

# Ag & Vet Weekly



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

## Dr Boreham's Crucible: Murray Cod Australia

**By TIM BOREHAM**

**ASX code:** MCA

**Share price:** 17.5 cents; **Shares on issue:** 564,889,891; **Market cap:** \$98.9 million

**Executive chair:** Ross Anderson

**Board:** Mr Anderson, Mathew Ryan (managing-director), Martin Priestley, George 'Roger' Commins

**Financials (three months to September 30 2020):** receipts \$1,195,000, cash outflows \$348,000, cash of \$5,046,000, number of quarters funded\*: 22. (The company has a credit standby facility of \$2.6 million and an equipment finance facility of \$1.4 million)

**Year to June 30 2020:** revenue \$3.96 million (up 14%), net profit \$61,690 (previously a \$3.67 million loss), cash of \$6.08 million

**Major shareholders:** entities controlled by Mathew Ryan 15.6%, Australian Super 11.3%, Saville Capital 6.4%, One Funds Management 6.21%, entities controlled by George Commins 4.8%, Anderson Investment Services (Ross Anderson 2.2%).

Murray Cod Australia aspires to be the world's pre-eminent supplier of the fleshy aquatic delicacy, which is a bit like saying the Australian Football League plans to be the biggest global exponent of our indigenous football code.

That's because Murray cod are only found in the waters of the Murray Darling Basin and, as a durable but threatened species, cannot be harvested commercially from the wild.

So, becoming world's number one isn't so arduous after all ...

Backed by the great chefs of Europe - and Sydney - Murray Cod Australia is embarking on an ambitious program to bolster its production to take-on premium export markets.

Based in the Riverina town of Griffith, the winner of the 2019 New South Wales Chamber of Commerce business of the year gong has land-based operations consisting of hatcheries, grow-out ponds and processing facilities.

Unlike those of ocean or river-based seafood operations, the company's inventories are not subject to the usual natural risks and are cheaper to nurture.

"We don't need 50 boats to check nets," says executive chairman Ross Anderson. "Our blokes can walk around the ponds and we don't lose stock because of sharks, seals or bad weather."

Having recently acquired another hatchery, Murray Cod Australia is on a quest to supersize its capacity from 1,000 tonnes now, to 10,000 tonnes by 2030.

When the company listed in January 2017 it was only selling 40 tonnes a year.

## **Good cod!**

Dubbed "pigs of the waterway" for their bottom-feeding habits, Murray cod are able to survive in conditions ranging from freezing headwaters to a small puddle upriver.

In their natural habitat, Murray cod (which are unrelated to Northern Hemisphere cod and thus far have avoided wars between the UK and Iceland) have been known to live beyond human pension age. The largest recorded specimen, hauled out in 1902, weighed 113 kilograms.

There's also evidence the breed was an important food source for indigenous Australians, who identified the fish by names such as Ponde and Mewuruk.

European settler George Evans re-named the big fish 'Murray cod' in 1813.

Murray cod was widely consumed in Australian cities in the late 19th and 20th Centuries, before over-fishing banished the species from the consumer psyche.

Murray Cod Australia was formed by amalgamating three smaller businesses: nursery Bidgee Fresh, grow-out farm Riverina Aquaculture and hatchery Silverwater Native Fish.

The company back-door listed on January 31, 2017, based on the shell of Timpetra Resources, which evidently didn't find the treasures for which it was looking.

The listing followed a \$10 million capital raising at five cents a share.

In December 2019, the company raised a further \$15 million for hatchery and additional infrastructure.

In April, the company bought a cod hatchery at Euberta, near Wagga Wagga, from Murray Darling Fisheries for \$6.5 million. The purchase also increases fingerling production capacity by 250 percent, with a hatching capacity to sustain output of 6,000 to 7,000 tonnes a year.

The company also started to stock the first ponds on leased farmland at nearby Whitton, which will become a 35-pond super-site to grow the fish.

As for the company's management, Mr Anderson is a chartered accountant with his own Griffith-based firm, specializing in agriculture and aquaculture.

With more than three decades of piscatorial experience, managing-director Mat Ryan headed Bidgee Fresh and Riverina Aquaculture.

### **A drop in the river**

Broker Ord Minnett measures the local Murray cod market at 100 tonnes, a fraction of the circa 350,000 tonnes of seafood we munch through annually.

The company estimates that at current pricing, the local market could sustain 3,000-4,000 tonnes of Murray cod.

Barramundi - the nearest mass-consumer white fleshed fish - is a 22,000 tonnes-a-year market.

Murray cod has a higher fat content, which is actually desirable for a smoother, moister product. It also means the apprentice chef is less likely to stuff up the dish by overcooking the fish and drying it out.

Of the barra supply, 5,000 tonnes are farmed, while 15,000 tonnes are imported from Vietnam, Thailand or Indonesia.

If you've seen the water they're often reared in, you wouldn't want to eat it.

### **It's all in the name**

Not long into its listed life, the company realized that it lacked a distinct recognized brand in a market populated by smaller producers with fish of varying quality.

While fine fish provedores sell the company's fish for \$19 to \$21 a kilogram, it's also available for less than \$10 a kilogram and thus the specie's reputation has become, in Mr Anderson's words, "a bit bastardized"

The company dreamed up the name Aquna Sustainable Murray Cod, 'akuna' meaning 'flowing waters' in the local Aboriginal dialect.

