

# Ag & Vet Weekly



Monday April 6 – Thursday April 9, 2020

*All the news on ASX-listed agriculture and veterinary companies*

- \* APR 9: ASX, AVW-45 UP: AVECHO UP 100%; NANOLLOSE DOWN 33%
- \* DR BOREHAM'S CRUCIBLE: RIDLEY CORP
- \* HOFSETH, NEVERA, BERGER INVEST \$5m IN CLEAN SEAS, TAKE 10%
- \* WATTLE HEALTH RAISES \$5m; 70m SHARES FOR SPC J-V
- \* CRESO DELIVERS \$215k OF ANIBIDIOL TO VIRBAC
- \* ALTHEA'S PEAK PROCESSING CANADA MARIJUANA APPLICATION
- \* ASX SUSPENDS MGC FOR SWISS MARIJUANA COVID-19 J-V QUERIES
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- \* MGC REDUCES SALARIES UP-TO 50%
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- \* TERRAGEN APPOINTS TRAVIS DILLON DIRECTOR
- \* SEAFOOD INDUSTRY LOSES CEO JANE LOVELL

## MARKET REPORT

The Australian stock market was up 3.46 percent on Friday April 9, with the ASX200 up 180.4 points to 5,387.3 points. Twenty-seven of the AVW-45 stocks were up, eight fell, five traded unchanged and five were untraded.

Avecho was the best, up 0.2 cents or 100 percent to 0.4 cents, with 13.6 million shares traded. Opyl climbed 28.6 percent; Creso was up 19.2 percent; Pharmaust rose 16.2 percent; Wide Open Agriculture climbed 14.8 percent; Memphasys was up 12.5 percent; Bubs increased 10.8 percent; Next Science rose 8.3 percent; Clean Seas and Seafarms were up more than seven percent; Cann Group and Ecofibre climbed more than six percent; Nufarm was up 5.8 percent; Althea, Elixinol and Ridley improved more than four percent; Cannpal and Costa were up more than three percent; Anatara and Auscann rose more than two percent; Bega, Clover, Elders, Synlait and Tassal were up one percent or more; with A2 Milk and Select Harvests up by less than one percent.

Nanollose led the falls, down 1.2 cents or 33.3 percent to 2.4 cents, with 147,890 shares traded. Murray Cod fell 8.3 percent; Apiam was down 6.8 percent; Food Revolution lost 5.8 percent; Huon and Tasfoods fell more than four percent; THC shed 1.7 percent; with Fonterra down 0.3 percent.

## DR BOREHAM'S CRUCIBLE: RIDLEY CORP

**By TIM BOREHAM**

**ASX code:** RIC

**Share price:** 76 cents; **Shares on issue:** 311,256,221; **Market cap:** \$311.26 million

**Chief executive officer:** Quinton Hildebrand

**Board:** Dr Gary Weiss (chairman)\*, Mr Hildebrand, David Lord, Patria Mann, Prof Robert van Barneveld, Ejnar Knudsen

\* Dr Weiss is expected to retire at the end of June 2020

**Financials (first half to December 31, 2019):** revenue \$487.3m (down 6.9%), net profit \$396,000 (down 97.5%), earnings before interest tax depreciation and amortization \$30.7 million (up 0.3%), cash \$39.8m (up 127%), debt \$132.7 million (up 45%), interim dividend per share 1.5c (steady)

**Major identifiable holders:** Insitor Holdings LLC/AGR Partners LLC 19.73%, Lazard Asset Management 13.83%, Schroder Investment Management 9%, Dimensional Funds Advisers 5.18%, Massachusetts Financial 5.18%

Like the odiferous process of rendering - the breaking down of carcasses into useful components - Ridley chief Quinton Hildebrand's job has been to pare the feedstock maker's bloated cost base and management hierarchy back to the bare bones.

And who better than a straight-talking South African to perform the task?

"There were some tough decisions that needed to be made," says Mr Hildebrand, in reference to the first phase of the efficiency drive that pared \$5 million of costs with more to come.

Ridley is the country's biggest provider of feedstock and supplements, through brands including Barastoc, Rumevite, Primo and Cobber (for working dogs). The company also has a strong presence in the aquaculture sector and - yes - rendering.

The trouble is, like many industry stalwarts, Ridley's management became engorged and there wasn't enough investment in modernizing the plants, which in some cases were more than a century old.

In his first six months, Mr Hildebrand has sold underused assets, notably a feedstock facility at Murray Bridge which became uneconomic after the client, Ingham's poultry processor, built its own mill (after the chicken producer's contract with Ridley expired in October 2018).

Mr Hildebrand said that given Ingham's accounted for 70 percent of the mill's volume, "it was a no-brainer to move quickly on that."

