

July 15, 2005

Univanich Palm Oil (UVAN)

NEW : BUY ON WEAKNESS
PREVIOUS : LONG-TERM BUY

Agribusiness

2Q05 earnings continue to be depressed by drought

Price (Bt) 30.50
Target (Bt) 33.25

Paid up shares (mn) 94
Par value (Bt) 5.00
Free Float (%) 29.63
Market Capitalisation (mn Bt) 2,867
Foreign Limit (%) 49.00

Major shareholders

Apirak Vanich (%) 18.71
Albouys Nominees (%) 10.73
Chantip Vanich (%) 9.60

After visiting with Univanich Palm Oil (UVAN) management, we expect the company to announce 2Q05 net profit of around Bt74mn (EPS Bt0.79). The 39% yoy decline in earnings would be due to 1) drought conditions in the first five months of this year and the resulting short supplies of fresh fruit and low oil extraction rates, 2) average CPO prices in 1H05 decreasing 22% from Bt22.09 to Bt15.56 per kilo and 3) decreasing margins due to competition for fruit supplies. We expect UVAN's gross margin to narrow to 19% from 23% last year.

From our estimates, the UVAN 1H05 net profit will be Bt133mn (EPS Bt1.41), a fall of 42% yoy and accounting for 35% of our previous full year forecast. Thus, we have revised down our full-year forecast net profit by 16.8% to Bt316mn (EPS Bt3.36), down 18% yoy. However, for 2H05, crude palm oil prices appear to be recovering as crude palm oil stocks has decreased to 125,000 tonnes in May, from 151,000 tonnes year to date.

We have forecast the company to report an interim dividend of Bt1 per share. We have revised down our fair value to **Bt33.25**, based on EV/EBITDA of 7x. We have also downgraded our recommendation from LONG-TERM BUY to **BUY ON WEAKNESS**, to reflect the drought impact. UVAN shares are trading on a PER of 9.1x, which offers a 10% upside to our target price.

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UVAN earnings summary

	2002	2003	2004	2005F	2006F
Sales (Btmn)	1,589	1,955	2,549	2,533	2,473
EBITDA (Btmn)	297	487	471	427	378
Normalised earnings (Btmn)	223	400	385	316	272
Earnings (Btmn)	223	400	385	316	272
EPS (Bt)	2.69	4.26	4.10	3.36	2.89
PER (x)*	11.4	7.2	7.4	9.1	10.5
EV/EBITDA (x)*	8.8	5.2	5.6	6.4	6.9
Free cash flow (Btmn)	217	325	141	208	384
CF/share (Bt)	3.8	4.5	4.9	4.0	4.7
BVPS (Bt)	6.7	11.2	12.5	12.8	12.7
P/BV (x)*	4.6	2.7	2.4	2.4	2.4
DPS (Bt)	#4.75	2.80	3.00	3.00	3.00
Dividend yield (%)	9.0%	9.2%	9.8%	9.8%	9.8%
Net debt/equity (X)	0.2	cash	cash	cash	cash
ROA (%)	28%	40%	30%	22%	17%
ROE (%)	34%	50%	35%	27%	23%
Gross margin (%)	23%	28%	21%	19%	17%

Source : Company reports and KELIVE Research estimates.

#Bt3 from retained earnings

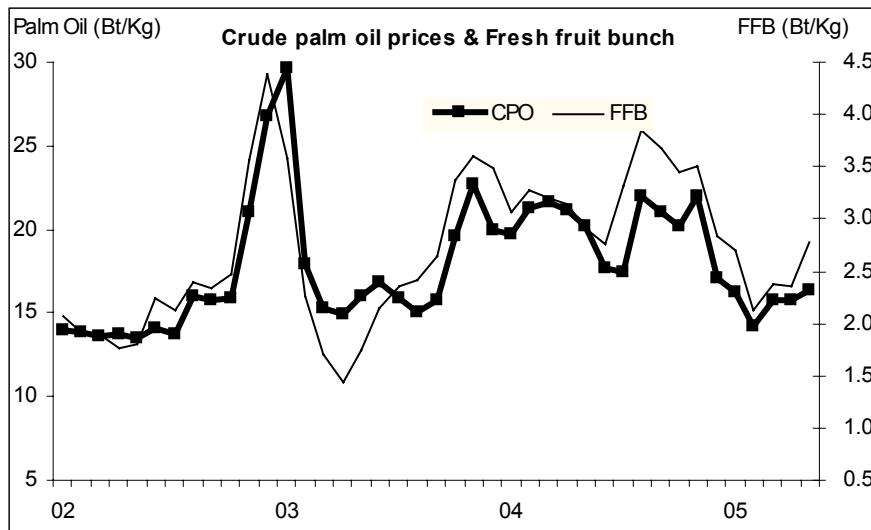
For 2Q05, we forecast revenue to fall 16% yoy to Bt599mn, which will be the result of crude palm oil (CPO) prices falling, despite CPO production increases in the early part of this year. In addition, the new factory that began production at the end of last year boosted CPO volume by 16% yoy, but less than expectations.

Quarterly Income statement

(Bt mn)	2Q05F	1Q05	QoQ	2Q04	YoY	1H04	1H05F	1H05/05F	2005F
Sales	599	530	13%	717	(16%)	1,297	1,129	45%	2,533
COGS	483	436	11%	555	(13%)	992	919	45%	2,061
Gross margin (%)	19%	18%	N.A.	23%	N.A.	23%	19%	N.A.	19%
SG&A	37	37	0%	37	0%	73	74	46%	160
EBITDA	101	83	21%	144	(30%)	270	185	58%	316
Interest expense	0.00	0.00	N.A.	0.00	N.A.	-	0.0	N.A.	0
Normalised profit	74	59	26%	121	(39%)	229	133	42%	316
Net profit	74	59	26%	121	(39%)	229	133	42%	316
EPS (Bt)	0.79	0.63	26%	1.29	(39%)	2.43	1.41	42%	3.36

Source: UVAN and KELIVE Research estimates

Although, the first half earnings will be dull, this is a seasonal effect that is normal in the agricultural business. We still like UVAN in terms of the high dividend yield and the company has a very strong financial position. At the end of March, the company had cash on hand of Bt2.49 per share. We also estimate the company to pay an interim dividend of Bt1 a share and Bt3 for the full-year, which offers a 9.8% dividend, yield.



Source : Department of Internal Trade

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