

Wilmar International (WIL SP)

A harder environment

3Q could be hard to repeat. Maintain HOLD

WIL's 3Q22 NPAT strongly beat Street and MIBG expectations. Lower effective tax and higher JV/associate contributions were key drivers here. Operationally, slower economic growth in China, prolonged lockdowns and a recessionary global environment are critical headwinds for margin and volume expansion going forward, in our view. We see the rising cost of risk delaying catalysts for closing the valuation gap between WIL and its parts listed elsewhere. Lower TP to SGD4.27. Maintain HOLD.

Higher margins: one-off?

WIL's 3Q22 EBITDA margin of 6.8% is consistent with the past 10-quarters (averaging 6.5%). On the other hand, the Group's net margin at 4.1% is the highest since 3Q20, while this has averaged 2.8% long term. The stronger margin was driven by better associate/JV contributions and a lower effective tax rate. Management claims offshore hedges (where tax rates are lower) were in the money as commodity prices fell. This drove profitability in 3Q. Whereas in the past few quarters, physical commodities sold in China drove profitability - tax rates here are higher. Continued commodity price volatility - especially with renewed supply chain uncertainty following escalating Russia-Ukraine tensions may affect the repeatability of a lower effective tax going forward, in our view. Similarly, macro volatility lowers the visibility of associates' returns.

Operating in a challenging environment

We note some volume improvements in Food Products (+3% YoY) and Feed & Industrial Products (+8%). However, EBITDA margins have only increased +10bps YoY. Management claims demand in China remain weak and are unlikely to improve in the near term given slower economic growth. With the potential for further lockdowns and a global recessionary scenario, it is hard to call an inflection point on Chinese demand, in our view. Indeed, the Group is slowing its new business initiatives such as Central Kitchens due to weak end-user demand. Excluding proprietary trading, operational margins and volumes are likely to be under pressure. We have lowered 2023-24E Feed Segment PBT/MT by 17-33% and Plantations by 3-17%.

Maintain HOLD. Lower TP to SGD4.27

While YKA (300999 CH, NR) and Adani Wilmar (AWLTD IN, NR) trade at significant PE premiums to the parent (250%, 516% respectively), we see limited near-term catalysts for these gaps to close given rising cost of risk and operational uncertainty. We have raised 2022E EPS by 14% to take account of lower tax and improved associates, but recessionary risks and prolonged China closure sees us lowering 2023-24E by 7-16%. Our blended DCF (WACC 5.3%, 1% terminal growth) and peer PE (target PE 26x vs. 29x after mark-to-market valuations) have been lowered to SGD4.27 from SGD4.47. With 10% upside, maintain HOLD.

FYE Dec (USD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	50,527	65,794	79,460	72,639	74,462
EBITDA	3,338	3,885	4,408	3,947	4,149
Core net profit	1,534	1,890	2,185	1,660	1,711
Core FDEPS (cts)	24.1	29.7	34.4	26.1	26.9
Core FDEPS growth(%)	18.3	23.2	15.6	(24.0)	3.1
Net DPS (cts)	19.5	15.5	18.1	14.1	14.6
Core FD P/E (x)	14.6	10.3	8.0	10.5	10.2
P/BV (x)	1.2	1.0	0.8	0.8	0.7
Net dividend yield (%)	5.5	5.0	6.6	5.1	5.3
ROAE (%)	8.6	9.7	11.5	7.6	7.5
ROAA (%)	3.1	3.4	3.6	2.7	2.8
EV/EBITDA (x)	13.6	12.5	11.0	11.6	10.8
Net gearing (%) (incl perps)	95.6	116.9	118.4	102.7	95.4
Consensus net profit	-	-	1,866	1,838	2,094
MKE vs. Consensus (%)	-	-	26.5	(9.7)	(18.3)

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HOLD

Share Price SGD 3.88

12m Price Target SGD 4.27 (+10%)

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

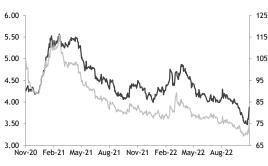
Statistics

52w high/low (SGD)	4.87/3.48
3m avg turnover (USDm)	18.3
Free float (%)	29.3
Issued shares (m)	6,403
Market capitalisation	SGD24.8B
	USD17.6B

Major shareholders:

