

## Strong price recovery out of COVID

Ocean Grown Abalone (OGA) is the largest sea-based producer of greenlip abalone in Australia. Through multiple growth options presently available, we estimate that by FY28, OGA will improve its share of the overall Australian abalone market to 16% (from 2.1% now), gain scale and improve gross margin to the high 20s (from 19%), and achieve ROE of high teens %.

### Key takeaways from 4C

- **Strong price recovery:** Price of \$56/kg, up 59% YoY, a function of improving prices out of COVID and premiumisation strategy coming to fruition. Harvest of 20.0T, up 19% YoY. Sales of 18.6T, up 5% YoY.
- **Evidence of continued demand:** Forward sales of ~30T, equivalent to 1.6x the current quarter sales rate. This brings the current sales for FY22, up to an equivalent of 68% of FY21 sales by the end of the first 3 months.
- **Building up the premiumisation of their product** through: 1) New website launching 2QFY22 with an ecommerce platform to follow 3QFY22; and 2) Development of ‘The Ocean Pantry’, a retail and tourism offer at the Augusta Boat Harbour, expected by 3Q FY22 (funded out of existing asset finance facility). These initiatives, and COVID recovery, could see our FY22 abalone price estimate of \$51/kg as understated.
- **Net cash:** Sitting at \$2.2m vs annualised cash burn of \$2.2m, excluding Government Grants. Cash burn including Grants was \$2.1m. This is in line with expectations.
- Esperance development’s Bankable Feasibility Study (BFS) is progressing on track with delivery expected 2Q FY22.
- Marine Stewardship Council assessment has commenced, and management expect certification by June 2022.

### Confirming our investment thesis

- **Multiple growth opportunities to increase market share:**
  - 1) Increased yield:** Achievable through lower mortality and higher productive growth rates, can double harvest to 140T pa in FY25.
  - 2) Premiumisation:** Building out brands and loyalty will improve gross margins on price increases.
  - 3) JV for new hatchery/farmed abalone site:** Through their current Heads of Agreement with Yumbah Aquaculture for a new abalone site nearby in Esperance, WA, OGA can double their harvest again, adding 300T pa, and improve returns.
- **‘Fresh eyes’ from new management.**
- **Funding:** Net cash position of \$2.2m, with current annual cash burn of \$2.1m, implying cash flow neutral for FY22. Assuming Esperance project goes ahead, we assume a \$10m capital raising in FY23, and OGA to be FCF positive in FY26.
- **Valuation:** Our base-case 12-month forward DCF valuation is \$0.35, implying a total return of 3.6x from the current price. A conservative cross-check, taking out the Esperance growth project implies 70% upside from the current share price.

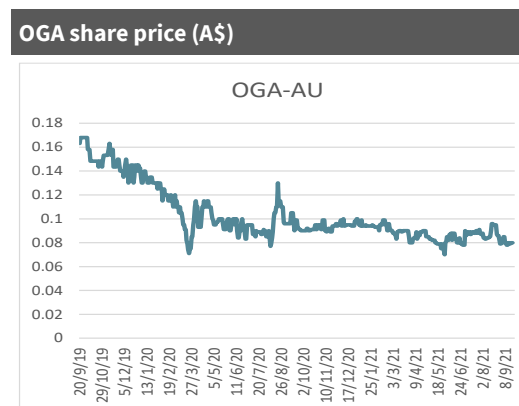


Ocean Grown Abalone (OGA) grows wild greenlip abalone through an aquaculture technique known as ‘sea ranching’. With this method, hatchery-bred juvenile abalone are placed in the ocean onto OGA-designed artificial reefs (‘abitats’) and left to nature to grow for 2–3 years until they reach a marketable size. The company has the competitive advantages of providing year-round supply to meet market demand and a method that offers proven sustainability.

<https://www.oceangrown.com.au/>

<b>Stock</b>	OGA.ASX
<b>Price</b>	A\$0.075
<b>Market cap</b>	A\$15m
<b>Valuation (per share)</b>	A\$0.35

Catalysts	
2QFY22	Esperance bankability study
3QFY22	Esperance investment decision
4QFY22	Esperance funding details
4QFY22	Marine Stewardship Council assessment certification



Source: FactSet.

