

### Report type: 2Q13 Results

#### Company Overview

Wilmar International Limited is Asia's leading agribusiness group. Its business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar, specialty fats, oleo-chemicals and biodiesel manufacturing and grains processing.

- 2Q13 core profit of US\$245mn (+42% YoY, -22% QoQ)
- Lower raw material prices to benefit downstream business
- Maintain Accumulate with new TP of S\$3.61

#### What is the news?

Wilmar reported core 2Q13 net profit (excl non-operating items) of US\$245mn (+42% YoY, -22% QoQ), bringing 1H13 net profit to US\$559mn (+48% YoY) or 41%/42% of consensus/PSR full-year estimate, slightly below expectation. Interim dividend was S\$0.025/share (S\$0.02/share in 1H12).

Figure 1. Results summary

Income statement					
(Extract)	2Q13	2Q12	y-y	1Q13	q-q
(US\$m)					
Revenue	10,426	11,020	-5.4%	10,201	2.2%
EBITDA	417	390	6.9%	518	-19.5%
Net profit	219	117	86.5%	315	-30.7%
Core net profit	245	172	42.4%	314	-21.8%

Source: Company, Phillip Securities Research

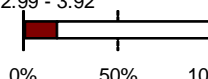
#### How do we view this?

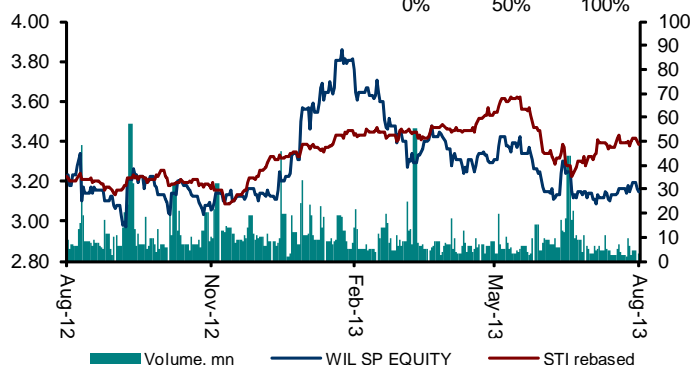
The lower QoQ performance was mainly due to lower earnings recorded by Oilseeds & grains, weaker CPO prices and lower margins for Consumer products. For 2Q13, crush margins remain positive for the 4th consecutive month, but down QoQ from US\$10/MT to US\$3/MT. Palm & laurics remained robust, reported stronger sales volume. Albeit margin fell slightly from US\$40/MT in 1Q13 to US\$36/MT, it is still above our US\$33/MT full-year forecast.

#### Investment Actions?

Management highlights that low CPO price and declining refining margins in Indonesia will add to the challenging operating environment, but expects lower raw material prices to benefit its downstream products. We expect 2H13 results to be stronger as sugar milling will turn profitable in 2H and demand in China will rise on festive seasons (mid-autumn and Lunar New Year's advance purchases in 4Q). We trim our FY13-15E profit forecasts by 1-3%, factoring in the lower crushing and consumer products margins. As such, our target price is revised to S\$3.61 (S\$3.70 previously), based on blended PE (12.0 FY14E) and DCF valuations. Stock is currently trading near -1 S.D. of 11.4x. Maintain Accumulate.

#### Wilmar International Ltd

<b>Rating</b>	<b>2</b>	<b>Accumulate</b>
- Previous Rating	2	Accumulate
<b>Target Price (SGD)</b>	<b>3.61</b>	
- Previous Target Price (SGD)	3.70	
Closing Price (SGD)	3.15	
Expected Capital Gains (%)	14.6%	
Expected Dividend Yield (%)	1.6%	
<b>Expected Total Return (%)</b>	<b>16.2%</b>	
Raw Beta (Past 2yrs weekly data)	1.00	
Market Cap. (USD mn / SGD mn)	15892 / 20150	
Enterprise Value (USD mn / SGD mn)	36019 / 45129	
3M Average Daily T/O (mn)	8.5	
52 week range (SGD)	2.99 - 3.92	
Closing Price in 52 week range		



