



ABAGOLD

INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED 31 DECEMBER 2021



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FOR THE SIX MONTHS ENDED 31 DECEMBER 2021

ABAGOLD LIMITED

DIRECTORATE

Non-executive

HR van der Merwe (Chairman of the Board and nomination committee)	✱✱
YJ Visser (Chairman of the risk committee)	❖♦✱✱✱
JW Wilken (Chairman of the remuneration committee and audit committee)	❖♦✱✱✱
S De Villiers (Chairman of the social and ethics committee)	✱
CT Ralebitso	❖♦
JN Hamman	
W Keast	

Executive

TR Hedges (Managing Director)	✱✱✱
E Manchest (Financial Director)	✱✱✱

Prescribed Officer

P Kubheka	✱
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- ❖ = Member of audit committee
- ♦ = Member of risk committee
- ✱ = Member of remuneration committee
- ✱ = Member of nomination committee
- ✱ = Member of social and ethics committee

Company Secretary

E Manchest

ADMINISTRATION

Registered office

Abagold Limited
Cnr of Church and Stil Streets
Hermanus 7200
PO Box 1291, Hermanus 7200
Tel: +27 (0) 28 313 0253
Fax: +27 (0) 28 312 2194
Email: info@abagold.co.za

Auditors

BDO South Africa Incorporated

Bankers

The ABSA Group

Website and share trading

www.abagold.com

Company registration number

1995/070041/06

Review of the interim results

for the six months ended 31 December 2021

The momentum created in the previous fiscal year continued into the first six months of the FY22 financial year. Although the world continues to be disrupted across so many spheres by the wide-scale impact of the Covid-19 pandemic, Abagold has clearly demonstrated its ability to adapt and reshape routes to markets and geographies where it sells its range of abalone products, thus reducing the impact on the financial results and overall operations. This continued improvement in achieving both financial and operational targets is in no small measure attributable to our well-established team and a clear strategy on how best to leverage the hard work of the last few years. This progress has delivered encouraging results, as reflected in this review.

FINANCIAL OVERVIEW

Group revenue for the six months to 31 December 2021 was R162,2 million, an increase of 26% over the comparative six months of the previous year (“prior period”). The bulk of this increase in revenue is attributable to the revenue from sales of abalone, where an increase of 43,5% was achieved to R132,6 million compared to R92,4 million for the prior period. There has been significant improvement in abalone pricing since the prior period, with pricing per kilogram up across all three formats—live, dried and canned. This position was further enhanced by a substantially more mature production pipeline, benefitting from the decision to grow larger-sized abalone, taken some 24 months ago. The business has had to diversify both its offering and the formatting of its products to mitigate against a continued lack of traditional foodservice sales in a now virtually non-existent hospitality market. These steps included opening new geographies, channels and customers where the demand has increased significantly. Nevertheless, we look forward to the eventual return to normal tourism and hospitality in our traditional markets, which should further benefit Abagold in the second half of the year.

The consolidated revenue numbers were slightly constrained by the reduced volume of feed sales at Specialised Aquatic Feeds (SAF) in the first half, although the development of new markets and aquaculture expansion into the rest of Southern Africa hold good potential for the SAF business.

The abalone growth achieved on our farms, as well as the more balanced and mature biological asset pipeline, created more flexibility in our ability to service the retail, dried, specialised and gifting markets. This has allowed the business to export significantly larger volumes of abalone than the same period last year, which has delivered a record volume and revenue performance for the first six months, the highest since Abagold was founded. The standing biological tonnage on the farms has stabilised during this reporting period. This assisted the 8% sales volume increase in tonnes sold.

