Singapore Company Update

10 January 2019

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

Upside From Potential China IPO

Target Price (Return)	SGD3.58(+13%)
Price:	SGD3.18
Market Cap:	USD14,728m
Avg Daily Turnover (SGD/USD)	15.8m/11.6m

- **Maintain BUY and SGD3.58 TP**, 13% upside, with 3% FY19F yield. Wilmar is our Top Pick for exposure to the plantation sector. Given an unexciting year ahead for CPO prices, we believe Wilmar will outperform the sector as its exposure to the downstream space could help to mitigate the lower earnings in the plantation segment. In addition, the potential A-share listing of its China operations could unlock some latent value in the stock through special dividends and a share price rerating.
- **Wilmar in China.** Wilmar derives c.50% of its revenue from China. Since the acquisition of Kuok Group's oils & grains business in 2007, the company has grown rapidly in China, with a revenue CAGR of 10%. Today, in China, it is the largest edible oil refiner, rice and flour miller, and specialty fats cum oleochemicals manufacturer. It is also a leading oilseed crusher, and has the largest market share for China's branded consumer pack oils, rice and flour.
- **Special dividend from China IPO proceeds.** Unofficially, valuation of A-shares IPO is capped at 23x historical P/E. Assuming Wilmar floats 10% of its China operations at 20x FY18F P/E, we can expect it to raise USD1.3bn. If 40% of the proceeds are paid out to investors (FY17 dividend payout ratio), this will translate to a special dividend of SGD0.11 per share.
- **Potential share price rerating.** At 20x FY18F P/E, our preliminary estimate suggests the China entity could be listed with a total market capitalisation of USD12.8bn – equivalent to 87% of Wilmar's current market cap. Using a SOP valuation, Wilmar's stock could be worth SGD4.37 after a rerating, implying 37% upside from the current level.
- **Outside of China, exposure in downstream palm products should mitigate unexciting CPO prices.** The rising biodiesel mandates in Malaysia and Indonesia should benefit Wilmar, as it is the largest biodiesel producer in both countries. Since biodiesel has higher margins, we believe this could help mitigate the effect of soft CPO prices. However, low crude oil prices may reduce demand for discretionary blending.

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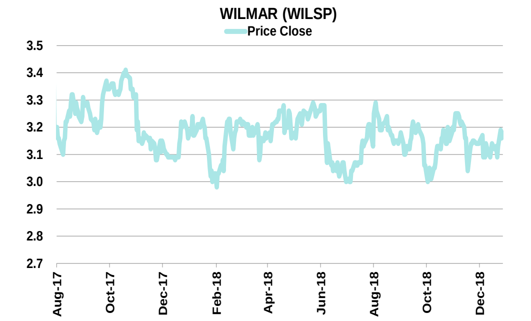
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.9	1.0	0.6	3.6	(0.9)
Relative	(0.5)	(0.1)	1.4	6.2	9.9
52-wk Price low/high (SGD)					2.98 - 3.29



Source: Bloomberg

Forecasts and Valuation	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (USDm)	41,402	43,846	42,617	43,200	47,738
Recurring net profit (USDm)	977	1,047	1,279	1,207	1,319
Recurring net profit growth (%)	(8.4)	7.3	22.1	(5.6)	9.3
Recurring P/E (x)	15.3	14.3	11.7	12.4	11.3
P/B (x)	1.0	0.9	0.9	0.9	0.8
P/CF (x)	16.8	78.2	5.1	8.0	8.8
Dividend Yield (%)	2.0	3.2	3.4	3.3	3.4
EV/EBITDA (x)	14.4	15.9	11.5	11.8	11.0
ROE (%)	6.7	7.6	7.6	6.9	7.2
Net debt to equity (%)	90.8	105.7	88.9	81.6	75.6
Interest coverage	3.7	3.1	4.4	3.7	4.0

Source: Company data, RHB

Special Dividends From China IPO

In mid-2017, the group made known its intention to list its China operations on the Shanghai Stock Exchange. Internal restructuring of the operations has been largely completed. The proposed listing is expected to take place by the end of 2019.

Potential special dividend after China IPO. Wilmar generates at least USD2bn of EBITDA each year and spends c.USD1bn on capex. We believe the group should at least distribute part of the IPO proceeds as special dividends, since it does not need additional capital to support current operations.

We estimate c.50% of the group's PATMI is derived from China, in line with its revenue breakdown. Since the IPOs in China have an unwritten valuation cap of 23x historical P/E, we could expect it to raise USD1.3bn in IPO proceeds – if it floats 10% of its China operations at a more-conservative valuation of 20x FY18F P/E.

Base case scenario leads to SGD0.11 special dividend. In our base case scenario, we expect the group to pay out 40% of the IPO proceeds, in line with FY17 dividend payout ratio. This would result in a special dividend of SGD0.11, boosting dividend yield by another 3.5ppt.

