

Wilmar International (WIL SP)

Strengthening momentum

BUY

Share Price SGD 5.08
 12m Price Target SGD 6.80 (+34%)
 Previous Price Target SGD 5.40

Potential surprises on the way?

We see four areas where WIL can potentially surprise in 4Q20: (i) record soybean crush margins, (ii) rising palm oil prices, (iii) normalising post-COVID activities in China and (iv) margin accretive Indonesian export taxes. Yet the Group is trading at a 75% discount to its own Chinese listed subsidiary. We believe, over the longer term, this may trigger further actions to unlock value such as more asset carve outs or even privatisation. While WIL has re-rated 21% in the past 1-month, we believe significant upside exists as they execute. Raise TP to SGD6.80. BUY.

Better than expected operating environment

4Q20 Chinese soybean crushing margins have increased 3x QoQ to reach the highest level since records began in 2015. Chinese hog inventories have increased 42% YoY in 2020, as it rebuilds stocks following African Swine Flu (ASF). Nevertheless, inventories are still ~20% below pre-ASF levels. As China's largest soybean crusher, this should result in significant upside surprise to WIL margins in 4Q20, we believe. In 3Q20, Management claimed hotel/restaurant demand is normalising as activities increased with COVID-19 containment. We expect further acceleration here. While rising food prices are a concern (UN FAO index up 18% since May 2020), but WIL claims they have been passing on the higher costs so far. The 30% 4Q20 rise in palm oil prices may drive upside surprise for WIL's upstream business, while the recent changes to Indonesian palm oil export taxes should positively impact its refined palm oil exports, we believe.

Same asset. Two hugely different values

WIL's 90% Chinese subsidiary YKA (300999 CH, CNY129.80, NR) has risen 2.2x since its IPO in Oct 20. This means the parent is trading at a 75% discount on SGX with its other regional businesses having no implied value. While there are advantages by the fact that the HoldCo is listed in Singapore (such as funding access), the large valuation differential may catalyse further strategies to unlock value. Over the longer term, this may include further asset hive-offs or privatisation, we believe.

Upgrade TP to SGD6.80. Maintain BUY

WIL is set to release 4Q20 end-Feb. We leave our EPS estimates unchanged. However, we update our blended DCF (WACC 5.3%, 1% terminal growth) and peer PE (target PE of 44x), to the latest price action of peers. In an abundance of caution, we have reduced the DCF:PE weighting on the TP from 70:30 to 80:20. YKA trades at 87x 2021E PE vs. 15x for WIL. BUY.

FYE Dec (USD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	44,498	42,641	51,337	54,655	52,909
EBITDA	2,637	2,805	3,247	3,557	3,617
Core net profit	1,126	1,293	1,347	1,586	1,639
Core FDEPS (cts)	17.8	20.4	21.2	25.0	25.9
Core FDEPS growth(%)	(5.8)	14.7	4.1	17.7	3.3
Net DPS (cts)	10.5	12.5	21.5	15.8	16.3
Core FD P/E (x)	12.9	15.0	18.0	15.3	14.8
P/BV (x)	0.9	1.2	1.4	1.3	1.3
Net dividend yield (%)	4.6	4.1	5.6	4.1	4.3
ROAE (%)	7.3	7.6	7.9	9.0	8.9
ROAA (%)	2.6	2.8	2.8	3.2	3.3
EV/EBITDA (x)	14.0	15.0	14.9	13.7	13.2
Net gearing (%) (incl perps)	129.4	120.8	126.0	121.8	111.3
Consensus net profit	-	-	1,356	1,487	1,535
MKE vs. Consensus (%)	-	-	(0.7)	6.7	6.8

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Company Description

Wilmar International Ltd. is an investment holding company, which engages in the processing, merchandising, and distribution of agricultural products

Statistics

52w high/low (SGD)	5.08/2.90
3m avg turnover (USDm)	36.7
Free float (%)	27.5
Issued shares (m)	6,403
Market capitalisation	SGD32.5B USD24.5B

