

Singapore Company Guide

Del Monte Pacific

Version 5 | Bloomberg: DELM SP | Reuters: DMPL.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

13 Mar 2017

HOLD

Last Traded Price (10 Mar 2017): S\$0.35 (STI : 3,133.35)

Price Target 12-mth: S\$0.36 (5% upside) (Prev S\$0.37)

Potential Catalyst: Stronger turnaround in operational performance

Where we differ: Below consensus on higher expenses; pref shares

Analyst

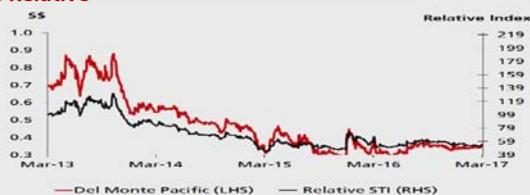
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What's New

- 3Q17 core recurring in line, helped by tax credits
- US operations not up to par, mitigated by strong Asia Pacific performance
- Preference shares on the cards, possibly March/April
- Trimmed forecasts by 18%/15%; maintain HOLD

Price Relative



Forecasts and Valuation

FY Apr (US\$ m)	2016A	2017F	2018F	2019F
Revenue	2,268	2,236	2,321	2,409
EBITDA	234	198	217	241
Pre-tax Profit	62.7	25.1	55.6	84.6
Net Profit	51.5	30.1	41.5	56.1
Net Pft (Pre Ex.)	51.5	30.1	41.5	56.1
Net Pft Gth (Pre-ex) (%)	nm	(41.5)	37.6	35.2
EPS (S cts)	3.75	2.19	3.01	4.08
EPS Pre Ex. (S cts)	3.75	2.19	3.01	4.08
EPS Gth Pre Ex (%)	nm	(42)	38	35
Diluted EPS (S cts)	3.75	2.19	3.01	4.08
Net DPS (S cts)	1.88	0.0	0.0	0.0
BV Per Share (S cts)	22.0	22.3	25.3	29.4
PE (X)	9.2	15.8	11.4	8.5
PE Pre Ex. (X)	9.2	15.8	11.4	8.5
P/Cash Flow (X)	15.8	4.3	3.4	3.6
EV/EBITDA (X)	10.0	11.6	10.3	9.0
Net Div Yield (%)	5.4	0.0	0.0	0.0
P/Book Value (X)	1.6	1.5	1.4	1.2
Net Debt/Equity (X)	4.9	4.8	2.2	1.9
ROAE (%)	18.1	9.9	12.7	14.9
Earnings Rev (%)		(18)	(15)	-
Consensus EPS (S cts)		2.8	3.3	4.1
Other Broker Recs:		B: 0	S: 0	H: 3

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

US operations still not up to par

Maintain HOLD, improvement in US operations and deleveraging are key catalysts. We maintain our HOLD recommendation on DMPL with a revised TP of S\$0.36. While its Asia Pacific operations are posting strong growth, we believe firmer performance from its US operations (DMFI) and the fruition of its deleveraging plans are keys to the re-rating of the counter.

3Q17 core earnings in line, helped by tax credits. Del Monte Pacific Limited's (DMPL) 3Q17 core earnings were within expectations, helped by tax credits. Headline net profit was at US\$8.5m, showing a reversal from loss of US\$4.8m last year. Group revenue improved marginally by 0.3% to US\$604m, helped by Asia Pacific operations, partially offset by its US operations. EBIT was up by 92% to US\$28.4m. In 3Q16, there was a one-off expense amounting to US\$12.4m. Excluding that, recurring EBIT would still have grown by 25% y-o-y. That said, the recurring operating profit was behind our expectations largely arising from a weaker-than-expected performance from its US operations.

Preference shares detailed timeline to be made known. DMPL's planned issuance of an initial US\$250m tranche of perpetual preference shares has received approval from the relevant authorities. A detailed timeline would be shared in due course, and the launch is projected to be in March/April 2017. We have factored US\$250m (coupon rate of 6.5%) in our forecasts in FY18F (instead of FY17F previously) and estimate this to lower the group's gearing to 2.2x by end-FY18F.