Aquna is supported by a cabal of chefs including shareholder Heston Blumenthal, Tetsuya Wakuda, Peter Gilmore and Josh Niland.

British culinary temptress Nigella Lawson also made a chocolate cake using Murray cod fat which, naturally, she popped on Instagram.

The company is planning a selective breeding program to ensure cleaner, whiter flesh and a higher fat profile and thus better taste.

“As time goes by Aquna will become a sub-species of Murray cod, like Hereford or Angus beef,” Mr Anderson says.

### **Aquna matata**

Murray cod will never be able to compete with barramundi on price. But the company’s fortunes will be made (or cruelly dashed) by the degree to which the top-hatted chefs can promote the fish offshore. It’s early in the (cod) piece.

Currently, about 25 percent of the company’s output is exported, up from virtually nothing a year ago.

“Our exports will end up being 90 to 95 percent of our volume,” Mr Anderson says.

In taste terms, Murray cod is similar to the Patagonian toothfish, which sells for around \$US75 (\$A103) a kilogram.

Known by the more consumer-friendly name of Chilean seabass, the toothfish are highly vulnerable because they don’t reproduce until they are eight to 10 years old. The global market is estimated at 25,000 to 30,000 tonnes.

In contrast, the Aquna brand stresses Murray Cod Australia’s eco-credentials in terms of efficient water usage and the treatment of biological waste (fish poo).

The company is especially excited about a smoked version of the cod, which Mr Anderson dubs a “really beautiful high-end product”.

In Europe, an astonishing 300,000 tonnes of smoked fish are consumed annually.

He envisions shoppers at premium delis in London or Paris agonizing between Beluga caviar, high-end Scottish salmon or hot smoked Aquna cod.

“If we picked up one percent of that market, that’s 3,000 tonnes of fish,” Mr Anderson says.

Actually, it’s even better than that: only 30 percent of the fish is used in the smoking process so make that 9,000 tonnes of whole fish.

## **The mandatory Covid-19 bit**

Pre-coronavirus, the company had been delivering weekly to Japanese, European and US buyers and making regular drops to Singapore and Hong Kong clients.

Not surprisingly, deliveries plummeted in March as high-end restaurants closed. Supply subsequently resumed to the US and Japan, but the latter market has frozen again.

More surprising is the degree to which domestic non-restaurant channels - such as upmarket fishmongers - soaked up the supply.

"We were quite concerned in March," Mr Anderson says. "But we moved back to domestic retailers and they picked up all of our fish without any margin loss. We still beat our June sales budget and everything is tracking well for this year."

## **Finances and performance**

Speaking of finances, it's always better making a profit than going broke so we applaud the company's maiden but modest \$61,690 profit for the year to June 30 2020, on revenue of just under \$4 million.

September quarter 'receipts' came in at \$1.2 million, 21 percent higher than the June quarter.

The average specimen size in the 2019-'20 year was 1.7 kilograms with an average selling price of \$19.20 a kilogram (the bigger the fish, the better the margin).

Heston Blumenthal, by the way, is not just devoting his services for the love of cod. The owner of the Fat Duck, reputedly the world's best restaurant, was paid 1.5 million Murray Cod Australia shares and \$100,000 in return for menu and product development and other promotional activity.

Murray Cod Australia shares have swum between five cents (March 2017) and 21 cents (December 2018).

## **Call of the wild**

Wild Murray cod stocks were badly hit by the January 2019 event that saw millions of fish die in the Darling River because of poor oxygen levels.

Being land-based, the company's business was unaffected and it is participating in the states' restocking schemes.

"We collected the wild larger fish still alive, returned them to the hatchery and we are breeding re-stockers of the Darling River genetics line," Mr Anderson says.

Now that there's more water in the river, more fingerlings are likely to be returned to the wild waters.

Mind you, there's some industry debate about whether they should be re-introduced when they're bigger, so they don't become dinner for the introduced European carp and other predators.

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

Murray Cod Australia can't exactly claim to have a god on its side, but it is blessed indeed by a growing reputation and the lack of any scale competitors.

The company's nearest rival, Marionvale Blue, recently de-stocked its facilities, citing the Covid-19 downturn.

Unlike tuna or salmon, you will never find Murray cod sold in a can.

"We have never compared ourselves to the other aquaculture operators because none of them have a product similar to us," Mr Anderson says. "Every other aquaculture producer in Australia sells a commodity."

(A pending ASX listing, Sydney rock oyster producer East 33 would dispute that).

If Murray Cod Australia attains its targeted 10,000 tonnes a year, at current pricing its revenue would be around \$180 million - a far cry from last year's sub \$4 million turnover.

But listed seafood plays have proved extremely patchy, with earlier casualties in the barramundi, tuna and salmon industries.

Mr Anderson says the company's institutional shareholders such as Australian Super and Saville Capital understand the inherent risk.

"They can see a good quality long term story," he says. "We call it a get-rich-slow scheme."

***Disclosure: Dr Boreham is not a qualified agronomist and does not possess a doctorate of any sort. His fish husbandry experience has not extended beyond goldfish and none of them lived to their first birthday, let alone pension age.***