

2 May 2024

Agriculture | Plantation

## Wilmar International (WIL SP)

## Neutral (from Buy)

### 1Q24 Disappointed; Downgrade To NEUTRAL

Target Price (Return):	SGD3.50 (8.4%)
Price (Market Cap):	SGD3.23 (USD14,801m)
ESG score:	3.3 (out of 4)
Avg Daily Turnover (SGD/USD)	17.4m/12.9m

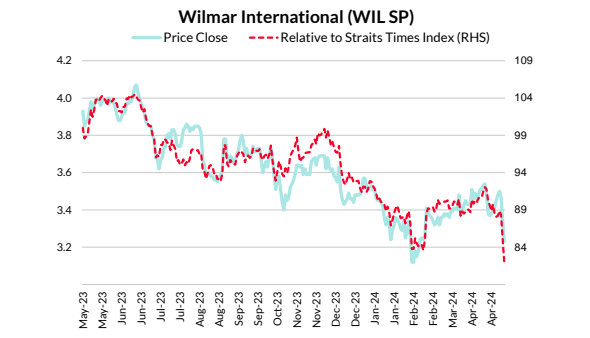
- **D/G to NEUTRAL from Buy, new SGD3.50 TP from SGD4.10, 8% upside.** 1Q24 results were below expectations. While expecting some improvements in 2H24, this will be offset by the still weak Chinese economy, in our view. We believe Wilmar International's valuations will remain at a discount to its China-listed peers for now – until earnings make a significant turnaround.
- **1Q24 core net profit accounted for 19-20% of our and Street's full-year estimates (-14% YoY, -24% QoQ).** The main reasons for this: Lower share of profits from JVs and associates in China and weaker-than-expected sales volumes from all three segments of the feed and industrial division. This was offset by stronger-than-expected sales volumes at the food products unit.
- **In 1Q24, food product sales volumes jumped 5% QoQ (+14% YoY),** driven by the consumer products segment (+33.5% QoQ, +6% YoY) and – to a smaller extent – the medium pack and bulk business (-3.5% QoQ, +17.7% YoY). Margins were also boosted by lower raw material prices during the quarter. Going forward, management believes margins should stabilise, as raw material costs have also stabilised.
- **The feed and industrial division saw volumes slip 12.5% QoQ but rise 7% YoY in 1Q24.** The latter was driven by the oilseeds & grains (+6.3% YoY) and sugar merchandising (+21.6% YoY) segments. However, the QoQ decline was due to a volume reduction in all three businesses, with the sugar merchandising segment falling 24% QoQ while the tropical oil and oilseeds & grains segments fell 9% and 7.5% QoQ. While the tropical oil and oilseeds & grains units' QoQ declines were likely seasonal in nature, the sugar merchandising division was affected by lower raw sugar prices and trading losses. Going forward, management expects crushing margins to see more significant improvements from 2H24 as hog prices rise – which would boost profitability in the oilseeds & grains business. As for the tropical oils segment, refining margins remain compressed, but management expects this to pick up in 2H24 when palm output rises and domestic prices fall. For the sugar merchandising division, Wilmar expects margins to improve from 2Q24, as raw sugar prices have stabilised somewhat.
- **No volume disclosures were given for the plantation and sugar milling divisions,** but volumes are also likely to be weaker YoY due to seasonalities. Management expects CPO volume output to see a slight increase YoY, with growth being registered in 2H24.
- **We bring down earnings by 11.7-14.7%** after trimming volume growth assumptions for all three segments of the feed and industrial division.
- **Downgrade to NEUTRAL with lower SGD3.50 TP,** which includes a 4% ESG premium based on its 3.3 ESG score vs the 3.1 country median.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.5)	(5.8)	(3.0)	(8.8)	(17.8)
Relative	(11.1)	(7.9)	(7.5)	(16.3)	(18.5)
52-wk Price low/high (SGD)				3.12	-4.07



Source: Bloomberg

#### Overall ESG Score: 3.3 (out of 4)

#### E: EXCELLENT

Wilmar had a greenhouse gas (GHG) emissions intensity of 0.68 CO<sub>2</sub>e/tonne on its CPO in 2022, as compared to 0.72 CO<sub>2</sub>e/tonne in 2018. This was achieved by building 25 methane capture facilities at its CPO mills, avoiding 0.6m tCO<sub>2</sub>e of GHG in 2022. It also has 81% RSPO certification at its estates and mills, and targets to hit the 100% mark by 2025.

