

October 27, 2003

Univanich Palm Oil Plc.

Initial Public Offering

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A leader in Thailand's palm oil business

Univanich Palm Oil (UVAN) produces and distributes crude palm oil (CPO) and crude palm kernel oil (CPKO). The company also owns a 37,471-rai plantation, which supplies approximately 25% of the palm fruit requirement of its crushing mills.

UVAN will offer 26.32mn shares to the public on 14-18 November. Of the total offer, 11.15mn shares are new and 15.17mn existing shares currently held by Mr. Apirag Vanich's Group. UVAN is expected to be listed on the SET on or around November 27.

UVAN sales are forecast to grow 43% in 2003 to Bt2,277mn. With gross margins estimated at around 27%, we should see net profit surging 86% this year to Bt412.9mn.

Based on a 65% pay-out ratio, UVAN is estimated to pay a dividend of Bt2.86 a share, representing a 8.2% dividend yield at the fair value price. Even with the company's expansion projects, UVAN's financial position is expected to remain strong with net cash holdings.

We are assigning a 7x EV/EBITDA to UVAN, which would put the company's fair value at Bt38 per share. This valuation looks reasonable on a prospective PER of 8.6x, comparable to the listed palm oil companies – United Palm Oil Industry (UPOIC) and Chumporn Palm Oil (CPI).

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Figure 1 : Earnings Summary

	2000	2001	2002	2003F	2004F
Sales (Btmn)	1,286.7	1,442.8	1,589.4	2,277.8	1,847.1
EBITDA (Btmn)	306.6	277.5	296.7	510.3	407.1
Normalised earnings (Btmn)	234.8	207.1	222.5	412.9	283.6
Earnings (Btmn)	234.8	207.1	222.5	412.9	283.6
EPS (Bt)	2.83	2.50	2.69	4.39	3.02
PER (x)*	12.35	14.00	13.03	7.97	11.60
EV/EBITDA (x)*	9.46	10.45	9.78	6.45	8.08
Free cash flow (Btmn)	297.94	274.21	310.72	494.58	385.99
CF/share (Bt)	3.60	3.31	3.75	5.23	4.11
Book value per share (Bt)	8.46	9.01	6.70	12.91	13.07
Price/BV (x)*	4.14	3.88	5.23	2.71	2.68
DPS (Bt)	1.7	1.75	4.75#	2.86	1.96
Dividend yield (%)	4.85%	5%	13.57%	8.2%	5.60%
Net Debt / Equity	net cash	net cash	0.21	net cash	net cash
ROE	35.6%	28.6%	34.2%	46.7%	23.2%

Source: Kelive Research *Based on price of Bt35 #Bt3 from retained earnings

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Background

Univanich Palm Oil (UVAN) produces and distributes crude palm oil (CPO) and crude palm kernel oil (CPKO). The company has its own palm plantations covering 37,471-rai, which supplies approximately 25% of the palm fruit requirement of its crushing mills.

UVAN is one of the pioneers in Thailand's oil palm industry with a successful track record of 34 years in business. The company traces its origins back to 1969 when group founder, Mr. Chean Vanich, set up Thailand's first palm plantings. Unilver Plc came in as a joint venture in 1983 and then sold its stake back to the Vanich family in 1998.

In 2000, the company split par from Bt10 to Bt5 and increased its outstanding shares to 82.85mn. The company invested Bt210mn to increase capacity to 90 tonnes of fresh fruit bunch (FFB) per hour. The new factory was granted an eight-year tax holiday with an additional five-year 50% concession.

This year, UVAN started construction of its third factory, which when completed by the fourth quarter next year will further increase the group's capacity by 45 tonnes of FFB/hour to 135 tonnes of FFB/hour.

IPO details

UVAN will offer 26.32mn shares to the public on 14-18 November. Of the total offer, 11.15mn shares are new and 15.17mn existing shares currently held by Mr. Apirag Vanich's Group. Therefore, the dilution will be a minimal 11.9%.

The IPO price is not yet determined. UVAN is expected to be listed on the SET on or around November 27.

The Apirag Vanich Group and the Vanich family currently hold 63.1% and 18.2% of UVAN's shares, respectively. Following the IPO and share sale, Apirag Vanich Group's stake will be reduced to 39.5%.