He also oversaw settlement of a long-term dispute with another big customer, the chook producer Baiada which had alleged “misleading and deceptive” conduct.

The fowl mood has now lifted, with the feed contract extended by two years to November 2025. Ridley has also agreed to pay Baiada \$1.9 million.

Ridley has a long history with Baiada, having acquired its rendering business BPL Melbourne for \$77 million in 2012.

“It’s not good to have a barney with one of your major customers,” said Mr Hildebrand, who previously was responsible for Ingham’s feed business.

As a further harbinger of change, Ridley chairman Dr Gary Weiss will stand down in June, after a decade as a director (five of them as chairman).

### **Wielding the scythe**

Overall, management has shed 44 positions and found \$5 million of annualized savings, but at a cost of \$2.9 million. Mr Hildebrand says the exercise was not so much about saving money as simplifying the business models.

“We had way too many layers,” he said. The sales team was national in structure, but customers were only supplied from their designated region. As a rule of thumb, the client catchment area for a feedstock business is 100 kilometres.

Rather than having regional general managers, mill managers, account managers and a ‘head of ruminants’, one regional general manager is responsible for three to four mills in the region and is also accountable for sales.

Ridley has also been investing in its assets, having spent around \$50 million on a new flagship mill at Wellsford near Bendigo in central Victoria.

The 350,000 tonnes a year facility is underpinned by a long-term supply contract with Hazeldene’s Chickens.

### **Fishing for business**

Ridley has a strong position in the aquaculture sector, especially at the premium end, focused on Tasmanian-based salmon producers as well as prawn, barramundi and yellowtail operations.

In the past, Ridley’s strategy was to continue to raise prices (and lose market share) but this proved risky at a time when the best (and discerning) producers were getting bigger.

The company still has unused capacity and with high costs that means filling the mills as much as possible. There’s no shortage of competitors in the aqua pond, which means performance (reliable delivery) is paramount.

Mr Hildebrand says while it's a buyer's market, margins are okay. "We want to be competitive but we want to be rational. We would all be smarter to take our share of the industry and that's what's happening."

Ridley shareholder David Williams believes growth in salmon has been overstated, but sees good demand for other species such as barramundi.

"These markets are desperate for another species," says the prominent figure in both the ag and biotech sectors. "If you could offer them the volume, Coles would give you a 10-year contract at a price that would be profitable."

Meanwhile, Ridley pocketed a \$3 million research and development grant from the Federal Government to prepare the salmon industry for climate change.

### **Trawling the prawn market**

In league with the esteemed Commonwealth Scientific and Industrial Research Organisation (CSIRO), Ridley is perfecting a feed supplement to foster better-farmed prawns. Named Novacq, the product is in commercialization phase at the company's Yamba facility in New South Wales.

The Novacq division is also carrying out research and development at its facility at Chanthaburi, on the banks of the Chanthaburi River in eastern Thailand.

The company had been leasing 10 hectares of space for pondage, but last year spent \$8.2 million to acquire the land outright. It also acquired the 51 percent of the accompanying Pen Ngem feed mill it did not already own.

"I think we got ahead of ourselves in promoting Novacq before we had got it to industrial scale," Mr Hildebrand says. "But we really are at a phase where the efficacy is very clear. Our main focus is to scale it up and then penetrate the international market."

Management expects the Novacq arm to be cash neutral in 12 months and then self-supporting after that. Ultimately, the business could well be acquired by a bigger operator.

### **Finances and performance**

Ridley reported a subdued \$400,000 profit for the December half, although Mr Hildebrand was pleased that underlying earnings remained flat at \$30.7 million.

The reported figure was dragged down by a \$7.2 million one-off expense from the Murray Bridge closure, a \$2.9 million redundancy charge and the \$1.9 million cost of the Baiada settlement.

Of the Murray Bridge expense, \$2.8 million was cash. The closure is expected to result in \$1.5 million in annual cost savings, with no loss in volume because residual clients were relocated to other mills.

As at December 31, Ridley had debt of \$172.5 million, up 45 percent on the previous year. This reflects the expenditure on the Wellsford mill and the Novacq facility in Thailand.

Management expects net debt of \$132 million to peak at \$150 million to \$160 million before subsiding.

Ridley shares have traded as high as \$1.58 (in December 2015) but are now sulking just above the March 30 record low of 66 cents.

### **Dr Boreham's diagnosis:**

It sounds like Ridley's 700 or so remaining staff can't afford to relax too much, because other economies are in the offing, including no salary reviews for folk on \$180,000 or more.

"I am expecting it won't be everyone's cup of tea, but we need to get out there and be commercial," Hildebrand says.

