

WILMAR INTERNATIONAL LIMITED

2Q2019 Results Briefing

August 13, 2019




wilmar

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2Q2019 Financial Performance – Key Takeaways



Earnings Highlights

	2Q19 (US\$m)	vs 2Q18 ⁽¹⁾ △	1H19 (US\$m)	vs 1H18 ⁽¹⁾ △
Revenue	9,782	-9%	20,227	-8%
EBITDA	542	-23%	1,187	-6%
Net profit	151	-52%	408	-22%
Net Profit - excluding discontinued operations	171	-46%	440	-15%
Core net profit	177	-50%	427	-20%
Earnings per share in US cents (fully diluted)	2.4	-52%	6.4	-22%
Earnings per share In US cents (fully diluted) - excluding discontinued operations	2.7	-46%	7.0	-15%
Dividends per share In Singapore cents	3.0	-14%	3.0	-14%

⁽¹⁾ Prior period figures were restated upon adoption of SFRS (I) 15 Revenue from Contracts with Customers.

Earnings Highlights – Segment Results (PBT US\$m)

	2Q19	2Q18	Δ	1H19	1H18	Δ
Tropical Oils (Plantation, Manufacturing & Merchandising)	177.3	154.9	15%	361.2	256.5	41%
Oilseeds and Grains (Manufacturing & Consumer Products)	59.2	290.2	-80%	150.3	462.8	-68%
Sugar (Milling, Merchandising, Refining & Consumer Products)	(69.4)	(46.2)	-50%	(67.7)	(85.2)	21%
Others	6.2	(26.3)	<i>n.m.</i>	42.6	9.8	>100%
Joint Ventures & Associates	22.0	49.5	-56%	42.8	91.1	-53%
Unallocated expenses [#]	(1.6)	(2.4)	33%	(9.1)	(6.0)	-52%
Profit Before Tax	193.7	419.7	-54%	520.1	729.0	-29%

[#] Unallocated expenses refer to expenses in relation to the grant of share options to employees.

n.m. – not meaningful

Cash Flow Highlights

US\$ million	1H19	1H18	FY18
Operating cash flow before working capital changes	1,204	752	1,961
Net cash flow generated from operating activities	2,393	787	1,501
Less: Acquisitions of subsidiaries, joint ventures and associates	(29)	(395)	(417)
Capital expenditure	(830)	(653)	(1,325)
Net increase from bank borrowings*	124	3,239	3,051
Increase in other deposits and financial products with financial institutions	(1,178)	(2,402)	(2,400)
Dividends	(325)	(333)	(495)
Others	47	326	245
Net cash flow	202	569	160
Free cash flow	1,971	79	398

Note :

* Net bank borrowings include proceeds/repayments of loans and borrowings net of fixed deposits pledged with financial institutions for bank facilities and unpledged fixed deposits with maturity more than 3 months.

Free Cash Flow = Cashflows generated from/(used in) operations – Capital expenditure – Acquisitions/disposals of subsidiaries, joint ventures and associates.

Gearing

US\$ million	As at Jun 30, 2019	As at Dec 31, 2018 [^]
Debt/Equity (x)	0.77	0.84
- Net debt [*]	12,448	13,460
- Shareholders' funds	16,216	16,046
Adjusted debt/Equity (x)	0.35	0.34
- Liquid working capital ^{**, #}	6,728	8,027
- Adjusted net debt [#]	5,720	5,433
- EBITDA ^{***}	2,870	2,941
Net debt/EBITDA (x)	4.34	4.58
Adjusted net debt/EBITDA (x)[#]	2.0	1.8

^{*} Net debt = Total borrowings – Cash and bank balances – Other deposits with financial institutions.

^{**} Liquid working capital = Inventories (excl. consumables) + Trade receivables – Current liabilities (excl. borrowings and liabilities directly associated with disposal group classified as held for sale).

^{***} EBITDA for Jun 19 is based on LTM performance.

[#] Does not include Brazil discontinued operations.

[^] In accordance with SFRS(I) 3, the Group has restated the prior year's figures subsequent to the finalisation of purchase price allocation exercise for the acquisition of Shree Renuka Sugars Limited ("SRSL") and its subsidiaries.

- Net debt to equity ratio improved to 0.77x as at Jun 30, 2019.
- Adjusted debt to equity ratio increased marginally to 0.35x as at Jun 30, 2019.