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## Financial Forecasts

**OCEAN GROWN ABALONE**
**OGA-AU**
**Year end 30 June**
**MARKET DATA**

Price	\$	0.075
DCF Valuation - 12 month	\$	0.35
Total return - 12 month	%	364%
52 week high / low	\$	0.07-0.10
Market capitalisation	\$m	15.1
Shares on issue (ordinary)	m	200.7
Options / rights	m	1.0
Shares on issue (diluted)	m	201.7

**12 month relative performance versus S&P/ASX 200**

**INVESTMENT FUNDAMENTALS**

		FY20A	FY21A	FY22E	FY23E	FY24E
Reported NPAT	\$m	-4.6	-1.7	0.6	0.4	-0.3
<b>Underlying NPAT</b>	<b>\$m</b>	<b>-4.6</b>	<b>-1.7</b>	<b>0.6</b>	<b>0.4</b>	<b>-0.3</b>
Reported EPS (diluted)	¢	-2.4	-0.8	0.3	0.2	-0.1
<b>Underlying EPS (diluted)</b>	<b>¢</b>	<b>-2.4</b>	<b>-0.8</b>	<b>0.3</b>	<b>0.2</b>	<b>-0.1</b>
....Growth	%	nm	nm	nm	-32%	nm
<b>Underlying PER</b>	<b>x</b>	<b>nm</b>	<b>nm</b>	<b>27.3</b>	<b>40.3</b>	<b>nm</b>
Operating cash flow per share	¢	-0.9	0.1	0.1	0.2	-0.2
Free cash flow per share	¢	-1.1	0.0	-0.3	-9.8	-5.6
<b>Price to free cash flow per share</b>	<b>x</b>	<b>nm</b>	<b>570.5</b>	<b>nm</b>	<b>nm</b>	<b>nm</b>
FCF yield	%	-11.4%	0.2%	-3.5%	-130.5%	-74.3%
<b>Dividend</b>	<b>¢</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Payout	%	0%	0%	0%	0%	0%
<b>Yield</b>	<b>%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Franking	%	0%	0%	0%	0%	0%

**Enterprise value**

		FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	x	4.0	2.6	2.2	3.4	4.3
EV/EBITDA	x	-6.0	-7.3	-8.2	-14.8	-22.3
EV/EBIT	x	-4.8	-5.4	-6.0	-10.7	-9.7
Price to book (NAV)	x	1.2	1.0	0.9	0.4	0.3
Price to NTA	x	1.2	1.0	0.9	0.4	0.3

**KEY RATIOS incl FV adjustment**

		FY20A	FY21A	FY22E	FY23E	FY24E
Gross margin	%	1.7	18.6	21.2	21.9	22.7
NPAT margin	%	nm	nm	nm	9.3	5.6
ROE	%	nm	nm	3.9	1.5	nm
ROA	%	nm	nm	3.5	1.0	nm
Net tangible assets per share	¢	8.0	6.8	6.9	12.2	12.2
Book value per share	¢	9.0	7.8	8.0	19.2	25.2
Net debt / (cash)	\$m	-2.7	-2.7	-2.2	7.4	18.9
Interest cover (EBIT / net interest)	x	-3,413.3	-567.7	-80.3	-19.3	9.4
Gearing (net debt / EBITDA)	x	0.9	1.5	1.4	nm	nm
Leverage (net debt / (net debt + equity))	x	-0.2	-0.2	-0.2	0.2	0.4

**DUPONT ANALYSIS**

		FY20A	FY21A	FY22E	FY23E	FY24E
Net Profit Margin	%	-106.5	-33.3	9.3	5.6	-3.6
Asset Turnover	x	0.2	0.3	0.4	0.2	0.2
Return on Assets	%	-26.5	-10.8	3.5	1.0	-0.6
Financial Leverage	x	1.1	1.1	1.1	1.6	2.1
<b>Return on Equity</b>	<b>%</b>	<b>-29.7</b>	<b>-12.3</b>	<b>3.9</b>	<b>1.5</b>	<b>-1.2</b>

**KEY PERFORMANCE INDICATORS**

		FY20A	FY21A	FY22E	FY23E	FY24E
Biological asset base	T	247.1	210.4	201.8	202.2	217.9
Biological asset base	\$m	7.0	6.3	7.4	7.8	8.8
Growth	%	-30%	-10%	18%	5%	13%
Harvest	T	54.7	75.9	90.0	100.0	120.0
Sales	T	48.2	72.0	85.5	95.0	114.0
Sales Price, per KG	\$	\$52.16	\$44.19	\$50.82	\$53.36	\$56.03
Growth	%	-1%	-15%	15%	5%	5%
Abalone revenue	\$m	2.8	2.5	3.2	4.3	5.1
Growth	%	50%	-9%	27%	37%	17%

**HALF YEAR**

		2H19	1H20	2H20	1H21	2H21
Biological asset base	T	234.6	263.0	247.1	266.8	210.4
Biological asset base	\$m	9.9	10.0	7.0	7.4	6.3
Harvest	T	26.3	35.5	19.2	47.5	28.4
Sales	T	22.4	26.1	22.1	35.4	36.6
Sales Price, per KG	\$	\$52.98	\$55.38	\$48.35	\$42.79	\$45.55

