

DEL MONTE PACIFIC

A STRATEGIC ENTRY?

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CONTENT



- Company Background
- Industry Analysis
- Company Analysis
- Valuation
 - DCF
 - Relative
- Risks
- Conclusion



COMPANY BACKGROUND



- Food and beverage company that has several brands under its management
- Presence in mainly Philippines as well as India, Asia and Middle East



BRANDS

S&W in Asia and the Middle East



Del Monte in the Philippines



Del Monte in India





BUSINESS SEGMENTS

BRANDED BUSINESS (about 70% of sales)

Markets	Main Brands	Products
Philippines	Del Monte for processed	Culinary (outsourced) : 40% Beverage : 40% Processed fruits : 20%
Asia and Middle East	S&W for processed and fresh	Canned fruits, juices, beans, tomatoes, veg and Fresh pineapple
Indian subcontinent ex India	Del Monte for processed	Beverage and Processed fruits
India (equity accounted, 47% JV with Bharti)	Del Monte for processed FieldFresh for fresh	Culinary, Beverage, Processed fruits and Fresh produce

OEM BUSINESS (about 30% of sales)

Export Markets	Customers	Products
North America	Del Monte Foods USA Del Monte Canada	Processed fruits and pineapple juice concentrate (PJC)
Europe	Private labels	Processed fruits and PJC
Asia Pacific	Del Monte Asia/Kikkoman Private labels Fresh Del Monte	Processed fruits and PJC Processed fruits, PJC and fresh pineapple Fresh pineapple

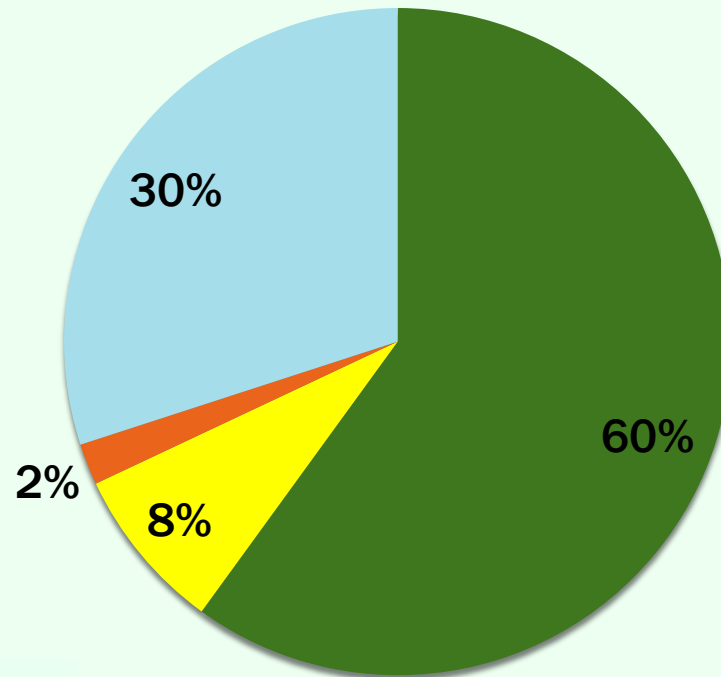
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GEOGRAPHICAL BREAKDOWN

Sales

■ Del Monte PH ■ S&W Asia ■ Trade Business ■ Non-branded

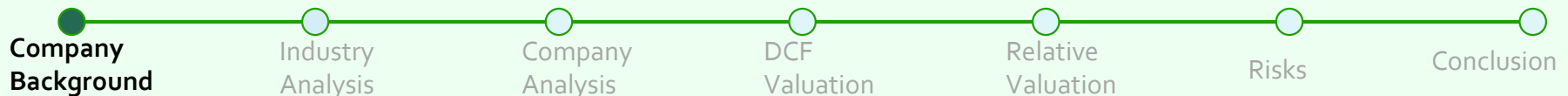


Source: Company



TO PREVENT CONFUSION...

