20 January 2020

Agriculture | Plantation

Wilmar (WIL SP)

Buy (Maintained)

Rising CPO Prices; Maintain BUY

Target Price (Return)	SGD4.75 (+12%)
Price:	SGD4.25
Market Cap:	USD20,350m
Avg Daily Turnover (SGD/USD)	21.3m/15.8m

- **Maintain BUY and TP of SGD4.75, 12% upside and c.3% yield.** CPO prices have run up towards end-2019. Our in-house CPO price forecast has been raised to MYR2,600/tonne for 2020, while leaving our 2021 forecast intact at MYR2,500/tonne. However, our CPO realised price assumptions for Wilmar remain largely unchanged as the group has huge processing capacity in Malaysia and Indonesia. We believe the CPO export levy implemented in Jan 2020 would lower domestic CPO prices.
- **CPO prices have risen** sharply to >MYR3,000/tonne. While we had expected an improvement in prices towards end-2019, the strength of the price rally caught us by surprise. We believe there could be a slight correction, as some speculative elements are likely at play currently. Nevertheless, we expect prices in 1H20 to remain high at a range of MYR2,700-3,100/tonne, before seasonally weakening to a range of MYR2,400-2,700/tonne in 2H20.
- **Given this scenario, our in-house CPO price forecast is revised up** to MYR2,600/tonne for 2020, while leaving our 2021 forecast intact at MYR2,500/tonne.
- **Our earnings forecasts remain largely unchanged.** In a blue sky scenario, we expect Wilmar's plantation unit to positively benefit from higher CPO prices while its refining segment should benefit from existing low-cost inventory and ability to procure at lower costs on the back of its massive scale and bargaining prowess. However, to err on the side of caution, we conservatively assume most of the Wilmar's CPO would be sold to its Indonesia and Malaysia processing plants. We believe the CPO export levy implemented in Jan 2020 will lower domestic CPO prices. Thus, our CPO realised price assumptions for Wilmar remain largely unchanged at USD585.00/tonne. Our SOP-derived TP is maintained at SGD4.75.
- **But we remain positive on its tropical oil segment's fundamentals** as demand growth continues to outstrip supply as a result of the biodiesel mandates in Indonesia and Malaysia as well as rising food demand from China and India.
- **China IPO is still the key share price driver.** The group is still awaiting regulatory approval on the China listing. Management expects the IPO to take place in 1H20. Key risks include deterioration of IPO prospects, ASF worsening, and weaker-than-expected demand growth for palm products.

Forecasts and Valuations	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total turnover (USDm)	43,574	44,498	45,731	49,861	52,894
Recurring net profit (USDm)	1,047	1,305	1,215	1,299	1,367
Recurring net profit growth (%)	7.3	24.6	(6.9)	6.9	5.3
Recurring P/E (x)	18.9	15.1	16.3	15.2	14.5
P/B (x)	1.2	1.2	1.2	1.1	1.1
P/CF (x)	55.1	12.8	4.9	7.8	5.9
Dividend Yield (%)	2.4	3.1	2.5	2.5	2.6
EV/EBITDA (x)	17.9	15.8	14.6	13.7	12.7
ROAE (%)	7.5	7.2	7.2	7.4	7.4
Net debt to equity (%)	105.7	124.5	103.5	93.9	80.4
Interest coverage (x)	2.7	2.2	3.3	3.3	3.4

Source: Company data, RHB

Analyst

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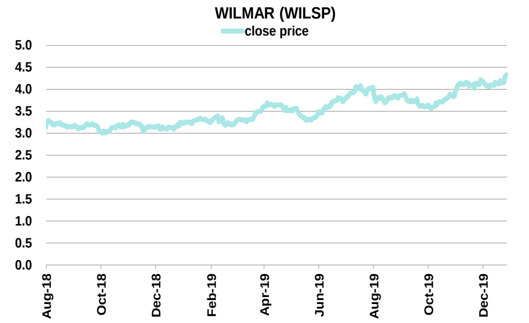
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	3.2	4.2	19.4	9.8	30.8
Relative	1.5	1.9	14.6	12.5	28.9
52-wk Price low/high (SGD)					3.15 – 4.38



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Agriculture
Wilmar International
WIL SP

Valuation basis

SOP

Key drivers

i. China IPO;
ii. Commodities prices;
iii. Demand for downstream products.