Source: OGA reports, MST Access estimates

**PROFIT AND LOSS**

		FY20A	FY21A	FY22E	FY23E	FY24E
Abalone Revenue	\$m	2.8	2.5	3.2	4.3	5.1
Total Revenue	\$m	4.3	5.1	6.0	6.7	8.0
Operating Expenses	\$m	-7.2	-6.9	-7.5	-8.2	-9.5
<b>EBITDA</b>	<b>\$m</b>	<b>-2.9</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.5</b>
Depreciation & amortisation	\$m	-0.8	-0.7	-0.6	-0.6	-2.0
<b>EBIT</b>	<b>\$m</b>	<b>-3.6</b>	<b>-2.5</b>	<b>-2.2</b>	<b>-2.1</b>	<b>-3.5</b>
Net interest	\$m	0.0	0.0	0.0	0.1	-0.4
Fair value adjustment on biomass	\$m	-2.2	0.7	2.7	2.4	3.6
Other non operating income	\$m	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>\$m</b>	<b>-5.8</b>	<b>-1.8</b>	<b>0.6</b>	<b>0.4</b>	<b>-0.3</b>
Tax expense	\$m	1.2	0.1	0.0	0.0	0.0
<b>Reported NPAT</b>	<b>\$m</b>	<b>-4.6</b>	<b>-1.7</b>	<b>0.6</b>	<b>0.4</b>	<b>-0.3</b>
Adjustments to underlying	\$m	0.0	0.0	0.0	0.0	0.0
<b>Underlying NPAT</b>	<b>\$m</b>	<b>-4.6</b>	<b>-1.7</b>	<b>0.6</b>	<b>0.4</b>	<b>-0.3</b>
Weighted average shares	m	190.5	200.7	200.7	200.7	201.2
Weighted average diluted shares	m	190.5	200.7	201.7	201.7	201.7

**GROWTH PROFILE**

		FY20A	FY21A	FY22E	FY23E	FY24E
Total Revenue	%	-13.7	18.0	17.8	12.2	19.7
EBITDA	%	nm	nm	nm	nm	nm
EBIT	%	nm	nm	nm	nm	nm
Underlying NPAT	%	nm	nm	nm	-32.2	nm
Underlying EPS	%	nm	nm	nm	-32.2	nm
DPS	%	n/a	n/a	n/a	n/a	n/a

**BALANCE SHEET**

		FY20A	FY21A	FY22E	FY23E	FY24E
Cash	\$m	2.8	2.7	2.2	4.6	5.1
Receivables	\$m	1.4	1.3	1.6	1.8	2.1
Inventory	\$m	0.4	0.4	0.2	0.2	0.3
Biological assets	\$m	7.0	6.3	7.4	7.8	8.8
Property, plant & equip, ROUA	\$m	5.2	4.6	4.3	23.9	34.0
Goodwill and intangibles	\$m	0.1	0.1	0.1	0.1	0.1
Other	\$m	0.3	0.3	0.3	0.3	0.3
<b>Total assets</b>	<b>\$m</b>	<b>17.2</b>	<b>15.7</b>	<b>16.0</b>	<b>38.6</b>	<b>50.7</b>
Payables	\$m	0.4	0.8	0.9	1.0	1.2
Borrowings	\$m	0.1	0.0	0.0	12.0	24.0
Other	\$m	1.4	1.1	1.0	0.9	0.9
<b>Total liabilities</b>	<b>\$m</b>	<b>1.8</b>	<b>1.9</b>	<b>2.0</b>	<b>14.0</b>	<b>26.1</b>
<b>Net assets</b>	<b>\$m</b>	<b>15.4</b>	<b>13.7</b>	<b>14.0</b>	<b>24.6</b>	<b>24.6</b>
Equity	\$m	27.0	27.0	27.0	37.0	37.2
Retained earnings	\$m	-11.6	-13.3	-13.0	-12.4	-12.6
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
<b>Shareholders' equity</b>	<b>\$m</b>	<b>15.4</b>	<b>13.7</b>	<b>14.0</b>	<b>24.6</b>	<b>24.6</b>

