Century Pacific Food, Inc:
Catch of the Day

- **Largest canned food producer in the Philippines.** CNPF is the largest producer of canned foods in the Philippines whose brands have established market-leading positions. The company itself was incorporated on October 25, 2013 and inherited its various businesses from the Century Group. The company has four main business segments: canned and processed fish, canned meat, dairy and mixes, and tuna export. Following the company's IPO, the Po family will own approximately 89.7% of CNPF through their whole ownership of CNPF's parent company, Century Canning Corp.

- **Portfolio of market leading brands.** CNPF carries multiple brands across its business segments. It is the market leader in canned tuna with a dominant 87% market share. The company also has leading market share in corned meat (43%), luncheon meat (26%) and vienna sausage (28%). Among its top-selling brands are Century Tuna and 555 for canned and processed fish, Argentina and Swift for canned meat, and Angel and Birch Tree for canned and powdered milk. CNPF also exports private label tuna products as well as some of its branded products overseas.

- **IPO priced at Php13.75/sh.** For its upcoming IPO, CNPF will offer up to 229.7Mil new common shares at Php13.75/sh. At this price, the company will be able to raise up to Php3.1Bil in gross proceeds with its market capitalization reaching Php30.7Bil. The bulk of proceeds from the offer will be used for the payment of financial obligations. The company will use a portion of the proceeds for capital expenditures to increase production capacity and cost efficiency, for working capital and for potential acquisitions.

- **Multiple avenues for growth.** CNPF will continue to develop its product portfolio, with new brands and acquisitions driving growth. The company also plans to expand its distribution network with particular focus in Visayas, Mindanao and other underserved areas. Finally, CNPF plans to increase the number of partners for its private label export business as well as enter into more distribution agreements with retailers in the US to export its branded products.

- **Significant margin improvement from backward integration.** CNPF plans to use a portion of its IPO proceeds for the construction of a tin can manufacturing facility. According to CNPF, packaging costs currently represent 17% of total production costs and the tin can facility is expected to reduce these costs by 15% to 20%. The factory is expected to cost Php457.6Mil and is scheduled to be completed by 3Q14.

FORECAST SUMMARY

Year to December 31 (PhpMil)	2013
Revenue	19,023
Gross Profit	3,326
Gross Margin (%)	*17.5*
Operating Income	1,087
Operating Margin (%)	*5.7*
Net Income	*743.9*
Net Margin (%)	*3.9*
EPS	*0.5*

RELATIVE VALUE

P/E (X)	27.50
P/BV (X)	7.21
ROE (%)	26.21

Source: CNPF, COL estimates

SHARE DATA

Rating	**N/A**
Ticker	CNPF
Fair Value (Php)	N/A
IPO Price	13.75
Upside (%)	N/A

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Largest canned food producer in the Philippines

CNPF is the largest producer of canned foods in the Philippines whose brands have established market-leading positions. The company itself was incorporated on October 25, 2013 and inherited its various businesses from the Century Group. The company has four main business segments: canned and processed fish, canned meat, dairy and mixes, and tuna export. Following the company's IPO, the Po family will own approximately 89.7% of CNPF through their whole ownership of CNPF's parent company, Century Canning Corp.

Portfolio of market leading brands

CNPF carries multiple brands across its business segments. It is the market leader in canned tuna with a dominant 87% market share. The company also has leading market share in corned meat (43%), luncheon meat (26%) and vienna sausage (28%). Among its top-selling brands are Century Tuna and 555 for canned and processed fish, Argentina and Swift for canned meat, and Angel and Birch Tree for canned and powdered milk. CNPF also exports private label tuna products as well as some of its branded products overseas. The company's products are varied and cater to a diverse range of consumer preferences and price points.

Exhibit 1: Product portfolio across multiple categories

Source: CNPF

The canned and processed fish segment currently contributes the majority of revenue at 36.9% but only 18.4% of net income. The bulk of net income is contributed by the canned meat segment, accounting for 48.4% of the total.