Valuation:

Our target price is revised marginally to S\$0.36 based on 12x FY18F PE (post preference share coupon). This is at a 40% discount to consumer peers listed in the US and Philippines, given its higher gearing and uncertainty on the pace of its growth, particularly for its US operations.

Key Risks to Our View:

Turnaround in performance. The main proposition of our recommendation is the turnaround of profit in the absence of non-recurring expenses and better operational performance.

At A Glance

Issued Capital (m shrs)	1,943
Mkt. Cap (S\$m/US\$m)	670 / 475
Major Shareholders (%)	
Nutriasia Pacific Ltd	59.4
Bluebell Group Holdings	7.4
Free Float (%)	23.4
3m Avg. Daily Val (US\$m)	0.08
ICB Industry : Consumer Goods / Food Producers	

WHAT'S NEW**US operations still not up par**

3Q17 core earnings in line. Del Monte Pacific Limited's (DMPL) 3Q17 core earnings were within expectations, helped by tax credits. Headline net profit was at US\$8.5m, showing a reversal from loss of US\$4.8m last year. 3Q16 includes one-off expenses amounting to US\$6.9m.

Revenue improved marginally by 0.3% to US\$604m contributed by growth in Philippines and Asia, offset by DMFI (US operations). DMFI posted sales decline of 3.4% y-o-y to US\$450.6m. At the operating profit level, EBIT was up by 92% to US\$28.4m. In 3Q16, there was a one-off expense amounting to US\$12.4m. Excluding that, recurring EBIT would still have grown by 25% y-o-y. That said, the recurring operating profit was behind our expectations largely arising from a weaker-than-expected performance from DMFI.

Group's gross margin improved by 100bps. The group's overall gross margins improved by 100bps to 20.8%, from 19.8% a year ago. This came about from higher gross margins from DMPL's (ex-DMFI) operations at 33.6% in 3Q17, up from 28.4% a year ago, driven by higher productivity in its cannery, higher pricing and lower commodity prices. This is, however, offset by a drop in gross margins in DMFI to 14.7% from 15.5% last year due to higher fixed cost and lower pricing in non-retail channel.

DMFI facing headwinds; looking towards innovation, marketing and distribution. US operations saw decline in sales of 3%, driven by lower volumes (-4%), offset partially by higher prices (+2%). The lower volumes arose from continued weakness in the canned fruit industry as well as lower sales in the packaged vegetable and private label segments. To counter the overall industry weakness, management is looking towards marketing, innovation and distribution to turn the operations around.

In terms of innovation, management has introduced products such as Del Monte Fruit Refreshers which is essentially fruit cap snacks, targeted at healthy snacking for adults. It is also implementing strategies such as new packaging for College Inn brands. In addition, it has partnered with Tasty Video to provide branding and recipe ideas targeting at millennials and younger audience.

Asia Pacific performed well. For its Asia Pacific operations, momentum continues and growth remains robust, helped by its Philippines operations, and sales of S&W branded business. While the Philippine market showed a 1.5% decline in sales, this was due to a weaker currency. In peso terms, sales improved by 3.2% for the quarter. The robust performance in Asia Pacific was driven by 39% y-o-y growth in S&W brands in the fresh and packaged segments.

Preference shares: Detailed timeline to be shared, launch possibly in March/April. Regulatory approvals for the issuance of a first tranche of preference shares amounting to US\$250m has been obtained. The company has indicated a detailed timetable will be shared in due course. The planned offering could likely take place in March or April. We have adjusted our assumption for the preference shares to take place in FY18, instead of mid-FY17 in our previous assumption.

Forecasts and valuation

Trimmed FY17F/18F forecasts by 18%/15%. We have dialed back our net profit forecasts for FY17F/18F by 18% and 15% respectively. This is on the back of expectations of a weaker sales growth in the US, coupled with lower gross margin assumption, offset partially by stronger growth in the Asia Pacific region. We have also factored in the one-off expenses recognised YTD.

Maintain HOLD, TP: S\$0.36. We are maintaining our HOLD recommendation with a revised TP of S\$0.36, based on 12x FY18F PE (post preference share coupon). This is on the back of our lower profit forecasts, but rolling over to FY18F (from average of FY17F/18F previously).