#### S: GOOD

It has policies guided by international standards as set out in the United Nations (UN) Guiding Principles on Business and Human Rights, UN Global Compact, International Labour Organisation conventions, the UK Modern Slavery Act, and the Universal Declaration of Human Rights and its covenants. It is working with other plantation players to find a solution under the Decent Rural Living initiative, convened by Forum for the Future.

#### G: EXCELLENT

Half of the Board members are independent directors, with full disclosure on director remuneration including salaries and bonuses. Only three out of 14 directors are women. Wilmar has an in-house investor relations team and holds regular investor meetings, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	73,399	67,155	71,742	74,141	76,374
Recurring net profit (USDm)	2,420	1,336	1,434	1,750	1,846
Recurring net profit growth (%)	31.3	(44.8)	7.4	22.0	5.4
Recurring P/E (x)	6.12	11.08	10.32	8.46	8.02
P/B (x)	0.8	0.8	0.7	0.7	0.7
P/CF (x)	7.23	3.81	10.72	6.81	6.32
Dividend Yield (%)	5.2	5.3	4.4	5.3	5.6
EV/EBITDA (x)	8.63	10.02	10.74	9.40	8.82
Return on average equity (%)	12.0	7.6	6.8	8.0	8.1
Net debt to equity (%)	109.3	99.1	102.6	99.1	95.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (USD)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS	0.39	0.21	0.23	0.28	0.30
Agriculture	DPS	0.12	0.13	0.10	0.13	0.13
<b>Wilmar International</b>	BVPS	3.12	3.15	3.27	3.42	3.58
WIL SP	Return on average equity (%)	12.0	7.6	6.8	8.0	8.1
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Recurring P/E (x)	6.12	11.08	10.32	8.46	8.02
	P/B (x)	0.8	0.8	0.7	0.7	0.7
	FCF Yield (%)	(3.0)	10.9	(4.3)	2.5	3.6
	Dividend Yield (%)	5.2	5.3	4.4	5.3	5.6
	EV/EBITDA (x)	8.63	10.02	10.74	9.40	8.82
	EV/EBIT (x)	11.50	14.82	16.31	13.85	13.05
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total turnover	73,399	67,155	71,742	74,141	76,374
	Gross profit	7,476	5,273	5,633	5,822	5,997
	EBITDA	4,392	3,584	3,510	4,043	4,324
	Depreciation and amortisation	(1,095)	(1,162)	(1,199)	(1,300)	(1,401)
	Operating profit	3,297	2,423	2,311	2,743	2,923
	Net interest	(448)	(748)	(813)	(892)	(1,012)
	Pre-tax profit	3,117	1,956	1,828	2,237	2,360
	Taxation	(547)	(298)	(298)	(363)	(383)
	Reported net profit	2,402	1,525	1,405	1,721	1,817
	Recurring net profit	2,420	1,336	1,434	1,750	1,846
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(778)	2,194	(1,050)	(682)	(630)
	Cash flow from operations	2,048	3,885	1,381	2,173	2,342
	Capex	(2,487)	(2,271)	(2,010)	(1,810)	(1,810)
	Cash flow from investing activities	(2,218)	(2,464)	(2,074)	(1,873)	(1,873)
	Dividends paid	(755)	(795)	(662)	(803)	(851)
	Cash flow from financing activities	429	113	(30)	147	94
	Cash at beginning of period	2,693	2,999	4,505	3,491	4,303
	Net change in cash	259	1,534	(723)	447	563
	Ending balance cash	3,104	4,658	3,615	4,136	5,430
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	5,722	8,156	6,491	6,303	6,231
	Tangible fixed assets	15,499	16,558	18,019	18,647	19,175
	Total investments	3,615	3,468	3,369	3,326	3,345
	Total assets	60,402	61,809	62,999	64,173	65,383
	Short-term debt	23,435	22,242	22,242	22,242	22,242
	Total long-term debt	6,994	8,460	8,460	8,460	8,460
	Total liabilities	37,801	39,057	39,404	39,546	39,672
	Total equity	22,601	22,752	23,595	24,627	25,711
	Total liabilities & equity	60,402	61,809	62,999	64,173	65,383
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.6	(8.5)	6.8	3.3	3.0
	Recurrent EPS growth (%)	32.5	(44.8)	7.4	22.0	5.4
	Gross margin (%)	10.2	7.9	7.9	7.9	7.9
	Operating EBITDA margin (%)	6.0	5.3	4.9	5.5	5.7
	Net profit margin (%)	3.3	2.3	2.0	2.3	2.4
	Dividend payout ratio (%)	33.1	52.7	47.1	46.7	46.8
	Capex/sales (%)	3.4	3.4	2.8	2.4	2.4
	Interest cover (x)	3.78	1.94	1.85	2.19	2.34