Company	Markets	Listed
Del Monte Pacific	Philippines, Asia and India	SGX-listed
Del Monte Canada	Canada	NYSE under Kraft
<u>Del Monte Foods</u>	USA, South America	Delisted
Del Monte Fresh Process	Europe, Middle East and Africa	NYSE
Del Monte Asia	Asia Pacific, Australia	Tokyo-listed, under Kikkoman



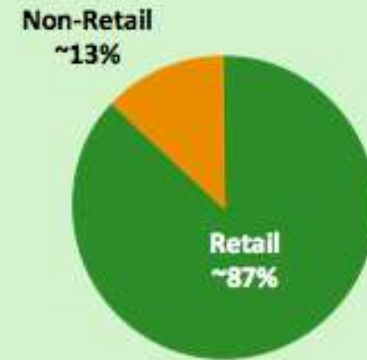


RECENT ACQUISITION DEAL



DEL MONTE FOODS

NET SALES PROFILE – F12¹ Net Sales ~\$3.7B

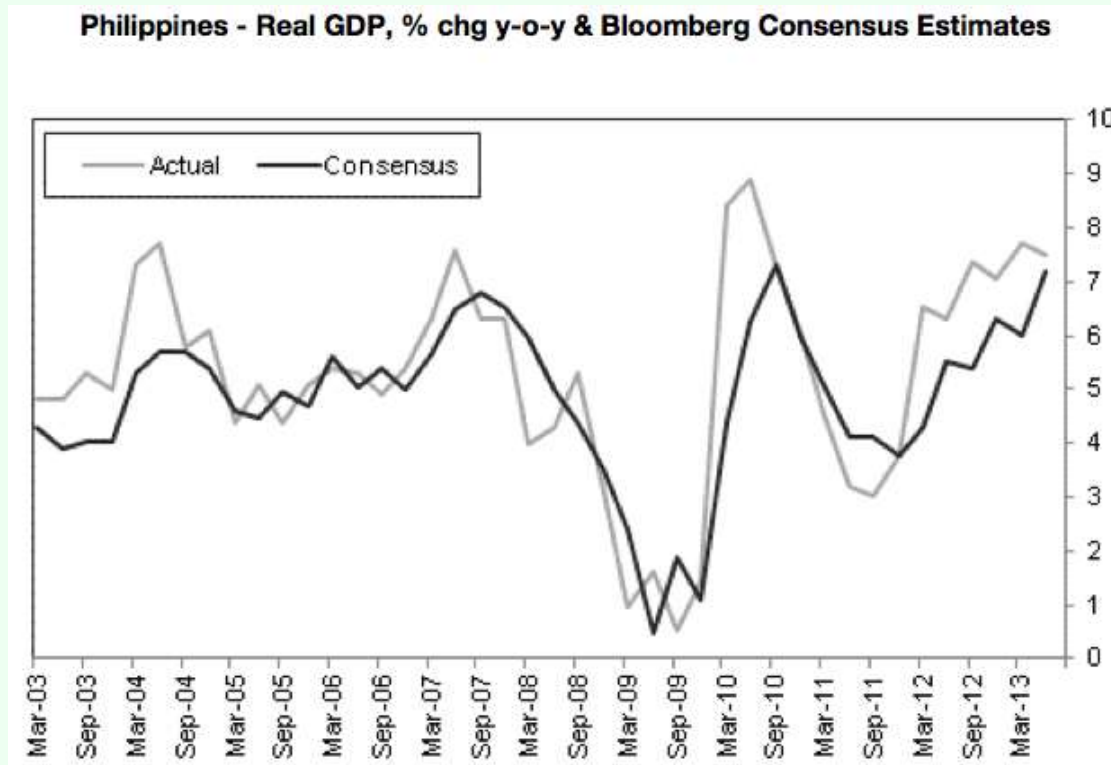


For US \$1.67 Billion