Figure 2: IPO details

Registered capital	: Bt470mn (94mn shares)
Paid-up capital	: Bt414.256mn (82.8512mn shares)
Par	: Bt5
Shares offered	: 26.32mn shares (11.1488mn new shares & 15.1712mn existing shares)
Selling price	: Not yet decided
Capital to be raised	: Bt55.744mn
Paid-up capital after IPO	: Bt470mn (94mn shares)
Use of proceeds:	1) Invest Bt330mn to establish third factory 2) Repayment debt 3) Working capital
Targeted subscription period	: 14-18 November
Listing date	: on or around November 27
Lead Underwriter	: Bualuang Securities Co., Ltd.

Source: UVAN, Bualuang Securities Co., Ltd.

Figure 3: UVAN's shareholding structure

Pre-IPO		Post-IPO	
Mr. Apirag Vanich's Group	63.1%	Mr. Apirag Vanich's Group	39.5%
Vanich family	18.2%	Vanich family	16.0%
Sosothikul family	8.0%	Sosothikul family	7.1%
Other shareholders	9.6%	Other shareholders	8.5%
Directors and management	1.1%	Directors and management	1.0%
		Public	28.0%
Total	100.0%	Total	100.0%

Source: UVAN

Use of proceeds

The proceeds from the sale of 11.15mn new shares will be used to finance the construction of the company's third factory and repay its remaining Bt80mn of borrowings. The rest will be used as working capital.

Palm oil industry

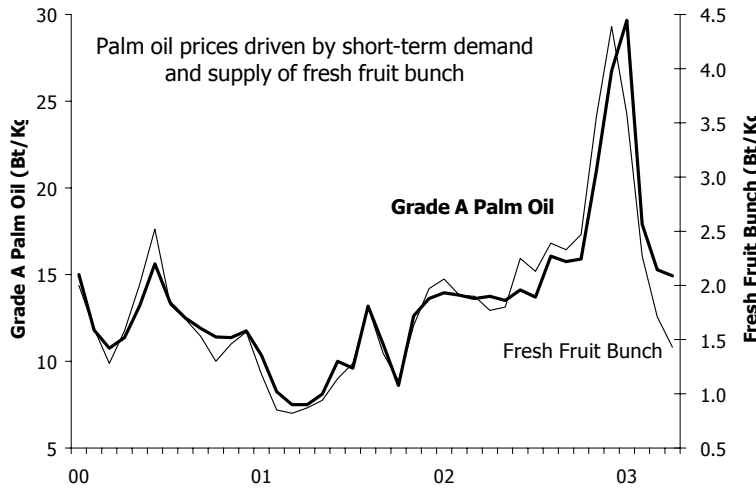
Crude palm oil (CPO) is used to produce edible oil for cooking, while crude palm kernel oil (CPKO) is used as an ingredient in the production of margarine, biscuit, ice cream, shampoo and cosmetics.

In 2002, CPO and CPKO accounted for 53% and 9% of Thailand's supply of edible oils, respectively. Soy bean oil is the closest substitute, accounting for 20% of the market. The rest of the market is composed of coconut oil (5%), rice bran oil (4%), sunflower oil (3%) and others (6%). Thai consumers don't appear to be loyal to a particular type of cooking oil and will generally choose the cheapest.

Typically, fresh palm fruit is picked all year round but there are two high seasons each year, with the first harvest in March and April and the second in September and October. During these periods, crushing mills tend to operate at full production.

Prices for fresh palm fruit spiked earlier this year to nearly Bt5/kg. This was due to a shortage immediately preceding the March and April harvest. Following the harvest, prices eased back to normal levels of around Bt2.0/kg. Only recently prices have started to edge up again to above Bt3.0/kg as the Thai government has had some success in curbing the illegal palm oil smuggled in from Malaysia.

Figure 4: Prices of Grade A palm oil and fresh fruit bunch



Source: Department of Internal Trade

Malaysia is the dominant producer of palm oil fruit, accounting for roughly one-half of the world's total production in 2002. Indonesia is the next biggest producer with a market share of approximately 30%. Even though Thailand's total production has more than trebled from 1.2mn tonnes in 1990 to 3.9mn tonnes in 2002, Thailand still ranks as a very distant fourth with approximately 3% of the world market.