Major shareholders:

Archer-Daniels-Midland Co.	24.6%
PPB Group Bhd.	18.3%
Kerry Group Ltd.	6.5%

Price Performance



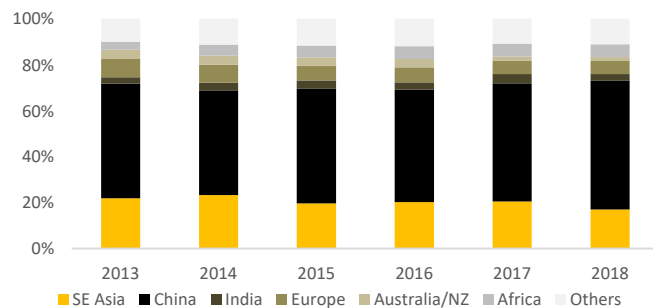
	-1M	-3M	-12M
Absolute (%)	21	9	17
Relative to index (%)	14	(7)	28

Source: FactSet

Value Proposition

- Over 90% of WIL's revenues are generated in high growth emerging markets, including China, India, SE Asia and Africa
- The group has built market leading positions and brands in essential food items and staples including cooking oil, flour, rice, sugar, animal feed in these markets
- A 30-year execution track record has seen it get access to scarce upstream production assets, such as palm oil plantations and sugar mills, and port-based, processing assets such as soybean crushing facilities and sugar mills and downstream distribution logistics
- Their integrated supply chains allows for better margin management and scale
- The group is continuing to invest in additional capacity in its existing markets and also expanding in new market, especially Africa

Over 90% of revenues from EMs

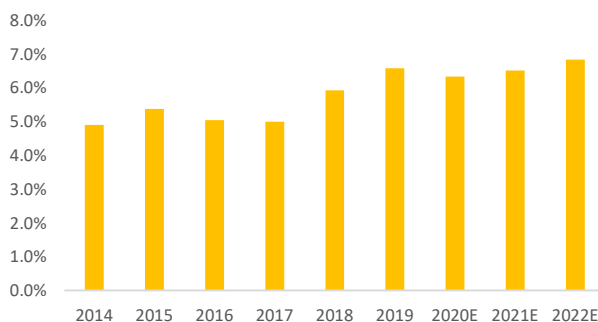


Source: Company

Financial Metrics

- WIL's ROA had a variance of just 0.03% over the past 5-years despite significant commodity pricing volatility
- Stripping away hedged, near cash inventories, gearing falls to 70% by 2022E
- EBITDA margins may improve from 6.6% in 2019 to 6.8% in 2022E from improving product mix towards higher margin flour, rice and premium oils

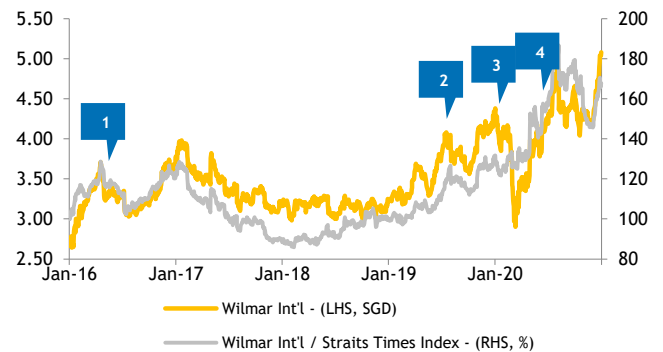
EBITDA Margins (%)



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Profit warning on trading losses in soybeans plus lower sugar production in Australia due to drought
- Fears of African Swine Flu combined with US-China trade tensions
- Start of the Covid-19 pandemic
- Increased news flow of YKA listing in China

Swing Factors

Upside

- A faster recovery of Covid-19 lockdowns may drive stronger volumes across categories
- Holding company gap closing between parent and its Chinese listing - YKA
- Monetisation of a new product under R&D through their investments in biotechnology, clinical nutrition, AI may result in upside surprise

Downside

- Revocation of licenses, operating bans, activism due to ESG related issues can have a material downside impact
- A second wave of infection of Covid-19 and new restrictions may pressure volumes
- Limiting credit facilities or imposing utilization restrictions by lenders may have a significant impact

Potential surprises to margins, volumes

Starting from May 2020, Chinese soybean crush margins have staged a sustained recovery. In 4Q20, margins have increased 3x QoQ to reach the highest level since records began in 2015.

