

COMPANY UPDATE

Wilmar International (WIL SP)

China Operations Are Showing Improvement

Wilmar's China operations are showing good improvement in 2Q22, especially the consumer packs and soybean crushing segments. Thus, the performance of YKA is likely to be better in 2Q22 than in 1Q22. In addition, the selective palm product export ban in Indonesia is expected to have marginal impact to the bottom line if the ban is lifted within a short period of time. The real impact on palm downstream margin is from the sharp rise in exports levy. Maintain BUY. Target price: S\$5.50.

WHAT'S NEW

• **Operations in China see improvement vs 1Q22.** Recall that 1Q22 core profit excludes the one-off gain from dilution of Adani Wilmar which was below expectations and the variance came from poor performance of Yihai Kerry Arawana (YKA). During the briefing, management commented that YKA's performance is improving and that it is likely to deliver a better set of results vs the core net profit of just Rmb114m (~US\$17m) for 1Q22. The two main segments that were badly affected in 1Q22 are showing signs of improvement.

a) **Consumer packs:** The profit margin is expected to improve with recent weakness in raw material prices and they managed to increase the selling prices for some of the products in early-22 (before the lockdown). Even with the recent lockdowns in China, the management mentioned that their operations would not be much affected as they have factories all over China. Yet, some of their factories (located near the lockdown regions) are actually benefitting with higher sales volume observed.

b) **Soybean crushing:** The improvement of its crushing operations in China is mainly supported by lower soybean price while seeing better demand for animal feeds on the back of a recovery in the hog and poultry industries. For 1Q22, the soybean crushing operation was loss-making.

• **Impact from recent Indonesia palm oil export ban.** Management is of the view that the recent Indonesia ban on exports of certain palm products is likely to be temporary and will be lifted once the cooking oil prices are near to the country's target of Rp14,000/kg (for bulk and unbranded cooking oil). This is in line with our view. We understand that the cooking oil prices have started to drop since the announcement of the palm oil export ban. The management mentioned that if the export ban is only for the short term, it might not affect the bottom line too much. On top of that, Wilmar's cooking oil sales volume is from higher-end cooking oil and hence will not experience much impact. The Indonesian oleochemical operations are not much affected by the export ban (which is not included), however, we expect lower margin due to the higher export duty.

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)	13.7	11.1	11.5	11.2	10.2
P/B (x)	1.1	1.0	1.0	1.0	0.9
EV/EBITDA (x)	14.0	11.8	11.9	11.5	10.8
Dividend yield (%)	4.2	3.7	3.5	3.6	3.9
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	-	-	1,845	1,955	2,088
UOBKH/Consensus (x)	-	-	0.96	0.93	0.95

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.41
Target Price	S\$5.50
Upside	+24.7%

COMPANY DESCRIPTION

Wilmar's business encompasses 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):	27,788.4
Market cap (US\$m):	20,094.3
3-mth avg daily t'over (US\$m):	28.0

Price Performance (%)

52-week high/low	S\$4.98/S\$3.99			
1mth	3mth	6mth	1yr	YTD
(6.6)	0.9	(1.8)	(12.5)	6.5

Major Shareholders

Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoo Hong	12.8

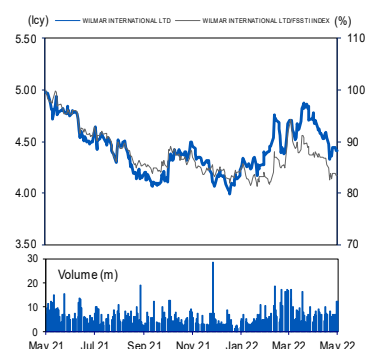
FY22 NAV/Share (US\$)

3.23

FY22 Net Debt/Share (US\$)

3.70

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Investigation into issuance of export licence in Indonesia.** The investigation by the Indonesian Attorney General's Office (AGO) in relation to export licences of palm products are still ongoing. Management mentioned that when the domestic market operation (DMO) and domestic price obligation (DPO) are still in place in Feb and Mar 22, Wilmar was very supportive by supplying more than the required cooking oil to the domestic market at a loss. The management had highlighted that the group firmly believes that 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.
- First CKP in Hangzhou commencing operations.** The Central Kitchen Park (CKP) project is progressing well with the first facility in Hangzhou commencing operations earlier in Apr 22. It started to provide meals to the quarantined in Shanghai and Hangzhou, and will be supplying meals for the coming Asian Games in Hangzhou. Overall, the CKP operation is expected to break even or have small operating losses in the first year of operations. Besides supplying the ingredients, CKP is also getting rental income from space renting and warehouses. The other central kitchens in Chongqing, Langfang and Xi'an are progressing well.
- More potential gain from stake dilution from Adani Wilmar (AWL).** The one-off gain from the dilution of its interest in Adani Wilmar Limited (AWL) amounting to US\$175.6m booked in 1Q22 arose from the IPO proceeds with the 6% dilution against the book value. AWL is required to increase its free float to 25% within three years upon listing, which means Wilmar still need to dilute another 6.5% of its current holding in AWL after one year of moratorium and before the end of the third year upon listing (listed on 8 Feb 22). Based on the current trading of AWL, the potential gain from this 6.5% dilution is estimated at around US\$800m or US\$0.127/share.
- Unlocking shareholder value.** During the question-and-answer session at the Annual General Meeting on 21 Apr 22, management in its reply to questions on strategy to unlock shareholders' value mentioned that there are several options for Wilmar to unlock shareholder value, which include listing more of its operations, selling additional shares in the listed subsidiaries, buying back shares, distributing some of the listed subsidiaries to Wilmar shareholders or taking the company private. But the company is not actively pursuing any of these options because it is now busy with many good projects in China, Indonesia, India and other countries. Yesterday, the company bought back 3,626,600 Wilmar shares from the open market at a price of S\$4.40-4.43/share. This was the first share buy back from the open market in 2022.

EARNINGS REVISION/RISK

- Maintain earnings forecast.** We are maintaining our earnings forecast as the shortfall in 1Q22 was made up by the gain from the stakes dilution in Adani Wilmar. Our current net profit forecast is at US\$1.77b, US\$1.82b and US\$2.0b for 2022, 2023 and 2024 respectively.

VALUATION/RECOMMENDATION

- Maintain BUY with target price of S\$5.50.** Our target price is derived using the 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 in sourcing of raw materials.

SOTP VALUATION

	PE (x)	S\$/Share
China operation	26	3.19
Non-China operation	12	1.30
Associates and others	-	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

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

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

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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