

24 June 2020

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

One Step Closer To IPO; Maintain BUY

Target Price (Return): SGD4.87 (+17%)
 Price: SGD4.18
 Market Cap: USD19,047m
 Avg Daily Turnover (SGD/USD) 27.2m/18.2m

- **Maintain BUY with new TP SGD4.87** from SGD4.83, 17% upside and 3% yield. Wilmar is one step closer to its China listing. Its subsidiary, Yihai Kerry, was amongst the first batch of 32 companies selected for Shenzhen Stock Exchange's (SZSE) growth enterprise market (GEM) board pilot registration system for listing. As previously guided by management, the IPO process would likely be hastened under this programme. The removal of the IPO valuation cap under the new rule also creates potential upside for its value.

- **Update on China IPO status.** The group has submitted an updated prospectus to the SZSE for its review and approval on 22 Jun. According to the new GEM stock issuance and listing review rules, the total time SZSE takes to review new listing and register with the China Securities Regulatory Commission (CSRC) should not exceed three months from the date it accepts the application documents. Issuers and sponsors are also required to response to SZSE inquiries within three months. Given that Yihai Kerry has previously undergone one round of review by CSRC, we believe the audit inquiry process with SZSE would be smoother this time and the approval could be hastened. Management maintains its timeline guidance on the IPO and hopes to receive the listing approval in 2H20.

- **Potential for higher IPO valuation.** The IPO price will be decided by the market, and not bound by any IPO valuation cap under the new rules. We note that Yihai Kerry has highlighted an indicative use of proceeds amounting to CNY13.87bn in its prospectus. Since Wilmar plans to float 10% of Yihai Kerry, the indicative proceeds translate to a market capitalisation of CNY138.7bn and imply 25.6x FY19 P/E. The IPO price has not been set yet. Hence, there could be room for higher IPO valuation to be achieved, given that China consumer peers are trading at c.34x FY20F P/E (FY19: 56.8x P/E). While management has repeatedly highlighted that it would leave some upside for IPO investors, the new rules allow stocks to trade with no up or down limit on the first five days of listing. Therefore, Yihai Kerry could quickly rerate to peer average even if the IPO valuation multiple was set conservatively. We believe the IPO would draw substantial interests due to its large capitalisation, aside from its strong household name in China's consumer packed edible products.

- **Changes in TP.** We raise our SOP valuation for Wilmar to SGD4.87 (Figure 2) as we rollover our valuation to FY20F-21F which factors in some of the recovery in consumption volumes and commodities prices in 1H21F. Our earnings forecasts remain unchanged. We continue to peg the oilseeds & grains (the bulk of Wilmar's China business) conservatively at 23x P/E as we think this could be the floor valuation given that it was the valuation cap under the previous system. There is thus potential upside to our TP when Yihai Kerry becomes listed and its share price rerates.

Analyst

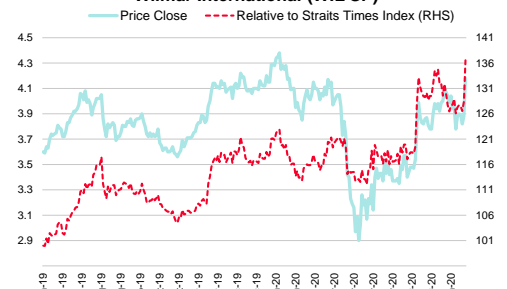
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	1.5	10.6	44.1	2.0	16.1
Relative	19.8	5.2	26.1	20.0	36.8
52-wk Price low/high (SGD)				2.90 – 4.38	

Wilmar International (WIL SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (m)	44,498	42,641	45,284	49,646	52,670
Recurring net profit (m)	1,305	1,256	1,191	1,293	1,344
Recurring net profit growth (%)	24.6	(3.7)	(5.2)	8.5	4.0
Recurring P/E (x)	14.53	15.10	15.92	14.67	14.11
P/B (x)	1.2	1.1	1.1	1.1	1.0
P/CF (x)	12.10	5.61	8.25	4.96	7.67
Dividend Yield (%)	2.5	3.0	2.9	3.0	3.0
EV/EBITDA (x)	13.89	13.17	12.91	11.82	11.21
Return on average equity (%)	7.2	7.7	7.0	7.3	7.3
Net debt to equity (%)	119.1	110.0	106.0	93.4	88.4

