

# Wilmar International (WIL SP)

## Leading disclosure

### ESG disclosures good, near-term catalysts few. HOLD

Under our enhanced ESG 2.0 review, WIL scores an above average 54. The Group's disclosure levels are strong and its policies on emissions, human rights, stakeholder engagement etc., are proactive and follow global best practices. Improved disclosures in Scope 3 emissions as well as a higher proportion of diversity and independence at Board level could drive an improved score in our view. In the meantime, weakening palm oil prices, extreme commodity price volatility and prolonged Chinese lockdowns could affect margins and volumes going forward. Maintain HOLD.

### High levels of disclosures

WIL's quantitative, qualitative and targets based disclosures are strong in terms of breadth and depth. The Group has had a clear 'No Deforestation, No Peat, No Exploitation (NDPE)' policy since 2013 and is amongst the first in the industry to publish a NDPE Implementation Framework that enables consistent measurements of NDPE commitments. The Group has also enhanced its Human Rights Framework. WIL operates in industry segments that attract significant attention from multiple stakeholders given large exposures to natural resources, emissions and activity in emerging economies. Operating and reputational risks are high. We believe its proactive transparency in disclosures provides some offset to these risks, especially compared to peers.

### Scope 3, diversity could drive a better score

WIL currently does not disclose Scope 3 emissions, which we think is critical for improved sector transparency. The Group claims it is currently mapping this and has targeted end-2022 for completion. Improved disclosure here could drive a higher score, in our view. At the same time, we note Board female representation is just 15% vs. 27% for ADM (ADM US, USD85.44, NR) and board independence is low (50% independent directors vs. 91% ADM). Improvements here could also substantially enhance WIL's ESG score, in our view.

### Limited catalysts near term. Maintain HOLD

We estimate 70% of WIL's 1H22 YoY PBT growth was from higher CPO prices in the Plantations & Sugar Milling segment. Currently, CPO prices have retraced 53% from its peak. Volumes for its downstream consumer and wholesale segments face downside due to prolonged lockdowns in China as well as inflation and recession risks. Further, extreme commodity price volatility raises uncertainty for trading income as well as weaker margins in the upcoming 3Q22 results - due on 28 Oct. Maintain HOLD.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	50,527	65,794	76,001	71,063	73,843
EBITDA	3,338	3,885	4,175	4,080	4,565
Core net profit	1,534	1,890	1,918	1,794	2,044
Core FDEPS (cts)	24.1	29.7	30.2	28.2	32.2
Core FDEPS growth(%)	18.3	23.2	1.5	(6.5)	13.9
Net DPS (cts)	19.5	15.5	16.3	15.3	17.4
Core FD P/E (x)	14.6	10.3	8.6	9.2	8.1
P/BV (x)	1.2	1.0	0.8	0.7	0.7
Net dividend yield (%)	5.5	5.0	6.3	5.9	6.7
ROAE (%)	8.6	9.7	10.2	8.3	9.0
ROAA (%)	3.1	3.4	3.2	3.0	3.4
EV/EBITDA (x)	13.6	12.5	11.2	10.9	9.6
Net gearing (%) (incl perps)	95.6	116.9	116.2	101.6	93.6
Consensus net profit	-	-	1,860	1,844	2,073
MKE vs. Consensus (%)	-	-	12.6	(2.7)	(1.4)

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# HOLD

Share Price SGD 3.73  
12m Price Target SGD 4.47 (+20%)  
Previous Price Target SGD 4.47

### 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)	4.87/3.71
3m avg turnover (USDm)	18.2
Free float (%)	29.3
Issued shares (m)	6,403
Market capitalisation	SGD23.9B
	USD16.7B

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(10)	(14)
Relative to index (%)	(4)	(10)	(15)

