

COMPANY UPDATE

Wilmar International (WIL SP)

Gradual Recovery

Management's recent updates are in line with our expectation. We believe the worst is behind us, but earnings recovery is expected to be gradual due to the ongoing geopolitical uncertainty and a slower economic growth environment. During YKA's recent briefing, management emphasised the recovery of sales volumes, particularly in consumer products, and expressed optimism that this positive momentum will be sustained. Maintain HOLD. Target price: S\$3.80.

WHAT'S NEW

- Management's briefing aligns with our expectation and indicates that the worst may be behind us. However, uncertainties persist due to global economic instability, lower margins in palm downstream processing compared with 2022, and slower growth in China.
- **Food products: Set for gradual earnings improvement as high-cost raw materials deplete.** Wilmar International (Wilmar) is seeing more sustainable sales volume growth for consumer products in China. The positive sales growth trend is confirmed by Yihai Kerry Arawana (YKA) which reported positive yoy sales volume growth in 3Q23. Lower cost of raw materials also benefits flour and rice operations in China, contributing to improved earnings in 4Q23.
- **Oilseeds and grains:** The re-emergence of African Swine Flu may lead to lower animal feed demand, potentially resulting in weaker crushing margins. However, margins are still expected to remain positive.
- **Tropical oils:** Refining and oleochemical margins remain positive but at normalised levels. These margins are significantly lower compared with the extraordinary margins reported in 4Q22 (highest refining margin was in 3Q22). This segment is expected to be the primary drag on Wilmar's 4Q23 and full-year 2023 financial performance.
- **Fertiliser:** This division is not expected to report large losses, as fertiliser prices have normalised and high-cost stocks have been depleted. Demand for fertiliser in Indonesia is also rising after a period of price collapse.
- **Sugar milling and refining:** This segment is performing well, benefitting from high sugar prices and a strong white sugar premium.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	65,794	73,399	73,996	80,411	87,992
EBITDA	3,943	4,442	3,155	3,929	4,374
Operating profit	2,800	3,291	1,971	2,721	3,148
Net profit (rep./act.)	1,890	2,402	1,118	1,599	1,952
Net profit (adj.)	1,842	2,244	1,118	1,599	1,952
EPS (US\$ cent)	28.8	35.0	17.5	25.0	30.5
PE (x)	9.3	7.6	15.3	10.7	8.8
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	11.3	10.0	14.1	11.3	10.2
Dividend yield (%)	4.0	4.4	2.6	3.3	4.0
Net margin (%)	2.9	3.3	1.5	2.0	2.2
Net debt/(cash) to equity (%)	114.3	123.6	122.9	124.1	123.4
Interest cover (x)	15.6	9.9	4.1	4.8	5.6
ROE (%)	9.7	12.0	5.5	7.7	9.0
Consensus net profit	-	-	1,367	1,810	1,973
UOBKH/Consensus (x)	-	-	0.82	0.88	0.99

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.64
Target Price	S\$3.80
Upside	+4.4%

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):	6,242.7
Market cap (S\$m):	22,723.5
Market cap (US\$m):	16,688.9
3-mth avg daily t'over (US\$m):	13.3

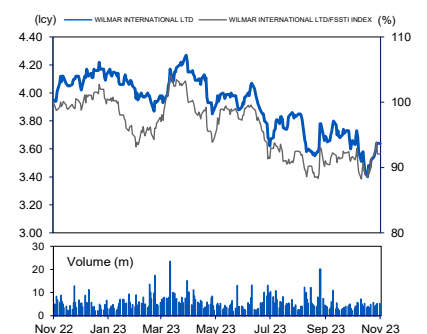
Price Performance (%)

52-week high/low	S\$4.27/S\$3.40			
1mth	3mth	6mth	1yr	YTD
(0.8)	(5.2)	(5.5)	(6.9)	(12.7)

Major Shareholders

Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY23 NAV/Share (US\$)	3.24
FY23 Net Debt/Share (US\$)	3.98

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

Yihai Kerry Arawana (300999 CN/ Not Rated): 50-60% of Wilmar's PBT

- **YKA is anticipated to perform significantly better compared with 2022** when the Chinese economy was still hampered by pandemic restrictions. The positive trend of recovery in 3Q23 is expected to persist, with the exception of the soybean crushing segment.
 - **Food ingredient:** 3Q23 is indicating a more substantial sales recovery, which is expected to be sustainable. Margins are expected to steadily improve due to a combination of factors, including the depletion of high-cost raw materials and the benefits of increased sales. The HoReCa sector has been the best performer, with sales nearly reaching 80-90% of pre-COVID-19 levels. However, it is worth noting that the profit margins in this sector are relatively narrower compared with consumer products. Consumer pack: Sales are also displaying a positive recovery trend.
 - **Feed & oleochemical:** Weak soybean crushing margins are expected to impact overall performance. There is a challenging situation with the resurgence of African Swine Flu, leading to weakened hog prices and potentially affecting demand. It is anticipated that the demand for soybean meal may not significantly improve until the Chinese New Year next year. This may negatively impact the soybean crushing margin, while oleochemical's profit margin is expected to improve due to the lower feedstock prices.