♦ Our base case suggests Wilmar pays out 40% of IPO proceeds, resulting in SGD0.11 worth of special dividends

Figure 1: Base case scenario – derivation of SGD0.11 special dividend

Base case	Forecast	Formula	Comment
FY18F PATMI (USDm)	1,279	(i)	
PATMI from China operations (USD m)	**639**	**(ii) = (i) x 50%**	**We assume 50% of PATMI is derived from China operations**
IPO P/E valuation (x)	20	(iii)	China IPO is capped at 23x historical P/E as a rule of thumb
Market cap of China-listed entity (USD m)	**12,788**	**(iv) = (ii) x (iii)**	**This represents 87% of Wilmar's current market cap**
Float	10%	(v)	
IPO proceeds (USDm)	1,279	(vi) = (v) x (iv)	
Special dividend payout ratio	**40%**	**(vii)**	**Assumes FY17 dividend payout ratio**
Special dividends (USDm)	512	(viii)= (vi) x (vii)	
Number of shares (m)	6,327	(ix)	
Special dividend per share (USD)	0.08	(x) = (viii)/(ix)	
Exchange rate	1.37	(xi)	
Special dividend per share (SGD)	**0.11**	**(xii) = (x)/(xi)**	**This represents a yield of 3.5%**

Source: Company data, RHB

Best case scenario results in SGD0.25 special dividend. In our best case scenario, the group could be extremely generous and pay out 90% of the IPO proceeds. This would result in a special dividend of SGD0.25 per share, representing 7.9% of its current share price.

♦ Our best case suggests Wilmar pays out 90% of IPO proceeds, resulting in SGD0.25 worth of special dividends

Figure 2: Best case scenario – derivation of SGD0.25 special dividend

Best case	Forecast	Formula	Comment
FY18F PATMI (USDm)	1,279	(i)	
FY18F PATMI from China operations (USDm)	**639**	**(ii) = (i) x 50%**	**We assume 50% of PATMI is derived from China operations**
IPO P/E valuation (x)	20	(iii)	China IPO is capped at 23x historical P/E as a rule of thumb
Market cap of China-listed entity (USD m)	**12,788**	**(iv) = (ii) x (iii)**	**This represents 87% of Wilmar's current market cap**
Float	10%	(v)	
IPO proceeds	1,279	(vi) = (v) x (iv)	
Special dividend payout ratio	**90%**	**(vii)**	**Assumes Wilmar pays out 90% since it does not need additional capital**
Special dividends	1,151	(viii)= (vi) x (vii)	
Number of shares (m)	6,327	(ix)	
Special dividend per share (USD)	0.18	(x) = (viii)/(ix)	
Exchange rate	1.37	(xi)	
Special dividend per share (SGD)	**0.25**	**(xii) = (x)/(xi)**	

Source: Company data, RHB

Worst case scenario. In the worst case scenario, the IPO could fall through due to poor market conditions. Our current TP of SGD3.58 would still hold in this scenario, which still represents an upside of 13% and a dividend yield of 3.3%.

Figure 3: Current SOP assumption

Business segments	Value (USDm)	Valuation basis
Plantation business	1,534	11x FY19F P/E
Palm manufacturing	1,933	DCF: Ce 12.3%, Rf 5.9%, Beta 1.0, Rm 12.6%, TG 0.0%
Oilseeds crushing	2,700	10x FY19F P/E
Consumer	5,318	DCF: Ce 10.2%, Rf 3.9%, Beta 0.6, Rm 14.4%, TG 3.0%
Sugar	516	10x FY19F P/E
Others	65	DCF: Ce 9.3%, Rf 3%, Beta 1.0, Rm 9.5%, TG 0%
JV & Associates	4,646	1x P/BV
SOP	**16,712**	
Value per share (USD)	2.61	
Exchange rate (USD to SGD)	1.37	
Value per share (SGD)	**3.58**	

Source: RHB

Unlocking latent value with China IPO

Potential rerating of Wilmar's share price after China IPO. Should Wilmar's China operations be listed at 20x FY18F P/E, we estimate the China-listed entity could be worth a total market capitalisation of c.USD12.8bn, which is very substantial vs its current market capitalisation of USD14.7bn. Hence, despite dilution from the IPO, we estimate the new SOP valuation of Wilmar could derive a higher intrinsic value of SGD4.37 per share, which implies 37% upside from current levels.

♦ After rerating to account for the potential market value of its China operations, Wilmar could be worth SGD4.37 per share.

Figure 4: New SOP valuation should China IPO take place

New SOP valuation	Value (USDm)	Valuation basis
Plantation business	1,534	11x FY19F P/E
Palm manufacturing	1,933	DCF: Ce 12.3%, Rf 5.9%, Beta 1.0, Rm 12.6%, TG 0.0%
China operations	11,509	Potential value of China-listed entity should IPO takes place: 20x FY18F P/E x 90%
Sugar	516	10x FY19F P/E
Others	65	DCF: Ce 9.3%, Rf 3%, Beta 1.0, Rm 9.5%, TG 0%
JV & Associates	4,646	1x P/BV
SOP	**20,203**	
Value per share (USD)	3.19	
Exchange rate (USD to SGD)	1.37	
Value per share (SGD)	**4.37**	

Source: RHB

In addition, based on Bloomberg Industry Classification Systems (BICS), consumer products companies listed in China trade at an average of 61x current P/E, and those with research coverage trade at an average forward P/E of 25x. At 25x FY18F P/E, the market cap of the China-listed entity would be worth USD16bn. Therefore, there is a further potential for the valuation of its China-listed entity to run up after its IPO, and to even exceed Wilmar's current market cap.

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