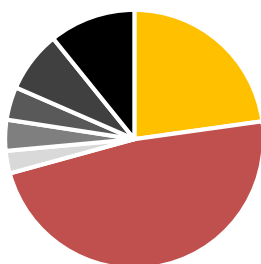
Source: FactSet

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Tear Sheet Insert

## 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

### WIL revenue by geography 2021



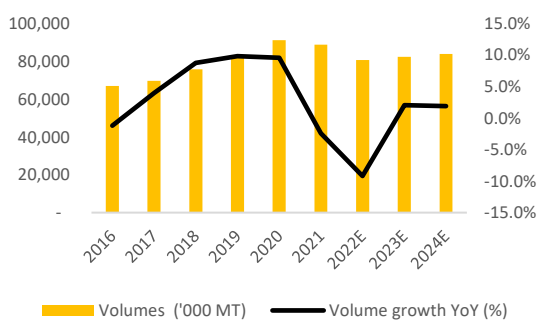
■ SE Asia ■ China ■ India ■ Europe ■ Australia/NZ ■ Africa ■ Others

Source: Company

## Financial Metrics

- Expect overall capex to remain elevated in the near to medium term as the Group invests in new facilities as well as central kitchen business. We forecast capex in the USD2.0-2.3bn range in 2022-24E
- Expect adjusted gearing (stripping out near cash inventories) to fall to 59% un 2024E vs. 70% in 2021
- Overall volumes could decline 9.2% YoY given China lockdowns and demand destruction in 2022E, while 2023E should see a 2% YoY recovery

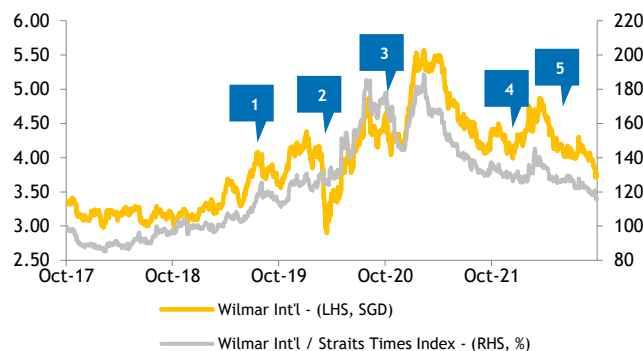
### Group volumes



Source: Company

## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Fears of African Swine Flu combined with US-China trade tensions
2. Start of the Covid-19 pandemic
3. Increased news flow of YKA listing in China
4. Higher palm oil price outlook
5. Continued China lockdown concerns

## Swing Factors

### Upside

- A faster than expected lifting of Chinese lockdowns and reopening
- Holding company gap closing between parent and its listing in China and India
- 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
- Limiting credit facilities or imposing utilization restrictions by lenders may have a significant impact
- Government policy changes such as export bans and tariffs restricting supply chain operations

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Risk Rating & Score <sup>1</sup>	33.9
Score Momentum <sup>2</sup>	-3.4
Last Updated	09 Oct 2022
Controversy Score <sup>3</sup> (Updated: 09 Oct 2022)	3

## Business Model & Industry Issues

- The nature of WIL business - as an upstream palm oil/sugar producer - as well as an integrated refiner and trader exposes it to multiple risks. Key risks include deforestation, supply chain monitoring, governance & corruption, labour conditions.
- The group has been the subject of several NGO/lobbyist action on community relations, GHG emissions and anti-palm oil in the past. These open up significant reputational risks as well as regulatory and governance risks.
- WIL has a No Deforestation, No Peat & No Exploitation policy (NDPE) and, since 2021, has started producing a Palm NDPE implementation annual report that highlights their progress on commitments.
- The Group has been progressively increasing its sustainability reporting, and since 2020, its disclosures extend to all key business segments.
- At COP26, the Group has pledged to develop a sectoral roadmap for enhanced supply chain action that is consistent with a 1.5 degree Celsius pathway. Wilmar’s scale gives it significant leverage in affecting industry direction in emissions reductions

