

COMPANY UPDATE

**Wilmar International (WIL SP)**

More Positive Outlook For 2H24 Following Briefing

From Wilmar’s briefing, management held a more positive tone than its outlook statement. While cautiously optimistic, Wilmar sees minimal impact from the China cooking oil scandal. Sales volumes and margins across food products and feed & industrial products segments are expected to improve. Though sugar milling operations face disruptions, an agreement may be on the horizon. We believe YKA’s performance is on track for recovery. Maintain HOLD. Target price: S\$3.25.

WHAT’S NEW

- **The 2H24 outlook guidance is more positive than initially anticipated**, which could support the share price. At the current share price, the interim DPS of S\$0.06 is giving a yield of 1.9% and we anticipate a higher final dividend. This could make the current price an attractive entry point for yield-seeking investors. The key difference in our outlook stems from concerns about the consumer pack segment, particularly the potential impact on consumer pack cooking oil sales and margins in China following the recent cooking oil scandal.
- **Maintain HOLD.** While Wilmar International’s (Wilmar) briefing carried a more positive tone, we remain conservative on the stock as Yihai Kerry Arawana’s (YKA) earnings volatility remains high in the uncertain macroenvironment. 1H24 earnings account for about 38% of our full-year forecast, in line with the typical seasonality as 2H traditionally performs better with festivities and the peak period of sugar milling.

Key takeaways from the briefing for each division are as follows:

- **Food products.** For China operations, management has shared that the contamination scandal has minimal impact, with sales for consumer pack cooking oil returning to normal after a 1-2-week decline. Sales volume is therefore likely to remain stable in China for 2024. Overall margins are expected to improve with lower raw material costs.
- **Feed & industrial products:**
  - Tropical oils.** Sales volume and margins are expected to improve in 2H24. This will be driven by: a) higher crude palm oil (CPO) production in Indonesia (1H24 saw a yoy decline in Indonesia), b) weakening domestic CPO prices, which ease feedstock costs, and c) the potential for an upward revision of the domestic obligation price (DPO) across the value chain. These factors could narrow domestic market obligation (DMO) losses, and in some cases, even lead to breakeven.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	73,399	67,155	75,330	83,024	90,851
EBITDA	4,442	3,361	3,738	3,931	4,526
Operating profit	3,291	2,144	2,456	2,597	3,151
Net profit (rep./act.)	2,402	1,525	1,606	1,816	2,159
Net profit (adj.)	2,244	1,567	1,606	1,816	2,159
EPS (US\$ cent)	35.0	24.5	25.1	28.4	33.7
PE (x)	6.8	9.7	9.4	8.3	7.0
P/B (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	9.1	12.1	10.8	10.3	9.0
Dividend yield (%)	5.0	5.0	4.8	5.5	6.5
Net margin (%)	3.3	2.3	2.1	2.2	2.4
Net debt/(cash) to equity (%)	123.6	111.8	111.0	117.8	111.8
Interest cover (x)	9.9	4.5	5.7	7.1	6.6
ROE (%)	12.0	7.6	7.9	8.6	10.0
Consensus net profit	-	-	1,555	1,759	1,848
UOBKH/Consensus (x)	-	-	1.03	1.03	1.17

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.12
Target Price	S\$3.25
Upside	+4.2%

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):	19,477.3
Market cap (US\$m):	14,779.1
3-mth avg daily t’over (US\$m):	12.5

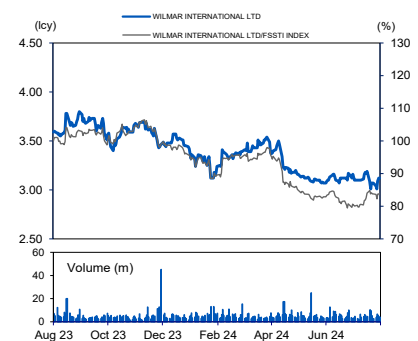
Price Performance (%)

52-week high/low	S\$3.80/S\$3.01			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(0.6)	(1.9)	(1.9)	(14.3)	(12.6)

Major Shareholders

Archer Daniels Midland	22.5
Kuok Brothers	19.0
Kuok Khoon Hong	13.7
FY24 NAV/Share (US\$)	3.28
FY24 Net Debt/Share (US\$)	3.64

PRICE CHART



Source: Bloomberg

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b) **Oilseeds & grains.** Soybean crushing is expected to improve with higher and seemingly sustainable demand for soybean meal (SBM). This is driven by lower SBM prices, leading to an increased meal inclusion ratio (ie more SBM is being mixed into animal feed). Demand for animal feed is also improving, in tandem with better pork prices.

- **Plantation and sugar milling.** Sugar production may still be affected by operational disruptions in Australia, where a workers' strike over pay adjustments has been ongoing since May. Wilmar temporarily shuts down operations at its eight sugar mills for an hour a week, which will impact its harvest. However, an agreement appears to be closer now.

### STOCK IMPACT

- **YKA shows signs of recovery.** Revenue declined yoy due to an industry-wide pass through of lower raw material costs. However, sales volume across all its segments has seen growth, while gross margins have also improved on lower feedstock costs. We are of the view that YKA's earnings will continue to improve as: a) consumer pack cooking oil sales recover quicker than expected, b) soybean crushing margins improve from lower soybean prices, and c) stabilising wheat prices point to better performance from the flour segment.
- **On Adani-Wilmar.** The owners of Adani-Wilmar are looking to sell a 13% stake as Indian regulations require large firms to have at least 25% free float within three years of listing. To comply with regulations, this will have to be completed by Feb 25. Given Adani-Wilmar's well-established presence and significant market share, we opine that there will be little challenge in finding a potential buyer for the stake.

