

COMPANY UPDATE

Wilmar International (WIL SP)

2Q23 Preview: Challenging Quarter

Wilmar is scheduled to release 1H23 results on 11 Aug 23. We are expecting core net profit of US\$280m-320m (vs 2Q22: US\$477m and 1Q23: US\$382m). 2Q is usually the weakest quarter for Wilmar. There were also some hedging gains in 2Q22 as reported by YKA. After our recent trips to China and Indonesia, we revised down our expectations on YKA and tropical oil contributions. This led to a 7% earnings cut for 2023F. Maintain BUY and lower target price to S\$4.35 (from S\$5.50).

WHAT'S NEW

- 2Q23 review.** Wilmar is scheduled to release its 1H23 results on 11 Aug 23. We are expecting core net profit of US\$280m-320m (vs 2Q22: US\$477m and 1Q23: US\$382m). 2Q is usually the weakest quarter for Wilmar as demand weakens after festive seasons in 1Q. There was a hedging gain in 2Q22 as reported by Yikai Kerry Arawana (YKA) (300999 CH/Not Rated).
- Revised down 2Q23 expectation.** We would also like to highlight that the current 2Q23 core earnings expectation is lower than our initial estimates in the post-1Q23 briefing in early-May 23. The downward revision came after our recent visits to China and Indonesia as we think that margin recovery could be slower than our initial expectations.
- China: Consumer spending has improved but they are more cautious.** During a recent trip, we noticed that malls have better footfall and better business for HoReCa (hotel, restaurant and catering), which will translate into better sales for medium and bulk packs. However, the margin from this segment is much lower than consumer packs, which still see subdued sales (especially for cooking oil). Sales for cooking oil is relatively slow as most households are still have a few bottles at home from their purchases in 2022 over fears of a sudden lockdown. On top of that, consumers are now looking for more value when it comes to purchasing, and more promotions need to be carried out to protect market share.
- Indonesia: Rising uncertainty hitting on margin.** The fluctuation of refining margins is rising after the change in the exports levy and duty setting from monthly to bi-weekly. The frequent changes in exports duty and levy have made it tougher for refiners to price CPO (CPO price paid to millers is net of the exports duty and levy). A sudden increase in CPO price could lead to higher exports duty and levy which could negatively impact refiners' margin as CPO purchased earlier factored in lower exports duty and levy.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	65,794	73,399	72,447	79,051	86,636
EBITDA	3,943	3,291	3,010	2,913	3,359
Operating profit	2,800	3,291	3,010	2,913	3,359
Net profit (rep./act.)	1,890	2,402	1,760	2,024	2,236
Net profit (adj.)	1,842	2,244	1,760	2,024	2,236
EPS (US\$ cent)	28.8	35.0	27.5	31.6	34.9
PE (x)	10.0	8.2	10.5	9.1	8.3
P/B (x)	0.9	0.9	0.9	0.9	0.8
EV/EBITDA (x)	11.7	14.0	15.3	15.8	13.7
Dividend yield (%)	3.7	5.2	5.0	4.9	5.4
Net margin (%)	2.9	3.3	2.4	2.6	2.6
Net debt/(cash) to equity (%)	114.3	123.6	123.7	129.9	134.9
Interest cover (x)	15.6	7.3	3.6	7.5	5.9
ROE (%)	9.7	12.0	8.7	9.7	10.4
Consensus net profit	-	-	1,850	2,045	2,155
UOBKH/Consensus (x)	-	-	0.95	0.99	1.04

Source: Wilmar International, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$3.81
Target Price	S\$4.35
Upside	+14.2%
(Previous TP)	S\$5.50

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):	23,784.8
Market cap (US\$m):	18,006.5
3-mth avg daily t'over (US\$m):	15.6

Price Performance (%)

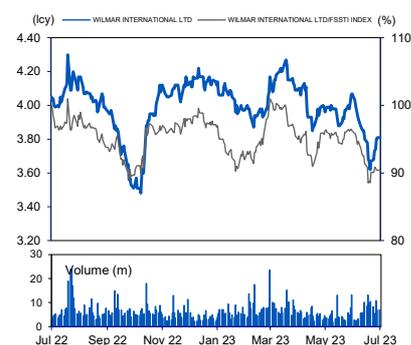
52-week high/low S\$4.30/S\$3.48

1mth	3mth	6mth	1yr	YTD
(5.2)	(6.8)	(8.2)	(4.8)	(8.6)

Major Shareholders

	%
Archer Daniels Midland	22.3
Kuok Brothers	18.8
Kuok Khoon Hong	12.8
FY23 NAV/Share (US\$)	3.19
FY23 Net Debt/Share (US\$)	3.94

