

## Sugar shortage to sweeten CSR

Agriculture

ANALYSTS believe shrinking global sugar supplies could lift CSR's earnings as the company prepares to issue half-year results next week.

An ABN AMRO Morgans report released yesterday says sugar output in India is set to plunge by 2009. Analysts say mills are shutting because the Indian Government is setting sugar cane prices, causing producers to lose money.

"Brazil is also using more cane for ethanol, as energy prices rise, and there is talk that Brazil will ban sugar-cane cultivation and ethanol refineries in the Amazon," the report says.

"So sugar prices should begin to see appreciation into the next planting season."

In September, CSR chief executive Jerry Maycock played down speculation that CSR was preparing to sell its sugar operations.

"In the very long term, we acknowledge that the present mix of businesses within CSR

is a bit eclectic and we could certainly imagine that would change over time," he said at the time. "But we don't have any current intentions to do anything with the structure of the group."

CSR also said earlier that group earnings for fiscal 2008 would be 5 per cent lower than the previous year due to lower sugar prices and wet-weather delays to cane crushing.

The company posted an underlying net profit of \$240.5 million for the year ending March 30, a drop of 3.7 per cent on the previous year.

ABN AMRO Morgans says the building cycle has been factored in to the company's share price, and CSR's recent DMS glass acquisition provides good synergies.

"There is potential for significant value to be unlocked from either a break up or corporate activity," the analysts say.

"However, of most significance is the exposure CSR has to sugar. Oil has touched \$US90 a barrel and sugar has

started to come back into focus.

"When oil prices go up, people start looking for alternative energy.

"Ethanol is first point of call and ethanol is made from sugar or corn. At this point in the sugar cycle, a number of marginal producers of cane are unable to operate profitably, as evidenced by what is happening in India.

"But with energy prices going north, it is likely that the dominant players will see through the cycle and the sugar price will in turn start rising with energy."

The analysts say CSR's half-year results will highlight the tough growing season.

"On top of this, CSR is trading at a discount to comparable Brazilian sugar companies, despite its strong market position. There is potential for a massive re-rating to CSR's sugar business in the order of 25-88 per cent valuation increases."

Shares rose 11c to \$3.41.

AAP