Singapore Company Focus

Del Monte Pacific

Bloomberg: DELM SP | Reuters: DMPL.SI **Refer to important disclosures at the end of this report**

DBS Group Research. Equity 25 Oct 2013

HOLD S$0.905 STI: 3,217.95

(Downgrade from BUY)
Price Target: 12-Month S$0.96 (Prev S$0.97)
Reason for Report: Company update/results review
Potential Catalyst: Better than expected performance of acquiree and earnings accretion
DBSV vs Consensus: FY14F/15F estimates marginally higher than consensus

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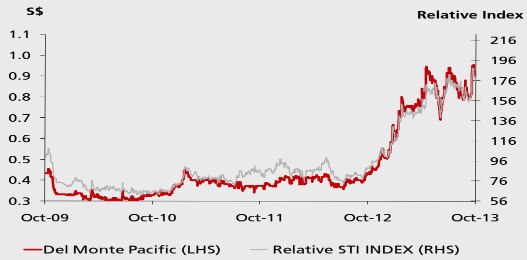
Price Relative



Forecasts and Valuation

FY Dec (US$ m)	2012A	2013F	2014F	2015F
Revenue	460	503	560	626
EBITDA	60	56	78	102
Pre-tax Profit	41	38	58	82
Net Profit	32	29	45	62
Net Pft (Pre Ex.)	32	29	45	62
EPS (S cts)	3.1	2.8	4.3	5.9
EPS Pre Ex. (S cts)	3.1	2.8	4.3	5.9
EPS Gth (%)	17	(9)	53	39
EPS Gth Pre Ex (%)	17	(9)	53	39
Diluted EPS (S cts)	3.1	2.8	4.3	5.9
Net DPS (S cts)	2.3	2.1	3.2	4.5
BV Per Share (S cts)	24.4	24.9	27.0	29.8
PE (X)	29.5	32.4	21.2	15.3
PE Pre Ex. (X)	29.5	32.4	21.2	15.3
P/Cash Flow (X)	38.6	26.2	14.6	10.9
EV/EBITDA (X)	17.7	19.3	13.7	10.1
Net Div Yield (%)	2.5	2.3	3.5	4.9
P/Book Value (X)	3.7	3.6	3.3	3.0
Net Debt/Equity (X)	0.4	0.5	0.5	0.4
ROAE (%)	13.2	11.4	16.5	20.9
Earnings Rev (%):		(16)	(1)	0
Consensus EPS (S cts):		3.4	4.1	5.8
Other Broker Recs:		B: 5	S: 0	H: 0

ICB Industry : Consumer Goods
ICB Sector: Food Producers
Principal Business: Engaged in the production, marketing and distribution of premium-branded food and beverage products.

Source of all data: Company, DBS Vickers, Bloomberg Finance L.P

Taking a grounded view

- **Unlike the market's optimism, we are neutral on the proposed US$1.7bn acquisition of DMF's Consumer Food Business**
- **Earnings accretion to common equity holders estimated to be minor in the interim; highly sensitive to acquired entity's business performance going forward**
- **3Q13 earnings in line; growth profile and market exposure will change with proposed acquisition**
- **Downgrade to HOLD after recent outperformance; cuts in future dividend payout likely on high leverage**

Neutral over proposed acquisition. At this stage, we have a neutral view of DMPL's proposed US$1.675bn acquisition of US-based DMF's CFB. No doubt the acquisition will transform and expand DMPL's presence, but we see hard work ahead for DMPL, given the significantly larger business – 4x revenue and 2.7x EBIT.

EPS accretion estimated to be minor. DMPL's consolidated revenue will expand by c.5x post-acquisition, but we estimate that FY14F EPS accretion to common equity at just c.2% (before transaction costs). Given the shift in capital structure towards higher gearing, we expect profits to be eroded by interest costs, and EPS diluted by new preference shares/equity to be issued. Future upside to EPS, in our view, will be highly sensitive to the turnaround in the acquired entity's operations.

3Q13 within expectations. 3Q13 core earnings were in line (US$8.9m, +7%), with S&W brands and non-branded products driving top line growth. Going forward, the Group's growth profile will be altered, given the consolidation of a larger entity with lower growth. We estimate that revenue contribution from Philippines will drop to 14% in FY14F, down from 62% in FY13F.

