

Company update

Wilmar International

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 Equity Research

Singapore | Consumer Staples

 Rating BUY (as at 24 February 2021)
 Last Close SGD 5.39
 Fair Value SGD 6.16

A strong year

- **Core PATMI rose 18.3% YoY**
- **Highest dividend of 19.5 S cents declared since listing**
- **Higher fair value estimate of SGD6.16**

Investment thesis

Wilmar's FY20 revenue rose 18.5% YoY to USD50.5b while core PATMI was up 18.3% YoY to USD1.5b, boosted by strong performance across its key segments. A final dividend of 9.0 S cents per share and a special dividend of 6.5 S cents were declared, bringing the total dividend for FY20 to 19.5 S cents per share (+56% YoY). This is the highest dividend declared since listing. Wilmar's share price rose ~27% since our last report in Nov 2020 on the successful listing of YKA and the recovery in CPO prices and demand. We remain positive on Wilmar given that 1) the listing of YKA provides long-term benefits to Wilmar as it allows Wilmar to penetrate further into China; 2) recovery in CPO and sugar prices; 3) higher crushing margins as China restocks after ASF; 4) continued recovery from HORECA demand; and 5) beneficiary of renewed confidence on Indonesia's B30 program after Indonesia raised export levy. After adjustments, our fair value increases from SGD5.40 to SGD6.16.

Investment summary

- **Total sales volume grew 10.1% YoY on strong demand** – Wilmar's FY20 revenue rose 18.5% YoY to USD50.5b, due to strong volume growth (+10.1% YoY), improved commodity prices and consolidation of Goodman Fielder's results. Core PATMI rose 18.3% to USD1.5b, making up 105% of our full year forecast, broadly in-line with our expectations. A final dividend of 9.0 S cents per share and a special dividend of 6.5 S cents were declared, bringing the total dividend for FY20 to 19.5 S cents per share (+56% YoY). This is the highest dividend declared since listing.
- **Strong performances across key segments for FY20** – For Food Products, Wilmar saw strong volume growth of 19.8% in 2H20 due to higher demand for quality food staples and strong recovery in demand from

Security information

Ticker	WIL SP
Market Cap (SGD b)	34.1
Daily turnover (SGD m)	49.7
Free Float	35%
Shares Outstanding (m)	6,316
Top Shareholder	ARCHER-DANIELS-MIDLA 22.2%

Price performance chart



Financial summary

USD m	FY20	FY21F	FY22F
Revenue	50,527	56,355	60,280
EBITDA	3,534	3,608	3,682
PATMI	1,534	1,590	1,614
EPS (US cents)	24.2	25.1	25.4
DPS (S-cents)	19.5	12.0	12.5

Key ratios

	FY20	FY21F	FY22F
PER (x)	16.3	15.7	15.5
Net Gearing (%)	91.2	86.7	81.1
Dividend Yield (%)	3.6	2.2	2.3

Source: Bloomberg, Company, Internal estimates

hotels/restaurants/catering (HORECA). As China recovers gradually from Covid-19, we expect the demand from HORECA which is still below the pre-Covid-19 levels to continue its recovery in FY21. For Feed and Industrial Products, volume increased 12% YoY driven by higher sales volume in oilseeds and grains, and sugar businesses. The segment's performance was also boosted by improved crushing margins and activities in 2H20 as China restocks after African Swine Fever. Separately, sales volume for sugar milling operations fell 25.5% YoY in 2H20. However, Plantation and Sugar milling's profit before tax managed to turn from a loss of USD41.3m in FY19 to a profit of USD104.8m in FY20, thanks to firmer CPO and sugar prices last year.

- **Valuation gap between YKA and Wilmar** – YKA's share price rallied ~290% since its listing in Oct 2020. Wilmar's current market cap is USD25.8b which is trading at a steep discount of ~70% to YKA's market cap of USD83.4b. We believe Wilmar's business is undervalued. In terms of valuations, Wilmar is trading at forward P/E of 17x against YKA's estimated P/E of 66x. Management attributed the valuation gap to lower liquidity in the Singapore stock market as compared to China and dominance of Wilmar's products in China. We believe Wilmar's valuations are likely to be lifted over time with sustained YKA's valuations and we remain positive on Wilmar. After adjustments, our fair value increases from SGD5.40 to SGD6.16.