While DMPL (ex-DMFI) operations are posting strong results, the pace of improvement at DMFI (US operations) will probably need some time given its competitive and matured market. In our forecasts, we project the route to achieve a similar core EPS prior to the acquisition of DMFI to likely take place only in FY19F. While the stock now trades at a seemingly undemanding 11.7x FY17F PE, the uncertainties on the pace of growth, coupled with the outcome of the preference shares to deleverage the group, could hold back a significant re-rating of the counter.

Quarterly / Interim Income Statement (US\$m)

FY Apr	3Q2016	2Q2017	3Q2017	% chg yoy	% chg qoq
Revenue	602	636	604	0.3	(5.1)
Cost of Goods Sold	(483)	(489)	(479)	(1.0)	(2.2)
Gross Profit	119	147	125	5.4	(14.6)
Other Oper. (Exp)/Inc	(104)	(92.7)	(97.0)	(7.0)	4.7
Operating Profit	14.8	54.2	28.5	92.1	(47.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	(0.4)	(0.4)	(0.5)	(28.2)	(8.9)
Net Interest (Exp)/Inc	(25.0)	(25.1)	(28.4)	(13.5)	(13.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Pre-tax Profit	(10.5)	28.7	(0.4)	96.6	nm
Tax	3.63	(7.7)	7.06	94.4	(191.9)
Minority Interest	2.10	(0.9)	1.75	(16.7)	(299.9)
Net Profit	(4.8)	20.2	8.46	nm	(58.1)
Net profit bef Except.	(4.8)	20.2	8.46	nm	(58.1)
EBITDA	33.9	67.7	44.2	30.6	(34.6)
Margins (%)					
Gross Margins	19.8	23.1	20.8		
Opg Profit Margins	2.5	8.5	4.7		
Net Profit Margins	(0.8)	3.2	1.4		

Source of all data: Company, DBS Bank

CRITICAL DATA POINTS TO WATCH

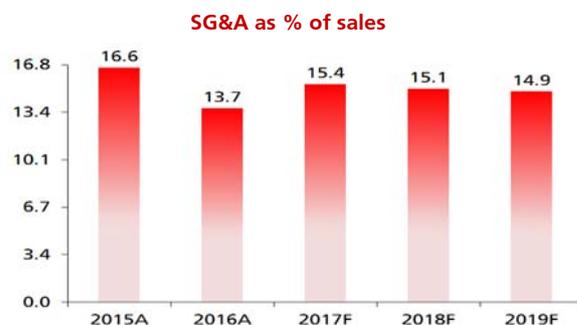
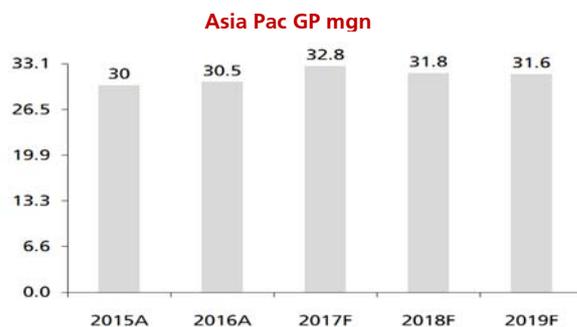
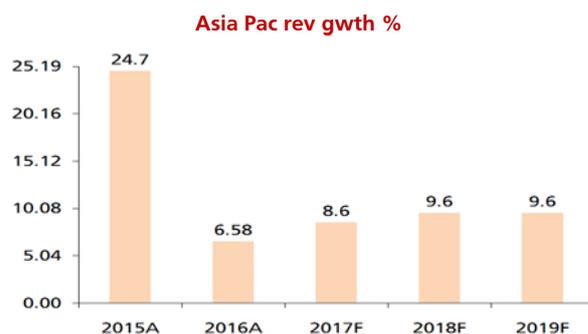
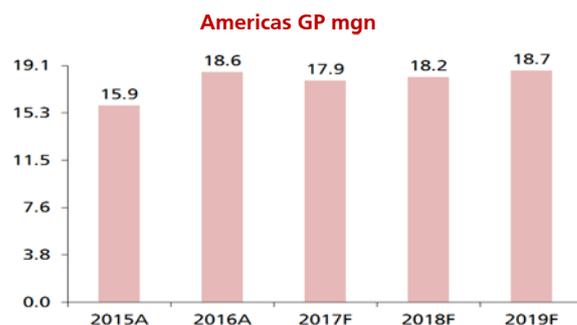
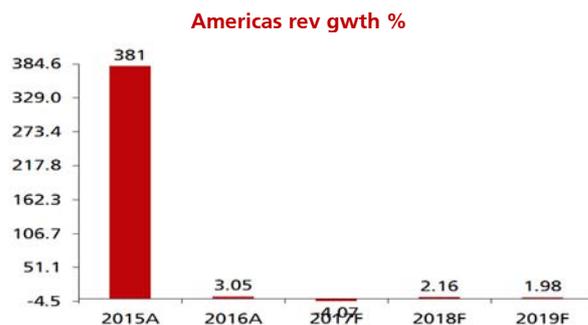
Earnings Drivers:

