

12 August 2024

Agriculture | Plantation

## Wilmar International (WIL SP)

**Neutral** (Maintained)

### Good ESG Rating, But Unexciting Earnings Prospects

Target Price (Return): SGD3.30 (+7%)  
 Price (Market Cap): SGD3.07 (USD14,438m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (SGD/USD) 16.2m/12.0m

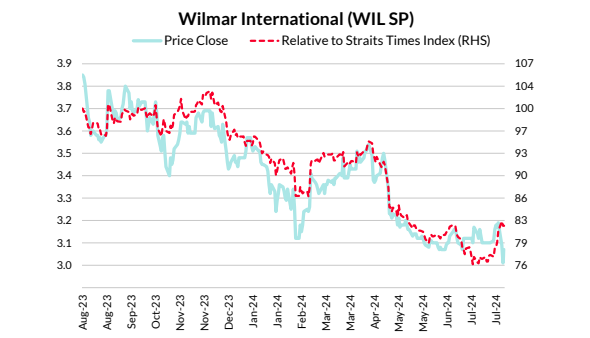
- **Maintain NEUTRAL, with new SGD3.30 TP from SGD3.50, 7% upside.** The plantation industry is at the crossroads – with rising costs, falling yields, little chance for landbank expansion, where can growth come from? Planters are having to do a lot more to boost their bottomlines, so is diversification the key? Wilmar International is already very diversified but this can also prove to be an earnings drag, when one or more units are not performing. Valuation will likely remain suppressed, until earnings turn around significantly.
- **Face the hard facts, and adapt.** With headwinds like lower yields, older trees, environmental pressures, higher costs, labour issues and lower profitability, the sector has to find ways to circumvent these. CPO prices have risen to highs unseen in the last 10 years, but there is always a risk that extenuating circumstances can push prices down to below breakeven cost levels. We expect long-term CPO prices per tonne to be at the higher end of MYR3,000-3,500 and above (historical average: MYR1,800-2,000), but prices are likely to stay volatile. As this is not within the planters' control, they need to focus more on revenue growth, cost control and potential diversification efforts.
- **Diversification may be the name of the game, going forward.** Some planters have already diversified into other industries like property, fruit farming, glove manufacturing and dairy farming. In recent times, we have seen more ESG-friendly diversification like producing wood and fertiliser, etc and using palm oil waste. However, other than ventures that take advantage of their landbank like land sales and property development, none of these have moved the needle in terms of earnings contributions. With landbank monetisation like data centres or renewable energy ventures like solar farms now being a feasible diversification, this may change going forward, if more planters opt to engage. We estimate profitability/ha/year for solar is 26x more than oil palm.
- **Other than diversifying earnings,** planters will need to increase mechanisation to raise efficiency and reduce their reliance on labour, spend more on R&D to produce better seedlings with higher yields and lower maintenance costs, and put more emphasis on ESG to attain ESG premiums.
- **For Wilmar, we maintain its ESG score at 3.3** – although we have seen improvements in its energy intensity and traceability, we note increases in its GHG emissions and water intensity. We note the plantation sector overall is moving in the right direction in terms of ESG standards, with the sector ESG score improving in 2024 to 2.6 (from 2.5).
- **We reduce FY25F earnings by 11%,** imputing our latest FX assumptions and reducing crushing margins, given the still-slow recovery in China. After rolling forward our valuation, our TP drops to SGD3.30 TP (including 4% ESG premium). Although valuation looks attractive vs its China-listed peers, we believe Wilmar will trade in line with regional valuations until earnings undergo a significant turnaround.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(14.0)	(1.6)	(3.5)	(8.1)	(20.3)
Relative	(14.3)	3.1	(2.0)	(11.1)	(18.5)
52-wk Price low/high (SGD)	3.01 – 3.84				



Source: Bloomberg

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

##### E: EXCELLENT

Wilmar had a GHG emissions intensity of 0.68 CO2e/tonne on its CPO in 2023, as compared to 0.72 CO2e/tonne in 2018. This was achieved as a result of consistent usage of biomass as fuel and operating methane capture plants at its maximum efficiency. 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 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	71,815	73,981	75,994
Recurring net profit (USDm)	2,420	1,336	1,439	1,554	1,673
Recurring net profit growth (%)	31.3	(44.8)	7.7	8.1	7.6
Recurring P/E (x)	5.97	10.81	10.04	9.29	8.63
P/B (x)	0.7	0.7	0.7	0.7	0.7
P/CF (x)	7.05	3.72	10.54	7.26	6.54
Dividend Yield (%)	5.4	5.4	4.5	5.4	5.7
EV/EBITDA (x)	8.55	9.92	10.62	9.98	9.28
Return on average equity (%)	12.0	7.6	6.9	7.2	7.4
Net debt to equity (%)	109.3	99.1	102.6	100.7	98.0

