Faysal Asset Management

Habib Sugar Mills (HABSM)

Date: 6th August' 2012
KSE – 14,673.77

HABSM–PKR 23.32

KSE-100 - 52 week:
High – 14,617.97
Low – 10,842.26

Company Back ground

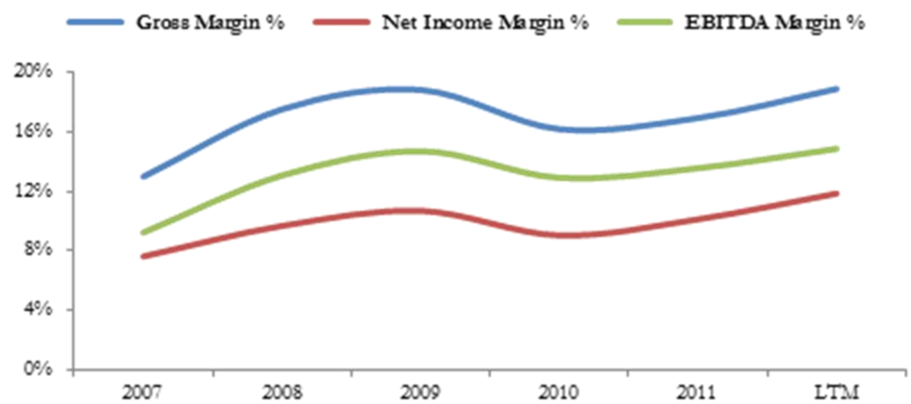
Habib Sugar Mills is engaged in the manufacturing and marketing of refined sugar, molasses, ethanol, liquid carbon dioxide, household textiles and providing bulk storage facilities. The company comprises of four divisions i.e. sugar, distillery / terminal / CO2, textile and trading. The sugar division has a crushing capacity of 7,000 metric tons of sugarcane per day. Distillery division has a capacity of producing 142,500 liters of ethanol per day. Textile division is engaged in manufacture of terry towels and bath robes with annual capacity of 300,000 kilograms of high value-added finished products. Terminal division is engaged in storage of molasses, ethanol and edible oils at Karachi port for export / import purposes. Its head office is located at Karachi while operational business related to sugar mill and distillery is at Nawabshah.

