Anglo-Mauritius Stockbrokers

Accumulate

21 August 2014

Share Price

Rs 85.00

Market Cap

Rs 5.70 bn

USD 186.2m

AD Vol. (12mths)

5,379

AD Val. (12mths)

Rs 461.9k

USD 15.1k

Year End

31-Dec

NAV – *June 2014*

Rs 129.86

Issued Capital

67,012,404

12 Months (Rs)

High

94.50

Low

79.00

Bloomberg

MTMD MP

SEM Code

MTMD.N0000

ISIN Code

MU0019N00003

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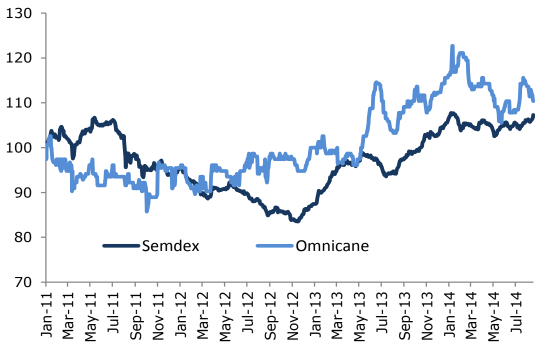
Diversification of activities, with foothold established in East Africa and the U.K

In the light of the imminent abolition of the EU sugar quota with regards to ACP countries such as Mauritius, the group underwent an intensive transformation, which required a substantial investment of Rs9bn over the period of 2006-2013. Omnicane now possesses a fully flexi-factory consisting of sugar mill, sugar refinery, the bagasse-coal thermal cogeneration plant and bioethanol production plant. Such investments were financed by loans from Mauritius as well as the European Investment Bank, and corporate bonds of value of Rs2bn which are maturing in 2016 – 2017. The group's main activities consist of the production of refined sugar and electricity, whereby last year they accounted for 39% and 61% of the group's revenue respectively, with the latter commanding a stable operating profit margin of above 24% in the last few years. Moreover, the group seeks to tap into opportunities in the regional front, where it aims to export its cane cluster model and it is currently co-managing a sugar and energy project, KISCOL in Kenya. Furthermore, moving up the sugar chain from B2B to B2C model, the group invested in a London based company, The Real Good Food, which is an important player in the U.K sugar supply. The diversification of the operations is expected to reap its benefits in the medium to long term. In 2013, a new cluster was established, being Property Development. Omnicane stepped into in the hospitality sector, whereby it owns the Holiday Inn business hotel, in the national airport vicinity.

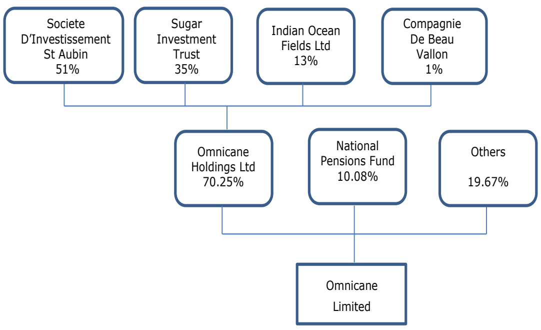
Financials (Rs m.)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
Turnover	**3,192**	**3,480**	**3,953**	**3,871**	**3,930**	**4,165**	**4,501**	**4,659**
Sugar	917	1,061	1,322	1,274	1,509	1,450	1,479	1,523
Energy	2,275	2,419	2,631	2,597	2,421	2,650	2,894	2,996
Hospitality	-	-	-	-	-	*65*	*128*	*140*
Operating profit	**697**	**615**	**875**	**725**	**768**	**632**	**761**	**822**
Sugar	7	(118)	204	85	176	73	74	76
Energy	691	733	671	640	593	606	671	717
Hospitality						(47)	16	29
Finance costs	712	581	586	583	644	638	637	623
Investment Income	81	55	41	55	126	56	58	61
Share of results from associates	(1)	(4)	(3)	8	26	(8)	20	45
Exceptional items	286	373	272	356	312	400	450	350
Profit after tax	323	316	490	477	515	376	554	557
Attributable profits	258	249	394	393	418	305	449	451
Ratios	**2009**	**2010**	**2011**	**2012**	**2013**	**2014F**	**2015F**	**2016F**
EPS (Rs)*	3.86	3.71	5.88	5.86	6.24	4.55	6.70	6.73
DPS (Rs)	2.00	2.50	2.75	2.75	2.75	2.75	2.75	2.75
PER (x)	20.2	19.9	12.5	13.1	14.3	18.7	12.7	12.6
Dividend Yield	2.6%	3.4%	3.7%	3.6%	3.1%	3.2%	3.2%	3.2%
Price/Book Value (x)	0.90	0.89	0.80	0.69	0.67	0.62	0.59	0.57
NAV (Rs)	86.88	83.13	91.76	112.14	132.19	137.47	142.97	148.69
Operating margin	21.8%	17.7%	22.1%	18.7%	19.6%	15.2%	16.9%	17.6%
Net margin	10.1%	9.1%	12.4%	12.3%	13.1%	9.0%	12.3%	12.0%
Total Debt/Shareholders' Equity	127%	122%	109%	107%	100%	96%	92%	87%
Total Debt/Total Equity	113%	108%	98%	96%	90%	86%	83%	78%
Total Debt/Total Assets	49%	46%	43%	44%	42%	40%	37%	35%

**Inclusive of exceptional items*

Rebased share price



Shareholding Structure



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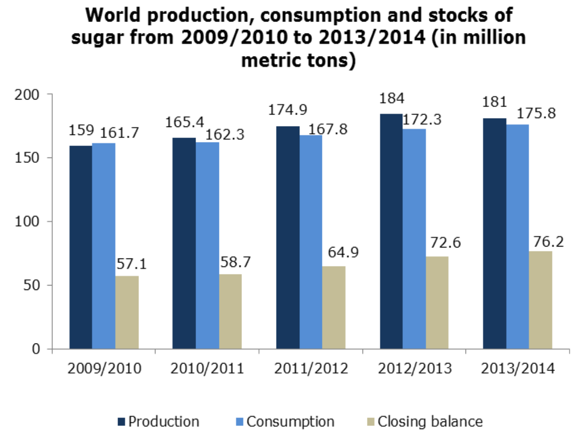
Sugar Industry

International

World market prices for sugar fell in 2013 for a third consecutive year, due to a third successive season of production exceeding consumption. Hence, since 2010-2011 this resulted in a global surplus which progressively refilled stocks. In 2013, the world's main exporters were Brazil and Thailand which experienced good crops while the European Union was the biggest sugar importer. For the current year under review, it is expected to be yet another year of global surplus with the world market prices remaining subdued.



