

COMPANY UPDATE

Wilmar International (WIL SP)

1Q22 Results Preview: Could See Record Contribution From Palm

Wilmar is scheduled to release its 1Q22 financial update on 29 Apr 22. We are expecting a core net profit of US\$360m-380m (1Q21: US\$424m). Key factors leading to a lower yoy profit are a poorer performance from Yihai Kerry Arawana (YKA) and higher effective tax rate. In 1Q21, the China consumer packs business has yet to be impacted by the surge in raw material prices and includes a reversal of MTM losses on hedging derivatives. Maintain BUY. Target price: S\$5.50.

WHAT'S NEW

- Disruptive 1Q22 distorted trade flow and pricing.** Wilmar International (Wilmar) is scheduled to release its 1Q22 financial update on 29 Apr 22. 1Q22 is a tough quarter to do an earnings estimate, as it was an eventful quarter with most agri-commodity prices surging to new or almost new highs when Russia started its attack on Ukraine on 24 Feb 22. On top of that, the flip-flopping policies by the Indonesia government on palm oil domestic obligations and exports also disrupted the trade flow and distorted the palm oil market pricing between Indonesia and Malaysia. China's zero-COVID tolerance policies led to the lockdown of two major cities, Shenzhen and Shanghai, which are relatively big consumer markets and will have an impact on Wilmar's sales in China.
- Expecting lower earnings yoy and qoq for 1Q22.** We are expecting 1Q22 core net profit to be within the range of US\$360m to US\$380m, which is lower than US\$424m for 1Q21 and US\$534m for 4Q21. To recap, 1H is usually weaker compared to 2H and based on the last three financial years, 1H core profit contribution ranged from 34% to 43% of full-year core profit. 1Q is usually better than 2Q due to festive demand in 1Q. To recap, in 1Q21, there were two one-off items that boosted earnings, ie reversal of hedging losses and higher effective tax rate.
- Palm oil – The golden oil now.** There is a high possibility that Wilmar's 1Q22 core net profit will largely be contributed by its palm-related operations, especially from upstream. Upstream earnings will be boosted by the strong CPO ASP, while sales volume may be lower yoy due to lower production and also trade disruption from domestic market obligations in Indonesia in Feb 22 and early-Mar 22. In addition, India sugar also should see good contribution on better raw sugar production in India and steady selling price. Contribution from its China operations is expected to be weak given that the consumer pack business still suffered from great margin pressure from high raw material prices and soybean crushing margins have not been good as well.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	50,527	65,794	65,390	70,868	77,251
EBITDA	3,323	3,943	3,928	4,041	4,308
Operating profit	2,340	2,800	2,685	2,751	2,998
Net profit (rep./act.)	1,534	1,890	1,780	1,819	1,994
Net profit (adj.)	1,486	1,842	1,780	1,819	1,994
EPS (US\$ cent)	23.2	28.8	27.8	28.4	31.1
PE (x)	14.6	11.8	12.2	11.9	10.9
P/B (x)	1.1	1.1	1.0	1.0	1.0
EV/EBITDA (x)	14.4	12.1	12.2	11.8	11.1
Dividend yield (%)	4.0	3.5	3.3	3.4	3.7
Net margin (%)	3.0	2.9	2.7	2.6	2.6
Net debt/(cash) to equity (%)	91.2	114.3	114.5	108.9	106.1
Interest cover (x)	14.4	15.6	13.9	13.1	13.6
ROE (%)	8.6	9.7	8.8	8.6	9.1
Consensus net profit	-	-	1,854	1,955	2,088
UOBKH/Consensus (x)	-	-	0.96	0.93	0.96

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.53
Target Price	S\$5.50
Upside	+21.4%

COMPANY DESCRIPTION

Wilmar's business encompassing the entire value chain of the agricultural commodity business, from origination, processing, merchandising to manufacturing of a wide range of branded consumer products.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	WIL SP
Shares issued (m):	6,301.2
Market cap (S\$m):	28,544.5
Market cap (US\$m):	20,896.4
3-mth avg daily t'over (US\$m):	27.4