Main revenue contributor is from the US. With the acquisition of Del Monte Foods Inc. (DMFI) in 2012, DMPL's largest revenue contribution comes from the Americas, accounting for c.78% of group revenue. Since the acquisition, the group has reverted to competitive pricing levels for its products, reintroduced the well-recognised classic Del Monte label as well as partnered with complementary brands such as Tyson Foods, Walmart and Fleischmann's ® Yeast to drive top-line growth. Also, recipes using the group's products are distributed for free across magazines and the internet.

Asia Pacific growth driven by Philippines, Middle East. With the Philippine economy growing at a healthy rate, we project consumption to continue on an uptrend. This will benefit the group given that it is the market leader in the processed fruits and vegetables segment. New products such as the 1L tetra juice drinks are also well received by consumers. Sales of Del Monte in the Philippines were up 12% (in peso terms) and S&W brands' business sales in Asia and the Middle East grew by 8% in FY16. While Asia Pacific and the Philippines contribute only 22% of revenue in FY16, the strong growth in revenue from these markets will be important for the group's organic growth.

Leveraging on its US operations. In the short term, canned pineapple products from the Philippines are sold in the US market to generate top-line growth. Given the group's success in this product segment in its Asian and Philippine markets, this strategy will likely generate positive results. In the medium term, the group is focused on developing the Del Monte range of products for the ethnic markets (Hispanics, Asians) in the US. The group is also planning to use its US operations as a base to penetrate into the South and Central American markets.

Synergistic benefits from acquisitions. Product teams from the different markets are able to share product knowledge, map out product innovations, and identify cross-border selling opportunities. This will help to ensure that resources are more effectively deployed across the group. Furthermore, the acquisition of Sager Creek has enabled the group to expand rapidly into foodservice and new vegetable segments. It is also reported that this acquisition will achieve significant operating synergies in terms of production and distribution in the US market.



Source: Company, DBS Bank

Balance Sheet:

High gearing due to leverage for buyout. Gearing is high and stood at c.5x as of end-FY16, but is projected to drop to 2.2x by end-FY18F based on our assumptions/projections. Management is focused on de-leveraging its balance sheet and is looking to issue preference shares. We have assumed US\$250m preference share issuance in FY18F.

Capex to moderate. With the group now focused on the integration of the acquired businesses (DMFI & Sager Creek), capex should be significantly lower as no further significant acquisitions are planned.

Share Price Drivers:

Pace of earnings turnaround. Since the acquisition of DMFI, the group registered losses for FY14 and FY15. It registered a profit in FY16, as per expectations. However, we expect ongoing pace of growth, while robust from a relatively low base, will be slower than previously envisaged. An improvement in the pace would aid in driving the share price up.