Source: Statista

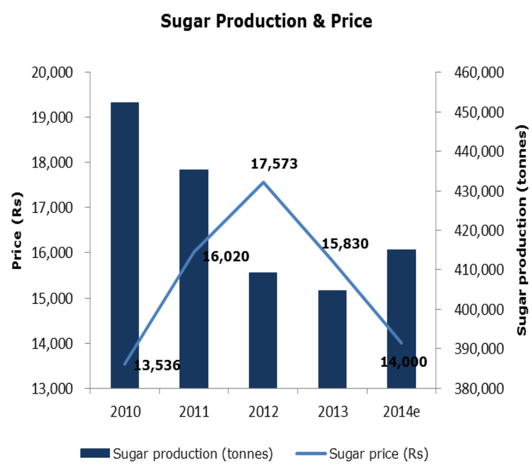
Sugar is an important commodity in the African continent. The black continent produced around 10m tonnes of sugar in 2013 but had to import an additional 2m tonnes in order to compensate for the shortfall. Large deficit occurred particularly in East Africa and according to a report by Ecobank on East Africa's agro-industrial sector, there was a large sugar deficit amounting to 400,000 tonnes in Kenya and Tanzania. Kenya has a potential demand of around 800,000 tonnes and 600,179 tonnes of sugar were produced in 2013. For 2014, raw sugar production is expected to increase by 17% to 700,000 tonnes on the back of improved supply of cane and higher factory capacity. In order to make the Kenyan sugar industry more competitive and enhance efficiency, 5 state owned sugar companies will be privatised.

Mauritius

The dismantling of the Sugar protocol in 2006 triggered a whole re-engineering of the sugar sector which pushed for a 36% reduction in sugar prices. A Multi Annual Adaption Strategy (MAAS), covering period 2006-2015, was published with the aim to help the sugar industry to be competitive. This strategy also involved the centralisation of the private sugar production factories which were reduced to only 4 in total namely Alteo Ltd, Omnicane Ltd, Medine Ltd and Terra Mauricia Ltd which are all listed companies on the Stock Exchange of Mauritius. Cane plant which once was used for production of raw sugar only, currently is used to produce value-added refined and special sugars, ethanol and renewable energy and soon will produce bio-plastics.

The area of land under sugar cane cultivation has been on a declining trend driven by development in the property sector whereby agricultural land are converted and used for residential, commercial and integrated resorts as well as many small planters abandoning their land due to higher production costs. Similarly, a lack of man power is noted with an ageing population among the farmers and youth moving away from agriculture.

In 2013, sugar production and sugar milling posted a negative growth of 1.9% and 1.0% respectively. Local sugar production was 404,713 tonnes and 25,000 tonnes of raw sugar was imported for refining. White refined sugar production is undertaken by two refineries namely Omnicane and Alteo Refinery whilst Terra is engaged in the production of special sugars.



Source: Various sources

EU market remains our main export partners and United State is the second preferred export destination. Südzucker with which the country has a commercial partnership for a period 2009-2015, exports the bulk of the white refined sugar produced in Mauritius for delivery to the EU market. However, due to our export partners experiencing unfavourable market conditions, sugar price was revised from Rs16, 500 to Rs15, 830 in 2013.

Outlook for the Sugar Sector

According to Statistics Mauritius, sugar production and sugar milling are expected to improve posting growth of 1.9% and 3.8% respectively. This will be achieved on the back of a local sugar production of 415,000 tonnes and the refining of 50,000 tonnes of imported raw sugar. Price for crop 2014 is estimated to be around Rs14,000 and the Mauritian government will cater for an additional Rs2,000 for small planters.

The sugar industry will face a major challenge with the end of the EU sugar quota which will be abolished in September 2017. Hence, the country will have to improve the competitiveness of its sugar industry in order to maintain its market share in Europe as European beet sugar producers will likely increase their production. Similarly, the Mauritius Sugar Syndicate plans to further diversify the sales of its special sugars outside the EU and US markets. However, it will be more difficult to penetrate other world markets which are already supplied by cheaper sugar producing countries like Brazil and Australia. Moreover, a study was commissioned to the Mauritian Cane Industry Authority with regards to the effects and action program in order to address the elimination of sugar quota. Based on these recommendations, the Mauritian Government will apply to for additional accompanying measures in order to mitigate the impact of the liberalisation to the EU.

The local industry will surely be impacted by the abolition of the quota. However, opportunities exist on the regional front whereby countries are witnessing sugar deficit and Mauritian companies can leverage their expertise and invest in these regions. Mauritius has a potential production capacity of 480,000 tonnes brown sugar while only 415,000 tonnes will be available this year. The maximum annual refining capacity in the country amounts to 360,000 tonnes and 120,000 tonnes of special sugars can be produced. Thus, raw sugar can be imported from other countries to be refined in Mauritius. 50,000 tonnes of imported sugar raw sugar is expected this year, whereby the first cargo was delivered in May and the second cargo of 26,000 tonnes is expected in August/September this year. Moreover, the industry needs to keep moving up the value chain in order to remain competitive. This can be achieved through the transformation of sugar into many other high value food products. In this respect, Omnicane has invested in a London based company.