Business Outlook

- Over the years, the Group has invested significant capital, mainly in Asia and Africa, and we have often been questioned by analysts on the rationale for these investments as there has been no significant increase in profits thus far. The Group has always been bullish on the huge potential of approximately 4.5 billion people in the Asian and African countries in which we operate and where our products are often the leading brands. We believe that food is the biggest industry in these countries, and with some of the world's fastest economic and population growth, the future demand for food will be much larger than in the developed countries in the West. Most of our capital expenditure in these countries was spent on building agri processing plants, building brands and distribution networks. We believe we have built very competitive business models for the agri businesses in these countries. We chose to build greenfield when it makes sense as they are usually lower costs versus acquisitions and the plants are much better quality and more efficient. However, gestation periods for these investments are longer as greenfield projects take typically longer time to build and developing brands and distribution networks also take time.
- We are seeing increasing sales and profitability from these investments and those established earlier; as examples, India and Vietnam, which are now making good profits. The increase in profit contributions in recent years from Consumer Products and some of the new businesses like Oleochemicals, Rice and Flour, help dampen the volatility of earnings, especially as compared with pure Plantation companies. Our strategy has always been to make our Group earnings more stable and less vulnerable to fluctuations in commodity prices.

Business Outlook (continued)

- We have submitted our application to list our China operations on the Shenzhen Stock Exchange. With the disclosure of our China operations in the Prospectus, there is now a better understanding and appreciation of the Group's China operations. In China, the Group has more than 300 plants in 62 locations with many top brands and a vast marketing and distribution network. We believe such an operation is not easily replicated and will cost significantly more to build today. We have built similar operations in many countries including Indonesia, India, Vietnam and in many African countries. We strongly believe that these operations, when fully mature, will enjoy similar good returns in the future.
- The African swine fever's impact on China soybean meal demand is likely to take several years to eradicate, although the lower China hog production will be offset partially by strong growth in the poultry sector. We are fortunate to be in the agri processing business as the slowing economy, due partly to the US-China trade conflict, has not impacted Chinese domestic consumption of food. In fact, the demand for better quality food products in China continues to grow. The stricter control on plant and food safety and the environment also helps our plants in China perform better. Thus, we are not overly concerned about the current external environment and will continue to expand our operations in our core businesses as we believe the future for food demand is in Asia and Africa.
- Barring any unforeseen circumstances, we expect the margins of our crushing business and other segments to perform better in the remaining half of the year.

Appendix



Business Segment results: Tropical Oils (Plantation, Manufacturing and Merchandising)

	2Q19	2Q18 ⁽¹⁾	Δ	1H19	1H18 ⁽¹⁾	Δ
Revenue (US\$ million)	3,768.1	4,255.8	-11%	7,587.6	8,650.7	-12%
➤ <i>Plantation</i>	11.6	13.5	-14%	23.0	27.4	-16%
➤ <i>Manufacturing & Merchandising</i>	3,756.5	4,242.3	-12%	7,564.6	8,623.3	-12%
Sales volume [#] ('000 MT)	6,213	5,649	10%	12,411	11,376	9%
➤ <i>Manufacturing & Merchandising</i>						
Profit before tax (US\$ million)	177.3	154.9	15%	361.2	256.5	41%

⁽¹⁾ Prior period figures were restated upon adoption of SFRS (I) 15 Revenue from Contracts with Customers.

[#] Excludes plantation volume.

- Profit before tax increased by 15% in 2Q19, boosted by stronger performance from the manufacturing and merchandising business, on the back of higher sales volume during the quarter. This was partially offset by lower CPO prices and production yields, which reduced contributions from the plantation business. Overall profit for the segment increased by 41% for 1H19. This segment has been delivering consistent good performance since 2Q18.
- Production yield decreased by 10% to 5.2 MT per hectare in 2Q19 and 7% to 9.9 MT per hectare in 1H19 as a result of unfavourable weather conditions. This resulted in an 8% decrease in total fresh fruit bunches production to 993,454 MT for 2Q19 and 1,898,714 MT for 1H19.
- Weaker commodity prices in the current period led overall revenue to decrease by 11% in 2Q19 and by 12% in 1H19 despite an improvement in sales volume.

Business Segment results:

Tropical Oils (Plantation, Manufacturing and Merchandising)

	2Q19	2Q18	Δ	1H19	1H18	Δ
Planted area (ha)	230,696	229,002	1%	230,696	229,002	1%
Mature area harvested (ha)	191,353	192,417	-1%	191,353	192,417	-1%
FFB production (MT)	993,454	1,081,425	-8%	1,898,714	2,066,423	-8%
FFB Yield (MT/ha)	5.2	5.8	-10%	9.9	10.7	-7%
Mill Production						
➤ Crude Palm Oil (MT)	469,330	456,402	3%	916,784	858,449	7%
➤ Palm Kernel (MT)	116,535	111,735	4%	227,349	208,552	9%
Extraction Rate						
➤ Crude Palm Oil	19.2%	19.8%	-3%	19.4%	19.9%	-3%
➤ Palm Kernel	4.8%	4.8%	0%	4.8%	4.8%	0%
New Planting (ha)	1,494	3,043		1,618	3,114	

