

Wilmar International (WIL SP)

Value dislocated?

BUY

Share Price	SGD 4.36
12m Price Target	SGD 5.24 (+20%)
Previous Price Target	SGD 5.24

Divergent price action between WIL & YKA unjustified

WIL fell -6% despite a +118% opening of YKA - its 90% owned Chinese subsidiary. We believe the downward price action is unjustified. From a market cap differential perspective this implies that WIL's non-Chinese businesses (44% of revenue) have no value. It also ignores potential for special dividends. Operationally, we expect the group to deliver 33% YoY 2021E EPS growth from improving crush margins in China and demand recovery from India and Indonesia. We maintain our TP of SGD5.24 for now pending the 3Q20 trading update on 30 Oct and are BUYers on dips.

A gap too wide

WIL's current market cap of SGD28bn is 50% lower than the value of its holding in YKA (300999 CH, CNY56.00, NR). This discount implies that its operations in Indonesia, India, Europe and Africa etc. have no value. Particularly in Indonesia and India, WIL has strong market share in edible oils and palm oil refining. Separately, in 2021E, we estimate WIL may spend USD1.6bn in capex. Assuming 60% (USD1bn) is spent in China using IPO proceeds, it frees up cash at WIL for special dividends. An USD1bn special dividend translates to SGD0.22 DPS - implying a 5% special yield.

Operational recovery underway

WIL is geared towards the earlier COVID-19 recovery cycle in China. In 2Q20, WIL's food product segment volumes increased 20% YoY and we expect the momentum to strengthen in 2H, as hotels, restaurants re-open. Crushing margins, which have been dampened due to African Swine Flu are improving from lower input costs and farmers rebuilding stocks (1H Feed & Industrial Products PBT/t +88% YoY). Together with better demand conditions in markets outside China, we expect EPS to see positive momentum going in to 2021E.

BUY on weakness

In a SGX filing, management claims it is unaware of any material information that may have resulted in the price divergence. We believe WIL's current price move is unjustified. The stock is trading at 18x 2020E PE compared to an estimated 75x for YKA. The group offers structural growth from rising emerging market consumption, strong market positioning and improving ESG credentials. BUY on weakness.

FYE Dec (USD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	44,498	42,641	49,221	52,984	52,523
EBITDA	2,637	2,805	2,968	3,470	3,586
Core net profit	1,126	1,293	1,165	1,543	1,627
Core FDEPS (cts)	17.8	20.4	18.4	24.3	25.7
Core FDEPS growth(%)	(5.8)	14.7	(9.9)	32.5	5.4
Net DPS (cts)	7.7	9.1	8.2	10.9	11.5
Core FD P/E (x)	12.9	15.0	17.5	13.2	12.5
P/BV (x)	0.9	1.2	1.2	1.1	1.1
Net dividend yield (%)	3.4	3.0	2.6	3.4	3.6
ROAE (%)	7.3	7.6	6.8	8.7	8.7
ROAA (%)	2.6	2.8	2.4	3.1	3.2
EV/EBITDA (x)	14.0	15.0	14.7	12.7	12.1
Net gearing (%) (incl perps)	129.4	120.8	120.0	116.8	108.2
Consensus net profit	-	-	1,247	1,355	1,436
MKE vs. Consensus (%)	-	-	(6.6)	13.8	13.3

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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)	4.87/2.90
3m avg turnover (USDm)	47.0
Free float (%)	28.1
Issued shares (m)	6,403
Market capitalisation	SGD27.9B
	USD20.6B

Major shareholders:

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

Price Performance



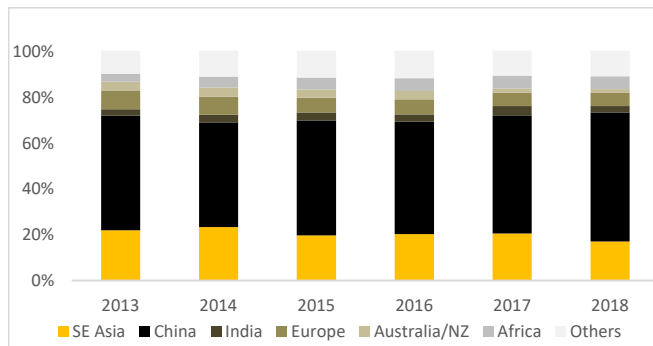
	-1M	-3M	-12M
Absolute (%)	5	1	21
Relative to index (%)	2	5	48