Adani Wilmar (AWLTD IN/Not Rated): <3% of Wilmar's PBT

- **AWL is anticipating a profit turnaround in 2HFY24.** Adani Wilmar (AWL) reported net losses in 1HFY24 due largely to hedging losses for its edible oil contracts, one-off tax settlement and losses in its Bangladesh subsidiary. However, the company is guiding for a better 2HFY24. This is primarily because the main contributor to losses, namely hedging losses on edible oil contracts, are not expected to recur. Among the three key business segments, food & fast-moving consumer goods demonstrated stronger growth, with contribution to total sales volume increasing from 11% in FY22 to 18% as at end-2HFY24. Additionally, it reported profits earlier than initially anticipated. Rural sales have been growing at a faster rate than urban sales due to a higher focus on increasing the rural distribution network and rising demand for premium products as consumers are moving towards better quality foods.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** We maintain our 2023-25 earnings forecasts at US\$1.12b, US\$1.56b and US\$1.95b respectively.

VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of S\$3.80.** Our valuation is based on 2024F EPS and uses the SOTP valuation by pegging PE of 25x, 10x and 11x for food products, feeds & industrial products and plantations & sugar mills respectively.

SHARE PRICE CATALYST

- **Greater recovery in China.** As YKA is still the largest profit contributor to Wilmar, a surprise recovery would be positive to earnings and market sentiment towards Wilmar's performance.
- **Global restocking after subdued purchases in 2023.** There was subdued demand for some palm by-products such as oleochemical and glycerin due to overstocking back in 2022, but these may see a restocking cycle in 2024. Wilmar is the largest palm-base ingredient producer, and could benefit in terms of better sales volume and margins as prices of by-products recover.

YKA 3Q23 RESULTS

(RMB m)	3Q23	qoq % chg	yoy % chg	9M23	yoy % chg
Revenue	69,809	21.0	2.1	188,522	0.4
Net profit	895	701.4	643.1	909	(59.8)

Source: YKA

AWL 2QFY24 RESULTS (FYE 31 MAR)

(INR in Crores)	2QFY24	qoq % chg	yoy % chg	1HFY24	yoy % chg
Volume (m mt)	1.5	(2)	11	2.9	18
Revenue	12,267	(5)	(13)	25,195	(13)
PAT	(131)	n.m.	n.m.	(210)	n.m.

By Segments

Edible Oil	(195)	n.m.	n.m.	(286)	n.m.
Food & FMCG	52	37	187	90	218
Ind Essentials	56	n.m.	33	57	(76)

Source: AWL

SOTP VALUATION

	PE(X)	S\$/Share
Food Ingredient	25	1.70
Feed & Oils & Fats	10	1.49
Plantations & Sugar Milling	11	0.44
Associates & JV	8	0.17
Total		3.80

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	73,399	73,996	80,411	87,992
EBITDA	4,442	3,155	3,929	4,374
Deprec. & amort.	1,151	1,184	1,208	1,226
EBIT	3,291	1,971	2,721	3,148
Total other non-operating income	0	0	0	1
Associate contributions	274	307	301	325
Net interest income/(expense)	(448)	(776)	(818)	(783)
Pre-tax profit	3,117	1,502	2,204	2,690
Tax	(547)	(300)	(441)	(538)
Minorities	(167)	(84)	(164)	(200)
Net profit	2,402	1,118	1,599	1,952
Net profit (adj.)	2,244	1,118	1,599	1,952

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	2,746	752	657	750
Pre-tax profit	3,117	1,502	2,204	2,689
Tax	(685)	(300)	(441)	(538)
Deprec. & amort.	1,093	1,184	1,208	1,226
Working capital changes	(778)	(903)	(1,589)	(1,878)
Other operating cashflows	0	(731)	(725)	(749)
Investing	(2,542)	(1,601)	(1,601)	(1,401)
Capex (maintenance)	(2,483)	(1,541)	(1,541)	(1,341)
Investments	24	24	24	24
Proceeds from sale of assets	86	86	86	86
Others	(83)	(83)	(83)	(83)
Financing	1,789	2,405	667	320
Dividend payments	(699)	(1,050)	(803)	(313)
Issue of shares	23	41	33	33
Proceeds from borrowings	685	6,339	621	600
Others/interest paid	1,780	(2,925)	817	0
Net cash inflow (outflow)	1,992	1,556	(276)	(331)
Beginning cash & cash equivalent	2,588	2,847	2,404	1,789
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,580	4,403	2,127	1,458

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	14,814	15,163	15,479	15,571
Other LT assets	12,955	12,813	12,577	12,328
Cash/ST investment	5,722	5,904	5,288	5,279
Other current assets	26,911	28,037	30,381	32,974
Total assets	60,402	61,918	63,724	66,151
ST debt	23,435	23,435	23,435	23,435
Other current liabilities	6,508	6,948	7,280	7,523
LT debt	6,994	7,594	8,194	9,194
Other LT liabilities	865	796	729	765
Shareholders' equity	19,986	20,446	21,223	22,170
Minority interest	2,615	2,699	2,863	3,063
Total liabilities & equity	60,402	61,918	63,724	66,151

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.1	4.3	4.9	5.0
Pre-tax margin	4.2	2.0	2.7	3.1
Net margin	3.3	1.5	2.0	2.2
ROA	4.0	1.8	2.5	3.0
ROE	12.0	5.5	7.7	9.0
Growth				
Turnover	11.6	0.8	8.7	9.4
EBITDA	12.7	(29.0)	24.5	11.3
Pre-tax profit	12.7	(51.8)	46.7	22.1
Net profit	27.1	(53.5)	43.1	22.1
Net profit (adj.)	21.8	(50.2)	43.1	22.1
EPS	21.8	(50.2)	43.1	22.1
Leverage				
Debt to total capital	57.4	57.3	56.8	56.4
Debt to equity	152.3	151.8	149.0	147.2
Net debt/(cash) to equity	123.6	122.9	124.1	123.4
Interest cover (x)	9.9	4.1	4.8	5.6