Operating costs remain under some inflationary pressure, but are being managed in line with growth, tonnage held, harvesting, feed demand and processing volumes. Feed, utilities and payroll costs remain the largest cost items to the business and the ability to contain further increases in line with or below inflation, along with achieving further improvements on growth rates, will be important to the sustainability of our business. The impact of annual increases in utility costs as well as the higher prevalence of load shedding in 2021 has had a negative impact on overall performance and underscores the company’s commitment to introduce alternative energy sources where possible. Significant progress has been made on innovation and technology implementations to achieve productivity and efficiency improvements. Productivity on the farms has been negatively impacted by work stoppages and interruptions of farming schedules during the last six months, due to the pandemic, resulting in the total production cost per kilogram increasing from the prior period by 20%. This increase in cost is also linked to the larger-sized abalone on the farm due to the inverse relationship between age and growth rate, fortunately compensated for by the premium prices achieved for larger sizes. The pipeline integrity and profile remain well set to allow the business to respond proactively to the current market dynamics, with focus on an ongoing improvement in our supply of larger, higher-value animals in all formats to customers.

The net profit before tax of R58 million for the six months includes unrealised fair value adjustments for ZAR/US\$ exchange rate fluctuations and was significantly impacted by improved abalone dollar pricing and a weakening rand in the period under review. The rand ended the half-year on R15,98/US\$ compared to R14,68/US\$ at the end of December 2020. The statement of comprehensive income includes an unrealised fair value gain of R35 million,

Review of the interim results (continued)

for the six months ended 31 December 2021

while the comparative period saw a R25 million loss. This is due to the improved selling prices on the abalone market and the resultant revaluation of the remaining biological assets on the farm. Excluding the fair value adjustments, the net profit before tax is R22,9 million compared with a loss of R1,7 million in the prior period.

The table below sets out some key comparisons with prior periods:

	UNAUDITED 31 DEC 2021 6 months	UNAUDITED 31 DEC 2020 6 months	% change	AUDITED 30 JUN 2021 12 months
Revenue (Rm)	162,2	129,2	26%	260,2
Live equivalent tonnes sold	284	263	8%	439
Tonnes growth recorded	229	249	(8%)	335
Total expenses (Rm)	95,0	85,6	11%	168,9
Net profit/(loss) before tax (Rm) – excl. fair value adjustments	22,9	(1,7)	1447%	14,7
Net profit/(loss) before tax (Rm)	58,0	(26,3)	320%	(4,2)
Cash generated/(utilised) from operations (Rm)	6,8	5,8	17%	58,2

Cash generated from operations amounted to R6,8 million compared to R5,8 million in the comparative period, with an increased investment in working capital in the current year. Cash generated from operations was negatively impacted by the slow logistics time for the product to reach its destination, leading to an increase in the debtors' days in December. It is expected that cash generated from operations will improve in the second half of the year, supported by production output increases and the continued harvesting of larger-sized abalone.

Covid-19 related delays and final completion of phase 1 construction of the Oman abalone farm led to increased investment in equity accounted entities of R14 million compared to the R1,3 million in the prior period. In addition, the business spent R10,1 million on capital items, which was higher than the R4,4 million in the prior period, as the business invests in new opportunities and continues to invest in critical capital projects that will sustain and improve performance. Capital investments, improvements and expansion are continuously managed in line with available funding. Capex requirements locally are expected to proceed as planned and approved during the second half of the year to further improve performance, increase growth and reduce costs.

The balance sheet has stabilised with an acceptable net debt-to-equity level of 18% after the convertible loan of R15 million was repaid seven months earlier than required, thus avoiding its higher interest cost and the risk of dilution in shareholders' interests that would have occurred on its conversion to equity. Adequate bank financing, in the form of overdraft and loan facilities, are available to maintain financing headroom and manage any challenges that may occur with funding operations for the foreseeable future.

