

2 August 2018

Agriculture | Plantation

## Wilmar International

**Buy** (Maintained)

### Trade War Jitters

**Maintain BUY with lower SOP-based TP of SGD3.51 from SGD3.59, 12% upside. We believe CPO prices have overreacted negatively to the trade war and expect to see some respite in 4Q18, post seasonal peak. However, given the larger-than-expected price reaction, we are cutting our CPO price assumptions for 2018-2019 to MYR2,400-2,500. Our earnings have been cut by 6-8% for 2018F-2020F. On soybean, we note that Brazilian soybean prices have risen and are now at a c.20% premium to US soybean prices. However, we believe Wilmar can still generate positive crush margins even at these price levels.**

**Trade war still affecting sentiment for CPO.** Negative sentiment surrounding the trade war and the recent strength of the MYR have resulted in CPO prices falling to low levels of MYR2,100-2,200/tonne. While we think the negative reaction is overdone, we do not expect much price recovery over the next few months, as we head towards the seasonal peak output period. We expect some price recovery in 4Q18 once the peak production period is over, and once the real impact of the trade war starts coming through.

**Revising CPO prices.** Given the magnitude of the recent CPO price decline, we no longer believe that our previous price averages for 2018-2019 are achievable. We are therefore cutting our price projections to MYR2,400/tonne for 2018 (from MYR2,550) and to MYR2,500/tonne for 2019 (from MYR2,700). With the cut in price assumptions, our earnings for stocks under our coverage have been reduced accordingly. We highlight that the CPO price average does not include the impact of export taxes, which will reduce recognised selling prices further.

**Trade war affecting soybeans.** Brazilian soybean prices have increased and are now at a c.20% premium to US soybean prices as trade tariffs mean that China will be more dependent on Brazilian soybeans. Brazilian soybeans from the Santos port are now priced at c.USD10.55/bu, similar to peak levels of US soybeans in Apr 2018. Nonetheless, we believe robust demand will support positive crushing margins at these price levels.

**Risks** include significant changes in the crude oil price trend that may result in a reversal of CPO and other vegetable oil prices, weather abnormalities resulting in an oversupply or undersupply of vegetable oils, significant changes in the demand for vegetable oils caused by changes in economic cycles or price dynamics, a continuous surge in Brazilian soybean prices, and trading losses in the sugar segment.

**Maintain BUY with lower TP of SGD3.51.** Post our CPO price revisions, we have cut our earnings forecasts for 2018-2020 by 6-8%. We roll over our valuations to 2019 but lower our target P/E for the plantation segment to 11x from 12x to be in line with sector valuations. These changes have lowered our SOP-based TP to SGD3.51 from SGD3.59.

Target Price:	SGD3.51
Price:	SGD3.13
Market Cap:	USD14,549m
Bloomberg Ticker:	WIL SP

#### Share Data

Avg Daily Turnover (SGD/USD)	19.6m/14.5m
52-wk Price low/high (SGD)	2.98 - 3.44
Free Float (%)	28
Shares outstanding (m)	6,395
Estimated Return	12%

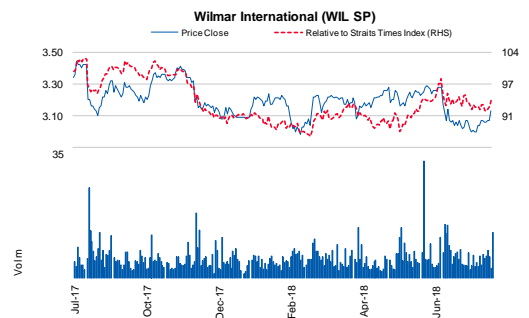
#### Shareholders (%)

Kuok Group	33.8
Archer-Daniels Midland	24.9
Kuok Khoon Hong	12.3

#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.3	2.3	(4.0)	(2.2)	(6.3)
Relative	3.8	0.7	4.1	3.9	(6.0)

Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-16	Dec-17	Dec-18F	Dec-19F	Dec-20F
Total turnover (USDm)	41,402	43,846	42,241	44,897	46,172
Reported net profit (USDm)	972	1,219	1,137	1,222	1,259
Recurring net profit (USDm)	977	1,047	1,137	1,222	1,259
Recurring net profit growth (%)	(8.4)	7.3	8.6	7.5	3.0
Recurring EPS (USD)	0.15	0.17	0.18	0.19	0.20
DPS (USD)	0.05	0.08	0.07	0.08	0.08
Recurring P/E (x)	14.9	13.9	12.8	11.9	11.5
P/B (x)	1.02	0.92	0.88	0.85	0.81
P/CF (x)	12.0	55.9	3.8	6.0	5.9
Dividend Yield (%)	2.0	3.3	3.1	3.3	3.4
EV/EBITDA (x)	12.7	13.9	10.5	9.7	9.1
Return on average equity (%)	6.6	8.0	7.0	7.2	7.1
Net debt to equity (%)	85.3	99.3	84.2	77.6	71.3
Our vs consensus EPS (adjusted) (%)			(1.7)	(4.3)	(8.6)

Source: Company data, RHB

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## Financial Exhibits

Financial model updated on : 2018-07-31.

Asia	<b>Financial summary</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Singapore	Recurring EPS (USD)	0.15	0.17	0.18	0.19	0.20
Agriculture	EPS (USD)	0.15	0.19	0.18	0.19	0.20
<b>Wilmar International</b>	DPS (USD)	0.05	0.08	0.07	0.08	0.08
Bloomberg WIL SP	BVPS (USD)	2.26	2.50	2.60	2.72	2.83
<b>Buy</b>	Weighted avg adjusted shares (m)	6,320	6,320	6,320	6,320	6,320
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
SOP	Recurring P/E (x)	14.9	13.9	12.8	11.9	11.5
	P/E (x)	14.9	11.9	12.8	11.9	11.5
<b>Key drivers</b>	P/B (x)	1.02	0.92	0.88	0.85	0.81
i. CPO prices and FFB production output;	FCF Yield (%)	2.9	(5.0)	19.3	9.7	10.1
ii. Soybean prices;	Dividend Yield (%)	2.0	3.3	3.1	3.3	3.4
iii. Improved profitability at the rice and flour business.	EV/EBITDA (x)	12.7	13.9	10.5	9.7	9.1
	EV/EBIT (x)	19.6	21.3	16.8	15.7	15.0
<b>Key risks</b>	<b>Income statement (USDm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
i. Volatile oilseeds earnings;	Total turnover	41,402	43,846	42,241	44,897	46,172
ii. Higher biodiesel demand from government mandates.	Gross profit	4,011	3,477	3,802	3,996	4,155
	EBITDA	2,020	2,081	2,517	2,612	2,670
	Depreciation and amortisation	(714)	(725)	(939)	(996)	(1,052)
	Operating profit	1,306	1,356	1,578	1,617	1,618
	Net interest	(157)	(181)	(291)	(292)	(285)
	Income from associates & JVs	141	228	281	337	388
	Pre-tax profit	1,300	1,598	1,578	1,672	1,731