Figure 5: World production of palm oil fruit (mn tonnes)

	World	Malaysia	Indonesia	Thailand	Thailand % of world
1990	60.7	31.0	11.2	1.2	2.0%
1991	63.3	31.5	12.2	1.3	2.1%
1992	66.9	33.2	13.2	1.4	2.0%
1993	78.6	39.7	17.1	1.8	2.3%
1994	81.3	38.8	20.0	1.9	2.4%
1995	88.2	42.2	22.4	2.3	2.6%
1996	93.1	44.0	24.5	2.7	2.9%
1997	99.3	47.7	26.9	2.7	2.7%
1998	98.3	43.8	29.5	2.5	2.5%
1999	113.8	55.0	32.8	3.5	3.1%
2000	120.4	56.6	36.4	3.3	2.7%
2001	125.8	59.0	38.3	4.1	3.3%
2002	136.0	67.4	40.0	3.9	2.9%

Source: FAO

According to *Oil World 2003*, average world consumption of edible oils and fat in 2002 stood at 19.35 kg per person. Based on population growth and an increase in consumption to 20.90kg per person in 2010, total demand for edible oils is projected to reach 139 billion kilograms, or an average annual growth rate of about 1.75% per year. The fastest growth is in the developing countries, particularly in China and India.

Figure 6: Growth of capita consumption

	1990	2002	2010*
World population (bn)	5.30	6.23	6.65
Consumption (kg/capita/year)	15.29	19.35	20.90

Source: Oil World 2003, *projected

Income structure

More than 80% of UVAN's revenues is derived from crude palm oil with 10-14% from crude palm kernel oil. The company is flexible for distribution of its product to either the domestic or export markets since it has an agency in Malaysia. In the first half of this year, exports represented a little over 40% of UVAN's revenues.

Figure 7: Income structure

Portion income	2000	2001	2002	1H03
	%	%	%	%
Crude palm oil (CPO)				
>Domestic	75.51	42.97	59.80	50.36
>Export	7.01	39.18	21.26	32.78
Crude palm kernel oil (CPKO)				
>Domestic	7.84	2.47	3.05	2.16
>Export	3.67	11.07	11.23	8.62
Others	5.97	4.31	4.66	6.08
	100.00	100.00	100.00	100.00

Source: UVAN

Business operation

Currently, UVAN has two factories situated in Krabi province. Siam factory has full capacity at 30 tonnes fruit per hour, while Thai Oil Palm factory has full capacity at 60 tonnes fruit per hour.

Figure 8: UVAN's capacity

Siam factory	2000	2001	2002	1H03
Full capacity (FFB tonnes/hr.)	30	30	30	30
Full capacity (FFB tonnes/yr.)	151,320	151,320	151,320	75,660
Number of FFB (tonnes)	162,764	153,282	124,193	92,866
Portion of full capacity (%)	107.6%	101.3%	82.1%	122.7%
Product				
>Crude Palm Oil (tonnes)	28,194	26,509	20,779	14,982
>Palm Kernel (tonnes)	9,144	8,627	7,216	5,093
Extraction rate				
>Crude Palm Oil (%)	17.3%	17.3%	16.7%	16.1%
>Palm Kernel (%)	5.6%	5.6%	5.8%	5.5%
Thai Oil Palm factory				
Full capacity (FFB tonnes/hr.)	30	60	60	60
Full capacity (FFB tonnes/yr.)	151,320	302,640	302,640	151,320
Number of FFB (tonnes)	175,186	305,245	303,240	198,690
Portion of full capacity (%)	115.8%	100.9%	100.2%	131.3%
Product				
>Crude palm oil (tonnes)	33,084	58,383	55,859	35,032
>Palm kernel (tonnes)	10,319	17,431	17,297	11,285
Total palm kernel (tonnes)	19,463	26,058	24,513	16,378
>Crude palm kernel oil (tonnes)	6,776	11,335	10,951	5,726
Extraction rate				
>Crude palm oil (%)	18.9%	19.1%	18.4%	17.6%
>Palm kernel (%)	5.9%	5.7%	5.7%	5.7%
>Crude palm kernel oil (%)	34.8%	43.5%	44.7%	35.0%

Source: UVAN

Currently, the company is utilising an average of 126% of its crushing capacity of 90 tons of FFB per hour. We estimate 42.5% growth for crude palm oil production to 109,239 tonnes this year and a 6.1% growth of crude palm kernel oil production to 11,617 tonnes.

