

Wilmar International (WIL SP)

Visibility remains limited

IPO timing & Covid-19 creates near term uncertainty

WIL's 2019 NPAT came well ahead of MKE/Street expectations supported by a strong performance in Tropical Oils, YoY improvement in Oilseeds & Grains from higher crushing margins and contributions from non-operating items, including investment securities gains. While the Group's food staples focus should provide it with some immunity against the Covid-19 epidemic in China, the difficulties it was facing on animal feed from ASF are unlikely to disappear near term. A prolonged Covid-19 outbreak may impact raw material sourcing, labour and supply chains. Separately, the timing of its Chinese IPO is currently ambiguous. As a result, we prefer to maintain HOLD with new TP of SGD4.37 until better clarity arise.

Stronger outlook for Tropical Oils...

Expected inventory tightness for palm oil, together with higher Indonesian bio-diesel mandates, may support improved Tropical Oil revenues in 2020E. However, we believe the strong 4Q19 results where segment PBT/MT was 81% higher than the past 8-quarters may have been helped by directional trading profits. Sustainability of this need to be watched.

...not so much for Oileeds & Grains

Segment PBT/MT improved 62% YoY from better crush margins and rising mix of rice and flour consumer pack contribution. Management expects to triple processing capacity in this segment in the next 3-years. The groups' existing Chinese crushing plants are back at 80-90% utilization following the Covid-19 outbreak and raw material supply chains are functioning. Structurally, WIL is well placed to benefit from China's long term trend of demand for better food safety and shift towards quality. However, in the near term, a prolonged Covid-19 outbreak and lingering African Swine Flu (ASF) impacting hog feed demand adds material uncertainty, in our view.

Uncertainty remains. Maintain Neutral

Management states the proposed IPO of their China business is on track, but Covid-19 disruptions and planned stock market reforms in the Mainland may cause some delays. We have raised 2020-21E NPAT by 2-3% on better Tropical Oils margins. We raise our blended DCF (WACC 5.3%, 1% terminal growth) and global peer PE (target PE of 17.5x at latest prices) target price to SGD4.37 (from SGD4.21). Given IPO timing delays and uncertainty of Covid-19 and ASF resolutions in the near term, we maintain HOLD

FYE Dec (USD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	44,498	42,641	45,636	48,608	48,956
EBITDA	2,637	2,805	3,023	3,230	3,067
Core net profit	1,126	1,293	1,311	1,389	1,237
Core FDEPS (cts)	17.8	20.4	20.7	21.9	19.5
Core FDEPS growth(%)	(5.8)	14.7	1.4	5.9	(11.0)
Net DPS (cts)	7.7	9.1	9.3	9.8	8.7
Core FD P/E (x)	12.9	15.0	14.2	13.4	15.1
P/BV (x)	0.9	1.2	1.1	1.0	1.0
Net dividend yield (%)	3.4	3.0	3.1	3.3	3.0
ROAE (%)	7.3	7.6	7.7	7.8	6.6
ROAA (%)	2.6	2.8	2.7	2.8	2.5
EV/EBITDA (x)	14.0	15.0	13.6	12.9	13.4
Net gearing (%) (incl perps)	129.4	120.8	115.8	112.9	107.3
Consensus net profit	-	-	1,283	1,423	na
MKE vs. Consensus (%)	-	-	2.2	(2.4)	na

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HOLD

Share Price	SGD 4.11
12m Price Target	SGD 4.37 (+6%)
Previous Price Target	SGD 4.21

Company Description

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

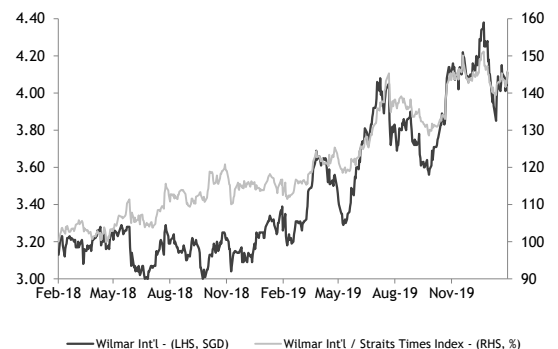
Statistics

52w high/low (SGD)	4.38/3.18
3m avg turnover (USDm)	14.7
Free float (%)	28.3
Issued shares (m)	6,403
Market capitalisation	SGD26.3B
	USD18.8B

