

3 August 2021

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

AWL Files For Listing; Keep BUY

Target Price (Return): SGD5.75 (33.7%)
 Price: SGD4.30
 Market Cap: USD20,055m
 Avg Daily Turnover (SGD/USD) 33.9m/25.4m

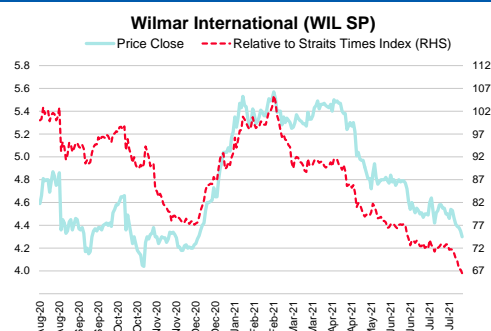
- **Maintain BUY and SGD5.75 TP.** Adani Wilmar (AWL) has filed for listing on India's BSE and NSE. We believe this listing could boost Wilmar International's share price by SGD0.20/share, assuming it trades on par with its Indian fast-moving consumer goods (FMCG) peers of an average 40x P/E. Wilmar continues to be an inexpensive trade, currently at 11.7x FY22F P/E.
- **Adani Wilmar files for listing.** Wilmar says its 50%-owned subsidiary AWL (a JV with Adani Group) has filed a draft red herring prospectus with the Securities & Exchange Board of India in relation to its proposed IPO for listing on the BSE and NSE. The proposed listing will comprise an issuance of new shares by AWL for an amount of up to INR45,000m (USD600m). There will not be any secondary offering.
- **Large FMCG group in India.** AWL is one of the few large FMCG food companies in India that produces edible oils, wheat flour, rice, pulses, and sugar under a diverse range of brands. The proceeds from the IPO will be used for: i) Capex for expansion of AWL's existing manufacturing facilities and developing new manufacturing plants, ii) repayment/prepayment of borrowings, iii) strategic acquisitions and investments, and iv) general corporate purposes.
- **We are positive on this development.** As this does not involve selling of shares by the existing shareholders, Wilmar will not be receiving any proceeds directly from this IPO. Meanwhile, its stake in AWL will be diluted depending on how many shares are issued. However, Wilmar will benefit from the enlarged value of AWL post listing, as well as higher earnings potential from the expansion plans using the IPO proceeds. In Wilmar's annual report, its 50% stake in AWL currently stands at USD226.7m, while the IPO is expected to raise USD600m.
- **FMCG companies in India trade at high P/Es.** We note that Indian FMCG firms trade in a 20-65x P/E range (Figure 1) with a simple average of 42x. Based on AWL's latest 2020 net profit of USD93m and applying 40x P/E, this could add an additional SGD0.19 to Wilmar's share price (Figure 2) based on its 50% stake and excluding the new share issuance.
- **SOP can be boosted by SGD0.20/share.** Our SOP for Wilmar only includes a 0.5x P/BV for its JV & associates, which includes AWL. Assuming 40x P/E upon listing, this IPO could therefore boost our SOP by SGD0.20/share.
- **Maintain BUY.** As Wilmar's China operations account for a hefty >90% of earnings, its valuation is very inexpensive at present. The company is trading at 11.7x 2022F P/E vs China-listed peers' 32-37x.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(4.2)	(17.6)	(20.7)	(6.9)
Relative	(18.7)	(5.2)	(15.8)	(29.1)	(31.9)
52-wk Price low/high (SGD)	4.04 – 5.57				



Source: Bloomberg

Overall ESG Score: 3.0 (out of 4)

E: Good

Wilmar achieved a greenhouse gas (GHG) emissions intensity of 0.62 tonnes CO₂e/tonne CPO in 2020 – a 24.4% YoY reduction. This was achieved by constructing 25 methane capture facilities at its CPO mills, thereby avoiding 598,435 tCO₂e of GHG emissions for the year. Wilmar has achieved 77% RSPO certification at its estates and 75% at its mills, with the target to achieve 100% by 2025.