Source: Company, Reuters

PHILIPPINES

- Strong GDP growth

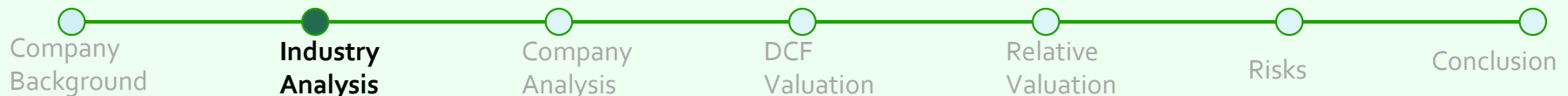


Source: Bloomberg, BMI



UNIQUE ECONOMY

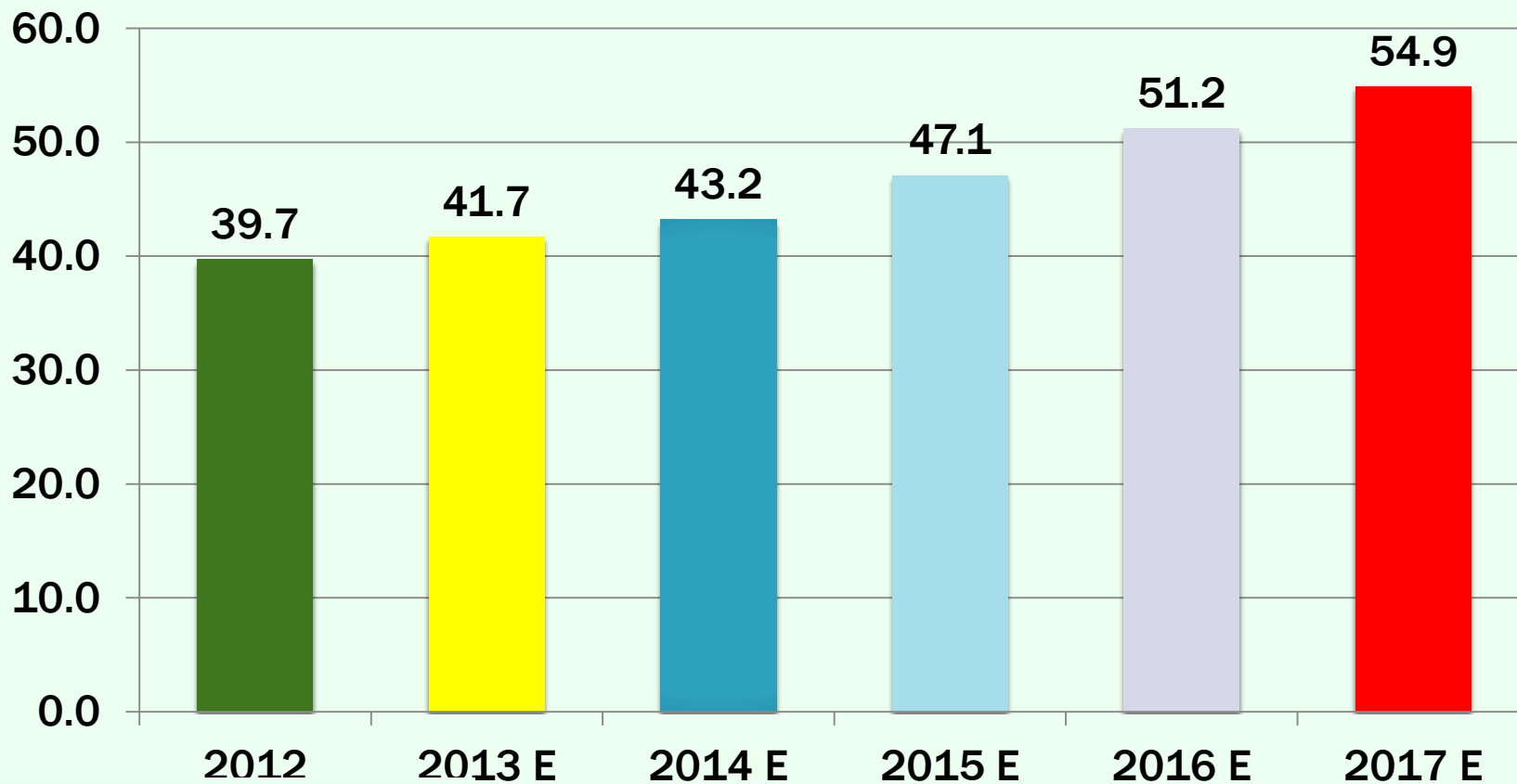
- Rapid population growth: 54% of population under 25 years old
- High Unemployment: 7.3%
- Facing brain drain: 10% of population working abroad
- Strong remittance inflows to fuel private consumption with growth forecasted to be about 5%
- Highly uneven distribution of income and poverty