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS	0.21	0.20	0.19	0.20	0.21
Agriculture	DPS	0.08	0.09	0.09	0.09	0.09
Wilmar International	BVPS	2.51	2.62	2.72	2.83	2.95
WIL SP	Return on average equity (%)	7.2	7.7	7.0	7.3	7.3
Buy						
	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Valuation basis	Recurring P/E (x)	14.53	15.10	15.92	14.67	14.11
SOP	P/B (x)	1.2	1.1	1.1	1.1	1.0
	FCF Yield (%)	1.4	8.3	4.2	12.2	5.1
Key drivers	Dividend Yield (%)	2.5	3.0	2.9	3.0	3.0
i. CPO prices and FFB production output;	EV/EBITDA (x)	13.89	13.17	12.91	11.82	11.21
ii. Improved profitability of rice and flour business;	EV/EBIT (x)	19.90	18.71	19.04	17.88	17.34
iii. Improvement in China's demand;						
iv. Rerating from China IPO.						
	Income statement (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Key risks	Total turnover	44,498	42,641	45,284	49,646	52,670
i. Volatilities in oilseeds earnings;	Gross profit	4,395	4,486	4,528	4,716	5,004
ii. Higher biodiesel demand from government mandates.	EBITDA	2,572	2,767	2,811	2,920	3,036
	Depreciation and amortisation	(777)	(820)	(905)	(989)	(1,074)
	Operating profit	1,795	1,947	1,906	1,930	1,963
	Net interest	(352)	(417)	(429)	(356)	(337)
	Pre-tax profit	1,617	1,698	1,670	1,795	1,868
	Taxation	(350)	(372)	(359)	(386)	(402)
	Reported net profit	1,153	1,268	1,191	1,293	1,344
	Recurring net profit	1,305	1,256	1,191	1,293	1,344
Company Profile						
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.						
	Cash flow (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Change in working capital	145	1,098	371	1,645	178
	Cash flow from operations	1,567	3,383	2,300	3,823	2,472
	Capex	(1,304)	(1,815)	(1,499)	(1,511)	(1,511)
	Cash flow from investing activities	(1,370)	(1,600)	(1,805)	(1,701)	(1,701)
	Dividends paid	(495)	(462)	(561)	(583)	(583)
	Cash flow from financing activities	29	(1,198)	(819)	(2,030)	(1,050)
	Cash at beginning of period	1,455	1,650	2,113	1,789	1,881
	Net change in cash	226	586	(324)	92	(279)
	Ending balance cash	1,615	2,191	1,789	1,881	1,602
	Balance sheet (m)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Total cash and equivalents	3,370	4,046	3,789	3,881	3,602
	Tangible fixed assets	10,008	11,969	12,655	13,269	13,799
	Total investments	3,715	3,103	3,387	3,698	4,030
	Total assets	45,680	47,049	47,768	47,265	47,870
	Short-term debt	17,821	18,288	18,000	16,000	15,000
	Total long-term debt	5,523	5,419	5,500	6,000	6,500
	Total liabilities	28,913	29,172	29,171	27,869	27,620
	Total equity	16,767	17,876	18,598	19,396	20,250
	Total liabilities & equity	45,680	47,049	47,768	47,265	47,870
	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	2.1	(4.2)	6.2	9.6	6.1
	Recurrent EPS growth (%)	24.5	(3.8)	(5.2)	8.5	4.0
	Gross margin (%)	9.9	10.5	10.0	9.5	9.5
	Operating EBITDA margin (%)	5.8	6.5	6.2	5.9	5.8
	Net profit margin (%)	2.6	3.0	2.6	2.6	2.6
	Dividend payout ratio (%)	42.1	45.7	47.1	45.1	43.4
	Capex/sales (%)	2.9	4.3	3.3	3.0	2.9
	Interest cover (x)	2.19	2.18	2.13	2.31	2.40

Source: Company data, RHB

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Figure 1: Food producers listed in China trade at an average of 34x forward P/E