Downgrade to HOLD, TP: S$0.96. We lowered FY13F forecasts by 16% to factor in the transaction costs that will be booked in this year, but have not consolidated financials from the proposed acquisition, pending further details. With the recent surge in share price, we see limited upside to our TP and marginal EPS accretion at this stage, if any. DMPL's fortunes will be highly contingent on the performance of the newly acquired business. There are possible downsides to dividend payout, given its high gearing of c.1.8x post-acquisition, in our view. Downgrade to HOLD, TP reduced to S$0.96.

At A Glance

Issued Capital (m shrs)	1,297
Mkt. Cap (Sm/USm)	1,173 / 947
Major Shareholders	
Nutriasia Pacific Ltd (%)	67.1
Lee Pineapple Co Pte Ltd (%)	8.2
Free Float (%)	24.7
Avg. Daily Vol.('000)	512

A transformational deal, but the grind lies ahead

Game-changing, but work is just starting. While we recognise that the acquisition of US-based Del Monte Foods's (DMF) Consumer Food Business (CFB) will be transformational for Del Monte Pacific Limited (DMPL) – larger geographical presence, revenue base, etc – we reckon management will need to work hard to ensure that value can be extracted via margin expansions, synergies and reversal of top line growth, to counter the heavy interest burden.

At this stage, we adopt a neutral view and believe that the market may have over-reacted on the upside. Based on our estimates, the accretion to common equity shareholders may be more subdued and will be highly contingent on the performance of the newly acquired business going forward.

Downgrade to HOLD with recent rise in price, and execution challenges ahead. We are downgrading our recommendation to HOLD, from BUY. We believe the market's positive stance may have been overdone, with its share price surging by up to 17% at one stage, in the days after the proposed deal was announced on 11 Oct 2013.

Accretion to common equity holders estimated at 2%. We estimate that the earnings accretion to common equity holders is at a muted 2% on our assumption that the business stays constant and profitable from FYE Apr'13. This is after accounting for interest costs, preference share dividends and new common equity issuance. Furthermore, we believe its dividend payout policy could revert to the minimal rate of 33%, from its traditional 75%, given its high leverage from the proposed acquisition (expected to surge to 1.8x).

Details of the purchase – A recap of details

Del Monte Foods's Consumer Food Business at a price tag of US$1.675bn. DMPL has entered into a purchase agreement with US-based Del Monte Foods to acquire its consumer food business (DMF-CFB) for a total cash consideration of US$1.675bn.

Funding largely via debt, coupled with pref shares and new equity. The funding for the proposed acquisition will be via a mixture of debt, shareholder's loan, preference shares and common equity issuance. DMPL has committed US$745m, while DMF-CFB will undertake a debt of at least US$930m. DMPL is expected to fund its US$745m as shown in the table below.

Profitable business but earnings will be compressed by interest costs due to leverage. Based on financials released in its announcement, CFB is profitable with a FYE Mar'13 EBITDA and operating profit of US$178m and US$135m respectively. We understand that the PAT is c.US$100m. However, if we include the interest costs on the US$930m debt that is expected to be undertaken for the leveraged buy-out, PAT is estimated to be c.US$37m, implying a PE of c.45x.

Funding for the acquisition

	US$ m
By DMPL:	
Cash on hand, existing credit lines	80
Perpetual Preference shares	350
Common equity	150
Shareholder's loan from NutriAsia Pacific Limited	165
Sub-Total (by DMPL)	745
By Target (DMF-CFB):	
Institutional debt financing	930
Total	1,675

Source: Company announcement

FYE Apr'13 of DMF's Consumer Food Business

DMF	2013A	Remarks
Sales	1830	
EBITDA	178	
Depr & Amortisation	43	
Operating profit	135	
Interest costs	(77)	Assume 7.5% average interest rate on US$930m loan, 3% on working capital loans
PBT	57	
Tax	(20)	Assume 35% tax rate
PAT	37	
Implied PE	45x	

Source: Company, DBSVickers

An extraordinary general meeting will be convened to approve the transaction. DMPL's controlling shareholder, NutriAsia Pacific Limited, has given its undertaking to vote in favour of the proposed transaction.

Transaction to be completed by 28 Feb 2014. The long stop date is 28 Feb 2014. The closing date of the purchase shall not occur earlier than the second business day following shareholders' approval at the to-be-convened EGM or two business days prior to 28 Feb 2014. In the event that the transaction is not completed, DMPl will lose US$100m to the vendor which has been placed in an escrow account.

