

15 August 2024

Agriculture | Plantation

Wilmar International (WIL SP)

Neutral (Maintained)

Disappointing QoQ Profit Decline

Target Price (Return): SGD3.10 (+0.3%)
 Price (Market Cap): SGD3.09 (USD14,603m)
 ESG score: 3.3 (out of 4)
 Avg Daily Turnover (SGD/USD) 15.7m/11.6m

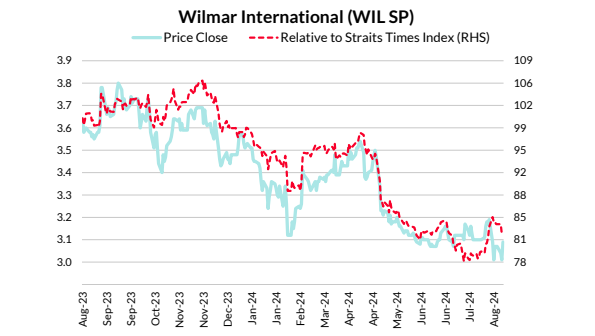
- **Maintain NEUTRAL, TP drops to SGD3.10 from SGD3.30, 0.3% upside.** Wilmar's 1H24 results came in below expectations. While we expect some improvements in 2H24, this will be offset by the still-weak economic environment in China. Its valuation should stay at a discount to its China-listed peers for the time being, until earnings turn around significantly.
- **1H24 core net profit accounted for 38% and 42% of our and Street full-year estimates, as 2Q24 saw a 15% QoQ decline in net profit.** The main reason for the lower-than-expected profits was a weaker-than-expected share of profits from JVs and associates, as well as softer-than-expected FFB output, refining margins and sugar milling volumes.
- **In 1H24, food product PBT rose 77% YoY,** as sales volumes rose 7.3% QoQ but fell 9% QoQ in 2Q24. The YoY rise came from both the consumer products (+4% YoY) and the medium pack and bulk segment (+8.4% YoY). Margins strengthened in 1H24 to 1.1% (from 0.6% in 1H23, and vs 1.5% in 2H23). Going forward, margins should continue to stabilise as raw material costs have also levelled out.
- **The feed and industrial division's PBT surged by 34% YoY,** as sales volumes rose 8.3% YoY in 1H24, while 2Q24 sales volumes grw 6.7% QoQ. The QoQ recovery came mainly from the oilseeds and grains (+19%) unit, which saw improving crushing volumes. The YoY recovery was driven by volume growth in all three segments, with sugar merchandising up 22% YoY, tropical oils up 5.4%, and oilseeds & grains up 4.6%. Going forward, management expects crushing margins to widen more significantly from 2H24 onwards, as hog and chicken prices rise – which would boost profitability in the oilseeds & grains segment. As for the tropical oils segment, refining margins remain compressed, given the current Domestic Market Obligation policy in Indonesia, and as such, we trim our margin assumptions accordingly.
- **Plantation & sugar milling unit's PBT fell 14% YoY** on lower FFB output (6.4% YoY) and sugar milling volumes (13.7% YoY). 1H24 FFB output was affected by *El Nino* and, although the weather has normalised, Wilmar is lowering its FY24 FFB growth guidance to close to -5% YoY (from flattish). We trim FY24F FFB output growth accordingly to -5% YoY and narrow our assumption on its refining margins. Given the continued weak sugar prices, we have also cut our sugar milling margin and volume assumptions.
- **We cut earnings by 14%, 9% and 8% for FY24-26F** after trimming assumptions on JV and associate profits, FFB output, refining margins, and sugar milling volumes and margins.
- **Our TP of SGD3.10** includes a 4% ESG premium. We believe Wilmar will trade in line with regional valuations, until earnings undergo a significant turnaround.