	Taxation	(206)	(291)	(320)	(339)	(351)
	Minority interests	(121)	(88)	(120)	(110)	(120)
	Recurring net profit	977	1,047	1,137	1,222	1,259
<b>Company Profile</b>	<b>Cash flow (USDm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
Wilmar International is an agribusiness company. It has over 500 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries. Wilmar is involved in 3 main commodities which are palm, soybean and sugar.	Change in working capital	(523)	(1,728)	1,956	314	314
	Cash flow from operations	1,208	260	3,830	2,424	2,475
	Capex	(780)	(991)	(1,030)	(1,011)	(1,011)
	Cash flow from investing activities	(811)	(937)	(1,767)	(1,401)	(1,401)
	Proceeds from issue of shares	11	13	0	0	0
	Dividends paid	(371)	(320)	(455)	(489)	(504)
	Cash flow from financing activities	(272)	918	(2,715)	(477)	(1,514)
	Cash at beginning of period	1,296	1,185	1,455	1,055	1,601
	Net change in cash	126	241	(652)	546	(439)
	Ending balance cash	1,338	1,552	803	1,601	1,162
	<b>Balance sheet (USDm)</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Total cash and equivalents	3,907	2,957	3,055	3,601	3,162
	Tangible fixed assets	9,041	9,478	9,424	9,531	9,580
	Intangible assets	4,366	4,385	4,384	4,393	4,403
	Total investments	2,903	3,428	4,009	4,646	5,333
	Total other assets	1,286	1,062	1,056	1,056	1,056
	Total assets	37,033	40,933	39,804	40,741	40,613
	Short-term debt	12,689	16,130	14,000	14,000	13,000
	Total long-term debt	4,331	3,696	4,000	4,000	4,000
	Other liabilities	599	564	483	463	443
	Total liabilities	21,653	23,947	22,057	22,176	21,200
	Shareholders' equity	14,435	15,964	16,634	17,368	18,125
	Minority interests	945	1,022	1,113	1,197	1,288
	Total equity	15,379	16,985	17,747	18,565	19,413
	Net debt	13,113	16,869	14,945	14,399	13,838
	Total liabilities & equity	37,033	40,933	39,804	40,741	40,613
	<b>Key metrics</b>	<b>Dec-16</b>	<b>Dec-17</b>	<b>Dec-18F</b>	<b>Dec-19F</b>	<b>Dec-20F</b>
	Revenue growth (%)	6.8	5.9	(3.7)	6.3	2.8
	Recurrent EPS growth (%)	(8.4)	7.3	8.6	7.5	3.0
	Gross margin (%)	9.7	7.9	9.0	8.9	9.0
	Operating EBITDA margin (%)	4.9	4.7	6.0	5.8	5.8
	Net profit margin (%)	2.3	2.8	2.7	2.7	2.7
	Dividend payout ratio (%)	30.0	39.8	40.0	40.0	40.0
	Capex/sales (%)	1.9	2.3	2.4	2.3	2.2
	Interest cover (x)	3.75	3.12	3.98	3.74	3.81