Who is DMF, Consumer Food Business?
DMF is a privately-owned, San Francisco-based entity. It owns the Del Monte brand rights for processed food products in the United States and South America. Other brands include S&W, Contadina and College Inn. The Consumer Food Business is the leading canned fruit and vegetable marketer in the US, with strong positions in the canned tomatoes and broth categories. For FY13, its market share for processed fruit, vegetables and tomatoes in the US was 26.6%, 23.9% and 11.3%, respectively, based on information from DMF's 10-K annual report.

Our views:
Compared to the market's reaction (based on share price observations), we adopt a more neutral view on the proposed transaction for the following reasons:

1. Earnings accretion to common equity holders eroded by interest costs in the interim, and will be highly contingent on the target's future financial performance.
2. Execution could be a challenge, given the huge transaction, new geographical area of operations and operations in a mature market.
3. High gearing post-transaction, exposing both DMPL and target to interest rate movements. The high net gearing also puts future dividend payouts in doubt.
4. Growth profile of DMPL will change to a low growth, matured market exposure, from a higher growth, emerging market focused company.
5. Break-fee of US$100m, equating to c.6% of transaction value, seems high.

1) Earnings accretion offset by interest costs, new shares

Earnings accretion to common equity holders eroded by interest costs, pref and new shares, contingent on turnaround. Based on our assumption, we estimate that earnings accretion may be muted at just c.2% on FY14F earnings, which pales in comparison to the increase (up to 17% at one point) in share price in the days after the announcement. In our estimates, we assume: (i) CFB's financials remained similar to FYE Apr'13; (ii) accounted for additional interest costs incurred by both DMPL and CFB; (iii) preference share dividend of 7%; and (iv) US$150m new share issuance, equating to 208m shares (16% dilution).

DBSV assumption and scenario on acquisition of DMF's CFB

Scenario on FY14F	Target	DMPL	Combined	Remarks
Sales	1,830	503	2,334	Sales and opg profit for target assumed to remain stable as per FYE Apr'13
EBITDA	178	82	260	
Depr & Amortisation	43	16	59	
Operating profit	135	66	201	
Interest costs	0	(3)	(3)	Current net interest costs
Additional interest costs	(77)	(9)	(86)	US$930m loan @ blended interest costs of 7.5% and 3% working cap loan (US$250m); DMPL with shareholder's loan (US$165m) and credit lines/ cash (US$80m)
PBT	57	54	111	
Tax	(20)	(13)	(33)	
PAT	37	41	78	
Pref shares dividends	0	(25)	(25)	Pref shares dividends at 7%
PAT (after pref shares)	37	16	54	
Existing shares (m)			1,298	
New shares issued (m)			208	Assume 208m new shares (US$150m @ 5% discount to S$0.95/share)
Total shares (m)			1,506	New share base
EPS US cents (combined)			3.56	
EPS US cents (current)			3.47	DBSV's current estimates for DMPL
Accretion			2%	

Source: DBSVickers

Earnings accretion highly sensitive to CFB's performance. We believe that DMPL's performance in the future will be highly sensitive to CFB's performance. In our theoretical exercise, we adopt three scenarios – base, pessimistic and optimistic. In our base case scenario, we assume CFB's sales, margins and profits remain flat. For our pessimistic and optimistic scenario, we assume sales growth of -/+1% growth and a margin expansion of -/+1% per year. We found that EPS accretion/dilution ranges from -47% to a high of 57%, based on our pessimistic and optimistic scenario, respectively (table on right).

2) Execution a key challenge

Implementation will be challenging. While we recognise that the deal will be transformational for DMPL, with a significant boost to its revenue size after consolidation, we believe concerns on execution may weigh down on DMPL's share price over the near to medium term. Specifically, our concerns are premised on: (a) huge size relative to current; (b) different geographical operations; (iii) matured, declining business in need of turnaround. Nonetheless, we believe if management can execute smoothly on this transformational deal, it would be a key testament to their business acumen.

A huge transaction; 4x DMPL's revenue. DMF's CFB is significantly larger compared to DMPL currently. Revenue is 4x larger, while operating profit is about 2.7x bigger, based on FYE Apr'13 financials of CFB compared to DMPL's FYE Dec'12. While this will be transformational, with DMPL's revenue and operating profit surging by about five-folds and four-folds respectively, execution risks will be particularly evident for the significantly larger entity, in our view.

