

COMPANY UPDATE

Wilmar International (WIL SP)

4Q23 Results Preview: Uncertainty To Cap Performance

Wilmar will be releasing its 2H23 results on 21 Feb 24 after trading hours. We estimate core net profit at US\$320m-350m and full-year core net profit at US\$1.20m-1.23m, which is 7-10% higher than our but 6-8% lower than consensus expectations. Expect short-term negative sentiment from the recent announcement of its association with the ongoing alleged China palm oil fraud. Maintain HOLD with a lower target price of S\$3.35 (previously S\$3.80).

WHAT'S NEW

- 4Q23 results preview: Likely to beat our expectation.** Wilmar International (Wilmar) will be releasing its financial results for 2H23 on 21 Feb 24 after trading hours. We are expecting 4Q23 core net profit to be within US\$320m to US\$350m (vs 3Q23: US\$324m, 4Q22: US\$467.6m). This will bring full-year core net profit to US\$1.20m-1.23m, which is 7-10% higher than our but lower than consensus' expectations. Its operations in China have shown some positive developments; however, these improvements have not been substantial enough to offset the challenges stemming from the palm refining business.
- Mixed segmental performance,** with yoy performance still hampered by poor palm refining margins. However, its China operations are expected to show qoq improvement, driven by enhanced margins for consumer packs and soybean crushing. Expectations for each segment are as follows:
 - Plantation & sugar milling.** This segment is expected to contribute better PBT yoy and qoq. The yoy improvement can be primarily attributed to the absence of losses from the fertiliser division. Meanwhile, sugar milling is expected to report higher profits due to higher sugar prices. Profit margin from palm upstream is expected to improve qoq as fertiliser costs have declined.
 - Feed and industrial products.** Margins for this segment may continue to be soft, especially for the tropical oil sub-segment, given the competitive market and the tight CPO supply situation in Indonesia that has led to higher feedstock costs. Oilseeds and grains margin is also expected to be soft due to slower hog consumption in China, resulting in lower soybean meal demand.
 - Food products.** The soft Chinese economic environment is expected to result in a decrease in sales volume of food products. However, a marginal qoq and yoy improvement in margin is anticipated for 4Q23, mainly attributed to lower raw material costs. Notably, the profitability of this segment for 9M23 was impacted by high raw material costs, with key feedstocks mostly sourced at higher prices in 2022.

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)	8.6	7.1	14.2	9.9	8.1
P/B (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x)	11.3	10.1	14.2	11.4	10.2
Dividend yield (%)	4.3	4.7	2.9	3.6	4.4
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	-	-	1,307	1,787	1,964
UOBKH/Consensus (x)	-	-	0.86	0.89	0.99

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.33
Target Price	S\$3.35
Upside	+0.6%
(Previous TP)	S\$3.80

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):	20,788.3
Market cap (US\$m):	15,498.6
3-mth avg daily t'over (US\$m):	14.1

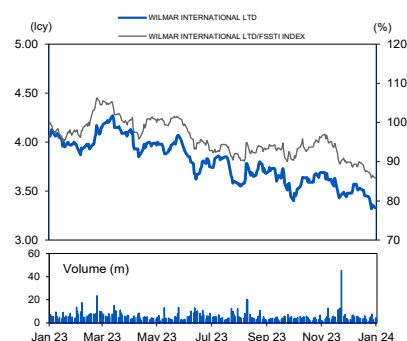
Price Performance (%)

52-week high/low	S\$4.27/S\$3.32			
1mth	3mth	6mth	1yr	YTD
(4.3)	(3.2)	(11.2)	(18.0)	(6.7)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoo Hong	12.8
FY24 NAV/Share (US\$)	3.36
FY24 Net Debt/Share (US\$)	4.17

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- China palm oil fraud allegation likely to have marginal financial impact but may raise concerns on governance.** We anticipate a minimal impact on Wilmar's operations amid the recent allegations of China palm oil fraud. It is worth noting that Guangzhou Yihai's (Wilmar China's subsidiary) involvement was mainly as a transit storage provider and it has denied any knowledge of fraudulent activities, emphasising its limited role in cargo storage without involvement in changes to cargo rights or any falsification of transfer documents. Despite this, short-term negative sentiment on the company's share price is anticipated, given its association with this ongoing pending alleged corruption case.
- Delayed announcement of investigation.** In a statement issued by Wilmar, Wilmar mentioned that the investigation of the palm contract fraud involving Anhui Whywin International Co and Yunnan Huijia Import & Export Co, was initially focused on Liu Degang, a former general manager of Guangzhou Yihai who was alleged to have been bribed. Only on 8 Jan 24 did Guangzhou Yihai learn of its impending charge for assisting in an offence through a call from the local prosecutor's office. YKA promptly issued an announcement on 12 Jan 24, complying with China listing rules, which mandate the disclosure of all criminal charges against YKA or its subsidiaries, regardless of materiality.
- Financial impact.** Based on the clarification by Wilmar (replying to SGX queries) the contribution of Guangzhou Yihai, a wholly-owned subsidiary of YKA, to the financial position of YKA and the Wilmar group is stated in the table below, based on the latest audited financial results for FY22.

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 lower target price of S\$3.35 (previously S\$3.80),** where we have lowered our PE valuation for its China operations from 25x to 18x to factor in the short-term negative sentiment from the recent announcement of its association with the ongoing pending alleged China palm oil fraud.

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.
- If Wilmar is definitively cleared from any association with the China palm oil fraud,** we anticipate a favorable trajectory for the company's share price. Such a resolution would likely mitigate apprehensions, contributing to a restoration of investor confidence in the company's corporate governance.

2023 WAS A CHALLENGING YEAR FOR PALM OIL REFINERS



Source: Apical estimates

NEGATIVE CHINA HOG MARGINS NEGATIVELY IMPACTED FEED DEMAND



Source: JCI

FINANCIAL IMPACT OF GUANGZHOU YIHAI ON YKA AND WILMAR

% of total	For YKA	For Wilmar
Revenue	4.2%	2.2%
Net Profits	6.7%	1.2%
Net Assets	0.5%	0.3%

Source: Wilmar, YKA

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

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