

# Harel Frères Ltd

## Overview

Harel Frères Ltd (HFL) is a sugarcane grower-miller that has evolved towards the exclusive production of specialty sugars. Its business model is built around making effective use of sugar by-products which has led to its alcohol production/distillation and other commercial businesses. In more recent years, HFL has grown to become the 2<sup>nd</sup> IPP on the island. Further, this large cap company (part of the SEM-7) also holds investments in SWAN & ANGLO's holding company, as well as cellular network provider – Orange Madagascar.

## Performance Review and Prospects

HFL fared better during FY10 than FY09 on the back of a good crop and despite the very low sugar rates. Its increased specialty sugar manufacture from 74% of total in 2009 to 97% of total in 2010, boosted its sugar results. Higher revenue from electricity production as well as its commercial and alcohol related activities all contributed to its turnover growth. Despite the 12% topline improvement, EPS<sup>1</sup> crept up by only 4% from Rs1.06 to Rs1.10. Despite constant operating margins, higher administrative costs and smaller results from associates dampened earnings.

Looking ahead, despite a poor upcoming 2011 sugar season, we expect across the board improvements from electricity generation, commercial, alcohol and other activities. Results from associates should also improve thereby offsetting the expected decrease in sugar earnings due to lower yields. However, it is still possible for HFL to have better sugar results as in the event that raw sugar were imported for re-export, HFL would be able to increase its special sugar production. Basing ourselves on energy demand forecasts and HFL's spare capacity of 125GWh per annum which it can offer to the CEB at highly competitive rates, we expect double digit growth for the segment. In-line with domestic consumption trends observed in other listed entities such as PBL and IBL, we expect commercial and alcoholic beverages business to continue growing albeit at a slow pace in the coming years. With respect to its investments, based on the SWAN group's strong results, and a busy pipeline at Rehm Grinaker, we expect HFL's results from associates to improve accordingly. Thus, we anticipate steady rises in HFL's turnover to Rs3.85bn in 2011 then to Rs4.05bn in 2012 which translate to improvements in EPS of 17% and 26% to Rs1.29 and Rs1.63 respectively. As for medium term prospects, HFL hired the services of Halcrow, a consultancy firm, to develop a property master plan for some 7kHa of land in the north. Actual development has been put off until the moment is ripe. Based on its Beau Plan Business Park's failure to take-off, the group has concluded that a clogged Port-Louis is enclaving the north from everywhere else (except the east); therein hurting commercial, residential and business park developments in the north of Mauritius.

## Valuation: Introductory rating set to BUY

Despite the not-so-positive sugar outlook for 2011, we expect domestic trading conditions to remain stable irrespective of a slow global economic recovery and energy demand to increase. With its forward PER of 30x (best among official-listed peers when excluding exceptional items), its 23.2% discount to NAV with a PBV of 0.77x and a decreasing & low debt to equity ratio, HFL boasts among the best valuation ratios among sugar companies. Last but not least, the company's up-front stance on real-estate has improved investor confidence; **we therefore rate the company as a "Buy".**

Highlights	2008	2009	2010	2011E	2012F
<b>Revenue (Rs bn)</b>	3.30	3.24	3.63	<b>3.85</b>	<b>4.15</b>
<b>Profit after Tax (Rs bn)</b>	0.65	0.36	0.40	<b>0.45</b>	<b>0.58</b>
<b>Earning/Share (Rs)</b>	1.83	1.06	1.10	<b>1.29</b>	<b>1.63</b>
<b>Div./Share (Rs)</b>	0.70	0.70	0.70	<b>0.77</b>	<b>0.77</b>
<b>NAV per Share (Rs)</b>	28.61	29.72	50.34	<b>49.43</b>	<b>49.26</b>
<b>Land per share (Ha/Rs)</b>	0.98	0.58	0.54	<b>0.55</b>	<b>0.55</b>
<b>Elec. per share (Wh/Rs)</b>	103.00	55.38	40.43	<b>44.98</b>	<b>46.99</b>

Valuation	2008	2009	2010	2011E	2012F
<b>Operating Margin</b>	22.6%	13.4%	13.1%	<b>13.9%</b>	<b>16.3%</b>
<b>Price:Earning Ratio</b>	8.2x	24.0x	34.9x	<b>29.5x</b>	<b>23.3x</b>
<b>Price:NAV Ratio</b>	0.52x	0.85x	0.76x	<b>0.77x</b>	<b>0.77x</b>
<b>Dividend Yield</b>	4.7%	2.8%	1.8%	<b>2.0%</b>	<b>2.0%</b>
<b>Return on Equity</b>	6.4%	3.6%	2.2%	<b>2.6%</b>	<b>3.3%</b>
<b>Debt:Equity Ratio</b>	0.20x	0.15x	0.07x	<b>0.06x</b>	<b>0.04x</b>

<sup>1</sup> We normalised ratios based on the post-amalgamation number of shares for better comparison

Rating	BUY
<b>Current Price:</b>	Rs 37.90
<b>CDS Code:</b>	HARF.N0000
<b>ISIN Code:</b>	MU0032N00006
<b>Reuters Code:</b>	HARF.MZ
<b>Bloomberg Code:</b>	HFRERES:MP
<b>Google Finance Code:</b>	MAU:HARF

