



Del Monte Pacific Limited

Stellar 38% earnings growth

26 June 2022

SINGAPORE | CONSUMER | 4Q22 RESULTS

- 4Q22 PATMI jumped 38% YoY. The results were better than expected. FY22 revenue and PATMI were 101%/105% of our FY22e forecasts. Despite a one-off US\$2mn stock compensation, the 4Q22 earnings beat was from lower operating expenses. Final dividends up 42% YoY to 1.70 cents.
- US subsidiary DMFI registered a 4-fold jump in PATMI in 4Q22 to US\$19mn. Gross margins recovered QoQ from 21% to 25% due to higher selling prices and new products contributing 5% to revenue.
- Consumer staples are enjoying a lift in demand as US households dine more at home as food inflation escalates. The Philippines is expected to remain weak with consumers shifting away from less essential canned fruits. EPS will also benefit from lower interest expenses and preference dividends. We maintain our BUY recommendation with a higher TP of S\$0.69, from S\$0.63. Despite a cut in gross margin assumption, our FY23e PATMI is raised by 9% from lower operating expenses. Our TP is pegged to 10x FY22e P/E, a 30% discount to the industry valuation due to its smaller market cap and higher gearing. Del Monte valuations are attractive at 5x PE FY23e and pay a 6% dividend yield.

BUY (Maintained)

CLOSING PRICE	SGD 0.370
FORECAST DIV	SGD 0.024
TARGET PRICE	SGD 0.690
TOTAL RETURN	93.0%

COMPANY DATA

Bloomberg CODE:	DELMSP
O/S SHARES (MN):	1,944.0
MARKET CAP (USD mn / SGD mn):	519 / 719
52 - WK HI/LO (SGD):	0.46 / 0.34
3M Average Daily T/O (mn):	0.26

MAJOR SHAREHOLDERS

NutriAsia Pacific Ltd	61.6%
Golden Sunflower Int. Ltd	9.8%
Lee Pineapple Co Pte Ltd	5.2%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.2	(1.3)	(8.6)
STI RETURN	(2.6)	(7.0)	1.7

Results at a glance

USD '000	4Q22	4Q21	YoY	2022	2021	YoY
Revenue	569,538	497,845	14.4%	2,342,086	2,162,709	8.3%
- DMFI	410,980	328,206	25.2%	1,654,913	1,483,057	11.6%
- DMPI	170,289	181,646	-6.3%	729,524	705,808	3.4%
Gross profit	147,570	133,201	10.8%	622,657	555,963	12.0%
- DMFI	102,061	78,589	29.9%	396,096	335,120	18.2%
- DMPI	42,497	50,534	-15.9%	181,646	170,289	6.7%
Gross profit margins (%)	25.9%	26.8%	-0.8%	26.6%	25.7%	0.9%
PAT	30,471	35,405	-13.9%	115,530	76,470	51.1%
- DMFI	19,031	4,307	341.9%	54,252	14,817	266.1%
- DMPI	16,136	23,379	-31.0%	97,661	94,537	3.3%
PATMI	19,974	14,495	37.8%	100,031	63,256	58.1%
Final DPS (cents)	1.70	1.20	41.7%	1.70	1.20	41.7%
EPS (cents)	1.08	1.30	-16.9%	4.17	2.24	86.3%

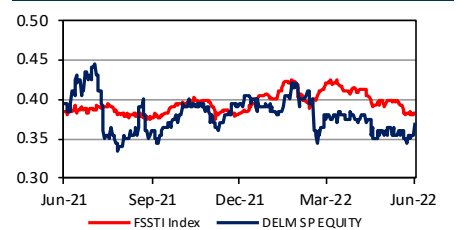
Source: Company, PSR

The Positives

+ Del Monte Foods Inc (DMFI) rebounds in margins and profitability. DMFI revenue jumped 25% YoY to US\$411mn. Revenue was supported by a surge in packaged vegetable sales as DMFI expands into new channels, including convenience stores, natural food, club stores and food service. Households are looking for value and quality home meals, replacing their spending on restaurants as inflation picks up nationwide.