Different geographical area of operations. The acquisition will also bring new markets into DMPL's operations, which has traditionally been centred in the Philippines and Asia Pacific. CFB's operations are in the US and Latin America. We understand that the management team from CFB will continue to manage the business and hence, DMPL will have to depend on the team to turn around the business. We acknowledge that there may be new focus by DMPL to drive growth, compared to the previous owners.

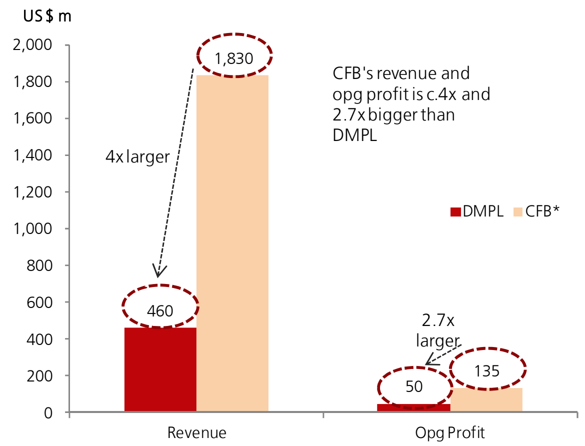
A matured market business - Flat top line, margin pressure. Based on the financial information from the announcement (released on 11 Oct 2013), the CFB has registered flat revenue growth in the past three fiscal years to FYE Mar'13, while operating margins have declined from 10.7% in FY11 to 7.3% in FY13. We believe the top priority for DMPL, post-completion of the acquisition, will be to arrest the decline in margins and revitalise the top-line growth.

DMPL future earnings highly contingent on acquired business

Assumptions	Pessimistic	Base	Optimistic
Sales growth	-2%	0%	2%
Operating margins chg	-1.0%	0%	1%

FY14F	Pessimistic	Base	Optimistic
Sales	1,776	1,830	1,904
EBITDA	140	180	223
Depr & Amortisation	45	45	45
Operating profit	95	135	178
Interest costs	(77)	(77)	(77)
PBT	18	57	101
Tax	(6)	(20)	(35)
PAT	12	37	66
DMPL's FY14F PAT	41	41	41
Pref shares dividends	(25)	(25)	(25)
NP after pref shares	16	16	16
Combined PAT (US$m)	28	54	82
Existing shares (m)	1,298	1,298	1,298
New shares issued (m)	208	208	208
Total shares (m)	1,506	1,506	1,506
EPS (combined) US cents	1.85	3.56	5.44
EPS accretion/ (dilution)	-47%	2%	57%

Target's revenue is 4x larger than DMPL



Note: Based on FYE Dec'12 financials for DMPL, FYE Apr'13 for CFB

Source: DBSVickers, Company

DMF CFB facing flat revenue, margin pressure

FYE Apr	2011A	2012A	2013A
Net sales	1,881	1,814	1,830
COGS	(1,414)	(1,402)	(1,407)
Gross Profit	467	412	424
Operating Expenses	(127)	(124)	(147)
SG&A	(139)	(132)	(144)
Other income/ (Expenses)	1	1	2
Operating Income	202	157	135
Depre & Amortn	46	44	43
Adj. for non-recurring items	(6)	1	0
Adjusted EBITDA	242	202	178
Gross profit	24.8%	22.7%	23.1%
Operating profit	10.7%	8.7%	7.3%
EBITDA margins	12.9%	11.1%	9.7%
Growth yoy (%)			
Sales		*-4%*	*1%*
Gross Profit		*-12%*	*3%*
Operating profit		*-22%*	*-14%*
EBITDA		*-17%*	*-12%*

Source: Company announcement, DBSVickers

Gearing to surge on leverage taken for acquisition

	Net debt/ equity (x)	Net Debt (US$ m)	Equity (US$ m)
Pre-acquisition:			
DMPL (as of 30 Jun'13)	0.69	(162)	236
Add:			
- DMPL credit lines		(80)	
- DMPL shareholder's loan		(165)	
- CFB loan for buy-out		(930)	
- Pref shares			350
- New shares			150
Post-acquisition:			
Combined (post acquisition)	1.82	(1,337)	736
Assume pref shares as debt	4.37	(1,687)	386

