

25 July 2023

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

Recap Of Sustainability Event 2023

Target Price (Return): SGD4.65 (24.3%)
 Price (Market Cap): SGD3.74 (USD17,544m)
 ESG score: 3.1 (out of 4)
 Avg Daily Turnover (SGD/USD) 19.3m/14.4m

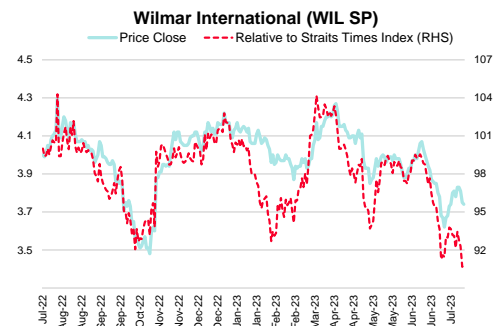
- BUY maintained with SGD4.65 TP, 24% upside.** Wilmar's sustainability briefing touched on its efforts to map out its Scope 3 emissions, as well as steps being taken to achieve its net zero target and updates on the EU Deforestation Regulation. We believe Wilmar's ESG efforts are commendable and it remains our top ESG scorer – with a 3.1 score – for the stocks under our coverage. Valuations are also inexpensive when compared against its China-listed peers.
- Strengthening climate commitment.** Wilmar committed in Nov 2021 to have net-zero emissions by 2050 and to align with the Palm Oil Sectoral Roadmap launched at the 2022 United Nations Climate Change Conference (COP27). To that end, 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. The company is now in the midst of developing time-bound strategies to achieve near-term net-zero emission reduction targets by end-2024. As part of the preparation for target setting assessment, its Scope 1 and Scope 2 baselines were externally verified and audited by EY.
- Scope 3 GHG emissions mapped out.** Wilmar has successfully completed the mapping of its Scope 3 GHG emissions. Scope 3 emissions of the group for its baseline year, ie FY20 is 155.8m tonnes of CO₂e, which accounted for 91% of its total emissions. The Scope 3 emissions mainly came from purchased goods and services (90% of its total Scope 3 emissions). As the mapping of Scope 3 emissions is completed, Wilmar's next action is to establish plans to address and reduce the emissions.
- Biodiversity and conservation work.** More than 32,000 ha of Wilmar's oil palm plantations are regarded as conservation areas. On top of that, 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.
- EU Deforestation Regulation updates.** While Wilmar welcomes the EU deforestation policy, it believes that some of the challenges arising from the implementation of the policy need to be worked together with the authorities. The challenges include the definition of deforestation, current certification standards and best practices not being recognised, and the increased amount of administrative work. Regardless, as far as the EU deforestation policy is concerned, Wilmar is confident of being deforestation-free throughout its supply chain.
- Unchanged TP and earnings.** Our TP includes a 2% ESG premium, based on a 3.1 ESG score. We make no changes to our earnings. We believe the stock remains undervalued – trading at 11x 2023F P/E vs China-listed peers' 20-40x, while its combined stake in Yihai-Kerry and Adani Wilmar is almost double that of its own market capitalisation.

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.3)	(4.6)	(9.5)	(7.9)	(6.3)
Relative	(10.7)	(6.9)	(7.7)	(7.0)	(8.9)
52-wk Price low/high (SGD)	3.48 – 4.30				



Source: Bloomberg

Overall ESG Score: 3.1 (out of 4)

E: GOOD

Wilmar had a GHG emissions intensity of 0.66 CO₂e/tonne on its CPO in 2021, as compared to 0.72 CO₂e/tonne in 2018. This was achieved by building 25 methane capture facilities at its CPO mills, avoiding 598,435 tCO₂e of GHG/year. It also has 78% RSPO certification at its estates and 79% at its mills, and targets to hit the 100% mark by 2025.

S: GOOD

Wilmar 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

53% of Board members are independent directors, with full disclosure on director remuneration, including salaries and bonuses. Only two out of 15 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	69,381	71,377	73,467
Recurring net profit (USDm)	1,842	2,420	1,627	1,919	1,932
Recurring net profit growth (%)	24.0	31.3	(32.8)	18.0	0.6
Recurring P/E (x)	9.60	7.25	10.78	9.14	9.08
P/B (x)	0.9	0.9	0.9	0.8	0.8
P/CF (x)	na	8.41	4.69	5.95	6.03
Dividend Yield (%)	4.1	4.4	4.5	4.5	4.7
EV/EBITDA (x)	10.20	9.26	10.96	9.62	9.44
Return on average equity (%)	9.7	12.0	7.9	8.9	8.5
Net debt to equity (%)	100.8	109.3	102.8	99.8	97.5