Results highlights

USD m	2H19	2H20	% chg
Revenue	22,414.0	27,869.1	24.3%
Gross profit	2,565.2	3,067.2	19.6%
Net interest income	-187.3	-67.0	-64.2%
Other operating income	141.5	250.1	76.7%
Selling and distrib.exp.	-1,007.8	-1,365.4	35.5%
Administrative expenses	-394.2	-501.2	27.2%
Other operating expenses	-66.7	-93.6	40.2%
Non-operating items	-0.6	72.3	nm
JVs and assoc	110.2	118.1	7.2%
Pre-tax profit	1,178.4	1,486.6	26.2%
Minority interests	-82.8	-118.9	43.7%
PATMI	885.5	923.6	4.3%
DPU (\$ cents)	9.5	15.5	63.2%

Source: Company, Internal estimates

Potential catalysts

- Rise in crude palm oil prices, sugar prices
- Efficiency gains and synergies resulting from its integrated model, resulting in better margins
- Accretive acquisitions in the region at reasonable valuation multiples.
- Listing of China operations

Investment risks

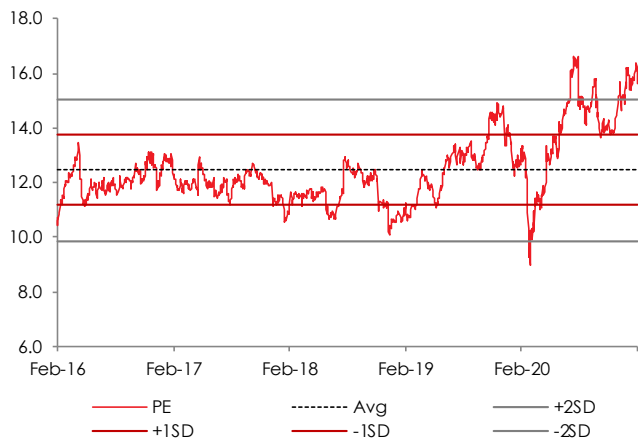
- Macroeconomic deterioration
- Fall in crude palm oil prices, sugar prices
- Impairment of assets
- Trading and investment risks

Valuation analysis

	Price/Earnings		Price/Book		EV/EBITDA		Dividend Yield (%)		ROE (%)	
	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F	FY21F	FY22F
WILMAR INTERNATIONAL LTD (WIL SP)	16.7	15.6	1.4	1.3	14.2	13.1	2.6	2.8	8.3	8.6
GOLDEN AGRI-RESOURCES LTD (GGR SP)	NA	13.4	0.4	0.4	9.8	6.5	2.0	2.7	(0.1)	3.4
FIRST RESOURCES LTD (FR SP)	14.0	10.5	1.6	1.5	8.0	6.9	2.3	2.3	11.9	12.6
BUNGE LTD (BG US)	12.2	12.0	1.6	1.5	9.3	8.9	2.7	2.9	13.6	12.3

Source: Bloomberg

Price/Earnings chart



Source: Bloomberg

Dividend Yield chart



Source: Bloomberg

Company overview (as of 30 December 2020)

Company description

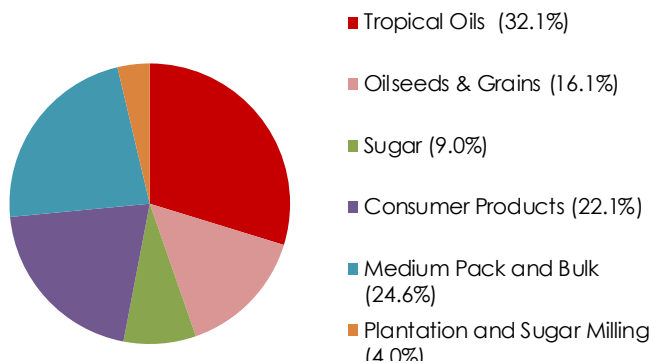
Wilmar International Limited, founded in 1991 and headquartered in Singapore, is a leading agribusiness group in Asia.

