

COMPANY RESULTS

Wilmar International (WIL SP)

1H22: Results Above Our Expectations

Wilmar's 1H22 core net profit of US\$980m came in above our expectations. The positive variance mainly came from strong operating margins. We expect 2H22 earnings to remain resilient, supported by greater sales volume and higher margin for its consumer products as well as higher contribution from sugar millings. We expect the palm upstream operation contribution to be lower as commodity prices have softened recently but still better yoy. Maintain BUY. Target price: S\$5.50.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H21	2H21	1H22	hoh % chg	yoy % chg	Remark
Total Revenue	29,534	36,259	36,134	(0.3)	22.3	
Total PBT	1,216	1,550	1,611	3.9	32.6	
Food Products	428	253	521	106.1	21.5	Better hoh largely driven by strong recovery in China.
Feed and Industrial Products	479	782	503	(35.7)	5.0	
Plantations & Sugar Milling	164	400	436	8.9	165.8	Boosted by higher ASP
Others	9	38	2	(94.0)	(73.7)	
Share of results of JV	40	24	28	18.5	(30.3)	
Share of results of associates	99	57	125	120.6	26.2	
Net Profit	751	1,139	1,166	2.3	55.3	
Core Net Profit	732	1,110	980	(11.7)	33.8	Above expectation on the back of higher-than-expected margins.
+/(-) bps						
PBT Margin (%)	4.12	4.28	4.46	0.18	0.34	
Food Products	3.14	1.59	3.27	(1.68)	0.13	
Feed and Industrial Products	2.79	3.60	2.32	(1.28)	(0.47)	
Core Net Profit Margin (%)	2.48	3.06	3.20	0.14	0.72	

Source: Wilmar, UOB Kay Hian

RESULTS

- Results beat expectation.** Wilmar International (Wilmar) reported net profit of US\$1,165m for 1H22 (+2% hoh, +55% yoy). After adjusting for non-core items and the gain from the listing of Adani Wilmar, Wilmar's core net profit arrived at US\$980m for 1H22 (-12%hoh, +34% yoy). This contributed about 55% of our 2022 full-year forecast. The positive variance mainly came from the better-than-expected margins especially from the food products and feeds & industrial products segments. Contributions from its associates and JVs in Europe and Southeast Asia were also higher in 1H22.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	50,527	65,794	65,390	70,868	77,251
EBITDA	3,323	3,943	3,928	4,041	4,308
Operating profit	2,340	2,800	2,685	2,751	2,998
Net profit (rep./act.)	1,534	1,890	1,780	1,819	1,994
Net profit (adj.)	1,486	1,842	1,780	1,819	1,994
EPS (US\$ cent)	23.2	28.8	27.8	28.4	31.1
PE (x)	12.9	10.4	10.8	10.5	9.6
P/B (x)	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	13.6	11.5	11.5	11.2	10.5
Dividend yield (%)	4.5	3.9	3.7	3.8	4.2
Net margin (%)	3.0	2.9	2.7	2.6	2.6
Net debt/(cash) to equity (%)	91.2	114.3	114.5	108.9	106.1
Interest cover (x)	14.4	15.6	13.9	13.1	13.6
ROE (%)	8.6	9.7	8.8	8.6	9.1
Consensus net profit	-	-	1,866	1,959	2,112
UOBKH/Consensus (x)	-	-	0.95	0.93	0.94

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.13
Target Price	S\$5.50
Upside	+33.2%

COMPANY DESCRIPTION

Wilmar's business encompasses 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):	6,270.7
Market cap (S\$m):	25,898.0
Market cap (US\$m):	18,784.4
3-mth avg daily t'over (US\$m):	21.1

Price Performance (%)

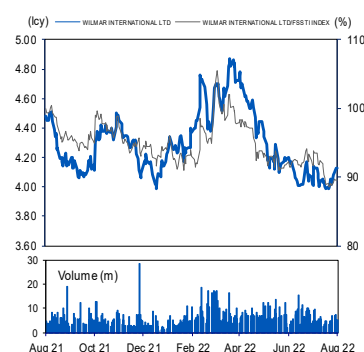
52-week high/low				S\$4.87/S\$3.99
1mth	3mth	6mth	1yr	YTD
1.5	(6.3)	(5.5)	(8.6)	(0.2)