Plantation Age Profile

in hectares	Average Age of Plantation					
30 Jun 2019	0 - 3 yrs	4 - 6 yrs	7 - 14 yrs	15 - 18 yrs	>18 yrs	Total
Indonesia	11,675	11,825	86,598	15,451	26,725	152,274
Malaysia	16,160	9,383	9,886	8,919	13,955	58,303
Africa	5,431	8,616	4,306	1,041	725	20,119
Total planted area	33,266	29,824	100,790	25,411	41,405	230,696
<i>% of total planted area</i>	<i>14.4%</i>	<i>12.9%</i>	<i>43.7%</i>	<i>11.0%</i>	<i>18.0%</i>	<i>100.0%</i>
Included YTD new plantings of :	1,618					
Plasma/outgrower Programme	55	64	9,010	3,228	23,483	35,840
<i>% of planted area</i>	<i>0.2%</i>	<i>0.2%</i>	<i>25.1%</i>	<i>9.0%</i>	<i>65.5%</i>	<i>100.0%</i>
31 Dec 2018						
Indonesia	14,548	12,026	89,425	11,883	25,047	152,929
Malaysia	15,033	9,421	9,737	8,488	15,485	58,164
Africa	5,885	9,280	1,913	1,704	534	19,316
Total planted area	35,466	30,727	101,075	22,075	41,066	230,409
<i>% of total planted area</i>	<i>15.4%</i>	<i>13.3%</i>	<i>43.9%</i>	<i>9.6%</i>	<i>17.8%</i>	<i>100.0%</i>
Included YTD new plantings of :	3,562					
Plasma/outgrower Programme	48	142	9,425	3,130	23,054	35,799
<i>% of planted area</i>	<i>0.1%</i>	<i>0.4%</i>	<i>26.3%</i>	<i>8.8%</i>	<i>64.4%</i>	<i>100.0%</i>

- Weighted average age of our plantations is approximately 11 years.

Business Segment results: Oilseeds and Grains (Manufacturing and Consumer Products)

	2Q19	2Q18 ⁽¹⁾	Δ	1H19	1H18 ⁽¹⁾	Δ
Revenue (US\$ million)	4,846.7	5,298.6	-9%	10,231.1	10,957.1	-7%
➤ Manufacturing	3,523.9	3,944.3	-11%	6,908.1	7,627.5	-9%
➤ Consumer Products	1,322.8	1,354.3	-2%	3,323.0	3,329.6	0%
Sales volume ('000 MT)	8,920	8,732	2%	17,395	17,588	-1%
➤ Manufacturing	7,679	7,538	2%	14,369	14,779	-3%
➤ Consumer Products	1,241	1,194	4%	3,026	2,809	8%
Profit before tax (US\$ million)	59.2	290.2	-80%	150.3	462.8	-68%

⁽¹⁾ Prior period figures were restated upon adoption of SFRS (I) 15 Revenue from Contracts with Customers.

- In 2Q19, profit before tax was lower at US\$59.2 million, mainly due to the absence of strong crush volume and margins experienced in 2Q18. Although crush margins improved from 1Q19, crushing operations continued to be affected by the African swine fever outbreak. Consumer Products maintained its strong performance while rice and flour continued to make good progress during the quarter.
- Overall sales volume increased by 2% in 2Q19 and decreased marginally by 1% in 1H19.

Business Segment results:

Sugar (Milling, Merchandising, Refining and Consumer Products)

	2Q19	2Q18 ⁽¹⁾	Δ	1H19	1H18 ⁽¹⁾	Δ
Revenue (US\$ million)	948.0	996.5	-5%	1,955.9	1,832.0	7%
➤ Milling	166.1	68.2	>100%	299.4	113.7	>100%
➤ Merchandising, Refining & Consumer Products	781.9	928.3	-16%	1,656.5	1,718.3	-4%
Sales volume ('000 MT)	2,716	2,800	-3%	5,566	4,987	12%
➤ Milling	456	131	>100%	804	260	>100%
➤ Merchandising, Refining & Consumer Products	2,260	2,669	-15%	4,762	4,727	1%
Loss before tax (US\$ million)	(69.4)	(46.2)	-50%	(67.7)	(85.2)	21%

⁽¹⁾ Prior period figures were restated upon adoption of SFRS (I) 15 Revenue from Contracts with Customers.
n.m. – not meaningful

- The weaker segment result was mainly due to the consolidation of Shree Renuka Sugars Limited which became a subsidiary in June 2018. The Australian and Indonesian operations performed better. Overall losses for 1H19 was lower at US\$67.7 million, driven by stronger performance from refining and merchandising activities.
- Sales volume for the milling business more than doubled in 2Q19 and 1H19 due to contributions from SRSL. However, lower sales activities in the merchandising and processing businesses in 2Q19 led overall sales volume for the segment to decrease by 3% in 2Q19. Correspondingly, revenue decreased by 5% in 2Q19. For 1H19, overall sales volume increased by 12%, resulting in higher revenue.