### Material E issues

- 98.2% of its palm oil supply chain (with a 100% target by 2022) and 100% of sugar are traceable to originating mills. It also published NDPE Implementation Reporting Framework profiles for all its mills
- Around 77% of the Group’s own acreage and 100% of downstream facilities in Malaysia, Indonesia are certified under RSPO - the industry’s sustainability certification body.
- The group has over 20m ha of supplier plantations under monitoring and so far removed over 1.5m ha of palm oil land for non-compliance of its NDPE policies. Nevertheless, significant risks exist given the scale of WIL’s procurement
- The Group has a formalised internal protocol since 2019 on prevention, monitoring and reporting of fire incidents and it is being implemented globally
- 31% of the Group’s packaging is made from renewable materials and it is driving material efficiency improvements to reduce plastic consumption by 3,000 ton/year

### Material S issues

- The Group set up a Human Rights Defender Policy in 2021 under its Human Rights Framework for the palm oil sector
- 100% of its employees and contractors have been assessed to ensure payment of a living wage. 100% of suppliers also assessed to ensure their workers are paid accordingly
- WIL has stated that it benchmarks to international best practices for fair working conditions even in jurisdictions where legal frameworks are yet to evolve.
- The Group has a 100% response rate to all grievances raised via its Grievance Procedure

### Key G metrics and issues

- In a 2019 report, Greenpeace claims that some of WIL’s subsidiaries were engaging in deforestation and contributing to forest fires.
- WIL’s size and scale as the world’s largest palm oil trader and a key supplier to global brands and a consumer play in China may continue to expose it to activist and reputational risks as well as regulatory and judicial risks.
- In 2022, the Group established a Board Sustainability Committee which is responsible for setting strategies and identifying risks as well as monitoring ESG implementation
- It has a comprehensive set of codes, policies and frameworks dealing with ESG including Conduct, Ethics, Fraud, Privacy and Whistleblowing.
- The Group’s Board is composed of 50% independent directors. Only 15% of the board is female.
- WIL has been producing a separate, detailed Sustainability Report yearly since 2009. Reporting is aligned to SASB and TCFD standards and follows the UN Guiding Principles Reporting Framework on disclosures on human rights
- In 2021 the Group is included in the Dow Jones Sustainability World Index, Dow Jones Sustainability Asia Pacific Index, FTSE4Good Developed Index and FTSE5Good ASEAN 5 Index.
- The Group is a member of the RSPO, EPOA, TFA, Fire Free Alliance, Pongo Alliance, UNGC, Business for Social Responsibility and Grow Asia and Grow Africa

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 33)						
	Particulars	Unit	2019	2020	2021	ADM US (2021)
E	Scope 1 GHG emissions	'000 tCO2e	4,956	7,837	7,882	13,700
	Scope 2 GHG emissions	'000 tCO2e	681	4,672	4,273	2,300
	<b>Total</b>	<b>'000 tCO2e</b>	<b>5,637</b>	<b>12,509</b>	<b>12,155</b>	<b>16,000</b>
	Scope 3 GHG emissions	'000 tCO2e	N/A	N/A	N/A	66,800
	<b>Total</b>	<b>'000 tCO2e</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>82,800</b>
	GHG intensity (Scope 1 and 2)	kgCO2e/sales	70	141	140	295
	Energy intensity	MWh/ ton	0.62	0.56	0.60	1.09
	Energy consumption from renewables	%	75%	61%	57%	7%
	Water consumption	ML	N/A	98,010	98,774	114,800
	Total waste generated	'000 ton	N/A	6,074	6,168	N/A
S	Proportion of certified sustainable palm oil	%	38%	45%	43%	52%
	Lost time injury frequency rate	Per 200k h	0.89	0.91	0.75	0.21
	% of women in workforce (permanent)	%	24.0%	23.0%	23.0%	37.0%
	% of women in management roles	%	24.0%	18.0%	17.0%	26.0%
G	Average training hours per employee	hours	N/A	N/A	12.8	N/A
	Ratio of average remuneration - factory worker	male/female	N/A	97%	80%	N/A
	MD/CEO salary as % of reported net profit	%	0.57%	0.61%	0.62%	0.80%
	Board salary as % of reported net profit	%	0.13%	0.09%	0.12%	0.15%
	Independent directors on the Board	%	50%	50%	50%	91%
	Female directors on the Board	%	7%	7%	15%	27%

