

## COMPANY UPDATE

### Wilmar International (WIL SP)

#### 4Q22 Results Preview: Earnings Could Beat Expectation

Wilmar is scheduled to release its 2H22 results on 21 Feb 23. Based on our 2022 core earnings forecast of US\$2.2b, 4Q22 core net profit could be US\$450m-460m and again be driven by palm-related operations. However, based on our channel checks, palm downstream margins and volume could come in higher than our expectations. As such, we foresee Wilmar's 4Q22 core profit beating our and market expectations again. Maintain BUY. Target price: S\$5.50.

#### WHAT'S NEW

- 4Q22 results preview.** Wilmar International (Wilmar) is scheduled to release its 2H22 results on 21 Feb 23 after market closes. Based on our 2022 core earnings forecast of US\$2.2b, 4Q22 core net profit could be US\$450m-460m, driven by palm-related operations. For 9M22, Wilmar reported net profit and core net profit (exclude listing gain from Adani Wilmar) of US\$1.93b and US\$1.78b respectively vs US\$1.32b and US\$1.30b in 9M21. Our 2022 core earnings are close to consensus earnings forecast.
- Potential earnings upside.** Based on the latest data points and channel checks, we believe there is a possibility for Wilmar to beat our and consensus earnings by 10-15%. The upside surprise will come from:
  - Better-than-expected palm oil refining margins.** Referring to the estimated palm refining margin chart (next page), 4Q22 margin is well expected to be lower qoq but the margin contraction is not as severe as expected. In addition, exports from Indonesia and Malaysia are also above expectations with strong shipments to China and India in 4Q22.
  - Contribution from Yihai Kerry Arawana (YKA) could be better** on higher soybean crushing volume and margin. Despite better 4Q22 earnings on the back of Chinese New Year (CNY) demand (2023 CNY falls on the 3rd week of January) and some earnings recovery from soybean crushing, YKA's 2H22 performance is unlikely to be better than its 1H22 performance of Rmb1.97b (3Q22: Rmb0.4b).
- Sugar contributions spread into 1Q23 as sugar cane harvesting in Australia is delayed due to high rainfall.** This will lead to lower sugar milling and merchandising volume for 4Q22. Earnings contribution from the sugar division is not as significant compared with YKA and palm oil operations, thus the slight earnings delays from sugar will be compensated by better profit from the palm oil division.

#### 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)	13.5	10.9	9.0	10.8	9.3
P/B (x)	1.1	1.0	1.0	1.0	0.9
EV/EBITDA (x)	13.3	11.2	9.0	10.3	10.6
Dividend yield (%)	4.3	3.4	4.9	4.8	4.8
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	-	-	2,184	1,950	2,071
UOBKH/Consensus (x)	-	-	1.02	0.95	1.04

Source: Wilmar International, Bloomberg, UOB Kay Hian

## BUY

### (Maintained)

Share Price	S\$4.11
Target Price	S\$5.50
Upside	+33.8%

#### 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):	6,242.6
Market cap (S\$m):	25,656.9
Market cap (US\$m):	19,508.0
3-mth avg daily t'over (US\$m):	15.8

#### Price Performance (%)

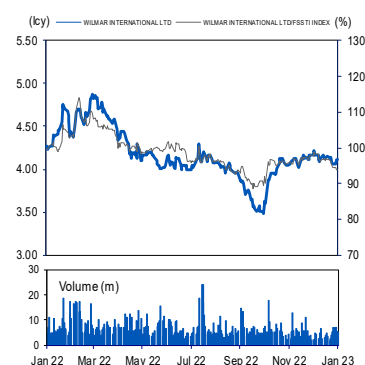
52-week high/low S\$4.87/S\$3.48

1mth	3mth	6mth	1yr	YTD
(1.2)	18.1	2.8	(1.4)	(1.4)

#### Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoo Hong	12.8
FY23 NAV/Share (US\$)	3.23
FY23 Net Debt/Share (US\$)	3.39

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **2023 earnings may see a reversal trend in terms of segmental contributions.** Contributions from the palm oil-related business were the best in 2022 and offset the weak profit before tax (PBT) contributions from YKA. Moving into 2023, YKA could regain the top position in terms of PBT contributions to Wilmar as we expect China's reopening to boost the sales volume and PBT margins should recover with the easing of commodity prices. The good palm refining margin achieved in 2022 is unlikely to sustain into 2023. Recall that 2022 palm oil market was distorted by the extreme policies from Indonesia which led to a one-month ban of exports and a few months of levy holidays to speed up exports in 2H22. That created that big price distortion between Indonesia's domestic prices vs global prices, which resulted in a widened price gap between crude and refined palm oil. At this point of time, we do not foresee this situation repeating again in 2023.

### EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** Our net profit forecasts remain at US\$2,233m, US\$1,853m and US\$2,155m for 2022-24 respectively.

### VALUATION/RECOMMENDATION

- We maintain BUY on Wilmar even though its 2023 earnings may be lower than 2022 as 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.

### SOTP VALUATION

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

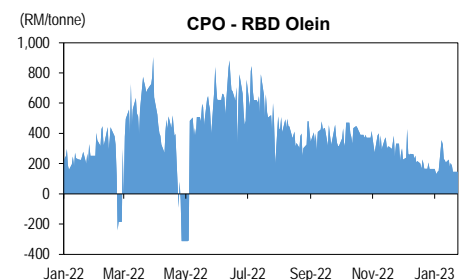
Source: UOB Kay Hian

### CHINA SOYBEAN CRUSHING MARGINS IMPROVED IN 4Q22



Source: JCI, Bloomberg

### PRICE GAP BETWEEN CRUDE AND REFINED PALM PRODUCTS NARROWED IN 4Q22



Source: Bloomberg

### 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
<b>Pre-tax profit</b>	<b>2,766</b>	<b>3,582</b>	<b>2,735</b>	<b>3,181</b>
Tax	(700)	(906)	(692)	(805)
Minorities	(176)	(268)	(190)	(221)
<b>Net profit</b>	<b>1,890</b>	<b>2,408</b>	<b>1,853</b>	<b>2,155</b>
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
<b>Total assets</b>	<b>58,718</b>	<b>62,189</b>	<b>63,980</b>	<b>66,136</b>
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
<b>Total liabilities &amp; equity</b>	<b>58,718</b>	<b>62,189</b>	<b>63,980</b>	<b>66,136</b>

### CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(45)</b>	<b>5,137</b>	<b>1,733</b>	<b>1,903</b>
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)
<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>962</b>
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
<b>Net cash inflow (outflow)</b>	<b>(3,661)</b>	<b>4,994</b>	<b>2,707</b>	<b>1,435</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,583</b>	<b>2,588</b>	<b>6,817</b>	<b>7,144</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>(1,077)</b>	<b>7,582</b>	<b>9,525</b>	<b>8,580</b>

### KEY METRICS

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