

Del Monte Pacific Limited

Record margins from price increases



12 December 2022

SINGAPORE | CONSUMER | 2Q23 RESULTS

- The results were better than expected. 1H23 revenue and PATMI (excluding one-offs) were 49%/67% of our FY23e forecast. The continued push towards branded products drove gross margins to 29%, and is ahead of our modelled 26% from increases in selling price.
- 2Q23 earnings jumped 38% YoY to US\$49.5mn supported by revenue growth (+7%) and expansion in both gross (+2% points).
- We raise our F23e earnings by 19% to adjusted US\$123mn. We maintain our BUY recommendation and nudge our target price lower to S\$0.67 (prev. S\$0.69), pegged to 8x FY23e P/E, a huge 50% discount to the industry valuation due to its smaller market cap and higher gearing. Del Monte valuations are attractive at 4x PE FY23e and an 8% dividend yield. Multiple rounds of price increases and new products have supported gross margin expansion despite cost pressures. The drive towards more branded and new products in the US continues to bear fruit.

Results at a glance

USD '000	2Q23	2Q22	YoY	Comments
Revenue	698,923	650,991	7.4%	
- DMFI	506,298	477,477	6.0%	
- DMPI	195,346	186,138	4.9%	Re-stocking of channels.
Gross profit	205,275	178,481	15.0%	
- DMFI	141,763	119,066	19.1%	
- DMPI	57,200	57,746	-0.9%	
Gross profit margins	29.4%	27.4%	2.0%	Record gross margins.
Operating profit	103,205	83,233	24.0%	
Finance costs	(28,862)	(27,437)	5.2%	Redemption of US\$500mn 11.875% notes.
PAT	54,965	40,677	35.1%	
- DMFI	40,397	24,271	66.4%	Includes \$3mn decline in interest exp.
- DMPI	21,897	25,959	-15.6%	
PATMI	49,524	35,801	38.3%	
PATMI-adj	49,524	35,801	38.3%	

Source: Company, PSR * DMFI – Del Monte Foods Inc (US Subsidiary); DMPI - Del Monte Philippines Inc (Philippines and International subsidiary)

The Positives

+ Record gross margins. Gross margin climbed to record high 29.4%, a 2% point rise YoY. Margin gains were from US operations from multiple price increases over the past 18 months. These have supported margins despite raw material and logistics cost pressure. There was also operating leverage from a slower 6% rise in general and administration expenses.

+ Sharp rebound in Philippines. Sales in the Philippines and International (DMPI) recovered strongly in 2Q23, surging 22% YoY in peso terms to PHP11.3bn. However, revenue in USD terms only improved by 5% due to the weakness in the Philippine peso. Growth stemmed from the transition to new distributors in the last quarter and a rebound in food service (+21% YoY) and convenience stores (+48% YoY) as the lockdowns ease.

BUY (Maintained)

CLOSING PRICE	SGD 0.315
FORECAST DIV	SGD 0.026
TARGET PRICE	SGD 0.670
TOTAL RETURN	121.1%

COMPANY DATA

Bloomberg CODE:	DELM SP
O/S SHARES (MN):	1,944.0
MARKET CAP (USD mn / SGD mn):	453 / 612
52 - WK HI/LO (SGD):	0.43 / 0.28
3M Average Daily T/O (mn):	0.26

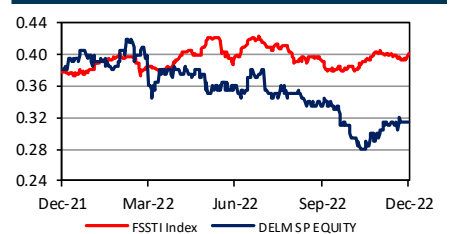
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	6.8	(6.0)	(17.0)
STI RETURN	3.0	0.0	8.2

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	416.9	538.4
PATMI	63.3	100.0	73.7	145.9
Adj. PATMI	63.3	100.0	123.9	145.9
Adj. EPS (US cents)	3.3	4.2	6.0	7.2
EPS (US cents)	2.2	4.2	6.0	7.2
Adj. EPS (SG cents)	4.5	5.8	8.3	9.9
Adj. P/E (x)	7.0	5.5	3.8	3.2
Dividend Yield	5.3%	7.4%	8.4%	10.9%
ROE	9.9%	20.0%	22.2%	21.4%
ROA	2.6%	3.9%	4.6%	5.3%

Source: Company, PSR

VALUATION METHOD

8x FY23e P/E

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The Negative

- **Rise in net debt by US\$505mn to US\$2bn.** Net debt to EBITDA climbed from 4.3x to 5.6x over the past six months. Whilst total net debt has risen by US\$505mn YoY to US\$2bn in May 2022. Driving up debt levels was: (i) US\$366mn increase to US\$1250mn; (ii) US\$70mn for the purchase of Kitchen Basics. The 40% YoY jump in inventory was due to higher cost of materials, which we believe was in preparation for a strong holiday season. We expect debt to remain elevated due to the redemption of a 6.5% US\$100mn Preference Shares in Dec2022. Around 15-20% of total debt is on fixed rates.

