

COMPANY UPDATE

Wilmar International (WIL SP)

Managing Expectations

During the briefing, management conveyed a more optimistic tone compared to the outlook statement. Despite a challenging outlook guidance, Wilmar is poised for margin improvement in 2024 as raw material costs ease and it grows volume by capturing market share from the closure of less competitive producers. The tropical oil division is likely to remain as the most challenging operation with the tightness in CPO supply and stiff competition from cheaper softoil. Maintain HOLD. Target price: S\$3.35.

WHAT'S NEW

- More positive tone during briefing.** We were fenced off after reading the cautious outlook statement from the results announcement. However, after the analyst briefing, we maintain our view that Wilmar International (Wilmar) will still be able to deliver earnings growth in 2024 despite a more challenging operation environment. The driving factors in 2024 would be: a) margin improvement, as most feedstock prices declined vs 2023, especially compared to 1H23, and b) positive volume growth with a guidance of 5-10% growth yoy.
- Maintain HOLD.** Despite the more positive guidance from its briefing vs its outlook statement, we maintain our HOLD recommendation as our current valuation already accounts for potential earnings growth. Additionally, we apply a more conservative valuation for our fair value due to the high volatility in earnings outlook stemming from global geopolitical uncertainties.
- What could make us more positive.** We would be more positive if we see: a) stronger margin improvement driven by demand recovery, particularly for palm oil operations and those in China, and b) a clearer resolution of the ongoing litigation and allegations against Yihai Kerry Arawana's (YKA) subsidiary regarding the recent China palm oil fraud allegations, which the company has denied.
- Reducing capex as cost of funding is no longer cheap; prioritising operational efficiency.** In 2024, Wilmar will continue to prioritise operational efficiency improvements, reducing capex as the cost of funding is rising due to the high-interest rate environment. Capex will now largely be funded by internal generating cash flow, as the company strategically manages its investments while extracting benefits from past expansions, particularly those that commenced operations in the last few years. This strategic focus aligns with Wilmar's commitment to enhancing overall performance and maximising returns on investment.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023	2024F	2025F
Net turnover	65,794	73,399	67,155	77,970	85,557
EBITDA	3,943	4,442	3,361	3,772	4,387
Operating profit	2,800	3,291	2,144	2,508	3,109
Net profit (rep./act.)	1,890	2,402	1,525	1,716	2,090
Net profit (adj.)	1,842	2,244	1,325	1,716	2,090
EPS (US\$ cent)	28.8	35.0	23.8	26.8	32.6
PE (x)	8.8	7.3	10.7	9.5	7.8
P/B (x)	0.8	0.8	0.8	0.8	0.7
EV/EBITDA (x)	11.2	10.0	13.2	11.7	10.1
Dividend yield (%)	4.2	4.6	4.6	4.3	5.2
Net margin (%)	2.9	3.3	2.3	2.2	2.4
Net debt/(cash) to equity (%)	114.3	123.6	111.8	122.6	122.4
Interest cover (x)	15.6	9.9	4.5	6.4	6.0
ROE (%)	9.7	12.0	7.6	8.4	9.8
Consensus net profit	-	-	-	1,774	1,956
UOBKH/Consensus (x)	-	-	-	1.03	0.94

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.41
Target Price	S\$3.35
Upside	-1.8%

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):	6,242.7
Market cap (S\$m):	21,287.7
Market cap (US\$m):	15,873.3
3-mth avg daily t'over (US\$m):	15.1

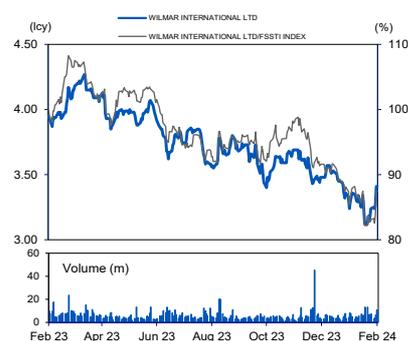
Price Performance (%)