Its business activities include oil palm cultivation, oilseed crushing, edible oils refining, sugar milling and refining, manufacturing of consumer products, specialty fats, oleochemicals, biodiesel and fertilisers as well as flour and rice milling. At the core of Wilmar's strategy is an integrated agribusiness model that encompasses the entire value chain of the agricultural commodity business, from cultivation, processing, merchandising to manufacturing of a wide range of agricultural products. It has over 500 manufacturing plants and an extensive distribution network covering China, India, Indonesia and some 50 other countries. The group has a multinational workforce of about 90,000 people. Wilmar also has its own fleet of vessels serving an extensive distribution network of over 50 countries.

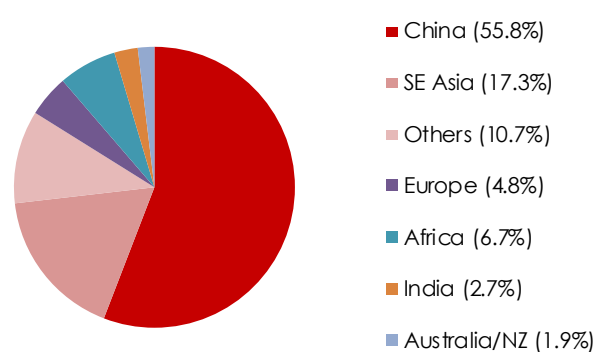
Wilmar also produces high quality processed agricultural products for consumers and the food manufacturing industry. Its consumer-packed products have a leading share in many Asian and African countries. Through scale, integration and the logistical advantages of its business model, Wilmar is able to extract margins at every step of the value chain, thereby reaping operational synergies and cost efficiencies.

Under consumer products, Wilmar produces and markets edible oil, rice, flour, grains and noodles under its own brands to wholesalers and distributors in China, Indonesia, India, Vietnam, Bangladesh and Africa.

