

COMPANY UPDATE

**Wilmar International (WIL SP)**

3Q23 Results Preview: Pressure On Palm Refining Margins Intensifies

We are revising down our earnings estimates again and this is after taking into consideration tough palm refining operations and China's slower-than-expected recovery. In the upcoming 3Q23 results, we are only expecting Wilmar to report a core net profit of US\$300m-320m (vs 3Q22's US\$796.7m and 2Q23's US\$195.1m). Note that the record-high profit in 3Q23 was due to palm refining margins at the higher-ever level caused by market distortions. Downgrade to HOLD. Target price: S\$3.80.

WHAT'S NEW

- **Recovery expected to be weaker and slower.** The worst could be over for Wilmar International (Wilmar) as we had highlighted in our note in Aug 23. However, the recovery pace is at an unexpectedly slower pace, and pressure on palm downstream margins is not easing given the intensified competition from competing vegoil in 3Q23.
- **3Q23 earnings likely to be weaker than our initial expectation.** Wilmar is scheduled to release its executive financial summary for 3Q23 on 26 Oct 23 after trading hours. Based on key market indicators and trends, we are expecting a core net profit of US\$300m-US\$320m for 3Q23, which could be its lowest 3Q profit since 2017. Note that 3Q has always been the best quarter for Wilmar due to the festive demand in China and India. Our US\$300-320m expectation is a significant drop from 3Q22's US\$796.7m. However, this sharp drop should not come as a surprise as back in 3Q22, all palm downstream processors reported their best-ever margins in history due to the market being distorted by the various policies changes in Indonesia. We estimate that palm refining margins in 3Q22 ranged between US\$100-120/tonne vs 3Q23's US\$5-15/tonne. Palm refining margins normally range between US\$10-20/tonne.
- **Downgrading earnings again.** We adjust down our earnings estimates for 2023/24/25 by 18%, 9% and 8% respectively. This comes after our downward revisions in Aug 23 after its 1H23 briefing. This revision mainly takes into consideration weaker-than-expected PBT margin from Feed & Industrial Products segment. Key contributors to this segment would be palm downstream processing and soybean crushing. Both sub-segments are facing intense pressure on PBT margins. Palm processing margins are under tremendous pressure as the competitive pricing offered by sunflower and soybean oil from Black Sea is eating into palm market's share. Meanwhile, the fertiliser division is likely to post losses as prices continue trending down, which will partially offset the better contribution from sugar milling (higher sugar prices).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	65,794	73,399	73,996	80,411	87,992
EBITDA	3,943	4,442	3,155	3,929	4,374
Operating profit	2,800	3,291	1,971	2,721	3,148
Net profit (rep./act.)	1,890	2,402	1,118	1,599	1,952
Net profit (adj.)	1,842	2,244	1,118	1,599	1,952
EPS (US\$ cent)	28.8	35.0	17.5	25.0	30.5
PE (x)	9.1	7.5	15.0	10.5	8.6
P/B (x)	0.8	0.8	0.8	0.8	0.7
EV/EBITDA (x)	11.2	9.9	14.0	11.2	10.1
Dividend yield (%)	4.1	4.5	2.7	3.4	4.1
Net margin (%)	2.9	3.3	1.5	2.0	2.2
Net debt/(cash) to equity (%)	114.3	123.6	122.9	124.1	123.4
Interest cover (x)	15.6	9.9	4.1	4.8	5.6
ROE (%)	9.7	12.0	5.5	7.7	9.0
Consensus net profit	-	-	1,388	1,820	2,002
UOBKH/Consensus (x)	-	-	0.81	0.88	0.98

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Downgraded)

Share Price	S\$3.58
Target Price	S\$3.80
Upside	+6.1%
(Previous TP)	S\$4.30

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):	22,349.0
Market cap (US\$m):	16,317.9
3-mth avg daily t'over (US\$m):	14.0

Price Performance (%)

