



## Aquaculture play seeks to tap economy of scales



Small-cap Spotlight

[www.wise-owl.com](http://www.wise-owl.com)

**Company: Clean Seas Tuna Limited (CSS)**

**Market Capitalisation: \$55 million**

**Recommendation: Hold**

WHEN we think of farming, we usually think of green pastures and cows. Rarely do we think of the ocean.

Clean Seas Tuna is in the aquaculture industry with the aim of farming southern bluefin tuna, essentially reproducing the complete lifecycle from egg to adult fish.

Another part of its business is breeding and selling kingfish and mullet.

Clean Seas Tuna's expertise comes from its parent company and main shareholder, the Stehr Group, which has three decades of experience in tuna fishing and offshore farming of fish.

Wise-owl.com analyst Sven Restel says: "The revenue from kingfish and mullet is mainly used to give the company some cash flow until they can achieve reproduction of the whole tuna lifecycle.

"Once this happens, we would expect investor interest to increase." As opposed to kingfish and mullet sales, bluefin tuna is a higher-margin business. Often used in sashimi and sushi, the fish attracts strong demand from Japan.

However, the threat of endangerment has seen authorities try to preserve the species by installing a worldwide "catch quota". In place since 1985, this measure has made southern bluefin tuna quite valuable.

Clean Sea's aim is to fully control the lifecycle by producing 10,000 tonnes of southern bluefin tuna at a margin of \$10,000 a tonne by 2011-12. Restel states: "The company has had success over the year with the production of bluefin tuna eggs and some larvae. The next step is to fully control the harvest of

fingerlings."

Clean Seas has an offshore breeding facility by Arno Bay in South Australia. During the previous financial year, kingfish production increased by 150 per cent and sales by 90 per cent. However, due to low margins and research and development costs, the company is not yet making a profit.

"Margins can be improved through value-adding products and lowering costs through frozen portions," Restel says. A new aquaculture harvest vessel has recently been deployed that can provide constant cold chain control, which will help lower the logistics cost.

If the company finds success in harvesting southern bluefin tuna, it will be able to control a large part of the supply chain, which can be very lucrative. "The company has great potential and we are keeping a close eye on it," says Restel.