Major shareholders:

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

Price Performance



	-1M	-3M	-12M
Absolute (%)	(1)	0	21
Relative to index (%)	1	0	25

Source: FactSet

1. Results analysis

Fig 1: Results analysis

USDm	4Q19	4Q18	YoY (%)	3Q19	QoQ(%)	2019	YoY	Comments
Revenue	11,250	11,190	1	11,164	1	42,641	(4)	Lower commodity prices
Cost of Sales	(9,997)	(10,127)	(1)	(9,852)	1	(38,154)	(5)	Lower volumes, commodity pricing
Gross Profit	1,253	1,063	18	1,312	(4)	4,486	2	
Opex	(452)	(416)	9	(419)	8	(1,681)	(4)	Higher promotional activities in China, staff costs
EBITDA	802	648	24	893	(10)	2,805	6	
Depreciation	(240)	(244)	(1)	(216)	11	(876)	6	
EBIT	561	404	39	677	(17)	1,929	7	
Net finance income	(82)	(110)	(26)	(106)	(23)	(417)	18	Lower effective interest rates on deposits
Share of results of JVs & Associates	85	153	(44)	25	243	153	(51)	Weaker performance in China, Africa, Vietnam
Other pre-tax income	35	(146)	>100	(18)	>100	33	>100	Mark-to-market losses in investment portfolio
PBT from continuing operations	600	301	100	578	4	1,698	5	
Income tax	(141)	(67)	110	(168)	(16)	(372)	6	
Profit from discontinued ops net of tax	-	4	(100)	99	n.m.	44	n.m.	
Profit after tax	459	237	94	509	(10)	1,370	12	
Minorities	(21)	(40)	(48)	(62)	(67)	(77)	n.m.	
Net profit	438	197	122	447	(2)	1,293	15	2019 116% of Street/MKE Post adjustments to Shree Renuka and non-ops income
WIL defined Core-Net profit	410	333	23	419	(2)	1,256	(3)	
Total volumes ('000 MT)	20,619	20,461	1	21,266	(3)	78,374	4	
PBT per Metric Tonne (USD/MT)								
Tropical Oils	40	18	119	27	51	30	47	Stronger downstream margins, volumes, directional trades
Oilseeds and Grains	20	12	62	30	(34)	17	(26)	Improved crush margins, increased flour, rice contribution
Sugar	(2)	(31)	(92)	20	n.m.	0	(102)	Impairment charges absent

