

10 December 2018

Agriculture | Plantation

Wilmar

BUY (Maintained)

Diversified Portfolio Mitigates Lower CPO Prices

Maintain BUY, new TP of SGD3.58 from SGD3.69, 13% upside, with 3.3% FY19F yield. This is due to a reduction in our in-house CPO price assumptions to MYR2,200 (USD553) for FY19 and MYR2,400 (USD632) for FY20. Nonetheless, we think the downside risk is limited from here on, with demand picking up in 2019. Wilmar remains our Top Pick for the plantation sector, as we believe its exposure to the downstream space would help to mitigate the lower earnings in the plantation segment.

Lower in-house CPO price assumptions. CPO prices have surprised us on the downside, having reached a low of MYR1,717/tonne before recovering slightly. We believe this is was due to the continued rise in CPO stock levels in Malaysia to 2.72m tonnes in October, and the decline in crude oil prices from a high of USD84/barrel one month ago to USD54/barrel currently.

Our in-house CPO price forecasts are now reduced to MYR2,200/tonne (USD553) from MYR2,500 (USD617) for FY19, and to MYR2,400/tonne (USD632) from MYR2,500 (USD617) for FY20. As such, our earnings for Wilmar are reduced by 4.5% for FY19F and higher by 1.1% for FY20F.

Lower plantation earnings mitigated by downstream segment. Wilmar's processing and merchandising capacity for palm oil is far larger than its plantation output. We believe the lower earnings from plantation will be mitigated by positive palm refining margins. In addition, Wilmar is the largest biodiesel producer in Malaysia and Indonesia. Rising biodiesel mandates could help to raise demand and bring higher margins to Wilmar's tropical oil segment.

Oilseeds and grains division to stabilise. We expect the hubbub surrounding the US-China trade war to have limited near-term impact on Wilmar, as the group is currently using Brazilian soybeans. We also expect soybean crushing normalise throughout the year as the group depletes its low-cost inventories. This should be partially offset by improving margins on the consumer pack front, as China moves from unpackaged rice to branded consumer packs.

Sugar prices have rebounded from the low. This should benefit its sugar plantation business in Australia and Africa. Shree Renuka could also benefit from better milling margins. However, we do note that the contribution from sugar upstream business is small and the bulk of the profits still comes from merchandising.

Maintain BUY with lower SOP derived TP of SGD3.58. We lower our TP from SGD3.69 as a result of the lower CPO price and (as a result) oil palm plantation earnings. However, we believe Wilmar will continue to outperform its peers in the plantation sector in FY19F as its diversified portfolio allows the group to mitigate the fall in CPO prices. The IPO of its China operations is still on the plate and remains the key catalyst for its share price.

Target Price: SGD3.58
Price: SGD3.16
Market Cap: USD14,577m
Bloomberg Ticker: WIL SP

Share Data

Avg Daily Turnover (SGD/USD) 16.9m/12.4m
52-wk Price low/high (SGD) 3.31 - 2.97
Free Float (%) 30.7
Shares outstanding (m) 6,327
Estimated Return 13%

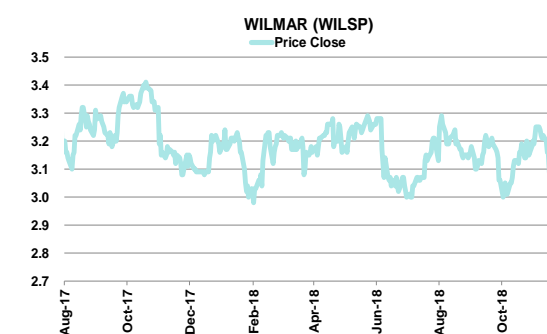
Shareholders (%)

Kuok Group 33.8
Archer-Daniels Midland 24.9
Kuok Khoon Hong 12.6

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.3	(0.3)	(0.6)	(4.9)	0.3
Relative	9.1	(2.8)	0.0	5.1	9.1

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec 18F	Dec 19F	Dec 20F
Total turnover (USDm)	41,402	43,846	42,617	43,200	47,738
Reported net profit (USDm)	972	1,219	1,279	1,207	1,319
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 EPS (USD)	0.15	0.17	0.20	0.19	0.21
DPS (USD)	0.05	0.08	0.08	0.08	0.08
Recurring P/E (x)	15.2	14.2	11.6	12.3	11.3
P/B (x)	1.0	0.9	0.9	0.9	0.8
P/CF (x)	16.7	77.7	5.1	8.0	8.7
Dividend Yield (%)	2.0	3.2	3.4	3.3	3.5
EV/EBITDA (x)	14.4	15.8	11.5	11.7	11.0
Return on average equity (%)	6.7	7.6	7.6	6.9	7.2
Net debt to equity (%)	91	106	89	82	76
Our vs consensus EPS (adjusted) (%)			7.0	(2.8)	(1.6)

Source: Company data, RHB

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Figure 1: New CPO price assumptions

(USD/tonne)	FY18F	FY19F	FY20F
In-house CPO price forecast (MYR/tonne)	2,400	2,200	2,400
USDMYR exchange rate	4.03	3.98	3.80
In-house CPO price forecast (USD/tonne)	596	553	632
Realised CPO price assumptions	546	503	582

Source: RHB

Figure 2: SOP valuation

Business segments	Value (USD m)	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	-
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
SOTP	16,712	
Value per share (USD)	2.61	
Exchange rate (USD to SGD)	1.37	
Value per share (SGD)	3.58	

Source: RHB

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Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

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