

COMPANY RESULTS

Wilmar International (WIL SP)

3Q22: Record Quarterly Profit; Way Above Expectation

Wilmar reported 3Q22 core net profit of US\$797m (+38% yoy, +67% qoq). Results were way above expectation, driven by stronger-than-expected contributions from tropical oil. YKA's performance in 3Q22 was below expectation where we suspect the negative variance came from lower-than-expected margins from its food products and soybean crushing. 4Q22 is likely to be another good profit quarter, thus we adjusted our 2022 earnings forecast up by 24%. Maintain BUY. Target price: S\$5.50.

3Q22 RESULTS

Year to 31 Dec (US\$m)	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg	Remarks
Turnover	18,877	1.7	10.2	55,011	17.9	
EBITDA	1,292	186.5	13.3	2,850	(5.6)	
Net Profit	766	20.5	34.7	1,932	46.4	
Core Net Profit	797	67.2	38.2	1,777	35.8	Above our and consensus expectations, with feed & industrial segment continue to be the star performer.
Margins (%)						
EBITDA	6.8	4.4	0.2	5.2	(1.3)	
Core Net Profit	4.2	1.7	0.9	3.2	0.4	

Source: Wilmar International, UOB Kay Hian

RESULTS

- Way above expectation.** Wilmar International (Wilmar) reported core net profit of US\$796.7m (+67% qoq, 38% yoy) for 3Q22, another record-high quarterly earnings. 9M22 core net profit was reported at US\$1,777m, accounting for 99% of our full-year forecast. This exceeds our and consensus expectations mainly driven by the strong feed & industrial segment with overall sales volume growing 14% qoq and 9% yoy in 3Q22 and potentially strong processing margins from its tropical oil. Wilmar had also enjoyed higher share of results from its JVs and associates and lower effective tax rate in 3Q22.
- Star performer – feed & industrial segment.** The feed and industrial products segment remains the star performer with strong sales volume in 3Q22. As Yihai Kerry Arawana's (YKA) results were disappointing with reported 3Q22 net profit only at Rmb377m (-47% yoy), we reckon that the tropical oil segment was the main contributor to the high earnings. This driven by both higher sales volume and very good palm oil downstream processing margins.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	50,527	65,794	64,891	70,798	77,406
EBITDA	3,323	3,943	4,912	4,293	4,197
Operating profit	2,340	2,800	3,670	3,003	2,887
Net profit (rep./act.)	1,534	1,890	2,408	1,853	2,155
Net profit (adj.)	1,486	1,842	2,233	1,853	2,155
EPS (US\$ cent)	23.2	28.8	34.9	28.9	33.7
PE (x)	11.0	8.9	7.3	8.8	7.6
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	12.3	10.3	8.3	9.5	9.7
Dividend yield (%)	5.3	4.2	5.9	5.9	5.9
Net margin (%)	3.0	2.9	3.7	2.6	2.8
Net debt/(cash) to equity (%)	91.2	114.3	108.4	104.8	101.6
Interest cover (x)	14.4	15.6	15.8	8.4	n.a.
ROE (%)	8.6	9.7	12.0	9.1	10.2
Consensus net profit	-	-	1,876	1,900	2,028
UOBKH/Consensus (x)	-	-	1.19	0.98	1.06

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.60
Target Price	S\$5.50
Upside	+52.8%

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):	6,241.5
Market cap (S\$m):	22,469.5
Market cap (US\$m):	15,911.0
3-mth avg daily t'over (US\$m):	18.6
Price Performance (%)	

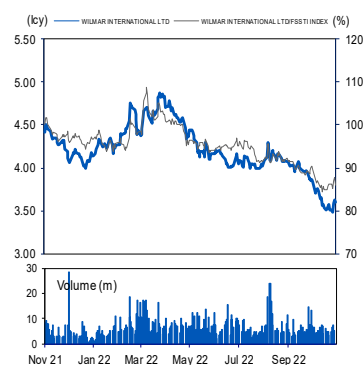
52-week high/low S\$4.87/S\$3.48

1mth	3mth	6mth	1yr	YTD
(6.5)	(11.1)	(17.4)	(17.4)	(13.0)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY22 NAV/Share (US\$)	3.16
FY22 Net Debt/Share (US\$)	3.42

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- Food products:** Higher sales but lower margin yoy. Both food products and the medium and bulk's segment sales volume had improved significantly qoq in 3Q22, where we reckon that this was supported: by a) the festive season, b) the lockdown of cities in China, as it induces higher demand for consumer pack cooking oil, and c) Wilmar's factories still being allowed to operate in most of the lockdown cities by the Chinese government.
- Feed & industrial products:** Palm oil processing likely to be the main earnings contributor and sugar performance is also catching up as merchandising sales volume picked up in 3Q22. YKA reported net profit of Rmb377m (or US\$52m) only for 3Q22, which means the bulk of Wilmar's earnings would have to come from its tropical oils and some from its sugar division. As highlighted in our preview note, palm processing margins are good as crude palm products prices dropped more than refined palm products and also help with the export levy holidays in Indonesia.
- Plantation & sugar milling segment continue to perform satisfactorily with good ASP and higher sales volume.** Although CPO prices weakened significantly compared with 1H22, the palm oil upstream is likely to still be profitable with better performance coming from its Malaysian operation. Sugar milling also started contributing in 3Q22 as milling season started despite achieving a lower volume.
- YKA's 3Q22 was disappointing.** YKA reported revenue of Rmb68.4b (+14.9% yoy) mainly on higher ASP but net profit attributable to shareholders was only Rmb380m (-46.9% yoy). The recovery of feed demand has led to higher animal feed sales, but margins were affected by the high raw materials prices, such as soybean and palm oil. The oils & fats business was also down yoy. As for the food ingredient segment, the adjustment to the selling prices of some products still did not fully cover the increase in raw material costs, and gross profit margin dropped significantly yoy. Impact from lower raw materials prices after the decline of soybean and palm oil prices is likely to be reflected in coming quarters.