21.9%
18.3%
7.2%

Price Performance



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(=,)	()	•

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

Source: FactSet

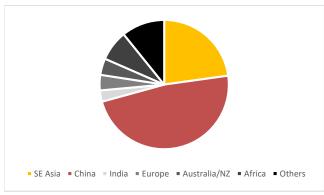
Wilmar International

Maybank

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



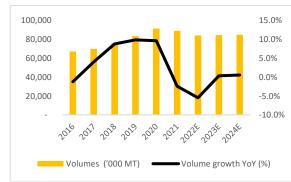
Financial Metrics

Source: Company

- 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 USD2.0-2.5bn range in 2022-24E
- Expect adjusted gearing (stripping out near cash inventories) to fall to 60% in 2024E vs. 70% in 2021
- Overall volumes could decline 5.5% YoY given China lockdowns and demand destruction in 2022E, while 2023E should be flat

Group volumes

Source: Company



Price Drivers



Wilmar Int'l - (LHS, SGD)

Wilmar Int'l / Straits Times Index - (RHS, %)

Source: Company, Maybank IBG Research

- 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. Falling palm oil prices, 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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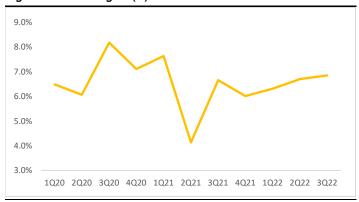
3Q22 Trading Update summary

Fig 1: Trading update summary

USDm	3Q22	3Q21	YoY (%)	2Q21	QoQ (%)	Comments
Revenue	18,877	17,135	10	18,558	2	Higher commodity prices, especially CPO
EBITDA	1,292	1,140	13	1,242	4	Some improvements in crushing margins, higher ASPs
Net Profit	767	569	35	635	21	Lower effective tax, JV/associate contributions; 101% of MIBG 2022E expectations

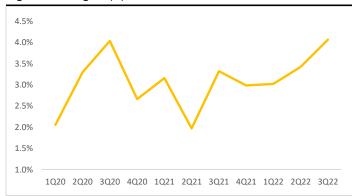
Source: Company data, Maybank IBG Research

Fig 2: EBITDA margins (%)



Source: Company data, Maybank IBG Research

Fig 3:Net margins (%)



Source: Company data, Maybank IBG Research

Key estimate changes

Fig 4: Key estimate changes

			2022E			2023E			2024E
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	76,001	79,460	5%	71,063	72,639	2%	73,843	74,462	1%
Cost of Sales	(65,983)	(69,380)	5%	(58,633)	(60,505)	3%	(58,586)	(59,779)	2%
Gross Profit	10,018	10,080	1%	12,430	12,134	-2%	15,257	14,684	-4%
EBITDA	4,175	4,408	6%	4,080	3,947	-3%	4,565	4,149	- 9 %
Profit from segmental operations	2,631	2,817	7%	2,450	2,244	-8%	2,816	2,319	-18%
Food Products	682	775	14%	751	790	5%	787	787	0%
Feed and Industrial Products	1,062	1,153	9%	1,138	978	-14%	1,509	1,024	-32%
Plantation and Sugar Milling	833	833	0%	511	425	-17%	468	455	-3%
Others	59	61	5%	55	56	2%	57	58	1%
Income tax	(710)	(674)	-5%	(664)	(605)	-9%	(757)	(624)	-18%
Core Net profit	1,918	2,185	14%	1,794	1,660	-7%	2,044	1,711	-16%
Capex	2,500	2,500	0%	2,300	2,300	0%	2,000	2,000	0%
Food Products									
Sales volume ('000)	27,759	27,956	1%	28,314	28,235	0%	28,792	28,713	0%
PBT/MT	24.6	27.7	13%	26.5	28.0	5%	27.3	27.4	0%
Feed and Industrial Products									
Sales volume ('000)	48,765	51,847	6%	49,740	51,715	4%	50,735	51,596	2%
PBT/MT	21.8	22.2	2%	22.9	18.9	-17%	29.7	19.9	-33%
Plantation and Sugar Milling									
Sales volume ('000)	4,033	4,033	0%	4,119	4,119	0%	4,195	4,195	0%
PBT/MT	206.6	206.6	0%	123.9	103.3	-17%	111.6	108.5	-3%

