

Wilmar International (WIL SP)

Common prosperity winner?

Catalysts lining up for re-rating

WIL has de-rated 21% from its peak this year on concerns of weak crush margins, and higher raw material costs. There are clear signs of turnaround in 3Q21, which should set the Group up to deliver in 2022E. Structurally, WIL should be a beneficiary of China's common prosperity drive, while regional re-opening could boost volumes. Potential restructuring, special dividends and share buybacks are catalysts going forward. Maintain BUY with new SGD5.80 TP.

Recovery gathering pace post 2Q21

Following a squeeze in 2Q21, margins and volumes are on the mend. This trend should accelerate in 4Q21 and 2022E, according to Management. ASPs are increasing to reflect higher raw material costs, while crush margins have turned positive. Higher palm oil and sugar prices should be supportive of upstream contribution. Shaky Chinese industrial output is unlikely to affect food-staples volumes, in our view. In fact, Management expects volume acceleration in 4Q21 as CNY re-stocking begins. We have raised, Food Product segment PBT/ton margins by 8-10% for 2021-23E.

Diversified, common prosperity winner?

According to Management, the current Chinese power shortages are not affecting WIL, given food, production is a priority sector. Plus its nationwide production facilities give additional redundancies. China's political realignment towards common prosperity is aimed at enlarging its Middle Class. This could drive increasing demand for branded, higher quality consumer staples, in our view. WIL's strong brands in cooking oil, rice, wheat, sugar etc., as well as new adjacencies such as condiments could be key medium term beneficiaries. Wider economic re-opening in Indonesia, SE Asia and India should provide a boost to volumes, in our view.

Maintain BUY. Slightly lower TP: SGD5.80

WIL's Chinese listing - YKA (300999 SH, NR) - trades at 38x 2022E PE, while peers of soon-to-be-listed Adani-Wilmar trades >30x. Yet the parent is 13x. We think this may put the Group on the path to restructuring to unlock value - similar to other large caps in Singapore (CIL, SCI, SPH etc.). In the near term, risks of potential special dividends and share buybacks are on the upside. We roll forward our blended DCF (WACC 5.5%, 1% terminal) and peer PE (target PE of 21x) valuation. Our TP falls to SGD5.80 (from SGD6.03) despite 5-6% 2021-23E higher EPS due to lower peer PE (21x vs. 25x) and higher mid-cycle capex. Nevertheless, we believe current levels offer significant value to play the EM consumption theme.

FYE Dec (USD m)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	42,641	50,527	60,447	63,539	64,293
EBITDA	2,805	3,338	3,491	3,681	3,827
Core net profit	1,293	1,534	1,562	1,612	1,663
Core FDEPS (cts)	20.4	24.1	24.6	25.4	26.2
Core FDEPS growth(%)	14.7	18.3	1.8	3.2	3.1
Net DPS (cts)	12.5	19.5	15.5	16.0	16.5
Core FD P/E (x)	15.0	14.6	13.3	12.9	12.5
P/BV (x)	1.2	1.2	1.1	1.0	1.0
Net dividend yield (%)	4.1	5.5	4.7	4.9	5.0
ROAE (%)	7.6	8.6	8.1	8.0	7.9
ROAA (%)	2.8	3.1	3.0	3.1	3.2
EV/EBITDA (x)	15.0	13.6	12.9	12.1	11.4
Net gearing (%) (incl perps)	120.8	95.6	97.2	92.6	84.7
Consensus net profit	-	-	1,602	1,660	1,802
MKE vs. Consensus (%)	-	-	(2.5)	(2.9)	(7.7)

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BUY

Share Price	SGD 4.41
12m Price Target	SGD 5.80 (+32%)
Previous Price Target	SGD 6.03

Company Description

Wilmar International Ltd. is an investment holding company, which engages in the processing, merchandising, and distribution of agricultural products