Analyst

Singapore Research
research.sg.equity@rhbgroup.com

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(13.5)	(2.5)	(3.4)	(1.9)	(15.6)
Relative	(14.1)	4.3	(1.7)	(5.7)	(15.9)
52-wk Price low/high (SGD)	3.01 – 3.80				



Source: Bloomberg

Overall ESG Score: 3.3 (out of 4)

E: EXCELLENT

Wilmar recorded GHG emissions intensity of 0.68 CO₂e/tonne on its CPO in 2023, vs 0.72 CO₂e/tonne in 2018. This was achieved as a result of the consistent usage of biomass as fuel and operating methane capture plants 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 four 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-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (USDm)	73,399	67,155	66,725	68,391	70,242
Recurring net profit (USDm)	2,420	1,336	1,244	1,409	1,524
Recurring net profit growth (%)	31.3	(44.8)	(6.9)	13.3	8.1
Recurring P/E (x)	6.03	10.93	11.74	10.36	9.58
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	7.13	3.76	5.95	6.57	6.15
Dividend Yield (%)	5.3	5.4	4.4	5.4	5.7
EV/EBITDA (x)	8.59	9.96	10.57	9.71	8.98
Return on average equity (%)	12.0	7.6	5.9	6.6	6.9
Net debt to equity (%)	109.3	99.1	99.1	97.0	94.3

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	0.20	0.23	0.24
Agriculture	DPS	0.12	0.13	0.10	0.13	0.13
Wilmar International	BVPS	3.12	3.15	3.24	3.34	3.44
WIL SP	Return on average equity (%)	12.0	7.6	5.9	6.6	6.9
Neutral						
	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Valuation basis	Recurring P/E (x)	6.03	10.93	11.74	10.36	9.58
SOP	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	(3.0)	11.1	3.1	2.8	3.9
Key drivers	Dividend Yield (%)	5.3	5.4	4.4	5.4	5.7
i. Higher CPO prices and FFB production output;	EV/EBITDA (x)	8.59	9.96	10.57	9.71	8.98
ii. Soybean crush margins;	EV/EBIT (x)	11.44	14.74	16.14	14.70	13.51
iii. Improved profitability of its rice and flour business;						
iv. Favourable tax regime.						
	Income statement (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks	Total turnover	73,399	67,155	66,725	68,391	70,242
i. Volatilities in oilseeds earnings;	Gross profit	7,476	5,273	5,239	5,370	5,516
ii. Slower-than-expected recovery in vegetable oil demand.	EBITDA	4,392	3,584	3,471	3,827	4,178
	Depreciation and amortisation	(1,095)	(1,162)	(1,199)	(1,300)	(1,401)
Company Profile	Operating profit	3,297	2,423	2,272	2,527	2,776
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.	Net interest	(448)	(748)	(813)	(892)	(1,012)
	Pre-tax profit	3,117	1,956	1,581	1,774	1,920
	Taxation	(547)	(298)	(258)	(271)	(293)
	Reported net profit	2,402	1,525	1,215	1,380	1,495
	Recurring net profit	2,420	1,336	1,244	1,409	1,524
	Cash flow (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Change in working capital	(778)	2,194	45	(480)	(541)
	Cash flow from operations	2,048	3,885	2,456	2,224	2,376
	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	(72)	141	91
	Cash at beginning of period	2,693	2,999	4,505	4,524	5,381
	Net change in cash	259	1,534	310	492	594
	Ending balance cash	3,104	4,658	4,648	5,214	6,538
	Balance sheet (USDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Total cash and equivalents	5,722	8,156	7,524	7,381	7,340
	Tangible fixed assets	15,499	16,558	18,019	18,647	19,175
	Total investments	3,615	3,468	3,161	2,871	2,598
	Total assets	60,402	61,809	62,465	63,239	64,083
	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	39,078	39,190	39,300
	Total equity	22,601	22,752	23,387	24,049	24,784
	Total liabilities & equity	60,402	61,809	62,465	63,239	64,083
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	11.6	(8.5)	(0.6)	2.5	2.7
	Recurrent EPS growth (%)	32.5	(44.8)	(6.9)	13.3	8.1
	Gross margin (%)	10.2	7.9	7.9	7.9	7.9
	Operating EBITDA margin (%)	6.0	5.3	5.2	5.6	5.9
	Net profit margin (%)	3.3	2.3	1.8	2.0	2.1
	Dividend payout ratio (%)	33.1	52.7	54.5	58.2	56.9
	Capex/sales (%)	3.4	3.4	3.0	2.6	2.6
	Interest cover (x)	3.78	1.94	1.82	2.02	2.22