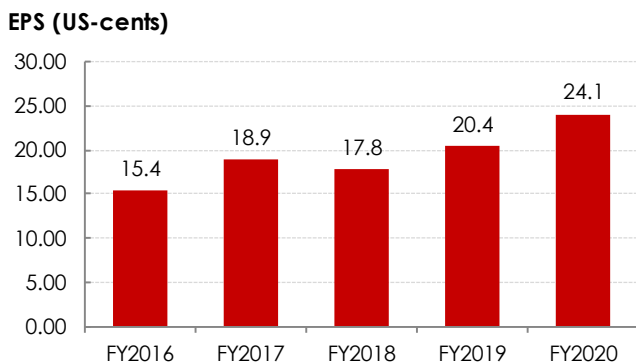
FY20 revenue breakdown



FY19 revenue

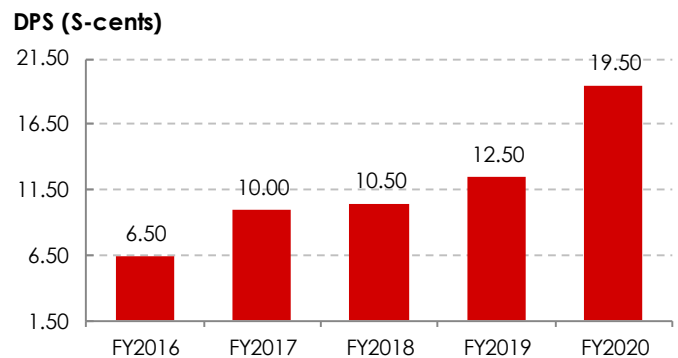


Earning per share



Source: Company, Internal estimates

Dividends per share



Source: Company, Internal estimates

Company financials

Income Statement

In Millions of USD except Per Share	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Revenue	41,401.7	43,573.9	44,497.7	42,640.5	50,526.8
- Cost of Revenue	37,391.1	39,806.5	40,107.3	38,154.4	44,929.2
Gross Profit	4,010.6	3,767.4	4,390.4	4,486.1	5,597.6
+ Other Operating Income	158.0	262.9	197.1	259.5	334.9
- Operating Expenses	2,622.3	2,923.6	2,769.1	2,774.3	3,700.1
Operating Income or Losses	1,546.3	1,106.7	1,818.4	1,971.2	2,232.3
- Interest Expense	348.5	531.9	851.2	922.7	660.2
- Foreign Exchange Losses (Gains)	244.9	-287.3	37.0	22.9	-56.3
- Net Non-Operating Losses (Gains)	-347.1	-700.4	-682.0	-672.8	-682.7
Pretax Income	1,300.0	1,562.5	1,612.2	1,698.5	2,311.1
- Income Tax Expense (Benefit)	206.3	282.1	349.8	371.5	620.1
Income Before XO Items	1,093.7	1,280.4	1,262.4	1,326.9	1,691.0
- Extraordinary Loss Net of Tax	0.0	0.0	43.4	-43.5	0.0
- Minority/Non Controlling Interests (Credits)	121.4	84.8	94.1	77.1	156.9
Net Income/Net Profit (Losses)	972.2	1,195.7	1,125.0	1,293.4	1,534.1
Net Inc Avail to Common Shareholders	972.2	1,195.7	1,125.0	1,293.4	1,534.1
Abnormal Losses (Gains)	36.9	-96.1	233.7	-103.2	50.2
Tax Effect on Abnormal Items	-6.3	16.3	-21.3	17.5	-8.5
Normalized Income	1,002.8	1,115.9	1,380.7	1,164.2	1,575.8
Basic Earnings per Share	0.2	0.2	0.2	0.2	0.2
Basic Weighted Av g Shares	6,319.0	6,322.5	6,326.4	6,330.1	6,347.0
Diluted EPS Before Abnormal Items	0.2	0.2	0.2	0.2	0.2
Diluted EPS Before XO Items	0.2	0.2	0.2	0.2	0.2
Diluted EPS	0.2	0.2	0.2	0.2	0.2
Diluted Weighted Av g Shares	6,319.0	6,326.9	6,327.6	6,339.1	6,356.3

Profitability Ratios

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Returns					
Return on Common Equity	6.75	7.87	7.03	7.88	8.61
Return on Assets	2.63	3.07	2.60	2.79	3.13
Return on Capital	4.26	4.96	4.90	5.12	5.05
Return on Invested Capital	3.96	2.64	3.63	3.72	3.76
Margins					
Operating Margin	3.73	2.54	4.09	4.62	4.42
Incremental Operating Margin	—	—	77.04	—	3.31
Pretax Margin	3.14	3.59	3.62	3.98	4.57
Income before XO Margin	2.64	2.94	2.84	3.11	3.35
Net Income Margin	2.35	2.74	2.53	3.03	3.04
Net Income to Common Margin	2.35	2.74	2.53	3.03	3.04
Additional					
Effective Tax Rate	15.87	18.05	21.70	21.87	26.83
Divid Payout Ratio	29.99	39.82	41.53	46.32	39.99
Sustainable Growth Rate	4.72	4.73	4.11	4.23	5.17

Credit Ratios

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
12 Months Ending	31/12/2016	31/12/2017	31/12/2018	31/12/2019	31/12/2020
Total Debt/EBIT	11.01	17.91	12.84	12.03	10.37
Net Debt/EBIT	8.28	14.13	10.11	9.33	7.08
EBIT to Interest Expense	4.44	2.08	2.14	2.14	3.38
Long-Term Debt/Total Assets	11.70	9.03	12.08	11.52	11.77
Net Debt/Equity	83.21	92.07	109.60	102.87	73.88

Source: Bloomberg

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