Source: Company data, RHB

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (USD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Singapore	Recurring EPS	0.39	0.21	0.23	0.25	0.27
Agriculture	DPS	0.12	0.13	0.10	0.13	0.13
<b>Wilmar International</b>	BVPS	3.12	3.15	3.27	3.39	3.52
WIL SP	Return on average equity (%)	12.0	7.6	6.9	7.2	7.4
Neutral						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	5.97	10.81	10.04	9.29	8.63
SOP	P/B (x)	0.7	0.7	0.7	0.7	0.7
	FCF Yield (%)	(3.0)	11.2	(4.4)	1.2	2.7
	Dividend Yield (%)	5.4	5.4	4.5	5.4	5.7
<b>Key drivers</b>	EV/EBITDA (x)	8.55	9.92	10.62	9.98	9.28
i. Higher CPO prices and FFB production output;	EV/EBIT (x)	11.39	14.67	16.12	15.19	14.10
ii. Soybean crush margins;						
iii. Improved profitability of its rice and flour business;						
iv. Favourable tax regime.						
<b>Key risks</b>	<b>Income statement (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Volatilities in oilseeds earnings	Total turnover	73,399	67,155	71,815	73,981	75,994
ii. Slower-than-expected recovery in vegetable oil demand.	Gross profit	7,476	5,273	5,639	5,809	5,967
	EBITDA	4,392	3,584	3,515	3,790	4,101
	Depreciation and amortisation	(1,095)	(1,162)	(1,199)	(1,300)	(1,401)
	Operating profit	3,297	2,423	2,317	2,490	2,700
	Net interest	(448)	(748)	(813)	(892)	(1,012)
	Pre-tax profit	3,117	1,956	1,833	1,983	2,137
	Taxation	(547)	(298)	(298)	(322)	(347)
	Reported net profit	2,402	1,525	1,410	1,526	1,644
	Recurring net profit	2,420	1,336	1,439	1,554	1,673
<b>Company Profile</b>	<b>Cash flow (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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	(778)	2,194	(1,066)	(632)	(580)
	Cash flow from operations	2,048	3,885	1,370	1,988	2,207
	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)	145	92
	Cash at beginning of period	2,693	2,999	4,505	3,481	4,106
	Net change in cash	259	1,534	(733)	261	426
	Ending balance cash	3,104	4,658	3,605	3,940	5,096
	<b>Balance sheet (USDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	5,722	8,156	6,481	6,106	5,898
	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	63,008	63,933	64,947
	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	39,409	39,514	39,631
	Total equity	22,601	22,752	23,599	24,419	25,315
	Total liabilities & equity	60,402	61,809	63,008	63,933	64,947
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	11.6	(8.5)	6.9	3.0	2.7
	Recurrent EPS growth (%)	32.5	(44.8)	7.7	8.1	7.6
	Gross margin (%)	10.2	7.9	7.9	7.9	7.9
	Operating EBITDA margin (%)	6.0	5.3	4.9	5.1	5.4
	Net profit margin (%)	3.3	2.3	2.0	2.1	2.2
	Dividend payout ratio (%)	33.1	52.7	46.9	52.7	51.7
	Capex/sales (%)	3.4	3.4	2.8	2.4	2.4
	Interest cover (x)	3.78	1.94	1.85	1.99	2.16

Source: Company data, RHB

Figure 1: Wilmar's progress on ESG factors

		2021	2022	2023
<b>ENVIRONMENT</b>				
GHG emissions	Emissions (tCO <sub>2</sub> e)	14,000,000	13,700,000	13,900,000
GHG emissions	Intensity (tCO <sub>2</sub> e per tonne of palm product)	0.66	0.68	0.68
Waste treatment	Recycling/ Repurposing of waste	Yes	Yes	Yes
Energy efficiency (water)	Water usage (m <sup>3</sup> ) and intensity (m <sup>3</sup> /tonne of palm product)	93,720,000	84,423,000	85,447,000
Energy efficiency	Energy consumption and intensity	14,976,741	16,073,915	16,064,851
Certifications	RSPO/MSPO/ISPO certified (%)	RSPO: 78% mills, 79% estates MSPO: 100% ISPO: 44%	RSPO: 80.6% mills, 81.1% estates MSPO: 100% ISPO: 44%	RSPO: 80.6% mills, 82.0% estates MSPO: 100% ISPO: 44.1%
Use of peat land	Peat land (%)	1.000%	1.00%	0.74%
Fire accidents	Number of accidents	51	24	60
Usage of renewable energy	% of renewable energy used	57.0%	53.0%	52.2%
Traceability	Traceable to mills (%)	98.20%	98.70%	98.80%
Traceability	Traceable to plantation (%)	27.00%	83.40%	90.60%
<b>SOCIAL</b>				
Channels for workers to raise concerns	Existence of grievance channels to raise concerns	Yes	Yes	Yes
Whistleblowing policy	Policies to protect whistleblowers	Yes	Yes	Yes
Employees' professional/personal development	Provision of training and education	Yes	Yes	Yes
Policy for smallholders*	Policy in place for training, yield improvement and RSPO certification	Yes	Yes	Yes
Employees' welfare	Accommodation and amenities provided	Yes	Yes	Yes
<b>GOVERNANCE</b>				
Board composition	At least half of the board being independent directors	8/15 are independent	7/14 are independent	7/14 are independent
Limiting to nine years (for independent directors)	Limitation of tenure to nine years (for independent directors)	Not applicable	Not applicable	Not applicable
Gender inclusivity	Female representation in the board	13.3%	21.4%	28.6%
Emphasis of sustainability at board level	Formation of a sustainability group	Yes	Yes	Yes
Remuneration transparency	Full disclosure of fees and benefits on named basis	Yes	Yes	Yes