PRICE CHART



Source: Bloomberg

ANALYST(S)

Leow Huey Chuen
+603 2147 1990
hueychuen@uobkayhian.com

Jacquelyn Yow Hui Li
+603 2147 1995
jacquelyn@uobkayhian.com

STOCK IMPACT

SUMMARY OF THE EXPECTED 2023 SEGMENTAL PERFORMANCE

Segment	Qoq	Yoy	Remarks
Consumer Pack	↑	↑	Marginally better due to better margins as 1H22 was badly affected by high raw material prices with low selling prices.
Medium Pack & Bulk	↔	↑	Driven by better sales volume.
Tropical Oils	↓	↓	Palm refining margins much narrower. 2022 margins were unusually high due to market disruptions from the war and Indonesia policy changes.
Oilseeds & Grains	↑	↓	Better margin and sales volume qoq. Profit in 2Q23 from hedging.
Sugar	↑	↑	Higher volume and better refining margins on wider white sugar premium.
Oil Palm Plantation	↓	↓	Lower CPO ASP.
Sugar Milling	n.a.	n.a.	Contributions to come in 2H, in line with milling season.

Source: Wilmar, UOB Kay Hian

Key highlights from 2022 Sustainability Update Briefing:-

- 2023 marked 10 years from the launched of No Deforestation, No Peat and No Exploitation (NDPE) and as at end-22, approximately 83% of its palm oil refined capacity is covered by NDPE.
- The key milestone as at end-22 was the completion of the mapping of the group's Scope 3 GHG emissions. The Scope 3 emissions account for about 91% of total emissions (Scope 1+2+3) and bulk of it is contributed by Purchased Goods & Services (~90%) followed by Transportation & Distribution. Wilmar is actively engaging with its supply chain as this segment contributed the bulk of the Scope 3 emission.
- Roundtable on Sustainable Palm Oil (RSPO) certification. 81.1% or 251,906 hectares of plantation area across Malaysia, Indonesia, Nigeria and Ghana is RSPO-certified. 15% of its scheme smallholders in Indonesia and Ghana are RSPO-certified as well. The target is to achieve RSPO certification for all palm oil management units by 2025.
- Wilmar's RSPO take-up rate will never be able to hit 100%. This is a given fact with the current RSPO-certified production at only 14.6m tonnes vs global production of 73.8m tonnes and Wilmar's refining throughput of 22m tonnes respectively. Wilmar's current RSPO uptake for 2022 was 1.97m tonnes or ~14% of total RSPO production. Do take note that some of the RSPO-certified production is also being certified under other schemes such as International Sustainability and Carbon Certificate (ISCC) and the sales of this volume can be under ISCC instead of RSPO depending on pricing.

EARNINGS REVISION/RISK

- Earnings revised down by 7% to 8% for 2023F/24F/25F.** Our revisions reflect the adjustment to lower margins from food products and tropical oils. We are now expecting a core net profit of US\$1.76m (revised down by 7.2%), US\$2.02m (revised down by 7.7%) and US\$2.24m (revised down by 8.2%) for 2023F, 2024F and 2025F respectively.

VALUATION/RECOMMENDATION

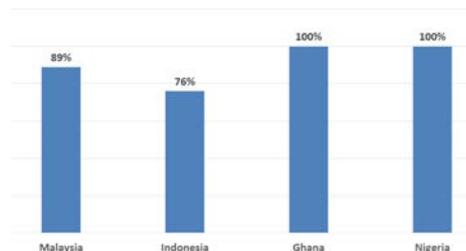
- Maintain BUY with lower target price of S\$4.35 (previous: S\$5.50)** after factoring in lower earnings. Our target price is derived using the SOTP valuation by pegging a 2023F PE of 25x, 11x and 12x for Food Products, Feeds & Industrial Products and Plantations & Sugar Mills respectively. The fair value of S\$4.35 translates to a blended 2023F PE of 11x.
- Fair value revision is greater than earnings revision because a large part of the earnings downward adjustment was made to the food products division which has a higher PE vs the other two divisions.

CARBON EMISSIONS & CLIMATE REPORTING

- Scope 1 and Scope 2 (market-based) GHG emissions⁴ were 15.1m tCO₂e (2021: 14.0 million tCO₂e)
- GHG emission intensity in 2022 was 150 kgCO₂e per MT of product, excluding shipping (2021: 140 kgCO₂e per MT of product). The increase was due to several projects (delayed due to COVID-19) which relied on non-renewable fuel sources starting operations in 2022.
- 53% energy from renewable sources in 2022 (50% in 2021).