Source: Maybank IBG Research

Detailed assumptions

Fig 5: Detailed assumptions

	2017	2018	2019	2020	2021	2022E	2023E	2024E
Tropical Oils								
Revenue growth	7 %	-6%	-9%					
Sales volume growth	-1%	5%	12%					
PBT/tonne growth	-42%	30%	47%					
Oilseeds & Grains								
Revenue growth	11%	13%	-4%					
Sales volume growth	13%	12%	-1%					
PBT/tonne growth	157%	8%	-26%					
Sugar								
Revenue growth	-18%	-16%	17%					
Sales volume growth	-8%	7 %	16%					
PBT/tonne growth	-121%	387%	-102%					
Food Products								
(reclassified)			_					
Revenue growth				22%	25%	9 %	9%	5%
Sales volume growth				12%	4%	-1%	1%	2%
PBT/tonne growth				6%	-43%	15%	1%	-2%
Feed and Industrial Products								
(reclassified)								
Revenue growth				20%	34%	17%	-17%	0%
Sales volume growth				11%	-5%	-6%	0%	0%
PBT/tonne growth				14%	67%	-3%	-15%	5%
Plantation and Sugar Milling (r	eclassified)							
Revenue growth				2%	69 %	127%	-29%	2%
Sales volume growth				-11%	-3%	-26%	2%	2%
PBT/tonne growth				-386%	457%	100%	-50%	5%
Operating expenses growth	-7.7%	5.8%	1.3%	29.6%	28.9%	54.0%	36.5%	25.0%
Finance income yield (%)	3.1%	4.3%	4.2%	4.0%	3.2%	4.5%	4.0%	4.0%
Finance expense cost (%)	2.6%	3.5%	3.8%	2.8%	2.0%	3.0%	3.0%	3.0%
Effective Tax (%)	18.1%	21.7%	21.9%	26.8%	25.3%	22.0%	25.0%	25.0%
Dividend payout ratio (%)	39%	43%	45%	58%	39%	39%	40%	40%
Borrowing								
Short term	81%	76%	77%	74%	77%	77%	77%	77%
Long term	19%	24%	23%	26%	23%	23%	23%	23%