Source: Company data, Maybank Kim Eng

2. Changes to assumptions

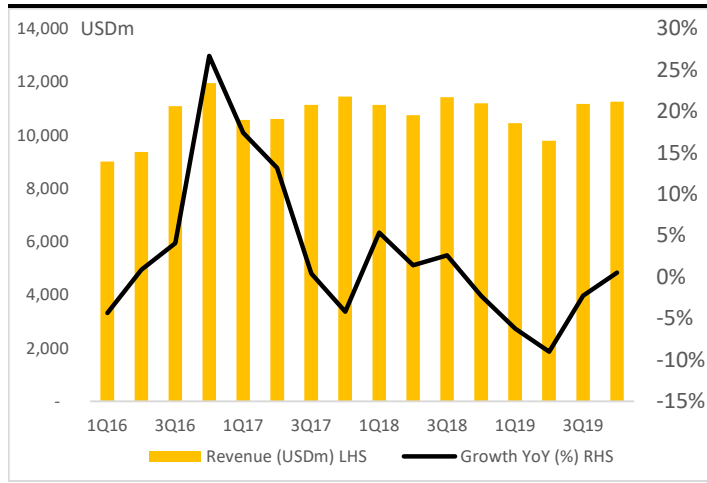
Fig 2: Changes to assumptions

	2020E			2021E		
	Old	New	% Change	Old	New	% Change
Revenue	47,100	45,636	-3%	49,634	48,608	-2%
Cost of Sales	(40,124)	(39,985)	0%	(41,105)	(41,694)	1%
Gross Profit	6,977	5,651	-19%	8,529	6,914	-19%
EBITDA	3,011	3,023	0%	3,181	3,230	2%
Profit from segmental operations	1,490	1,625	9%	1,599	1,731	8%
Tropical oils	686	906	32%	725	892	23%
Oilseeds and grains	722	673	-7%	787	790	0%
Sugar	73	37	-49%	76	39	-49%
Others	20	20	-3%	21	21	-2%
Income tax	(343)	(389)	14%	(364)	(412)	13%
Net profit	1,275	1,311	3%	1,355	1,389	2%
Capex	1,500	1,600	7%	1,500	1,600	7%
Tropical Oils						
Sales volume ('000)	30,537	30,070	-2%	31,722	31,232	-2%
PBT/MT	22.5	30.1	34%	22.9	28.6	25%
Oilseeds and Grains						
Sales volume ('000)	40,175	38,621	-4%	41,197	40,257	-2%
PBT/MT	18.0	17.4	-3%	19.1	19.6	3%
Sugar						
Sales volume ('000)	12,740	12,740	0%	12,994	12,994	0%
PBT/MT	5.7	2.9	-49%	5.9	3.0	-49%