#### Major Shareholders

1. Kuok Brothers Sdn Bh	18.3
2. Archer-Daniels-Midla	16.4
3. Wilmar Intl Holdings	5.6

#### Key Financial Summary

FYE	12/12	12/13F	12/14F	12/15F
Revenue (USD mn)	45,463	48,468	55,002	59,318
Net Profit, adj. (USD mn)	1,167	1,288	1,423	1,558
EPS, adj. (USD)	0.18	0.20	0.22	0.24
P/E (X), adj.	13.5	12.3	11.1	10.1
BVPS (USD)	2.24	2.41	2.59	2.80
P/B (X)	1.1	1.0	1.0	0.9
DPS (SGD)	0.05	0.05	0.06	0.06
Div. Yield (%)	1.6%	1.6%	1.8%	1.9%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

Blend of PE-based (12.0X 2014e PE), and DCF valuations

#### Analyst

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### 2Q13 results slightly below expectation

Wilmar reported core 2Q13 net profit (excl non-operating items) of US\$245mn (+42% YoY, -22% QoQ), bringing 1H13 net profit to US\$559mn (+48% YoY) or 41%/42% of consensus/PSR full-year estimate, slightly below expectation. Interim dividend was S\$0.025/share (S\$0.02/share in 1H12).

The lower QoQ performance was mainly due to lower earnings recorded by Oilseeds & grains, weaker CPO prices and lower margins for Consumer products. For 2Q13, crush margins remain positive for the 4th consecutive month, but down QoQ from US\$10/MT to US\$3/MT. Palm & laurics remained robust, reported stronger sales volume. Albeit margin fell slightly from US\$40/MT in 1Q13 to US\$36/MT, it is still above our US\$33/MT full-year forecast. Meanwhile, associates also turned in a weaker performance on lower Russia contributions slightly offset by improved China performance.

**Fig 2: Results comparison**

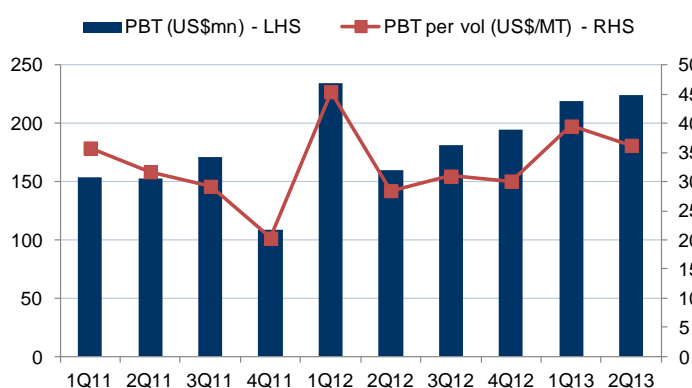
US\$mil	2Q13	2Q12	YoY	1Q13	QoQ
Revenue	10,426	11,020	-5.4%	10,201	2.2%
EBITDA	417	390	6.9%	518	-19.5%
EBIT	266	259	2.7%	372	-28.5%
PBT	282	149	89.0%	417	-32.4%
Tax	-55	-23	136.5%	-89	-38.4%
PAT	227	126	80.2%	327	-30.7%
Minority interests	8	9	-4.5%	12	-31.0%
Net profit	219	117	86.5%	315	-30.7%
Core net profit	245	172	42.4%	314	-21.8%

Source: Company, Phillip Securities Research

### Palm & laurics remains robust

Palm & laurics 1H13 PBT was up 12% YoY, due to higher sales volume on the back of expanded capacity in Indonesia. Albeit palm refining margins fell slightly from US\$40/MT in 1Q13 to US\$36/MT, it is still above our US\$33/MT full-year forecast. We believe that its palm & laurics margins could normalize going forward as new refining capacities in Indonesia get completed in 2H13.

**Fig 3: Palm & laurics PBT & PBT margins quarterly trends**

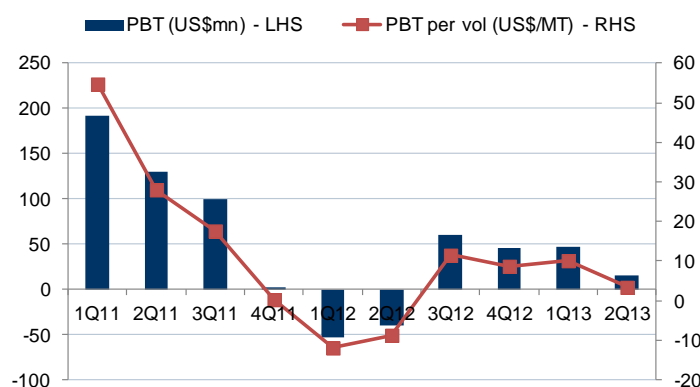


Source: Company, Phillip Securities Research

### Oilseeds & grains remain positive

Oilseeds & grains volume was up by 2% YoY in 1H13, with stronger growth in 1Q13 more than offsetting the 2Q13 volume decline of 2% YoY. We suspect the 2% sales volume decline in 2Q13 was due to China's bird flu which affected soybean meal demand. Nonetheless, we expect 2H13 volume to recover and assume crush margin of US\$6/MT for FY13 (previously US\$9/MT) to account for the lower margin in 2Q13. We are of the view that China's crush overcapacity will need a few quarters to absorb, hence putting downward pressure on margins.