S: Good

Wilmar has put in place relevant policies, guided by international standards, as set out in the United Nations (UN) Guiding Principles on Business & Human Rights, UN Global Compact, International Labour Organisation conventions, the UK Modern Slavery Act, and the Universal Declaration of Human Rights and its covenants. Wilmar has also been working together with other plantation firms since Mar 2018 to find a solution under the Decent Rural Living initiative. This was convened by Forum for the Future, an independent non-profit organisation working with private and public bodies to solve labour issues faced by rural workers.

G: Excellent

54% of Wilmar's board members are independent, with full disclosures on directors' remunerations, including salaries and bonuses, on a named basis. However, only two out of 13 directors are female. Wilmar has an in-house investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Forecasts and Valuation	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Total turnover (USDm)	42,641	50,527	62,522	64,267	66,684
Recurring net profit (USDm)	1,256	1,485	1,741	1,718	1,766
Recurring net profit growth (%)	(3.7)	18.2	17.2	(1.3)	2.8
Recurring P/E (x)	16.05	13.53	11.54	11.72	11.40
P/B (x)	1.2	1.1	1.0	1.0	0.9
P/CF (x)	5.96	30.29	4.65	6.98	7.39
Dividend Yield (%)	2.8	4.4	3.0	3.1	3.1
EV/EBITDA (x)	13.62	11.07	9.71	9.09	8.76
Return on average equity (%)	7.7	8.6	9.0	8.4	8.2
Net debt to equity (%)	110.0	80.5	66.8	64.8	63.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (USD)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Singapore	Recurring EPS	0.20	0.24	0.28	0.27	0.28
Agriculture	DPS	0.09	0.14	0.10	0.10	0.10
Wilmar International	BVPS	2.62	2.95	3.12	3.29	3.47
WIL SP	Return on average equity (%)	7.7	8.6	9.0	8.4	8.2
Buy						
	Valuation metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Valuation basis	Recurring P/E (x)	16.05	13.53	11.54	11.72	11.40
SOP	P/B (x)	1.2	1.1	1.0	1.0	0.9
	FCF Yield (%)	7.8	(6.6)	10.5	2.4	1.6
	Dividend Yield (%)	2.8	4.4	3.0	3.1	3.1
Key drivers	EV/EBITDA (x)	13.62	11.07	9.71	9.09	8.76
i. CPO prices and FFB production output;	EV/EBIT (x)	19.35	15.83	13.88	13.28	13.16
ii. Soybean crush margins;						
iii. Improved profitability of rice and flour businesses;						
iv. Favourable tax regime.						
	Income statement (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
Key risks	Total turnover	42,641	50,527	62,522	64,267	66,684
i. Volatilities in oilseeds earnings;	Gross profit	4,486	5,598	6,377	6,748	7,002
ii. Slower-than-expected recovery in vegetable oil demand.	EBITDA	2,767	3,274	3,502	3,760	3,936
	Depreciation and amortisation	(820)	(986)	(1,053)	(1,184)	(1,316)
	Operating profit	1,947	2,289	2,450	2,576	2,620
	Net interest	(417)	(232)	(147)	(330)	(330)
	Pre-tax profit	1,698	2,310	2,546	2,512	2,582
	Taxation	(372)	(620)	(611)	(603)	(620)
	Reported net profit	1,268	1,533	1,741	1,718	1,766
	Recurring net profit	1,256	1,485	1,741	1,718	1,766
Company Profile						
Wilmar is an agribusiness company. It has over 500 manufacturing plants and an extensive distribution network that covers China, India, Indonesia, and some 50 other countries. Wilmar is involved in three main commodities: Palm oil, soybean, and sugar.						
	Cash flow (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Change in working capital	1,098	(2,443)	2,019	72	(266)
	Cash flow from operations	3,383	663	4,319	2,885	2,723
	Capex	(1,815)	(1,980)	(2,201)	(2,411)	(2,410)
	Cash flow from investing activities	(1,687)	(1,807)	(2,086)	(2,601)	(2,600)
	Dividends paid	(462)	(619)	(618)	(631)	(638)
	Cash flow from financing activities	(1,198)	1,789	37	(632)	(651)
	Cash at beginning of period	1,650	2,113	2,706	5,364	5,016
	Net change in cash	499	645	2,271	(348)	(528)
	Ending balance cash	2,104	2,648	4,977	5,016	4,489
	Balance sheet (USDm)	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Total cash and equivalents	4,046	5,928	7,364	7,016	6,489
	Tangible fixed assets	11,969	13,472	14,380	15,699	16,886
	Total investments	3,103	3,350	3,683	4,039	4,420
	Total assets	47,049	51,020	51,445	52,855	54,251
	Short-term debt	18,288	17,146	17,000	17,000	17,000
	Total long-term debt	5,419	6,004	5,500	5,500	5,500
	Total liabilities	29,172	29,637	28,791	28,968	29,087
	Total equity	17,876	21,383	22,654	23,887	25,164
	Total liabilities & equity	47,049	51,020	51,445	52,855	54,251
	Key metrics	Dec-19	Dec-20	Dec-21F	Dec-22F	Dec-23F
	Revenue growth (%)	(4.2)	18.5	23.7	2.8	3.8
	Recurrent EPS growth (%)	(3.9)	18.7	17.2	(1.5)	2.8
	Gross margin (%)	10.5	11.1	10.2	10.5	10.5
	Operating EBITDA margin (%)	6.5	6.5	5.6	5.9	5.9
	Net profit margin (%)	3.0	3.0	2.8	2.7	2.6
	Dividend payout ratio (%)	45.7	59.1	35.5	36.7	36.1
	Capex/sales (%)	4.3	3.9	3.5	3.8	3.6
	Interest cover (x)	2.18	3.51	3.89	4.09	4.16