Source: Maybank Kim Eng

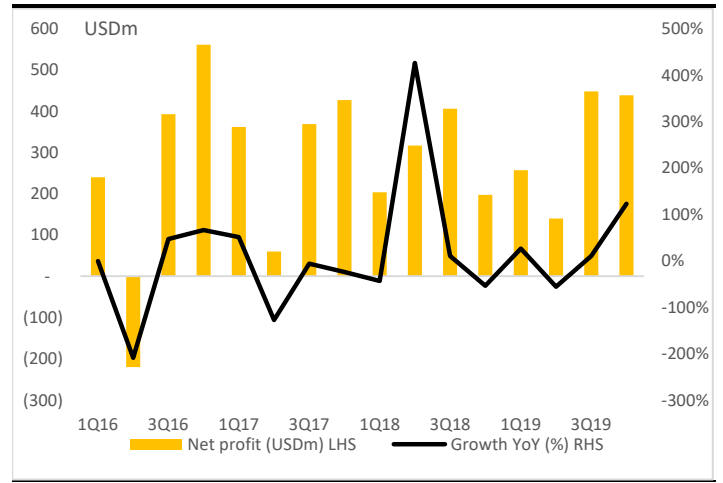
3. Focus charts

Fig 3: Revenue growth



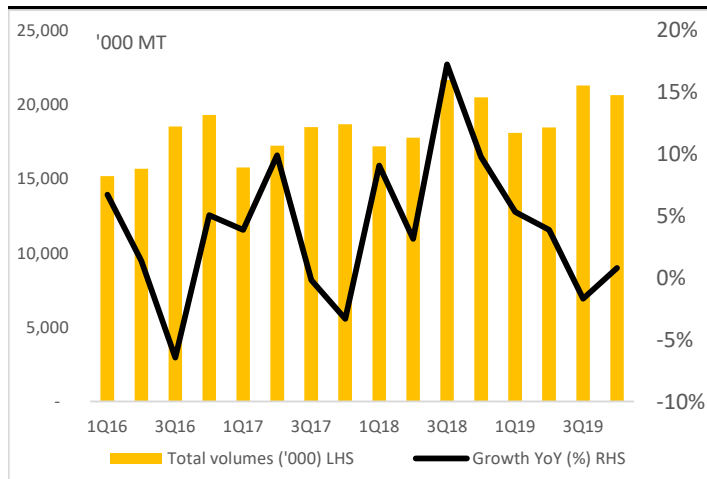
Source: Company data

Fig 4: Net profit growth



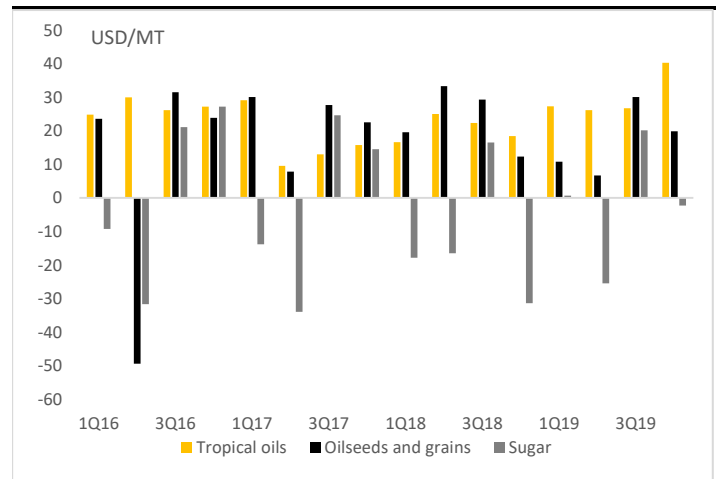
Source: Company data

Fig 5: Volume growth YoY (%)



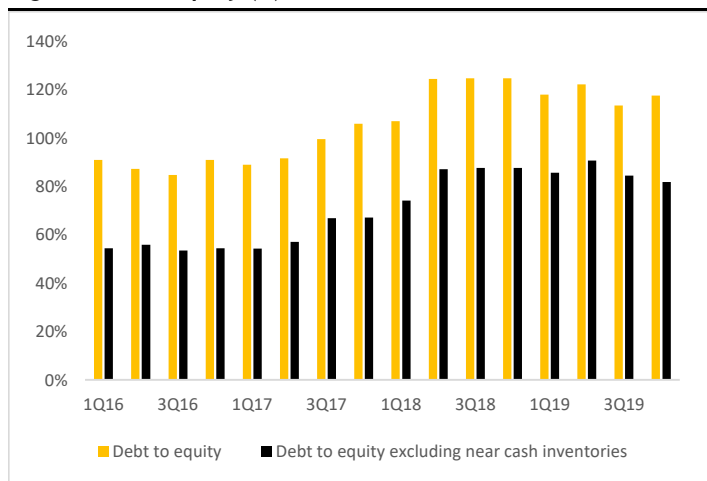
Source: Company data

Fig 6: Segment PBT/MT YoY growth (%)



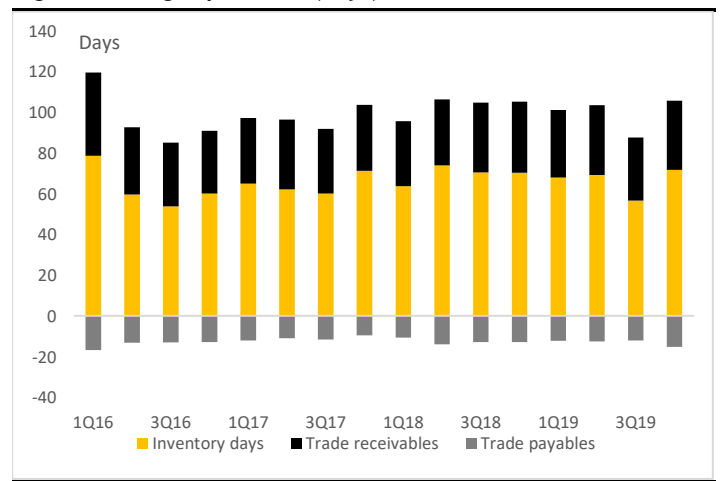
Source: Company data

Fig 7: Debt to equity (%)



Source: Company data

Fig 8: Working capital mix (days)