**Fig 4: Oilseeds & grains PBT & PBT margins quarterly trends**

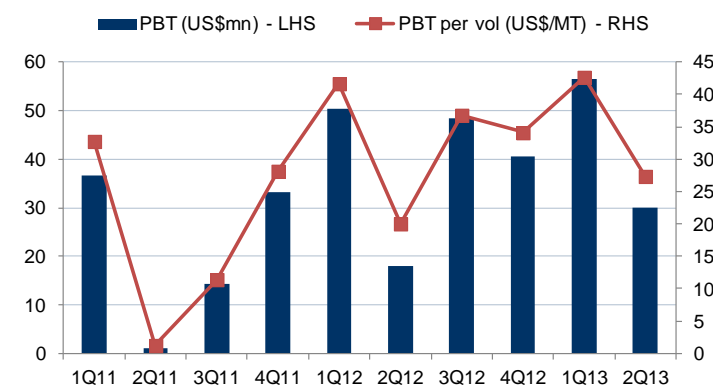


Source: Company, Phillip Securities Research

### Consumer products

Consumer pack volume grew by 22% YoY for 2Q13 and 15% YoY for 1H13 on higher demand for edible oils and flour, boosted by price reductions in April/May 2013. 2Q13 margins declined to US\$27/MT from US\$43/MT in 1Q13 due to lower selling prices. We are building in a PBT margin of USD31/mT for 2H13.

**Fig 5: Consumer products PBT & PBT margins quarterly trends**

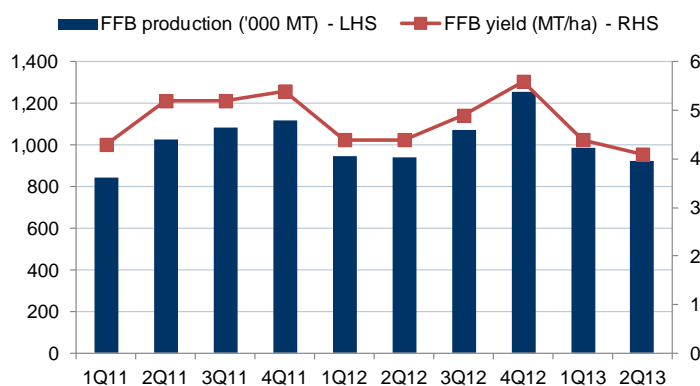


Source: Company, Phillip Securities Research

## Plantations

2Q13 was challenging for the plantation & mill segment, marked by weaker CPO prices and lower production yields. Low crop trend in Sarawak and dry weather in Kalimantan and Sumatra led to lower FFB yield, pushing overall 2Q12 FFB yields down by 7% YoY, partially offset by better crop trend in Sabah.

**Fig 6: FFB production and yield quarterly trend**



Source: Company, Phillip Securities Research

## Sugar

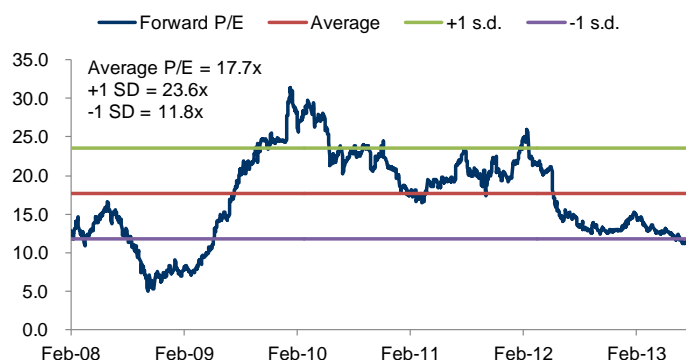
Sugar segment registered lower pretax loss of US\$30.3mn for 2Q13 (vs. US\$60.3mn loss in 2Q12) leading to a lower loss of US\$43.9mn for 1H13 (vs. US\$108.2mn loss in 1H12). This was mainly due to improved performance in milling and higher contributions from refineries and merchandising activities.