Source: Company data, RHB

Figure 1: India's FMCG peers P/Es

Company	P/E (blended forward 12 moths)	P/E (average)
Hindustan Unilever	55.8	48.8
ITC	15.7	19.9
Nestle India	75.1	64.1
Britannia Industries	44.4	43.9
Godrej Consumer	49.8	39.2
Dabur India	53.9	41.3
Marico	49.3	38.8
Varun Beverages	42.5	38.7
GlaxoSmithKline	34.6	32.4
Hatsun Agro Product	62.8	56.4
Simple average	48.38	42.35

Source: RHB

Figure 2: India FMCG peers P/Es

P/E (x)	20	30	40	50
Net profit FY20 (USDm)	93	93	93	93
Market cap (USDm)	1860.00	2790.00	3720.00	4650.00
Book value (USDm)	453.20	453.20	453.20	453.20
Market cap less N/BV (USDm)	1406.80	2336.80	3266.80	4196.80
Wilmar 50% stake	703.40	1168.40	1633.40	2098.40
Wilmar 's share capital ('m shares)	6403.40	6403.40	6403.40	6403.40
Additional value per share (USD)	0.11	0.18	0.26	0.33
Exchange rate (USD/SGD)	1.35	1.35	1.35	1.35
Upside to share price (SGD/share)	0.08	0.13	0.19	0.24

Source: RHB, Company data

Figure 3: Wilmar's SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling businesses	2,367	10x FY22F P/E.
Consumer products	19,385	22x blended FY22F P/E.
Feed and industrial products	5,998	10x blended FY22F P/E.
Others	288	DCF: Ce 9.3%, Rf 3%, Beta 1.0, Rm 9.3%, TG 0%.
JV & associates	2,019	0.5x P/BV.
SOP value	30,057	
Value per share (USD)	4.75	
Exchange rate	1.34	
Conglomerate discount	-10%	
SOP	5.73	

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-11-02	Buy	5.85	4.25
2020-11-01	Buy	5.60	4.04
2020-08-07	Buy	5.45	4.80
2020-06-24	Buy	4.87	4.09
2020-05-12	Buy	4.83	3.82
2020-03-23	Buy	4.30	2.90
2020-02-21	Buy	4.77	4.11
2020-02-14	Buy	4.43	4.10

Source: RHB, Bloomberg

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