



Small Cap Stocks Down Under

📖 *Many men go fishing all of their lives without knowing that it is not fish they are after.* 📖

- Henry David Thoreau (1817 - 1862), American naturalist and philosopher

CLEAN SEAS SEAFOOD

Set to sail smoother in the year ahead

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Stocks Down Under rating: ★★★★★

ASX: CSS
Market cap: A\$98M

52-week range: A\$0.50 / A\$0.88
Share price: A\$0.59

Since listing on the ASX in 2005, fewer companies have seen as many setbacks as Clean Seas Seafood. But it has survived them all and COVID-19 has been no different. [We first covered this company on October 8 last year](#) and it has made a slight gain since then. We think the worst effects of the pandemic are behind Clean Seas and with the company forecast to continue to improve its cash flow, we believe the shares still have room for growth.

Share price chart



Source: Tradingview

Yellowtail Kingfish are one of a kind

The South Australian company's specialty is Yellowtail Kingfish. It hatches Kingfish at its hatchery in Arno Bay, transferring them to the company's Port Lincoln sea-farm after 75 days and then harvesting and processing them at a facility in Adelaide after another 16-24 months.

Clean Seas is the world's largest producer of yellowtail kingfish outside Japan. It has a unique harvesting technology - SensoryFresh - which freezes fish with liquid nitrogen in just 22 minutes. This is 10 times faster than conventional freezing and can maintain better colour, aroma and taste in the fish.

Clean Seas has begun stocking juvenile fish in a new full life cycle Fitzgerald Bay farm site. The company hopes the move will ultimately help it increase production to over 10,000 tonnes annually. From Adelaide, its fish are distributed across Australia and the world through over 150 partners. Some distributors sell kingfish at retail fish markets, while others sell to restaurants, including Sake and Rockpool in Australia, as well as Gordon Ramsey and Roka in London.

A long recovery, but a recovery nonetheless

After three consecutive years of profitability, Clean Seas fell to a \$14.5m loss in FY20 due to COVID-19. Demand for the company's products evaporated as restaurants and in person dining facilities closed. But in FY21, demand bounced back, with sales volume rising from 2,424 tonnes to 3,166 tonnes and revenues growing from \$40.3m to \$48.5m - both above FY19.

Unfortunately, compared to FY20 the company recorded an even larger post-tax loss of \$32.1m. While a substantial part of this was an inventory impairment, reflecting inventory not sold during COVID shutdowns, it also reflected elevated production costs.

FY22 has so far been an even stronger year for the company achieving record YTD revenue (\$31.3m), sales volume (1,946t) and cash receipts (\$32.2m). All of these metrics are well ahead of the first half of FY21. Europe has been a particularly robust market for Clean Seas in recent times, with revenues growing 79% compared to the first half of FY21. In North America sales grew by 47% from pre-pandemic levels, while Australian sales grew 27% from 12 months ago.

Consensus estimates project \$54.3m in revenue for FY22 and \$64.4m in 2023. While FY22 EBITDA is expected to be negative by \$7.4m, a positive result of \$6m is anticipated in FY23. At the current share price, the FY23 EBITDA consensus numbers imply an EV/EBITDA multiple of 15.1x.

A premium to Huon, but a discount to MCA...

This valuation is nearly double the price that salmon company Huon (ASX: HUO) was acquired at - a multiple of 8.3 times. But we believe a premium for Clean Seas is justified because it specialises in kingfish, a more premium product, and makes more revenue per kilogram of fish harvested (\$16.06 versus \$11.97 for Huon).

Despite the premium to Huon, Clean Seas is trading at a discount to Murray Cod Australia (ASX: MCA) which is currently valued at 40x its FY23 EV/EBITDA. We believe Murray Cod is a more comparable company to Clean Seas. Even though Murray Cod has a different (land-based) production model, its namesake fish is positioned as a premium seafood product too.

Murray Cod has some advantages over Clean Seas. The most prominent include a shareholding by and collaborative partnership with Heston Blumenthal and selling a species of fish that is not available anywhere else in the world. But even though kingfish aren't exclusive to South Australia's Spencer Gulf, the end customers are almost entirely (but not exclusively) food services companies and Clean Seas is the largest player outside Japan in a market that is expanding in conjunction with consumer awareness of the product. We would also note that Murray Cod is only aiming to reach 10,000 tonnes by 2030, whereas Clean Seas hopes its new Fitzgerald Bay farm site will get it there sooner.

It's getting back up again

When we last covered Clean Seas, we gave a four-star rating and we stick by our choice here. While the company was clearly hit by the pandemic worse than some of its peers that could rely on locked down consumers buying from supermarkets, we think things have been turning around for some time. This is beginning to be reflected in the company's share price. We cannot rule out the possibility of future pandemics, lockdowns or crises affecting the company in the future, but it has shown it can quickly get back up on its feet after being knocked down.

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