+ Refinancing expensive preferential shares and high yield debt. In April 22, US\$200mn 6.625% preference shares were refinanced by Del Monte with senior fixed-rate debt (3.75%) and floating-rate loan (3.8%). The estimated savings in dividends is around US\$6mn.

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Apr, USD (mn)	FY21	FY22	FY23e	FY24e
Revenue	2,162.7	2,342.1	2,529.8	2,674.6
EBITDA	402.1	458.2	364.7	520.1
PATMI	63.3	100.0	51.4	143.3
Adj. PATMI	63.3	100.0	103.6	143.3
Adj. EPS (US cents)	3.3	4.2	5.0	7.0
EPS (US cents)	2.2	4.2	5.0	7.0
Adj. EPS (SG cents)	4.5	5.8	6.9	9.7
Adj. P/E (x)	8.3	6.5	5.4	3.9
Dividend Yield	4.4%	6.3%	6.5%	10.0%
ROE	9.9%	20.0%	19.7%	22.1%
ROA	2.6%	3.9%	3.9%	5.3%

Source: Company, PSR

VALUATION METHOD

10x FY23e P/E

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In May 22, DMFI raised a US\$600mn 7-year term loan at a floating 4.75%. The funds were to refinance US\$500mn 11.875% Senior Secured Notes. The early redemption of the high yield notes cost a one-off US\$70mn*, to be incurred in FY23. Annual cash savings is US\$20mn-30mn.

*US\$45mn cash commitment fee, US\$24mn non-cash write-off of deferred financing cost and US\$1mn commitment fee

The Negatives

- **Weakness in the Philippines.** Revenue in the Philippines declined 6% YoY with earnings dropping a larger 31%. Packaged or mixed fruit suffered the largest drop, a 31% YoY fall to US\$22mn in the Asia Pacific. Consumers are faced with surging inflation in the Philippines. There is a shift in consumer priorities to essential items, away from special occasion or less-essential food such as canned mixed fruit or packaged fruit.

- **Elevated capex.** Free cash flow generated in FY22 was US\$66mn, a decline from prior years' US\$163mn. A large drain in operating cash flow was the additional US\$135mn in inventory to stock up on raw materials as a hedge from rising prices. Capex also rose by US\$39mn to US\$202mn. The higher capex is to expand the planted area for pineapples, increase manufacturing capacity and new packaging capabilities (eg Joyba Bubble Tea multipacks).

Outlook

We see multiple drivers for earnings growth in DMFI, namely new products, more distribution channels, higher prices, cost optimization and food inflation driving more home dining. DMFI has built a broad pipeline of products to suit consumer preferences for value and wellness (Figure 1). The recovery in the Philippines will be slower as inflation shifts consumption patterns to more staples. Recovery will come from convenience and food services channels as foot traffic returns with lockdowns being eased.

Figure 2: Market share in US rose in 4Q22

Product	Market share	Change	Position
Canned Vegetable	22.0%	+4.6% pts	1
Canned Fruit	21.5%	+2.3% pts	2
Fruit Cup Snacks	26.5%	+1.3% pts	2
Canned Tomato	5.8%	+0.4% pts	3

Source: Company, PSR

Figure 3: Market leader slipped in several categories

Product	Market share	Position	Position
Packaged Pineapple	93.3%	+3.7% pts	1
Canned Mixed Fruit	75.9%	-0.9% pts	1
RTD Juices ex foil pouch	43.3%	-6.4% pts	1
Tomato Sauce	85.8%	-1.1% pts	1
Spaghetti Sauce	37.4%	-0.7% pts	1

Source: Company, PSR

Figure 1: From close to fresh to purposeful snacking



Source: Company, PSR

Maintain BUY with a higher TP of S\$0.69 (prev. S\$0.63)

Our target price is raised to S\$0.69 as we raise FY23e earnings by 9% and roll over PE valuations to FY23e. We increased our discount to industry valuations from 20% to 30%. We believe this is warranted due to the higher gearing and greater exposure to rising interest rates compared to industry peers. We find Del Monte valuations attractive at 5x PE FY23e with a 6% dividend yield. A listing of DMFI would be a re-rating catalyst to de-gear and crystallise higher valuations.