52-week high/low	S\$4.27/S\$3.12			
1mth	3mth	6mth	1yr	YTD
2.4	(7.6)	(4.7)	(14.3)	(4.5)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY24 NAV/Share (US\$)	3.31
FY24 Net Debt/Share (US\$)	4.05

PRICE CHART



Source: Bloomberg

ANALYST(S)

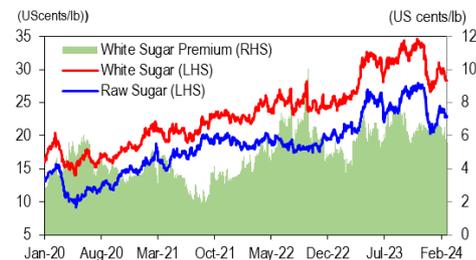
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STOCK IMPACT

- **Key takeaways from the briefing for each of its divisions are as follows.**
- **Food products: Sales volume expected to remain at least flat, with some margin improvement.** Sales volume growth is coming largely from more economical brands as consumers are trading down from mid-range brands. Margin is likely to improve on the back of lower raw material costs (especially for 1H24 vs 1H23). However, this margin improvement may be partly offset by a less favourable products mix, ie high sales from the lower-margin brands.
- **Oilseeds and grains:**
 - (a) **Soybean crushing outlook remains challenging for 2024.** Soybean crushing operation will be driven by margin improvement as volume is likely to remain flat at best. For 1Q24, crushing margin is likely to remain positive due to the good timing of raw material purchases. Volume may not see growth as demand for animal feed is likely to be flat yoy for 2024, and soymeal mix in feed is also on a declining trend, in line with China’s government policy to reduce its dependency on imported soybean.
 - (b) **Negative palm oil processing margins to persist at least for 1H24.** Refining margins for palm oil are in the red primarily due to tight CPO supplies, especially in Indonesia, which has been impacted by dry weather conditions in 2023, coupled with weak demand. Furthermore, palm oil faces stiff competition from soft oils, with soft oil prices trending downward and a significantly narrowing premium pricing against palm oil. In certain consuming markets, rapeseed oil and sunflower oil are trading at cheaper prices than palm olein. We do not anticipate a significant turnaround in the negative refining situation, particularly in Indonesia, in 1H24. Although refining margins in Malaysia are comparatively better, Wilmar has larger exposure in Indonesia.
 - (c) Sugar merchandising is likely to remain profitable despite lower selling prices.
- **Plantation and sugar milling:**
 - (a) **Upstream plantation operations are projected to perform better yoy,** attributed to lower production costs (mainly coming from lower fertiliser prices) despite flat FFB production compared to 2023.
 - (b) **The sugar milling division is expected to deliver lower profit yoy** due largely to lower sugar prices. Despite the expectation of lower yoy earnings, profit contributions from sugar milling in 2024 are likely to be much better than before 2023. 2023 was an exceptional year for sugar milling as raw sugar price surged by 27.7% yoy and hit its peak at 27.95 US cents/lb. Ytd average sugar is 22.80 US cents/lb, which is still higher than 2022’s average of 18.80 US cents/lb.
 - (c) **The fertiliser business is anticipated to perform better in 2024 as high-cost fertiliser inventory has been depleted.** Recall that the weak performance in 2023 was due largely to the high-price inventory carried forward from 2022.

MARGIN FOR SUGAR MERCHANDISING REMAINS GOOD



Source: Bloomberg

SOTP VALUATION

	PE(X)	S\$/Share
Food Ingredient	25	0.89
Feed & Oils & Fats	10	1.08
Plantations & Sugar Milling	11	0.32
Associates & JV	8	0.12
Total		3.35

Source: UOB Kay Hian

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.**

VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of S\$3.35.** Our valuation is based on 2024F EPS and uses the SOTP valuation by pegging PE of 18x, 10x and 11x for food products, feeds & industrial products and plantations & sugar mills respectively.
- Wilmar has declared a final tax-exempted dividend of S\$0.11/share and ex-date is fixed on 29 Apr 24.