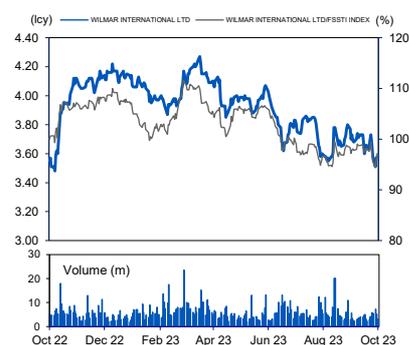
52-week high/low S\$4.27/S\$3.48

1mth	3mth	6mth	1yr	YTD
(5.0)	(6.5)	(12.7)	1.7	(14.1)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY23 NAV/Share (US\$)	3.24
FY23 Net Debt/Share (US\$)	3.98

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **YKA's performance should be better yoy and qoq**, due to: a) a lower base, and b) the high-cost raw materials should have been used up by early-3Q23. 3Q23 was also supported by better sales volume of its kitchen food products with the recovery of the HoReCa sector in 3Q23. Recalled YKA's 3Q22 performance was disappointing due to businesses being affected by the lockdown of key cities in China back then. In addition, overall margins were affected by the high prices of raw materials. Those negative factors back in 3Q22 may have improvement in 3Q23 with: a) costs of raw materials declining, leading to an improvement in margins, and b) the increase in dining out is expected to boost sales volume.

### EARNINGS REVISION/RISK

- **Earnings revised down by 18%, 9% and 8% for 2023/24/25**. As mentioned earlier, we adjust earnings downwards after we reduced our estimates for tropical processing margins and margins for plantations. We are now expecting a core net profit of US\$1.12b (from US\$1.37m), US\$1.56b (from US\$1.77m) and US\$1.95b (from US\$2.12m) for 2023, 2024 and 2025 respectively.

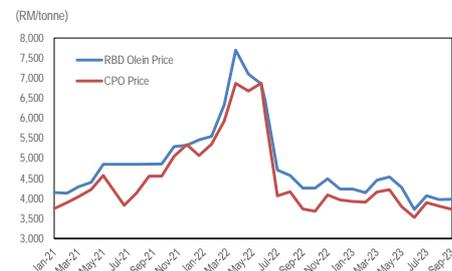
### VALUATION/RECOMMENDATION

- **Downgrade to HOLD from BUY with lower target price to S\$3.80 (previous: S\$4.30)** after factoring in lower earnings. Our valuation is based on 2024F EPS and uses the SOTP valuation by pegging PE of 25x, 10x and 11x for Food Products, Feeds & Industrial Products and Plantations & Sugar Mills respectively. The fair value of S\$3.80 translates to a blended 2024F PE of 11.0x. Share price could see some pressure from the upcoming weaker 3Q23 results. We will deem this an opportunity to accumulate.

### SHARE PRICE CATALYST

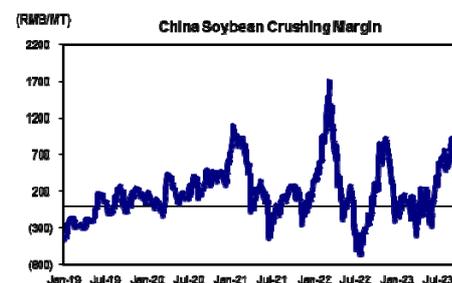
- **Stronger recovery in China**. As YKA is still the largest profit contributor to Wilmar, a surprise recovery would be positive to earnings and market sentiment towards Wilmar's performance
- **Global restocking after subdued purchases in 2023**. After the subdued demand for some of the palm by-products such as oleochemical and glycerin due to overstocking in 2022, we may see a restocking cycle in 2024. This could benefit Wilmar, seeing as it is the largest palm base ingredient producer in terms of better sales volume and margins as the prices of by-products recover.

