

COMPANY UPDATE

Wilmar International (WIL SP)

3Q24 Results Preview: Weak Growth Expected

Wilmar will release its 3Q24 executive financial summary on 30 Oct 24. We expect it to report a core net profit of US\$315m-325m for 3Q24 (3Q23: US\$323m; 2Q24: US\$278m). 3Q is usually the strongest quarter for Wilmar but weaker sugar contributions and muted margins across most segments could result in flat to marginal qoq and yoy growth for 3Q24. After 3Q24, improving margins point to an earnings recovery, but 2024 earnings may track below expectations. Maintain HOLD. Target price: S\$3.25.

WHAT'S NEW

- 3Q24 review: Flattish or marginal growth expected.** Wilmar International (Wilmar) is scheduled to release its 3Q24 executive financial summary on 30 Oct 24 after trading hours. We expect a core net profit of US\$315m-325m (vs 3Q23: US\$323m; 2Q24: US\$278m). Though volumes are expected to improve, historically high 3Q earnings may not be achieved due to the following factors:
 - Food products.** The improved Chinese economic sentiment is expected to increase sales volume of food products. However, margins remain thin from continued intense competition to capture festive demand. China's consumer product sales was also lacklustre during the Mid-Autumn Festival.
 - Feed and industrial products.** Palm downstream processing margins remain muted from higher feedstock prices and weak demand for refined palm oil products. Soybean crushing margins saw an uptick qoq on higher demand for soybean meal, but are still lower yoy. Sugar processing remains a bright spot, albeit its relatively small contributions, as sugar prices rose on the lower yield in Brazil from droughts and fires.
 - Plantation and sugar mill.** Plantation is expected to record improved profit before tax yoy and qoq, attributed to better ASPs and increased sales volume. This is likely to be partially offset by poorer sugar milling performance, as Australia's operations experienced delays from the workers' strike (ended mid-Sep 24). Additionally, due to the bout of wet weather in Queensland, we expect some earnings to be booked in 4Q vs the usual 3Q, as well as lower sugar yield.
- Potential 2024 earnings downside.** Based on latest data points and channel checks, we think that Wilmar may possibly perform below our and consensus full-year earnings expectations from slower-than-expected recovery from China operations. China's recent stimulus measures suggest bolstered consumer spending and better business for HoReCa, which translate into sales volume growth. However, earnings recovery may not be as sharp, and we will monitor these factors closely and provide further analysis as 4Q progresses.

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)	7.2	10.3	10.0	8.9	7.5
P/B (x)	0.8	0.8	0.8	0.7	0.7
EV/EBITDA (x)	9.3	12.3	11.1	10.5	9.2
Dividend yield (%)	4.7	4.7	4.5	5.1	6.1
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	-	-	1,465	1,680	1,750
UOBKH/Consensus (x)	-	-	1.10	1.08	1.23

Source: Wilmar International, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$3.31
Target Price	S\$3.25
Upside	-1.8%

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):	20,663.4
Market cap (US\$m):	15,718.4
3-mth avg daily t'over (US\$m):	12.4

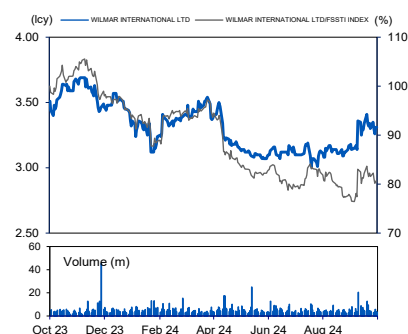
Price Performance (%)

52-week high/low	S\$3.72/S\$3.00			
1mth	3mth	6mth	1yr	YTD
5.4	4.7	(2.1)	(7.3)	(7.3)

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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STOCK IMPACT

- **Improved refining margins from the Indonesian government’s export levy cut and higher domestic price obligation (DPO) for the committed volume under domestic market obligation (DMO).** With effect from 21 Sep 24, the Indonesian government has lowered its export levy on CPO and refined palm oil products from incremental rates to flat rates of 7.5% and 4.5% respectively. Refined palm oil products could see a more significant reduction in levy, leading to a wider levy gap between CPO and refined products and therefore better refining margin. Furthermore, the 12% adjustment to the DPO under Indonesia’s DMO in mid-Aug 24 will reduce the losses for the volume committed under DMO. Thus, Wilmar’s tropical oil segment could see better performance from 4Q24 onwards.
- **On Adani-Wilmar (AWL).** The owners of AWL are looking to sell a 13% stake (or US\$659m based on market closing price) as Indian shareholding 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. If the sale is completed, Wilmar will reap a one-off gain of US\$329m (S\$0.07/share). We note that the size of AWL’s exposure on Wilmar’s balance sheet is small (<5%), relative to its own earnings of US\$1.6b in 2023.

