

Woodbois Limited

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Obtala's forestry and farming business is on the road to profitability

In just two months Paul Dolan has effectively secured the financial future of forestry and farming specialist Obtala Ltd (LON:OBT) and placed the business on the road to profitability.

He has done so by bringing in US\$22.5m via an oversubscribed preference share issue.

Initially, Obtala will receive US\$14.25m, with Dolan, chairman Miles Pelham and the rest of the board contributing US\$2.15m to that total.

A further US\$5m is awaiting sign-off by the investment committee of an Asia-based financial institution, while an existing financing deal has been unwound.

- WATCH: CEO gives hist take on the fundraise
- READ: The preference share deal in detail

The new investment was made directly into Obtala's Argento business, which owns multiple 50-year concession leases over 312,465 hectares of natural hardwood forest in northern Mozambique.

The first US\$7.5m will go towards acquiring land and building a saw mill in the town of Nampula, around 160km from the port of Nacala.

Its 1,730 hectares of farmland in Tanzania, which produces multi-annual crops such as tomatoes, melon, sweet potatoes and seed maize, will also benefit with any funds raised above \$7.5m available for expanding Agri production capacity.

The plan, eventually, in Tanzania is to move to orchard-style produce such as mango, avocado, pineapple and banana, which would be shipped to Dubai by boat at far lower cost than the fruit currently flown into the emirate.

It will take some time for the plan to (forgive the pun) to come to fruition as Orchard's do not grow quickly; it could take up to five years to get the agricultural business running at full capacity.

"The obvious thing is to get the forestry into production fast," Dolan told Proactive Investors.

"It is very clear the asset is there and the demand for the output is there. It's now a case of putting the piece in the middle together, which is the production."

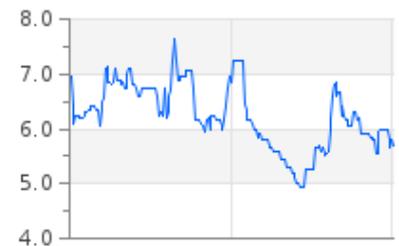
There is hiatus from January to the end of March where logging activities in Mozambique are closed down as part of the country's sustainability programme.

This provides Obtala with the time to get work on the saw mill well underway, if not enough time to complete it.

Price: 5.75

Market Cap: £27.01 m

1 Year Share Price Graph



January 2019 July 2019 January 2020

Share Information

Code: WBI

Listing: LSE

52 week High Low
7.77 4.8

Sector: Agribusiness

Website: www.woodbois.com

Company Synopsis:

Woodbois Ltd, listed on the AIM section of the London Stock Exchange, is involved in the production, processing, manufacture and supply of sustainable African hardwood and hardwood products. The Group also sources sustainable softwood, hardwood and related products internationally, supplying into Africa and across the globe.

action@proactiveinvestors.com

"I'm not saying the saw mill will be up and fully operational by April 1, but the plan is to secure the land and get everything in place in the first half of 2017," said Dolan.

Crucially, there is a ready-market for the company's output, which is expected to hit 50,000 cubic metres a year at full capacity.

Obtala has sales channels of its own, and signed a joint-venture with a Hong Kong firm called Basic Materials.

As there are three different hardwood classes, it is difficult to gauge the exact prices Obtala's output will fetch; however, analysts said an average US\$400-US\$500 per cubic metre is not an unreasonable expectation, with prices near \$1000 per cubic metre for best grades.

In fact, it would be more than enough to pay a decent dividend to the pref shareholders, who will speak for 22.5% of Argento when fully vested.

Dolan won't be drawn on financial projections. All he will say is he expects Obtala to be cash flow positive in 2017, which is no mean feat.

But endeavour in east Africa is about more than just profits.

"We want to make a social impact; it is a powerful part of our story," said Dolan.

"For us, that is about education, job creation, and transferring our knowledge and skills."

This is happening at the moment, but Obtala's impact on the local communities in Mozambique and Tanzania is not being measured in a consistent way.

To do this the firm is planning to adopt the IRIS global standard for measuring the positive effect it is having locally.

While the share price rose 8% in afternoon trade Friday, it is clear investors haven't yet cottoned on to the inherent value of business.

The preference share deal says Argento is worth US\$100mIn - that's well in excess of Obtala's US\$63mIn market capitalisation, especially when you consider it will now have between \$14.25-\$19.25m in cash also.

And remember Argento is just one part of the business; through the Tanzanian agricultural assets shareholders have a way of tapping into an African growth story.

This is a continent whose population is predicted to grow by a further 2bn in the next two decades.

It is also a continent that has punched well below its weight in terms of global agriculture: it possesses a quarter of the world's arable land and yet churns out less than 10% of its produce.

"We want to be a big part in affecting the change of those statistics," Dolan said.

"We really think we can make a difference and have ambitions to become a major player in East African timber and agriculture."

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Contact us +44 (0)207 989 0813 action@proactiveinvestors.com

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