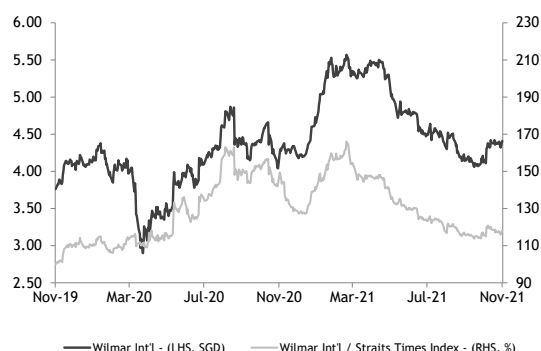
Statistics

52w high/low (SGD)	5.57/4.06
3m avg turnover (USDm)	18.9
Free float (%)	29.3
Issued shares (m)	6,403
Market capitalisation	SGD28.2B
	USD20.9B

Major shareholders:

Archer-Daniels-Midland Co.	21.9%
PPB Group Bhd.	18.3%
Longlin Asia Ltd.	7.2%

Price Performance



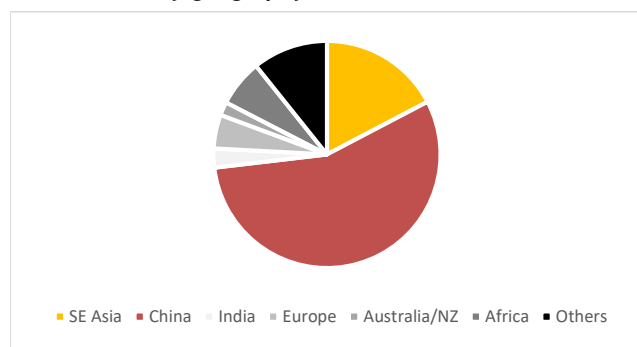
	-1M	-3M	-12M
Absolute (%)	7	1	9
Relative to index (%)	2	0	(17)

Source: FactSet

Value Proposition

- Over 90% of WIL's revenues are generated in high growth emerging markets, including China, India, SE Asia and Africa
- The group has built market leading positions and brands in essential food items and staples including cooking oil, flour, rice, sugar, animal feed in these markets
- A 30-year execution track record has seen it get access to scarce upstream production assets, such as palm oil plantations and sugar mills, and port-based, processing assets such as soybean crushing facilities and sugar mills and downstream distribution logistics
- Their integrated supply chains allows for better margin management and scale
- The group is continuing to invest in additional capacity in its existing markets and also expanding in new market, especially Africa

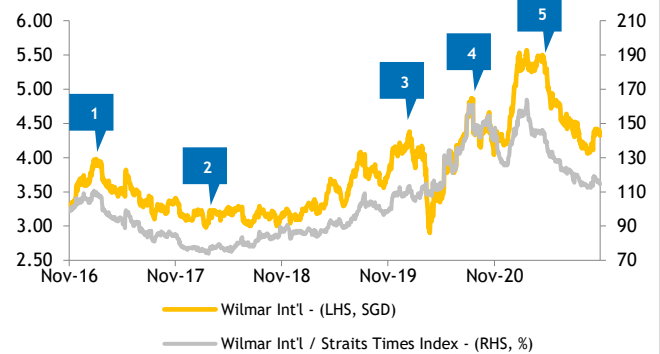
WIL revenue by geography 2019



Source: Company

Price Drivers

Historical share price trend



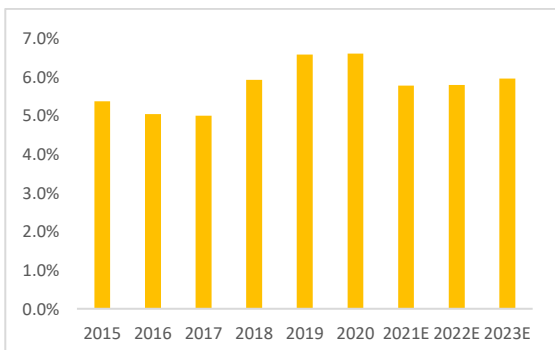
Source: Company, Maybank Kim Eng

- Profit warning on trading losses in soybeans plus lower sugar production in Australia due to drought
- Fears of African Swine Flu combined with US-China trade tensions
- Start of the Covid-19 pandemic
- Increased news flow of YKA listing in China
- Crushing margins, higher input cost concerns

