

Analysis of the income account

By Lawrence Michael

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A common-stock represents part-ownership of a business.

Therefore, in buying stock

We try and have a good understanding of the underlying business.

We are not interested in looking at charts.

As part of understanding the business;

We try to establish what drives earnings (sales).

The worst thing you can do is to purchase a gold miner's stocks on the back of a gold price rally only to find out that the company has 2 more years of gold reserves remaining or their mining rights have expired. Stuff which is disclosed in the annual reports.

This is an analysis of the revenue of Premier Fishing and Brands (PFB) to serve as an illustration.

PFB is a fishing company and listed on the JSE.

Its biggest businesses are processing and selling

- Lobster,
- Squid,
- Pelagic (Anchovy and Pilchards),
- Hake and
- Abalone.



As per South African law,

A commercial farmer is required to have a **fishing license**.

Fishing licenses are issued by the Department of Agriculture, Forestry and Fisheries (DAFF).

2.4 Quotas

Description	Quota size (kg)	Date awarded	Expiry Date
South Coast Rock Lobster	133 192	2005	2020
West Coast Rock Lobster ¹	86 888	2005	2015
Hake Deep Sea Trawl	744 000	2005	2020
Squid	4 Vessels	2013	2020
Pilchards	5 678 000	2005	2020
Anchovy	19 378 000	2005	2020
Horse Mackerel ²	492 320	2016	

Source: pre-listing statement page 12.

*PFB grows Abalone on a farm which is currently being expanded.

You may have noticed that most the licenses expire this year.

There has been a slowness in awarding licenses by DAFF;

This has been shifted to 31 December 2021 and licenses extended.

Should it happen that PFB's license rights are reduced/not renewed;

PFB can still acquire "catch" from others to satisfy its established customer base. This is a strategy Lucky Star has followed in light of falling Sardine limits and the need to protect its market share.

A fishing license gives right to fish a proportion of the total allowable catch (TAC).

A TAC is an annual limit of the amount of species that can be fished and is set by the DAFF.

For example, with the case of South Coast rock lobster, the 2019 TAC is 321 tons.

PFB's fishing license gives it rights to 40% of this or 129 tons.

LOBSTER

Our lobster business continued to maintain its operating margins in the current year:

The SCRL TAC for the 2018/2019 fishing season is 321 tons, down by 4% from the prior year TAC of 335 tons. The fishing season for lobster is from November to September, whereas the Group's financial year is from September to August. We experienced solid catch rates which resulted in 90% of our allocated quota being caught. The sales mixes of the catches have mainly been bigger sizes compared to the previous financial year.

South coast rock lobster	2019	2018	2017
TAC (tons)	321	335	331
Premier share (tons)	129	135	133
Percentage of allocated quota caught	90	100	80
Sales volumes (tons)	139	151	115

Product: **FROZEN TAILS** » Market: **USA**
 Product: **LOBSTER HEADS** » Market: **JAPAN**
 Product: **LOBSTER BODIES** » Market: **JAPAN**



Number of vessels wholly-owned **4**

Number of lobster facilities **1**

The WCRL TAC for the 2018/2019 fishing season decreased by 44% from the prior year to 1 084 tons. The quota which is available to Premier is 35 tons (2018: 64 tons). The total WCRL contracted quota acquired for 2019 is 54 tons (2018: 101 tons). We also experienced solid catch rates for WCRL which resulted in us catching 100% of our allocated quota. 93% of the contracted quota was caught during the financial year under review, with the balance of the quota being caught after year-end.

West coast rock lobster	2019	2018	2017
TAC (tons)	1 084	1 924	1 924
Premier share (tons)	35	64	87
Percentage of allocated quota caught	100	100	91
Contracted quota acquired (tons)	54	101	96
Percentage of contracted quota processed (tons)	93	93	91
Sales volumes			
Live lobster (tons)	74	128	118
Whole frozen lobster (tons)	4	10	17
Whole cooked frozen lobster (tons)	-	-	9
Frozen tails (tons)	1	2	2

Source: 2019 integrated report

Customers

PFB's earns a huge chunk of its revenue outside the country.

We should be mindful of the currency exchange rates.



35. GROUP SEGMENTAL ANALYSIS (CONTINUED)

Geographical information

The Group operates in South Africa.