Source: Company data

4. Valuation

4.1 Blended target price

Fig 9: Blended target price

Blended Target Price	SGD	Weighting
Multistage DCF (WACC 5.3%, 1% terminal)	4.19	80%
Peer basket driven TP (17.5x PE target)	5.06	20%
Blended TP	4.37	
Upside/Downside (%)	6%	
PE at TP (2020E)	15.1	
PB at TP (2020E)	1.1	

Source: Maybank Kim Eng

4.2 Multi-stage DCF

Fig 10: Multi-stage DCF

Valuation																
	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	Terminal
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%															
Profit before Tax	1,778	1,884	1,677	1,715	1,753	2,079	1,983	2,015	2,135	2,162	2,189	2,206	2,240	2,275	2,308	
PBT growth YoY (%)	5%	6%	-11%	2%	2%	19%	-5%	2%	6%	1%	1%	1%	2%	2%	1%	
Operating Cashflow	2,649	2,833	2,715	2,784	2,836	2,911	2,578	2,620	2,349	2,378	2,408	2,140	2,173	2,206	2,239	
Changes to working capital	(144)	(558)	66	(93)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	(76)	
Capex	(1,600)	(1,600)	(1,500)	(1,500)	(1,500)	(1,500)	(1,100)	(1,100)	(800)	(800)	(800)	(500)	(500)	(500)	(500)	
Free cash flow to firm	904	675	1,281	1,191	1,259	1,335	1,402	1,444	1,472	1,502	1,532	1,564	1,597	1,630	1,663	39,618
FCF growth YoY (%)	-25%	-25%	90%	-7%	6%	6%	5%	3%	2%	2%	2%	2%	2%	2%	2%	1%
Enterprise value	32,650															
Net debt excluding near cash inventories	13,684															
Fair value	18,966															
Weighted avg. shares outstanding ('000)	6,330															
Fair value per share (USD)	3.00															
USDSGD FX	0.714															
Fair value per share (SGD)	4.19															

Source: Maybank Kim Eng

4.3 Peer basket PE

Fig 11: Peer basket PE

Ticker	Name	Listing	Price (LCY)	Market Cap (USD bn)	1-yr FWD PE (x)	Rating
603288 CH Equity	Foshan Haitian Flavaouring & Food Co Ltd	China	20.70	55.89	44.5	Not Rated
000876 CH Equity	New Hope Liuhe Co Ltd	China	4.30	18.11	10.3	Not Rated
600438 CH Equity	Tongwei Co Ltd	China	3.79	14.72	19.1	Not Rated
GAEX IN Equity	Gujarat Ambuja Exports	India	3.05	0.35	23.5	Not Rated
2002 JT Equity	Nisshin Seifun Group	Japan	24.60	7.49	10.7	Not Rated
GLEN LN Equity	Glencore	UK	4.18	55.70	12.1	Not Rated
ADM US Equity	ADM	US	61.33	34.21	12.1	Not Rated
BG US Equity	Bunge	US	74.98	10.62	12.0	Not Rated
OLAM SP Equity	Olam International	Singapore	1.80	5.74	11.3	Not Rated
GGR SP Equity	Golden Agri	Singapore	0.22	2.74	19.3	Not Rated
	Average				17.5	
WIL SP Equity	Wilmar International		4.11	26.0	14.2	
	Target Peer PE		17.5	x		
	2020E EPS		0.207	USD		
	Target share price		3.61	USD		
	USDSGD FX		0.714			
	Peer basket driven target price		5.06	SGD		

