

COMPANY UPDATE

Wilmar International (WIL SP)

The Worst Could Be Over But Earnings Recovery Will Be Relatively Slow

After attending Wilmar's and YKA's briefings, we opine that the worst could be over but 2H23 earnings recovery may not be able to fully compensate 1H23's weakness. Thus, we have trimmed 2023/24/25 earnings forecasts by 22%, 12% and 5% respectively. The 13% share price weakness ytd could have factored in the disappointing earnings in 1H23. Look forward to 2024 with an expected earnings growth of 30%. We roll over our target price, based on 2024F EPS. New target price is S\$4.30. Maintain BUY.

WHAT'S NEW

- **Earnings trimmed to factor in poorer margins.** After attending Wilmar International's and Yihai Kerry Arawana's (YKA) briefings, we trim our 2023/24/25 earnings forecasts by 22%, 12% and 5% respectively. The key adjustments are trimming margins for food products by 60%, and lowering sales volumes for both food products and feed & industrial products. Although we are expecting earnings to recover in 2H23, the recovery will not be enough to compensate the weak 1H23 performance. After our earnings adjustment, 1H23 accounts for about 40% of our full-year forecast, which is norm as there is usually higher contribution in 2H due to festive demand and the peak of sugar milling.
- **Key takeaway from briefings:**
 - **Food Products:** Sales volume remains on the rise and should see larger contribution from consumer packs after two quarters of destocking. YKA's flour business was partly affected by inventory mark-to-market (MTM) losses and utilisation of high-price inventory in 1H23. This will improve in 2H23, in line with the rising prices of flour and its by-products, together with the absence of MTM losses. Management also mentioned that feedstock prices have normalised and are reflective of the current market price level.
 - **Feed & Industrial Products:** China soybean crushing margin is positive at this point with improving demand for soybean meal and less disruptions from the cheaper wheat and corn meal. Wheat and corn meal prices have increased in tandem with the rising global prices after the weather disruptions in the US and rising Black-Sea tensions. Palm oil mid-to-downstream margins have also improved in Indonesia with the recovery of refined product prices and better availability of CPO. However, the oleochemical division remains challenging (relatively small contributions among the palm value chain).
 - **Plantation & Sugar Milling:** This division is likely to see stronger contributions coming from: a) plantation to see earnings support from better CPO ASP, lower cost and higher sales volume, b) the peak sugar milling season, that will also be supported by high sugar prices, and c) fertiliser selling prices have stabilised for now and will not drag down the performance in 2H23.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	65,794	73,399	73,996	80,411	87,992
EBITDA	3,943	4,442	3,488	4,152	4,575
Operating profit	2,800	3,291	2,304	2,943	3,349
Net profit (rep./act.)	1,890	2,402	1,365	1,773	2,121
Net profit (adj.)	1,842	2,244	1,365	1,773	2,121
EPS (US\$ cent)	28.8	35.0	21.3	27.7	33.1
PE (x)	9.3	7.7	12.6	9.7	8.1
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	11.3	10.0	12.7	10.7	9.7
Dividend yield (%)	4.0	4.4	3.4	3.7	4.4
Net margin (%)	2.9	3.3	1.8	2.2	2.4
Net debt/(cash) to equity (%)	114.3	123.6	121.6	121.7	120.0
Interest cover (x)	15.6	9.9	4.5	5.2	6.1
ROE (%)	9.7	12.0	6.7	8.5	9.7
Consensus net profit	-	-	1,593	1,908	2,035
UOBKH/Consensus (x)	-	-	0.86	0.93	1.04

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.64
Target Price	S\$4.30
Upside	+18.1%
(Previous TP)	S\$4.35

COMPANY DESCRIPTION

Wilmar's business encompassing the entire value chain of the agricultural commodity business, from origination, processing, merchandising to manufacturing of a wide range of branded consumer products.

STOCK DATA

GICS sector	Consumer Staples
Bloomberg ticker:	WIL SP
Shares issued (m):	6,242.7
Market cap (S\$m):	22,723.5
Market cap (US\$m):	16,744.2
3-mth avg daily t'over (US\$m):	14.9

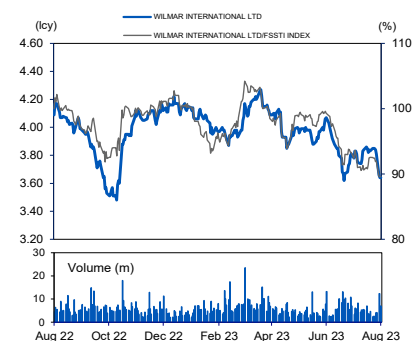
Price Performance (%)

52-week high/low				S\$4.27/S\$3.48
1mth	3mth	6mth	1yr	YTD
(4.5)	(9.0)	(8.3)	(11.7)	(12.7)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoo Hong	12.8
FY23 NAV/Share (US\$)	3.25
FY23 Net Debt/Share (US\$)	3.95

PRICE CHART



Source: Bloomberg

ANALYST(S)

