

30 September 2019

Agriculture | Plantation

Wilmar (WIL SP)

Buy (Maintained)

China IPO Still The Key Catalyst; Maintain BUY

Target Price (Return)	SGD4.75 (+27%)
Price:	SGD3.74
Market Cap:	USD17,133m
Avg Daily Turnover (SGD/USD)	23.9m/17.3m

- **Reiterate BUY, higher TP of SGD4.75 from SGD4.50**, 27% upside and c.3% dividend yield. This is due to our sector upgrade to OVERWEIGHT, as we expect CPO prices to rerate upwards in 4Q19 and continue their upward trend in 1H20. CPO prices are the leading indicator for plantation P/E valuations. Being one of the largest oil palm owners, we expect Wilmar's upstream business to benefit from rising CPO prices. We now value its plantations at a higher P/E.
- **We expect upstream planters to benefit more** from the rise in CPO prices than Wilmar, which is exposed to the entire supply chain of palm oil. As such, we have switched our Singapore plantation sector Top Pick to First Resources. Wilmar remains one of our Singapore Top Picks, as the upcoming China IPO remains a key positive catalyst for its share price.
- **We leave our CPO price assumptions unchanged** at MYR2,200/tonne for 2019 and MYR2,400/tonne for 2020.
- **The main premises for our upgrade are:**
 - Trade war is still on, with import duties being levied on US soybeans;
 - A CPO production slowdown is imminent in 2020, while inventories should normalise by 1Q20;
 - Demand should remain strong from China, due to the continuing African swine flu epidemic in the country;
 - The B30 biodiesel mandate in Indonesia will mop up any excess supply from the market in 2020;
 - Crude oil prices will remain at relatively high levels, resulting in a positive CPO-gasoil price gap;
 - Weather conditions remain normal.
- **The trade war continues to have far-reaching effects on the sector**, not only on soybean demand and supply dynamics, but also on crude oil prices and FX volatilities. This, combined with the improving supply-demand dynamics of the CPO and eight vegetable oil complex, should lead to improved CPO prices in 2020.
- **Positioned for CPO price recovery.** Although Wilmar is much bigger in the processing space, we note that management has highlighted its expectation of a CPO price recovery in the previous two briefings. This leads us to believe the group has positioned itself to capture higher margins in the upstream segment, while keeping low-cost inventories for its mid-stream and downstream business for subsequent quarters when CPO prices go up.
- **Higher SOP-derived TP of SGD4.75.** We apply a higher P/E of 16x to Wilmar's upstream plantation earnings in FY20F (10x previously). We expect its share price to still be largely driven by the rerating of its oilseeds & grains business upon its China listing.

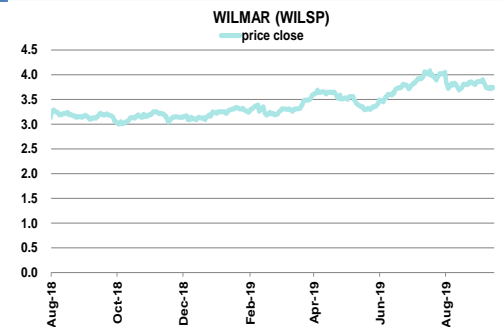
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	19.9	0.5	3.0	13.3	16.9
Relative	18.0	(1.4)	9.1	15.6	20.3
52-wk Price low/high (SGD)	2.99 – 4.11				



Source: Bloomberg

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)	16.6	13.3	14.3	13.4	12.7
P/BV (x)	1.1	1.1	1.0	1.0	0.9
P/CF (x)	66.0	15.3	5.9	9.4	7.2
Dividend Yield (%)	2.8	3.1	2.7	2.9	2.9
EV/EBITDA (x)	16.8	14.9	13.7	12.8	11.8
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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Financial Exhibits