Exhibit 2: 2013 earnings breakdown

	Revenue	% of Total	Net Income	% of Total
Canned and processed fish	7,014	36.9%	137	18.4%
Tuna export	5,863	30.8%	210	28.2%
Canned meat	4,598	24.2%	360	48.4%
Dairy and mixes	1,548	8.1%	45	6.0%
Others			(8)	-1.1%
Total	**19,023**	**100.0%**	**744**	**100.0%**

Source: CNPF

IPO priced at Php13.75/sh

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Exhibit 3: IPO details

Offer price	Php13.75
Offer shares	229.7Mil
Gross proceeds to be raised	**Php3.1Bil**
Total shares o/s post-IPO	2,229.7Mil
Public float post-IPO	10.30%
Market cap post-IPO	Php30.7Bil

Source: CNPF

Exhibit 4: Use of proceeds

	in PhpMil	% of total	Estimated Timing
Payments of financial obligations	1,290.0	42.3%	2Q14
Capex to increase production capacity and cost efficiency	729.0	23.9%	2Q14
Tin can manufacturing factory	457.6	15.0%	
Dairy and mix factory	132.0	4.3%	
Plant improvement and maintenance	106.5	3.5%	
Upgrade of IT systems	32.9	1.1%	
Working capital and/or potential acquisitions	1,032.5	33.8%	2Q14 to 1Q15
Estimated net proceeds	**3,051.5**	**100.0%**	

*assuming offer price of Php14.50/sh

Source: CNPF

Innovation and brand acquisitions support strong product portfolio

Over the years, CNPF has been strong on innovation. As a result of product and marketing innovation, the company has been able to capitalize on the increasing health consciousness among consumers and on the trend towards flexible packaging. Moving forward, the company will continue to develop new products to drive growth, particularly in the dairy segment and the ready-to-eat segment. The company is also set to enter the beverage market with a coconut water product.

The company also has a history of acquiring under-promoted brands and turning them into market leading brands. For example, the company acquired the neglected Birch Tree brand in 2003 and has since increased its market share in the full cream milk powder segment to 22%. More recently, the acquisition of the Swift brand allowed the company to target the premium segment and to take advantage of growth opportunities it believes exists in the canned meat market.

Expanding distribution network to further market penetration

A continuously expanding distribution network has also contributed to the success of the company. From 2008 to 2013, the number of stores that the company served grew at an average rate of 27% from 70,000 to 229,000 outlets. The company plans to expand this network to 250,000 stores in 2014 with particular focus in Visayas, Mindanao and other underserved areas. CNPF also sees growth in supplying to food service customers, such as Jollibee, KFC, Starbucks and 7-Eleven. While this segment only accounted for 3% of revenues in 2013, the company believes there are significant growth opportunities in this segment as food service customers continue to expand.

Plans for more partners in export business

CNPF is currently the top tuna exporter in the Philippines, exporting processed tuna to private label partners as well as the company's own branded products. The company plans to leverage on its established reputation and increase the number of partners for its private label export business. CNPF also has plans to increase exports of its branded products. Increasing brand awareness of its products abroad, not only among Filipino communities but also in mainstream markets, has prompted the company to sell its branded products to retailers in the US. The company is planning to enter into more distribution agreements with several large retailers in North America within the next 12 months.

Significant margin improvement from backward integration

CNPF plans to use a portion of its IPO proceeds for the construction of a tin can manufacturing facility. The factory will significantly reduce packaging costs for CNPF. Once completed, the factory will produce at least 2 million tin cans a year, equivalent to between 25% to 30% of the company's tin can requirements. According to CNPF, packaging costs currently represent 17% of total production costs and the tin can facility is expected to reduce these costs by 15% to 20%. The factory is expected to cost Php457.6Mil and is scheduled to be completed by 3Q14.

Priced at a premium based on historical P/E

Based on historical P/E multiples and CNPF's offer price of Php13.75/sh, the stock is valued at a premium compared to the 29.1X average FY13 P/E of other consumer companies and at par with JFC's historical P/E of 39.9X. Nonetheless, valuations on CNPF could improve moving forward assuming the company's growth strategies and cost reduction measures bear fruit. Based on the company's expected reduction in costs arising from the tin can facility, net margin could improve from 4% in 2013 to approximately 6% starting 3Q14. Finally, the company will also incur interest savings from the retirement of debt.

Exhibit 5: Peer Valuation

	2013 P/E
EMP	22.9
JFC	39.9
PGOLD	31.2
PIP	21.0
RFM	23.5
RRHI	35.6
URC	29.9
Average ex-CNPF	**29.1**
CNPF	**41.2**

Source: COL estimates

Investment Rating Definitions

BUY	HOLD	SELL
Stocks that have a **BUY** rating have attractive fundamentals and valuations, based on our analysis. We expect the share price to outperform the market in the next six to twelve months.	Stocks that have a **HOLD** rating have either 1.) attractive fundamentals but expensive valuations; 2.) attractive valuations but near term earnings outlook might be poor or vulnerable to numerous risks. Given the said factors, the share price of the stock may perform merely inline or underperform the market in the next six to twelve months.	We dislike both the valuations and fundamentals of stocks with a **SELL** rating. We expect the share price to underperform in the next six to twelve months.

Important Disclaimers

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