Leow Huey Chuen
+603 2147 1990
hueychuen@uobkayhian.com

Jacquelyn Yow Hui Li
+603 2147 1995
jacquelyn@uobkayhian.com

STOCK IMPACT

- **Bumpy recovery for YKA.** In view of the recovery in consumer spending after China reopened in November, sales volume for all its segments are showing positive growth with the exception of consumer packs. However, the good sales is not translating into better margins because: a) the better sales volume growth comes mainly from lower-margin segments, b) consumer spending has become more cautious and selective, thus increasing the need for more promotions in order to retain market share, and c) YKA may need to keep higher stocks for some of its feedstocks due to its large processing capacity, thus when commodity prices drop, the improvement in PBT margins may take few months. High-price feedstock is depleting and the largest impact on margins likely to be over. We reckon that recovery is likely to take place in 2024 on the back of: a) steady performance from its medium and bulks segment, and b) recovery of consumer packs sales after a year of destocking.
- **On Adani-Wilmar.** There was news highlighting that Adani might be selling its stake in Adani Wilmar. However, Adani has not confirmed this. Having said that, should this happen, Wilmar is confident that there will be a potential buyer for the stake, and there is also a possibility of Wilmar increasing its stake. Adani-Wilmar is one of the major consumer staple producers in India, and its products range from cooking oil, rice and flour. With Adani-Wilmar's market share and its strong presence, getting a new partner will not be an issue, in our view.

EARNINGS REVISION/RISK

- **Earnings revised down by 22%, 12% and 5% for 2023/24/25.** The key adjustments are trimming margins for food products by 60%, and lowering sales volumes for both food products and feed & industrial products. We are now expecting a core net profit of US\$1.37b (from US\$1.76m), US\$1.77b (from US\$2.02m) and US\$2.12b (from US\$2.24m) for 2023, 2024 and 2025 respectively.

VALUATION/RECOMMENDATION

- **An 11% decline in share price could have already factored in the disappointing 1H23 results.** 1H23 earnings significantly missed our and market expectations. As highlighted, poorer performance from YKA was the main factor for the underperformance in 1H23.
- **Maintain BUY with lower target price of S\$4.30** (previous: S\$4.35) after factoring in lower earnings. We roll over our valuation based on 2024F EPS and use the SOTP valuation by pegging PE of 25x, 11x and 12x for Food Products, Feeds & Industrial Products and Plantations & Sugar Mills respectively. The fair value of S\$4.30 translates to a blended 2024F PE of 15.5x.

SHARE PRICE CATALYST

- **Greater recovery in China.** As YKA is still the largest profit contributor to Wilmar, a surprise recovery would be positive to earnings and market sentiment towards Wilmar's performance.

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	73,399	73,996	80,411	87,992
EBITDA	4,442	3,488	4,152	4,575
Deprec. & amort.	1,151	1,184	1,208	1,226
EBIT	3,291	2,304	2,943	3,349
Total other non-operating income	0	0	0	1
Associate contributions	274	307	301	325
Net interest income/(expense)	(448)	(776)	(801)	(752)
Pre-tax profit	3,117	1,835	2,443	2,923
Tax	(547)	(367)	(489)	(584)
Minorities	(167)	(103)	(182)	(217)
Net profit	2,402	1,365	1,773	2,121
Net profit (adj.)	2,244	1,365	1,773	2,121

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	2,746	1,018	849	937
Pre-tax profit	3,117	1,835	2,443	2,922
Tax	(685)	(367)	(489)	(584)
Deprec. & amort.	1,093	1,184	1,208	1,226
Working capital changes	(778)	(903)	(1,589)	(1,878)
Other operating cashflows	0	(731)	(725)	(749)
Investing	(2,542)	(1,601)	(1,601)	(1,401)
Capex (maintenance)	(2,483)	(1,541)	(1,541)	(1,341)
Investments	24	24	24	24
Proceeds from sale of assets	86	86	86	86
Others	(83)	(83)	(83)	(83)
Financing	1,789	2,405	667	231
Dividend payments	(699)	(1,050)	(803)	(401)
Issue of shares	23	41	33	33
Proceeds from borrowings	685	6,339	621	600
Others/interest paid	1,780	(2,925)	817	0
Net cash inflow (outflow)	1,992	1,823	(85)	(233)
Beginning cash & cash equivalent	2,588	2,847	2,582	2,115
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,580	4,669	2,497	1,882

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	14,814	15,163	15,479	15,571
Other LT assets	12,955	12,716	12,733	12,692
Cash/ST investment	5,722	6,082	5,614	5,751
Other current assets	26,911	28,037	30,381	32,974
Total assets	60,402	61,998	64,207	66,986
ST debt	23,435	23,435	23,435	23,435
Other current liabilities	6,508	6,948	7,580	7,876
LT debt	6,994	7,594	8,194	9,194
Other LT liabilities	865	796	729	965
Shareholders' equity	19,986	20,508	21,369	22,399
Minority interest	2,615	2,718	2,899	3,117
Total liabilities & equity	60,402	61,998	64,207	66,986

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.1	4.7	5.2	5.2
Pre-tax margin	4.2	2.5	3.0	3.3
Net margin	3.3	1.8	2.2	2.4
ROA	4.0	2.2	2.8	3.2
ROE	12.0	6.7	8.5	9.7
Growth				
Turnover	11.6	0.8	8.7	9.4
EBITDA	12.7	(21.5)	19.0	10.2
Pre-tax profit	12.7	(41.1)	33.1	19.6
Net profit	27.1	(43.2)	29.8	19.7
Net profit (adj.)	21.8	(39.2)	29.8	19.7
EPS	21.8	(39.2)	29.8	19.7
Leverage				
Debt to total capital	57.4	57.2	56.6	56.1
Debt to equity	152.3	151.3	148.0	145.7
Net debt/(cash) to equity	123.6	121.6	121.7	120.0
Interest cover (x)	9.9	4.5	5.2	6.1

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