168,281
Total non-current liabilities	1,086,812	353,245	1,121,571	1,398,138	1,403,607
Total Liabilities	1,797,553	1,988,456	1,775,407	2,065,815	2,077,806
Net assets	601,141	565,897	642,496	523,149	505,258
Represented by:					
Share capital	19,449	19,449	19,449	19,449	19,449
Share premium	208,339	208,339	208,339	208,339	208,339
Preference shares	300,000	300,000	300,000	100,000	-
Retained earnings	96,074	60,763	83,349	146,910	210,555
Others	(65,827)	(77,474)	(29,953)	(29,953)	(29,953)
Non-controlling interest	43,106	54,820	61,312	78,405	96,868
Total Equity	601,141	565,897	642,496	523,149	505,258

Valuation Ratios

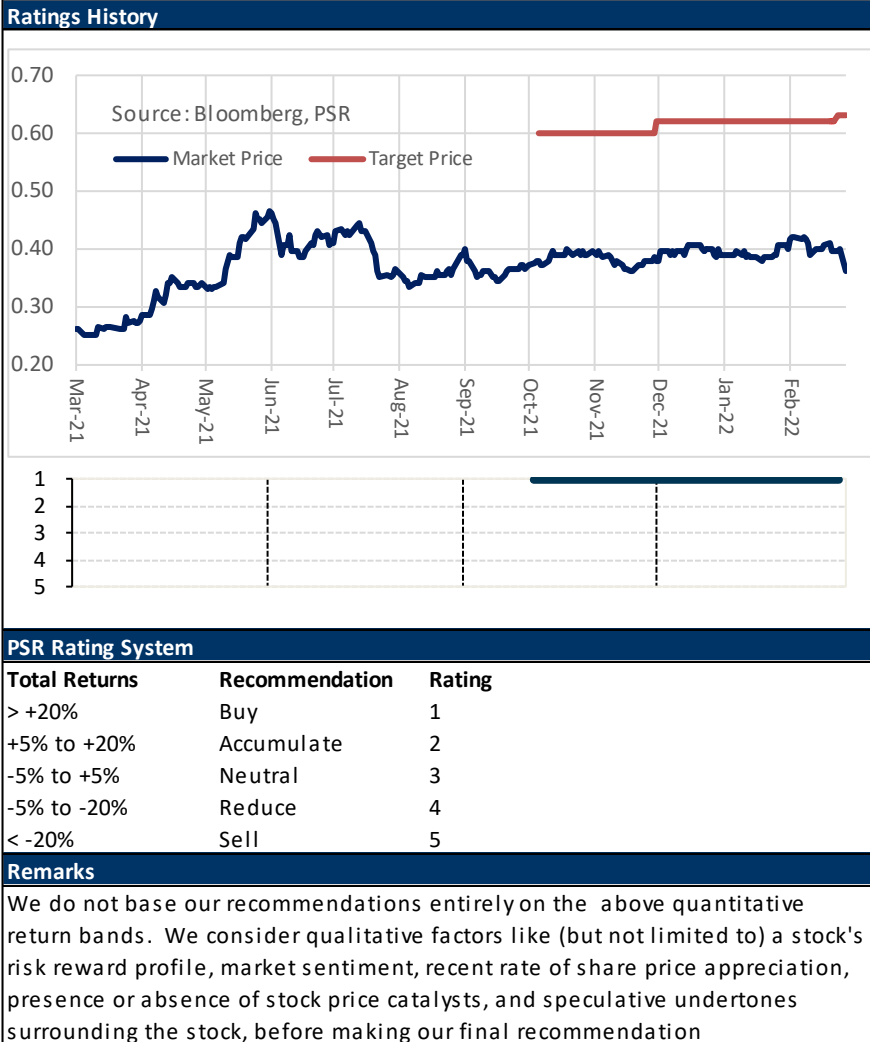
Y/E Apr	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	n.a.	n.a.	11.68	6.81	5.35
P/B (x)	0.86	0.91	0.80	0.98	1.02
EV/EBITDA (x)	9.01	7.59	4.84	4.87	4.39
Dividend Yield (%)	5.2%	19.8%	4.8%	6.2%	6.2%

Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	-11.0%	8.9%	1.6%	7.3%	5.0%
EBITDA	3.8%	13.5%	48.7%	6.8%	12.8%
EBIT	42.2%	-48.8%	329.2%	22.7%	12.5%
Net profit	31.7%	103.8%	96.6%	49.9%	0.1%
Margins					
Gross margin	20.2%	21.2%	25.7%	27.7%	29.4%
EBITDA margin	12.2%	12.7%	18.6%	18.5%	19.9%
EBIT margin	5.0%	2.4%	9.9%	11.4%	12.2%
Net profit margin	0.8%	1.5%	2.9%	4.1%	3.9%

Key Ratios

	FY19	FY20	FY21	FY22e	FY23e
ROE (%)	2.6%	5.7%	9.9%	18.1%	18.8%
ROA (%)	0.7%	1.3%	2.6%	3.7%	3.7%
Net Gearing (x)	2.4	2.4	2.0	2.7	2.8
Net Debt/EBITDA (x)	6.1	5.0	3.1	3.3	3.0



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