Financial Metrics

- WIL's ROA had a variance of just 0.03% over the past 5-years despite significant commodity pricing volatility
- We forecast overall volumes to increase 4% YoY as North Asia continues recovery. Risks are on the upside from SE Asia and India recovery
- We forecast Group capex to be in the USD2bn range between 2021-23E driven by new capacity additions as well as new initiatives such as central kitchens in China

Group EBITDA margins (%)



Source: Company, Maybank Kim Eng

Swing Factors

Upside

- Potential restructuring of its Singapore listing to unlock value could drive higher multiples
- Holding company gap closing between parent and its Chinese listing - YKA
- Monetisation of a new product under R&D through their investments in biotechnology, clinical nutrition, AI may result in upside surprise

Downside

- Revocation of licenses, operating bans, activism due to ESG related issues can have a material downside impact
- New waves of infection of Covid-19, African Swine Flu and new restrictions may pressure volumes
- Limiting credit facilities or imposing utilization restrictions by lenders may have a significant impact

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Key changes to assumptions

Fig 1: Key assumption changes

	2021E			2022E			2023E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	59,490	60,447	2%	62,555	63,539	2%	63,305	64,293	2%
Cost of Sales	(51,726)	(52,560)	2%	(51,816)	(52,659)	2%	(48,631)	(49,456)	2%
Gross Profit	7,764	7,887	2%	10,739	10,879	1%	14,674	14,838	1%
EBITDA	3,368	3,491	4%	3,539	3,681	4%	3,663	3,827	4%
Profit from segmental operations	2,036	2,151	6%	2,091	2,227	6%	2,150	2,302	7%
Food Products	1,094	1,179	8%	1,146	1,247	9%	1,196	1,314	10%
Feed and Industrial Products	782	809	3%	799	827	3%	825	853	3%
Plantation and Sugar Milling	118	121	2%	102	108	5%	85	90	5%
Others	46	47	2%	48	49	2%	49	50	2%
Income tax	(601)	(631)	5%	(615)	(652)	6%	(631)	(672)	6%
Net profit	1,486	1,562	5%	1,522	1,612	6%	1,561	1,663	6%
Capex	2,000	2,000	0%	2,000	2,000	0%	1,800	2,000	11%
Food Products									
Sales volume ('000)	28,712	28,712	0%	29,764	29,764	0%	30,756	30,756	0%
PBT/MT	38.1	41.1	8%	38.5	41.9	9%	38.9	42.7	10%
Feed and Industrial Products									
Sales volume ('000)	58,804	59,026	0%	58,967	59,194	0%	59,629	59,860	0%
PBT/MT	13.3	13.7	3%	13.6	14.0	3%	13.8	14.3	3%
Plantation and Sugar Milling									
Sales volume ('000)	5,759	5,759	0%	5,851	5,851	0%	5,715	5,715	0%
PBT/MT	20.6	20.9	2%	17.5	18.4	5%	14.9	15.7	5%

