



Environmental, Social & Governance (ESG) Report

1st Quarter 2017

For more information

Bradley Preston

CIO: Listed Investments
+27 21 433 2960
bradp@mergence.co.za

www.mergence.co.za

Ronel Bantjes

Head: Marketing & PR
+27 82 563 8610
ronel@mergence.co.za

Introduction

The current issue of our quarterly reports on Environmental, Social and Governance (ESG) investing highlights our recent investments via the Mergence ESG Equity Fund in the fishing industry, specifically in the initial public offerings (IPO) of Sea Harvest (SHG) and Premier Fishing (PFF) respectively. Given the highly regulated and onerous requirements of the South African fishing industry, we show how these new JSE entrances are best positioned to use their ESG strengths to make sustainable financial returns.

Investment case

We are upbeat on Sea Harvest for the following reasons:

- **Effective market shares**
Sea Harvest has the largest volume market share in frozen fish (c. 36.7%) in South Africa.
- **Pricing power**
Local hake pricing has averaged c. 9% per annum since 2008, this is above CPI of c. 6%.
- **Experienced management**
Chief Executive Officer, Mr Felix Ratheb, has been with the group in various positions since 2003. He was promoted to CEO in 2013.
- **Empowerment**
Strong empowerment credentials, which are important for fishing quotas.
- **Rand hedge**
c. 60% of revenues are in hard currency as Sea Harvest exports to more than 22 countries.
- **Client diversification**
None of Sea Harvest's customers represents more than 10% of its group sales.
- **Protein / food theme**
Increasing global focus on healthier living and fish is complementary to this theme as fish provides a high protein diet.
- **Risks**
Poor weather and catch rates, volatile forex markets, weak consumer spending and regulatory risks (import duties into export countries and quota allocations).
- **Valuation**
Sea Harvest trades on a FY18 P/E of 11.5x and offers normalised 3 year EPS CAR of 11.4% on our estimates. This offers c. 20% total return to our R16.50 target price on an exit multiple of 13.8x.

Empowered ownership

Black ownership is one of the critical considerations by the Department of Agriculture, Forestry and Fisheries (DAFF) in granting fishing rights and allocating quotas to fishing companies. The higher the company's black ownership the greater its chances to obtain higher fishing allocation quotas. As such, companies in the fishing industry (see Table 1) have focused on maintaining high black ownership which is key in transferring wealth to benefit historically disadvantaged individuals (HDI).

Table 1: Black ownership pre- and post-IPO

Company	Pre-IPO	Post-IPO / Current
Sea Harvest	84%	74% ¹
Premier Fishing	100%	>50% ²
I&J		40%
Viking Fishing Group		33%
Oceana Group		78%

Source: ¹ Company pre-listing statement, ² Bloomberg share register.

ESG highlights

Sea Harvest has made decent strides with regard to its performance on ESG related matters:

- carbon emissions increased by only 1.5% in 2015 compared to 2012 even though its vessel utilisation (the number of day spent at sea by a fishing vessel) has increased by 50% and number of vessels increased by 20% in the same period
- membership in the Marine Stewardship Council (MSC) depicts its commitment to responsible fishing and thus good stewardship for the environment
- the 3 442 264 kL water used by Sea Harvest in 2015, 38% was seawater
- between the years 2012 and 2015, Sea Harvest's disabling injury incident rate (DIIR) decreased by 6%, signifying improvement in the work environment for employees.

Premier Fishing has not yet disclosed much of its ESG related performance. We therefore looked at African Equity Empowerment Investment Limited (AEEI) which is the anchor shareholder in Premier Fishing. AEEI prides itself on being one of the most empowered and transformed companies on the JSE; as such in 2016 the company was ranked 1st in the Empowerdex 100 Most Powered JSE Companies Award. The company was also ranked by Empowerdex as South Africa's Most Empowered Management Control Company in 2016.