

## COMPANY UPDATE

### Wilmar International (WIL SP)

#### 3Q22 Results Preview: Another Potentially Good Quarter

Wilmar is scheduled to release its 3Q22 Executive Financial Summary on 28 Oct 22. Based on our current estimates, we expect Wilmar to report a core net profit of US\$470m-490m for 3Q22 (3Q21: US\$576m; 2Q22: US\$477m). However, the industry trends that we observed for 3Q22 could signal stronger earnings, which could come within US\$530m-550m supported by better-than-expected margins from palm oil downstream and soybean crushing. Maintain BUY. Target price: S\$5.50.

#### WHAT'S NEW

- 3Q22 results preview.** Wilmar International (Wilmar) is scheduled to release its 3Q22 Executive Financial Summary on 28 Oct 22 after market close. Based on our current estimates, we expect Wilmar to report a core net profit of US\$470m-490m for 3Q22 (3Q21: US\$576m; 2Q22: US\$477m). However, the trends that we observed for 3Q22 could signal stronger earnings, which could come within US\$530m-550m.
- Palm refining margin relatively stable despite the sharp fall in palm product prices.** The correction in palm oil prices is not affecting refining margins, which did not contract as much after the sharp correction in CPO price. Refining margins were relatively steady despite the correction in refined products, and some by-product prices did not fall as sharp when compared with CPO. In addition, sales could come in higher as palm oil exports volume from Malaysia and Indonesia was higher than expected thanks to strong demand recovery after prices dropped.
- Operations in China likely to beat our expectation as well,** due to: a) better crushing margins (albeit margins not being as high as the last two years), and b) higher sales volume for consumer packs and soybean meal. Wilmar may have captured larger market shares for the food ingredients and feeds markets in China as its peers were affected by the unscheduled shutdowns caused by power shortages and the spike in soybean meal (SBM) prices due to short-term supply squeeze.
- Sugar may not perform well as the crushing season in Queensland was delayed by heavy rainfall.** The third La Nina led to heavy rainfall in Australia, which is affecting the sugar milling season in Queensland. This may result in: a) a delay in the milling season and cause some earnings to be booked in 4Q vs the usual 3Q, and b) lower sugar yield, as the high rainfall could reduce sugar production.

#### 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)	10.7	8.6	8.9	8.7	7.6
P/B (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x)	12.6	10.6	9.9	10.4	9.5
Dividend yield (%)	5.4	4.3	4.9	5.1	5.3
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	-	-	1,857	1,904	2,040
UOBKH/Consensus (x)	-	-	0.96	0.96	1.02

Source: Wilmar International, Bloomberg, UOB Kay Hian

## BUY

### (Maintained)

Share Price	S\$3.52
Target Price	S\$5.50
Upside	+56.3%

#### 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

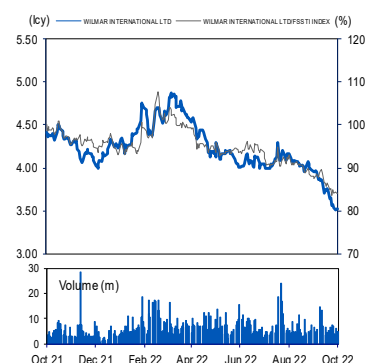
GICS sector	Consumer Staples
Bloomberg ticker:	WIL SP
Shares issued (m):	6,241.5
Market cap (S\$m):	21,970.2
Market cap (US\$m):	15,460.0
3-mth avg daily t'over (US\$m):	18.3
<b>Price Performance (%)</b>	

52-week high/low S\$4.87/S\$3.51

1mth	3mth	6mth	1yr	YTD
(11.6)	(13.1)	(22.3)	(19.6)	(15.0)

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

#### • The expected performance by reporting segment:

- a) **Food products (32% of 1H22 PBT) – Better yoy.** Recall that this segment was badly affected in 2H21 by the spike in feedstock prices, and it was not able to pass the hike down to consumers. Since then, consumer packs products prices in China have been adjusted up, which already showed in 2Q22 results. With feedstock cost easing and adjusted ASP, this segment is expected to post good earnings growth yoy. Sales volume will be supported by: a) the festive season, and b) the lockdown of cities in China, as it induces higher demand for consumer pack cooking oil. These could mitigate the impact of lesser demand from the HoReCa sector.
- b) **Feed & industrial (31% of 1H22 PBT) – Stronger yoy:** This division is likely to be the star performer again in 3Q22. The main driver is expected to come from its palm oil downstream operations, which benefitted from the sustained good refining margins and higher sales volume. As shown in the two charts on the right, palm oil exports from Malaysia and Indonesia were higher in 3Q22 vs 1Q22 and 2Q22, and refining margins were still higher yoy. As the largest palm trader, Wilmar's palm operations should be able to deliver a good set of results based on these indicators. Meanwhile, demand for animal feeds could be better as the improving hog margins could mitigate the impact from lower crushing margins. Its margins could be also enhanced by its good raw material purchasing strategy.
- c) **Plantation & sugar (27% of 1H22 PBT) – Could be lower yoy.** The sharp drop in CPO prices will lead to lower contribution from its palm division. In addition, the delay of Australia's sugar milling season may result in lower earnings contributions from this segment, but these should be mitigated by better contributions from sugar. However, note that some of the sugar milling profit from Australia may be delayed into 4Q22 as the high rainfall in Queensland could have delayed the milling activities.

### EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** We maintain our net profit earnings forecasts for 2022/23/24 at US\$1.79b, US\$1.83b and US\$2.01b respectively.
- If 3Q22 core net profit comes in within US\$530-550m, there is a possibility of a 5-7% upward adjustment to 2022 earnings

### VALUATION/RECOMMENDATION

- **Maintain BUY with 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.

### SHARE PRICE CATALYST

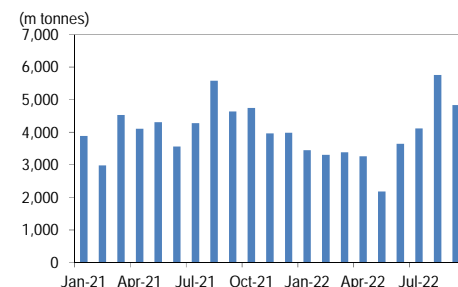
- Stronger-than-expected performance from its China operations.
- Surprise margin upside with its strategic procurement activities.

### WILMAR'S LISTED SUBSIDIARIES AND ASSOCIATES

Company	Ticker	Share Price @ 19 Oct (Lcl Crncy)	Mkt Cap (US\$m)	Cur PE (x)	Fwd PE (x)
Wilmar International	WIL SP	3.52	15,449.4	8.5	8.3
Yihai Kerry	300999 CH	43.94	33,079.9	45.2	33.3
Adani Wilmar	AWLTD IN	692.7	10,931.3	77.7	62.4
Shree Renuka	SHRS IN	62.95	1,626.9	n.a	170.1

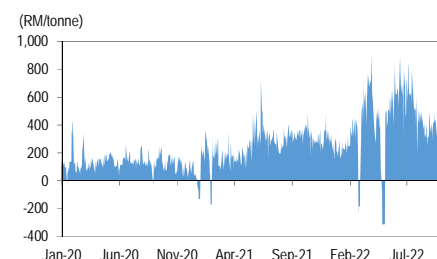
Source: Bloomberg, UOB Kay Hian

### 3Q22 HIGHER EXPORTS BY MALAYSIA AND INDONESIA



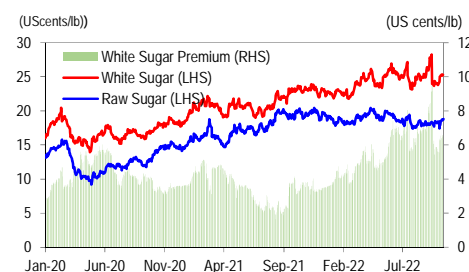
Note: Sep 22 Indonesia Export is based on UOBKH forecast  
Source: UOB Kay Hian

### BETTER PALM REFINING MARGINS



Source: Bloomberg

### SUGAR PRICE REMAINS STEADY AND SUPPORTS PROFITABILITY



Source: Bloomberg

### CHINA SOYBEAN CRUSHING MARGINS



Source: UOB Kay Hian

### SOTP VALUATION

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

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	4,224	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)
<b>Pre-tax profit</b>	<b>2,766</b>	<b>2,923</b>	<b>2,696</b>	<b>3,060</b>
Tax	(700)	(739)	(682)	(774)
Minorities	(176)	(218)	(187)	(213)
<b>Net profit</b>	<b>1,890</b>	<b>1,965</b>	<b>1,827</b>	<b>2,073</b>
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
<b>Total assets</b>	<b>58,718</b>	<b>60,400</b>	<b>61,169</b>	<b>62,206</b>
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
<b>Total liabilities &amp; equity</b>	<b>58,718</b>	<b>60,400</b>	<b>61,169</b>	<b>62,206</b>

**CASH FLOW**

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(45)</b>	<b>2,762</b>	<b>1,533</b>	<b>1,621</b>
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)
<b>Investing</b>	<b>(2,418)</b>	<b>(1,931)</b>	<b>(1,431)</b>	<b>(1,430)</b>
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
<b>Financing</b>	<b>(1,198)</b>	<b>1,789</b>	<b>2,405</b>	<b>(101)</b>
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
<b>Net cash inflow (outflow)</b>	<b>(3,661)</b>	<b>2,620</b>	<b>2,507</b>	<b>91</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,583</b>	<b>2,588</b>	<b>3,380</b>	<b>2,415</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>(1,077)</b>	<b>5,208</b>	<b>5,887</b>	<b>2,506</b>

**KEY METRICS**

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
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
<b>Growth</b>				
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
<b>Leverage</b>				
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

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