

COMPANY UPDATE

Wilmar International (WIL SP)

Good Performance Despite Volatile Agri-Market

Wilmar's 1H22 core net profit was a huge positive surprise, and was also a record-high profit for 1H. We raise our 2022 earnings forecast by 12% to a net core profit of US\$1.8b (-3% yoy) to factor in stronger-than-expected 1H22 PBT margins across all three segments. Despite this upward revision, we deem our earnings estimate for 2022 relatively conservative because 2H is usually the stronger half of the year. Maintain BUY. Target price: S\$5.50.

WHAT'S NEW

- **1H22 was a great positive surprise.** Despite high volatility in agri-commodity prices and demand uncertainties amid recession fears, Wilmar International (Wilmar) again delivered a surprise, and recorded its best-ever 1H profit in 1H22. The good set of results for 1H22 was attributable to continued good performance from palm and sugar. Meanwhile, China operations under Yihai Kerry Arawana (YKA) reported a very strong turnaround in 1H22, boosted by its 2Q22 performance.
- **Revise 2022 earnings up by 12%, but still a conservative forecast.** We have raised our 2022 core net profit forecast by 12% to US\$1.79b. If we include the gain from the listing of Adani Wilmar of US\$175.6m, 2022 earnings would be US\$1.97b (2021 core net profit was US\$1.84b and net profit was US\$1.89b). We revised earnings on the back of stronger-than-expected 1H22 PBT margins across all three segments. Post adjustment, 1H22 still contributed about 54% of our full-year forecast, which is not the norm as 2H is usually the strong half of the year. We deem our revised earnings as conservative. There will be earnings upside for 2H22 if: a) the timing of sourcing for feedstock is executed as well as in 1H22, b) CPO price recovers back to above RM4,500/tonne, and c) better soybean crushing margins if the recovery of hog prices sustains into 2H22.
- **YKA expects its recovery to continue into 2H22, albeit not back to the norm.** During YKA's 1H22 briefing, management mentioned that 2H is usually the better half of the year for YKA due to the high festive demand which would translate into higher sales volume. In addition, feedstock prices easing from the peak is likely to translate into better margin once the high-priced feedstock is fully utilised. The positive impact of lower feedstock cost on PBT margin is likely to be seen in 4Q22. Among the three major products - cooking oil, rice and flour - higher profit growth is likely to come from rice and flour while the cooking oil market has reached saturation point. Profit from cooking oil will be enhanced by launching more new niche cooking oil products (eg peanut oil) that command much higher margin vs the mass market products.

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	4,224	4,023	4,411
Operating profit	2,340	2,800	2,981	2,733	3,101
Net profit (rep./act.)	1,534	1,890	1,965	1,827	2,073
Net profit (adj.)	1,486	1,842	1,790	1,827	2,073
EPS (US\$ cent)	23.2	28.8	28.0	28.5	32.4
PE (x)	12.8	10.3	10.6	10.4	9.2
P/B (x)	1.0	1.0	0.9	0.9	0.9
EV/EBITDA (x)	13.5	11.4	10.6	11.2	10.2
Dividend yield (%)	4.5	3.6	4.1	4.3	4.4
Net margin (%)	3.0	2.9	3.0	2.6	2.7
Net debt/(cash) to equity (%)	91.2	114.3	112.5	108.3	105.5
Interest cover (x)	14.4	15.6	15.0	14.5	14.6
ROE (%)	8.6	9.7	9.7	8.7	9.5
Consensus net profit	-	-	1,871	1,936	2,081
UOBKH/Consensus (x)	-	-	0.96	0.94	1.00

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$4.09
Target Price	S\$5.50
Upside	+34.5%

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

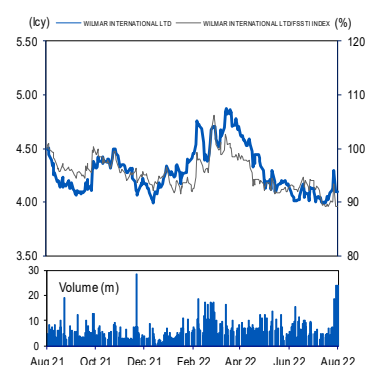
GICS sector	Consumer Staples
Bloomberg ticker:	WIL SP
Shares issued (m):	6,270.3
Market cap (S\$m):	25,645.5
Market cap (US\$m):	18,609.3
3-mth avg daily t'over (US\$m):	21.9
Price Performance (%)	

52-week high/low S\$4.87/S\$3.99

1mth	3mth	6mth	1yr	YTD
(1.0)	(4.7)	(7.3)	(8.1)	(1.2)

Major Shareholders	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoo Hong	12.8
FY22 NAV/Share (US\$)	3.24
FY22 Net Debt/Share (US\$)	3.65

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

• Expectation of segmental performance in 2H22

a) Food products (32.3% of 1H22 PBT).

- **Consumer Packs:** The festive season will drive sales volume. Regional COVID-19 lockdowns in China will also increase the demand for consumer packs. Pressure on margin will ease with feedstock prices weakening and a higher utilisation rate.
- **Medium Pack & Bulk:** Sales volume may be relatively flat, dragged down by lackluster hotel, restaurants and catering (HoReCa) demand from China.

b) Feed & Industrial Products (31.2% of 1H22 PBT).