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

Company	1 Mth	3 Mth	YTD	Currency	Share Px	Mkt. Cap.	P/E			P/B	Dividend	ROE	EV/	Gearing	EBITDA
	Perf.	Perf.	Perf.				Local Crcy	(US\$ m)	Yr 0						
Kraft Heinz Co	9.0%	8.4%	5.0%	USD	38.40	47,000	46.4	14.2	13.8	0.95	4.2%	2.5%	14.8	45.4%	17.4%
Hormel Foods Corp	5.4%	4.5%	2.5%	USD	47.37	25,867	28.5	24.9	22.7	3.52	2.1%	13.7%	22.6	49.5%	12.1%
Conagra Brands Inc	-10.6%	-2.9%	-7.6%	USD	34.10	16,364	12.6	14.5	13.4	1.86	3.7%	12.2%	11.8	106.9%	19.8%
Indofood CBP	-12.0%	-13.5%	-13.5%	IDR	9425.00	7,403	17.2	15.6	13.8	3.04	2.3%	19.5%	9.5	76.3%	23.4%
Universal Robina Corp	-19.4%	-19.6%	-20.1%	PHP	95.30	3,783	8.9	19.0	16.4	2.00	5.5%	23.8%	13.6	16.8%	16.8%
Indofood Sukes Makmur	-3.9%	-5.4%	-3.6%	IDR	7075.00	4,184	8.1	7.5	7.2	1.20	3.9%	17.2%	5.7	71.6%	20.9%
Treehouse Foods	-17.7%	-22.1%	-22.5%	USD	40.60	2,274	-181.9	27.5	15.3	1.23	n.a.	-0.9%	13.4	113.2%	6.4%
B&G Foods Inc	-16.5%	-13.5%	-16.2%	USD	25.03	1,724	25.6	15.5	14.1	1.89	7.6%	7.3%	14.2	253.8%	14.2%
Dole PLC	-9.5%	0.2%	-3.0%	USD	8.98	852	-118.0	6.7	5.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Delfi Ltd	-0.7%	-1.3%	-3.3%	SGD	0.75	328	11.2	12.2	11.2	1.37	5.1%	12.6%	4.7	4.8%	14.4%
RFM Corp	-6.7%	-11.0%	-7.7%	PHP	4.00	245	10.3	n.a.	n.a.	1.02	6.0%	10.2%	5.9	7.2%	13.6%
Del Monte Pacific Ltd	4.2%	-1.3%	-8.6%	SGD	0.37	519	8.3	6.5	5.4	1.21	4.4%	20.0%	4.9	337.3%	19.7%
	1.1%	1.7%	-1.0%			110,543	23.1	15.7	14.6	1.89		9.1%	15.2	63.0%	16.6%

Source: Bloomberg, PSR (Closing prices as at 24 June 2022)

Financials

Income Statement

Y/E Apr, USD '000	FY20	FY21	FY22	FY23e	FY24e
Revenue	2,128,343	2,162,709	2,342,086	2,529,782	2,674,615
Cost of sales	(1,676,186)	(1,606,746)	(1,719,429)	(1,877,757)	(1,935,527)
Gross profit	452,157	555,963	622,657	652,025	739,088
Selling & distri expenses	(213,414)	(200,417)	(221,798)	(240,329)	(256,763)
General & admin expenses	(120,010)	(144,053)	(129,311)	(146,727)	(152,453)
Other operating income/(loss)	(67,547)	357	(4,258)	0	0
Other expenses	-	-	-	(70,000)	-
Interest income	5,814	547	771	874	2,371
EBIT	50,039	214,787	264,630	192,807	328,656
Finance costs	(114,693)	(111,044)	(109,800)	(106,689)	(107,896)
Profit before tax	(64,654)	103,743	154,830	86,118	220,761
Taxation	(29,176)	(27,273)	(39,300)	(21,859)	(56,035)
Minority interest	12,436	(13,214)	(15,499)	(12,852)	21,414
PATMI	(81,394)	63,256	100,031	51,407	143,311
Adj PATMI (excl. non-recurring items)	32,200	63,300	100,031	103,639	143,311