Outlook

We expect sales momentum to continue into 2H23.

- **DMFI (US operations):** Cost pressure remains in raw materials, utilities and labour. However, DMFI will ride on the price increase implemented in September 2022, and more selective increase in February 2023. Around 75% of the products sold in the US are priced less than US\$2. It is an affordable and value option for households especially in the current inflationary environment. Other growth drivers are the relentless roll-out of new products that represent around 5% of sales. New launches include speciality vegetable canned and bottled products plus the Take Root Organics organic range of canned tomatoes. These products will benefit from the trend of US consumers shifting away from restaurants to meals prepared at home to cope with rising inflation. There remain plans to list DMFI.
- **DMPI (Philippines and International):** We expect revenue to recover as inflationary pressures gradually ease. Key growth drivers include will be the planned price increase in January 2023; continued penetration into China of fresh pineapples; introduction of more dairy products; new distribution network and recovery in food service and convenience store channels as lockdowns ease.

Maintain BUY with a lower TP of S\$0.67 (prev. S\$0.69)

We raise our F23e earnings by 19% to adjusted US\$123mn. We maintain our BUY recommendation and nudge our target price lower to S\$0.67 (prev. S\$0.69), pegged to 8x FY23e P/E, a huge 50% discount to the industry valuation due to its smaller market cap and higher gearing. Del Monte valuations are attractive at 4x PE FY23e and an 8% dividend yield.

Figure 1: Market share in the US rose, esp. canned fruit

Products	Market share	Market position
Canned vegetable	21.5%	#1
Canned fruit	21.3%	#1
Fruit Cup Snack	29.2%	#2
Canned tomato	6.1%	#3
Broth	9.6%	#2

Source: Company, PSR

Figure 2: Rise in market share for all categories

Products	Market share	Market position
Package d pineapple	95.7%	#1
Canned mixed fruit	76.3%	#1
RTD Juices ex-foil pouc	47.1%	#1
Tomato sauce	85.9%	#1
Spaghetti sauce	39.3%	#1

Source: Company, PSR

Figure 3: Giving a 50% discount to peers

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	5.9%	14.8%	11.3%	USD	39.94	48,924	48.3	14.6	14.4	1.02	4.0%	2.5%	13.4	45.4%	17.4%
Hormel Foods Corp	-0.3%	-1.8%	-3.7%	USD	47.02	25,693	25.7	24.7	23.0	3.41	2.2%	13.8%	17.5	45.4%	12.9%
Conagra Brands Inc	7.0%	17.0%	11.3%	USD	38.02	18,221	20.5	15.5	14.6	2.14	3.4%	6.7%	14.5	104.0%	15.4%
Indofood CBP	4.1%	16.7%	16.7%	IDR	10150.00	7,596	18.5	20.7	15.7	3.38	2.1%	14.1%	11.5	76.3%	23.4%
Universal Robina Corp	9.3%	7.3%	6.7%	PHP	136.60	5,374	12.8	25.4	22.2	3.43	2.5%	24.2%	13.1	16.8%	16.8%
Indofood Sukes Makmur	5.7%	7.4%	9.5%	IDR	6925.00	3,902	8.0	8.1	6.9	1.18	4.0%	14.2%	6.3	71.6%	20.9%
Treehouse Foods	-3.1%	12.5%	11.9%	USD	45.35	2,543	-203.5	44.0	16.7	1.48	n.a.	-8.5%	15.8	113.2%	6.4%
B&G Foods Inc	-14.9%	-58.1%	-59.4%	USD	12.47	894	13.3	13.4	12.0	1.06	15.2%	-4.8%	12.3	253.8%	14.2%
Dole PLC	22.4%	-19.5%	-22.0%	USD	10.39	986	-136.6	9.8	8.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DeLfi Ltd	3.3%	3.3%	1.3%	SGD	0.78	350	12.0	10.2	9.8	1.46	5.5%	15.6%	4.3	4.8%	14.4%
RFM Corp	-3.6%	-20.6%	-17.6%	PHP	3.75	228	9.7	n.a.	n.a.	0.94	3.6%	10.0%	5.5	7.2%	13.6%
Del Monte Pacific Ltd	6.8%	-6.0%	-17.0%	SGD	0.32	452	7.0	5.5	3.8	1.16	7.6%	20.0%	5.7	341.4%	19.7%
	4.5%	9.8%	7.0%			115,163	26.0	16.7	15.5	2.01		7.6%	14.0	59.9%	16.1%

Source: Company, PSR

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)	(1,827,727)	(1,918,766)
Gross profit	452,157	555,963	622,657	702,056	755,849
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	0	0	0	(71,900)	0
Interest income	5,814	547	771	874	(1,725)
EBIT	50,039	214,787	264,630	244,973	346,908
Finance costs	(114,693)	(111,044)	(109,800)	(114,896)	(123,309)
Profit before tax	(64,654)	103,743	154,830	130,077	223,599
Taxation	(29,176)	(27,273)	(39,300)	(33,731)	(55,900)
Minority interest	12,436	(13,214)	(15,499)	(22,669)	21,801
PATMI	(81,394)	63,256	100,031	73,677	145,898
Adj PATMI (excl. non-recurring items)	32,200	63,300	100,031	123,877	145,898