Figure 9: UVAN's product

Total product	2000	2001	2002	1H03	2003F
>Crude Palm Oil (CPO tonnes)	61,278	84,892	76,638	50,014	109,239
% growth	-7.2%	38.5%	-9.7%	N.A.	42.5%
>Crude palm kernel oil (CPKO tonnes)	6,776	11,335	10,951	5,726	11,617
% growth		67.3%	-3.4%	N.A.	6.1%

Source: UVAN, KELIVE Research

UVAN procures around 72-77% of its total fresh fruit requirement from small plantation farmers and about 22-27% from its own plantation. In the future, the company expects the volume of fresh fruit bunch purchases from small farmers will increase, as its new factory with capacity of 45 tonnes comes on line at the end of next year.

UVAN has a long-standing relationship with more than 500 small plantation farmers in Southern Thailand. UVAN helps farmers by supplying high-quality hybrid seeds, as well as planting and harvesting advice.

Figure 10: Source of FFB

Source of fresh fruit bunch	2000	2001	2002	1H2003
	%	%	%	%
Small plantation farmer	73.54	72.69	77.33	73.95
Own plantation	26.46	27.31	22.67	26.05
Total	100.00	100.00	100.00	100.00

Source: UVAN

UVAN has its own palm plantation totaling 37,471 rai. Of this, 14,241 rai is on a 30-year concession from April 1983, 8,250 rai on a 30-year concession from November 1993 and 2,500 rai on a 30-year lease from April 1994. 8,852 rai is under the company's name and 3,628 rai is under the company's name, but without title documents.

As a policy, UVAN replants approximately 4% of its plantation area each year in order to improve its crop yield. Typically, palm plants start bearing fruit in the 3-5th year but after 25-30 years the plants are not economical to harvest. Of UVAN's current plantation area, approximately 20% has been replanted within the last five years and is categorised as either immature or partially mature. About 48% of its planting area is aged six to 20 years, 25% 21-25 years and 6% over 25 years.

Half-year performance

UVAN reported very impressive 2Q03 results with net profit increasing 165% yoy to Bt177mn. Gross margins increased to 38% from 30% at last quarter.

Figure 11: Quarterly income statement

Income statement (Bt mn)	2Q03	1Q03	QOQ	2Q02	YOY	1H03	2003F
Sales	601.8	381.7	58%	411.6	46%	983.5	2,277.8
COG	372.6	266.3	40%	307.3	21%	638.9	1,654.6
Gross margin (%)	38%	30%	26%	25%	N.A.	35%	27.4%
SG&A	41.3	29.5	40%	40.4	2%	70.8	191.6
EBITDA	208.1	104.2	100%	85.1	144%	312.3	510.3
Interest expense	0.83	1.40	(40%)	0.00	N.A.	2.2	3.3
Normalised profit	177.0	81.8	116%	66.7	165%	258.7	412.9
Net profit	177.0	81.8	116%	66.7	165%	258.7	412.9
EPS (Bt)	2.1	1.0	116%	0.8	165%	3.1	4.39

Source: KELIVE Research

2003 earnings forecast

UVAN sales are forecast to grow 43% in 2003 to Bt2,277mn. With gross margins estimated at around 27%, we should see net profit surging 86% this year to Bt412.9mn. Based on a 65% pay-out ratio, UVAN is estimated to pay a dividend of Bt2.86 a share, representing 8.2% dividend yield at the fair value price. Even with the company's expansion projects, UVAN's financial position is expected to remain strong with net cash holdings. We are forecasting UVAN to generate ROE of 46.7% this year.

Valuation

We are assigning a 7x EV/EBITDA to UVAN, which would put the company's fair value at Bt38 per share. This valuation looks reasonable on a prospective PER of 8.6x, comparable to the listed palm oil companies – United Palm Oil Industry (UPOIC) and Chumporn Palm Oil (CPI).