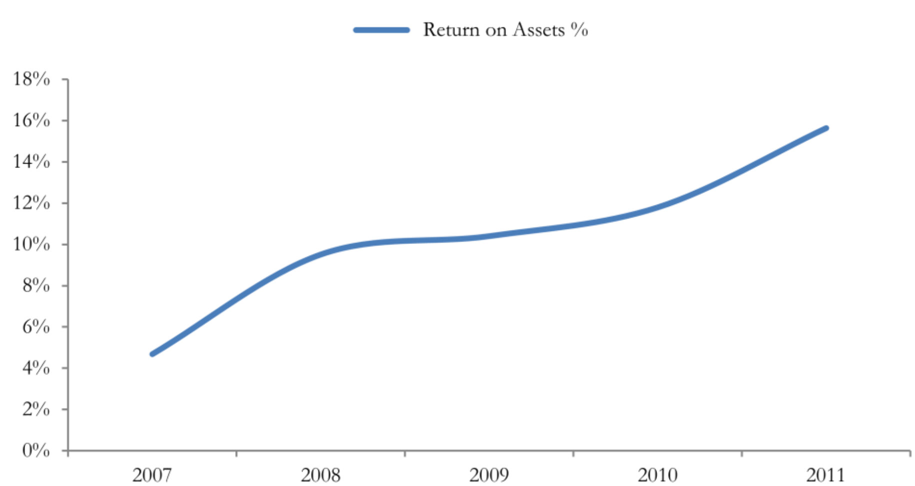
Operational Performance

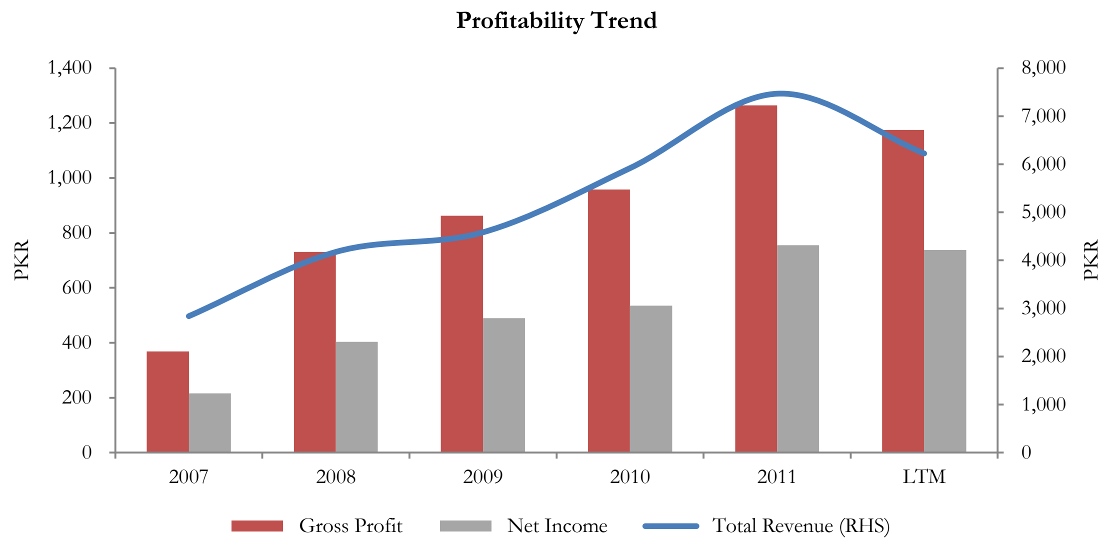
During the fiscal year ended June 30, 2011, the Company's sugar division produced 79,056 metric tons of sugar from sugarcane and 4,609 metric tons of from refining 4,885 metric tons of raw sugar; the distillery division produced 29,303 metric tons of ethanol out of its capacity of 34,000 metric tons, and 5,644 metric tons of liquid carbon dioxide (CO2) out of its capacity of 6,000 metric tons; and the textile division produced 484,885 kilograms of textile out of its capacity of 300,000 kilograms. Year over year, Habib Sugar Mills has been able to grow revenues from PKR 5.9bn to PKR 7.5bn. Most impressively, the company has been able to enhance its gross margins and net margins. This was a driver that led to a bottom line growth from PKR 535mn to PKR 755mn

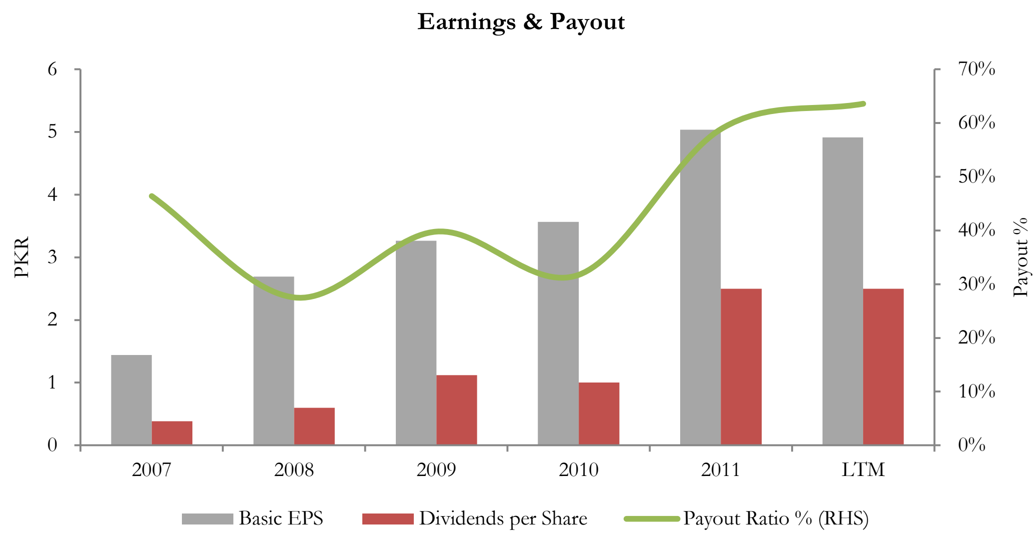
Board of Directors:

Lt. Gen (Retd) Ali Kuli Khan Khattak
Mr. Mohammad Shahid Hussain
Mr. Ahmed Kuli Khan Khattak
Mr. Ikram Ul-Majeed Sehgal
Mr. M. A. Faisal Khan
Mr. Manzoor Ahmed
Mr. Mazhar Sharif
Mr. Nabil Daudur Rahman
Mr. Raza Kuli Khan Khattak
Mr. Sher Muhammad Chaudhary