FOOD CONSUMPTION FORECAST (PHILIPPINES)



Food Consumption (US\$ Bn)

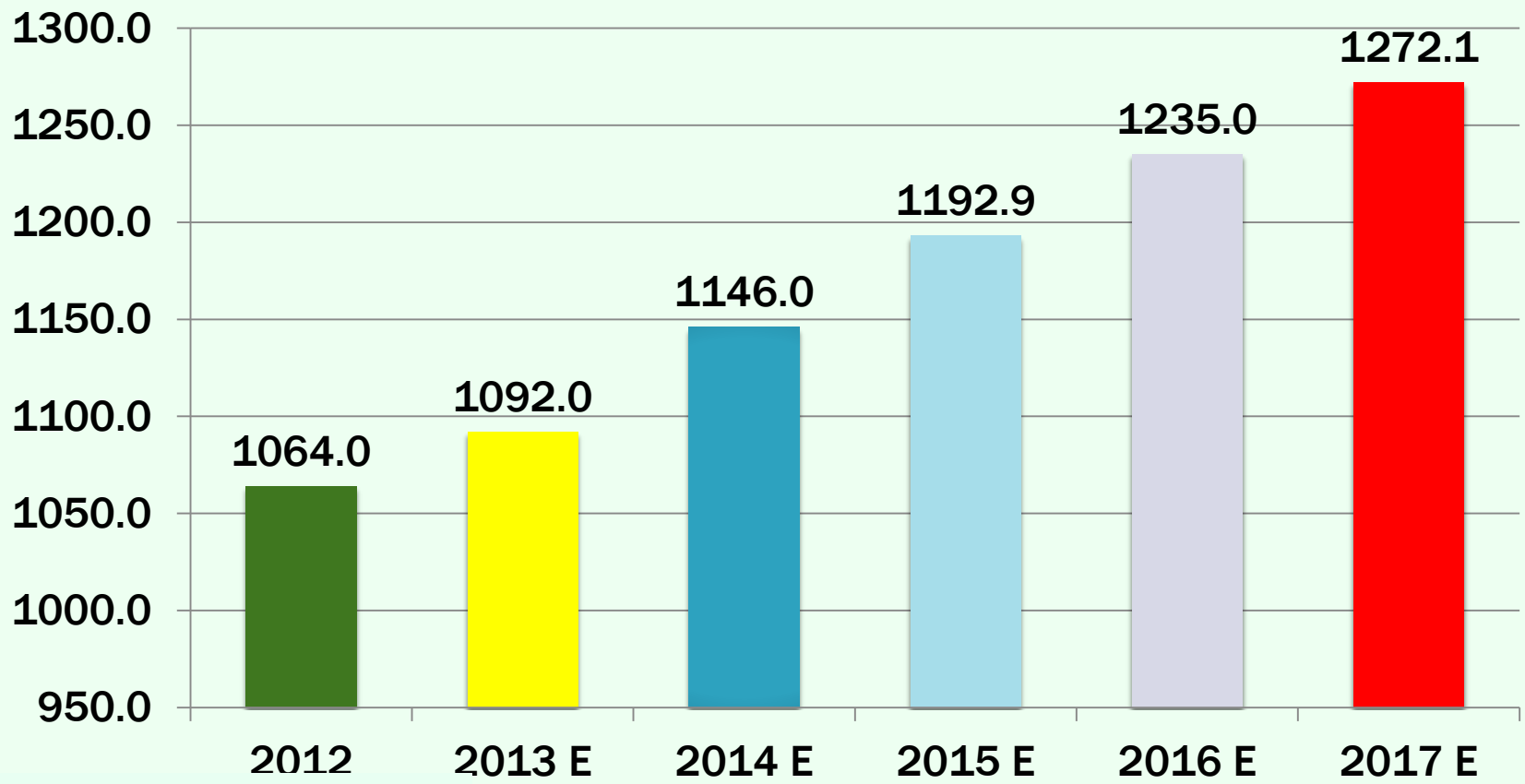


Source: BMI, National Statistics Office

FOOD CONSUMPTION FORECAST (ASIA)



Food Consumption (US\$ Bn)

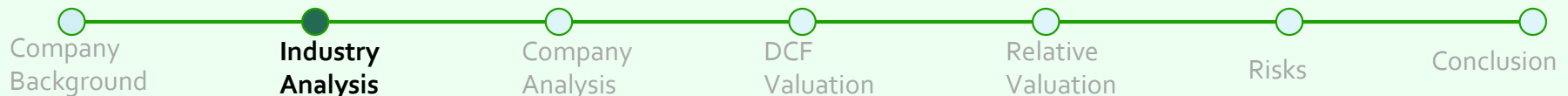


Source: BMI, National Statistics Office



UNITED STATES

- More mature economy than Philippines
- Food industry about 20 times the size of Philippines (US\$ 880 Bn in 2013)
- Slower growth forecasted (about 3% CAGR)