OPERATIONAL REVIEW

Hatchery and grow-out farms

The biological pipeline has matured well and this improved pipeline has enabled the business to supply larger-sized abalone more consistently, which matches the demand from the market. Total net growth recorded decreased by 8% from 249 tonnes in the comparative period last year to 229 tonnes in this reporting period, reflecting the slower growth rates, mature pipeline and the increased tonnage of larger animals over 220g on the farm. The operational team is excited about the improved operational efficiencies and disciplines that delivered results in the last few months of the period under review. Performance against key measures such as 'growth per basket per month' as well as 'percentage growth' and 'cost per kilogram of growth', remained consistent and in line with projected levels, helping to achieve an improved overall performance. The reduced hatchery capacity has now stabilised to align with lower total spat requirements, although the environmental instability experienced in 2021 did put pressure on the hatchery team in the low production season. The business will continue to overproduce spat where possible for reseeded at our associate, Port Nolloth Sea Farm Ranching, where these animals are 'planted' in the sea at Kleinzee on the West Coast. As a result of this, the ranching project is well on track to achieve reseeded schedules and is delivering harvests in line with estimates for the fiscal year.

Review of the interim results (continued)

for the six months ended 31 December 2021

The consistent growth across all size categories in the period and indications that this growth will continue to be strong into the second half of the year bode well for Abagold operations.

Sales and marketing

Hong Kong and Asian restaurants continued operating at pandemic-reduced occupancy levels for most of this reporting period. However, the sales and marketing team has been able to maintain consistent monthly sales volumes to all markets being serviced by Abagold. Pricing improved across all lines and formats, positively impacting the dollar price/kilogram achieved, versus last year. The industry continues to experience inconsistent access to logistics supply channels as the number of flights available for live abalone freight remain constrained by the global reduction in flights and the limited routes to the markets that are open.

The dried abalone market has improved materially and provided excellent sales opportunities for Abagold throughout the period. It is especially pleasing to see the prices for this format improving over the last two years, especially in the larger-size categories. The oversupply of smaller-sized dried product reflects a slowing demand in this category, which is expected to continue in the second half of the fiscal year.

The continued competition from China, especially on smaller-size abalone in cans and in live formats, underscores the success of the differentiated focus by Abagold to actively improve the overall size and weight of our offering. This fact and Abagold's product availability in all three formats are likely to support continued positive trading results in the second half of the year. The sales team remains bullish about the position of the Abagold brand, the premium 220g-plus offering and the consistent quality of the product being produced and sold.

Innovation

Innovation is proving, now more than ever, to be the trigger to allow the business to improve productivity and efficiency, while reducing costs at the same time. Abagold has now implemented and been working with centralised automatic weight sorting on all farms and, after working through some design improvements in the last few months, the team is now seeing excellent results with improved efficiency, productivity and accuracy in this discipline.

Self-cleaning tanks operating in the hatchery have helped in reducing manpower requirements without compromising performance. The technology linked to tracking and tracing baskets and tank locations through radio frequency technology (RFID) has now proven its value to the business. There are several other technology improvements being tested and implemented across the farms, all playing a role in ensuring improved overall accuracy and delivering improved overall performance.

Oman

The building and construction of phase 1 of the abalone farm in Oman is now complete and production in the hatchery and on the farm is scheduled to start in the first weeks of 2022. Restricted travel complicated the commissioning phase in December, but with the use of visual technology and modern communication, the team established on the ground has been able to complete this process on time and within budget.

The operation is now fully staffed, and Oman Aquaculture, the joint venture operation, will continue the final commissioning, testing and validations before the start-up.

With the team now in place, momentum has improved. The production of spat and initial grow-out in the small project hatchery were successful, and Oman Aquaculture donated 20 000 juvenile abalone to the State Hatchery and Department of Fisheries of Oman in November 2021. This collaboration with the Oman authorities is critical to the creation of the proposed reseedling/ranching programme, as an active part of the Oman operational and business plan.

Specialised Aquatic Feeds (SAF)

SAF experienced a difficult first half of the year, as the reliance on the trout industry and challenges experienced in Lesotho by this industry as a whole had a major impact on feed volumes sold.