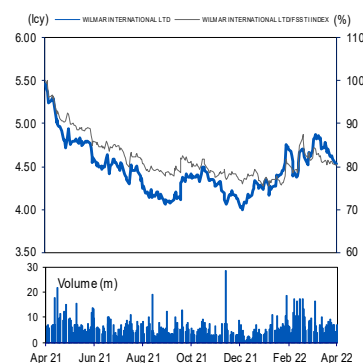
Price Performance (%)

52-week high/low	S\$5.33/S\$3.99				
1mth	3mth	6mth	1yr	YTD	
(1.9)	5.6	2.5	(16.2)	9.4	

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY22 NAV/Share (US\$)	3.23
FY22 Net Debt/Share (US\$)	3.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Cooperating in investigation into Indonesia's export licences.** Yesterday, Wilmar issued a statement with regard to the investigation by the Indonesian Attorney General's Office (AGO) in relation to export licenses of palm products. The investigations are still ongoing. In the statement, Wilmar mentioned that the group firmly believes it has been in compliance with all applicable regulations at all material times with respect to such licences and intends to cooperate with such investigations. To recap, in late-Jan 22, the Indonesian government announced the domestic market obligation (DMO) and domestic price obligation (DPO) to ensure that exporters fulfilled domestic sales volume before issuance of exports license. However, there were many changes since then until the full abolishment of DMO and DPO in late-Mar 22 with the replacement of higher exports levy and direct subsidy to the bulk cooking oil producers.
- Details of the investigation.** The Indonesian AGO has named the Director General of Foreign Trade of the Ministry of Trade along with three other people from the private sector as suspects in the alleged corruption case in granting export facilities for CPO or cooking oil. The three suspects from the private sector are MPT as Commissioner of PT Wilmar Nabati Indonesia, SMA as Senior Manager of Corporate Affairs for Permata Hijau Group and PT as General Manager in the General Affairs Section of PT Musim Mas. The suspects were suspected of committing illegal acts, as follows:
 - There is an agreement between the applicant and the licensee in the process of issuing export approvals;
 - Issuance of export approvals to exporters whose licenses should have been refused because they did not meet the requirements, namely:
 - Distributing CPO or RBD Palm Olein is not in accordance with the DPO;
 - Not distributing CPO and RBD Palm Olein domestically as required in the DMO (20% which later increased to 30% of total exports).

EARNINGS REVISION/RISK

- Maintain earnings forecasts.** We are forecasting a net profit of US\$1.77b, US\$1.82b and US\$2.0b for 2022, 2023 and 2024 respectively. 2022 core net profit forecast is 6% lower yoy compared with US\$1.89b for 2021 as we are expecting lower earnings contributions from its China operations.

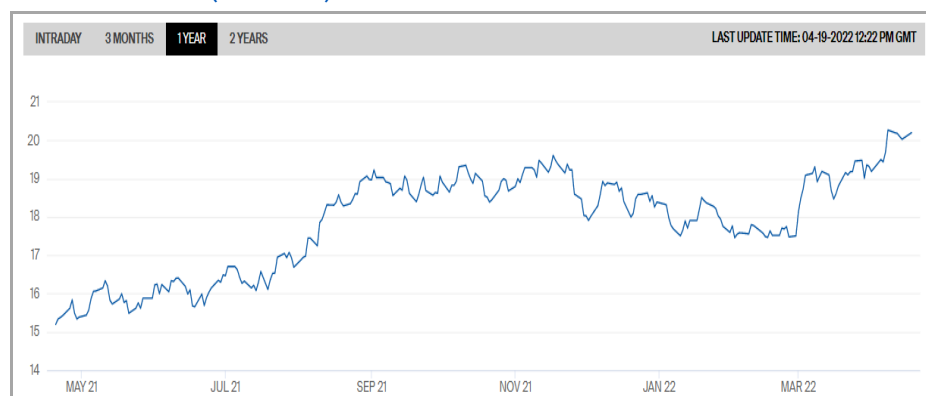
VALUATION/RECOMMENDATION

- Maintain BUY with target price of S\$5.50** derived using SOTP valuation by pegging a 2022F PE of 17x for the China operations and a blended 11x PE for the non-China operations.

