

January 27, 2005

## Univanich Palm Oil (UVAN)

**NEW** : **BUY**  
**PREVIOUS** : **LONG-TERM BUY**

### Agribusiness

#### 2005 earnings improving with revised target to reflect growth

**Price (Bt)** 29.50  
**Target (Bt)** 41.00

After a visit with the management of Univanich Palm Oil (UVAN), we have turned more positive on the company's outlook due to two factors: 1) 2005 fresh fruit supplies are expected to increase and 2) world consumption is increasing, especially in China and India.

Paid up shares (mn)	94
Par value (Bt)	5.00
Free Float (%)	24.62
Market Capitalisation (mn Bt)	2,773
Foreign Limit (%)	49.00

We expect UVAN to post a 4Q04 net profit of Bt48mn, up 98% yoy. This is due to fourth quarter production gains from the new plant and increases in fruit from UVAN's own plantations. For this reason, we estimate that the company's gross margins widened in 4Q04 to 20% from 13% the previous year.

#### Major shareholder

Apirak Vanich (%)	18.71
Chantip Vanich (%)	9.69
MORGAN STANLY	8.30

We expect 2005 total fruit processed to increase 18% from last year to about 600,000 tonnes. We have revised up our forecast for 2005 net profit by 16% to Bt436mn (Bt4.64 a share). The gross margin is expected to widen for the full year to 23%.

We have revised UVAN fair value estimate from Bt37 to **Bt41**, based on a 2005 EV/EBITDA of 7x. UVAN is trading on a 2005 PER of 6.4x and EV/EBITDA of 4.7x. The stock offers an upside of 39% to our new target price and a very attractive dividend yield of 10.2%. As a result, we are upgrading our recommendation to **BUY**.

Daowadee Teera-apisakkul  
 E-mail: [daowadee.t@kimeng.co.th](mailto:daowadee.t@kimeng.co.th)

**Figure 1: UVAN Earnings summary**

	2002	2003	2004F	2005F	2006F
Sales (Btmn)	1,589	1,955	2,405	2,593	2,532
EBITDA (Btmn)	297	487	473	548	531
Normalised earnings (Btmn)	223	400	365	436	423
Earnings (Btmn)	223	400	365	436	423
EPS (Bt)	2.69	4.26	3.88	4.64	4.50
PER (x)*	11.0	6.9	7.6	6.4	6.6
EV/EBITDA (x)*	8.5	5.0	5.6	4.7	4.4
Free cash flow (Btmn)	217	325	142	364	483
CF/share (Bt)	3.8	4.5	5.0	5.6	5.8
BVPS (Bt)	6.7	11.2	11.6	13.2	14.7
P/BV (x)*	4.4	2.6	2.6	2.2	2.0
DPS (Bt)	#4.75	3.50	3.00	3.00	3.00
Dividend yield (%)	9.3%	11.9%	10.2%	10.2%	10.2%
Net debt/equity (X)	0.2	cash	cash	cash	cash
ROA (%)	28%	40%	30%	34%	30%
ROE (%)	34%	50%	34%	37%	32%
Gross margin (%)	23%	28%	22%	23%	23%

Source : Company reports and KELIVE Research estimates.

**Forecast 2004 net profit of Bt365mn**

We expect UVAN to post a 4Q04 net profit of Bt48mn, up 98% yoy. This is due to fourth quarter gains from UVAN plantations fruit supply that increased year on year and increases in capacity from the new plant run-in. The gross margin is expected to widen to 20% from 13% last year due company fruit that will give a higher yield of palm oil.

For the full-year, we estimate 2004 net profit of Bt365mn (Bt3.88/share), a drop of 8.8% yoy, despite expected revenues increasing 23% to Bt2,405mn. This estimate is based on a gross margin narrowing from 28% down to 22%.

**Figure 2: Quarterly income statement**

Income statement (Bt mn)	4Q04F	3Q04	QOQ	4Q03	YOY	2003	2004F
Sales	429	680	(37%)	358	20%	1,955	2,405
COG	341	554	(38%)	312	9%	1,338	1,887
Gross margin (%)	20.5%	19%	N.A.	13%	N.A.	32%	22%
SG&A	42	36	16%	30	40%	135	152
EBITDA	0.0	107.3	N.A.	35.1	N.A.	416	372
Interest expense	-	-	N.A.	-1.97	N.A.	1	-
Normalised profit	48	88	(45%)	24	98%	400	365
Net profit	48	88	(45%)	24	98%	400	365
EPS (Bt)	0.51	0.94	(45%)	0.26	98%	4.26	3.88

Source: UVAN reports and KeLive estimates.