Source: Maybank Kim Eng

5. Key assumptions

Fig 12: Key assumptions

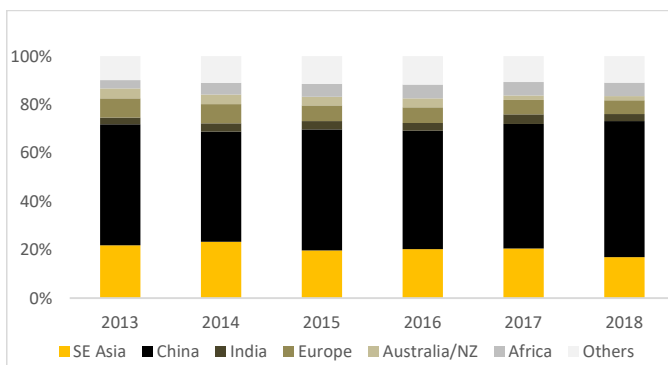
	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Tropical Oils									
Revenue growth	2%	-23%	8%	7%	-6%	-9%	13%	7%	2%
Sales volume growth	0%	-4%	-1%	-1%	5%	12%	8%	4%	2%
PBT/tonne growth	-14%	-42%	28%	-42%	30%	47%	0%	-5%	-40%
Oilseeds & Grains									
Revenue growth	-15%	-2%	1%	11%	13%	-4%	5%	7%	-1%
Sales volume growth	-4%	14%	3%	13%	12%	-1%	5%	4%	1%
PBT/tonne growth	-20%	73%	-65%	157%	8%	-26%	1%	13%	12%
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%	1394%	3%	100%
Operating expenses growth	6.0%	6.1%	5.8%	-7.7%	5.8%	1.3%	36.9%	29.8%	24.7%
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%	45%	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%

Source: Company data, Maybank Kim Eng

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% revenues from EMs

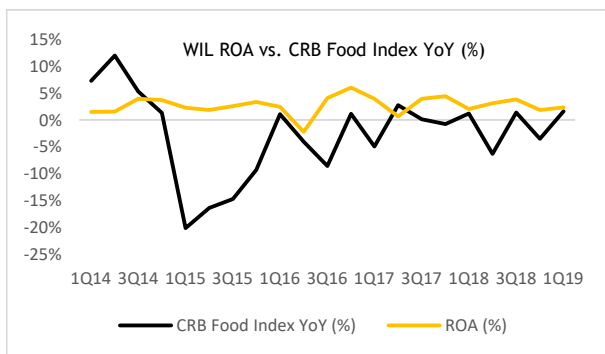


Source: Company

Financial Metrics

- WIL's ROA had a variance of just 0.03% over the past 5-years despite significant commodity pricing volatility pointing to the strength of their integrated supply chain model
- Stripping away hedged, near cash inventories, gearing falls to 81% by 2021E
- 2019 Oilseeds & Grain PBT/MT at USD17 should be the lowest level in 3-years from African Swine Flu impact. This will recover from USD21 by 2022E

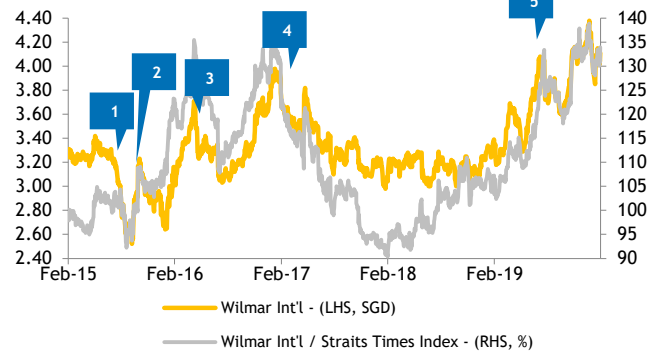
Integrated supply model delivers less volatile ROA



Source: Company

Price Drivers

Historical share price trend



Source: Company, Maybank Kim Eng

- Surprise currency devaluation by China impacting domestic commodity prices
- ADM increases their stake to 20% (from 19%). Multiple announcements of JVs in Brazil
- Profit warning on trading losses in soybeans plus lower sugar production in Australia due to drought
- Improved earnings guidance plus resolution of issues with Australian sugar farmers
- Fears of African Swine Flu combined with US-China trade tensions

Swing Factors

Upside

- An earlier recovery from ASF in China & SE Asia may drive stronger demand for soybean meal, driving margins higher
- Successful listing of WIL China business in the Mainland where valuations are 60% higher should provide downside valuation support
- 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
- Pronged spread of Covid-19 may impact raw material supply chains, customer receivables
- Limiting credit facilities or imposing utilization restrictions by lenders may have a significant impact