Key Risks:

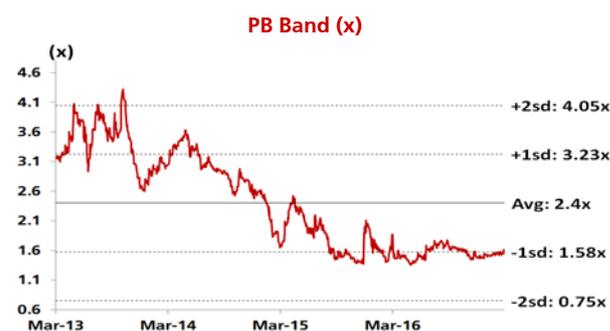
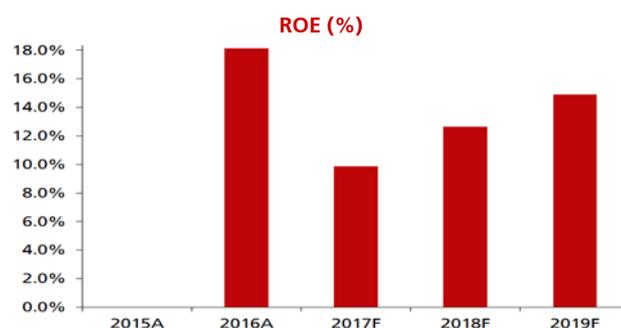
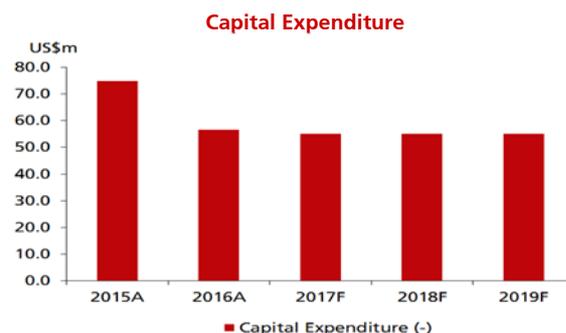
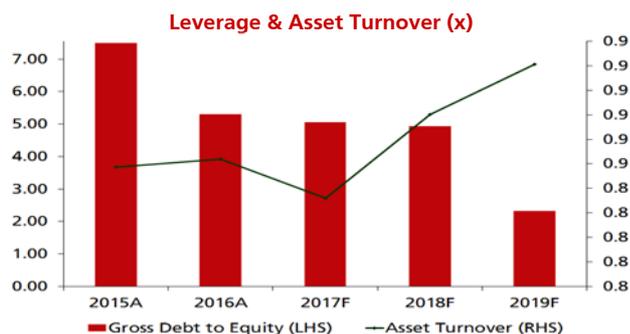
Higher interest costs. While a portion of loans has been swapped to a fixed rate, a higher interest rate environment could undermine future refinancing options.

Performance turnaround; raw material price. We expect operational performance to improve in the absence of one-off expenses, coupled with better efficiencies. This is contingent on sales, and in turn consumer sentiment and the broader economy.

Overhang from potential preference share issuance. The terms and actual timing of the preference share issuance and fruition are uncertain, and will depend on market conditions.

Company Background

Del Monte Pacific Limited is a consumer F&B-focused group. It acquired the consumer food business of Del Monte Corp in the US and completed the deal in February 2014 and thus extending the footprint of the group to the US and South America, along with trademarks such as Del Monte, S&W, Contadina, College Inn, etc. The group now has exclusive rights to use the Del Monte trademarks for packaged products in the United States, South America, the Philippines, Indian subcontinent and Myanmar. It owns another premium brand, S&W, globally except in Australia and New Zealand.



Source: Company, DBS Bank

Del Monte Pacific

Key Assumptions

FY Apr	2015A	2016A	2017F	2018F	2019F
Americas rev gwth %	381	3.05	(4.1)	2.16	1.98
Americas GP mgn	15.9	18.6	17.9	18.2	18.7
Asia Pac rev gwth %	24.7	6.58	8.60	9.60	9.60
Asia Pac GP mgn	30.0	30.5	32.8	31.8	31.6
SG&A as % of sales	16.6	13.7	15.4	15.1	14.9

Segmental Breakdown

FY Apr	2015A	2016A	2017F	2018F	2019F
Revenues (US\$m)					
Americas	1,717	1,770	1,698	1,734	1,769
Asia Pacific	436	464	504	552	606
Europe	33.7	33.8	34.4	34.4	34.4
Total	2,187	2,268	2,236	2,321	2,409
Gross profit (US\$m)					
Americas	273	329	303	316	331
Asia Pacific	131	142	165	176	191
Europe	4.44	11.5	10.1	9.33	9.33
Total	408	482	479	501	532
Gross profit Margins (%)					
Americas	15.9	18.6	17.9	18.2	18.7
Asia Pacific	30.0	30.5	32.8	31.8	31.6
Europe	13.2	34.1	29.4	27.1	27.1
Total	18.7	21.2	21.4	21.6	22.1