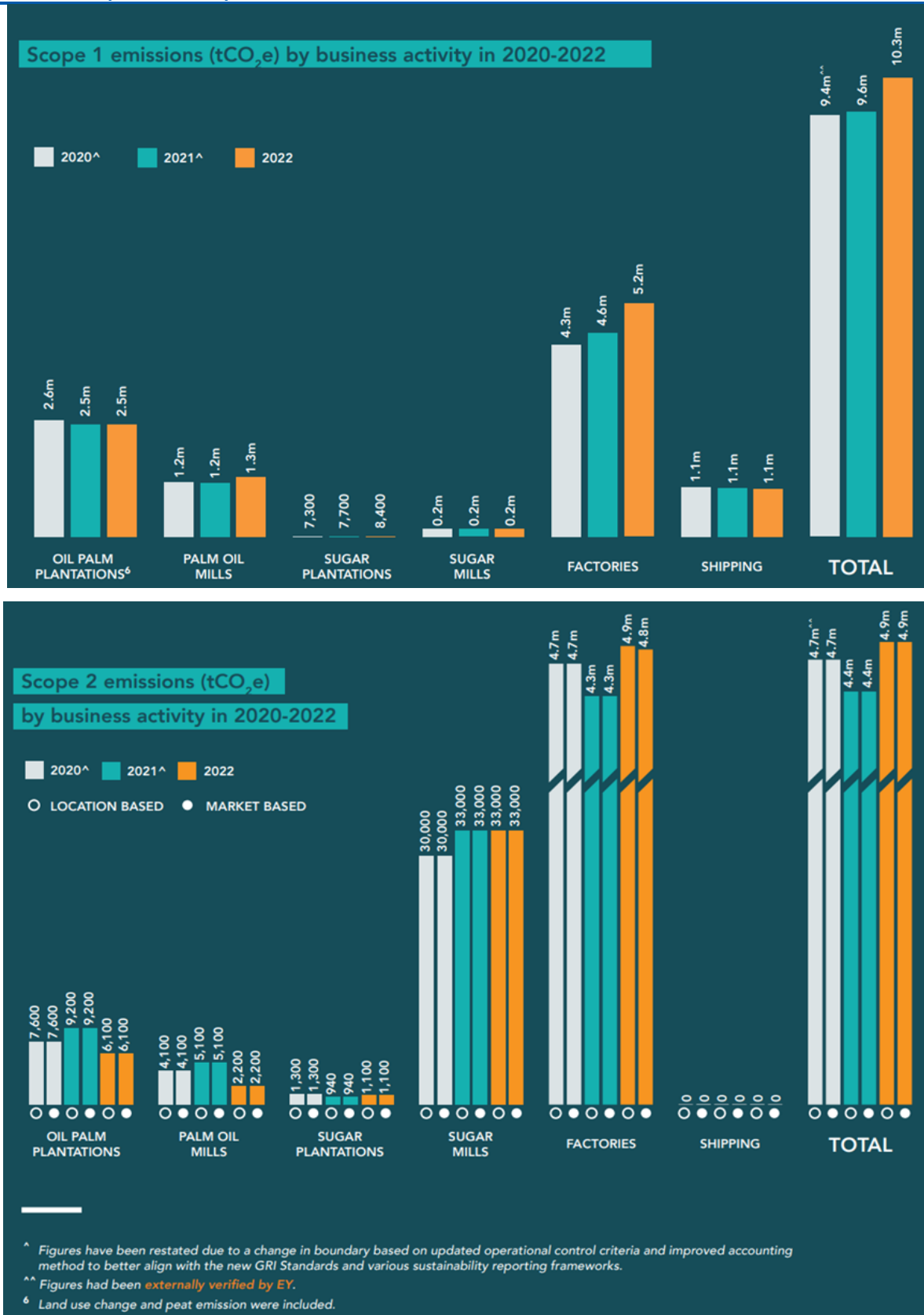
Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Singapore	Recurring EPS	0.29	0.39	0.26	0.31	0.31
Agriculture	DPS	0.11	0.12	0.13	0.13	0.13
Wilmar International	BVPS	3.11	3.12	3.25	3.43	3.60
WIL SP	Return on average equity (%)	9.7	12.0	7.9	8.9	8.5
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	9.60	7.25	10.78	9.14	9.08
SOP	P/B (x)	0.9	0.9	0.9	0.8	0.8
	FCF Yield (%)	(14.3)	(2.3)	8.0	3.2	3.0
Key drivers	Dividend Yield (%)	4.1	4.4	4.5	4.5	4.7
i. CPO prices and FFB production output;	EV/EBITDA (x)	10.20	9.26	10.96	9.62	9.44
ii. Soybean crush margins;	EV/EBIT (x)	14.21	12.33	15.65	13.62	13.85
iii. Improved profitability of rice and flour business;						
iv. Favourable tax regime.						
	Income statement (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	65,794	73,399	69,381	71,377	73,467
i. Volatilities in oilseeds earnings;	Gross profit	7,191	7,476	7,285	7,495	7,714
ii. Slower-than-expected recovery in vegetable oil demand.	EBITDA	3,851	4,392	3,629	4,151	4,246
	Depreciation and amortisation	(1,088)	(1,095)	(1,087)	(1,219)	(1,351)
Company Profile	Operating profit	2,763	3,297	2,542	2,932	2,896
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 – oil palm, soybean, and sugar.	Net interest	(253)	(448)	(607)	(607)	(607)
	Pre-tax profit	2,766	3,117	2,260	2,698	2,715
	Taxation	(700)	(547)	(527)	(628)	(632)
	Reported net profit	1,890	2,402	1,610	1,902	1,914
	Recurring net profit	1,842	2,420	1,627	1,919	1,932
	Cash flow (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	(3,100)	(778)	1,368	(27)	(129)
	Cash flow from operations	(4)	2,087	3,744	2,947	2,912
	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)	(803)	(803)	(851)
	Cash flow from financing activities	2,405	667	(658)	(845)	(895)
	Cash at beginning of period	2,706	2,693	2,999	3,536	3,030
	Net change in cash	45	298	537	(507)	(592)
	Ending balance cash	2,710	2,952	3,536	3,030	2,437
	Balance sheet (USDm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	6,342	5,722	6,258	5,752	5,160
	Tangible fixed assets	14,869	15,499	16,864	18,157	19,317
	Total investments	3,507	3,615	4,030	4,492	5,008
	Total assets	58,718	60,402	61,178	62,562	63,849
	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	37,676	37,832	37,928
	Total equity	22,602	22,601	23,502	24,730	25,920
	Total liabilities & equity	58,718	60,402	61,178	62,562	63,849
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	30.2	11.6	(5.5)	2.9	2.9
	Recurrent EPS growth (%)	24.4	32.5	(32.8)	18.0	0.6
	Gross margin (%)	10.9	10.2	10.5	10.5	10.5
	Operating EBITDA margin (%)	5.9	6.0	5.2	5.8	5.8
	Net profit margin (%)	2.9	3.3	2.3	2.7	2.6
	Dividend payout ratio (%)	38.9	33.1	49.9	42.2	44.4
	Capex/sales (%)	3.8	3.4	3.4	3.4	3.3
	Interest cover (x)	4.70	3.78	2.98	3.44	3.40