- Private labels have outperformed it peers in the economic recession
- Branded counterparts catching up during recent uptick
- Strong competition





INVESTMENT SUMMARY

Strong Home Base

Bold Expansion Plans

Oversold stock with stable
dividend payouts

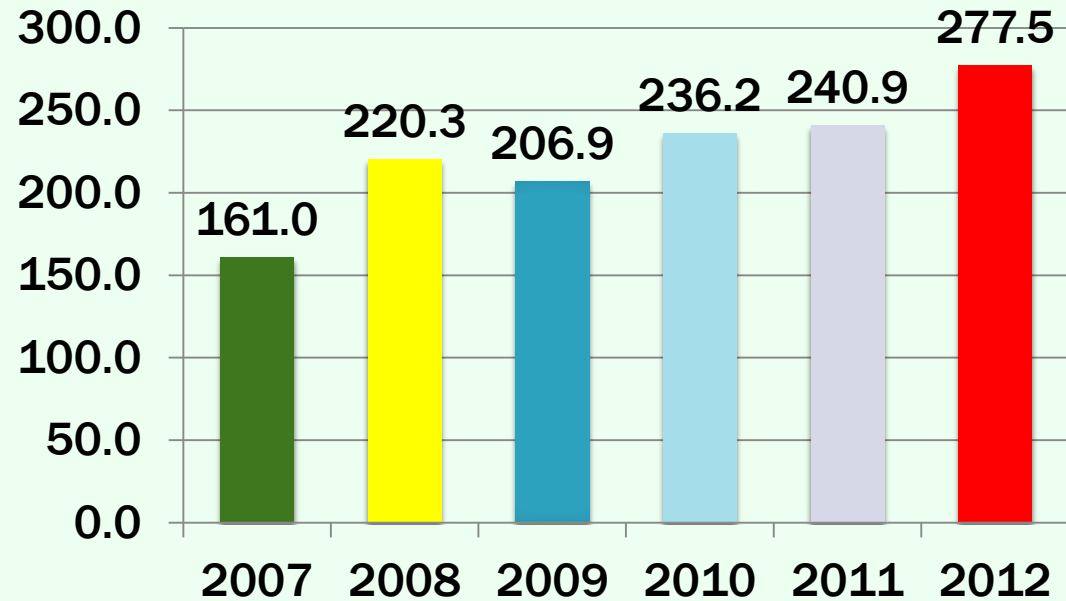


STRONG HOME BASE

Market Leader

- Canned pineapple: 82%
- Canned mixed fruit: 75%
- Canned RTD juices: 91%
- Tomato sauce: 79%
- Spaghetti sauce: 57%

