

COMPANY UPDATE

Wilmar International (WIL SP)

Recovery In China; Accumulate On Weakness

We expect 2Q24 earnings to be higher qoq and yoy, which is different from previous years when 2Q is usually lower qoq. This is mainly attributed to enhanced operating margin and good sales volume across all segments. We believe YKA's performance would continue to improve with stronger consumer sentiment, margin improvement and higher utilisation rate for soybean crushing. Maintain HOLD. Target price: S\$3.35. Buy on weakness.

WHAT'S NEW

- **Based on insights from recent analyst briefings with Wilmar International (Wilmar) and its subsidiary, Yihai Kerry Arawana (YKA), we anticipate a favourable trajectory for Wilmar's 2Q24 earnings.** Traditionally, 2Q tends to exhibit a decline qoq due to decreased sales volume following the festive season. However, we anticipate 2Q24 earnings to be higher qoq and yoy, attributed to enhanced operating margins and good sales volumes across all segments.
- **Food products segment** would continue to see an improvement, especially its China and India operations with healthy sales volume. This would also be higher operating margin with lower material costs.
 - Consumer products:** Margin would continue to remain healthy with the recovery in consumption and lower raw material costs. Notably, the resurgence of sales volumes in China, marked by double-digit growth in 1Q24, is projected to remain stable in 2Q24. Moreover, the growth trajectory is anticipated to be driven predominantly by the mid- to higher-range consumer products.
 - Industrial and bulks:** Expect better sales volume with the hotel, restaurant, and café (HORECA) sector continuing to do well, especially in India and China.
- **Feed & Industrial Products segment** would improve on the back of higher overall utilisation rate.
 - Tropical Oils:** While palm processing margins are expected to remain challenging, we anticipate some improvement due to: a) enhanced utilisation rates, and b) weaker domestic palm oil prices in Indonesia which may result in higher operating margin.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	73,399	67,155	75,785	83,575	91,523
EBITDA	4,442	3,361	3,992	4,311	4,983
Operating profit	3,291	2,144	2,709	2,976	3,609
Net profit (rep./act.)	2,402	1,525	1,799	2,121	2,538
Net profit (adj.)	2,244	1,567	1,799	2,121	2,538
EPS (US\$ cent)	35.0	24.5	28.1	33.1	39.6
PE (x)	6.8	9.7	8.5	7.2	6.0
P/B (x)	0.8	0.7	0.7	0.7	0.7
EV/EBITDA (x)	9.1	12.0	10.1	9.4	8.1
Dividend yield (%)	4.9	4.9	5.4	6.3	7.6
Net margin (%)	3.3	2.3	2.4	2.5	2.8
Net debt/(cash) to equity (%)	123.6	111.8	109.5	114.5	106.6
Interest cover (x)	9.9	4.5	6.0	8.1	7.7
ROE (%)	12.0	7.6	8.8	10.0	11.6
Consensus net profit	-	-	1,653	1,840	1,872
UOBKH/Consensus (x)	-	-	1.09	1.15	1.36

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.22
Target Price	S\$3.35
Upside	+4.0%

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):	20,101.6
Market cap (US\$m):	14,889.0
3-mth avg daily t'over (US\$m):	13.7

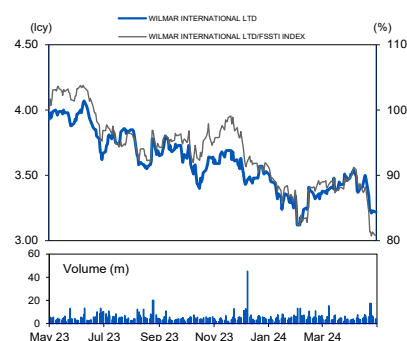
Price Performance (%)

52-week high/low	S\$4.07/S\$3.12			
1mth	3mth	6mth	1yr	YTD
(6.9)	(1.8)	(11.3)	(17.0)	(9.8)

Major Shareholders

Archer Daniels Midland	22.5
Kuok Brothers	19.0
Kuok Khoon Hong	13.7
FY24 NAV/Share (US\$)	3.29
FY24 Net Debt/Share (US\$)	3.60

PRICE CHART



Source: Bloomberg

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- b) **Oilseeds & grains:** Soybean crushing is expected to improve with higher utilisation rate on the arrival of soybeans from South America and better soybean meal demand with improved hog margin. Notably, we expect Wilmar's soybean crushing performance to outpace that of its peers, attributed to its strategic timing in raw material procurement.
- c) **Sugar merchandising:** Expect margin to improve due to its better procurement strategy and higher sales volume. The weak sugar merchandising performance in 1Q24 was partly due a not-so-good timing of purchasing raw materials.