### Maintain Accumulate with new target price of S\$3.61

Management highlights that low CPO price and declining refining margins in Indonesia will add to the challenging operating environment, but expects lower raw material prices to benefit its downstream products. We expect 2H13 results to be stronger as sugar milling will turn profitable in 2H and demand in China will rise on festive seasons (mid-autumn and Lunar New Year's advance purchases in 4Q).

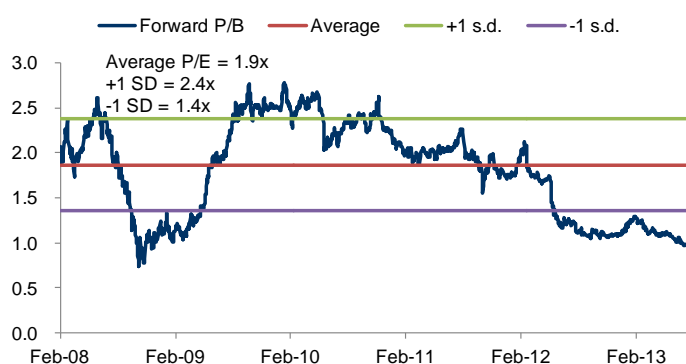
We trim our FY13-15E profit forecasts by 1-3%, factoring in the lower crushing and consumer products margins. As such, our target price is revised to S\$3.61 (S\$3.70 previously), based on blended PE (12.0 FY14E) and DCF valuations. Stock is currently trading near -1 S.D. of 11.4x. Maintain Accumulate. Key risks to our target price includes untimely purchases of raw materials, rising inflation resulting in unfavorable government policies, margins compression from increase competition, animal diseases affecting feedstock demand.

**Fig 7: Wilmar's forward P/E**



Source: Bloomberg, Phillip Securities Research

**Fig 8: Wilmar's forward P/B**



Source: Bloomberg, Phillip Securities Research

**Fig 9: Revenue by segment**

US\$mil	2Q13	2Q12	YoY	1Q13	QoQ
Palm & laurics	5,093	6,008	-15.2%	4,543	12.1%
Oilseeds & grains	2,999	3,086	-2.8%	3,090	-3.0%
Consumer products	1,508	1,380	9.2%	2,037	-26.0%
Plantations	315	416	-24.3%	349	-9.7%
Sugar (milling)	177	112	57.2%	55	221.7%
Sugar (refining)	887	728	21.8%	714	24.3%
Others	661	671	-1.5%	609	8.6%
Elimination	-1,214	-1,382	-12.2%	-1,196	1.5%
Total	10,426	11,020	-5.4%	10,201	2.2%

Source: Company, Phillip Securities Research

**Fig 10: PBT by segment**

US\$mil	2Q13	2Q12	YoY	1Q13	QoQ
Palm & laurics	225	160	40.3%	219	2.6%
Oilseeds & grains	15	-40	-138.1%	47	-67.7%
Consumer products	30	18	66.6%	57	-47.1%
Plantations	53	79	-33.5%	72	-26.9%
Sugar	-30	-50	-39.5%	-14	123.1%
Others	-33	-35	-4.0%	-14	144.5%
Associates	25	31	-19.0%	53	-53.2%
Unallocated	-2	-4	-55.6%	-4	-51.8%
Total	282	159	77.0%	417	-32.4%

Source: Company, Phillip Securities Research

**Fig 11: Sales per vol. by segment**

'000 MT	2Q13	2Q12	YoY	1Q13	QoQ
Merch. & process	10,692	10,211	4.7%	10,197	4.9%
Palm & laurics	6,194	5,623	10.2%	5,531	12.0%
Oilseeds & grains	4,498	4,588	-2.0%	4,666	-3.6%
Consumer products	1,094	897	22.0%	1,325	-17.4%
Sugar (milling)	436	257	69.6%	97	349.5%
Sugar (refining)	1,691	1,039	62.8%	1,210	39.8%

Source: Company, Phillip Securities Research

**Fig 12: PBT per vol. by segment**

US\$/MT	2Q13	2Q12	YoY	1Q13	QoQ
Palm & laurics	36	28	27.3%	40	-8.3%
Oilseeds & grains	3	-9	-138.9%	10	-66.5%
Consumer products	27	20	36.6%	43	-35.9%
Sugar (milling)	-120	-280	-57.2%	-574	-79.2%
Sugar (refining)	13	21	-38.3%	35	-63.0%