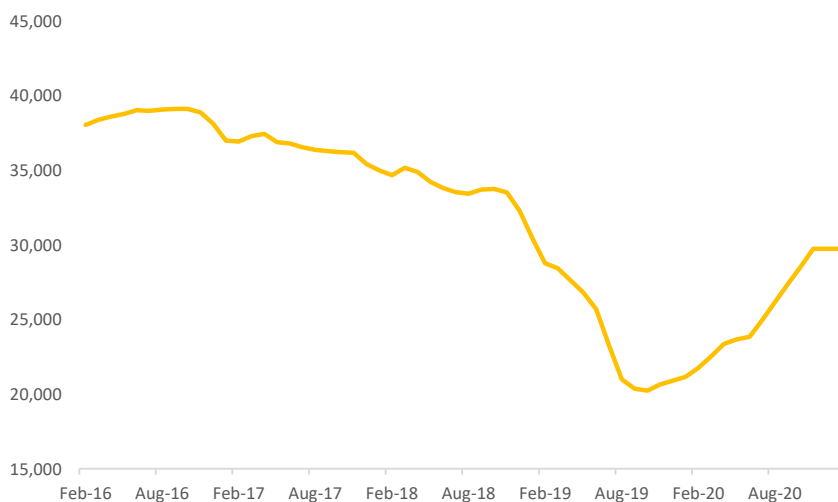
Fig 1: Chinese soybean crush margins



Source: Bloomberg, Maybank Kim Eng

These margin increase is coinciding with Chinese hog inventories rising 42% YoY in 2020. China is rebuilding stocks following African Swine Flu (ASF). Nevertheless, inventories are still -20% below pre-ASF levels and rapid normalisation of consumption as China emerges from COVID-19 is likely to accelerate inventory rebuilding here, we believe.

Fig 2: China national pig stock index



Source: Bloomberg, Maybank Kim Eng

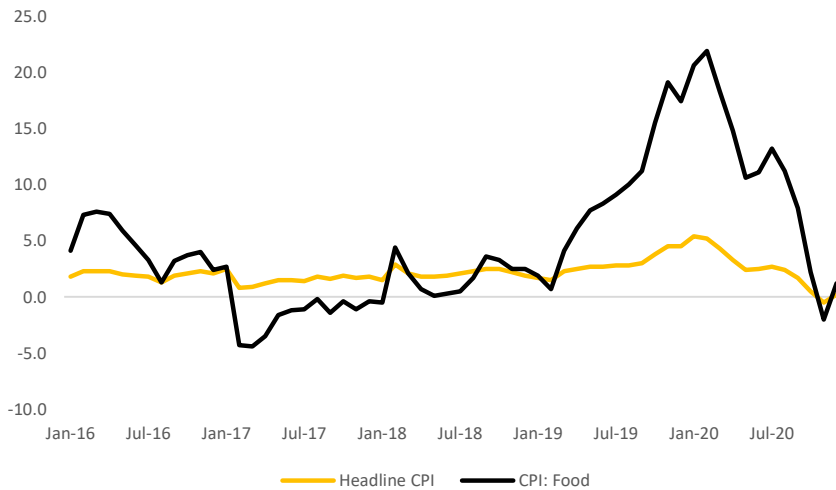
As China’s largest soybean crusher, this should result in significant upside surprise to WIL margins in 4Q20, we believe. 70% of WIL’s soybean crushing plants are located in China and its national level presence should enable it to optimise margins and volumes further, in our view.