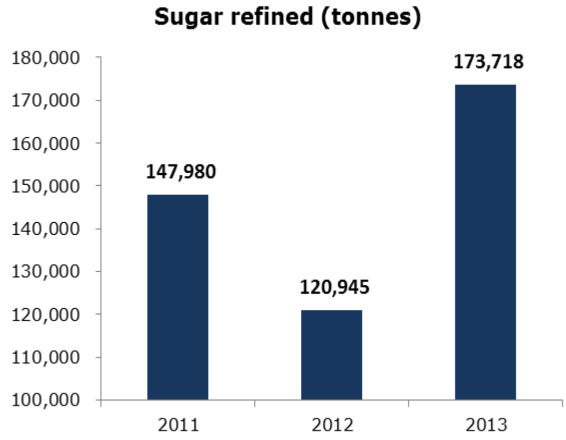
Omnicane - Sugar Cluster

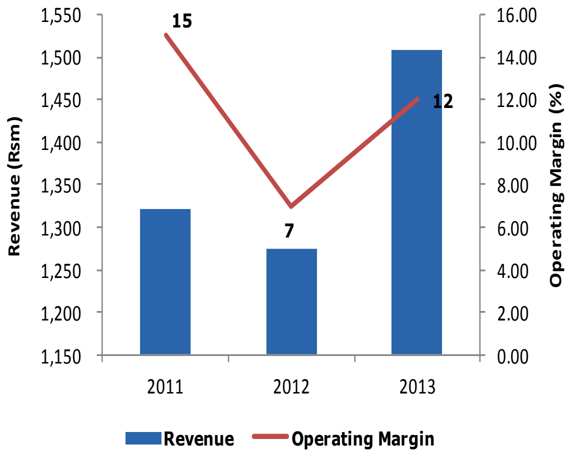
Local

The company's agricultural operations are carried out on a total surface area of 2,900 hectares of land, where 2,532 hectares were harvested in 2013. All sugarcane harvested in southern part of Mauritius is processed by Omnicane's sugar mill. The mill has a capacity of 1.5m tonnes of cane per year as well as the capacity to produce 240,000 tonnes of refined sugar. Last year 1,245,341 tonnes of cane were crushed (2012: 1,225,512 tonnes) which resulted to a total production of 131,738 tonnes of raw sugar (2012: 126,620 tonnes).

In 2013, the group witnessed an increase of 43.6% in refined sugar production which amounted to 173,718 tonnes and the bulk was exported to Europe. To note that Medine Sugar Estate, a company situated in the west of Mauritius sends its raw sugar to Omnicane's refinery plant. The sugar company has also been allowed to supply granular sucrose to Coca-Cola plants within the Central, East and West Africa Business units. Following its plan of agricultural diversification, the group embarked in potato cultivation whereby 2,255 tonnes was produced last year, accounting for 15% to total potato production in Mauritius.

Last year, the sugar cluster reported an increase of 15.6% in revenue and operating margin improved to 12%. In 2012, this segment witnessed lower performance due to the stoppage of operations during the first quarter in order to upgrade the refinery coupled with drop in sugar cane crop.





Source: Omnicane's annual reports

Overseas

Kenya – co managing an integrated sugar cluster

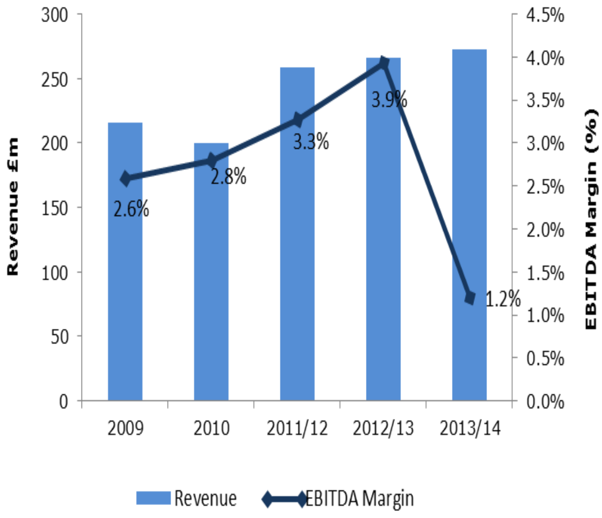
The group's strategy is to export its cane cluster model in Africa. In this respect, it has partnered with Kwale International Sugar Company Limited (KISCOL) to create, develop and manage an integrated sugar cluster and 18-MW cogeneration plant in Kwale, Kenya. KISCOL will cultivate cane in its own land of 5,000 hectares as well as 4,000 hectares by out-growers and the sugar mill has a capacity of 3,000 tonnes of cane crushed per day. Commercial operations are expected to start by the end of 2014 which will be supplied to the Kenyan, regional and international markets. Currently, Omnicane has 20% stake in KISCOL.

Real Good Food Plc (RGF)

Moreover, Omnicane aims to transit from a Business to Business model towards a Business to Consumer strategy by adding value to products. The company has invested in RGF, a quoted company on the London Stock Exchange. RGF is a diversified group which owns Napier Brown (Europe's biggest non-refinery sugar distributor), Garrett Ingredients (diary ingredients and sugar), Renshaw (icings, marzipan and caramels), R&W Scott (chocolate coatings and jams), and Haydens Bakery (patisserie and desserts).

For FY 2013, RGF's total revenue grew by 2.8% to reach £265.8m with Napier Brown being the largest contributor. The group's EBITDA increased significantly by 23.8% with all divisions having positive EBITDA following improvements at Haydens and R&W Scott. However, for FY 2014, the group's results were significantly affected by a dispute with RGF's main supplier, the British Sugar, whereby EBITDA stood at £3.3m, down from £10.5m in 2013.

Omnicane's partnership with RGF will be beneficial to both entities whereby Omnicane will have direct access to the European and UK market through Napier Brown whose logistics facilities is located near the Immingham port. Currently, the company's supplies 12% of UK's sugar volumes and expects to rise to 20%. This could be achieved on the back of new supply agreements with Omnicane and East Africa as from 2016.



