February 15, 2005

Univanich Palm Oil (UVAN)

NEW : BUY
PREVIOUS : BUY

Agribusiness

Price (Bt)	**31.50**
Target (Bt)	**41.00**

Paid up shares (mn)	**94**
Par value (Bt)	**5.00**
Free Float (%)	**24.62**
Market Capitalisation (mn Bt)	**2,702**
Foreign Limit (%)	**49.00**

Major shareholder	
Apirak Vanich (%)	**18.71**
Chantip Vanich (%)	**9.69**
Albouys Nominees	**8.30**

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2004 results better than expected with a dividend of Bt1.7

Univanich Palm Oil (UVAN) reported better than expected 2004 results with a net profit of Bt385mn (Bt4.10/share), a drop of only 3.7% from 2003 due to lower fresh fruit supplies. The gross margin narrowed from 28% in 2003 to 21%, due to UVAN purchases of fresh fruit from farmers that had low extraction rates and higher competitive fresh fruit prices. In 2004, sales increased 30.4% to Bt2,549mn due to crude palm oil (CPO) and crude palm kernel oil (CPKO) prices that increased 16.7% and 45.5%, respectively.

We are conservatively maintaining our full-year forecast of a 2005 net profit of Bt436mn (Bt4.64/share), up 13% from last year, due to more crop supplies from company plantations and a capacity expansion. The gross margin is expected to widen to 23% from 21%.

The UVAN financial situation is very strong with net cash. At the end of 2004, the company generated cash on hand of Bt224mn (Bt2.39/share). The company also announced a final dividend of Bt1.70 a share along with an interim dividend of Bt1.30 per share makes a total of Bt3 for 2004 operations. The full-year dividend offers a very attractive yield of 9.5% at the current share price.

At the current share price, the stock is trading on a 2005 PER of 6.8x. With the very attractive dividend yield of 9% and a 30% upside to our fair value of **Bt41** per share, we are maintaining our **BUY** recommendation on UVAN.

Figure 1: UVAN Earnings summary

	2002	**2003**	**2004**	**2005F**	**2006F**
Sales (Btmn)	1,589	1,955	2,549	2,593	2,532
EBITDA (Btmn)	297	487	471	546	529
Normalised earnings (Btmn)	223	400	385	436	423
Earnings (Btmn)	223	400	385	436	423
EPS (Bt)	2.69	4.26	4.10	4.64	4.50
PER (x)*	11.7	7.4	7.7	6.8	7.0
EV/EBITDA (x)*	9.1	5.4	5.8	4.9	4.6
Free cash flow (Btmn)	217	325	141	326	537
CF/share (Bt)	3.8	4.5	4.9	5.2	6.3
BVPS (Bt)	6.7	11.2	12.5	14.1	15.6
P/BV (x)*	4.7	2.8	2.5	2.2	2.0
DPS (Bt)	#4.75	2.80	3.00	3.00	3.00
Dividend yield (%)	8.7%	8.9%	9.5%	9.5%	9.5%
Net debt/equity (X)	0.2	cash	cash	cash	cash
ROA (%)	28%	40%	30%	30%	26%
ROE (%)	34%	50%	35%	35%	30%
Gross margin (%)	23%	28%	21%	23%	23%

Source : Company reports and KELIVE Research estimates.

Univanich Palm Oil (UVAN) reported better-than-expected 2004 results with a net profit of Bt385mn (Bt4.10/share), a drop of only 3.7% from 2003, due to decreasing stocks of fresh fruit that were less than our expectation. The gross margin narrowed from 28% in 2003 to 21%, due to UVAN purchasing of more fresh fruit from local farmers, a lower extraction rate and higher fruit prices due to competition for stocks. In 2004, sales increased 30.4% to Bt2,549mn from greater demand for crude palm oil (CPO) and crude palm kernel oil (CPKO) with prices that were up 16.7% and 45.5%, respectively.

The company posted a 4Q04 net profit of Bt68mn (Bt0.73/share), up 181% yoy. This was due to fresh fruit supplies from company owned plantations that increased year on year. Furthermore, the company commenced operation of the third factory and gross margins widened to 20% from 13% yoy and 19% last quarter.

Figure 2: Quarterly income statement

Income statement (Bt mn)	4Q04	3Q04	QoQ	4Q03	YoY	2004	2005F
Sales	573	680	(16%)	358	60%	2,549	2,593
COGS	459	554	(17%)	312	47%	2,005	1,997
Gross margin (%)	20%	19%	N.A.	13%	N.A.	21%	23%
SG&A	43	36	19%	30	44%	153	163
EBITDA	0.0	107.3	N.A.	35.1	N.A.	394	436
Interest expense	-	-	N.A.	-1.97	N.A.	-	-
Normalised profit	68	88	(23%)	24	181%	385	436
Net profit	68	88	(23%)	24	181%	385	436
EPS (Bt)	0.73	0.94	(23%)	0.26	181%	4.10	4.64

Source: UVAN and KELIVE Research estimates.

In 2005, management expects fresh fruit supplies to increase and this will depress the CPO and CPKO prices. However, we believe world consumption is increasing, especially in China and India and this should help to maintain prices.

We are conservatively maintaining our full-year forecast for 2005 of a net profit of Bt436mn (Bt4.64/share), up 13% from last year, due to more crop supplies from owned plantations and processing capacity expansion. The gross margin is expected to widen to 23% from 21%.

The UVAN financial situation is very strong with net cash, as the company generated by the end of 2004 cash on hand of Bt224mn (Bt2.39/share). The company has also announced a final dividend of Bt1.70 a share with an interim of Bt1.30 per share already paid. The full-year dividend of Bt3 offers a very attractive yield of 9.5% at the current share price.

UVAN is trading on a 2005 PER of 6.8x and offers a 30% upside to our fair value estimate of Bt41 per share.

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