Similarly, 48% of flour milling plants and 81% of rice milling are located in China for Wilmar. These segments have seen significant margin and

volume growth as they ramp up using WIL’s existing distribution infrastructure. Improving economic activity

In 3Q20, Management claimed hotel/restaurant demand is normalising as activities increased with COVID-19 containment. For WIL’s consumer business, rising food prices are a concern (UN FAO index up 18% since May 2020), but Management claims they have been passing on the higher costs so far. Overall, food inflation has seen only a minor increase in December 2020, following significant declines for most of 2020.

Fig 3: China CPI and Food Inflation YoY (%)



Source: Factset, Maybank Kim Eng

The 30% 4Q20 rise in palm oil prices may drive upside surprise for WIL’s upstream plantations business, we believe.

Fig 4: Palm oil FOB (MYR/ton)



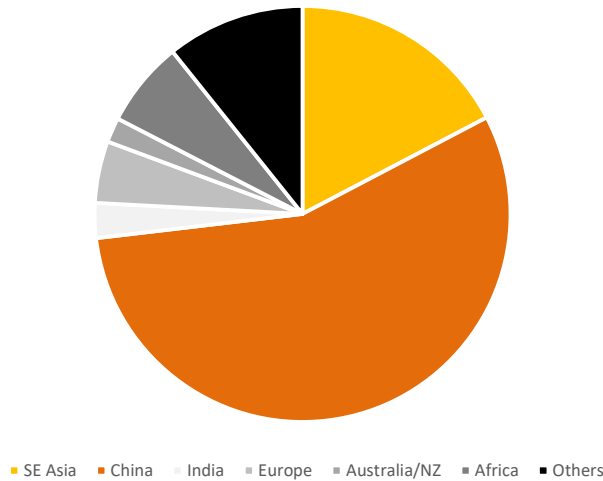
Source: Maybank Kim Eng

According to a report by MKE’s Plantations analyst Ong Chee Ting, integrated Indonesian players such as WIL should benefit from the recent introduction of progressive export levies by the Indonesian government (see: *Regional Plantations: Integrated ID platers better off than ID upstream under newly approved export structure, 04 December 2020*).

Wide valuation gap

WIL's 90% of Chinese subsidiary YKA (300999 CH, CNY129.80, NR) has risen 2.2x since its IPO in Oct 20. This means the parent is trading at a 75% discount on SGX with its other regional businesses having no implied value. WIL's regional businesses contribute 46% of revenue to the Group with 80% of these coming from high growth emerging markets.

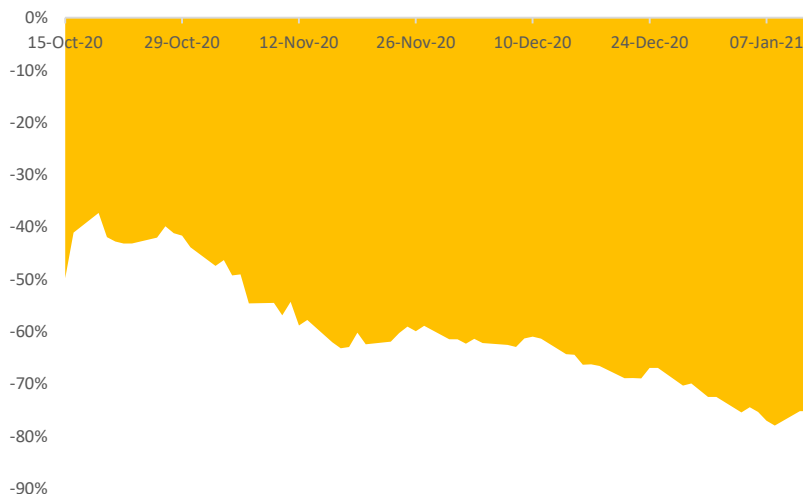
Fig 5: WIL revenue by geography



Source: Company data, Maybank Kim Eng

While there are benefits for being listed in a large, regional exchange - particularly in accessing funding for WIL's non-Chinese subsidiaries - the materially wide valuation differential in SGX vs. SZSE may drive the Group to realise more value from its HoldCo, in our view. Longer term measures may include further asset carve outs or privatisation, in our view.