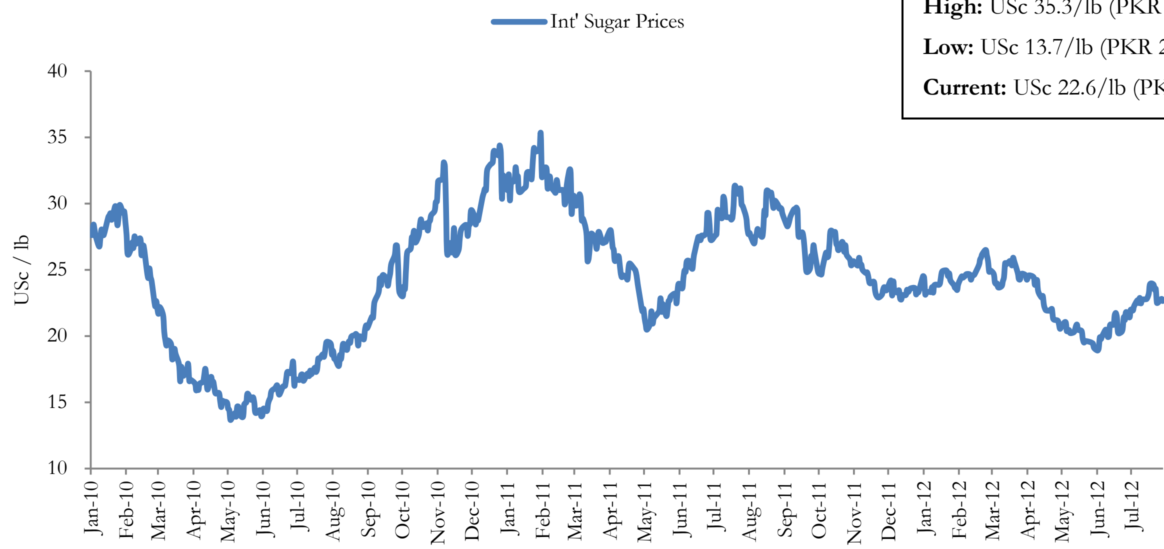
Escalation in International Sugar Prices to be Seen on India, Brazil, China & USA

Sugar price prospects are "skewed to the upside" because of wet weather in Brazil, the world's biggest producer, and a lack of rain in second-ranking India. Above-average rainfall in May and June resulted in sugar output in Brazil's center south, the main growing region, falling 29% to 6.7mn tons in the 2012-13 season through the end of June. India's monsoon, which brings more than 70 percent of the country's annual rainfall, was 22 percent less than a 50 year average since June 1. If the Indian monsoon remains behind schedule, this could prove to be a bullish shock for sugar in the first half of 2013. Raw sugar has already climbed 8.2% last month on ICE Futures U.S. in New York as rains delayed the crop and exports from Brazil. Moreover, floods in China (3rd largest producer) and severe drought conditions in USA (4th largest producer) could further propel the sugar prices.

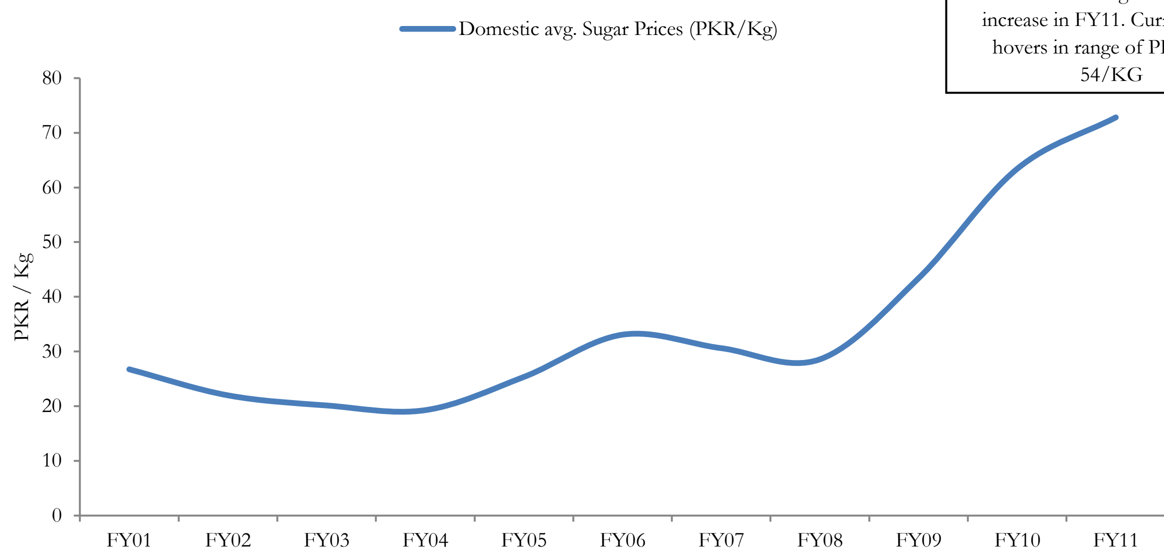
High: USc 35.3/lb (PKR 70.1/KG)