EARNINGS REVISION/RISK

- **Maintain earnings forecasts.** We maintain our 2024-26 earnings forecasts at US\$1.61b, US\$1.82b and US\$2.16b respectively.

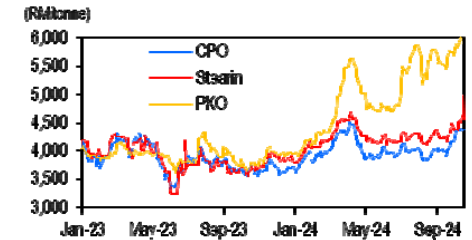
VALUATION/RECOMMENDATION

- **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 9x.
- For investors looking for yield, we believe the current price could be an attractive entry point as we anticipate a higher final dividend.

SHARE PRICE CATALYST

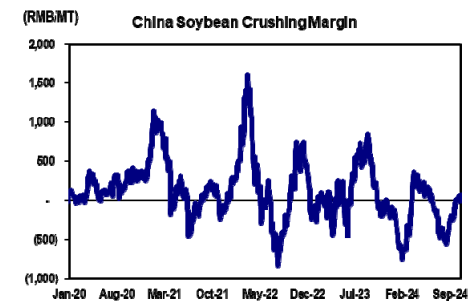
- **Stronger recovery in China.** As Yihai Kerry Arawana (YKA) is still the largest profit contributor to Wilmar, a surprise recovery would be positive to earnings and market sentiment towards Wilmar’s performance.
- **Improvement of tropical oil processing margins.**

GOOD PALM PRODUCTS PRICES IN 3Q24



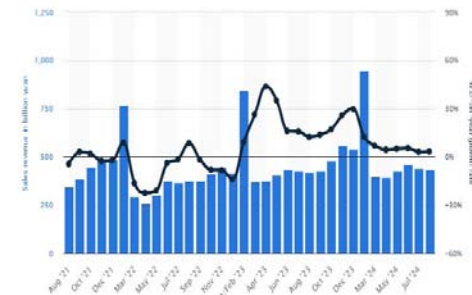
Source: Malaysian Palm Oil Board, Bloomberg

SOYBEAN CRUSHING MARGINS TURNED POSITIVE IN OCT 24



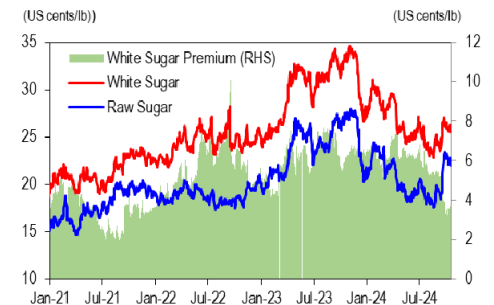
Source: Bloomberg

CHINA HORECA REVENUE IMPROVED MARGINALLY YOY



Source: Department of Statistics, China

SUGAR MARGINS REMAIN HEALTHY



Source: Bloomberg

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
Total		3.25

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)
Pre-tax profit	1,956.3	2,108.1	2,383.0	2,833.4
Tax	(298.1)	(337.3)	(381.1)	(453.2)
Minorities	(133.3)	(164.7)	(186.1)	(221.3)
Net profit	1,524.8	1,606.1	1,815.8	2,158.9
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
Operating	3,885.3	2,806.6	3,824.9	3,714.8
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)
Investing	(3,098.5)	(2,863.4)	(2,663.4)	(2,663.4)
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)
Financing	2,405.3	667.2	113.2	100.8
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
Net cash inflow (outflow)	3,192.0	610.4	1,274.7	1,152.2
Beginning cash & cash equivalent	2,846.7	4,380.8	4,504.7	5,531.2
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	6,038.8	4,991.2	5,779.4	6,683.4

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
Total assets	61,808.7	63,600.2	63,931.9	65,424.2
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
Total liabilities & equity	61,808.7	63,600.2	63,931.9	65,424.2

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
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
Growth				
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
Leverage				
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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