Market Size (US\$ Mil)





INTEGRATED PINEAPPLE OPS

■ Plantations



■ Cannery



■ Packing



■ Logistics





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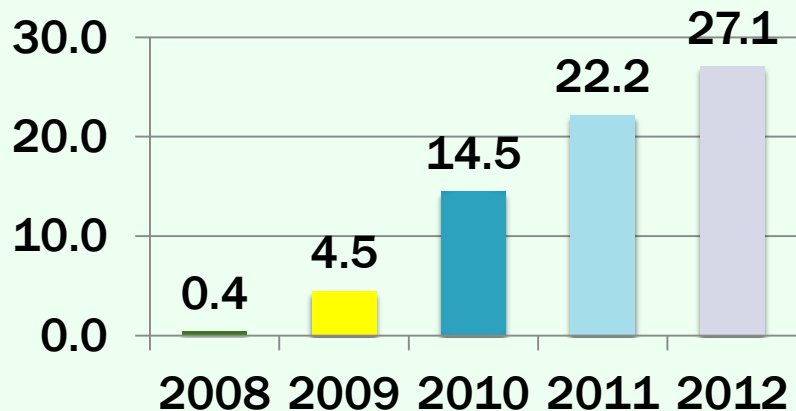


EXPANSION PLANS

Fresh Field (India)

- Still loss making, but gradually more profitable.
- Rapid increase in sales, US\$27 mil in 5 years.

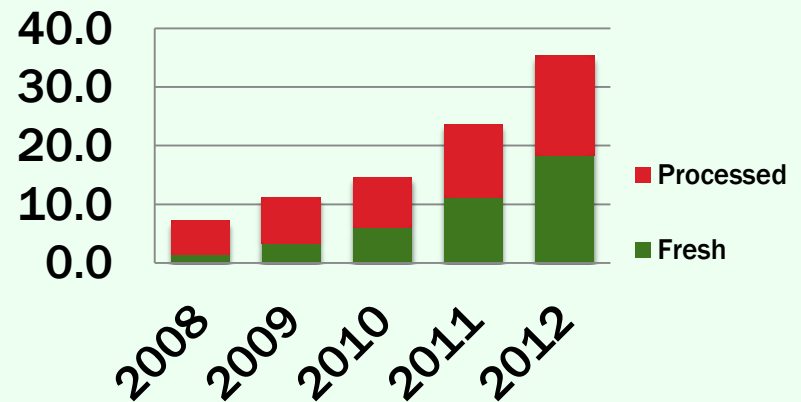
Market Size (US\$ Mil)



S&W (Asia & MENA)

- Rights to the brand globally less US and Aust'
- Very strong growth especially in the fresh pineapple segment.

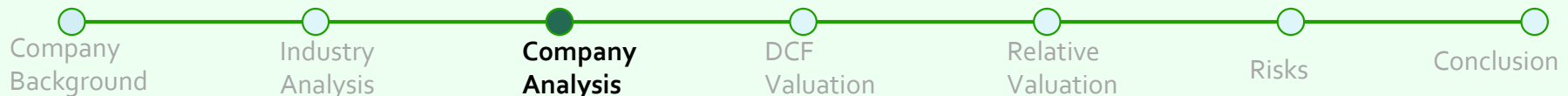
S&W Sales (US\$ Mil)



ACQUISITION OF DEL MONTE FOODS CONSUMER SEGMENT



- Bold foray into the US market using their long time partner
- Have presence in the largest food and beverage market in the world
- Synergistic relationship because the consumer segment is operationally very similar to the current operations, with similar raw materials
- Accretive in nature