NB: the company changed its year end from Dec to Mar. 2011/12, 2012/13, 2013/14 relates to 12m Mar ending
Source: Annual Reports RGF

Outlook

Omnicane was able to fully execute all the recommendations set by the MAAS towards a modern cane industry. The group has moved up the sugar chain from sugar cultivation and production to higher value products with the bulk being exported to Europe. In 2014, the harvest is expected to start on 10th June and last till 16th Dec. Management expects around 1,325,000 tonnes of cane to be crushed and sugar production to be around 137,000 tonnes, higher than 2013.

Moreover, the group has spare refining capacity and to process sugar from the region. Hence, the refinery will be utilised to its full capacity and would increase returns of the group. Similarly, Omnicane can leverage its expertise in refining sugar in Kenya, since the country intends to produce refined sugar for the local consumption. With the abolition of the EU sugar quota, competition will be fierce at the international level and the group's partnership with RGF will help to access Europe. The sugar conglomerate will also tap into further opportunities to develop the sugar industry in the African region.

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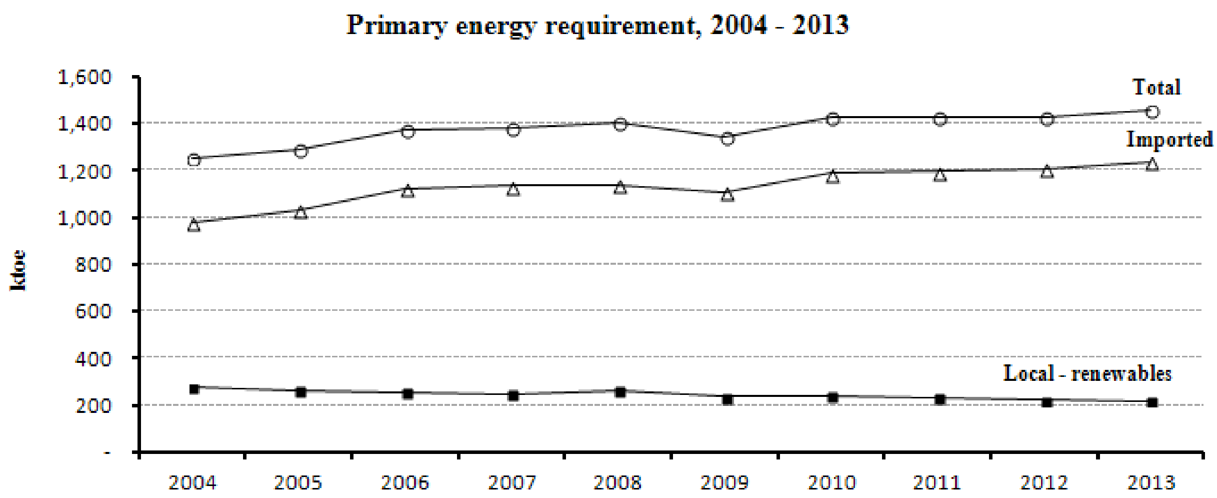
Energy Sector in Mauritius

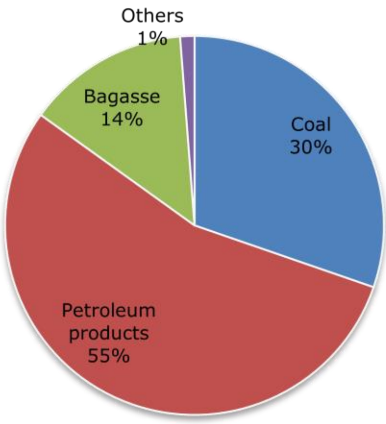
Energy production, import and use are essential for the economic development of Mauritius. The country depends mainly on imported petroleum products to meet most of its energy requirement since no oil, natural gas or coal reserves are available on the island. In 2013, imported fossil fuels accounted for about 85% of total primary energy requirement and have been growing gradually over recent years. However, energy from local sources (coming mainly from bagasse) as a percentage of primary energy requirement amounted to 15% and has been decreasing across the years. In 2013, CO_2 emission from the energy sector stood at 3,835.4 thousand tonnes, up by 2.5% from 3,743.3 thousand tonnes in 2012. Electricity generation remained the largest source of CO_2 emissions and accounted for 61.6% (2,363.8 thousand tonnes) of the total CO_2 emissions of the energy sector followed by the transport sector which made up 25.3% (969.5 thousand tonnes) of the total emissions and the manufacturing industries making up another 8.3% (317.2 thousand tonnes).



Source: Statistics Mauritius

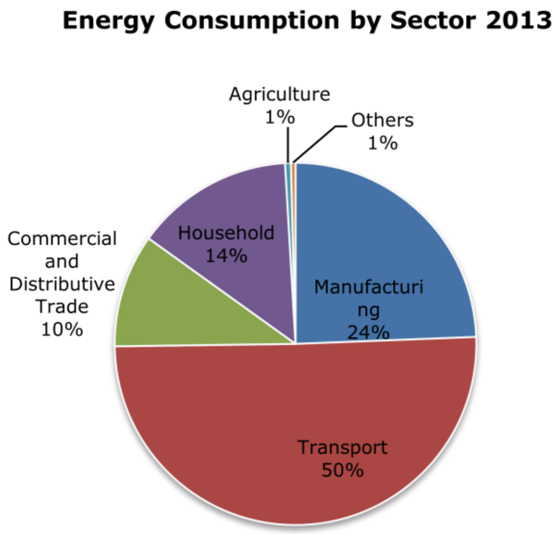
Coal is the largest fuel in demand as it is the cheapest source for electricity production. In 2013, energy supply from coal rose by 5.5% to 441 ktoe (Kilo tonnes of oil equivalent) compared to 2012. According to statistics Mauritius average import price of Coal amounted to Rs 2,993 per tonne in 2013 while most petroleum products were above Rs 30,000 per tonne. The cheapest petroleum product was Fuel oil which had an average import price of Rs 19,807 per tonne. However, much emphasis is being laid on sustainable development and Mauritius is willing to become less dependent on fossil fuels in line with the 'Maurice Ile Durable' project.

