RNS Number : 1634B
Obtala Limited
08 January 2018

8 January 2018

Obtala Limited
("Obtala", the "Group" or the "Company")
(AIM: OBT)

Q4 2017 Quarterly Business Update

- Q4 2017 momentum to result in record annual revenue for Obtala, with contribution from all divisions; forestry production, timber trading and agriculture
- First step in expansion of timber trading division announced with $1m loan capital from senior management. External trade finance facility on track for first draw down Q1 2018
- 11,000m3 of logs harvested and 3,500m3 of export grade timber produced. Forest production in Gabon up 63% since WoodBois acquisition
- Mozambique sawmill construction on budget and expected to be operational in time for cutting season. Veneer factory in Gabon on track to commence production Q1 2018
- MOU signed for establishment of community forestry concession in Mozambique with witness and support of World Bank
- Successful distribution of agriculture produces by sea, air, and truck. First 3.8t aircraft container of mangoes sent to Dubai via airfreight

Strong End to Year to Result in Record Annual Revenue

In Q4 2017 all business lines generated revenues and achieved a number of key operational milestones on the back of the planned capital expenditure and organisation building that took place in the first half of the year. The forestry and agriculture boards have consolidated their strategy for 2018, and through the budgeting process, the Obtala Board has determined the optimal capital allocation for the Group. The WoodBois acquisition and integration has confirmed our view that the lack of capital available to African enterprises creates compelling opportunities to acquire and invest in strong management teams and we are delighted to have found in WoodBois an excellent platform to develop our business in West Africa.

Forestry Production

The significant investments made in harvesting capacity have led to high levels of production despite the rainy season in Gabon (October-January) and Mozambique (from December). A total of 11,000m3 of logs were harvested and 3,500m3 of sawn timber produced in Q4 2017.

Month to month increases in harvesting production in Gabon were tempered by the impact of the rainy season which started three weeks early. However, total production in H2 2017 was still up 63% on H1 2017. Focus remains on doubling harvesting capacity in time for the dry season, in order to increase utilization of the sawmill and new veneer factory which will be operational. We are in the process of evaluating options for additional equipment and expanding our team of mechanics and bulldozer operators. The veneer factory is expected to commence production in Q1 2018. A team of engineers from Morocco has been on site commissioning the machinery since November 2017, and will remain on site after the factory opens. The market for logs remains strong in Gabon as producers struggle to find sufficient raw material for their veneer and plywood factories. Although we continue to harvest only a fraction of our available sustainable cut, our preference is to use all additional logs harvested to increase production at our sawmill and veneer factory to maximize margins. We intend to increase the production capacity of our veneer factory through the potential purchase of an additional dryer and a plywood production line. These investments will only be made in the second half of 2018 after the veneer factory meets performance targets.

Link to progress photos of new veneer factory:
http://www.obtala.com/images-gabon-veneer-factory.html

In Mozambique, we were operational in 4 concessions in Q4 2017 with continued focus on increasing harvesting capacity under the direction of Ivan Muir. As of January 2018, Ivan has been appointed COO of Argento Mozambique and will be responsible for all aspects of the daily running of the business. Patrick Greene will remain as Company Administrator but will operate in a new role of managing senior external relationships. Armando Antonio has also been hired as Export Manager, based in Nacala, to handle increasing export volumes.

Under the direction of Argento board member Tom Holroyd, the construction of the new sawmill in Mozambique is almost complete and remains on budget. The sawmill is set to be fully operational within Q1 2018 and will be one of the largest in Sub Saharan Africa. The scale of our project and quality of construction has attracted a great deal of interest and we are exploring several opportunities to leverage our new base of operations as a centre for value added timber processing in Northern Mozambique.

Link to progress photos of new sawmill:
http://www.obtala.com/images-mozambique-sawmill.html

Timber Trading

The priorities for the timber trading division in Q4 2017 were to secure additional trade finance and lay the groundwork with key suppliers to facilitate profitable growth in 2018.

After talking to various potential partners, we moved forward with a trade finance institution that offered us the required flexibility to make best use of additional funds to grow the trading business. We will also be able to make use of the facility to manage increases in working capital expected from the forestry production division, especially as the new veneer factory comes online in Gabon. On January 2, 2018 we announced that an initial $1m in loan capital has been secured to complement external trade finance. The preparation for securing and managing an external trade finance facility has involved a review of the risks throughout our timber supply chain and the implementation of new insurance policies and associated training. Our forestry subsidiary Argento Ltd has received the Category 1 Global Business License, ahead of transferring the trading division's operations to Mauritius.

We have been negotiating with key suppliers to offtake increased levels of production on the back of strong demand for African hardwood and higher levels of trading capital. This will set the business up for further profitable growth in 2018, with decisions based on maximizing the return on trading capital. On the demand side, the outlook for 2018 in China will become clear as buyers return after Chinese New Year. The strongest growth in demand for African hardwoods, including Okoume (the primary species produced in Gabon) has been from North America and we expect this trend to continue in 2018. Demand in the Middle East has been flat while sales to Pakistan have been growing on a monthly basis with strong demand for red hardwood species. We have continued to explore JV discussions with our strategic partners in Pakistan as we formalize our strategy for WoodBois Asia in H1 2018.

Agriculture Update

In Q4 2017, we further broadened our product set to include Whitehaven sweet melons, aubergines, sweet peppers, round tomatoes and pumpkin. In addition to these new products, we have also harvested and sold Caribbean King sweet melons, yellow honeydew sweet melons, watermelon and butternut.