Source: Company data, RHB

Figure 1: Key assumptions for Wilmar

	FY18F	FY19F	FY20F
<b>In-house CPO price forecast</b>			
MYR/tonne	2,400	2,500	2,500
USD/tonne	596	617	617
<b>Realised CPO price assumptions</b>			
USD/tonne	546	567	567
<b>Soybean crush margin assumptions</b>			
USD/tonne	12.50	12.00	10.00

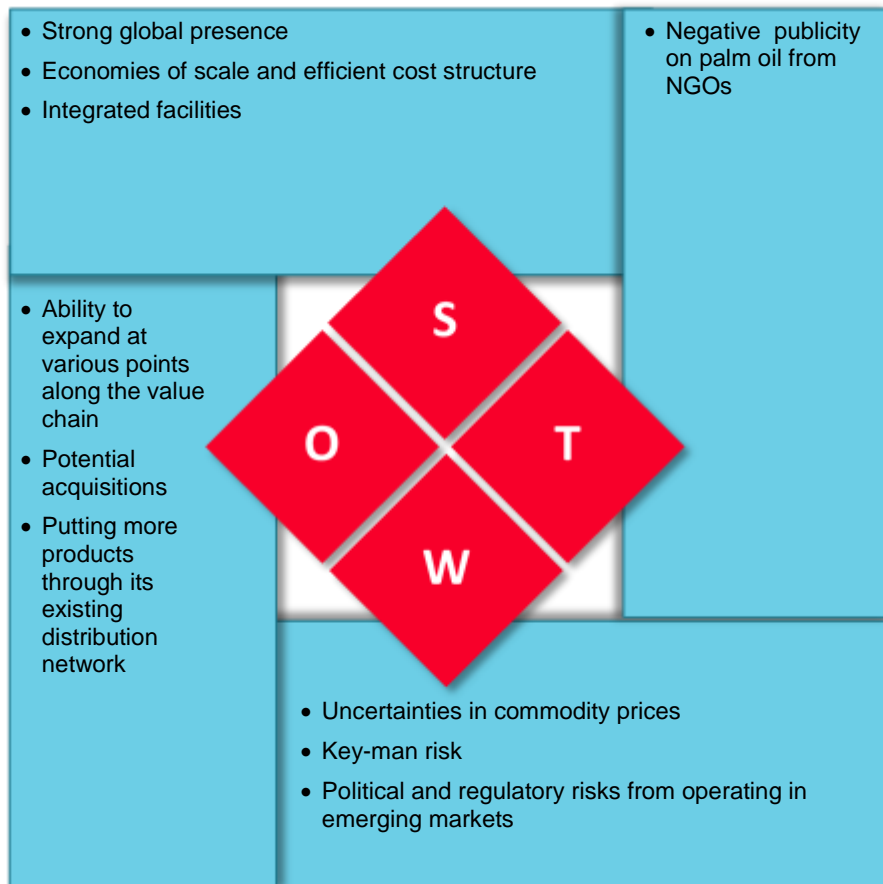
Source: RHB

Figure 2: SOP valuation for Wilmar

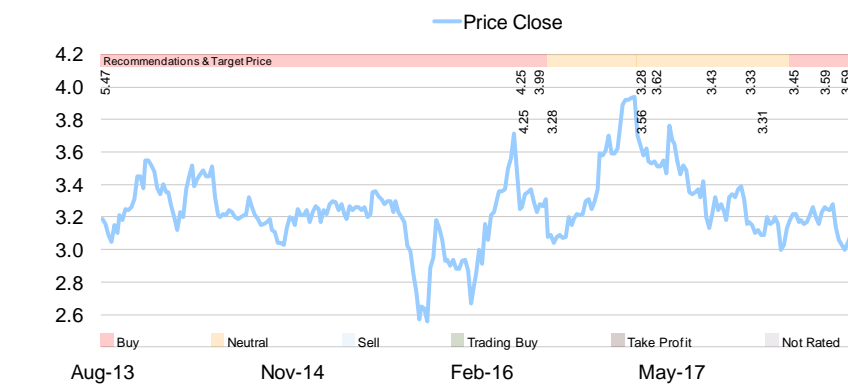
Business segments	Value (USD m)	Valuation basis
Plantation business	2,157	11x FY19F P/E
Palm manufacturing	710	DCF: Ce 12.3%, Rf 5.9%, Beta 1.0, Rm 12.6%, TG 0.0%
Oilseeds crushing	2,607	10x FY19F P/E
Consumer	4,524	DCF: Ce 10.2%, Rf 3.9%, Beta 0.6, Rm 14.4%, TG 3.0%
Sugar	485	10x FY19F P/E
Others	1,569	DCF: Ce 9.3%, Rf 3.0%, Beta 1.0, Rm 9.5%, TG 0.0%
JV & Associates	4,646	1x P/BV
<b>SOTP</b>	<b>16,698</b>	
Value per share (USD)	2.61	
Exchange rate (USD to SGD)	1.35	
<b>Value per share (SGD)</b>	<b>3.51</b>	

Source: RHB

## SWOT Analysis



## Recommendation Chart



Date	Recommendation	Target Price	Price
2018-07-03	Buy	3.59	3.07
2018-05-13	Buy	3.59	3.16
2018-02-26	Buy	3.45	3.22
2017-12-12	Neutral	3.31	3.11
2017-11-13	Neutral	3.33	3.32
2017-08-10	Neutral	3.43	3.42
2017-03-30	Neutral	3.62	3.55
2017-02-22	Neutral	3.56	3.75
2017-02-21	Neutral	3.28	3.78
2016-07-20	Neutral	3.28	3.16

Source: RHB, Bloomberg

Source: RHB, Bloomberg

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**Buy:** Share price may exceed 10% over the next 12 months

**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

**Take Profit:** Target price has been attained. Look to accumulate at lower levels

**Sell:** Share price may fall by more than 10% over the next 12 months

**Not Rated:** Stock is not within regular research coverage

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