STOCK IMPACT

- **Recovery for YKA.** In view of the recovery in consumer spending in China where sales volume for all its segments are showing strong double-digit positive growth, we reckon that YKA's earnings would continue to improve with: a) consumers shifting back to consuming mid- to high-range consumer products, b) higher operating margin with softer commodity prices, and c) higher utilisation rate for soybean crushing.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.**

VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of S\$3.35.** Our valuation is based on 2024F EPS and uses the SOTP valuation by pegging PE of 18x, 10x and 11x for food products, feeds & industrial products and plantations & sugar mills respectively.
- Given the promising earnings outlook for 2Q24, we believe it presents an opportune moment to consider accumulating the stock should its price experience a decline.

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.

SOTP VALUATION

	PE(X)	S\$/Share
Food Ingredient	25	0.89
Feed & Oils & Fats	10	1.08
Plantations & Sugar Milling	11	0.32
Associates & JV	8	0.12
Total		3.35

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	67,155	75,785	83,575	91,523
EBITDA	3,361	3,992	4,311	4,983
Deprec. & amort.	1,217	1,283	1,335	1,375
EBIT	2,144	2,709	2,976	3,609
Total other non-operating income	0	0	1	1
Associate contributions	320	313	338	366
Net interest income/(expense)	(748)	(661)	(532)	(644)
Pre-tax profit	1,956	2,361	2,783	3,331
Tax	(298)	(378)	(445)	(533)
Minorities	(133)	(184)	(217)	(260)
Net profit	1,525	1,799	2,121	2,538
Net profit (adj.)	1,567	1,799	2,121	2,538

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	3,885	3,114	4,179	4,153
Pre-tax profit	1,956	2,361	2,782	3,330
Tax	(499)	(378)	(445)	(533)
Deprec. & amort.	1,160	1,283	1,335	1,375
Working capital changes	2,194	526	1,296	946
Other operating cashflows	(926)	(678)	(788)	(966)
Investing	(3,099)	(2,863)	(2,663)	(2,663)
Capex (maintenance)	(2,281)	(2,046)	(1,846)	(1,846)
Investments	(10)	(10)	(10)	(10)
Proceeds from sale of assets	634	80	80	80
Others	(807)	(807)	(807)	(807)
Financing	2,405	667	113	40
Dividend payments	(1,050)	(803)	(848)	(567)
Issue of shares	41	33	6	6
Proceeds from borrowings	6,339	621	128	600
Others/interest paid	(2,925)	817	827	1
Net cash inflow (outflow)	3,192	918	1,629	1,530
Beginning cash & cash equivalent	2,847	4,381	4,752	6,036
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	6,039	5,299	6,381	7,566

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	15,766	16,549	17,066	17,531
Other LT assets	11,669	11,476	11,257	11,059
Cash/ST investment	8,156	8,552	7,036	8,013
Other current assets	26,218	27,128	28,816	29,237
Total assets	61,809	63,705	64,175	65,840
ST debt	22,242	22,242	22,242	22,242
Other current liabilities	7,414	7,928	7,163	7,509
LT debt	8,460	9,060	9,410	9,610
Other LT liabilities	941	930	880	880
Shareholders' equity	20,173	20,782	21,500	22,359
Minority interest	2,579	2,763	2,981	3,241
Total liabilities & equity	61,809	63,705	64,175	65,840

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	5.0	5.3	5.2	5.4
Pre-tax margin	2.9	3.1	3.3	3.6
Net margin	2.3	2.4	2.5	2.8
ROA	2.5	2.9	3.3	3.9
ROE	7.6	8.8	10.0	11.6
Growth				
Turnover	(8.5)	12.9	10.3	9.5
EBITDA	(24.3)	18.8	8.0	15.6
Pre-tax profit	(37.2)	20.7	17.9	19.7
Net profit	(36.5)	18.0	17.9	19.7
Net profit (adj.)	(30.2)	14.8	17.9	19.7
EPS	(30.2)	14.8	17.9	19.7
Leverage				
Debt to total capital	57.4	57.1	56.4	55.4
Debt to equity	152.2	150.6	147.2	142.5
Net debt/(cash) to equity	111.8	109.5	114.5	106.6
Interest cover (x)	4.5	6.0	8.1	7.7

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