Per share data (USD Cents)

Y/E Apr	FY20	FY21	FY22	FY23e	FY24e
Adj. EPS (US cents)	1.66	3.26	4.17	5.00	7.04
EPS before pref div (US cents)	-4.19	3.25	5.15	2.64	7.37
EPS (US cents)	-5.20	2.24	4.17	5.00	7.04
Adj. EPS (SG cents)	2.29	4.49	5.75	6.90	9.71
DPS (US cents)	1.54	1.20	1.70	1.76	2.73
DPS (SG cents)	2.13	1.66	2.35	2.43	3.76
BVPS (US cents)	29.11	33.05	25.75	27.02	33.40
BVPS (SG cents)	40.17	45.61	35.54	37.29	46.10

Cash Flow

Y/E Apr, USD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit after tax	(93,830)	76,470	115,530	64,259	164,726
Adjustments	368,723	323,463	345,369	323,588	353,024
WC changes	149,530	(53,195)	(176,054)	(63,198)	(45,793)
Cash generated from ops	424,423	346,738	284,845	324,649	471,956
Income taxes paid	(46,982)	(31,464)	(15,916)	(21,859)	(56,035)
Cashflow from ops	377,441	315,274	268,929	302,790	415,921
CFI					
CAPEX, net	(103,215)	(152,269)	(202,428)	(170,000)	(170,000)
Others	(914)	115,148	(427)	874	2,371
Cashflow from investments	(104,129)	(37,121)	(202,855)	(169,126)	(167,629)
CFE					
Interest paid	(94,648)	(83,006)	(93,815)	(106,689)	(107,896)
Loans, net of repayments	(102,727)	(81,472)	301,079	50,000	(100,000)
Dividends paid	(29,862)	(62,670)	(48,952)	(39,547)	(40,701)
Others	(34,427)	(58,271)	(222,605)	(0)	(0)
Cashflow from financing	(261,664)	(285,419)	(66,676)	(96,236)	(248,597)
Net change in CCE	11,648	(7,266)	(602)	37,428	(304)
CCE, end	33,465	29,435	21,853	59,281	58,977

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Apr, USD '000	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Trade and other receivables	320,603	185,049	214,553	202,383	213,969
Cash	33,465	29,435	21,853	59,281	58,977
Inventories	482,463	557,602	685,958	758,935	802,385
Total current assets	964,071	854,285	1,018,762	1,116,996	1,171,729
PPE & IA	1,218,932	1,239,473	1,265,694	1,263,780	1,242,315
Others	371,350	324,145	298,427	298,427	298,427
Total non-current assets	1,590,282	1,563,618	1,564,121	1,562,207	1,540,742
Total Assets	2,554,353	2,417,903	2,582,883	2,679,203	2,712,471
LIABILITIES					
Trade and other liabilities	276,893	254,729	302,833	300,441	309,684
Bank borrowings	1,298,292	332,453	479,354	479,354	479,354
Others	60,026	66,654	68,193	68,193	68,193
Total current liabilities	1,635,211	653,836	850,380	847,988	857,231
Long-term borrowings	97,737	953,290	1,088,012	1,162,012	1,062,012
Others	255,508	168,281	143,864	143,864	143,864
Total non-current liabilities	353,245	1,121,571	1,231,876	1,305,876	1,205,876
Total Liabilities	1,988,456	1,775,407	2,082,256	2,153,864	2,063,107
Net assets	565,897	642,496	500,627	525,339	649,363
Represented by:					
Share capital	19,449	19,449	29,449	29,449	29,449
Share premium	208,339	208,339	298,339	298,339	298,339
Preference shares	300,000	300,000	-	-	-
Retained earnings	60,763	83,349	140,320	152,180	254,790
Others	(77,474)	(29,953)	(37,000)	(37,000)	(37,000)
Non-controlling interest	54,820	61,312	69,519	82,371	103,785
Total Equity	565,897	642,496	500,627	525,339	649,363