Major Shareholders

Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8

FY22 NAV/Share (US\$)	3.23
FY22 Net Debt/Share (US\$)	3.70

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

- **Strong margin improvement for food products segment.** The profit before tax (PBT) margin for the food products segment had increased significantly from 1.6% in 2H21 to 3.3% in 1H22. This was mainly contributed by upward price adjustments (mainly in 2Q22) for its consumer pack products to mitigate the impact of continuous increases in commodity prices. On top of that, we reckon that this is also supported by Wilmar's wise procurement strategy.
- **Strong recovery from its China operations, YKA.** The PBT for Yihai Kerry Arawana (YKA) had improved significantly in 1H22 by 98% hoh. This is supported by both the food ingredient and feed and oil & fats segments' gross profit margins improving significantly. We believe that the strong performance of YKA's feed and oil & fats segments was supported by the recovery of crushing margins and prudent procurement of feedstocks.
- **Much stronger palm downstream margins despite lower sales volume.** We reckon that Wilmar's palm downstream margin had also improved in 1H22, thanks to its: a) higher ASP for palm products, and b) better margins from its Malaysian downstream operations and palm products that are not under Indonesia's exports ban list.

STOCK IMPACT

- **Food products segments' margin continues to improve in 2H22.** With a healthy demand for food products as it is less impacted by slowing economies, higher ASP and lower feedstock prices, we expect the food products segments to continue to improve in 2H22.
- **Better performance from downstream operations.** We expect the recent corrections in commodity prices will hopefully restore some of the demand destroyed by high prices and improve margins in the downstream business.
- **Lower contribution from palm upstream operation.** The contribution from palm upstream may be lower in 2H22 hoh, as palm oil prices have fallen from their peak in 2Q22. Having said that, palm oil prices are higher than during pre-COVID-19, hence we expect the margin for palm operations to remain healthy.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** We are maintaining our earnings forecast while we await the upcoming analyst briefing later this morning. Our current net profit forecast is at US\$1.77b, US\$1.82b and US\$2.0b for 2022, 2023 and 2024 respectively.

VALUATION/RECOMMENDATION

- **Maintain BUY with a target price of S\$5.50.** Our target price is derived using the SOTP valuation by pegging a 2022F PE of 17x for the China operations and a blended 11x PE for the non-China operations. The fair value of S\$5.50 translates to a blended 2023F PE of 15.3x.
- **Proposed an interim tax exempt dividend for 1H22 of S\$0.06/share** (vs 1H21 of S\$0.05/share), translating a dividend yield of 1.5%. The dividend will be payable on 24 Aug 22.

SHARE PRICE CATALYST

- **Stronger-than-expected performance from its China operations.**
- **Surprise margin upside with its strategic procurement activities.**

SALES VOLUME BY SEGMENT

Year to 31 Dec	1H21	2H21	1H22	Hoh % chg	Yoy % chg
Sales Volume ('000 tonnes)					
Food Products	13,316	14,949	13,825	(7.5)	3.8
- Consumer Products	4,103	4,436	4,271	(3.7)	4.1
- Medium pack and bulk	9,213	10,513	9,554	(9.1)	3.7
Feed and Industrial Products	26,176	28,818	24,774	(14.0)	(5.4)
- Tropical Oils	10,969	11,839	9,948	(16.0)	(9.3)
- Oilseeds and Grains	9,074	11,125	9,617	(13.6)	6.0
- Sugar	6,133	5,854	5,209	(11.0)	(15.1)
Plantations & Sugar Milling					
- Sugar milling	1,054	2,246	911	(59.4)	(13.6)

Source: Wilmar

SOTP VALUATION

	PE(X)	S\$/Share
China operation	26	3.19
Non-China operation	12	1.30
Associates and others	-	0.30
Total		5.50

