

# Mossberg's Investor Digest

## Best Idea Profile

## Imperial Sugar Company (NASDAQ:IPSU)

### DESCRIPTION:

Headquartered in Sugarland, Texas; Imperial Sugar Company is a leading refiner, packager and distributor of sugar in the US. Imperial has a diversified product line that includes granulated, powdered, liquid and brown sugars which are marketed in a variety of packaging options under various brands (Dixie Crystals®, Holly® Imperial® and Wholesome Sweeteners) or private labels. Imperial experienced an explosion and fire in Feb '08, at its sugar refinery in Port Wentworth, GA. Production at this refinery, which accounted for 60% of the company's capacity, was suspended after the accident until imperial commenced limited bulk sugar production in the summer of 2009 and initiated packaging production in the fall of 2009. Imperial has settled a \$345MM insurance claim for the accident and realized a gain of \$280MM due to the accident settlement. IPSU is currently a 1/3 participant in a joint venture with Sugar Growers and Refiners, Inc (Imperial Subsidiary) and Cargill to build a new state-of-the art sugar cane refinery in Gramercy, LA adjacent to an existing Imperial sugar refinery.

### KEY INVESTMENT CONSIDERATIONS:

**Solid Domestic Demand** - Domestic demand for refined sugar has increased an average of 1.5% per year during the past 5 years. Demand for refined sugar is generally consistent with population growth and is influenced by consumer preferences for sugar versus alt. sweeteners and diet trends. Though it is a large producer, the US is a net importer of sugar.

**Earnings Power Obscured by Hedging** – Imperial has approximately \$30 million in hedging activities. The Port Wentworth plant disaster has left the company unable to deliver against many of its hedged contracts. This shortage of deliverable goods has resulted in the company following mark to market accounting rules for hedging. This creates large earnings fluctuations as the value of options swing with commodity prices. Once the new Gramercy plant is up to standard utilization these swings in earnings will subside.

**New Plant Coming Online** – Imperial's new refinery in Gramercy, LA will be state-of-the-art and the first new sugar factory in 50 years. Though the ramp to capacity will start in FY11 and take some time, those temporary costs will eventually subside, leaving Imperial with a more efficient and profitable refining operation.

**Secular Growth in Cane Sugar** - Recent studies have shown high fructose corn syrup (HFCS) can fuel cancer growth and obesity. Sales of HFCS have dropped 9% in the U.S. from 2007 to 2009. Many soft drink makers and others are considering switching back to sugar.

**Strong pricing trends** - Domestic sugar supplies are most significantly influenced by the size of the domestic sugar beet crop. A Federal Judge recently ruled against the usage of genetically modified beet seed, dampening incentive for beet production. Increasing corn and wheat prices are also discouraging farmers from participating in beet production. Since IPSU processes cane sugar, it should benefit from rising prices.

**Joint Venture with Cargill** – The new Gramercy refining plant is a joint venture between Imperial, Cargill and Sugar Growers and Refiners, Inc. (A marketing cooperative of 8 sugarcane mills and about 700 cane growers which operates as an Imperial Subsidiary) with each retaining an interest of one third. Cargill will be marketing the sugar, which will lock in the supply and the price, creating less volatility in earnings for Imperial. It appears that Heinz will be switching its product formulas from corn syrup to sugar also-boosting the demand for product.

### VALUATION:

IPSU is currently in front of some changes that could produce long term operating improvement. With increased demand for the company's product, new efficiencies and enhanced production capability, Imperial may be able to producing earnings per share of up to \$3. At a 25% discount to book value the company appears to be attractively priced.

### (NASDAQ: IPSU)

Investment Data (as of 9/10/10)

<b>Recent Price</b>	<b>\$13.87</b>
52-Week Range	9.50 - 18.52
Fiscal Year End	Sep
Dividend/ Yield	\$0.08/ 0.6%
Shares Outstanding	12MM
Average Trading Volume (3 mos)	170,000
Market Capitalization	167MM
Cash	20MM
Long Term Debt	33MM
Enterprise Value (EV)	180MM
LT Debt/ Equity	0.14
BV/ Share	\$18.61
TTM Revenue	\$791MM
P/ Revenue	0.2x
TTM EPS	\$11.59
P/ EPS	1.2x
TTM EBITDA	-38MM
EV/ EBITDA	N/A

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.