Qualitative Parameters (Score: 50)	
a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?	<i>Yes, the Group has an integrated policy in place with the CEO responsible for oversight. The Board's Sustainability Committee reviews the CSO updates quarterly.</i>
b) is the senior management salary linked to fulfilling ESG targets?	<i>Not disclosed.</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>The Group does not disclose Scope 3. It is currently mapping this with a target of forming a complete inventory of total emissions for 2020, the baseline year for its climate roadmap. This is targeted to complete by 2022.</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>The Group has a No Deforestation, No Peat, No Exploitation (NDPE) commitment in place. All solid waste from milling operations are composted or consumed for energy recovery.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>No</i>

Target (Score: 100)		
Particulars	Target	Achieved
Achieve 100% traceability to palm oil mills by 2022	100%	98.2%
Reduce GHG/CPO intensity by 15% by 2023 vs. 2016 baseline in palm oil mills	0.7tCO2e/CPO	N/A
Finalise Group level GHG emissions reductions	2022	Ongoing
Net Zero for subsidiaries Godman Fielder and YKA	2040 to 2060	Ongoing
Reduce loss time injury rate by 40% by 2025 vs. 2020	-40%	-18%
Achieve RSPO certification for all palm oil management units by 2025	100%	78%
<b>Impact</b>		
NA		
<b>Overall score: 54</b>		
As per our ESG matrix, Wilmar International (WIL SP) has an overall score of 54.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	33	16
Qualitative	25%	50	13
Target	25%	100	25
<b>Total</b>			<b>54</b>

Wilmar displays a reasonably high degree of transparency in its ESG disclosures. It has set out detailed and comprehensive targets across priority topics. However, incrementally rising resource usage and emissions levels have affected the score on the downside. Improving energy and water intensity could drive a higher score. Similarly, improved board independence and diversity, in line with peers could also support a better score. See Appendix 1.

# Appendix 1

## Methodology of our proprietary ESG scoring

We have evaluated the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%). For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all sub-parameters is divided by the total number of sub-parameter to receive the final score of that segment. The inputs of each sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	12.3	11.8	7.9	9.2	8.1
Core P/E (x)	14.6	10.3	8.6	9.2	8.1
Core FD P/E (x)	14.6	10.3	8.6	9.2	8.1
P/BV (x)	1.2	1.0	0.8	0.7	0.7
P/NTA (x)	1.7	1.3	1.1	1.0	0.9
Net dividend yield (%)	5.5	5.0	6.3	5.9	6.7
FCF yield (%)	nm	nm	nm	17.4	9.5
EV/EBITDA (x)	13.6	12.5	11.2	10.9	9.6
EV/EBIT (x)	19.8	17.7	15.5	15.9	13.8

**INCOME STATEMENT (USD m)**

Revenue	50,526.8	65,793.6	76,000.6	71,062.9	73,842.9
EBITDA	3,338.0	3,884.5	4,175.2	4,079.5	4,565.2
Depreciation	(1,055.4)	(1,143.2)	(1,145.2)	(1,284.1)	(1,411.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,282.5	2,741.3	3,030.1	2,795.4	3,153.7
Net interest income / (exp)	(231.3)	(253.1)	(457.2)	(403.9)	(396.3)
Associates & JV	202.2	219.5	175.3	175.3	175.3
Exceptionals	0.0	0.0	175.6	0.0	0.0
Other pretax income	57.6	58.2	58.2	58.2	58.2
Pretax profit	2,311.1	2,765.9	2,982.0	2,625.0	2,990.8
Income tax	(620.1)	(699.6)	(709.9)	(664.0)	(756.5)
Minorities	(156.9)	(175.9)	(178.4)	(166.9)	(190.2)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,534.1	1,890.4	2,093.7	1,794.1	2,044.2
Core net profit	1,534.1	1,890.4	1,918.1	1,794.1	2,044.2