Source: Maybank Kim Eng

Detailed assumptions

Fig 2: Detailed assumptions

	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Tropical Oils										
Revenue growth	2%	-23%	8%	7%	-6%	-9%				
Sales volume growth	0%	-4%	-1%	-1%	5%	12%				
PBT/tonne growth	-14%	-42%	28%	-42%	30%	47%				
Oilseeds & Grains										
Revenue growth	-15%	-2%	1%	11%	13%	-4%				
Sales volume growth	-4%	14%	3%	13%	12%	-1%				
PBT/tonne growth	-20%	73%	-65%	157%	8%	-26%				
Sugar										
Revenue growth	1%	8%	33%	-18%	-16%	17%				
Sales volume growth	49%	0%	-9%	-8%	7%	16%				
PBT/tonne growth	-29%	-38%	66%	-121%	387%	-102%				
Food Products (reclassified)										
Revenue growth							22%	23%	7%	-1%
Sales volume growth							12%	5%	4%	3%
PBT/tonne growth							6%	-3%	2%	2%
Feed and Industrial Products (reclassified)										
Revenue growth							20%	17%	5%	3%
Sales volume growth							11%	2%	0%	1%
PBT/tonne growth							14%	0%	2%	2%
Plantation and Sugar Milling (reclassified)										
Revenue growth							2%	17%	-11%	-8%
Sales volume growth							-11%	2%	2%	-2%
PBT/tonne growth							-386%	13%	-12%	-15%
Operating expenses growth	6.0%	6.1%	5.8%	-7.7%	5.8%	1.3%	29.6%	58.5%	50.1%	44.9%
Finance income yield (%)	5.3%	7.1%	3.1%	3.1%	4.3%	4.2%	4.0%	4.0%	4.0%	4.0%
Finance expense cost (%)	2.3%	2.5%	2.0%	2.6%	3.5%	3.8%	2.8%	2.8%	2.8%	2.8%
Effective Tax (%)	20.4%	20.6%	15.9%	18.1%	21.7%	21.9%	26.8%	26.8%	26.8%	26.8%
Dividend payout ratio (%)	32%	34%	31%	39%	43%	45%	58%	45%	45%	45%
Borrowing										
Short term	68%	64%	75%	81%	76%	77%	74%	74%	74%	74%
Long term	32%	36%	25%	19%	24%	23%	26%	26%	26%	26%

Source: Company data, Maybank Kim Eng

Target price derivation

Fig 3: Target price (SGD)

Blended Target Price	SGD	Weighting
Multistage DCF (WACC 5.3%, 1% terminal)	5.48	80%
Peer basket driven TP (21x PE target)	7.10	20%
Blended TP	5.80	
Upside/Downside (%)	34%	
PE at TP (2022E)	16.9	
PB at TP (2022E)	1.3	

Source: Maybank Kim Eng

Peer valuations

Fig 4: Peer valuations

Ticker	Name	Listing	Price	Market Cap	1-yr FWD PE	Rating	Revenue Weighting
			(LCY)	(USD bn)	(x)		
China							
000876 CH Equity	New Hope Liuhe Co Ltd	China	14.39	10.12	13.2	Not Rated	
600438 CH Equity	Tongwei Co Ltd	China	57.23	40.22	24.6	Not Rated	
300999 CH Equity	Yihai Kerry Arawana Holdings	China	60.88	51.53	39.0	Not Rated	
Mkt Cap Weighted Average					30.8		56%
Developed Mkts							
2002 JT Equity	Nisshin Seifun Group	Japan	1799	4.80	23.9	Not Rated	
GLEN LN Equity	Glencore	UK	365.25	66.17	7.1	Not Rated	
ADM US Equity	ADM	US	64.24	35.94	13.7	Not Rated	
BG US Equity	Bunge	US	92.64	13.02	9.9	Not Rated	
Mkt Cap Weighted Average					10.1		7%
Emerging Mkts							
INDF IJ Equity	Indofood Sukses TBK	Indonesia	6350	3.92	7.4	BUY	
OLAM SP Equity	Olam International	Singapore	1.70	4.65	9.3	Not Rated	
GGR SP Equity	Golden Agri	Singapore	0.27	2.49	8.2	Not Rated	
Mkt Cap Weighted Average					8.4		37%
Weighted Average Target PE					21.0	x	
2022E EPS					0.254	USD	
Target share price					5.34	USD	
USDSGD FX					0.753		
Peer basket driven target price					7.10		

Source: Bloomberg, Maybank Kim Eng

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Metrics					
P/E (reported) (x)	13.5	12.3	13.3	12.9	12.5
Core P/E (x)	15.0	14.6	13.3	12.9	12.5
Core FD P/E (x)	15.0	14.6	13.3	12.9	12.5
P/BV (x)	1.2	1.2	1.1	1.0	1.0
P/NTA (x)	1.7	1.7	1.5	1.4	1.3
Net dividend yield (%)	4.1	5.5	4.7	4.9	5.0
FCF yield (%)	6.2	nm	nm	3.4	7.9
EV/EBITDA (x)	15.0	13.6	12.9	12.1	11.4
EV/EBIT (x)	21.8	19.8	18.4	17.6	16.8

INCOME STATEMENT (USD m)

