

13 May 2020

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

Higher Valuation For China Listing; Keep BUY

Target Price (Return): SGD4.83 (+26%)
 Price: SGD3.82
 Market Cap: USD17,108m
 Avg Daily Turnover (SGD/USD) 26.4m/18.1m

- **Reiterate BUY, new SGD4.83 TP from SGD4.30, 26% upside with c.3% FY20F yield.** Wilmar's 1Q20 results exceeded our estimates, with core earnings growing 23% YoY to USD307m (26% of FY20F earnings). Stronger demand for downstream products amidst the COVID-19 pandemic more than offset the decline in the hotel, restaurant and catering (HoReCa), food processing, and upstream businesses in 1Q20. Its 2Q20 outlook remains optimistic, while the removal of the valuation cap for its China IPO is also a positive for the proposed listing.
- **Diversified businesses saved the day.** 1Q20 core net profit surged 23% YoY. Against the backdrop of lockdowns being imposed in cities in 1Q20, Wilmar recorded a 35% YoY jump in its consumer product sales volumes. The elevated demand and higher-margin nature of these branded consumer packs more than offset the 20% YoY volume drop in its medium/bulk pack business, which mainly serves the HoReCa and food processing industries. Tropical oil downstream operations also remained healthy, as CPO prices tapered down while oilseed and grain sales volumes improved on the African Swine Fever (ASF) recovery in China.
- **Management still optimistic on 2Q20.** Management said consumer product sales have remained strong in 2Q20, and the HoReCa business has started to improve with the easing restrictions in China. Demand for feed should improve over the next two years, as China continues to build its inventory of swine after the ASF recovery. Meanwhile, the subdued soybean prices should support crush margins. The palm plantation and sugar milling businesses are affected by lower prices, but these should be offset by improving margins in downstream refining – which management expects to remain sturdy. We believe all these factors point to a positive outlook for 2Q20, and lift FY20-22F earnings by 5/3/4%.
- **Good news on China IPO brings more upside.** China will pilot its reforms on Shenzhen's Chinext startup board. Under the new rules, the IPO price will be decided by the market, and not bound by any IPO valuation cap. The IPO process will also be hastened. This new regime is expected to be implemented sometime this year. Management said that listed peers on the Shenzhen Stock Exchange are now trading at an average of 40x P/E. As such, Wilmar is aiming for a P/E of 23-40x on the listing of its China subsidiary, Yihai Kerry, and expects the IPO to happen by the year's end.
- **TP rises to SGD4.83, Wilmar is one of our country Top Picks.** With better earnings prospects and higher valuations expected for its China listing, we increase our SOP-based TP. We conservatively peg the China business to 23x P/E, from 20x P/E, but believe there should be further upside once its IPO valuation is confirmed.

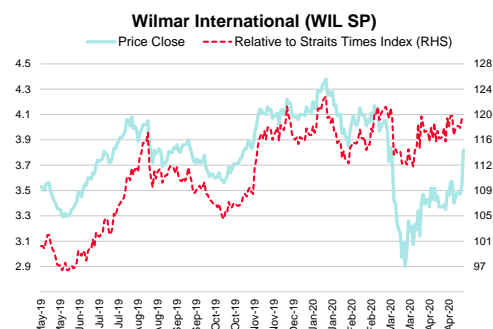
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.3)	11.4	(8.0)	(0.8)	8.8
Relative	11.7	9.8	11.0	19.3	29.0
52-wk Price low/high (SGD)	2.90 – 4.38				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (USDm)	44,498	42,641	45,284	49,646	52,670
Recurring net profit (USDm)	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)	13.07	13.58	14.33	13.20	12.69
P/B (x)	1.1	1.0	1.0	1.0	0.9
P/CF (x)	10.88	5.04	7.42	4.46	6.90
Dividend Yield (%)	2.8	3.4	3.2	3.4	3.4
EV/EBITDA (x)	13.15	12.48	12.23	11.17	10.58
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

13 May 2020

Agriculture | Plantation

Financial Exhibits

Asia	Financial summary (USD)	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)	13.07	13.58	14.33	13.20	12.69
SOP	P/B (x)	1.1	1.0	1.0	1.0	0.9
	FCF Yield (%)	1.5	9.2	4.7	13.5	5.6
Key drivers	Dividend Yield (%)	2.8	3.4	3.2	3.4	3.4
i. Favourable commodity prices;	EV/EBITDA (x)	13.15	12.48	12.23	11.17	10.58
ii. Improved profitability of its rice and flour business;	EV/EBIT (x)	18.84	17.74	18.05	16.89	16.37
iii. China IPO valuation						
Key risks	Income statement (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Volatility in oilseeds earnings;	Total turnover	44,498	42,641	45,284	49,646	52,670
ii. Biodiesel demand from government mandates;	Gross profit	4,395	4,486	4,528	4,716	5,004
iii. Deterioration of China IPO prospects	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	Cash flow (USDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Wilmar International is an agribusiness company. It has over 500 manufacturing plants and an extensive distribution network covering China, India, Indonesia and about 50 other countries. It is involved in three main commodities: palm, soybean and sugar.	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 (USDm)	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

13 May 2020

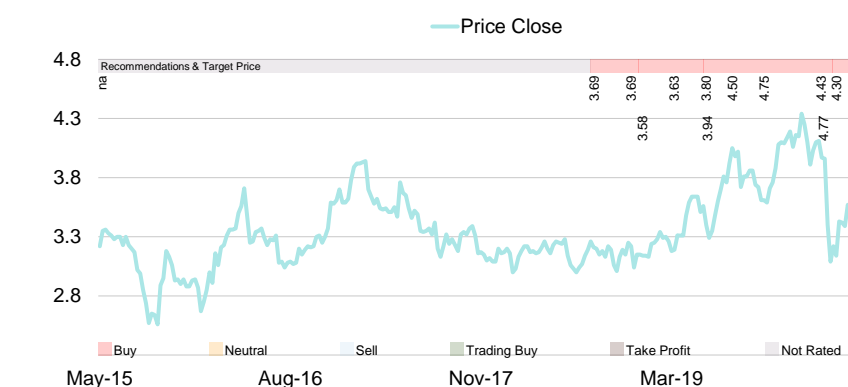
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Figure 1: Wilmar's SOP valuation

	Value (USDm)	Valuation basis
Plantation business	1,393	12x FY20F P/E
Palm manufacturing	2,524	DCF assuming C_e : 12.3%, R_f : 6.0%, Beta: 1.0, R_m : 12.6%, and terminal growth of 0%
Oilseeds & Grains	13,973	23x blended FY19-20F P/E
Sugar	603	10x FY20F P/E
Others	329	DCF, assuming C_e : 9.3%, R_f : 3%, Beta: 1.0, R_m : 9.5%, and terminal growth of 0%
JV & Associates	2,709	0.8x P/BV
SOP	21,530	
Value per share (USD)	3.40	
Exchange rate	1.42	
Value per share (SGD)	4.83	

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2020-03-23	Buy	4.30	2.90
2020-02-21	Buy	4.77	4.11
2020-02-21	Buy	4.77	4.11
2020-02-14	Buy	4.43	4.10
2020-02-14	Buy	4.43	4.10
2020-01-20	Buy	4.75	4.28
2020-01-09	Buy	4.75	4.28
2019-11-14	Buy	4.75	4.00
2019-11-13	Buy	4.75	3.96

Source: RHB, Bloomberg

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