Source: Company data, RHB

Figure 1: Wilmar's Scope 1 and Scope 2 emissions



Source: Company

Figure 2: Wilmar's Scope 3 emissions

PURCHASED GOODS AND SERVICES	140.5m
CAPITAL GOODS	2.0m
FUEL- AND ENERGY-RELATED ACTIVITIES	2.0m
UPSTREAM TRANSPORTATION AND DISTRIBUTION	4.0m
WASTE GENERATED IN OPERATIONS	0.8m
BUSINESS TRAVEL	15,000
EMPLOYEE COMMUTING	350
UPSTREAM LEASED ASSETS	0.2m
DOWNSTREAM TRANSPORTATION AND DISTRIBUTION	1.4m
PROCESSING OF SOLD GOODS	0.4m
USE OF SOLD PRODUCTS	0.5m
END-OF-LIFE TREATMENT OF SOLD PRODUCTS	0.8m
DOWNSTREAM LEASED ASSETS	0.5m
FRANCHISES	NA
INVESTMENTS	2.6m
TOTAL	155.8m

Source: Company

Figure 3: Wilmar's SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling business	3,633	10x FY24F P/E
Consumer products	9,993	15x blended FY24F P/E
Feed and industrial products	8,748	10x blended FY24F P/E
Others	336	DCF: Ce 7.7%, Rf 4%, Beta 1.0, Rm 7.7%, TG 0%
JV & associates	2,246	0.5x P/BV
SOP value	24,957	
Value per share (USD)	4.00	
Exchange rate	1.34	
Conglomerate discount	-15%	
ESG premium/(discount)	2.00%	
SOP	4.64	

Source: RHB

Recommendation Chart

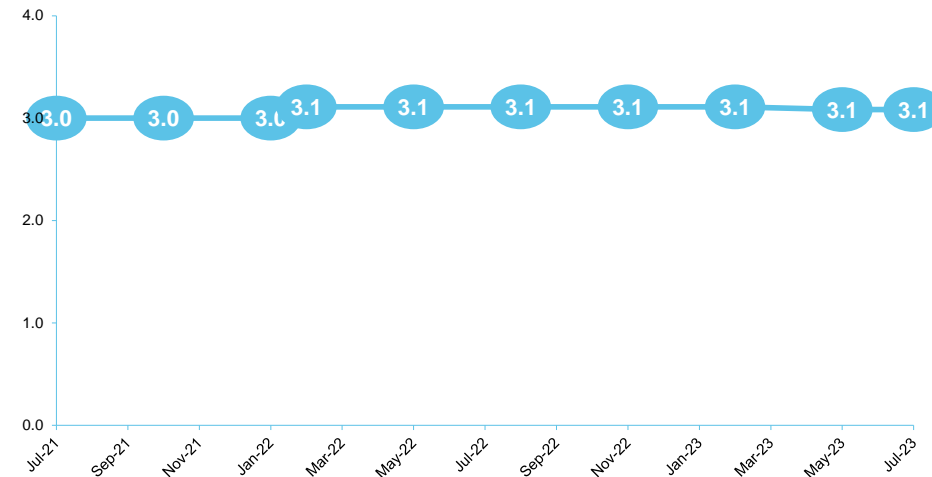


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2021-01-06	Buy	6.00	4.95

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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