"Ridley is strong technically with a strong asset base and market reputation, but not very commercial and not very nimble and thinking through the supply chain and customers need." Areas that we presume the change-agent will change.

At ground level, the company expects to gain from a round of salmon tenders and growth of the Novacq business. It also wants to avail itself of a distribution tie up with Australian Independent Rural Retailers (AIRR), which agricultural giant Elders acquired last November.

"We have been very strong with AIRR, but have not had much distribution through Elders," Mr Hildebrand says. "We think we can leverage that across a bigger footprint."

Post its nip-and-tuck, Ridley looks well placed to take advantage of a consolidating, regionalized industry.

But as with farmers, the weather is the prosperity X-factor. Ridley's Queensland and New South Wales mills have been flat out, but with the rains arriving the need for feedstock will abate. This might not be the case in the cattle sector, where high prices will encourage more supplementary feeding.

As Mr Williams notes: "the single biggest problem with Ridley is demonstrating how it can grow".

The answer lies in building export markets through ventures such as the prawn feed, rather than fighting off rivals here.

***Disclosure: Dr Boreham is not an agronomist and does not possess a doctorate of any sort. But he realises that the stockfeed game isn't chickenfeed.***

### CLEAN SEAS SEAFOOD

Clean Seas says Roger Hofseth and James Berger entity GCI CSS (Hofseth & Nevera) LLC will take 9.7 percent Clean Seas, buying 10,000,000 shares for \$5 million.

Clean Seas said the investment was at a 13.5 percent premium to the 10-day volume weighted average price.

The company said the shares would be issued in two tranches, with the first tranche of 4,000,000 shares to be placed immediately while the remaining 6,000,000 shares would be issued pending shareholder approval at a general meeting intended to be held by mid-May 2020.

Clean Seas said the investment was the beginning of a strategic relationship with Mr Hofseth and Mr Berger.

The company said that Mr Hofseth was the chief executive officer of the Ålesund, Norway-based Atlantic salmon processor Hofseth Group and the partnership would help it “fast-track development and supply of new [products]” as well as share aquaculture techniques. Clean Seas said Mr Berger was the chief executive officer of Zürich financial consultancy Nevera Ag, and would assist with “certain intermediary services” as well as help attract more international investors.

Clean Seas chief executive officer David Head said the relationship “combines Hofseth’s significant expertise, relationships and global reach in the retail channel, with Clean Seas premium product and market leading position in the high-end restaurant and food service channel” [while Mr Berger’s] capital markets network and proven track record will be of great assistance as we seek to share the Clean Seas investment story around the world.”

Clean Seas was up five cents or 7.75 percent to 69.5 cents.

### WATTLE HEALTH AUSTRALIA

Wattle Health says its placement to institutional and sophisticated investors at 15 cents a share raised \$4.86 million and it has a joint venture with Shepparton Partners Collective.

Wattle Health said the placement, which was conducted within its 15 percent placement capacity, received commitments for more than the \$4.86 million maximum, with funds to go towards working capital and construction of a spray dryer at its pre-existing joint venture Corio Bay Dairy Group’s facility.

The company said its joint venture with Shepparton Partners Collective (SPC), formerly Shepparton Preserving Company and SPC Ardmona, would market and distribute Uganic, its infant formula range, as well as future products.

Wattle Health said SPC would help obtain a line of credit of up to \$20 million to fund completion of the spray dryer, with the company to issue it 30 million shares if it succeeds.

The company said it would issue an additional 40,000,000 shares to SPC, as recognition of the value SPC would bring to it, with 10,000,000 shares to be issued on the joint venture making \$5 million in annual revenue, 10,000,000 shares on achieving \$10 million in annual revenue and 20,000,000 shares on achieving \$20,000,000 in annual revenue.

Wattle Health was in a suspension and last traded at 53 cents.

### CRESO PHARMA

Creso says it delivered \$215,000 of marijuana-based Anibidiol Plus to its Carros, France-based European distributor, Virbac SA International.

Creso said Anibidiol Plus was medication for small to large sized pets “to support the reduction of stress and help animals’ nervous systems to function well”.

Creso was up 1.5 cents or 19.2 percent to 9.3 cents with 3.2 million shares traded.

### ALTHEA GROUP HOLDINGS

Althea says its wholly owned subsidiary, Peak Processing Solutions, has completed its Health Canada marijuana standard processing licence application.

Althea said the processing licence would allow operations to start at its Tecumseh, Ontario-based 3,716 square metre pharmaceutical-grade marijuana processing facility.

The company said that the facility would produce a range of medicinal marijuana products for Althea, reducing its cost of goods.

