

Investment Highlights

RFM Corporation

Normalized earnings for Magnum ice cream. Sale of Swift to increase profit margins

- One of the biggest diversified food and beverage companies in the Philippines**, with total assets of around P12b. Among the branded products which it markets are: White King (cake mixes and flour-based products), Fiesta (Pasta and Sauce), Selecta (milk-based products) and Selecta (ice cream, under the joint-venture with Unilever). RFM also has business interest in non-food categories, which includes Philippine Township (property development), RFM Insurance and Brokerage Inc. (industrial and consumer insurance) and Rizal Lighterage Corp (integrated cargo-handling services).
- Partnership with Unilever Philippines, Inc.** RFM has currently has a partnership with Unilever on the Selecta ice cream operations, and a brand franchising arrangement with Sunkist Growers of USA, Inc.
- Core business products.** RFM focuses on brands such as Selecta, its ice-cream joint venture with Unilever, Fiesta pasta, White King flour-based mixes, Selecta Milk, and Sunkist beverages.
- Sale of swift translates to better margins.** In 2012, RFM sold the Swift brand to the Po family's Century Canning Group. The sale transaction covered the Swift brand and specific processed meat equipment and current raw materials and finished product inventories, reached a total amount of P850m. RFM said Swift was losing as much as P110m per year, which is equivalent to 7% of RFM's profit in 2012.
- Normalized growth for Magnum.** RFM said sales of its Magnum ice-cream is expected to normalize to around P700m per year from around P1b in 2012, as excitement on the product has begun to taper off.
- 1Q13 net income grew 18% to P154m.** Revenues fell 8% to P2.2b, as a result of the disposal of the meat business late 2012. The rise in net income was a result of better profit margins in its core businesses. The lower commodity input costs this year, such as sugar and wheat, were important in keeping cost levels down, as well as better yields due to scale economies as we reach high levels of production especially for Selecta ice cream and Fiesta pasta.
- Trading at a discount versus industry and regional peers.** RFM is trading at PE ratio of 19.15x 2013E PE ratio and 2.9x 2013E P/B. This is cheaper than the industry average and regional peers of 25.12x and 24.45x 2013E P/E ratio, respectively.

Year to Dec.31 (in Php mn)	2010	2011	2012	2013E	2014E
Net Income	624	509	682	888	1,100
Revenues	9,098	10,336	10,998	14,297	17,728
Profit Margin (in %)	6.85	4.92	6.20	6.20	6.20
EPS	0.197	0.161	0.216	0.281	0.348
EPS Growth (%)		-18	+71	+30	+24
PE (x)	27.41	33.54	25.00	19.93	15.52
BVPS	1.81	1.63	1.76	1.85	1.98
P/BV (x)	2.98	3.31	3.07	2.92	2.73
Cash Yield (%)	0.29	0.55	0.45	0.60	1.50
ROE	11.55	9.37	15.40	17.40	16.40

Source: USI estimates; Bloomberg

Stock Information	
Stock Code	RFM
Company Name	RFM Corporation
Last traded date	7 June 2013
Price	5.40
12-month target price	7.00
Upside/Downside (+/-)	+30%
Outstanding Shares	3,160,403,866
Market Capitalization	17,066,180,876
Average Daily Turnover (30-day)	12,447,390
Average Daily Turnover (1-year)	12,395,428

Source: Technistock, PSE

Major Shareholders	% of total
Horizons Realty, Inc.	20.10
Triple Eight Holdings, Inc.	17.49
Djs Development Corp.	9.85
PCCI Securities Brokers Corp.	6.43
Renaissance Property Management Corp	6.39
HSBC – Clients' Acct.	4.61
Feati University	3.54
Others	31.59
Total	100

Source: Technistock

Peer Comparison	2013E P/E	2013E P/B	2013E ROE
DNL	22.30	3.44	15.5%
Del Monte Pacific Ltd.	24.08	2.19	13.6%
JFC	32.73	6.29	19.4%
PGOLD	25.41	3.25	12.8%
RFM	19.15	2.91	15.4%
PIP	22.43	3.40	15.3%
URC	29.74	5.09	17.9%
Average Region	25.12	3.80	15.7%
	24.45	3.68	15.4%

Source: Bloomberg estimates

Business Unit	Products	% of total sales	Brands
Institutional	Flour Products, Hamburger buns, English Muffins	35%	Republic Special, Cinderella, Hi-Pro Majestic, Pioneer, Señorita, Altar Bread, Milenyo
Consumer	RTD Juice, RTD Tea, Powdered Juice, RTD Milk, Processed Meat, Canned Meat	65%	Sunkist Orange Pulp, Alo Green Tea, Selecta Moo, Selecta Filled Milk, Selecta Fortified Milk, Vitwater

Breakdown of consumer sales	% of total
Selecta Ice Cream	52
White King Fiesta	25
Swift Foods	9
Milk	9
Beverage	5
Total	100

Subsidiary		% ownership
Unilever RFM Ice Cream Inc.	Food	50.00
Interbake Commissary Corporation	Food	100.00
Filipinas Water Bottling Co.	Non-Food	58.37
RFM Insurance Brokers, Inc.		100.00
Rizal Lighterage Corp.	Non-Food	93.51

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