11 August 2022

Agriculture | Plantation

Wilmar International (WIL SP)

Buy (Maintained)

ESG Champion, Attractive Valuations; Keep BUY

Target Price (Return):	SGD4.95 (+21%)
Price (Market Cap):	SGD4.09 (USD18,603m)
ESG score:	3.11 (out of 4)
Avg Daily Turnover (SGD/USD)	29.2m/21.1m

- **Maintain BUY, new SOP-based TP of SGD4.95 from SGD5.05**, 21% upside with c.4% FY22F yield. Wilmar remains our ESG champion, with excellent ESG disclosure and decent progress in recent years. Given our expectations of volatile CPO prices, we favour this counter due to its integrated and diversified business model, with cheap valuations – it is trading at 10x FY23F P/E, well below its big-cap peer range of 14-16x.
- **CPO prices have plunged** on the back of the unwinding impact of Indonesia's export ban, as well as recession fears which pulled down commodity prices in general. We believe the price decline could have been slightly overdone, having fallen by 44% in seven weeks – much more than the declines in soybean, crude oil and wheat prices (down 31%, 17% and 16%). While regulatory risks still exist, particularly for players in Indonesia, we believe supply concerns will continue to haunt the sector for the rest of 2022 – in view of the logistics backlog in Indonesia and the labour shortages in Malaysia. That said, assuming these issues are resolved by end-2022, and Ukraine is able to export its oilseed products as per the grains deal agreement signed, 2023 should still be a better year for supply and prices should remain under pressure.
- **ESG concerns are still present, but may have taken a backseat**. However, the ESG discounts we previously assigned to valuations are still in place. We have reassessed our ESG scores by relooking at the progress made by the industry, identifying shortcomings and any room for improvement. From our analysis, we highlight that better disclosure on ESG-related information has been made over the years, but progress in mitigating these issues is rather slow. As a result, we have increased the ESG scores of some planters that have made progress – but highlight that several peers have remained relatively stagnant in their ESG efforts, while others have even reduced disclosures.
- **We tone down CPO price assumptions.** We continue to expect stock levels to remain tight for the next 2-3 months, possibly until end-3Q, which would provide support for CPO prices. We trim CPO price assumptions for 2022 to MYR5,100/tonne (from MYR5,300/tonne). For 2023, as fundamentals continue to improve – assuming labour shortages are somewhat resolved and the Ukrainian oilseed output is able to be exported, CPO prices could decrease even more. However, support from a ramp-up in biodiesel mandates and discretionary biodiesel demand coming back would keep CPO prices above MYR3,000/tonne in the medium term. We lower our 2023 estimate to MYR3,900/tonne (from MYR4,300/tonne). Our MYR3,500/tonne assumption for 2024 remains unchanged. As a result, we trim Wilmar's FY22-24F earnings by 0.2-2.9%.
- **BUY, with a lower TP of SGD4.95 from SGD5.05**. Our SOP-based TP includes a 2% ESG premium, based on an ESG score of 3.1. We continue to believe Wilmar is undervalued, as its combined stakes in Yihai-Kerry and Adani Wilmar are double that of its current market cap.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (USDm)	50,527	65,794	72,872	67,619	68,186
Recurring net profit (USDm)	1,485	1,842	1,919	1,935	2,129
Recurring net profit growth (%)	18.2	24.0	4.2	0.8	10.0
Recurring P/E (x)	12.62	10.14	9.78	9.71	8.82
P/B (x)	1.0	1.0	0.9	0.9	0.8
P/CF (x)	28.25	na	10.20	4.04	5.12
Dividend Yield (%)	3.2	3.9	4.2	4.2	4.5
EV/EBITDA (x)	10.66	10.45	10.46	9.28	8.32
Return on average equity (%)	8.6	9.7	9.4	9.0	9.3
Net debt to equity (%)	80.5	100.8	100.2	90.9	85.5

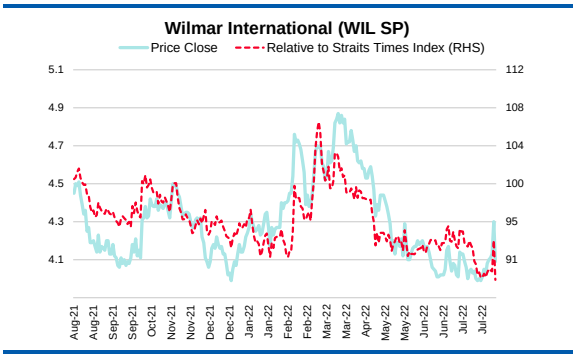
Source: Company data, RHB

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(1.2)	(1.0)	(5.8)	(7.1)	(8.1)
Relative	(5.9)	(5.5)	(5.2)	(3.2)	(11.1)
52-wk Price low/high (SGD)					3.99 – 4.87



Source: Bloomberg

Overall ESG Score: 3.11 (out of 4)

E: GOOD

Wilmar had a GHG emissions intensity of 0.66 CO2e/tonne on its CPO in 2021, vs 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

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

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.