- **Feed:** Expect better for animal feeds from hog farming as pork prices have recovered and hog farming margins are also improving. Wilmar will also increase its sources of domestic soybean, which are likely to come from government auctions. This reduces its exposure to the long buying and delivery gestation period which require good hedging positions.
- **Industrial products.** Palm downstream margins may not be as good as 1H22, which was boosted mainly by low CPO prices in Indonesia. As Indonesia prices recover after the suspension of the levy and lower exports duty, refining margin may decline slightly vs 1H22, but will still be better than the norm. Sales volume should improve with Indonesia lifting its exports ban and the gradual increase of the export permit ratio. The higher yoy contributions from sugar refining & merchandising will be driven mainly by better refining margins.

c) Plantation & Sugar Milling (27% of 1H22 PBT)

- **Palm oil (Indonesia, Malaysia and Africa):** Upstream will be affected by lower ASP, but we are still expecting CPO price to trade at higher prices in 2H22 vs 2020 and 2021. Meanwhile, production is expected to pick up towards the end of 3Q22, which could boost sales volume.
- **Sugar (Australia and India):** Starts of sugar milling season and expect higher profit contribution driven by higher volume and better sugar prices.

- **Better scoring in the FTSE4Good Index Series.** Wilmar has retained its position in the semi-annual review of the FTSE4Good Index Series with a further improvement in its ratings. Wilmar's Environmental, Social and Governance (ESG) rating improved to 3.8 out of 5.0, with an increased percentile rank of 86% in the latest Jun 22 review, from a rating of 3.7 and a percentile rank of 84% in Dec 21. Based on the company's announcement, its higher rating and ranking was largely driven by progress in labour standards, social supply chain and customer responsibility.

EARNINGS REVISION/RISK

- **Upward adjustment.** We raised our 2022 core net profit forecast by 12% to US\$1.79b. If we include the US\$175.6m gain from the listing of Adani Wilmar, 2022 earnings forecast would be at US\$1.97b (2021: core net profit was US\$1.84b and net profit was US\$1.89b). We make this revision on the back of stronger-than-expected 1H22 PBT margins across all three segments. We make no changes to 2023 and 2024 earnings forecast.

VALUATION/RECOMMENDATION

- **Maintain BUY with unchanged target price of S\$5.50.** As we derive our target price based on 2023 earnings, there is thus no change to our target price. 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.
- **Proposed an interim tax exempt dividend for 1H22 of S\$0.06/share** (vs 1H21 of S\$0.05/share). This translates to 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.

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	64,891	70,798	77,406
EBITDA	3,943	4,224	4,023	4,411
Deprec. & amort.	1,143	1,243	1,290	1,310
EBIT	2,800	2,981	2,733	3,101
Total other non-operating income	0	0	0	0
Associate contributions	219	224	242	261
Net interest income/(expense)	(253)	(282)	(278)	(302)
Pre-tax profit	2,766	2,923	2,696	3,060
Tax	(700)	(739)	(682)	(774)
Minorities	(176)	(218)	(187)	(213)
Net profit	1,890	1,965	1,827	2,073
Net profit (adj.)	1,842	1,790	1,827	2,073

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	6,360	5,915	5,023
Other current assets	25,473	26,490	28,204	30,566
Total assets	58,718	60,400	61,169	62,206
ST debt	22,292	22,492	22,492	22,492
Other current liabilities	6,101	6,193	6,798	7,431
LT debt	6,823	7,223	6,623	6,024
Other LT liabilities	900	830	761	696
Shareholders' equity	19,924	20,766	21,411	22,267
Minority interest	2,678	2,897	3,084	3,297
Total liabilities & equity	58,718	60,400	61,169	62,206

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	(45)	2,762	1,533	1,621
Pre-tax profit	2,766	2,923	2,696	3,060
Tax	(687)	(739)	(682)	(774)
Deprec. & amort.	1,084	1,243	1,290	1,310
Working capital changes	(3,100)	(460)	(1,550)	(1,733)
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	(101)
Dividend payments	(462)	(699)	(1,050)	(542)
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)	2,620	2,507	91
Beginning cash & cash equivalent	2,583	2,588	3,380	2,415
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	(1,077)	5,208	5,887	2,506

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	6.0	6.5	5.7	5.7
Pre-tax margin	4.2	4.5	3.8	4.0
Net margin	2.9	3.0	2.6	2.7
ROA	3.4	3.3	3.0	3.4
ROE	9.7	9.7	8.7	9.5
Growth				
Turnover	30.2	(1.4)	9.1	9.3
EBITDA	18.6	7.1	(4.8)	9.7
Pre-tax profit	19.7	5.7	(7.8)	13.5
Net profit	23.2	4.0	(7.0)	13.5
Net profit (adj.)	23.9	(2.8)	2.1	13.5
EPS	23.9	(2.8)	2.1	13.5
Leverage				
Debt to total capital	56.3	55.7	54.3	52.7
Debt to equity	146.1	143.1	136.0	128.1
Net debt/(cash) to equity	114.3	112.5	108.3	105.5
Interest cover (x)	15.6	15.0	14.5	14.6

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