Althea was up 1.5 cents or 4.5 percent to 35 cents with 1.3 million shares traded.

### MGC (MEDICAL GRADE CANNABIS) PHARMACEUTICALS

The ASX says it has suspended MGC “pending a response to [the] ASX’s queries ... regarding a strategic joint venture with a Swiss company in relation to Covid-19”.

On March 19, MGC requested a trading halt pending the announcement and requested its first suspension on March 23, 2020, which was followed by seven extensions to the suspension (BD: Mar 19, 23, 24, 25, 26, 27, 31; Apr 2, 3, 2020).

MGC last traded at 1.7 cents.

### OCEAN GROWN ABALONE

Ocean Grown Abalone says Covid-19 has hurt sales, causing its board to take a pay cut, sack staff and pause spending on a feasibility study for its Esperance facility.

Ocean Grown said the board would reduce their base employment benefits and directors’ fees by 10 percent, although it said entitlements for all other employees had not changed.

The company said it had put on hold any further material expenditure for its Esperance, Western Australia facility’s feasibility study, and would only work on approvals, with all feasibility expenditure deferred to future periods.

The company said it had reduced its permanent staff by three.

Ocean Grown Abalone was untraded at 9.3 cents.

### MGC PHARMACEUTICALS

MGC says it will reduce staff salaries by up to 50 percent from March 1, 2020 amidst the Covid-19 pandemic “to minimize the company’s operating cost”.

MGC said that directors and executive management salaries would be reduced by a minimum of 50 percent, and senior management and most staff had agreed to take “significant cash salary reductions to be offset for shares in the company equating to between 40 to 50 percent of their salaries from March 1, 2020”.

The company said that the issue price of the shares would be determined by the board based on end-of-month share prices and would be reviewed by July.

### ELDERS

Perpetual says it has reduced its substantial shareholding in Elders from 15,039,669 shares (9.66%) to 13,403,912 shares (8.61%).

The Sydney-based Perpetual said that it sold shares between March 24 and April 2, 2020 for prices ranging between \$7.48 and \$8.05 a share, with the single largest sale of 200,000 shares on April 2 for \$1,607,525 or \$8.05 a share.

Elders was up eight cents or one percent to \$8.22 with 512,931 shares traded.

### WATTLE HEALTH AUSTRALIA

Mason Strategic and its associated companies say they have become substantial shareholders in Wattle Health with 18,105,303 shares or 8.368 percent of the company. The Hong Kong-based Mason said it acquired 17,750,302 shares for \$US7,500,000 (\$A12,065,640) or 42.25 US cents a share on April 7, 2020.

Last week, Wattle Health said the shares would be issued as the non-refundable deposit following its failure to acquire dairy processor Blend and Pack (AVW: Apr 3, 2020).

### SEAFARMS GROUP

Janet Cameron says she has become a substantial shareholder in Seafarms with 275,170,615 shares or 12.32 percent of the company.

The Sydney-based Ms Cameron said she acquired 208,333,333 shares for \$6,250,000 or three cents a share on April 1, 2020.

Seafarms was up 0.3 cents or 7.7 percent to 4.2 cents with 1.2 million shares traded.

### ELIXINOL GLOBAL

Elixinol says founder and director Paul Benhaim will replace chairman Andrew Duff, and Oliver Horn will replace director Greg Ellery, effective immediately

Elixinol said Mr Benhaim would “take a more active role” within the company.

The company said Mr Horn was previously the chief executive officer of Swisse Wellness Australia and New Zealand and North America, and had worked in sales and marketing, as well as corporate finance.

Elixinol said Mr Duff and Mr Ellery had resigned from the board.

Elixinol was up 1.5 cents or 4.3 percent to 36.5 cents.

### TERRAGEN

Terragen says it has appointed Travis Dillon as a non-executive director, effective from May 1, 2020 and he would advise the company’s sales and marketing team.

Terragen said Mr Dillon was Ruralco chief executive officer until its acquisition by Nutrien in September 2019 and had worked for “nearly three decades” in the agriculture industry.

Terragen was unchanged at 15 cents.

### SEAFOOD INDUSTRY AUSTRALIA

Seafood Industry Australia says chief executive officer Jane Lovell has resigned, effective immediately.

Seafood Industry Australia chair Veronica Papacosta thanked Ms Lovell for her contribution to the industry and the organization and said Ms Lovell “was instrumental in securing \$10 million to waive [Australian Fisheries Management Authority] fees for Commonwealth fishers, and the \$110 million International Freight Assistance Mechanism, to get Australian seafood back into key ... markets amid the coronavirus pandemic”.

The industry association said that Ms Papacosta would act as chief executive officer until an interim chief executive officer was appointed.