**BALANCE SHEET (USD m)**

Cash & Short Term Investments	2,706.2	2,692.5	955.5	2,775.0	3,041.3
Accounts receivable	5,277.9	6,833.4	7,893.5	7,380.7	7,669.4
Inventory	9,436.2	11,738.7	13,217.0	11,744.8	11,735.4
Property, Plant & Equip (net)	12,806.2	14,230.7	15,005.0	16,020.9	16,609.4
Intangible assets	5,445.7	5,393.9	5,393.9	5,393.9	5,393.9
Investment in Associates & JVs	3,350.5	3,506.5	3,506.5	3,506.5	3,506.5
Other assets	11,997.4	14,322.7	13,592.9	13,009.0	12,542.0
<b>Total assets</b>	<b>51,020.0</b>	<b>58,718.4</b>	<b>59,564.4</b>	<b>59,830.9</b>	<b>60,497.8</b>
ST interest bearing debt	17,145.9	22,291.8	21,864.6	21,437.4	21,010.2
Accounts payable	1,613.4	2,009.1	2,262.1	2,010.1	2,008.5
LT interest bearing debt	6,003.6	6,822.6	6,691.9	6,561.1	6,430.4
Other liabilities	4,874.0	4,993.0	4,993.0	4,993.0	4,993.0
<b>Total Liabilities</b>	<b>29,636.7</b>	<b>36,116.1</b>	<b>35,811.2</b>	<b>35,001.2</b>	<b>34,441.7</b>
Shareholders Equity	18,882.4	19,923.9	21,074.7	22,151.2	23,377.7
Minority Interest	2,501.0	2,678.5	2,678.5	2,678.5	2,678.5
<b>Total shareholder equity</b>	<b>21,383.3</b>	<b>22,602.3</b>	<b>23,753.2</b>	<b>24,829.7</b>	<b>26,056.2</b>
<b>Total liabilities and equity</b>	<b>51,020.0</b>	<b>58,718.4</b>	<b>59,564.4</b>	<b>59,830.9</b>	<b>60,497.8</b>

**CASH FLOW (USD m)**

Pretax profit	2,311.1	2,765.9	2,982.0	2,625.0	2,990.8
Depreciation & amortisation	1,055.4	1,143.2	1,145.2	1,284.1	1,411.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	(2,578.9)	(3,462.5)	(2,285.4)	1,733.1	(280.9)
Cash taxes paid	(620.1)	(699.6)	(709.9)	(664.0)	(756.5)
Other operating cash flow	216.4	(182.9)	260.5	207.2	199.7
Cash flow from operations	383.9	(435.9)	1,392.4	5,185.5	3,564.7
Capex	(1,976.0)	(2,526.8)	(2,500.0)	(2,300.0)	(2,000.0)
Free cash flow	(1,592.1)	(2,962.6)	(1,107.6)	2,885.5	1,564.7
Dividends paid	(618.6)	(968.3)	(767.2)	(717.7)	(817.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	886.8	(642.4)	171.8	25.9	(90.9)
Other invest/financing cash flow	1,916.9	4,559.7	141.5	(374.2)	(389.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	593.0	(13.6)	(1,561.4)	1,819.5	266.3