Financial Exhibits

Asia
Singapore
Agriculture
Wilmar International
WIL SP
Buy

Valuation basis

SOP

Key drivers

i. Higher CPO prices and FFB production output;
ii. Positive effect of any change in soybean crush margins;
iii. Improved profitability of its rice and flour business;
iv. Favourable tax regime.

Key risks

i. Volatilities in oilseeds earnings;
ii. Slower-than-expected recovery in vegetable oil demand.

Company Profile

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: Palm, soybean and sugar.

Financial summary (USD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring EPS	0.24	0.29	0.30	0.31	0.34
DPS	0.09	0.11	0.12	0.13	0.13
BVPS	2.95	3.11	3.29	3.46	3.66
Return on average equity (%)	8.6	9.7	9.4	9.0	9.3

Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Recurring P/E (x)	12.62	10.14	9.78	9.71	8.82
P/B (x)	1.0	1.0	0.9	0.9	0.8
FCF Yield (%)	(7.0)	(13.5)	(3.0)	11.9	6.7
Dividend Yield (%)	3.2	3.9	4.2	4.2	4.5
EV/EBITDA (x)	10.66	10.45	10.46	9.28	8.32
EV/EBIT (x)	15.24	14.57	14.13	12.69	11.40

Income statement (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover	50,527	65,794	72,872	67,619	68,186
Gross profit	5,598	7,191	7,652	7,100	7,159
EBITDA	3,274	3,851	3,956	4,318	4,778
Depreciation and amortisation	(986)	(1,088)	(1,030)	(1,161)	(1,293)
Operating profit	2,289	2,763	2,926	3,157	3,485
Net interest	(232)	(253)	(372)	(604)	(604)
Pre-tax profit	2,310	2,766	2,806	2,828	3,183
Taxation	(620)	(700)	(673)	(679)	(764)
Reported net profit	1,533	1,890	1,919	1,935	2,129
Recurring net profit	1,485	1,842	1,919	1,935	2,129

Cash flow (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Change in working capital	(2,443)	(3,100)	(918)	1,614	232
Cash flow from operations	663	(4)	1,840	4,649	3,664
Capex	(1,980)	(2,519)	(2,396)	(2,410)	(2,410)
Cash flow from investing activities	(1,807)	(2,356)	(2,259)	(2,600)	(2,600)
Dividends paid	(619)	(968)	(795)	(803)	(851)
Cash flow from financing activities	1,789	2,405	(172)	(966)	(959)
Cash at beginning of period	2,113	2,706	2,693	2,102	3,186
Net change in cash	645	45	(590)	1,083	105
Ending balance cash	2,648	2,710	2,102	3,186	3,291

Balance sheet (USDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total cash and equivalents	5,928	6,342	4,102	5,186	5,291
Tangible fixed assets	13,472	14,869	16,328	17,670	18,881
Total investments	3,350	3,507	3,848	4,214	4,606
Total assets	51,020	58,718	58,992	59,967	61,499
Short-term debt	17,146	22,292	22,000	22,000	22,000
Total long-term debt	6,004	6,823	6,000	6,000	6,000
Total liabilities	29,637	36,116	35,140	34,858	34,938
Total equity	21,383	22,602	23,852	25,109	26,561
Total liabilities & equity	51,020	58,718	58,992	59,967	61,499

Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Revenue growth (%)	18.5	30.2	10.8	(7.2)	0.8
Recurrent EPS growth (%)	18.7	24.4	3.6	0.8	10.0
Gross margin (%)	11.1	10.9	10.5	10.5	10.5
Operating EBITDA margin (%)	6.5	5.9	5.4	6.4	7.0
Net profit margin (%)	3.0	2.9	2.6	2.9	3.1
Dividend payout ratio (%)	39.4	38.9	41.4	41.5	40.0
Capex/sales (%)	3.9	3.8	3.3	3.6	3.5
Interest cover (x)	3.51	4.70	4.18	4.03	4.44