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	12.7	13.5	14.2	13.4	15.0
Core P/E (x)	12.9	15.0	14.2	13.4	15.0
Core FD P/E (x)	12.9	15.0	14.2	13.4	15.1
P/BV (x)	0.9	1.2	1.1	1.0	1.0
P/NTA (x)	1.3	1.7	1.5	1.4	1.4
Net dividend yield (%)	3.4	3.0	3.1	3.3	3.0
FCF yield (%)	3.1	6.2	4.9	3.6	6.9
EV/EBITDA (x)	14.0	15.0	13.6	12.9	13.4
EV/EBIT (x)	20.4	21.8	20.0	19.1	21.1

INCOME STATEMENT (USD m)

Revenue	44,497.5	42,640.5	45,636.3	48,607.8	48,956.0
Gross profit	4,390.3	4,486.1	5,651.1	6,913.7	7,920.4
EBITDA	2,637.3	2,804.7	3,022.6	3,229.8	3,067.0
Depreciation	(830.0)	(875.8)	(961.6)	(1,049.7)	(1,109.8)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,807.3	1,928.9	2,061.0	2,180.1	1,957.2
Net interest income / (exp)	(352.1)	(416.6)	(468.9)	(482.1)	(466.0)
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	33.1	33.1	33.1
Pretax profit	1,612.9	1,698.5	1,778.3	1,884.1	1,677.3
Income tax	(349.8)	(371.5)	(389.0)	(412.1)	(366.9)
Minorities	(94.1)	(77.1)	(78.2)	(82.8)	(73.7)
Discontinued operations	(43.4)	43.5	0.0	0.0	0.0
Reported net profit	1,169.1	1,249.9	1,311.2	1,389.1	1,236.7
Core net profit	1,125.7	1,293.4	1,311.2	1,389.1	1,236.7

BALANCE SHEET (USD m)

Cash & Short Term Investments	1,650.5	2,113.1	2,675.0	2,835.4	3,695.2
Accounts receivable	4,349.1	4,251.6	4,550.3	4,846.6	4,881.3
Inventory	7,911.3	7,960.8	7,887.5	8,224.6	8,094.7
Property, Plant & Equip (net)	9,309.7	11,278.2	11,797.2	12,347.5	12,737.7
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	48,354.9	49,699.0	50,853.8
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	1,771.8	1,847.5	1,818.4
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	29,753.6	30,329.3	30,800.2
Shareholders Equity	16,048.8	16,762.5	17,487.7	18,256.0	18,940.1
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	18,601.3	19,369.6	20,053.7
Total liabilities and equity	45,679.9	47,048.6	48,354.9	49,699.0	50,853.8

CASH FLOW (USD m)

Pretax profit	1,612.9	1,698.5	1,778.3	1,884.1	1,677.3
Depreciation & amortisation	830.0	875.8	961.6	1,049.7	1,109.8
Adj net interest (income)/exp	0.0	0.0	0.0	0.0	0.0
Change in working capital	411.1	297.1	(144.3)	(557.7)	66.0
Cash taxes paid	(349.8)	(371.5)	(389.0)	(412.1)	(366.9)
Other operating cash flow	(317.9)	514.2	297.7	311.0	294.9
Cash flow from operations	2,186.3	3,014.0	2,504.3	2,275.0	2,781.1
Capex	(1,741.9)	(1,812.9)	(1,600.0)	(1,600.0)	(1,500.0)
Free cash flow	444.4	1,201.1	904.3	675.0	1,281.1
Dividends paid	(494.9)	(461.8)	(586.0)	(620.8)	(552.7)
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)	(256.5)	(393.8)	(368.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	196.5	462.7	561.9	160.4	859.8