Source: Company data, Maybank IBG Research

Core P/E (x) 14.6 10.3 8. Core FD P/E (x) 14.6 10.3 8. P/BV (x) 1.2 1.0 0. P/NTA (x) 1.7 1.3 1. Net dividend yield (%) 5.5 5.0 6. FCF yield (%) nm nm nm	.4 10.5 .0 10.5 .0 10.5 .8 0.8 .1 1.0	10.2 10.2 10.2 0.7
Core P/E (x) 14.6 10.3 8. Core FD P/E (x) 14.6 10.3 8. P/BV (x) 1.2 1.0 0. P/NTA (x) 1.7 1.3 1. Net dividend yield (%) 5.5 5.0 6. FCF yield (%) nm nm nm	.0 10.5 .0 10.5 .8 0.8 .1 1.0	10.2 10.2
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Net dividend yield (%) 5.5 5.0 6. FCF yield (%) nm nm nm		0.7
FCF yield (%) nm nm nm	.6 5.1	1.0
		5.3
	m 18.7	8.6
EV/EBITDA (x) 13.6 12.5 11.	.0 11.6	10.8
EV/EBIT (x) 19.8 17.7 14.	.9 17.2	16.4
INCOME STATEMENT (USD m)		
Revenue 50,526.8 65,793.6 79,460.	•	74,462.5
EBITDA 3,338.0 3,884.5 4,407.	•	4,149.5
Depreciation (1,055.4) (1,143.2) (1,145.2		(1,411.6)
	.0 0.0	0.0
EBIT 2,282.5 2,741.3 3,262.	•	2,737.9
Net interest income /(exp) (231.3) (253.1) (504.7		(477.2)
Associates & JV 202.2 219.5 245.		175.3
Exceptionals 0.0 0.0 175.		0.0
Other pretax income 57.6 58.2 58.		58.2
Pretax profit 2,311.1 2,765.9 3,237.	· ·	2,494.3
Income tax (620.1) (699.6) (673.7)	, , ,	(623.6)
Minorities (156.9) (175.9) (203.3	, , ,	(159.2)
·	.0 0.0	0.0
Reported net profit 1,534.1 1,890.4 2,360.	· ·	1,711.5
Core net profit 1,534.1 1,890.4 2,185.	.3 1,660.3	1,711.5
BALANCE SHEET (USD m)		
Cash & Short Term Investments 2,706.2 2,692.5 1,772.	.2 3,018.3	2,355.1
Accounts receivable 5,277.9 6,833.4 8,252.	•	7,733.8
Inventory 9,436.2 11,738.7 13,897.	•	11,974.3
Property, Plant & Equip (net) 12,806.2 14,230.7 15,005.	•	16,609.4
Intangible assets 5,445.7 5,393.9 5,393.		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
Total assets 51,020.0 58,718.4 61,421.	.0 60,612.9	60,114.9
ST interest bearing debt 17,145.9 22,291.8 23,057.	.5 21,909.0	20,760.5
Accounts payable 1,613.4 2,009.1 2,378.	.6 2,074.3	2,049.4
LT interest bearing debt 6,003.6 6,822.6 7,057.	.0 6,705.5	6,354.0
Other liabilities 4,874.0 4,993.0 4,993.	.0 4,993.0	4,993.0
Total Liabilities 29,636.7 36,116.1 37,485.	.6 35,681.4	34,156.4
Shareholders Equity 18,882.4 19,923.9 21,256.	.9 22,253.1	23,280.0
Minority Interest 2,501.0 2,678.5 2,678.	.5 2,678.5	2,678.5
Total shareholder equity 21,383.3 22,602.3 23,935.		25,958.4
Total liabilities and equity 51,020.0 58,718.4 61,421.	.0 60,612.9	60,114.9
CASH FLOW (USD m)		
Pretax profit 2,311.1 2,765.9 3,237.	.9 2,419.8	2,494.3
Depreciation & amortisation 1,055.4 1,143.2 1,145.		1,411.6
•	.0 0.0	0.0
Change in working capital (2,578.9) (3,462.5) (3,208.9)		(68.8)
Cash taxes paid (620.1) (699.6) (673.7		(623.6)
Other operating cash flow 216.4 (182.9) 237.		280.5
Cash flow from operations 383.9 (435.9) 737.		3,494.0
Capex (1,976.0) (2,526.8) (2,500.0		(2,000.0)
Free cash flow (1,592.1) (2,962.6) (1,762.3		1,494.0
Dividends paid (618.6) (968.3) (852.3)		(684.6)
	.0 0.0	0.0
Change in Debt 886.8 (642.4) 1,729.		(1,032.9)
Other invest/financing cash flow 1,916.9 4,559.7 139.		(439.7)
	.0 0.0	0.0
Net cash flow 593.0 (13.6) (744.8		(663.2)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	18.5	30.2	20.8	(8.6)	2.5
EBITDA growth	19.0	16.4	13.5	(10.4)	5.1
EBIT growth	18.3	20.1	19.0	(18.4)	2.8
Pretax growth	36.1	19.7	17.1	(25.3)	3.1
Reported net profit growth	22.7	23.2	24.9	(29.7)	3.1
Core net profit growth	18.6	23.2	15.6	(24.0)	3.1
Profitability ratios (%)					
EBITDA margin	6.6	5.9	5.5	5.4	5.6
EBIT margin	4.5	4.2	4.1	3.7	3.7
Pretax profit margin	4.6	4.2	4.1	3.3	3.3
Payout ratio	80.7	52.0	48.7	54.0	54.0
DuPont analysis					
Net profit margin (%)	3.0	2.9	3.0	2.3	2.3
Revenue/Assets (x)	1.0	1.1	1.3	1.2	1.2
Assets/Equity (x)	2.7	2.9	2.9	2.7	2.6
ROAE (%)	8.6	9.7	11.5	7.6	7.5
ROAA (%)	3.1	3.4	3.6	2.7	2.8
Liquidity & Efficiency					
Cash conversion cycle	90.4	87.0	89.3	103.3	97.1
Days receivable outstanding	33.9	33.1	34.2	39.1	36.9
Days inventory outstanding	69.7	65.0	66.5	77.4	72.6
Days payables outstanding	13.2	11.1	11.4	13.2	12.4
Dividend cover (x)	1.2	1.9	2.1	1.9	1.9
Current ratio (x)	1.2	1.1	1.1	1.1	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.7	1.6	1.6	1.7	1.8
Net gearing (%) (incl perps)	95.6	116.9	118.4	102.7	95.4
Net gearing (%) (excl. perps)	95.6	116.9	118.4	102.7	95.4
Net interest cover (x)	9.9	10.8	6.5	5.6	5.7
Debt/EBITDA (x)	6.9	7.5	6.8	7.2	6.5
Capex/revenue (%)	3.9	3.8	3.1	3.2	2.7
Net debt/ (net cash)	20,443.3	26,421.9	28,342.3	25,596.2	24,759.4

Source: Company; Maybank IBG Research

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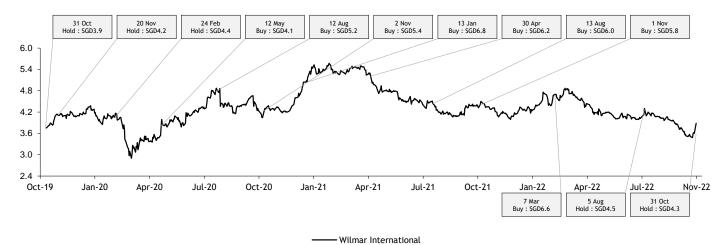
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