Per share data (USD Cents)

Y/E Apr	FY20	FY21	FY22	FY23e	FY24e
Adj. EPS (US cents)	1.66	3.26	4.17	6.04	7.17
EPS (US cents)	-5.20	2.24	4.17	6.04	7.17
Adj. EPS (SG cents)	2.29	4.49	5.75	8.33	9.90
DPS (US cents)	1.54	1.20	1.70	1.91	2.48
DPS (SG cents)	2.13	1.66	2.35	2.64	3.42
BVPS (US cents)	29.11	33.05	25.75	28.67	35.06
BVPS (SG cents)	40.17	45.61	35.54	39.57	48.38

Cash Flow

Y/E Apr, USD '000	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit after tax	(93,830)	76,470	115,530	96,346	167,699
Adjustments	368,723	323,463	345,369	343,667	372,398
WC changes	149,530	(53,195)	(176,054)	(197,692)	(47,712)
Cash generated from ops	424,423	346,738	284,845	242,321	492,386
Income taxes paid	(46,982)	(31,464)	(15,916)	(33,731)	(55,900)
Cashflow from ops	377,441	315,274	268,929	208,590	436,486
CFI					
CAPEX, net	(103,215)	(152,269)	(202,428)	(170,000)	(170,000)
Others	(914)	115,148	(427)	874	(1,725)
Cashflow from investments	(104,129)	(37,121)	(202,855)	(169,126)	(171,725)
CFE					
Interest paid	(94,648)	(83,006)	(93,815)	(114,896)	(123,309)
Loans, net of repayments	(102,727)	(81,472)	301,079	50,000	(100,000)
Dividends paid	(29,862)	(62,670)	(48,952)	(39,547)	(43,663)
Others	(34,427)	(58,271)	(222,605)	0	(0)
Cashflow from financing	(261,664)	(285,419)	(66,676)	(104,443)	(266,972)
Net change in CCE	11,648	(7,266)	(602)	(64,979)	(2,211)
CCE, end	33,465	29,435	21,853	(43,126)	(45,337)

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	(43,126)	(45,337)
Inventories	482,463	557,602	685,958	885,424	936,115
Total current assets	964,071	854,285	1,018,762	1,141,079	1,201,145
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	2,703,285	2,741,887
LIABILITIES					
Trade and other liabilities	276,893	254,729	302,833	292,436	307,003
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	839,983	854,550
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	2,145,859	2,060,426
Net assets	565,897	642,496	500,627	557,426	681,462
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	174,450	276,685
Others	(77,474)	(29,953)	(37,000)	(37,000)	(37,000)
Non-controlling interest	54,820	61,312	69,519	92,188	113,989
Total Equity	565,897	642,496	500,627	557,426	681,462

Valuation Ratios

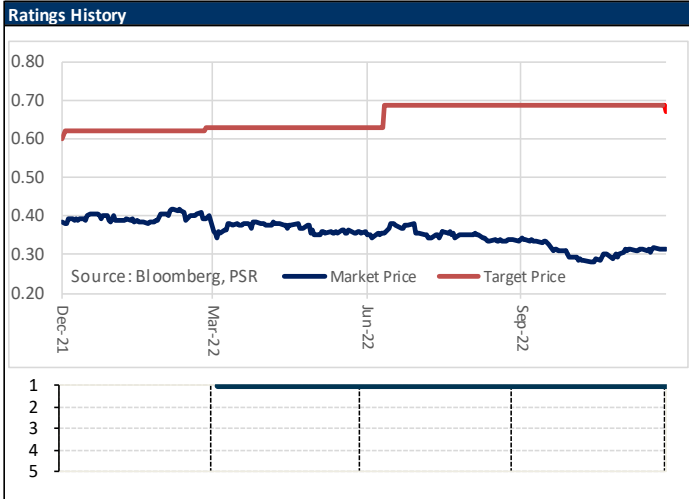
Y/E Apr	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	n.a.	7.01	5.47	3.78	3.18
P/B (x)	0.78	0.69	0.89	0.80	0.65
EV/EBITDA (x)	6.88	4.38	4.49	5.33	3.98
Dividend Yield	6.7%	5.3%	7.4%	8.4%	10.9%

Growth & Margins

Growth					
Revenue	8.9%	1.6%	8.3%	8.0%	5.7%
EBITDA	13.5%	48.7%	13.9%	-9.0%	29.1%
EBIT	-48.8%	329.2%	23.2%	-7.4%	41.6%
Adj. PATMI	103.8%	96.6%	58.0%	23.8%	17.8%
Margins					
Gross margin	21.2%	25.7%	26.6%	27.8%	28.3%
EBITDA margin	12.7%	18.6%	19.6%	16.5%	20.1%
EBIT margin	2.4%	9.9%	11.3%	9.7%	13.0%
Net profit margin	1.5%	2.9%	4.3%	4.9%	5.5%

Key Ratios

ROE	5.7%	9.9%	20.0%	22.2%	21.4%
ROA	1.3%	2.6%	3.9%	4.6%	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	4.0	2.9



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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