

## Abagold: Small, exotic abalone business may be swimming in potential

There are scant reference points for comparison, but the firm is exemplary in delivery of reports and hosting of AGMs

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Picture: BLOOMBERG/ANDREY RUDAKOV

Abagold is not a new junior gold miner — though it does produce what is often termed “the jewel of the sea”.

The company operates a large abalone farm at Hermanus, producing canned, dried and live abalone for mainly export markets in the Far East. The canned products offer some brand building potential, and IM notices that the business has been inventive in developing premium canned products like abalone foie gras (“sustainable and no force feeding. Abagold abalone foie gras is ... made from the natural fatty liver of our specially selected premium abalone”).

It might seem difficult to justify investing in Abagold, of which the shares are unlisted and only available for trade on an over-the-counter platform. In fact, it would be amiss not to explain the intricacies of trading in the unlisted shares.

Trading entails some patience, as prospective sellers or buyers must send an e-mail to the company secretary with their contact details so that other prospective buyers or sellers can make contact. It is up to the buyers and sellers to negotiate a transaction – which is rather quaint and old world.

The mechanics of trading might be quite manageable. However, the investment proposition is a little trickier.

The aquaculture segment has suffered from the curtailment of international air travel and inflated freight costs from SA, coupled with prolonged lockdown restrictions and the slow rollout of Covid vaccines in the Far East. Investors don't generally like to invest in unlisted entities, where institutional participation is limited.

IM has noticed over the years that Abagold – even in its distressing time during a red tide incident several years ago – has been an exemplary unlisted entity with timely delivery of interim and annual reports and the hosting of AGMs. It is worth noting an experienced hand on the governance tiller in the form of Hennie van der Merwe, who readers might best remember as a long-serving executive at container management group Textainer.

While the full (and, frankly, well detailed) financials are presented twice a year (much like listed counters), there are no real points of comparison on the JSE. AVI (which owns I&J), Premier Fishing & Brands and Sea Harvest all have abalone operations, but these are relatively small when measured against the mainstay fishing operations of the respective businesses.

Sea Harvest probably offers the most detail. The group pointed out encouragingly that in the year to end-December 2021 the introduction of additional abalone product formats complemented good live-volume growth – hoisting revenue 72% to R92m. But Sea Harvest said the revenue shunt was not enough to turn the segment around, and a R64m operating loss was posted. Consequently the mussel and trout businesses were closed to focus on the “high-value, high-margin” abalone operations.

Elsewhere, Premier disclosed that its expanding abalone farm in Gansbaai pushed up revenue markedly to R35 but recorded a much larger loss of R6.2m in the year to end-August. I&J reported that in the six months to end-December 2021 demand for its abalone

operations improved on the back of a favourable product mix, increased volume and higher selling prices. I&J added that a restructuring at the Danger Point abalone farm contributed to good growth in operating profit.

Abagold operates a far bigger abalone farming operation than its listed compatriots. In the six months to end-December turnover reached R161m, which suggests the full year to end-June 2021 top-line of R260m will be comfortably exceeded. More importantly, Abagold swung convincingly back into the black by R58m – which translated into earnings of 2.9c a share and a resumed dividend of 2.5c a share.

One issue that might worry prospective investors and shareholders alike is that cash flows do not correspond with profits. Cash generated from operations came in at R6.8m with an increased investment in working capital. Cash generated was also stanchied by the slow logistics times for abalone to reach its destination, leading to an increase in debtors' days in December. MD Tim Hedges says 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”.

Looking ahead, Hedges stresses the focus remains on delivering and unlocking the full value of a mature pipeline and achieving the best possible consistent growth performance, while managing costs. New markets are also being explored in North America and China. Hedges says the upgrading of the Bergsig farm and the addition of two new production units are in process, with the benefits from this improvement and expansion set to kick in at the end of this year and in early 2023.

Hedges says that at associate company Port Nolloth Sea Farm the evaluations are impressive, and this operation is enjoying the first sizeable harvest this fiscal year. Hedges expects that improved pricing and demand will continue during the second half of the fiscal year, and pencils in healthy full-year results with strong cash generated from operations.

It's difficult to forecast full-year earnings, but if Abagold finds that appetites for its products are back to pre-Covid levels and pre-red tide events, the 2023 financial year could be big. To provide some historic context, in 2016 Abagold earned almost 45c a share and

forked out a dividend of 16c a share. That was off turnover of less than R200m.

Though Abagold's balance sheets sit with a comfortable gearing of under 20% (after a convertible loan of R15m was repaid seven months earlier than required), the group's growth ambitions might require more than just operational cash flow.

IM recognises that Abagold is too small and too exotic to list on the JSE. But a possible consideration is taking the venture to the Cape Town Stock Exchange, perhaps looking to raise a smidgen of growth capital and boosting liquidity.

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