Fig 6: WIL parent discount to YKA



Source: Bloomberg, Maybank Kim Eng

Raise TP. Maintain BUY

With WIL set to release 4Q20 end-Feb, we leave our EPS estimates unchanged. However, we update our blended DCF (WACC 5.3%, 1% terminal growth) and peer PE (target PE of 44x), to the latest price action of peers.

Fig 7: Wilmar blended TP (SGD)

Blended Target Price	SGD	Weighting
Multistage DCF (WACC 5.3%, 1% terminal)	4.77	80%
Peer basket driven TP (18.7x PE target)	14.89	20%
Blended TP	6.80	
Upside/Downside (%)	35%	
PE at TP (2021E)	20.4	
PB at TP (2021E)	1.8	

Source: Bloomberg, Factset, Maybank Kim Eng

In the abundance of caution, we have reduced the DCF:PE TP weighting mix from 70:30 to 80:20. YKA trades at 87x 2021E PE vs. 15x for WIL. BUY

Fig 8: WIL peer valuation

Ticker	Name	Listing	Price (LCY)	Market Cap (USD bn)	1-yr FWD PE (x)	Rating	Weighting
China							
000876 CH Equity	New Hope Liuhe Co Ltd	China	23.91	16.67	6.7	Not Rated	
600438 CH Equity	Tongwei Co Ltd	China	40.41	28.14	32.0	Not Rated	
300999 CH Equity	Yihai Kerry Arawana Holdings	China	129.80	108.87	87.3	Not Rated	
Mkt Cap Weighted Average					68.4		56%
Developed Mkts							
2002 JT Equity	Nisshin Seifun Group	Japan	1682	4.92	23.5	Not Rated	
GLEN LN Equity	Glencore	UK	276.40	50.18	14.4	Not Rated	
ADM US Equity	ADM	US	51.40	28.60	14.2	Not Rated	
BG US Equity	Bunge	US	69.69	9.73	12.7	Not Rated	
Mkt Cap Weighted Average					14.6		7%
Emerging Mkts							
INDF IJ Equity	Indofood Sukses TBK	Indonesia	6725	4.17	9.4	BUY	
OLAM SP Equity	Olam International	Singapore	1.31	4.19	7.7	Not Rated	
GGR SP Equity	Golden Agri	Singapore	0.16	1.98	22.7	Not Rated	
Mkt Cap Weighted Average					11.3		37%
Weighted Average Target PE					43.5	x	
2021E EPS					0.251	USD	
Target share price					10.90	USD	
USDSGD FX					0.732		
Peer basket driven target price					14.89		

Source: Bloomberg, Maybank Kim Eng

Fig 9: WIL DCF valuation

Valuation																
Risk Free rate	2.5%															
Expected market return	6.5%															
Beta	1.12															
COE	9.8%															
Long term cost of debt	6.0%															
Long term debt:equity	90%															
2019E Tax rate	22%															
WACC	5.2%															
Terminal growth	1.0%															
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E	TM
Profit before Tax	2,151	2,223	1,869	1,882	2,143	2,044	2,077	2,210	2,238	2,266	2,295	2,330	2,366	2,401	2,436	
PBT growth YoY (%)	18%	3%	-16%	1%	14%	-5%	2%	6%	1%	1%	1%	2%	2%	1%	1%	
Operating Cashflow	3,101	3,145	2,891	2,934	3,000	2,657	2,701	2,431	2,461	2,493	2,226	2,260	2,295	2,329	2,363	
Changes to working capital	(630)	629	303	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	(95)	
Capex	(1,600)	(1,600)	(1,500)	(1,500)	(1,500)	(1,100)	(1,100)	(800)	(800)	(800)	(500)	(500)	(500)	(500)	(499)	
Free cash flow to firm	871	2,175	1,694	1,338	1,405	1,461	1,505	1,535	1,566	1,597	1,631	1,665	1,699	1,733	1,768	42,131
FCF growth YoY (%)		150%	-22%	-21%	5%	4%	3%	2%	2%	2%	2%	2%	2%	2%	2%	1%
Enterprise value	36,477															
Net debt excluding near cash inventories	14,351															
Fair value	22,127															
Weighted avg. shares outstanding ('000)	6,330															
Fair value per share (USD)	3.50															
USDSGD FX	0.732															
Fair value per share (SGD)	4.77															