Income Statement (US\$m)

FY Apr	2015A	2016A	2017F	2018F	2019F
Revenue	2,187	2,268	2,236	2,321	2,409
Cost of Goods Sold	(1,779)	(1,786)	(1,758)	(1,820)	(1,877)
Gross Profit	408	482	479	501	532
Other Opng (Exp)/Inc	(373)	(320)	(344)	(351)	(359)
Operating Profit	35.0	162	134	151	173
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(2.5)	(1.7)	(1.0)	(0.7)	(0.7)
Net Interest (Exp)/Inc	(99.5)	(97.4)	(108)	(94.6)	(87.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(66.9)	62.7	25.1	55.6	84.6
Tax	17.9	(8.1)	4.00	1.11	(7.6)
Minority Interest	5.81	(3.0)	1.00	1.00	(4.6)
Preference Dividend	0.0	0.0	0.0	(16.3)	(16.3)
Net Profit	(43.2)	51.5	30.1	41.5	56.1
Net Profit before Except.	(43.2)	51.5	30.1	41.5	56.1
EBITDA	91.5	234	198	217	241
Growth					
Revenue Gth (%)	194.2	3.7	(1.4)	3.8	3.8
EBITDA Gth (%)	nm	155.8	(15.3)	9.6	11.0
Opg Profit Gth (%)	nm	362.1	(17.0)	12.4	14.5
Net Profit Gth (Pre-ex) (%)	(34.0)	nm	(41.5)	37.6	35.2
Margins & Ratio					
Gross Margins (%)	18.7	21.2	21.4	21.6	22.1
Opg Profit Margin (%)	1.6	7.1	6.0	6.5	7.2
Net Profit Margin (%)	(2.0)	2.3	1.3	1.8	2.3
ROAE (%)	(19.4)	18.1	9.9	12.7	14.9
ROA (%)	(1.7)	1.9	1.1	1.6	2.1
ROCE (%)	2.5	6.3	5.8	6.4	6.7
Div Payout Ratio (%)	N/A	50.2	0.0	0.0	0.0
Net Interest Cover (x)	0.4	1.7	1.2	1.6	2.0

Source: Company, DBS Bank

Quarterly / Interim Income Statement (US\$m)

FY Apr	3Q2016	4Q2016	1Q2017	2Q2017	3Q2017
Revenue	602	520	466	636	604
Cost of Goods Sold	(483)	(409)	(372)	(489)	(479)
Gross Profit	119	111	93.6	147	125
Other Oper. (Exp)/Inc	(104)	(52.7)	(86.8)	(92.7)	(97.0)
Operating Profit	14.8	58.3	6.76	54.2	28.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	(0.4)	(0.5)	(0.4)	(0.4)	(0.5)
Net Interest (Exp)/Inc	(25.0)	(26.9)	(26.6)	(25.1)	(28.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	(10.5)	30.9	(20.2)	28.7	(0.4)
Tax	3.63	(9.9)	9.41	(7.7)	7.06
Minority Interest	2.10	(1.7)	2.10	(0.9)	1.75
Net Profit	(4.8)	19.3	(8.7)	20.2	8.46
Net profit bef Except.	(4.8)	19.3	(8.7)	20.2	8.46
EBITDA	33.9	57.8	6.40	67.7	44.2

Growth

Revenue Gth (%)	(9.7)	(13.7)	(10.5)	36.7	(5.1)
EBITDA Gth (%)	(60.5)	70.6	(88.9)	958.4	(34.6)
Opg Profit Gth (%)	(82.8)	293.4	(88.4)	702.3	(47.5)
Net Profit Gth (Pre-ex) (%)	nm	nm	nm	nm	(58.1)

Margins

Gross Margins (%)	19.8	21.3	20.1	23.1	20.8
Opg Profit Margins (%)	2.5	11.2	1.5	8.5	4.7
Net Profit Margins (%)	(0.8)	3.7	(1.9)	3.2	1.4