Source: Company, Phillip Securities Research

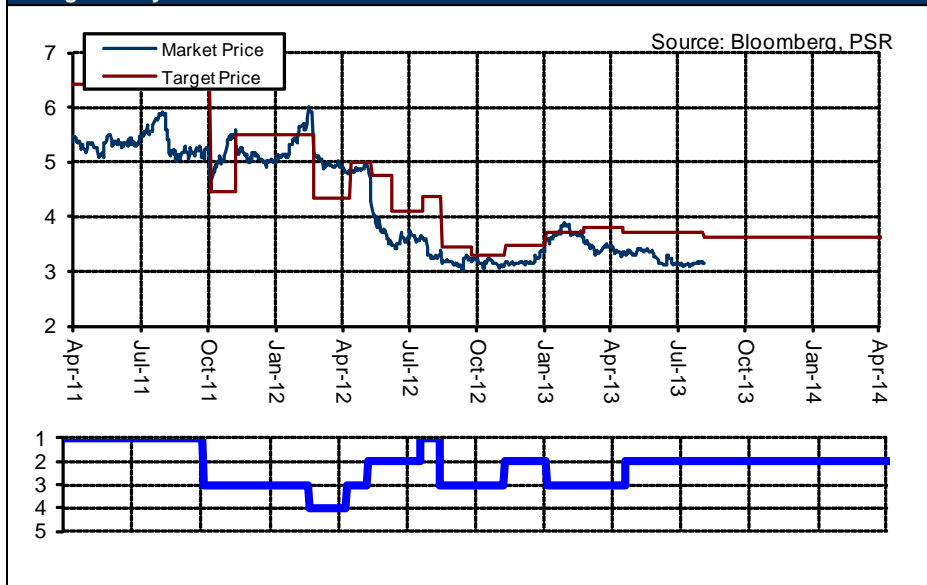
FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Valuation Ratios</b>					
P/E (X), adj.	10.4	13.5	12.3	11.1	10.1
P/B (X)	1.2	1.1	1.0	1.0	0.9
EV/EBITDA (X), adj.	15.0	16.7	14.9	13.7	12.5
Dividend Yield (%)	1.9%	1.6%	1.6%	1.8%	1.9%
<b>Per share data</b>					
EPS, reported (USD)	0.25	0.20	0.20	0.22	0.24
EPS, adj.(USD)	0.24	0.18	0.20	0.22	0.24
DPS (SGcts)	6.10	5.00	5.03	5.55	6.08
BVPS (USD)	2.09	2.24	2.41	2.59	2.80
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	47.2%	1.7%	6.6%	13.5%	7.8%
EBITDA	47.5%	-10.1%	11.7%	9.3%	9.4%
EBIT	46.5%	-16.0%	13.5%	10.7%	11.1%
Net Income, adj.	44.1%	-23.1%	10.4%	10.4%	9.5%
<b>Margins</b>					
EBITDA margin	5.4%	4.7%	5.0%	4.8%	4.9%
EBIT margin	4.3%	3.6%	3.8%	3.7%	3.8%
Net Profit Margin	3.8%	2.9%	2.8%	2.7%	2.8%
<b>Key Ratios</b>					
ROE (%)	12.0%	8.4%	8.7%	8.9%	9.0%
ROA (%)	5.2%	4.0%	4.3%	4.6%	5.0%
Net Debt/(Cash)	12,991	13,683	13,988	14,797	14,916
Net Gearing (X)	91.2%	90.0%	85.7%	84.4%	79.1%
<b>Income Statement (USD mn)</b>					
<b>Revenue</b>	<b>44,710</b>	<b>45,463</b>	<b>48,468</b>	<b>55,002</b>	<b>59,318</b>
<b>EBITDA</b>	<b>2,402</b>	<b>2,159</b>	<b>2,411</b>	<b>2,637</b>	<b>2,884</b>
Depreciation & Amortisation	(479)	(543)	(578)	(607)	(629)
<b>EBIT</b>	<b>1,923</b>	<b>1,616</b>	<b>1,834</b>	<b>2,030</b>	<b>2,255</b>
Changes in fair value of bio assets	263	29	0	0	0
Finance (Expense)/Income	(188)	(178)	(181)	(198)	(242)
Other items	(104)	64	1	0	0
Associates & JVs	185	123	154	163	172
<b>Profit Before Tax</b>	<b>2,079</b>	<b>1,655</b>	<b>1,808</b>	<b>1,995</b>	<b>2,185</b>
Taxation	(379)	(334)	(452)	(499)	(546)
<b>Profit After Tax</b>	<b>1,700</b>	<b>1,320</b>	<b>1,356</b>	<b>1,496</b>	<b>1,639</b>
Non-controlling Interest	99	65	67	74	81
<b>Net Income, reported</b>	<b>1,601</b>	<b>1,255</b>	<b>1,289</b>	<b>1,423</b>	<b>1,558</b>
<b>Net Income, adj.</b>	<b>1,517</b>	<b>1,167</b>	<b>1,288</b>	<b>1,423</b>	<b>1,558</b>