Energy Mix in 2013

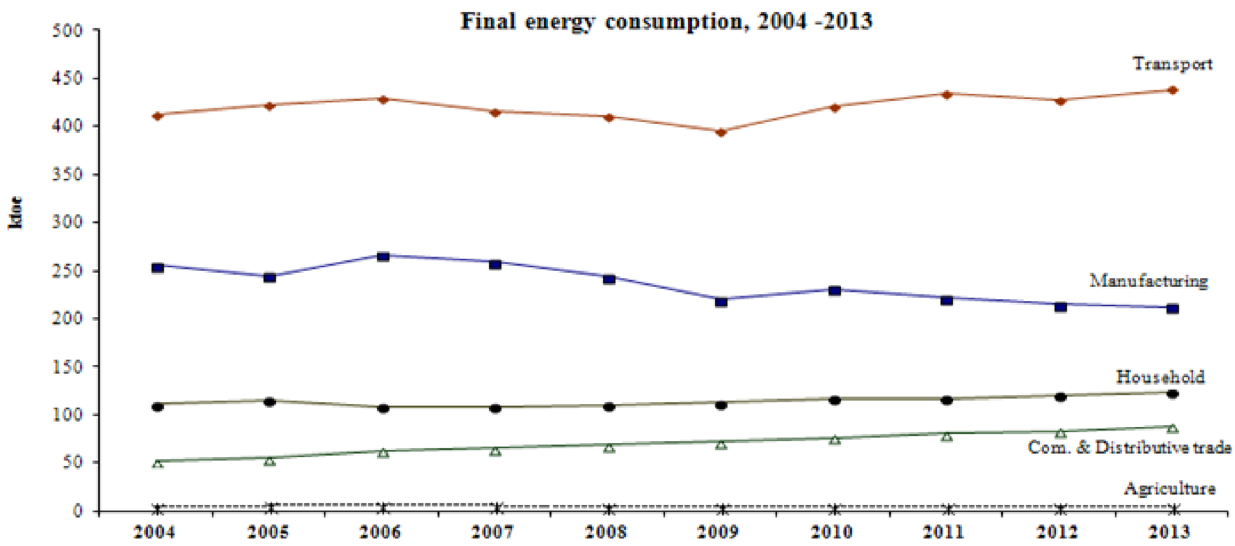


Source: Statistics Mauritius

The energy end-users in Mauritius are mainly categorized into five sectors, namely: transport, commercial and distributive trade, manufacturing, households and Agriculture. The transport sector is currently the largest consumer of energy accounting for about 50% of the total energy demand in 2013. Manufacturing industries and household accounted for 24% and 14% of the total energy consumption respectively. The transport sector did not show much volatility and revolved around 400-450 ktoe since 2004. However, it is interesting to note that the manufacturing sector witnessed a general downward trend while energy consumption from commerce and distributive trade has been increasing.



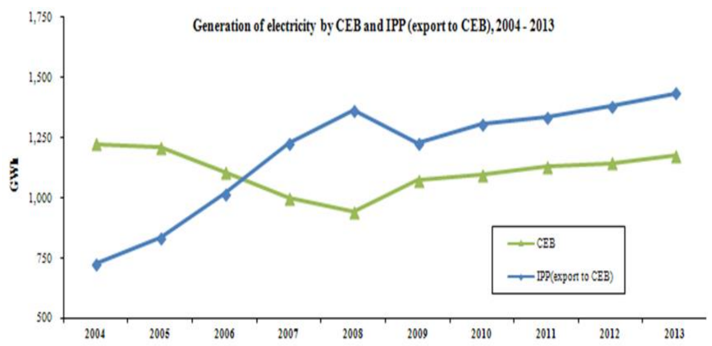
Source: Statistics Mauritius



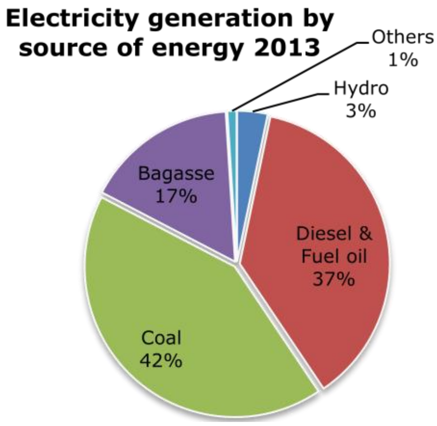
Source: Statistics Mauritius

Power Generation

The Central Electricity Board (CEB) is a parastatal body wholly owned by the Government of Mauritius. The CEB produces around 40% of the country's total power requirements from its 4 thermal power stations and 8 hydroelectric plants; the remaining 60% being purchased from Independent Power Producers (IPP) which are power generators of the Sugar Industry. Currently, it is the sole organisation responsible for the transmission, distribution and supply of electricity to the population. Oil and Kerosene makes up most of the electricity generated by CEB, the remaining being catered by Hydro and wind. IPPs produce electricity by burning bagasse and coal. Electricity generated in 2013 amounted to 2,885 GWh (248 ktoe) and around 79% was generated from non-renewable sources. The peak power demand in 2013 reached 441.1 MW on the Island as compared with 430.1 MW in 2012. The average sales price of electricity remained around Rs 6 per kWh with commercial, domestic and industrial accounting for 36%, 33% and 30% of total electricity sales respectively.



Source: Statistics Mauritius



Source: Statistics Mauritius

Outlook for the Energy sector

There are several challenges to the energy sector as far as Mauritius is concerned. Growing demand coupled with volatility of fuel prices and the quest towards ensuring sustainable development are factors which lead policymakers to favour renewable sources of energy going forward. However, energy is essential to quality of life, commercial and industrial development in the country. Mauritius is shifting towards a service-based economy with tourism, ICT, seafood hub, medical-hub and textile as main pillars of its economic model. Such a model is energy intensive and household demand for energy is also growing substantially. Increasing the percentage of renewable in the energy mix is challenging, given the high initial cost of investment. Coal is thus expecting to remain the major energy resource but will gradually decrease and according to forecasts (Ministry of Renewable Energy &Public Utilities, 2009) renewable energy will contribute about 35% of total electricity generation in year 2025.