Source: Company data, RHB

Figure 1: Wilmar's results review

FYE Dec (USD)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY%	Comments
Revenue	15,623	15,682	15,253	(2.7)	(2.4)	32,538	30,935	(4.9)	Attributable to slightly weaker performances of the food products (-4% YoY), feed & industrial products (-2% YoY) segments, as well as a sharp decline in the plantation and sugar milling (-30% YoY) divisions.
EBITDA	684	911	878	(3.7)	28.4	1,654	1,789	8.2	As a result of lower commodity prices, which led to lower raw material costs for the food products unit, as well as due to an improvement in crushing margins for the feed and industrial products segment.
EBITDA margin (%)	4.4	5.8	5.8			5.1	5.8		
Net profit	160	303	277	(8.6)	73.4	551	580	5.2	Mainly on a stronger performance from the food products (+77% YoY PBT) and feed & industrial products (+34% YoY PBT) divisions, but offset by the plantation & sugar milling (-14% YoY PBT) business.
Net margin (%)									
Core profit	195	328	278	(15.4)	42.2	577	606	5.0	
Core net margin (%)	1.3	2.1	1.8			1.8	2.0		

Source: Company data, RHB

Figure 2: Segmental breakdown

(USDm)	1H23	1H24	YoY%	Comment
Food Products	83	146	76.9	Driven by higher sales volume (+7% YoY) but offset by lower estimated ASPs for consumer products (-13% YoY)
Feed & Industrial products	399	534	33.8	Attributable to a higher sales volume (+8% YoY), and improvement in crushing margins in 2Q24.
Plantation and Sugar Milling	63	54	-14.3	Lower FFB production (-6% YoY) and sugar milling volume (-14% YoY).
Others	(30)	(59)	-95.4	
JV & associates	199	83	-58.2	
Unallocated expenses	(16)	(16)	-3.8	
Pretax profit	698	742	6.4	

Source: Company data, RHB

Figure 3: Operational statistics

FYE Dec ('000 tonnes)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY%
Food products	7,394	8,187	7449.0	(9.0)	0.7	14,579	15,636	7.3
- Consumer products	1,640	2429.0	1660.0	(31.7)	1.2	3931	4089	4.0
- Medium pack and bulk	5,754	5758	5789	0.5	0.6	10648	11547	8.4
Feed & industrial products	14,238	14,637	15610	6.6	9.6	27,921	30,247	8.3
- Tropical oils	5,499	5952	6063	1.9	10.3	11404	12015	5.4
- Oilseeds and grains	6,172	5355	6375	19.0	3.3	11211	11730	4.6
- Sugar	2,567	3330	3172	(4.7)	23.6	5306	6502	22.5
Plantation and sugar milling								
- FFB Output	-	-	-			2,079,749	1,947,213	-6.4
- Sugar milling volume	428	399	360	(9.8)	(15.9)	879	759	-13.7

Source: Company data, RHB

Figure 4: SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling	3,427	10x FY25F P/E
Consumer products	3,982	12x blended FY25F P/E
Feed and industrial products	7,392	10x blended FY25F P/E
Others	27	DCF: Ce 7.7%, Rf 4%, Beta 1.0, Rm 7.7%, TG 0%
JV & associates		0.5x P/BV
SOP value	16,263	
Value per share (USD)	2.61	
Exchange rate	1.34	
Conglomerate discount	-15%	
ESG premium/(discount)	4.67%	
TP	3.10	

Source: RHB

Emissions And ESG

Trend analysis

In FY23, Wilmar's Scope 1 emissions dropped to 8.7m tonnes of CO2e (FY22: 8.8m tonnes of CO2e) while Scope 2 increased to 5.2m tonnes of CO2e (FY22: 4.9m tonnes of CO2e).

