May 13, 2004

Univanich Palm Oil Plc. (UVAN)

NEW : LONG TERM BUY
PREVIOUS : LONG TERM BUY

AGRIBUSINESS

Price **Bt28.50**
Target **Bt37.00**

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Better-than-expected 1Q04 results due to higher sales volume

Univanich Palm Oil (UVAN) reported better-than-expected 1Q04 net profit of Bt108mn, up 344% qoq and 32% yoy. Sales, which was equally divided between exports and domestic sales, grew 62% qoq and 52% yoy to Bt580mn. This was due to selling prices increasing much faster than expected. In particular, crude palm kernel oil (CPKO) prices increased from a surge in demand from Malaysia.

UVAN's gross margins narrowed to 24.5% from 30% last year on rising raw material prices. Fresh fruit bunch (FFB) prices increased 17% from an average of Bt2.70 to Bt3.17 as a result of increasing demand for CPO. Even though UVAN sources about 25% of its raw materials from its own plantations, the company still has to be competitive in buying the 75% of its fresh fruit requirement from farmers at market rates.

Figure 1: Quarterly income

(Bt mn)	1Q04F	4Q03	QOQ	1Q03	YOY	2003	2004F
Sales	580	358	62%	382	52%	1,955	1,887
COG	438	312	40%	266	64%	1,409	1,386
Gross margin (%)	24.5%	12.9%	N.A.	30.2%	N.A.	27.9%	26.5%
SG&A	36	30	19%	30	22%	135	128
EBITDA	126	35	258%	104	21%	416	378
Interest expense	-	(1.97)	N.A.	1.40	N.A.	1.0	1.5
Normalised profit	108	24	344%	82	32%	400	363
Net profit	108	24	344%	82	32%	400	363
EPS (Bt)	1.15	0.26	344%	0.99	16%	4.3	3.9

Source: UVAN and KELIVE Research estimates

We have revised up slightly our full-year 2004 net profit forecast by 4% to Bt378mn (EPS of Bt4.02) due to tax benefit from BOI privileges. We are forecasting sales to drop slightly by 3.5% to Bt1,887mn and gross margins to narrow to 26.5% from 28% last year. However, the company is still susceptible if the current drought persists, which would affect FFB production and prices.

We are maintaining our **LONG-TERM BUY** rating on UVAN due to its cheap rating with a 2004 PER of 7.1x and EV/EBITDA of 4.8x. We expect the company to pay a full-year dividend of Bt2.40, which would put the dividend yield at the current share price at 8.7%. We revised up our fair value from Bt34.5 to Bt37 a share based on 6.5x EV/EBITDA. The new fair value estimate represents upside potential of 30% from the current share price of Bt28.50.

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	378	410	517
Earnings (Btmn)	223	400	378	410	517
EPS (Bt)	2.69	4.26	4.02	4.36	5.50
PER (x)*	10.6	6.7	7.1	6.5	5.2
EV/EBITDA (x)*	8.2	4.9	4.8	4.0	2.9
Free cash flow (Btmn)	217	325	174	460	554
CF/share (Bt)	3.8	4.5	5.4	5.4	6.4
BVPS (Bt)	6.7	11.2	11.7	13.7	16.6
P/BV (x)*	4.3	2.6	2.4	2.1	1.7
DPS (Bt)	#4.75	3.50	2.40	2.60	3.28
Dividend yield (%)	9.9%	12.6%	8.7%	9.4%	11.8%
Net debt/equity (X)	0.2	(0.3)	(0.4)	(0.5)	(0.6)
ROA (%)	27.6%	39.6%	28.3%	28.1%	35.8%
ROE (%)	34.2%	49.9%	35.2%	34.4%	36.4%
Gross margin (%)	22.9%	27.9%	26.5%	26.6%	30.7%

Source: KELIVE Research estimate

Note : *Based on price Bt28.5

#Bt3 from retained earnings

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