Mauritius is now exploiting solar energy through a solar park in Bambous jointly operated by Tauber-Solar and Sarako. The first solar park which has a 15.2 MW solar power output capacity was recently connected to the grid. The facility will generate about 24 gigawatt hours (GWh) of electricity and conserve 15,000 tons of CO2 per year. The quantity of electricity produced corresponds to about 1 percent of the annual electricity consumption on the Island. According to the 2014 edition of the Renewables Global Status Report for the 21 Century, Mauritius was ranked second globally for investments in new renewable power and fuels relative to their annual GDP in 2012. The same report indicated that solar power is the leading sector by far in terms of money committed during 2013, amounting to USD 113.7bn and representing 53% of total global new investment in renewable power and fuels (not including hydro> 50MW). Another known green energy project is expected from conglomerate Alteo which is partnering with Astonfield Renewables for a 2MW Project at Union Flacq on a photovoltaic area of 4 hectares.

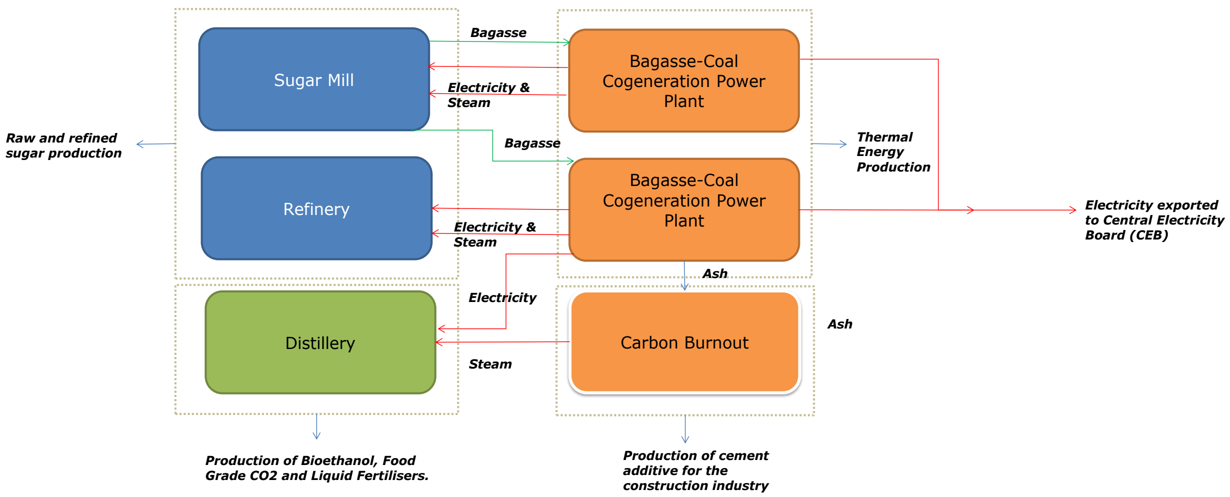
In our opinion, there is an urgency to move towards a sustainable energy future with the growing energy requirement, financial burden of importing fuel (currently our largest import) and the negative environmental impact of consuming fossil fuels. The Government mentioned several energy projects in order to reach the targeted 35% green electricity generation by 2025. The different renewable fuel sources identified were Bagasse (17%), Hydro (2%), Waste to energy (4%), Wind (8%), Solar PV (2%) and Geothermal (2%). We believe that decrease of cultivation of sugar cane due to market conditions will also bring down the amount of bagasse available for production of electricity. We view solar energy as the most appropriate source for Mauritius due to the abundance of the solar energy resource. However, the main hindrance for further expansion of solar power is its high implementation cost.

Omnicane: Largest IPP in Mauritius

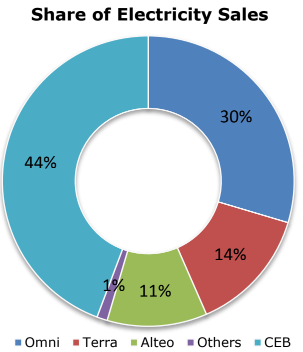
Omnicane is the largest IPP in Mauritius generating around 30% of total electricity produced in 2013. Its main power plant at La Baraque is one of the largest Bagasse-coal thermal cogeneration plants in the world. It uses bagasse during the sugarcane crop period to produce steam and electricity for the cluster and electricity for the grid while coal is used outside the crop period. The second power plant located at St Aubin only produces electricity for the national grid. The Group also has a bioethanol distillery which can produce up to 24m litres of bioethanol per year depending on the volume of molasses processed. The product can be used as a source of biofuel in transportation and power production.

An integrated sugar and energy production complex

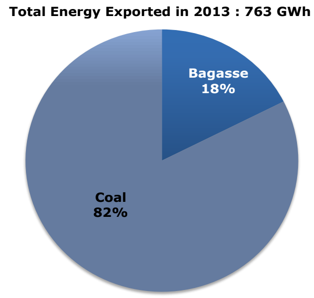
Omnicane possesses the largest industrial complex in Mauritius, whereby its main production units, namely, Sugar Mill, Refinery, Bagasse-Coal Cogeneration Power Plants, Distillery and Carbon Burnout are integrated as a whole (see illustration below). The by-product Bagasse, from its Sugar Milling operations are supplied to both of the power plants, for the production of electricity which then provides energy back to the Sugar Mill, Refinery and Distillery units as well as to power grids of the Central Electricity Board(CEB). Moreover, in the view of the group's commitment to waste reduction and sustainability management across all of its operating units, a Carbon Burnout facility has been recently set up to reduce the carbon content (below 7%) of bottom and fly ash waste generated by its power plants, which will then be used as additive to cement. It also has the capacity to produce 10 tonnes of low pressure steam to be utilised within the Distillery unit, which uses another by-product known as Molasse to produce Bio-Ethanol mainly. Moreover, this unit will also be able to treat ash coming from another conglomerate, Terra's power plant Terragen.