Source: Maybank Kim Eng

Fig 10: WIL key assumptions

	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Tropical Oils									
Revenue growth	2%	-23%	8%	7%	-6%	-9%	11%	9%	8%
Sales volume growth	0%	-4%	-1%	-1%	5%	12%	8%	7%	3%
PBT/tonne growth	-14%	-42%	28%	-42%	30%	47%	-5%	2%	-2%
Oilseeds & Grains									
Revenue growth	-15%	-2%	1%	11%	13%	-4%	31%	5%	-11%
Sales volume growth	-4%	14%	3%	13%	12%	-1%	21%	3%	-6%
PBT/tonne growth	-20%	73%	-65%	157%	8%	-26%	19%	3%	11%
Sugar									
Revenue growth	1%	8%	33%	-18%	-16%	17%	-1%	4%	2%
Sales volume growth	49%	0%	-9%	-8%	7%	16%	-7%	2%	2%
PBT/tonne growth	-29%	-38%	66%	-121%	387%	-102%	-3089%	-203%	25%
Operating expenses growth	6.0%	6.1%	5.8%	-7.7%	5.8%	1.3%	36.9%	29.8%	24.1%
Finance income yield (%)	5.3%	7.1%	3.1%	3.1%	4.3%	4.2%	4.2%	4.2%	4.2%
Finance expense cost (%)	2.3%	2.5%	2.0%	2.6%	3.5%	3.8%	4.0%	4.0%	4.0%
Effective Tax (%)	20.4%	20.6%	15.9%	18.1%	21.7%	21.9%	21.9%	21.9%	21.9%
Dividend payout ratio (%)	32%	34%	31%	39%	43%	45%	72%	45%	45%
Borrowing									
Short term	68%	64%	75%	81%	76%	77%	77%	77%	77%
Long term	32%	36%	25%	19%	24%	23%	23%	23%	23%

Note: In 1Q20 WIL changed its business reporting categories to Food Products, Feed & Industrial Products, Plantation & Sugar Milling and Others. We have retained the earlier categories for now pending detailed disclosure and historical comparisons from the Group

Source: Maybank Kim Eng

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	12.7	13.5	18.0	15.3	14.8
Core P/E (x)	12.9	15.0	18.0	15.3	14.8
Core FD P/E (x)	12.9	15.0	18.0	15.3	14.8
P/BV (x)	0.9	1.2	1.4	1.3	1.3
P/NTA (x)	1.3	1.7	2.1	1.9	1.8
Net dividend yield (%)	4.6	4.1	5.6	4.1	4.3
FCF yield (%)	3.1	6.2	nm	3.6	9.0
EV/EBITDA (x)	14.0	15.0	14.9	13.7	13.2
EV/EBIT (x)	20.4	21.8	21.1	19.4	18.8

INCOME STATEMENT (USD m)