Review of the interim results (continued)

for the six months ended 31 December 2021

During this tough period, the team maintained good control over costs, while continuing to diversify the product range and initiate some exciting feed and product innovations. The financial results for SAF are consolidated into the Abagold corporate group financials.

The reduced sales volumes were materially impacted by Lesotho trout feed demand, but the team worked well to develop a number of new products in the period under review, including an abalone-infused dogfood, koi, tilapia and catfish feeds and specialised brood stock feed for the abalone hatcheries.

The YTD sales volume of 1 880 tonnes is 586 tonnes less than last year's volume. SAF is however confident that volumes will stabilise in the second half and that profitability and consistent supply to a larger group of aquaculture customers will be beneficial in the long term.

SAF received positive feedback from abalone, trout and koi customers, showing good growth and feed conversion ratios in the period. This shows that the progress made through continued improvements in feed quality and formulations is benefitting customers and validates the efforts of the team.

PROSPECTS

The focus of the business remains on delivering and unlocking the full value of a mature pipeline and achieving the best possible consistent growth performance while managing costs. This commitment includes efficient and cost-effective production and operations, while maintaining and improving the healthy and diverse customer base across multiple geographies and opening new markets in North America and China. At the same time, the business continues to make good progress in evaluating and developing existing and new opportunities and initiatives. The upgrading of the Bergsig farm and the addition of two new production units are in process and the results and benefits from this improvement and expansion will be achieved in late 2022 and early 2023.

Port Nolloth Sea Farm ranching stock evaluations are impressive, and this operation is enjoying the first sizeable harvest this fiscal year. As and when there are available and surplus juvenile abalone to sell to Port Nolloth, the company will transact with them to continue a flow of these abalone to the ranching area.

Abagold has started a solar installation on site and Sulamanzi, Head Office and Bergsig solar operations will deliver power in the first quarter of 2022. This commitment aligns with the focus on evaluating all components of renewable energy, including wind, battery, solar and wave energy, if possible, to supplement the power requirements of the business.

It is expected that improved pricing and demand should continue during the second half of the fiscal year. This, supported by the world slowly recovering from the Covid-19 pandemic, should deliver healthy full-year results. Strong cash generated from operations performance is expected in the second half, as benefits from the additional growth, improved sizes and a more stable sales environment over the balance of the year are realised.

DIVIDEND

Declaration of dividend

The Board is pleased to announce Abagold's first dividend in four years. Notice is hereby given of the declaration of an interim dividend of 2,5 cents per share (interim dividend 2021: nil cents per share), payable on 16 March 2022 to all shareholders registered as at close of business on 2 March 2022. Dividends will be paid by direct electronic transfer where shareholder bank details have been supplied to the transfer secretary, JSE Investor Services (Pty) Ltd.

Review of the interim results (continued) for the six months ended 31 December 2021

Note that:

- As no secondary tax on companies' credits are available, dividend withholding tax at the rate of 20% will be applicable to shareholders who are not exempt, which will result in a net dividend of 2 cents per share to such shareholders;
- Abagold's tax reference number is 9008/001/76/1.

At the declaration date Abagold has 140 548 237 ordinary shares of no par value in issue.

Signed on behalf of the Board of Directors at Hermanus on 11 February 2022.