Non-Operating Items and Discontinued Operations

US\$ million	2Q19	2Q18	1H19	1H18
Foreign exchange gain/(loss) in respect of intercompany loans to subsidiaries	0.3	(3.5)	1.3	(3.7)
Net (loss)/gain from investment securities at fair value through profit or loss	(1.4)	(33.9)	21.9	(48.7)
Investment income from investment securities at fair value through other comprehensive income	3.3	11.3	10.0	54.6
Interest expense directly attributable to the funding of the Wilmar Sugar Australia acquisition	(8.8)	(7.8)	(17.5)	(14.5)
Total non-operating items (excluding discontinued operations)	(6.6)	(33.9)	15.7	(12.3)
Loss from discontinued operations	(33.8)	-	(55.5)	-
Total non-operating items (including discontinued operations)	(40.4)	(33.9)	(39.8)	(12.3)
Net profit (including discontinued operations)	150.9	316.4	407.9	519.7
Core net profit	176.8	351.8	427.1	535.3

Cash Flow

US\$ million	1H19	1H18	FY18
Operating cash flow before working capital changes	1,204	752	1,961
Net cash flow generated from operating activities	2,393	787	1,501
Less: Acquisitions of subsidiaries, joint ventures and associates	(29)	(395)	(417)
Capital expenditure	(830)	(653)	(1,325)
Net increase from bank borrowings*	124	3,239	3,051
Increase in other deposits and financial products with financial institutions	(1,178)	(2,402)	(2,400)
Dividends	(325)	(333)	(495)
Others	47	326	245
Net cash flow	202	569	160
Free cash flow	1,971	79	398
Turnover days			
- Inventories	77	72	73
- Trade Receivables	37	34	34
- Trade Payables	15	10	13

Note :

* Net bank borrowings include proceeds/repayments of loans and borrowings net of fixed deposits pledged with financial institutions for bank facilities and unpledged fixed deposits with maturity more than 3 months.

Turnover days are calculated by averaging the monthly turnover days to better reflect the true turnover period in view of the seasonality of the Group's business. Monthly turnover days are computed using revenue and cost of sales for the month.

Free Cash Flow = Cashflows generated from/(used in) operations – Capital expenditure – Acquisitions/disposals of subsidiaries, joint ventures and associates.

Cash Flow – Cont.

- Inventories decreased by 14% to US\$6.8 billion as at 30 June 2019, mainly due to lower stockholding in China which resulted from the post Chinese Spring Festival seasonal impact. Excluding the impact of the acquisition of SRSL, average turnover was at 75 days in 1H19.
- Trade receivables decreased by US\$609.0m to US\$3.7 billion in 1H19. Excluding the impact of the acquisition of SRSL, average turnover days increased to 37 days in 1H19. Despite the higher turnover days during the period, the Group continues to maintain a healthy profile of its aging balance.
- Trade payables decreased by US\$201.7 million to US\$1.2 billion in 1H19 mainly due to timing difference of purchases made. Excluding the impact of the acquisition of SRSL, average turnover days increased to 12 days in 1H19.

Funding and Liquidity

US\$ million	As at Jun 30, 2019		Balance
	Available	Utilised	
Credit facilities :			
Committed	9,471	7,345	2,126
Trade finance	32,282	16,353	15,929
Short term	842	295	547
Total credit facilities	42,595	23,993	18,602

- 68% of utilised facilities were trade financing lines as at June 30, 2019.
- 56% of total facilities were utilised as at June 30, 2019.

Key Indicators

	As at Jun 30, 2019	As at Dec 31, 2018 [^]
Return on Average Equity ^{#,*}	6.3%	7.0%
Return on Average Capital Employed ^{#,*}	5.1%	5.0%
Return on Invested Capital ^{#,*}	4.6%	4.8%
in US cents		
EPS (fully diluted)	6.4	17.8
EPS (fully diluted) - excluding discontinued operations	7.0	18.2
NTA per share	185.0	182.7
NAV per share	256.2	253.6
in Singapore cents		
Dividends (interim & final)	3.0**	10.5

Formulas :

Return on Average Equity = Net profit ÷ Average equity

Return on Average Capital Employed = EBIT x (1 – tax rate) ÷ (Average equity + Average minority interest + Average net debt)

Return on Invested Capital = (Earnings before interest – Fair value of biological assets) ÷ (Average long term assets excl Intangibles & DTA + Average net working capital excl cash and borrowings)

* Jun 19 returns based on LTM performance.

** Only interim dividends.

[^] In accordance with SFRS(I) 3, the Group has restated the prior year's figures subsequent to the finalisation of purchase price allocation exercise for the acquisition of Shree Renuka Sugars Limited ("SRSL") and its subsidiaries.