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

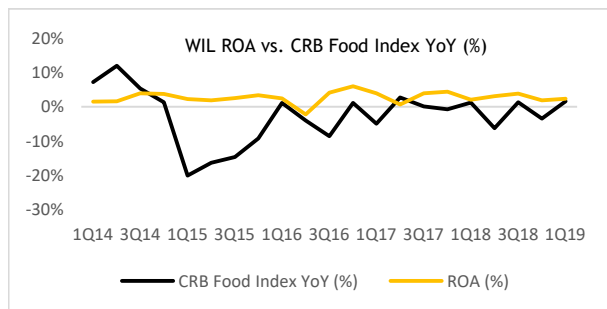


Source: Company

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

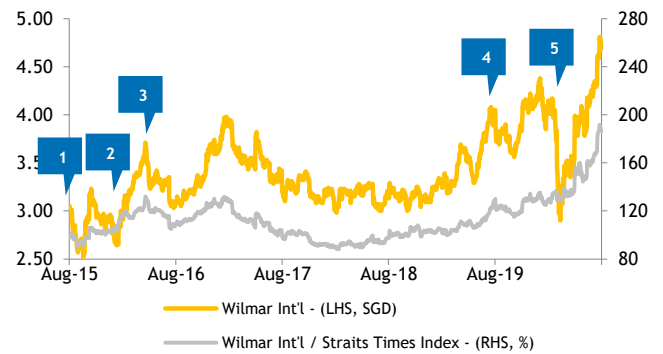
Integrated supply chain model delivers less volatile ROA



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
- Fears of African Swine Flu combined with US-China trade tensions
- Start of the Covid-19 pandemic

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

Business Model & Industry Issues

- The nature of WIL business - as an upstream palm oil/sugar producer - as well as an integrated refiner and trader exposes it to multiple risks. Key risks include deforestation, supply chain monitoring, governance & corruption, labour conditions.
- The group has been the subject of several NGO/lobbyist action on community relations, GHG emissions and anti-palm oil in the past. These open up significant reputational risks as well as regulatory and governance risks.
- WIL has introduced a No Deforestation, No Peat & No Exploitation policy (NDPE) since 2013 and updated it in 2019 to incorporate the latest approaches to high conservation value assessments as well as support its sustainability frameworks.
- Rated BBB by MSCI ESG. This puts WIL as average within the food products industry peer group.
We believe WIL's global scale, agriculture centred commodity segments and reliance on third-party suppliers opens it up to significant ESG operating risks

Material E issues

- 60% of palm fresh fruit bunches (FFB) and 98% of sugar is purchased from third parties and small holders, which increases risks by association.
- Around 77% of the Group's own acreage and 100% of downstream facilities in Malaysia, Indonesia are certified under RSPO - the industry's sustainability certification body.
- 96.2% of its palm oil supply chain and 100% of sugar are traceable to originating mills. Disclosure on traceability to plantations is not available.
- The group has over 20m ha of supplier plantations under monitoring and so far removed over 1.5m ha of palm oil land for non-compliance of its NDPE policies. Nevertheless, significant risks exist given the scale of WIL's procurement
- 90% of suppliers have either provided confirmation on WIL NDPE policies, have a policy of their own or are RSPO members. The distribution of this is unavailable.

Material S issues

- The group has established a Human Rights Framework and a Women's charter and a child protection policy to strengthen its overall sustainability policies.
- 100% of its workers in Malaysia, Ghana, Nigeria mills and plantations are covered by collective bargaining agreements. The scale in Indonesia is unavailable.
- WIL has stated that it benchmarks to international best practices for fair working conditions even in jurisdictions where legal frameworks are yet to evolve.
- The group states that they are working towards having 100% of small holder suppliers are supported by its small holder programs. Current progress level not disclosed.
- As of October 2019, WIL is dealing with 3 RSPO complaints involving local communities in West Sumatra on land rights.