Valuation Ratios

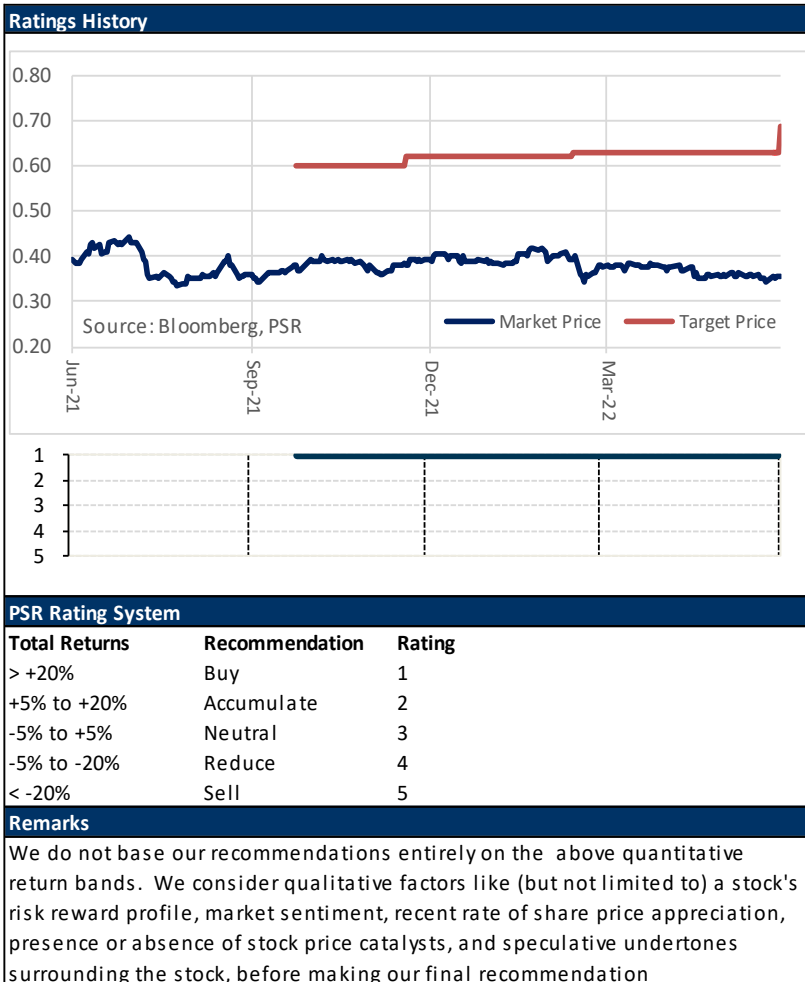
Y/E Apr	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	n.a.	8.35	6.52	5.44	3.86
P/B (x)	0.93	0.82	1.06	1.01	0.81
EV/EBITDA (x)	7.19	4.59	4.68	6.01	4.07
Dividend Yield	5.7%	4.4%	6.3%	6.5%	10.0%

Growth & Margins

Growth					
Revenue	8.9%	1.6%	8.3%	8.0%	5.7%
EBITDA	13.5%	48.7%	13.9%	-20.4%	42.6%
EBIT	-48.8%	329.2%	23.2%	-27.1%	70.5%
Adj. PATMI	103.8%	96.6%	58.0%	3.6%	38.3%
Margins					
Gross margin	21.2%	25.7%	26.6%	25.8%	27.6%
EBITDA margin	12.7%	18.6%	19.6%	14.4%	19.4%
EBIT margin	2.4%	9.9%	11.3%	7.6%	12.3%
Net profit margin	1.5%	2.9%	4.3%	4.1%	5.4%

Key Ratios

ROE	5.7%	9.9%	20.0%	19.7%	22.1%
ROA	1.3%	2.6%	3.9%	3.9%	5.3%
Net Gearing (x)	2.4	2.0	3.1	3.0	2.3
Net Debt/EBITDA (x)	5.0	3.1	3.4	4.3	2.9



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