13 November 2019

Agriculture | Plantation

Wilmar (WIL SP)

Buy (Maintained)

All Stars Are Aligned; Reiterate BUY

Target Price (Return)	SGD4.75 (+23%)
Price:	SGD3.85
Market Cap:	USD18,748m
Avg Daily Turnover (SGD/USD)	20.7m/15.3m

- **Reiterate BUY with a SGD4.75 TP**, 23% upside with c.3% FY19F yield. Wilmar's 3Q19 core PATMI of USD419m (-3% YoY) is in line, while 9M19 PATMI of USD846m is at 75% of the Street's full-year estimate. We note that the YoY decline was due to lower JV & associate contributions. Pre-tax earnings from its three core businesses grew YoY. We believe the company's healthy earnings and China IPO prospects should continue to buoy its share price.
- **Tropical oils mid- and downstream business continue to helm earnings growth in 3Q19.** Pretax profit for the segment surged 24% YoY on higher sales volumes and processing margins in the mid-and downstream businesses. This helped to offset the weaker numbers from the plantations unit, which in turn stemmed from lower CPO prices and weaker production yield. FFB production declined by 6% YoY in 3Q19.
- **Oilseeds & grains segment turned around.** After three consecutive quarters of pretax earnings being on a downtrend, Wilmar's oilseeds & grains division finally turned around and delivered 1% YoY growth in pretax earnings in 3Q19. This was from a strong 8% growth in consumer pack sales volumes, and improved crushing margins. Management noted that crushing margins have improved from 1H19 levels, but sales volume dropped 3% YoY as demand continued to be affected by the African swine fever epidemic.
- **Sugar division also improved** with pretax profit up 9% YoY, driven by a stronger performance from the sugar refining business. Sales volumes also surged 31% YoY, on ramped-up milling activities in Australia and a pick-up in merchandising.
- **China IPO is still on the plate**. The group has submitted the prospectus for the proposed listing on the Shenzhen Stock Exchange. The China Securities Regulatory Commission (CSRC) has given its feedback. The group has responded and is awaiting approval or further comments. As we approach the end of 2019, we believe the listing is likely to take place in early 2020. We remain optimistic on the group's share price performance – given the decent set of results and China IPO prospects. Wilmar remains one of the Top Picks in our Singapore coverage universe.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (USDm)	43,574	44,498	45,731	49,886	53,629
Recurring net profit (USDm)	1,047	1,305	1,215	1,300	1,372
Recurring net profit growth (%)	7.3	24.6	(6.9)	7.0	5.6
Recurring P/E (x)	17.1	13.7	14.7	13.8	13.1
P/BV (x)	1.1	1.1	1.1	1.0	1.0
P/CF (x)	67.9	15.7	6.0	9.7	7.4
Dividend Yield (%)	2.7	3.1	2.6	2.8	2.8
EV/EBITDA (x)	17.0	15.1	13.8	13.0	12.0
ROE (%)	7.5	7.2	7.2	7.4	7.4
Net debt to equity (%)	105.7	124.5	103.4	93.7	80.4
Interest coverage (x)	2.7	2.2	3.3	3.3	3.4

Source: Company data, RHB

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Figure 1: 3Q19 results summary

FYE Dec (USDm)	3Q19	2Q19	3Q18	QoQ (%)	YoY (%)	Comment
Revenue	11,164	9,782	11,419	14.1	-2.2	Revenue declined YoY on lower commodity prices.
Gross profit	1,312	910	1,317	44.2	-0.4	
Gross margin (%)	*11.8*	*9.3*	*11.5*			
EBITDA	908	542	906	67.5	0.2	Margins for tropical oils and oilseeds and grains improved.
EBITDA margin (%)	*8.1*	*5.5*	*7.9*			
Core PATMI	177	250	352	-29.4	-49.7	
Core margin (%)	*1.6*	*2.6*	*3.1*			

Source: Bloomberg, RHB

Figure 2: Pretax profit breakdown by segment

(USDm)	3Q19	2Q19	3Q18	QoQ (%)	YoY (%)	Comment
Tropical oils	193	177	156	*8.9*	*24.2*	Stronger margins and volumes from midstream and downstream segments helped to offset lower CPO prices and production yields.
Oilseeds & Grains	301	59	297	*409.0*	*1.5*	Improved crush margins and higher consumer pack volumes pulled up earnings.
Sugar	80	-69	76	*N/A*	*4.8*	Higher profits from refineries offset lower sugar prices that affected milling businesses.
Others	-21	6	-7	*-435.1*	*N/A*	
JV & associates	25	22	66	*13.4*	*-62.6*	Weaker performance from investments in Africa, India and Vietnam.
Unallocated expenses	-1	-2	-2	*-62.6*	*-76.4*	
Pretax profit	**578**	**194**	**583**	***198.5***	***-0.8***	

Source: Bloomberg, RHB

Figure 3: TP derivation

SOP valuation	Value (USDm)	Valuation basis
Plantation business	2,967	16x FY20F P/E
Palm manufacturing	2,425	DCF: Ce 12.3%, Rf 5.9%, Beta 1.0, Rm 12.6%, TG: 0.0%
Oilseeds & Grains	10,768	20x blended FY18-19F P/E
Sugar	765	10x FY20F P/E
Others	325	DCF: Ce 9.3%, Rf 3%, Beta 1.0, Rm 9.5%, TG 0%
JV & Associates	4,616	1x P/BV
SOP	**21,866**	
Value per share (USD)	3.46	
Exchange rate	1.38	
Value per share (SGD)	**4.75**	

Source: Bloomberg, RHB

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