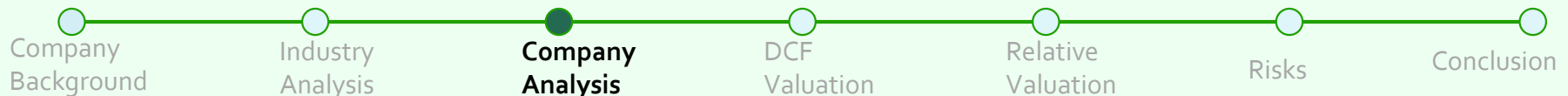


LACK OF CLARITY ON FUNDING

- US\$1.67 bn would require the company to issue new equity and debt
- US\$970 mil has been secured by the US business
- In talks with strategic investors to acquire 75 million in funds, but dilution of shareholdings is certain => led to the sharp decline

Transaction funding	Total (USD)	Estimated Cost (%)	Remarks	Estimated cost (USD m)
Company existing credit lines (a)	80	2%		(1.6)
New common shares (b)	110		Still pending	
Bank loan (c)	165	4.0%	To be repaid via rights issue at a later date	(6.6)
Bank loan (d)	350	3.5%	To be converted into preference shares at 6-8% later	(12.3)
Equity portion (a+b+c+d)	705			
Debt financing at acquired company level	970	5.6%	Syndicated loan, floating rate based on Libor	(54.3)
Total price (Equity+Debt)	1,675			
Working capital loan drawdown on acquired company	80	3%	Total line of USD350m	(2.4)