Asia	Financial summary	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Singapore	Recurring EPS (USD)	0.17	0.21	0.19	0.21	0.22
Agriculture	DPS (SGD)	0.08	0.08	0.07	0.08	0.08
Wilmar Intentaional	BVPS (USD)	2.53	2.54	2.65	2.78	2.92
WIL SP	ROE (%)	7.49	7.19	7.23	7.39	7.44

Valuation basis	Valuation metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
SOP.	Recurring P/E (x)	16.6	13.3	14.3	13.4	12.7
Key drivers	P/B (x)	1.1	1.1	1.0	1.0	0.9
i. China IPO;	FCF Yield (%)	-2.9	1.8	17.5	8.8	13.2
ii. Commodities prices;	Dividend yield (%)	2.8	2.8	2.7	2.9	2.9
iii. Demand for downstream products	EV/EBITDA (x)	16.8	14.9	13.7	12.8	11.8
	EV/EBIT (x)	25.5	21.3	21.6	20.4	19.1

Key risks	Income statement (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
i. Escalation of trade war;	Total turnover	43,574	44,498	45,731	49,886	53,629
ii. Regulatory risks;	Gross profit	3,767	4,395	4,070	4,490	4,809
iii. Trading losses.	EBITDA (adj.)	2,118	2,572	2,618	2,735	2,826
	Depreciation & amortisation	725	777	961	1,020	1,078
	Operating profit	1,393	1,795	1,657	1,716	1,748
	Net interest	-253	-352	-384	-373	-367
	Pre-tax profit	1,563	1,617	1,656	1,781	1,868
	Taxation	-282	-350	-331	-362	-379
	Net profit	1,280	1,268	1,325	1,420	1,489
	Recurring net profit	1,047	1,305	1,215	1,300	1,372

Cash flow (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Change in working capital	-1,728	145	1,716	416	1,118
Cash flow from operations	363	1,567	4,083	2,549	3,326
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	-471	-504	-508
Cash flow from financing activities	918	29	-2,957	-975	-1,983
Cash at beginning of period	1,185	1,455	1,650	1,645	2,018
Net change in cash	427	226	-6	373	142
Ending balance cash	1,455	1,650	1,645	2,018	2,160

Balance sheet (USDm)	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total cash and equivalents	1,455	1,650	1,645	2,018	2,160
Tangible fixed assets	9,478	10,008	10,147	10,229	10,253
Total investments	3,428	3,715	4,087	4,616	5,192
Total assets	40,933	44,866	43,666	44,268	43,846
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	25,415	24,040
Total equity	16,985	16,767	17,594	18,480	19,434
Total liabilities & equity	40,933	44,493	43,293	43,895	43,473

Key metrics	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Revenue growth (%)	5.2	2.1	2.8	9.1	7.5
Recurrent EPS growth (%)	7.3	24.6	(7.0)	7.0	5.6
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: Company data, RHB

Figure 1: Our earnings assumptions remain unchanged

	FY19F	FY20F	FY21F
Tropical oils			
Revenue (USDm)	15,068	16,880	17,776
Pretax earnings (USDm)	677	683	655
Pretax margins (%)	4.5%	4.0%	3.7%
CPO price assumption (USD/tonne)	530	585	610
CPO price assumption (MYR/tonne)	2,200	2,400	2,500
PK price assumption (USD/tonne)	313	378	378
PK price assumption (MYR/tonne)	1300	1550	1550
Processing pretax margin (%)	3.4%	2.7%	2.3%
Oilseeds & grains			
Revenue (USDm)	15,068	16,880	17,776
Pretax earnings (USDm)	471	564	631
Pretax margins (%)	3.1%	3.3%	3.5%
Sugar			
Revenue (USDm)	6,427	7,321	8,350
Pretax earnings (USDm)	96	96	96
Pretax margins (%)	1.5%	1.3%	1.1%

Source: RHB

Figure 2: TP derivation

New SOP valuation	Value (USD m)	Valuation basis
Plantation business	2,967	16x FY20F P/E
Palm manufacturing	2,425	DCF: CoE 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: CoE 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: RHB

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