Source: Company data, RHB

Figure 1: Progress on ESG factors

		2017	2018	2019	2020	2021
Enviromental						
GHG Emission	**Emission and intensity**	4,033,437 Intensity: Not disclosed	5,511,526 Intensity: 0.72 (Plantation segment only)	5,636,765 Intensity: 0.77 (Plantation segment only)	11,234,191 Intensity: 0.62 (Plantation segment only)	12,155,491 Intensity: 0.66 (Plantation segment only)
Waste treatment	**Recycling/ Repurposing of waste**	Yes	Yes	Yes	Yes	Yes
Energy Efficiency (water)	**Water usage (m3) and intensity (m3/tonne of palm product)**	43,757,959.00 Intensity: 1.37	43,906,346.00 Intensity: 1.39	43,873,081.00 Intensity: 1.47	98,010,000.00 Intensity: 1.41	98,774,000.00 Intensity: 1.43
Energy Efficiency (electricity)	**Energy consumption and intensity**	Not disclosed	Not disclosed	50,281,774	53,204,366	53,916,225
Certifications	**RSPO / MSPO / ISPO certified (%)**	RSPO: 78% mills, 89% estates MSPO: 22.2% ISPO: 24%	RSPO: 69% mills, 76% estates MSPO: 88.9% ISPO: 24%	RSPO: 72% mills, 74% estates MSPO: 100% ISPO: 32%	RSPO: 75% mills, 77% estates MSPO: 100% ISPO: 41%	RSPO: 78% mills, 79% estates MSPO: 100% ISPO: 44%
Use of peat land	**Peat land (%)**	8.0%	8.0%	2.6%	1.0%	1.0%
Fire accidents	**Number of accidents**	23	64	166	54	51
Usage of renewable energy	**% of renewable energy used**	Not disclosed	Not disclosed	58.8%	60.1%	57.0%
Traceability	**Traceability (%) group-wide**	Not disclosed	TTM: 96%	TTM: 96.2%	TTM: 97.7%	TTM:98.2%
Efficiency of land use	**Policy to increase yields and minimise land use or any research and development done/ ongoing**	Yes	Yes	Yes	Yes	Yes
Social						
Channels for workers to raise concerns	**Existence of grievance channels to raise concerns**	Not disclosed	Yes	Yes	Yes	Yes
Whistleblowing policy	**Policies to protect whistleblowers**	Not disclosed	Yes	Yes	Yes	Yes
Employees' professional/ personal development	**Provision of training and education**	Not disclosed	Yes	Yes	Yes	Yes
Policy for smallholders*	**Policy in place for training, yield improvement and RSPO certification**	Not disclosed	Yes	Yes	Yes	Yes
Employees' welfare	**Accommodation and amenities provided**	Not disclosed	Yes	Yes	Yes	Yes
Governance						
Board composition	**At least half of the board being independent directors**	Not disclosed	6/11 are independent	6/11 are independent	5/11 are independent	6/11 are independent
Limiting to 9 years (for independent directors)	**Limitation of tenure to 9 years (for independent directors)**	Not disclosed	Yes	Yes	Yes	Yes
Gender inclusivity	**Female representation in the board**	Not disclosed	18.2%	18.2%	30.0%	27.3%
Emphasis of sustainability at board level	**Formation of a sustainability group**	Not disclosed	Yes	Yes	Yes	Yes
Remuneration transparency	**Full disclosure of fees and benefits on named basis**	Not disclosed	Yes	Yes	Yes	Yes

Source: Company data, RHB estimates

Figure 2: Wilmar's SOP valuation

SOP valuation	Value (USDm)	Valuation basis
Plantation and sugar milling business	4,163	10x FY23F P/E
Consumer products	12,756	15x blended FY23F P/E
Feed and industrial products	6,911	10x blended FY23F P/E
Others	287	DCF: Ce 7.1%, Rf 4%, Beta 1.0, Rm 7.1%, TG 0%
JV & associates	2,107	0.5x P/BV
SOP value	**26,224**	
Value per share (USD)	4.14	
Exchange rate	1.38	
Conglomerate discount	-15%	
ESG premium/(discount)	2.00%	
SOP	**4.95**	

Source: RHB

Recommendation Chart

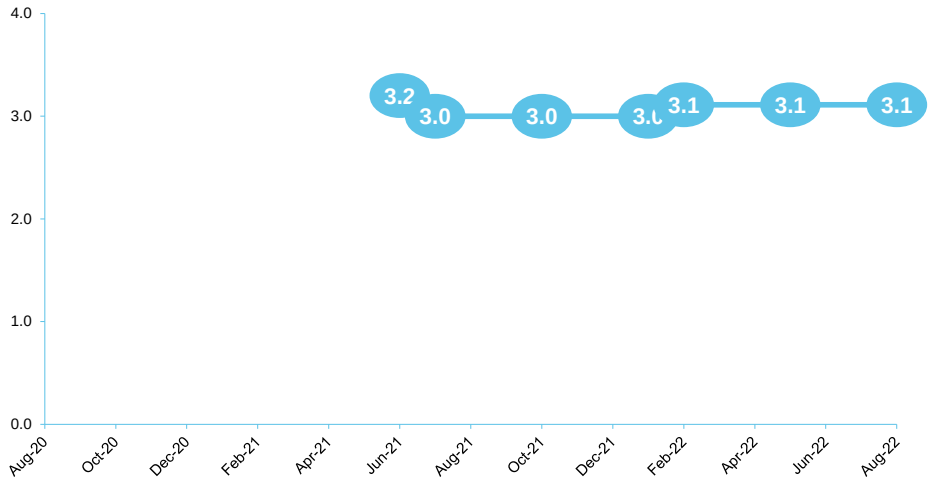


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-11-02	Buy	5.85	4.25
2020-11-01	Buy	5.60	4.04
2020-08-13	Buy	5.45	4.87
2020-08-07	Buy	5.45	4.80
2020-06-24	Buy	4.87	4.09

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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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
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