SHARE PRICE CATALYST

- **Greater recovery in China.** As YKA is still the largest profit contributor to Wilmar, a surprise recovery would be positive to earnings and market sentiment towards Wilmar’s performance.
- If Wilmar is definitively cleared from any association with the recent China palm oil fraud, we anticipate a favourable trajectory for the company’s share price. Such a resolution would likely mitigate apprehensions, contributing to a restoration of investor confidence in the company’s corporate governance.

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Net turnover	73,399	67,155	77,970	85,557
EBITDA	4,442	3,361	3,772	4,387
Deprec. & amort.	1,151	1,217	1,264	1,278
EBIT	3,291	2,144	2,508	3,109
Total other non-operating income	0	0	0	1
Associate contributions	274	320	313	338
Net interest income/(expense)	(448)	(748)	(589)	(731)
Pre-tax profit	3,117	1,956	2,233	2,718
Tax	(547)	(298)	(340)	(414)
Minorities	(167)	(133)	(176)	(214)
Net profit	2,402	1,525	1,716	2,090
Net profit (adj.)	2,244	1,325	1,716	2,090

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Operating	2,746	3,885	(579)	1,092
Pre-tax profit	3,117	1,956	2,233	2,717
Tax	(685)	(499)	(340)	(414)
Deprec. & amort.	1,093	1,160	1,264	1,278
Working capital changes	(778)	2,194	(3,057)	(1,786)
Other operating cashflows	0	(926)	(678)	(703)
Investing	(2,542)	(3,099)	(2,363)	(2,163)
Capex (maintenance)	(2,483)	(2,281)	(1,546)	(1,346)
Investments	24	(10)	(10)	(10)
Proceeds from sale of assets	86	634	634	634
Others	(83)	(807)	(807)	(807)
Financing	1,789	2,405	667	113
Dividend payments	(699)	(1,050)	(803)	(848)
Issue of shares	23	41	33	6
Proceeds from borrowings	685	6,339	621	128
Others/interest paid	1,780	(2,925)	817	827
Net cash inflow (outflow)	1,992	3,192	(2,275)	(958)
Beginning cash & cash equivalent	2,588	2,847	4,381	2,199
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,580	6,039	2,106	1,241

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F
Fixed assets	14,814	15,766	16,049	16,085
Other LT assets	12,955	11,669	11,476	11,257
Cash/ST investment	5,722	8,156	5,698	5,683
Other current assets	26,911	26,218	30,583	33,220
Total assets	60,402	61,809	63,805	66,245
ST debt	23,435	22,242	22,242	22,242
Other current liabilities	6,508	7,414	7,993	8,320
LT debt	6,994	8,460	9,060	10,060
Other LT liabilities	865	941	875	912
Shareholders' equity	19,986	20,173	20,880	21,741
Minority interest	2,615	2,579	2,755	2,969
Total liabilities & equity	60,402	61,809	63,805	66,245

KEY METRICS

Year to 31 Dec (%)	2022	2023	2024F	2025F
Profitability				
EBITDA margin	6.1	5.0	4.8	5.1
Pre-tax margin	4.2	2.9	2.9	3.2
Net margin	3.3	2.3	2.2	2.4
ROA	4.0	2.5	2.7	3.2
ROE	12.0	7.6	8.4	9.8
Growth				
Turnover	11.6	(8.5)	16.1	9.7
EBITDA	12.7	(24.3)	12.2	16.3
Pre-tax profit	12.7	(37.2)	14.1	21.7
Net profit	27.1	(36.5)	12.6	21.8
Net profit (adj.)	21.8	(32.1)	29.5	21.8
EPS	21.8	(32.1)	29.5	21.8
Leverage				
Debt to total capital	57.4	57.4	57.0	56.7
Debt to equity	152.3	152.2	149.9	148.6
Net debt/(cash) to equity	123.6	111.8	122.6	122.4
Interest cover (x)	9.9	4.5	6.4	6.0

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