Source: UOB Kay Hian

YKA 1H22 FINANCIAL SUMMARY

(Rmbm)	1H22	hoh % chg	yoy % chg
Revenue	119,483	(2.9)	15.7
Operating Profits	8,992	45.5	(27.0)
PBT	3,072	98.0	(33.6)
Profit attributable to shareholders	1,976	70.2	(33.5)
		+/(-) bps	+/(-) bps
Gross Profit Margin (%)	7.5	2.5	(4.4)
Food Ingredient	7.1	1.9	(4.8)
Feed and Oil & Fat	8.0	4.1	(3.7)

Source: Wilmar, YKA, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	65,794	65,390	70,868	77,251
EBITDA	3,943	3,928	4,041	4,308
Deprec. & amort.	1,143	1,243	1,290	1,310
EBIT	2,800	2,685	2,751	2,998
Total other non-operating income	0	0	0	0
Associate contributions	219	224	242	261
Net interest income/(expense)	(253)	(282)	(308)	(316)
Pre-tax profit	2,766	2,626	2,685	2,943
Tax	(700)	(664)	(679)	(744)
Minorities	(176)	(182)	(187)	(204)
Net profit	1,890	1,780	1,819	1,994
Net profit (adj.)	1,842	1,780	1,819	1,994

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	14,192	15,049	15,306	15,515
Other LT assets	12,711	12,594	11,900	11,265
Cash/ST investment	6,342	6,052	5,772	4,881
Other current assets	25,473	26,590	28,180	30,501
Total assets	58,718	60,284	61,158	62,162
ST debt	22,292	22,492	22,492	22,492
Other current liabilities	6,101	6,208	6,800	7,426
LT debt	6,823	7,223	6,623	6,024
Other LT liabilities	900	830	761	696
Shareholders' equity	19,924	20,671	21,435	22,272
Minority interest	2,678	2,861	3,047	3,252
Total liabilities & equity	58,718	60,284	61,158	62,162

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	(45)	2,410	1,637	1,593
Pre-tax profit	2,766	2,626	2,685	2,943
Tax	(687)	(664)	(679)	(744)
Deprec. & amort.	1,084	1,243	1,290	1,310
Working capital changes	(3,100)	(591)	(1,437)	(1,675)
Other operating cashflows	(108)	(204)	(222)	(241)
Investing	(2,418)	(1,931)	(1,431)	(1,430)
Capex (maintenance)	(2,532)	(2,045)	(1,545)	(1,544)
Investments	86	86	86	86
Proceeds from sale of assets	62	62	62	62
Others	28	28	28	28
Financing	(1,198)	1,789	2,405	(57)
Dividend payments	(462)	(699)	(1,050)	(498)
Issue of shares	0	23	41	41
Proceeds from borrowings	794	685	6,339	400
Others/interest paid	(1,530)	1,780	(2,925)	0
Net cash inflow (outflow)	(3,661)	2,268	2,611	106
Beginning cash & cash equivalent	2,583	2,588	3,072	2,272
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	(1,077)	4,855	5,683	2,378

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	6.0	6.0	5.7	5.6
Pre-tax margin	4.2	4.0	3.8	3.8
Net margin	2.9	2.7	2.6	2.6
ROA	3.4	3.0	3.0	3.2
ROE	9.7	8.8	8.6	9.1
Growth				
Turnover	30.2	(0.6)	8.4	9.0
EBITDA	18.6	(0.4)	2.9	6.6
Pre-tax profit	19.7	(5.0)	2.2	9.6
Net profit	23.2	(5.9)	2.2	9.6
Net profit (adj.)	23.9	(3.4)	2.2	9.6
EPS	23.9	(3.4)	2.2	9.6
Leverage				
Debt to total capital	56.3	55.8	54.3	52.8
Debt to equity	146.1	143.7	135.8	128.0
Net debt/(cash) to equity	114.3	114.5	108.9	106.1
Interest cover (x)	15.6	13.9	13.1	13.6

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