### EARNINGS REVISION/RISK

- **Maintain earnings forecasts.**

### VALUATION/RECOMMENDATION

- **Maintain HOLD with a target price of S\$3.25.** Our target price is derived using the SOTP valuation by pegging a 2025F PE of 13x, 10x and 11x for food products, feeds & industrial products and plantations & sugar mills respectively. The fair value of S\$3.25 translates to a blended 2025F PE of 8x.
- For investors looking for yield, we believe the current price could be an attractive entry point as we anticipate a higher final dividend. To recap, the interim DPS of S\$0.06 is giving a yield of 1.9%.

### 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.
- Improvement of tropical oil processing margins.

### SOTP VALUATION

	PE(X)	S\$/Share
Food Ingredient	13	0.86
Feed & Oils & Fats	10	1.50
Plantations & Sugar Milling	11	0.59
Associates & JV	6	0.30
<b>Total</b>		<b>3.25</b>

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	67,155.3	75,329.7	83,023.6	90,851.0
EBITDA	3,360.9	3,738.5	3,931.4	4,525.5
Deprec. & amort.	1,217.3	1,282.7	1,334.7	1,374.7
EBIT	2,143.5	2,455.8	2,596.7	3,150.9
Total other non-operating income	0.0	0.0	1.0	1.0
Associate contributions	319.8	313.4	338.5	365.6
Net interest income/(expense)	(748.4)	(661.1)	(553.2)	(684.1)
<b>Pre-tax profit</b>	<b>1,956.3</b>	<b>2,108.1</b>	<b>2,383.0</b>	<b>2,833.4</b>
Tax	(298.1)	(337.3)	(381.1)	(453.2)
Minorities	(133.3)	(164.7)	(186.1)	(221.3)
<b>Net profit</b>	<b>1,524.8</b>	<b>1,606.1</b>	<b>1,815.8</b>	<b>2,158.9</b>
Net profit (adj.)	1,567.0	1,606.1	1,815.8	2,158.9

### CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>3,885.3</b>	<b>2,806.6</b>	<b>3,824.9</b>	<b>3,714.8</b>
Pre-tax profit	1,956.3	2,108.1	2,382.0	2,832.4
Tax	(499.3)	(337.3)	(381.1)	(453.2)
Deprec. & amort.	1,159.6	1,282.7	1,334.7	1,374.7
Working capital changes	2,194.3	430.9	1,277.7	926.5
Other operating cashflows	(925.5)	(677.9)	(788.5)	(965.6)
<b>Investing</b>	<b>(3,098.5)</b>	<b>(2,863.4)</b>	<b>(2,663.4)</b>	<b>(2,663.4)</b>
Capex (maintenance)	(2,281.3)	(2,046.1)	(1,846.1)	(1,846.1)
Investments	(9.9)	(9.9)	(9.9)	(9.9)
Proceeds from sale of assets	634.1	80.0	80.0	80.0
Others	(807.4)	(807.4)	(807.4)	(807.4)
<b>Financing</b>	<b>2,405.3</b>	<b>667.2</b>	<b>113.2</b>	<b>100.8</b>
Dividend payments	(1,049.5)	(803.2)	(847.6)	(505.9)
Issue of shares	41.4	32.6	5.7	5.7
Proceeds from borrowings	6,338.6	620.9	128.0	600.0
Others/interest paid	(2,925.2)	816.9	827.1	1.0
<b>Net cash inflow (outflow)</b>	<b>3,192.0</b>	<b>610.4</b>	<b>1,274.7</b>	<b>1,152.2</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>2,846.7</b>	<b>4,380.8</b>	<b>4,504.7</b>	<b>5,531.2</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>6,038.8</b>	<b>4,991.2</b>	<b>5,779.4</b>	<b>6,683.4</b>

### BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	15,766.1	16,548.8	17,066.1	17,531.4
Other LT assets	11,668.9	11,476.2	11,256.9	11,059.3
Cash/ST investment	8,155.7	8,304.7	6,531.2	7,189.6
Other current assets	26,218.0	27,270.4	29,077.6	29,643.8
<b>Total assets</b>	<b>61,808.7</b>	<b>63,600.2</b>	<b>63,931.9</b>	<b>65,424.2</b>
ST debt	22,242.1	22,242.1	22,242.1	22,242.1
Other current liabilities	7,414.2	7,908.1	7,139.2	7,479.5
LT debt	8,459.7	9,059.7	9,409.7	9,609.7
Other LT liabilities	940.9	929.8	879.8	879.8
Shareholders' equity	20,172.8	20,716.7	21,331.3	22,062.1
Minority interest	2,579.0	2,743.7	2,929.7	3,151.0
<b>Total liabilities &amp; equity</b>	<b>61,808.7</b>	<b>63,600.2</b>	<b>63,931.9</b>	<b>65,424.2</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	5.0	5.0	4.7	5.0
Pre-tax margin	2.9	2.8	2.9	3.1
Net margin	2.3	2.1	2.2	2.4
ROA	2.5	2.6	2.8	3.3
ROE	7.6	7.9	8.6	10.0
<b>Growth</b>				
Turnover	(8.5)	12.2	10.2	9.4
EBITDA	(24.3)	11.2	5.2	15.1
Pre-tax profit	(37.2)	7.8	13.0	18.9
Net profit	(36.5)	5.3	13.1	18.9
Net profit (adj.)	(30.2)	2.5	13.1	18.9
EPS	(30.2)	2.5	13.1	18.9
<b>Leverage</b>				
Debt to total capital	57.4	57.2	56.6	55.8
Debt to equity	152.2	151.1	148.4	144.4
Net debt/(cash) to equity	111.8	111.0	117.8	111.8
Interest cover (x)	4.5	5.7	7.1	6.6

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