Balance Sheet (US\$m)

FY Apr	2015A	2016A	2017F	2018F	2019F
Net Fixed Assets	578	564	563	560	555
Invt in Associates & JVs	22.6	22.7	21.7	21.0	20.3
Other LT Assets	925	914	905	896	886
Cash & ST Invt	35.6	47.2	45.8	82.3	111
Inventory	750	845	806	797	822
Debtors	224	211	224	232	241
Other Current Assets	95.2	90.0	91.0	92.0	93.0
Total Assets	2,630	2,694	2,656	2,680	2,729
ST Debt	446	727	697	417	387
Creditor	374	301	297	308	317
Other Current Liab	17.0	18.1	10.3	13.2	21.9
LT Debt	1,273	1,116	1,116	1,116	1,116
Other LT Liabilities	196	167	167	167	167
Shareholder's Equity	266	303	307	599	655
Minority Interests	58.6	62.0	61.0	60.0	64.6
Total Cap. & Liab.	2,630	2,694	2,656	2,680	2,729
Non-Cash Wkg. Capital	678	828	813	800	817
Net Cash/(Debt)	(1,683)	(1,797)	(1,768)	(1,452)	(1,392)
Debtors Turn (avg days)	36.8	35.0	35.5	35.8	35.8
Creditors Turn (avg days)	107.5	67.1	72.0	64.4	62.9
Inventory Turn (avg days)	273.0	165.4	170.0	178.0	166.9
Asset Turnover (x)	0.8	0.9	0.8	0.9	0.9
Current Ratio (x)	1.3	1.1	1.2	1.6	1.7
Quick Ratio (x)	0.2	0.3	0.2	0.3	0.4
Net Debt/Equity (X)	5.2	4.9	4.8	2.2	1.9
Net Debt/Equity ex MI (X)	6.3	5.9	5.8	2.4	2.1
Capex to Debt (%)	4.4	3.1	3.0	3.6	3.7
Z-Score (X)	1.1	1.3	1.5	1.6	1.6

Source: Company, DBS Bank

Cash Flow Statement (US\$m)

FY Apr	2015A	2016A	2017F	2018F	2019F
Pre-Tax Profit	(66.9)	62.7	25.1	55.6	84.6
Dep. & Amort.	59.0	74.1	65.1	67.1	69.1
Tax Paid	(12.6)	0.0	(3.8)	4.00	1.11
Assoc. & JV Inc/(loss)	2.45	1.72	1.00	0.70	0.70
Chg in Wkg.Cap.	178	(168)	22.0	10.3	(25.1)
Other Operating CF	79.3	59.2	0.0	0.0	0.0
Net Operating CF	240	30.1	109	138	130
Capital Exp.(net)	(74.8)	(56.5)	(55.0)	(55.0)	(55.0)
Other Invts.(net)	(76.3)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	(4.3)	(2.0)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.35	0.36	0.0	0.0	0.0
Net Investing CF	(155)	(58.1)	(55.0)	(55.0)	(55.0)
Div Paid	0.0	0.0	(25.9)	(16.3)	(16.3)
Chg in Gross Debt	(141)	126	(30.0)	(280)	(30.0)
Capital Issues	155	0.0	0.0	0.0	0.0
Other Financing CF	(91.0)	(84.8)	0.0	250	0.0
Net Financing CF	(77.3)	41.6	(55.9)	(46.3)	(46.3)
Currency Adjustments	(0.1)	(2.1)	0.0	0.0	0.0
Chg in Cash	7.22	11.6	(1.4)	36.5	29.1
Opg CFPS (S cts)	5.92	14.4	6.36	9.26	11.3
Free CFPS (S cts)	16.0	(1.9)	3.96	6.01	5.47

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	14 Mar 16	0.33	0.39	HOLD
2:	30 Jun 16	0.34	0.37	HOLD
3:	09 Sep 16	0.36	0.37	HOLD
4:	07 Dec 16	0.34	0.37	HOLD

Source: DBS Bank

Analyst: Andy SIM CFA

Alfie YEO

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 13 Mar 2017 08:09:41 (SGT)

Dissemination Date: 13 Mar 2017 08:33:46 (SGT)

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