**CASH FLOW**

		FY20A	FY21A	FY22E	FY23E	FY24E
Net Income (Cashflow)	\$m	-3.6	-2.5	-2.2	-2.1	-3.5
Depreciation & Amortization	\$m	0.8	0.7	0.6	0.6	2.0
Change in Net Operating Assets	\$m	1.0	1.9	1.7	1.9	2.4
Other Non-Cash Items, Total	\$m	0.1	0.0	0.0	0.1	-0.4
<b>Operating cash flow</b>	<b>\$m</b>	<b>-1.7</b>	<b>0.2</b>	<b>0.1</b>	<b>0.5</b>	<b>0.5</b>
Capital expenditure	\$m	-0.6	0.0	-0.5	-20.0	-12.0
Acquisitions/divestment/other	\$m	0.0	-0.1	0.0	0.0	0.0
<b>Investing cash flow</b>	<b>\$m</b>	<b>-0.6</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-20.0</b>	<b>-12.0</b>
Equity	\$m	2.7	0.0	0.0	10.0	0.1
Increase / (decrease) in borrowings	\$m	-0.1	0.0	0.0	12.0	12.0
Dividend/other	\$m	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Financing cash flow</b>	<b>\$m</b>	<b>2.5</b>	<b>-0.1</b>	<b>-0.1</b>	<b>21.9</b>	<b>12.1</b>
Opening cash	\$m	2.6	2.8	2.7	2.2	4.6
<b>Net cash flow</b>	<b>\$m</b>	<b>0.2</b>	<b>-0.1</b>	<b>-0.5</b>	<b>2.4</b>	<b>0.5</b>
Closing cash	\$m	2.8	2.7	2.2	4.6	5.1
<b>Free cash flow</b>	<b>\$m</b>	<b>-2.3</b>	<b>0.1</b>	<b>-0.4</b>	<b>-19.6</b>	<b>-11.5</b>

## Valuation: Base-Case DCF Value of \$0.35

Exhibit 18 – MST Access DCF analysis

DCF	FY22	FY23	FY24	FY25	FY26
EBIT	-2.16	-2.11	-3.50	-4.14	-4.14
Less: Taxes	0.00	0.00	0.00	0.00	0.00
<b>Post-tax EBIT</b>	<b>-2.16</b>	<b>-2.11</b>	<b>-3.50</b>	<b>-4.14</b>	<b>-4.14</b>
Plus: D&A	0.58	0.59	1.98	2.78	2.89
<b>Post-tax cash flow</b>	<b>-1.57</b>	<b>-1.52</b>	<b>-1.53</b>	<b>-1.35</b>	<b>-1.26</b>
Less: Capex	-0.62	-20.10	-12.09	-4.08	-0.32
Less: Change in WC	0.10	-0.11	-0.20	-0.21	-0.03
Less: Change in inventory of biological assets	1.57	1.99	2.58	3.10	3.17
<b>Free cash flow</b>	<b>-0.52</b>	<b>-19.75</b>	<b>-11.24</b>	<b>-2.53</b>	<b>1.57</b>
<b>Discounted cash flow</b>	<b>-0.49</b>	<b>-16.97</b>	<b>-8.82</b>	<b>-1.81</b>	<b>1.03</b>
Sum of discount streams	-8.7		<b>CAPM</b>		
Terminal growth	3.0%		Risk free rate		2.50%
Future value into perpetuity	157.9		Equity beta		1.50
NPV of terminal value	71.7		Equity risk premium		4.70%
PV of cash flows	63.0		Cost of equity		9.6%
LESS: Minority interests	0.0		Debt		0%
PLUS: Value of tax losses, incl FV adj	4.3		Equity		100%
Add: Net Cash	2.7		Interest rate		5.0%
Add: Options	0.1		Tax rate		30%
<b>Equity value</b>	<b>70.1</b>		WACC		9.6%
Diluted shares	201.7				
<b>Value per share (A\$)</b>	<b>\$ 0.35</b>				
Upside	364%				

Source: MST Access.

### Risks

- **Aquaculture-related operational risks:** these include the risks associated with safety of abalone diving, disease, theft, environmental changes, predation and severe weather events.
- **Incorrect biomass assessment:** given the assessment of biomass is carried out every 6 months using a sample, there is a risk the asset base is over- or understated.
- **Greenlip abalone prices and industry supply/demand dynamics:** this can include additional unexpected supply domestically or offshore, through potential advanced technologies. It can include depressed demand from economic volatility or through government intervention with additional tariffs applied to the sector.
- **Tariffs:** an increase in the Chinese trade tariff on abalone would lead to weaker sales and prices, as occurred with lobsters.
- **Forex risk,** with export abalone sold in US dollars.
- **Current concentration risk** on both the supplier and vendor side, and associated risk of dependency.
- **Government relationships** through lease and licence approvals.
- **Partner relationships** relating to various partnerships including Ocean King Fishing and Yumbah Aquaculture. Expansion plans depend on an effective relationship.
- **Key management risk:** key management could be a risk if they departed the business and took with them their business relationships that may impact OGA.
- **Funding:** in order to successfully execute their growth plans, OGA will require external funding. The equity markets may be closed to OGA for a variety of reasons, in which case it may have to seek alternative options.

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