# MUMIAS – 1H2013 Results Note

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## Summary

Mumias Sugar Company released its 1H2013 results posting a 234.1% dip in Profit before Tax (PBT) to a loss of KES 1.6 billion from a PBT of KES 1.2 billion in1H2012. Key highlights to note include:

- Revenue dropped by 21.6% to KES 5.4 billion in 1H2013
- Marketing and Distribution costs went up by 87.3% to KES 419 million in 1H2013
- Investment risks include increased competition, cane shortages and high operating costs.
- We are NEUTRAL on the company

## Mumias Sugar Company Earnings Update

| CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 | 2011 Shs '000 | 2012 Shs '000 | % Change |
|---|---|---|---|
| Revenue | 6,921,870 | 5,426,043 | -21.6% |
| Fair Value (loss)/gain on biological assets | 29,557 | (56,862) | -292.4% |
| Cost of sales | (4,666,144) | (5,227,224) | 12.0% |
| **Gross profit** | **2,285,283** | **141,957** | **-93.8%** |
| Other operating income | 85,214 | 139,681 | 63.9% |
| Total Operating Income | 2,370,497 | 281,638 | -88.1% |
| Marketing and distribution costs | (224,107) | (419,732) | 87.3% |
| Administrative expenses | (602,888) | (806,266) | 33.7% |
| Other operating expenses | (441,080) | (409,669) | -7.1% |
| Total Operating Costs | (1,268,075) | (1,635,667) | 29.0% |
| Finance income | 413,360 | 231,856 | -43.9% |
| Finance costs | (336,923) | (458,408) | 36.1% |
| **(Loss)/Profit before taxation** | **1,178,859** | **(1,580,581)** | **-234.1%** |
| Taxation Credit/(Charge) | (353,658) | 474,174 | -234.1% |
| **(Loss)/Profit after taxation** | **825,201** | **(1,106,407)** | **-234.1%** |
| **Earnings per share - basic & diluted** | **0.54** | **(0.72)** | **-233.3%** |

| CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012 | 31-June-2011 Shs '000 | 31--Dec-2012 Shs '000 | % Change |
|---|---|---|---|
| **ASSETS** | | | |
| Non-current assets | 20,167,253 | 19,969,175 | -1.0% |
| Current assets | 7,232,860 | 6,006,522 | -17.0% |
| **TOTAL ASSETS** | **27,400,113** | **25,975,697** | **-5.2%** |
| **EQUITY AND LIABILITIES** | | | |
| Shareholders' equity | 15,723,686 | 13,852,279 | -11.9% |
| Non-current liabilities | 5,955,772 | 7,098,079 | 19.2% |
| Current liabilities | 5,720,655 | 5,025,339 | -12.2% |
| **TOTAL EQUITY AND LIABILITIES** | **27,400,113** | **25,975,697** | |

| | | |
|---|---|---|
| Costs/Revenue | 18.3% | 30.1% |
| Return on Equity (ROE) | 5.2% | -8.0% |
| Return on Assets (ROA) | 3.0% | -4.3% |
| Current Ratio | 1.26X | 1.20X |

## Income Statement Analysis

Revenue dropped by 21.6% to KES 5.4 billion

Revenue dropped by 21.6% to KES 5.4 billion in 1H2013 from KES 6.9 billion in 1H2012. The co-generation plant revenue from sale of electricity was KES 162 million in 1H2013, 5.4% higher than revenue realized the prior year. Revenues from ethanol and water were KES 50 million and KES 10 million respectivly in 1H2013.

Price declines of about 30% due to increased competition

The company cited price declines of about 30% that negatively impacted on revenues. This was mainly due to increased competition from locally produced and imported sugar. In addition to this, declining yields as a result of drought conditions experienced in late 2011 and early 2012 led to cane shortages. The situation was further exacerbated by cane poaching from competitors. The company also cited low activity levels in all the plants (sugar, co-generation, ethanol and water) that contributed to lower earnings.

Cost of Sales rose by 12.0% due to increase in cost of sugarcane and transport costs

Cost of Sales rose 12.0% to KES 5.2 billion in 1H2013 from KES 4.7 billion in 1H2012. The rise in cost of sales can be attributed to the increase in cost of sugarcane and transport costs as a result of increased fuel price. Consequently, gross profit dropped by 93.8% to KES 141 million in 1H2013 from KES 2.3 billion in 1H2012.

87.3% increase in Marketing and Distribution costs

Marketing and Distribution costs went up by 87.3% to KES 419 million in 1H2013 as compared to KES 224 million in 1H2012. Administrative expenses also rose to KES 806 million in 1H2013 from 603 million in 1H2012 representing a 33.7% increase.

Total operating costs edged up 29.0% to KES 1.6 billion in 1H2013 from KES 1.3 billion in 1H2012. Costs as a percentage of Revenue stood at 30.1% in IH2013 from 18.3% in 1H2012 representing increasing operating costs and declining operating income.

Finance Income fell from KES 413 million in 1H2012 to KES 231 million in 1H2013 representing a 43.9% decrease. Finance costs increased by 36.1% to KES 458 million in 1H2013 from KES 337 million in 1H2012.

## Balance Sheet Analysis

Total Assets have dropped by 5.2%

Total Assets have dropped by 5.2% to KES 25.9 billion as at 1H2013 as compared to KES 27.4 billion in FY2012. Current assets dropped by 17.0% to KES 6.0 billion in 1H2013 from KES 7.2 billion in FY2012.

Non-current liabilities increased by 19.2% to KES 7.1 billion in 1H2013 from KES 5.9 billion in FY2012. Current liabilities however dropped by 12.2% to KES 5.0 billion from KES 5.7 billion in FY2012.

## Investment Risks

Increased competition, cane shortage and high operating costs are key investment risks

- **Increased competition:** The company is facing stiff competition from newly established millers and imported sugar. Prices have since declined by about 30% due to increased supply from competitors and cheaper imported sugar.
- **Cane Shortage:** Increased competition from other millers without their own cane led to poaching of cane from contract farmers. In addition to this, declining yields as a result from the drought in late 2011 and early 2012 led to shortages. The company is however optimistic about supply of sugarcane due to adequate rainfall during the period under review.
- **High operating costs:** The company's cost to income ratio stood at 580.8% in 1H2013. Marketing and distribution costs rose significantly by 87.3% to KES 419 million in 1H2013.

## Growth opportunities

- **Diversified revenue streams:** The company has emabrked on various projects in an attempt to diversify business and sustain long-term profitability once fully operational. Projects include the bottling and distribution of water, production of ethanol and generation of power for sale.

## Outlook

The future outlook for the company is faced with a myriad of challenges. Increased competition from newly licensed millers and an influx of cheap imported sugar remain a threat to the company's revenues.

We are also yet to see how the company plans to address the issue of cane shortage especially as a result of cane poaching.

In addition, operating costs for the company are high characterized by high marketing, distribution and administrative costs that pile pressure on already strained revenues.

We are **NEUTRAL** on the company

Going forward, we are **NEUTRAL** on the company given the industry challenges the company is facing and the risks associated with the high operating costs.