Revenue	42,640.5	50,526.8	60,446.6	63,538.9	64,293.4
EBITDA	2,804.7	3,338.0	3,490.8	3,680.8	3,827.3
Depreciation	(875.8)	(1,055.4)	(1,049.7)	(1,145.2)	(1,234.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,928.9	2,282.5	2,441.0	2,535.7	2,592.8
Net interest income / (exp)	(416.6)	(231.3)	(311.0)	(330.0)	(311.5)
Associates & JV	153.0	202.2	202.2	202.2	202.2
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	33.1	57.6	21.1	21.1	21.1
Pretax profit	1,698.5	2,311.1	2,353.3	2,428.9	2,504.5
Income tax	(371.5)	(620.1)	(631.4)	(651.7)	(672.0)
Minorities	(77.1)	(156.9)	(159.7)	(164.9)	(170.0)
Discontinued operations	43.5	0.0	0.0	0.0	0.0
Reported net profit	1,249.9	1,534.1	1,562.2	1,612.4	1,662.5
Core net profit	1,293.4	1,534.1	1,562.2	1,612.4	1,662.5

BALANCE SHEET (USD m)

Cash & Short Term Investments	2,113.1	2,706.2	969.8	619.0	1,101.4
Accounts receivable	4,251.6	5,277.9	6,314.1	6,637.1	6,715.9
Inventory	7,960.8	9,436.2	11,038.7	11,059.7	10,386.8
Property, Plant & Equip (net)	11,278.2	12,806.2	13,123.4	13,978.3	14,743.7
Intangible assets	5,384.4	5,445.7	5,445.7	5,445.7	5,445.7
Investment in Associates & JVs	3,103.2	3,350.5	3,350.5	3,350.5	3,350.5
Other assets	12,957.4	11,997.4	11,353.0	10,837.5	10,425.1
Total assets	47,048.6	51,020.0	51,595.2	51,927.6	52,169.0
ST interest bearing debt	18,288.1	17,145.9	16,732.6	16,319.4	15,906.1
Accounts payable	1,690.7	1,613.4	1,887.5	1,891.0	1,776.0
LT interest bearing debt	5,419.3	6,003.6	5,858.9	5,714.2	5,569.5
Other liabilities	3,774.0	4,874.0	4,874.0	4,874.0	4,874.0
Total Liabilities	29,172.5	29,636.7	29,352.7	28,798.3	28,125.3
Shareholders Equity	16,762.5	18,882.4	19,741.5	20,628.3	21,542.7
Minority Interest	1,113.6	2,501.0	2,501.0	2,501.0	2,501.0
Total shareholder equity	17,876.1	21,383.3	22,242.5	23,129.3	24,043.7
Total liabilities and equity	47,048.6	51,020.0	51,595.2	51,927.6	52,169.0

CASH FLOW (USD m)

Pretax profit	1,698.5	2,311.1	2,353.3	2,428.9	2,504.5
Depreciation & amortisation	875.8	1,055.4	1,049.7	1,145.2	1,234.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	297.1	(2,578.9)	(2,364.7)	(340.4)	479.0
Cash taxes paid	(371.5)	(620.1)	(631.4)	(651.7)	(672.0)
Other operating cash flow	514.2	216.4	102.7	121.7	103.2
Cash flow from operations	3,014.0	383.9	509.6	2,703.7	3,649.3
Capex	(1,812.9)	(1,976.0)	(2,000.0)	(2,000.0)	(2,000.0)
Free cash flow	1,201.1	(1,592.1)	(1,490.4)	703.7	1,649.3
Dividends paid	(461.8)	(618.6)	(703.0)	(725.6)	(748.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	454.4	886.8	86.4	(42.4)	(145.5)
Other invest/financing cash flow	(731.1)	1,916.9	370.6	(286.6)	(273.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	462.7	593.0	(1,736.3)	(350.9)	482.4