The Group's revenue from external customers by location of the customers is detailed below:

	2019 R'000	2018 R'000
United States of America	123 447	128 058
Europe	280 666	154 998
Far East	75 171	107 934
South Africa	95 722	99 880
Total revenue	575 006	490 870

Source: 2019 integrated report

Table: Sales in volume and Rands

		R'000	R'000	R'000	R'000	R'000
		2019	2018	2017	2016	2015
Total revenue		575 006	490 870	410 733	401 692	348 874
Sales volume	Metric	2019	2018	2017	2016	2015
Lobster	TONS	218	291	261	242	284
SCRL	TONS	139	151	115	102	118
WCRL	TONS	79	140	146	140	166
Squid		4 085	3 955	2 554	240	103
-PFB	TONS	2 206	1 265	340	240	103
-Talhado	TONS	1 879	2 690	2 214		
Pelagics						
Pilchards	TONS	816	1 061	1 769	4 821	5 973
Canned fish cartons produced	CARTONS	52 858	74 336	129 962	314 855	213 314
Hake	TONS	692	672	720	720	720
Abalone	TONS	53	73	80	88	75
Revenue		R'000	R'000	R'000	R'000	R'000
		2019	2018	2017	2016	2015
Lobster	Rands	180 405	202 318	190 589	190 110	182 268
Squid	Rands	246 819	128 169	34 428	23 541	13 074
Pelagics	Rands	62 093	63 783	80 778	93 670	71 660
Hake	Rands	35 524	31 492	31 210	31 110	24 861
Abalone	Rands	27 258	31 291	36 186	39 697	32 415

Analysis

Lobster sales are down as a result of the lowering of the TAC for West Coast Rock Lobster.

Squid revenue has shot up due to volumes sold.

50% of Talhado was purchased in May 2018.

PFB and Talhado control about 30% of the local squid market.

Pelagic and Hake revenue is down due to falling Pilchard (Sardine) catch limits.

The limited supply has managed to keep prices high.

Pilchards annual TAC in tons								
	2019	2018	2017	2016	2015	2014	2013	2012
Sardine	12 250	59 214	45 560	64 928	83 470	90 000	90 000	100 595
Anchovy	347 860	295 911	450 000	354 326	450 000	450 000	450 000	202 718
Round Herring	100 000	100 000	100 000	100 000	100 000	100 000	100 000	100 000
Total	460 110	455 125	595 560	519 254	633 470	640 000	640 000	403 313

Abalone sales are down because of lower quantities sold. There was a Red-tide in 2019 that affected volumes that could be sold.

Going forward to 2020

- The TAC for West Coast Rock Lobster and South Coast Rock Lobster TACs are unchanged and sales will more or less resemble 2019.
- There have been no limitations placed on Squid. We can expect catches to remain more or less as in 2019.
- The Sardine limit has been raised to 100 000 tons and we can expect pelagic sales to rise.
- The Hake TAC has not changed.
- Abalone has recovered from the 2019 Red-tide and stock piles have grown. We can expect to see sales recovering past the 2018 volumes.

Competitive advantages

By studying the revenue of PFB

We have ascertained some of its competitive advantages

- PFB controls about 30% of Squid and
- 40% of South Coast Rock Lobster sold in South Africa.

When it comes to flipping coins,

The closer the odds are to 1 that a company's product will sell;

That entity is likely to do well.

Compounding knowledge

Studying the revenues of companies had enabled me to see how good a company and its businesses are doing.

The revenue figure on the Income statement does not tell me much.

You can have a spike in revenue merely because of a supply-shortage.

We had food prices going up in March 2016 while the quantities sold went down because of the drought.

When I pick up the Comair annual report and read about the number of flights and passengers ferried I can see how forward the company is going.

There are some industries you will find hard to understand.

For example

Tech companies have had a boom in internet advertising and online storage revenue

I have no idea what the future outlook of this and I'm only 25.

That's ok

The few things I can understand;

Eggs, private-schools, fishing and airlines are more than enough to make money.

Resources

2019 PFB Integrated Rreport-[pdf](#)

Pre-listing statement -[pdf](#)

<https://sapfia.org.za/tac/>

<https://www.gov.za/speeches/fishing-season-26-sep-2019-0000>

2020-Sardine-final-conditions-[pdf](#)

2020-Anchovy-final-conditions-[pdf](#)

<https://premierfishing.co.za/>