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	18.5	30.2	15.5	(6.5)	3.9
EBITDA growth	19.0	16.4	7.5	(2.3)	11.9
EBIT growth	18.3	20.1	10.5	(7.7)	12.8
Pretax growth	36.1	19.7	7.8	(12.0)	13.9
Reported net profit growth	22.7	23.2	10.8	(14.3)	13.9
Core net profit growth	18.6	23.2	1.5	(6.5)	13.9
<b>Profitability ratios (%)</b>					
EBITDA margin	6.6	5.9	5.5	5.7	6.2
EBIT margin	4.5	4.2	4.0	3.9	4.3
Pretax profit margin	4.6	4.2	3.9	3.7	4.1
Payout ratio	80.7	52.0	49.5	54.0	54.0
<b>DuPont analysis</b>					
Net profit margin (%)	3.0	2.9	2.8	2.5	2.8
Revenue/Assets (x)	1.0	1.1	1.3	1.2	1.2
Assets/Equity (x)	2.7	2.9	2.8	2.7	2.6
ROAE (%)	8.6	9.7	10.2	8.3	9.0
ROAA (%)	3.1	3.4	3.2	3.0	3.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	90.4	87.0	91.3	102.2	96.5
Days receivable outstanding	33.9	33.1	34.9	38.7	36.7
Days inventory outstanding	69.7	65.0	68.1	76.6	72.1
Days payables outstanding	13.2	11.1	11.7	13.1	12.3
Dividend cover (x)	1.2	1.9	2.0	1.9	1.9
Current ratio (x)	1.2	1.1	1.1	1.1	1.2
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.7	1.6	1.7	1.7	1.8
Net gearing (%) (incl perps)	95.6	116.9	116.2	101.6	93.6
Net gearing (%) (excl. perps)	95.6	116.9	116.2	101.6	93.6
Net interest cover (x)	9.9	10.8	6.6	6.9	8.0
Debt/EBITDA (x)	6.9	7.5	6.8	6.9	6.0
Capex/revenue (%)	3.9	3.8	3.3	3.2	2.7
Net debt/ (net cash)	20,443.3	26,421.9	27,601.0	25,223.5	24,399.3

Source: Company; Maybank IBG Research

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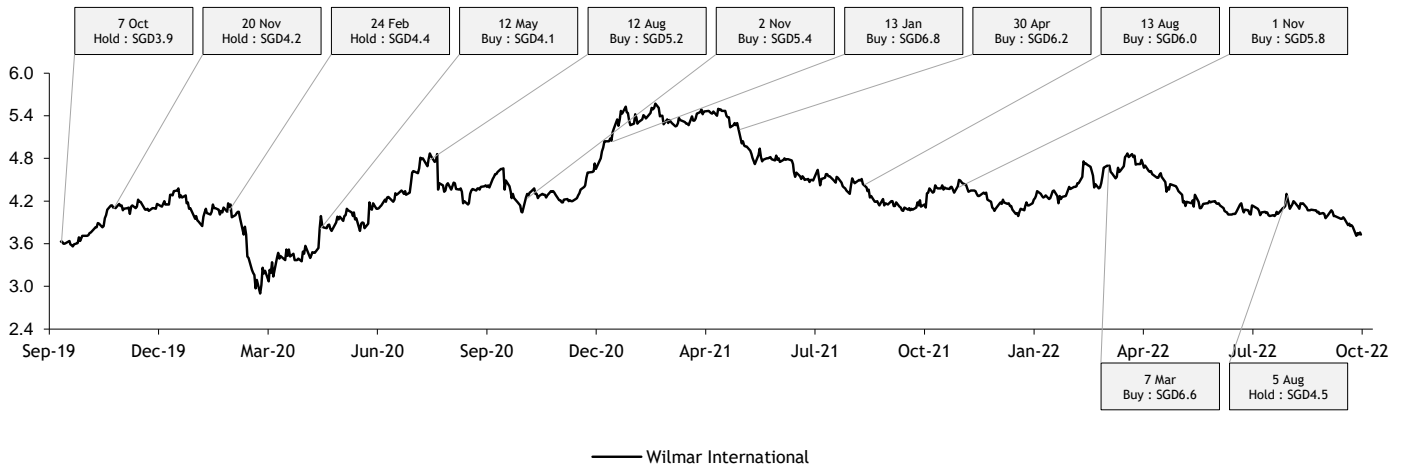
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