Poultry, fish companies - the call of the sea

When the market looks for tasty investment morsels outside its steady diet of shares in stodgy food brand conglomerates, the nibbling is done mostly in the poultry sector.

And why not? Chicken, which is more affordable than red meat, can be labelled the default protein source of most South Africans. What's more, value-added chicken is set to reach an even larger market through fast food outlets, thanks to an expanding middle class.

Over the past decade, investors' default dining on shares in the big birds like Rainbow Chicken and Astral Foods would certainly have satisfied any portfolio's craving for rich returns. The more adventurous palates would have enjoyed some spicy infusions recently from recovering small players like Country Bird Holdings and Sovereign Food Investments.

With chicken stocks offering stronger returns, it's probably small wonder that the fishing segment, whose image has been tainted by tricky operating conditions and even trickier political considerations, has been largely overlooked.

To be honest, the JSE does not really offer a huge seafood menu. Oceana Group, in which Tiger Brands holds a 37,7% stake, is the only standalone listing, though investors can also get exposure to fish in varying degrees through other listed counters.

Oceana has given the other food producers a run for their money over the long term, with a rather sumptuous internal rate of return of 20%-25%.

Perhaps this is not surprising, as the mass market appeal of fish is often overlooked. Horse mackerel, which Oceana exports to numerous African countries, sells for R7R8/kg. This is markedly cheaper than chicken. Oceana "feeds" around 2,5m African consumers a day with its horse mackerel, while canned fish brand Lucky Star accounts for another 2m consumers in SA daily.

On fundamentals, too, Oceana is attractive. It trades on a historical p:e of 13 and offers a dividend yield of nearly 5%. But a couple of recent developments might further prompt market watchers to have a closer look at Oceana.

The first was its proposed acquisition of parts of the Lusitania fishing empire. This deal would give Oceana considerable exposure to the south coast lobster niche, increase its horse mackerel quota markedly and bulk up its relatively small hake haul.

The deal is important, and not only from the perspective of broadening operations. It chips away at a contention that Oceana's perceived lack of empowerment credentials would hinder it in merger and acquisition activity.

Government is not in favour of deals in the fishing sector that dilute empowerment holdings. In other words, it would be near impossible for a white-controlled venture to buy out a black-controlled fishing company - at least without a cast-iron commitment to enhancing BEE levels.

Oceana CEO Francois Kuttel was at great pains recently to elaborate that the company's empowerment status needed to be regarded beyond narrow BEE equity holding guidelines. He argues that with Oceana's staff's participation in its black empowerment Khula Trust, coupled with Brimstone's holding in the company, it is around 50,5% blackowned.

A few weeks ago Brimstone managed to snaffle a large parcel of shares from Investec Asset Management, and now holds almost 17% of Oceana. This is a position of some influence, considering that Brimstone is also a BEE participant in Tiger Brands (which, in turn, holds 37,7% of Oceana).

Kuttel says Oceana's standing in the BEE rating scorecard for senior black management capacity increased 35% year on year, and in terms of preferential procurement its spending at qualified small enterprises has increased from R175m to R422m. "Basically we've ticked all the BEE boxes, and I reckon we are one of the most empowered listed companies in SA."

Kuttel says: "Our direct black ownership is now in excess of 60%, and we are most definitely - per department of trade & industry definition - a black-owned company."

The stronger position of Brimstone might be significant when plotting the future shareholding in Oceana and opening the way for more dealmaking.

While Brimstone may want to grab more parcels of shares, there could also be a temptation to approach Tiger with a view to shifting into the position of a major shareholder (even the majority one) in a deal linked to a broad-based empowerment initiative.

One might also mull the chances of Tiger simply unbundling its stake in Oceana, which would do wonders for the liquidity of the share.

Certainly Tiger doesn't need the cash, and, despite having board representation at Oceana, doesn't appear to exert much pressure on the fishing company. Though Oceana has been a dependable unit, there may be questions around whether there are real operational synergies between the companies.

Indeed, there could be compelling operational synergies to contemplate between Oceana and Brimstone (which works hard at adding value to its investments). For instance, would Oceana be receptive to taking aboard Brimstone's fishing subsidiary, Sea Harvest?

Sea Harvest specialises in packaging frozen hake cuts and might benefit from being part of a much more diversified and consistently profitable fishing operation (including substantial cold storage), while Oceana could take to the seas as a much more formidable player in the hake segment.

Source: Financial Mail