Food Producers listed on A-shares with mkt cap > CNY10bn	Ticker	Market Cap (CNYbn)	P/E		EPS Growth FY20F (%)	Div Yield FY20F (%)
			FY19	FY20F		
AVERAGE			56.8	34.0	56.8	1.6
KWEICHOW MOUTA-A	600519 CH	1,807.7	43.0	35.5	15.1	1.5
WULIANGYE YIBI-A	000858 CH	632.7	35.0	29.0	17.0	1.7
FOSHAN HAITIAN-A	603288 CH	382.0	71.6	56.9	20.2	1.0
MUYUAN FOODSTU-A	002714 CH	284.6	26.1	8.2	529.2	1.8
INNER MONG YIL-A	600887 CH	182.5	34.5	26.4	-14.0	2.6
JIANGSU YANGHE-A	002304 CH	159.9	22.5	20.3	1.1	3.0
WENS FOODSTUFFS	300498 CH	139.3	8.3	5.2	118.2	6.6
HENAN SHUAN-A	000895 CH	138.9	24.9	22.0	11.1	3.4
LUZHOU LAOJIAO-A	000568 CH	132.4	28.2	23.2	13.4	2.3
NEW HOPE LIUHE-A	000876 CH	122.3	19.8	8.3	207.2	3.3
SHANXI XINGHUA-A	600809 CH	118.4	52.5	44.4	21.9	0.9
TSINGTAO BREW-A	600600 CH	81.7	62.1	46.2	6.0	0.9
GUANGDONG HAID-A	002311 CH	74.3	40.6	26.5	51.2	1.2
TONGWEI CO-A	600438 CH	67.4	25.7	20.1	-6.2	1.3
ANHUI GUJINGD-A	000596 CH	64.6	39.0	29.0	3.5	1.2
JIANGSU KING'S-A	603369 CH	46.2	34.6	26.3	14.3	1.2
JONJEE HIGH-TE-A	600872 CH	43.8	61.0	47.0	19.8	0.7
JIANGXI ZHENG-B-A	002157 CH	42.9	13.6	4.2	391.1	5.0
JUEWEI FOOD CO-A	603517 CH	42.0	61.5	43.5	7.4	0.8
BEIJING DABEIN-A	002385 CH	41.7	38.1	13.9	226.3	1.8
BEIJING SHUNX-A	000860 CH	40.7	55.4	36.4	-6.9	0.5
ANGEL YEAST CO-A	600298 CH	37.2	39.7	33.1	15.7	1.1
FUJIAN SUNNER-A	002299 CH	35.8	8.7	10.0	-1.0	1.8
GUANGDONG MARU-A	603983 CH	33.9	62.3	53.4	10.6	0.4
PROYA COSMETIC-A	603605 CH	33.8	92.5	62.8	27.1	0.4
TOLY BREAD-A	603866 CH	32.8	40.0	37.1	15.2	2.0
CHONGQING BREW-A	600132 CH	32.7	57.1	59.6	-18.7	1.5
THREE SQUIRREL-A	300783 CH	32.0	122.8	84.7	13.0	0.3
SICHUAN TEWAY-A	603317 CH	31.3	104.2	72.9	20.3	0.4
SHANGHAI JAHWA-A	600315 CH	31.3	72.7	59.9	-21.1	0.5
BESTORE CO LTD-A	603719 CH	30.3	78.2	64.5	15.2	0.3
CHACHA FOOD CO-A	002557 CH	27.9	43.4	34.5	25.6	1.6
ANHUI KOUZI DI-A	603589 CH	27.9	20.4	15.4	-0.5	2.4
FU JIAN ANJOY-A	603345 CH	27.6	69.2	56.1	14.8	0.5
SICHUAN SWELL-A	600779 CH	27.4	37.4	30.0	14.6	2.7
C&S PAPER CO-A	002511 CH	27.3	40.6	31.5	34.5	0.6
HEILONGJIANG-A	600598 CH	27.2	27.8	23.9	6.4	2.7
CHONGQING FULI-A	002507 CH	26.8	44.9	35.3	15.1	0.8
HEBEI YANGYUAN-A	603156 CH	26.7	11.3	12.2	-23.8	
SHANGHAI BAIRU-A	002568 CH	21.8	70.0	49.5	32.8	1.0
YANTAI SHUANGT-A	002481 CH	21.6	100.2			
GUANGZHOU ZHUJ-A	002461 CH	20.7	43.9	37.6	6.2	2.3
JIUGUI LIQUOR-A	000799 CH	19.5	65.4	50.1	34.9	0.4
QIANHE CONDIME-A	603027 CH	18.7	84.5	58.4	27.5	0.5
YANTAI CHANGYU-B	200869 CH	18.6	10.7	9.8	-7.6	5.1
JIANGSU HENGSH-A	600305 CH	18.3	57.4	45.8	13.9	0.8
BEIJING YAN-A	000729 CH	18.2		74.9	-10.3	0.5
SANQUAN FOOD -A	002216 CH	18.2	41.9	43.5	103.0	0.5
BRIGHT DAIRY-A	600597 CH	18.1	43.1	32.2	9.3	1.0
ANHUI YINGJIA -A	603198 CH	17.7	23.1	17.8		
TECON BIOLOGY -A	002100 CH	16.6	16.5	6.7	312.8	4.6
COFCO TUNHE CO-A	600737 CH	16.5	31.9			2.9
JIANGSU LIHUA -A	300761 CH	15.7	9.4	7.9	17.3	2.6
SHANDONG YISHE-A	002458 CH	15.6	7.6	9.8	-6.7	
SHANGHAI MILK-A	600882 CH	15.4	536.6	80.9	274.0	
NEW HOPE DAIRY-A	002946 CH	15.0	60.3	44.1	18.1	0.5
HUNAN DAKANG-A	002505 CH	14.8	197.9			
LIAONING WELLH-A	603609 CH	13.9	9.8	8.7	33.3	1.9
TECH-BANK -A	002124 CH	13.4	14.5	4.1	669.6	
SHENZ AGRICULT-A	000061 CH	13.3	41.8			
JIANGSU PROVINCI	601952 CH	12.6	22.1	16.9	16.3	
XIANGPIAOPIAO -A	603711 CH	12.6	57.6	28.5	4.3	
LUONIUSHAN CO-A	000735 CH	12.3	187.8			
YANKERSHOP FOO-A	002847 CH	12.0	76.9	52.1	59.6	0.6
VATS LIQUOR CH-A	300755 CH	12.0	36.3	25.0	23.0	0.7
JIANGXI HUANGS-A	002695 CH	11.9	56.7	38.7	29.0	0.5
FUJIAN AONONG-A	603363 CH	11.7	61.0	7.1		
SHENZHEN DESAY-A	000049 CH	11.3	21.4	18.0	9.7	0.5
DENGHAI SEEDS -A	002041 CH	11.0	154.9	74.0	65.9	
SHEDE SPIRITS -A	600702 CH	11.0	26.3	18.8	34.2	0.4
HUNAN XIANGJIA-A	002982 CH	10.8	35.2	31.9		1.0