### CPO VS RBD PALM OIL PRICES



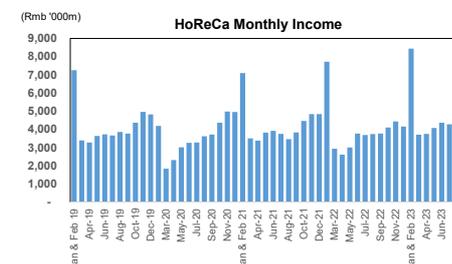
Source: Malaysian Palm Oil Board

### CHINA SOYBEAN CRUSHING MARGINS



Source: Department of Statistics, China

### CHINA HORECA REVENUE IMPROVED YOY



Source: Department of Statistics, China

### SOTP VALUATION

	PE(X)	S\$/Share
Food Ingredient	25	1.70
Feed & Oils & Ftas	10	1.49
Plantations & Sugar Milling	11	0.44
Associates & JV	8	0.17
<b>Total</b>		<b>3.80</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	73,399	73,996	80,411	87,992
EBITDA	4,442	3,155	3,929	4,374
Deprec. & amort.	1,151	1,184	1,208	1,226
EBIT	3,291	1,971	2,721	3,148
Total other non-operating income	0	0	0	1
Associate contributions	274	307	301	325
Net interest income/(expense)	(448)	(776)	(818)	(783)
<b>Pre-tax profit</b>	<b>3,117</b>	<b>1,502</b>	<b>2,204</b>	<b>2,690</b>
Tax	(547)	(300)	(441)	(538)
Minorities	(167)	(84)	(164)	(200)
<b>Net profit</b>	<b>2,402</b>	<b>1,118</b>	<b>1,599</b>	<b>1,952</b>
Net profit (adj.)	2,244	1,118	1,599	1,952

### CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>2,746</b>	<b>752</b>	<b>657</b>	<b>750</b>
Pre-tax profit	3,117	1,502	2,204	2,689
Tax	(685)	(300)	(441)	(538)
Deprec. & amort.	1,093	1,184	1,208	1,226
Working capital changes	(778)	(903)	(1,589)	(1,878)
Other operating cashflows	0	(731)	(725)	(749)
<b>Investing</b>	<b>(2,542)</b>	<b>(1,601)</b>	<b>(1,601)</b>	<b>(1,401)</b>
Capex (maintenance)	(2,483)	(1,541)	(1,541)	(1,341)
Investments	24	24	24	24
Proceeds from sale of assets	86	86	86	86
Others	(83)	(83)	(83)	(83)
<b>Financing</b>	<b>1,789</b>	<b>2,405</b>	<b>667</b>	<b>320</b>
Dividend payments	(699)	(1,050)	(803)	(313)
Issue of shares	23	41	33	33
Proceeds from borrowings	685	6,339	621	600
Others/interest paid	1,780	(2,925)	817	0
<b>Net cash inflow (outflow)</b>	<b>1,992</b>	<b>1,556</b>	<b>(276)</b>	<b>(331)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,588</b>	<b>2,847</b>	<b>2,404</b>	<b>1,789</b>
Changes due to forex impact	0	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>4,580</b>	<b>4,403</b>	<b>2,127</b>	<b>1,458</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	14,814	15,163	15,479	15,571
Other LT assets	12,955	12,813	12,577	12,328
Cash/ST investment	5,722	5,904	5,288	5,279
Other current assets	26,911	28,037	30,381	32,974
<b>Total assets</b>	<b>60,402</b>	<b>61,918</b>	<b>63,724</b>	<b>66,151</b>
ST debt	23,435	23,435	23,435	23,435
Other current liabilities	6,508	6,948	7,280	7,523
LT debt	6,994	7,594	8,194	9,194
Other LT liabilities	865	796	729	765
Shareholders' equity	19,986	20,446	21,223	22,170
Minority interest	2,615	2,699	2,863	3,063
<b>Total liabilities &amp; equity</b>	<b>60,402</b>	<b>61,918</b>	<b>63,724</b>	<b>66,151</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Growth</b>				
Turnover	11.6	0.8	8.7	9.4
EBITDA	12.7	(29.0)	24.5	11.3
Pre-tax profit	12.7	(51.8)	46.7	22.1
Net profit	27.1	(53.5)	43.1	22.1
Net profit (adj.)	21.8	(50.2)	43.1	22.1
EPS	21.8	(50.2)	43.1	22.1
<b>Profitability</b>				
EBITDA margin	6.1	4.3	4.9	5.0
Pre-tax margin	4.2	2.0	2.7	3.1
Net margin	3.3	1.5	2.0	2.2
ROA	4.0	1.8	2.5	3.0
ROE	12.0	5.5	7.7	9.0
<b>Leverage</b>				
Debt to total capital	57.4	57.3	56.8	56.4
Debt to equity	152.3	151.8	149.0	147.2
Net debt/(cash) to equity	123.6	122.9	124.1	123.4
Interest cover (x)	9.9	4.1	4.8	5.6

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