09-Sep-11

Trading data	
<b>52-wk range:</b>	Rs 32.50 - 39
<b>Market capitalisation:</b>	Rs 8.6 bn
<b>Weight in Semdex:</b>	4.9%
<b>Weight in Sem-7:</b>	7.5%
<b>No of Shares:</b>	227,545,624
<b>Med. daily value traded:</b>	Rs 360,800
<b>Med. daily volume traded:</b>	10,000
<b>Year on Year return:</b>	18.8%
<b>All time high:</b>	Rs 39 (17-Nov-2010)

Selected data	
<b>Shareholder's equity:</b>	Rs 11.3 bn
<b>Total assets:</b>	Rs 14.2 bn
<b>Interest Bearing Debt:</b>	Rs 0.8 bn

Forecasted data	
<b>Increase in EPS:</b>	17.3%
<b>Dividend Yield:</b>	1.98%
<b>Price Earnings Ratio*:</b>	29.46x
<b>Increase in turnover:</b>	6.1%

<sup>\*</sup> Based on current share price of Rs 37.90.



# Harel Frères Ltd

## Appendix

### A. Brief History

In 1838, four brothers set up Société Harel Frères to acquire the sugar estate at Belle Vue. To this day, the latter has remained the cornerstone of modern day Harel Frères Ltd, and even saw the addition of a modern co-generation power plant *Cie Thermique de Belle Vue* (CTBV) at the turn of the 21<sup>st</sup> century. The group expanded its sugar business inorganically through a series of acquisitions during the 20<sup>th</sup> century culminating with its amalgamation with *Mount* in 2009 and *St André* late in 2010, and embarked on its diversification programme back in 1932 with the acquisition of a distillery and bottling plant. Further, the group is likely to develop real-estate under its yet undisclosed master plan via *Sagiterre Ltée*

### B. Lines of Business

HFL is one of the more balanced-yet-diversified companies with its all of its principal lines of business (Sugar, Alcohol, and Energy) all making up around 30% of total turnover. HFL exclusively produces special sugars unless otherwise required under the accord with *Südzucker*. HFL also produces electricity from both Bagasse and Coal with the No.2 spot in IPP Market Share; and HFL, through *Grays*, is an active producer of mass consumption Rum. With respect to income from associates (depicted with the bronze box-arrow in Fig1 below), HFL has increased its ownership in *Intendance Holding* (SWAN's holding company) from 27% to 44%, hold 35.5% in *Rehm Grinaker* a leading construction company, and has invested in *Orange Madagascar*, the Malagasy subsidiary of multi-national telecommunications giant *Orange*.

Bhavik Desai [bd@axys-group.com](mailto:bd@axys-group.com)  
Vikash Tulsidas [vt@axys-group.com](mailto:vt@axys-group.com)

### AXYS Stockbroking Ltd

Bowen Square, 10 Dr Ferrière Street, Port Louis  
Tel: (230) 213 3475 Fax: (230) 213 3478  
Email: [stockbroking@axys-group.com](mailto:stockbroking@axys-group.com)  
Url: <http://www.axysstockbroking.com>

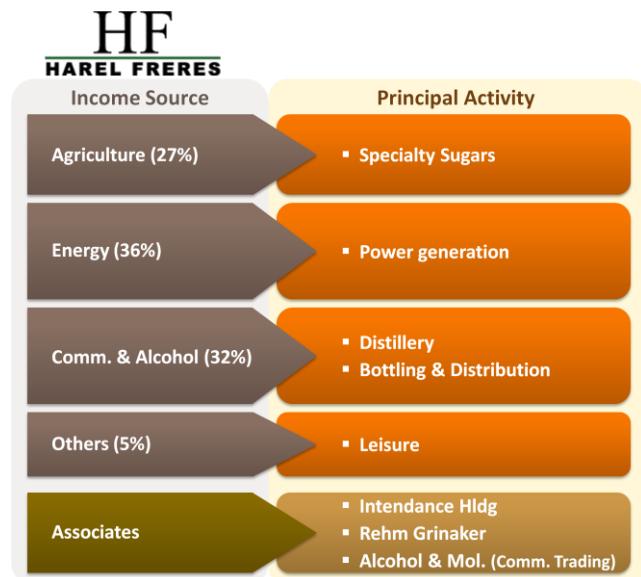


Figure 1. HFL's various sources of revenue

### C. Shareholding structure

Following the successive amalgamations of HFL with the Mount and St André sugar estates, its shareholding structure has evolved with *Société de Nemours* remaining as its largest shareholder, followed by Pershing LLC, a foreign institutional investor.

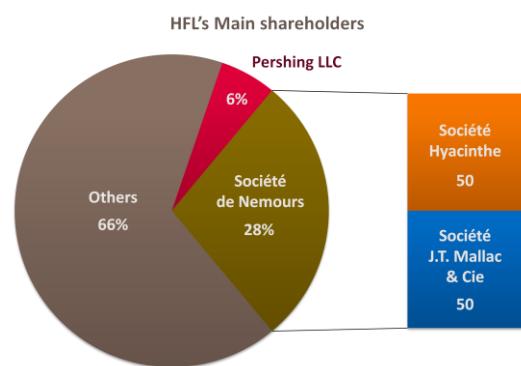


Figure 2. Primary shareholders of HFL

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