FYE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Key Ratios					
Growth ratios (%)					
Revenue growth	(4.2)	18.5	19.6	5.1	1.2
EBITDA growth	6.3	19.0	4.6	5.4	4.0
EBIT growth	6.7	18.3	6.9	3.9	2.3
Pretax growth	5.3	36.1	1.8	3.2	3.1
Reported net profit growth	6.9	22.7	1.8	3.2	3.1
Core net profit growth	14.9	18.6	1.8	3.2	3.1
Profitability ratios (%)					
EBITDA margin	6.6	6.6	5.8	5.8	6.0
EBIT margin	4.5	4.5	4.0	4.0	4.0
Pretax profit margin	4.0	4.6	3.9	3.8	3.9
Payout ratio	63.3	80.7	63.0	63.0	63.0
DuPont analysis					
Net profit margin (%)	2.9	3.0	2.6	2.5	2.6
Revenue/Assets (x)	0.9	1.0	1.2	1.2	1.2
Assets/Equity (x)	2.8	2.7	2.6	2.5	2.4
ROAE (%)	7.6	8.6	8.1	8.0	7.9
ROAA (%)	2.8	3.1	3.0	3.1	3.2
Liquidity & Efficiency					
Cash conversion cycle	96.4	90.4	92.6	99.3	102.1
Days receivable outstanding	36.3	33.9	34.5	36.7	37.4
Days inventory outstanding	74.9	69.7	70.1	75.5	78.1
Days payables outstanding	14.8	13.2	12.0	12.9	13.3
Dividend cover (x)	1.6	1.2	1.6	1.6	1.6
Current ratio (x)	1.1	1.2	1.2	1.2	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.7	1.8	1.8	1.9
Net gearing (%) (incl perps)	120.8	95.6	97.2	92.6	84.7
Net gearing (%) (excl. perps)	120.8	95.6	97.2	92.6	84.7
Net interest cover (x)	4.6	9.9	7.8	7.7	8.3
Debt/EBITDA (x)	8.5	6.9	6.5	6.0	5.6
Capex/revenue (%)	4.3	3.9	3.3	3.1	3.1
Net debt/ (net cash)	21,594.3	20,443.3	21,621.7	21,414.6	20,374.2

Source: Company; Maybank

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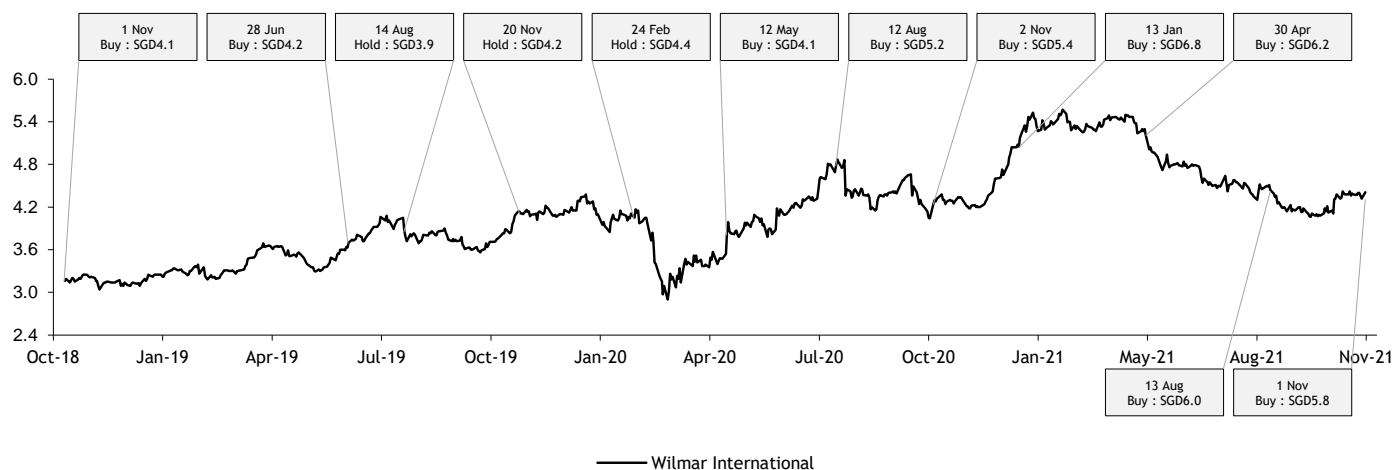
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