Figure 12: Pricing comparables

	UPOIC	CPI	UVAN*
Net profit (Bt mn)	210	157	412.9
EPS (Bt)	6.50	0.59	4.39
Share price (Bt)	43.75	5.55	38
PER (x)	6.73	9.41	8.66

Source: kelive *based on fair value estimate of Bt38

Figure 13: Income statement

Income Statement	2000	2001	2002	2003F	2004F
Sales	1,286.7	1,442.8	1,589.4	2,277.8	1,847.1
Other income	11.5	1.4	6.1	8.8	12.4
Total revenues	1,298.2	1,444.1	1,595.5	2,286.5	1,859.5
Cost of Goods sold	877.6	1,025.4	1,152.0	1,584.6	1,297.0
Depreciation and Amortization	60.0	65.7	72.7	70.0	105.4
SG&A and Others Expenses	114.0	141.3	146.9	191.6	155.4
EBIT	246.7	211.8	224.0	440.2	301.7
Interest expenses	0.0	0.2	0.1	3.3	(0.1)
EBT	246.7	211.6	223.9	436.9	301.7
Equity Acc. + Extraordinary Gains	-	-	-	-	-
	234.8	207.1	222.5	412.9	283.6
EPS	2.83	2.50	2.69	4.39	3.02
EPS Growth	67.0%	(11.8%)	7.4%	63.6%	31.3%
PER*	12.35	14.00	13.03	7.97	11.60
EV/EBITDA	9.46	10.45	9.78	6.45	8.08
P/BV*	4.14	3.88	5.23	2.71	2.68
Dividend / Share	1.7	1.75	4.75#	2.86	1.96
Debt / Equity	-	-	0.24	CASH	CASH

Source: Kelive Research *Base on price Bt35 #Bt3 from retained earnings

Figure 14: Financial ratios

	2000	2001	2002	2003F	2004F
Gross margin	27.13%	24.38%	22.95%	27.36%	24.07%
Tax rate	4.81%	2.13%	0.62%	5.50%	6.00%
Fixed costs / Total costs	16.54%	16.79%	15.19%	14.17%	16.74%
Collection period (days)	13.30	15.97	16.88	17.00	17.00
Inventory turnover (days)	53.39	21.85	9.08	9.08	9.08
Fixed asset turnover (days)	3.53	3.18	3.28	4.49	2.98
Payable period (days)	13.63	9.05	5.79	5.79	5.79
Debts to assets	net cash	net cash	16.66%	net cash	net cash
Times-interest-earned	900,231.47	1,261.47	2,419.71	132.39	N.A.
Current ratio	343.85%	412.50%	115.84%	907.53%	950.02%
Quick ratio	204.90%	285.21%	99.41%	894.83%	934.15%
Debt equity ratio	net cash	net cash	24.33%	net cash	net cash
Net debt equity ratio	net cash	net cash	20.86%	net cash	net cash

Source: Kelve Research

Figure 15: Balance sheet

	2000	2001	2002	2003F	2004F
ASSETS					
Cash & Deposits	60.86	78.83	19.23	520.00	338.00
Accounts receivable	68.16	58.08	88.93	106.09	86.03
Inventories	77.14	45.62	11.68	-	-
Other current assets	10.35	15.48	6.20	8.88	7.20
Total current assets	216.51	198.02	126.04	634.97	431.23
Investments	-	-	-	-	-
Property, Plant and Equipment	428.98	477.77	492.62	522.57	717.19
Other assets	152.34	155.36	162.27	162.27	162.27
Total Assets	797.82	831.15	780.93	1,319.82	1,310.70
LIABILITIES					
OD + Current portion of L-T debt	-	-	55.00	net cash	net cash
Account payable + Trust Receipt	32.84	18.03	18.52	31.75	9.40
Other current liabilities	30.13	29.98	35.29	38.73	36.37
Total current liabilities	62.97	48.00	108.80	69.97	45.39
Long term debts	-	-	80.00	net cash	net cash
Debentures + CDs	-	-	-	-	-
Other liabilities	33.73	36.46	37.20	37.20	37.20
Total liabilities	96.70	84.47	226.00	106.43	82.05
Minority Interest	-	-	-	-	-
SHAREHOLDERS' EQUITIES					
Shares + Warrants	414.26	414.26	414.26	470.00	470.00
Premium on shares	-	-	-	334.46	334.46
Retained earnings + Revaluation	286.87	332.43	140.67	408.93	424.19
Total shareholders' equity	701.12	746.68	554.93	1,213.39	1,228.65
Total liabilities and equity	797.82	831.15	780.93	1,319.82	1,310.70

Source: Kelve Research

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