

**■ MONEY & INVESTING**

## ALTERNATIVE INVESTMENTS

**Promising possibilities for Abagold's fishy treasures**

There's a fortune to be made in (legal) abalone farming given latest prices – and the company could soon be heading to a stock exchange near you

 **BL PREMIUM**

13 OCTOBER 2022 - 05:00 by MARC HASENFUSS



Abalone farming at Buffelsjags near Gansbaai. Picture: Sunday Times/Esa Alexander

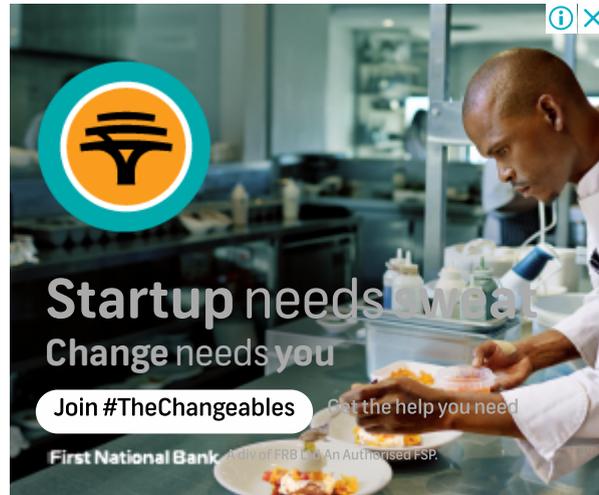
Five years after a devastating red tide event at its abalone farm near Hermanus, unlisted aquaculture venture Abagold is firmly back in the black, with dividend payouts, fatter margins and swelling prospects. So much so, that retail investors might want to consider catching a rising profit tide – though taking a plunge is not easy.

In the company's just released annual report Abagold chair Hennie van der Merwe, who is the former CEO of Trencor and the current chair of Master Drilling, writes that Abagold has turned the corner from 2017's disaster; not just recovering, but developing a maturing pipeline.

The abalone Abagold cultivates, *Haliotis midae*, is savoured particularly in the Far East. Abagold exports it in live, canned and dried form – it sold 510t in the year to end-June. The financial

performance was helped enormously by the average abalone selling price topping R503/kg, compared with just R380/kg the previous financial year. Abalone revenue rose 27% to R256m and group revenue (including the specialist aquatic feeds division) moved up 17% to R305m.

ADVERTISING




---

**“ This small business maintains a fat gross margin of 59%, producing earnings before interest, tax, depreciation and amortisation of R65m ”**

---

The revenue line confirms that Abagold would be regarded as a microcap counter by JSE standards. But this small business maintains a fat gross margin of 59%, producing earnings before interest, tax, depreciation and amortisation of R65m. Net cash generated was R57m, which was equivalent to 40c a share and a reassuring reference to the last quoted over-the-counter share price of 330c.

Earnings, stripping out a shift in the value of biological assets, came in around 13c a share, with a full-year dividend of 7.5c a share.

While the annual report makes for intriguing reading, retail investors might need some convincing to take a closer look at a small unlisted company which, at this point, requires prospective purchasers and sellers to negotiate a transaction.

While old-school price haggling might appeal to a few investors, the disadvantages of holding an illiquid unlisted share in such tremulous economic (and political) times will be viewed as a major drawback.

What's more, listed fishing companies — such as Sea Harvest, Premier Fishing & Brands and AVI (via I&J) — have not all reported huge operational successes in their abalone farming ventures to inspire investor interest in Abagold.



Aquaculture: Abalone farming is capital intensive. Picture: Supplied

Abagold, however, has to a great extent operated like a listed counter. Financials are timeously delivered twice a year and AGMs are hosted. The reporting in the annual report is certainly on par with those of listed companies, and the operational disclosure is reassuringly detailed. Abagold has major institutional backers too: Mutual Life Assurance is listed as holding 17.3% of the shares.

The big hitch is that the shares are tightly held, and trading is fairly sparse. The FM understands, though, that there is a sizeable line of shares that might soon be available from a large investor wishing to exit.