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	(4.2)	7.0	6.5	0.7
EBITDA growth	21.1	6.3	7.8	6.9	(5.0)
EBIT growth	28.8	6.7	6.8	5.8	(10.2)
Pretax growth	3.2	5.3	4.7	5.9	(11.0)
Reported net profit growth	(2.2)	6.9	4.9	5.9	(11.0)
Core net profit growth	(5.8)	14.9	1.4	5.9	(11.0)
Profitability ratios (%)					
EBITDA margin	5.9	6.6	6.6	6.6	6.3
EBIT margin	4.1	4.5	4.5	4.5	4.0
Pretax profit margin	3.6	4.0	3.9	3.9	3.4
Payout ratio	41.5	46.2	44.7	44.7	44.7
DuPont analysis					
Net profit margin (%)	2.6	2.9	2.9	2.9	2.5
Revenue/Assets (x)	1.0	0.9	0.9	1.0	1.0
Assets/Equity (x)	2.8	2.8	2.8	2.7	2.7
ROAE (%)	7.3	7.6	7.7	7.8	6.6
ROAA (%)	2.6	2.8	2.7	2.8	2.5
Liquidity & Efficiency					
Cash conversion cycle	95.2	96.4	90.5	88.7	91.3
Days receivable outstanding	34.2	36.3	34.7	34.8	35.8
Days inventory outstanding	72.4	74.9	71.3	69.6	71.6
Days payables outstanding	11.4	14.8	15.6	15.6	16.1
Dividend cover (x)	2.4	2.2	2.2	2.2	2.2
Current ratio (x)	1.2	1.1	1.1	1.1	1.1
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.7
Net gearing (%) (incl perps)	129.4	120.8	115.8	112.9	107.3
Net gearing (%) (excl. perps)	129.4	120.8	115.8	112.9	107.3
Net interest cover (x)	5.1	4.6	4.4	4.5	4.2
Debt/EBITDA (x)	8.9	8.5	8.0	7.6	8.2
Capex/revenue (%)	3.9	4.3	3.5	3.3	3.1
Net debt/ (net cash)	21,694.1	21,594.3	21,532.4	21,872.0	21,512.2

Source: Company; Maybank

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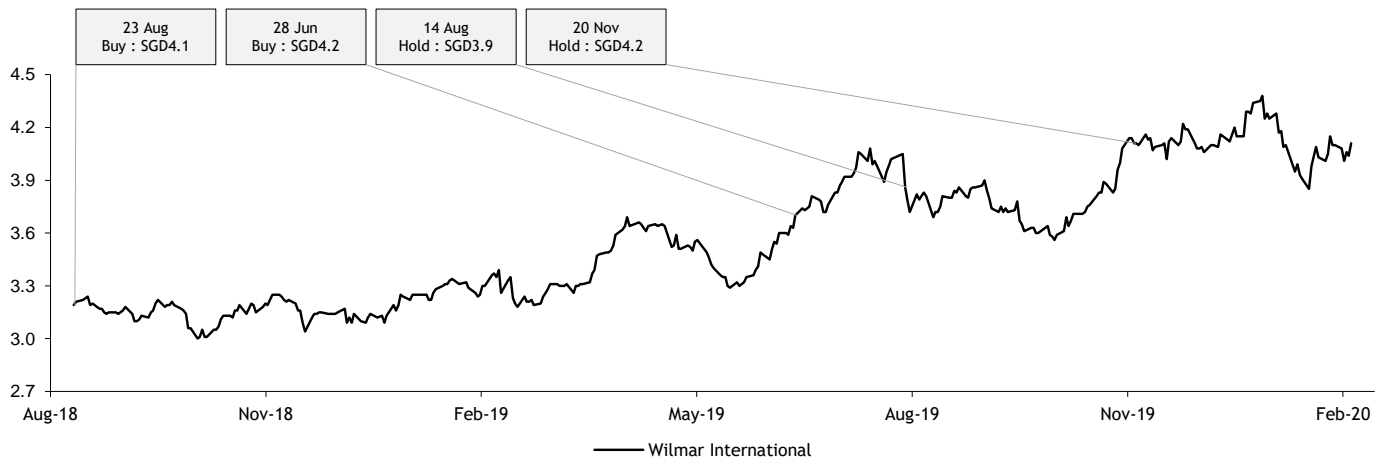
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