HR van der Merwe
Chairman



TR Hedges
Managing Director

Condensed consolidated statement of financial position at 31 December 2021

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2021 R'000	% change	2020 R'000	2021 R'000
ASSETS				
Non-current assets	269 878		255 624	239 955
Property plant and equipment	179 754	(0%)	180 559	177 221
Biological assets	45 055	(2%)	46 154	29 278
Trademarks	81	(34%)	123	100
Right-of-use of asset	3 179	(8%)	3 444	3 178
Goodwill	7 979	0%	7 979	7 979
Loan receivable	103	(98%)	4 850	680
Equity accounted investments	33 727	169%	12 515	21 519
Current assets	273 795		216 707	250 913
Current portion of biological assets	209 746	26%	166 991	189 566
Inventories	31 095	19%	26 211	28 994
Trade and other receivables	32 503	38%	23 505	9 619
Derivative financial instruments	-	-	-	3 006
Cash and cash equivalents	451	-	-	19 728
Total assets	543 673	15%	472 331	490 868
EQUITY AND LIABILITIES				
Equity	330 095		273 561	288 744
Share capital	21 637	0%	21 637	21 637
Share premium	87 498	0%	87 498	87 498
Retained earnings	213 017	36%	156 738	172 514
Non-controlling interest	7 943	3%	7 688	7 095
Total equity	330 095	21%	273 561	288 744
Non-current liabilities	143 811		150 436	135 178
Deferred income tax	98 996	27%	77 827	83 021
Lease liability	6 479	2%	6 363	6 519
Deferred income grant	8 340	(10%)	9 240	8 790
Long-term borrowings	29 996	(47%)	57 006	30 916
Trade and other payables	-	-	-	5 932
Current liabilities	69 767		48 334	66 946
Current portion of deferred income grant	900	-	900	900
Current portion of long-term borrowings	2 411	(68%)	7 467	29 872
Current portion of lease liability	1 065	20%	886	1 025
Trade and other payables	29 474	37%	21 562	35 149
Derivative financial instruments	7 061	4054%	170	-
Bank overdraft	28 856	66%	17 349	-
Total liabilities	213 578	7%	198 770	202 124
Total equity and liabilities	543 673	15%	472 331	490 868

Condensed consolidated statement of comprehensive income

for the six months ended 31 December 2021

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2021 6 months R'000	% change	2020 6 months R'000	2021 12 months R'000
Revenue	162 225	26%	129 204	260 199
Other income	3 148	(13%)	3 615	7 108
Finance Income	14	-	10	153
Fair value (losses)/gains in financial instruments	(9 183)	(420%)	2 867	16 317
Fair value gain on biological assets	143 854	113%	67 607	163 759
Fair value of abalone sold	(108 741)	(16%)	(93 523)	(199 807)
Impairment of loan receivable	-	-	-	(603)
Production costs	(27 990)	(12%)	(25 094)	(31 512)
Consumption of raw material	(27 486)	21%	(35 010)	(53 318)
Export cost	(9 770)	32%	(14 333)	(27 394)
Employee benefit expenses	(39 261)	(11%)	(35 523)	(84 453)
Depreciation and amortisation	(7 648)	(4%)	(7 370)	(15 154)
Other operating expenses	(17 964)	(21%)	(14 812)	(30 010)
Profit/(loss) from operations	61 198	374%	(22 362)	5 285
Finance costs	(2 108)	25%	(2 806)	(7 809)
Share of loss of equity accounted investments	(1 080)	6%	(1 143)	(1 631)
Profit/(loss) before income tax	58 010	320%	(26 311)	(4 155)
Income tax	(16 659)	(326%)	7 367	394
Profit/(loss) for the year from continuing operations	41 351	318%	(18 944)	(3 761)
Other comprehensive (expense)/income	-	-	-	-
Profit/(loss) for the period	41 351	318%	(18 944)	(3 761)
Total comprehensive income/(loss) for the period:				
Owners of Abagold Limited	41 096	309%	(19 625)	(3 988)
Profit relating to non-controlling interest	255	(63%)	681	227
Total comprehensive income/(loss) for the period	41 351	318%	(18 944)	(3 761)

Condensed consolidated statement of changes in owners' equity for the six months ended 31 December 2021

	UNAUDITED 31 DECEMBER			AUDITED 30 JUNE
	2021 6 months R'000	% change	2020 6 months R'000	2021 12 months R'000
Balance at the beginning of the period	288 744	(1%)	292 505	292 505
Total comprehensive income/(loss) for the year	41 096	309%	(19 625)	(3 988)
Profit relating to non-controlling interest	255	(63%)	681	227
Equity at the end of the period	330 095	21%	273 561	288 744