Source: Company data, RHB

Figure 1: Wilmar's results review

FYE Dec (USD)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)	Comments
<b>Revenue</b>	16,915	16,944	15,682	(7.5)	(7.3)	Attributable to lower commodity prices, but offset by the increase in sales volume from food products (+14% QoQ) and feed and industrial products (+7% QoQ).
<b>EBITDA</b>	971	1,286	911	(29.1)	(6.1)	
<b>EBITDA margin (%)</b>	5.7	7.6	5.8			
<b>Net profit</b>	391	660	303	(54.1)	(22.6)	Due to weaker performance from sugar merchandising segment (within the feed and industrial products division) as well as lower shares of profits from JVs.
<b>Core profit</b>	382	435	328	(24.4)	(14.0)	
<b>Core net margin (%)</b>	2.3	2.6	2.1			

Source: Company data, RHB

Figure 2: Operational statistics

FYE Dec ('000 tonnes)	1Q23	4Q23	1Q24	QoQ (%)	YoY (%)
<b>Food products</b>	<b>7,185</b>	<b>7,788</b>	<b>8,187</b>	5.1	13.9
- Consumer products	2,291	1,820	2,429	33.5	6.0
- Medium pack and bulk	4,894	5,968	5,758	(3.5)	17.7
<b>Feed &amp; industrial products</b>	<b>13,683</b>	<b>16,731</b>	<b>14,637</b>	(12.5)	7.0
- Tropical oils	5,905	6,547	5,952	(9.1)	0.8
- Oilseeds and grains	5,039	5,792	5,355	(7.5)	6.3
- Sugar	2,739	4,392	3,330	(24.2)	21.6
<b>Plantation and sugar milling</b>					
- FFB Output	n/a	n/a	n/a		
- Sugar milling volume	n/a	n/a	n/a		

Source: Company data, RHB

Figure 3: SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling	3,877	10x FY24F P/E
Consumer products	3,424	11x blended FY24F P/E
Feed and industrial products	8,182	11x blended FY24F P/E
Others	25	DCF: Ce 7.7%, Rf 4%, Beta 1.0, Rm 7.7%, TG 0%
JV & associates	1,685	0.5x P/BV
<b>SOP value</b>	<b>17,193</b>	
Value per share (USD)	2.75	
Exchange rate	1.35	
Conglomerate discount	-10%	
ESG premium/(discount)	4.00%	
<b>SOP TP</b>	<b>3.5</b>	

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

In FY22, Scope 1 emissions increased to 10.3m tonnes of CO2e (FY21: 9.6m tonnes of CO2e) while Scope 2 increased to 4.9m tonnes of CO2e (FY21: 4.4m tonnes of CO2e). Scope 3 emissions for FY21 and FY22 have yet to be mapped out and disclosed.

Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	9,600,000	10,300,000	na
Scope 2	4,400,000	4,900,000	na
Scope 3	na	na	na
Total emissions	14,000,000	15,200,000	na

Source: Company data, RHB

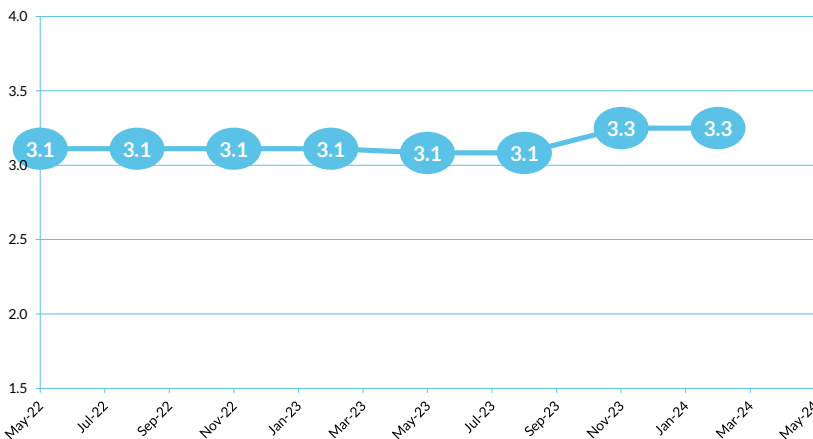
## Latest ESG-Related Developments

**Strengthening climate commitment:** Wilmar has signed up with Science Based Target initiative (SBTi) to set its emission reduction targets as well as to demonstrate progress of its commitment.

**FY20 Scope 3 emissions mapped out:** Wilmar has successfully completed the mapping of its Scope 3 GHG emissions for its baseline year, ie FY20 which is 155.8m tonnes of CO2e, which accounted for 91% of its total emissions.

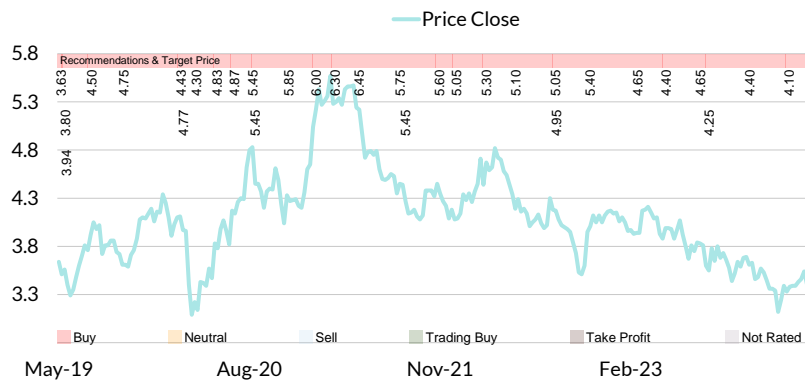
**Biodiversity and conservation work:** As part of its riparian rehabilitation programme, the company planted more than 30,000 trees beyond its Malaysian operation's designated conservation and riparian areas.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-02-22	Buy	4.10	3.41
2023-11-19	Buy	4.40	3.68
2023-10-30	Buy	4.25	3.54
2023-08-14	Buy	4.25	3.66
2023-07-23	Buy	4.65	3.75
2023-05-02	Buy	4.40	3.93
2023-02-23	Buy	4.65	3.95
2022-10-31	Buy	5.40	3.88
2022-08-10	Buy	4.95	4.15
2022-08-08	Buy	5.05	4.09
2022-05-04	Buy	5.10	4.41
2022-02-23	Buy	5.30	4.56
2021-12-12	Buy	5.05	4.18
2021-11-01	Buy	5.60	4.41
2021-08-12	Buy	5.45	4.51

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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