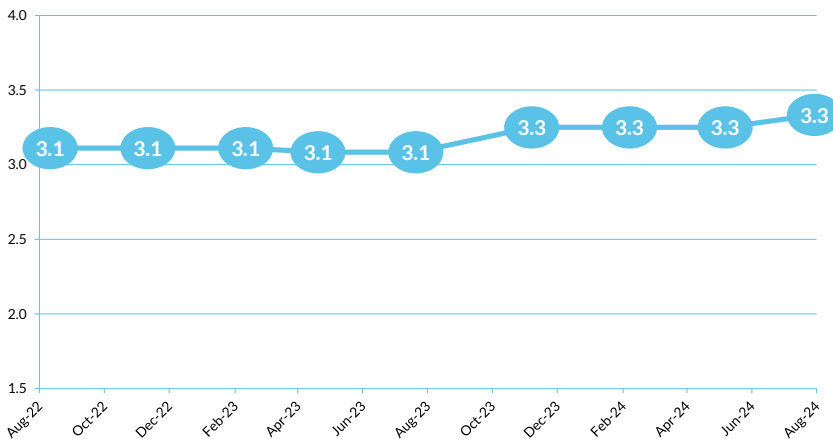
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	9,600,000	8,800,000	8,700,000
Scope 2	4,400,000	4,900,000	5,200,000
Scope 3	na	na	na
Total emissions	14,000,000	13,700,000	13,900,000

Source: Company data, RHB

Latest ESG-Related Developments

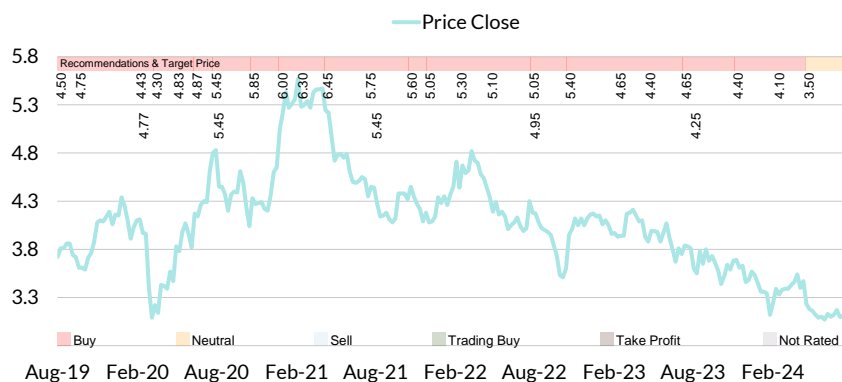
- **Strengthening climate commitment:** In 2022, Wilmar signed up with Science Based Target initiative (SBTi) to set its emission reduction targets, as well as demonstrate the progress of its commitment.
- **GHG emissions mapped out:** Wilmar has completed the mapping of its Scope 1 and Scope 2 greenhouse gas emissions for the new baseline year, ie FY22.
- **Reduced water intensity:** Wilmar has achieved its target of reducing water intensity in POMs in Indonesia and Nigeria, both meeting target of below 1.2 cu m per tonne.
- **Biodiversity and conservation work:** As part of its riparian rehabilitation programme, a total of 531ha of riparian zones were restored and rehabilitated, as of Dec 2023.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-12	Neutral	3.30	3.04
2024-05-01	Neutral	3.50	3.23
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

Source: RHB, Bloomberg

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Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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**KUALA LUMPUR**

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 2302 8100
Fax : +603 2302 8134

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel: +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470