Abagold MD Tim Hedges acknowledges that one of the big challenges for the company as a publicly traded entity is to bring an increased level of share liquidity into the business. “There are six longstanding shareholders who speak for 50%-60% of the issued shares. These shareholders are mostly octogenarians, and who knows if the next generation will want to be involved in the business.”

There are a few avenues open to Abagold, including a listing on the Cape Town Stock Exchange (CTSE), which Hedges says “might be an option”.

A listing on that exchange seems prudent. The JSE is not enjoying buoyant sentiment for small cap shares at present, and the smaller CTSE would allow Abagold to stand out among a more limited universe of counters.

Abagold has enough cash to fund its planned 15% tweak in production expansion capacity from 650t to 750t, which means a capital raising is not an essential tag-on for a listing. Abalone farming, however, is capital intensive – especially the start-up phases – so any further expansionary ambitions could need fresh capital.

---

**“ The industry is ripe for consolidation, with 13 abalone operations ”**

- *Tim Hedges*

---

What Hedges does concede is that Abagold will probably need to look at some form of acquisition activity. “The industry is ripe for consolidation, with 13 abalone operations,” he tells the FM.

Interestingly, Oceana Group, Africa's biggest fishing enterprise, has been hinting strongly at making an acquisition in aquaculture, even specifying a partnership in an existing operation. But after its many recent controversies, Oceana's appetite for corporation actor ht have diminished.

There are other possibilities, too. Sea Harvest has pared down its aquaculture interests to mainly abalone, where sales have risen 55% to R56m in the year to June – though operating losses (albeit reduced) still came in at R18m. Premier Fishing managed revenue of R21m in the half year to end-February and profit after tax of R1.2m from its Gansbaai-based abalone farm.

I&J, which has a sizeable abalone farming venture at Danger Point, delivered strong profit growth and seems to be on a strong tack. But it is doubtful whether these operations will be put up for sale. If I&J decides to spin out into a separate listing, the abalone operation would lend a much-needed element of diversity to the core hake fishing operations.



Abalone. Picasa

It is difficult to gauge Sea Harvest's enthusiasm for its abalone investment, which it holds via an arrangement with Viking. Premier is more interesting, especially as some shareholders have voiced frustration at the slow progress in getting the abalone farm up to the targeted 350t. Premier's annual report suggests an NAV of over R300m for its abalone operations, which are considerably smaller than Abagold's (which has an inferred "market value" of about R350m). Premier has long been subject to rumours of corporate action, so Abagold might be paying close attention to developments.

Abagold, though, can afford to bide its time on deals, with plenty of its own initiatives to push through.

For one, Abagold is making encouraging strides with its abalone farming joint venture in Oman, where it has invested its skills rather than having to pump in capital. The farming unit in Mirbat received its first spat from the hatchery in August, and the first abalone sales from the Oman operation are expected late in financial 2023.

Hedges says the Oman venture has the potential to match Abagold's SA-based revenue by 2027. "There are considerable advantages in the Oman operation, with abalone grown at double the speed of the SA operation, which will be a game changer. The abalone is also a completely different species and has a different taste to what we cultivate in SA, so it won't cannibalise our existing operations."



Tim Hedges: The industry is ripe for consolidation, with 13 abalone operations. Picture: Supplied

A potential worry for investors would be perceptions of a concentration of sales through Hong Kong. But Van der Merwe says Abagold's sales team have pushed into new territories, cutting overall dependence on Hong Kong to below 45% of sales in the past financial year. "The expansion directly into China has been most impressive, with improving demand and more efficient logistics helping to grow this market."

Overall, though, abalone demand is not quite back to pre-Covid levels. Van der Merwe believes that with a return to more consistent tourist travel and hospitality habits, demand should be back to

normal for the remainder of the calendar year, leading up to the 2023 Chinese New Year.

Conversely, Van der Merwe notes that the traditionally large volumes of illegal (read: "poached") SA abalone have again started to reach the Chinese market after two years of inconsistent supply, which, he says, "may influence demand for farmed dried abalone negatively".

But investors should also take into account the benefit from a much weaker rand/dollar exchange rate. Happy haggling.

SIGN OUT

## Conversation

FOLLOW

TH Start the conversation, Tim Hedges

Commenting is subject to our [house rules](#).

 Start the conversation