Since the completion of our upgraded refrigerated pack house, we have successfully delivered seven, 40-foot, refrigerated containers of sweet melons to Dubai by sea. The eighth and final container of the season is en route to Dubai, due for arrival mid-January.

Cold chain integrity is fundamental to the success of the business and we are very pleased to report that our upgraded pack house is performing at the world class level anticipated. We have not suffered any cold chain issues throughout the entire season. This creates a fantastic platform for expansion of our program into 2018 as we can now confidently step up the capacity utilization of the facility.

We did, however, initially have some quality issues in the field due to the prolonged rains at the beginning of the planting season. As a result, we encountered lower pack out rates and higher spoilage rates of our sweet melon harvest. As the season unfolded we steadily returned to the levels we would expect under normal "growing conditions."

The expansion of our growth plan to include the market garden has proved successful too and through our local Mama Jo's sales team we have delivered and distributed thirteen refrigerated trucks of produce to different markets in Dar es Salaam, including a variety of retail and wholesale outlets. In addition to this, we have also sent four refrigerated trucks of produce to Nairobi via our exclusive Kenyan distributor.

As part of our future expansion plans into mango orchards we have successfully sold fresh mangos into Dar es Salaam through our own local sales team as well as into Zanzibar, via an exclusive agent. In addition, for the first time ever, we delivered a 3.8t aircraft container of fresh mango, to Dubai via airfreight where the fruit was sold via our exclusive wholesaler.

We continued to build strong foundations for the future of the agriculture business in Q4 2017, developing a clear edge through consistent cold chains, reliable logistics partners and controllable export routes as well as building track record and trust with customers. In 2018 we will leverage these capabilities to increase volumes and explore new global market demand potential for our produce, whether fresh, dried or crushed, to ensure we achieve the highest margins possible.

Link to photos of agriculture produce:
http://www.obtala.com/images-agriculture-produce.html

Social Impact Report

Jessica Camus, who joined the Board in Q1 2017, has made significant progress in leading our social impact initiatives, the highlight of which was the signing of an MOU with the Uapé Community Association to jointly manage a community forest concession in Mozambique. Obtala has committed to supporting the local community with knowledge transfer of sustainable timber extraction, protection of forests and access to its processing

facilities. The MOU signing took place took place in the presence of and with the support of representatives from the local government and the World Bank. A reforestation project is underway at Obtala's concession in Uapé to plant a range of indigenous species, including Chanfuta, Umbila and Pau Ferro. 10,000 tree-seeds will be planted by the end of 2018. Jessica's team are also working with the timber trading division in the Ivory Coast with a view to expanding the reporting metrics within our responsible wood procurement program. In addition to these key projects, activities have been taking place on a daily basis across all of our businesses, deepening our relationships with the communities we operate in. These include electrification projects and infrastructure upgrades for local schools, sponsorship of sports teams and food donations to hospitals and orphanages.

Link to photos of social impact activities:
http://www.obtala.com/images-social-impact-work.html

Finance and M&A Strategy

In H1 2018, management will focus on quickly deploying additional trading capital according to parameters set internally and externally. We aim to demonstrate the organizational capability (the Obtala Board has over 90 years of trading experience) to support further expansion in both internal and external trade finance and further capitalize on WoodBois' impressive 14-year track record. Opportunities to pre-finance, sign exclusive offtake agreements or acquire timber suppliers will be evaluated on a case by case basis. To assist with this strategy, we have hired a new strategy manager, formerly of the private equity team at CDC Group, with experience investing in timber and agriculture businesses. We have also hired a manager of strategy execution with experience raising trade finance funds and trading commodities. Both have spent their careers to date focused on Africa and have deep experience of our core markets.

We remain in dialogue with various funding bodies regarding specific projects to scale our agriculture businesses in East Africa, where our business goals of increasing food production, job creation, and removing supply chain roadblocks by building infrastructure are strongly aligned with the priorities of national governments.

Management is still considering a dual-listing in Asia as we continue to see strong interest from Asian-based investors interested in gaining exposure to timber and agriculture resources in Africa through a public vehicle. Three new research reports, including one initiation piece, were published in Q4 2017 and are available for download on the Obtala website.

Quote from Miles Pelham, Chairman of Obtala, comments: "Obtala is not the same company I joined as Chairman in 2016. The dormant assets held by the Company in East Africa are now producing, and we have grown into a vertically integrated forestry and agriculture business with significant operations in West Africa. This was not always an easy path, but many lessons have been learned and important relationships forged. Significant time and capital was invested in H1 2017 installing a new operating team in each business, rationalizing corporate structure and building the infrastructure required to operate at scale. While the result will be a record year of revenue for the Group, this merely represents the initial phase of growth for the Company. I am excited for what 2018 will bring and fully expect it to be another year of exponential growth for the Group."

Obtala Limited
Miles Pelham - Chairman
Paul Dolan - CEO
Martin Collins - Deputy Chairman
+44 (0)20 7099 1940

www.obtala.com

Northland Capital Partners Ltd (Nomad and Joint Broker)
+44 (0)20 3861 6625

Tom Price

David Hignell

Brandon Hill Capital (Joint Broker)
+44 (0)20 3463 5000

Jonathan Evans

Beaufort Securities Limited (Joint Broker)
+44 (0)20 7382 8300

Jon Belliss

This information is provided by RNS
The company news service from the London Stock Exchange

END

STRZMGGMRNVGRZM