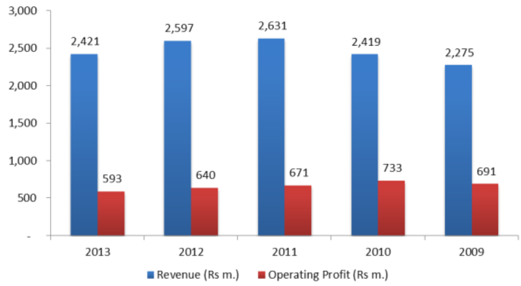
Source: Omnicane Annual Report 2013



Omnicane has sustained its market share as an IPP and exporter within the last few years, accounting for almost 30%, which makes it the top IPP, followed by other conglomerates such as Terra and Alteo. 763 GWh of electricity were exported by Omnicane's power plants in 2013 (2012: 717 GWh and 2011: 689 GWh). Omnicane has two main units involved in electric-power generation in Mauritius. The Thermal Energy operations at La Baraque is one of the largest coal/bagasse cogeneration plant in the world and is equipped with two units of 44.5 MW each, which either use bagasse or coal as fuel. 581 GWh was produced at La Baraque, which was 86% of its production capacity. The Thermal Energy operations at St Aubin is equipped with a 34.5MW condensing type coal generator and produced 251 GWh of electricity in 2013, which represents 95.2% of its production capacity.



Both power plants require the use of non-renewable source, Coal (82%) and renewable source, Bagasse (18%) to produce electricity, whereby the coal is purchased by Omnicane's associated company, Coal Terminal Management. The government's aim is to reduce the share of Fuel Oil mainly as energy source as well as coal to instead make use of more renewable energy sources (accounting 35% of total energy generation targeted by 2025). However, given its availability and the limited capacity of renewable sources to supply the total energy requirement in the next 10 years, coal should remain a substantial source of energy, accounting for around 40% of the total electricity generation.



Operating margin within the Energy cluster has been within the range of 25-30% in the last five years. Net profit generated in 2013 was Rs252m (2012 Rs 237m).

Outlook

Omnicane embarked on a transformation process to centralise and modernise its mill at La Baraque which was completed in 2013 with the bioethanol distillery. The energy sector is the main revenue and profit driver of the Group accounting for 62% of turnover and 77% of operating profit in 2013. Management expects electricity production in 2014 to be in line to that of 2013. The investment in energy sector helped Omnicane to grow both its top and bottom line despite volatility in sugar prices.

Commercial production of ethanol will begin in 2014 and will be mainly for export. Omnicane already has an offtake agreement with the Alco Group for all its ethanol production which will be around 20m litres annually. The Group also found a way to generate revenue from residues of power generation as well as ethanol distillery. Carbon burn out technology will be used to make cement additive for construction industry from residues of power generation operations while fertilisers known as concentrated molasses stillage and food grade carbon dioxide will be produced from residues of production of bioethanol.

Omnicane also has some regional projects on the energy front:

1. The Company signed a MOU with Mecamidi of France in view to jointly develop hydro-electric projects in Africa. Projects in Rwanda and Kenya are currently being appraised.
2. The Rwanda Rukarara and Mishito Project is a USD 15m investment which will produce and sell 36 GWh per year. A power purchase agreement has already been signed for 5-MW joint venture project with REFAD Rwanda and the project is expected to be completed during the last quarter of 2015.
3. The Kwale project in Kenya is expected to begin operation by end of 2014 and targets to export approximately 35GWh of electrical energy per annum.

Omnicane is thus positioning to be a regional energy player by positioning itself in the niche renewable energy market in Africa. We view positively the company's strategy to leverage its expertise on the energy front in the Black Continent. The power demand in the region is also expected to grow significantly with the economic developments happening. Omnicane is well poised to take advantage of these markets and should remain the largest IPP in Mauritius unless big players invest massively.

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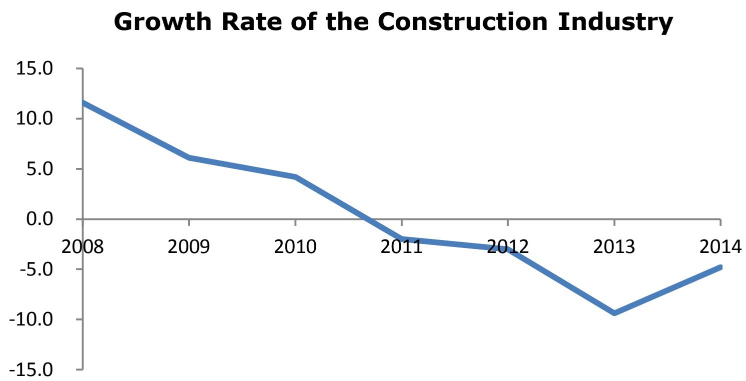
Construction and Property sector

After surging by 11.6%, 6.1% and 4.2% in 2008, 2009, 2010, the construction sector has thereafter been the weakest link of the Mauritian economy. In 2013, it was the only sector with negative growth and is expected to contract by 4.8% in 2014. The excess supply of office space, commercial centres and IRS-RES coupled with decreasing demands for those products lead to slow-down of several projects.



The banking sector has accumulated a large stock of credit to the construction sector inclusive of housing loans over the past five years. The take-off of the Integrated Resort Scheme and the Real Estate Scheme has triggered a boom in the property market from nonresidents. The low interest rate environment, coupled with competitive home loan packages offered by banks to property buyers, have also bolstered credit to the construction sector. The Bank of Mauritius (BOM) expressed concerns about the rapid increase in credit to the sector and the significant rise in property prices in Mauritius. Accordingly, the BOM introduced a set of macro prudential policy measures to mitigate risks to financial stability and strengthen the soundness of banks. These prudential measures include additional portfolio provision and sectoral limits for three specific sectors, namely construction, tourism, and personal. Recently a property player listed on the SEM faced insolvency issues and has gone under administration. Several other projects are facing difficulties for the sale of apartments or villas.