Key risks

i. Deterioration of China IPO prospects;
ii. ASF worsens;
iii. Trading losses.

Company Profile

Wilmar is an agribusiness company. Its three main commodities are palm oil, soybean, and sugar. Its business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar milling and refining, and the production of downstream products. The latter includes consumer-packed oil, rice, flour, specialty fats, oleochemicals, and biodiesel.

Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring EPS (USD)	0.17	0.21	0.19	0.21	0.22
DPS (SGD)	0.10	0.11	0.11	0.11	0.11
BVPS (USD)	2.53	2.54	2.65	2.78	2.91
ROE (%)	7.49	7.19	7.24	7.39	7.42

Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Recurring P/E (x)	18.9	15.1	16.3	15.2	14.5
P/B (x)	1.2	1.2	1.2	1.1	1.1
FCF Yield (%)	-2.6	1.5	15.4	7.8	11.8
Dividend yield (%)	2.4	2.5	2.5	2.5	2.6
EV/EBITDA (x)	17.9	15.8	14.6	13.7	12.7
EV/EBIT (x)	27.2	22.7	23.0	21.8	20.6

Income statement (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover	43,574	44,498	45,731	49,861	52,894
Gross profit	3,767	4,395	4,070	4,488	4,743
EBITDA (adj.)	2,118	2,572	2,618	2,735	2,814
Depreciation & amortisation	725	777	961	1,020	1,078
Operating profit	1,393	1,795	1,657	1,715	1,736
Net interest	-253	-352	-384	-373	-364
Pre-tax profit	1,563	1,617	1,656	1,781	1,862
Taxation	-282	-350	-331	-361	-378
Net profit	1,280	1,268	1,325	1,419	1,484
Recurring net profit	1,047	1,305	1,215	1,299	1,367

Cash flow (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	-1,728	145	1,716	417	1,164
Cash flow from operations	363	1,567	4,083	2,550	3,364
Capex	-879	-1,259	-1,000	-1,000	-1,000
Cash flow from investing activities	-854	-1,370	-1,132	-1,201	-1,201
Dividends paid	-320	-495	-486	-504	-506
Cash flow from financing activities	918	29	-2,971	-975	-1,991
Cash at beginning of period	1,185	1,455	1,650	1,630	2,004
Net change in cash	427	226	-21	374	172
Ending balance cash	1,455	1,650	1,630	2,004	2,176

Balance sheet (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	1,455	1,650	1,630	2,004	2,176
Tangible fixed assets	9,478	10,008	10,147	10,229	10,253
Total investments	3,428	3,715	4,087	4,616	5,195
Total assets	40,933	44,866	43,652	44,252	43,793
Short-term debt	16,130	17,821	17,000	16,500	15,000
Total long-term debt	3,696	5,523	4,000	4,000	4,000
Total liabilities	23,947	27,726	25,700	25,414	24,005
Total equity	16,985	16,767	17,579	18,465	19,416
Total liabilities & equity	40,933	44,493	43,279	43,879	43,421

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	5.2	2.1	2.8	9.0	6.1
Recurrent EPS growth (%)	7.3	24.6	(7.0)	6.9	5.3
Gross margin (%)	8.6	9.9	8.9	9.0	9.0
Operating EBITDA margin (%)	5.0	5.9	5.7	5.5	5.3
Net profit margin (%)	2.4	2.9	2.7	2.6	2.6
Capex/sales (%)	2.0	2.8	2.2	2.0	1.9
Interest cover (x)	2.7	2.2	3.3	3.3	3.4

Source: RHB, Company data

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