SHARE PRICE CATALYST

- Stronger recovery in China operations.
- Surprise margin upside from the good timing of sourcing of raw materials.

WHITE SUGAR PRICE (US\$ CTS/LB)



Source: Ice Future

SOTP VALUATION

	PE(X)	S\$/Share
China operation	17	3.20
Non-China operation	12	2.00
Associates and others	8	0.30
Total		5.50

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	65,794	65,390	70,868	77,251
EBITDA	3,943	3,928	4,041	4,308
Deprec. & amort.	1,143	1,243	1,290	1,310
EBIT	2,800	2,685	2,751	2,998
Total other non-operating income	0	0	0	0
Associate contributions	219	224	242	261
Net interest income/(expense)	(253)	(282)	(308)	(316)
Pre-tax profit	2,766	2,626	2,685	2,943
Tax	(700)	(664)	(679)	(744)
Minorities	(176)	(182)	(187)	(204)
Net profit	1,890	1,780	1,819	1,994
Net profit (adj.)	1,842	1,780	1,819	1,994

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	(45)	2,410	1,637	1,593
Pre-tax profit	2,766	2,626	2,685	2,943
Tax	(687)	(664)	(679)	(744)
Deprec. & amort.	1,084	1,243	1,290	1,310
Working capital changes	(3,100)	(591)	(1,437)	(1,675)
Other operating cashflows	(108)	(204)	(222)	(241)
Investing	(2,418)	(1,931)	(1,431)	(1,430)
Capex (maintenance)	(2,532)	(2,045)	(1,545)	(1,544)
Investments	86	86	86	86
Proceeds from sale of assets	62	62	62	62
Others	28	28	28	28
Financing	(1,198)	1,789	2,405	(57)
Dividend payments	(462)	(699)	(1,050)	(498)
Issue of shares	0	23	41	41
Proceeds from borrowings	794	685	6,339	400
Others/interest paid	(1,530)	1,780	(2,925)	0
Net cash inflow (outflow)	(3,661)	2,268	2,611	106
Beginning cash & cash equivalent	2,583	2,588	3,072	2,272
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	(1,077)	4,855	5,683	2,378

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	14,192	15,049	15,306	15,515
Other LT assets	12,711	12,594	11,900	11,265
Cash/ST investment	6,342	6,052	5,772	4,881
Other current assets	25,473	26,590	28,180	30,501
Total assets	58,718	60,284	61,158	62,162
ST debt	22,292	22,492	22,492	22,492
Other current liabilities	6,101	6,208	6,800	7,426
LT debt	6,823	7,223	6,623	6,024
Other LT liabilities	900	830	761	696
Shareholders' equity	19,924	20,671	21,435	22,272
Minority interest	2,678	2,861	3,047	3,252
Total liabilities & equity	58,718	60,284	61,158	62,162

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	6.0	6.0	5.7	5.6
Pre-tax margin	4.2	4.0	3.8	3.8
Net margin	2.9	2.7	2.6	2.6
ROA	3.4	3.0	3.0	3.2
ROE	9.7	8.8	8.6	9.1
Growth				
Turnover	30.2	(0.6)	8.4	9.0
EBITDA	18.6	(0.4)	2.9	6.6
Pre-tax profit	19.7	(5.0)	2.2	9.6
Net profit	23.2	(5.9)	2.2	9.6
Net profit (adj.)	23.9	(3.4)	2.2	9.6
EPS	23.9	(3.4)	2.2	9.6
Leverage				
Debt to total capital	56.3	55.8	54.3	52.8
Debt to equity	146.1	143.7	135.8	128.0
Net debt/(cash) to equity	114.3	114.5	108.9	106.1
Interest cover (x)	15.6	13.9	13.1	13.6

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