Source: PSR

FYE Dec	FY11	FY12	FY13F	FY14F	FY15F
<b>Balance Sheet (USD mn)</b>					
PPE	7,469	8,924	9,488	9,974	10,340
Intangibles	4,425	4,458	4,458	4,457	4,457
Biological assets	1,846	1,970	2,029	2,037	2,041
Investments	1,587	1,673	1,827	1,990	2,162
Others	563	1,075	1,075	1,075	1,075
<b>Total non-current assets</b>	<b>15,891</b>	<b>18,101</b>	<b>18,877</b>	<b>19,533</b>	<b>20,076</b>
Inventories	7,265	7,137	7,609	8,635	9,312
Trade Receivables	3,503	3,953	4,214	4,783	5,158
Other Receivables	3,156	2,162	2,162	2,162	2,162
Cash	7,898	8,562	8,258	7,448	7,329
Others	1,942	2,005	2,005	2,005	2,005
<b>Total current assets</b>	<b>23,765</b>	<b>23,819</b>	<b>24,248</b>	<b>25,032</b>	<b>25,966</b>
<b>Total Assets</b>	<b>39,656</b>	<b>41,920</b>	<b>43,125</b>	<b>44,565</b>	<b>46,042</b>
Short term loans	18,409	17,740	17,740	17,740	17,740
Trade Payables	1,710	1,580	1,684	1,911	2,061
Others	2,026	2,093	2,093	2,093	2,093
<b>Total current liabilities</b>	<b>22,145</b>	<b>21,413</b>	<b>21,518</b>	<b>21,745</b>	<b>21,895</b>
Long term loans	2,480	4,505	4,505	4,505	4,505
Deferred income tax	639	684	684	684	684
Others	142	123	123	123	123
<b>Total non-current liabilities</b>	<b>3,262</b>	<b>5,312</b>	<b>5,312</b>	<b>5,312</b>	<b>5,312</b>
Non-controlling interest	878	849	880	913	950
<b>Shareholder Equity</b>	<b>13,370</b>	<b>14,346</b>	<b>15,434</b>	<b>16,613</b>	<b>17,904</b>
<b>Cashflow Statements (USD mn)</b>					
CFO					
PBT	2,079	1,655	1,808	1,995	2,185
Adjustments	380	546	621	658	716
Cash from ops before WC changes	2,459	2,201	2,428	2,653	2,900
WC changes	22	(581)	(629)	(1,367)	(903)
Cash generated from ops	2,481	1,620	1,800	1,286	1,998
Taxes paid, net	(269)	(342)	(452)	(499)	(546)
Interest paid, net	(264)	(210)	(135)	(151)	(196)
<b>Cashflow from ops</b>	<b>1,948</b>	<b>1,068</b>	<b>1,213</b>	<b>636</b>	<b>1,255</b>
CFI					
CAPEX, net	(1,434)	(1,657)	(1,141)	(1,093)	(995)
Purchase/sale of investments	(151)	(117)	0	0	0
Investments in subs & associates	(154)	36	0	0	0
Others	(329)	(291)	(59)	(7)	(5)
<b>Cashflow from investments</b>	<b>(2,068)</b>	<b>(2,028)</b>	<b>(1,200)</b>	<b>(1,100)</b>	<b>(1,000)</b>
CFF					
Share issuance	11	3	0	0	0
Loans, net of repayments	3,762	8,079	0	0	0
Payment of dividends	(309)	(299)	(271)	(299)	(328)
Others	(2,465)	(6,574)	(46)	(46)	(46)
<b>Cashflow from financing</b>	<b>1,000</b>	<b>1,210</b>	<b>(317)</b>	<b>(345)</b>	<b>(374)</b>
<b>Net change in cash</b>	<b>879</b>	<b>249</b>	<b>(304)</b>	<b>(810)</b>	<b>(119)</b>

Source: PSR

**Ratings History**



**PSR Rating System**

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

**Remarks**

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation.



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