Low: USc 13.7/lb (PKR 27.1/KG)

Current: USc 22.6/lb (PKR 48/KG)



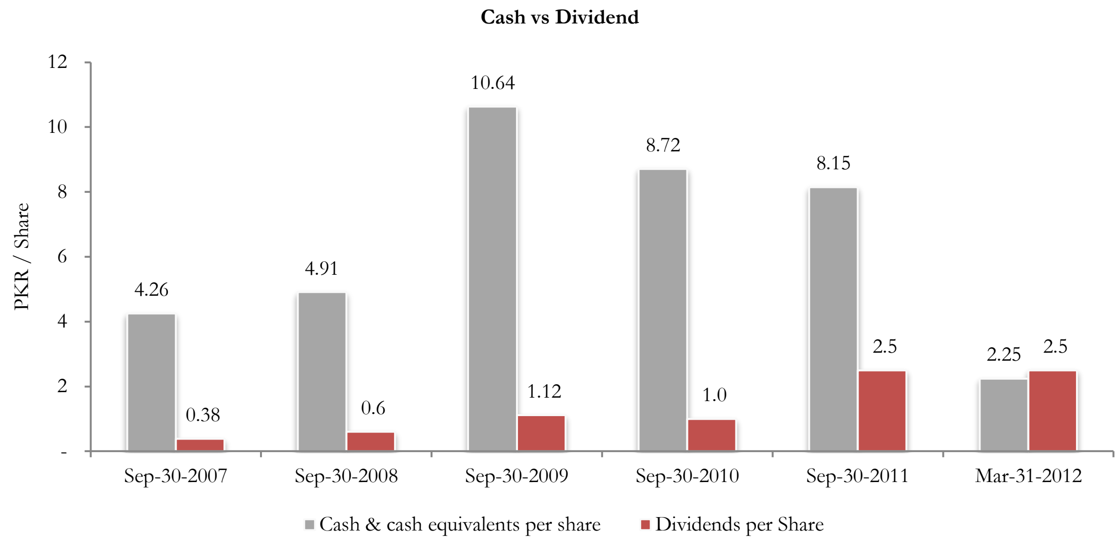
Domestic Shortage led the price increase in FY11. Current price hovers in range of PKR 50 – 54/KG

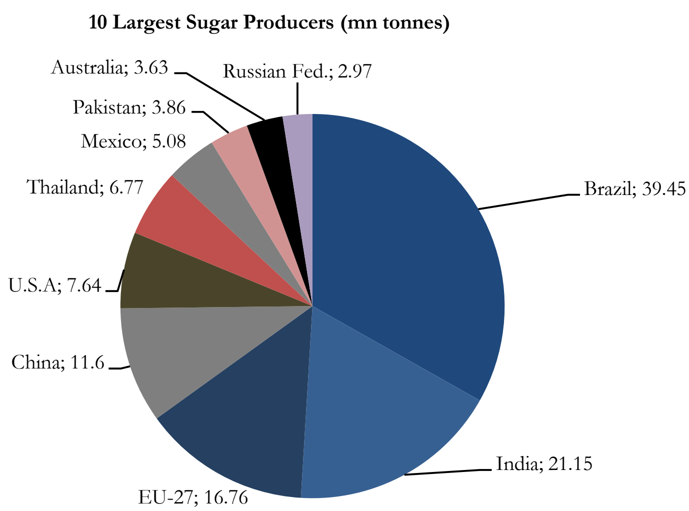


Domestic Sugar Scenario

Since domestic sugar prices are correlated with international prices and sugar exports hinge on attractive international prices, escalation in export trend may be witnessed going forward given bleak outlook of sugar production on international front as 300,000 tons have already been exported before Ramadan. Furthermore, Pakistan is expected to have below average rainfall during FY13 which could supercharge the depressed domestic price as well which is currently hovering between PKR 50 - 54/KG. Internationally, sugar is trading at 48/KG and expected spur in sugar prices on the back of drought and floods in top producing sugar countries would lead to higher exports and better gross margins.

Habib Sugar Mills (HABSM)





Investment Recommendation

Given significant reduction in domestic sugar prices during last six months due to higher inventory, HABSM has plunged by 23%. However, research expects significant turnaround in the stock price on the back of bullish triggers like a) international & domestic production decline leading to higher sugar prices b) increasing export phenomenon and c) escalated upcoming annual earnings (Sep 2012) due to effect of higher sugar prices in Ramadan. Given robust earnings growth along with healthy payout, stable margins and positive outlook, it is recommended to BUY the position in the scrip for imminent price appreciation as the scrip is trading at PE of 4.97x with dividend yield of 10.76%.