Key G metrics and issues

- In April 2020, WIL left the High Carbon Stock Approach Steering Group (HCSA) - an NGO and industry partnership that aims to implement a protocol for identifying land suitable for agri development - over disagreements over governance and budgets of the organisation.
- In a 2019 report, Greenpeace claims that some of WIL's subsidiaries were engaging in deforestation and contributing to forest fires.
- WIL's size and scale as the world's largest palm oil trader and a key supplier to global brands and a consumer play in China may continue to expose it to activist and reputational risks as well as regulatory and judicial risks.
- The group has a sustainability department headed by a Chief Sustainability Officer who is responsible for implementing WIL's sustainability strategy. Sustainability policies are overseen by the Chairman and CEO along with the Board Risk Committee.
- It has a comprehensive set of codes, policies and frameworks dealing with ESG including Conduct, Ethics, Fraud, Privacy and Whistleblowing. So far training for these are only arranged in its operations in Singapore, but it is planning a global rollout. Timeline unspecified.
- The group's Board is composed of 54% independent directors. When non-executive directors are included this is 77%. Only 8% of the board is female.
- In its website, WIL provides a transparent list and action status for grievances raised by various parties including individuals, government organizations and NGOs concerning the implementation the NDPE policy.
- WIL has been producing a separate, detailed Sustainability Report yearly since 2009. Its reporting is based on GRI standards and mapped to the UN SDGs

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
P/E (reported) (x)	12.7	13.5	17.5	13.2	12.5
Core P/E (x)	12.9	15.0	17.5	13.2	12.5
Core FD P/E (x)	12.9	15.0	17.5	13.2	12.5
P/BV (x)	0.9	1.2	1.2	1.1	1.1
P/NTA (x)	1.3	1.7	1.7	1.6	1.5
Net dividend yield (%)	3.4	3.0	2.6	3.4	3.6
FCF yield (%)	3.1	6.2	0.8	3.5	9.0
EV/EBITDA (x)	14.0	15.0	14.7	12.7	12.1
EV/EBIT (x)	20.4	21.8	21.8	18.2	17.3

INCOME STATEMENT (USD m)

Revenue	44,497.5	42,640.5	49,220.6	52,983.8	52,522.8
Gross profit	4,390.3	4,486.1	5,596.4	7,153.3	8,437.5
EBITDA	2,637.3	2,804.7	2,968.3	3,470.4	3,586.0
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	2,006.8	2,420.7	2,504.4
Net interest income / (exp)	(352.1)	(416.6)	(498.1)	(514.3)	(484.1)
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	1,579.8	2,092.5	2,206.5
Income tax	(349.8)	(371.5)	(345.6)	(457.7)	(482.7)
Minorities	(94.1)	(77.1)	(69.4)	(92.0)	(97.0)
Discontinued operations	(43.4)	43.5	0.0	0.0	0.0
Reported net profit	1,169.1	1,249.9	1,164.8	1,542.8	1,626.9
Core net profit	1,125.7	1,293.4	1,164.8	1,542.8	1,626.9

BALANCE SHEET (USD m)

Cash & Short Term Investments	1,650.5	2,113.1	1,980.1	2,070.5	3,264.8
Accounts receivable	4,349.1	4,251.6	4,907.7	5,282.9	5,236.9
Inventory	7,911.3	7,960.8	8,605.3	9,040.5	8,696.3
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	48,435.2	49,886.3	51,208.8
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	1,933.1	2,030.8	1,953.5
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	29,914.9	30,512.6	30,935.3
Shareholders Equity	16,048.8	16,762.5	17,406.8	18,260.1	19,159.9
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	18,520.4	19,373.7	20,273.5
Total liabilities and equity	45,679.9	47,048.6	48,435.2	49,886.3	51,208.8

CASH FLOW (USD m)

Pretax profit	1,612.9	1,698.5	1,579.8	2,092.5	2,206.5
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	(1,058.3)	(712.7)	312.9
Cash taxes paid	(349.8)	(371.5)	(345.6)	(457.7)	(482.7)
Other operating cash flow	(317.9)	514.2	326.9	343.1	313.0
Cash flow from operations	2,186.3	3,014.0	1,464.5	2,315.0	3,431.3
Capex	(1,741.9)	(1,812.9)	(1,300.0)	(1,600.0)	(1,600.0)
Free cash flow	444.4	1,201.1	164.5	715.0	1,831.3
Dividends paid	(494.9)	(461.8)	(520.6)	(689.5)	(727.0)
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)	(277.0)	(435.1)	(409.9)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	196.5	462.7	(133.0)	90.4	1,194.3

FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	2.1	(4.2)	15.4	7.6	(0.9)
EBITDA growth	21.1	6.3	5.8	16.9	3.3
EBIT growth	28.8	6.7	4.0	20.6	3.5
Pretax growth	3.2	5.3	(7.0)	32.5	5.4
Reported net profit growth	(2.2)	6.9	(6.8)	32.5	5.4
Core net profit growth	(5.8)	14.9	(9.9)	32.5	5.4
Profitability ratios (%)					
EBITDA margin	5.9	6.6	6.0	6.5	6.8
EBIT margin	4.1	4.5	4.1	4.6	4.8
Pretax profit margin	3.6	4.0	3.2	3.9	4.2
Payout ratio	41.5	46.2	44.7	44.7	44.7
DuPont analysis					
Net profit margin (%)	2.6	2.9	2.4	2.9	3.1
Revenue/Assets (x)	1.0	0.9	1.0	1.1	1.0
Assets/Equity (x)	2.8	2.8	2.8	2.7	2.7
ROAE (%)	7.3	7.6	6.8	8.7	8.7
ROAA (%)	2.6	2.8	2.4	3.1	3.2
Liquidity & Efficiency					
Cash conversion cycle	95.2	96.4	86.9	88.4	92.2
Days receivable outstanding	34.2	36.3	33.5	34.6	36.1
Days inventory outstanding	72.4	74.9	68.4	69.3	72.4
Days payables outstanding	11.4	14.8	15.0	15.6	16.3
Dividend cover (x)	2.4	2.2	2.2	2.2	2.2
Current ratio (x)	1.2	1.1	1.1	1.1	1.2
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.6	1.6	1.7
Net gearing (%) (incl perps)	129.4	120.8	120.0	116.8	108.2
Net gearing (%) (excl. perps)	129.4	120.8	120.0	116.8	108.2
Net interest cover (x)	5.1	4.6	4.0	4.7	5.2
Debt/EBITDA (x)	8.9	8.5	8.2	7.1	7.0
Capex/revenue (%)	3.9	4.3	2.6	3.0	3.0
Net debt/ (net cash)	21,694.1	21,594.3	22,227.3	22,636.9	21,942.7

Source: Company; Maybank

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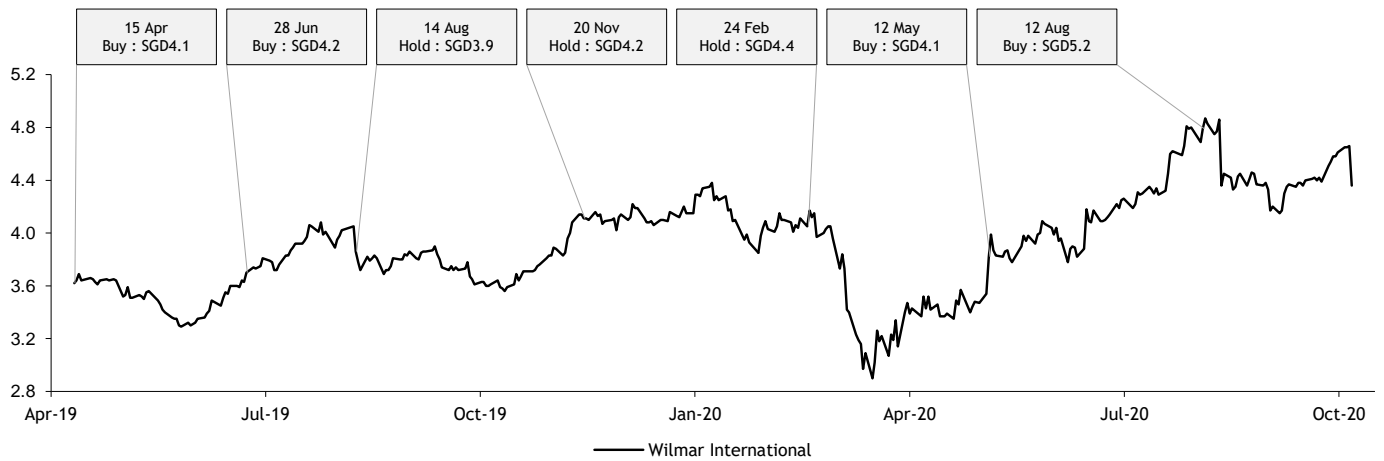
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