Source: Company, Maybank KE





INVESTMENT SUMMARY

Strong Home Base

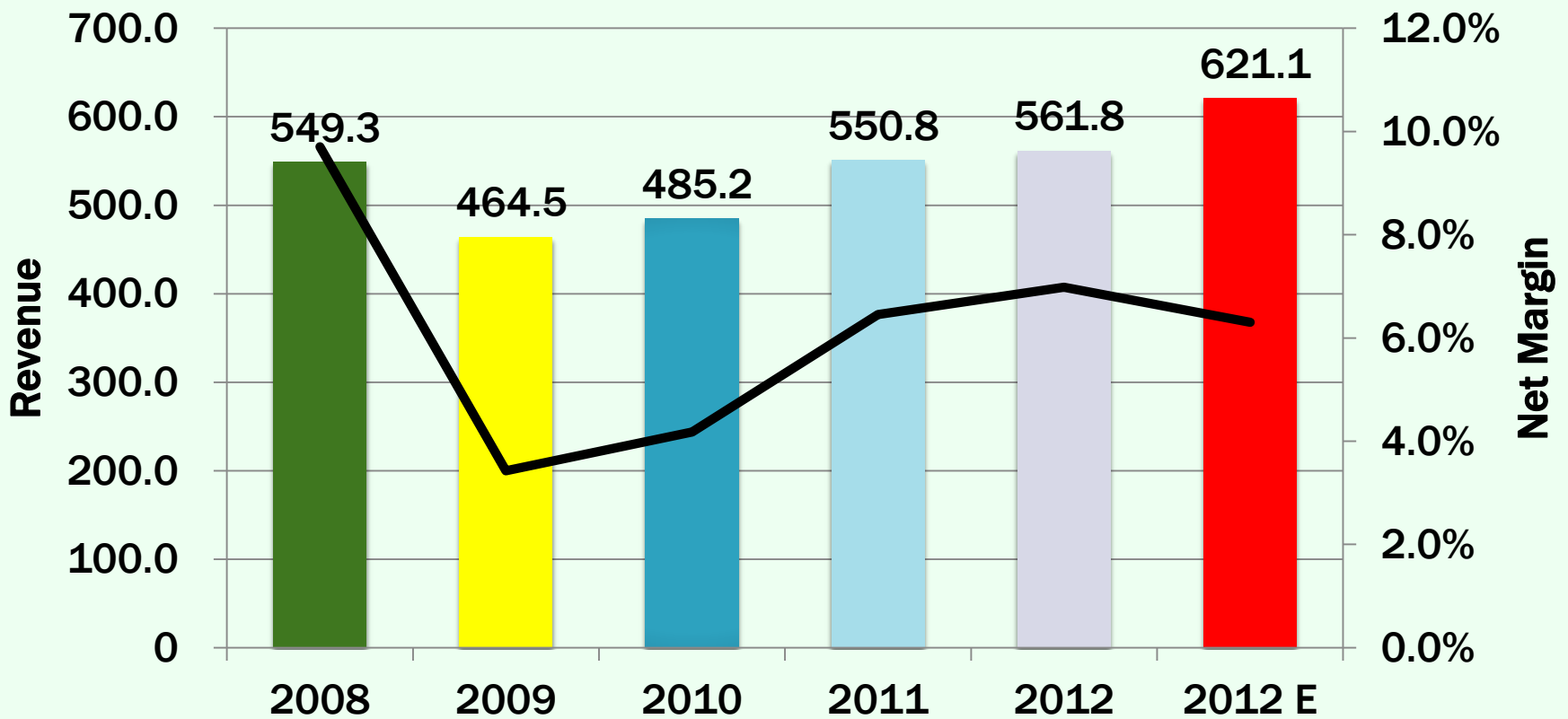
Bold Expansion Plans

Oversold stock with stable
dividend payouts



FINANCIAL ANALYSIS

- Dividend payout ratio has been 75% since 2005 with a promised payout of 33%.





DCF VALUATION

WACC Calculation	
Kd	2.50%
Tax Rate	23%
Ke	
Beta	1.35
Equity risk premium	10%
Weights	
Debt	35.8%
Equity	64.7%
WACC	11.0%
Long term growth	3%



DCF VALUATION

	FY 2013 E	FY 2014 F	FY 2015 F	FY 2016 F	FY 2017 F
Revenues					
Current Operations	635.0	654.1	673.7	693.9	711.2
Acquisition	-	2200.0	2354.0	2518.8	2581.7
EBITDA	85.8	396.4	420.6	446.4	457.6
Depreciation	-20.0	-63.0	-100.0	-75.0	-50.0
Interest Expense	-5.3	-63.5	-63.5	-63.5	-63.5
Associates	-6.2	0.0	5.0	10.0	15.0
Tax Expense	-16.7	-74.9	-81.5	-88.4	-92.0
Net Income	37.6	195.0	180.7	229.5	267.0





DCF VALUATION

FCF	8.5	156.2	121.7	184.0	262.7
Terminal Value					2079.9
PV	77.1	117.9	79.8	104.7	1290.9
Enterprise Value	1670.4				
Plus Cash	104.0				
Minus Debt	-301.7				
Intrinsic Value	1472.7				
Shares Outstanding	1943.8				
Fair Value	<u>0.76</u>				





RELATIVE VALUATION

Company Name	Exchange	P/E
Kinh Do Corp.	HOSE	17.5
Kraft Foods Group, Inc.	NasdaqGS	17.7
Campbell Soup Company	NYSE	21.3
Dr Pepper Snapple Group, Inc.	NYSE	15.6
Kellogg Company	NYSE	23.4
Post Holdings, Inc.	NYSE	24.8
The Coca-Cola Company	NYSE	20.6
Pepsi-Cola Products Philippines, Inc.	PSE	17.8
RFM Corp.	PSE	24.0
San Miguel Corporation	PSE	14.0
Universal Robina Corporation	PSE	26.6
Uni-President China Holdings Ltd	SEHK	22.2
BreadTalk Group Limited	SGX	20.6
Indofood Agri Resources Ltd.	SGX	23.8
Sheng Siong Group Ltd.	SGX	22.8
Super Group Ltd.	SGX	21.8
Yeo Hiap Seng Ltd.	SGX	26.5
Average		21.24
Del Monte Pacific		21.3



RISK

- Merger risk
- Unfamiliarity of new market
- Lose focus on current market
- Excessive debt post merger
- Rights issuance





CONCLUSION

DCF Valuation: \$0.76

Relative Valuation: \$0.62