Revenue	44,497.5	42,640.5	51,336.6	54,655.3	52,908.7
Gross profit	4,390.3	4,486.1	5,876.5	7,240.4	8,469.4
EBITDA	2,637.3	2,804.7	3,247.4	3,556.6	3,616.7
Depreciation	(830.0)	(875.8)	(961.6)	(1,049.7)	(1,081.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,807.3	1,928.9	2,285.9	2,506.8	2,535.1
Net interest income / (exp)	(352.1)	(416.6)	(530.1)	(542.1)	(498.5)
Associates & JV	310.3	153.0	153.0	153.0	153.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	(152.6)	33.1	(81.9)	33.1	33.1
Pretax profit	1,612.9	1,698.5	1,826.9	2,150.9	2,222.7
Income tax	(349.8)	(371.5)	(399.6)	(470.5)	(486.2)
Minorities	(94.1)	(77.1)	(80.3)	(94.5)	(97.7)
Discontinued operations	(43.4)	43.5	0.0	0.0	0.0
Reported net profit	1,169.1	1,249.9	1,347.0	1,585.9	1,638.8
Core net profit	1,125.7	1,293.4	1,347.0	1,585.9	1,638.8

BALANCE SHEET (USD m)

Cash & Short Term Investments	1,650.5	2,113.1	1,217.2	1,409.3	2,921.4
Accounts receivable	4,349.1	4,251.6	5,118.7	5,449.6	5,275.4
Inventory	7,911.3	7,960.8	8,967.5	9,353.1	8,766.1
Property, Plant & Equip (net)	9,309.7	11,278.2	11,497.2	12,047.5	12,565.9
Intangible assets	4,495.1	5,384.4	5,384.4	5,384.4	5,384.4
Investment in Associates & JVs	3,715.2	3,103.2	3,103.2	3,103.2	3,103.2
Other assets	14,249.0	12,957.4	12,957.4	12,957.4	12,957.4
Total assets	45,679.9	47,048.6	48,245.4	49,704.3	50,973.8
ST interest bearing debt	17,821.2	18,288.1	18,673.8	19,059.5	19,445.2
Accounts payable	1,441.7	1,690.7	2,014.4	2,101.0	1,969.2
LT interest bearing debt	5,523.4	5,419.3	5,533.6	5,647.9	5,762.2
Other liabilities	4,127.0	3,774.0	3,774.0	3,774.0	3,774.0
Total Liabilities	28,913.3	29,172.5	29,996.2	30,582.8	30,951.0
Shareholders Equity	16,048.8	16,762.5	17,135.6	18,007.8	18,909.2
Minority Interest	717.7	1,113.6	1,113.6	1,113.6	1,113.6
Total shareholder equity	16,766.6	17,876.1	18,249.2	19,121.5	20,022.8
Total liabilities and equity	45,679.9	47,048.6	48,245.4	49,704.3	50,973.8

CASH FLOW (USD m)

Pretax profit	1,612.9	1,698.5	1,826.9	2,150.9	2,222.7
Depreciation & amortisation	830.0	875.8	961.6	1,049.7	1,081.6
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	411.1	297.1	(1,550.1)	(629.9)	629.3
Cash taxes paid	(349.8)	(371.5)	(399.6)	(470.5)	(486.2)
Other operating cash flow	(317.9)	514.2	359.0	370.9	327.4
Cash flow from operations	2,186.3	3,014.0	1,197.8	2,471.2	3,774.7
Capex	(1,741.9)	(1,812.9)	(1,300.0)	(1,600.0)	(1,600.0)
Free cash flow	444.4	1,201.1	(102.2)	871.2	2,174.7
Dividends paid	(494.9)	(461.8)	(973.9)	(713.6)	(737.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	1,053.1	454.4	500.0	500.0	500.0
Other invest/financing cash flow	(806.0)	(731.1)	(319.9)	(465.5)	(425.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	196.5	462.7	(896.0)	192.1	1,512.2

