CSR's Sweet and Sour Spot

Australasian Investment Review

Sydney, July 6, 2007 (ACN Newswire) -

It was an interesting AGM for CSR yesterday.

The company was suitably gloomy, saying that many of the issues that impacted on it in the last 12 months, will continue in the coming year.

These include lower sugar prices, the higher Australian dollar, and the sluggish housing market, which this week showed no sign of weakening with yet another fall in building approvals in May.

Sugar prices have fallen by around 10 per cent since the start of this financial year (although there has been a small uptick to over 9.2 USc/lb in the past two weeks) and CSR says the delayed start to the milling season will further increase costs.

"In the year ahead, we expect that a significant fall in sugar's earnings before interest and tax or EBIT will be broadly offset by improvements in Building Products including Pilkington," managing director Jerry Maycock told shareholders at the AGM.

"Net profit after tax will also be impacted by higher interest costs due to the funding required for the Pilkington acquisition and a higher tax rate due to the low level of tax losses available compared to previous years.

"We will provide guidance for CSR's overall results at our half year earnings announcement in November."

That reference to Pilkington was the $690 million purchase last week of glass maker Pilkington Australasia

Mr Maycock told shareholders that while the short-term picture for the continuing businesses in total remains challenging, the medium to longer term outlook was very encouraging.

"Many of our productive assets have already been or are currently being refurbished or rationalised and CSR will benefit from the range of positive medium-term factors affecting most of our businesses," he said.

"We shall strive to optimise value from the attractive Pilkington acquisition.

"So, I am confident that our strategies for improving performance and driving greater returns from our businesses will lead to the company's continued success and growth."

CSR's shares finished at $3.66, up 12c on the day and around five per cent higher over the week.

That's a long way from the $4 a share in February when it was on everyone's private equity buyout list.

But the price rise this week had nothing to do with the sugar price, the Pilkington deal, or anything else operational.

No it's all to do with the appearance on the CSR share register of corporate raider, Guinness Peat, which is run by Sir Ron Brierley.

Guinness Peat Group has paid $184m to take up 6 per cent shareholding in the company.

And while market talk is that he might bid for the entire company, the real story seems to be a deal involving CSR's sugar division, with some sort of merger plotted with other producers, such as Maryborough, 27 per cent owned by Guinness, and Bundaberg, which is controlled by a big European sweetener group.

CSR's sugar business is the dominant player in the Australian market with 40 per cent and revenues of $1,545 million in the 2006 financial year.

Maryborough Sugar has a market share of just 3 per cent and FY06 revenues of $42m. Bundaberg's figures are unknown.

CSR (and the rest of the sugar industry) medium to longer term problem is the increasing environmental concerns about growing sugar cane (very energy intensive) and the competition from residential and tourist use as the Australian population grows, ages and retires to the beach (Sea Changing).

The Queensland coast, especially from Maryborough north is prime for this sort of development.

It's why CSR is looking to expand in Brazil, which is the biggest sugar producer in the world and has room to expand production (Ethanol is a major driver of expansion there).

Anyone looking for Guinness Peat to launch an asset splitting bid should realise that there is a shareholders agreement covering the Tomago aluminium smelter in the Hunter Valley which says Alcan can purchase CSR's share at a 15 per cent discount (so no way of maximising the sale price), and the company has its asbestos liabilities and no one wants to go there.

Equally the Pilkington purchase covers proprietary technology which gives the former owner, Nippon Glass, the power to say 'no' to any acquisition of Pilkington by anyone other than CSR. So the bestis a combining of the sugar businesses and a float, if the ACCC and Queensland canegrowers let it happen.

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