Source: DBSVickers, Company

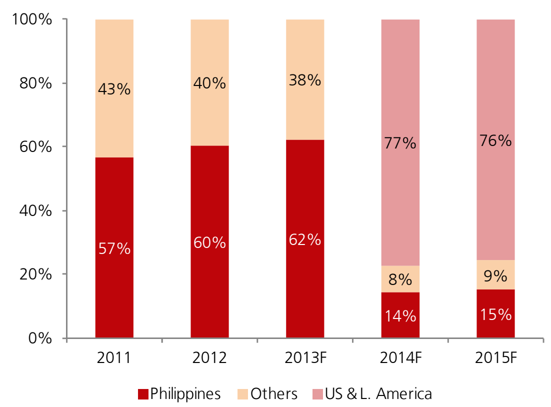
3) High gearing post-acquisition; Gearing to surge to 1.8x

DMPL's gearing last stood at 0.6x as of Jun'13. With the proposed acquisition, we estimate that gearing will surge to 1.8x. If we do not account for preference shares and assume that as debt, gearing (on common equity) will stand at c.4.4x. This will raise the Group's vulnerability to interest rate and leverage risks, in our view.

4) Changes to growth profile after acquisition.

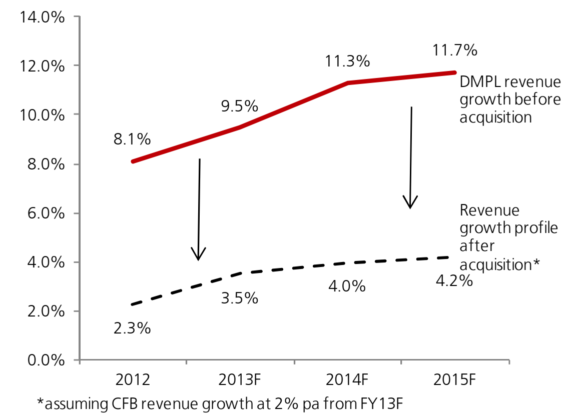
The growth profile of DMPL is likely to be altered, post-acquisition, in our view, given the significantly larger exposure to a matured market. We estimate that revenue contribution to the Group from the Philippines will decline from c.62% in FY13F, to 14% in FY14F. This will be contributed by revenue from the US and Latin America. We also expect top-line growth of the Group to be altered to a low single-digit figure, from double-digits.

Philippines contribution to dwindle after consolidation



Source: DBSVickers

Revenue growth profile will likely drop after acquisition



Source: DBSVickers

5) Break fee of US$100m

While not related to operations, we are a little surprised by the break-fee of US$100m. Based on a transaction value of US$1.675bn, this equates to about 6%, which seems high in our view. We do not have details on the conditions for the break-fee to be payable, but the quantum does look high.

3Q13 earnings review

3Q13 within expectations. 3Q13 net profit dipped by 13% y-o-y to US$7.2m. The drop was a result of one-off transaction fees of US$1.7m for the proposed acquisition of DMF's CFB. Excluding that, net profit would be US$8.9m, registering a 7% growth y-o-y. Revenue growth 3Q was 9%, driven mainly by growth in its S&W processed and fresh fruits, and non-branded business.

Key Risks

Upside risks to our recommendation. Synergies from integration with DMPL, better than expected turnaround in DMF-CFB's operations.

Segmental Analysis

FY13F trimmed on transaction costs. We trimmed our FY13F forecasts by 16%, arising from US$6m transaction costs and US$1.2m for its dual listing that will be incurred in FY13F. However, we have yet to consolidate the financials from the proposed acquisition, pending further detailed financial information, detailed costs of funding, business strategies and plans for integration, potential synergies and outlook for the newly acquired entity.

Valuation

Downgrade to HOLD, TP trimmed marginally to S$0.96. We trimmed our DCF-backed TP marginally to S$0.96, on the back of a lower forecasts and interest costs. With the recent outperformance since the announcement of the proposed acquisition, there is now limited upside to our TP. As discussed above, this is a transformational step for DMPL into a global consumer company with exposure to the US and Latin America, coupled with its existing markets. However, we hold a neutral view at this stage, given the huge execution risks, high leverage (post-acquisition), alterations in the growth profile and potential cuts in its future dividend payout. Downgrade to HOLD, from BUY.

That said, we opine that if management can execute this transformational deal through smooth integration, and engineer a turnaround in the operations with growth in revenue and expansion in margins, this would be a key testament to their business acumen and will elevate DMPL to a global branded F&B company with a significantly larger profit base.