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	(4.2)	20.4	6.5	(3.2)
EBITDA growth	21.1	6.3	15.8	9.5	1.7
EBIT growth	28.8	6.7	18.5	9.7	1.1
Pretax growth	3.2	5.3	7.6	17.7	3.3
Reported net profit growth	(2.2)	6.9	7.8	17.7	3.3
Core net profit growth	(5.8)	14.9	4.1	17.7	3.3
Profitability ratios (%)					
EBITDA margin	5.9	6.6	6.3	6.5	6.8
EBIT margin	4.1	4.5	4.5	4.6	4.8
Pretax profit margin	3.6	4.0	3.6	3.9	4.2
Payout ratio	56.8	63.3	101.2	63.0	63.0
DuPont analysis					
Net profit margin (%)	2.6	2.9	2.6	2.9	3.1
Revenue/Assets (x)	1.0	0.9	1.1	1.1	1.0
Assets/Equity (x)	2.8	2.8	2.8	2.8	2.7
ROAE (%)	7.3	7.6	7.9	9.0	8.9
ROAA (%)	2.6	2.8	2.8	3.2	3.3
Liquidity & Efficiency					
Cash conversion cycle	95.2	96.4	85.2	88.7	93.4
Days receivable outstanding	34.2	36.3	32.9	34.8	36.5
Days inventory outstanding	72.4	74.9	67.0	69.5	73.4
Days payables outstanding	11.4	14.8	14.7	15.6	16.5
Dividend cover (x)	1.8	1.6	1.0	1.6	1.6
Current ratio (x)	1.2	1.1	1.1	1.1	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.6
Net gearing (%) (incl perps)	129.4	120.8	126.0	121.8	111.3
Net gearing (%) (excl. perps)	129.4	120.8	126.0	121.8	111.3
Net interest cover (x)	5.1	4.6	4.3	4.6	5.1
Debt/EBITDA (x)	8.9	8.5	7.5	6.9	7.0
Capex/revenue (%)	3.9	4.3	2.5	2.9	3.0
Net debt/ (net cash)	21,694.1	21,594.3	22,990.3	23,298.2	22,286.0

Source: Company; Maybank

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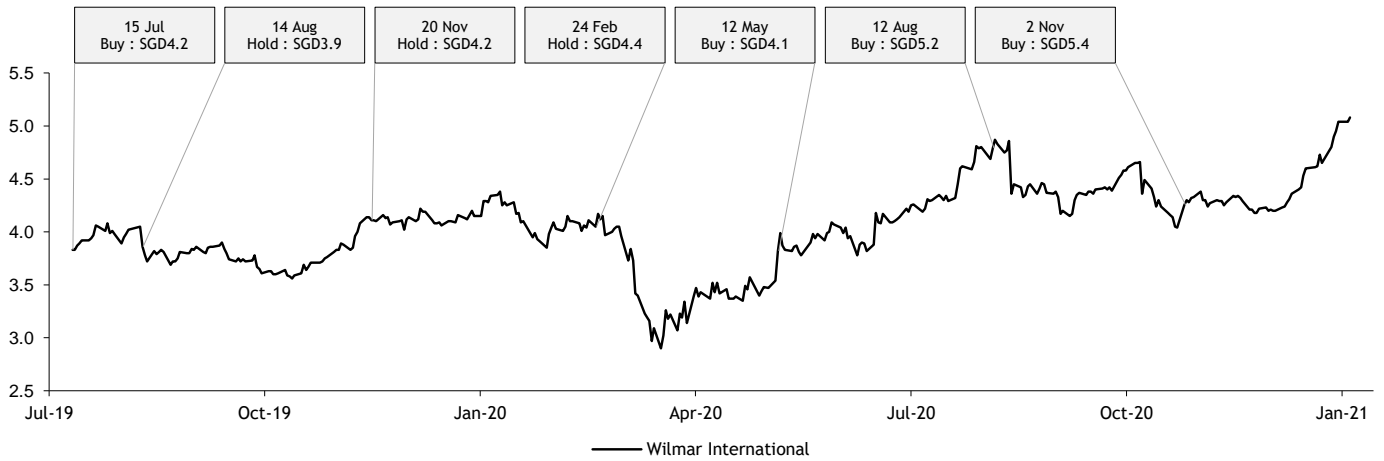
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