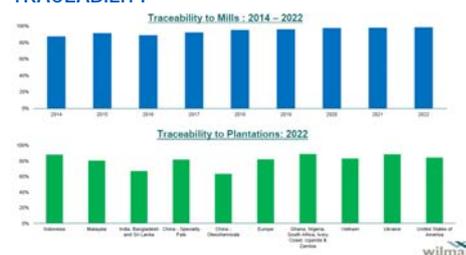
Source: Wilmar

WILMAR OWNED MILLS RSPO CERTIFICATION ACHIEVEMENT



Source: Wilmar

TRACEABILITY



Source: Wilmar

WILMAR WELCOMES EU DEFORESTATION REGULATION (EUDR) BUT THERE ARE CHALLENGES

- EU Deforestation Regulation**
- Wilmar welcomes the EU Deforestation policy as a positive step, nonetheless we acknowledge some challenges that need to be worked through together with the authorities.

- Challenges**
- Deforestation definition (FAO vs HCV-HCS)
 - Certification standards and best practices are not recognized
 - Geolocation for smallholders=Exclusion of smallholders (9d)
 - Distribution of geolocation information through the supply chain (9d)
 - Proof of compliance with legislation of production country (9h)
 - Timeframe for submission of Due Diligence Declaration
 - Magnitude of admin work

Source: Wilmar

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	73,399	72,447	79,051	86,636
EBITDA	3,291	3,010	2,913	3,359
Deprec. & amort.	0	0	0	0
EBIT	3,291	3,010	2,913	3,359
Total other non-operating income	0	0	0	1
Associate contributions	274	246	266	287
Net interest income/(expense)	(448)	(839)	(390)	(565)
Pre-tax profit	3,117	2,417	2,790	3,082
Tax	(547)	(483)	(558)	(616)
Minorities	(167)	(174)	(208)	(229)
Net profit	2,402	1,760	2,024	2,236
Net profit (adj.)	2,244	1,760	2,024	2,236

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	2,746	969	(74)	(103)
Pre-tax profit	3,117	2,417	2,790	3,081
Tax	(685)	(483)	(558)	(616)
Deprec. & amort.	1,093	0	0	0
Working capital changes	(778)	(294)	(1,615)	(1,855)
Other operating cashflows	0	(671)	(691)	(712)
Investing	(2,542)	(1,601)	(1,601)	(1,401)
Capex (maintenance)	(2,483)	(1,541)	(1,541)	(1,341)
Investments	24	24	24	24
Proceeds from sale of assets	86	86	86	86
Others	(83)	(83)	(83)	(83)
Financing	1,789	2,405	667	(12)
Dividend payments	(699)	(1,050)	(803)	(644)
Issue of shares	23	41	33	33
Proceeds from borrowings	685	6,339	621	600
Others/interest paid	1,780	(2,925)	817	0
Net cash inflow (outflow)	1,992	1,773	(1,008)	(1,515)
Beginning cash & cash equivalent	2,588	2,847	2,289	696
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	4,580	4,620	1,281	(819)

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	14,814	16,314	17,814	19,114
Other LT assets	12,955	12,030	11,537	11,101
Cash/ST investment	5,722	5,789	4,195	3,107
Other current assets	26,911	27,789	30,459	33,220
Total assets	60,402	61,922	64,005	66,543
ST debt	23,435	23,435	23,435	23,435
Other current liabilities	6,508	6,898	7,537	7,833
LT debt	6,994	7,594	8,194	9,194
Other LT liabilities	865	796	729	965
Shareholders' equity	19,986	20,411	21,114	21,890
Minority interest	2,615	2,789	2,996	3,226
Total liabilities & equity	60,402	61,922	64,005	66,543

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	4.5	4.2	3.7	3.9
Pre-tax margin	4.2	3.3	3.5	3.6
Net margin	3.3	2.4	2.6	2.6
ROA	4.0	2.9	3.2	3.4
ROE	12.0	8.7	9.7	10.4
Growth				
Turnover	11.6	(1.3)	9.1	9.6
EBITDA	(16.5)	(8.5)	(3.2)	15.3
Pre-tax profit	12.7	(22.4)	15.4	10.5
Net profit	27.1	(26.8)	15.0	10.5
Net profit (adj.)	21.8	(21.6)	15.0	10.5
EPS	21.8	(21.6)	15.0	10.5
Leverage				
Debt to total capital	57.4	57.2	56.7	56.5
Debt to equity	152.3	152.0	149.8	149.1
Net debt/(cash) to equity	123.6	123.7	129.9	134.9
Interest cover (x)	7.3	3.6	7.5	5.9

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W