Results summary and comments

FY Dec (m)	3Q12	2Q13	3Q13	yoy %	qoq %	9M12	9M13	yoy %	Comments
Sales	116.6	121.0	127.0	9%	5%	300.2	335.4	12%	Driven by non-branded and S&W brands
Cost of Goods Sold	(87.1)	(92.7)	(95.3)	9%	3%	(226.1)	(255.6)	13%	
Gross Profit	29.5	28.4	31.7	7%	12%	74.1	79.8	8%	
Distri & selling exp	*(8.6)*	*(8.0)*	*(8.4)*	-2%	6%	*(22.6)*	*(23.7)*	5%	
General & admin exp	*(6.2)*	*(7.9)*	*(9.7)*	57%	23%	*(18.6)*	*(22.5)*	21%	*Includes US$1.7m transaction fees in 3Q for proposed acquisition of DMF consumer food business*
Other expenses	*(1.5)*	*(2.3)*	*(0.4)*	-73%	-82%	*(2.1)*	*(2.3)*	11%	*9M13 includes dual listing expenses*
Operating Expenses	(16.3)	(18.2)	(18.5)	14%	2%	(43.3)	(48.5)	12%	
EBIT	13.2	10.2	13.1	0%	29%	30.8	31.3	2%	
Interest Income	0.1	0.1	0.1	-56%	-29%	0.4	0.6	35%	
Interest Expense	(1.1)	(2.0)	(2.0)	84%	0%	(2.8)	(4.9)	75%	Higher interest costs with higher debt taken for working capital
Share of Associates' or JV Income	(1.5)	(1.4)	(1.2)	-19%	-12%	(5.0)	(3.9)	-23%	
Pretax Profit	10.7	6.8	9.9	-7%	46%	23.4	23.1	-1%	
Tax	(2.5)	(0.8)	(2.8)	12%	270%	(5.1)	(5.5)	9%	
Minority Interests	0.1	0.1	0.1	-28%	-20%	0.4	0.3	-32%	
Net Profit	8.3	6.1	7.2	-13%	17%	18.7	17.8	-5%	Core earnings within expectations. Excl. US$1.7m transaction fee in 3Q, net profit growth of 7%

Revenue	3Q12	2Q13	3Q13	yoy	Qoq	9M12	9M13	yoy	Comments
Branded	78,879	79,542	82,132	4%	3%	199,506	221,111	10.8%	Driven by S&W processed and fresh fruits 3Q saw improved processed pineapple & mixed fruits
Non-branded	37,716	41,482	44,834	19%	8%	100,694	114,268	13.5%	
Total	116,595	121,024	126,966			300,199	335,379	11.7%	

Gross Profit	3Q12	2Q13	3Q13	yoy	Qoq	9M12	9M13	yoy	Comments
Branded	25,197	23,108	26,566	5%	15%	60,885	68,298	12.2%	
Non-branded	4,307	5,262	5,086	18%	-3%	13,233	11,518	-13.0%	
Total	29,504	28,370	31,652	7%	12%	74,118	79,816	7.7%	

Operating Profit	3Q12	2Q13	3Q13	yoy	Qoq	9M12	9M13	yoy	Comments
Branded	11,562	8,696	11,236	-3%	29%	24,394	28,653	17.5%	
Non-branded	1,632	1,466	1,895	16%	29%	6,187	2,621	-57.6%	
Total	13,194	10,162	13,131	0%	29%	30,581	31,274	2.3%	

Source: Company, DBS Vickers

Key Assumptions

FY Dec	2011A	2012A	2013F	2014F	2015F
Branded rev. gwth %	5.3	16.8	15.8	14.1	12.0
Non-branded rev gwth %	27.8	(7.8)	(5.1)	3.4	10.9
Branded GP margins	27.4	30.2	30.3	30.3	31.1
Non-Branded GP margins	17.4	11.5	7.4	10.6	16.7

Segmental Breakdown

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenues (US$ m)					
Branded	275	321	371	424	475
Non-supply contract - AP	22	22	26	27	29
Non-supply contract - ENA	67	56	48	49	51
Supply contract	62	61	58	60	72
Total	425	460	503	560	626
Gross profit (US$ m)					
Branded	75	97	112	128	148
Non-supply contract - AP	6	5	6	7	7
Non-supply contract - ENA	15	7	3	5	8
Supply contract	5	4	1	3	11
Total	101	113	122	143	173
Gross profit Margins (%)					
Branded	27.4	30.2	30.3	30.3	31.1
Non-supply contract - AP	25.5	23.6	24.0	24.0	24.0
Non-supply contract - ENA	23.1	11.6	6.0	10.0	15.0
Supply contract	8.5	7.1	1.0	5.0	15.0
Total	23.9	24.5	24.3	25.5	27.6

