

31 October 2023

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

Strong QoQ Recovery In 3Q23; Maintain BUY

Target Price (Return): SGD4.25 (+20%)
 Price (Market Cap): SGD3.54 (USD16,113m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 17.8m/13.0m

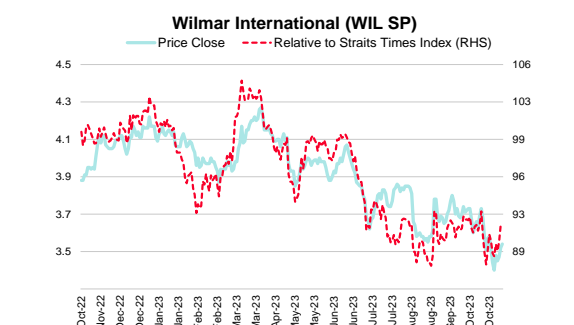
- **Maintain BUY and SGD4.25 TP, 20% upside with c.4% FY24F yield.** Wilmar International's 9M23 results are in line. We expect to see a similar performance in 4Q23, but remain wary of geopolitical risks. This stock remains undervalued – it is trading at 9.8x 2024F P/E vs the China-listed peer range of 20-40x.
- **9M23 core profit is at 76% of our and 64% of Street FY23 estimates.** This also implies a 66% QoQ rise in core profit.
- **In 3Q23, food product sales volumes grew 12.5% QoQ**, driven by a strong recovery in consumer pack (+35.3% QoQ) and a modest growth in medium pack and bulk (+5.9%). This brought 9M23 sales volume growth to 6.3% YoY. Although there is no segmental disclosure on PBT for 3Q23, management noted that margins also improved in 3Q23 as operating conditions in China were better and inventory normalised. Management believes that the worst was over for China in 2Q23, and that margins and the volume trend are on track to remain positive for the rest of the year.
- **Feed and industrial division saw QoQ volume rise 16.7% QoQ** – driven by tropical oils (+23.1%) and sugar (+40.2%). The improvement in volumes in the tropical oils segment comes from a low base (of 9M22), caused by the export ban in Indonesia. However, management noted that the tropical oils segment continued to see compressed refining margins, likely due to a smaller tax differential between upstream and downstream products. The oilseeds and grains unit saw a minor 1.2% QoQ rise in sales volumes but crushing margins turned around due to the tightness in availability of soybean in China. Looking ahead, while crushing margins may weaken again in 4Q due to an oversupply of hog herds and the onset of African Swine Flu in China, margins should remain positive in 4Q23.
- **The sugar segment outperformed**, with both sugar milling and merchandising volumes rising, as sugar prices continue to rise amidst India import restrictions. This trend should remain intact in 4Q, although there could be some offsetting impact from the weak currency.
- **No disclosures for the plantation and sugar milling division**, but this should have improved QoQ as CPO prices rose and FFB output increased seasonally. Wilmar has not been hit by any significant dry weather impact as yet, as production remained solid in 3Q. Nevertheless, this could have been offset by higher costs and losses in the fertiliser division, on the back of lower prices. Going forward, the sugar milling division should continue to outperform while the plantation division should see better profitability in 2024 as costs moderate and *El Nino* impacts prices.
- **Still BUY, with a lower SOP-based TP of SGD4.25.** We make no changes to our forecasts. Our TP includes a 2% ESG premium, based on a 3.1 ESG score. Notwithstanding further commodity shocks arising from geopolitical tensions, we believe earnings should continue to improve from hereon.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(15.1)	(5.1)	(7.8)	(9.9)	(1.7)
Relative	(9.3)	(0.3)	1.4	(3.5)	(1.8)
52-wk Price low/high (SGD)	3.40 – 4.27				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

Wilmar had a GHG emissions intensity of 0.68 CO₂e/tonne on its CPO in 2022, compared to 0.72 CO₂e/tonne in 2018. This was achieved by building 25 methane capture facilities at its CPO mills, avoiding 0.6m tCO₂e 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 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 remuneration including salaries and bonuses. Only three out of 14 directors are women. Wilmar has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (USDm)	65,794	73,399	71,142	75,417	78,194
Recurring net profit (USDm)	1,842	2,420	1,171	1,642	1,861
Recurring net profit growth (%)	24.0	31.3	(51.6)	40.2	13.3
Recurring P/E (x)	8.82	6.66	13.76	9.81	8.66
P/B (x)	0.8	0.8	0.8	0.8	0.7
P/CF (x)	na	7.72	6.00	8.05	6.33
Dividend Yield (%)	4.5	4.8	2.9	3.7	4.3
EV/EBITDA (x)	9.82	8.93	13.92	11.30	10.33
Return on average equity (%)	9.7	12.0	5.7	7.7	8.3
Net debt to equity (%)	100.8	109.3	106.3	106.4	104.2