Source: Bloomberg

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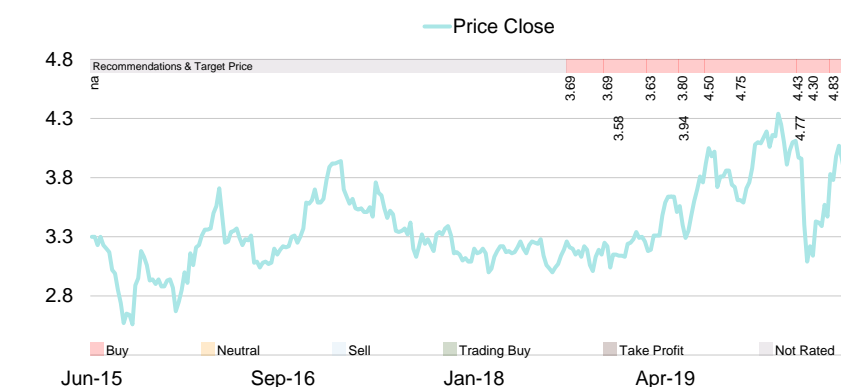
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Figure 2: TP derivation

SOP valuation	Value (USD m)	Valuation basis
Plantation business	1,609	12x FY20F-21F P/E
Palm manufacturing	2,553	DCF: Ce 12.3%, Rf 6.0%, Beta 1.0, Rm 12.6%, TG 0.0%
Oilseeds & Grains	13,647	23x blended FY20F-21F P/E
Sugar	754	10x FY20F-21F P/E
Others	329	DCF: Ce 9.3%, Rf 3%, Beta 1.0, Rm 9.5%, TG 0%
JV & Associates	2,834	0.8x P/BV
SOP	21,725	
Value per share (USD)	3.43	
Exchange rate	1.42	
Value per share (SGD)	4.87	

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-05-12	Buy	4.83	3.82
2020-03-23	Buy	4.30	2.90
2020-02-21	Buy	4.77	4.11
2020-02-14	Buy	4.43	4.10
2020-01-20	Buy	4.75	4.28
2019-09-13	Buy	4.50	3.86

Source: RHB, Bloomberg

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