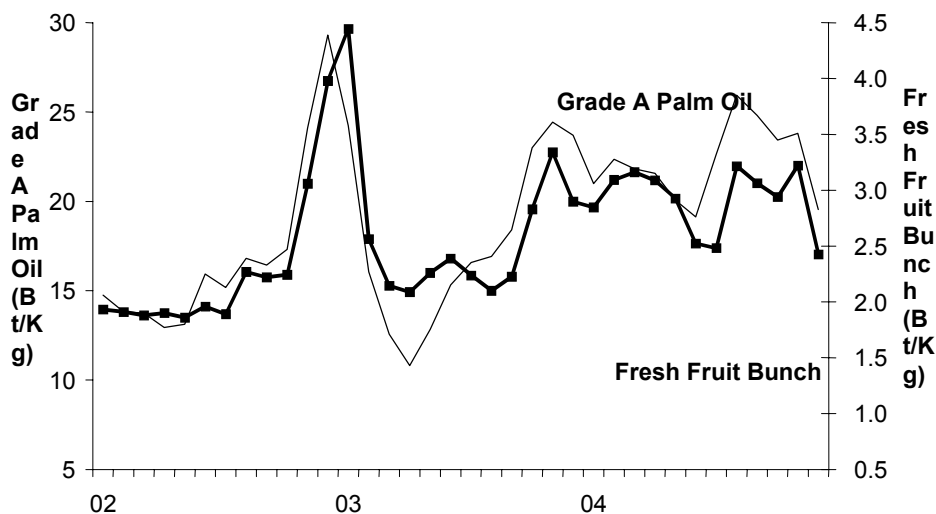
**Fresh fruit supplies expect to jump**

At the end of last year, UVAN fresh fruit supplies increased unexpectedly. This is a good sign that implies this year total fruit supplies will increase after a lower crop supply last year due to weather. However, average fresh fruit and crude palm oil prices have decreased from last year.

We are maintaining a positive outlook for this year since world consumption steadily increases year by year, especially in China and India.

In 2004, the average fruit price of Bt3.04 - 3.12 per kilo, increased 20% yoy. In addition, the average CPO and CPKO price was Bt20.1 and Bt23.33 per kilo, up 10% and 33% yoy, respectively.

**Crude palm oil & Fresh fruit prices**



Source : Department of internal trade

The weather is a major risk for the palm oil business that directly effects fresh fruit supplies. Due to the capacity expansion from 90 tonnes/hr to 135 tonnes/hr, we expect UVAN to increase the amount of purchased fruit for processing.

In 2005, we expect the total fruit processed to increase 18% from last year to about 600,000 tonnes. We have revised our forecast for 2005 net profit by 16% to Bt436mn (Bt4.64 a share), growth of 19% from last year. The gross margin is expected to widen to 23%.

The UVAN financial situation is very strong, with no debt and a very attractive dividend yield. We forecast UVAN to have generated 2004 cash flow per share of Bt5. The company has already paid an interim dividend of Bt1.3/share, and we estimate a final dividend payment of Bt1.7/share. The full-year dividend of Bt3 per share offers an impressive yield of 10.2% at the current share price.

We have revised UVAN fair value from Bt37 to **Bt41**, based on a 2005 EV/EBITDA of 7x. UVAN is trading on a 2005 PER of 6.4x and an EV/EBITDA of 4.7x. With an upside of 39% to our new target price and a very attractive dividend yield of 10.2%, we are changing our recommendation from LONG-TERM BUY to **BUY** for UVAN.

#### **Singapore**

Kim Eng Securities  
(Private) Limited  
(Member of the SES)  
9 Temasek Boulevard  
#39-00 Suntec Tower 2  
Singapore 038989  
Telephone: 65 6336 9090  
Telex: KESECS RS 25871  
& RS 21857  
Facsimile: 65 6339 6003

#### **London**

Kim Eng Securities  
(London) Limited  
(Member of the FSA)  
6<sup>th</sup> Floor, 20 St. Dunstan's Hill  
London EC3R 8HY, UK  
Telephone: 20 7621 9298  
Dealers' telephone: 20 7626 2828  
Facsimile: 20 7283 6674

#### **New York**

Kim Eng Securities USA Inc  
(Member of the NASD)  
406, East 50<sup>th</sup> Street  
New York, NY 10022  
U.S.A.  
Telephone: 212 688 8886  
Facsimile: 212 688 3500

#### **Hong Kong**

Kim Eng Securities  
(Hong Kong) Limited  
(Exchange Participant)  
Room 1901, Bank of America  
Tower 12 Harcourt Road  
Central, Hong Kong  
Telephone: 852 2810 7755  
Telex: KIMEN HX 68698  
Facsimile: 852 2877 0104

#### **Malaysia**

Kim Eng Research Sdn Bhd  
(Formerly known as  
Mutual Scope Sdn Bhd)  
Co. No. 274244V  
Suite 16.02, 16<sup>th</sup> Floor  
Kompleks Antarabangsa  
Jalan Sultan Ismail  
50250 Kuala Lumpur, Malaysia  
Telephone: 603 2141 1555  
Facsimile: 603 2141 1045

#### **Indonesia**

PT Kim Eng Securities  
9<sup>th</sup> Floor, Deutsche Bank Bldg  
Jl. Imam Bonjol 80  
Jakarta 10310  
Indonesia  
Telephone: 62 21 3983 1360  
Facsimile: 62 21 3983 1361

#### **Philippines**

ATR-Kim Eng Securities, Inc.  
(Member of the PSE)  
17<sup>th</sup> Floor Tower One &  
Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City, Philippines  
Telephone: 63 2 849 8888  
Facsimile: 63 2 848 5738

#### **Thailand**

Kim Eng Securities (Thailand)  
Limited  
(Member of the SET)  
10<sup>th</sup> Floor, Mercury Tower  
540 Ploenchit Road  
Bangkok 10330  
Thailand  
Telephone: 66 2 658 6300  
Facsimile: 66 2 658 6384

#### **Taiwan**

Yuanta Core Pacific Securities  
11/F, No 225, Nanking East Rd  
Section 3 Taipei  
Taiwan  
Telephone: 63 2 849 8888  
Facsimile: 63 2 848 5738

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