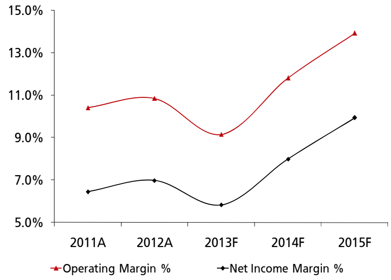
**AP = Asia Pacific; ENA = Europe, North America*

Income Statement (US$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Revenue	425	460	503	560	626
Cost of Goods Sold	(324)	(347)	(381)	(417)	(453)
Gross Profit	101	113	122	143	173
Other Opng (Exp)/Inc	(57)	(63)	(76)	(77)	(86)
Operating Profit	44	50	46	66	87
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(11)	(6)	(5)	(4)	(2)
Net Interest (Exp)/Inc	(2)	(3)	(3)	(4)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	32	41	38	58	82
Tax	(6)	(9)	(9)	(14)	(20)
Minority Interest	1	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	27	32	29	45	62
Net Profit before Except.	27	32	29	45	62
EBITDA	47	60	56	78	102
Growth					
Revenue Gth (%)	12.3	8.1	9.5	11.3	11.7
EBITDA Gth (%)	33.7	27.0	(6.7)	39.5	30.8
Opg Profit Gth (%)	46.1	12.6	(7.7)	43.7	31.7
Net Profit Gth (%)	73.6	16.9	(8.7)	52.6	39.0
Margins & Ratio					
Gross Margins (%)	23.9	24.5	24.3	25.5	27.6
Opg Profit Margin (%)	10.4	10.8	9.1	11.8	13.9
Net Profit Margin (%)	6.5	7.0	5.8	8.0	9.9
ROAE (%)	12.1	13.2	11.4	16.5	20.9
ROA (%)	6.7	7.0	5.7	8.1	10.6
ROCE (%)	11.3	11.6	9.6	12.3	15.4
Div Payout Ratio (%)	75.3	75.2	75.0	75.0	75.0
Net Interest Cover (x)	27.7	16.3	13.7	17.0	26.0

Source: Company, DBS Vickers

Margins Trend



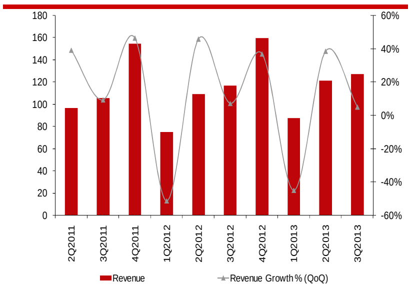
Lowered FY13F earnings to factor in one-off transaction costs relating to proposed acquisitions. Have not factored in consolidation of the acquisition, and related financial costs pending further details.

Expect dividend payout to drop with high leverage undertaken for acquisition. Dividend policy is at least 33% payout, but the Board has historically paid out 75% of profits.

Quarterly / Interim Income Statement (US$ m)

FY Dec	3Q2012	4Q2012	1Q2013	2Q2013	3Q2013
Revenue	117	160	87	121	127
Cost of Goods Sold	(87)	(121)	(68)	(93)	(95)
Gross Profit	30	39	20	28	32
Other Oper. (Exp)/Inc	(16)	(20)	(12)	(18)	(19)
Operating Profit	13	19	8	10	13
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(1)	(1)	(1)	(1)
Net Interest (Exp)/Inc	(1)	(1)	0	(2)	(2)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	11	17	6	7	10
Tax	(2)	(4)	(2)	(1)	(3)
Minority Interest	0	0	0	0	0
Net Profit	8	13	5	6	7
Net profit bef Except.	8	13	5	6	7
EBITDA	15	23	11	13	16
Growth					
Revenue Gth (%)	7.1	36.8	(45.2)	38.5	4.9
EBITDA Gth (%)	45.7	46.9	(51.4)	21.3	20.6
Opg Profit Gth (%)	46.8	44.2	(58.1)	27.4	29.2
Net Profit Gth (%)	39.7	60.7	(66.3)	36.2	17.4
Margins					
Gross Margins (%)	25.3	24.2	22.6	23.4	24.9
Opg Profit Margins (%)	11.3	11.9	9.1	8.4	10.3
Net Profit Margins (%)	7.1	8.4	5.2	5.1	5.7