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary (USD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.29	0.39	0.19	0.26	0.30
Agriculture	DPS	0.11	0.12	0.07	0.10	0.11
Wilmar International	BVPS	3.11	3.12	3.23	3.40	3.58
WIL SP	Return on average equity (%)	9.7	12.0	5.7	7.7	8.3
Buy						
Valuation basis	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
SOP	Recurring P/E (x)	8.82	6.66	13.76	9.81	8.66
	P/B (x)	0.8	0.8	0.8	0.8	0.7
	FCF Yield (%)	(15.5)	(2.5)	2.2	(2.4)	1.0
	Dividend Yield (%)	4.5	4.8	2.9	3.7	4.3
Key drivers	EV/EBITDA (x)	9.82	8.93	13.92	11.30	10.33
i. CPO prices and FFB production output;	EV/EBIT (x)	13.69	11.90	22.77	17.32	15.90
ii. Soybean crush margins;						
iii. Improved profitability of the rice and flour business;						
iv. Favourable tax regime.						
Key risks	Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
i. Volatilities in oilseeds earnings;	Total turnover	65,794	73,399	71,142	75,417	78,194
ii. Slower-than-expected recovery in vegetable oil demand.	Gross profit	7,191	7,476	7,470	7,919	8,210
	EBITDA	3,851	4,392	2,796	3,507	3,859
	Depreciation and amortisation	(1,088)	(1,095)	(1,087)	(1,219)	(1,351)
	Operating profit	2,763	3,297	1,709	2,288	2,508
	Net interest	(253)	(448)	(607)	(607)	(607)
	Pre-tax profit	2,766	3,117	1,523	2,164	2,454
	Taxation	(700)	(547)	(280)	(395)	(447)
	Reported net profit	1,890	2,402	1,154	1,625	1,844
	Recurring net profit	1,842	2,420	1,171	1,642	1,861
Company Profile	Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
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 three main commodities which are palm, soybean and sugar.	Change in working capital	(3,100)	(778)	960	(565)	(302)
	Cash flow from operations	(4)	2,087	2,687	2,001	2,547
	Capex	(2,519)	(2,487)	(2,334)	(2,392)	(2,392)
	Cash flow from investing activities	(2,356)	(2,456)	(2,550)	(2,609)	(2,609)
	Dividends paid	(968)	(755)	(473)	(614)	(709)
	Cash flow from financing activities	2,405	667	(277)	(608)	(732)
	Cash at beginning of period	2,706	2,693	2,999	2,859	1,644
	Net change in cash	45	298	(140)	(1,215)	(793)
	Ending balance cash	2,710	2,952	2,859	1,644	851
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	6,342	5,722	5,581	4,366	3,573
	Tangible fixed assets	14,869	15,499	16,864	18,157	19,317
	Total investments	3,507	3,615	4,126	4,698	5,341
	Total assets	58,718	60,402	61,070	62,468	63,866
	Short-term debt	22,292	23,435	23,435	23,435	23,435
	Total long-term debt	6,823	6,994	6,994	6,994	6,994
	Total liabilities	36,116	37,801	37,703	37,969	38,099
	Total equity	22,602	22,601	23,367	24,500	25,767
	Total liabilities & equity	58,718	60,402	61,070	62,468	63,866
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	30.2	11.6	(3.1)	6.0	3.7
	Recurrent EPS growth (%)	24.4	32.5	(51.6)	40.2	13.3
	Gross margin (%)	10.9	10.2	10.5	10.5	10.5
	Operating EBITDA margin (%)	5.9	6.0	3.9	4.7	4.9
	Net profit margin (%)	2.9	3.3	1.6	2.2	2.4
	Dividend payout ratio (%)	38.9	33.1	41.0	37.8	38.5
	Capex/sales (%)	3.8	3.4	3.3	3.2	3.1
	Interest cover (x)	4.70	3.78	2.01	2.69	2.94

Source: Company data, RHB

Emissions And ESG

Trend analysis

In FY22, Wilmar's Scope 1 emissions increased to 10.3m tonnes of CO2 equivalent (CO2e) (FY21: 9.6m tonnes of CO2e) while Scope 2 emissions increased to 4.9m tonnes of CO2e (FY21: 4.4m tonnes of CO2e).

Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	9,400,000	9,600,000	10,300,000
Scope 2	4,700,000	4,400,000	4,900,000
Scope 3	155,800,000	na	na
Total emissions	169,900,000	14,000,000	15,200,000

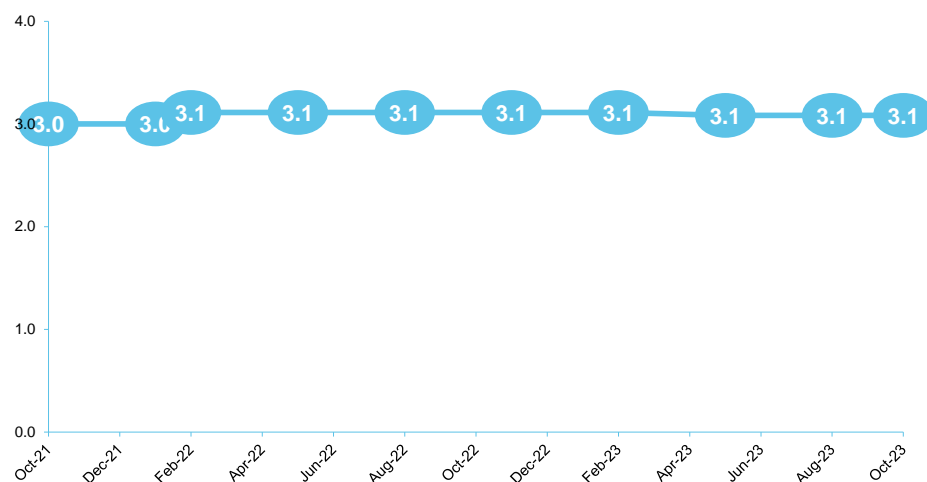
*Note: *Scope 3 emissions for FY21 and FY22 have yet to be mapped out and disclosed.*

Source: Company data, RHB

Latest ESG-Related Developments

- **Strengthening climate commitment:** Wilmar has taken on Science Based Target initiatives (SBTi) to set its emission reduction targets, as well as record the progress of its commitment.
- **Scope 3 emissions mapped out:** Wilmar has successfully completed the mapping of its Scope 3 greenhouse gas emissions for its baseline year (FY20), which amounted to 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

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Figure 1: WIL's results review

FYE Dec (USD)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	18,877	15,623	17,673	13.1	(6.4)	55,011	50,211	(8.7)	Weaker performance in the plantation segment, likely due to a lower palm oil ASP. This was offset by higher volumes in the food products and feed & industrial product divisions.
EBITDA	1,292	684	1,023	49.6	(20.8)	3,641	2,677	(26.5)	Decrease was due to lower ASPs for the palm oil division and narrower refining margins from the tropical oils business.
<i>EBITDA margin (%)</i>	6.8	4.4	5.8			6.6	5.3		
Net profit	766	160	314	96.7	(59.0)	1,931	865	(55.2)	
<i>Net margin (%)</i>									
Core profit	797	195	324	65.6	(59.4)	1,952	901	(53.9)	
<i>Core net margin (%)</i>	4.2	1.3	1.8			3.5	1.8		

Source: Company data, RHB

Figure 2: Operational statistics

FYE Dec ('000 tonnes)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)
Food products	7,706	7,394	8,315	12.5	7.9	21,531	22,894	6.3
- Consumer products	2,169	1,640	2,219	35.3	2.3	6,440	6,150	(4.5)
- Medium pack and bulk	5,537	5,754	6,096	5.9	10.1	15,091	16,744	11.0
Feed & industrial products	14,731	14,238	16,617	16.7	12.8	39,505	44,538	12.7
- Tropical oils	6,061	5,499	6,771	23.1	11.7	16,009	18,175	13.5
- Oilseeds and grains	5,628	6,172	6,246	1.2	11.0	15,245	17,457	14.5
- Sugar	3,042	2,567	3,600	40.2	18.3	8,251	8,906	7.9

Source: Company data, RHB

Figure 3: SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling	2,809	10x FY24F P/E
Consumer products	7,301	15x blended FY24F P/E
Feed and industrial products	8,683	10x blended FY24F P/E
Others	179	DCF: Ce 7.7%, Rf 4%, Beta 1.0, Rm 7.7%, TG 0%
JV & associates	2,349	0.5x P/BV
SOP value	21,320	
Value per share (USD)	3.42	
Exchange rate	1.35	
Conglomerate discount	-10%	
ESG premium/(discount)	2%	
SOP TP	4.24	

Source: RHB

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Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-07-29	Buy	5.75	4.38
2021-04-21	Buy	6.45	5.38
2021-02-22	Buy	6.30	5.51

Source: RHB, Bloomberg

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