

March 9, 2004

## Univanich Palm Oil Plc. (UVAN)

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

### AGRIBUSINESS

### 1Q04 earnings expected to decline 13% yoy

**Price**  
**Target**
**Bt27.75**  
**Bt34.50**

We estimate UVAN's 1Q04 net profit of Bt71mn down 13% yoy due to an expected supply shortage this year. Earnings would still be up 191% qoq since the company's sales the previous quarter were affected by a plant shutdown in December. This, coupled with the fact that crude palm oil (CPO) prices have increased more than the fresh fruit (FFB) prices, should result in UVAN's gross margins widening to 30% from 12.9% last quarter.

We still have a positive outlook on UVAN shares supported by strong cash flow after repayment of loans and contributions from a third factory expected to be completed in 4Q04. The new factory will increase production efficiency and decrease variable costs significantly. Also, the UVAN's shares look attractively priced with a 2004 PER of 7.2x and a dividend yield of 8.5%.

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**Figure 1: Quarterly income**

Income statement (Bt mn)	1Q04F	4Q03	QOQ	1Q03	YOY	2003	2004F
Sales	329	358	(8%)	382	(14%)	1,955	1,887
COG	231	312	(26%)	266	(13%)	1,409	1,386
Gross margin (%)	29.9%	12.9%	132%	30.2%	N.A.	27.9%	26.5%
SG&A	25	30	(16%)	30	(14%)	135	128
EBITDA	14	34	(58%)	104	(86%)	416	378
Interest expense	(1.97)	0.00	N.A.	1.40	N.A.	1.0	0.7
Normalised profit	71	24	191%	82	(13%)	400	364
Net profit	71	24	191%	82	(13%)	400	364
EPS (Bt)	0.75	0.26	191%	0.99	(24%)	4.3	3.9

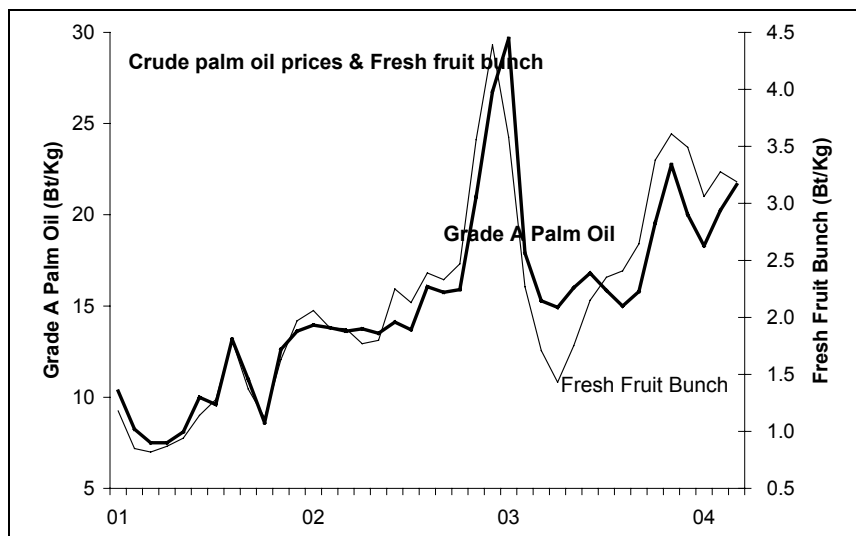
Source: UVAN and KELIVE Research estimates

### Palm oil business

UVAN's management estimated 2004 total fresh fruit (FFB) harvest of 4.5-5 million tonnes, or a decrease of 20% from the previous year, due to the current drought. The company estimates that Thailand's total crude palm oil output will drop to around 700,000 tonnes from 800,000 tonnes in 2003.

However on the positive side, the price of soybeans, the main alternative to palm oil in the home cooking market, continues to trend higher due to a decreasing production from Argentina, Brazil and the U.S.A.

With the shortage of fresh fruit (FFB), average CPO price will likely be higher than last year. In first quarter, fresh fruit (FFB) prices increased to average of Bt3.17 from Bt2.6-Bt2.7 last year and crude palm oil (CPO) priced increased to average of Bt20 from Bt17 last year.



Source: Department of internal trade

We estimate UVAN's 2004 sales will drop slightly by 3.5% to Bt1,887mn with exports of 50% of total sales to Malaysia and India. We assume the export price will be higher than the domestic price. We have revised up our 2004 earnings forecast by 14% to Bt364mn with gross margins expected to narrow to 26.5% from 28% last year.

We are maintaining our **LONG-TERM BUY** rating on UVAN, due to its cheap rating with a 2004 PER of 7.2x and EV/EBITDA of 5.1x. We expect the company to pay a full-year dividend of Bt2.35, which would put the dividend yield at the current share price at 8.5%. We believe UVAN should trade around 6.5x EV/EBITDA or Bt34.5 per share, representing an upside potential of 24% from the current share price of Bt27.75.

**Figure 2: Earnings summary**

	2002	2003	2004F	2005F	2006F
Sales (Btmn)	1,589	1,955	1,887	2,039	2,145
EBITDA (Btmn)	297	487	473	514	611
Normalised earnings (Btmn)	223	400	364	395	499
<b>Earnings (Btmn)</b>	<b>223</b>	<b>400</b>	<b>364</b>	<b>395</b>	<b>499</b>
EPS (Bt)	2.69	4.26	3.87	4.21	5.31
PER (x)*	10.3	6.5	7.2	6.6	5.2
EV/EBITDA (x)*	8.0	4.7	5.1	4.2	3.1
Free cash flow (Btmn)	217	325	161	445	536
CF/share (Bt)	3.8	4.5	5.2	5.3	6.2
BVPS (Bt)	6.7	11.2	11.6	13.4	16.2
P/BV (x)*	4.1	2.5	2.4	2.1	1.7
DPS (Bt)	#4.75	3.50	2.35	2.55	3.22
Dividend yield (%)	17.1%	12.6%	8.5%	9.2%	11.6%
Net debt/equity (X)	0.2	cash	cash	cash	cash
ROA (%)	27.6%	39.6%	29.2%	29.4%	35.9%
ROE (%)	34.2%	49.9%	34.1%	33.7%	35.8%

Source: Company reports and KELIVE Research estimates.

Note : \*Based on price Bt27.75

#Bt3 from retained earnings

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