EARNINGS REVISION/RISK

- Adjust 2022 earnings forecasts.** We adjusted our 2022 earnings up by 25% to a core net profit of US\$2.2b from US\$1.8b previously to factor in the strong 3Q22. We do expect the tropical oil segment to continue to deliver a good set of numbers in coming quarters with some improvement from YKA. We adjust 2023 and 2024 core net earnings up 1-4% to US\$1.85b and US\$2.2b respectively.

VALUATION/RECOMMENDATION

- The outperformer amid pandemic years and volatile market.** We maintain BUY on Wilmar although 2023 earnings may be lower than 2022 and its integrated business model enables Wilmar to extract the best value from the business value chain. This integrated business model has delivered a stellar three-year CAGR of 21% of core net profit for 2019-22.
- Maintain BUY with a target price of S\$5.50.** Our target price is derived using the SOTP valuation by pegging a 2023F 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.

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	3Q22	qoq % chg	yoy % chg	9M22	yoy % chg
Sales Volume ('000 tonnes)					
Food Products	7,706	11.4	3.2	21,531	3.6
- Consumer Products	2,169	11.7	(2.8)	6,440	1.7
- Medium pack and bulk	5,537	11.2	5.7	15,091	4.4
Feed and Industrial Products	14,731	14.2	8.5	39,505	(0.6)
- Tropical Oils	6,061	23.9	3.2	16,009	(5.0)
- Oilseeds and Grains	5,628	2.0	12.7	15,245	8.4
- Sugar	3,042	22.1	12.1	8,251	(6.7)

Source: Wilmar

3Q22 & 9M22 FINANCIAL SUMMARY

(Rmbb)	3Q22	yoy % chg	9M22	yoy % chg
Revenue	68.4	14.9	187.8	15.5
Profit attributable to owners of the company	0.4	(46.1)	2.4	(36.4)
EPS (Rmb/share)	0.1	(46.2)	0.4	(36.8)

Source: YKA, Wilmar

SOTP VALUATION

	PE(X)	S\$/Share
China operation	17	3.73
Non-China operation	11	1.47
Associates and others	-	0.30
Total		5.50

Source: UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	65,794	64,891	70,798	77,406
EBITDA	3,943	4,912	4,293	4,197
Deprec. & amort.	1,143	1,243	1,290	1,310
EBIT	2,800	3,670	3,003	2,887
Total other non-operating income	0	0	0	0
Associate contributions	219	224	242	261
Net interest income/(expense)	(253)	(311)	(510)	33
Pre-tax profit	2,766	3,582	2,735	3,181
Tax	(700)	(906)	(692)	(805)
Minorities	(176)	(268)	(190)	(221)
Net profit	1,890	2,408	1,853	2,155
Net profit (adj.)	1,842	2,233	1,853	2,155

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	12,501	11,743	11,102
Cash/ST investment	6,342	9,797	10,644	11,142
Other current assets	25,473	24,842	26,286	28,377
Total assets	58,718	62,189	63,980	66,136
ST debt	22,292	23,292	23,292	23,292
Other current liabilities	6,101	6,374	6,996	7,648
LT debt	6,823	8,423	9,023	9,623
Other LT liabilities	900	930	861	796
Shareholders' equity	19,924	20,225	20,672	21,421
Minority interest	2,678	2,946	3,136	3,357
Total liabilities & equity	58,718	62,189	63,980	66,136

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	(45)	5,137	1,733	1,903
Pre-tax profit	2,766	3,582	2,735	3,181
Tax	(687)	(906)	(692)	(805)
Deprec. & amort.	1,084	1,243	1,290	1,310
Working capital changes	(3,100)	1,422	(1,378)	(1,542)
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	962
Dividend payments	(462)	(699)	(1,050)	(679)
Issue of shares	0	23	41	41
Proceeds from borrowings	794	685	6,339	1,600
Others/interest paid	(1,530)	1,780	(2,925)	0
Net cash inflow (outflow)	(3,661)	4,994	2,707	1,435
Beginning cash & cash equivalent	2,583	2,588	6,817	7,144
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	(1,077)	7,582	9,525	8,580

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	6.0	7.6	6.1	5.4
Pre-tax margin	4.2	5.5	3.9	4.1
Net margin	2.9	3.7	2.6	2.8
ROA	3.4	4.0	2.9	3.3
ROE	9.7	12.0	9.1	10.2
Growth				
Turnover	30.2	(1.4)	9.1	9.3
EBITDA	18.6	24.6	(12.6)	(2.2)
Pre-tax profit	19.7	29.5	(23.7)	16.3
Net profit	23.2	27.4	(23.1)	16.3
Net profit (adj.)	23.9	21.2	(17.0)	16.3
EPS	23.9	21.2	(17.0)	16.3
Leverage				
Debt to total capital	56.3	57.8	57.6	57.1
Debt to equity	146.1	156.8	156.3	153.7
Net debt/(cash) to equity	114.3	108.4	104.8	101.6
Interest cover (x)	15.6	15.8	8.4	n.a.

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