However, experts believe that Mauritius is not prone to a property bubble. The drivers of the property bubble in the UK were high demand, low supply and the availability of large amounts of cheap debt where banks were lending people 125% of the price of a property with no need for any cash down. The BOM is highly conscious of the wide-ranging effects of a crash in housing prices to consumer confidence and the economy at large and has put in place necessary measures to restrict cheap debt. Banks in Mauritius would only lend between 80%-90% of the price of the property if the latter is lower than Rs 12.0m and if the buyer is purchasing his first property. When granting credit facilities for purchase/construction of a second or any subsequent residential property and purchase of property exceeding Rs 12.0m, a maximum of 70% of the property value would be provided by Mauritian banks.

Omnicane – Property Development

Omnicane was quite successful with its recent Highland Rose mixed-use morcellement project which consisted of 1,421 plots over an area of around 97 hectares. The Group has a strategy of business swapping whereby they sell underperforming assets to re-invest in projects with higher potential. Two morcellement projects are also in the pipeline in the southern region.

Omnicane elaborated a sustainable master plan for the development of 400 hectares of land in the vicinity of the SSR International Airport. The 50-year project will comprise of leisure, sports, retail, hospitality, medical, wellness, convention and educational facilities. The first project of the master plan was the construction of the 140 keys Holiday Inn Mauritius Airport Hotel which was launched on the 26 March 2014. The hotel which is only 700m from the airport terminal is expected to become the natural meeting point of the airport area and has special features targeting businessmen such as business offices and conference hall.

Management believes that despite the current conditions prevailing, there is a demand for this project due to its strategic location. Property projects were mainly concentrated towards the North and Centre of Island while being close to the airport may be appealing a different market. It also makes sense for businesses such as logistic players to be near the airport and Omnicane is still doing its market study to determine how they will proceed with the development. The Company plans to move its head-office in that region. There will be different phases according to market demand and capital requirements of the Group.

We view positively the strategy of the Group to finance expansion of its core businesses by developing and selling its land bank. Omnicane has the advantage of already having its land converted in the airport area and the project is targeting mainly Mauritians. After the completion of the new airport terminal, the government identified vast prospects linked to the aviation industry for new pillars of our economy. Potential development of an aviation hub, passenger hub, cargo hub, regional training centre for maintenance technicians and pilots and a centre for maintenance repairs and overhaul for aircrafts were mentioned in the 2014 budget speech. The setting up of a business park in that area seems to be the right timing together with these expected developments and the integrated development of the area may encourage professionals working at the airport to move in that region.

Bull & Bear Case

BULL CASE

- Omnicane's market share as electricity supplier to the national grid should be sustained as further demand is expected, despite renewable players presenting themselves more lately. The price being charged will be adjusted post debt repayment in 2020 and 2022. However, margins should not be affected as such.
- The majority of capex has been incurred in the last years. Hence we do not expect an important increase in leverage soon. Planned capex is currently USD 21m in the form of equity investment which will be used to fund the KISCOL project expansion and the Hydro Electric Power Plants in Rwanda.
- Partnership with RGF includes the supply of sugar produced in East Africa to the U.K group, which already has a reputation of sourcing its sugar globally, as opposed to its peers in the U.K. Also, if ever the EU sugar quota is firmly abolished, possibly, Omnicane will have the flexibility to supply its sugar from Mauritius as well to RGF.
- Further development of the group's property assets seems to be aligned with the government's vision of establishing Mauritius as a regional airport hub. On the residential development side, the morcellement of land in the central part of the island has gained buying interest, such as Highland Rose.

BEAR CASE

- Gearing remains high relative to peers, whereby debt repayment will remain considerably dependent on the cashflow from sales of land, for the purpose of property development.
- The abolition of the EU sugar quota remains a great cause for concern. We await more light on the negotiations being carried out by the relevant bodies in Mauritius and the EU.
- There is possible downward revision in the local sugar price for the crop of 2014.
- The sugar price in Kenya is currently highly disconnected with the global sugar price. There could be downside potential, if a liberalisation of sugar supply ever occurred.
- RGF is currently facing a pricing row in the U.K against the British Sugar, following the latter's temporary withdrawal of its sugar supply to RGF's subsidiary, Napier Brown. This instability in the sugar supply market in the U.K will impact Napier Brown until 2015. However, according to online press reports, new sourcing contracts are progressing.

Peer Comparison

	2013 EPS (Rs)	PER	DPS (Rs)	DY(%)	NAV (Rs)	P/NAV	Gearing	Price - (Rs)	Year End.
Omnicane *	6.24	13.6	2.75	3.2%	132.19	0.66	41.7%	85.00	Dec-13
Alteo *	2.61	13.5	0.75	2.1%	50.59	0.69	16.5%	35.30	Jun-13
Terra	1.60	23.4	0.80	2.1%	72.35	0.50	6.9%	37.50	Dec-13
Average PER	15.8								
Average Div. Yield	2.4%								

** inclusive of exceptional items*

Recommendation

The current financial year will be marked by the drop in local sugar price and we believe this should remain a challenge for the next two years at least. Bio-Ethanol exportation is expected to reach cruising speed as from 2015/2016 onwards. The Holiday Inn Airport Hotel began operations since the beginning of the year and should hopefully attain 45% occupancy rate by 2015, should marketing efforts by Omnicane be fruitful. As for the KISCOL project in Kenya, assuming little volatility in the sugar price and no major geopolitical risks, we anticipate profitability as from next year. In the meantime, the group plans to continue leveraging its property assets to service its debts and dividend payments in the short term, whilst aiming to make the property unit a contributor to core operations in the longer term. We recommend to **accumulate on weakness**.

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