Source: Company data, RHB

Figure 2: SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling	4,212	10x FY25F P/E
Consumer products	3,387	10x blended FY25F P/E
Feed and industrial products	8,038	10x blended FY25F P/E
Others	27	DCF: Ce 7.7%, Rf 4%, Beta 1.0, Rm 7.7%, TG 0%
JV & associates	1,663	0.5x P/BV
<b>SOP value</b>	<b>17,326</b>	
Value per share (USD)	2.78	
Exchange rate	1.34	
Conglomerate discount	-15%	
ESG premium/(discount)	4.67%	
<b>SOP TP</b>	<b>3.30</b>	

Source: RHB

## Emissions And ESG

### Trend analysis

In FY23, Scope 1 emissions slightly decreased to 8.7m tonnes of CO2 equivalents (FY22: 8.8m tonnes of CO2 equivalents) while Scope 2 increased to 5.2m tonnes of CO2 equivalents (FY22: 4.9m tonnes of CO2 equivalents)

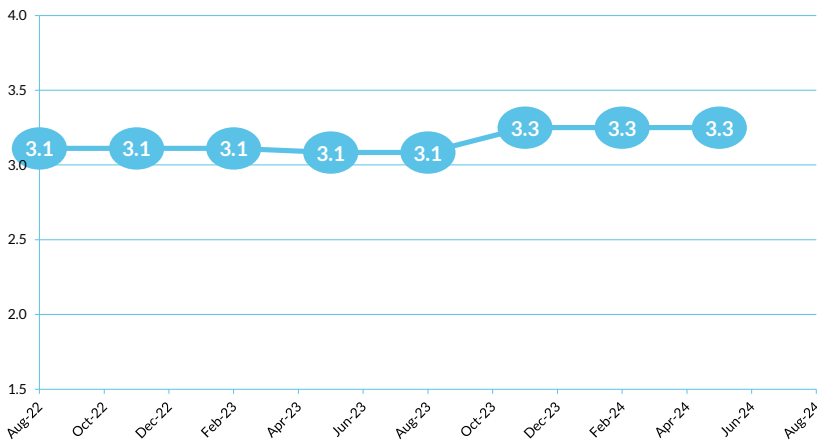
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	9,600,000	8,800,000	8,700,000
Scope 2	4,400,000	4,900,000	5,200,000
Scope 3	na	na	na
Total emissions	14,000,000	13,700,000	13,900,000

Source: Company data, RHB

## Latest ESG-Related Developments

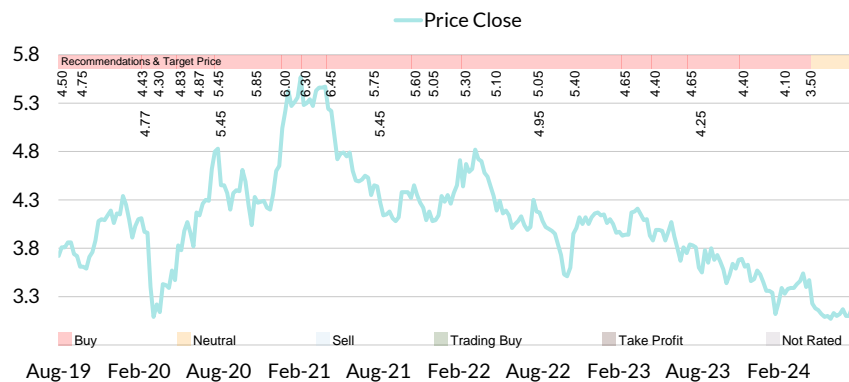
- **Strengthening climate commitment:** In 2022, Wilmar signed up with Science Based Target initiative (SBTi) to set its emission reduction targets, as well as demonstrate the progress of its commitment.
- **GHG emissions mapped out:** Wilmar has completed the mapping of its Scope 1 and Scope 2 GHG emissions 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 their targets of >1.3cu m/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
2024-05-01	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
2021-11-01	Buy	5.60	4.41

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
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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