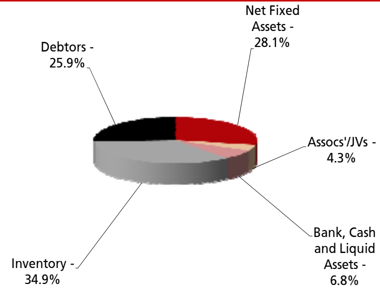
Revenue Trend



Balance Sheet (US$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Net Fixed Assets	85	93	109	122	128
Invts in Associates & JVs	24	22	17	13	11
Other LT Assets	29	31	30	29	29
Cash & ST Invts	21	25	26	41	63
Inventory	89	113	136	134	126
Debtors	83	102	101	112	125
Other Current Assets	92	110	115	120	125
Total Assets	424	496	533	571	605
ST Debt	105	126	126	126	126
Creditor	81	95	105	115	125
Other Current Liab	3	5	9	14	20
LT Debt	6	16	36	36	26
Other LT Liabilities	0	0	0	0	0
Shareholder's Equity	231	255	260	283	312
Minority Interests	(1)	(2)	(2)	(3)	(3)
Total Cap. & Liab.	424	496	533	571	605
Non-Cash Wkg. Capital	180	225	238	237	231
Net Cash/(Debt)	(90)	(117)	(135)	(120)	(89)
Debtors Turn (avg days)	69.9	73.6	73.6	69.3	69.2
Creditors Turn (avg days)	81.0	89.1	97.6	99.7	99.7
Inventory Turn (avg days)	93.2	98.2	111.9	124.1	122.5
Asset Turnover (x)	1.0	1.0	1.0	1.0	1.1
Current Ratio (x)	1.5	1.5	1.6	1.6	1.6
Quick Ratio (x)	0.6	0.5	0.6	0.5	0.6
Net Debt/Equity (X)	0.4	0.4	0.5	0.5	0.4
Net Debt/Equity ex MI (X)	0.4	0.5	0.5	0.4	0.3
Capex to Debt (%)	16.6	12.5	18.7	17.3	14.4
Z-Score (X)	4.5	3.8	4.3	4.3	4.5

Asset Breakdown (2013)



We have not factored in the potential debt undertaken for the proposed US$1.675bn acquisition. Post-fund raising, gearing should rise to 1.7-1.8x.

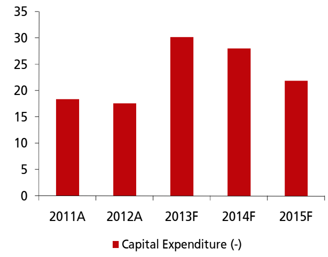
Source: Company, DBS Vickers

Cash Flow Statement (US$ m)

FY Dec	2011A	2012A	2013F	2014F	2015F
Pre-Tax Profit	32	41	38	58	82
Dep. & Amort.	14	16	15	16	17
Tax Paid	(7)	(6)	(5)	(9)	(14)
Assoc. & JV Inc/(loss)	11	6	5	4	2
Chg in Wkg.Cap.	(14)	(37)	(16)	(4)	0
Other Operating CF	4	5	0	0	0
Net Operating CF	40	25	36	65	87
Capital Exp.(net)	(18)	(18)	(30)	(28)	(22)
Other Invts.(net)	0	0	0	0	0
Invts in Assoc. & JV	(1)	(3)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1)	2	0	0	0
Net Investing CF	(20)	(19)	(30)	(28)	(22)
Div Paid	(17)	(23)	(24)	(22)	(34)
Chg in Gross Debt	7	23	20	0	(10)
Capital Issues	(1)	0	0	0	0
Other Financing CF	(3)	(4)	0	0	0
Net Financing CF	(14)	(5)	(4)	(22)	(44)
Currency Adjustments	(2)	3	0	0	0
Chg in Cash	3	4	2	15	21
Opg CFPS (US cts.)	4.1	4.7	4.0	5.4	6.7
Free CFPS (US cts.)	1.6	0.5	0.5	2.8	5.0

Source: Company, DBS Vickers

Capital Expenditure



Target Price & Ratings History

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

S.No.	Date	Closing Price	Target Price	Rating
1:	12 Apr 13	0.79	0.97	Buy
2:	02 May 13	0.82	0.97	Buy
3:	17 Jun 13	0.81	0.97	Buy
4:	08 Jul 13	0.80	0.97	Buy
5:	13 Aug 13	0.90	0.97	Buy

Source: DBS Vickers

DBSV recommendations are based 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

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