Condensed consolidated statement of cash flow

for the six months ended 31 December 2021

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE	
	2021 6 months R'000	% change	2020 6 months R'000	2021 12 months R'000
CASH FLOW FROM OPERATING ACTIVITIES	2 308		2 982	53 671
Cash received from clients	152 133	23%	123 208	266 526
Cash paid to suppliers and employees	(145 305)	(23%)	(117 382)	(208 321)
Cash generated/(utilised) from operations	6 827	30%	5 826	58 205
Finance costs	(4 520)	(59%)	(2 844)	(4 534)
Tax paid	-	0%	-	-
CASH FLOW FROM INVESTMENT ACTIVITIES	(24 154)		(5 722)	(15 840)
Purchases of property, plant and equipment	(10 147)	(128%)	(4 442)	(9 336)
Proceeds from disposal of property, plant and equipment	-	0%	52	625
Loan repaid by associate	-	0%	-	90
Investment in equity accounted entities	(14 007)	(952%)	(1 332)	(7 213)
Purchases of trademarks	-	-	-	(6)
CASH FLOW FROM FINANCING ACTIVITIES	26 287		11 460	7 966
(Decrease)/Increase in long-term borrowings	(25 788)	(280%)	14 305	8 848
Loan granted to associate	-	-	(2 845)	-
Lease payments	(499)	-	-	(882)
Net cash flow for the period	(48 133)	(652%)	8 720	45 797
Cash and cash equivalents – beginning of the period	19 728	176%	(26 069)	(26 069)
Cash and cash equivalents – end of the period	(28 405)	(64%)	(17 349)	19 728

Notes to the interim results

for the six months ended 31 December 2021

1. CORPORATE INFORMATION

Abagold Limited (the “Company”) is a company incorporated and domiciled in South Africa. The Company owns 70% of Specialised Aquatic Feeds (Proprietary) Limited, which produces and sells formulated feeds.

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

Basis of preparation

The interim financial statements are presented in Rands, rounded off to the nearest thousand.

The financial statements are prepared in accordance with and comply with the requirements of International Financial Reporting Standards (IFRS). In addition, the financial statements comply with IAS 34 (Interim Financial Reporting) and relevant sections of the South African Companies Act of 2008, as amended. The accounting policies and basis of presentation have been applied consistently with the previous period.

Interim condensed financial statements do not include all the information and the disclosures required in the audited annual financial statements, and should be read in conjunction with the Company’s audited annual financial statements as at 30 June 2021. The 30 June 2021 figures are included for ease of reference and comparison.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended 30 June 2021.

3. EARNINGS PER SHARE

	UNAUDITED 31 DECEMBER		AUDITED 30 JUNE
	2021 R'000	2020 R'000	2021 R'000
Basic earnings – profit/(loss) attributable to ordinary shareholders	41 351	(18 944)	(3 761)
Interest saving on conversion of convertible loan	739	458	1 510
Diluted earnings – profit/(loss) attributable to ordinary shareholders	42 090	(18 487)	(2 251)
Weighted average number of ordinary shares (in thousands)	140 548	140 548	140 548
Potential shares on conversion of loan (in thousands)	7 187	3 864	8 298
Weighted number of diluted ordinary shares (in thousands)	147 735	144 412	148 846
Basic earnings – profit/(loss) per share (in cents per share)	29.42	(13.48)	(2.68)
Diluted earnings – profit/(loss) per share (in cents per share)	28.49	(12.80)	(1.51)

On 30 November 2021 the convertible loan was settled in full, which was 7 months before the scheduled maturity date.

4. SIGNIFICANT POST BALANCE SHEET EVENTS

There were no significant post balance sheet events.

The Covid-19 pandemic remains a challenge to the world economy and the business, however we are unable to quantify the financial impact on the business for the foreseeable future.

